

BSE SENSEX 37,582  
 S&P CNX 11,110

**CMP: INR124 TP: INR165 (+33%)**

**Buy**

Motilal Oswal values your support in the Asiamoney Brokers Poll 2019 for India Research, Sales and Trading team. We request your ballot.




Bloomberg	NTPC IN
Equity Shares (m)	9,895
M.Cap.(INRb)/(USDb)	1224.9 / 17.3
52-Week Range (INR)	146 / 107
1, 6, 12 Rel. Per (%)	-2/10/-6
12M Avg Val (INR M)	1617
Free float (%)	43.6

#### Financials & Valuations (INR b)

Y/E Mar	2019	2020E	2021E
Net Sales	906.4	1,001.7	1,103.0
EBITDA	199.1	312.2	366.5
PAT	114.6	133.6	153.2
EPS (INR)	11.6	13.5	15.5
Gr. (%)	30.3	16.6	14.7
BV/Sh (INR)	111.2	119.0	128.2
RoE (%)	10.7	11.7	12.5
RoCE (%)	6.7	6.9	7.7
P/E (x)	10.7	9.2	8.0
P/BV (x)	1.1	1.0	1.0

Estimate change 

TP change 

Rating change 

## DSM regulations, low GCV coal loss impacts profitability

### Expect capitalization to pick up pace

Standalone (S/A) 1QFY20 adj. PAT decreased ~9% YoY to INR27b (14% miss on our est.). PAT has been adjusted for est. INR1.1b under-recovery (u/r) of fixed charge (FC) for this quarter. The miss is due to an impact of DSM regulations (~INR1.5b), carpet coal loss (~INR1.5b) and tax leakage on change in deferred tax recognition. Reported PAT, though, was up ~1% YoY to INR26b on lower FC under-recovery and higher other income, which jumped 2.4x YoY to INR3.3b on accrual accounting of late payment surcharge, in our view.

- New regulations for DSM (deviation settlement mechanism), which had tightened operating norms (since Jan'19), impacted the company's profitability (~INR1.5b). These norms, though, have largely been reversed (since May-end), and subsequently, such an impact is unlikely to continue.
- Lower inventory levels at some of the company's plants also resulted in the usage of older coal inventory, resulting in a loss of ~INR1.5b.
- The re-adjustment of DTA as income under regulatory balances (v/s being offset from DTL, earlier) resulted in a tax leak of ~INR0.8b, in our view.
- We believe that FC u/r declined to an est. INR1.1b v/s INR4.9b on restart of Unchar and better coal availability at Mauda.
- Share of the JV PAT rose 16% YoY to INR1.5b. Performance of subs also improved with profit of INR0.9b (v/s loss of INR0.2b during the same period last year).

### Capitalization to pick up pace, under-recoveries to decline; Re-iterate Buy

We believe factors (DSM, carpet loss) impacting NTPC's 1QFY20 performance (~INR3b) are transient/one-off in nature; adjusting for which the benefit of FY20-24 tariff regulations is broadly reflected. We note that NTPC's plant availability has started improving (PAF for its coal plants is up ~520bp YoY in 1QFY20). Besides, ~5GW of capitalization for FY20 appears to be on track. We expect capitalization to pick up pace, thus, driving regulated equity CAGR of 16% over FY19-21E; it should also outpace capex and boost RoE. Our DCF-based TP is INR165/share. Maintain Buy.

#### Quarterly Performance (standalone) – INR m

Y/E March	FY19				FY20				FY19	FY20E	FY20 var. 1QE (%)	
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
<b>Sales</b>	<b>228,637</b>	<b>226,310</b>	<b>238,104</b>	<b>224,616</b>	<b>247,032</b>	<b>232,982</b>	<b>238,883</b>	<b>223,396</b>	<b>940,812</b>	<b>942,410</b>	<b>230,301</b>	<b>7</b>
Change (%)	13.7	14.0	14.9	-4.0	8.0	2.9	0.3	-0.5				0.7
EBITDA	61,149	59,623	62,699	58,836	69,630	75,398	74,223	74,482	265,453	293,849	71,778	-3
Other income	1,364	2,249	1,877	13,232	3,262	3,262	3,262	6,937	18,721	16,723	4,181	
PBT	31,712	30,046	31,795	47,763	36,730	42,129	39,929	43,687	164,463	162,591	40,645	-10
Tax	5,831	5,786	7,941	4,260	10,702	12,153	11,444	4,723	46,964	39,022	9,923	
<b>PAT</b>	<b>25,881</b>	<b>24,260</b>	<b>23,854</b>	<b>43,503</b>	<b>26,028</b>	<b>29,976</b>	<b>28,485</b>	<b>38,964</b>	<b>117,499</b>	<b>123,569</b>	<b>30,722</b>	<b>-15</b>
Change (%)	-1.1	-0.5	1.0	48.7	0.6	23.6	19.4	-10.4	13.6	5.2	18.7	
<b>Adj. PAT (excl. FC u/r)</b>	<b>29,598</b>	<b>27,885</b>	<b>25,526</b>	<b>31,735</b>	<b>27,013</b>	<b>30,676</b>	<b>28,885</b>	<b>38,595</b>	<b>114,743</b>	<b>125,169</b>	<b>31,422</b>	<b>-14</b>
Change (%)	16.6	3.2	-2.9	13.3	-8.7	10.0	13.2	21.6	6.0	9.1	6.2	
<b>Key metrics</b>												
Regulated Equity	509,207	519,934	521,059	539,890	531,189	550,299	550,299	610,486	539,890	610,486	559,189	-5
Commercial cap.(MW)	44,500	45,300	44,815	45,725	46,525	47,325	47,325	49,445	45,725	49,445	46,525	0
Coal-based PLF (%)	78.0	72.6	77.7	77.6	73.9	0.0	0.0	0.0				0

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- NTPC commercialized ~1.5GW of plants during the quarter. PLF for its coal plants was ~400bps lower YoY at 73.9%.

**Exhibit 1: Key operating parameters**

		FY18				FY19				FY20
		1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
<b>Capacity</b>										
Installed	GW	51.6	51.9	51.4	53.7	53.7	53.7	53.2	55.1	55.1
Commercial	GW	47.5	50.8	51.4	51.4	51.4	52.2	51.7	52.9	54.3
Regulated Equity	INR b	439.9	487.7	505.6	509.2	509.2	519.9	521.1	539.9	531.2
<b>Generation</b>										
Gross	b kWh	64	65	68	69	69	66	70	69	68
Electricity sales	b kWh	60	60	63	64	65	62	65	64	64
<b>Availability</b>										
Coal	%	89.0	86.1	83.0	86.6	85.9	84.3	85.3	92.4	91.1
Gas	%	88.2	90.9	94.5	96.9	83.9	94.9	94.9	95.6	90.4
<b>PLF</b>										
Coal	%	79.1	76.6	76.9	79.0	78.0	72.6	77.7	77.6	73.9
Gas	%	24.4	25.6	29.9	20.2	23.1	17.9	24.9	18.5	20.6
<b>Fuel</b>										
Coal Received	mt	38.5	39.8	44.1	45.8	43.1	40.0	45.3	47.6	43.2
o/w imported	mt	0.1	0.0	0.1	0.1	0.1	0.1	0.2	0.7	0.9
% imported	%	0.4	0.1	0.1	0.2	0.2	0.3	0.4	1.4	2.1
Gas received	mmscmd	5.1	5.5	6.4	4.3	4.7	4.0	5.7	4.1	4.5
<b>Per unit</b>										
Realization	INR/kWh	3.38	3.23	3.37	3.58	3.62	3.72	3.64	3.92	3.90
Fuel cost	INR/kWh	2.02	1.93	2.02	2.04	2.14	2.19	2.30	2.24	2.30
Fixed charge	INR/kWh	1.36	1.30	1.36	1.54	1.48	1.54	1.34	1.67	1.59

Source: MOFSL, Company

**Exhibit 2: Commercial capacity addition**

	FY17	FY18	FY19	FY20	FY21
<b>NTPCsa</b>	<b>1,420</b>	<b>3,970</b>	<b>1,225</b>	<b>3,720</b>	<b>4,380</b>
<b>Regulated</b>		<b>1,820</b>	<b>660</b>	<b>2,920</b>	<b>2,920</b>
<b>Northern Region</b>		<b>500</b>		<b>660</b>	<b>660</b>
Unchahar- VI		500			
Tanda II				660	660
Koldam					
Tapoban Vishnugad					
<b>Western Region</b>	<b>660</b>	<b>1,320</b>	<b>660</b>	<b>2,260</b>	<b>2,260</b>
Vindhyachal V					
Mouda, Maharashtra					
Mouda II	660	660			
Lara (Chhattisgarh)				800	800
Solapur		660	660		
Khargone				660	660
Gadarwara				800	800
<b>Eastern Region</b>					
Barh-II Bihar					
<b>Barh I</b>					
North Karanpura					660
Bongaigaon, Assam	250	250	250		
Darlipalli				800	800
<b>Southern Region</b>					
Kudgi		1,600	800		
Telangana					
<b>Retirements</b>					
<b>Solar</b>	<b>510</b>	<b>300</b>			
<b>NTPCjv</b>	<b>445</b>	<b>120</b>	<b>250</b>	<b>1,320</b>	<b>1,320</b>
Meja Urja Nigam				660	660
BRBCL	250	250	250		
New Nabinagar				660	660
Kanti, Muzzarpur, Bihar	195	195			
Retirements		-325			
<b>NTPCgrp</b>	<b>1,865</b>	<b>4,090</b>	<b>1,475</b>	<b>5,040</b>	<b>5,700</b>

Source: MOFSL, Company

## Financials and Valuations

Income Statement							(INR Million)	
Y/E Mar	2014	2015	2016	2017	2018	2019	2020E	2021E
<b>Net Sales</b>	<b>789,506</b>	<b>806,220</b>	<b>727,055</b>	<b>817,171</b>	<b>877,622</b>	<b>906,369</b>	<b>1,001,708</b>	<b>1,103,000</b>
Change (%)	20.1	2.1	-9.8	12.4	7.4	3.3	10.5	10.1
<b>EBITDA</b>	<b>197,106</b>	<b>171,941</b>	<b>179,569</b>	<b>218,300</b>	<b>229,808</b>	<b>199,086</b>	<b>312,181</b>	<b>366,523</b>
EBITDA Margin (%)	25.0	21.3	24.7	26.7	26.2	22.0	31.2	33.2
Depreciation	47,700	55,646	52,240	60,099	74,599	76,881	88,696	104,077
<b>EBIT</b>	<b>149,406</b>	<b>116,295</b>	<b>127,329</b>	<b>158,201</b>	<b>155,209</b>	<b>122,205</b>	<b>223,486</b>	<b>262,446</b>
Interest	32,031	35,704	33,137	36,511	44,346	52,609	69,064	82,871
Other Income	27,601	20,789	10,576	9,668	15,583	17,953	14,754	14,209
Extraordinary items	-119	3,182	0	0	0	0	0	0
<b>PBT</b>	<b>144,858</b>	<b>104,562</b>	<b>104,768</b>	<b>131,358</b>	<b>126,446</b>	<b>87,550</b>	<b>169,176</b>	<b>193,784</b>
Tax	30,824	4,638	-1,628	30,467	25,881	-32,064	42,379	48,639
Tax Rate (%)	21.3	4.4	-1.6	23.2	20.5	-36.6	25.1	25.1
Min. Int. & Assoc. Share	0	0	-204	-57	-425	-66	-57	-57
<b>Reported PAT</b>	<b>114,034</b>	<b>99,924</b>	<b>108,012</b>	<b>107,196</b>	<b>105,440</b>	<b>126,400</b>	<b>133,640</b>	<b>153,246</b>
<b>Adjusted PAT</b>	<b>91,496</b>	<b>87,596</b>	<b>96,957</b>	<b>98,717</b>	<b>87,992</b>	<b>114,614</b>	<b>133,640</b>	<b>153,246</b>
Change (%)	-16.6	-4.3	10.7	1.8	-10.9	30.3	16.6	14.7

Balance Sheet							(INR Million)	
Y/E Mar	2014	2015	2016	2017	2018	2019	2020E	2021E
Share Capital	82,455	82,455	82,455	82,455	82,455	98,946	98,946	98,946
Reserves	790,843	738,485	809,511	895,926	953,180	1,001,424	1,078,071	1,169,575
<b>Net Worth</b>	<b>873,297</b>	<b>820,940</b>	<b>891,965</b>	<b>978,380</b>	<b>1,035,635</b>	<b>1,100,370</b>	<b>1,177,017</b>	<b>1,268,520</b>
Debt	814,549	1,022,520	1,120,194	1,137,551	1,300,143	1,616,818	1,688,579	1,709,681
Deferred Tax	12,393	12,656	14,094	14,849	24,081	41,997	41,997	41,997
<b>Total Capital Employed</b>	<b>1,707,044</b>	<b>1,864,995</b>	<b>2,035,181</b>	<b>2,138,812</b>	<b>2,369,337</b>	<b>2,765,833</b>	<b>2,914,241</b>	<b>3,026,847</b>
Gross Fixed Assets	1,313,937	1,443,608	1,632,140	1,170,879	1,501,531	1,665,811	2,006,253	2,448,026
Less: Acc Depreciation	471,858	525,077	587,180	125,562	206,147	287,597	376,293	480,370
<b>Net Fixed Assets</b>	<b>842,080</b>	<b>918,530</b>	<b>1,044,959</b>	<b>1,045,317</b>	<b>1,295,385</b>	<b>1,378,214</b>	<b>1,629,961</b>	<b>1,967,657</b>
Capital WIP	538,250	675,547	815,497	868,957	820,931	1,067,775	942,270	707,897
Investments	16,635	141	148	78,023	92,515	81,000	85,971	85,971
<b>Current Assets</b>	<b>603,487</b>	<b>601,543</b>	<b>543,886</b>	<b>492,677</b>	<b>534,851</b>	<b>646,976</b>	<b>644,061</b>	<b>658,552</b>
Inventory	59,885	79,725	79,592	65,861	61,403	81,194	75,539	80,847
Debtors	67,257	92,499	101,740	89,995	88,122	101,477	99,027	106,773
Cash & Bank	186,876	161,390	57,370	33,015	43,876	27,823	33,012	34,450
Loans & Adv, Others	289,470	267,929	305,185	303,806	341,450	436,482	436,482	436,482
<b>Curr Liabs &amp; Provns</b>	<b>293,408</b>	<b>330,766</b>	<b>369,310</b>	<b>346,162</b>	<b>374,344</b>	<b>408,131</b>	<b>388,022</b>	<b>393,229</b>
Curr. Liabilities	293,408	330,766	369,310	346,162	374,344	408,131	388,022	393,229
Provisions	0	0	0	0	0	0	0	0
<b>Net Current Assets</b>	<b>310,080</b>	<b>270,777</b>	<b>174,577</b>	<b>146,515</b>	<b>160,507</b>	<b>238,845</b>	<b>256,039</b>	<b>265,323</b>
<b>Total Assets</b>	<b>1,707,044</b>	<b>1,864,995</b>	<b>2,035,181</b>	<b>2,138,812</b>	<b>2,369,337</b>	<b>2,765,833</b>	<b>2,914,241</b>	<b>3,026,847</b>

## Financials and Valuations

### Ratios

Y/E Mar	2014	2015	2016	2017	2018	2019	2020E	2021E
<b>Basic (INR)</b>								
EPS	9.2	8.9	9.8	10.0	8.9	11.6	13.5	15.5
Cash EPS	16.3	15.7	16.2	16.9	18.2	20.5	22.5	26.0
Book Value	88.3	83.0	90.1	98.9	104.7	111.2	119.0	128.2
DPS	4.6	4.6	2.7	3.8	3.6	3.6	4.8	5.2
Payout (incl. Div. Tax.)	39.9	45.5	24.6	35.3	33.8	28.0	35.5	33.6
<b>Valuation(x)</b>								
P/E	10.7	12.3	11.3	11.4	11.6	9.7	9.2	8.0
Cash P/E	7.6	7.9	7.6	7.3	6.8	6.0	5.5	4.8
Price / Book Value	1.4	1.5	1.4	1.3	1.2	1.1	1.0	1.0
EV/Sales	2.3	2.6	3.1	2.9	2.8	3.1	2.9	2.6
EV/EBITDA	10.6	13.1	13.6	11.1	11.7	15.0	9.2	7.9
Dividend Yield (%)	3.7	3.7	2.2	3.1	2.9	2.9	3.9	4.2
<b>Profitability Ratios (%)</b>								
RoE	10.9	10.0	11.3	10.6	8.7	10.7	11.7	12.5
RoCE	8.5	7.3	7.2	6.0	5.8	7.8	6.3	7.0
RoIC	13.7	11.2	11.8	10.5	9.6	11.1	9.7	9.7
<b>Turnover Ratios (%)</b>								
Asset Turnover (x)	1.1	0.9	0.7	0.8	0.7	0.7	0.7	0.6
Debtors (No. of Days)	31	42	51	40	37	41	36	35
Inventory (No. of Days)	37	46	53	40	35	42	40	40
<b>Leverage Ratios (%)</b>								
Net Debt/Equity (x)	0.7	1.0	1.2	1.1	1.2	1.4	1.4	1.3

### Cash Flow Statement

Y/E Mar	2014	2015	2016	2017	2018	2019	2020E	2021E
<b>(INR Million)</b>								
Adjusted EBITDA	174,568	159,613	168,514	209,821	212,360	187,300	312,181	366,523
Non cash opr. exp (inc)	49,633	35,881	35,146	23,574	38,815	36,526	21,597	22,310
(Inc)/Dec in Wkg. Cap.	-13,109	-11,694	-36,422	-2,073	-58,298	-76,913	-12,005	-7,847
Tax Paid	-26,867	-20,100	-14,584	-26,263	19,257	32,064	-42,379	-48,639
Other operating activities	-18,917	-16,242	1,452	-3,395	-15,508	-17,953	-14,754	-14,209
<b>CF from Op. Activity</b>	<b>165,308</b>	<b>147,459</b>	<b>154,106</b>	<b>201,666</b>	<b>196,627</b>	<b>161,023</b>	<b>264,641</b>	<b>318,138</b>
(Inc)/Dec in FA & CWIP	-189,485	-191,772	-232,470	-243,451	-187,559	-251,092	-214,938	-207,399
<b>Free cash flows</b>	<b>-24,176</b>	<b>-44,314</b>	<b>-78,364</b>	<b>-41,785</b>	<b>9,068</b>	<b>-90,069</b>	<b>49,702</b>	<b>110,739</b>
(Pur)/Sale of Invt	16,225	16,391	16,536	3,436	0	0	0	0
Others	37,017	17,182	-6,986	-17,558	-8,539	-12,243	34,729	14,209
<b>CF from Inv. Activity</b>	<b>-136,243</b>	<b>-158,200</b>	<b>-222,920</b>	<b>-257,573</b>	<b>-196,099</b>	<b>-263,335</b>	<b>-180,210</b>	<b>-193,190</b>
Inc/(Dec) in Net Worth	0	0	0	0	0	0	0	0
Inc / (Dec) in Debt	93,854	205,811	80,528	150,466	145,059	108,883	71,761	21,103
Interest Paid	-62,429	-72,371	-83,473	-75,645	-86,058	-52,609	-69,064	-82,871
Divd Paid (incl Tax) & Others	-58,516	-148,185	-32,261	-43,269	-48,669	-42,507	-56,993	-61,742
<b>CF from Fin. Activity</b>	<b>-27,091</b>	<b>-14,745</b>	<b>-35,206</b>	<b>31,552</b>	<b>10,333</b>	<b>13,768</b>	<b>-54,295</b>	<b>-123,511</b>
<b>Inc/(Dec) in Cash</b>	<b>1,975</b>	<b>-25,486</b>	<b>-104,021</b>	<b>-24,355</b>	<b>10,861</b>	<b>-88,544</b>	<b>30,136</b>	<b>1,437</b>
Add: Opening Balance	184,902	186,876	161,390	57,369	33,015	43,876	27,823	57,959
<b>Closing Balance</b>	<b>186,876</b>	<b>161,390</b>	<b>57,369</b>	<b>33,015</b>	<b>43,876</b>	<b>-44,668</b>	<b>57,959</b>	<b>59,396</b>

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

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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