

Mixed set of results, PAT got boost from several one-offs and adjustments; downgrade to Accumulate with a revised TP of Rs 155

Current	Previous
CMP: Rs 133	
Rating: Accumulate	Rating: Buy
Target: Rs 155	Target: Rs 146

(NR-Not Rated)

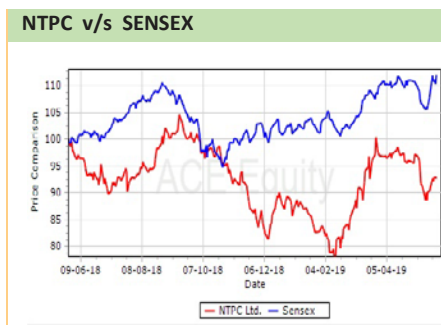
Stock Info	
INDEX	
BSE	532555
NSE	NTPC
Bloomberg	NTPC IN
Reuters	NTPC.NS
Sector	Power
Face Value (Rs)	10
Equity Capital (Rs Mn)	98946
Market Cap (Rs Mn)	1276398
52w H/L (Rs)	146 / 107
Avg Weekly Vol (BSE+NSE)	51,930,040

Shareholding Pattern	%
(As on March, 2019)	
Promoters	56.1
Public & Others	43.9

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
NTPC	10.9	6.1	-6.1
SENSEX	9.9	12.7	13.8

Source: ACE Equity, Arihant Research



Source: ACE Equity, Arihant Research

NTPC reported mixed set of numbers in Q4FY19, mostly below our estimates, except a beat on the PAT front due to tax credit. Standalone revenue declined 8.1% YoY to Rs 212.2bn below our estimate of Rs 233.5bn, while EBITDA registered 21.4% YoY decline to Rs 46.4bn against our estimate of Rs 68.9bn. EBITDA margin contracted 370bps YoY to 21.9% due to increased fuel costs. PAT for the quarter jumped 48.7% to Rs 43.5bn above our estimate of Rs 30.6bn mainly on account of MAT credit and deferred tax adjustments. We are positive on NTPC from longer term perspective, however due to recent rally in stock price and mixed set of results, we downgrade our rating from BUY to Accumulate with revised target price of Rs 155.

Q4FY19 & FY19 Highlights

- For Q4FY19, NTPC reported 8.1% YoY decline in its revenue to Rs 212bn while for FY19 revenue grew by 8.2% YoY to Rs 903bn. EBITDA for the quarter fell 21.4% YoY to Rs 46bn while for FY19 EBITDA saw a growth of 5.1% YoY to Rs 228bn. Reported PAT for the quarter jumped 48.7% YoY to Rs 43.58bn mainly on account of MAT credit and deferred tax adjustments, while for FY19 PAT stood at Rs 117bn, up 13.6% YoY.
- Operating performance of NTPC was stable during Q4FY19, with PAF for coal plants improving from 86.6% in Q4FY18 to 92.4% in Q4FY19. With higher PAF for its coal fired plants, NTPC's fixed costs under-recovery has also seen continuous improvement to Rs 7.9bn in FY19 against Rs 14.45bn in FY18 and Rs 11bn in Q3FY19. Earlier the under-recovery was high due to several factors which have shown improvement in FY19, like lower coal availability at Kudgi and Mauda plants of NTPC (~Rs2.7bn in FY19), (2) shutdown of Unchahar plant (~Rs 4bn in FY19) and (3) shutdown of its Badarpur plant (~Rs 600mn in FY19).

Valuations

At CMP of Rs 133, NTPC is trading at 1.1x FY20E and 1x FY21E BV, which is below its ten-year average of 1-year forward P/BV of ~1.6x. After factoring in Q4FY19 results we have tweaked our FY20E and FY21E estimates slightly. We continue to value the stock at a target P/BV multiple of 1.1x of FY21E to arrive at a target price of Rs 155. **We remain positive on the stock from longer term perspective, however due to recent rally in stock price and mixed set of results, we downgrade our rating from BUY to Accumulate with revised target price of Rs 155, giving an upside potential of 16.5%.**

Financial Performance

YE March (Rs Mn)	Net Sales	EBITDA	PAT	EPS (Rs)	EBITDA Margin %	RoE (%)	P/E (x)
FY18	880,833	224,205	105,015	12.7	25.5	10.1	10.4
FY19	957,420	241,095	126,335	12.8	25.2	11.5	10.4
FY20E	1,088,268	299,274	135,124	13.7	27.5	11.4	9.7
FY21E	1,182,362	325,149	145,135	14.7	27.5	11.3	9.1

Source: Company, Arihant Research

Q4FY19 and FY19 Financial Performance

Rs Mn (Standalone)	Q4FY19	Q3FY19	Q4FY18	Q-o-Q	Y-o-Y	FY19	FY18	Y-o-Y
Net Revenue	2,12,224	2,41,204	2,31,003	-12.0%	-8.1%	9,03,074	8,34,527	8.2%
Fuel Cost	1,27,003	1,52,220	1,30,983	-16.6%	-3.0%	5,52,074	4,96,290	11.2%
Employee cost	12,061	11,464	13,682	5.2%	-11.8%	47,799	47,347	1.0%
Other Expenses	26,717	11,721	27,238	127.9%	-1.9%	75,486	74,217	1.7%
EBITDA	46,444	65,799	59,100	-29.4%	-21.4%	2,27,715	2,16,673	5.1%
EBITDA margin %	21.9%	27.3%	25.6%	-540bps	-370bps	25.2%	26.0%	-75bps
Other Income	13,232	1,877	5,176	605.2%	155.7%	18,721	17,553	6.7%
Depreciation	15,048	20,010	19,348	-24.8%	-22.2%	72,544	70,989	2.2%
EBIT	44,629	47,665	44,927	-6.4%	-0.7%	1,73,893	1,63,237	6.5%
Finance cost	9,257	12,770	11,042	-27.5%	-16.2%	47,167	39,843	18.4%
Exceptional Item	-	-	-			-	-	
PBT	35,372	34,895	33,886	1.4%	4.4%	1,26,725	1,23,395	2.7%
Tax Expense	-71,891	15,667	9,889	NA	NA	-29,187	52,571	NA
Effective tax rate %	-203.2%	44.9%	29.2%			-23.0%	42.6%	NA
Regulatory Balance (net of tax)	-63,759	4,625	5,259	NA	NA	-38,413	32,609	-217.8%
Reported Net Profit	43,503	23,854	29,256	82.4%	48.7%	1,17,499	1,03,432	13.6%
Net Profit Margin %	20.5%	9.9%	12.7%	+1061bps	+783bps	13.0%	12.4%	+62bps
Reported EPS (Rs)	4.4	2.4	3.0	82.4%	48.7%	11.9	10.5	13.6%

Source: Company, Arianth Research

Adjusted earnings for Q4FY19

Rs Mn (Standalone)	Q4FY19
Reported Net Profit	43,503
Other Income (net of tax)	10,586
Deferred Tax	201
Provisions/Write Offs	8,000
Adjusted PAT	24,716
Growth (YoY)	-15.5%

Source: Company, Arianth Research

NTPC's Q4FY19 results had several one-off items and adjustments, which has inflated the PAT number for Q4FY19. The following are the key adjustments done by NTPC for Q4FY19.

- NTPC recognised surcharge income of Rs 10.8 bn in Q4FY19, thereby inflating its other income, due to change in accounting method from receipt basis to accrual basis.
- Recognised MAT credit of Rs 82 bn during Q4FY19, against which payable to beneficiaries of Rs 76 bn was reported through regulatory deferral account.
- NTPC made provision of Rs 10 bn for write-off for investments in JVs and other business development expenses, which are now no longer seems viable.

Post Result Conference Call Highlights

- Current regulatory assets of NTPC stand at Rs 539.9 bn at the end of Q4FY19 as against Rs 509.2 bn at the end of Q4FY18.
- NTPC extracted around 0.5 mt of coal from its Dulanga block, while Pakri-Barwadi mine already started producing coal from 1st April, 2019.
- NTPC's cumulative solar capacity secured under the competitive bidding route currently stands at 345 MW.
- The company is targeting around 5000 MW of capacity addition for FY20E.
- Surcharge income for NTPC stood at Rs 10 bn for the quarter (Q4FY19) while for full year FY19 the figure stood at 12.9 bn in as compared to Rs 5.7 bn in FY18.
- As far as PLF incentive is concerned, it was more or less stable at Rs 3.5 bn in FY19 against Rs 3.3 bn in FY18, as PLF of coal-based plants was largely unchanged at 77% in FY19 against 78% in FY18.

Income Statement (Consolidated)

Y/E March (Rs Mn)	FY17	FY18	FY19	FY20E	FY21E
Net sales	8,20,808	8,80,833	9,57,420	10,88,268	11,82,362
Growth %	4.3	7.3	8.7	13.7	8.6
Operating expenditure	6,05,850	6,56,629	7,16,325	7,88,994	8,57,212
EBITDA	2,14,958	2,24,205	2,41,095	2,99,274	3,25,149
Growth %	12.2	4.3	7.5	24.1	8.6
EBITDA Margin %	26.2	25.5	25.2	27.5	27.5
Interest	36,511	44,346	52,609	62,999	69,337
Depreciation	60,099	74,599	76,881	87,061	96,954
EBIT	1,54,859	1,49,605	1,64,214	2,12,212	2,28,196
EBIT Margin %	18.9	17.0	17.2	19.5	19.3
Other Income (Inc Forex)	13,010	21,187	17,953	21,544	24,775
Extra Ordinary Exps/(Income)	-	-	-	-	-
PBT	1,31,358	1,26,446	1,29,559	1,70,757	1,83,634
Tax	30,466	25,881	-32,064	42,689	45,908
Effective tax rate %	23.2	20.5	-24.7	25.0	25.0
Reported PAT	1,00,892	1,00,565	1,61,623	1,28,068	1,37,725
Growth %	-0.6	-0.3	60.7	-20.8	7.5
Minority & Exceptional	-6,247	-4,451	35,288	-7,057	-7,410
PAT after MI	1,07,139	1,05,015	1,26,335	1,35,124	1,45,135
RPAT Margin %	13.1	11.9	13.2	12.4	12.3
Growth %	5.5	-2.0	20.3	7.0	7.4

Source: Company, Arianth Research

Balance Sheet (Consolidated)

Y/E March (Rs Mn)	FY17	FY18	FY19	FY20E	FY21E
Share Capital	82,455	82,455	98,946	98,946	98,946
Reserves & Surplus	8,95,926	9,53,180	10,01,424	10,87,076	11,82,738
Net Worth	9,78,380	10,35,635	11,00,370	11,86,021	12,81,683
Minority	8033	9478	6648	6648	6648
Long-term + ST loans	1071908	1234562	1537874	1657874	1777874
Others	85842	119805	101144	101144	101144
Total Liabilities	24,91,388	27,28,762	31,11,886	32,28,631	34,24,763
Net Block	19,14,274	21,16,315	24,45,988	25,78,940	27,03,738
Intangible	182982	118109	140440	146857	153275
Investments	78,023	88,756	81,000	87,451	94,131
Deferred tax (net)	-14849	-24081	-41997	-41997	-41997
Current Assets	3,16,109	4,05,582	4,44,459	4,15,382	4,73,619
Sundry Debtors	89,995	88,122	1,01,477	1,13,299	1,29,574
Cash & Bank Balance	33015	43876	62002	33644	52396
Loans & advances	1,27,238.7	2,12,181.4	1,99,785.2	1,95,888.2	2,12,825.1
Inventories	65,861.3	61,402.9	81,194.3	72,551.2	78,824.1
Current Liabilities	3,78,421	3,96,087	5,25,796	4,36,889	4,17,359
Provisions	59,744	87,327	20,081	1,30,592	1,18,236
Total Assets	24,91,388	27,28,762	31,11,886	32,28,631	34,24,763

Source: Company, Arianth Research

Cash Flow (Consolidated)

Y/E March (Rs Mn)	FY17	FY18	FY19	FY20E	FY21E
Operating Profit	1,54,859	1,49,605	1,64,214	2,12,212	2,28,196
Depreciation	60,099	74,599	76,881	87,061	96,954
Interest Exp	-36,511	-44,346	-52,609	-62,999	-69,337
Changes in Working Capital	-74,785	11,993	-2,855	-88,198	-59,025
Cash Flow After WC Change	1,03,662	1,91,851	1,85,632	1,48,076	1,96,788
Tax	-30,466	-25,881	32,064	-42,689	-45,908
Others	13,010	21,187	17,953	21,544	24,775
Cash Flow from Operations	86,206	1,87,156	2,35,649	1,26,931	1,75,655
Capital expenditure (net)	-2,79,103	-1,65,860	-2,14,574	-2,32,869	-2,33,098
Free Cash Flow	-1,92,896	21,296	21,075	-1,05,938	-57,443
Other income	0	0	0	0	0
Investments	0	0	0	0	0
Cash Flow from Investments	-2,79,103	-1,65,860	-2,14,574	-2,32,869	-2,33,098
Long-Term Debt (Decrease) Increase	28,111	1,62,654	3,03,313	1,20,000	1,20,000
Dividend paid (incl tax)	-26,385	-42,217	-60,159	-49,473	-49,473
Share Issue / Repurchase & Others	170,256	-1,30,868	-2,46,108	7,057	5,668
Cash Flow from Financing	1,71,982	-10,431	-2,955	77,584	76,195
Net change in cash	-20,914	10,865	18,120	-28,355	18,752
Cash at the beginning of the year	53,928	33,014	43,879	61,999	33,644
Cash at the end of the year	33,014	43,879	61,999	33,644	52,396

Source: Company, Arianth Research

Key Ratios (Consolidated)

Y/E March	FY17	FY18	FY19	FY20E	FY21E
EPS (Rs)	13.0	12.7	12.8	13.7	14.7
Cash EPS (Rs)	20.3	21.8	20.5	22.5	24.5
DPS (Rs)	3.2	5.1	6.1	5.0	5.0
BVPS	118.7	125.6	111.2	119.9	129.5
ROCE %	9.3	8.5	8.2	9.7	9.7
ROE %	11.0	10.1	11.5	11.4	11.3
EBITDA Margin %	26.2	25.5	25.2	27.5	27.5
PER (x)	10.2x	10.4x	10.4x	9.7x	9.1x
P/BV (x)	1.1x	1.1x	1.2x	1.11x	1.03x
P/CEPS (x)	6.6x	6.1x	6.5x	5.9x	5.4x
EV/EBITDA (x)	11.0x	11.2x	11.6x	9.8x	9.4x
Dividend Yield %	2.4	3.8	4.6	3.8	3.8
Mkt cap/sales (x)	1.6x	1.5x	1.4x	1.2x	1.1x
Net debt/equity (x)	1.1x	1.1x	1.3x	1.4x	1.3x
Net debt/ebitda (x)	4.8x	5.3x	6.1x	5.4x	5.3x
Debtors (Days)	39	36	38	38	40
Creditors (Days)	24	28	32	35	30
Inventory (Days)	29	25	31	24	24
Cash Conversion Cycle (Days)	44	34	37	27	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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