

Estimate change	↔
TP change	↔
Rating change	↔

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Bloomberg	NTPC IN
Equity Shares (m)	9,895
M.Cap.(INRb)/(USDb)	943.9 / 11.7
52-Week Range (INR)	130 / 74
1, 6, 12 Rel. Per (%)	5/-6/-21
12M Avg Val (INR M)	1633

Financials & Valuations (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	1,143	1,096	1,276
EBITDA	364.1	353.3	417.8
Adj. PAT	136.6	141.9	156.6
EBITDA Margin (%)	31.8	32.2	32.7
Cons. Adj. EPS (INR)	13.8	14.3	15.8
EPS Gr. (%)	19.2	3.9	10.4
BV/Sh. (INR)	120.1	124.9	132.6
Ratios			
Net D:E	1.7	1.6	1.5
RoE (%)	11.9	11.7	12.3
RoCE (%)	6.5	6.6	7.5
Payout (%)	22.8	41.8	44.2
Valuations			
P/E (x)	6.9	6.6	6.0
P/BV (x)	0.8	0.8	0.7
EV/EBITDA(x)	8.0	8.3	7.1
Div. Yield (%)	3.3	6.3	7.4
FCF Yield (%)	6.9	12.9	16.6

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	51.0	51.0	56.4
DII	34.7	33.6	28.5
FII	11.4	12.6	11.6
Others	2.9	2.8	3.5
FII Includes depository receipts			

CMP: INR95 TP: INR139 (+46%) Buy

Underlying numbers strong; sees partial rebate impact

Reported PAT impacted by rebate, but underlying numbers strong

- NTPC reported strong underlying numbers. This was highlighted by the high plant load factor (PLF) incentives for the co. despite lower power demand. Adj. PAT (excl. fixed charge under-recoveries) was up 23% YoY to INR33.2b.
- Commercialization at 5.3GW in FY20 was at an all-time high. With the addition of THDC and NEEPCO, and continued pickup in capitalization, we expect a 9% earnings CAGR over FY20–23. Maintain **Buy**, with DCF-based TP of INR139/sh.

Rebate impact flows in, but only partially

- NTPC's reported S/A PAT (including the impact of a rebate) was down 5% YoY to INR24.7b (v/s our est. of INR18.2b). The co. has accounted for a partial rebate of INR8b (v/s our expectation of INR13.6b). Even after accounting for the lower rebate, our nos. would have stood at INR22.8b (v/s the reported INR24.7b), highlighting strong underlying nos.
- Adj. for the rebate, fixed charge under-recoveries (FC u/r), and certain one-offs, S/A PAT was up 23% YoY to INR33.2b. *Note that the rebate has been accounted as an exception by NTPC v/s baked in our nos., leading to the apparent difference in adj. nos.*
- PLF of coal-based plants fell to 58.2%, v/s 73.9% in the previous year, weighed by lower power demand. Although, PLF incentives were higher YoY at INR1.4b (v/s INR1.1b) on better off-take from its pit-head plants.
- Plant availability factors at coal-based plants rose YoY to 95.8% (v/s 91.1% in the previous year) given better coal availability. FC u/r, though, rose to INR2.25b (v/s INR1.2b in the previous year), led by under-recoveries at Darlipalli (INR1.4b).
- Late payment surcharge income rose YoY to INR4.7b (v/s INR1.7b in the previous year) given the increasing profile of DISCOM overdues.
- Interest cost at S/A was also impacted by INR2.1b on account of the acquisitions of THDC and NEEPCO.
- The co.'s numbers also included an INR2.2b CSR contribution in the current quarter related to COVID-19 care packages

Management commentary: Commercialization of 5–6GW to continue

- NTPC plans to reach ~130GW capacity by 2032. The mix of Renewable in the capacity may be >30% by 2032. NTPC expects its capitalization run-rate to be at 5–6GW p.a. for the next three to four years.
- In the current quarter, the co. has provided an INR8b rebate. The balance would be paid only when DISCOMs withdraw their force majeure applications.
- Outstanding overdues have reduced to INR145b from INR164b at June-end. The co. is hopeful of squaring off past dues by the end of the quarter.

Capitalization gains pace; Reiterate Buy

NTPC commercialized 5.3GW of capacities for FY20 – the highest ever in a single fiscal year – and is guiding for 5–6GW p.a. to be capitalized for the next three to four years. Capitalization has picked up pace, and we expect it to drive a regulated equity CAGR of 11% over FY20–23E and boost RoE (+120bps accretion). Furthermore, muted power demand, coupled with production ramp-up at Coal India’s mines, has led to an increase in coal stocks at power plants and improved plant availability factors. Thus, we expect overall FC u/r to remain low – albeit some machine-related u/r may occur from time to time. The stock trades attractively at a FY22 P/BV of 0.7x and div. yield of ~7%. Maintain Buy, with DCF-based target price of INR139/sh.

Quarterly Performance (Standalone) – INR b

Y/E March	FY20				FY21				FY20	FY21E	FY21 1QE	var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Sales	247.0	236.3	250.9	291.0	242.6	248.5	257.6	297.6	1,025	1,046	250.4	-3
Change (%)	8.0	4.4	5.4	29.6	-1.8	5.1	2.6	2.3	9.0	2.0	1.4	
EBITDA	69.6	72.1	85.7	91.7	85.5	73.4	84.8	85.2	319.2	328.9	61.3	39
Depreciation	20.5	21.2	23.2	21.3	25.3	24.5	26.7	26.7	86.2	103.3	23.6	
Interest	15.7	16.2	17.6	18.4	20.8	20.3	22.0	23.0	67.8	86.1	19.6	
Other income	3.3	8.9	5.3	10.3	5.7	6.3	4.6	4.0	27.8	20.6	6.3	-10
Exceptional	0.0	0.0	0.0	0.0	-8.0	-5.6	0.0	0.0	0.0	-13.6	0.0	
PBT	36.7	43.7	50.2	62.4	37.0	35.0	40.7	39.5	192.9	152.1	24.4	52
Tax	10.7	11.0	20.3	49.8	12.3	8.6	9.7	4.9	91.8	35.5	6.2	
PAT	26.0	32.6	30.0	12.5	24.7	26.3	31.0	34.6	101.1	116.6	18.2	36
Change (%)	0.6	34.5	25.6	-71.2	-5.1	-19.2	3.4	176.5	-13.9	15.3	-30.3	
Adj. PAT (excl. FC u/r)	27.1	34.7	29.0	33.0	33.2	31.9	30.8	33.5	123.7	129.4	19.7	68
Change (%)	-8.6	24.5	13.6	3.9	22.7	-8.0	6.1	1.5	7.8	4.6	-26.5	

Source: MOFSL, Company

Exhibit 1: Key Operating Parameters

		FY19				FY20				FY21
		1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
Capacity										
Installed	GW	53.7	53.7	53.2	55.1	55.1	57.1	58.2	62.1	62.1
Commercial	GW	51.4	52.2	51.7	52.9	54.3	55.0	56.4	61.1	62.0
Regulated Equity	INR b	509.2	519.9	521.1	539.9	531.2	532.6	565.7	618.1	628.6
Generation										
Gross	b kWh	69	66	70	69	68	62	61	68	60
Electricity sales	b kWh	65	62	65	64	64	57	56	63	56
Availability										
Coal	%	85.9	84.3	85.3	92.4	91.1	84.1	88.3	94.3	95.8
Gas	%	83.9	94.9	94.9	95.6	90.4	93.3	98.8	92.6	93.3
PLF										
Coal	%	78.0	72.6	77.7	77.6	73.9	64.3	63.5	69.5	58.2
Gas	%	23.1	17.9	24.9	18.5	20.6	13.1	10.4	12.3	25.4
Fuel										
Coal Received	mt	43.1	40.0	45.3	47.6	44.0	36.0	44.0	49.1	40.5
o/w imported	mt	0.1	0.1	0.2	0.7	0.9	0.6	0.7	0.7	0.4
% imported	%	0.2	0.3	0.4	1.4	2.0	1.7	1.5	1.4	0.9
Gas received	mmscmd	4.7	4.0	5.7	4.1	4.5	3.1	2.4	2.8	5.6
Per unit										
Realization	INR/kWh	3.62	3.72	3.64	3.92	3.90	4.20	4.38	4.66	4.25
Fuel cost	INR/kWh	2.14	2.19	2.30	2.24	2.30	2.37	2.32	2.38	2.12
Fixed charge	INR/kWh	1.48	1.54	1.34	1.67	1.59	1.82	2.06	2.29	2.14

Source: MOFSL, Company

Exhibit 2: NTPC Valuation

	Case 1		Base		Case 2	
Rf. Nominal risk free rate	(%)	6.50	(%)	7.00	(%)	7.50
B. Beta		0.85		0.85		0.85
Km. Equity Risk premium	(%)	5.00	(%)	5.00	(%)	5.00
Cost of equity (Rf+Km x B)	(%)	10.75	(%)	11.25	(%)	11.75
DCF						
A. FY22-24		INR m	INR/sh.	INR m	INR/sh.	INR m
		248,682	25	214,065	22	212,113
	RoE					
	(%)					
	Re-Invest					
	(%)					
	Growth					
	(%)					
B. FY25-32	12.00	25	3.0	621,284	63	597,741
C. Terminal Value	11.50	10	1.2	630,655	64	565,340
Target price (A+B+C)					152	
						139
						131

Source: MOFSL, Company

Analyst meet takeaways

- NTPC plans to reach ~130GW by 2032. The mix of Renewable in overall capacity may be >30% by 2032. The co. seeks to develop solar parks at Kutch (5GW) and Rajasthan and possibly set up its own projects in these regions.
- NTPC is studying and looking to utilize opportunities within the Distribution space.
- The co. expects its regulated equity to increase at a 15% CAGR over the next three years. The capitalization run-rate would be at 5–6GW p.a. for the next three to four years.
- Coal-based capacities of ~15GW is currently under construction. The co. would not take any new greenfield projects, but may expand capacities such as Singrauli, Lara, and Talcher, if required.
- As per the board's approval, the rebate was to be given if DISCOMs withdrew their force majeure conditions. In the current quarter, the co. has provided an INR8b rebate. The balance is to be paid only when DISCOMs withdraw their force majeure applications.
- NTPC has discussed the possibility of a buyback in its previous board meetings and is looking into it.
- Outstanding overdues have reduced to INR145b (currently) from INR164b at June-end. The co. expects money from PFC and REC to flow through and is hopeful of squaring off past dues by the end of the quarter.
- Late payment surcharge income rose YoY to INR4.7b (v/s INR1.7b in the previous year).
- FC u/r, though, rose to INR2.25b (v/s INR1.2b in the previous year).
- PLF incentives were higher YoY at INR1.4b (v/s INR1.1b).

Valuation and view

Commercialization picks up pace

- NTPC commercialized 5.3GW of plants in FY20, the highest ever in a single fiscal year. While disruptions due to COVID-19 could impact upcoming commercialization plans, we note that even if we assume no incremental commercialization, the full benefit of recent additions should aid FY21 PAT by INR9–10b (6–7% of FY20 adj. PAT).
- Moreover, upcoming capacities are incremental units of plants commercialized over FY19–20, and most resources have been mobilized. NTPC targets ~5.9GW for commercialization in FY21. Furthermore, while issues related to manpower deployment could hamper execution, the company has been confident of achieving at least 4.5GW. We remain conservative and build-in commercialization of 3.6GW in FY21.

Fixed cost under-recoveries on the decline

- Muted power demand, coupled with production ramp-up at Coal India's mines, has led to an increase in coal stocks at power plants. This bodes well for NTPC and reduces FC u/r. For FY20, FC u/r stood at ~INR2.5b (v/s INR8b in FY19). Given the essential nature of the Power Generation business, the movement of coal through rail or road has not been an issue in the current situation. We expect overall FC u/r to remain low, although some machine-related u/r may occur from time to time.

Regulations lend visibility up to FY24

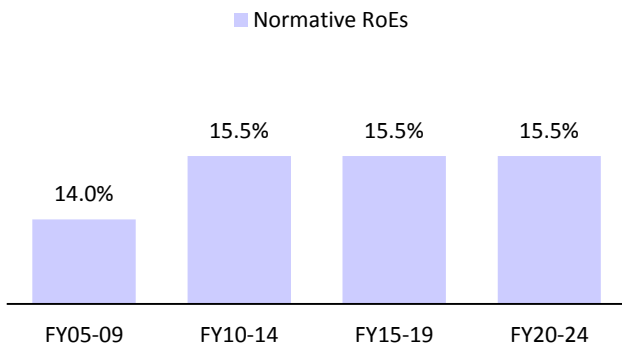
- Tariff regulations for FY20–24 have kept regulated RoE unchanged at 15.5%; this marks the third consecutive five-year period wherein regulators have not tinkered with regulated RoE.
- Besides this, the two-part tariff structure was also retained. This provides strong direction for long-term assured returns.

RoE to improve as capitalization outpaces capex

With the pickup in capitalization, which was partly hampered due to coal availability issues, we expect a regulated equity CAGR of ~11% over FY20–23. We expect capitalization to outpace capex, which, along with lower u/r, would improve RoE by ~120bps to ~13% by FY23. Reported earnings in FY21 would witness a drop due to the announcement of an INR15.9b rebate. However, this is a one-off in nature, attributed to the disruption caused by COVID-19.

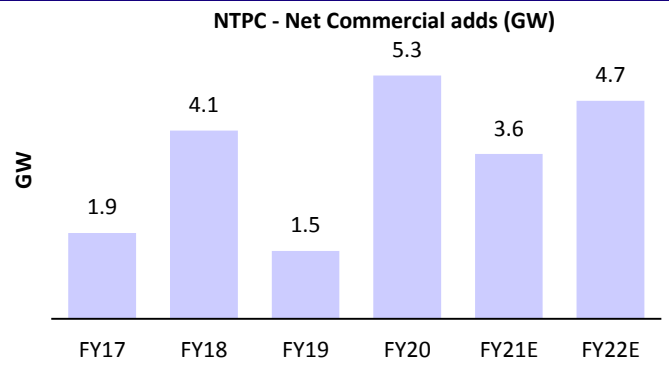
Story in charts

Exhibit 3: New regulations lend visibility to earnings...



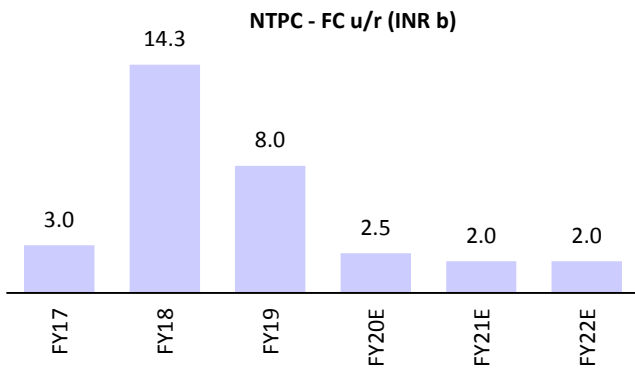
Source: MOFSL, Company

Exhibit 4: ...and the pace of commercialization has picked up...



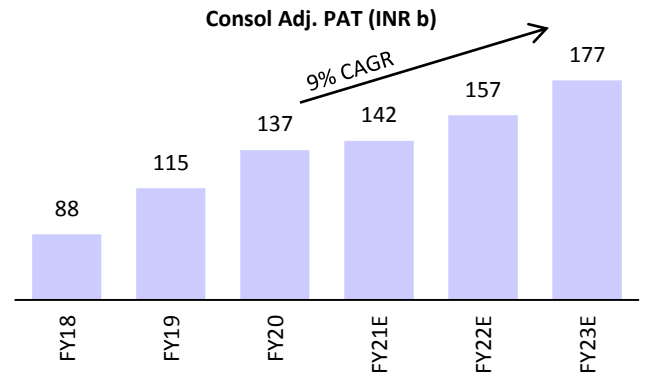
Source: MOFSL, Company

Exhibit 5: ...while fixed cost u/r is declining...



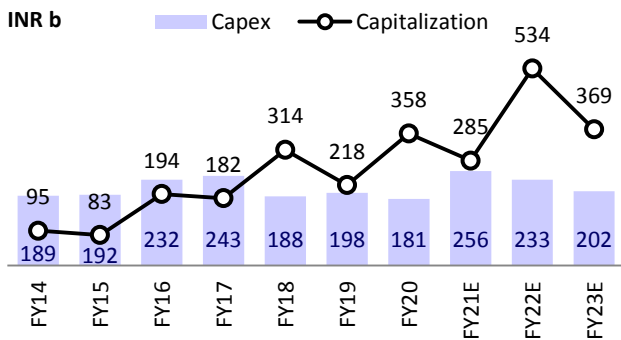
Source: MOFSL, Company

Exhibit 6: ...overall, earnings would witness a 9% CAGR



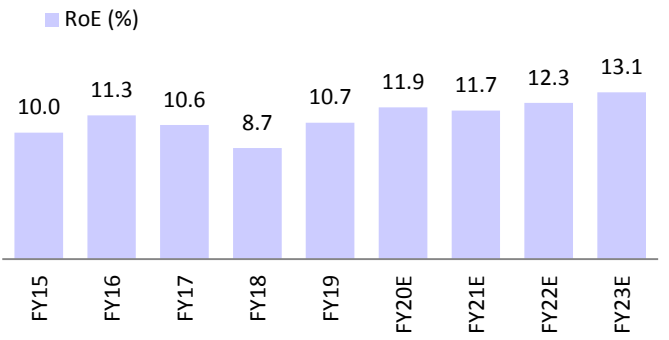
Source: MOFSL, Company

Exhibit 7: Capitalization would outpace capex...



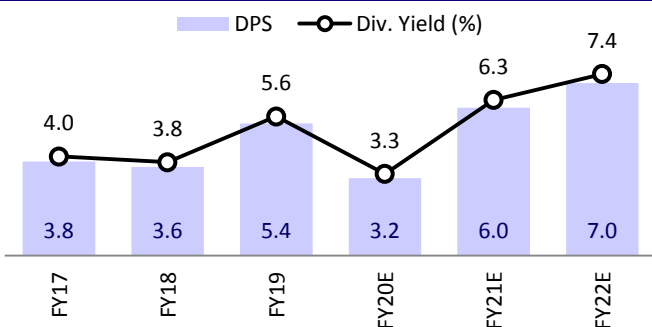
Source: MOFSL, Company

Exhibit 8: ...leading to improvement in RoE



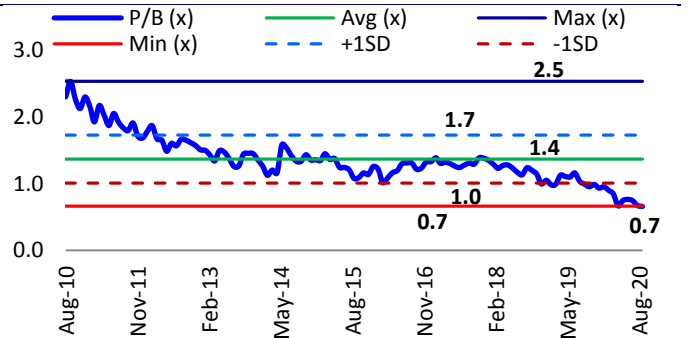
Source: MOFSL, Company

Exhibit 9: Dividend yield remains attractive



Source: MOFSL, Company

Exhibit 10: The stock trades at the lower end of its historical val.



Source: MOFSL, Bloomberg

Financials and valuations

Income Statement								(INR m)
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Net Sales	727,055	817,171	877,622	906,369	1,143,361	1,095,698	1,276,134	1,392,257
Change (%)	-9.8	12.4	7.4	3.3	26.1	-4.2	16.5	9.1
Expenditure	547,486	598,870	647,813	707,282	779,275	742,444	858,296	917,599
EBITDA	179,569	218,300	229,808	199,086	364,086	353,253	417,838	474,658
Margin (%)	24.7	26.7	26.2	22.0	31.8	32.2	32.7	34.1
Depreciation	52,240	60,099	74,599	76,881	103,562	115,859	131,941	148,839
EBIT	127,329	158,201	155,209	122,205	260,524	237,394	285,897	325,820
Interest	33,137	36,511	44,346	52,609	81,169	103,053	116,705	130,440
Other Income	10,576	9,668	15,583	17,953	29,085	22,007	18,556	15,920
XO reported	0	0	0	0	0	-15,867	0	0
Profit before Tax	104,768	131,358	126,446	87,550	208,441	140,481	187,748	211,299
Tax	-1,628	30,467	25,881	-32,064	93,475	38,048	44,637	49,784
Tax Rate (%)	-1.6	23.2	20.5	-36.6	44.8	27.1	23.8	23.6
Share of JVs	1,412	6,247	4,451	6,721	4,054	13,603	16,549	18,319
Minority int	-204	-57	-425	-66	3,018	3,018	3,018	3,018
PAT	108,012	107,196	105,440	126,400	116,002	113,018	156,643	176,817
Prior period	-11,055	-8,479	-17,448	-11,787	20,607	0	0	0
Adj. PAT	96,957	98,717	87,992	114,614	136,609	141,896	156,643	176,817
Change (%)	14.9	1.8	-10.9	30.3	19.2	3.9	10.4	12.9

Balance Sheet								(INR m)
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Share Capital	82,455	82,455	82,455	98,946	98,946	98,946	98,946	98,946
Reserves	809,511	895,926	953,180	1,001,424	1,089,446	1,136,511	1,213,530	1,280,270
Net Worth	891,965	978,380	1,035,635	1,100,370	1,188,392	1,235,456	1,312,476	1,379,215
Minority Interest	8,928	8,033	9,478	6,648	33,172	33,172	33,172	33,172
Loans	1,120,194	1,137,551	1,300,143	1,616,818	2,004,706	2,070,771	2,089,542	2,089,259
Deferred Tax Liability	14,094	14,849	24,081	41,997	76,171	76,171	76,171	76,171
Capital Employed	2,035,181	2,138,812	2,369,337	2,765,833	3,302,440	3,415,570	3,511,361	3,577,817
Gross Block	1,632,140	1,170,879	1,501,531	1,665,811	2,269,186	2,553,935	3,088,058	3,457,197
Less: Accum. Deprn.	587,180	125,562	206,147	287,597	391,159	507,017	638,959	787,798
Net Fixed Assets	1,044,959	1,045,317	1,295,385	1,378,214	1,878,028	2,046,917	2,449,099	2,669,399
Capital WIP	815,497	868,957	820,931	1,067,775	985,085	956,656	655,695	488,063
Investments	148	78,023	92,515	81,000	93,066	98,923	100,679	100,679
Current Assets	543,886	492,677	534,851	646,976	817,693	783,441	784,115	813,180
Inventory	79,592	65,861	61,403	81,194	111,385	101,241	109,165	126,868
Account Receivables	101,740	89,995	88,122	101,477	203,708	145,342	142,905	139,246
Cash and Bank Balance	57,370	33,015	43,876	27,823	32,143	66,401	61,588	76,609
Loans and Advances	202,075	6,133	6,931	6,727	7,638	7,638	7,638	7,638
Others	103,110	297,674	334,519	429,755	462,819	462,819	462,819	462,819
Current Liabilities	369,310	346,162	374,344	408,131	471,431	470,367	478,226	493,504
Payables	68,266	55,859	67,309	85,658	101,767	100,703	108,562	123,840
Other current liabilities	301,044	290,303	307,035	322,473	369,664	369,664	369,664	369,664
Net Working Capital	174,577	146,515	160,507	238,845	346,262	313,074	305,888	319,676
Application of Funds	2,035,181	2,138,812	2,369,337	2,765,833	3,302,440	3,415,570	3,511,361	3,577,817

Financials and valuations

Ratios								
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Basic (INR)								
EPS	9.8	10.0	8.9	11.6	13.8	14.3	15.8	17.9
Cash EPS	16.2	16.9	18.2	20.5	22.2	23.1	29.2	32.9
BV/Share	90.1	98.9	104.7	111.2	120.1	124.9	132.6	139.4
DPS	2.7	3.8	3.6	5.4	3.2	6.0	7.0	10.0
Payout (%)	27.3	38.3	40.5	46.3	22.8	41.8	44.2	56.0
Valuation (x)								
P/E	11.1	9.5	10.7	8.2	6.9	6.6	6.0	5.3
Cash P/E	6.7	5.6	5.2	4.6	4.3	4.1	3.3	2.9
P/BV	1.2	1.0	0.9	0.9	0.8	0.8	0.7	0.7
EV/EBITDA	11.9	9.4	9.6	12.7	8.0	8.3	7.1	6.2
Dividend Yield (%)	2.5	4.0	3.8	5.6	3.3	6.3	7.4	10.5
Return Ratios (%)								
EBITDA Margins (%)	24.7	26.7	26.2	22.0	31.8	32.2	32.7	34.1
Net Profit Margins (%)	14.9	13.1	12.0	13.9	10.1	10.3	12.3	12.7
RoE	11.3	10.6	8.7	10.7	11.9	11.7	12.3	13.1
RoIC (Post-tax)	11.8	10.5	9.6	11.1	7.6	7.7	8.7	8.9
RoCE (Post-tax)	7.2	6.6	6.4	6.7	6.5	6.6	7.5	8.2
Working Capital Ratios								
Debtor (Days)	51	40	37	41	65	48	41	37
Inventory (Days)	40	29	26	33	36	34	31	33
Payable (Days)	34	25	28	34	32	34	31	32
Leverage Ratio (x)								
Current Ratio	1.5	1.4	1.4	1.6	1.7	1.7	1.6	1.6
Interest Cover Ratio	4.2	4.6	3.9	2.7	3.6	2.5	2.6	2.6
Net Debt/EBITDA	5.9	5.1	5.5	8.0	5.4	5.7	4.9	4.2
Net Debt/Equity	1.2	1.1	1.2	1.4	1.7	1.6	1.5	1.5
Cash Flow Statement (INR m)								
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Profit/(Loss) before Tax	101,035	137,606	132,417	83,719	222,816	151,066	201,279	226,601
Interest	41,090	35,691	44,160	52,431	80,606	103,053	116,705	130,440
Depreciation	61,534	60,099	74,599	76,881	103,562	115,859	131,941	148,839
(Inc)/Dec in WC	-36,422	-2,073	-58,298	-72,868	-63,198	67,447	2,372	1,233
Tax paid	-14,584	-26,263	19,257	-30,390	-36,069	-38,048	-44,637	-49,784
others	1,452	-3,395	-15,508	53,898	-61,885	-22,007	-18,556	-15,920
CF from Operations	154,106	201,666	196,627	163,671	245,832	377,370	389,106	441,409
Capex	-232,470	-243,451	-187,559	-197,548	-180,625	-256,320	-233,161	-201,508
(Pur)/sale of Invest.	16,536	3,436	0	0	0			
Acquisition in subs.	0	-12,002	-11,531	-40,574	-122,650	-5,857	-1,756	0
Int. & Div. Income	9,528	2,707	3,033	1,079	58	22,007	18,556	15,920
Others	-16,514	-8,262	-42	343	344			
CF from Investments	-222,920	-257,573	-196,099	-236,700	-302,873	-240,170	-216,361	-185,588
Issue of Shares								
Inc/(Dec) in Debt	80,528	150,466	145,059	224,698	232,572	66,065	18,772	-283
finance cost	-83,473	-75,645	-86,058	-107,672	-133,992	-103,053	-116,705	-130,440
Dividend (incl. tax)	-33,513	-43,269	-48,669	-59,272	-37,751	-59,367	-69,262	-98,946
Others	1,252	0	0	-778	-787			
CF from Fin. Activity	-35,206	31,552	10,333	56,976	60,043	-96,356	-167,196	-229,669
Inc/Dec of Cash	-104,021	-24,355	10,861	-16,053	3,002	40,844	5,549	26,152
Add: Beginning Balance	161,390	57,369	33,015	43,876	27,823	30,825	71,670	77,219
Closing Balance	57,369	33,015	43,876	27,823	30,825	71,670	77,219	103,371

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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