

NTPC | BUY

4QFY18 profit +51% QoQ as coal shortage related losses shrink

NTPC's 4QFY18 adjusted net profit stood at INR 34bn (+5% YoY), a jump of 51% QoQ as losses from coal related shortage have halved to INR 2.5bn from 3Q18. As highlighted in our earlier reports, the issues related to coal shortages in newly-commissioned plants has been arrested as reflected in [Mar-April'17 plant availability \(PAF\)](#). We expect the coal situation to improve by 1H19 given efforts by NTPC and measures taken by Power, Coal and Railway Ministries ([detailed report](#)). The current scenario of rising power demand strengthens our long-term thesis of NTPC benefitting from capacity additions and improving PLFs. We expect NTPC to add 4-5GW annually in FY19 and FY20 based on company guidance and CEA timelines. This will result in c.40% addition to its installed base and almost double its regulated equity base in the next 2-3 years. We find NTPC delivering 12% earnings CAGR despite assuming 18% core RoE (vs. a run rate of 20%). With inexpensive valuations of c1x FY20 BV, we reiterate our BUY rating with a TP of INR 220.

- **4QFY18 adj. profit +5% YoY/Core RoE in FY18 at 19%:** NTPC reported 4QFY18 profit of INR 33.5bn (+5% YoY) adjusted for one offs and prior year items. However profit jumped 51% QoQ as under-recoveries from coal shortage related PAF impact halved on QoQ basis. The core RoE for FY19 came in at 19% vs. earlier run rate of 20%+ mainly due to the hit from under-recoveries seen in 2H18 from coal shortage, Badarpur shutdown (recoverable) and Unchahar accident (one off). Adjusted for this cumulative earnings impact of INR14bn, the core RoE for FY19 would have been c22% implying a potential 16% YoY growth. The company has also booked higher wage provisioning costs without booking commensurate revenues, pending Govt. clearance on wage hike, post which they will apply to CERC for a pass through. The impact of the above is results in FY19 adj. profits growing by only 3% YoY with 19% core RoEs vs 23% in FY18.
- **Commercialisation cycle has begun:** NTPC has added 3.7GW of commercial capacity in FY18, leading to 16% YoY growth in regulated equity which currently stands at INR 509bn. New commercialisations included Kudgi (1600MW), Mauda (660MW), Solapur (660MW), Bongaigaon (250MW) and Unchahar (500MW). Management guides for 5GW capacity addition every year in FY19 and FY20, including its JV capacities. Additionally NTPC is also acquiring c2.5GW of capacities from Bihar SEB at close to book value, which is expected to be completed by June18. With Govt. focus on coal supply, we believe the issues of low PAF will get ironed out in 3-6 months.
- **Falling all-India capex to improve PLFs / CERC approach paper:** With slower investments in thermal power by private sector and shutdown of older capacities, SEB continue to prefer purchasing from capacities signed PPAs and low costs. In a rising power demand scenario we find NTPC benefiting as its PLFs rise over a period of time. The CERC approach paper outlines some positives like grandfathering of RoE revision ([see report](#)) along with tightening of norms, new tariff model etc. Even considering the bear case where all the stringent norms and new 3-part tariff model get accepted (unlikely in our view), we find no downside for NTPC as the CMP implies only 14% RoE vs. 20% historically.



Subhadip Mitra

subhadip.mitra@jmfll.com | Tel: (91 22) 66303128

Koundinya Nimmagadda

koundinya.nimmagadda@jmfll.com | Tel: (91 22) 66303574

Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	220
Upside/(Downside)	31.2%
Previous Price Target	210
Change	4.8%

Key Data – NTPC IN

Current Market Price	INR168
Market cap (bn)	INR1,382.8/US\$20.5
Free Float	25%
Shares in issue (mn)	8,245.5
Diluted share (mn)	8,245.5
3-mon avg daily val (mn)	INR804.5/US\$11.9
52-week range	188/153
Sensex/Nifty	35,165/10,689
INR/US\$	67.4

Price Performance

%	1M	6M	12M
Absolute	-1.8	-8.3	7.5
Relative*	-2.3	-12.3	-5.1

* To the BSE Sensex

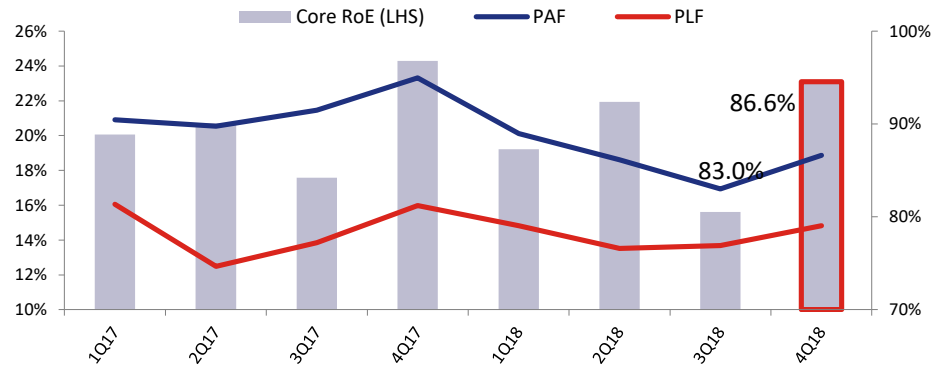
JM Financial Research is also available on:
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Financial Summary	(INR mn)				
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Net Sales	7,08,438	8,20,425	8,80,833	9,67,068	10,49,306
Sales Growth (%)	-2.5	15.8	7.4	9.8	8.5
EBITDA	1,78,871	2,17,585	2,29,808	2,60,883	2,75,762
EBITDA Margin (%)	25.2	26.5	26.1	27.0	26.3
Adjusted Net Profit	91,231	1,04,902	1,05,015	1,25,018	1,28,113
Diluted EPS (INR)	11.1	12.7	12.7	15.2	15.5
Diluted EPS Growth (%)	10.3	15.0	0.1	19.0	2.5
ROIC (%)	8.6	7.0	6.4	7.1	7.1
ROE (%)	10.7	11.3	10.6	11.7	10.9
P/E (x)	15.2	13.2	13.2	11.1	10.8
P/B (x)	1.6	1.4	1.4	1.2	1.1
EV/EBITDA (x)	12.3	10.8	10.9	9.0	8.5
Dividend Yield (%)	1.5	1.5	1.5	1.5	1.5

Source: Company data, JM Financial. Note: Valuations as of 28/May/2018

Exhibit 1. Core RoEs improve in 4Q18 driven by PAFs



Source: JM Financial, Company

Core RoE recovers in 4Q18 as PAFs improve n better coal sourcing

Exhibit 2. SOTP Valuation

	Comments	Multiple	Per share value
Regulated equity FY20E	FY20E regulated equity	2.1	170
Regulated equity in JV Co's	FY20E regulated equity	1.5	15
CWIP (Equity component)	1X FY20 BV	1.0	30
Investments & Cash	1x BV	1.0	5
			220

Source: Company, JM Financial

We find FV at 18% RoE with

4–5GW annual capacity addition, implying a 12% EPS CAGR

Exhibit 3. SOTP Sensitivity

		Core RoE			
Growth (g)		16%	18%	19%	20%
	5%	185	210	222	234
	6%	194	220	237	252
	7%	206	241	259	276
	8%	225	269	291	313
	9%	257	316	346	376

Source: Company, JM Financial

We value NTPC at 18% RoE Vs. historic run-rate of 20%+ core RoEs

Exhibit 4. Quarterly Financials

Y/E March	4Q17	4Q18	%YoY	3Q18	%QoQ	FY17	FY18A
Generation (MUs)	63,770	61,452	-3.6	67,782	-9.3	2,50,318	2,58,692
Net Sales	2,04,167	2,31,003	13.1	2,07,744	11.2	8,20,425	8,80,833
Expenditure	1,46,693	1,68,906	15.1	1,55,440	8.7	6,02,840	6,51,025
EBITDA	57,474	62,097	8.0	52,304	18.7	2,17,585	2,29,808
EBITDA (%)	28.2	26.9	-4.5	25.2	6.8	26.5	26.1
Other income	4,702	5,176	10.1	3,135	65.1	9,668	15,583
Depreciation	16,062	19,348	20.5	18,814	2.8	60,099	74,599
EBIT	46,114	47,924	3.9	36,625	30.9	1,67,154	1,70,792
Interest	8,979	11,042	23.0	10,650	3.7	36,511	44,346
PBT	37,135	36,883	-0.7	25,974	42.0	1,30,643	1,26,446
Tax	8,511	7,627	-10.4	2,366	222.3	29,751	25,881
Tax rate (%)	22.9	20.7	-9.8	9.1	127.0	22.8	20.5
PAT	24,415	29,256	19.8	23,608	23.9	1,00,892	1,00,565
RoE	24%	23%		16%	48	20%	18%

Source: Company, JM Financial

Exhibit 5. Cost Break-up

	4Q17	4Q18	%YoY	3Q18	%QoQ	FY17	FY18A
Raw material Costs	1,19,464	1,25,697	5.2	1,24,069	1.3	4,79,478	4,89,928
% of sales	59	54	-410bps	60	-9bps	58	56
RM/MU	1.9	2.0	9.2	1.8	11.7	1.9	1.9
Staff Costs	16,377	13,682	-16.5	12,943	5.7	43,755	47,920
% of sales	8.0	5.9	-210bps	6.2	-5bps	5.3	5.4
Other Expenses	10,852	29,527	172.1	18,429	60.2	79,607	1,13,177
% of sales	5.3	12.8	747bps	8.9	44bps	9.7	12.8

Source: Company, JM Financial

Company background

- NTPC is the largest power utility company in India owning and operating 40GW on assured regulated RoE-based norms. Recently, it was impacted by the tightening of CERC norms, impacting RoE by 5–6%. Capacity addition has also tapered off to 1–1.2GW annually.
- Potential triggers: a) Revival in GW addition with 25GW planned during the 13th plan period—15GW thermal + 10GW solar; b) revival in RoEs as the company adjusts to newer efficiency thresholds; and c) recovery in project CoD, as bunched under-construction capacity commissions in FY17–18 can boost growth. Current schedule points to bunched project commissioning of 6–8GW in FY17–18.

Investment rationale

- **High earning visibility:** With a capacity addition pick up expected in FY17–19, NTPC has high earnings visibility, since it earns a minimum of 15.5% RoE invested in the power business under CERC norms. The FY15/FY16 actual earnings were at 17–19% of regulated equity on incentives/cost savings. Most utilities are currently suffering from low capacity utilisation (PLF) due to low power demand, while NTPC continues to enjoy guaranteed 15.5% RoE, as long as its plants are available to produce power.
- **Large capex pipeline:** With 18GW of under-construction capacity to be commissioned by FY19–20, NTPC will add >40% of its existing 38GW commercial base, in the next 3–4 years. With all of this capacity being based on regulated RoEs, earnings growth will closely follow project capitalisation. Once executed, this can potentially add >60% to regulated equity by FY19–20. Solar capex is an additional 10GW targeted in the next seven years, of which 250MW in AP has been ordered.

Key risks

- Delayed capacity addition and lower incentive earnings, in case PLFs decline, continue to be risks.
- Any incremental hit from the HC's decision on the CERC policy of coal costing based on coal "as received" from CIL vis-à-vis "as fired" over and above the 2% core RoE impact already factored.

Financial Tables (Standalone)

Income Statement					(INR mn)
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Net Sales	7,08,438	8,20,425	8,80,833	9,67,068	10,49,306
Sales Growth	-2.5%	15.8%	7.4%	9.8%	8.5%
Other Operating Income	0	0	0	0	0
Total Revenue	7,08,438	8,20,425	8,80,833	9,67,068	10,49,306
Cost of Goods Sold/Op. Exp	55,765	79,607	1,13,177	68,999	77,871
Personnel Cost	35,817	43,755	47,920	41,826	43,646
Other Expenses	4,37,986	4,79,478	4,89,928	5,95,359	6,52,027
EBITDA	1,78,871	2,17,585	2,29,808	2,60,883	2,75,762
EBITDA Margin	25.2%	26.5%	26.1%	27.0%	26.3%
EBITDA Growth	15.7%	21.6%	5.6%	13.5%	5.7%
Depn. & Amort.	51,723	60,099	74,599	70,907	81,338
EBIT	1,27,147	1,57,486	1,55,209	1,89,977	1,94,424
Other Income	11,654	9,668	15,583	19,500	20,000
Finance Cost	32,964	36,511	44,346	43,654	44,496
PBT before Excep. & Forex	1,05,837	1,30,643	1,26,446	1,65,823	1,69,928
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	1,05,837	1,30,643	1,26,446	1,65,823	1,69,928
Taxes	-1,738	29,751	25,881	40,805	41,815
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	1,07,575	1,00,892	1,00,565	1,25,018	1,28,113
Adjusted Net Profit	91,231	1,04,902	1,05,015	1,25,018	1,28,113
Net Margin	12.9%	12.8%	11.9%	12.9%	12.2%
Diluted Share Cap. (mn)	8,245.5	8,245.5	8,245.5	8,245.5	8,245.5
Diluted EPS (INR)	11.1	12.7	12.7	15.2	15.5
Diluted EPS Growth	10.3%	15.0%	0.1%	19.0%	2.5%
Total Dividend + Tax	24,788	24,788	23,190	23,190	23,190
Dividend Per Share (INR)	2.5	2.5	2.5	2.5	2.5

Source: Company, JM Financial

Cash Flow Statement					(INR mn)
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Profit before Tax	1,05,837	1,30,643	1,26,446	1,65,823	1,69,928
Depn. & Amort.	51,723	60,099	74,599	70,907	81,338
Net Interest Exp. / Inc. (-)	32,964	36,511	44,346	43,654	44,496
Inc (-) / Dec in WCap.	-21,912	-13,649	9,998	-1,264	-6,235
Others	0	0	-7,030	0	0
Taxes Paid	-1,738	29,751	25,881	40,805	41,815
Operating Cash Flow	1,70,350	1,83,853	2,22,477	2,38,315	2,47,712
Capex	-1,00,308	-2,08,741	-3,09,558	2,060	-2,63,344
Free Cash Flow	70,043	-24,888	-87,081	2,40,375	-15,632
Inc (-) / Dec in Investments	-1,71,235	-71,201	29,539	-33,023	1,07,533
Others	0	0	0	0	0
Investing Cash Flow	-2,71,543	-2,79,942	-2,80,019	-30,963	-1,55,811
Inc / Dec (-) in Capital	0	43,018	-21,909	0	0
Dividend + Tax thereon	-24,788	-24,788	-23,190	-23,190	-23,190
Inc / Dec (-) in Loans	78,504	1,39,571	1,48,581	26,198	22,729
Others	-37,249	-76,471	-35,460	-43,654	-44,496
Financing Cash Flow	16,468	81,331	68,021	-40,646	-44,958
Inc / Dec (-) in Cash	-84,725	-14,759	10,479	1,66,706	46,943
Opening Cash Balance	1,28,788	44,064	29,305	39,784	2,06,490
Closing Cash Balance	44,064	29,305	39,784	2,06,490	2,53,434

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Shareholders' Fund	8,87,820	9,62,312	10,17,778	11,19,605	12,24,528
Share Capital	82,455	82,455	82,455	82,455	82,455
Reserves & Surplus	8,05,365	8,79,858	9,35,323	10,37,151	11,42,073
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	8,63,828	10,03,398	11,51,979	11,78,178	12,00,906
Def. Tax Liab. / Assets (-)	11,522	14,848	24,086	24,086	24,086
Total - Equity & Liab.	17,63,170	19,80,559	21,93,843	23,21,869	24,49,521
Net Fixed Assets	15,80,635	18,01,329	19,95,786	19,73,018	20,64,667
Gross Fixed Assets	13,90,934	16,00,126	18,91,690	19,06,806	21,87,326
Intangible Assets	0	401	7,431	7,431	7,431
Less: Depn. & Amort.	5,46,469	6,06,568	6,81,168	7,52,074	8,33,412
Capital WIP	7,36,170	8,07,371	7,77,832	8,10,855	7,03,322
Investments	82,932	82,481	1,00,475	83,299	66,122
Current Assets	4,82,627	4,77,137	5,05,675	6,85,731	7,45,405
Inventories	71,925	65,048	60,574	66,504	72,159
Sundry Debtors	78,440	81,735	75,780	83,199	90,274
Cash & Bank Balances	44,064	29,305	39,784	2,06,490	2,53,434
Loans & Advances	1,92,295	7,675	9,359	9,359	9,359
Other Current Assets	95,903	2,93,374	3,20,179	3,20,179	3,20,179
Current Liab. & Prov.	3,83,023	3,80,388	4,08,092	4,20,178	4,26,674
Current Liabilities	74,495	70,104	77,019	89,104	95,600
Provisions & Others	3,08,528	3,10,285	3,31,074	3,31,074	3,31,074
Net Current Assets	99,604	96,749	97,583	2,65,553	3,18,731
Total - Assets	17,63,170	19,80,559	21,93,843	23,21,869	24,49,521

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Net Margin	12.9%	12.8%	11.9%	12.9%	12.2%
Asset Turnover (x)	0.3	0.4	0.4	0.4	0.4
Leverage Factor (x)	2.4	2.4	2.5	2.5	2.4
RoE	10.7%	11.3%	10.6%	11.7%	10.9%

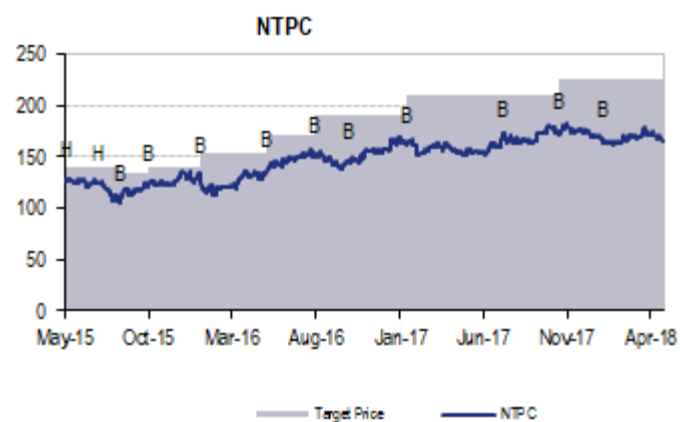
Key Ratios					
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
BV/Share (INR)	107.7	116.7	123.4	135.8	148.5
ROIC	8.6%	7.0%	6.4%	7.1%	7.1%
ROE	10.7%	11.3%	10.6%	11.7%	10.9%
Net Debt/Equity (x)	0.9	1.0	1.1	0.9	0.8
P/E (x)	15.2	13.2	13.2	11.1	10.8
P/B (x)	1.6	1.4	1.4	1.2	1.1
EV/EBITDA (x)	12.3	10.8	10.9	9.0	8.5
EV/Sales (x)	3.1	2.9	2.8	2.4	2.2
Debtor days	40	36	31	31	31
Inventory days	37	29	25	25	25
Creditor days	38	30	31	35	35

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	Recommendation	Target Price	% Chg.
1-Jun-15	Hold	140	
31-Jul-15	Hold	140	0.0
7-Sep-15	Buy	134	-4.3
30-Oct-15	Buy	140	4.5
1-Feb-16	Buy	154	10.0
1-Jun-16	Buy	170	10.4
25-Aug-16	Buy	190	11.8
28-Oct-16	Buy	190	0.0
9-Feb-17	Buy	210	10.5
3-Aug-17	Buy	210	0.0
14-Nov-17	Buy	225	7.1
1-Feb-18	Buy	225	0.0

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

(formerly known as JM Financial Securities Limited)

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd., National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst – INH000000610

Registered Office: 7th Floor, Energy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.

Board: +9122 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.com

Compliance Officer: Mr. Sunny Shah | Tel: +91 22 6630 3383 | Email: sunny.shah@jmfl.com

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Rating	Meaning
Buy	Total expected returns of more than 15%. Total expected return includes dividend yields.
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