Institutional Equity Research

NTPC

Capital Goods | India

4QFY17 Result Update | May 30, 2017

CMP* (Rs)	161
Upside/ (Downside) (%)	19
Bloomberg Ticker	NTPC IN
Market Cap. (Rs bn)	1,329
Free Float (%)	30.3
Shares O/S (mn)	8,245

BUY

Target Price: Rs192

Better Days Ahead

NTPC's reported earnings declined by 25.0% YoY to Rs20.8bn in 4QFY17 owing to impairment of Rs7.8bn in Ratnagiri Gas & Power and Rs8.7bn provisioning towards incremental employee cost (revision as recommended by 7th Pay Commission). Out of Rs8.7bn provisioning, Rs5.2bn has been considered as pass-through by way of regulatory asset. Adjusting these one-offs, PAT declined by 5.1% YoY to Rs27.9bn in line with our estimates. Looking ahead, we expect NTPC's business to improve further backed by higher capacity commercialisation, better fuel availability and likely improvement in demand owing to UDAY scheme. **Rolling over our estimates to FY19E, we reiterate our BUY recommendation on the stock with a revised Target Price of Rs192 (from Rs178 earlier).**

Higher Realisation Boosts Revenue

Despite flat generation (+2.8% YoY), NTPC's net sales rose by 11.4% YoY to Rs204bn aided by rise in regulated equity to Rs440bn (as of Mar'17) and higher average tariff of Rs3.36/unit in 4QFY17 (from Rs3.13/unit in 4QFY16). Gross power generation grew by 2.3% YoY to 63.8bn units led by generation from new capacities (Mouda & Bongaigaon) and increased gas-based generation at Kawas & Gandhar. Coal PLFs remained largely flat at 81.2% in 4QFY17 vs. 81.2% in 4QFY16. Coal consumption also remained flat at 41.56MT, as 2.3% YoY rise in domestic coal usage was offset by 93.0% YoY decline in imported coal usage. FY18 capex is pegged at Rs280bn (Rs282bn in FY17). Coal mining at Pakri Barwadih is likely to rise to ~2-3MT in FY18 from 0.4MT in FY17.

Adjusted PAT Declines by 5.1% YoY – In-line with Our Estimate

NTPC's quarterly earnings declined by 25.0% YoY to Rs20.8bn owing to impairment of Rs7.8bn in Ratnagiri Gas and Rs8.7bn provisioning towards incremental employee cost. Out of Rs8.7bn, Rs5.2bn has been considered as pass-through by way of regulatory asset. Adjusting these one-offs, PAT declined by 5.1% YoY to Rs27.9bn in line with our estimate.

Outlook & Valuation

Looking ahead, we expect NTPC to add commercial capacity of 2.8GW and 6.0GW in FY18 and FY19, respectively which would lead to a significant jump in regulated equity from current level of Rs440bn. We continue to consider NTPC as one of the best placed companies in terms of fuel security, as most of its capacity off-take will continue to be through long-term Power Purchase Agreements (PPAs). We have valued NTPC on (P/B vs. RoE) methodology given its regulated business model. At CMP, the stock trades at P/B of 1.1x & P/E 10.5x based on FY19E, which is attractive in our view. We believe that capacity addition track record, assured RoE, robust balance-sheet and strong operational cash-flows continue to augur well for NTPC. **Rolling over our estimates to FY19E, we reiterate our BUY recommendation on the stock with an upwardly revised Target Price of Rs192 (from Rs178 earlier).**

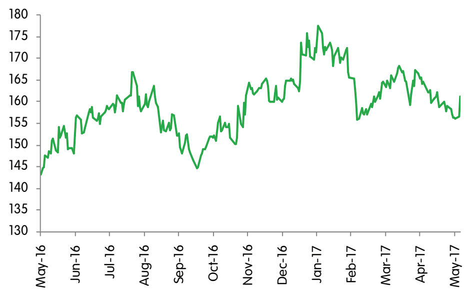
Key Financials (Rs mn)	FY16	FY17	FY18E	FY19E
Net Sales	705,068	786,853	895,393	1,023,573
Op. Profits	175,130	216,957	240,609	274,273
OPM (%)	24.8	27.6	26.9	26.8
Net Profit	102,429	90,491	111,487	126,427
YoY Gr. (%)	(0.5)	(11.7)	23.2	13.4
EPS (Rs)	12.4	11.4	13.5	15.3
RoE (%)	12.0	9.8	11.0	11.1
ROCE (%)	7.7	8.6	8.5	8.6
EV/EBIDTA (x)	12.4	10.7	10.2	9.4
PE (x)	13.0	14.7	11.9	10.5
P/B (x)	1.5	1.4	1.2	1.1

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	-	-	13.3
Relative to Nifty	(3.3)	(7.5)	(4.6)

Shareholding Pattern (%)	Dec'16	Mar'17
Promoter	69.7	69.7
Public	30.3	30.3

1 Year Stock Price Performance



*Note: * CMP as on May 30, 2017*

Research Analyst: Rupesh Sankhe
Contact: (022) 3320 1606
Email: rupesh.sankhe@relianceada.com

NTPC

Capital Goods | India

CMP (Rs)	161
Upside/ (Downside) (%)	19
Bloomberg Ticker	NTPC IN

BUY

Target Price: Rs192

Risks to the View

- Any significant delay in project execution.
- Lower coal availability.

Other Key Highlights

- **Coal Supply:** Domestic fuel supply rose by 2.3% YoY to 41.5MT, while the supply of imported coal dipped by 93% YoY to 0.08MT in 4QFY17.
- **Generation & Sales**: Generation rose by 2.8% YoY to 63.7bn units, while sales increased by1.2% YoY to 59.6bn units in 4QFY17.
- **PLF:** Coal and gas project PLFs stood at 81.2% (flat YoY) and 23.9% (612bps higher), respectively in 4QFY17.
- **Total Installed Capacity:** Group's total installed capacity has reached 50,498MW with capacity addition at Mauda (1x660MW), Bongaigaon (1x250MW), Unchahar (1x500MW), Solar Bhadia (1x260MW), Solar Power (250MW) Anantapuramu & (325 MW) Patratu, and Kudgi (2x 800MW).

Exhibit 1: Quarterly Performance

(Rs mn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)
Net Sales	204,167	183,252	11.4	193,959	5.3
Operating Costs	149,539	128,785	16.1	141,447	5.7
EBIDTA	54,628	54,467	0.3	52,512	4.0
EBIDTA Margin (%)	26.8	29.7		27.1	
Other Income	4,702	4,073	15.4	2,502	87.9
Interest	8,979	8,760	2.5	9,090	(1.2)
Depreciation	16,062	13,257	21.2	14,853	8.1
Profit Before Tax	34,288	36,523	(6.1)	31,071	10.4
Tax	9,286	8,556	8.5	6,131	51.4
Tax Rate (%)	27.1	23.4		19.7	
Reported PAT	20,794	27,927	(25.5)	24,687	(15.8)
Non Recurring adjustment	7190	1570	358.0	(2,238)	
Adj. PAT	27,984	29,497	(5.1)	22,449	24.7

Source: Company, RSec Research

Institutional Equity Research

NTPC

Capital Goods | India

CMP (Rs)	161
Upside/ (Downside) (%)	19
Bloomberg Ticker	NTPC IN

BUY

Target Price: Rs192

Profit & Loss Statement

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
Revenues	**705,068**	**786,853**	**895,393**	**1,023,573**
Growth (%)	(3.7)	11.6	13.8	14.3
Operating Profit	**175,130**	**216,957**	**240,609**	**274,273**
Other Income	12,014	6,570	6,898	7,381
EBIDTA	**187,144**	**223,526**	**247,507**	**281,654**
Growth (%)	2.8	19.4	10.7	13.8
Depreciation & Amortization	54,253	59,208	67,577	78,158
EBIT	**132,890**	**164,318**	**179,929**	**203,496**
Interest Charges (Net)	32,304	35,972	38,807	41,411
PBT (Before E/o items)	**100,587**	**128,346**	**141,122**	**162,085**
Tax provision	(1,842)	30,026	29,635	35,659
Other items	0	7,830	0	0
Pre-exceptional PAT	**102,429**	**90,491**	**111,487**	**126,427**
Extra-ordinary items	0	3,357	0	0
Net Profit	**102,429**	**93,848**	**111,487**	**126,427**
Growth (%)	(0.5)	(8.4)	18.8	13.4
Basic EPS (Rs)	12.4	11.4	13.5	15.3

Balance Sheet

Y/E March (Rs mn)	FY16	FY17E	FY18E	FY19E
Equity Share Capital	82,455	82,455	82,455	82,455
Reserves & Surplus	805,365	879,858	991,344	1,117,771
Shareholders' Funds	**887,820**	**962,313**	**1,073,799**	**1,200,226**
Minorities Interest	0	0	0	0
Total Debt	894,595	1,025,870	1,155,719	1,280,361
Deferred Tax liability	30,988	15,600	15,600	15,600
Capital Employed	**1,813,404**	**2,003,783**	**2,245,118**	**2,496,188**
Fixed Assets	1,580,634	1,800,927	2,028,917	2,250,759
Cash & cash eq.	44,064	29,304	37,546	37,075
Net current assets	105,773	84,027	95,723	110,918
Investments	82,932	89,524	82,932	97,436
Total Assets	**1,813,404**	**2,003,783**	**2,245,118**	**2,496,188**

Cash Flow Statement

Y/E March (Rs mn)	FY16	FY17E	FY18E	FY19E
Pre-tax profit	100,587	128,346	141,122	162,085
Depreciation	54,253	59,208	67,577	78,158
Total tax paid	1,842	(30,026)	(29,635)	(35,659)
Chg in working capital	(23,813)	21,746	(11,696)	(15,194)
Other items	0	(4,472)	0	0
Cash from oper. (a)	**132,869**	**174,802**	**167,368**	**189,391**
Capital expenditure	(266,949)	(279,501)	(295,567)	(300,000)
Chg in investments	7,390	(6,592)	6,592	(14,505)
Cash from inv. (b)	**(259,559)**	**(286,094)**	**(288,975)**	**(314,505)**
Free cash flow (a+b)	(126,690)	(111,291)	(121,607)	(125,114)
Change in Capital Expenditure	(7,209)	5,788	29,869	33,872
Debt raised/(repaid)	80,406	131,275	129,849	124,643
Minority Interest	0	0	0	0
Dividend (incl. tax)	(23,974)	(25,144)	(29,869)	(33,872)
Other items	7,256	(15,388)	0	0
Cash from fin. (c)	**56,479**	**96,531**	**129,849**	**124,643**
Net chg in cash (a+b+c)	**(70,211)**	**(14,760)**	**8,242**	**(471)**
Opening Cash Balance	114,276	44,064	29,304	37,546
Closing Cash balance	44,064	29,304	37,546	37,075

Key Ratios

Y/E March	FY16	FY17E	FY18E	FY19E
OPM (%)	24.8	27.6	26.9	26.8
Net Margin (%)	14.5	11.5	12.5	12.4
Net Debt/Equity (x)	1.0	1.0	1.0	1.0
ROACE (%)	7.7	8.6	8.5	8.6
ROANW (%)	12.0	9.8	11.0	11.1
EV/Sales (x)	3.1	3.0	2.7	2.5
EV/EBIDTA (x)	12.4	10.7	10.2	9.4
PE (x)	13.0	14.7	11.9	10.5
P/B (x)	1.50	1.38	1.24	1.11

Institutional Equity Research

NTPC

Capital Goods | India

CMP (Rs)	161
Upside/ (Downside) (%)	19
Bloomberg Ticker	NTPC IN

BUY

Target Price: Rs192

Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

Reliance Securities Limited (RSL), the broking arm of Reliance Capital is one of the India's leading retail broking houses. Reliance Capital is amongst India's leading and most valuable financial services companies in the private sector. Reliance Capital has interests in asset management and mutual funds, life and general insurance, commercial finance, equities and commodities broking, wealth management services, distribution of financial products, private equity, asset reconstruction, proprietary investments and other activities in financial services. The list of associates of RSL is available on the website www.reliancecapital.co.in . RSL is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014

RSL CIN: U65990MH2005PLC154052. SEBI registration no. (Stock Brokers: NSE - INB / INF / INE 231234833; BSE - INB / INF / INE 011234839, Depository Participants: CDSL IN-DP-257-2016 IN-DP-NSDL-363-2013, Research Analyst: INH000002384); AMFI ARN No.29889.