



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗

+ Positive = Neutral - Negative

Reco/View

Change

Reco: Buy



CMP: Rs. 89

Price Target: Rs. 123



Upgrade
 Maintain
 Downgrade

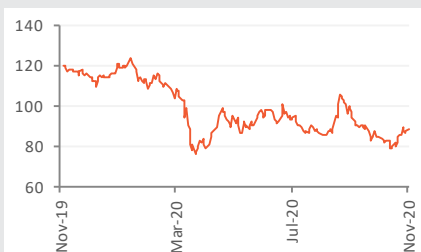
Company details

Market cap:	Rs. 88,309 cr
52-week high/low:	Rs. 125/74
NSE volume: (No of shares)	230.1 lakh
BSE code:	532555
NSE code:	NTPC
Free float: (No of shares)	484.6 cr

Shareholding (%)

Promoters	51.0
FII	11.4
DII	34.9
Others	2.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	6	4	-2	-26
Relative to Sensex	4	-3	-28	-25

Sharekhan Research, Bloomberg

Summary

- NTPC's Q2FY2021 PAT at Rs. 3,505 crore (up 7.4% y-o-y) was in-line with our estimate of Rs. 3,502 crore as higher-than-expected higher surcharge income at Rs. 657 (up 20% q-o-q) and increased regulated equity (up 19.3% y-o-y) was offset by FC under-recoveries of Rs. 271 crore.
- Management has guided for strong commercialisation of 5,566MW for FY2021, 7,336MW for FY2022, and 5,016 for FY2023 and expects fixed cost under-recoveries to reduce to Rs. 200 crore-220 crore by March 2021.
- NTPC board has approved buyback of equity shares not exceeding 19.8 crore shares (2% of the total paid up equity share capital) at a price of Rs. 115/share (29% premium to last closing price) for an aggregate amount not exceeding Rs. 2,276 crore.
- We recommend Buy on NTPC with a PT of Rs. 123, given earnings visibility (expect 19% PAT CAGR over FY21E-FY23E), RoE of 13%, attractive valuation of 0.6x its FY23E P/BV (54% discount historical valuations), and healthy dividend yield of 7-8%.

NTPC Limited's (NTPC) Q2FY2021 PAT at Rs. 3,505 crore (up 7.4% y-o-y) was in-line with our estimate of Rs. 3,502 crore as higher-than-expected surcharge income of Rs. 657 crore (Rs. 473 crore in Q1FY2021) and growth in regulated equity base to Rs. 63,514 crore (19.3% y-o-y) were offset by fixed cost under-recoveries of Rs. 271 crore (versus nil in Q1FY2021). Q2FY2021 PAT was also impacted by one-time rebate of Rs. 560 crore to discoms (already factored in our and street estimates) as directed by Ministry of Power. NTPC's management has set strong commercialisation target of 5,566 MW for FY2021, 7,336MW for FY2022, and 5,016 for FY2023 and expects fixed cost under-recoveries to reduce to Rs. 200 crore-220 crore by March 2021 with improvement in PAF for coal-fired power plants. Given strong commercialisation guidance, we model an 11% CAGR in regulated equity over FY2021E-FY2023E and expect lower fixed cost under-recoveries. Thus, we expect PAT to post a 19% PAT CAGR over FY2021E-FY2023E along with decent RoE of 12%-13%. Hence, we recommend Buy on NTPC with a price target (PT) of Rs. 123, given earnings visibility in uncertain times, attractive valuation of 0.6x its FY2023E P/BV (54% discount to historical average one-year forward P/BV of 1.4x), and healthy dividend yield of 7%-8%. NTPC's board has also approved share buyback at Rs. 115/share (not exceeding 19.8 crore share or 2% of outstanding equity with aggregate buyback amount not exceeding Rs. 2,276 crore).

Key positives

- Higher-than-expected surcharge income at Rs. 657 crore (up 20% q-o-q).
- Standalone regulated equity grew by 19.3% y-o-y to Rs. 63,514 crore as on September 30, 2020.

Key negatives

- Fixed cost under-recoveries at Rs. 271 crore in Q2FY2021 versus nil in Q1FY2021.
- Receivables from discoms continue to remain high at ~Rs. 19,164 crore as on September 2020 versus Rs. 16,400 crore as on June 30, 2020.

Our Call

Valuation – Recommend Buy on NTPC with PT of Rs. 123: We have fine-tuned our FY2021 earnings estimate to factor in higher surcharge income while largely maintaining our FY2022-FY2023 earnings. We derive comfort from NTPC's risk averse regulated business model, which provides earnings visibility (expect 19% PAT CAGR over FY2021E-FY2023E) as robust commercialisation would drive strong growth in regulated equity base. Moreover, the balance sheet is expected to improve with reduction in receivables as NTPC would receive outstanding dues from discom under the power sector's relief package. The acquisition of NEEPCO and THDC India seems a strategic fit for NTPC, given access to hydro power portfolio. NTPC also offers a healthy dividend yield of 7%-8% and is trading at an attractive valuation of 0.6x its FY2023E P/BV (54% discount to historical average one-year forward P/BV of 1.4x). Hence, we recommend Buy on NTPC with a PT of Rs. 123.

Key risk

Lower-than-expected commercial capacity additions amid delay in projects due to COVID-19 and coal availability shortages could affect earnings. Moreover, any write-off related to dues from discoms could impact valuations.

Valuation (Standalone)

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenue	90,307	97,700	1,11,428	1,23,306	1,32,857
OPM (%)	25.2	27.7	28.0	30.7	31.3
Adjusted PAT	10,616	12,173	12,071	15,326	17,135
% YoY growth	2.6	14.7	-0.8	27.0	11.8
Adjusted EPS (Rs.)	10.7	12.3	12.2	15.5	17.3
P/E (x)	8.3	7.3	7.3	5.8	5.2
P/B (x)	0.8	0.8	0.7	0.7	0.6
EV/EBITDA (x)	9.7	9.1	7.9	6.4	5.7
RoNW (%)	10.1	11.0	10.3	12.4	13.0
RoCE (%)	7.3	8.1	8.5	9.9	10.3

Source: Company; Sharekhan estimates

Note: We now convert NTPC into a Stock Update; It was earlier a 'Viewpoint' under our coverage

In-line PAT as higher surcharge income and rise in regulated equity get offset by FC under-recoveries

NTPC's Q2FY2021 revenue increased by 8.4% y-o-y and 5.2% q-o-q to Rs. 24,677 crore, in-line with our estimate of Rs. 24,578 crore. The energy sold out increased by 10.7% y-o-y to 62.9 billion units, while average tariff declined marginally by 2% y-o-y. Operating profit increased by 13.2% y-o-y (down 7.3% q-o-q) to Rs. 7,183 crore, below our estimate of Rs. 7,746 crore. Operating profit margin (OPM) at 29.1% (up 123 bps y-o-y) was lower than our estimate of 31.5%. PAT at Rs. 3,505 crore (up 7.4% y-o-y) was in-line with our estimate of Rs. 3,502 crore, as higher-than-expected surcharge income of Rs. 657 crore (Rs. 473 crore in Q1FY2021) and growth in regulated equity base to Rs. 63,514 crore (19.3% y-o-y) was partially offset by fixed cost under-recoveries of Rs. 271 crore (versus nil in Q1FY2021). Q2FY2021 PAT was also impacted by one-time rebate of Rs. 560 crore to discoms (already factored in our and street estimates) as directed by Ministry of Power.

Q2FY2021 results conference call highlights

- ♦ **Share buyback programme** – The board of directors of the company has approved buyback of fully paid-up equity shares not exceeding 19.8 crore shares (representing 2% of the total paid-up equity share capital of the company) at a price of Rs. 115/share for an aggregate amount not exceeding Rs. 2,276 crore. The buyback price is at 29% premium to last closing price of Rs. 89/share. The Company has fixed November 13, 2020 as the record date for the purpose of ascertaining the eligibility of shareholders for Buyback of equity shares.
- ♦ **Commercialisation guidance** – Management has guided for commercialisation of 5,566MW for FY2021, 7,336MW for FY2022, and 5,016 for FY2023. The guidance translates into average commercialisation of 5,973MW annually (versus commercialised capacities of 3,780 MW in FY2020) over the next three years, in line with earlier guidance for commercialisation of 5-6 GW annually over the next three years.
- ♦ **Capex guidance** – Management has guided for total capex of Rs. 21,000 crore for FY2021E. The company has spent Rs. 7,140 crore in H1FY2021 as compared to Rs. 9,144 crore in H1FY2020.
- ♦ **Long-term plans** – NTPC plans to have 130 GW capacity by 2032 and targets to have 30% of power capacity from renewable energy by FY2032.
- ♦ **Renewable energy projects update** – Management has said the 1,070MW has been commissioned, 2,404MW is under implementation, and 2,088 MW is under tendering phase for renewable energy (RE). NTPC has created a subsidiary, NTPC Renewable Energy Limited to hive-off its renewable energy business and has appointed a consultant to advice on the same.
- ♦ **Update on receivables** – Total receivables (>45 days) from discoms increased to Rs. 19,164 crore as of September 2020 as compared to Rs. 16,400 crore as of June 2020. Management has said that top five states account for close to Rs. 14,340 crore – Uttar Pradesh at Rs. 4,400 crore, Jammu and Kashmir at Rs. 3,700 crore, Karnataka at Rs. 2,990 crore, Madhya Pradesh at Rs. 1,900 crore, and Telangana at Rs. 1,350 crore. NTPC has received Rs. 6,700 crore under the first tranche of power sector relief package and Rs. 7,500 crore is yet to be received. Moreover, Karnataka would take bank loan to repay its dues. Management is confident to reduce receivable to Rs. 16,000 crore.
- ♦ **Fixed cost under-recoveries and PAF** – Fixed cost under-recovered was at Rs. 497 crore in H1FY2021 versus Rs. 448 crore in H1FY2020. For Q2FY2021, it was at Rs. 271 crore as compared to Rs. 332 crore in Q2FY2020. Plant availability factor (PAF) for coal-based plants declined to 91.8% as compared to 95.8% in Q1FY2021.
- ♦ **Surcharge income** stood at Rs. 1,130 crore in H1FY2021 versus Rs. 823 crore in H1FY2020; and for Q2FY2021, it was at Rs. 657 crore as compared to Rs. 651 crore in Q2FY2020.

- ♦ NTPC received Rs. 563 crore as dividend income from its subsidiaries in Q2FY2021.
- ♦ NTPC's gross generation increased by 9.8% y-o-y (12.4% q-o-q) to 67.7 billion units in Q2FY2021. The energy sold was also up by 10.7% y-o-y and 12.6% q-o-q to 62.9 billion units, which reflects improvement in power demand during the quarter.
- ♦ The consolidated commercial capacity stood at 62,110MW versus 54,986MW as on September 2019 and 61,960MW as in June 2020.

Results (Standalone)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	Rs cr QoQ (%)
Net Sales	24,677	22,765	8.4	23,453	5.2
Total Expenditure	17,494	16,418	6.5	15,708	11.4
Reported operating profit	7,183	6,346	13.2	7,745	-7.3
Adjusted operating profit	7,183	6,346	13.2	7,745	-7.3
Other Income	1,346	894	50.6	568	137.2
Interest	1,773	1,619	9.5	2,083	-14.9
Depreciation	2,529	2,123	19.1	2,530	0.0
PBT	4,227	3,498	20.9	3,700	14.2
Exceptional income/(expense)	560	1,103	NA	803	NA
PBT after exceptional items	3,667	3,498	4.8	2,898	26.5
Tax	509	1,103	-53.9	1,230	-58.6
PAT before regulatory deferral account balances	3,158	2,395	31.9	1,668	89.4
Net movement in regulatory deferral account balances	347	868		803	
Reported PAT	3,505	3,262	7.4	2,470	41.9
Adjusted PAT	3,505	3,262	7.4	2,470	41.9
Equity Cap (cr)	989	989		989	
Adjusted EPS (Rs.)	3.5	3.3	7.4	2.5	41.9
Margins (%)			BPS		BPS
Adjusted OPM	29.1	27.9	123	33.0	-391
Effective tax rate	12.0	31.5	-1949	33.2	-2120
NPM	14.2	14.3	-13	10.5	367

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Regulated tariff model provides earnings visibility; Reforms in the power sector to strengthen the balance sheet of power companies

India's power sector is regulated by CERC with availability-based earnings model (fixed RoE on power generation assets) and, thus, regulated tariff model provides strong earnings visibility for power generation companies. Additionally, with improved coal stocks at thermal power plants, PAF has improved and, thus, we expect fixed cost under-recoveries to decline for power companies. Power demand in India has also recovered sharply post the initial disruption by COVID-19 led lockdown. Moreover, the government's power sector liquidity infusion package of Rs. 90,000 crore to clear dues of power generation and transmission companies by discoms would reduce receivables of the power sector and strengthen balance sheet of companies.

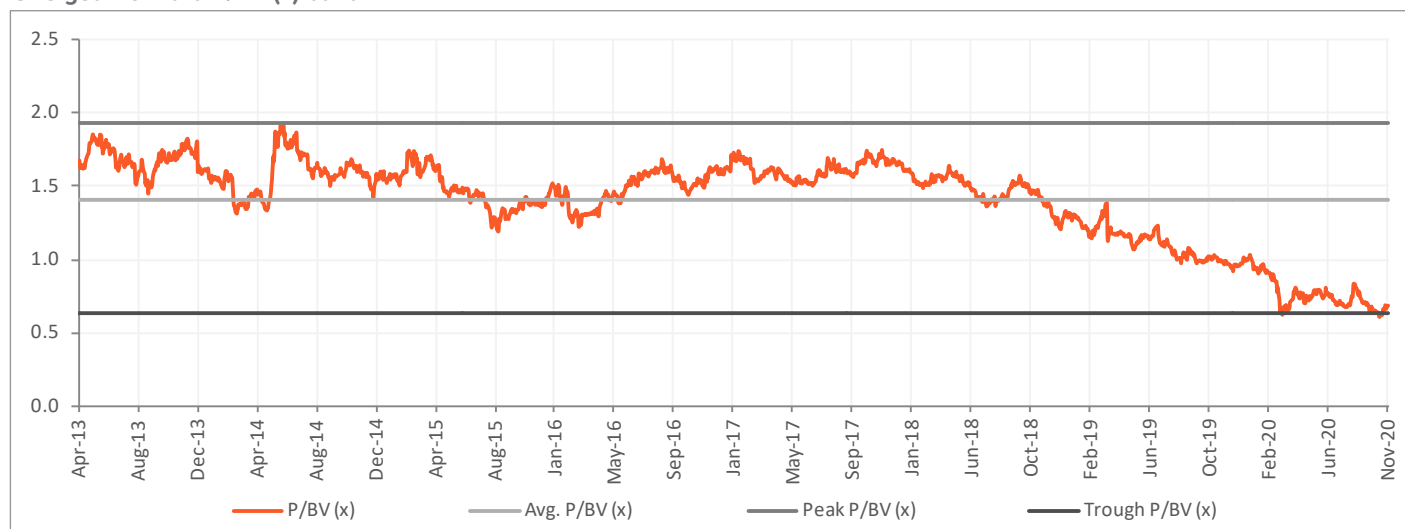
■ Company Outlook – Strong capitalisation target of 6 GW annually and 15% CAGR in regulated equity over FY2021E-FY2023E

NTPC aims to add 6 GW of new commercial capacities annually and has guided for 15% CAGR in regulated equity over FY2021E-FY2023E. Management has provided robust guidance for growth in regulated equity, which makes us optimistic about strong earnings growth for NTPC over the next couple of years. Management believes receivables of Rs. 19,164 crore currently from discoms should come down with liquidity infusion into discoms under the power sector relief package. The decline in receivables from discoms would strengthen NTPC's balance sheet.

■ Valuation – Recommend Buy on NTPC with PT of Rs. 123

We have fine-tuned our FY2021 earnings estimate to factor in higher surcharge income while largely maintaining our FY2022-FY2023 earnings. We derive comfort from NTPC's risk averse regulated business model, which provides earnings visibility (expect 19% PAT CAGR over FY2021E-FY2023E) as robust commercialisation would drive strong growth in regulated equity base. Moreover, the balance sheet is expected to improve with reduction in receivables as NTPC would receive outstanding dues from discom under the power sector's relief package. The acquisition of NEEPCO and THDC India seems a strategic fit for NTPC, given access to hydro power portfolio. NTPC also offers a healthy dividend yield of 7%-8% and is trading at an attractive valuation of 0.6x its FY2023E P/BV (54% discount to historical average one-year forward P/BV of 1.4x). Hence, we recommend Buy on NTPC with a PT of Rs. 123.

One-year forward P/BV (x) band



Source: Sharekhan Research

About company

NTPC, established in 1975, is India's largest power generation company in India with an installed capacity of 62,910 MW as on June 30, 2020. NTPC accounted for 17% and 22% in India's installed power capacity and generation, respectively. The company plans to add ~20 GW of power capacity in the next five years. NTPC also provides consultancy services to entities in the power domain and is engaged in power trading through its subsidiary.

Investment theme

NTPC is expected to commercialise new capacities of 5-6 GW annually over the next three years and expects 15% CAGR in regulated equity base over the same period. Thus, we expect strong growth in regulated equity (on which it earns regulated RoE of 15.5%). Moreover, with improvement in PAF of coal-based power plants, the company's fixed cost under-recoveries are expected to remain negligible in the near term. NTPC is trading at an attractive valuation and offers a healthy dividend yield.

Key Risks

- ♦ Lower-than-expected additions to commercial capacity.
- ♦ Coal shortage could affect earnings.
- ♦ Any write-off related to dues from discoms could impact valuation.

Additional Data

Key management personnel

Gurdeep Singh	Chairman and Managing Director
Anil Kumar Gautam	Director – Finance
Chandan Kumar Mondol	Director – Commercial

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	10.8
2	ICICI Prudential Asset Management	7.5
3	HDFC Asset Management Co Ltd	4.5
4	Reliance Capital Trustee Co Ltd	3.3
5	CPSE ETF	3.1
6	SBI Funds Management Pvt Ltd	1.3
7	50 SBI-ETF NIFTY	1.2
8	T Rowe Price Group Inc	1.1
9	T. ROWE PRICE INTL STOCK F	1.1
10	Franklin Resources Inc	1.0

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he or its associates or his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVL R, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;

Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com; Investment in securities market are subject to market risks, read all the related documents carefully before investing.