



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

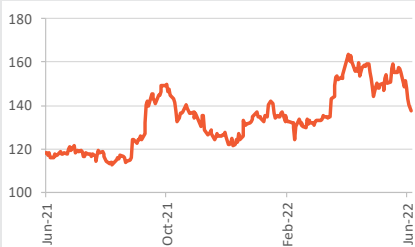
Company details

Market cap:	Rs. 1,33,232 cr
52-week high/low:	Rs. 166 / 112
NSE volume: (No of shares)	167.0 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	3.3	12.6	16.5
Relative to Sensex	-3.1	13.3	21.0	18.3

Sharekhan Research, Bloomberg

NTPC Ltd

Steady growth from thermal assets; green focus to drive re-rating

Power	Sharekhan code: NTPC		
Reco/View: Buy	↔	CMP: Rs. 137	Price Target: Rs. 170 ↔
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- The recent sharp 17% fall in NTPC's stock price from its 52-week high is unwarranted given risk-averse earnings model and a healthy dividend yield of 5%. Also, NTPC's market capitalisation ignores long-term value creation from large renewable energy (RE) expansion plans. We maintain a Buy on NTPC with an unchanged PT of Rs. 170; FY24E P/BV attractive at 0.9x.
- NTPC's standalone regulated equity base would clock a 12% CAGR over FY22-24E led by robust commercialization plan of 5GW/6GW in FY23E/FY24E. This coupled with sustained high plant load factor (PLF) for thermal assets and better coal availability (captive coal production grew 27% y-o-y to 14 mt in FY22) to drive 16% CAGR in standalone PAT over FY22-24E along with decent RoE of ~14%.
- Strong operating cash flows (up 31% y-o-y to Rs. 35,388 crore in FY22) and low cost debt (high credit rating) to help drive transition towards RE capacities (60GW target by FY32 or 46% of capacity versus 3% currently), which would create significant value and drive re-rating besides addressing ESG concerns for NTPC.
- Potential monetisation of NTPC Green Energy Limited through induction of strategic investor and an IPO at a later stage could unlock value from RE business.

We believe that NTPC Limited is one of the safest bets in large cap space given its risk-averse business model and strong earnings growth outlook (expect 16% PAT CAGR over FY22-24E) even as current macro headwinds persist. Earnings growth would be supported by double digit growth in regulated equity base as NTPC plans to commercialise 5GW/6GW of capacities in FY23E/FY24E. NTPC is focused on making a shift toward green energy with target of 15GW/60GW of RE generation capacity by FY26/FY32 or 46% of 130 GW of power generation capacity by FY32 versus only 3% (or 1.8 GW) in FY22. NTPC's thermal power assets are generating strong operating cash flows (annual average operating cash flow of Rs. 23,887 crore over FY18-22) and thus NTPC is well-placed for transition towards RE portfolio. Potential monetisation of NTPC Green Energy Limited could help unlock value and accelerate investment in RE. We maintain Buy on NTPC with an unchanged PT of Rs. 170.

- Steady earnings growth outlook given regulated RoE model:** NTPC has guided to commercialise 5GW/6GW of new capacities in FY23E/FY24E, out of which 1.5GW/0.95GW will be for RE capacity. Additionally, due to the recent power supply crisis, NTPC plans to add 6GW of thermal power capacity at an estimated capex of Rs. 60,000 crore in the next 2-3 years. This means that NTPC would have 13-14 GW of thermal power capacities under implementation and the same would drive 12% CAGR in standalone regulated equity base over FY22-24E and reach Rs. 88,723 crore by FY24E versus Rs. 70,890 crore in FY22. The regulated tariff model assures that NTPC will earn fixed RoE of 15.5% on power project equity and thus provides strong earnings growth visibility over FY22-24E.
- Focus on RE expansion to drive long term growth:** NTPC has an operational RE portfolio of 1.8 GW, 3.4 GW under construction and 2.8GW under tendering. NTPC expects RE portfolio to expand to 15GW/60GW by FY26/FY32. Although, the transition towards cleaner energy would be achieved over next decade but is crucial to improve ESG score and drive the next leg of growth and re-rating for the company. Strong operating cash flows (annual average operating cash flow of Rs. 23,887 crore over FY18-22) and low cost of debt (5.94% given high credit rating) to help fund investment in RE capacities and generate adequate IRR.
- Potential IPO for NTPC Green Energy to unlock value; Strong cashflows to support dividend payout:** The company has created separate subsidiary NTPC Green Energy Limited and will transfer all RE assets to it post clarity on taxation. NTPC plans to monetize RE through an IPO or induction of strategic investors and eyeing monetisation of some assets in FY23. NTPC's standalone operating cash flow grew strongly by 31% y-o-y to Rs. 35,388 crore in FY22 and the same is expected to remain strong and thus we expect sustained high dividend payout (at 42% in FY22).

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 monetisation of its RE business could further improve shareholders' returns in the coming years. A valuation of 0.9x FY24E P/BV is attractive given a steep discount of 39% 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)

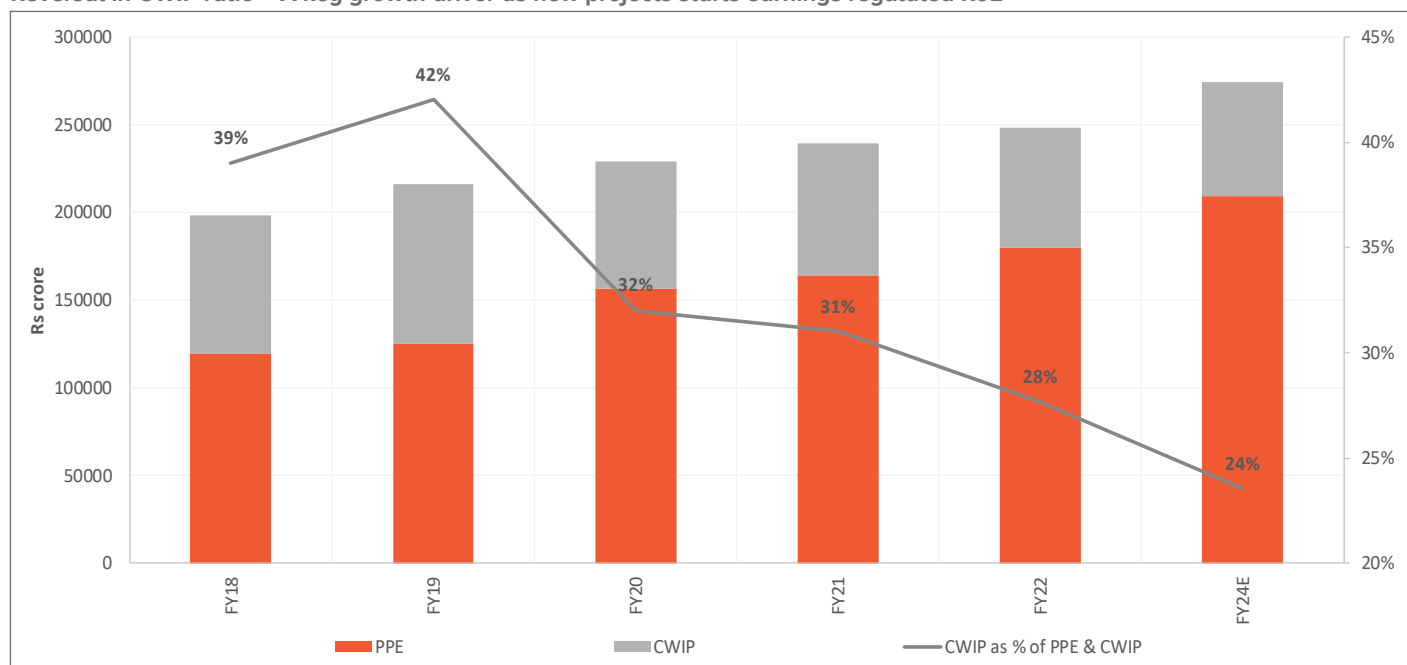
Particulars	FY21	FY22	FY23E	FY24E
Revenue	99,207	1,16,137	1,29,360	1,42,715
OPM (%)	29.0	29.1	31.6	31.8
Adjusted PAT	14,218	14,701	17,794	19,646
% YoY growth	16.8	3.4	21.0	10.4
Adjusted EPS (Rs.)	14.7	15.2	18.4	20.3
P/E (x)	9.4	9.1	7.5	6.8
P/B (x)	1.1	1.0	1.0	0.9
EV/EBITDA (x)	10.2	8.9	7.6	6.8
RoNW (%)	12.2	11.9	13.4	13.8
RoCE (%)	7.9	8.8	10.6	10.8

Source: Company; Sharekhan estimates

Robust commercialisation plan of 5GW/6GW for FY23E/FY24E; Aggregate 13-14GW of thermal project under implementation

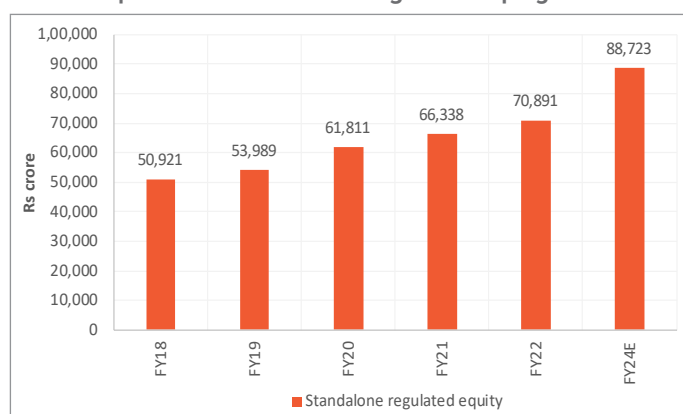
NTPC has guided to commercialise 5GW/6GW of new capacities in FY23E/FY24E, out of which 1.5GW/0.95GW will be for RE capacity. Additionally, due to recent power supply crisis, NTPC plans to add 6GW of thermal power capacity at an estimated capex of Rs. 60,000 crore over next 2-3 years. This means that NTPC would have 13-14 GW of thermal power capacities under implementation. NTPC's CWIP ratio has improved considerably since FY2020 and stood at 28% in FY22 and we expect the same to further improve to 24% by FY2024E led by accelerated commercialisation of new capacities. This would free-up equity blocked in CWIP and the same would start earnings regulated returns. We thus expect standalone regulated equity to clock 12% CAGR over FY22-24E and reach ~Rs. 88,723 crore by FY24E versus Rs. 70,891 crore in FY22. The regulated tariff model assures that NTPC will earn fixed RoE of 15.5% on power project equity and thus we expect strong earnings of 16% CAGR over FY22-24E.

Reversal in CWIP ratio - A key growth driver as new projects starts earnings regulated RoE



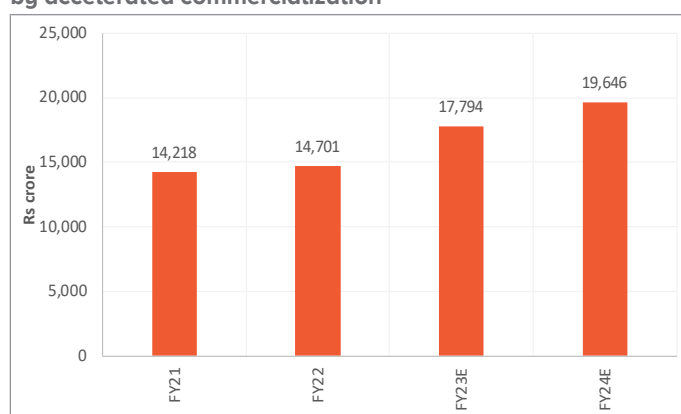
Source: Company; Sharekhan Research

Robust expansion in standalone regulated equity base



Source: Company; Sharekhan Research

NTPC's standalone PAT to clock 16% CAGR over FY22-24E led by accelerated commercialization



Source: Company; Sharekhan Research

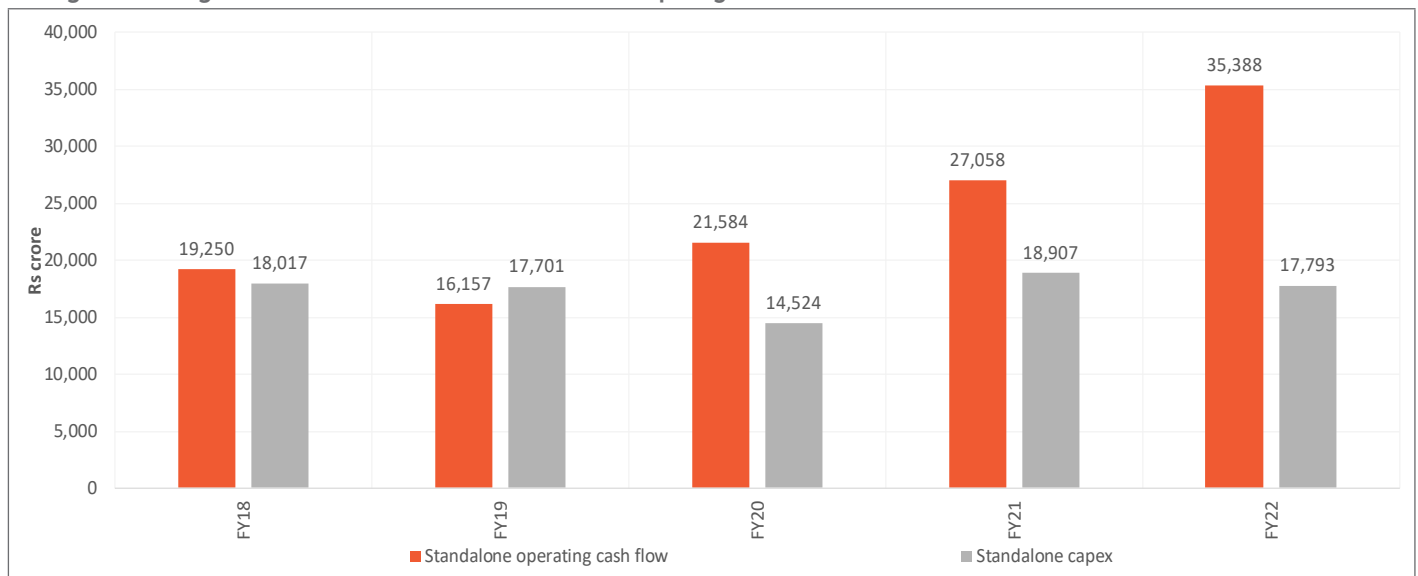
RE capacity target of 60GW by FY32E - drive next leg of growth; m-cap doesn't factor large RE capacity expansion plan

The Indian government has plans to increase India's RE capacity to 175GW/450GW by 2022/2030 versus 101GW currently. Thus, NTPC has also framed out a clear plan to increase its total RE capacity to 15GW/60GW by FY26E/FY32E versus only 1.8GW in FY2022. NTPC aims to have 46% of power generation capacity from RE projects versus only 3% as of March 2022.

NTPC has an operational RE portfolio of 1.8 GW, 3.4 GW under construction and 2.8GW under tendering and transition towards cleaner energy (RE capacity target of 60 GW by FY32E) would be achieved over next decade but is crucial to improve ESG score and drive the next leg of growth and re-rating for the company. Strong operating cash flows annual average operating cash flow of Rs. . 23,887 crore over FY18-22) and low cost of debt (5.94% given high credit rating) to help fund investment in RE capacities and generate adequate IRR.

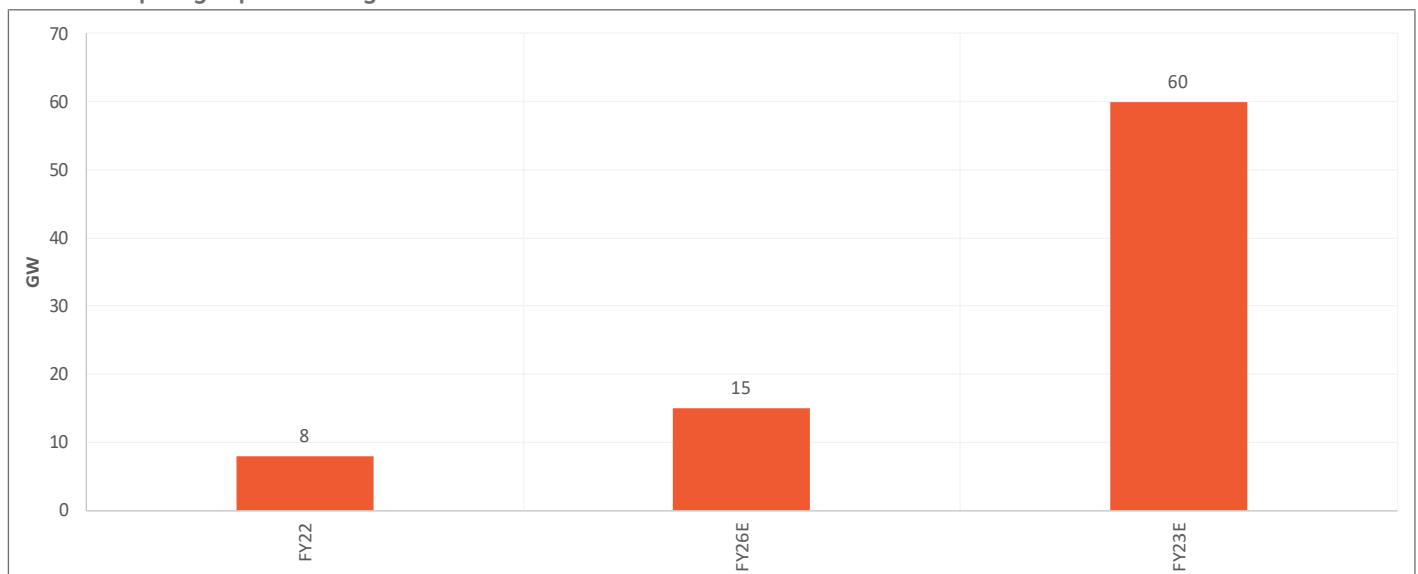
NTPC is well-placed to gain from steady earnings from thermal assets and RE expansion. A P/BV ratio of 1.5x for thermal projects gives valuation of ~Rs. 133,084 crore (close to current market capitalisation) and indicates negligible value for large renewable energy (RE) expansion plans.

Strong cash flow generation to aid transition towards RE capacity



Source: Company; Sharekhan Research

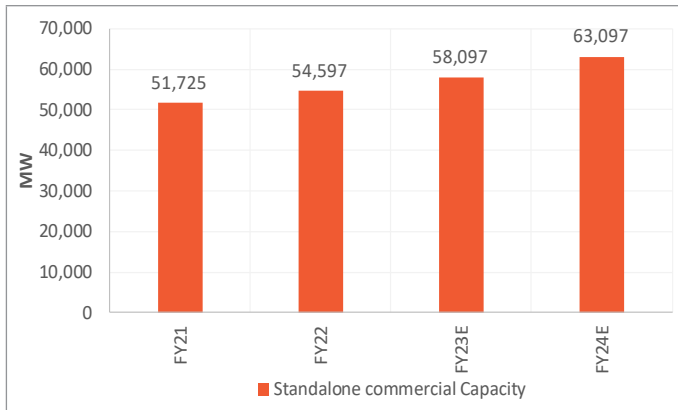
NTPC RE capacity expansion target



Source: Company; Sharekhan Research; Note: Operational RE portfolio of 1.8 GW, 3.4 GW under construction and 2.8GW under tendering as of March 31, 2022.

Financials in charts

Commercialisation to remain strong over FY22-24E



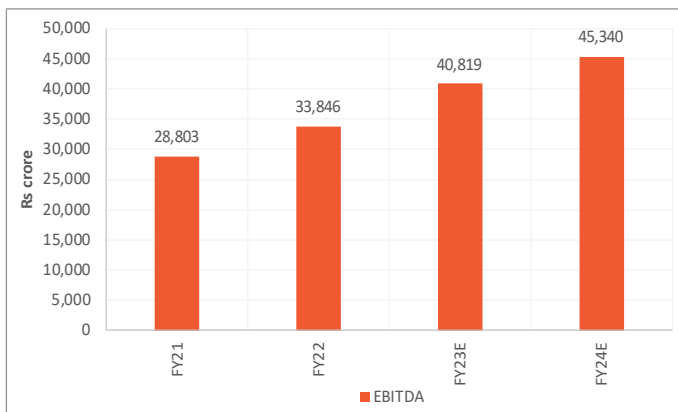
Source: Company, Sharekhan Research

Regulated equity base to grow at 12% CAGR over FY22-24E



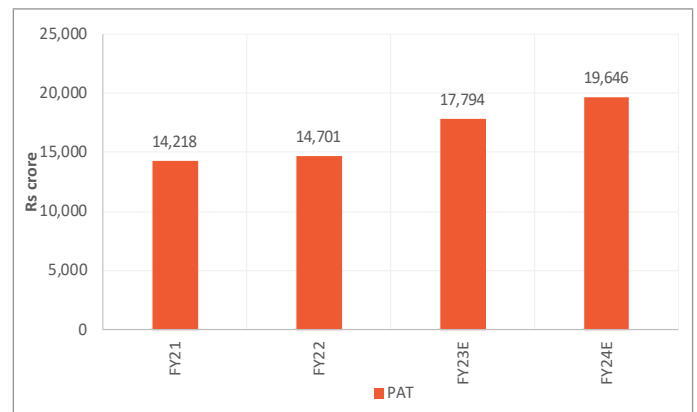
Source: Company, Sharekhan Research

EBITDA trend



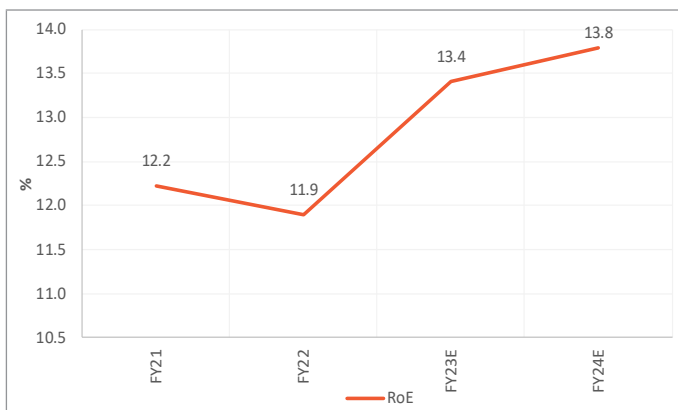
Source: Company, Sharekhan Research

PAT to clock 16% over FY22-FY24



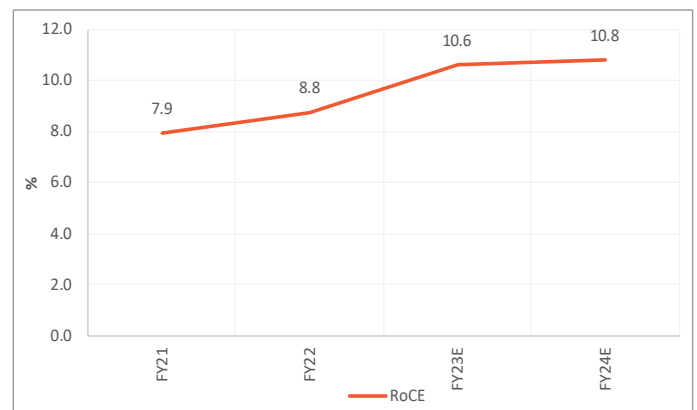
Source: Company, Sharekhan Research

RoE trend



Source: Company, Sharekhan Research

RoCE trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Regulated tariff model provides earnings visibility; 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 would help power discoms clear dues of power generation and transmission companies. This would reduce power sector's receivables and strengthen companies' balance sheet.

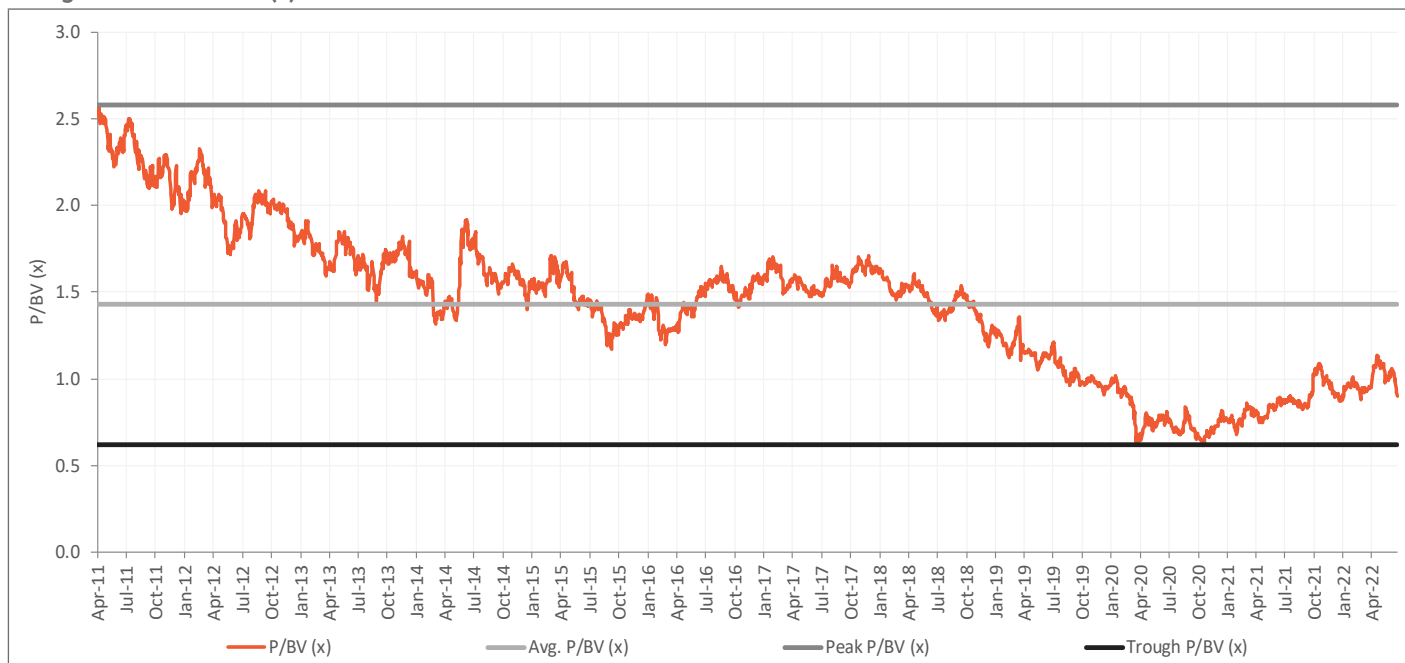
■ Company Outlook – Strong commercialisation target to drive 16% CAGR in PAT over FY2022-FY2024E

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 12%/16% CAGR in regulated equity/PAT over FY22-24E. 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 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 monetisation of its RE business could further improve shareholders' returns in the coming years. A valuation of 0.9x FY24E P/BV is attractive given a steep discount of 39% 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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