

NTPC

Performance Highlights

Standalone (₹ cr)	1QFY16	1QFY15	yoy (%)	4QFY15	qoq%
Total revenue	17,085	18,337	(6.8)	19,315	(11.5)
EBITDA	3,438	3,534	(2.7)	4,649	(26.1)
EBITDA Margin (%)	20.1	19.3	85bp	24.1	(395bp)
Reported PAT	2,135	2,201	(3.0)	2,944	(27.5)

Source: Company, Angel Research

For 1QFY2016, NTPC's net sales declined by 5.9% yoy to ₹17,019cr (8.4% below our estimate; and as against ₹18,086cr in the corresponding quarter of last year) due to fall in the PLF and owing to plant maintenance undertaken during the quarter. The fall in PLF was on account of very high PLF levels last year due to the general elections and due to delayed monsoon. The Management expects generation levels to pick up this quarter led by hydro generation coming on stream and pickup in the industrial cycle.

The EBITDA declined by 2.7% yoy to ₹3,438cr, led by decline in revenue. On a sequential basis, the fall in EBITDA was of 26%, due to plant shutdown. Despite the fall in revenue, the EBITDA margin showed an 85bp yoy improvement to 20.1% as against 19.3% in the corresponding quarter of last year. However, on a sequential basis, margins were down by 395bp.

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 ₹131, the stock trades at a P/BV of 1.25x and 1.17x its FY2016E and FY2017E BV of ₹105 and ₹112, respectively. We remain positive on the stock and upgrade our rating on it to Buy with a target price of ₹157, based on ~1.4x FY2017E BV, implying a 20% upside from the current levels.

Key financials (Consolidated)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Revenue	69,377	78,951	80,622	87,064	98,846
% chg	5.3	13.8	2.1	8.0	13.5
Adj. net profit	12,591	11,404	9,986	9,650	10,884
% chg	16.2	0.0	(12.4)	(3.4)	12.8
Adj. EPS (₹)	13.8	13.8	12.1	11.7	13.2
OPM (%)	26.2	25.0	21.7	23.4	23.5
P/E (x)	8.6	9.5	10.8	11.2	9.9
P/BV (x)	1.3	1.2	1.3	1.2	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	2.3	2.3	2.0
EV/EBITDA	8.8	8.8	10.7	9.8	8.7

Source: Company, Angel Research; Note: CMP as of August 10, 2015

BUY

CMP	₹131
Target Price	₹157

Investment Period	12 Months
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Stock Info

Sector	Power
Market Cap (₹ cr)	108,263
Net Debt (₹ cr)	79,751
Beta	0.8
52 Week High / Low	165/127
Avg. Daily Volume	528,228
Face Value (₹)	10
BSE Sensex	28,102
Nifty	8,526
Reuters Code	NTPC.BO
Bloomberg Code	NTPC IN

Shareholding Pattern (%)

Promoters	75.0
MF / Banks / Indian Fls	12.7
FII / NRIs / OCBs	10.0
Indian Public / Others	2.3

Abs. (%)	3m	1yr	3yr
Sensex	3.7	10.9	60.1
NTPC	(7.6)	(4.9)	(13.0)

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 1QFY2016 performance (Standalone)

(₹ cr)	1QFY16	1QFY15	yoy%	4QFY15	qoq%	FY2015	FY2014	yoy%
Net Sales	17,019	18,086	(5.9)	19,230	(11.5)	72,638	71,603	1.4
Other Operating Income	66	250	(73.7)	85	(22.2)	608	416	46.1
Net sales	17,085	18,337	(6.8)	19,315	(11.5)	73,246	72,019	1.7
Fuel Cost	11,509	12,765	(9.8)	12,521	(8.1)	48,845	45,830	6.6
% of net sales	67.4	69.6		64.8		66.7	63.6	
Employee Cost	923	918	0.5	932	(1.0)	3,670	3,825	(4.1)
% of net sales	5.4	5.0		4.8		5.0	5.3	
Other expenditure	1,215	1,119	8.6	1,212	0.2	4,645	4,557	1.9
% of net sales	7.1	6.1		6.3		6.3	6.3	
Total expenditure	13,647	14,802	(7.8)	14,665	(6.9)	57,160	54,211	5.4
% of net sales	79.9	80.7		75.9		78.0	75.3	
EBITDA	3,438	3,534	(2.7)	4,649	(26.1)	16,086	17,808	(9.7)
Margin (%)	20.1	19.3	85bp	24.1	(395bp)	22.0	24.7	(461bp)
Interest	731	668	9.4	707	3.3	2,744	2,407	14.0
Depreciation	1,238	1,115	11.0	1,391	(11.0)	4,912	4,142	18.6
Other income	239	533	(55.2)	572	(58.3)	2,116	2,646	(20.0)
Exceptional items	-	-		-		-	-	
Profit before tax	1,708	2,284	(25.2)	3,122	(45.3)	10,547	13,905	(24.2)
% of net sales	10.0	12.5		16.2		14.4	19.3	
Tax	(428)	82		178		256	2,930	(91.3)
% of PBT	(25.1)	3.6		5.7		2.4	21.1	
Net Profit	2,135	2,201	(3.0)	2,944	(27.5)	10,291	10,975	(6.2)

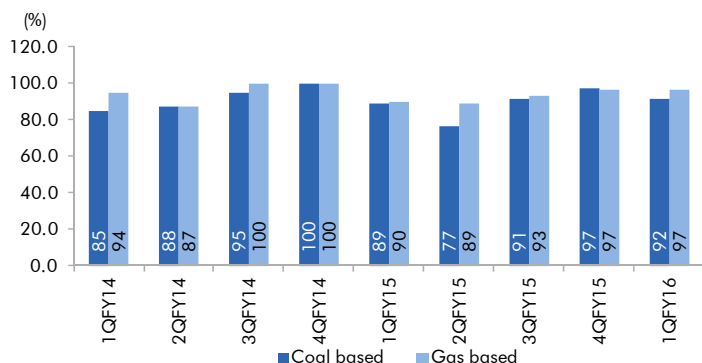
Source: Company, Angel Research

Result highlights

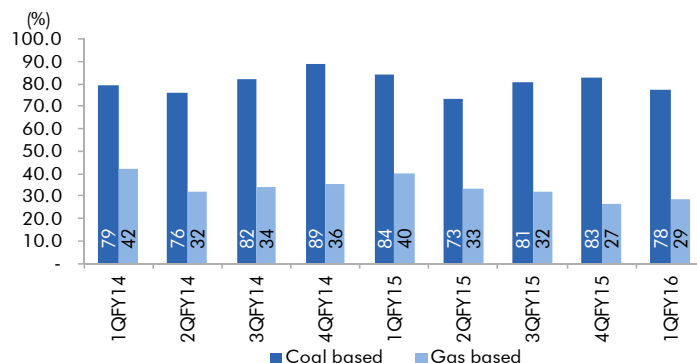
Better than expected margins led by higher utilisation

For 1QFY2016, NTPC's net sales declined by 5.9% yoy to ₹17,019cr (8.4% below our estimate; and as against ₹18,086cr in the corresponding quarter of last year) due to fall in the PLF and owing to plant maintenance undertaken during the quarter. The fall in PLF was on account of very high PLF levels last year due to the general elections and due to delayed monsoon. The Management expects generation levels to pick up this quarter led by hydro generation coming on stream and pickup in the industrial cycle.

In 1QFY2016, other operating income dropped sharply to ₹66cr from ₹250cr in the corresponding quarter of last year on account of a non-recurring income recognised last year. The company had received a prior period CST order last year, due to which delayed interest was received from customers worth ₹183cr. The decline in generation income and other operating income led to total income for 1QFY2016 declining by 6.8% yoy to ₹17,085cr as against ₹18,337cr in the corresponding quarter of last year.

Exhibit 2: PAF continues to remain strong


Source: Company, Angel Research

Exhibit 3: Decline in PLF due to shutdowns


Source: Company, Angel Research

The EBITDA declined by 2.7% yoy to ₹3,438cr, led by decline in revenue. On a sequential basis, the fall in EBITDA was of 26%, due to plant shutdown. Despite the fall in revenue, the EBITDA margin showed an 85bp yoy improvement to 20.1% as against 19.3% in the corresponding quarter of last year. However, on a sequential basis, margins were down by 395bp. A sharp fall in other income on account of capitalization of surplus cash towards bonus debentures and reduction in interest received from OTSS (One Time Settlement Scheme) partially offset the tax reported on account of 80-IA benefits under the Income Tax Act. The Net profit declined 3% yoy to ₹2,135cr, while it was down 27.5% on a sequential basis.

Exhibit 4: Quarterly Performance Trend

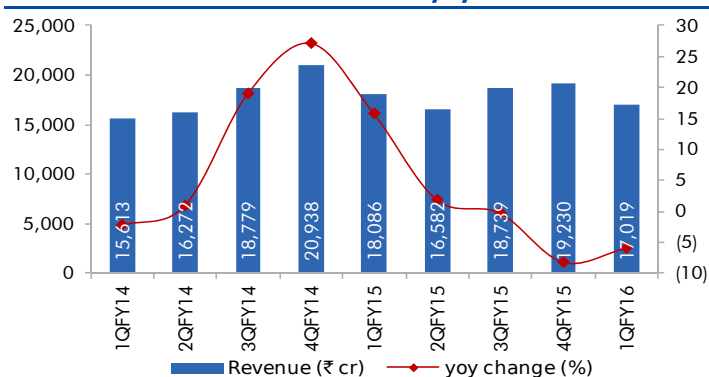
	1QFY14	2QFY14	3QFY14	4QFY14	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16
Realisation (₹/unit sold)	2.9	3.2	3.4	3.6	3.1	3.2	3.3	3.3	3.1
Fuel cost (₹/unit sold)	1.8	2	2.1	2.5	2.2	2.2	2.1	2.2	2.1

Source: Company, Angel Research

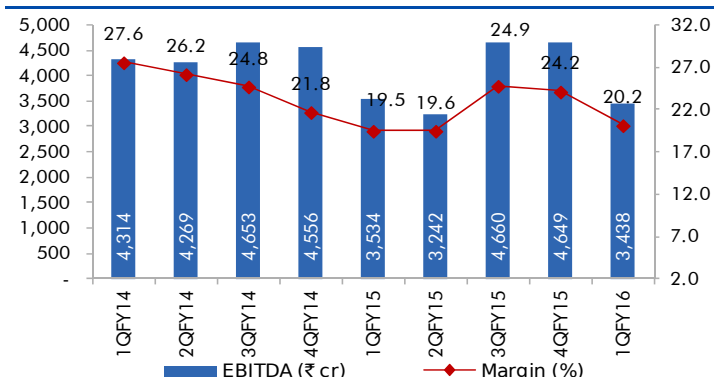
Exhibit 5: 1QFY2016 Actual vs. consensus estimates

(₹ cr)	Actual	Estimates	Variation (%)
Net sales	17,085	18,656	(8.4)
EBITDA	3,438	4,212	(18.4)
EBITDA margin (%)	20.1	22.6	(245bp)

Source: Company, Angel Research

Exhibit 6: Revenue declines 5.9% yoy


Source: Company, Angel Research

Exhibit 7: EBITDA declines due to lower revenue


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 ₹131, the stock trades at a P/BV of 1.25x and 1.17x its FY2016E and FY2017E BV of ₹105 and ₹112, respectively. We remain positive on the stock with a target price of ₹157, based on ~1.4x FY2017E BV, implying a 20% upside from the current levels. We upgrade our rating on the stock to Buy.

Exhibit 8: Valuation

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

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
Net Sales	67,953	78,479	79,944	86,438	98,135
Other operating income	1,424	472	678	626	711
Total operating income	69,377	78,951	80,622	87,064	98,846
% chg	5.3	13.8	2.1	8.0	13.5
Total Expenditure	51,194	59,252	63,110	66,649	75,637
Fuel cost	42,828	47,790	51,461	54,007	61,285
Employee Costs	3,551	4,039	3,890	4,370	4,962
Other Expenses	4,815	7,423	7,759	8,271	9,390
EBITDA	18,182	19,699	17,512	20,416	23,209
% 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
EBIT	14,359	14,929	11,948	14,341	16,284
% chg	16.5	4.0	(20.0)	20.0	13.6
(% 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
Profit before tax	16,611	14,486	10,456	12,540	14,330
% 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
Recurring PAT	12,586	11,403	9,992	9,656	10,890
Minority Interest	(5)	(0)	6	6	6
Share of associates	-	-	-	-	-
Reported PAT	12,591	11,404	9,986	9,650	10,884
Adjusted PAT	12,591	11,404	9,986	9,650	10,884
% 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
SOURCES OF FUNDS					
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
Shareholders Funds	81,241	87,003	82,094	86,731	92,602
Minority Interest	645	680	888	894	900
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
Total Liabilities	1,57,843	1,76,293	1,84,270	1,93,854	2,04,917
APPLICATION OF FUNDS					
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
Net Block	71,833	84,208	90,643	97,768	1,19,643
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
Current Assets	42,903	42,823	39,904	30,616	37,570
Cash	18,738	17,051	14,252	7,622	10,287
Inventories	4,641	6,062	7,972	6,237	7,147
Debtor	6,096	6,726	9,250	7,327	8,706
Other	13,428	12,985	8,430	9,430	11,430
Current liabilities	20,933	23,820	35,306	26,293	29,823
Net Current Assets	21,970	19,002	4,598	4,322	7,747
Other Assets	12,562.5	15,957.1	18,362.7	19,097.2	19,861.1
Total Assets	1,57,843	1,76,293	1,84,270	1,93,854	2,04,917

Cash flow statement (Consolidated)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Profit before tax	16,611	14,486	10,456	12,540	14,330
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)
Cash Flow from Operations	16,508	16,469	15,107	8,648	16,299
(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
Cash Flow from Investing	(16,845)	(15,509)	(25,540)	(15,200)	(13,800)
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
Cash Flow from Financing	988	(2,648)	7,634	(78)	167
Inc./(Dec.) in Cash	651	(1,687)	(2,799)	(6,630)	2,665
Opening Cash balances	18,087	18,738	17,051	14,252	7,622
Closing Cash balances	18,738	17,051	14,252	7,622	10,287

Key ratios

Y/E March	FY2013	FY2014	FY2015	FY2016E	FY2017E
Per Share Data (₹)					
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
Valuation Ratio (x)					
P/E (on FDEPS)	8.6	9.5	10.8	11.2	9.9
P/CEPS	6.6	6.7	7.0	6.9	6.1
P/BV	1.3	1.2	1.3	1.2	1.2
Dividend yield (%)	4.4	4.4	4.4	4.4	4.4
EV/Sales	2.3	2.2	2.3	2.3	2.0
EV/EBITDA	8.8	8.8	10.7	9.8	8.7
EV/Total Assets	1.0	1.0	1.0	1.0	1.0
Returns (%)					
ROCE	10.0	9.3	6.9	7.9	8.5
ROE	16.2	13.6	11.8	11.4	12.1
Turnover ratios (x)					
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)
Solvency ratios (x)					
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 / Interest)	5.8	4.7	3.3	3.7	4.0

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	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)