

NTPC

NTPC is India's largest power producer with an installed capacity of 51 GW, accounting for ~16% share in overall capacity. In addition to this the company has ~21 GW under construction. The NTPC group contributed 24% to all India's generation during FY17. Over FY11-17 the company added nearly 16 GW of capacity.

PLF to remain steady, while lower coal cost will reduce cost: NTPC's coal station achieved Plant Load Factor of 78.6% against 59.9% at all India level. Compared to FY16 the coal based station's PLF has remained flat and we expect the same to remain steady going ahead. The PLF for Gas based plants marginally declined in FY17 to 24.4% vs 25.1%, which too is expected to bounce back. Further the company expects coal cost to come down due to rationalisation of coal linkages, re-grading of coal mines and implementation of GST. The above all factors should be margin accretive for the company.

Next phase of growth likely on the back of new project commercialization: During FY17 NTPC added 4,430 MW against 2,255 MW in FY16. During July 2017 NTPC commercialised 800 MW of capacity indicating it is on set for its next phase of high capacity addition. In FY18 the company targets to add another 4,543 MW and commercialise 3.6 GW of capacity.

We expect earnings growth to be healthy backed by aggressive capacity addition as well as commercialisation: NTPC had ~ ₹87,000 cr worth of CWIP on book and conversion of the same into gross block and resultant revenue growth should lead to healthy ~15% earnings CAGR over FY17-19. The rate of capitalisation of capacity is likely to be higher than the capex over the next two years and this is likely to be RoE accretive.

Valuations & View: The floor price of the issue has been fixed at ₹168/ share and retail investors are entitled for 5% discount on the floor price, which works out to ₹ 159.6. At the offer price the stock is valued at 1.2x its FY19 BV, which looks attractive and hence we recommend investors to SUBSCRIBE to the issue.

Key Financials (Consolidated)

| Y/E March (₹ cr) | FY14 | FY15 | FY16 | FY17 |
|------------------|--------|--------|--------|--------|
| Revenue | 78,951 | 80,612 | 73,426 | 82,081 |
| % chg | 10 | 2 | -9 | 12 |
| Adj. net profit | 11,438 | 9,856 | 10,900 | 10,757 |
| % chg | -0 | -14 | 11 | -1 |
| Adj. EPS (₹) | 14 | 12 | 13 | 13 |
| OPM (%) | 25 | 21 | 25 | 27 |
| P/E (x) | 12 | 14 | 13 | 13 |
| P/BV (x) | 1.6 | 1.7 | 1.5 | 1.4 |
| RoE (%) | 13 | 12 | 12 | 11 |
| RoCE (%) | 9 | 6 | 7 | 7 |
| EV/Sales (x) | 2.5 | 2.8 | 3.1 | 2.9 |
| EV/EBIDTA | 10.2 | 13.0 | 12.3 | 10.8 |

Source: Company, Angel Research, Valuation ratios based on floor price.

SUBSCRIBE

Issue Open: Aug 29, 2017
 Issue Close: Aug 30, 2017

Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹8245cr

Offer for Sale: **41.23cr Shares

Post Eq. Paid up Capital: ₹8245cr

Issue size (amount): **₹7000 cr

Price Band: ₹168

5% Discount for Retail

Promoters holding Pre-Issue: 70%

Promoters holding Post-Issue: 65%

** if 5% OFS offered

Book Building

| | |
|--------------|--------------|
| MF/Insurance | 25% of issue |
| Non-Retail | 55% of issue |
| Retail | 20% of issue |

Post Issue Shareholding Pattern

| | |
|-----------|-----|
| Promoters | 65% |
| Others | 35% |

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Issue Details

The government is offering up to 5% in NTPC, the country's largest power producer, through an offer for sale (OFS) on Tuesday and Wednesday. The offer, at the minimum base price of Rs 168 per share, could bring in around ₹7,000cr into the exchequer. The government will sell a little over 41.22cr shares, consisting of 5% of the company, at a base price of ₹168 per share. If there is demand for additional shares during the OFS, the government could divest up to 5% more of the company.

The retail investors would get the discount of 5% on floor price. As a result, retail investor would get shares at ₹159.6 per share.

Exhibit 1: Pre and Post-OFS shareholding pattern (shares in cr)

| | No of shares (Pre-issue) | | No of shares (Post-issue) | |
|--------------------|--------------------------|-----|---------------------------|-----|
| | | % | | % |
| Promoter (GOI) | 575 | 70 | 534 | 65 |
| Institution/Public | 249 | 30 | 291 | 35 |
| | 825 | 100 | 825 | 100 |

Considered 5% OFS offered

Objects of the offer

- The stake sale in NTPC is part of the government's comprehensive divestment plan to raise up to ₹72,500cr announced In the Budget. For fund its infrastructure and welfare projects.

Exhibit 2: Profit & Loss Statement (Consolidated)

| Y/E March (₹ cr) | FY14 | FY15 | FY16 | FY17 |
|-----------------------------|--------|--------|--------|--------|
| Net Sales | 78,951 | 80,612 | 73,426 | 82,081 |
| % chg | 10 | 2 | -9 | 12 |
| Total Expenditure | 59,310 | 63,283 | 55,003 | 59,613 |
| Fuel cost | 50,772 | 54,268 | 47,727 | 1,675 |
| Employee Costs | 5,037 | 4,882 | 4,694 | 5,676 |
| Other Expenses | 3,501 | 4,133 | 2,581 | 52,262 |
| EBITDA | 19,641 | 17,329 | 18,424 | 22,468 |
| % chg | 9 | -12 | 6 | 22 |
| (% of Net Sales) | 25 | 21 | 25 | 27 |
| Depreciation & Amortisation | 4,770 | 5,565 | 5,771 | 6,693 |
| EBIT | 14,871 | 11,764 | 12,652 | 15,775 |
| % chg | 4 | -21 | 8 | 25 |
| (% of Net Sales) | 19 | 15 | 17 | 19 |
| Interest & other Charges | 3,263 | 3,669 | 3,366 | 3,753 |
| Other Income | 2,879 | 2,365 | 1,332 | 1,738 |
| Profit before tax | 14,487 | 10,461 | 10,618 | 13,761 |
| % chg | -13 | -28 | 2 | 30 |
| Tax Expense | 3,082 | 464 | -163 | 3,047 |
| (% of PBT) | 21 | 4 | -2 | 22 |
| Recurring PAT | 11,405 | 9,997 | 10,781 | 10,714 |
| Minority Interest | -0 | 6 | -20 | -6 |
| Share of associates | -32 | 135 | -99 | -37 |
| Reported PAT | 11,438 | 9,856 | 10,900 | 10,757 |
| Adjusted PAT | 11,438 | 9,856 | 10,900 | 10,757 |
| % chg | -0 | -14 | 11 | -1 |
| (% of Net Sales) | 14 | 12 | 15 | 13 |

Exhibit 3: Balance Sheet (Consolidated)

| Y/E March (₹ cr) | FY14 | FY15 | FY16 | FY17 |
|-----------------------------|-----------------|-----------------|-----------------|-----------------|
| SOURCES OF FUNDS | | | | |
| Equity Share Capital | 8,245 | 8,245 | 8,245 | 8,245 |
| Reserves & Surplus | 79,084 | 73,849 | 83,330 | 89,593 |
| Shareholder Funds | 87,330 | 82,094 | 91,576 | 97,838 |
| Minority Interest | 680 | 888 | 793 | 803 |
| Total Loans | 81,455 | 1,02,252 | 99,424 | 1,13,769 |
| Deferred Tax Liability | 6,913 | 8,098 | 8,153 | 10,066 |
| Other Long term liabilities | 5,588 | 6,068 | 6,302 | 5,746 |
| Total Liabilities | 1,81,966 | 1,99,400 | 2,06,248 | 2,28,222 |
| APPLICATION OF FUNDS | | | | |
| Gross Block | 1,31,394 | 1,44,361 | 98,844 | 1,17,088 |
| Less: Acc. Depreciation | 47,186 | 52,508 | 5,915 | 12,556 |
| Net Block | 84,208 | 91,853 | 92,929 | 1,04,532 |
| Capital Work-in-Progress | 53,825 | 67,555 | 75,046 | 86,896 |
| Goodwill | | | | |
| Investments | 3,300 | 1,902 | 6,473 | 7,802 |
| Current Assets | 42,822 | 39,991 | 30,599 | 30,113 |
| Cash | 17,051 | 14,252 | 4,938 | 3,301 |
| Inventories | 6,062 | 8,060 | 7,145 | 6,690 |
| Debtor | 6,726 | 9,250 | 8,289 | 8,964 |
| Other | 12,984 | 8,430 | 10,228 | 11,158 |
| Current liabilities | 23,826 | 27,144 | 25,417 | 28,960 |
| Net Current Assets | 18,996 | 12,847 | 5,182 | 1,154 |
| Other Assets | 21,637 | 25,243 | 26,618 | 27,839 |
| Total Assets | 1,81,966 | 1,99,400 | 2,06,248 | 2,28,222 |

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