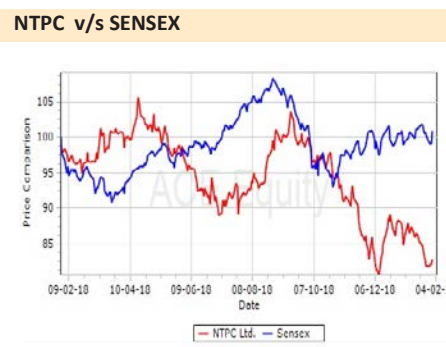


| | |
|------------------------|------------------------|
| Current | Previous |
| CMP : Rs 140 | |
| Rating : BUY | Rating : BUY |
| Target : Rs 178 | Target : Rs 198 |

| STOCK INFO | |
|--------------------------|------------|
| INDEX | |
| BSE | 532555 |
| NSE | NTPC |
| Bloomberg | NTPC IN |
| Reuters | NTPC.NS |
| Sector | Power |
| Face Value (Rs) | 10 |
| Equity Capital (Rs mn) | 82,455 |
| Mkt Cap (Rs mn) | 1154364 |
| 52w H/L (Rs) | 180 /134 |
| Avg Weekly Vol (BSE+NSE) | 30,466,140 |

| SHAREHOLDING PATTERN | % |
|-------------------------------|------|
| (As on December, 2018) | |
| Promoters | 58.9 |
| Public & Others | 41.1 |

| STOCK PERFORMANCE(%) | 3m | 6m | 12m |
|----------------------|-------|------|-------|
| NTPC | -12.4 | -9.8 | -17.8 |
| SENSEX | 5.3 | -3.6 | 0.8 |



Source: ACE Equity, Arihant Research

NTPC reported decent Q3FY19 results, mostly ahead of our estimates, except minor miss on PAT. Revenue grew 16.1% YoY to Rs 241.2bn (est. Rs 226bn) while EBITDA registered 20% YoY growth to Rs 62.7bn (est. Rs 60.5bn). EBITDA margin expanded 82bps YoY to 26% due to fall in employee costs and other expenses. This was despite 19% YoY rise in fuel costs. PAT for the quarter was mostly flat at Rs 23.8bn (est. Rs 24.6bn) against Rs 23.6bn in Q3FY18. Maintain BUY with revised TP of Rs 178.

Q3FY19 and 9MFY19 Highlights

- For Q3FY19, NTPC reported 16.1% YoY growth in its revenue to Rs 241.2bn while for 9MFY19 revenue grew by 14.5% YoY to Rs 690.8bn. EBITDA for the quarter grew 20% YoY to Rs 62.7bn while for 9MFY19 EBITDA saw a growth of 14.6% YoY to Rs 183.5bn. PAT for the quarter remained flat (1% YoY increase) at Rs 23.8bn while for 9MFY19 PAT stood at Rs 74bn, 0.2% YoY decline.
- Operating performance of NTPC was stable during the quarter, with PLF for its coal fired plants improving to 77.7% in Q3FY19 from 76.9% YoY due to higher availability of coal supply, especially for its Mouda plant. For Q3FY19, PAF for coal plants also improved from 83% to 85.3% YoY.
- Due to fuel supply issues faced by the company in earlier quarters, for the nine month period 9MFY19, fixed costs under-recovery shot up to Rs 11.1bn against Rs 10.4bn in 9MFY18. In its Q3FY19 post result conference call, NTPC management said that in the coming quarter the under-recovery figure will improve as losses from its Unchahar plant will now be contained as the plant has restarted operations from Dec' 2018.

Valuations

At CMP of Rs 140, NTPC is trading at 0.94x FY20E and 0.86x FY21E BV, which is below its ten-year average of 1-year forward P/BV of ~1.6x. After factoring in Q3FY19 and 9MFY19 results we have tweaked our FY19E and FY20E estimates slightly and introduced FY21E estimates. We rollover our target multiple to FY21E and now value the stock at a target P/BV multiple of 1.1x of FY21E against earlier 1.3x FY20E to arrive at a target price of Rs 178. We remain positive on the stock from longer term perspective and maintain our BUY rating on the stock due to inexpensive valuation, with a revised target price of Rs 178, which gives an upside potential of 27.1%.

Financial Performance

| Y/E March (Rs Mn) | Net Sales | EBITDA | PAT | EPS (Rs) | EBITDA Margin % | RoE (%) | P/E (x) | P/BV (x) |
|-------------------|-----------|--------|--------|----------|-----------------|---------|---------|----------|
| FY17 | 820808 | 214958 | 107139 | 13.0 | 26.2 | 11.0 | 10.8 | 1.2 |
| FY18 | 880833 | 224205 | 105015 | 12.7 | 25.5 | 10.1 | 11.0 | 1.1 |
| FY19E | 973033 | 265638 | 120642 | 14.6 | 27.3 | 10.8 | 9.6 | 1.0 |
| FY20E | 1088268 | 299274 | 137295 | 16.7 | 27.5 | 11.2 | 8.4 | 0.94 |
| FY21E | 1182362 | 325149 | 147200 | 17.9 | 27.5 | 11.0 | 7.8 | 0.86 |

Source: Companv, Arihant Research

Q3FY19 and 9MFY19 Financial Performance

| Rs Mn (Standalone) | Q3FY19 | Q2FY19 | Q3FY18 | Q-o-Q | Y-o-Y | 9MFY19 | 9MFY18 | Y-o-Y |
|---------------------------------|-----------------|-----------------|-----------------|--------------|--------------|-----------------|-----------------|--------------|
| Net Revenue | 2,41,204 | 2,22,611 | 2,07,744 | 8.4% | 16.1% | 6,90,850 | 6,03,524 | 14.5% |
| Fuel Cost | 1,52,220 | 1,34,856 | 1,27,929 | 12.9% | 19.0% | 4,25,072 | 3,65,307 | 16.4% |
| Employee cost | 11,464 | 11,856 | 12,943 | -3.3% | -11.4% | 35,738 | 33,665 | 6.2% |
| Other Expenses | 11,721 | 19,976 | 14,102 | -41.3% | -16.9% | 48,770 | 46,980 | 3.8% |
| Regulatory Balance (net of tax) | -3,100 | 3,699 | -467 | -183.8% | 564.5% | 2,200 | 2,533 | -13.1% |
| EBITDA | 62,699 | 59,623 | 52,304 | 5.2% | 19.9% | 1,83,471 | 1,60,107 | 14.6% |
| EBITDA margin % | 26.0% | 26.8% | 25.2% | -79 | 82 | 26.6% | 26.5% | 3 |
| Other Income | 1,877 | 2,249 | 3,135 | -16.6% | -40.1% | 5,489 | 12,377 | -55.7% |
| Depreciation | 20,010 | 18,885 | 18,814 | 6.0% | 6.4% | 57,496 | 51,641 | 11.3% |
| EBIT | 44,565 | 42,987 | 36,625 | 3.7% | 21.7% | 1,31,464 | 1,20,843 | 8.8% |
| Finance cost | 12,770 | 12,941 | 10,650 | -1.3% | 19.9% | 37,910 | 28,801 | 31.6% |
| Exceptional Item | - | - | - | | | - | - | |
| PBT | 31,795 | 30,046 | 25,974 | 5.8% | 22.4% | 93,554 | 92,042 | 1.6% |
| Tax Expense | 7,941 | 5,786 | 2,366 | 37.3% | 235.6% | 19,558 | 17,866 | 9.5% |
| Effective tax rate % | 25.0% | 19.3% | 9.1% | | | 20.9% | 19.4% | 7.7% |
| Reported Net Profit | 23,854 | 24,260 | 23,608 | -1.7% | 1.0% | 73,996 | 74,176 | -0.2% |
| Adj Net Profit | 23,854 | 24,260 | 23,608 | -1.7% | 1.0% | 73,996 | 74,176 | -0.2% |
| Adj Net margin % | 9.8% | 10.8% | 11.2% | -98 | -138 | 10.6% | 12.0% | -11.8% |
| Reported EPS (Rs) | 2.9 | 2.9 | 2.9 | -1.7% | 1.0% | 9.0 | 9.0 | -0.2% |
| Adj EPS (Rs) | 2.9 | 2.9 | 2.9 | -1.7% | 1.0% | 9.0 | 9.0 | -0.2% |

Source: Company, Arianth Research

Future Outlook

With 53,166MW 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 40% to regulated equity (existing regulated equity stands at Rs 521.1bn at the end of Q3FY19) by FY22E. The company is planning to add around 10GW of solar capacity in next three years.

Income Statement (Consolidated)

| Y/E March (Rs Mn) | FY17 | FY18 | FY19E | FY20E | FY21E |
|------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Net sales | 8,20,808 | 8,80,833 | 9,73,033 | 10,88,268 | 11,82,362 |
| Growth % | 4.3 | 7.3 | 10.5 | 11.8 | 8.6 |
| Operating expenditure | 6,05,850 | 6,56,629 | 7,07,395 | 7,88,994 | 8,57,212 |
| EBITDA | 2,14,958 | 2,24,205 | 2,65,638 | 2,99,274 | 3,25,149 |
| Growth % | 12.2 | 4.3 | 18.5 | 12.7 | 8.6 |
| EBITDA Margin % | 26.2 | 25.5 | 27.3 | 27.5 | 27.5 |
| Interest | 36,511 | 44,346 | 50,119 | 56,033 | 62,188 |
| Depreciation | 60,099 | 74,599 | 77,843 | 87,061 | 96,954 |
| EBIT | 1,54,859 | 1,49,605 | 1,87,795 | 2,12,212 | 2,28,196 |
| EBIT Margin % | 18.9 | 17.0 | 19.3 | 19.5 | 19.3 |
| Other Income (Inc Forex) | 13,010 | 21,187 | 16,949 | 20,339 | 23,390 |
| Extra Ordinary Exps/(Income) | - | - | - | - | - |
| PBT | 1,31,358 | 1,26,446 | 1,54,626 | 1,76,518 | 1,89,398 |
| Tax | 30,466 | 25,881 | 38,656 | 44,129 | 47,349 |
| Effective tax rate % | 23.2 | 20.5 | 25.0 | 25.0 | 25.0 |
| Reported PAT | 1,00,892 | 1,00,565 | 1,15,969 | 1,32,388 | 1,42,048 |
| Growth % | -0.6 | -0.3 | 15.3 | 14.2 | 7.3 |
| Minority & Exceptional | -6,247 | -4,451 | -4,673 | -4,907 | -5,152 |
| PAT after MI | 1,07,139 | 1,05,015 | 1,20,642 | 1,37,295 | 1,47,200 |
| RPAT Margin % | 13.1 | 11.9 | 12.4 | 12.6 | 12.4 |
| Growth % | 5.5 | -2.0 | 14.9 | 13.8 | 7.2 |

Source: Company, Arian Research

Balance Sheet (Consolidated)

| Y/E March (Rs Mn) | FY17 | FY18 | FY19E | FY20E | FY21E |
|----------------------------|------------------|------------------|------------------|------------------|------------------|
| Share Capital | 82,455 | 82,455 | 82,455 | 82,455 | 82,455 |
| Reserves & Surplus | 8,95,926 | 9,53,180 | 10,39,192 | 11,41,856 | 12,54,425 |
| Net Worth | 9,78,380 | 10,35,635 | 11,21,646 | 12,24,310 | 13,36,880 |
| Minority | 8033 | 9478 | 9478 | 9478 | 9478 |
| Long-term + ST loans | 1071908 | 1234562 | 1354562 | 1474562 | 1594562 |
| Others | 85842 | 119805 | 119799 | 119799 | 119799 |
| Total Liabilities | 24,91,388 | 27,28,762 | 27,93,516 | 30,26,652 | 32,74,302 |
| Net Block | 19,14,274 | 21,16,315 | 22,58,480 | 23,91,429 | 25,16,226 |
| Intangible | 182982 | 118109 | 125555 | 131972 | 138390 |
| Investments | 78,023 | 88,756 | 88,756 | 88,756 | 88,756 |
| Defered tax (net) | -14849 | -24081 | -24081 | -24081 | -24081 |
| Current Assets | 3,16,109 | 4,05,582 | 3,20,725 | 4,14,495 | 5,30,930 |
| Sundry Debtors | 89,995 | 88,122 | 79,975 | 89,447 | 97,180 |
| Cash & Bank Balance | 33015 | 43876 | 29926 | 29661 | 112823 |
| Loans & advances | 1,27,238.7 | 2,12,181.4 | 1,45,955.0 | 2,17,653.5 | 2,36,472.3 |
| Inventories | 65,861.3 | 61,402.9 | 64,868.9 | 77,733.4 | 84,454.4 |
| Current Liabilities | 3,78,421 | 3,96,087 | 2,54,835 | 2,65,306 | 2,80,387 |
| Provisions | 59,744 | 87,327 | 97,303 | 1,08,827 | 1,18,236 |
| Total Assets | 24,91,388 | 27,28,762 | 27,93,516 | 30,26,652 | 32,74,302 |

Source: Company, Arian Research

Cash Flow (Consolidated)

| Y/E March (Rs Mn) | FY17 | FY18 | FY19E | FY20E | FY21E |
|--|------------------|------------------|------------------|------------------|------------------|
| Operating Profit | 1,54,859 | 1,49,605 | 1,87,795 | 2,12,212 | 2,28,196 |
| Depreciation | 60,099 | 74,599 | 77,843 | 87,061 | 96,954 |
| Interest Exp | -36,511 | -44,346 | -50,119 | -56,033 | -62,188 |
| Changes in Working Capital | -74,785 | 11,993 | -70,361 | -83,573 | -18,203 |
| Cash Flow After Chang in WCapital | 1,03,662 | 1,91,851 | 1,45,158 | 1,59,667 | 2,44,759 |
| Tax | -30,466 | -25,881 | -38,656 | -44,129 | -47,349 |
| Others | 13,010 | 21,187 | 16,949 | 20,339 | 23,390 |
| Cash flow from operations | 86,206 | 1,87,156 | 1,23,451 | 1,35,877 | 2,20,799 |
| Capital expenditure (net) | -2,79,103 | -1,65,860 | -2,27,446 | -2,26,418 | -2,26,418 |
| Free Cash Flow | -1,92,896 | 21,296 | -1,03,995 | -90,540 | -5,618 |
| Other income | 0 | 0 | 0 | 0 | 0 |
| Investments | 0 | 0 | 0 | 0 | 0 |
| Cash flow from investments | -2,79,103 | -1,65,860 | -2,27,446 | -2,26,418 | -2,26,418 |
| Long-Term Debt (Decrease) Increase | 28,111 | 1,62,654 | 1,20,000 | 1,20,000 | 1,20,000 |
| Dividend paid (incl tax) | -26,385 | -42,217 | -34,631 | -34,631 | -34,631 |
| Share Issue / Repurchase & Others | 170256 | -130868 | 4673 | 4907 | 3411 |
| Cash flow from Financing | 1,71,982 | -10,431 | 90,042 | 90,276 | 88,780 |
| Net change in cash | -20,914 | 10,865 | -13,953 | -265 | 83,162 |
| Cash at the beginning of the year | 53,928 | 33,014 | 43,879 | 29,926 | 29,661 |
| Cash at the end of the year | 33,014 | 43,879 | 29,926 | 29,661 | 1,12,823 |

Source: Company, Arianth Research

Key Ratios (Consolidated)

| Y/E March | FY17 | FY18 | FY19E | FY20E | FY21E |
|------------------------------|-------|-------|-------|-------|-------|
| Adj. EPS (Rs) | 13.0 | 12.7 | 14.6 | 16.7 | 17.9 |
| Cash EPS (Rs) | 20.3 | 21.8 | 24.1 | 27.2 | 29.6 |
| DPS (Rs) | 3.2 | 5.1 | 4.2 | 4.2 | 4.2 |
| BVPS | 118.7 | 125.6 | 136.0 | 148.5 | 162.1 |
| ROCE % | 9.3 | 8.5 | 9.6 | 9.9 | 9.9 |
| ROE % | 11.0 | 10.1 | 10.8 | 11.2 | 11.0 |
| EBITDA Margin % | 26.2 | 25.5 | 27.3 | 27.5 | 27.5 |
| PER (x) | 10.8x | 11.0x | 9.6x | 8.4x | 7.8x |
| P/BV (x) | 1.2x | 1.1x | 1.0x | 0.94x | 0.86x |
| P/CEPS (x) | 6.9x | 6.4x | 5.8x | 5.1x | 4.7x |
| EV/EBITDA (x) | 10.0x | 10.3x | 9.2x | 8.6x | 8.0x |
| Dividend Yield % | 2.3 | 3.7 | 3.0 | 3.0 | 3.0 |
| Mkt cap/sales (x) | 1.4x | 1.3x | 1.2x | 1.0x | 0.9x |
| Net debt/equity (x) | 1.1x | 1.1x | 1.2x | 1.2x | 1.1x |
| Net debt/ebitda (x) | 4.8x | 5.3x | 5.0x | 4.8x | 4.6x |
| Debtors (Days) | 39 | 36 | 30 | 30 | 30 |
| Creditors (Days) | 24 | 28 | 25 | 22 | 22 |
| Inventory (Days) | 29 | 25 | 24 | 26 | 26 |
| Cash Conversion Cycle (Days) | 44 | 34 | 29 | 34 | 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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