

## NTPC Ltd

### Performance Highlights

(` cr)	3QFY19	2QFY19	% chg (qoq)	3QFY18	% chg (yoy)
<b>Net revenue</b>	<b>24,120</b>	<b>22261</b>	<b>8.4</b>	<b>20774</b>	<b>16.1</b>
EBITDA	6270	5592	12.1	5230	19.9
<b>EBITDA margin (%)</b>	<b>26.0</b>	<b>25.1</b>		<b>25.2</b>	
<b>PAT</b>	<b>2,385</b>	<b>2,426</b>	<b>(1.7)</b>	<b>2,361</b>	<b>1.0</b>

Source: Company, Angel Research

For 3QFY2019, the company posted robust sales growth of 16.1% yoy to end the period at `24,120cr. On the Operating front, EBITDA margins came in at 26.0% v/s 25.2% in 3QFY2018. However, inspite of the same PAT came in at `2,385cr v/s. `2,361cr in 3QFY2018, a rise of 1.0% yoy.; mainly on back of as higher working capital which impacted the company's other income and rise in interest expenses.

**We maintain our Buy.**

**Quarterly highlights:** For 3QFY2019, the company posted robust sales growth of 16.1% yoy to end the period at `24,120cr. On an operational basis, gross generation grew 3.4% at ~70 billion units (BUs) whereas energy sold grew 3.1% YoY to 65.3 Bus. PLFs of coal plants were at 77.7% vs. 76.9% in 3QFY18. Thus, higher realizations (9.6% yoy rise) were key growth driver during the period. On the Operating front, EBITDA margins came in at 26.0% v/s 25.2% in 3QFY2018. However, inspite of the same PAT came in at `2,385cr v/s. `2,361cr in 3QFY2018, a rise of 1.0% yoy.; mainly on back of as higher working capital which impacted the company's other income, which dipped by 40% yoy. Interest cost rose 19.9% yoy to `1,277cr, as working capital increased due to higher receivables. In addition, the tax outgo during the period was `794cr, a yoy growth of 235.6%.

**Outlook and valuation:** Over FY2018-20, the company is expected to post a CAGR of 10.5% and 10.2% in the sales and net profit respectively. At current price, the stock trades at 1.0x BV FY2019E; which implies a very low ~14-15% business ROE's and low growth prospects for the company over a long period.

#### Key financials (Consolidated)

Y/E March (` cr)	FY2017	FY2018E	FY2019E	FY2020E
<b>Net sales</b>	<b>82,042</b>	<b>88,083</b>	<b>96,011</b>	<b>107,532</b>
% chg	11.7	7.4	9.0	12.0
<b>Net profit</b>	<b>10,749</b>	<b>10,526</b>	<b>10,938</b>	<b>12,779</b>
% chg	(1.4)	(2.1)	3.9	16.8
EBITDA margin (%)	26.2	25.4	25.5	25.7
<b>EPS (`)</b>	<b>13.0</b>	<b>12.8</b>	<b>13.3</b>	<b>15.5</b>
P/E (x)	10.7	11.0	10.6	9.0
P/BV (x)	1.2	1.1	1.0	1.0
RoE (%)	11.3	10.5	10.2	11.0
RoCE (%)	7.4	6.5	6.6	7.2
EV/Sales (x)	2.8	2.8	2.7	2.2
EV/EBITDA (x)	10.8	11.0	10.5	8.7

Source: Company, Angel Research; Note: CMP as of February 1, 2019

## BUY

CMP `140

Target Price `195

Investment Period 12 Months

#### Stock Info

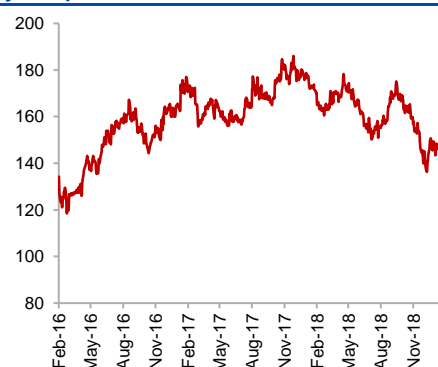
Sector	Power
Market Cap (` cr)	115,560
Net Debt (` cr)	126,479
Beta	0.6
52 Week High / Low	180/135
Avg. Daily Volume	439,496
Face Value (`)	10
BSE Sensex	36,469
Nifty	10,894
Reuters Code	NTPC.BO
Bloomberg Code	NTPC.IN

#### Shareholding Pattern (%)

Promoters	58.9
MF / Banks / Indian FIs	27.2
FII / NRIs / OCBs	11.7
Indian Public / Others	2.2

Abs. (%)	3m	1yr	3yr
Sensex	(0.2)	1.6	46.9
NTPC	(17.1)	(17.1)	0.1

#### 3-year price chart



Source: Company, Angel Research

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**Exhibit 1: 3QFY2019 performance (Standalone)**

Y/E March (₹ cr)	3QFY19	2QFY19	% chg (qoq)	3QFY18	% chg (yoy)	9MFY19	9MFY18	% chg(yoy)
<b>Net sales</b>	<b>24,120</b>	<b>22,261</b>	<b>8.4</b>	<b>20,774</b>	<b>16.1</b>	<b>69,085</b>	<b>60,352</b>	<b>14.5</b>
Other income	188	595	(68.5)	313	(40.1)	769	1560	(50.7)
<b>Total income</b>	<b>24,308</b>	<b>22,856</b>	<b>6.4</b>	<b>21,088</b>	<b>15.3</b>	<b>69,854</b>	<b>61,912</b>	<b>12.8</b>
Gross profit	8898	8775	1.4	7981	11.5	26578	23822	11.6
Gross margin (%)	36.9	39.4		38.4		38.5	39.5	
Operating profit	6270	5592	12.1	5230	19.9	18127	15757	15.0
Operating margin (%)	26.0	25.1		25.2		26.2	26.1	
Financial cost	1277	1294	(1.3)	1065	19.9	3791	2880	31.6
Depreciation	2001	1888	6.0	1881	6.4	5750	5164	11.3
<b>PBT</b>	<b>3180</b>	<b>3005</b>	<b>5.8</b>	<b>2597</b>	<b>22.4</b>	<b>9355</b>	<b>9273</b>	<b>0.9</b>
Provision for taxation	794	579		237	235.6	1956	1855	5.4
PAT Before Exc. And MI	2385	2426	(1.7)	2361	1.0	7400	7418	(0.2)
Minority	0	0		0		0	0	-
Exceptional profit/(loss)	0	0		0		0	0	
<b>Reported PAT</b>	<b>2385</b>	<b>2426</b>	<b>(1.7)</b>	<b>2361</b>	<b>1.0</b>	<b>7400</b>	<b>7418</b>	<b>(0.2)</b>
<b>Adjusted PAT</b>	<b>2385</b>	<b>2426</b>	<b>(1.7)</b>	<b>2361</b>	<b>1.0</b>	<b>7400</b>	<b>7418</b>	<b>(0.2)</b>
<b>Adj. EPS (₹)</b>	<b>2.89</b>	<b>2.94</b>		<b>2.86</b>		<b>8.97</b>	<b>9.00</b>	

Source: Company, Angel Research

**Operational Highlights**

- Six stations clocked PLF > 85%; while three stations clocked >90% PLF.
- Working capital increased due to higher dues/receivables from state discoms and advance to Railways for preferential rake allotment.
- Fixed charge u/recoveries came in at ~`280cr in 3QFY2019. Management guided for a decline in u/recoveries to ~`750cr in FY2019 v/s ~`1035cr in 9MFY2019, given the improvement in coal availability and the restart of Unchahar unit 6 (500MW).
- Commercial capacity expanded ~323MW yoy to 51.7GW, given decommissioning of Badarpur (705MW), partly offset by the acquisition of Barauni (220MW).
- Installed Capacity of the group expanded to 53.16GW, a yoy expansion of ~1.8GW. Including the decommissioning of Badarpur (705MW), the expansion in capacity was around ~2.5GW.
- FY2019 capacity addition target maintained at ~4.8GW.

## Investment arguments

**Electricity Sector; woes still hard to Ignore:** Though government has allowed private participation in the sector, private sector has not been able to dent the space; given most of them are not profitable and have done heavy bidding. While the demand is likely to improve over next 5 years and new supplies are moderating still we believe that the PLF's of the industry will rise moderately; with a downward risk. Thus, we believe that while possibly the major negativity could be behind us, it is unlikely that the industry will be out of woods soon.

**NTPC; safe haven to take exposure; given its competitive advantages:** NTPC is the largest pan India power generator in the country, having significant market share in terms of installed capacity as well as in terms of the electricity sold. Unlike its private players, NTPC's projects operate under the regulated ROE model. CERC regulations ensure that power generators enjoy a fixed return of 15.5 per cent, under the regulated ROE model. Along with this NTPC is a cost competitive power producer, this along with the AFS and strong backing of government; which keeps its cash flow healthy and access to low cost funds, provides NTPC a safe player in the industry struggling with poor business economics. In addition, valuations at 1.0x BV FY2019, factor in a low business ROE of 14-15% & low growth prospects.

## Outlook & Valuation

Over FY2018-20, the company is expected to post a CAGR of 10.5% and 10.2% in the sales and net profit respectively. Apart from the near term triggers, we believe that the long term NTPC is well placed to tap the opportunity in the industry; mainly on back of the competitive advantage it enjoys. At current price, the stock trades at 1.0x BV FY2019E; which implies a very low ~14-15% business ROE's and low growth prospects for the company over a long period. **On a very conservative basis, giving 1.5x BV to the regulated book, the target price on the stock will work out to be ₹195.10-year trailing P/BV multiple of the company has been at 1.7x.**

## Company Background

Government of India (GoI) incorporated NTPC in 1975 as a thermal power generation company. Power generation and bulk sale of electricity forms NTPC's principal business, and power is sold through long-term PPAs, mainly signed with state distribution utilities. The company has installed capacity of 50.5GW (including joint ventures and subsidiaries) as on March 31, 2017 represented around 15% of India's capacity and ~24% of the power produced. Coal-based capacities dominate the fuel mix of NTPC group- of the total installed capacity around 85% capacity is coal-based, while the balance is based on gas, hydro and renewable projects. The company has undertaken backward and forward integration and has entered into related businesses, such as consultancy, coal mining and power trading.

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<b>Disclosure of Interest Statement</b>	<b>NTPC Ltd</b>
1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

**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)*