

BSE SENSEX	S&P CNX
35,012	10,553
Bloomberg	NTPC IN
Equity Shares (m)	8,245
M.Cap.(INRb)/(USDb)	1,293.3 / 17.6
52-Week Range (INR)	186 / 149
1, 6, 12 Rel. Per (%)	-3/-8/-17
12M Avg Val (INR M)	1103
Free float (%)	38.2

CMP: INR158 TP: INR195 (+24%)
Buy
Fixed-cost under recoveries still dragging earnings
Capitalization to drive strong earnings growth; Maintain Buy

NTPC's standalone (S/A) PAT declined ~1% YoY to INR24.3b (our estimate: INR25.3b), even as regulated equity increased 7% YoY to ~INR520b. The performance was impacted by shortage of domestic coal resulting in fixed charge under-recoveries and an increase in working capital driving higher interest cost. PAT adjusted for prior-period and fixed-charge under-recoveries grew by a low ~2% due to a stronger base.

- Fixed charge u/recoveries were INR3.3b (-31% QoQ) in 2QFY19. Management guided for under-recoveries to reduce to ~INR6b in FY19 (v/s ~INR8.2b in 1HFY19 and ~INR14b in FY18) as coal availability improves and/or it uses imported coal.
- Interest cost increased 41% YoY to INR12.9b due to higher working capital. Receivables were higher, while the advance to railways for preferential rake allotment will continue.
- Core RoE (on adj. PAT) fell ~170/230bp YoY/QoQ to 19.9% v/s ~20.6% in FY18.
- Commercial capacity increased 800MW QoQ to 52.8GW on capitalization of Kudgi U3. Target for FY19 remains at ~4GW (our estimate: 3.5GW).

Drag from low availability to reduce; capitalization to drive strong earnings

NTPC's core performance is expected to improve sharply in FY19 as fixed charge under-recoveries reduce. However, the reported performance will be muted due to a stronger base of FY18. NTPC has a healthy pipeline of projects. We expect ~16% CAGR (FY18-21) in NTPCsa's regulated equity. We expect consol. PAT CAGR of ~13% over the same period. As capitalization outpaces capex, RoE will increase to ~12% by FY21. Our DCF-based TP stands at INR195/share. Maintain **Buy**.

Financials & Valuations (INR b)

Y/E Mar	2018	2019E	2020E
Net Sales	877.6	929.6	1,026.3
EBITDA	229.8	273.6	324.2
PAT	88.0	112.8	131.2
EPS (INR)	10.7	13.7	15.9
Gr. (%)	-10.9	28.2	16.3
BV/Sh (INR)	125.6	133.3	142.0
RoE (%)	8.7	10.6	11.6
RoCE (%)	6.4	6.8	7.5
P/E (x)	15.9	12.4	10.6
P/BV (x)	1.3	1.3	1.2

Estimate change

TP change

Rating change

Quarterly Performance (standalone) – INR m

Y/E March	FY18				FY19				FY18	FY19E	FY19	var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Sales	201,076	198,518	207,151	234,000	228,637	226,310	224,516	191,167	840,057	870,630	202,242	12
Change (%)	6.6	2.3	6.8	14.6	13.7	14.0	8.4	-18.3			1.9	
EBITDA	52,684	55,933	52,177	62,097	61,149	59,623	68,171	68,347	222,203	257,290	62,549	-5
Other income	6,626	2,616	3,135	5,176	1,364	2,249	2,804	5,654	17,553	12,071	2,340	
PBT	34,654	32,228	25,848	36,883	31,712	30,046	36,399	41,190	128,925	139,347	34,070	-12
Tax	8,472	7,842	2,240	7,627	5,831	5,786	8,736	12,322	25,493	32,675	8,809	
PAT	26,182	24,386	23,608	29,256	25,881	24,260	27,663	28,867	103,432	106,672	25,260	-4
Change (%)	10.5	-2.3	-4.4	40.7	-1.1	-0.5	17.2	-1.3	10.2	3.1	3.6	
Adj. PAT	25,388	27,015	27,797	28,000	29,410	27,475	27,663	30,275	108,200	114,823	27,896	
Change (%)	5.6	15.4	23.8	5.2	15.8	1.7	-0.5	8.1	12.4	6.1	3.3	
A. Core PAT	23,178	24,988	25,354	24,601	28,305	25,617	25,532	26,195	98,005	105,649	26,118	
Core RoE (%)	21.1	21.6	20.4	19.4	22.2	19.9	19.2	18.7	20.6	19.5	20	
a. Base RoE @15.5%	17,058	17,972	19,245	19,662	19,732	19,940	20,632	21,687	73,938	81,990	20,031	
b. PLF incentive	549	660	450	1,200	1,270	586	400	284	2,859	2,540	586	
c. Others	5,571	6,356	5,658	3,739	7,303	5,091	4,500	4,224	21,208	21,119	5,500	
B. Other income	2,210	2,027	2,443	3,399	1,105	1,858	2,131	4,080	10,195	9,174	1,779	
Key metrics												
Regulated Equity	439,927	487,680	505,625	509,207	509,207	519,934	544,953	574,361	509,207	574,361	524,673	-1
Commercial cap.(MW)	40,749	43,619	44,492	44,500	44,500	45,300	46,350	47,150	44,500	47,150	45,300	0

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Conference call and other result highlights

Operational highlights

- 6 station clocked PLF > 85%
- Lost 19b kwh generation due to grid restriction (17.1b kwh +30% QoQ) and coal shortage (1.8b kwh +20% QoQ)
- Coal linkage materialization: 97% in 1HFY19 v/s 94.97% in 1HFY18
- Captive coal production: 1.15mt at PB mine; Dulanga mine started operations in October
- Coal shortage: coal stocks declined from high of 6.9mt to 3.7mt; only pit head plants have stock but rail fed plants are running hand to mouth; coal production is key constraint.

Financial highlights

- Average cost of borrowing down 20bps YoY to 6.79% in H1FY19
- Dividend income: INR83m in 1HFY19 v/s INR360m in 1HFY18
- Capex in coal mines: INR53.2b cumulative so far; INR4.19b in 1HFY19
- Capex: INR108.6b in 1HFY19 (INR100.2b in SA + INR8.4b in subs &JV)
- Receivables increased sharply by INR52b to INR128b during first half (AP, J&K and UP)

Commercial highlights

- Kudgi: Unit 3 of 800MW achieved CoD during the quarter
- Regulated Equity: increased by INR10.7b to INR519.9b during 2Q and 1H v/s Gross Block increase of INR61b in 1H.
- NVVN signed 300MW additional PPA with Bangladesh
- Won 160MW (INR 3.17/kwh rate for 140MW + INR3.21/kwh rate for 20MW) in solar power bids on 10th October with Rajasthan.
- Advances to Railways increased by INR20b to INR70b for preferential allotment of rakes and freezing of freight rates

Fixed cost under recoveries

- INR3.3b in 2QFY19 (incl. INR1.3b for Unchahar) and INR8.24b (incl. INR2.6b for Unchahar, INR2.4b for Mauda, INR100m for Solapur, INR780m for Simahadri, INR250m for Kudgi) in 1HFY19
- FY19 guidance: INR6b (INR3.9b for Unchahar, INR1.4b for Mauda, INR200m for Simahadri, etc.)

Steps to improve PAF and reduce under recoveries

- Targeting 5mt coal imports to bridge shortage and improve PAF during FY19
- Increase coal production from captive mines
- Pitching to CERC to reduce PAF in new regulation 2019-2014
- Advance to railways will ensure rake availability and hedge against freight cost inflation. NTPC will try for additional finance cost pass through in tariff.

Exhibit 1: Key operating parameters

		FY17				FY18				FY19	
		1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Capacity											
Installed	GW	47.2	47.2	48.0	50.5	51.6	51.9	51.4	53.7	53.7	53.7
Commercial	GW	45.9	45.9	45.9	47.3	47.5	50.8	51.4	51.4	51.4	52.9
Regulated Equity	INR b	420.1	423.1	424.8	440.5	439.9	487.7	505.6	509.2	509.2	519.9
Generation											
Gross	b kWh	65	61	61	64	64	65	68	69	69	66
Electricity sales	b kWh	60	56	57	60	60	60	63	64	65	62
Availability											
Coal	%	90.5	89.8	91.5	95.0	89.0	86.1	83.0	86.6	85.9	84.3
Gas	%	93.6	97.0	93.3	91.0	88.2	90.9	94.5	96.9	83.9	94.9
PLF											
Coal	%	81.4	74.7	77.2	81.2	79.1	76.6	76.9	79.0	78.0	72.6
Gas	%	26.3	23.6	23.9	24.0	24.4	25.6	29.9	20.2	23.1	17.9
Fuel											
Coal Received	mt	40.1	34.7	41.8	41.5	38.5	39.8	44.1	45.8	43.1	40.0
o/w imported	mt	0.6	0.3	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.1
% imported	%	1.4	0.7	0.3	0.2	0.4	0.1	0.1	0.2	0.2	0.3
Gas received	mmscmd	5.5	5.1	5.0	5.1	5.1	5.5	6.4	4.3	4.7	4.0
Per unit											
Realization	INR/kWh	3.13	3.41	3.32	3.34	3.38	3.23	3.40	3.58	3.61	3.73
Fuel cost	INR/kWh	1.93	2.11	2.06	2.00	2.02	1.93	2.02	2.04	2.14	2.19
Fixed charge	INR/kWh	1.20	1.30	1.26	1.33	1.36	1.30	1.38	1.54	1.47	1.54

Exhibit 2: Commercial capacity addition

	FY17	FY18	FY19	FY20	FY21	FY22
NTPCsa	1,420	3,970	2,650	4,380	4,240	3,720
Regulated		3,670	2,650	4,380	4,240	3,720
Northern Region		500		660	660	
Unchahar- VI		500				
Tanda II				660	660	
Koldam						
Tapoban Vishnugad						
Western Region	660	1,320	1,600	2,260	800	800
Vindhyachal V						
Mouda, Maharashtra						
Mouda II	660	660				
Lara (Chhattisgarh)			800	800		
Solapur		660		660		
Khargone					800	800
Gadarwara			800	800		
Eastern Region	250	250	250	1,460	2,780	1,320
Barh-II Bihar						
Barh I					660	1,320
North Karanpura				660	1,320	
Bongaigaon, Assam	250	250	250			
Darlipalli				800	800	
Southern Region		1,600	800			1,600
Kudgi		1,600	800			
Telangana						1,600
Retirements						
Solar	510	300				
NTPCjv	445	120	910	1,570	1,320	
Meja Urja Nigam			660	660		
Nabinagar, BRBCL	250	250	250	250		
Nabinagar NPGCPL JV				660	1,320	
Kanti, Muzzarpur, Bihar	195	195				
Retirements		-325				
NTPCgrp	1,865	4,090	3,560	5,950	5,560	3,720

Source: Company, MOSL

Financials and Valuations

Income Statement							(INR Million)	
Y/E Mar	2013	2014	2015	2016	2017	2018	2019E	2020E
Net Sales	657,370	789,506	806,220	727,055	817,171	877,622	929,566	1,026,308
Change (%)	5.9	20.1	2.1	-9.8	12.4	7.4	5.9	10.4
EBITDA	170,672	197,106	171,941	179,569	218,300	229,808	273,630	324,247
EBITDA Margin (%)	26.0	25.0	21.3	24.7	26.7	26.2	29.4	31.6
Depreciation	33,968	47,700	55,646	52,240	60,099	74,599	82,950	95,976
EBIT	136,704	149,406	116,295	127,329	158,201	155,209	190,680	228,270
Interest	19,244	32,031	35,704	33,137	36,511	44,346	58,989	71,301
Other Income	31,188	27,601	20,789	10,576	9,668	15,583	10,102	8,509
Extraordinary items	17,138	-119	3,182	0	0	0	0	0
PBT	165,786	144,858	104,562	104,768	131,358	126,446	141,792	165,478
Tax	39,592	30,824	4,638	-1,628	30,467	25,881	34,667	41,605
Tax Rate (%)	23.9	21.3	4.4	-1.6	23.2	20.5	24.4	25.1
Min. Int. & Assoc. Share	0	0	0	-204	-57	-425	-57	-57
Reported PAT	126,194	114,034	99,924	108,012	107,196	105,440	112,650	131,243
Adjusted PAT	109,726	91,496	87,596	96,957	98,717	87,992	112,801	131,243
Change (%)	20.6	-16.6	-4.3	10.7	1.8	-10.9	28.2	16.3

Balance Sheet

Y/E Mar	2013	2014	2015	2016	2017	2018	2019E	2020E
Share Capital	82,455	82,455	82,455	82,455	82,455	82,455	82,455	82,455
Reserves	721,421	790,843	738,485	809,511	895,926	953,180	1,016,357	1,088,233
Net Worth	803,875	873,297	820,940	891,965	978,380	1,035,635	1,098,812	1,170,688
Debt	581,461	814,549	1,022,520	1,120,194	1,137,551	1,300,143	1,389,250	1,447,474
Deferred Tax	9,153	12,393	12,656	14,094	14,849	24,081	24,081	24,081
Total Capital Employed	1,394,489	1,707,044	1,864,995	2,035,181	2,138,812	2,369,337	2,521,621	2,651,721
Gross Fixed Assets	1,032,457	1,313,937	1,443,608	1,632,140	1,170,879	1,501,531	1,781,547	2,200,325
Less: Acc Depreciation	403,096	471,858	525,077	587,180	125,562	206,147	289,097	385,074
Net Fixed Assets	629,361	842,080	918,530	1,044,959	1,045,317	1,295,385	1,492,450	1,815,251
Capital WIP	371,094	538,250	675,547	815,497	868,957	820,931	772,425	559,648
Investments	91,376	16,635	141	148	78,023	92,515	97,765	102,736
Current Assets	519,333	603,487	601,543	543,886	492,677	534,851	526,206	546,775
Inventory	40,572	59,885	79,725	79,592	65,861	61,403	68,480	74,537
Debtors	53,650	67,257	92,499	101,740	89,995	88,122	90,777	98,991
Cash & Bank	184,902	186,876	161,390	57,370	33,015	43,876	25,499	31,797
Loans & Adv, Others	240,210	289,470	267,929	305,185	303,806	341,450	341,450	341,450
Curr Liabs & Provns	216,676	293,408	330,766	369,310	346,162	374,344	367,225	372,690
Curr. Liabilities	216,676	293,408	330,766	369,310	346,162	374,344	367,225	372,690
Provisions	0	0	0	0	0	0	0	0
Net Current Assets	302,657	310,080	270,777	174,577	146,515	160,507	158,981	174,085
Total Assets	1,394,489	1,707,044	1,864,995	2,035,181	2,138,812	2,369,337	2,521,621	2,651,721

Financials and Valuations

Ratios

Y/E Mar	2013	2014	2015	2016	2017	2018	2019E	2020E
Basic (INR)								
EPS	13.3	11.1	10.6	11.8	12.0	10.7	13.7	15.9
Cash EPS	19.4	19.6	18.9	19.4	20.3	21.8	23.7	27.6
Book Value	97.5	105.9	99.6	108.2	118.7	125.6	133.3	142.0
DPS	5.8	5.8	5.8	3.4	4.8	4.5	5.0	6.0
Payout (incl. Div. Tax.)	37.6	41.6	47.4	25.6	36.8	35.2	36.6	37.7
Valuation(x)								
P/E	10.2	11.3	12.9	12.0	12.1	12.3	11.5	9.9
Cash P/E	8.1	8.0	8.3	8.1	7.7	7.2	6.6	5.7
Price / Book Value	1.6	1.5	1.6	1.4	1.3	1.2	1.2	1.1
EV/Sales	2.6	2.4	2.7	3.2	2.9	2.9	2.9	2.6
EV/EBITDA	11.0	11.0	13.5	14.0	11.4	12.0	9.7	8.4
Dividend Yield (%)	3.7	3.7	3.7	2.1	3.0	2.9	3.2	3.8
Profitability Ratios (%)								
RoE	12.0	10.9	10.0	11.3	10.6	8.7	10.6	11.6
RoCE	8.9	8.5	7.3	7.2	6.0	5.8	6.2	6.9
RoIC	16.0	13.7	11.2	11.8	10.5	9.6	9.5	9.5
Turnover Ratios (%)								
Asset Turnover (x)	1.2	1.1	0.9	0.7	0.8	0.7	0.7	0.6
Debtors (No. of Days)	30	31	42	51	40	37	36	35
Inventory (No. of Days)	30	37	46	53	40	35	38	39
Leverage Ratios (%)								
Net Debt/Equity (x)	0.5	0.7	1.0	1.2	1.1	1.2	1.2	1.2

Cash Flow Statement

Y/E Mar	2013	2014	2015	2016	2017	2018	2019E	2020E
(INR Million)								
Adjusted EBITDA	154,204	174,568	159,613	168,514	209,821	212,360	273,781	324,247
Non cash opr. exp (inc)	64,572	49,633	35,881	35,146	23,574	38,815	9,951	8,509
(Inc)/Dec in Wkg. Cap.	-5,971	-13,109	-11,694	-36,422	-2,073	-58,298	-16,851	-8,806
Tax Paid	-28,956	-26,867	-20,100	-14,584	-26,263	19,257	-34,667	-41,605
Other operating activities	-28,896	-18,917	-16,242	1,452	-3,395	-15,508	-10,102	-8,509
CF from Op. Activity	154,952	165,308	147,459	154,106	201,666	196,627	222,112	273,836
(Inc)/Dec in FA & CWIP	-162,912	-189,485	-191,772	-232,470	-243,451	-187,559	-231,511	-206,000
Free cash flows	-7,960	-24,176	-44,314	-78,364	-41,785	9,068	-9,399	67,836
(Pur)/Sale of Invt	16,225	16,225	16,391	16,536	3,436	0	0	0
Others	6,519	37,017	17,182	-6,986	-17,558	-8,539	10,377	10,907
CF from Inv. Activity	-140,169	-136,243	-158,200	-222,920	-257,573	-196,099	-221,134	-195,093
Inc/(Dec) in Net Worth	0	0	0	0	0	0	0	0
Inc / (Dec) in Debt	72,624	93,854	205,811	80,528	150,466	145,059	89,107	58,224
Interest Paid	-39,461	-62,429	-72,371	-83,473	-75,645	-86,058	-58,989	-71,301
Divd Paid (incl Tax) & Others	-40,688	-58,516	-148,185	-32,261	-43,269	-48,669	-49,473	-59,367
CF from Fin. Activity	-7,524	-27,091	-14,745	-35,206	31,552	10,333	-19,355	-72,444
Inc/(Dec) in Cash	7,259	1,975	-25,486	-104,021	-24,355	10,861	-18,377	6,298
Add: Opening Balance	177,643	184,902	186,876	161,390	57,369	33,015	43,876	25,499
Closing Balance	184,902	186,876	161,390	57,369	33,015	43,876	25,499	31,797

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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