



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	✓	↔	✓

ESG Disclosure Score

NEW

ESG RISK RATING
Updated APR 08, 2022

41.27

Severe Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

Company details

Market cap:	Rs. 1,44,965 cr
52-week high/low:	Rs. 166 / 108
NSE volume: (No of shares)	151.8 lakh
BSE code:	532555
NSE code:	NTPC
Free float: (No of shares)	474.2 cr

Shareholding (%)

Promoters	51.1
FII	14.7
DII	30.8
Others	3.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-8.1	13.4	10.5	32.5
Relative to Sensex	-2.0	19.2	19.4	25.0

Sharekhan Research, Bloomberg

NTPC Ltd

Stellar Q4; robust commercialisation to drive growth

Power	Sharekhan code: NTPC		
Reco/View: Buy	↔	CMP: Rs. 150	Price Target: Rs. 170 ↔
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- Q4FY22 adjusted PAT of Rs. 4,560 crore (up 19% y-o-y) was above our estimate led by fuel cost over-recovery of Rs. 238 crore, RoE contribution from project commercialized in last one year and a lower tax rate.
- Management guided to commercialise 5GW/6GW of capacities in FY3E/FY24E and expects regulated equity base to register double digit CAGR over few years. This along with conversion of CWIP to commercial assets provide strong earnings growth visibility over FY23E-24E.
- NTPC indicated to monetize some renewable energy assets in FY23 and also have plan of IPO or induction of strategic investors to unlock value. Value unlocking and strong operating cash flow (up 31% y-o-y to Rs. 35,388 crore in FY22) could further improve dividend payout.
- We maintain a Buy on NTPC with an unchanged PT of Rs. 170, as it is attractively valued at 1x its FY24E P/BV despite strong earnings visibility, focus to ramp-up RE portfolio, decent RoE of 14% and dividend yield of ~5%.

NTPC Limited's Q4FY22 standalone adjusted PAT grew strongly by 19% y-o-y to Rs. 4560 crore, which was 5% above our estimate of Rs. 3,394 crore. The strong earnings growth was led by fixed cost over-recovery of Rs. 238 crore, RoE contribution from commercialization of projects and lower tax rate of 15% (versus assumption of 25%) partially offset by sharp decline in late payment surcharge income to Rs. 161 crore versus Rs. 620 crore in Q4FY21. Operationally, NTPC added 2.9GW/3.8GW y-o-y of standalone/consolidated commercial capacities to 55GW/68GW and commercial generation/energy sold increased by 3.6%/2.4% y-o-y to 80BU/74BU.

Key positives

- Standalone regulated equity base grew by 6.9% y-o-y to Rs. 70,890 crore as of March 2022.
- Standalone cash flow from operations increased sharply by 31% y-o-y to Rs. 35,388 crore.

Key negatives

- Sharp 74% y-o-y decline in late payment surcharge income to Rs. 161 crore.

Management Commentary

- Commercial capacity additions guidance** – Management has guided for commercialization of 5GW/6GW in FY23/FY24 as compared to 4 GW in FY22. The guidance includes 1.5GW/950MW of RE capacity addition in FY23/FY24. The management indicated that its target to achieve 15GW of RE capacity by FY25 could be delayed by 12 months.
- RE monetization update** – The company has created separate subsidiary NTPC Green Energy Limited will transfer all RE assets to it post clarity on taxation. NTPC plans to monetize RE assets through an IPO or induction of strategic investors and eyeing monetization of some assets in FY23.
- RE projects** – NTPC has received LoI for development of 10 GW of solar park in Rajasthan. Overall, NTPC has 1.8 GW of operation RE portfolio, 3.4 GW under construction and 2.8GW under tendering. NTPC now expected RE portfolio to expand to 15 GW by FY26 versus earlier guidance of FY25.
- Capex and Receivables** – Management guided for a capex of Rs. 22,454 crore for FY21 versus Rs. 21,036 crore in FY22.
- Other updates** – 1) Outstanding dues beyond the due date is Rs. 4,274 crore as on March 2022 versus Rs. 5,660 crore as of March 2022, 2) fuel cost under-recoveries at Rs. 453 crore in FY22 versus Rs. 600 crore in FY21, 3) NTPC has inked a pact with Gujarat Gas to blend green hydrogen in PNG network of Gujarat Gas at NTPC Kawas and 4) profit from subsidiaries/JVs stood at Rs. 1947 crore/Rs. 1020 crore in FY22 versus 1738 crore/Rs. 684 crore in FY21.

Revision in estimates – We have fine-tuned our FY23-24 earnings estimate to factor FY22 P&L and balance sheet numbers.

Our Call

Valuation – Maintain Buy on NTPC with an unchanged PT of Rs. 170: NTPC's risk-averse regulated business model provides earnings growth visibility/RoE improvement and RE expansion would drive gradual re-rating of the stock as it would allay concern on the ESG front. Additionally, potential monetization of its RE and power trading subsidiaries could further improve shareholders' returns in the coming years. A valuation of 1x FY24E P/BV is attractive given steep discount of 32% to historical average one-year forward P/BV multiple of 1.5x and a healthy dividend yield of ~5%. Hence, we maintain a Buy on NTPC with an unchanged PT of Rs. 170.

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)

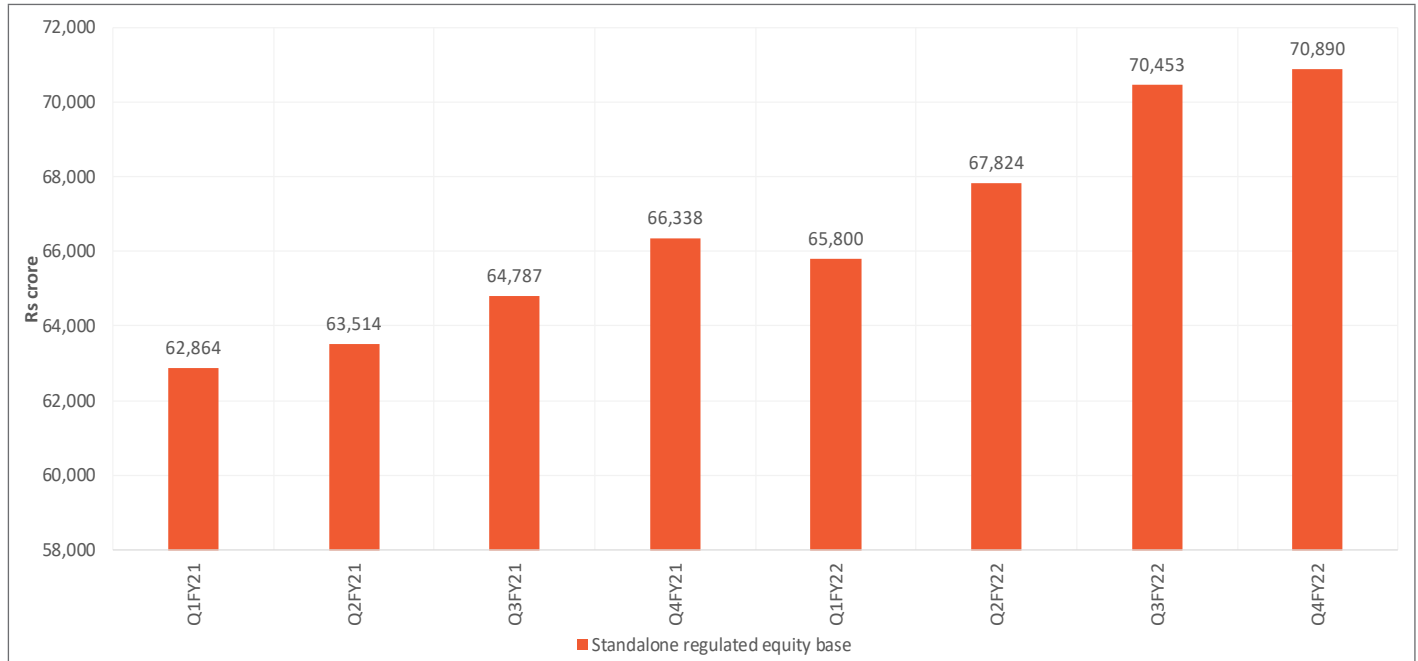
Particulars	FY21	FY22	FY23E	FY24E
Revenues	99,207	1,16,137	1,29,360	1,42,715
OPM (%)	29.0	29.1	31.6	31.8
Adjusted PAT	14,218	14,701	17,794	19,646
% YoY growth	16.8	3.4	21.0	10.4
Adjusted EPS (Rs.)	14.7	15.2	18.4	20.3
P/E (x)	10.2	9.9	8.1	7.4
P/B (x)	1.2	1.1	1.1	1.0
EV/EBITDA (x)	10.6	9.3	7.9	7.1
RoNW (%)	12.2	11.9	13.4	13.8
RoCE (%)	7.9	8.8	10.6	10.8

Source: Company; Sharekhan estimates

Another quarter of strong performance with 19% y-o-y increase in PAT

Q4FY22 standalone adjusted PAT grew strongly by 19% y-o-y to Rs. 4,560 crore, which was 5% above our estimate of Rs. 3,394 crore. The strong earnings growth was led by fixed cost over-recovery of Rs. 238 crore, RoE contribution from commercialization of projects and lower tax rate of 15% (versus assumption of 25%) partially offset by sharp decline in late payment surcharge income to Rs. 161 crore versus Rs. 620 crore in Q4FY21. Operationally, NTPC added 2.9GW/3.8GW y-o-y of standalone/consolidated commercial capacities to 55GW/68GW and commercial generation/energy sold increased by 3.6%/2.4% y-o-y to 80BU/74BU. PLF for thermal power plants improved to 76.1% in Q4FY22 versus 67.6% in Q2FY22. Plant availability factor (PAF) improved to 89.6% versus 85.5% in Q2FY22. Average tariff increased by 5.6% y-o-y at Rs. 3.98/unit in FY22.

Standalone regulated equity base increased by 6.9% y-o-y in Q4FY22



Source: Company; Sharekhan Research

Results (Standalone)

Particulars	Q4FY22	Q4FY21	Y-o-Y %	Q3FY22	Q-o-Q %
Revenue	32,905	26,567	23.9	28,865	14.0
Total Expenditure	22,784	20,059	13.6	19,803	15.1
Reported operating profit	10,121	6,508	55.5	9,062	11.7
Other Income	1,225	1,673	-26.8	972	26.0
Interest	1,912	1,594	19.9	1,734	10.3
Depreciation	2,946	2,797	5.3	2,891	1.9
PBT	6,487	3,789	71.2	5,409	19.9
Tax	1,005	-982	-202.3	1,220	-17.6
PAT before regulatory deferral account balances	5,482	4,772	14.9	4,189	30.9
Net movement in regulatory deferral account balances	140	-292	-147.8	-57	-345.0
Reported PAT	5,622	4,479	25.5	4,132	36.1
Adjusted PAT	4,560	3,831	19.0	3,625	25.8
Equity Cap (cr)	970	970		970	
Reported EPS	5.8	4.6	25.5	4.3	36.1
Adjusted EPS	4.7	4.0	19.0	3.7	25.8
Margins (%)			BPS		BPS
OPM	30.8	24.5	626	31.4	-64
Effective tax rate	15.5	-25.9	4142	22.6	-706
NPM	13.9	14.4	-56	12.6	130

Source: Company; Sharekhan Research

Reconciliation of reported and adjusted PAT

Particulars	Q4FY22	Q4FY21	Y-o-Y %	Q3FY22	Q-o-Q %	FY22	FY21	Y-o-Y %
Reported Profit	5,622	4,479	25.5%	4,132	36%	16,111	13,770	17.0%
Adjustments								
Previous year Sales (CERC Orders)	-1,377	-310		-676		-1,938	-1,155	
Previous year fuel	90	278		62		229	1,088	
Exceptional Item - Rebate							1,363	
Tax related to earlier years included in sales		1,101					1,101	
Tax related to earlier years		-1,874					-1,874	
Tax impact on above adjustments	225	-187		107		299	-419	
Provisions		344					344	
Adjusted Profit	4,560	3,831	19.0%	3,625	26%	14,701	14,218	3.4%

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector view – Regulated tariff model provides earnings visibility; power sector reforms to strengthen companies' balance sheets

India's power sector is regulated by the CERC with an availability-based earnings model (fixed RoE on power generation assets) and, thus, the regulated tariff model provides strong earnings visibility for power-generation companies. Additionally, with improved coal stocks at thermal power plants, plant availability factor (PAF) has improved and, thus, we expect FC under-recoveries to decline for power companies. Moreover, the government's power sector package of over Rs. 3 lakh crore in the Budget would help power discoms clear dues of power generation and transmission companies. This would reduce power sector's receivables and strengthen companies' balance sheet.

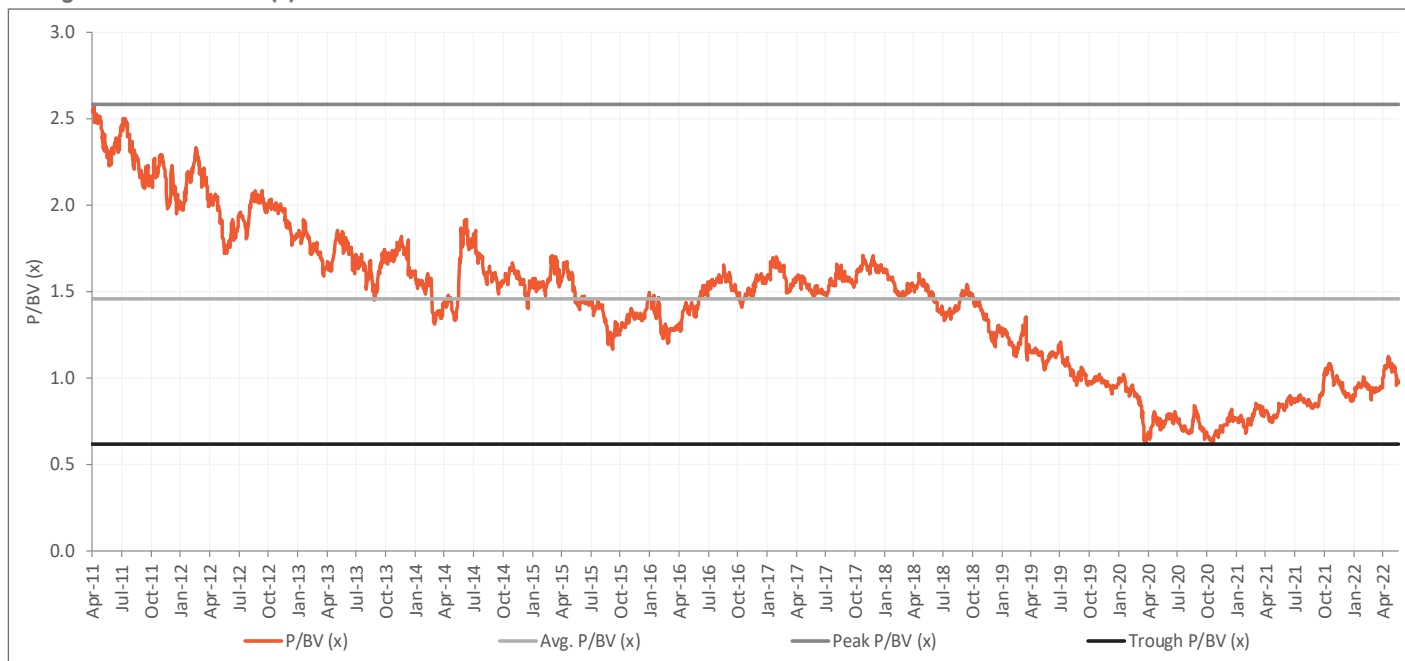
■ Company outlook – Strong commercialisation target to drive 12% CAGR in PAT over FY2021-FY2024E

NTPC aims to add more than 5 GW of new commercial capacities annually in the next couple of years, which we believe would drive a decent 10%/12% CAGR in regulated equity/PAT over FY21-24E. The management has guided for robust growth in regulated equity, which makes us optimistic about the strong earnings growth potential for NTPC over the next couple of years. Moreover, a potential reduction in overdue amount from discoms would strengthen NTPC's balance sheet.

■ Valuation – Maintain Buy on NTPC with and an unchanged PT of Rs. 170

NTPC's risk-averse regulated business model provides earnings growth visibility/RoE improvement and RE expansion would drive gradual re-rating of the stock as it would allay concern on the ESG front. Additionally, potential monetization of its RE and power trading subsidiaries could further improve shareholders' returns in the coming years. A valuation of 1x FY24E P/BV is attractive given steep discount of 32% to historical average one-year forward P/BV multiple of 1.5x and a healthy dividend yield of ~5%. Hence, we maintain a Buy on NTPC with an unchanged PT of Rs. 170.

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 68302 MW as of March 31, 2022. NTPC accounted for 17% and 23% 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 GW annually over the couple of years and the same is expected to drive double-digit CAGR in regulated equity base. Thus, we expect strong earnings growth momentum to continue as NTPC earns 15.5% RoE on regulated equity. Moreover, with improvement in PAF of coal-based power plants, the company's fixed cost under-recoveries are expected to decline in FY2022. 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	HDFC Asset Management Co Ltd	4.8
2	DSP Investment Managers Pvt Ltd	4.2
3	Aditya Birla Sun Life Trustee Company Pvt Ltd	2.6
4	Aditya Birla Sun Life Asset Management	2.5
5	Vangaurd Group Inc/The	2.1
6	TRIVEDI SHIVANI TEJAS	1.8
7	Kotak Mahindra Asset Management Co. Ltd	1.6
8	Goldman Sachs Group Inc/The	1.6
9	TRIVEDI TEJAS B	1.6
10	Canara Robeco Asset Management Co. Ltd	1.2

Source: Bloomberg (Old data)

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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

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

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