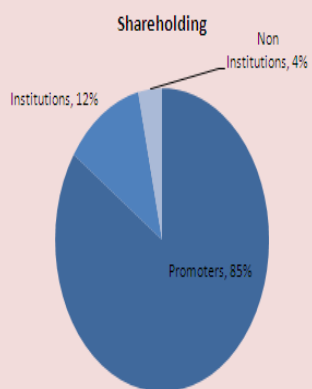


# OFS Note

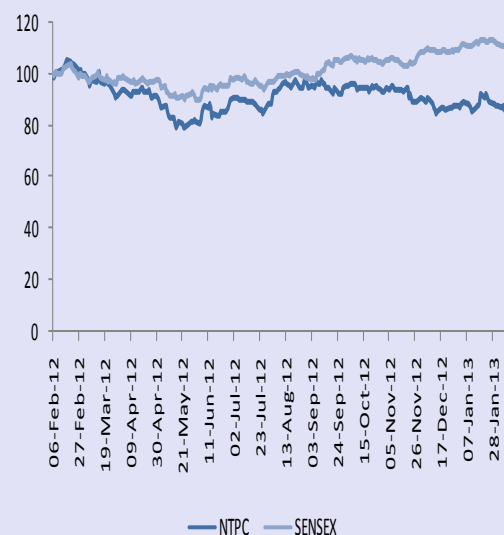
## Market Data

|                                     |            |
|-------------------------------------|------------|
| Current Market Price (INR)          | 152.00     |
| 52 Week High (INR)                  | 187.65     |
| 52 Week Low (INR)                   | 141.05     |
| Market Capitalization (In INR Crs.) | 125,330.99 |



## STOCK SCAN

|                                  |          |
|----------------------------------|----------|
| BSE Code                         | 532555   |
| NSE Code                         | NTPC     |
| Bloomberg Ticker                 | NTPC.IN  |
| Reuters Ticker                   | NTPC.BO  |
| Face Value (INR)                 | 10.00    |
| Equity Share Capital (In INR Cr) | 825      |
| 5 Yr Average P/E                 | 18.3x    |
| Beta vs Sensex                   | 0.69     |
| Dividend Yield (%)               | 2.46     |
| Average Monthly Volume ('000s)   | 3,033.09 |



Analyst: Anik Das  
Email id: adas4@microsec.in

# NTPC Ltd

## Sector-Power

NTPC Ltd, Maha Ratna Company, was incorporated by government of India in 1975 as central thermal based power generation utility. It is the largest power generator in India with an installed capacity of 39.2GW and contributes 30% of the electricity generation in India. **Government of India has cleared the proposal to disinvest a 9.5% stake in NTPC. The sale in NTPC of around 78.3 Cr shares is likely to be through the offer for sale (OFS) route and could fetch the government close to Rs 120 bn. Post the announcement of divestment, the stock has corrected 10%. At these levels, valuations are reasonable coupled with recent positive developments such as its proposed FSA with CIL, restoration of its coal block augur well for the company. We recommend a "SUBSCRIBE" to the NTPC OFS, considering that the company operates on assured return model with complete fuel price pass-through.**

## Investment Highlights

**SEBs' Default- No Risk for NTPC:** NTPC has a strong payment escrow security mechanism. In case of non-payment of receivables from the SEBs after 90 days grace period, NTPC can directly recover the dues from Central Government grants to the respective states. NTPC realized 100% payment of bills from the customers for 8th successive year.

**Capacity addition is on track for FY13:** NTPC plans capacity addition of 4.2GW in FY13, of which 2.7GW is already commissioned in YTD FY13 - its highest capacity addition in a year. In the 12th Plan period, NTPC plans to achieve capacity addition of 14GW, in line with the Central Electricity Authority's (CEA) estimate. Of this, 13.2GW is expected over FY13-16, an average capacity addition of 3.3GW/year. This compares with an average of 1.5GW/ year over FY82-07, which moved up to 2GW in 11th Plan. NTPC is witnessing an orbit change in capacity addition under the 12th Plan.

**NTPC is likely to sign a FSA with coal India & well placed on fuel front-**NTPC is likely to sign a Fuel supply agreement (FSA) with coal India, despite its disagreement with CIL over accepting coal under two types of FSAs at the same plant. NTPC plans to attain 90% PAF for its existing/upcoming projects through a mix of linkages, captive mine production (37m tons by FY17, beginning from 3m tons in FY14) and 20-25m tons of imports (40-45m tons of domestic coal equivalent). **Given that NTPC's PPA structure allows fuel cost as pass-through and the progress on its captive coal block, we remain upbeat on fuel supply security.**

**Risk reward turning favorable:** NTPC has shown a robust performance in 9MFY13 in terms of operational efficiency and capacity addition. Going ahead, we believe front loaded execution will lead to accretion in regulated assets and improve RoEs. **This coupled with being a regulated play with least fuel risks means NTPC deserves a re-rating in the medium term. The proposed OFS by the government is the good entry point.**

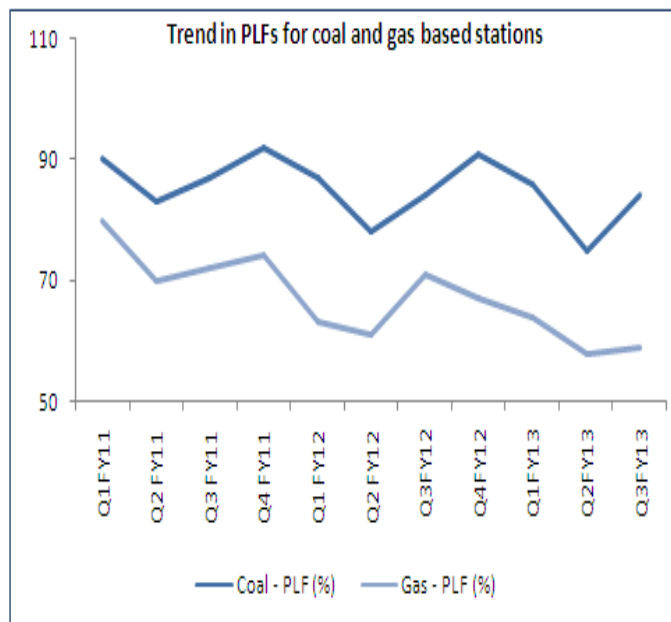
## Key Financial Highlights

(Figure in INR Cr)

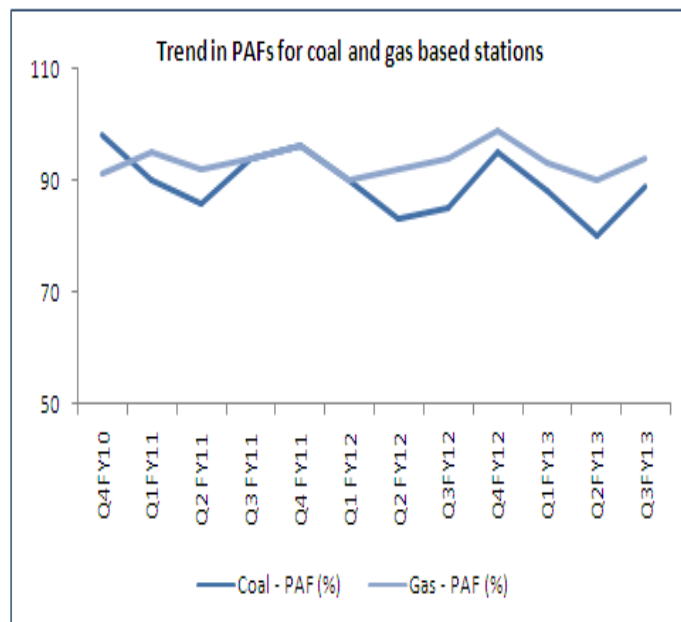
| Particulars           | FY09     | FY10   | FY11   | FY12   | FY13E  | FY14E  |
|-----------------------|----------|--------|--------|--------|--------|--------|
| Net Sales             | 44924.26 | 49,220 | 57,607 | 65,893 | 73,209 | 82,941 |
| Growth (%)            | 16.3%    | 9.6%   | 17.0%  | 14.4%  | 11.1%  | 13.3%  |
| EBITDA                | 12807    | 14,038 | 12,539 | 15,441 | 17,508 | 20,157 |
| EBITDA Margin (%)     | 28.5%    | 28.5%  | 21.8%  | 23.4%  | 23.9%  | 24.3%  |
| Net Profit            | 8093     | 8838   | 9353   | 9813   | 10585  | 12011  |
| Net Profit Margin (%) | 18.0%    | 18.0%  | 16.2%  | 14.9%  | 14.5%  | 14.5%  |
| Diluted EPS (INR)     | 9.81     | 10.72  | 11.34  | 11.90  | 12.84  | 14.57  |
| P/E                   | 15.60    | 14.27  | 13.49  | 12.86  | 11.92  | 10.50  |
| BVPS                  | 69.60    | 76.00  | 83.00  | 90.20  | 98.70  | 108.60 |
| P/BV                  | 2.20     | 2.01   | 1.84   | 1.70   | 1.55   | 1.41   |
| EV/EBITDA             | 12.41    | 12.51  | 11.45  | 9.63   | 9.48   | 8.35   |
| RoE                   | 14.68    | 14.77  | 14.36  | 13.70  | 13.60  | 14.10  |

Source: Company, Microsec Research

### Operational Highlights



Source: Company, Microsec Research



Source: Company, Microsec Research

### Peer Comparison

| Particulars     | CMP | M-Cap Rs cr | Sales | EBITDA | EBITDA Margin (%) | PAT  | PAT Margin (%) | EPS FY12 | P/E (x) FY12 | P/BV (x) | ROE (%) FY12 | Net Worth FY12 | Total Debt FY12 | D/E FY12 | EV/EBITDA |
|-----------------|-----|-------------|-------|--------|-------------------|------|----------------|----------|--------------|----------|--------------|----------------|-----------------|----------|-----------|
| NTPC            | 152 | 125620      | 65893 | 15441  | 23.4%             | 9813 | 14.9%          | 11.9     | 12.8         | 1.72     | 13.7%        | 73291          | 47338           | 0.65     | 9.63      |
| Power Grid      | 109 | 50626       | 10312 | 8479   | 82.2%             | 3303 | 32.0%          | 7.1      | 15.3         | 2.15     | 14.0%        | 23583          | 52338           | 2.22     | 9.09      |
| NHPC            | 28  | 34381       | 6920  | 4774   | 69.0%             | 3086 | 44.6%          | 2.5      | 11.1         | 1.20     | 10.8%        | 28644          | 17913           | 0.63     | 5.98      |
| Tata Power      | 99  | 23496       | 26001 | 4900   | 18.8%             | -968 | -3.7%          | -5.0     | -19.9        | 1.83     | -6.8%        | 14311          | 29733           | 2.08     | 10.45     |
| Neyveli Lignite | 82  | 13774       | 4867  | 1737   | 35.7%             | 1411 | 29.0%          | 8.4      | 9.8          | 1.14     | 11.7%        | 12040          | 5361            | 0.45     | 6.76      |
| Torrent Power   | 172 | 8124        | 7956  | 2310   | 29.0%             | 1255 | 15.8%          | 26.5     | 6.5          | 1.41     | 21.8%        | 5761           | 4873            | 0.85     | 5.94      |
| CESC            | 330 | 4154        | 5892  | 972    | 16.5%             | 246  | 4.2%           | 19.5     | 16.9         | 0.86     | 5.1%         | 4842           | 7092            | 1.46     | 6.71      |
| PTC India       | 73  | 2165        | 8059  | 405    | 5.0%              | 259  | 3.2%           | 6.9      | 10.6         | 0.87     | 10.4%        | 2506           | 688             | 0.27     | 5.01      |

Note: All figures are on Consolidated, Figures represent FY12 figures

Source: Company, Microsec Research

NTPC offers better growth option than any other listed player in an uncertain macro scenario. 16GW of capacity is under construction, while an additional 10GW is under tendering/development stage. **This provides visibility even beyond the 12th Plan period compared to scratchy growth for many IPPs that are unable to expand/take up new projects, given stretched balance sheets, issues with existing projects, etc.**

### *Issue Details*

The OFS comprises an offer for sale of 78.32cr equity shares of face value INR10/- each. There is no fresh issue of equity. **Government has fixed the floor price at INR145 per share.**

The OFS would take place through a separate window of stock exchange (Bidding) on 7<sup>th</sup> February, 2012 from 9.15am to 3.30pm.

**The stake sale would be take place through the six appointed merchant bankers:**

- Citigroup Global Markets,
- Goldman Sachs (India) Securities,
- Morgan Stanley India,
- Deutsche Equities India,
- Kotak Securities,
- SBICAP Securities.

### **Allocation Methodology:**

- 25% Minimum reserved for Institutions
- Rest for Retail investors on the first cum first serve basis

### *Rationale for "SUBSCRIPTION"*

NTPC is quoting at historic lows on the back of underperformance to benchmark indices over the past 12 months. Government has attractively set a floor price of Rs 145per share. The price set is at a discount of 4.61% at the closing price on 6<sup>th</sup> February, 2013. The Company has strong visibility on business/earnings growth, secure business model and low valuations. Therefore we recommend a **"SUBSCRIBE"** to the OFS.

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**Ajay Jaiswal: President, Investment Strategies, Head of Research: [ajaiswal@microsec.in](mailto:ajaiswal@microsec.in)**

| Fundamental Research                  |                             |                          |  |
|---------------------------------------|-----------------------------|--------------------------|--|
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| Naveen Vyas                           | Midcaps, Market Strategies  | AVP-Research             | <a href="mailto:nvyas@microsec.in">nvyas@microsec.in</a>         |
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| Saroj Singh                           | Mid Cap                     | Executive Research       | <a href="mailto:ssingh2@microsec.in">ssingh2@microsec.in</a>     |
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| Subhabrata Boral                      | Research Support            | Asst. Manager Technology | <a href="mailto:sboral@microsec.in">sboral@microsec.in</a>       |

| Recommendation | Expected absolute returns (%) over 12 months |
|----------------|--|
| Strong Buy     | >20%   |
| Buy            | between 10% and 20%                          |
| Hold           | between 0% and 10%                           |
| Underperform   | between 0% and -10%                          |
| Sell           | < -10%                                       |

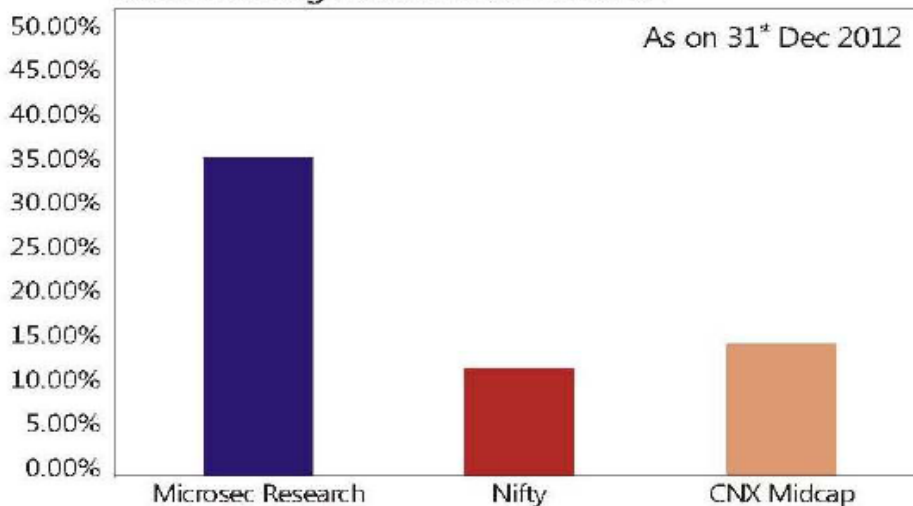
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# Research?

## Microsec Benchmark its Research

Benchmarking Fundamental Research

As on 31<sup>st</sup> Dec 2012



An amount of ₹ 1,00,000 invested individually in all 184 stocks ie, ₹ 1,84,00,000 investment as and when recommended has appreciated to ₹ 2,48,35,174 giving a return of 35 percent. On the same basis Nifty has given a return of 11 percent and CNXMID CAP has given a return of 14.5 percent.

Microsec benchmark its Research and the same is updated on our website at [www.microsec.in](http://www.microsec.in). Come, strike the right balance through Benchmarking Research.

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