

NTPC

One-offs mar Q4; commissioning key

India Equity Research | Power

NTPC's Q4FY17 reported PAT of INR20bn came below our INR29bn estimate due to: a) INR3.8bn jump in wage bill on account of 7th Pay Commission; and b) INR8.7bn impairment on Ratnagiri gas plant. Going forward, till the time the increase in wage bill is cleared by the regulator, NTPC will continue to make quarterly provision of INR1.1bn. The company's regulated book at INR441bn rose 6% (past 5 years' average at ~9%) in FY17 as commercialisation of 1.4GW was weak. However, post result commentary suggested that NTPC is going full fledged for commissioning of new capacities (4.7GW targeted), which is likely to drive up regulated book and help sustain the current exit multiples for the company. Retain 'BUY'.

Quarter marked by healthy PLFs

Q4FY17 was marked by good operational performance. NTPC registered healthy PLFs in all the 3 fuel categories i.e., coal PLF of 81% (flattish YoY), gas PLF of 24% (up 18% YoY) and hydro PLF of 13.5% (up 13% YoY). Power off take at 60BUs in Q4FY17 (58BUs in Q4FY16) was up 3% YoY. NTPC earned efficiency incentive of INR3bn in FY17 (INR2.7bn in FY16). The company commissioned total ~1.4GW of capacity in FY17, below our ~2.0GW estimate due to certain clearance issues.

Strong capacity addition envisaged

Management has guided for robust ~5.4GW capacity addition (1.5x FY17) and capex of INR280bn in FY18. Also, commercialisation in FY18 is expected at ~4.7GW i.e., 3x FY17 (we have factored in 4.5GW). The 5.4GW capacity addition will add INR84bn to the regulated equity, implying RoE of 21.1% for FY18.

Outlook and valuations: Upbeat prospects; maintain 'BUY'

We believe step-up in commissioning activity will drive earnings growth over FY18-19 (18%), even as clarity on impact of potential heat loss after the coal unloading stage is a key monitorable. At CMP, the stock trades at 1.3x and 1.2x FY18E and FY19E P/BV, respectively. We maintain 'BUY/SP' with SOTP-based TP of INR191.

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Low
Sector Relative to Market	Underweight

MARKET DATA (R: NTPC.BO, B: NTPC IN)

CMP	: INR 156
Target Price	: INR 191
52-week range (INR)	: 178 / 138
Share in issue (mn)	: 8,245.5
M cap (INR bn/USD mn)	: 1,290 / 20,004
Avg. Daily Vol.BSE/NSE('000)	: 4,756.6

SHARE HOLDING PATTERN (%)

	Current	Q2FY17	Q1FY17
Promoters *	69.7	69.7	69.7
MF's, FI's & BK's	17.0	17.4	16.9
FII's	10.4	10.7	11.1
Others	2.8	2.1	2.2
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Power Index
1 month	(4.9)	3.2	(5.0)
3 months	(4.0)	8.2	0.8
12 months	11.7	17.8	17.9

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Financials (Standalone)

(INR mn)

Year to March	Q4FY17	Q4FY16	% Change	Q3FY17	% Change	FY17	FY18E	FY19E
Revenues	204,167	183,252	11.4	193,959	5.3	782,734	834,484	951,509
EBITDA	54,628	54,467	0.3	52,519	4.0	212,843	254,583	293,010
Adj. net profit	28,624	27,927	2.5	24,693	15.9	93,853	114,065	130,256
Adj. Dil. EPS (INR)	3.5	3.4	2.5	3.0	15.9	11.4	13.8	15.8
P/B (x)						1.3	1.3	1.2
ROAE (%)						10.1	11.6	12.6

Table 1: SOTP

	Value	Comments	Multiple	Comments	Value	Per share
Regulated equity	609,942	FY19E reg equity	2.04	(RoE-g)/(CoE-g)	1,241,804	151
Equity infused in CWIP	217,850	PV of FY19E CWIP	1.00	At equity value	217,850	26
Investments & Cash	118,829	FY17E book	1.00	At book value	118,829	14
Total					1,578,482	191

Source: Edelweiss research

Concall highlights

Q4 financial performance

- Employee expenses jumped due to INR8.74bn provision towards pay revision effective January 1, 2017. Against this cost INR5.2bn has been recovered in revenue/regulatory income (appearing as regulatory asset), while balance INR3.8bn is the impact on P&L.
- Regulated equity stood at INR441bn versus INR414bn in FY16 (a 6.5% increase YoY).
- NTPC earned PLF incentive of INR3bn versus INR2.7bn in FY16.

Q4 operational performance

- Coal consumed for the year was 162.5MT vs 161.32MT in FY16
- Coal supplies at Farakka and Kahalgaon plants were lower due to law and order problem, but a high level committee constituted under MoC should resolve the issues soon.
- Coal mine development is on track with INR38bn spent till date.
- Deadlines for implementation of SoX/NoX emission norms may be revised given the complexity/time involved in installing these systems.
- NTPC is looking to roll out tenders for implementation of FGD systems for a few older plants.

Capacity addition

- For FY18, commissioning target is 4,720MW (Bongaigaon unit 2 – 250MW, Kudgi Unit 1&2 – 1,600MW, Mouda Unit 4 – 660MW, Solapur 660MW, Unchhar 500MW, Kudgi Unit 3 800MW and Bongaigaon - 250MW).
- In FY17, commissioned 1,420MW and in FY16 commissioned 1,960MW.
- CWIP has jumped further from INR662bn to INR800bn.
- Capacity addition target of 5,430MW for FY18 and target capex of INR280bn.

Financial snapshot

(INR mn)

Year to March	Q4FY17	Q4FY16	% change	Q3FY17	% change	FY17	FY18E	FY19E
Total operating Income	204,167	183,252	11.4	193,959	5.3	782,734	834,484	951,509
Fuel cost	119,464	101,683	17.5	120,804	(1.1)	475,722	479,580	544,231
Gross profit	84,703	81,568	3.8	73,155	15.8	307,013	354,903	407,278
Salaries and other exp.	16,377	9,130	79.4	8,430	94.3	43,246	43,268	46,807
Other expenses	30,075	27,102	11.0	20,636	45.7	94,170	100,321	114,267
Total expenditure	149,539	128,785	16.1	141,440	5.7	569,892	579,901	658,499
EBITDA	54,628	54,467	0.3	52,519	4.0	212,843	254,583	293,010
Depreciation	16,062	13,257	21.2	14,853	8.1	59,208	71,386	82,207
EBIT	38,566	41,210	(6.4)	37,666	2.4	153,635	183,197	210,804
Other income	8,322	4,033	106.3	2,250	269.9	14,046	8,576	5,190
Interest	8,979	8,760	2.5	9,090	(1.2)	35,972	38,623	41,104
Add: Exceptional items	(7,830)					(7,830)		
Profit before tax	30,080	36,483	(17.6)	30,825	(2.4)	123,879	153,150	174,889
Provision for taxes	9,286	8,556	8.5	6,133	51.4	30,026	39,085	44,633
Reported net profit	20,794	27,927	(25.5)	24,693	(15.8)	93,853	114,065	130,256
Adjustments	(7,830)							
Adjusted Profit	28,624	27,927	2.5	24,693	15.9	93,853	114,065	130,256
Diluted shares (mn)	8,245	8,245		8,245		8,245	8,245	8,245
Adjusted Diluted EPS	3.5	3.4	2.5	3.0	15.9	11.4	13.8	15.8
Diluted P/E (x)	-	-		-		13.8	11.3	9.9
As % of net revenues	-	-		-		-	-	1
COGS	58.5	55.5		62.3		60.8	57.5	57.2
Gross profit	41.5	44.5		37.7		39.2	42.5	42.8
Other expenses	14.7	14.8		10.6		12.0	12.0	12.0
Other expenditure	73.2	70.3		72.9		72.8	69.5	69.2
EBITDA	26.8	29.7		27.1		27.2	30.5	30.8
Reported net profit	14.0	15.2		12.7		12.0	13.7	13.7
Tax rate	30.9	23.5		19.9		24.2	25.5	25.5

Company Description

NTPC, set up in 1975, is India's largest power generation company with 51,410MW installed capacity (including 7,216MW from JVs). The company plans to add ~14GW (consol) capacity in the XII Plan. In addition to generation, NTPC also provides consultancy services to entities in the power domain. A subsidiary, NTPC Vidyut Vyapar Nigam, is engaged in power trading, while it has also entered into JVs for different businesses—with Singareni Collieries for coal mining, BHEL for equipment manufacturing and Transformers & Electricals Kerala (TELK) for repairs and maintenance.

Investment Theme

- Regulated returns: NTPC currently has ~40GW of operational capacity under regulated model with pipeline capacity of ~30GW plus signed under the regulated model. This enables the company to pass on increase in costs, limiting the impact on profitability.
- High efficiency gains: While the current regulation permits post tax RoE of 15.5% (along with PAF based incentive), on regulated equity the company has been able to earn RoEs of ~25% on the regulated book due to highly efficient plants/economies of scale and infrastructure related tax benefits.
- Fuel security: The Company has secured fuel supplies through FSAs with CIL in the past; incrementally the coal blocks being developed should improve NTPC's fuel security.

Key Risks

- CERC norms: Any RoE dilutive norms in forthcoming tariff regulations are a key risk to earnings impacting valuations.
- Delay in execution of capex: Any delay in execution of pipeline projects could result in downside from the estimated earnings/valuations.
- Tax-related gains: NTPC has been reporting RoE of ~25% on the regulated equity partly due the tax breaks enjoyed by the company under 80IAB. Withdrawal of such benefits under DTC/etc., will impact RoE and hence valuations.
- SEB delays: While the company makes due efforts to maintain adequate LCs for sale of power to SEBs, failure to secure timely payments is a risk to the working capital cycle and hence earnings.
- Fuel supplies: The approval of coal pool pricing should improve coal supplies to the recently commissioned plants. However, failure to secure adequate fuel supplies could impact PAFs/PLFs and hence the company's earnings.

Financial Statements

Key Assumptions

Year to March	FY16	FY17	FY18E	FY19E
Macro				
GDP(Y-o-Y %)	7.2	6.5	7.1	7.7
Inflation (Avg)	4.9	4.8	5.0	5.2
Repo rate (exit rate)	6.8	6.0	5.8	5.8
USD/INR (Avg)	65.0	67.5	69.0	69.0
Sector				
NewCastle FoB(USD/t)	59	59	59	59
Melawan FoB(USD/t)	48	48	48	48
Capacity Addition (MW)	20,037	18,000	18,000	18,000
Company				
Commercial cap. add.(MW)	1,960	1,960	4,490	4,520
Ending comm. cap.(MW)	39,102	41,062	45,552	50,072
Closing Reg. Eqty(INRmn)	414,204	450,072	533,586	619,014
Avg. Coal plant PLF(%)	79	80	82	82
Total units prod. (MUs)	241,975	257,787	289,838	325,140
Total units sold (MUs)	224,926	238,453	268,100	300,754
Imp./Exp. Reg. RoE (%)	20.5	20.8	20.4	20.4
Avg.Realisation(INR/kwh)	3.1	3.1	3.2	3.2
Coal cons./req. (MT)	161	169	189	211
Landed coal cost (INR/t)	2,532.2	2,468.9	2,518.2	2,568.6
Avg. Interest rate (%)	3.5	3.4	3.4	3.4
Depreciation rate (%)	3.7	3.8	3.8	3.8
Tax rate (%)	(0.3)	23.0	23.0	23.0
Dividend payout (%)	32.4	30.0	30.0	30.0
Net borrowings (INR mn)	883,593	1,001,265	1,119,404	1,176,783
Capex (INR mn)	204,390	255,131	254,649	227,286
Debtor days	40	40	40	40
Inventory days	50	47	45	44
Payable days	48	45	45	45

Income statement

(INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Income from operations	705,068	782,734	834,484	951,509
Direct costs	437,933	475,722	479,580	544,231
Employee costs	36,093	43,246	43,268	46,807
Other Expenses	55,912	50,924	57,053	67,461
Total operating expenses	529,938	569,892	579,901	658,499
EBITDA	175,130	212,843	254,583	293,010
Depreciation	54,253	59,208	71,386	82,207
EBIT	120,877	153,635	183,197	210,804
Add: Other income	11,892.7	14,046.00	8,576.01	5,189.5
Less: Interest Expense	32,304	35,972	38,623	41,104
Add: Exceptional items	121	(7,830)	-	-
Profit Before Tax	100,587	123,879	153,150	174,889
Less: Provision for Tax	(1,842)	30,026	39,085	44,633
Reported Profit	102,429	93,853	114,065	130,256
Exceptional Items	13,048	-	-	-
Adjusted Profit	89,381	93,853	114,065	130,256
Shares o /s (mn)	8,245	8,245	8,245	8,245
Adjusted Basic EPS	10.8	11.4	13.8	15.8
Diluted shares o/s (mn)	8,245	8,245	8,245	8,245
Adjusted Diluted EPS	10.8	11.4	13.8	15.8
Adjusted Cash EPS	17.4	18.6	22.5	25.8
Dividend per share (DPS)	3.4	4.8	6.9	7.9
Dividend Payout Ratio(%)	32.4	50.4	60.0	60.0

Common size metrics

Year to March	FY16	FY17	FY18E	FY19E
Operating expenses	75.2	72.8	69.5	69.2
Depreciation	7.7	7.6	8.6	8.6
Interest Expense	4.6	4.6	4.6	4.3
EBITDA margins	24.8	27.2	30.5	30.8
Net Profit margins	12.7	12.0	13.7	13.7

Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	(3.7)	11.0	6.6	14.0
EBITDA	8.9	21.5	19.6	15.1
PBT	(4.6)	23.2	23.6	14.2
Adjusted Profit	5.2	5.0	21.5	14.2
EPS	5.2	5.0	21.5	14.2

Balance sheet		(INR mn)			
As on 31st March	FY16	FY17	FY18E	FY19E	
Share capital	82,455	82,455	82,455	82,455	
Reserves & Surplus	805,365	879,858	925,484	977,586	
Shareholders' funds	887,820	962,312	1,007,938	1,060,040	
Short term borrowings	12,995	30,006	30,006	30,006	
Long term borrowings	918,098	995,996	1,105,956	1,178,949	
Total Borrowings	931,093	1,026,001	1,135,961	1,208,955	
Long Term Liabilities	38,088	4,806	4,806	4,806	
Def. Tax Liability (net)	11,522	14,848	14,848	14,848	
Deferred revenue	19,466	21,211	21,211	21,211	
Sources of funds	1,887,989	2,029,180	2,184,766	2,309,862	
Gross Block	1,463,921	1,600,198	1,878,578	2,163,338	
Net Block	913,558	990,627	1,197,621	1,400,174	
Capital work in progress	664,337	807,371	783,640	726,166	
Intangible Assets	2,740	2,930	2,930	2,930	
Total Fixed Assets	1,580,635	1,800,928	1,984,191	2,129,271	
Non current investments	79,495	89,524	72,347	55,171	
Cash and Equivalents	47,500	29,305	6,500	(9,483)	
Inventories	71,925	65,048	77,941	80,820	
Sundry Debtors	78,440	81,379	101,521	107,029	
Loans & Advances	192,295	19,674	19,674	19,674	
Other Current Assets	95,903	279,917	279,917	279,917	
Current Assets (ex cash)	438,563	446,018	479,054	487,440	
Trade payable	55,029	48,761	69,492	64,702	
Other Current Liab	203,175	287,834	287,834	287,834	
Total Current Liab	258,204	336,595	357,326	352,536	
Net Curr Assets-ex cash	180,359	109,423	121,727	134,903	
Uses of funds	1,887,989	2,029,180	2,184,766	2,309,862	
BVPS (INR)	107.7	116.7	122.2	128.6	

Free cash flow		(INR mn)			
Year to March	FY16	FY17	FY18E	FY19E	
Reported Profit	102,429	93,853	114,065	130,256	
Add: Depreciation	54,253	59,208	71,386	82,207	
Interest (Net of Tax)	32,895	27,253	28,766	30,614	
Others	(31,930)	(24,562)	9,857	10,490	
Less: Changes in WC	(12,612)	70,936	(12,304)	(13,176)	
Operating cash flow	145,035	226,687	211,769	240,391	
Less: Capex	204,390	279,502	254,649	227,286	
Free Cash Flow	(59,355)	(52,815)	(42,880)	13,105	

Peer comparison valuation

Name	Market cap (USD mn)	EV / EBITDA (X)		P/B (X)		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
NTPC	20,004	10.1	9.0	1.3	1.2	10.7	11.5
CESC	1,828	9.1	8.2	1.4	1.3	5.0	5.5
Power Grid Corp of India	16,958	9.3	8.3	2.0	1.7	17.3	16.2
Tata Power Co	3,403	9.1	9.1	1.6	1.5	7.0	8.8
Median	-	9.2	8.7	1.5	1.4	8.9	10.1
AVERAGE	-	9.4	8.7	1.6	1.5	10.0	10.5

Source: Edelweiss research

Cash flow metrics		FY16	FY17	FY18E	FY19E
Year to March					
Operating cash flow		145,035	226,687	211,769	240,391
Investing cash flow		(184,227)	(292,966)	(237,473)	(210,110)
Financing cash flow		(44,364)	11,641	2,898	(46,264)
Net cash Flow		(83,555)	(54,638)	(22,805)	(15,983)
Capex		(204,390)	(279,502)	(254,649)	(227,286)
Dividend paid		(33,147)	(47,296)	(68,439)	(78,153)

Profitability and efficiency ratios

Year to March	FY16	FY17	FY18E	FY19E
ROAE (%)	10.5	10.1	11.6	12.6
ROACE (%)	7.5	8.7	9.2	9.7
Inventory Days	61	53	54	53
Debtors Days	40	37	40	40
Payable Days	48	40	45	45
Cash Conversion Cycle	53	50	49	48
Current Ratio	1.2	1.4	1.3	1.3
Gross Debt/EBITDA	5.3	4.8	4.5	4.1
Gross Debt/Equity	1.0	1.1	1.1	1.1
Adjusted Debt/Equity	1.0	1.1	1.1	1.1
Interest Coverage Ratio	3.7	4.3	4.7	5.1

Operating ratios

Year to March	FY16	FY17	FY18E	FY19E
Total Asset Turnover	0.4	0.4	0.4	0.4
Fixed Asset Turnover	0.8	0.8	0.8	0.7
Equity Turnover	0.8	0.8	0.8	0.9

Valuation parameters

Year to March	FY16	FY17	FY18E	FY19E
Adj. Diluted EPS (INR)	10.8	11.4	13.8	15.8
Y-o-Y growth (%)	5.2	5.0	21.5	14.2
Adjusted Cash EPS (INR)	17.4	18.6	22.5	25.8
Diluted P/E (x)	14.4	13.7	11.3	9.9
P/B (x)	1.5	1.3	1.3	1.2
EV / Sales (x)	3.1	2.9	2.9	2.6
EV / EBITDA (x)	12.4	10.7	9.5	8.6
Dividend Yield (%)	2.1	3.1	4.4	5.0

Additional Data

Directors Data

Shri Gurdeep Singh	Chairman and Managing Director	Shri K. Biswal	Director (Finance)
Shri S.C. Pandey	Director (Projects)	Shri A.K. Jha	Director (Technical)
Shri U.P. Pani	Director (Human Resources)	Shri K.K. Sharma	Director (Operations)
Dr. Pradeep Kumar	Non-executive (Government Nominees)	Dr. Gauri Trivedi	Independent Director
Shri Rajesh Jain	Independent Director	Shri Seethapathy Chander	Independent Director
Shri Aniruddha Kumar	Non-executive (Government Nominee)		

Auditors - M/s T R Chadha & Co., LLP; M/s PSD Associates; M/s Sagar & Associates; M/s Kalani & Co.; M/s P. A. & Associates; M/s S. K. Kapoc & Co.; M/s B. M. Chatrath & Co.

**as per last annual report*

Holding – Top 10

	Perc. Holding		Perc. Holding
Life Insurance Corp Of India	12.74	Blackrock	1.41
Icici Prudential Asset Mgmt Co	1.28	T Rowe Price Group Inc	1.26
Vanguard Group	0.81	Icici Prudential Life Insurance	0.57
Templeton Asset Mgmt	0.50	Hdfc Asset Management Co Ltd	0.49
Birla Sun Life Asset Management	0.25	Hsbc	0.23

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
18 Jul 2016	The President of India (acting through Ministry of Power)	Sell	17582590.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Adani Power	HOLD	SU	H	CESC	BUY	None	None
JSW Energy	HOLD	SP	M	NTPC	BUY	SP	L
Power Grid Corp of India	BUY	SO	L	PTC India	BUY	None	None
Tata Power Co	BUY	SP	M				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Coverage group(s) of stocks by primary analyst(s): Power

Adani Power, CESC, JSW Energy, NTPC, PTC India, Power Grid Corp of India, Tata Power Co

Recent Research

Date	Company	Title	Price (INR)	Recos
29-May-17	Adani Power	Compensatory tariff reversal singes profitability; <i>Result Update</i>	27	Hold
23-May-17	Tata Power Company	Tripped by one off; <i>Result Update</i>	80	Buy
22-May-17	CESC	Demerger prudent; prospects brighten; <i>Result Update</i>	884	Buy

Distribution of Ratings / Market Cap

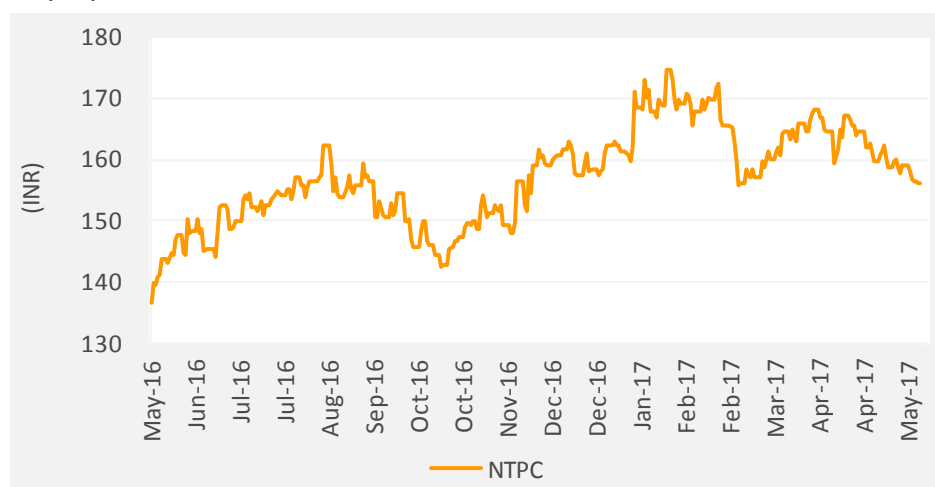
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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