Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

NTPC Limited

In-line Q3; robust commercialisation to drive growth

Power	Sharekhan code: NTPC	Result 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. 99**	
Price Target: **Rs. 140**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

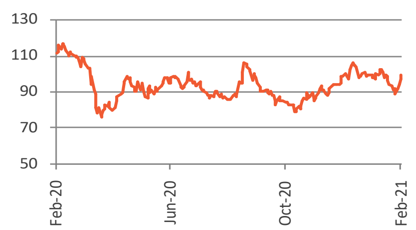
Company details

Market cap:	Rs. 98,006 cr
52-week high/low:	Rs. 119/74
NSE volume: (No of shares)	337.4 lakh
BSE code:	532555
NSE code:	NTPC
Free float: (No of shares)	474.9 cr

Shareholding (%)

Promoters	51.0
FII	12.3
DII	33.5
Others	3.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	1.4	14.1	15.3	-11.0
Relative to Sensex	-4.6	-5.8	-17.3	-27.2

Sharekhan Research, Bloomberg

Summary

- Q3FY2021 performance was steady with a 24% y-o-y increase in adjusted PAT to Rs. 3,308 crore (in line with consensus estimates). Earnings growth was driven by a 14.5% y-o-y increase in regulated equity base, 35% rise in surcharge income to Rs. 565 crore and higher PLF incentive income of Rs. 76 crore (versus just Rs. 9 crore in Q3FY20).
- The management has guided for strong commercialisation of 5,074 MW for FY2021E and 6,000 MW for FY2022E and eyes lower fixed cost under-recoveries of Rs. 350-400 crore by March-2021. Board declared interim dividend of Rs3/share.
- A risk averse regulated business model provides earnings visibility (19% PAT CAGR over FY2021E-FY2023E) as a robust commercialisation target would drive strong growth in regulated equity base.
- We maintain a Buy on NTPC with an unchanged PT of Rs. 140, as valuation remains attractive at 0.7x its FY2023E P/BV (48% discount to historical multiple) despite strong earnings visibility, decent RoE of 13% and dividend yield of 6-7%.

NTPC Limited reported a strong growth of 24% y-o-y in adjusted PAT to Rs. 3,308 crore, in line with consensus estimates. Earnings growth was driven by an increase in regulated equity base to Rs. 64,787 crore (up 14.5% y-o-y), higher surcharge income of Rs. 565 crore (versus Rs. 417 crore in Q3FY2020) and an increase in PLF incentive income to Rs. 76 crore (versus only Rs. 9 crore in Q3FY2020). The management has set strong commercialisation target of 5,074 MW for FY2021 and 6,000 MW for FY2022 and target to lower fixed cost under-recoveries to Rs. 350-400 crore by March 2021. Given strong commercialisation guidance, we model a 10% CAGR in regulated equity over FY2021E-FY2023E and thus expect PAT to post a 19% PAT CAGR over FY2021E-FY2023E along with decent RoE ~13%. Moreover, the relief package for the power sector (of over Rs. 3 lakh crore announced in the Budget) would help power discoms clear dues of power-generation companies. Thus, we expect NTPC's high receivables (at Rs. 16,720 crore as of December 2020) to decline in coming quarters, which would lower working capital requirements and strengthen its balance sheet. Hence, we maintain a Buy on NTPC with an unchanged price target (PT) of Rs. 140, given earnings visibility, attractive valuation of 0.7x its FY2023E P/ BV (48% discount to historical average one-year forward P/BV of 1.4x), and a healthy dividend yield of 6-7%.

Key positives

- Higher-than-expected surcharge income of Rs. 565 crore (up 35% q-o-q).
- Standalone regulated equity grew by 14.5% y-o-y to Rs. 64,787 crore as of December 31, 2020.

Key negatives

- Fixed cost under-recoveries at Rs. 72 crore in Q3FY2021 versus over-recovery of Rs68 crore in Q3FY2020.
- Power generation companies continue to receive lower interest of 1% per month (as per government guideline) on overdue amount from discoms versus 1.5% per month during pre-COVID period.

Our Call

Valuation – Maintain Buy on NTPC with an unchanged PT of Rs. 140: We maintain our FY2021-FY2023 earnings estimates. We derive comfort from NTPC's risk-averse regulated business model, which provides earnings visibility (expect a 19% PAT CAGR over FY2021E-FY2023E). We expect a gradual re-rating of NTPC as operational performance would improve, and commercialisation is likely to drive 10% CAGR in regulated equity. The improving mix of renewable energy would allay concern of ESG. NTPC also offers a healthy dividend yield of 6-7% and is trading at an attractive valuation of 0.7x its FY2023E P/BV (48% discount to historical average one-year forward P/BV of 1.4x). Hence, we maintain a Buy rating on NTPC with an unchanged PT of Rs. 140.

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 affect valuations.

Valuation (Standalone) Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenues	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)	9.2	8.1	8.1	6.4	5.7
P/B (x)	0.9	0.9	0.8	0.8	0.7
EV/EBITDA (x)	10.1	9.5	8.2	6.7	6.0
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

Steady performance with 24% y-o-y growth in PAT (in-line with consensus estimates)

Reported revenues increased by 4.3% y-o-y (down 0.7% q-o-q) to Rs. 24,509 crore, marginally below our estimate of Rs. 24,816 crore. Energy sales were up by 7.9% y-o-y to 61 billion units, while average tariff declined by 3% y-o-y. Operating profit increased by 5.6% y-o-y (up 2.6% q-o-q) to Rs. 7,367 crore, which was 7% below our estimate of Rs. 7,925 crore. The operating profit margin (OPM) at 30.1% (up 37 bps y-o-y) was lower than our estimate of 31.9%. Adjusted PAT grew strongly by 24% y-o-y to Rs. 3,308 crore, in line with consensus estimates. A growth in earnings was driven by an increase in regulated equity base to Rs. 64,787 crore (up 14.5% y-o-y), higher surcharge income of Rs. 565 crore (versus Rs. 417 crore in Q3FY2020) and increase in PLF incentive income to Rs. 76 crore (versus only Rs. 9 crore in Q3FY2020).

Q3FY2021 results conference call highlights

- **Commercialisation guidance -** The management has guided for commercialisation of 5,074 MW for FY2021 and 6,000 MW for FY2022. The management is targeting standalone commercialisation of 3,080 MW (out of which 2799 MW has been completed till 9MFY2021) for FY2021 and 4,962 MW for FY2022.
- **Capex guidance -** The management has maintained its FY2021 capex guidance of Rs. 21,000 crore for NTPC. The company has incurred a capex of Rs. 12,383 crore in 9MFY2021 at a standalone level and Rs. 21,255 crore at consolidated level.
- **Renewable project update -** The management has said the 1,275MW has been commissioned, 2,759MW is under implementation, and 1,488 MW is under a tendering phase for renewable energy (RE). NTPC plans to have 130 GW capacity by 2032 and targets to have 30% of power capacity from renewable energy by FY2032.
- **Update on receivables -** Total receivables (>45 days) from discoms declined to Rs. 16,720 crore as of December 2020 as compared to Rs. 19,164 crore as of September 2020. The management indicated that NTPC would receive Rs. 8,000 crore under power sector relied package and thus expects receivables to reduce further by March 2021.
- **Fixed cost under-recoveries and PAF -** Fixed-cost under-recoveries were at Rs. 570 crore in 9MFY2021 as compared to Rs. 499 crore in H1FY2021. The management has guided for fixed cost under-recoveries to decline to Rs. 350-400 crore by March 2021.
- Surcharge income stood at Rs. 1,695 crore in 9MFY2021 versus Rs. 1,240 crore in Q9FY2020; and for Q3FY2021, it was at Rs. 565 crore as compared to Rs. 417 crore in Q3FY2020.
- PLF incentive income stood at Rs. 355 crore in 9MFY2021 versus Rs. 164 crore in 9MFY2020; and for Q3FY2021 it was at Rs. 76 crore versus Rs. 9 crore in Q3FY2020.
- Gross generation increased by 6.9% y-o-y to 65.4 billion units and energy sold was also up by 7.9% y-o-y to 60.7 billion units in Q3FY2021.
- PLF for coal-based stations improved to 64.3% versus 63.5% in Q3FY2020 and 64.3% in Q2FY2021.
- Plant availability factor (PAF) for coal-based plants stood at 89.1% as compared to 88.3% in Q3FY2020 and 91.8% in Q2FY21.
- Consolidated commercial capacity stood at 62,975 MW versus 56,446 MW in Q3FY2020 and 62,110MW in Q2FY2021.
- Flue gas de-sulphurisation for 64.9 GW of group capacities is under various stages of implementation with capacities of 1,340 MW already completed, while 58.9 GW of capacities are under various stages of implementation and 4.6 GW capacities are under the tendering process.

Results (Standalone) **Rs cr**

Particulars	Q3FY21	Q3FY20	y-o-y (%)	Q2FY21	q-o-q (%)
Net Sales	24,509	23,496	4.3	24,677	-0.7
Total Expenditure	17,142	16,520	3.8	17,494	-2.0
Reported operating profit	**7,367**	**6,976**	**5.6**	**7,183**	**2.6**
Adjusted operating profit	**7,367**	**6,976**	**5.6**	**7,183**	**2.6**
Other Income	759	526	44.3	1,346	-43.6
Interest	2,009	1,761	14.1	1,773	13.3
Depreciation	2,555	2,320	10.2	2,529	1.0
PBT	3,562	3,422	4.1	4,227	-15.7
Exceptional income/(expense)				560	
PBT after exceptional items	**3,562**	**3,422**	**4.1**	**3,667**	**-2.9**
Tax	1,169	2,025	-42.3	509	129.6
PAT before regulatory deferral account balances	2,393	1,397	71.3	3,158	-24.2
Net movement in regulatory deferral account balances	922	1,598	NA	347	NA
Reported PAT	**3,315**	**2,995**	**10.7**	**3,505**	**-5.4**
Adjusted PAT	**3,308**	**2,678**	**23.6**	**3,505**	**-5.6**
Equity Cap (cr)	989	989		989	
Adjusted EPS	3.4	3.0	10.7	3.5	-5.4
Margins (%)			**BPS**		**BPS**
Adjusted OPM	30.1	29.7	37	29.1	95
Effective tax rate	32.8	59.2	-2636	12.0	2077
NPM	13.5	11.4	210	14.2	-70

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 the CERC with an 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 package of over Rs. 3 lakh crore announced in the Budget would help power discoms clear dues of power generation and transmission companies. This would reduce receivables of the power sector and strengthen companies' balance sheet.

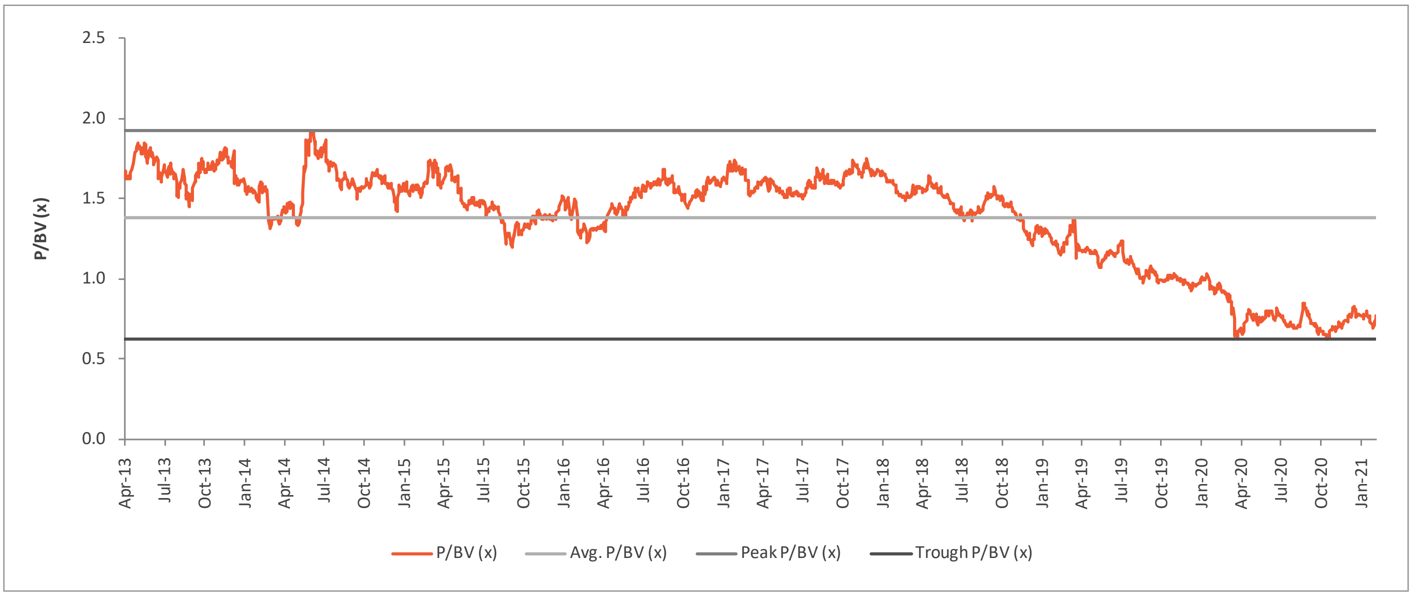
■ **Company outlook - Strong capitalisation target of 5-6 GW annually and 15% CAGR in regulated equity over FY2021E-FY2023E**

NTPC aims to add 5-6 GW of new commercial capacities annually and has guided for a 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 in the next couple of years. The management believes receivables of Rs. 16,720 crore currently from discoms should reduce 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 and unchanged PT of Rs. 140**

We maintain our FY2021-FY2023 earnings estimates. We derive comfort from NTPC's risk-averse regulated business model, which provides earnings visibility (expect a 19% PAT CAGR over FY2021E-FY2023E). We expect a gradual re-rating of NTPC as operational performance would improve, and commercialisation is likely to drive 10% CAGR in regulated equity. The improving mix of renewable energy would allay concern of ESG. NTPC also offers a healthy dividend yield of 6-7% and is trading at an attractive valuation of 0.7x its FY2023E P/BV (48% discount to historical average one-year forward P/BV of 1.4x). Hence, we maintain a Buy rating on NTPC with an unchanged PT of Rs. 140.

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

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	ICICI Prudential Asset Management	6.7
2	HDFC Asset Management Co Ltd	4.2
3	Nippon Life India Asset Management	3.3
4	CPSE ETF	3.2
5	BlackRock Inc	1.2
6	Vanguard Group Inc/The	1.2
7	50 SBI-ETF NIFTY	1.2
8	SBI Funds Management Pvt Ltd	1.1
9	T Rowe Price Group Inc	1.1
10	T. ROWE PRICE INTL STOCK Fund	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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