

Power

Demand remains strong; coal inventory improves

The power industry is expected to report 28.5% YoY earnings growth, owing to the strong generation growth (+7.3% YoY in Q3FY23) and improved coal availability. Peak power demand increased by 10% YoY during Q3FY23 to ~193GW, driven by the festive season. Coal inventory at power plants too improved significantly, led by increased usage of imported coal as the number of stations facing subcritical inventory level declined to 43 in Dec 2022, vs 69 YoY and 54 QoQ. Power deficit normalized to 0.4% in Q3FY23, vs 0.6% QoQ, while average merchant rates in Q3FY23 declined 3% YoY and 12% QoQ to INR4.8/unit. Revenue for our coverage universe is likely to improve by 24.2% YoY, while earnings are expected to grow 28.5% YoY. We remain positive on regulated entities like NTPC, CESC and NHPC, trading at comfortable valuations and which are expected to see better earnings on the back of improved demand and availability. Tata Power could report an exceptional gain due to the CERC order in Q3FY23.

- **NTPC:** Generation is expected to increase significantly by 13.1% YoY to 82.2 BUs, led by strong demand during the festive season. Realisation too is expected to rise 20.5% YoY to INR5.0/unit, led by a rise in fuel cost. This would increase the topline/PAT by 36.5%/6.0% YoY. Both PLF and PAF are expected to improve in Q2FY23. NTPC added 630MW of solar capacity in Q3FY23, taking the overall installed capacity to 70.9GW on a consolidated basis.
- **Powergrid:** Both capitalisation and Capex is expected to remain low at INR11.5bn (-78% YoY) and INR19.5bn (-44.2% YoY) respectively on a high YoY base. We expect revenue/PAT to grow by 7.0%/10.5% YoY to INR107.1bn/INR37.0bn during Q3FY23. The company capitalised assets worth INR207bn in FY22 and we expect it to capitalise assets worth INR120bn in FY23.
- **Tata Power:** Revenue is expected to grow by 37.0% YoY to INR149.5bn, led by improved generation at the Mundra plant (+20.7% YoY to 3.4bn) and CERC's favourable order, higher power demand across its distribution circles, and executions in its solar EPC segment. Accordingly, PAT is expected to grow by 154.5% YoY to INR10.8bn, largely due to a fall in under-recovery at its Mundra station and a one-time benefit from the CERC order.
- **CESC:** Standalone revenue is expected to increase by 3.2% YoY to INR17bn, led by a flat 1-2% rise in demand in the Kolkata license area. We expect PAT to remain largely flat YoY at INR1.8bn. Earnings are expected to improve at the Dhariwal project (on the back of the three-year medium-term PPA with the REMCL) and distribution segment (with the opening up of economy, higher power demand, improved collection, and lower AT&C losses).
- **JSW Energy:** PAT is expected to remain flat at INR3.2bn in Q3FY23 (+0.4% YoY) as its generation declined 3.8% YoY to 5.0bn. While higher realisation would offset the fall in generation, profitability is expected to be impacted by higher coal prices. Revenue is expected to rise 15.4% YoY to INR21.8bn, while EBITDA is expected to decline 6.8% YoY to INR7.4bn in Q3FY23.
- **Torrent Power:** Revenue/PAT are expected to grow 70%/27.1% YoY to INR64.1bn/INR4.7bn, led by higher power demand and increased earnings from LNG trading. Generation, however, is expected to decline 22.4% YoY due to unviable RLNG prices. Losses at the Kalwa, Shilphata, and Mumbra circles are expected to improve.
- **NHPC:** The company is expected to report a flat quarter YoY with a marginal rise of 2.1% in earnings. The overall generation is expected to decline by 10% YoY. Key aspects to watch out for: (1) progress across Parbati II and Subansiri projects; (2) outstanding dues across discoms.

Company	OLD RECO	NEW RECO	OLD TP (INR)	NEW TP (INR)
NTPC Ltd	Buy	Buy	192	192
Powergrid Corp	Add	Add	256	256
Tata Power	Reduce	Add	243	243
CESC Ltd	Buy	Buy	108	108
JSW Energy	Sell	Sell	186	186
Torrent Power	Add	Add	552	552
NHPC Ltd	Buy	Buy	50	50

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Financial summary: Q3FY23E

COMPANY	NET SALES (INR mn)			EBITDA (INR mn)			EBITDA Margin (%)			APAT (INR mn)			Adj. EPS		
	Q3 FY23E	QoQ (%)	YoY (%)	Q3 FY23E	QoQ (%)	YoY (%)	Q3 FY23E	QoQ (bps)	YoY (bps)	Q3 FY23E	QoQ (%)	YoY (%)	Q3 FY23E	Q2 FY23E	Q3 FY22
NTPC Ltd	3,84,903	(5.3)	36.5	91,079	(0.2)	7.8	23.7	118.9	(630.5)	38,429	6.9	6.0	4.0	3.7	3.7
Powergrid Corp	1,07,059	0.5	7.0	89,645	0.1	3.2	83.7	(33.5)	(314.0)	37,000	1.3	10.5	7.1	7.0	6.4
Tata Power	1,49,510	6.6	37.0	22,240	0.3	0.4	14.9	232.8	(9.6)	10,840	32.3	154.5	3.4	2.6	1.3
CESC Ltd	17,172	(24.1)	3.3	2,248	(29.8)	6.0	13.1	(87.9)	35.0	1,824	(25.0)	(0.9)	1.4	1.8	1.4
JSW Energy	21,847	(8.5)	15.4	7,375	(17.1)	(6.8)	33.8	(350.3)	(802.8)	3,221	(29.4)	0.4	2.0	2.8	2.0
Torrent Power	64,050	(4.4)	70.0	11,450	(1.6)	22.6	17.9	(479.2)	(691.3)	4,697	(3.0)	27.1	9.7	10.0	7.7
NHPC Ltd	19,401	(32.8)	0.4	11,031	(39.6)	(6.5)	56.9	(639.7)	419.5	7,769	(45.8)	2.1	0.8	1.4	0.8
Aggregate	7,63,942	(9.7)	24.2	2,35,068	(12.6)	3.8	243.9	(177.0)	(284.8)	1,03,779	(8.9)	28.5	28.3	29.3	23.2

Source: Company, HSIE Research

Valuation summary

Company	Mcap (INR Bn)	CMP (INR)	RECO	TP (INR)	Adj EPS (INR/sh)				P/E (x)				P/Bv (x)				ROE (%)			
					FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E
NTPC	1,628	168	Buy	192	15.1	16.8	18.3		11.2	10.1	9.2		1.4	1.3	1.2		12.9	13.3	13.4	
Powergrid Corp	1,477	212	Add	256	22.3	20.1	21.1	22.1	9.5	10.6	10.1	9.6	1.9	1.8	1.6	1.5	17.5	17.2	16.9	16.6
Tata Power	659	206	Reduce	243	5.4	8.7	9.1	10.7	37.8	23.6	22.6	19.2	2.9	2.7	2.4	2.2	10.5	11.8	11.2	11.9
CESC	94	75	Buy	108	5.9	6.9	6.9	7.0	12.6	11.1	11.0	10.9	1.7	1.6	1.6	1.6	13.1	14.6	14.5	14.4
JSW Energy	465	283	Sell	186	6.9	9.2	10.4	11.2	45.8	34.7	30.4	28.5	3.0	2.8	2.6	2.4	7.2	8.3	8.9	8.9
Torrent Power	234	486	Add	552	29.7	32.1	35.4	40.5	16.3	15.1	13.7	12.0	2.3	2.1	1.9	1.7	14.4	14.8	14.7	15.1
NHPC	393	39	Buy	50	3.5	3.5	3.7	5.1	11.1	11.1	10.6	7.6	1.2	1.1	1.1	1.0	10.6	10.3	10.3	13.4

Source: Company, HSIE Research

Disclosure:

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