

Risk to ROE remains; Downgrade to Reduce

October 26, 2012

Rating	Previous Reco
Reduce	Hold
CMP	Target Price
Rs169	Rs158
EPS Chg FY13E/FY14E (%)	-0.3 / -0.4
Target Price change (%)	NA
Nifty	5,664
Sensex	18,625

Price Performance

(%)	1M	3M	6M	12M
Absolute	2	12	5	-3
Rel. to Nifty	3	0	-3	-10

Source: Bloomberg

Relative price chart



Source: Bloomberg

Stock Details

Sector	Power
Bloomberg	NTPC IB
Equity Capital (Rs mn)	82,455
Face Value(Rs)	10
No of shares o/s (mn)	8,245
52 Week H/L	191/ 137
Market Cap (Rs bn/USD mn)	1,394/ 26,025
Daily Avg Volume (No of sh)	2,973,704
Daily Avg Turnover (US\$mn)	9.2

Shareholding Pattern (%)

	Sep12	Jun12	Mar12
Promoters	84.5	84.5	84.5
FII/NRI	4.0	4.0	4.0
Institutions	7.7	7.8	7.7
Private Corp	1.8	1.7	1.8
Public	2.0	2.0	2.0

Source: Bloomberg

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- 2Q13 APAT at Rs18.3bn, in line with our est of Rs18.4bn; Pat grew only 8% yoy vs. 14% growth in eff. regulated equity due to lower availability (80% vs 83% yoy) causing slight RoE dip
- Four major adj- 1) Rs10.2bn as prev yr sales, 2) Rs2.5bn as net prior period tax recovered, 3) Rs2.1bn as int. from clients & 4) Rs1.9bn as reversed forex impact in int. as per AS req.
- Coal materialization for the qtr at 104% (above exp.) leading to lower use of imported coal; expect coal supplies to start reducing post Nov'12 for pre FY09 plants
- Assumed FY12 RoE (24.7%) to sustain though high risk of it coming down gradually by 4-5% post 3Q13 due to 1) lower supply by CIL, 2) tax grossing up, 3) UI and heat rate incentives; Downgrade the stock to Reduce with TP of Rs158

Reported performance driven by prior period adj. and other income

NTPC's 2Q13 APAT at Rs18.3bn, up 8%yoy, is in line with our estimate of Rs18.4bn. Reported PAT of Rs31.4bn was adjusted with – 1) Rs10.1bn of prior period sales, 2) Rs2.5bn of prior period tax recovered net of expensed, 3) Rs2.1bn of interest from customers and 4) Rs1.9bn of forex impact in interest expense reversed as per change in Accounting Standard 11. Availability (PAF) during the quarter was 80% for coal and 90% for gas based plants vs. 83% and 92% in 2Q12. 8%yoy growth in APAT vs. 14%yoy growth in regulated equity indicates that NTPC's RoE continues to coming down. 2Q13 avg RoE stood at 4.09% vs. 4.14% in 2Q12. Coal and Gas PLF (75% & 58%) were also lower compared to last year (78% & 83%) including 5.1BU (1.9BU in 2Q12) of generation loss due to fuel supply. We have fine tuned our FY13E and FY14E estimates based on 1H13 performance. Our revised EPS now stands at Rs11.2 and Rs12.0 respectively.

Risk to ROE continues to remain; Downgrade to Reduce

Business model of NTPC is undergoing structural changes with Core RoE of NTPC has come down from 27% in FY11 to 24.7% in FY12 & 2Q13 hints further slide. Moreover, ROE from tax grossing up (2.5%) is still built in which is likely to go. Though we have assumed FY12 RoE to sustain in our estimates but we believe that there is a strong case of it to start coming down gradually from 4Q13 by about 4-5%. This would be on account of 1) lower coal supplies from CIL in its pre FY09 plants, 2) grossing up of tax and 3) UI and heat rate incentives. We downgrade the stock to 'Reduce' and roll over our price target to FY14E. Our rolled over price target is Rs158/share assuming 150bps decline in NTPC's core RoE (24.7%). Key risks - (1) incr. in PAF on higher CIL supplies for its old plants, assuming CIL takes decisions based on commercial gains and (2) advantage in ABT system from price pooling.

Exhibit 1: NTPC's RoE quarterly trend

Particulars	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
Effective Regulated Equity (Rs bn)	256.2	257.4	272.0	272.0	282.7	293.6
Regulated Profits (Rs bn)	19.0	10.7	16.7	19.0	17.3	12.0
ROE	7.4%	4.1%	6.1%	7.0%	6.1%	4.1%

Source: Company, Emkay Research

Financial Snapshot (Consolidated at PAT level)

(Rsmn)

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
Mar										
FY11A	549,386	141,292	25.7	92,737	10.9	4.2	14.0	15.4	11.2	2.0
FY12A	614,622	135,248	22.0	93,322	10.5	-4.5	13.0	16.2	12.2	1.9
FY13E	632,002	151,333	23.9	97,447	11.2	7.0	12.6	15.1	11.6	1.7
FY14E	731,813	169,159	23.1	106,552	12.0	7.0	12.8	14.1	11.0	1.6

Exhibit 2: Standalone results snapshot

Rs mn	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	YoY (%)	QoQ (%)	H1FY12	H1FY13	YoY (%)
Revenue	153,775	153,333	162,639	159,600	161,196	4.8	1.0	298,288	320,796	7.5
Expenditure	-121,388	-124,283	-121,346	-123,294	-118,955	-2.0	-3.5	-234,440	-242,249	3.3
as % of sales	-78.9%	-81.1%	-74.6%	-77.3%	-73.8%			-78.6%	-75.5%	
Fuel	-106,494	-107,933	-104,430	-105,977	-99,327	-6.7	-6.3	-203,992	-205,304	0.6
as % of sales	-69.3%	-70.4%	-64.2%	-66.4%	-61.6%			-68.4%	-64.0%	
Employee Cost	-7,848	-7,188	-8,963	-7,907	-8,965	14.2	13.4	-14,755	-16,872	14.3
as % of sales	-5.1%	-4.7%	-5.5%	-5.0%	-5.6%			-4.9%	-5.3%	
Other expenditure	-7,046	-9,162	-7,953	-9,410	-10,663	51.3	13.3	-15,693	-20,073	27.9
as % of sales	-4.6%	-6.0%	-4.9%	-5.9%	-6.6%			-5.3%	-6.3%	
EBITDA	32,387	29,050	41,293	36,306	42,241	30.4	16.3	63,848	78,547	23.0
Depreciation	-6582	-7560	-7363	-7602	-7865	19.5	3.5	-12,993	-15,467	19.0
EBIT	25,805	21,490	33,931	28,704	34,376	33.2	19.8	50,855	63,080	24.0
Other Income	7,984	7,537	5,559	8,849	8,392	5.1	-5.2	15,150	17,241	13.8
Interest	-5,300	-4,496	-4,870	-4,994	-4,887	-7.8	-2.1	-9,044	-9,881	9.2
PBT	28,489	24,531	34,620	32,559	37,881	33.0	16.3	56,961	70,440	23.7
Total Tax	-7,440	-4,048	-10,140	-7,573	-9,405			-15,154	-16,978	12.0
PAT before extra-ordinary	21,049	20,483	24,480	24,987	28,476	35.3	14.0	41,807	53,462	27.9
Extra ordinary items	3,192	823	1,455	0	2,945			3,192	2,945	
Reported PAT	24,241	21,305	25,934	24,987	31,421	29.6	25.8	44,999	56,408	25.4
Non-recurring adjustments	-7,365	1,031	-2,830	-849	-13,121	78.2	1446.1	-3,497	-13,970	299.4
Comparable PAT	16,876	22,336	23,104	24,138	18,300	8.4	-24.2	41,502	42,438	2.3
Comparable EPS	2.0	2.7	2.8	2.9	2.2	8.4	-24.2	5.0	5.1	2.3

Margins (%)						(bps)	(bps)				(bps)
EBIDTA	21.1	18.9	25.4	22.7	26.2	514	346	21.4	24.5	308	
EBIT	16.8	14.0	20.9	18.0	21.3	454	334	17.0	19.7	261	
EBT	21.2	16.7	22.5	20.4	25.9	475	554	19.1	22.0	286	
PAT	13.7	13.4	15.1	15.7	17.7	398	201	13.9	13.2	-68	
Effective Tax rate	17.2	29.1	29.2	24.7	26.0	876	128	18.6	25.4	684	

Source: Company, Emkay Research

Exhibit 3: Operations snapshot

Particulars	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	YoY (%)	QoQ (%)	H1FY12	H1FY13	YoY (%)
Group capacity added (MW)	0	1160	1000	2160	0			660	2160	
Capacity added - NTPC (MW)	-	660	500	2160	-			660	2160	
Capacity added - JV (MW)	-	500	500	-	-			-	-	
Group capacity commercialised (MW)	500	660	-	1660	1160			500	2820	
Capacity commercialised - NTPC (MW)	500	660	-	1160	1160			500	2320	
Capacity commercialised - JV (MW)	-	-	-	500	-			-	500	
PLF (%)										
Coal based	78.4	83.6	91.1	86.5	74.9			82.6	80.6	
Gas based	60.8	70.5	67.0	64.6	57.7					
PAF (%)										
Coal based	83.4	85.3	94.7	88.4	80.1			83.4	80.1	
Gas based	92.3	94.5	98.7	92.6	90.2			92.3	90.2	
Energy sent out (MU)	46922	52637	56073	54817	48863	7.4	-2.2	97972	103680	5.8
Realisation per unit (Rs/unit)	3.1	3.0	2.8	2.9	3.0	0.8	1.8	3.0	3.0	-0.8
Fuel cost per unit (Rs/unit)	2.3	2.1	1.9	1.9	2.0	1.2	3.8	2.1	2.0	-4.9

Source: Company, Emkay Research

Exhibit 4: Revenue break-up

Rs mn	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	1HFY12	1HFY13
Electricity Sales Current Year	146,829	145,593	158,861	159,771	158,970	147,919	292,422	306,889
Previous Yr sales + Sales out of AAD	(2,405)	7,593	(1,545)	1,848	1,099	10,237	5,188	11,336
Current Tax Recovered	-	-	-	-	-	-	-	-
Deferred Tax Recovered / (paid)	89	89	89	110	119	119	178	238
Prior Tax Recovered / (Paid)	-	500	(4,072)	911	(588)	2,921	500	2,333
Exchange Fluctuation Recovered	-	-	-	-	-	-	-	-
Energy Internally Consumed	-	-	-	-	-	-	-	-
Consultancy + Other Services	-	-	-	-	-	-	-	-
Reported Revenues	144,513	153,775	153,333	162,639	159,600	161,196	298,288	320,796

Source: Company, Emkay Research

Exhibit 5: Profit break-up

Rs mn	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	1HFY12	1HFY13
Reported Profit	20,758	24,241	21,305	25,934	24,987	31,421	44,999	56,408
Add - Provision Against debtors	-	-	-	-	-	-	-	-
Undischarged Liabilities	-	-	-	-	-	-	-	-
Other Provisions	-	-	486	166	-	-	-	-
Less - Depreciation Write Back	-	-	-	-	-	-	-	-
Other extraordinary income	-	3,192	-	-	-	-	3,192	-
Tax on Extra-ordinaries & others	-	-	1,308	1,620	-	2,945	-	2,945
PAT after above adjustments	20,758	21,049	20,483	24,480	24,987	28,476	41,807	53,462
Sales/Tax of earlier years	3,868	(4,173)	1,853	(1,375)	(849)	(10,176)	(306)	(11,025)
APAT	24,626	16,876	22,336	23,104	24,138	18,300	41,502	42,438

Source: Company, Emkay Research

Exhibit 6: Standalone revenue built-up

Rs mn	FY11	FY12P	FY13E	FY14E	FY15E
Sale from electricity	547,045	612,387	629,372	728,656	825,684
Energy Internally Consumed	647	808	1,131	1,584	1,663
Consultancy + Other Services	1,694	1,427	1,498	1,573	1,652
Total	549,386	614,622	632,002	731,813	828,999

Source: Company, Emkay Research

Exhibit 7: Standalone profit built-up

Rs mn	FY11	FY12P	FY13E	FY14E	FY15E
Generation	72,717	72,248	74,641	83,899	92,302
Consultancy	560	307	430	602	632
Other Income	19,081	20,021	17,134	14,202	11,787
Deferred and prior period tax	(1,332)	(339)	-	-	-
Total	91,026	92,237	92,205	98,703	104,721

Source: Company, Emkay Research

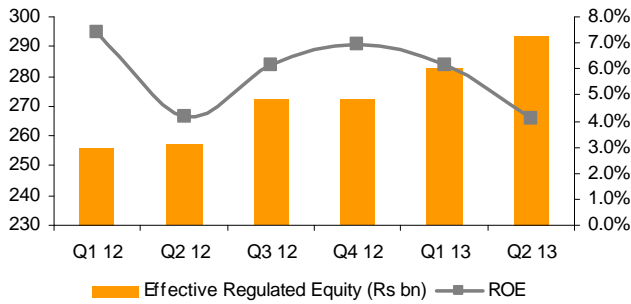
NTPC – Investment summary

Earnings forecast - Emkay vs. Consensus

(Rs mn)	Emkay	Consensus	Variance
FY13E	97,447	101,438	-3.9%
FY14E	106,552	111,683	-4.6%

Source: Bloomberg

Focus Chart



Source: Company, Emkay Research

Company description:

NTPC Ltd, Maha Ratna company, was incorporated by government of India in 1975 as central thermal based power generation utility. It currently owns and operates 39.2GW of generation capacity at group level with another ~17GW capacity is under-construction. It already has presence in consultancy and power trading and will soon start coal mining as well. It came up with an IPO in 2004 at Rs62/share.

Recent update

- Commercialised 2.8GW of capacity and commissioned 2.2GW of capacity in H1FY13

Investment rationale

- Business model of NTPC is undergoing structural changes – (1) fuel supplies leading to lower PAF, (2) higher marginal cost impacting PLFs and (3) lower UI income
- Core RoE of NTPC has come down from 27% in FY11 to 24.7% in FY12 & 1H13 hints further slide. Moreover, ROE from tax grossing up (2.5%) is still built in which is likely to go
- Even after assuming FY12 ROE as sustainable, we foresee strong case of RoE to start coming down gradually from 4Q13 by 4-5% due to 1) lower supply by CIL, 2) tax grossing up, 3) UI and heat rate

Valuations

- NTPC to deliver EPS CAGR of 7% (PEG of 2.3x) during FY12-15E; At CMP, it is trading at 1.7x FY14E book and 1.6x FY14E book
- Downgrade to Reduce (earlier Hold) with price target of Rs158/share (rolled over to FY14E and assuming 150bps decline in core RoE)

Investment risk

- (1) Incr. in PAF on higher CIL supplies for its old plants, assuming CIL takes decisions based on commercial gains & (2) advantage in ABT system from price pooling

Top Institutional holdings

Name	Holding %
LIC	6.0
Comgest USA	0.6
ICICI Prudential Life	0.6
Capital Research and Management	0.4
JF Asset Management	0.3

Source: Factset

Shares pledge

Period	Promoters holding	Pledge % of Prom. holding	Pledge % of total holdings
Sep-11	84.5%	0.0%	0.0%
Dec-11	84.5%	0.0%	0.0%
Mar-12	84.5%	0.0%	0.0%
Jun-12	84.5%	0.0%	0.0%
Sep-12	84.5%	0.0%	0.0%

Source: Capitaline

Key Financials (Consolidated at PAT level)

Income Statement

Y/E Mar (Rsbn)	FY11A	FY12A	FY13E	FY14E
Net Sales	549.4	614.6	632.0	731.8
<i>Growth (%)</i>	18.5	11.9	2.8	15.8
Expenditure	408.1	479.4	480.7	562.7
Raw Materials	353.7	416.4	415.9	487.6
Employee Cost	0.0	0.0	0.0	0.0
Other Exp	27.9	30.9	31.8	36.8
EBITDA	26.5	32.1	33.0	38.2
<i>Growth (%)</i>	141.3	135.2	151.3	169.2
EBITDA margin (%)	13.9	-4.3	11.9	11.8
Depreciation	25.7	22.0	23.9	23.1
EBIT	24.9	27.9	32.3	35.4
EBIT margin (%)	116.4	107.3	119.0	133.8
Other Income	21.2	17.5	18.8	18.3
Interest expenses	24.6	27.1	23.2	19.1
PBT	21.5	19.1	21.5	24.6
Tax	119.6	115.3	120.7	128.2
<i>Effective tax rate (%)</i>	29.3	29.2	28.5	29.5
Adjusted PAT	24.0	23.6	22.7	21.7
<i>Growth (%)</i>	90.3	86.2	92.2	98.7
Net Margin (%)	0.7	6.0	0.0	0.0
(Profit)/loss from JVs/Ass/MI	91.0	92.2	92.2	98.7
Adj. PAT After JVs/Ass/MI	5.8	7.5	-3.0	9.3
E/O items				
Reported PAT	2.5	8.2	5.2	7.8
PAT after MI	93.5	100.5	97.4	106.6
<i>Growth (%)</i>	92.7	93.3	97.4	106.6

Balance Sheet

Y/E Mar (Rsbn)	FY11A	FY12A	FY13E	FY14E
Equity share capital	82.5	82.5	82.5	82.5
Reserves & surplus	604.4	657.6	712.1	770.4
Net worth	686.8	740.1	794.5	852.8
Minority Interest	0.0	0.0	0.0	0.0
Secured Loans	431.9	476.4	546.4	625.0
Unsecured Loans	0.0	0.0	0.0	0.0
Loan Funds	431.9	476.4	546.4	625.0
Net deferred tax liability	3.0	13.5	13.5	13.5
Total Liabilities	1,121.8	1,230.0	1,354.5	1,491.3
Gross Block	727.6	815.1	979.9	1,097.5
Less: Depreciation	335.2	363.1	395.4	430.8
Net block	392.4	452.0	584.6	666.8
Capital work in progress	382.7	446.4	444.1	506.5
Investment	41.7	46.7	65.4	75.2
Current Assets	435.7	463.3	439.6	452.1
Inventories	36.4	37.0	45.0	52.1
Sundry debtors	79.2	114.5	122.9	142.3
Cash & bank balance	243.6	226.8	184.3	156.5
Loans & advances	76.5	84.9	87.3	101.1
Other current assets	0.0	0.0	0.0	0.0
Current lia & Prov	130.7	178.4	179.1	209.2
Current liabilities	130.7	178.4	179.1	209.2
Provisions	0.0	0.0	0.0	0.0
Net current assets	304.9	284.8	260.4	242.9
Misc. exp	0.0	0.0	0.0	0.0
Total Assets	1,121.8	1,230.0	1,354.5	1,491.3

Cash Flow

Y/E Mar (Rsbn)	FY11A	FY12A	FY13E	FY14E
PBT (Ex-Other income)	98.3	104.4	102.8	117.0
Depreciation	24.9	27.9	32.3	35.4
Interest Provided	21.5	19.1	21.5	24.6
Other Non-Cash items	0.2	10.1	0.0	0.0
Chg in working cap	-5.4	3.4	-18.1	-10.3
Tax paid	-29.5	-31.0	-28.5	-29.5
Operating Cashflow	110.1	133.9	109.9	137.3
Capital expenditure	-131.3	-151.3	-162.5	-180.0
Free Cash Flow	-21.2	-17.4	-52.6	-42.7
Other income	24.6	27.1	23.2	19.1
Investments	-6.1	3.3	-13.4	-2.0
Investing Cashflow	-112.7	-120.9	-152.8	-162.9
Equity Capital Raised	0.0	0.0	0.0	0.0
Loans Taken / (Repaid)	53.9	44.5	70.1	78.6
Interest Paid	-21.5	-19.1	-21.5	-24.6
Dividend paid (incl tax)	-36.6	-38.4	-37.8	-40.4
Income from investments	0.0	0.0	0.0	0.0
Others	-9.0	-16.7	-10.5	-15.7
Financing Cashflow	-13.2	-29.7	0.3	-2.2
Net chg in cash	-15.9	-16.7	-42.5	-27.8
Opening cash position	259.4	243.6	226.8	184.3
Closing cash position	243.6	226.8	184.3	156.5

Key Ratios

Y/E Mar	FY11A	FY12A	FY13E	FY14E
Profitability (%)				
EBITDA Margin	25.7	22.0	23.9	23.1
Net Margin	16.4	14.0	14.6	13.5
ROCE	10.3	8.8	8.5	8.3
ROE	14.0	13.0	12.6	12.8
RoIC	27.2	22.3	20.3	18.9
Per Share Data (Rs)				
EPS	10.9	10.5	11.2	12.0
CEPS	11.2	14.6	15.1	16.3
BVPS	82.9	90.6	97.2	104.3
DPS	3.8	4.0	3.9	4.2
Valuations (x)				
PER	15.4	16.2	15.1	14.1
P/CEPS	15.1	11.6	11.2	10.4
P/BV	2.0	1.9	1.7	1.6
EV / Sales	2.9	2.7	2.8	2.5
EV / EBITDA	11.2	12.2	11.6	11.0
Dividend Yield (%)	2.2	2.4	2.3	2.5
Gearing Ratio (x)				
Net Debt/ Equity	0.3	0.3	0.5	0.5
Net Debt/EBITDA	1.3	1.8	2.4	2.8
Working Cap Cycle (days)	40.8	34.5	44.0	43.1

Recommendation History: NTPC – NATP IN

Date	Reports	Reco	CMP	Target
30/07/2012	NTPC Q1FY13 Result Update	Hold	153	158
16/05/2012	NTPC Q4FY12 Result Update	Accumulate	141	158
30/01/2012	NTPC Q3FY12 Result Update	Buy	172	199
31/10/2011	NTPC Q2FY12 Result Update	Buy	179	204

Recent Research Reports

Date	Reports	Reco	CMP	Target
25/10/2012	Jaiprakash Power Q2FY13 Result Update	Hold	39	45
19/10/2012	Adani Power Q2FY13 Result Update	Sell	49	30
21/08/2012	Reliance Power Company Update	Buy	88	155
21/08/2012	Lanco Infratech Q1FY13 Result Update	Hold	12	15

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