Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

NTPC Limited

Strong commercialisation to drive earnings; Valuation attractive

Power	Sharekhan code: NTPC	Company Update

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 104**	
Price Target: **Rs. 140**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Company details

Market cap:	Rs. 103,299 cr
52-week high/low:	Rs. 125/74
NSE volume: (No of shares)	309.3 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	18	15	13	-9
Relative to Sensex	12	-5	-25	-21

Sharekhan Research, Bloomberg

Summary

- NTPC's risk averse regulated business model provides earnings visibility (expect a 19% PAT CAGR over FY2021E-FY2023E) as robust commercialisation target (5-6 GW annually) would drive strong growth in regulated equity base.
- We expect gradual re-rating led by improving operational performance (PAF at 90% plus and higher PLF for coal-based power plants), 15% CAGR guidance over FY21-23 in regulated equity, and better mix of renewable energy to allay concern of ESG.
- Management is confident to reduce receivable to Rs. 16,000 crore by Q4FY2021 (versus Rs. 19,164 crore in Q2FY2021) as discoms are expected to clear dues of power generation companies under power sector relief package.
- We maintain our Buy rating on NTPC with a revised PT of Rs. 140, as valuation remains attractive at 0.8x is FY2023E P/BV (46% discount to historical multiple) despite improved earnings visibility and dividend yield of 6-7%. Buyback price of Rs. 115 (close to FY2020 book value) would provide support to the stock price.

NTPC Limited (NTPC) has aggregate 21.3 GW of new projects under various stages of implementation at group level. Of this, the company is targeting to commercialise new capacities of 5.5 GW in FY2021E, 7.3GW in FY2022E, and 5GW in FY2023E. Management has guided that CWIP ratio would continue to decline to 29%/24%/19% in FY2021E/FY2022E/FY2023E (from 32% in FY2020 and 42% in FY2019), which would free-up equity blocked in CWIP and the same would start earnings regulated returns. Given strong commercialisation guidance, we model an 10% 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%. Moreover, with the power sector's relief package, discoms are expected to clear dues of power-generation companies, which would improve NTPC's balance sheet. The buyback price of Rs. 115 is close to NTPC's FY2020 book value and provides support to the stock price. Hence, we maintain Buy on NTPC with revised price target (PT) of Rs. 140, given earnings visibility in uncertain times, attractive valuation of 0.8x its FY2023E P/BV (46% discount to historical average one-year forward P/BV of 1.4x), and healthy dividend yield of 6-7%.

Our Call

Valuation – Maintain Buy on NTPC with a revised PT of Rs. 140: We expect gradual re-rating for NTPC as operational performance would improve (lower fixed cost under-recoveries with PAF at 90% plus and potential higher PLF incentive as coal-based power plants have seen improvement in PLF), commercialisation is likely to drive 10% CAGR in regulated equity and improving mix of renewable energy would allay concern of ESG. We derive comfort from NTPC's risk averse regulated business model, which provides earnings visibility (expect a 19% PAT CAGR over FY2021E-FY2023E) as robust commercialisation would drive strong growth in regulated equity base. Moreover, NTPC's buyback price of Rs. 115 is close to NTPC's FY2020 book value and provides support to the stock price. NTPC also offers a healthy dividend yield of 6-7% and is trading at an attractive valuation of 0.8x its FY2023E P/BV (46% discount to historical average one-year forward P/BV of 1.4x). Hence, we maintain our Buy rating on NTPC with a revised PT of Rs. 140 (valued at 1.5x FY2023E regulated equity base + 0.6x for equity value of FY2020 CWIP).

Key Risks

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) Rs cr

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)	9.7	8.5	8.6	6.7	6.0
P/B (x)	1.0	0.9	0.9	0.8	0.8
EV/EBITDA (x)	10.4	9.7	8.4	6.8	6.1
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

Robust commercialisation schedule of 5-6 GW annually over FY21E-FY23E; Aggregate 21 GW of projects under implementation

NTPC has aggregate 21.3 GW of new projects under various stages of implementation at group level. Out of this, the company is targeting to commercialise new capacities of 5.5 GW in FY2021E, 7.3 GW in FY2022E and 5 GW in FY2023E. The major target for near-term includes expected Commercial Operation Date (CoD) of (1) Lara 800 MW added in November 2020; (2) Gadarwara 800 MW by December 2020; (3) Meja-II 660MW by December 2020; (4) NPGCL 660MW by February 2020; Barh 660 MW by March 2020.

NTPC has commercialisation target of 5-6 GW annually over the three-year period and has guided for a 15% CAGR in its regulated equity over FY2021E-FY2023E. Management has guided that CWIP ratio would continue to decline to 29%/24%/19% in FY2021E/FY2022E/FY2023E (from 32% in FY2020 and 42% in FY2019), which would free-up equity blocked in CWIP and the same would start earnings regulated returns.

Projects under commissioning aggregate to 21.3GW

Details of ongoing projects	In MW
Coal-based projects	
Barh-I, Bihar (3x66 MW)	1,980
Lara-I, Chattisgarh (2x800 MW)	800
Gadarwara-I, Madhya Pradesh (2x800 MW)	800
Darlipalli-I, Odisha (2x800 MW)	800
North Karanpura, Jharkhand (3x660 MW)	1,980
Tanda-II, Uttar Pradesh(2x660MW)	660
Telangana Phase-I, Telangana (2x800 MW)	1,600
Barauni St.-II, Bihar (2x250 MW)	250
Total coal-based projects	**8,870**
Hydro Electric Power Projects (HEPP)	
Tapovan Vishnugad, Uttarakhand (4x130 MW)	520
Lata Tapovan, Uttarakhand (3x57 MW)	171
Rammam Hydro, West Bengal (3x40 MW)	120
Hydro Electric Power Projects	**811**
Renewable Energy Projects	
Auraiya, Solar G, UP	20
Bilhaur, Solar G, UP	140
Bilhaur, Solar G, UP	85
Ramagumdam, Solar F, AP	100
Simhadri, Solar F, AP	25
Kayamkulam, Solar F, Kerala	22
Kayamkulam, Solar F, Kerala	70
Jetsar, Solar G, Rajasthan	160
Rihand, Solar G, UP	20
Auraiya, Solar F, UP	20
CPSU-I: Shimbhoo Ka Burj, Solar G	250
CPSU-I: Devikot, Solar G, Rajasthan	150
CPSU-I: Shimbhoo Ka Burj, Solar G	300
CPSU-II: Nokhra, Solar G, Rajasthan	300
CPSU-II: Fatehgarh, Solar G, Rajasthan	296
CPSU-II: Navalakhapatti, Solar G	230
CPSU-II: Devikot, Solar G, Rajasthan	90

Projects under commissioning aggregate to 21.3GW

Details of ongoing projects	In MW
CPSU-I: Gandhar, Solar G, Rajasthan	20
Renewable Energy Projects	**2,298**
Total Standalone	**11,979**
Projects under JVs and Subsidiaries	
Coal-Based Projects	
Nabinagar- JV with Railways (BRBCL), Bihar, (4x250 MW)	250
Nabinagar (NPGCL), Bihar (3x660MW)	1,320
Meja, JV with UPRVUNL (MUNPL), Uttar Pradesh (2x660 MW)	660
Patratu Expansion, JV with JBVNL	2,400
Rourkela, JV with SAIL (NSPCL), Odisha	250
Durgapur, JV with SAIL (NSPCL), West Bengal (2x20MW)	40
Khulna, JV with BPDB (BIFPCL), Bangladesh (2x660MW)	1,320
THDC - Khurja (2x660 MW)	1,320
Coal-Based Projects	**7,560**
Hydro Projects	
THDC - Tehri PSP, Uttarakhand	1,000
THDC – Vishnugad Pipalkoti, Uttarakhand	444
NEEPCO – Kameng, Arunachal Pradesh	300
Hydro Projects	**1,744**
Renewable Projects	
THDC - Kasargod Solar, Kerala	50
Renewable Projects	**50**
Total JV and Subsidiaries	**9,354**
Total Ongoing Projects as on September 30, 2020	**21,333**

Source: NTPC FY2020 Annual Report

Receivables expected to normalise by end-FY2021

NTPC's 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 the 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.

State-wise break of overdue amount by discoms to power generation companies **Rs. crore**

States	Oct-20	Oct-19	Sep-20	y-o-y (%)	m-o-m (%)	Share (%)
Rajasthan	38,265	31,370	37,108	22%	3%	30%
Tamil Nadu	20,646	13,252	22,016	56%	-6%	16%
Uttar Pradesh	13,851	9,129	12,309	52%	13%	11%
Karnataka	8,590	3,381	8,953	154%	-4%	7%
Jammu and Kashmir	5,462	4,580	7,716	19%	-29%	4%
Maharashtra	7,578	5,686	7,501	33%	1%	6%
Telangana	5,752	6,000	5,158	-4%	12%	5%
Others	26,082	19,770	24,061	32%	8%	21%
Total	**1,26,226**	**93,168**	**1,24,822**	**35%**	**1%**	**100%**

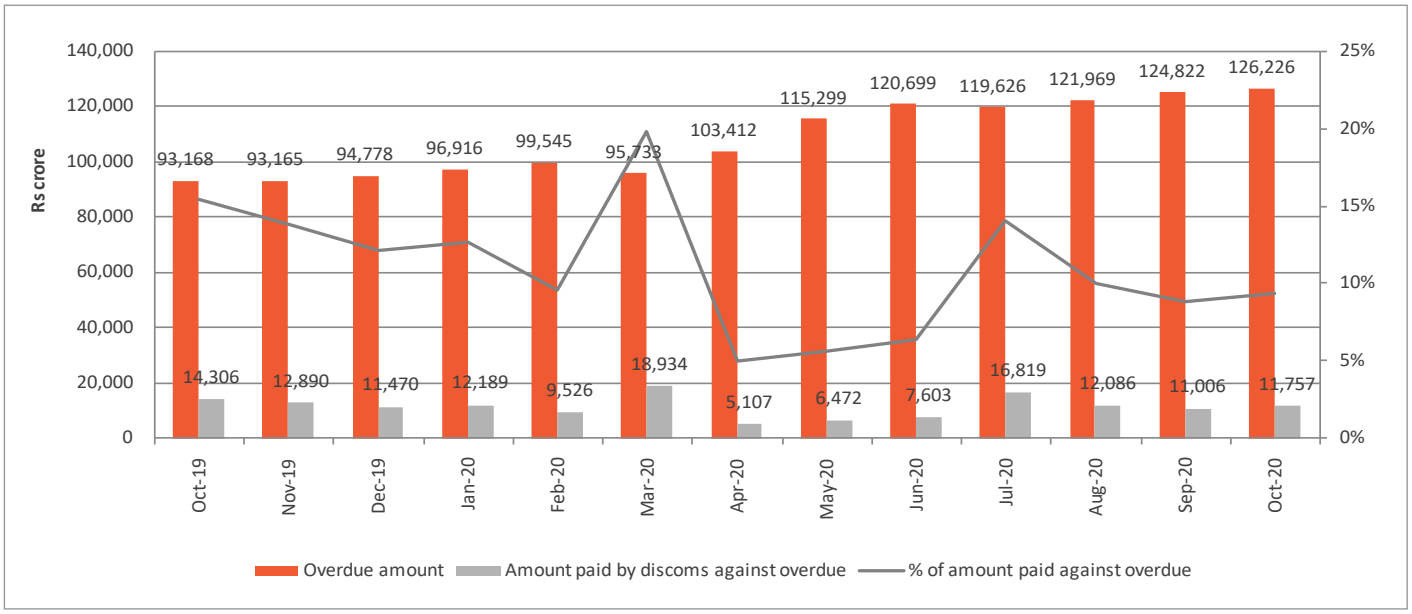
Source: PRAAPTI Portal; Sharekhan Research

Discom overdue and outstanding status as of October 2020

Particulars	Amount (Rs. crore)
Overdue amount at the beginning of the month	1,24,824
Total amount billed to discom	15,581
Amount paid by discoms against overdue	11,757
mount paid by discom against O/S	1,979
Overdue amount at the end of the month	1,26,226
Outstanding amount at the end of the month	12,507

Source: PRAAPTI Portal

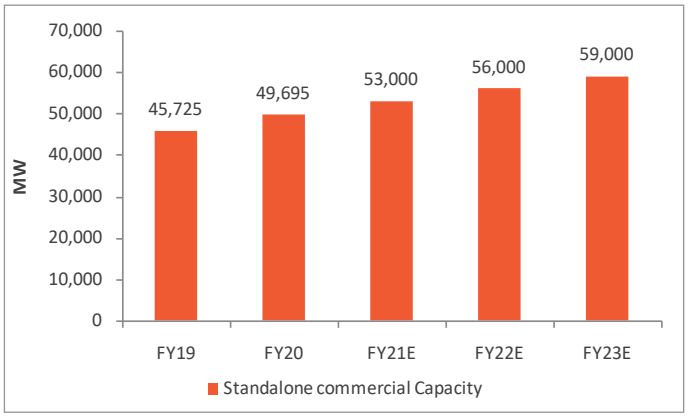
Amount paid by discom as a percentage of overdue amount



Source: PRAAPTI Portal; Sharekhan Research

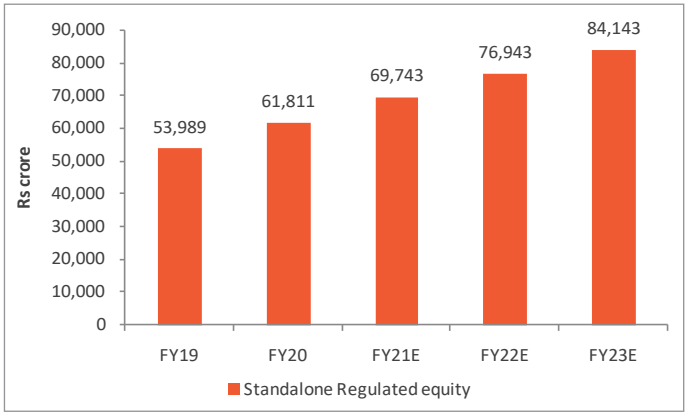
Financials in charts

Strong commercialisation schedule



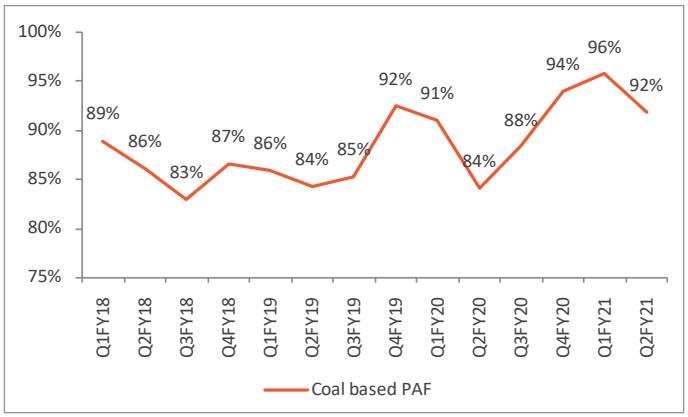
Source: Company, Sharekhan Research

Regulated equity base to improve



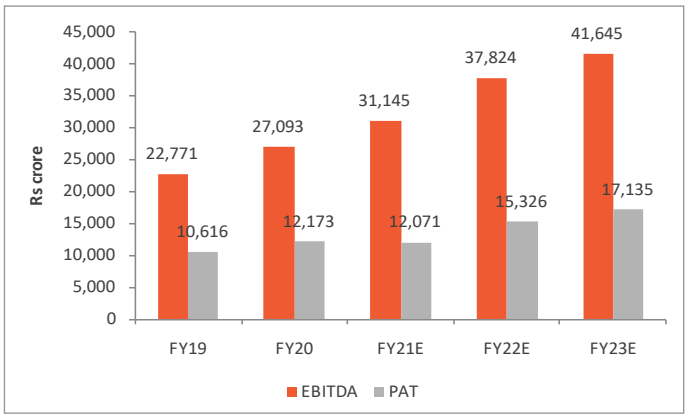
Source: Company, Sharekhan Research

PAF expected to improve given higher coal availability



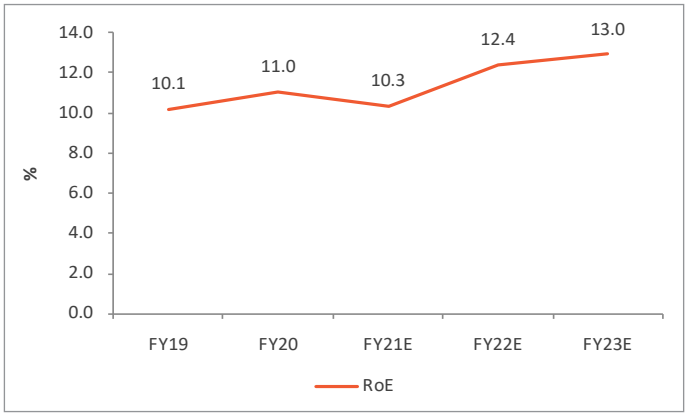
Source: Company, Sharekhan Research

EBITDA/PAT CAGR of 16%/19% over FY21E-FY23E



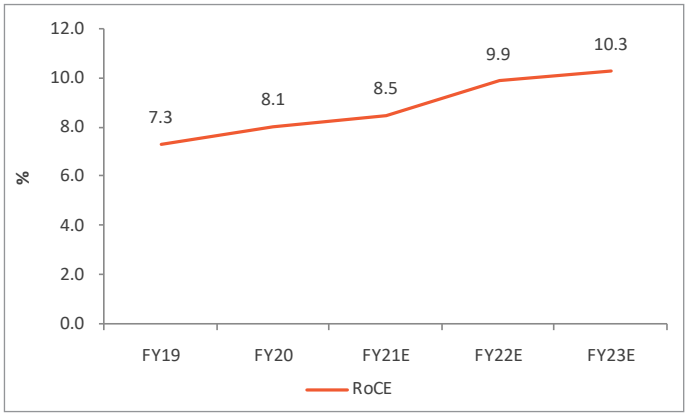
Source: Company, Sharekhan Research

RoE trend



Source: Company, Sharekhan Research

RoCE trend



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 the balance sheet of companies.

■ Company outlook - Strong capitalisation target of 5-6 GW annually and 15% CAGR in regulated equity over FY2021E-FY2023E

NTPC aims to add 5-6 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 - Maintain Buy on NTPC with a revised PT of Rs. 140

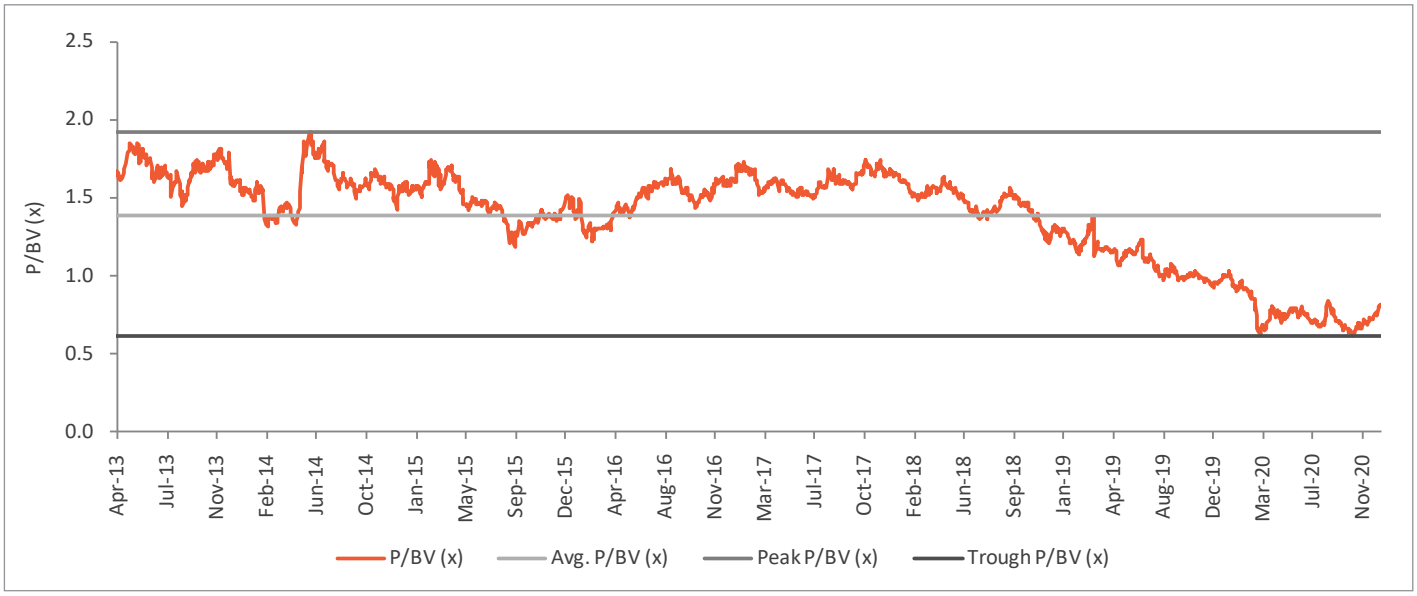
We expect gradual re-rating for NTPC as operational performance would improve (lower fixed cost under-recoveries with PAF at 90% plus and potential higher PLF incentive as coal-based power plants have seen improvement in PLF), commercialisation is likely to drive 10% CAGR in regulated equity and improving mix of renewable energy would allay concern of ESG. We derive comfort from NTPC's risk averse regulated business model, which provides earnings visibility (expect a 19% PAT CAGR over FY2021E-FY2023E) as robust commercialisation would drive strong growth in regulated equity base. Moreover, NTPC's buyback price of Rs. 115 is close to NTPC's FY2020 book value and provides support to the stock price. NTPC also offers a healthy dividend yield of 6-7% and is trading at an attractive valuation of 0.8x its FY2023E P/BV (46% discount to historical average one-year forward P/BV of 1.4x). Hence, we maintain our Buy rating on NTPC with a revised PT of Rs. 140 (valued at 1.5x FY2023E regulated equity base + 0.6x for equity value of FY2020 CWIP).

NTPC valuation

Particulars	Rs. crore	Per share (Rs./ share)	Multiple (x)	Value per share (Rs./share)
FY2023E Regulated equity	84,143	85	1.5	128
FY2020 CWIP (equity portion)	22,008	22	0.6	12
Price target (Rs.)				**140**

Source: Sharekhan Research

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 September 30, 2020. NTPC accounted for 17% and 21% in India's installed power capacity and generation in FY2020, respectively. The company plans to add ~21 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

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	4.3
4	Nippon Life India Asset Management	3.3
5	CPSE ETF	3.1
6	50 SBI-ETF NIFTY	1.2
7	SBI Funds Management Pvt Ltd	1.1
8	BlackRock Inc	1.1
9	T Rowe Price Group Inc	1.1
10	T. ROWE PRICE INTL STOCK	1.1

Source: Bloomberg

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 detoriating 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

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