

## NTPC

### Performance Highlights

Standalone (₹ cr)	2QFY16	2QFY15	yoy%	1QFY16	qoq%
Net revenue	17,899	16,737	6.9	17,085	4.8
EBITDA	4,031	3,242	24.3	3,438	17.2
Margin (%)	22.5	19.4	315bp	20.1	240bp
<b>Reported PAT</b>	<b>2,898</b>	<b>2,072</b>	<b>39.9</b>	<b>2,135</b>	<b>35.7</b>

Source: Company, Angel Research

For 2QFY2016, NTPC's net sales increased by 6.9% yoy to ₹17,723cr (2.4% below our estimate; and as against ₹16,582cr in the corresponding quarter of last year) led by a 6% yoy increase in coal PLF. Coal PLF improved 407bp to 77.3% as against 73.2% last year. Gas PLF however continued to fall, coming in at 25.7% as against 33.4% last year. PAF remained stable at 88.1%/97.6% for coal and gas respectively.

Higher than expected operating expenses resulted in the EBITDA coming in 5.5% below our estimate, at ₹4,031cr. The EBITDA however increased 24% yoy resulting in a 315bp improvement in margin. While depreciation and interest expenses were in line with expectations, higher tax refunds boosted net profit, which came in 9.6% ahead of our expectation at ₹2,898cr.

**Strong capacity addition to drive regulated equity:** NTPC's current capacity stands at 45,048MW and the company plans to add ~23,500MW by FY2019. The company will commission 7,500MW by FY2017, ~8,050MW in FY2018 and ~8,200MW in FY2019. Led by the strong capex, the Management expects to see a 45% jump in regulated equity by FY2018 and a 75% increase by FY2019.

**Outlook and valuation:** We like NTPC for the growth offered by its regulated equity model, huge capacity addition plans and expected improvement in demand for power in the country. At the current market price of ₹133, the stock trades at a P/BV of 1.27x and 1.19x its FY2016E and FY2017E BV/share of ₹105 and ₹112), respectively. We remain positive on the stock with a target price of ₹157, based on ~1.4x FY2017E BV, implying an 18% upside in the stock price from the current levels. **We retain our Buy rating on the stock.**

### Key financials (Consolidated)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
<b>Revenue</b>	<b>69,377</b>	<b>78,951</b>	<b>80,622</b>	<b>87,064</b>	<b>98,846</b>
% chg	5.3	13.8	2.1	8.0	13.5
<b>Adj. net profit</b>	<b>12,591</b>	<b>11,404</b>	<b>9,986</b>	<b>9,650</b>	<b>10,884</b>
% chg	16.2	0.0	(12.4)	(3.4)	12.8
<b>Adj. EPS (₹)</b>	<b>13.8</b>	<b>13.8</b>	<b>12.1</b>	<b>11.7</b>	<b>13.2</b>
OPM (%)	26.2	25.0	21.7	23.4	23.5
P/E (x)	8.7	9.6	11.0	11.4	10.1
P/BV (x)	1.4	1.3	1.3	1.3	1.2
RoE (%)	16.2	13.6	11.8	11.4	12.1
RoCE (%)	10.0	9.3	6.9	7.9	8.5
EV/Sales (x)	2.3	2.2	2.4	2.3	2.1
EV/EBIDTA	8.9	8.8	10.8	9.8	8.8

Source: Company, Angel Research; Note: CMP as of November 18, 2015

## BUY

CMP	₹133
Target Price	₹157

Investment Period	12 Months
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### Stock Info

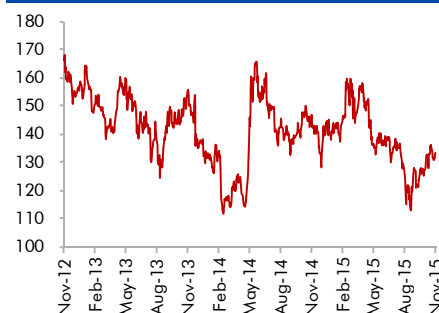
Sector	Power
Market Cap (₹ cr)	1,09,788
Net Debt (₹ cr)	72,307
Beta	0.9
52 Week High / Low	165/107
Avg. Daily Volume	5,28,228
Face Value (₹)	10
BSE Sensex	25,483
Nifty	7,732
Reuters Code	NTPC.BO
Bloomberg Code	NTPC IN

### Shareholding Pattern (%)

Promoters	75.0
MF / Banks / Indian Fls	13.5
FII / NRIs / OCBs	9.2
Indian Public / Others	2.3

Abs. (%)	3m	1yr	3yr
Sensex	(8.4)	(9.5)	39.2
NTPC	4.6	(9.2)	(19.9)

### 3-year price chart



Source: Company, Angel Research

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**Exhibit 1: 2QFY2016 performance (Standalone)**

(₹ cr)	2QFY16	2QFY15	yoy%	4QFY15	qoq%	FY2015	FY2014	yoy%
Net Sales	17,723	16,582	6.9	17,019	4.1	72,638	71,603	1.4
Other Operating Income	176	154	13.8	66	166.5	608	416	46.1
<b>Net sales</b>	<b>17,899</b>	<b>16,737</b>	<b>6.9</b>	<b>17,085</b>	<b>4.8</b>	<b>73,246</b>	<b>72,019</b>	<b>1.7</b>
Fuel Cost	11,541	11,439	0.9	11,509	0.3	48,845	45,830	6.6
% of net sales	64.5	68.3		67.4		66.7	63.6	
Employee Cost	922	918	0.4	923	(0.1)	3,670	3,825	(4.1)
% of net sales	5.1	5.5		5.4		5.0	5.3	
Other expenditure	1,405	1,137	23.6	1,215	15.7	4,645	4,557	1.9
% of net sales	7.9	6.8		7.1		6.3	6.3	
Total expenditure	13,868	13,494	2.8	13,647	1.6	57,160	54,211	5.4
% of net sales	77.5	80.6		79.9		78.0	75.3	
<b>EBITDA</b>	<b>4,031</b>	<b>3,242</b>	<b>24.3</b>	<b>3,438</b>	<b>17.2</b>	<b>16,086</b>	<b>17,808</b>	<b>(9.7)</b>
Margin (%)	22.5	19.4	315bp	20.1	240bp	22.0	24.7	(221bp)
Interest	815	667	22.0	731	11.4	2,744	2,407	14.0
Depreciation	1,323	1,152	14.9	1,238	6.9	4,912	4,142	18.6
Other income	275	531	(48.1)	239	15.4	2,116	2,646	(20.0)
Exceptional items	-	-		-		-	-	
<b>Profit before tax</b>	<b>2,169</b>	<b>1,954</b>	<b>11.0</b>	<b>1,708</b>	<b>27.0</b>	<b>10,547</b>	<b>13,905</b>	<b>(24.2)</b>
% of net sales	12.1	11.7		10.0		14.4	19.3	
Tax	(730)	(118)		(428)		256	2,930	(91.3)
% of PBT	(33.6)	(6.0)		(25.1)		2.4	21.1	
<b>Net Profit</b>	<b>2,898</b>	<b>2,072</b>	<b>39.9</b>	<b>2,135</b>	<b>35.7</b>	<b>10,291</b>	<b>10,975</b>	<b>(6.2)</b>

Source: Company, Angel Research

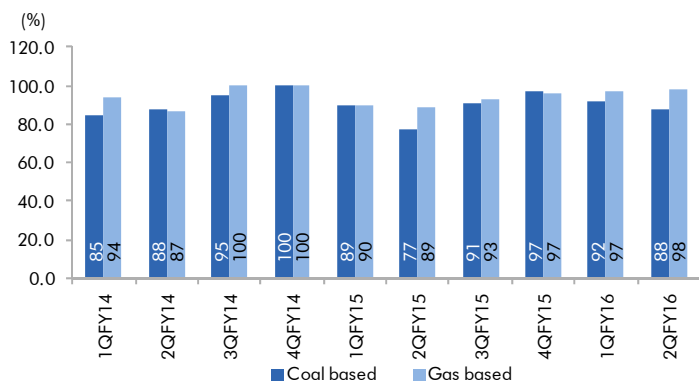
**Exhibit 2: 2QFY2016 Actual vs. estimates**

(₹ cr)	Actual	Estimates	Variation (%)
<b>Net sales</b>	<b>17,899</b>	<b>18,342</b>	<b>(2.4)</b>
EBITDA	4,031	4,266	(5.5)
EBITDA margin (%)	22.5	23.3	(74bp)
<b>Net Profit</b>	<b>2,898</b>	<b>2,645</b>	<b>9.6</b>

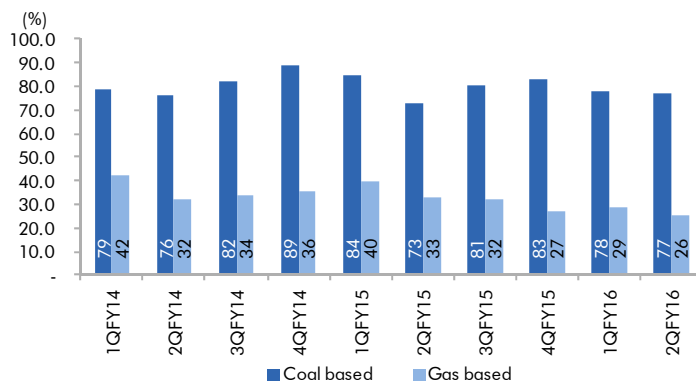
Source: Company, Angel Research

**Result highlights**
**Revenue and EBITDA below our estimate**

For 2QFY2016, NTPC's net sales increased by 6.9% yoy to ₹17,723cr (2.4% below our estimate; and as against ₹16,582cr in the corresponding quarter of last year) led by a 6% yoy increase in coal PLF. Coal PLF improved 407bp to 77.3% as against 73.2% last year. Gas PLF however continued to fall, coming in at 25.7% as against 33.4% last year. PAF remained stable at 88.1%/97.6% for coal and gas respectively.

**Exhibit 3: PAF continues to remain stable**


Source: Company, Angel Research

**Exhibit 4: Coal PLF increases 407bp yoy**


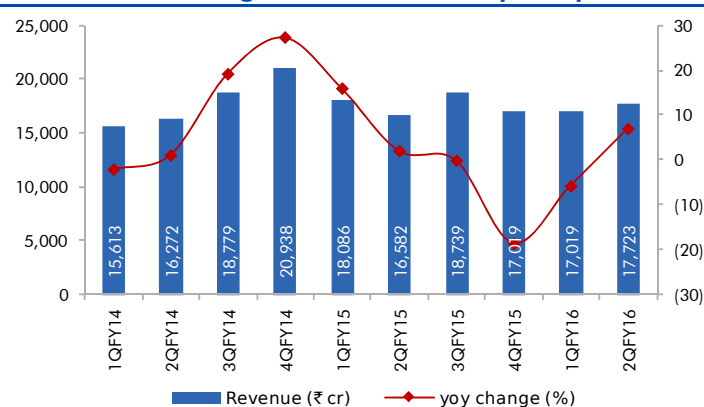
Source: Company, Angel Research

Higher than expected operating expenses resulted in the EBITDA coming in 5.5% below our estimate at ₹4,031cr. The EBITDA however increased 24% yoy, resulting in a 315bp improvement in margin. While depreciation and interest expenses were in line with our expectations, higher tax refunds boosted net profit, which came in 9.6% ahead of our expectation at ₹2,898cr.

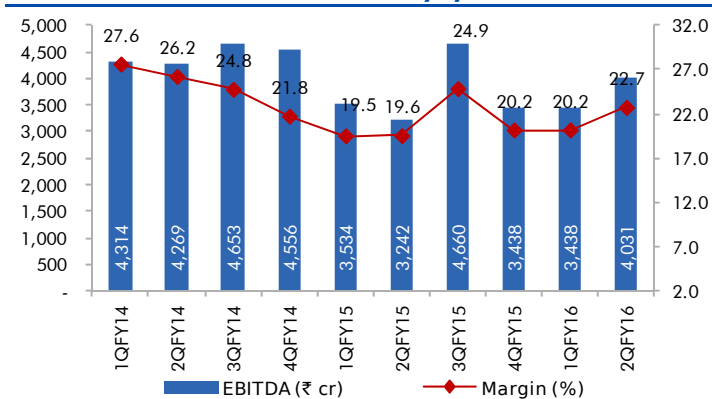
**Exhibit 5: Quarterly Performance Trend**

	1QFY14	2QFY14	3QFY14	4QFY14	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16
Realisation (₹/unit sold)	2.9	3.2	3.4	3.6	3.1	3.2	3.3	3.3	3.1	3.2
Fuel cost (₹/unit sold)	1.8	2	2.1	2.5	2.2	2.2	2.1	2.2	2.1	2.1

Source: Company, Angel Research

**Exhibit 6: Revenue growth continues to pick up**


Source: Company, Angel Research

**Exhibit 7: EBITDA increases 24% yoy**


Source: Company, Angel Research

## **Investment arguments**

### **Strong capacity additions to drive regulated equity**

NTPC is a long term growth play on the power sector with the company having plans to increase its total capacity to 128GW by 2032. The company's current capacity stands at 45,048MW including 6,196MW through its joint ventures. The company has a strong capacity addition plan over the next 4-5 years and is expected to add ~23,500MW by FY2019. The company will commission 7,500MW by FY2017, ~8,050MW in FY2018 and ~8,200MW in FY2019. The company has earmarked a consolidated capex of ~₹29,500cr this fiscal. We expect the strong capex plan to drive the regulated equity base going forward. The Management has guided for a 45% jump in regulated equity by FY2018 and a 75% increase by FY2019.

### **Well placed to benefit from demand recovery**

Power sector woes were mostly related to fuel supply issues and demand from SEBs. We believe the constraints in availability of coal should ease going forward in line with the step up in production growth rates at Coal India. The government has shown strong focus in easing fuel supply issues. Cabinet approval for gas pooling also raises expectations of improved availability of gas. We also expect demand to improve going forward as the industrial cycle picks up. NTPC is well placed to benefit from any such revival in power demand.

## Outlook and valuation

We like NTPC for the growth offered by its regulated equity model, huge capacity addition plans and expected improvement in demand for power in the country. At the current market price of ₹133, the stock trades at a P/BV of 1.27x and 1.19x its FY2016E and FY2017E BV/share of ₹105 and ₹112, respectively. We remain positive on the stock with a target price of ₹157, based on ~1.4x FY2017E BV, implying an 18% upside in the stock price from the current levels. We retain our Buy rating on the stock.

### Exhibit 8: Valuation

Price / BV	(₹ cr)
FY17E Net Worth	92,602
Multiple (x)	1.4
Equity Value	129,643
<b>Target price (₹)</b>	<b>157</b>

Source: Company, Angel Research

## Company background

NTPC is India's largest power company with total installed capacity of 45,548 MW (including JVs) with 18 coal based and 7 gas based stations. The company has set a target to have an installed power generating capacity of 1,28,000 MW by the year 2032. The capacity will have a diversified fuel mix comprising 56% coal, 16% Gas, 11% Nuclear and 17% Renewable Energy Sources including hydro. By 2032, non-fossil fuel based generation capacity shall make up nearly 28% of NTPC's portfolio. NTPC has been operating its plants at high efficiency levels. Although the company has 17.73% of the total national capacity, it contributes 25.91% of total power generation due to its focus on high efficiency.

**Profit & Loss Statement (Consolidated)**

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
<b>Net Sales</b>	<b>67,953</b>	<b>78,479</b>	<b>79,944</b>	<b>86,437</b>	<b>98,134</b>
Other operating income	1,424	472	678	626	711
<b>Total operating income</b>	<b>69,377</b>	<b>78,951</b>	<b>80,622</b>	<b>87,064</b>	<b>98,846</b>
% chg	5.3	13.8	2.1	8.0	13.5
Total Expenditure	51,194	59,252	63,110	66,648	75,636
Fuel cost	42,828	47,790	51,461	54,007	61,284
Employee Costs	3,551	4,039	3,890	4,370	4,962
Other Expenses	4,815	7,423	7,759	8,271	9,390
<b>EBITDA</b>	<b>18,182</b>	<b>19,699</b>	<b>17,512</b>	<b>20,416</b>	<b>23,209</b>
% chg	17.8	8.3	(11.1)	16.6	13.7
(% of Net Sales)	26.2	25.0	21.7	23.4	23.5
Depreciation & Amortisation	3,823	4,770	5,565	6,075	6,925
<b>EBIT</b>	<b>14,359</b>	<b>14,929</b>	<b>11,948</b>	<b>14,341</b>	<b>16,284</b>
% chg	16.5	4.0	(20.0)	20.0	13.5
(% of Net Sales)	20.7	18.9	14.8	16.5	16.5
Interest & other Charges	2,481	3,203	3,570	3,921	4,117
Other Income	4,732	2,760	2,079	2,120	2,163
<b>Profit before tax</b>	<b>16,611</b>	<b>14,486</b>	<b>10,456</b>	<b>12,540</b>	<b>14,329</b>
% chg	26.4	(12.8)	(27.8)	19.9	14.3
Tax Expense	4,025	3,082	464	2,884	3,439
(% of PBT)	24.2	21.3	4.4	0.2	0.2
<b>Recurring PAT</b>	<b>12,586</b>	<b>11,403</b>	<b>9,992</b>	<b>9,656</b>	<b>10,890</b>
Minority Interest	(5)	(0)	6	6	6
Share of associates	-	-	-	-	-
<b>Reported PAT</b>	<b>12,591</b>	<b>11,404</b>	<b>9,986</b>	<b>9,650</b>	<b>10,884</b>
<b>Adjusted PAT</b>	<b>12,591</b>	<b>11,404</b>	<b>9,986</b>	<b>9,650</b>	<b>10,884</b>
% chg	16.2	0.0	(12.4)	(3.4)	12.8
(% of Net Sales)	16.4	14.4	12.4	11.1	11.0

**Balance Sheet (Consolidated)**

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
<b>SOURCES OF FUNDS</b>					
Equity Share Capital	8,245	8,245	8,245	8,245	8,245
Reserves & Surplus	72,995	78,758	73,849	78,485	84,357
<b>Shareholders Funds</b>	<b>81,241</b>	<b>87,003</b>	<b>82,094</b>	<b>86,731</b>	<b>92,602</b>
<b>Minority Interest</b>	<b>645</b>	<b>680</b>	<b>888</b>	<b>894</b>	<b>900</b>
Total Loans	70,419	81,455	94,003	98,703	1,03,638
Deferred Tax Liability	1,081	1,239	1,266	1,266	1,266
Other Long term liabilities	4,458	5,914	6,019	6,260	6,511
<b>Total Liabilities</b>	<b>1,57,843</b>	<b>1,76,293</b>	<b>1,84,270</b>	<b>1,93,854</b>	<b>2,04,917</b>
<b>APPLICATION OF FUNDS</b>					
Gross Block	1,13,804	1,31,394	1,43,394	1,56,594	1,85,394
Less: Acc. Depreciation	41,971	47,186	52,750	58,825	65,751
<b>Net Block</b>	<b>71,833</b>	<b>84,208</b>	<b>90,643</b>	<b>97,768</b>	<b>1,19,643</b>
Capital Work-in-Progress	46,555	53,825	68,764	70,764	55,764
Goodwill	0	0	0	0	0
Investments	4,923	3,300	1,902	1,902	1,902
<b>Current Assets</b>	<b>42,903</b>	<b>42,823</b>	<b>39,904</b>	<b>30,615</b>	<b>37,569</b>
Cash	18,738	17,051	14,252	7,622	10,287
Inventories	4,641	6,062	7,972	6,236	7,146
Debtor	6,096	6,726	9,250	7,327	8,706
Other	13,428	12,985	8,430	9,430	11,430
<b>Current liabilities</b>	<b>20,933</b>	<b>23,820</b>	<b>35,306</b>	<b>26,293</b>	<b>29,823</b>
<b>Net Current Assets</b>	<b>21,970</b>	<b>19,002</b>	<b>4,598</b>	<b>4,322</b>	<b>7,747</b>
Other Assets	12,562.5	15,957.1	18,362.7	19,097.2	19,861.1
<b>Total Assets</b>	<b>1,57,843</b>	<b>1,76,293</b>	<b>1,84,270</b>	<b>1,93,854</b>	<b>2,04,917</b>

**Cash flow statement (Consolidated)**

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Profit before tax	16,611	14,486	10,456	12,540	14,329
Depreciation	3,827	4,774	5,565	6,075	6,925
Change in Working Capital	(410)	(1,281)	1,748	(6,354)	(759)
Others	(541)	1,178	(2,198)	(728)	(758)
Direct taxes paid	(2,980)	(2,687)	(464)	(2,884)	(3,439)
<b>Cash Flow from Operations</b>	<b>16,508</b>	<b>16,469</b>	<b>15,107</b>	<b>8,648</b>	<b>16,298</b>
(Inc.)/ Dec. in Fixed Assets	(20,406)	(18,948)	(26,939)	(15,200)	(13,800)
(Inc.)/ Dec. in Investments	1,629	1,622	1,399	0	0
Others	1,932	1,817	0	0	0
<b>Cash Flow from Investing</b>	<b>(16,845)</b>	<b>(15,509)</b>	<b>(25,540)</b>	<b>(15,200)</b>	<b>(13,800)</b>
Issue of Equity	-	-	-	-	-
Inc./(Dec.) in loans	10,010	9,385	12,548	4,700	4,935
Dividend Paid (Incl. Tax)	(3,550)	(5,019)	(5,019)	(5,019)	(5,019)
Others	(5,472)	(7,014)	105	241	250
<b>Cash Flow from Financing</b>	<b>988</b>	<b>(2,648)</b>	<b>7,634</b>	<b>(78)</b>	<b>167</b>
Inc./(Dec.) in Cash	651	(1,687)	(2,799)	(6,630)	2,665
<b>Opening Cash balances</b>	<b>18,087</b>	<b>18,738</b>	<b>17,051</b>	<b>14,252</b>	<b>7,622</b>
<b>Closing Cash balances</b>	<b>18,738</b>	<b>17,051</b>	<b>14,251</b>	<b>7,622</b>	<b>10,287</b>



**Key ratios**

Y/E March	FY2013	FY2014	FY2015	FY2016E	FY2017E
<b>Per Share Data (₹)</b>					
Reported EPS	15.3	13.8	12.1	11.7	13.2
Adjusted EPS	13.8	13.8	12.1	11.7	13.2
Cash EPS	19.9	19.6	18.9	19.1	21.6
DPS	5.8	5.8	5.8	5.8	5.8
Book Value	98.5	105.5	99.6	105.2	112.3
<b>Valuation Ratio (x)</b>					
P/E (on FDEPS)	8.7	9.6	11.0	11.4	10.1
P/CEPS	6.7	6.8	7.1	7.0	6.2
P/BV	1.4	1.3	1.3	1.3	1.2
Dividend yield (%)	4.3	4.3	4.3	4.3	4.3
EV/Sales	2.3	2.2	2.4	2.3	2.1
EV/EBITDA	8.9	8.8	10.8	9.8	8.8
EV/Total Assets	1.0	1.0	1.0	1.0	1.0
<b>Returns (%)</b>					
ROCE	10.0	9.3	6.9	7.9	8.5
ROE	16.2	13.6	11.8	11.4	12.1
<b>Turnover ratios (x)</b>					
Asset Turnover (Gross Block)	0.7	0.6	0.6	0.6	0.6
Inventory (days)	23.2	24.7	31.8	29.8	24.7
Receivables (days)	33.6	29.6	36.2	34.7	29.6
Payables (days)	68.4	68.8	98.4	98.5	68.7
WC cycle (ex-cash) (days)	23.4	12.0	(17.4)	(27.2)	(10.8)
<b>Solvency ratios (x)</b>					
Net debt to equity	0.6	0.7	1.0	1.1	1.0
Net debt to EBITDA	0.7	0.8	0.8	0.9	0.9
Interest Coverage (EBIT / Int.)	5.8	4.7	3.3	3.7	4.0

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### Disclosure of Interest Statement

Disclosure of Interest Statement	NTPC
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

*Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors*

**Ratings (Based on expected returns over 12 months investment period):**

Buy (> 15%)

Accumulate (5% to 15%)  
Reduce (-5% to -15%)

Neutral (-5 to 5%)  
Sell (< -15)