

**BSE Code: 532555**
**NSE Code: NTPC**
**Reuters Code: NTPC.NS**
**Bloomberg Code: NTPC:IN**

NTPC is the largest power generation company in India, with an overall installed capacity of more than 51 GW. NTPC group contributed 24% to all India generation during FY17.

#### Investment Rationale

##### 🌀 Commercial capacity to grow at 8% CAGR over FY17-20E:

NTPC reported weak set of numbers in Q3FY18 with standalone revenue growth of 7% YoY as benefit of healthy volumes growth was offset by sharp decline in realisation. While energy sent out during the quarter increased by 10.7% YoY to 63.4 BUs, realisation declined by 5% YoY to Rs. 3.2 per unit. While PLF for its coal based power plants stayed largely flat at 76.92% in Q3FY18 as against 77.21% in Q3FY17, PLF of gas based power plants increased to 29.90% as against 23.85%. PAF for coal-based plants witnessed sharp decline to 83% as compared to 91% in Q3FY17 mainly impacted by shortage of coal at certain plants. Regulated equity witnessed robust growth of 19% YoY to Rs. 505 bn owing to strong commercial capacity addition of ~4,000 MW in 9MFY18. Going forward, we expect NTPC's commercial capacity to grow at 8% CAGR over FY17-20E.

##### 🌀 Margins to stay healthy:

Reported EBITDA was lower than expected in Q3FY18 with EBITDA margin declining by 168bps YoY to 25.4% impacted by higher employee cost due to pay revision and leave encashment. Margin was also adversely hit by under recovery of fixed costs due to lower PAF at three plants. This coupled with significant increase in depreciation and interest charges led to 4.4% decline in net profit. However, higher other income and lower tax expenses due to reversal of prior-period taxes restricted the pace of decline in bottomline. Sustained pace of capacity commercialization going ahead will drive strong growth in regulated equity. Hence, we factor EBITDA margin of 28.3%/29% in FY19E/20E.

##### 🌀 Strong commercialisation of projects going ahead:

During the quarter the company commercialised ~1.1 GW of capacity including 250 MW at Bongaigaon and 800 MW at Kudgi, taking the overall capacity commercialisation to ~4,000 MW in 9MFY18. Further the management has guided strong capacity addition of 4,740 MW in FY19. However, the company is now going slow on the renewables energy space due to confusion over tariffs. Considering its robust capacity expansion plan, we expect NTPC's revenue to grow at 8% CAGR over FY17-20E.

**Valuation:** We factor revenue/PAT CAGR of 8%/7% over FY17-20E. While RoE is expected to decline to 10.5% in FY18E, the same is expected to bounce back to 11.3% in FY20E. However, review of regulatory tariff plan for 2019-24 will be a key to watch out for. We maintain BUY rating on the stock with a revised target price (TP) of Rs. 188 based on 1.3x FY20E book value, an upside of 15%.

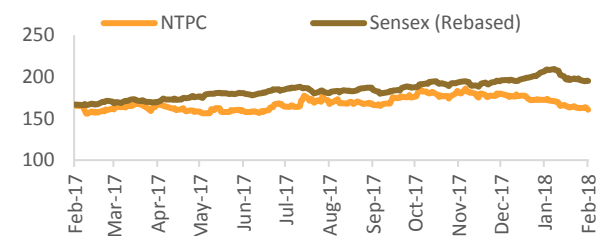
#### Market Data

<b>Rating</b>	<b>BUY</b>
<b>CMP (Rs.)</b>	163
<b>Target (Rs.)</b>	<b>188</b>
<b>Potential Upside</b>	15%
<b>Duration</b>	Long Term
Face Value (Rs.)	10
52 week H/L (Rs.)	188/153
Adj. all time High (Rs.)	188
Decline from 52WH (%)	8.5
Rise from 52WL (%)	33.9
Beta	0.6
Mkt. Cap (Rs.Cr)	134,525

#### Fiscal Year Ended

Y/E	FY17	FY18E	FY19E	FY20E
Revenue (Rs.Cr)	81,232	83,919	92,801	1,00,958
Adj. Net profit (Rs.Cr)	10,720	10,697	12,002	13,046
Adj. EPS (Rs.)	13.0	13.0	14.6	15.8
Adj. P/E (x)	12.5	12.6	11.2	10.3
P/BV (x)	1.4	1.3	1.2	1.1
ROE (%)	11.3	10.5	11.1	11.3

#### One year Price Chart



#### Shareholding Pattern

Shareholding Pattern	Dec-17	Sep-17	Chg.
Promoters	62.3	63.0	(0.7)
FII's	11.8	10.7	1.1
MFs/Insti	22.4	22.9	(0.5)
Public	1.7	1.9	(0.2)
Others	1.8	1.5	0.3

## NTPC Ltd: Business overview

Established in 1975, NTPC (a Maharatna company) is the largest power generation company in India. The company has presence in the entire value chain of the power generation business. From fossil fuels, it has forayed into generating power through hydro, nuclear and renewable energy sources. Currently, it has an installed capacity of 51,383 MW. It has 48 stations including 8 joint venture power stations. It has further diversified into consultancy, power trading, training of power professionals, rural electrification and ash utilisation. NTPC has 17.73% of the total national power capacity and it contributes 24% to total power generation. The company also has backward integration with 10 captive coal mines with total Geological Reserves of around 7.3 BT.

For power trading, the company has formed a subsidiary – 'NTPC Vidyut Vyapar Nigam Ltd'. It is the second largest power trading company in the country. Further, NTPC has set up a wholly owned subsidiary – 'NTPC Electric Supply Company Ltd.' (NESCL), for distribution and supply of power.

It has also entered into power equipment manufacturing business. For this, NTPC has formed joint venture with BHEL and Bharat Forge Ltd. NTPC has also acquired stake in Transformers and Electricals Kerala Ltd. (TELK) for manufacturing and repair of transformers..

### NTPC's installed capacity

	No. of plants	Capacity (MW)
<b>NTPC Owned</b>		
Coal	20	38,755
Gas/Liquid Fuel	7	4,017
Hydro	1	800
Renewable energy projects (Solar PV)	11	870
Wind	1	50
<b>Total</b>	<b>40</b>	<b>44,492</b>
<b>Owned by JVs/Subsidiaries</b>		
Coal & Gas	8	6,891
<b>Total</b>	<b>48</b>	<b>51,383</b>

Source: Company

### Growth of NTPC installed capacity and generation

#### NTPC PLF Vs All India PLF



\* for coal / Lignite Stations

Source: Company, In-house research

Quarterly Financials (Standalone)									
(Rs cr)	Q3FY18	Q3FY17	YoY		QoQ		9MFY18	9MFY17	YoY Growth %
			Growth %	Q2FY18	Growth %	9MFY18			
<b>Sales</b>	<b>20,774</b>	<b>19,396</b>	7.1%	<b>19,699</b>	5.5%	<b>60,352</b>	<b>57,857</b>	4.3%	
<b>EBITDA</b>	<b>5,277</b>	<b>5,252</b>	0.5%	<b>5,440</b>	-3.0%	<b>15,757</b>	<b>15,822</b>	-0.4%	
EBITDA Margin (%)	25.4	27.1	(168bps)	28	(222bps)	26.1	27.3	(124bps)	
Depreciation	1,881	1,485	26.7%	1,713	9.8%	5,164	4,315	19.7%	
<b>EBIT</b>	<b>3,396</b>	<b>3,767</b>	-9.8%	<b>3,728</b>	-8.9%	<b>10,593</b>	<b>11,507</b>	-7.9%	
Interest	1,065	909	17.2%	919	15.8%	2,880	2,699	6.7%	
Other Income	313	250	25.3%	262	19.8%	1,238	599	106.7%	
Exceptional Items	-	-	-	-	-	-	-	-	
Regulatory income/ (exp)	(59)	(25)	135.4%	153	-	322	(26)	-	
<b>PBT</b>	<b>2,585</b>	<b>3,083</b>	-16.1%	<b>3,223</b>	-19.8%	<b>9,273</b>	<b>9,380</b>	-1.1%	
Tax	224	613	-63.5%	784	-71.4%	1,855	2,074	-10.5%	
Minority Interest/ P/L of Associates	-	-	-	-	-	-	-	-	
<b>Reported PAT</b>	<b>2,361</b>	<b>2,469</b>	-4.4%	<b>2,439</b>	-3.2%	<b>7,418</b>	<b>7,306</b>	1.5%	
Adjustment	-	-	-	-	-	-	-	-	
<b>Adj PAT</b>	<b>2,361</b>	<b>2,469</b>	-4.4%	<b>2,439</b>	-3.2%	<b>7,418</b>	<b>7,306</b>	1.5%	
<b>EPS (Rs)</b>	<b>2.9</b>	<b>3.0</b>	-4.4%	<b>3</b>	-3.2%	<b>9.0</b>	<b>8.9</b>	1.5%	

Source: Company, In-house research

## Commercial capacity to grow at 8% CAGR over FY17-20E

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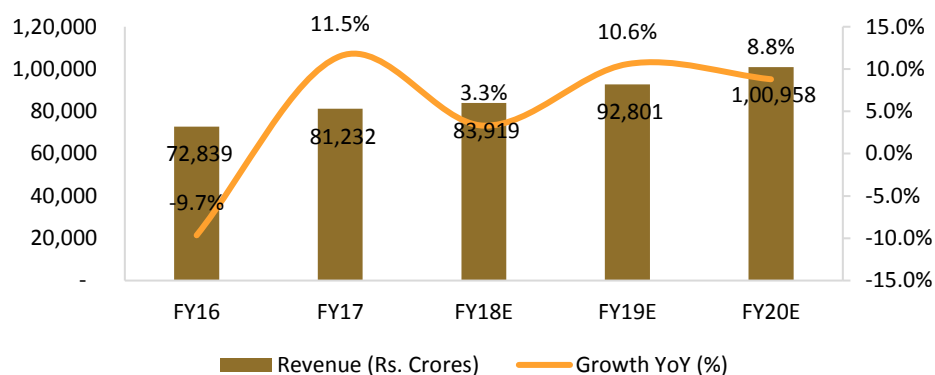
## Margins to stay healthy

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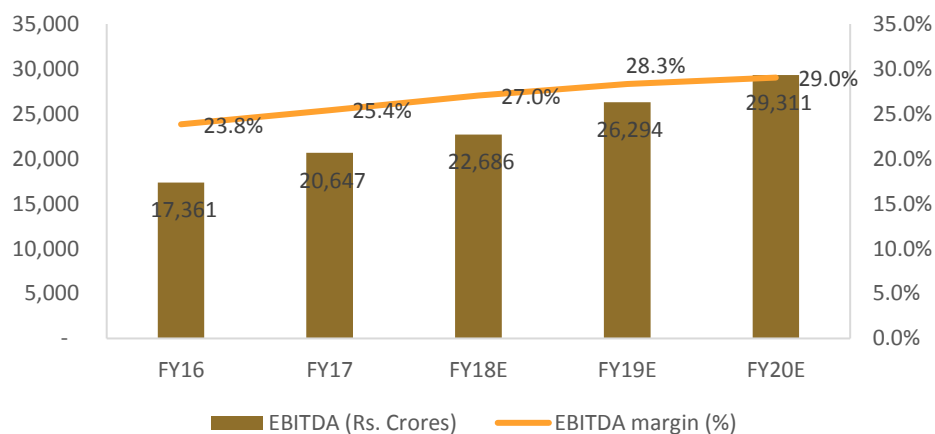
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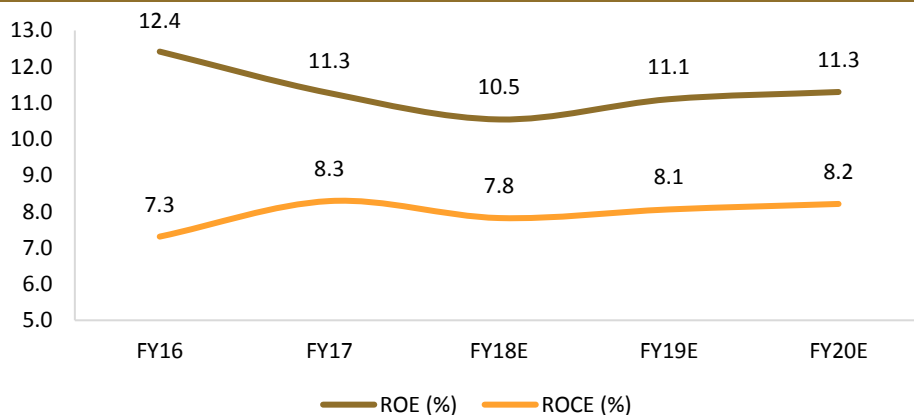
### Revenue to grow at 8% CAGR over FY17-20E



### Ebitda to grow at 12% CAGR over FY17-20E



### Return ratios trend



Source: Company, In-house research

#### Key risks:

- Delays in commercialisation of projects.
- Slackness in power demand from SEBs impacts PLF and would lead to lower incentive income.

## Profit & Loss Account (Consolidated)

Y/E (Rs.Cr)	FY17	FY18E	FY19E	FY20E
<b>Total operating Income</b>	<b>81,232</b>	<b>83,919</b>	<b>92,801</b>	<b>1,00,958</b>
<b>EBITDA</b>	<b>20,647</b>	<b>22,686</b>	<b>26,294</b>	<b>29,311</b>
Depreciation	6,010	7,145	8,579	10,229
<b>EBIT</b>	<b>14,637</b>	<b>15,541</b>	<b>17,714</b>	<b>19,082</b>
Interest cost	3,651	4,359	4,633	4,736
Other Income	2,150	1,883	1,641	1,691
<b>Profit before tax</b>	<b>13,136</b>	<b>13,065</b>	<b>14,722</b>	<b>16,037</b>
Tax	3,047	3,030	3,414	3,719
<b>Profit after tax</b>	<b>10,089</b>	<b>10,035</b>	<b>11,308</b>	<b>12,317</b>
Minority Interests	(6)	(6)	(6)	(6)
P/L from Associates	625	656	689	723
<b>Adjusted PAT</b>	<b>10,720</b>	<b>10,697</b>	<b>12,002</b>	<b>13,046</b>
E/o income / (Expense)	-	-	-	-
<b>Reported PAT</b>	<b>10,720</b>	<b>10,697</b>	<b>12,002</b>	<b>13,046</b>

## Balance Sheet (Consolidated)

Y/E (Rs.Cr)	FY17	FY18E	FY19E	FY20E
Paid up capital	8,245	8,245	8,245	8,245
Reserves and Surplus	90,082	96,326	1,03,386	1,10,995
<b>Net worth</b>	<b>98,327</b>	<b>1,04,571</b>	<b>1,11,631</b>	<b>1,19,241</b>
Minority Interest	803	798	792	786
Deferred Revenue	2,407	2,407	2,407	2,407
Total Debt	1,13,751	1,27,251	1,35,251	1,38,251
Other non-current liabilities	4,334	4,334	4,334	4,334
<b>Total Liabilities</b>	<b>2,19,623</b>	<b>2,39,361</b>	<b>2,54,415</b>	<b>2,65,019</b>
Net fixed assets	1,04,532	1,35,387	1,59,808	1,82,578
Capital WIP	86,896	76,896	66,896	53,896
Goodwill	-	-	-	-
Investments	7,802	7,802	7,802	7,802
<b>Net Current Assets</b>	<b>1,658</b>	<b>541</b>	<b>1,175</b>	<b>2,008</b>
Deferred tax assets (Net)	-	-	-	-
Other non-current assets	18,735	18,735	18,735	18,735
<b>Total Assets</b>	<b>2,19,623</b>	<b>2,39,361</b>	<b>2,54,415</b>	<b>2,65,019</b>

## Cash Flow Statement (Consolidated)

Y/E (Rs.Cr)	FY17	FY18E	FY19E	FY20E
Pre tax profit	13,760	13,721	15,411	16,760
Depreciation	6,010	7,145	8,579	10,229
Chg in Working Capital	226	761	(198)	(16)
Others	3,230	2,476	2,992	3,045
Tax paid	(2,626)	(3,030)	(3,414)	(3,719)
<b>Cash flow from operating activities</b>	<b>20,600</b>	<b>21,072</b>	<b>23,370</b>	<b>26,299</b>
Capital expenditure	(24,417)	(28,000)	(23,000)	(20,000)
Chg in investments	(857)	-	-	-
Other investing cashflow	343	1,883	1,641	1,691
<b>Cash flow from investing activities</b>	<b>(24,931)</b>	<b>(26,117)</b>	<b>(21,359)</b>	<b>(18,309)</b>
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	15,047	13,500	8,000	3,000
Dividend paid	(3,595)	(4,453)	(4,942)	(5,437)
Other financing activities	(8,296)	(4,359)	(4,633)	(4,736)
<b>Cash flow from financing activities</b>	<b>3,155</b>	<b>4,688</b>	<b>(1,576)</b>	<b>(7,173)</b>
Net chg in cash	(1,176)	(356)	436	817

## Key Ratios (Consolidated)

Y/E	FY17	FY18E	FY19E	FY20E
<b>Valuation(x)</b>				
P/E	12.5	12.6	11.2	10.3
EV/EBITDA	11.9	11.4	10.2	9.2
EV/Net Sales	3.0	3.1	2.9	2.7
P/B	1.4	1.3	1.2	1.1
<b>Per share data</b>				
EPS	13.0	13.0	14.6	15.8
DPS	4.4	4.5	5.0	5.5
BVPS	119.3	126.8	135.4	144.6
<b>Growth (%)</b>				
Net Sales	11.5	3.3	10.6	8.8
EBITDA	18.9	9.9	15.9	11.5
Net profit	-0.8	-0.2	12.2	8.7
<b>Operating Ratios</b>				
EBITDA Margin (%)	25.4	27.0	28.3	29.0
EBIT Margin (%)	18.0	18.5	19.1	18.9
PAT Margin (%)	13.2	12.7	12.9	12.9
<b>Return Ratios (%)</b>				
RoE	11.3	10.5	11.1	11.3
RoCE	8.3	7.8	8.1	8.2
<b>Turnover Ratios (x)</b>				
Net Sales/GFA	0.8	0.6	0.5	0.5
Sales/Total Assets	0.3	0.3	0.3	0.3
<b>Liquidity and Solvency Ratios (x)</b>				
Interest Coverage	4.0	3.6	3.8	4.0
Debt/Equity	1.1	1.2	1.2	1.2

## Rating criteria

Large Cap.	Return	Mid/Small Cap.	Return
<b>Buy</b>	More than equal to 10%	<b>Buy</b>	More than equal to 15%
<b>Hold</b>	Upside or downside is less than 10%	<b>Accumulate*</b>	Upside between 10% & 15%
<b>Reduce</b>	Less than equal to -10%	<b>Hold</b>	Between 0% & 10%
		<b>Reduce/sell</b>	Less than 0%

\* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

\* NTPC is a large cap company

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