Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Company Update

NTPC Ltd

Play on growth & dividend; RE stake monetization key catalyst

Power	Sharekhan code: NTPC
Reco/View: Buy ↔	CMP: Rs. 172 / Price Target: Rs. 200 ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

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. 1,66,783 cr
52-week high/low:	Rs. 183/127
NSE volume: (No of shares)	125.1 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	1.2	-0.1	7.1	28.8
Relative to Sensex	1.7	6.0	6.0	23.2

Sharekhan Research, Bloomberg

Summary

- Double-digit growth in power demand with peak demand of >200GW would benefit NTPC in terms of higher thermal PLF and drive the increase in PLF's incentive income. The sharp 49% y-o-y fall in discom due to power genos to strengthen NTPC's balance sheet.
- The recent consolidation of RE assets and subsidiaries into NTPC Green Energy is a step ahead to monetize 10-20% minority stake (expected by March 2023) in NGEL. BV of RE assets at >Rs. 10,000 crore and monetisation could unlock the value for NTPC.
- Risk average business model (regulated ROE) and strong commercialisation guidance of 18GW over FY23E-25E provides earnings growth visibility and makes NTPC one of the safest bets in the current volatile market environment.
- We maintain Buy on NTPC with an unchanged PT of Rs. 200 as valuation of 1.1x FY25E P/BV is at a steep discount of 26% to historical average P/BV despite expectation of earnings growth visibility and healthy RoE of 14-15%.

Strong commercialisation target, improving thermal PLF (given high power demand), and focus on lowering fixed cost under-recoveries would lead to a strong 15% CAGR over FY2022-FY2025E. Strong growth outlook visibility, given the regulated RoE model, healthy RoE of 14-15%, and potential value unlocking through minority stake sale in NGEL make NTPC valuation attractive at 1.1x FY25E P/BV (steep 26% discount to historical average P/BV multiple). The stock offers a healthy dividend yield of 4-5%. We maintain Buy on NTPC with an unchanged price target (PT) of Rs. 200.

- **Strong power demand, focus on RE expansion and declining discoms dues bode well for NTPC:** India's power demand grew strongly by 10% y-o-y in 9MFY2023 with peak demand of 206 GW (12% higher y-o-y) in December 2022. The outlook remains strong, given expectation of sustained double-digit growth in power demand during summers. This bodes well for higher PLF for thermal power plants and would benefit NTPC. We highlight here that NTPC's thermal PLF of 74.5% in 9MFY23 was much higher than national average of 63% and would further improve NTPC's thermal PLF over Q4FY23-Q1FY24, given high power demand (peak demand estimate of 229 GW in April 2023). Moreover, NTPC expects its renewable energy (RE) portfolio to expand to 15GW/60GW by FY26/FY32 versus 3.1 GW of operational RE capacity currently. Although the transition towards cleaner energy would be achieved over the next decade, but it is crucial to improve ESG score and drive the next leg of growth and re-rating for the company. Additionally, discom total outstanding dues to power generation companies have declined sharply by 49% to Rs. 58,647 crore in February 2023 and the same would strengthen the balance sheet of power companies like NTPC.
- **Potential monetisation of minority stake in NGEL to unlock value:** NTPC has completed transfer of 15 RE assets and 100% stake in NTPC Renewable Energy Limited (NREL) to its wholly owned subsidiary – NTPC Green Energy Limited (NGEL). The transfer of 15 RE assets is being carried out on book value, which is ~Rs. 10,067 crore as of March 2022, while NTPC RE transaction is being carried out by paid-up share capital (Rs. 732 crore as of March 2022) of NREL. The move to transfer RE assets and 100% stake in NREL would pave the way for monetisation of 10-20% minority stake in NGEL and could unlock value and result in likely higher dividend payouts.
- **Steady earnings growth outlook, given the regulated RoE model:** NTPC has guided to commercialise 6GW of new capacities annually over FY23E-25E and the same would drive a 10% CAGR in standalone regulated equity base over FY22-25E and reach Rs. 93,240 crore by FY25E versus Rs. 70,890 crore in FY22. The regulated tariff model assured that NTPC will earn fixed RoE of 15.5% on power project equity and thus provides strong earnings growth (expect 15% PAT CAGR over FY22-25E) visibility.

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 the 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. The valuation of 1.1x its FY25E P/BV is attractive, given the steep discount of 26% to its historical average one-year forward P/BV multiple of 1.4x and a healthy dividend yield of 4-5%. Hence, we maintain a Buy on NTPC with an unchanged PT of Rs. 200.

Key Risks

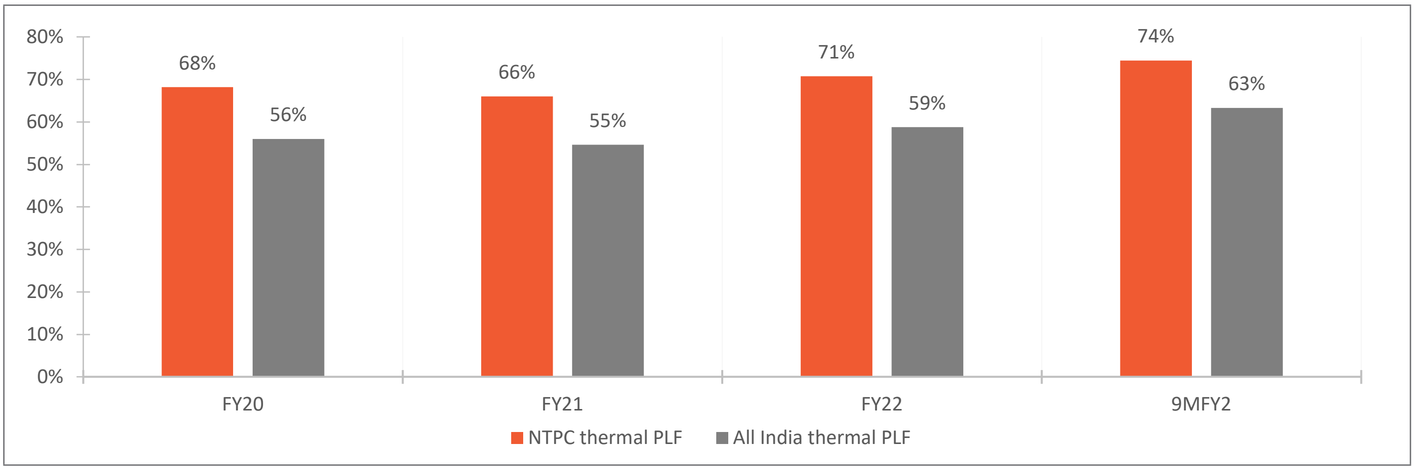
Lower-than-expected commercial capacity additions amid delay in projects and coal availability shortages could affect earnings. Moreover, any write-off related to dues from discoms could affect valuations.

Valuation (Standalone) Rs cr

Particulars	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)	11.3	10.1	8.4	7.5
P/B (x)	1.3	1.2	1.1	1.1
EV/EBITDA (x)	9.9	8.8	7.6	6.8
RoNW (%)	11.9	12.5	14.0	14.5
RoCE (%)	8.8	9.4	10.1	10.5

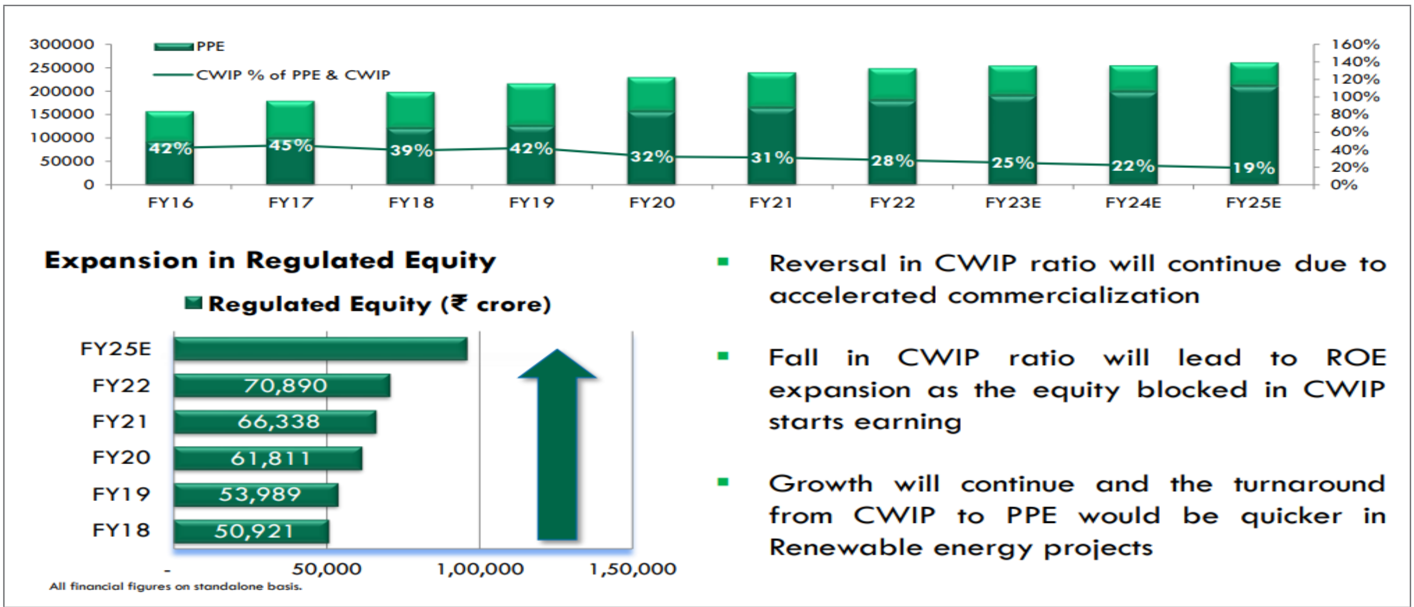
Source: Company; Sharekhan estimates

NTPC's PLF remains strong



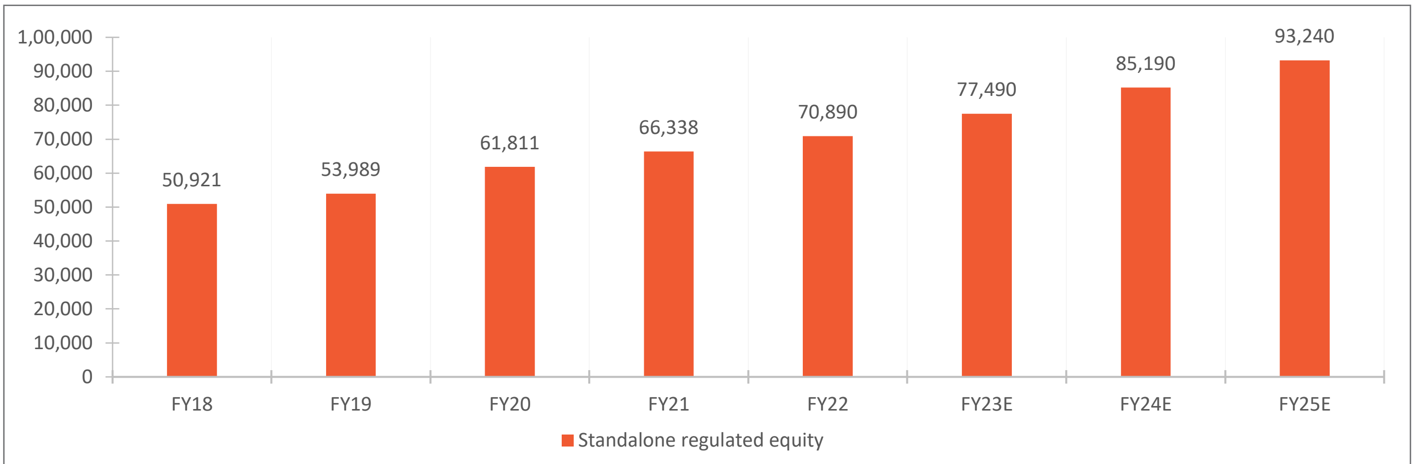
Source: Company, Sharekhan Research

Reversal in CWIP ratio – A key growth driver as new projects start earnings regulated RoE



Source: Company

Reversal in CWIP ratio – A key growth driver as new projects start earnings regulated RoE



Source: Company, Sharekhan Research

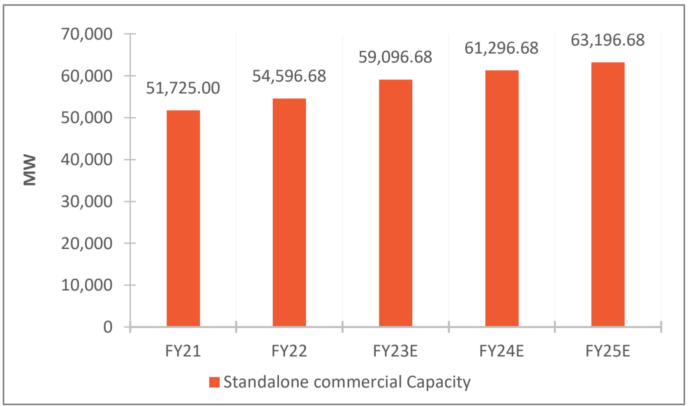
Commercial capacity addition (COD) targets over FY23E-25E **(figures in MW)**

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

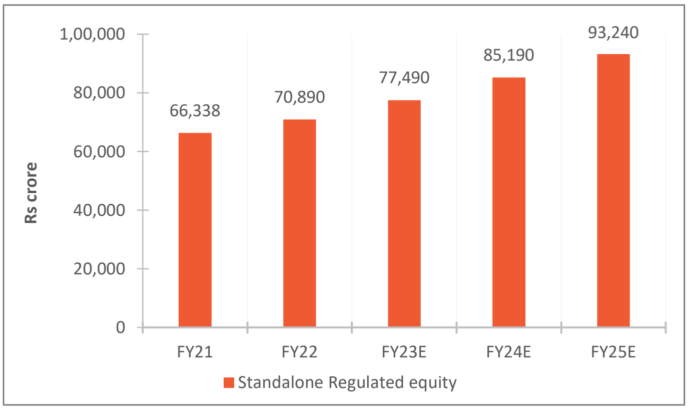
Financials in charts

Commercialisation to remain strong over FY22-25E



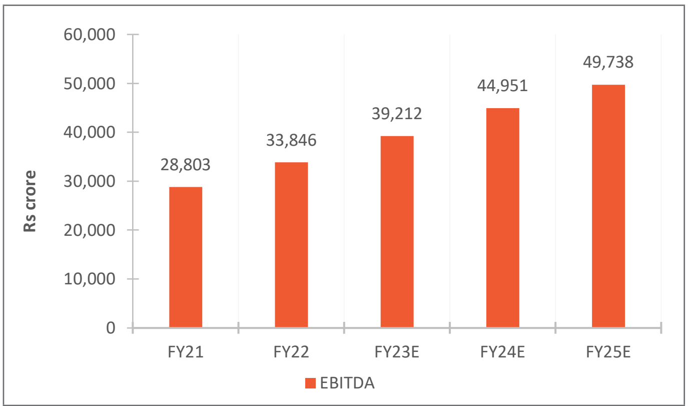
Source: Company, Sharekhan Research

Regulated equity base to grow at 10% CAGR over FY22-25E



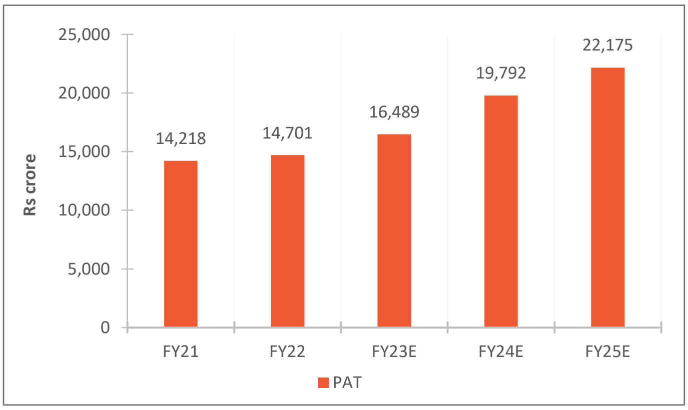
Source: Company, Sharekhan Research

EBITDA trend



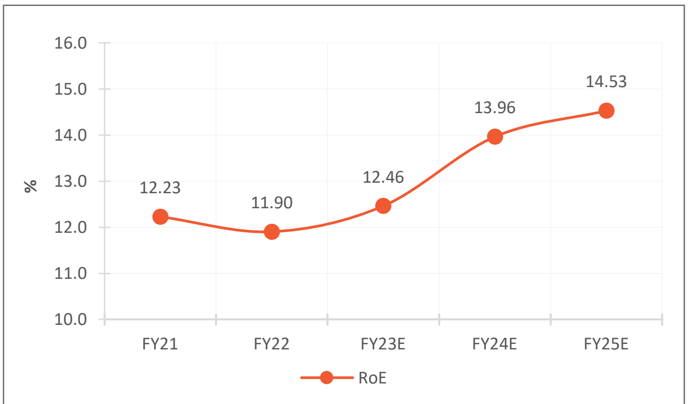
Source: Company, Sharekhan Research

PAT to clock 15% CAGR over FY22-FY25E



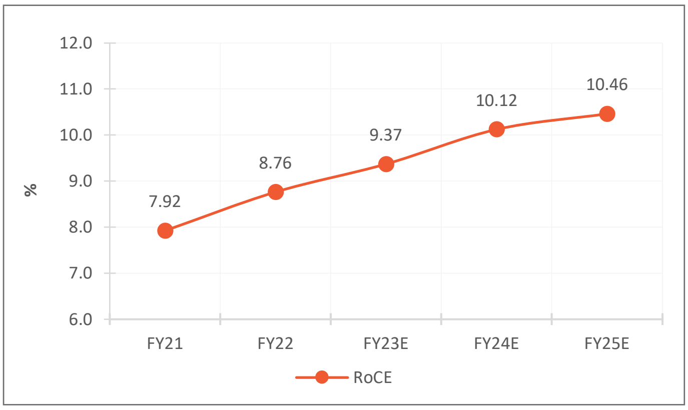
Source: Company, Sharekhan Research

RoE trend



Source: Company, Sharekhan Research

RoCE trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ **Sector View – Regulated tariff model provides earnings visibility; 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.

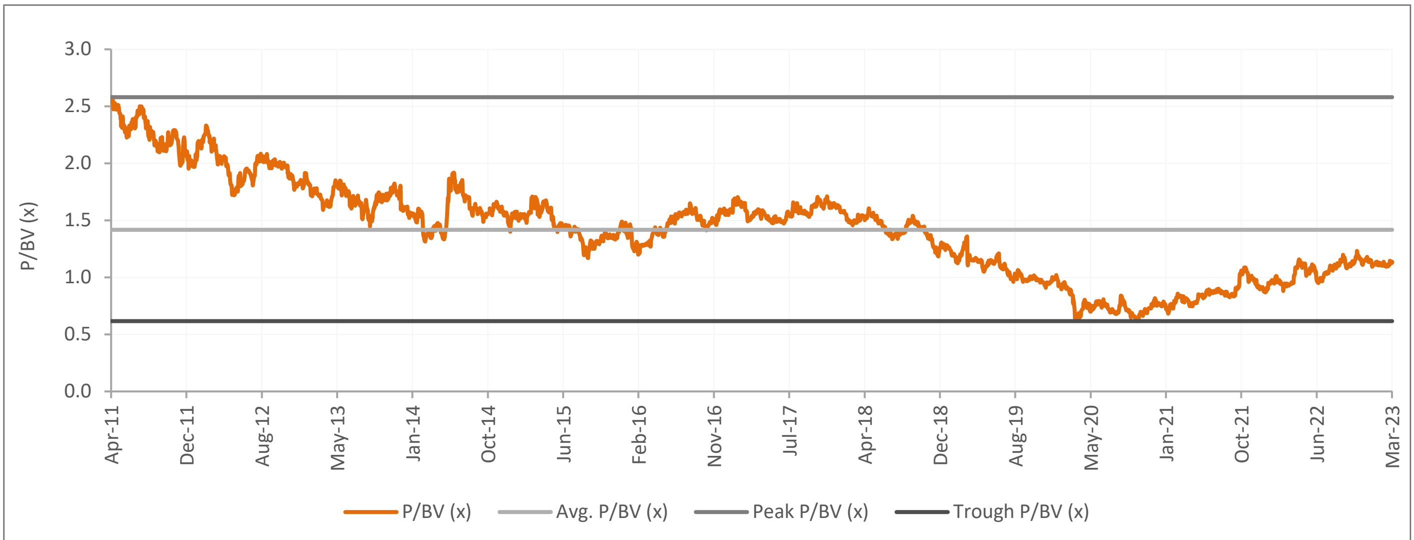
■ **Company Outlook – Strong commercialisation target to drive 15% CAGR in PAT over FY2022-FY2025E**

NTPC aims to add more than 5 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. 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 FY25E P/BV is attractive given steep discount of 26% to historical average one-year forward P/BV multiple of 1.4x and a healthy dividend yield of ~4-5%. 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 68,302 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 Website

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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