Indbank Merchant Banking Services Ltd (A Subsidiary of Indian Bank)

NTPC LTD.

EQUITY REPORT

February 11, 2013

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

India's biggest utility company, NTPC, was established in 1975 to accelerate power development in India. NTPC's core business is engineering, construction and operation of power generating plants. Apart from its major operation of power production, NTPC has already ventured into consultancy, power trading, ash utilisation and coal mining. With an electric power generating capacity of 39,674 megawatts (MW), NTPC has embarked on plans to become a 75,000 MW company by 2017. In addition, under JVs, seven stations are coal based while another station uses naphtha, LNG as fuel. The company has set a target to have an installed power generating capacity of 1,28,000 MW by the year 2032.

Investor's Rationale

- Selling 9.5% stake in state-owned electric utilities company, NTPC is a key element of the government's plan to reduce the trade deficit to 5.3% of gross domestic product by the end of March, from 5.8% in FY'12, to avoid a credit downgrade from global ratings agencies. The sale of 78.33 crore shares, at the indicative price of ₹145.96, will fetch the government close to around ₹120 bn, making it the biggest divestment in the current fiscal. With the NTPC sale complete, the total divestment proceeds for FY'13 will touch nearly 22,000 crore. The government had set a divestment target of ₹300 bn for the fiscal.

- Rating agency, Standard & Poor's (S&P) has stated that its rating on NTPC (BBB-/Negative/--) is not affected by the Indian government's 'offer for sale' on a part of its stake in the company. Further, the agency expects that the government will remain NTPC's majority shareholder and the Ministry of Power to retain administrative control over the board. The government's shareholding drop in NTPC to 75% from 84.5% will not change the assessment of the company's 'very strong' link with the government.

- NTPC recorded a growth of 21.9% YoY in its standalone bottom-line at ₹25.97 bn in Q3FY'13 primarily due to improved capacity addition resulting higher generation and lower raw material cost. However, topline grew marginally by 2.9% YoY at ₹15.77 bn on lower realization at ₹2.8/unit in Q3FY'13 from ₹3.3/unit in Q2FY'13, as fuel cost dropped to ₹1.8/unit from ₹2.0/unit on account of higher usage of domestic coal and lower contribution of gas projects.

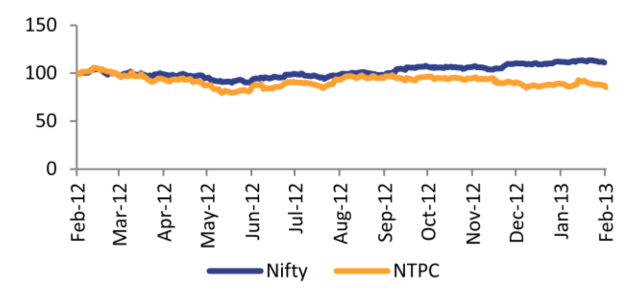
- NTPC has got a green signal from the government for settlement of dues of Delhi Electric Supply Undertaking which provides for payment to be made by Government of National Capital Territory of Delhi to NTPC of ₹25.2 bn.

Market Data	
Rating	**BUY**
CMP (₹)	148
Target (₹)	**185**
Potential Upside	25%
Duration	Long Term
52 week H/L (₹)	190.8/137.0
All time High (₹)	290.0
Decline from 52WH (%)	22.4
Rise from 52WL (%)	8.0
Beta	0.5
Mkt. Cap (₹ bn)	1,220.7
Book Value (₹ bn)	90.2

Fiscal Year Ended

Y/E	FY11A	FY12A	FY13E	FY14E
Revenue (₹bn)	576.1	658.9	723.6	814.0
EBIDTA (₹bn)	144.4	154.4	167.0	191.2
PAT (₹bn)	93.5	98.1	100.9	112.2
EPS (₹)	11.3	11.9	12.2	13.6
P/E (x)	13.1	12.4	12.1	10.9
P/BV (x)	1.8	1.6	1.5	1.4
EV/EBIDTA(x)	10.7	10.4	10.0	9.2
RoA (%)	10.3	9.8	9.4	9.5
RoE (%)	13.6	13.1	12.5	12.8

One year Price Chart



Shareholding Pattern	Dec'12	Sep'12	Diff.
Promoters	84.50	84.50	-
FII	4.39	3.95	0.44
DII	7.51	7.73	(0.22)
Others	3.60	3.82	(0.22)

NTPC commenced units to raise the capacity

NTPC commissioned 2,820 MW generating capacity during FY'12, the highest ever in a year, surpassing the record of 2,490 MW set in FY11. The capacity addition also includes 1,000 MW generated through its joint ventures. Going ahead, the country's largest power producer has declared that the Unit 1 of 500 MW of Vallur Thermal Power Project of the company Tamil Nadu Energy Co., a JV of NTPC and TNEB, is declared on commercial operation. With this the total commercial capacity of Vallur Thermal Power Project has become 500 MW and that of NTPC Group will reach to 38,174 MW.

NTPC has been operating its plants at high efficiency levels. Although, the company has 17.75% of the total national capacity, it contributed 27.40% to the total power generation in FY12 due to its focus on high efficiency. Further, it has also started its unit 5 of 500 MW of Rihand Super Thermal Power Station. With this the commercial capacity of Rihand STPS will reach 2,500 MW and that of NTPC Group will be 37,674 MW.

NTPC has started its 3 key units namely 500 MW of Vallur Thermal Power Project, 500 MW of Rihand Super Thermal Power Station and Indira Gandhi Super Thermal Power Project.

In line with this, the Unit-III of 500 MW of Indira Gandhi Super Thermal Power Project at Jhajjar of Aravali Power Company (APCPL) a JV of NTPC, Haryana Power Generation Corporation and Indraprastha Power Generation Co. has been commissioned. With the start of this unit, the total capacity of NTPC group has become 39,674 MW. With the coming of Unit-III, the total installed capacity of Indira Gandhi Super Thermal Power Project has become 1,500 MW.

On the other hand, serious issues including Operation and maintenance (O&M) costs and return on investment have cropped up between NTPC and Ceylon Electricity Board (CEB) over setting up of a 500-MW power plant in Sri Lanka, which is expected to get solve soon to avoid further delay in implementation of the project.

Installed Capacity of NTPC Group in FY'12

Owned by NTPC	**MW**
Coal based projects	28,695
Gas based projects	3,955
Sub-total	**32,650**
Joint Ventures & Subsidiaries	
Coal based projects	2,424
Gas based projects	1,940
Sub-total	**4,364**
Total	**37,014**

* With the commissioning of 2,160 MW after FY'12, the installed capacity of NTPC's Group has become 39,174 MW

Robust capacity addition- move to make unbreakable record

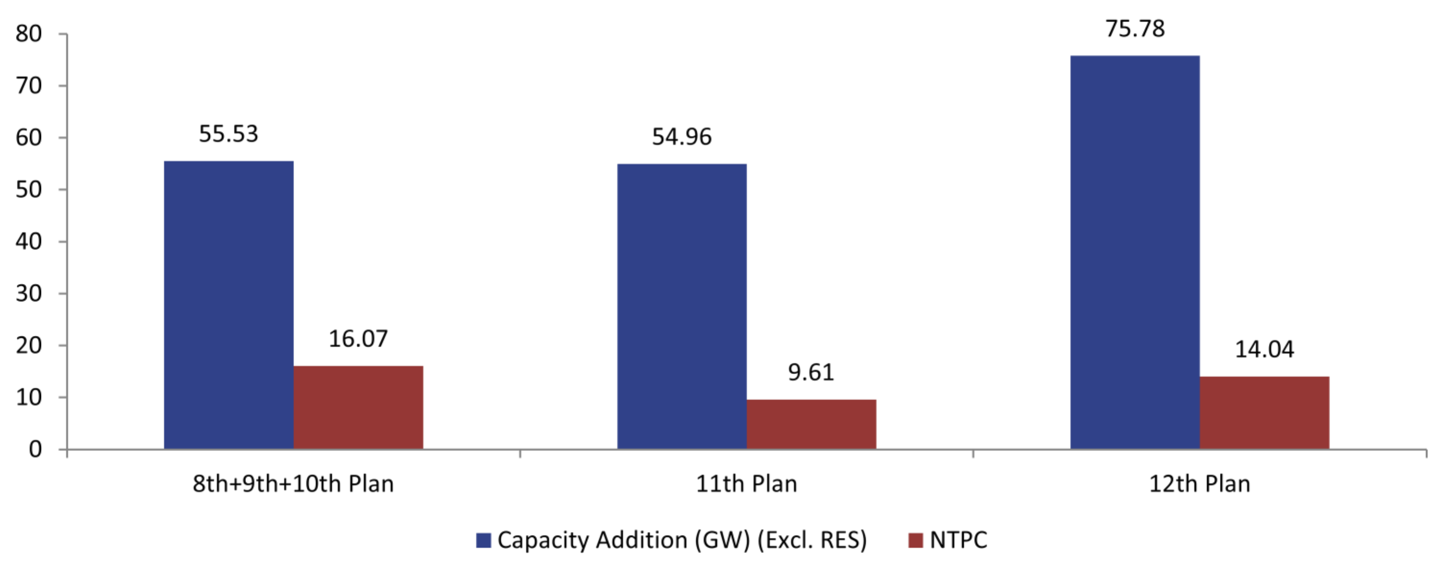
NTPC plans to add capacity of 4,170 MW in FY13, out of which 2,660MW added during 9MFY'13, contributed to 24% of total addition in India.

NTPC is India's largest power generating company and accounts for 18.5% of India's total installed capacity as of March 31, 2012. It became a Maharatna company in May, 2010, one of the only four companies to be awarded this status. NTPC is working on its plans to become a 75,000 MW company by 2017. During FY12, NTPC has commissioned the highest ever generating capacity in a year of 2,820 MW, surpassing the record of 2,490 MW set in FY11. The capacity addition also includes 1000 MW made through the joint venture Companies. NTPC Group currently has projects across 18 Indian States including coal mining projects.

Under the 11th Plan, NTPC's capacity addition was slower than expected on account of some execution bottlenecks, as few major projects witnessed contractual and other issues. As NTPC overcomes the issues pertaining to its large projects, this will lead to front-ended capacity addition in the 12th Plan. NTPC is aggressively planning to add capacity of 4,170 MW in FY13, out of which 2,660 MW added during 9MFY'13, contributed to 24% of total addition in the country. This made the firm to earn total revenue of $9.1bn and net income of $1.5bn in 9MFY'13. As per the estimate of Central Electricity Authority's (CEA), NTPC in the 12th plan period is making moves to attain capacity addition of 14,038 MW. Of this, 1,320 MW is expected over FY13-16, an average capacity addition of 330 MW/year. NTPC is witnessing an orbit change in capacity addition under the 12th Plan.

In the current uncertain macro environment, other developers are not likely to start new expansion or are not capable with (high leverage, lack of PPA/FSA visibility, burden of existing unviable projects, etc). This problem acts as an icing on cake and provides strong visibility in capacity addition growth for NTPC over the next decade, making it better placed than other developers. NTPC offers better growth option in the generation space. Even assuming a recovery in the sector, a new project could take nearly 5 years for commissioning - a period of growth holiday for several developers, while NTPC would continue to witness linear growth.

Capacity addition at glance



Demand-Supply scenario and capacity growth to propel generation growth

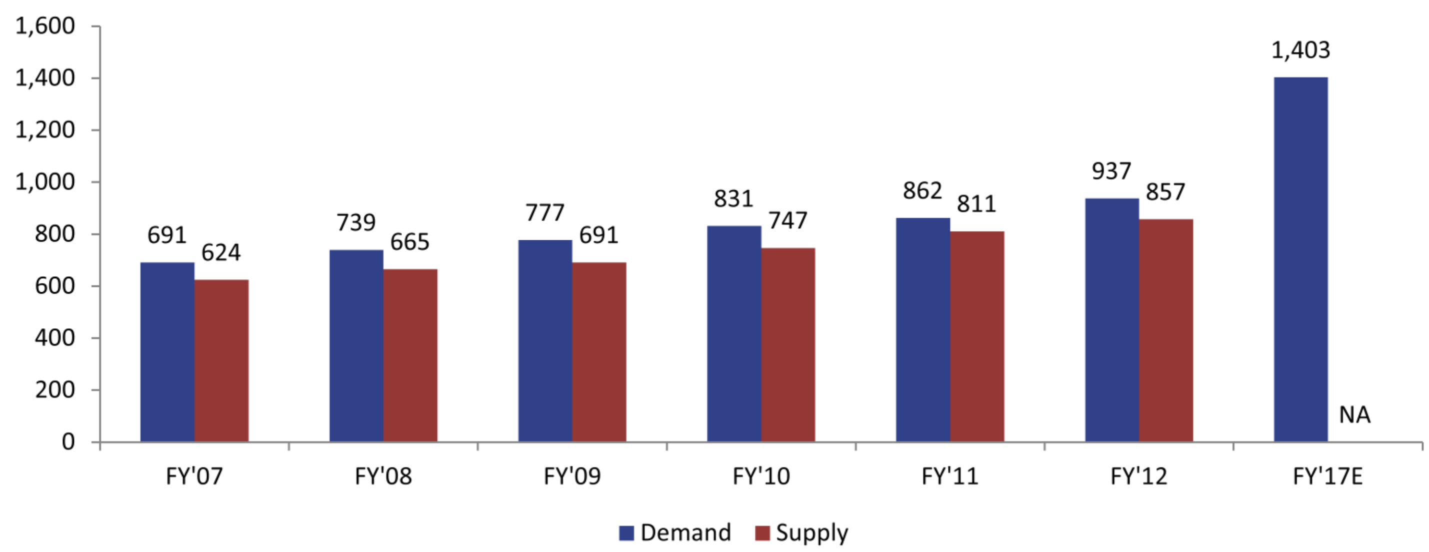
Over the last 5 years, the demand for coal has been growing at an average rate of 8-9% annually as compared to a 5-6% increase in domestic production.

India's power sector over past few years has been witnessing macro and micro challenges, with the country's power deficit at around 8.5%. The demand for electricity is continuously growing, driven by high economic growth and boom in rural electrification. However, supply and supply parameters are unable to run parallel mainly due to a fuel shortage. As per 12th five year plan, there is a projection for addition of 1,00,000 MW of new capacity and majority of these projects are coal fired power plants. Currently, more than 50% of India's installed generation capacity is coal-based. Over the last 5 years, the demand for coal has been growing at an average rate of 8-9% annually as compared to a 5-6% increase in domestic production. This has widened the demand-supply gap, leading to growing dependence on imported coal. In FY'12, the country imported around 100 million tonnes (MT) of coal (including thermal and coking coal). The demand-supply gap of coal was 161.5 MT in FY'12 and is likely to touch 185 MT over the next 5 years.

However, concerned over the coal issue, the government has stated that acquisition of coal mines overseas should be done in an aggressive manner to meet the energy requirements. Further, the efforts by the ministry have resulted in the acquisition of coal mines in Mozambique by Coal India Ltd (CIL), while private firms have been acquiring mines in countries such as Australia, South Africa and South America.

NTPC that uses up to 10% of imported coal to be blended with domestic fuel has imported 16 MT of coal in FY'13 up from 12 MT in FY12 to meet its requirements. In a move to ease the domestic coal deficit concern, NTPC has entered into long-term Fuel Supply Agreements with existing suppliers over and above the coal production from the 6 coal blocks allocated by the Government to the company. Strategic alliance with CIL provides a competitive edge to NTPC over its competitors.

India's energy deficit scenario (in bn units)



Coal block allocation- adding firms value

A year ago, the Coal Ministry has de-allocated 5 blocks namely Chatti Bariatu, Chatti Bariatu (South), Kerandari, Brahmani & Chichiro Patsimal from NTPC. The main reason behind the de-allocation was that the firm has not developed the mines within the scheduled timeframe. In a breather to NTPC, now 3 (Chatti-Bariatu, Kerandari and Chatti-Bariatu (S)) mines has been re-allocated with expectation to work hard for early start of production of coal from its captive mines to help bridge the gap between requirement and availability and also to reduce the power generation cost. This move has also added significance to NTPC's valuation.

On additional block allocation to NTPC for setting 8,460 MW capacity which required about 42 MTPA (million tonnes per annum) of coal, the Coal Ministry is putting out a tender for 17 blocks and NTPC will be participating in that.

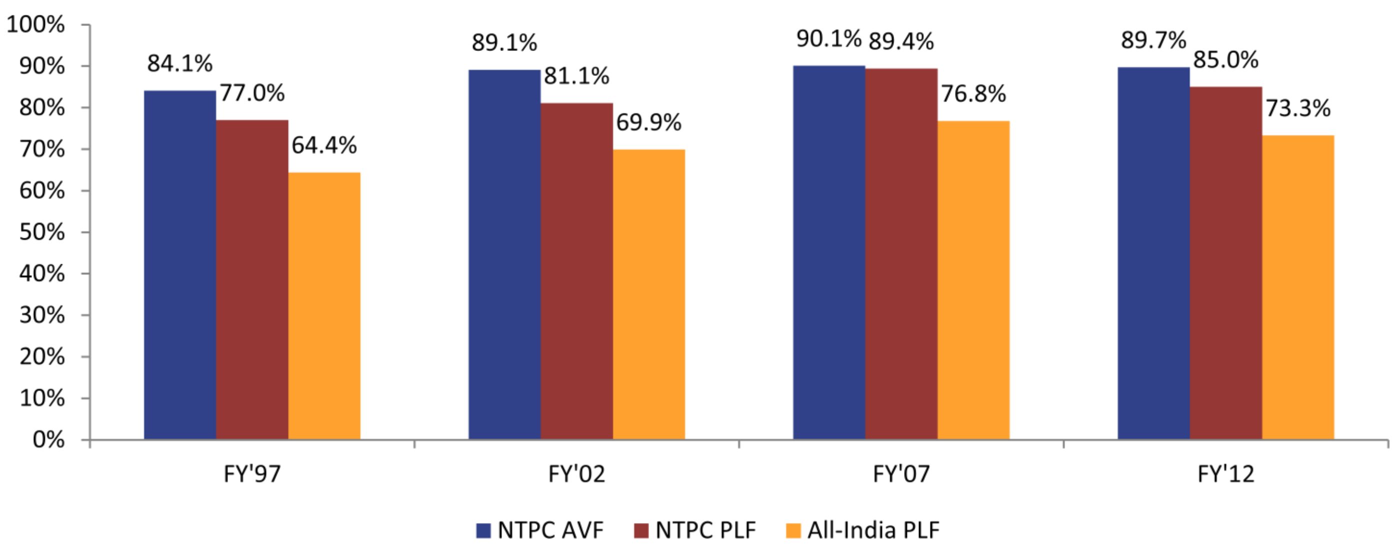
Inland waterways- step to break transportation bottlenecks

Making a move to reduce the shipment hiccups and to fast track the development of the inland waterways for transporting bulk cargo, the Prime Minister has emphasized for private and public sector partnership. Kolkata-headquartered SPS Shipping Ltd has initiated talks with NTPC for river transportation of 3 mt of coal. The cargo would be transported from Sandheads (mouth of the Hooghly river) along Inland Waterways 1 to NTPC's Barh-II plant in Patna district of Bihar.

The two 660 MW units of Barh-II thermal power station of NTPC in Bihar are expected to get commissioned in the second half of this year. Inland Waterways Authority of India has been given the responsibility by NTPC to ensure transportation of imported coal to its plants.

On the other hand, Jindal ITF, a fully owned subsidiary of Jindal Saw has bagged a contract for transportation 3-8 mt imported coal through inland waterway to NTPC's Farakka plants. The PLF for coal stations likely to improve on the back of improved coal supplies and company initiated measures to import coal will improve the coal PLF (Plant Load Factor)/PAF (Plant Availability factor), going ahead.

NTPC's Proven Operational Excellence



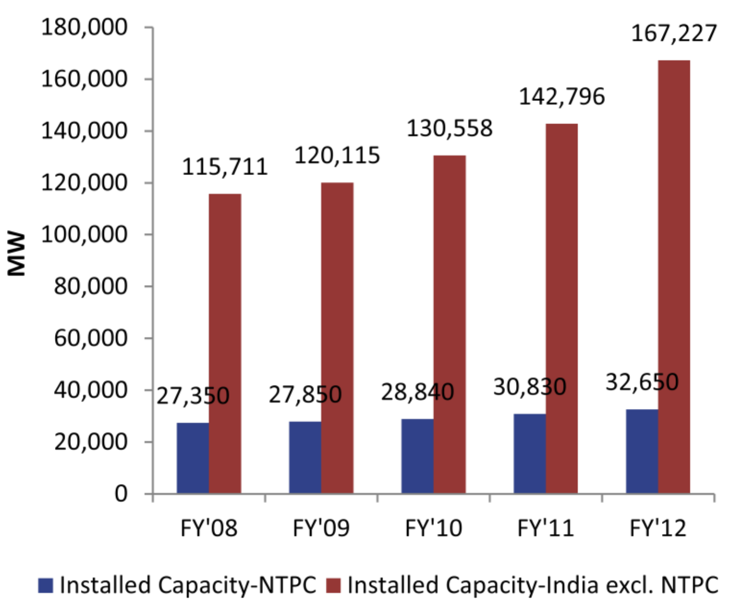
Witnessed a decent performance in Q3FY'13

NTPC posted a robust growth in its standalone net profit by 21.9% YoY at ₹25.97 bn in Q3FY'13. The key growth factors contributed in lifting the bottom line includes the better capacity addition, higher generation and lower raw material cost. Lower employee benefits expense also helped in pushing the company's quarterly profit higher. The profit from generation business (before computing tax and interest) grew by 30.6% to ₹34.03 bn. The gross generation by the company increased by 6.6% YoY to 60.1bn units. Further, higher PAF at 88.6% (Q2FY'12: 85.3%) for coal-based plants also boosted the bottom line. While, the PAF for gas-based plants fell marginally to 93.8% (Q3FY'12: 94.5%). Coal and Gas PLFs for Q3FY'13 stood at 84.1% and 59% respectively.

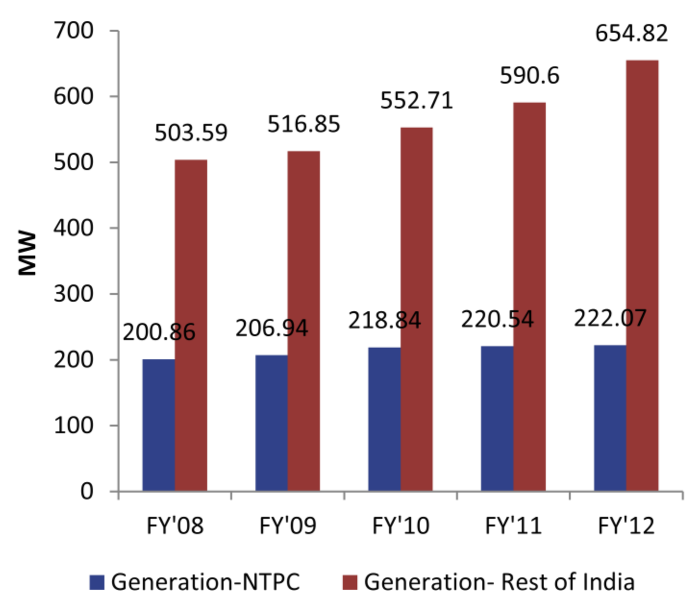
NTPC reported a muted performance in its top line, as the revenue grew modestly by 2.9% YoY to ₹157.75 bn driven by the fall in the realization from ₹3.3/unit in Q2FY'13 to ₹2.8/unit in Q3FY'13, as fuel cost fell to ₹1.8/unit from ₹2.0/unit hampered by higher usage of domestic coal and lower contribution of gas projects. However, in Q3FY'13, total installed capacity increased to 38.2 GW following commercialization of 0.5GW Rihand STPS and 0.5GW Vallur TPS (JV project with TNEB).

The EBITDA margin improved by 576bps YoY to 25.5% in Q3FY'13, propped up by lower fuel and employee expenses (as % of sales) by 294bps and 7bps YoY to 64% and 4.4%, respectively.

Growth in Installed Capacity NTPC vs Rest of India



Growth in Generation NTPC vs Rest of India



Balance Sheet (Consolidated)

(₹billion)	FY11A	FY12A	FY13E	FY14E
Share Capital	82.5	82.5	82.5	82.5
Reserve and surplus	601.4	660.3	721.7	789.9
Net Worth	**683.8**	**742.8**	**804.1**	**872.3**
Minority Interest	4.9	6.0	6.0	6.0
Long term debt	470.6	548.5	625.3	725.4
Other long term liabilities	24.7	17.9	17.9	17.9
Deferred tax liability	6.7	7.6	7.6	7.6
Long term provision	5.7	6.2	6.2	6.2
Other liability	9.1	15.6	15.6	15.6
Current liability	160.6	208.0	255.5	316.4
Capital Employed	**1,366.1**	**1,552.6**	**1,738.2**	**1,967.4**
Fixed Asset (including goodwill)	859.6	1,015.3	1,190.0	1,407.8
Investment	83.6	65.5	62.2	59.5
Loans & Adv.	49.6	46.3	48.6	51.0
Other non- current assets	4.6	13.8	18.8	22.3
Current assets	368.7	411.8	418.7	426.8
Capital Deployed	**1,366.1**	**1,552.6**	**1,738.2**	**1,967.4**

Profit & Loss Account (Consolidated)

(₹billion)	FY11A	FY12A	FY13E	FY14E
Net Sales	576.1	658.9	723.6	814.0
Expenses	431.7	504.5	556.6	622.9
EBITDA	**144.4**	**154.4**	**167.0**	**191.2**
EBIDTA Margin (%)	25.1	23.4	23.1	23.5
Other Income	24.0	29.4	30.6	34.4
Depreciation	27.2	31.1	34.2	39.2
EBIT	**141.2**	**152.7**	**163.4**	**186.4**
Interest	17.3	21.3	26.1	31.7
Profit Before Tax	**123.9**	**131.4**	**137.2**	**154.7**
Tax	30.4	33.2	36.3	42.5
Net Profit	**93.5**	**98.1**	**100.9**	**112.2**
NPM (%)	15.6	14.3	13.4	13.2

Key Ratios (Consolidated)

Y/E	FY11A	FY12A	FY13E	FY14E
EBITDA Margin (%)	25.1	23.4	23.1	23.5
EBIT Margin (%)	24.5	23.2	22.6	22.9
NPM (%)	15.6	14.3	13.4	13.2
ROCE (%)	11.7	11.4	11.0	11.3
ROE (%)	13.6	13.1	12.5	12.8
EPS (₹)	11.3	11.9	12.2	13.6
P/E (x)	13.1	12.4	12.1	10.9
BVPS (₹)	83.5	90.8	98.2	106.5
P/BVPS (x)	1.8	1.6	1.5	1.4
EV/Operating Income (x)	9.1	8.7	8.5	7.8
EV/EBITDA (x)	10.7	10.4	10.0	9.2

Valuation and view

NTPC has a total installed power generation capacity of 39,674 MW. Its growth is likely to be driven by the huge capacity addition planned by it. The company targets to add 14,038 MW of capacity in the 12th plan (FY2012-17). Recently, the government has re-allocated 3 coal blocks of 850 MT to NTPC that will improve the visibility on longer-term earnings coupled with government reforms. NTPC gets an upper hand in terms of fuel security on the back of the preference it gets in domestic coal supply and has the ability to pass through the hike in fuel costs. We believe NTPC will remain the government's key vehicle for adding capacity in the 12th Plan and so visibility on capacity addition in the longer term is likely to improve. The long pipeline of projects also ensures continuation of a regulated growth.

At a current CMP of ₹148, NTPC is attractively placed at EV/EBITDA of ~9.2x FY14E. Considering the above aspects, we rate the stock as 'BUY' with a potential upside of ~25% for the coming 12 months.

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