Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

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 36.62
Updated Oct 08, 2022

High Risk

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

Source: Morningstar

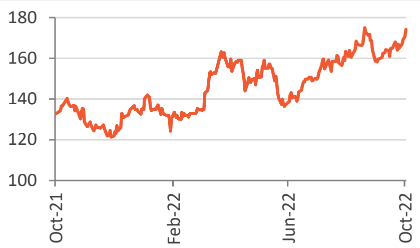
Company details

Market cap:	Rs. 168,867 cr
52-week high/low:	Rs. 176/118
NSE volume: (No of shares)	166.8 lakh
BSE code:	532555
NSE code:	NTPC
Free float: (No of shares)	474.2 cr

Shareholding (%)

Promoters	51.1
FII	15.0
DII	31.3
Others	2.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	10.0	13.9	13.4	31.2
Relative to Sensex	4.1	9.7	8.3	30.1

Sharekhan Research, Bloomberg

NTPC Ltd

Sustains healthy growth momentum; focus to monetise green portfolio

Power	Sharekhan code: NTPC
Reco/View: Buy ↔	CMP: **Rs. 174**	Price Target: **Rs. 200** ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- Q2FY23 adjusted PAT grew by 9% y-o-y to Rs. 3,595 crore (2% above our estimate) supported by 10% y-o-y rise in regulated equity base partially offset by higher interest cost and tax rate. Reported PAT was up by 5.5% y-o-y to Rs. 3,331 crore and had impact of several one-offs like Rs. 333 crore/Rs. 190 crore for one-time financial charge/tax impact of merger.
- Management guided for commercialisation of 18 GW of capacities over FY23E-25E, which would drive growth in regulated equity base and provides earnings growth visibility.
- NTPC plans to monetise up to a 20% stake in its subsidiary NTPC Green Energy by Q3/Q4 of FY23. Current RE assets are at 2.8 GW with book value of Rs. 10,000 crore and NTPC Green Energy will include all RE assets - Renewables, Green Hydrogen, Battery, Storage. Monetisation could unlock value for NTPC and pave for high dividend payouts.
- We maintain a Buy on NTPC with a revised PT of Rs. 200, as it is attractively valued at 1.1x its FY24E P/BV despite strong earnings visibility, focus to ramp-up RE portfolio, decent RoE of 14% and dividend yield of ~4%.

NTPC Limited's Q2FY23 standalone adjusted PAT grew at healthy pace of 9% y-o-y to Rs. 3,595 crore, which was marginally ahead of our estimate of Rs. 3,527 crore. Earnings growth largely reflects 10% y-o-y rise in regulated equity base to Rs. 74,866 crore partially offset by a rise in interest costs (up 21% y-o-y even after excluding a one-time financial charge of Rs. 386 crore) and a higher tax rate. We have adjusted reported PAT of Rs. 3,331 crore (up 5.5% y-o-y) for several one-offs including negative effect of Rs. 333 crore related to discounting impact on receivables due to change in LPSC Rules, Rs. 190 crore for tax impact of merger, tax impact of Rs. 122 crore for previous years partially offset by positive impact of Rs. 392 crore for CERC order related ton previous year sales/fuel. Late payment surcharge/PLF incentive stood at Rs. 229 crore/Rs. 75 crore versus Rs. 172 crore/Rs. 67 crore in Q2FY22. Fixed cost under-recoveries were at Rs. 140 crore as compared to Rs. 323 crore in Q2FY22. Operationally, NTPC added 2.7 GW/3.8 GW y-o-y of standalone/consolidated commercial capacities to 57.6GW/70.3GW and commercial generation/ energy sold increased strongly by 12%/11% y-o-y to 80 BU/85 BU. Plant-load factor (PLF) for thermal power plants stood at 74.1% in Q1FY23 (versus 69.3% in Q1FY22) and plant availability factor (PAF) was at of 93.7% versus 84.9% in Q2FY22.

Key positives

- Strong 10% y-o-y growth in standalone regulated equity base to Rs. 74,866 crore in Q2FY23.

Key negatives

- Sharp decline in profit share from JVs to Rs. 121 crore in H1FY23 as compared to Rs. 526 crore in H1FY22.
- Sharp decline of 51% in operating cashflow to Rs. 10,296 crore due to rise in receivable/inventories.

Management Commentary

- Management guided for strong cumulative commercialization of 18 GW over FY23E-25E.
- NTPC plans to monetize maximum 20% equity stake in NTPC Green Energy Limited by Q3FY23/ Q4FY23. As of now, total RE assets are at ~2,861 MW with book value of Rs. 10,000 crore. NTPC Green energy will include all RE assets - renewables, green hydrogen, battery, storage and other green assets.
- Capex guidance of Rs. 27,500 crore/Rs. 25,000-26,000 crore for FY23E/FY24E. H1FY23 capex at Rs. 16,600 crore.

Revision in estimates – We have fine tined our FY23-24 earnings estimate and have introduced our FY25 earnings estimate.

Our Call

Valuation – Maintain Buy on NTPC with a revised PT of Rs. 200: NTPC's risk-averse regulated business model provides earnings growth visibility/RoE improvement and RE expansion would drive gradual re-rating of stock as it would allay concerns on the ESG front. Additionally, potential monetisation of its RE business could further improve shareholders' returns in the coming years. Valuation of 1.1x FY24E P/BV is attractive given steep discount of 20% to historical average one-year forward P/BV multiple of 1.4x and a healthy dividend yield of ~4%. Hence, we maintain a Buy on NTPC with a revised PT of Rs. 200.

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	FY22	FY23E	FY24E	FY25E
Revenue	1,16,137	1,56,242	1,74,923	1,92,706
OPM (%)	29.1	26.1	25.7	25.8
Adjusted PAT	14,701	17,657	19,792	22,175
% YoY growth	3.4	20.1	12.1	12.0
Adjusted EPS (Rs.)	15.2	18.2	20.4	22.9
P/E (x)	11.5	9.6	8.5	7.6
P/B (x)	1.3	1.2	1.1	1.1
EV/EBITDA (x)	10.0	8.5	7.7	6.8
RoNW (%)	11.9	13.3	13.9	14.5
RoCE (%)	8.8	9.8	10.1	10.4

Source: Company; Sharekhan estimates

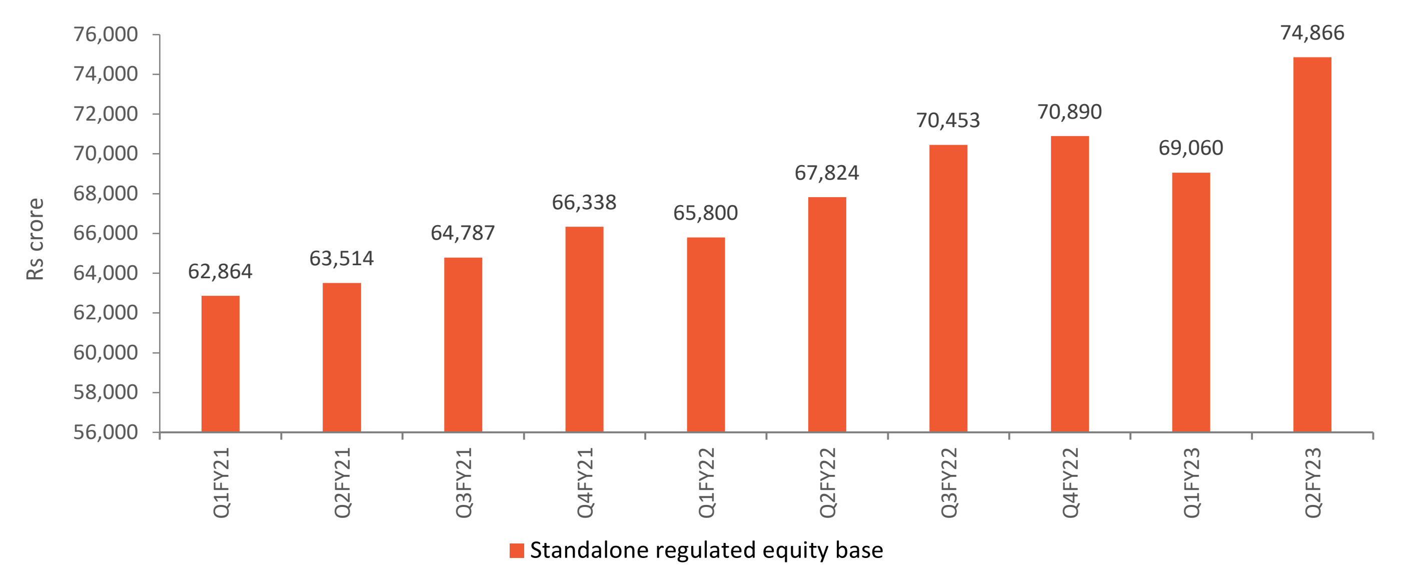
PAT growth led by rise in regulated equity base

Q2FY23 standalone adjusted PAT grew at healthy pace of 9% y-o-y to Rs. 3,595 crore, which was marginally ahead of our estimate of Rs. 3,527 crore. Earnings growth largely reflects 10% y-o-y rise in regulated equity base to Rs. 74,866 crore- partially offset by a rise in interest costs (up 21% y-o-y even after excluding a one-time financial charge of Rs. 386 crore) and a higher tax rate. We have adjusted reported PAT of Rs. 3,331 crore (up 5.5% y-o-y) for several one-offs including negative impact effect of Rs. 333 crore related to discounting impact on receivables due to change in LPSC Rules, Rs. 190 crore for tax impact of merger, tax impact of Rs. 122 crore for previous years partially offset by positive impact of Rs. 392 crore for CERC order related ton previous year sales/fuel. Late payment surcharge/PLF incentive stood at Rs. 229 crore/Rs. 75 crore versus Rs. 172 crore/Rs. 67 crore in Q2FY22. Fixed cost under-recoveries were at Rs. 140 crore as compared to Rs. 323 crore in Q2FY22. Operationally, NTPC added 2.7 GW/3.8 GW y-o-y of standalone/consolidated commercial capacities to 57.6GW/70.3GW and commercial generation/energy sold increased strongly by 12%/11% y-o-y to 80 BU/85 BU. Plant Plant-load factor (PLF) for thermal power plants stood at 74.1% in Q1FY23 (versus 69.3% in Q1FY22) and plant availability factor (PAF) was at of 93.7% versus 84.9% in Q2FY22.

Q2FY23 earnings call highlights

- **Commercial capacity addition guidance** - Management has guided for commercialisation of 5,000 MW/7,000MW/ 6000MW in FY23/FY24/FY25 respectively. The management said its target is to achieve 18GW of capacity in the next three years and has an aspiration of 60GW of RE capacity by 2032. NTPC has 21 GW (including 10 GW of Rajasthan RE project) of RE capacities under various stages of implementation.
- **RE monetization plan** - The company plans to offer maximum 20% equity stake in NTPC Green Energy Ltd which will be completed either in Q3 or Q4FY23. NTPC Green energy will include all RE assets - renewables, green hydrogen, battery, storage and other green assets. The RE assets are ~2,861 MW with book value of Rs. 10000 crore.
- **Receivable discounting** - To manage receivable, NTPC has put ~Rs. 6,108 crore (with different maturities) of receivable for factoring and this has resulted into one-time financial charge of Rs. 333 crore in Q2FY23. This would be see unwinding in the subsequent quarters.
- **Fixed cost under-recovery** - The management aims to reduce fixed cost under-recoveries to Rs. 250 crore by end of FY23 as compared to Rs. 718 crore in H1FY23.
- **Capex** - Management has guided for a capex of Rs. 27,500 crore for FY23 (Capex at Rs. 16,000 Cr for H1FY23), capex of Rs. 25,000-26,000 crore for FY24 and a capex of Rs2,0000 crore for FY25.
- **Profits from JVs** declined sharply to Rs. 120 crore in H1FY23 versus Rs. 526 crore in H1FY22 due to Boiler issue (remained shutdown for 5 months for repairs) at two of its JV companies. The management expects stabilization for the boilers and expects to recover substantial amount of loss in H2FY23.
- **Other updates** – 1) Standalone regulated equity base at end of Q2FY23 at Rs. Rs. 74,866 crore crore, which increased by 10% y-o-y, 2) Profit from subsidiaries/JVs stood at Rs. 868 crore/Rs. 121 crore in H1FY23 versus Rs. 790 crore/Rs. 526 crore in H1FY22, 3) average cost of borrowing was at 6.22% in H1FY23 versus 5.96% in H1FY22, 4) receivable days are expected to be less than 45 days.

Standalone regulated equity base increased by 10% y-o-y in Q2FY23



Source: Company; Sharekhan Research

Results (Standalone) Rs cr

Particulars	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)
Revenue	**41,015**	**29,471**	**39.2**	**40,026**	**2.5**
Total Expenditure	31,494	21,748	44.8	30,281	4.0
Operating profit	**9,522**	**7,723**	**23.3**	**9,745**	**-2.3**
Other Income	796	835	-4.7	699	13.8
Interest	2,737	1,944	40.8	2,173	26.0
Depreciation	3,287	2,941	11.8	3,144	4.5
PBT	4,293	3,673	16.9	5,127	-16.3
PBT	**4,293**	**3,673**	**16.9**	**5,127**	**-16.3**
Tax	1,774	976	81.7	1,380	28.5
PAT before regulatory deferral account balances	2,519	2,697	-6.6	3,747	-32.8
Net movement in regulatory deferral account balances	812	460	76.7	-30	NA
Reported PAT	**3,331**	**3,157**	**5.5**	**3,717**	**-10.4**
Adjusted PAT	**3,595**	**3,304**	**8.8**	**3,359**	**7.0**
Equity Cap (cr)	970	970		970	
Reported EPS	3.4	3.3	5.5	3.8	-10.4
Adjusted EPS	3.7	3.4	8.8	3.5	7.0
Margins (%)			**BPS**		**BPS**
OPM	23.2	26.2	-299	24.3	-113
Effective tax rate	41.3	26.6	1,474	26.9	1,440
Adjusted NPM	8.8	11.2	-245	8.4	37

Source: Company, Sharekhan Research

Reconciliation of reported and adjusted PAT Rs cr

Particulars	Calculation of Adjusted Profit		
	Q2FY23	Q2FY22	% Change
Reported PAT	**3,331**	**3,157**	**6%**
Previous year Sales/Fuel*	-392	179	
Discounting impact on receivables due to change in LPSC Rules (unwinding in subsequent quarters)	333	-	
Tax impact on above adjustments	10	-31	
Previous year tax impact	122	-	
Tax impact of Merger	190	-	
Adjusted PAT	**3,595**	**3,304**	**9%**

Source: Company, Sharekhan Research

Commercial capacity addition (COD) targets over FY23E-25E (figures in MW)

Particulars	FY23E	FY24E	FY25E
Barh	660	-	660
North Karanpura	660	660	660
Telangana	800	800	-
Tapovan Vishnugad	-	-	520
Nabinagar	660	-	-
RE Projects	1,735	735	-
NTPC Standalone	**4,515**	**2,195**	**1,840**
JPL	600	-	-
BIFPCL	660	660	-
NSPCL	40	-	-
PVUNL	-	-	1,600
NREL	-	2,295	1,255
THDC	-	1,000	1,764
NTPC JVS	**1,300**	**3,955**	**4,619**
NTPC Group	**5,815**	**6,150**	**6,459**

Source: Company, Sharekhan Research

Outlook and Valuation

■ **Sector view - Regulated tariff model provides earnings visibility; 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 generation and transmission companies. This would reduce power sector's receivables and strengthen companies' balance sheet.

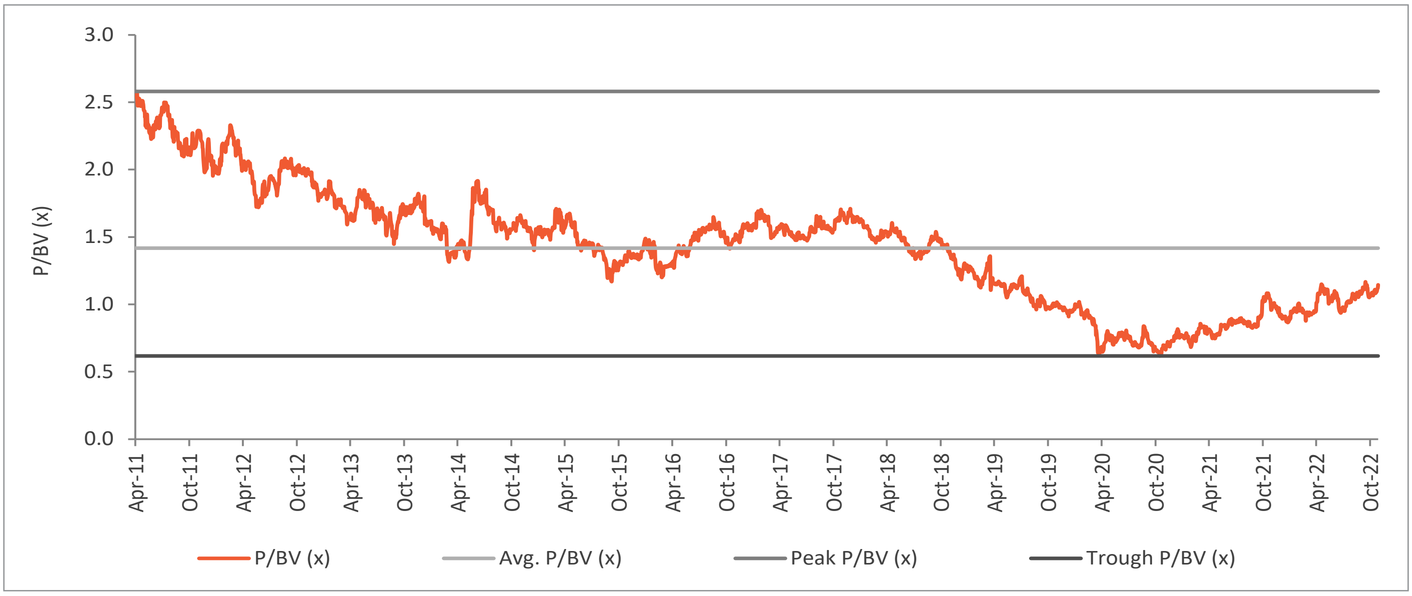
■ **Company outlook - Strong commercialisation target to drive 15% CAGR in PAT over FY2022-FY2025E**

NTPC aims to add more than 5-6 GW of new commercial capacities annually in the next couple of years, which we believe would drive a decent 10%/15% CAGR in regulated equity/PAT over FY22-25E. The management has guided for robust growth in regulated equity, which makes us optimistic about NTPC's strong earnings growth potential 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 a revised PT of Rs. 200**

NTPC's risk-averse regulated business model provides earnings growth visibility/RoE improvement and RE expansion would drive gradual re-rating of stock as it would allay concerns on the ESG front. Additionally, potential monetisation of its RE business could further improve shareholders' returns in the coming years. Valuation of 1.1x FY24E P/BV is attractive given steep discount of 20% to historical average one-year forward P/BV multiple of 1.4x and a healthy dividend yield of ~4%. Hence, we maintain a Buy on NTPC with a revised PT of Rs. 200.

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 n 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

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corporation of India	9.97
2	ICICI Prudential Asset Management	5.33
3	HDFC Asset Management Co Ltd	3.42
4	Nippon Life India Asset Management	3.21
5	Vanguard Group Inc	1.73
6	SBI Funds Management Pvt Ltd	1.54
7	BlackRock Inc	1.26
8	T Rowe Price Group Inc	1.01
9	FMR LLC	0.86
10	Mirae Asset Global Investment Co Ltd	0.82

Source: Bloomberg (old data)

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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