

CMP : Rs 170
Rating : BUY
Target : Rs 213
STOCK INFO

INDEX	
BSE	532555
NSE	NTPC
Bloomberg	NTPC IN
Reuters	NTPC.NS
Sector	Power
Face Value (Rs)	10
Equity Capital (Rsmn)	82,455
Mkt Cap (Rsmn)	1,401,718
52w H/L (Rs)	188 / 149
Avg Monthly Vol (BSE+NSE)	52,79,500

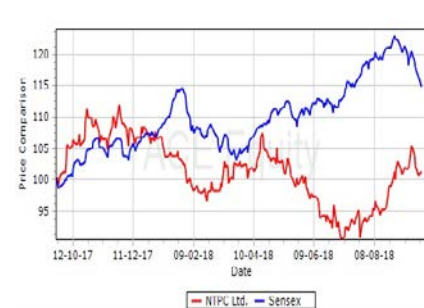
SHAREHOLDING PATTERN

	%
(as on June, 2018)	
Promoters	61.7
Public & Others	38.3

Source: ACE Equity, Arihant Research

STOCK PERFORMANCE(%)	3m	6m	12m
NTPC	7.3	-1.1	1.3
SENSEX	2.4	9.8	14.8

Source: ACE Equity, Arihant Research

NTPC v/s SENSEX


Source: ACE Equity, Arihant Research

We recently interacted with the management of NTPC to understand the way forward for the company. NTPC's present installed capacity stood at 53.7GW at the end of Q1FY19 and the company aims to increase its installed capacity to 130GW by 2032. At present NTPC has 21GW of projects under construction of which it plans to capitalize 4-5GW each year between FY19 to FY22E. NTPC's capitalisation exceeded its capex for the first time in FY18 and we expect this strong capitalisation trend to continue over next 5 years, which in turn will boost its ROE from 9.8% in FY18 to 12% in FY20E. We remain bullish on NTPC from a longer term perspective and initiate coverage on the stock with a 'Buy' rating and a target price of Rs 213 per share, which gives an upside potential of 25.3%.

Favourable industry demand supply dynamics conducive for future growth

Electricity demand in India is expected to grow at a CAGR of ~7%. At 1122kWh, India's per capita consumption of power is one of the lowest and expected to rise substantially going forward as growing population coupled with rapid urbanisation will boost growth of power consumption, thus making the environment conducive for NTPC to sustain its steady growth.

Supportive Policy Ecosystem-Energizing Power Sector

With government's supportive policy framework (UDAY, revised tariff policy, Shakti, Saubhagya, coal reforms etc), for the power sector, NTPC will be a key beneficiary in the long run.

Clear growth visibility to make the investment case stronger for NTPC

From 53.7GW of current installed capacity, NTPC aims to increase its capacity to 130GW by 2032. With fall in CWIP ratio and increased capitalisation, NTPC's regulated equity base would increase. This will boost its ROE from 9.8% in FY18 to 12% in FY20E, thereby making the investment case stronger for NTPC.

Strong coal mining portfolio – will address fuel shortage issue

NTPC's total mining capacity stands at ~56 mtpa and it plans to develop all of its allocated captive coal blocks (Pakri Barwadhi already producing coal) in due course to tide over recurring coal shortage faced by its power plants. Apart from these, NTPC's other 5 mines with mining capacity of ~51 mtpa and an estimated gross reserve of ~3.42BT are under various stages of development.

Valuation

At CMP of Rs 170, NTPC is trading at 1.2x FY19E and 1.1x FY20E BV, which is below its ten-year average of 1-year forward P/BV of ~1.9x. We value the stock at a target P/BV multiple of 1.4x of FY20E to arrive at a target price of Rs 213. We initiate coverage on the stock with a BUY rating and a target price of Rs 213, which gives an upside potential of 25.3%.

Financial Performance

YE March (RsMn)	Net Sales	EBITDA	Adj.PAT	Adj.EPS (Rs)	EBITDA Margin %	RoE (%)	Adj.P/E(x)	EV/EBITDA (x)
FY16	787055	191631	101514	12.3	24.3	11.1	13.8	11.0
FY17	820808	214958	107139	13.0	26.2	10.4	13.1	10.0
FY18	880833	224205	105015	12.7	25.5	9.8	13.3	10.3
FY19E	973033	265638	135475	16.4	27.3	11.6	10.3	9.2
FY20E	1088268	299274	155468	18.9	27.5	12.0	9.0	8.5

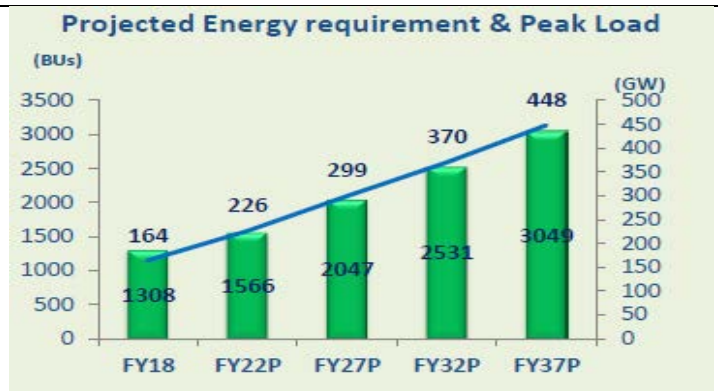
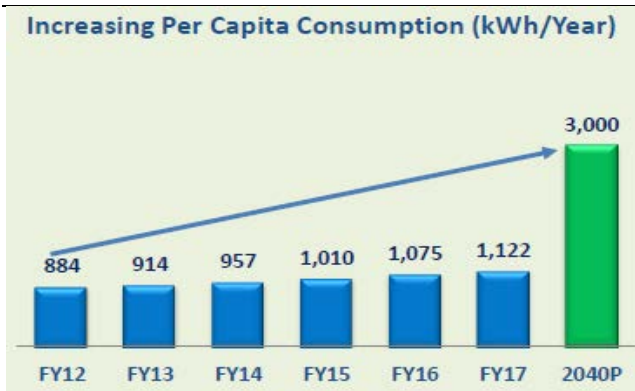
Source: Company, Arihant Research

Investment Rationale

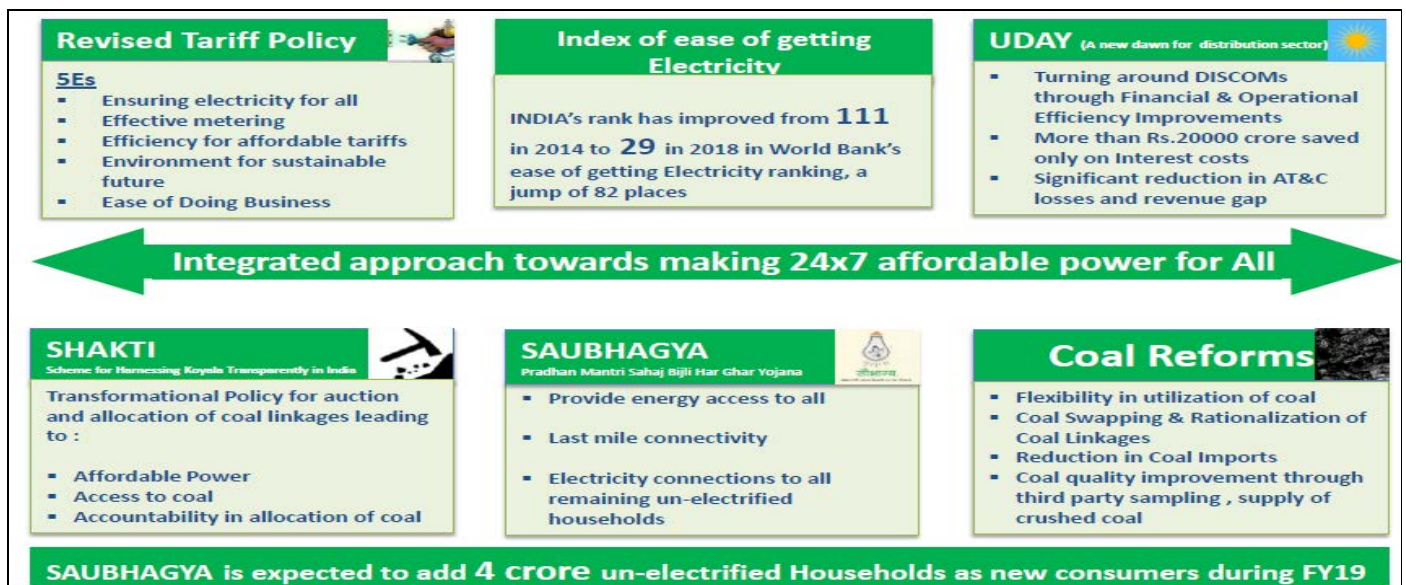
NTPC is India's largest power generation company and globally 12th largest power utility. With an installed capacity of 53,651MW at the end of Q1FY19 (16% of India's installed capacity), it generates 294BU of power (23% of India's generation). Currently NTPC has 21,071MW capacity under construction and plans to become 130GW Company by 2032. NTPC's strong finances and project implementation track record, favours our optimistic stance about NTPC achieving its targeted growth.

■ Favourable industry demand supply dynamics conducive for future growth

At 1,122kWh, India's per capita consumption of power is one of the lowest when compared to the world average of around 3,127kWh and over 8,000 kWh in the developed countries. Electricity demand in India is expected to grow at a CAGR of ~7% in near term in tandem with current GDP growth rate. Over the next two decades till 2040, India's GDP is expected to grow significantly on the back of India's demographic strength. A growing population coupled with rapid urbanisation will boost growth of power consumption and per capita consumption of electricity is expected to rise to 3,000kWh by 2040. In addition, supportive policies from government like UDAY, Shakti, Saubhagya etc would energise the power sector, thus making the environment conducive for NTPC to sustain its steady growth.



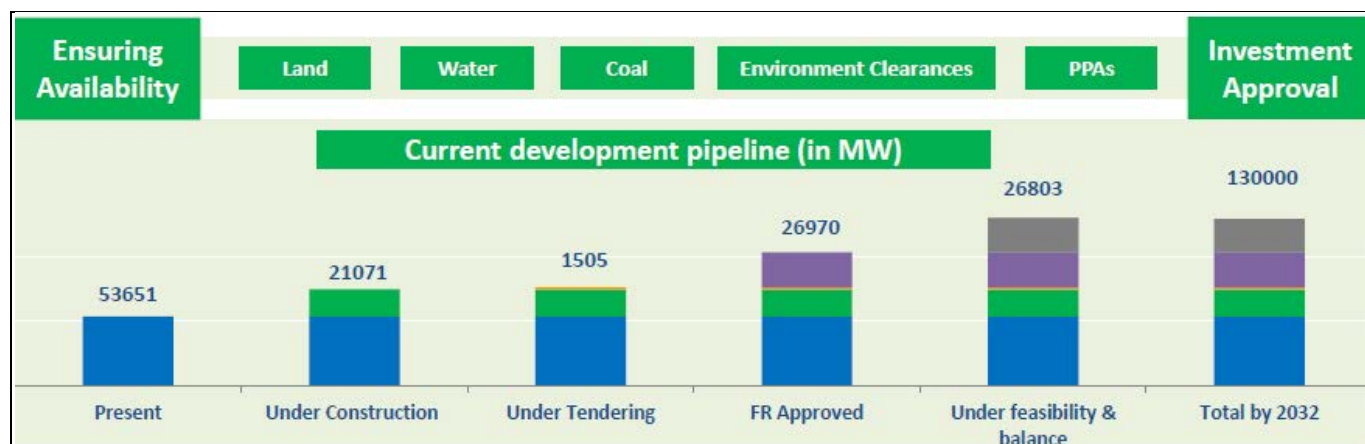
Source: Company, Arianth Research



Source: Company, Arianth Research

■ Massive capacity addition to improve future growth potential

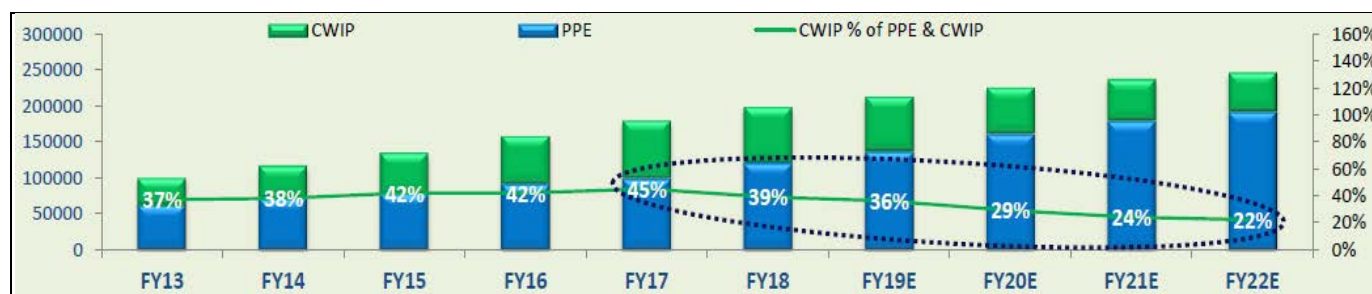
NTPC has ambitious plans of increasing its generation capacity to 1,30,000MW by 2032 from 53,651MW at present. To achieve this, the company has adopted a multi-pronged strategy, which includes expansion of existing plants, setting up green field units and expanding through joint ventures and acquisitions. Despite facing slippages and execution bottlenecks in the past, NTPC has added capacity at an impressive CAGR of 20.6% since inception. The company expects this momentum to continue going forward. At present NTPC has 21,071MW capacity under construction, 1,505MW under tendering, 26,970MW FR approved, 26,803MW under feasibility and balance, totalling 130GW by 2032.



Source: Company, Arianth Research

■ FY18 marks the beginning of capitalisation exceeding capex for NTPC – to drive expansion in regulated equity going forward

For NTPC, FY18 marks the beginning of reversal in CWIP ratio, which implies that capitalisation has exceeded the capex spend of NTPC. We expect this trend to continue going forward as the company is expected to commercialise ~4-5GW of capacity each year for the next 4 years.

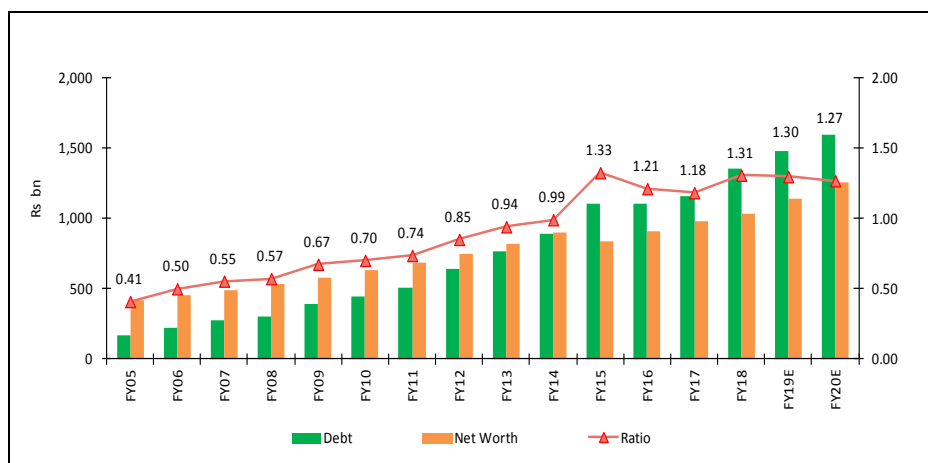


Source: Company, Arianth Research

Due to higher capitalisation, the CWIP ratio for NTPC would fall going forward which in turn will lead to expansion in its ROE as the equity blocked in CWIP earlier would now start earning returns. Also in case of its renewable energy projects, the turnaround from CWIP to PPE would be quicker than its conventional thermal energy projects. As NTPC is planning to move towards 30% non-fossil fuel basket by 2032 from 3.2% at present, the expansion in its regulated equity would be faster than earlier envisaged, as turnaround time from CWIP to PPE is quicker in case of renewable energy projects than conventional thermal projects.

■ Fundamental strength override capacity delay concerns

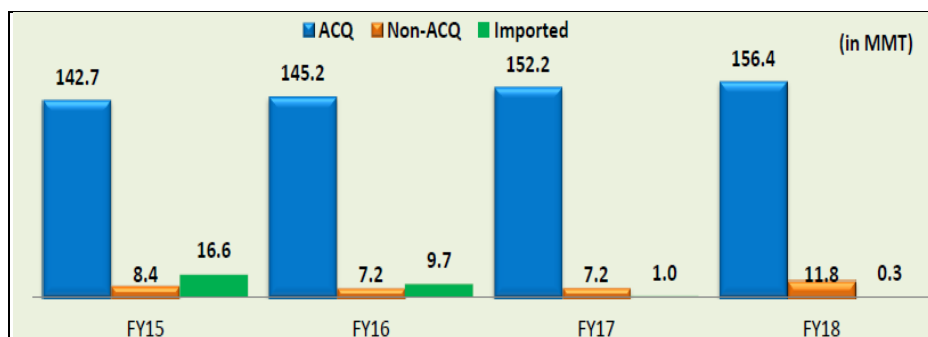
NTPC has several plus points to its credit, which establish its fundamental strength as a utility in Indian power space when compared to its peers. Capacity addition via internal accruals, steady ROE and strong internal cash flows to fund capital expenditure are some of the unique combinations that NTPC can boast of unlike other utilities. As per management, there is no further risk of equity dilution in the near term. We believe NTPC will be able to finance its current and planned capacity additions via debt and internal accruals. This is in contrast to its private sector peers, which face the risk of equity dilution in financing upcoming projects.



Source: Company, Arianth Research

■ Long-term fuel security – Assured fuel supply

NTPC through its sustained policy advocacy has secured a single ACQ (annual contracted quantity) for all its coal stations resulting in a) optimum utilisation of coal leading to reduction in ECR (Energy Charge Rate), b) avoidance of loss of fixed charges due to coal shortage, c) more efficient operation of power plants and d) higher marginal contribution from operations. Long term fuel supply agreements (FSAs) have been signed with Coal India (CIL) and SCCL for supply of coal for a period of 20 years for total ACQ of ~169MTPA. NTPC has also signed MOUs with railways for ensuring smooth coal transportation. Around 67% of NTPC's coal based capacity is linked by MGR/belt conveyor system to coal mines representing 10 out of 20 of its coal plants.



Source: Company, Arianth Research

■ Opportunity in coal mining – will address fuel shortage issue

From NTPC's five allocated coal blocks, the company has already started producing coals from two of its blocks namely Parkri Barwadih and Dulanga while other three are expected to produce coal by November 2019. This will augur well for NTPC, as it will help the company to address its recurring coal shortage issue. These five blocks of NTPC has an estimated gross reserve of 3,870MT and mining capacity of 56MTPA. Other than these, NTPC's other five mines have an estimated gross reserves of ~3.42BT and mining capacity of ~55MTPA, which are under various stages of development.

Status of Coal Mines						
Coal block	GR (MMT)	Mining Capacity MMTPA	Status			
			EC	FC	Coal Controller Permission	Mining/MDO
Pakri Barwadih	1574	18	Yes	Yes	Yes	Target to produce 6.3 MMT in FY19
Dulanga	196	7	Yes	Yes	Yes	Target to produce 1.5 MMT in FY19
Talaipalli	1267	18	Yes	Yes	Yes	Target to produce coal by Nov'19
Chatti Bariatu	548	7	Yes	Yes	Yes	
Kerandari	285	6	Yes	St-I accorded	-	
Other Five Mines with GR of ~3.42 BT and Mining Capacity of ~55 MMTPA - under various phases of development.						

Source: Company, Arianth Research

Key Risks (and mitigation)

■ Weakness in demand from SEBs resulting in lower PLFs

1. Financial distress has been forcing SEBs to opt for load shedding and thereby restrict demand
2. Discoms required to issue LCs covering 105% of the average monthly billing
3. 'UDAY' scheme launched by GoI to address discoms financial distress
4. Tariff revision by almost all the states
5. Reduction in ACS-ARR gap and AT&C losses

■ Supply may outstrip demand

1. Pick up in industrial activity leading to spurt in generation since India is the fastest growing economy
2. Suppressed demand of discoms due to high debt
3. Revival in demand expected after implementation of UDAY
4. Amended tariff policy allows for sale of un-requisitioned power and sharing of benefits
5. Focus on Cost optimization-Reduced ECR
6. Adoption of high efficiency units into the existing fleet

■ Coal and gas supply constraints

1. Long term fuel supply agreements with Coal India
2. Bridge linkage allocated for upcoming capacity
3. Government approved flexibility in use of domestic coal to reduce the cost of power generation
4. Captive coal blocks – to meet coal supply of ~20GW of capacity

Q1FY19 Financial Performance

Quick Fundamentals (Rs. Mn)						
NTPC (Standalone)	Q1FY19	Q4FY18	Q1FY18	Q-o-Q %	Y-o-Y %	FY18
Net sales	227,036	231,003	198,793	-1.7	14.2	834,527
Total sales	227,036	231,003	198,793	-1.7	14.2	834,527
Operating Expenses	167,488	171,903	148,392	-2.6	12.9	617,854
Fuel Cost	137,996	130,983	120,777	5.4	14.3	496,290
Other Expenditure	17,073	27,238	16,903	-37.3	1.0	74,217
Staff cost	12,419	13,682	10,712	-9.2	15.9	47,347
EBIDTA	59,548	59,100	50,401	0.8	18.1	216,673
Depreciation	18,602	19,348	15,700	-3.9	18.5	70,989
EBIT	40,947	39,752	34,701	3.0	18.0	145,685
Interest Expense	12,199	11,042	8,956	10.5	36.2	39,843
Other income	1,364	5,176	6,626	-73.6	-79.4	17,553
PBT	30,111	33,886	32,371	-11.1	-7.0	123,395
Exceptional Item (impairment loss)	0	0	0	NA	NA	0
Regulatory income/(expense)	1,601	2,997	1,796	-46.6	-10.8	5,530
Provision for taxation	5,831	7,627	7,985	-23.5	-27.0	25,493
PAT	25,881	29,256	26,182	-11.5	-1.1	103,432
Margin %				BPS		BPS
EBITDA %	26.2	25.6	25.4	64	88	26.0
EBIT %	18.0	17.2	17.5	83	58	17.5
PBT %	13.3	14.7	16.3	-141	-302	14.8
PAT %	11.4	12.7	13.2	-127	-177	12.4

Source: Company, Arianth Research

Future Outlook

With 53,651MW of operating assets, guaranteed regulated return on equity and high cash in its books, NTPC comes as a safe bet in current volatile market environment. In the backdrop of the ongoing coal shortage plaguing the power utilities, we believe NTPC carries the minimal fuel risk compared to other IPPs courtesy government's favourable treatment to NTPC coupled with its own captive coal blocks. NTPC currently has 21,071MW under construction of which it plans to capitalize ~4-5GW of capacity each year for the next 4 years. Once these projects are commercialised, this can potentially add more than 41% to regulated equity (existing regulated equity is Rs 509.2bn at the end of Q1FY19) by FY22E. The company is planning to add around 10GW of solar capacity in next three years.

Valuation

At CMP of Rs 170, NTPC is trading at 1.2x FY19E and 1.1x FY20E BV, which is below its ten year average of 1-year forward P/BV of ~1.9x. On P/E basis the stock is available at a P/E of 10.3x and 9x its FY19E and FY20E estimated EPS of Rs 16.4 and Rs 18.9 respectively. We value the stock at a target P/BV multiple of 1.4x of FY20E to arrive at a target price of Rs 213. We initiate coverage on the stock with a BUY rating and a target price of Rs 213, which gives an upside potential of 25.3%.

Financials (consolidated)

Income Statement (Consolidated)

Y E March (Rs mn)	FY15	FY16	FY17	FY18	FY19E	FY20E
Net sales	8,06,220	7,87,055	8,20,808	8,80,833	9,73,033	10,88,268
Growth %	2.1	-2.4	4.3	7.3	10.5	11.8
Operating expenditure	6,31,100	5,95,424	6,05,850	6,56,629	7,07,395	7,88,994
EBITDA	1,75,120	1,91,631	2,14,958	2,24,205	2,65,638	2,99,274
Growth %	-11.0	9.4	12.2	4.3	18.5	12.7
EBITDA Margin %	21.7	24.3	26.2	25.5	27.3	27.5
Interest	35,704	41,513	36,511	44,346	43,346	47,186
Depreciation	55,646	61,534	60,099	74,599	77,843	87,061
EBIT	1,19,474	1,30,097	1,54,859	1,49,605	1,87,795	2,12,212
EBIT Margin %	14.8	16.5	18.9	17.0	19.3	19.5
Other Income (Inc Forex)	20,789	12,341	13,010	21,187	25,424	30,509
Extra Ordinary Exps/(Income)	-	-	-	-	-	-
PBT	1,04,559	1,00,925	1,31,358	1,26,446	1,69,873	1,95,535
Tax	4,638	-589	30,466	25,881	39,071	44,973
Effective tax rate %	4.4	-0.6	23.2	20.5	23.0	23.0
Reported PAT	99,921	1,01,514	1,00,892	1,00,565	1,30,802	1,50,562
Growth %	-12.4	1.6	-0.6	-0.3	30.1	15.1
Minority & Exceptional	-	-	-6,247	-4,451	-4,673	-4,907
PAT after MI	99,921	1,01,514	1,07,139	1,05,015	1,35,475	1,55,468
RPAT Margin %	12.4	12.9	13.1	11.9	13.9	14.3
Growth %	-12.4	1.6	5.5	-2.0	29.0	14.8

Source: Company, Arianth Research

Balance Sheet (Consolidated)

Y E March (Rs mn)	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	82,455	82,455	82,455	82,455	82,455	82,455
Reserves & Surplus	7,52,429	8,28,977	8,95,926	9,53,180	10,54,025	11,74,862
Net Worth	8,34,884	9,11,432	9,78,380	10,35,635	11,36,479	12,57,317
Minority	8879	8928	8033	9478	9478	9478
Long-term + ST loans	1060185	1043797	1071908	1234562	1354562	1474562
Others	46256	60844	85842	119805	119799	119799
Total Liabilities	22,74,109	24,04,488	24,91,388	27,28,762	28,08,349	30,59,658
Net Block	15,94,071	18,60,456	19,14,274	21,16,315	22,58,480	23,91,429
Intangible	173108	198318	182982	118109	125555	131972
Investments	19,015	3,584	78,023	88,756	88,756	88,756
Deferred tax (net)	-12393	0	-14849	-24081	-24081	-24081
Current Assets	4,87,915	3,42,130	3,16,109	4,05,582	3,35,558	4,47,501
Sundry Debtors	92,499	1,01,740	89,995	88,122	79,975	89,447
Cash & Bank Balance	142516	53933	33015	43876	44759	62668
Loans & advances	1,90,883.2	1,06,865.0	1,27,238.7	2,12,181.4	1,45,955.0	2,17,653.5
Inventories	62,016.9	79,592.0	65,861.3	61,402.9	64,868.9	77,733.4
Current Liabilities	3,87,920	4,00,902	3,78,421	3,96,087	2,54,835	2,65,306
Provisions	38,414	3,11,222	59,744	87,327	97,303	1,08,827
Total Assets	22,74,109	24,04,488	24,91,388	27,28,762	28,08,349	30,59,658

Source: Company, Arianth Research

Cash Flow (Consolidated)

Y E March (Rs mn)	FY15	FY16	FY17	FY18	FY19E	FY20E
Operating Profit	1,19,474	1,30,097	1,54,859	1,49,605	1,87,795	2,12,212
Depreciation	55,646	61,534	60,099	74,599	77,843	87,061
Interest Exp	-35,704	-41,513	-36,511	-44,346	-43,346	-47,186
Changes in Working Capital	10,812	1,78,180	-74,785	11,993	-70,361	-83,573
Cash Flow After Chang in WCapital	1,50,228	3,28,298	1,03,662	1,91,851	1,51,931	1,68,515
Tax	-4,638	589	-30,466	-25,881	-39,071	-44,973
Others	20,789	12,341	13,010	21,187	25,424	30,509
Cash flow from operations	1,66,379	3,41,228	86,206	1,87,156	1,38,284	1,54,050
Capital expenditure (net)	-2,68,935	-3,37,698	-2,79,103	-1,65,860	-2,27,446	-2,26,418
Free Cash Flow	-1,02,556	3,530	-1,92,896	21,296	-89,162	-72,367
Other income	0	0	0	0	0	0
Investments	0	0	0	0	0	0
Cash flow from investments	-2,68,935	-3,37,698	-2,79,103	-1,65,860	-2,27,446	-2,26,418
Long-Term Debt (Decrease) Increase	2,45,631	-16,388	28,111	1,62,654	1,20,000	1,20,000
Dividend paid (incl tax)	-20,614	-24,736	-26,385	-42,217	-34,631	-34,631
Share Issue / Repurchase & Others	-150,449	-51,001	170,256	-130,868	4,673	4,907
Cash flow from Financing	74,569	-92,125	1,71,982	-10,431	90,042	90,276
Net change in cash	-27,987	-88,596	-20,914	10,865	880	17,909
Cash at the beginning of the year	1,70,511	1,42,524	53,928	33,014	43,879	44,759
Cash at the end of the year	1,42,524	53,928	33,014	43,879	44,759	62,668

Source: Company, Arianth Research

Key Ratios (Consolidated)

Y E March	FY15	FY16	FY17	FY18	FY19E	FY20E
Adj.EPS (Rs)	12.1	12.3	13.0	12.7	16.4	18.9
Cash EPS (Rs)	18.9	19.8	20.3	21.8	25.9	29.4
DPS (Rs)	2.5	3.0	3.2	5.1	4.2	4.2
BVPS	101.3	110.5	118.7	125.6	137.8	152.5
ROCE %	8.2	8.8	9.3	8.5	9.3	9.5
ROE %	12.0	11.1	11.0	10.1	11.9	12.4
EBITDA Margin %	21.7	24.3	26.2	25.5	27.3	27.5
PER (x)	14.0x	13.8x	13.1x	13.3x	10.3x	9.0x
P/BV (x)	1.7x	1.5x	1.4x	1.4x	1.2x	1.1x
P/CEPS (x)	9.0x	8.6x	8.4x	7.8x	6.6x	5.8x
EV/EBITDA (x)	13.2x	11.0x	10.0x	10.3x	9.2x	8.5x
Dividend Yield %	1.5	1.8	1.9	3.0	2.5	2.5
Mkt cap/sales (x)	1.7x	1.4x	1.4x	1.3x	1.2x	1.0x
Net debt/equity (x)	1.1x	1.1x	1.1x	1.1x	1.2x	1.1x
Net debt/ebitda (x)	5.2x	5.2x	4.8x	5.3x	4.9x	4.7x
Debtors (Days)	41	47	39	36	30	30
Creditors (Days)	32	31	24	28	25	22
Inventory (Days)	28	37	29	25	24	26
Cash Conversion Cycle (Days)	38	52	44	34	29	34

Source: Company, Arianth Research

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Stock Rating Scale

	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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