



**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 Dec 8, 2022

**High Risk**

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

Source: Morningstar

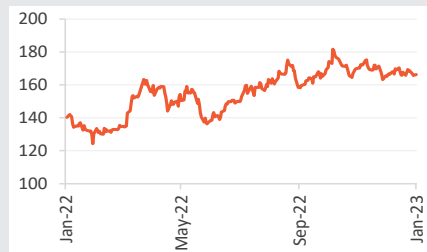
**Company details**

Market cap:	Rs. 1,61,256 cr
52-week high/low:	Rs. 183/124
NSE volume: (No of shares)	128.3 lakh
BSE code:	532555
NSE code:	NTPC
Free float: (No of shares)	474.2 cr

**Shareholding (%)**

Promoters	51.1
FII	15.7
DII	30.5
Others	2.7

**Price chart**



**Price performance**

(%)	1m	3m	6m	12m
Absolute	-0.2	-4.5	8.7	18.6
Relative to Sensex	2.	-3.5	5.7	14.9

Sharekhan Research, Bloomberg

<b>Power</b>	<b>Sharekhan code: NTPC</b>		
<b>Reco/View: Buy</b>	↔	<b>CMP: Rs. 166</b>	<b>Price Target: Rs. 200</b>
↑ Upgrade	↔ Maintain	↓ Downgrade	

**Summary**

- Q3FY23 adjusted PAT grew strongly by 18% y-o-y to Rs. 4,424 crore (19% above our estimate) supported by 7% y-o-y rise in regulated equity base, fixed cost over recovery of Rs. 170 crore and higher incentive income of Rs. 125 crore partially offset by higher interest cost.
- Management guided for commercialisation of 5.5 GW/6 GW/4.7 GW of capacities in FY23E/FY24E/25E. Double digit growth in regulated equity base over FY22-25E (led by robust commercialization target) and lower FC under-recoveries (target of reduce to Rs. 250 crore by Mar'23) to drive 15% PAT CAGR over FY22-25E.
- NTPC's plan monetise 10-20% stake in NTPC Green Energy by March 2023 is on track. Monetisation could unlock value for NTPC and pave for high dividend payouts.
- We maintain a Buy on NTPC with an unchanged 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 Q3FY23 standalone adjusted PAT grew strongly by 18% y-o-y to Rs. 4,424 crore, which was 19% above our estimate Rs. 3,760 crore. Strong earnings growth was led by a 7% y-o-y increase in a regulated equity base to Rs. 75,449 crore, fixed cost over-recovery of Rs. 170 crore (versus an under-recovery of Rs. 170 crore in Q3FY22) and higher incentive income of Rs. 125 crore (as compared Rs. 75 crore in Q3FY22) partially offset by sharply higher interest cost (up 45% y-o-y) and lower other income (down 17.6% y-o-y). late payment surcharge was lower at Rs. 67 crore as compared to Rs. 173 crore in Q3FY22. Operationally, NTPC added 2.3 GW/3.1 GW y-o-y of standalone/consolidated commercial capacities to 58.3GW/70.9GW and commercial generation/energy sold increased by 3.1%/2.5% y-o-y to 78.6 BU/72.9 BU. Plant-load factor (PLF) for thermal power plants stood at 68.9% in Q3FY23 (versus 67.7% in Q1FY22) and plant availability factor (PAF) was at of 92.7% versus 86% in Q3FY22.

**Key positives**

- Healthy 7% y-o-y growth in standalone regulated equity base to Rs. 75,449 crore in Q3FY23.
- Fixed cost over-recovery of Rs. 170 crore in Q3FY23.

**Key negatives**

- Decline in profit share from subsidiaries/JVs to Rs. 1,771 crore in 9MFY23 as compared to Rs. 2,225 crore in 9MFY22.
- Sharp increase of 45% y-o-y in interest cost.

**Management Commentary**

- The management guided to commercialise 5.5GW/5.9GW/4.7 GW 18 GW of capacities in FY23E/FY24E/25E.
- NTPC has 18 GW of capacities under construction with 11,280 GW/4,718 GW/2,055 MW in coal, renewable energy and hydrogen. 42GW capacity is in the planning stage with 6 GW/36 GW from coal/renewable energy.
- Plans to monetise 10-20% equity stake in NTPC Green Energy Limited is on track and expected by March 2023.
- Target to reduce fixed cost under-recoveries to Rs. 250 crore by March 2023 as compared to Rs. 548 crore in Q3FY23.
- Standalone capex guidance of Rs. 23000 crore/Rs. 26000 crore/Rs. 22000 crore for FY23E/FY24E/FY25E.

**Revision in estimates** – We have fine-tuned our FY23 earnings estimate to factor in 9MFY23 performance and largely maintain our FY24-FY25 earnings estimates.

**Our Call**

**Valuation – Maintain Buy on NTPC with an unchanged 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 a 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 an unchanged PT of Rs. 200.

**Key Risks**

Lower-than-expected commercial capacity additions amid delay in projects and coal availability shortages could affect earnings. Moreover, any write-off related to dues from discoms could affect valuations.

**Valuation (Standalone)**

Particulars	Rs cr			
	FY22	FY23E	FY24E	FY25E
Revenue	1,16,137	1,56,242	1,74,923	1,92,706
OPM (%)	29.1	25.1	25.7	25.8
Adjusted PAT	14,701	16,489	19,792	22,175
% YoY growth	3.4	12.2	20.0	12.0
Adjusted EPS (Rs.)	15.2	17.0	20.4	22.9
P/E (x)	11.0	9.8	8.1	7.3
P/B (x)	1.3	1.2	1.1	1.0
EV/EBITDA (x)	9.7	8.7	7.5	6.7
RoNW (%)	11.9	12.5	14.0	14.5
RoCE (%)	8.8	9.4	10.1	10.5

Source: Company; Sharekhan estimates

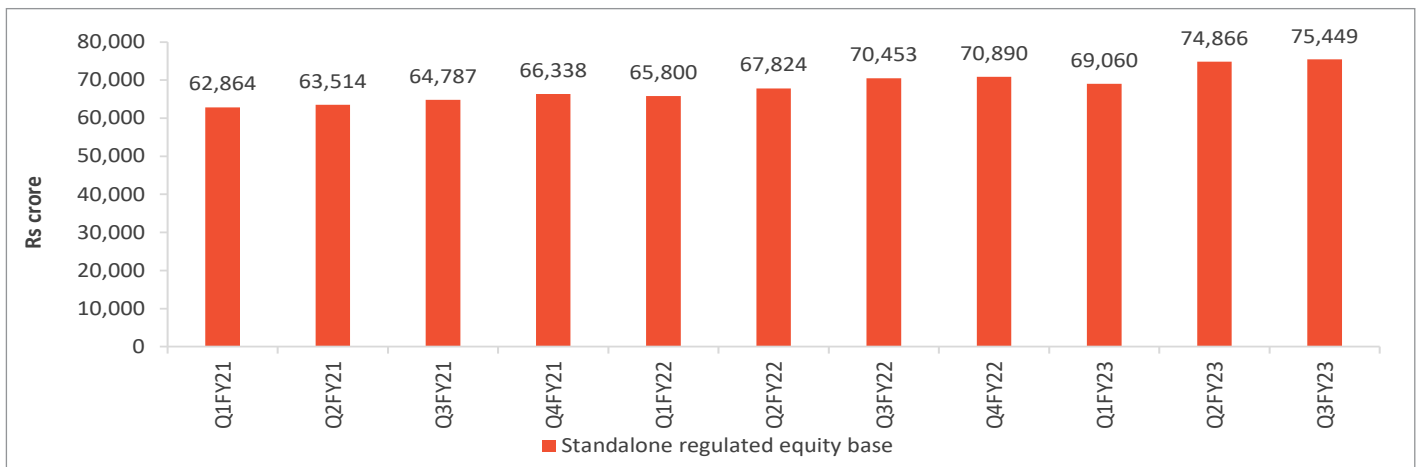
## Strong Q3FY23 performance; PAT significantly above estimate

Q3FY23 standalone adjusted PAT grew strongly by 18% y-o-y to Rs. 4,424 crore, which was 19% above our estimate of Rs. 3760 crore. Strong earnings growth was led by a 7% y-o-y increase in a regulated equity base to Rs. 75,449 crore, fixed cost over-recovery of Rs. 170 crore (versus an under-recovery of Rs. 170 crore in Q3FY22) and higher incentive income of Rs. 125 crore (as compared Rs. 75 crore in Q3FY22) partially offset by sharply higher interest cost (up 45% y-o-y) and lower other income (down 17.6% y-o-y). Late payment surcharge was lower at Rs. 67 crore as compared to Rs. 173 crore in Q3FY22. Operationally, NTPC added 2.3 GW/3.1 GW y-o-y of standalone/consolidated commercial capacities to 58.3GW/70.9GW and commercial generation/energy sold increased by 3.1%/2.5% y-o-y to 78.6 BU/72.9 BU. Plant-load factor (PLF) for thermal power plants stood at 68.9% in Q3FY23 (versus 67.7% in Q1FY22) and plant availability factor (PAF) was at of 92.7% versus 86% in Q3FY22.

### Q3FY23 earnings call highlights

- ◆ **Commercial capacity addition guidance** - Management has guided for commercialization of 5,940 MW/4,684MW in FY24/FY25 respectively. An 18 GW capacity is under construction with 11,280 MW/4,718 MW/2,055 MW in coal, renewable energy and hydrogen. 42GW capacity is in the planning stage with 6/36 GW from coal and renewable energy, respectively.
- ◆ **Capex** – Capex incurred for 9MFY23 on a consolidated basis was Rs. 26,056 crores (up 4% y-o-y) and management guided for a capex of ~25,000 p.a for FY24 & FY25.
- ◆ **Nuclear power joint venture (ASHVINI)** - NTPC Limited and Nuclear Power Corporation of India Limited have together formed a JV named Anusakthi Vidhyut Nigam Limited (ASHVINI) to set up nuclear power projects subject to techno-commercial viability. ASHVINI plans to setup six units of Indigenous PHWR as its starting point and has the Chutka MPAPP and Mahi Banswara RAPP as its upcoming projects.
- ◆ **Fixed cost under-recovery** – Fixed cost under-recovery for 9MFY23 was Rs. 548 crore (down 21% y-o-y). The management aims to reduce fixed cost under-recoveries to Rs. 250 crore by end of FY23.
- ◆ **FGD pipeline** – Already awarded ~62 GW of capacity and would be commissioned progressively. Nearly 2,360 MW already commissioned and 60,940 MW is under construction. Capex already awarded at Rs. 29,631 crore as of now; 1454 MW for retendering so capex as awarded would Rs. 31000 crore.
- ◆ **Ash transportation charges (no impact on PAT)** – Management stated there would be no financial impact as it has earlier provisionally accounted for ash transportation charges under regulatory income. Post CERC order, now it is booked under revenue and thus helped to improve PBT but there would be no impact on PAT; however, cash flow would improve as NTPC would now start billing the charges to discoms.
- ◆ **Other updates** – 1) Standalone regulated equity base at end of Q3FY23 at Rs. 75,449 crores, which increased by 7% y-o-y, 2) Profit from subsidiaries/JVs stood at Rs. 1,290 crore/Rs. 481 crore in 9MFY23 versus Rs. 1,391 crore/Rs. 834 crore in 9MFY22, 3) Dividend income from subsidiaries and JVs for 9MFY23 was Rs. 1,046 crore. 4) Average cost of borrowing was at 6.32% in 9MFY23 versus 5.95% in 9MFY22. 5) RE monetization plan is on track and will be completed by March 2023. 6) Average PLF in 9MFY23 was 74.45% versus the country average of 63.27%. 7) Late payment surcharge is decreasing due to strict payment rules and was Rs. 67 crores for 9MFY23. 8) Company does not expect coal shortage this year.

### Standalone regulated equity base increased by 7% y-o-y in Q3FY23



Source: Company, Sharekhan Research

Results (Standalone)

Particulars	Rs cr				
	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
<b>Revenue</b>	<b>41,411</b>	<b>30,266</b>	<b>36.8</b>	<b>41,015</b>	<b>1.0</b>
Total Expenditure	28,171	20,542	37.1	31,494	-10.5
<b>Operating profit</b>	<b>13,239</b>	<b>9,723</b>	<b>36.2</b>	<b>9,522</b>	<b>39.0</b>
Other Income	738	896	-17.6	796	-7.2
Interest	2,874	1,983	45.0	2,737	5.0
Depreciation	3,312	3,099	6.9	3,287	0.8
PBT	7,791	5,538	40.7	4,293	81.5
<b>PBT</b>	<b>7,791</b>	<b>5,538</b>	<b>40.7</b>	<b>4,293</b>	<b>81.5</b>
Tax	1,581	1,279	23.7	1,774	-10.9
PAT before regulatory deferral account balances	6,210	4,259	45.8	2,519	146.5
Net movement in regulatory deferral account balances	-1,733	-13	13358.8	812	-313.5
<b>Reported PAT</b>	<b>4,476</b>	<b>4,246</b>	<b>5.4</b>	<b>3,331</b>	<b>34.4</b>
<b>Adjusted PAT</b>	<b>4,424</b>	<b>3,758</b>	<b>17.7</b>	<b>3,595</b>	<b>23.1</b>
Equity Cap (cr)	970	970		970	
Reported EPS	4.6	4.4	5.4	3.4	34.4
Adjusted EPS	4.6	3.9	17.7	3.7	23.1
<b>Margins (%)</b>			<b>BPS</b>		<b>BPS</b>
OPM	32.0	32.1	-16	23.2	876
Effective tax rate	20.3	23.1	-279	41.3	-2103
Adjusted NPM	10.7	12.4	-173	8.8	192

Source: Company, Sharekhan Research

Reconciliation of reported and adjusted PAT

Particulars	Rs cr					
	Q3FY23	Q3FY22	Chg (y-o-y)	9MFY23	9MFY22	Chg (y-o-y)
<b>Reported PAT</b>	<b>4,476</b>	<b>4,246</b>	<b>5%</b>	<b>11,524</b>	<b>10,664</b>	<b>8%</b>
Previous year Sales/Fuel	-63	-591		-840	-392	
Discounting impact on receivables due to change in LPSC Rules	-	-		333	-	
Tax impact on above adjustments	11	103		89	68	
Previous year tax impact	-	-		122	-	
Tax impact of Merger	-	-		190	-	
<b>Adjusted PAT</b>	<b>4,424</b>	<b>3,758</b>	<b>18%</b>	<b>11,419</b>	<b>10,341</b>	<b>10%</b>

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, a 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 Union Budget would help power discoms clear dues of generation and transmission companies. This would reduce power sector's receivables and strengthen companies' balance sheet.

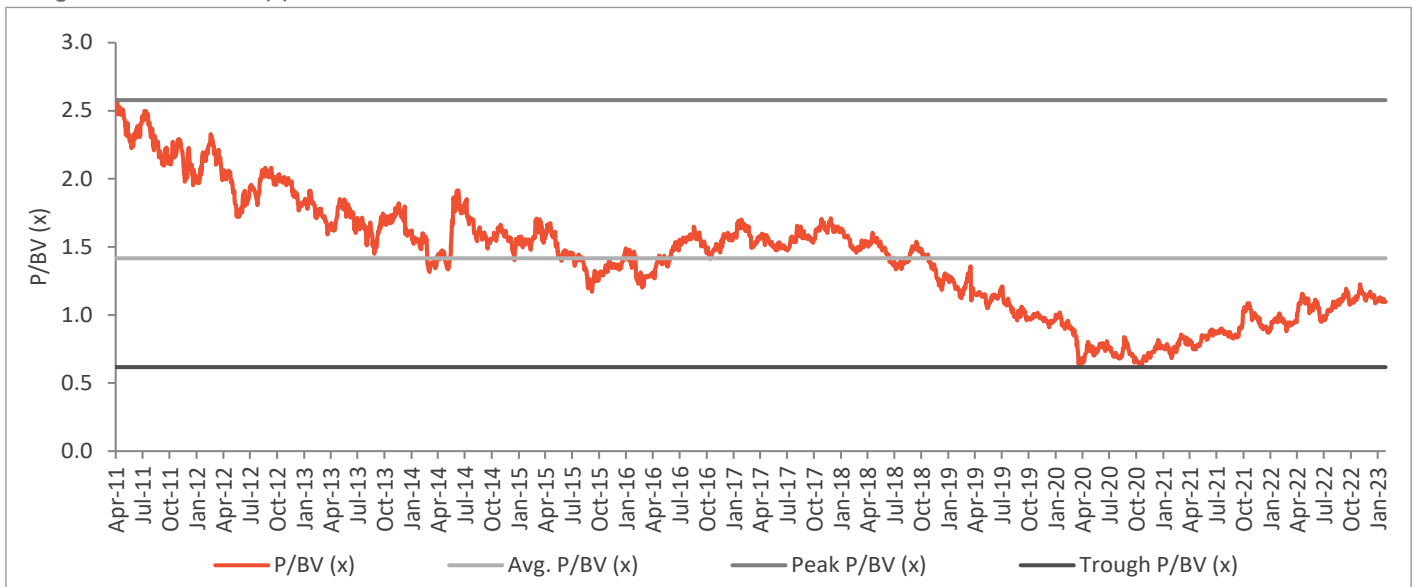
### ■ Company outlook - Strong commercialisation target to drive 15% CAGR in PAT over FY2022-FY2025E

NTPC aims to add more than 5 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 an unchanged 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 a 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 an unchanged 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 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 FY2023. 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)

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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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