Motilal Oswal

9 November 2019
2QFY20 Results Update | Sector: Utilities

NTPC

BSE SENSEX	S&P CNX
40,324	11,908

Bloomberg	NTPC IN
Equity Shares (m)	9,895
M.Cap.(INRb)/(USDb)	1161.1 / 16.3
52-Week Range (INR)	146 / 107
1, 6, 12 Rel. Per (%)	-6/-15/-24
12M Avg Val (INR M)	1737
Free float (%)	45.5

Financials & Valuations (INR b)

Y/E Mar	2019	2020E	2021E
Net Sales	906.4	993.3	1,099.6
EBITDA	199.1	303.8	363.1
PAT	114.6	129.8	150.4
EPS (INR)	11.6	13.1	15.2
Gr. (%)	30.3	13.2	15.9
BV/Sh (INR)	111.2	118.6	127.5
RoE (%)	10.7	11.4	12.4
RoCE (%)	6.7	6.8	7.6
P/E (x)	10.1	8.9	7.7
P/BV (x)	1.1	1.0	0.9

Estimate change	⟷
TP change	⟷
Rating change	⟷

CMP: INR117 TP: INR163 (+39%) Buy

Late payment surcharge boosts profitability

Capitalization picking up; Maintain Buy

Standalone (S/A) 2QFY20 adj. PAT increased ~24% YoY to INR34.8b (16% beat to our est.). PAT has been adjusted for INR3.3b fixed charge (FC) under-recovery (u/r) this quarter. The beat was on account of rise in late payment surcharge income. Also, reported PAT was up ~34% YoY to INR33b.

- FC u/r stood at INR3.3b (flat YoY). U/r in 2QFY20 was on account of coal availability issues at Talcher/Sipat and capital overhaul at Farakka. On YoY basis, the number was flat given the restart of Unchahar and better coal availability at Mauda/Solapur. NTPC expects to recover FC in 2HFY20 and plans to supply imported coal to plants facing continued shortage.
- Given the rise in over-dues, NTPC has booked late payment surcharge income of INR6.5b. Correspondingly, its interest cost was impacted by INR3.3b given the higher WC related borrowings. Company has noted that it has received timely payments for its billed revenue post implementation of the LC mechanism. Over-dues >45 days now stand at INR70-75b.
- Share of JV PAT stood at INR1.2b (v/s INR1.4b in 2QFY19). Performance of subsidiaries improved with profit of INR0.2b (v/s loss of INR0.9b).
- For 1HFY20, Adj. PAT excl. FC u/r is up 11% YoY to INR64.8b. F/C u/r in 1HFY20 stood at INR4.5b (v/s INR8.2b in 1HFY19). Current receivables were elevated at INR194b (v/s INR128b in 1HFY19).

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

Even if the late payment surcharge and related interest costs were adjusted, we believe that NTPC's underlying numbers are strong and reflect the benefit of FY20-24 tariff regulations. Management is keen to reduce its over-dues and while this may reduce the subsequent surcharge income/profitability, we believe it is positive as it (1) reduces the possible risk of these dues ballooning, and (2) would release cash to invest in core activities. While NTPC's plant availability was impacted in 2QFY20, given that these plants are at pit head, fuel supply can be ramped up for the remainder of the year (if operational issues at mines do not persist). It's ~5GW capitalization for FY20 also appears on track. We expect capitalization to pick up pace and drive regulated equity CAGR of 16% over FY19-22E. Capitalization should outpace capex and boost RoE. Our DCF-based TP is INR163/sh. Maintain Buy.

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Quarterly Performance (standalone) – INR m

Y/E March	FY19				FY20				FY19	FY20E	FY20	var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2Q	(%)
Sales	**228,637**	**226,310**	**238,104**	**224,616**	**247,032**	**236,323**	**236,814**	**214,662**	**940,812**	**934,035**	**223,648**	**6**
Change (%)	13.7	14.0	14.9	-4.0	8.0	4.4	-0.5	-4.4			-1.2	
EBITDA	61,149	59,623	62,699	58,836	69,630	72,139	72,154	72,348	265,453	285,475	66,065	9
Other income	1,364	2,249	1,877	13,232	3,262	8,937	3,472	4,342	18,721	20,013	3,980	
PBT	31,712	30,046	31,795	47,763	36,730	43,655	38,070	39,848	164,463	157,506	33,513	30
Tax	5,831	5,786	7,941	4,260	10,702	11,030	9,035	7,034	46,964	37,801	6,308	
PAT	**25,881**	**24,260**	**23,854**	**43,503**	**26,028**	**32,624**	**29,035**	**32,814**	**117,499**	**119,705**	**27,205**	**20**
Change (%)	-1.1	-0.5	1.0	48.7	0.6	34.5	21.7	-24.6	13.6	1.9	12.1	
Adj. PAT (excl. FC u/r)	**29,598**	**27,885**	**25,526**	**31,735**	**26,840**	**34,716**	**28,435**	**31,314**	**114,743**	**121,305**	**29,993**	**16**
Key metrics												
Regulated Equity	509,207	519,934	521,059	539,890	531,189	532,566	566,700	610,486	539,890	610,486	531,189	0
Commercial cap.(MW)	44,500	45,300	44,815	45,725	46,525	46,525	47,985	49,445	45,725	49,445	46,525	0
Coal-based PLF (%)	78.0	72.6	77.7	77.6	73.9	64.3						

Conference call highlights

Capital expenditure

- Capex for NTPC at group level was at INR107.6b.
- Capital outlay for FY20 is estimated at INR200b.

Under recoveries

- NTPC witnessed u/r of INR3.3b for 2QFY20. U/r was largely witnessed at its coal plants in Talcher, Sipat and Farakka. Farakka witnessed issues to capital overhaul.
- NTPC has awarded tender for importing 6.5mt of coal. Of this, company is yet to receive ~4mt. It is supplying imported coal to its plants that are facing shortages.
- NTPC expects to end the year with FC u/r of less than INR2b.

Late payment surcharge

- NTPC has booked late payment surcharge income of INR6.5b. Correspondingly, its interest cost was impacted by INR3.3b given the higher borrowings.
- Post implementation of its LC mechanism; company has received timely payments for its billed revenue.
- Over-dues >45 days now stand at INR70-75b.

FGD

- Company has awarded contracts for 47.3GW while another 17.1GW is under various stages of tendering.

- NTPC commercialized 660MW of New Nabinagar plant during the quarter. PLF for its coal plants was ~830bp lower YoY at 64.3%.

Exhibit 1: Key operating parameters

		FY18				FY19				FY20	
		1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Capacity											
Installed	GW	51.6	51.9	51.4	53.7	53.7	53.7	53.2	55.1	55.1	57.1
Commercial	GW	47.5	50.8	51.4	51.4	51.4	52.9	52.4	53.5	55.0	55.6
Regulated Equity	INR b	439.9	487.7	505.6	509.2	509.2	519.9	521.1	539.9	531.2	532.6
Generation											
Gross	b kWh	64	65	68	69	69	66	70	69	68	62
Electricity sales	b kWh	60	60	63	64	65	62	65	64	64	57
Availability											
Coal	%	89.0	86.1	83.0	86.6	85.9	84.3	85.3	92.4	91.1	84.1
Gas	%	88.2	90.9	94.5	96.9	83.9	94.9	94.9	95.6	90.4	93.3
PLF											
Coal	%	79.1	76.6	76.9	79.0	78.0	72.6	77.7	77.6	73.9	64.3
Gas	%	24.4	25.6	29.9	20.2	23.1	17.9	24.9	18.5	20.6	13.1
Fuel											
Coal Received	mt	38.5	39.8	44.1	45.8	43.1	40.0	45.3	47.6	43.2	36.0
o/w imported	mt	0.1	0.0	0.1	0.1	0.1	0.1	0.2	0.7	0.9	0.6
% imported	%	0.4	0.1	0.1	0.2	0.2	0.3	0.4	1.4	2.1	1.7
Gas received	mmscmd	5.1	5.5	6.4	4.3	4.7	4.0	5.7	4.1	4.5	3.1
Per unit											
Realization	INR/kWh	3.38	3.23	3.37	3.58	3.62	3.72	3.64	3.92	3.89	4.20
Fuel cost	INR/kWh	2.02	1.93	2.02	2.04	2.14	2.19	2.30	2.24	2.30	2.37
Fixed charge	INR/kWh	1.36	1.30	1.36	1.54	1.48	1.54	1.34	1.67	1.59	1.82

Source: MOFSL, Company

Exhibit 2: Commercial capacity addition

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

Financials and Valuations

Income Statement (INR Million)

Y/E Mar	2014	2015	2016	2017	2018	2019	2020E	2021E
Net Sales	**789,506**	**806,220**	**727,055**	**817,171**	**877,622**	**906,369**	**993,333**	**1,099,610**
Change (%)	20.1	2.1	-9.8	12.4	7.4	3.3	9.6	10.7
EBITDA	**197,106**	**171,941**	**179,569**	**218,300**	**229,808**	**199,086**	**303,807**	**363,133**
EBITDA Margin (%)	25.0	21.3	24.7	26.7	26.2	22.0	30.6	33.0
Depreciation	47,700	55,646	52,240	60,099	74,599	76,881	88,696	104,077
EBIT	**149,406**	**116,295**	**127,329**	**158,201**	**155,209**	**122,205**	**215,111**	**259,056**
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	18,043	13,853
Extraordinary items	-119	3,182	0	0	0	0	0	0
PBT	**144,858**	**104,562**	**104,768**	**131,358**	**126,446**	**87,550**	**164,090**	**190,038**
Tax	30,824	4,638	-1,628	30,467	25,881	-32,064	41,158	47,740
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
Reported PAT	**114,034**	**99,924**	**108,012**	**107,196**	**105,440**	**126,400**	**129,775**	**150,398**
Adjusted PAT	**91,496**	**87,596**	**96,957**	**98,717**	**87,992**	**114,614**	**129,775**	**150,398**
Change (%)	-16.6	-4.3	10.7	1.8	-10.9	30.3	13.2	15.9

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	1,074,206	1,162,863
Net Worth	**873,297**	**820,940**	**891,965**	**978,380**	**1,035,635**	**1,100,370**	**1,173,152**	**1,261,808**
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
Total Capital Employed	**1,707,044**	**1,864,995**	**2,035,181**	**2,138,812**	**2,369,337**	**2,765,833**	**2,910,376**	**3,020,135**
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
Net Fixed Assets	**842,080**	**918,530**	**1,044,959**	**1,045,317**	**1,295,385**	**1,378,214**	**1,629,961**	**1,967,657**
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
Current Assets	**603,487**	**601,543**	**543,886**	**492,677**	**534,851**	**646,976**	**640,196**	**651,523**
Inventory	59,885	79,725	79,592	65,861	61,403	81,194	75,539	80,426
Debtors	67,257	92,499	101,740	89,995	88,122	101,477	99,027	106,286
Cash & Bank	186,876	161,390	57,370	33,015	43,876	27,823	29,148	28,330
Loans & Adv, Others	289,470	267,929	305,185	303,806	341,450	436,482	436,482	436,482
Curr Liabs & Provns	**293,408**	**330,766**	**369,310**	**346,162**	**374,344**	**408,131**	**388,022**	**392,913**
Curr. Liabilities	293,408	330,766	369,310	346,162	374,344	408,131	388,022	392,913
Provisions	0	0	0	0	0	0	0	0
Net Current Assets	**310,080**	**270,777**	**174,577**	**146,515**	**160,507**	**238,845**	**252,174**	**258,610**
Total Assets	**1,707,044**	**1,864,995**	**2,035,181**	**2,138,812**	**2,369,337**	**2,765,833**	**2,910,376**	**3,020,135**

Financials and Valuations

Ratios

Y/E Mar	2014	2015	2016	2017	2018	2019	2020E	2021E
Basic (INR)								
EPS	**9.2**	**8.9**	**9.8**	**10.0**	**8.9**	**11.6**	**13.1**	**15.2**
Cash EPS	16.3	15.7	16.2	16.9	18.2	20.5	22.1	25.7
Book Value	88.3	83.0	90.1	98.9	104.7	111.2	118.6	127.5
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	36.6	34.2
Valuation(x)								
P/E	10.1	11.6	10.7	10.8	11.0	9.1	8.9	7.7
Cash P/E	7.1	7.4	7.2	6.9	6.4	5.7	5.3	4.5
Price / Book Value	1.3	1.4	1.3	1.2	1.1	1.0	1.0	0.9
EV/Sales	2.3	2.5	3.1	2.8	2.7	3.0	2.8	2.6
EV/EBITDA	10.2	12.6	13.2	10.8	11.4	14.7	9.3	7.8
Dividend Yield (%)	3.9	3.9	2.3	3.3	3.1	3.1	4.1	4.5
Profitability Ratios (%)								
RoE	10.9	10.0	11.3	10.6	8.7	10.7	11.4	12.4
RoCE	8.5	7.3	7.2	6.0	5.8	7.8	6.2	6.9
RoIC	13.7	11.2	11.8	10.5	9.6	11.1	9.4	9.6
Turnover Ratios (%)								
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
Leverage Ratios (%)								
Net Debt/Equity (x)	0.7	1.0	1.2	1.1	1.2	1.4	1.4	1.3

Cash Flow Statement (INR Million)

Y/E Mar	2014	2015	2016	2017	2018	2019	2020E	2021E
Adjusted EBITDA	174,568	159,613	168,514	209,821	212,360	187,300	303,807	363,133
Non cash opr. exp (inc)	49,633	35,881	35,146	23,574	38,815	25,731	24,886	21,954
(Inc)/Dec in Wkg. Cap.	-13,109	-11,694	-36,422	-2,073	-58,298	-72,868	-12,005	-7,254
Tax Paid	-26,867	-20,100	-14,584	-26,263	19,257	-30,390	-41,158	-47,740
Other operating activities	-18,917	-16,242	1,452	-3,395	-15,508	53,898	-18,043	-13,853
CF from Op. Activity	**165,308**	**147,459**	**154,106**	**201,666**	**196,627**	**163,671**	**257,486**	**316,239**
(Inc)/Dec in FA & CWIP	-189,485	-191,772	-232,470	-243,451	-187,559	-197,548	-214,938	-207,399
Free cash flows	**-24,176**	**-44,314**	**-78,364**	**-41,785**	**9,068**	**-33,877**	**42,548**	**108,840**
(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	-39,152	13,072	13,853
CF from Inv. Activity	**-136,243**	**-158,200**	**-222,920**	**-257,573**	**-196,099**	**-236,700**	**-201,866**	**-193,546**
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	224,698	71,761	21,103
Interest Paid	-62,429	-72,371	-83,473	-75,645	-86,058	-107,672	-69,064	-82,871
Divd Paid (incl Tax) & Others	-58,516	-148,185	-32,261	-43,269	-48,669	-60,049	-56,993	-61,742
CF from Fin. Activity	**-27,091**	**-14,745**	**-35,206**	**31,552**	**10,333**	**56,976**	**-54,295**	**-123,511**
Inc/(Dec) in Cash	**1,975**	**-25,486**	**-104,021**	**-24,355**	**10,861**	**-16,053**	**1,324**	**-818**
Add: Opening Balance	184,902	186,876	161,390	57,369	33,015	43,876	27,823	29,148
Closing Balance	**186,876**	**161,390**	**57,369**	**33,015**	**43,876**	**27,823**	**29,148**	**28,330**

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

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