

## NTPC

### Valuation commands Subscribe

The government is coming out with an Offer For Sale (OFS) of 78.3cr equity shares of NTPC. The OFS is expected to raise close to ₹11,350cr at the floor price of ₹145/share. After this OFS, the government's stake in the company would come down from 84.5% to 75%. The OFS will be held on February 07, 2013.

#### Investment Arguments

**Capacity addition to drive future growth:** Going forward, NTPC's growth is expected to be driven by the huge capacity addition planned by it. The company envisions having 51,000MW of capacity by FY2017. In all, the company targets to add ~14,038MW of capacity in the Twelfth Plan (FY2012-17), of which 4,170MW and 2,718MW of capacity is planned for addition during FY2013 and FY2014 respectively. The robust capacity addition is expected to result in 15% CAGR in regulated equity to ₹36,003cr over FY2012-14E.

**Earnings protected by the regulated return model:** NTPC, being a central public utility, is governed by the regulated return model. The CERC's regulations for FY2010-14 provide RoE of 15.5% on regulated equity. As per regulations, fuel costs are a pass-through, which protect the company from cost pressures due to increased fuel costs. NTPC has 85% of its overall output tied up under the long-term power purchase agreement (PPA) route (regulated returns), which ensures power off-take and stable cash flows thereof.

**Outlook and Valuation:** We expect NTPC to register a CAGR of 12.3% and 8.5% in its top-line and bottom-line over FY2012-14E, respectively. At the offer price (which is at a 4.6% discount to the price as on February 06, 2013), the stock would trade at 1.3x FY2014E P/BV. Given the attractive valuation (stock trading at 1.3x FY2014E P/BV compared to its three year trading range of 1.5x to 2.3x and median of 1.8x), **we recommend Subscribe on the issue. We have assigned a multiple of 1.5x to arrive at a target price of ₹163.**

#### Key financials (Consolidated)

Y/E March (₹ cr)	FY2011	FY2012	FY2013E	FY2014E
<b>Net Sales</b>	<b>57,607</b>	<b>64,958</b>	<b>72,809</b>	<b>81,951</b>
% chg	19.4	12.8	12.1	12.6
<b>Net Profit</b>	<b>7,691</b>	<b>9,497</b>	<b>10,048</b>	<b>11,187</b>
% chg	(13.0)	23.5	5.8	11.3
EBITDA (%)	22.2	21.8	23.4	24.1
<b>EPS (₹)</b>	<b>9.3</b>	<b>11.5</b>	<b>12.2</b>	<b>13.6</b>
P/E (x)	15.5	12.6	11.9	10.7
P/BV (x)	1.7	1.6	1.5	1.3
RoE (%)	11.5	13.1	12.7	13.0
RoCE (%)	8.8	8.7	9.3	9.6
EV/Sales (x)	2.4	2.3	2.3	2.2
EV/EBITDA (x)	11.0	10.6	9.7	9.0

Source: Company, Angel Research

## SUBSCRIBE

CMP	₹152
OFS floor price	₹145

#### Stock Info

Sector	Power
Market Cap (₹ cr)	125,578
Net Debt (₹ cr)	30,365
Beta	0.8
52 Week High / Low	190/139
Avg. Daily Volume	239,341
Face Value (₹)	10
BSE Sensex	19,640
Nifty	5,959
Reuters Code	NTPC.BO
Bloomberg Code	NTPC@IN

#### Shareholding Pattern (%)

Promoters	84.5
MF / Banks / Indian Fls	7.5
FII / NRIs / OCBs	4.4
Indian Public / Others	3.6

Abs. (%)	3m	1yr	3yr
Sensex	4.4	10.9	23.4
NTPC	(9.6)	(14.3)	(25.7)

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## Company Background

Established in 1975, NTPC is India's largest power generation company. NTPC Group has an installed capacity of 39,674MW. The company enjoys healthy operational efficiency and has consistently reported high PLF of ~85% compared to all-India PLF of ~73%.

## Investment Rationale

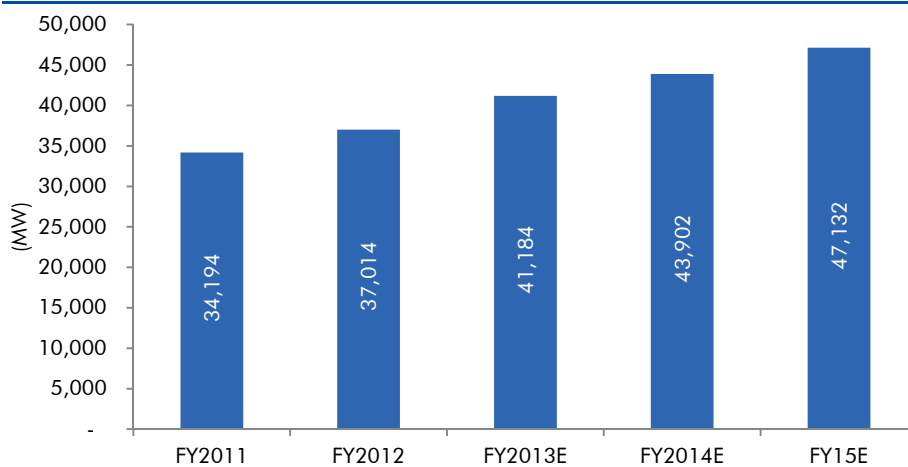
**Capacity addition to drive future growth:** Going forward, NTPC's growth is expected to be driven by the huge capacity addition planned by it. The company envisions having 51,000MW of capacity by FY2017. In all, the company targets to add ~14,038MW of capacity in the Twelfth Plan (FY2012-17), of which 4,170MW and 2,718MW of capacity is planned for addition during FY2013 and FY2014 respectively. NTPC has already commissioned 2,660MW capacity in 1HFY2013 and is likely to meet its targeted capacity for FY2013. The robust capacity addition is expected to result in 15% CAGR in regulated equity to ₹36,003cr by FY2014.

### Exhibit 1: Upcoming Projects

Projects	Capacity (MW)
Vallur – I, Phase – I & II JV	500
Solar PV (A&N, Dadri)	10
Rihand – III	500
Bongaigaon	250
Barh-II	660
Koldam	800
Singrauli Hydel	8
Vallur – I, Phase – I & II JV	500
Bongaigaon	500
Barh-II	660
Barh-I	660
Tapovan Vishnugarh Hydel	520
Nabinagar JV	500
Kanti - Subsidiary	390
Barh-I	1320
Vindhyachal	500
Kudgi	800
Nabinagar JV	500
Kudgi	800

Source: Company, Angel Research

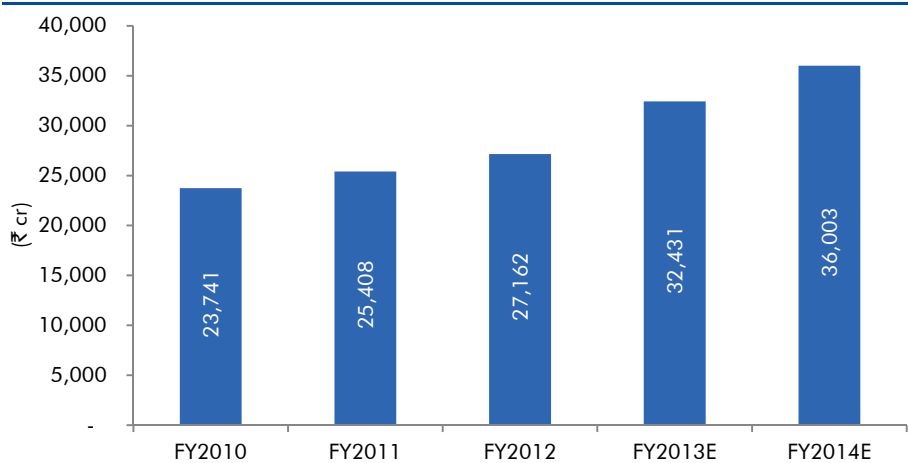
### Exhibit 2: Capacity ramp up



Source: Company, Angel Research

**Earnings protected by the regulated return model:** NTPC, being a central public utility, is governed by the regulated return model. CERC's regulations for FY2010-14 provide RoE of 15.5% on regulated equity. As per regulations, fuel costs are a pass-through, which protect the company from cost pressures due to increased fuel costs. NTPC has 85% of its overall output tied up under the long-term power purchase agreement (PPA) route (regulated returns), which ensures power off-take and stable cash flows thereof. Further, recent tariff hikes carried out by almost all SEBs across India is expected to improve their financial position, resulting in higher power off-take, which will benefit NTPC.

### Exhibit 3: Regulated Equity

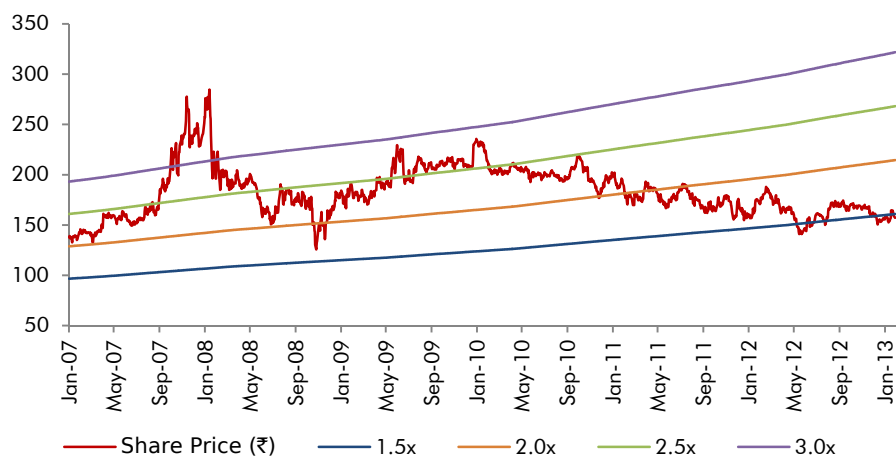


Source: Company, Angel Research

## Outlook and Valuation

We expect NTPC to register a CAGR of 12.3% and 8.5% in its top-line and bottom-line over FY2012-14E, respectively. At the offer price (which is at a 4.6% discount to the price as on February 06, 2013), the stock would trade at 1.3x FY2014E P/BV. Given the attractive valuation (stock trading at 1.3x FY2014E P/BV compared to its three year trading range of 1.5x to 2.3x and median of 1.8x), **we recommend Subscribe on the issue. We have assigned a multiple of 1.5x to arrive at a target price of ₹163.**

### Exhibit 4: One-year forward P/BV



Source: BSE, Company, Angel Research

## Company Background

Established in 1975, NTPC is India's largest power generation company. NTPC has an installed capacity of 39,674MW (including 4,864MW under JVs), spread across 28 power stations. The company's capacity has grown by 9,610MW over FY2007-12. The company envisions being a 75,000MW company by FY2017. NTPC enjoys healthy operational efficiency and has consistently reported high PLF of ~90% compared to all-India PLF of ~75%.

**Profit and loss statement (Consolidated)**

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
<b>Total Operating Income</b>	<b>44,245</b>	<b>48,231</b>	<b>57,607</b>	<b>64,958</b>	<b>72,809</b>	<b>81,951</b>
% chg	14.5	9.0	19.4	12.8	12	13
<b>Total Expenditure</b>	<b>33,702</b>	<b>35,156</b>	<b>44,833</b>	<b>50,768</b>	<b>55,793</b>	<b>62,183</b>
Net Raw Materials	27,347	30,188	36,422	43,312	47,763	53,268
Other Mfg costs	3,823	2,446	5,488	4,207	4,570	5,143
Personnel	2,533	2,523	2,922	3,250	3,460	3,772
<b>EBITDA</b>	<b>10,544</b>	<b>13,075</b>	<b>12,775</b>	<b>14,190</b>	<b>17,016</b>	<b>19,767</b>
% chg	(7.6)	24.0	(2.3)	11.1	19.9	16
(% of Net Sales)	23.8	27.1	22.2	21.8	23.4	24.1
Depreciation & Amortisation	2,495	2,894	2,720	3,107	3,736	4,366
<b>EBIT</b>	<b>8,049</b>	<b>10,180</b>	<b>10,055</b>	<b>11,083</b>	<b>13,280</b>	<b>15,402</b>
% chg	(12.6)	26.5	(1.2)	10.2	20	16
(% of Net Sales)	18	21	17	17	18	19
Interest & other Charges	2,144	2,078	1,726	2,135	2,935	3,496
Other Income	3,402	2,947	2,401	3,873	2,984	2,934
Share in profit of Associates	-	-	-	-	-	-
<b>Recurring PBT</b>	<b>9,307</b>	<b>11,049</b>	<b>10,730</b>	<b>12,821</b>	<b>13,329</b>	<b>14,840</b>
Extraordinary Expense/(Inc.)	-	-	-	-	-	-
<b>PBT (reported)</b>	<b>9,307</b>	<b>11,049</b>	<b>10,730</b>	<b>12,821</b>	<b>13,329</b>	<b>14,840</b>
Tax	1,215	2,211	3,044	3,323	3,279	3,651
(% of PBT)	13.1	20.0	28.4	25.9	25	25
<b>PAT (reported)</b>	<b>8,092</b>	<b>8,838</b>	<b>7,686</b>	<b>9,499</b>	<b>10,050</b>	<b>11,189</b>
Less Minority Interest	-	(0.0)	(5.2)	1.9	2	2
<b>PAT After Minority Interest</b>	<b>8,092</b>	<b>8,838</b>	<b>7,691</b>	<b>9,497</b>	<b>10,048</b>	<b>11,187</b>
% chg	8.3	9.2	(13.0)	23.5	5.8	11.3
(% of Net Sales)	18.3	18.3	13.4	14.6	13.8	13.7
<b>Basic EPS (₹)</b>	<b>9.8</b>	<b>10.7</b>	<b>9.3</b>	<b>11.5</b>	<b>12.2</b>	<b>13.6</b>
<b>Fully Diluted EPS (₹)</b>	<b>9.8</b>	<b>10.7</b>	<b>9.3</b>	<b>11.5</b>	<b>12.2</b>	<b>13.6</b>
% chg	8.3	9.2	(13.0)	23.5	5.8	11.3

Note: Some of the figures from FY2011 onwards are reclassified; hence not comparable with previous year numbers

**Balance Sheet (Consolidated)**

Y/E March	FY2009	FY2010E	FY2011	FY2012	FY2013E	FY2014E
<b>SOURCES OF FUNDS</b>						
Equity Share Capital	8,246	8,246	8,246	8,246	8,246	8,246
Reserves & Surplus	51,706	55,993	61,053	67,587	73,968	81,488
<b>Shareholders Funds</b>	<b>59,951</b>	<b>64,239</b>	<b>69,298</b>	<b>75,833</b>	<b>82,214</b>	<b>89,734</b>
Minority Interest	166	279	485	596	596	596
Total Loans	38,823	43,844	47,099	55,002	66,002	76,002
Deferred Tax Liability	0	230	672	764	764	764
Other long term liabilities			2,469	1,792	1,792	1,792
<b>Total Liabilities</b>	<b>98,940</b>	<b>108,592</b>	<b>120,023</b>	<b>133,987</b>	<b>151,368</b>	<b>168,888</b>
<b>APPLICATION OF FUNDS</b>						
Gross Block	64,741	71,527	79,210	88,882	106,882	124,882
Less: Acc. Depreciation	29,776	32,723	34,346	37,749	41,485	45,850
<b>Net Block</b>	<b>34,966</b>	<b>38,804</b>	<b>44,863</b>	<b>51,133</b>	<b>65,397</b>	<b>79,031</b>
Capital Work-in-Progress	30,929	37,682	41,092	50,397	54,397	57,397
Goodwill	1	1	1	1	1	1
<b>Investments</b>	<b>11,696</b>	<b>11,778</b>	<b>8,357</b>	<b>6,545</b>	<b>5,545</b>	<b>4,545</b>
Current Assets	33,486	33,215	41,836	45,811	46,791	49,583
Cash	17,250	16,053	17,860	18,092	15,649	14,448
Loans & Advances	9,006	6,549	18,319	16,861	18,971	21,435
Other	7,230	10,614	5,657	10,859	12,171	13,700
Current liabilities	12,137	12,908	16,590	21,275	22,138	23,044
<b>Net Current Assets</b>	<b>21,349</b>	<b>20,307</b>	<b>25,246</b>	<b>24,536</b>	<b>24,653</b>	<b>26,539</b>
Other non CA	-	20	463	1,375	1,375	1,375
<b>Total Assets</b>	<b>98,940</b>	<b>108,592</b>	<b>120,023</b>	<b>133,987</b>	<b>151,368</b>	<b>168,888</b>

Note: Some of the figures from FY2011 onwards are reclassified; hence not comparable with previous year numbers

**Cash flow statement (Consolidated)**

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Profit before tax	9,307	11,049	12,392	13,137	13,329	14,840
Depreciation	2,495	2,894	2,720	3,107	3,736	4,366
Chg in WC & other adj.	(2,782)	408	(3,132)	941	(2,560)	(3,088)
Less: Other income	3,402	2,947	503	3,873	2,984	2,934
Direct taxes paid	2,566	2,799	3,044	3,323	3,279	3,651
<b>Cash Flow from Operations</b>	<b>3,052</b>	<b>8,606</b>	<b>8,433</b>	<b>9,989</b>	<b>8,242</b>	<b>9,533</b>
(Inc)/ Dec in Fixed Assets	(11,344)	(14,009)	(10,550)	(19,477)	(22,000)	(21,000)
(Inc)/ Dec in Investments	1,751	(82)	3,820	1,612	1,000	1,000
Other income	3,402	2,947	503	3,873	2,984	2,934
<b>Cash Flow from Investing</b>	<b>(6,192)</b>	<b>(11,144)</b>	<b>(6,226)</b>	<b>(13,992)</b>	<b>(18,016)</b>	<b>(17,066)</b>
Issue of Equity	-	-	-	-	-	-
Inc./ (Dec.) in loans	8,508	5,022	3,255	7,903	11,000	10,000
Dividend Paid (Incl. Tax)	3,478	3,682	3,654	3,669	3,669	3,669
Others	-	-	-	-	-	-
<b>Cash Flow from Financing</b>	<b>5,030</b>	<b>1,340</b>	<b>(400)</b>	<b>4,234</b>	<b>7,331</b>	<b>6,331</b>
Inc./ (Dec.) in Cash	1,890	(1,198)	1,807	231	(2,443)	(1,202)
<b>Opening Cash balances</b>	<b>15,361</b>	<b>17,250</b>	<b>16,053</b>	<b>17,860</b>	<b>18,092</b>	<b>15,649</b>
<b>Closing Cash balances</b>	<b>17,250</b>	<b>16,053</b>	<b>17,860</b>	<b>18,092</b>	<b>15,649</b>	<b>14,448</b>

Note: Some of the figures from FY2011 onwards are reclassified; hence not comparable with previous year numbers

**Key ratios**

Y/E March	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
<b>Valuation Ratio (x)</b>						
P/E (on FDEPS)	14.8	13.5	15.5	12.6	11.9	10.7
P/CEPS	11.3	10.2	11.5	9.5	8.7	7.7
P/BV	2.0	1.9	1.7	1.6	1.5	1.3
Dividend yield (%)	2.9	3.1	3.1	3.1	3.1	3.1
EV/Sales	2.9	2.8	2.4	2.3	2.3	2.2
EV/EBITDA	12.3	10.4	11.0	10.6	9.7	9.0
EV / Total Assets	1.3	1.3	1.2	1.1	1.1	1.1
<b>Per Share Data (₹)</b>						
EPS (Basic)	9.8	10.7	9.3	11.5	12.2	13.6
EPS (fully diluted)	9.8	10.7	9.3	11.5	12.2	13.6
Cash EPS	12.8	14.2	12.6	15.3	16.7	18.9
DPS	4.2	4.5	4.4	4.4	4.4	4.4
Book Value	72.7	77.9	84.0	92.0	99.7	108.8
<b>DuPont Analysis</b>						
EBIT margin	18.2	21.1	17.5	17.1	18.2	18.8
Tax retention ratio	86.9	80.0	71.6	74.1	75.4	75.4
Asset turnover (x)	0.6	0.6	0.6	0.6	0.6	0.6
ROIC (Post-tax)	9.3	9.4	7.4	7.5	8.0	8.0
Cost of Debt (Post Tax)	5.4	4.0	2.7	3.1	3.7	3.7
Leverage (x)	0.6	0.7	0.7	0.7	0.8	0.8
Operating ROE	11.7	12.9	10.6	10.7	11.3	11.6
<b>Returns (%)</b>						
ROCE (Pre-tax)	8.8	9.8	8.8	8.7	9.3	9.6
Angel ROIC (Pre-tax)	17.1	19.3	17.4	17.5	18.1	17.3
ROE	14.2	14.2	11.5	13.1	12.7	13.0
<b>Turnover ratios (x)</b>						
Asset Turnover (Gross Block)	0.7	0.7	0.8	0.8	0.7	0.7
Inventory / Sales (days)	26	26	24	23	22	22
Receivables (days)	29	41	28	24	36	35
Payables (days)	114	130	120	136	142	133
WC cycle (ex-cash) (days)	25	32	37	39	39	47
<b>Solvency ratios (x)</b>						
Net debt to equity	0.4	0.4	0.4	0.5	0.6	0.7
Net debt to EBITDA	2.0	2.1	2.3	2.6	3.0	3.1
Interest Coverage (EBIT / Int.)	3.8	4.9	5.8	5.2	4.5	4.4

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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 (Returns):

Buy (&gt; 15%)

Reduce (-5% to -15%)

Accumulate (5% to 15%)

Sell (&lt; -15%)

Neutral (-5 to 5%)

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