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THE COMPASS

Expansions to power NTPC's growth

Stock is trending up since mid-Feb, outperforming broader indices

UJJVAL JAUHARI

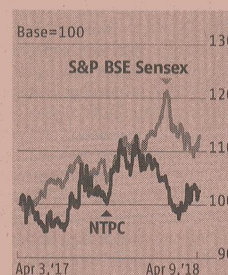
Capacity expansion is a near-term trigger for power major NTPC.

The company announced the commissioning of its first unit of Meja Thermal Power Project last week. It has two units of 660 Mw each. A month ago, it had announced the start of the first unit of Lara Super Thermal Power Project (two units of 800 MW each). This, besides other announcements in February, takes the total commissioned capacity of NTPC to 53,651 Mw.

The company has also raised funds through 10-year dollar-denominated bonds for its ongoing and new projects, coal mines, renovation and modernisation. Analysts remain positive and said capacity addition and asset takeover would continue to drive earnings growth. With NTPC beating capacity addition expectations, the stock has been trending up since mid-February, outperforming broader indices.

The pace of commercialisation is expected to continue in FY19 and FY20. Analysts expect NTPC to add 4-5 Gw in FY19 and 5-6 Gw in FY20, which will lead to a significant jump in regulated equity. Analysts at Emkay Global said front-ended commercialisation of NTPC's assets in FY19/FY20 will drive earnings. Also, a fixed cost pooling mechanism proposed by the company will improve its plant load factor (PLF).

NTPC is also looking at inorganic growth via acquisitions of stressed and state government-owned assets. Buyout of the government's stake in SJVN (a miniratna company) can be a possibility, analysts said. Those at



Compiled by BS Research Bureau

ICICI Securities said asset takeovers and capacity additions will improve profitability and drive earnings growth.

However, the ₹10-billion fixed costs under recovery booked by NTPC during the first nine months of FY18 is a cause for concern. This was mainly because of coal availability issues at some facilities.

The newly commissioned Mauda, Solapur (Maharashtra) and Kudgi (Karnataka) power plants, grappling with coal availability issues, had largely contributed to the under-recovery of ₹5.6 billion. These are expected to operate normally by the June 2018 quarter as coal supplies are improving. But analysts expect a reversal worth ₹1.5-2 billion in Q4 FY18 itself.

Overall demand is likely to improve on the back of agriculture and industry, leading to better PLFs. Rupesh Sankhe at Reliance Securities said the stock at price-to-book value ratio of 1 and price-to-earnings ratio of 10.1 based on FY20 estimates is attractively valued.

The track record of capacity addition, assured returns on equity, robust balance sheet and strong operational cash flows are the icing on the cake.