Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

NTPC Ltd

Strong Q4; Commercialisation target provides growth visibility

Power	Sharekhan code: NTPC

Reco/View: Buy ↔	CMP: Rs. 173	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 36.46

Updated Mar 08, 2023

High Risk

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

Source: Morningstar

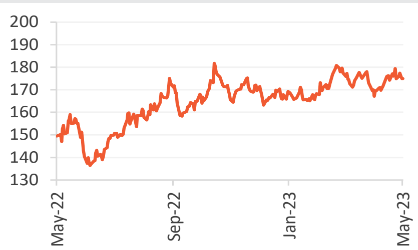
Company details

Market cap:	Rs. 1,67,995 cr
52-week high/low:	Rs. 183/135
NSE volume: (No of shares)	106.9 lakh
BSE code:	532555
NSE code:	NTPC
Free float: (No of shares)	474.2 cr

Shareholding (%)

Promoters	51.1
FII	15.6
DII	30.5
Others	2.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.2	3.2	4.6	15.9
Relative to Sensex	3.5	1.7	0.1	13.6

Sharekhan Research, Bloomberg

Summary

- Q4FY23 adjusted PAT grew by 7% y-o-y to Rs. 4,895 crore (2% above our estimates) led by a 10% y-o-y rise in regulated equity base, higher other income that was partially offset by higher interest/depreciation cost.
- Management guided for commercialisation of 4.5 GW/3.5 GW/2.4 GW of thermal power capacities in FY24E/FY25E/26E and 16 GW of RE capacities over the next three years. Strong commercialisation target to drive double-digit growth in regulated equity base and thus we expect NTPC to clock a 14% standalone PAT CAGR over FY23-25E.
- NTPC's plan to monetise a minority stake in NTPC Green is on, though it could not materialise in FY23. The company is looking at either IPO route or a strategic sale for monetization. NTPC Green's total equity is at ~Rs. 5,000 crore.
- We maintain a Buy on NTPC with an unchanged PT of Rs. 200, as it is attractively valued at 1.1x its FY25E P/BV, strong earnings visibility and healthy dividend yield of ~4%. Focus to ramp-up RE portfolio and new areas of green hydrogen/battery storage would be key growth catalyst over the medium to long term.

NTPC Limited's Q4FY23 standalone adjusted PAT grew by 7% y-o-y to Rs. 4,895 crore (2% above our estimate of Rs. 4,797 crore) supported by a 10% y-o-y growth in the regulated equity base to Rs. 77,628 crore, higher other income (up 41% y-o-y) partially offset by higher interest/depreciation cost. Fixed cost under-recovery was at Rs. 400 crore as of March 2023 as compared Rs. 450 crore as of March 2022. Operationally, NTPC added 3.9 GW of commercial capacities and thus taking its standalone/consolidated commercial capacities to 56GW/72GW in FY23. Commercial generation/ energy sold increased by 7.5%/8.4% y-o-y to 89 BU/83 BU. Plant-load factor (PLF) for thermal power plants stood at 80.3% in Q4FY23 (versus 76.2% in Q4FY22) and plant availability factor (PAF) was at 93.5% versus 91% in Q4FY22.

Key positives

- Strong 10% y-o-y growth in standalone regulated equity base to Rs. 77,628 crore in Q4FY23.

Key negatives

- Lower profit share from Subsidiaries/JVs at Rs. 2246 crore in FY23 versus Rs. 2,398 crore in FY22.
- Sharp increase of 35% y-o-y in interest cost.

Management Commentary

- The management guided to commercialise 4.6GW/3.5GW/2.4 GW of capacities in FY24E/ FY25E/26E for thermal power. RE capacity addition target of 16 GW over next three years.
- RE portfolio break-up – 3.3 GW commissioned, 4.6 GW under construction, 12.6 GW under pipeline.
- Plan to monetise a minority stake in NTPC Green is on and would go either through IPO route or strategic stake sale. NTPC held a process for a minority stake sale in NTPC Green, but the stake sale could not materialise.
- NTPC has a big focus on hydrogen and energy storage. Started work on Hydrogen Hub (will involve manufacturing facility for green hydrogen equipment, production and export of green hydrogen, ammonia and green chemical) in Andhra Pradesh and floated storage tender for 9GW.
- Standalone capex guidance of Rs. 22,454 crore/Rs. 24,701 crore/Rs. 31,142 crore/Rs. 34,096 crore for FY24E/FY25E/FY26E/FY27E.

Revision in estimates: We have lowered our FY24-25 earnings estimate by 5-6% to factor higher depreciation and FY23 P&L & balance sheet numbers.

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 FY25E P/BV is attractive given steep discount of 30% to historical average one-year forward P/BV multiple of 1.5x 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) Rs cr

Particulars	FY22	FY23	FY24E	FY25E
Revenue	1,16,137	1,63,770	1,74,923	1,92,706
OPM (%)	29.1	26.4	25.3	25.5
Adjusted PAT	14,701	16,314	18,621	21,154
% YoY growth	3.4	11.0	14.1	13.6
Adjusted EPS (Rs.)	15.2	16.8	19.2	21.8
P/E (x)	11.4	10.3	9.0	7.9
P/B (x)	1.3	1.2	1.1	1.1
EV/EBITDA (x)	9.9	8.1	7.8	6.9
RoNW (%)	11.9	12.2	13.0	13.7
RoCE (%)	8.8	10.5	10.0	10.6

Source: Company; Sharekhan estimates

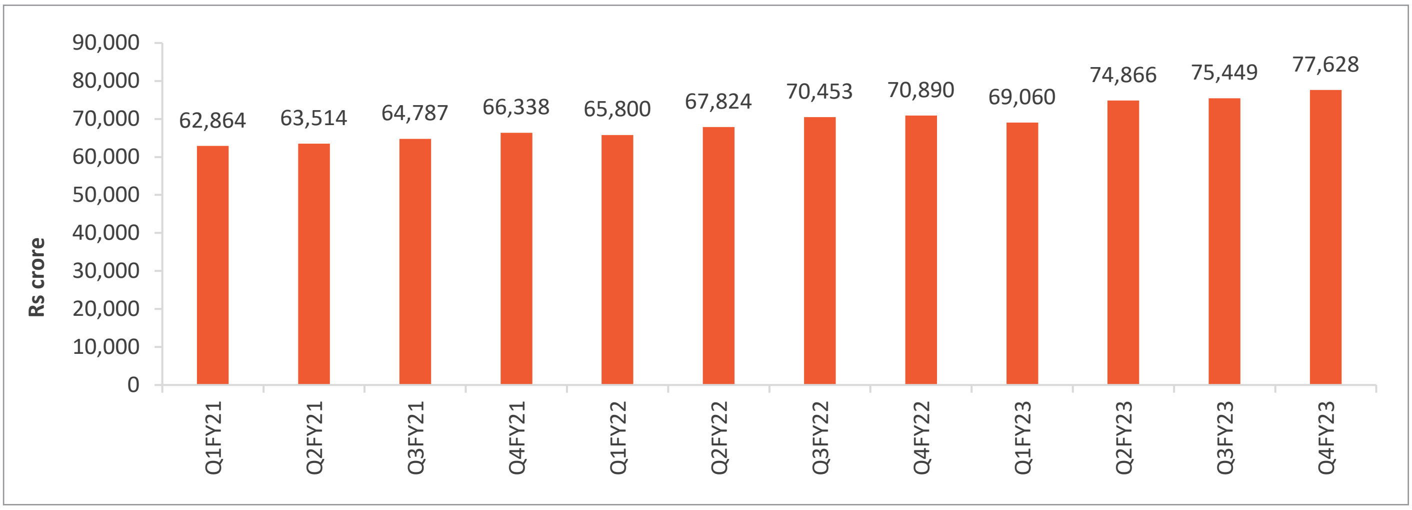
Strong Q4; earnings beat estimate on higher regulated equity

Q4FY23 standalone adjusted PAT grew by 7% y-o-y to Rs. 4,895 crore (2% above our estimate of Rs. 4,797 crore) supported by a 10% y-o-y growth in regulated equity base to Rs. 77,628 crore, higher other income (up 41% y-o-y) partially offset by higher interest/depreciation cost. Fixed cost under-recovery was at Rs. 400 crore as of March 2023 as compared Rs. 450 crore as of March 2022. Operationally, NTPC added 3.9 GW of commercial capacities and thus taking its standalone/consolidated commercial capacities to 56GW/72GW in FY23. Commercial generation/energy sold increased by 7.5%/8.4% y-o-y to 89 BU/83 BU. Plant-load factor (PLF) for thermal power plants stood at 80.3% in Q4FY23 (versus 76.2% in Q4FY22) and plant availability factor (PAF) was at 93.5% versus 91% in Q4FY22.

Q4FY23 earnings call highlights

- **Commercial capacity addition guidance** – Management guided for convention energy commercial capacity guidance of 4600/3580/2424 MW in FY24/FY25/FY26 respectively and RE capacity of 16 GW (via NGL and NREL) over the next 3 years.
- **Capex guidance** – Company guided for a capex of Rs. 22,454/28373 crores on a standalone/consolidated basis respectively for FY24.
- **Fixed cost under-recovery/ PLI incentive** – Fixed cost under-recovery/ PLI incentive for FY23 was Rs. 400 crore/Rs. 515 crores respectively.
- **Monetization of RE portfolio:** Company had plans to monetize RE portfolio, but it did not materialise in the last fiscal. Company will now either monetise it via an IPO route or strategic sale very soon.
- **RE capacity breakup:** For the renewable energy, management said that 3.3 GW has already been commissioned, 4.6 GW is under execution and 12.6 GW is under pipeline. This will comprise of 12-14 GW/1 GW/4-5 GW of solar/ floating solar/ wind and small hydrogen, respectively.
- **MOU with Andhra Pradesh Government:** NTPC declared its plan to construct a green hydrogen hub in coastal Andhra Pradesh with an allocation of budget over Rs. 1 lakh crore. The renewable power capacity, comprising storage, will be an overall of 20 GW, and the project is anticipated to be accomplished by 2030, with the half of the majority part will be completed by the year 2026-27
- **Other updates** – 1) CWIP to Gross Block ratio is declining given the shorter gestation period in RE projects, 2) Dividend income from subsidiaries and JVs for FY23 was Rs. 2,336 crore versus 1,736 crore in FY22, 3) Average cost of borrowing was at 6.4% in FY23 versus 5.94% in FY22, 4) Average PLF in FY23 was 75.9% versus the country average of 64.21%, 5) Trade receivables stood at Rs. 15964 crore as of March 2023 which is equal to 36 days of sales versus 45 days in the last fiscal, 6) Company's focus is on signing long term supply contracts for solar module.

Standalone regulated equity base increased by 10% y-o-y in Q4FY23



Source: Company, Sharekhan Research

Results (Standalone) Rs cr

Particulars	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Revenue	**41,318**	**32,905**	**25.6**	**41,411**	**-0.2**
Total Expenditure	30,208	22,784	32.6	28,171	7.2
Operating profit	**11,110**	**10,121**	**9.8**	**13,239**	**-16.1**
Other Income	1,721	1,225	40.5	738	133.1
Interest	2,582	1,912	35.0	2,874	-10.2
Depreciation	3,393	2,946	15.2	3,312	2.5
PBT	**6,856**	**6,487**	**5.7**	**7,791**	**-12.0**
Tax	1,544	1,005	53.5	1,581	-2.4
PAT before regulatory deferral account balances	5,312	5,482	-3.1	6,210	-14.5
Net movement in regulatory deferral account balances	360	140	157.7	-1,733	-120.8
Reported PAT	**5,672**	**5,622**	**0.9**	**4,476**	**26.7**
Adjusted PAT	**4,895**	**4,570**	**7.1**	**4,424**	**10.6**
Equity Cap (cr)	970	970		970	
Reported EPS	5.8	5.8	0.9	4.6	26.7
Adjusted EPS	5.0	4.7	7.1	4.6	10.6
Margins (%)			**BPS**		**BPS**
OPM	26.9	30.8	-387	32.0	-508
Tax rate	22.5	15.5	702	20.3	222
Adjusted NPM	11.8	13.9	-204	10.7	116

Source: Company, Sharekhan Research

Reconciliation of reported and adjusted PAT Rs cr

Particulars	FY23	FY22	Chg (y-o-y)	Q4FY23	Q4FY22	Chg (y-o-y)
Reported PAT	**17,197**	**16,282**	**6%**	**5,673**	**5,618**	**1%**
Previous year Sales/Fuel	-1,883	-1,662		-1,043	-1,270	
Discounting impact on receivables	333	-		-	-	
Tax impact on above adjustments	271	290		182	222	
Previous year tax impact	206	-		84	-	
Tax impact of Merger	190	-		-	-	
Adjusted PAT	**16,314**	**14,910**	**9%**	**4,895**	**4,570**	**7%**

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.

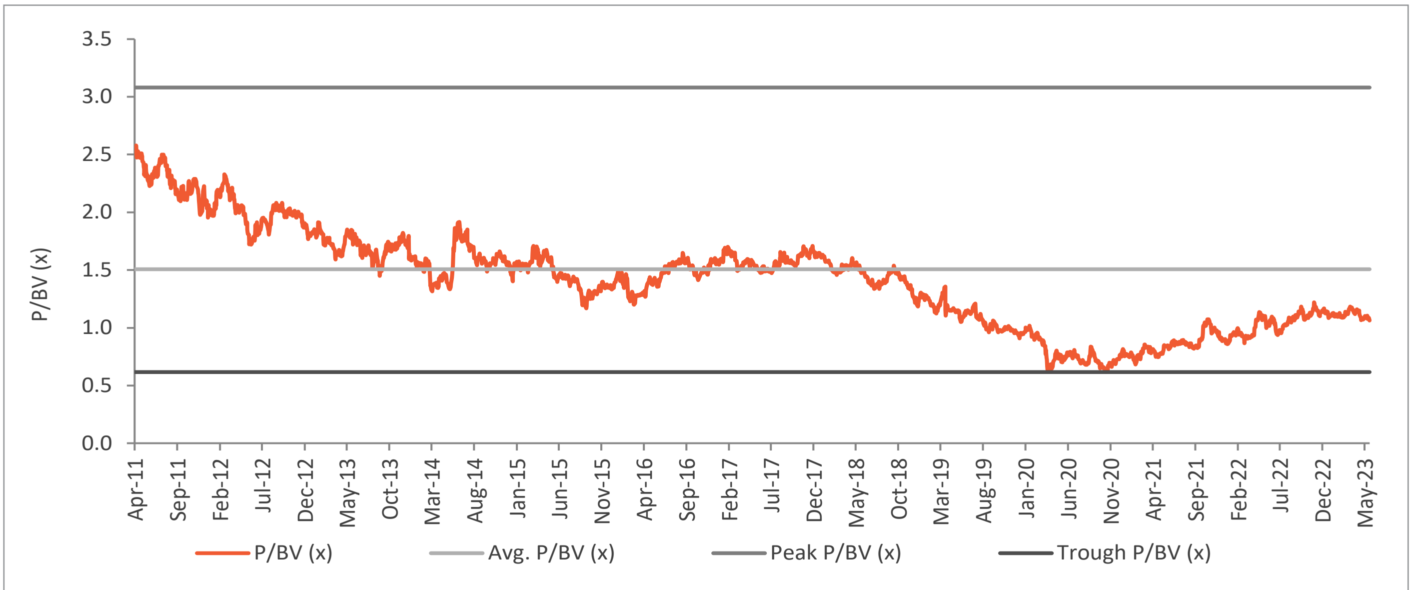
■ **Company outlook - Strong commercialisation target to drive 14% CAGR in PAT over FY2023-FY2025E**

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%/14% CAGR in regulated equity/PAT over FY23-25E. 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 the 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 30% to historical average one-year forward P/BV multiple of 1.5x 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 72,254 MW as of March 31, 2023. 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. NTPC trades 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
Jaikumar Srinivasan	Director – Finance
Ujjwal Kanti Bhattacharya	Director – Projects

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	5.92
2	ICICI Prudential Asset Management	5.88
3	HDFC Asset Management Co Ltd	3.34
4	Nippon Life India Asset Management	3.2
5	Vanguard Group Inc/The	1.87
6	SBI Funds Management Ltd	1.78
7	BlackRock Inc	1.25
8	FMR LLC	1.23
9	Mirae Asset Global Investments Co	1.02
10	T Rowe Price Group Inc	1.00

Source: Bloomberg

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

Sharekhan

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