

NTPC

POWER UTILITIES

6 JUN 2017

Quarterly Update

BUY

Target Price: Rs 181

Commissioning to pick up from FY18

Adjusted PAT (~Rs 26 bn) was up just 2% YoY despite 6% YoY increase in regulated equity to Rs 440 bn. This can be attributed to lower incentives reflected in generation being up just 2% YoY (63.8 bn units). From Q3, change in mode of calculation of Gross calorific value (GCV) of coal from "as fired" measured in boiler to "as received" from coal wagons at unloading point was done. **Concerns on impact of change in mode of GCV calculation from Q3FY17 have been unfounded as core RoE in H2 was steady at ~19%.**

While FY17 had commercialization of just 1.4 GW, NTPC expects commercialization to pick up to ~4.7 GW in FY18. We roll forward our estimates to FY19 and have BUY rating with TP of Rs 181.

CMP : Rs 156
Potential Upside : 16%

MARKET DATA

No. of Shares : 8,245 mn
Free Float : 30%
Market Cap : Rs 1,289 bn
52-week High / Low : Rs 178 / Rs 138
Avg. Daily vol. (6mth) : 4.8 mn shares
Bloomberg Code : NTPC IB Equity
Promoters Holding : 70%
FII / DII : 10% / 17%

- ♦ **Valuations:** We assume core RoE of 18% in our valuation (200 bps lower than current RoE of ~20%), as CERC will announce new tariff from FY20. However, downside risk exists in case core RoE is revised further downwards
- ♦ **NTPC addressed concerns on planned dismantling of old plants (11 GW).** As of now, NTPC identified 460 MW Talser Kaniha and 1 GW Singrauli, which would be replaced with capacities of 1.3 GW each. **Dismantling to be done only post commissioning of new facility in the vicinity.** Further, construction of new facility would be contingent on availability of water, fuel, land, clearance and PPA
- ♦ **Management believes timelines (2 years) of new emission norms is "unrealistic" and expects it to be extended.** NTPC does not expect any changes in stringency of SoX norms, while for De-NoXit is conducting trial runs at 9 power plants and outcome will be available by CY17 end

Financial summary (Standalone)

Y/E March	FY16	FY17	FY18E	FY19E
Sales (Rs bn)	720	781	933	1,022
EBITDA (Rs bn)	189	213	264	291
Adj PAT (Rs bn)	88	98	103	112
Con. EPS* (Rs)	-	-	13.7	16.7
EPS (Rs)	10.7	11.9	12.4	13.6
Change YOY (%)	5.5	11.4	4.3	9.1
P/E (x)	14.6	13.1	12.6	11.5
RoE (%)	10.4	10.6	10.3	10.5
EV/E (x)	11.6	11.4	9.9	9.1
DPS (Rs)	3.4	3.7	3.9	4.2

Source: *Consensus broker estimates, Company, Axis Capital

Key drivers

(Standalone)	Q4FY17	Q4FY16	Q3FY17
Generation (BU)	64	62	61
Capacity (GW)	41	39	40
PAF (%)	95	95	92
PLF (%)	74	73	71

Price performance

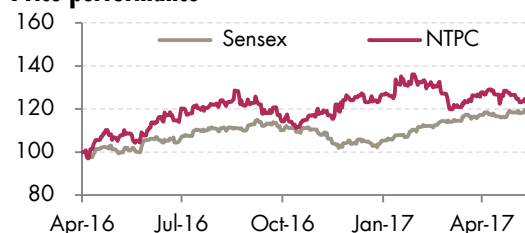


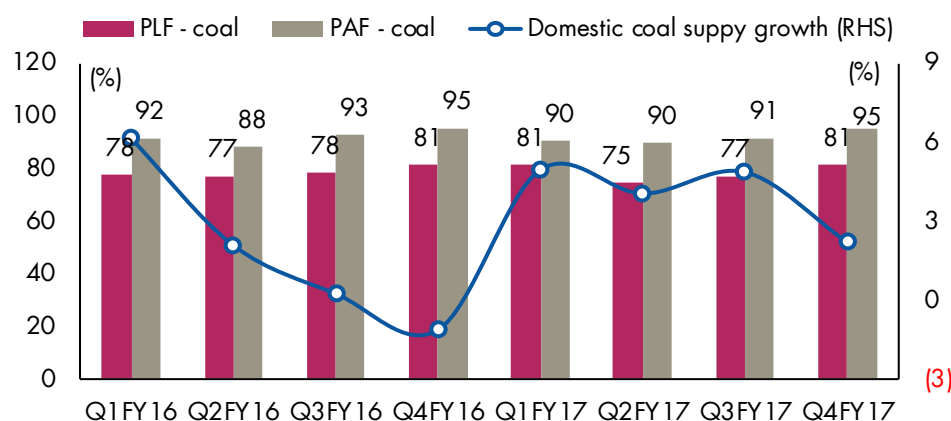
Exhibit 1: Results update

(Rs mn)	Quarter ended					12 months ended		
	Mar-17	Mar-16	% Chg	Dec-16	% Chg	FY18E	FY17	% Chg
Net Sales	1,94,211	1,82,744	6.3	1,90,219	2.1	933,187	781,458	19.4
EBIDTA	51,372	53,959	(4.8)	48,772	5.3	264,127	212,843	24.1
Other income	4,702	4,073	15.4	2,502	87.9	4,554	10,689	(57.4)
PBITD	56,073	58,032	(3.4)	51,274	9.4	268,681	223,531	20.2
Depreciation	16,062	13,257	21.2	14,853	8.1	63,526	59,208	7.3
Interest	8,979	8,760	2.5	9,090	(1.2)	67,787	35,972	88.4
PBT	31,033	36,015	(13.8)	27,330	13.5	137,368	128,351	7.0
Tax	9,286	8,556	8.5	5,056	83.7	34,806	30,026	15.9
Adjusted PAT	21,747	27,459	(20.8)	22,274	(2.4)	102,562	98,325	4.3
Extra ordinary income/ (exp.)	-953	468	(303.6)	1,497	(163.7)	0	(4,473)	-
Reported PAT	20,794	27,927	(25.5)	23,771	(12.5)	102,562	93,852	9.3
No. of shares (mn)	8,245	8,245	-	8,245	-	8,245	8,245	-
EBIDTA margins (%)	26.5	29.5	-	25.6	-	28.3	27.2	-
PBITD margins (%)	28.9	31.8	-	27.0	-	28.8	28.6	-
EPS - annualized (Rs)	10.5	13.3	(20.8)	10.8	(2.4)	12.4	11.9	4.3

Source: Company, Axis Capital

- With 23 GW under construction, NTPC believes power demand growth would surprise positively (driven by more urbanization and rural electrification) and coal-based power capacity addition is required to meet base load requirement. This is contrary to recent draft report of CEA
- Strong commissioning is expected in FY18 (4.5 GW). Further, management has earmarked project awards of 5 GW (Jharkhand 2.4 GW, Talcher 1.3 GW and Singrauli 1.3 GW). NTPC is focusing on pit-head plants to minimize logistics cost for movement of coal. Consequently, it is not going ahead with the 6.6 GW it tendered out at Telangana (4GW) and Barethi (2.6 GW)

Exhibit 2: Domestic coal supplied



Source: Company, Axis Capital

Financial summary (Standalone)

Profit & loss (Rs bn)

Y/E March	FY16	FY17	FY18E	FY19E
Net sales	720	781	933	1,022
Other operating income	1	1	1	1
Total operating income	722	783	935	1,024
Cost of goods sold	(487)	(516)	(613)	(671)
Gross profit	235	267	322	352
<i>Gross margin (%)</i>	<i>32.6</i>	<i>34.2</i>	<i>34.5</i>	<i>34.4</i>
Total operating expenses	(46)	(54)	(57)	(61)
EBITDA	189	213	264	291
<i>EBITDA margin (%)</i>	<i>26.2</i>	<i>27.2</i>	<i>28.3</i>	<i>28.5</i>
Depreciation	(54)	(59)	(64)	(70)
EBIT	134	154	201	221
Net interest	(32)	(36)	(68)	(76)
Other income	12	11	5	4
Profit before tax	114	128	137	150
Total taxation	(26)	(30)	(35)	(38)
<i>Tax rate (%)</i>	<i>22.5</i>	<i>23.4</i>	<i>25.3</i>	<i>25.3</i>
Profit after tax	88	98	103	112
Minorities	-	-	-	-
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	88	98	103	112
<i>Adj. PAT margin (%)</i>	<i>12.3</i>	<i>12.6</i>	<i>11.0</i>	<i>10.9</i>
Net non-recurring items	14	(4)	-	-
Reported net profit	102	94	103	112

Balance sheet (Rs bn)

Y/E March	FY16	FY17	FY18E	FY19E
Paid-up capital	82	82	82	82
Reserves & surplus	805	880	945	1,016
Net worth	888	962	1,027	1,098
Borrowing	950	1,175	1,400	1,410
Other non-current liabilities	19	19	19	19
Total liabilities	1,857	2,157	2,447	2,528
Gross fixed assets	1,410	1,618	1,899	1,975
Less: Depreciation	(566)	(625)	(688)	(758)
Net fixed assets	844	994	1,211	1,217
Add: Capital WIP	766	807	877	946
Total fixed assets	1,611	1,801	2,088	2,163
Total Investment	83	85	88	88
Inventory	72	65	78	85
Debtors	103	82	98	107
Cash & bank	44	29	69	47
Loans & advances	233	295	256	280
Current liabilities	289	204	228	242
Net current assets	164	267	272	277
Other non-current assets	-	3	-	-
Total assets	1,857	2,157	2,447	2,528

Source: Company, Axis Capital

Cash flow (Rs bn)

Y/E March	FY16	FY17	FY18E	FY19E
Profit before tax	114	128	137	150
Depreciation & Amortisation	54	59	64	70
<i>Chg in working capital</i>	<i>(69)</i>	<i>(119)</i>	<i>35</i>	<i>(27)</i>
Cash flow from operations	120	71	269	231
<i>Capital expenditure</i>	<i>(249)</i>	<i>(250)</i>	<i>(350)</i>	<i>(145)</i>
Cash flow from investing	(220)	(220)	(338)	(117)
<i>Equity raised/ (repaid)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Debt raised/ (repaid)</i>	<i>80</i>	<i>225</i>	<i>226</i>	<i>10</i>
<i>Dividend paid</i>	<i>(32)</i>	<i>(36)</i>	<i>(38)</i>	<i>(41)</i>
Cash flow from financing	53	155	120	(107)
Net chg in cash	(47)	5	52	7

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	10.7	11.9	12.4	13.6
CEPS (Rs)	19.0	18.6	20.1	22.1
DPS (Rs)	3.4	3.7	3.9	4.2
Dividend payout ratio (%)	27.0	32.8	31.3	31.3
GROWTH				
Net sales (%)	(2.4)	8.5	19.4	9.5
EBITDA (%)	14.1	12.8	24.1	10.2
Adj net profit (%)	5.5	11.4	4.3	9.1
FDEPS (%)	5.5	11.4	4.3	9.1
PERFORMANCE				
RoE (%)	10.4	10.6	10.3	10.5
RoCE (%)	8.2	8.2	8.9	9.1
EFFICIENCY				
Asset turnover (x)	0.4	0.4	0.4	0.4
Sales/ total assets (x)	0.3	0.3	0.4	0.4
Working capital/ sales (x)	0.1	0.2	0.2	0.2
Receivable days	52.4	38.2	38.2	38.2
Inventory days	49.3	41.7	42.3	42.4
Payable days	135.6	79.5	80.7	80.9
FINANCIAL STABILITY				
Total debt/ equity (x)	1.1	1.3	1.4	1.3
Net debt/ equity (x)	1.1	1.2	1.3	1.3
Current ratio (x)	1.6	2.3	2.2	2.1
Interest cover (x)	4.2	4.3	3.0	2.9
VALUATION				
PE (x)	14.6	13.1	12.6	11.5
EV/ EBITDA (x)	11.6	11.4	9.9	9.1
EV/ Net sales (x)	3.0	3.1	2.8	2.6
PB (x)	1.5	1.3	1.3	1.2
Dividend yield (%)	2.1	2.4	2.5	2.7
Free cash flow yield (%)	(10.0)	(13.9)	(6.3)	6.6

Source: Company, Axis Capital

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HOLD	Between 10% and -10%
SELL	Less than -10%

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