Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Company Update

NTPC Ltd

Best play on growth in thermal power & RE; re-rating on cards

Power	Sharekhan code: NTPC
Reco/View: Buy ↔	CMP: Rs. 218 — Price Target: Rs. 260 ↔

↑ 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 36.97

Updated Aug 08, 2023

High Risk

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

Source: Morningstar

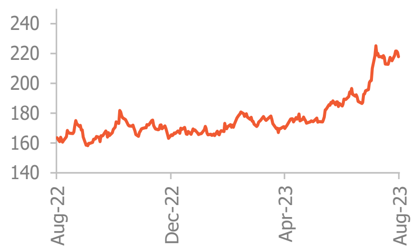
Company details

Market cap:	Rs. 2,11,242 cr
52-week high/low:	Rs. 227 / 155
NSE volume: (No of shares)	128.7 lakh
BSE code:	532555
NSE code:	NTPC
Free float: (No of shares)	474.2 cr

Shareholding (%)

Promoters	51.1
FII	15.8
DII	30.2
Others	2.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	8.1	24.9	26.4	33.3
Relative to Sensex	10.8	21.1	17.0	23.0

Sharekhan Research, Bloomberg

Summary

- Anticipation of a rise in peak power deficit could drive re-rating of NTPC's core thermal power business. Thus, NTPC's plan to add commercial thermal power capacities of ~10 GW over three years seems to be a step in the right direction.
- Thermal capacity additions would drive double-digit growth in the standalone regulated equity base and the same provides earnings growth/cashflow visibility over FY24-25. Moreover, NTPC's RE expansion plan of 20GW/60GW by FY26E/FY32E would mean meaningful EBITDA contribution from RE portfolio but NTPC's current market capitalisation does not fully reflect RE potential.
- In our view, a likely IPO for NTPC Green Energy Limited would help derive better valuation of NTPC RE business and potential value unlocking for investors. NTPC's focus on new areas of green hydrogen/battery storage would diversify earnings streams in medium to long term.
- We maintain Buy on NTPC with an unchanged PT of Rs. 260. At CMP, the stock trades at an attractive valuation of 1.3x FY25E P/BV and offers a healthy dividend yield of ~3-4%.

NTPC is one of the best bets among large-cap power companies in India as it is play on both revival in thermal power capex (given rising peak power demand-supply deficit; already up at 4% in FY23 as compared to 0.4% in FY21) and a high growth in RE business. NTPC's plan to add 10 GW of thermal capacities (versus 59 GW as of June 2023) would drive strong double-digit growth in the regulated equity base and provide earnings/cash flow visibility. NTPC's focus for exponential growth in the RE portfolio to 20GW/60GW by FY26E/FY32E would imply a meaningful EBITDA contribution from RE portfolio in medium to long term. We believe that NTPC's current market capitalization does not fully capture the potential of RE business and a likely IPO could help derive better RE valuation along with value unlocking for the investors. Hence, we maintain Buy on NTPC with an unchanged PT of Rs. 260.

- **Core thermal business – Peak power deficit to support growth and drive re-rating:** India's rising peak power demand-supply deficit and focus on energy security provides scope for growth in conventional thermal power capacities over the coming years. We expect NTPC to add large part of the requirement of thermal capacities given its strong legacy in the thermal power operations and de-focus of private players from conventional power plants. NTPC plans to commercialise thermal power capacities of ~10 GW over the next three years. This would drive strong CAGR of 10% in its standalone regulated equity base over FY23-25E. The regulated tariff model assured that NTPC will earn a fixed RoE of 15.5% on power project equity and thus provides strong earnings growth visibility (we expect 14% PAT CAGR over FY23-25E). We highlight here that NTPC's thermal power business could witness re-rating from average long-term P/BV multiple of 1.5x in the scenario of consistent increase in India's peak power demand-supply deficit in the coming years.
- **Transition to RE to drive next leg of growth:** NTPC aims for massive growth of 6x/18x in its RE capacity to 20 GW/60 GW by FY26E/FY32E versus only 3.3 GW of operational RE capacity as on June 30, 2023. This reflects NTPC's clear focus for transition toward clean energy with aim of RE accounting for 46% of its overall power generation capacity by FY32E versus just 4.5% in Q1FY24. The company has indicated that the expansion to 20 GW would require an estimated capitalisation of Rs. 85,000-90,000 crore over next three years. Strong operating cash flows and low-cost debt (6.4% given high credit rating) to help fund investment in RE capacities and generate adequate IRR. Thus, over medium to long term, we expect meaningful earnings contribution from NTPC's RE portfolio.
- **Potential IPO for NTPC Green Energy to unlock value; strong cashflows to support dividend payout:** The company has created separate subsidiary NTPC Green Energy Limited and transferred all its RE assets to NGEL. NTPC plans an IPO for NGEL and the same would unlock value and create wealth for investors in the long run, given NTPC's ambitious plan for transition to clean energy by 2032. NTPC's strong standalone operating cash flows (Rs. 35,399 crore in FY23) would help sustain a historical dividend payout of >40%.

Our Call

Valuation – Maintain Buy on NTPC with an unchanged PT of Rs. 260: 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, a potential IPO for its RE business could further improve shareholders' returns in the coming years. Valuation of 1.3x FY25E P/BV is attractive, and stock offers healthy dividend yield of ~3-4%. Hence, we maintain a Buy on NTPC with an unchanged PT of Rs. 260.

Key Risks

1) Lower-than-expected commercial capacity additions amid delay in projects and coal availability shortages could affect earnings, 2) Slower-than-expected ramp-up of RE projects and aggressive tariff bidding to win RE projects, 3) Any unfavourable change in regulated returns, 4) Any write-off related to dues from discoms could affect valuations.

Valuation (Standalone) Rs cr

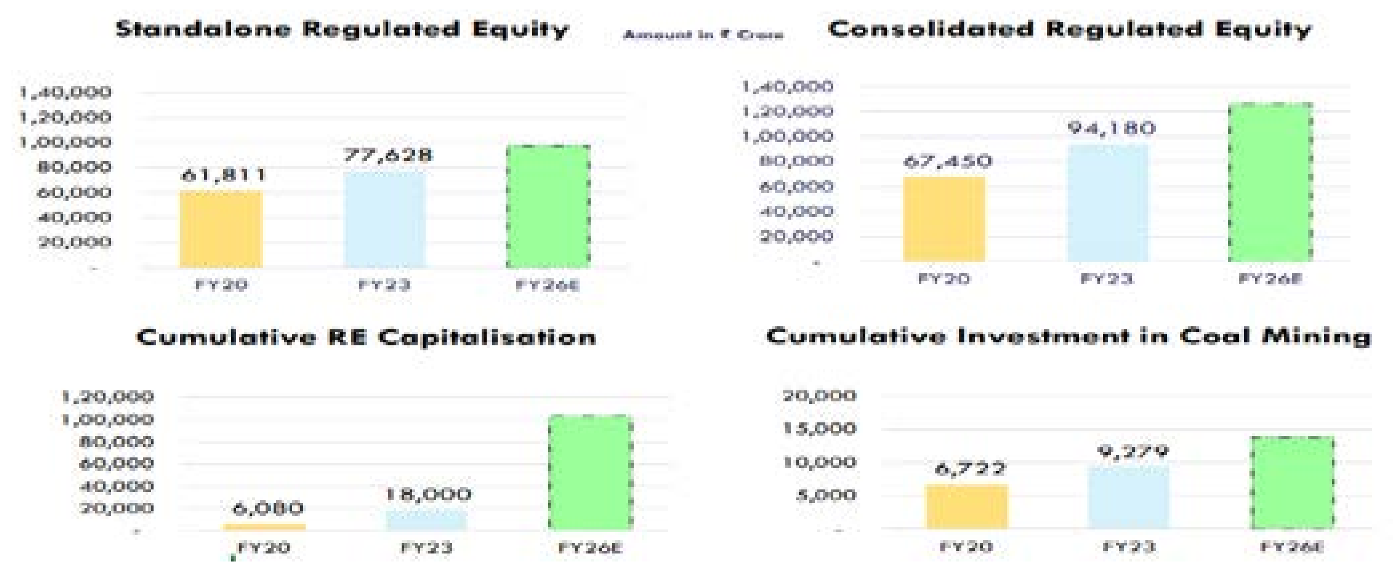
Particulars	FY22	FY23	FY24E	FY25E
Revenue	1,16,137	1,63,770	1,74,923	1,92,706
OPM (%)	29.1	26.4	25.3	25.5
Adjusted PAT	14,701	16,314	18,621	21,154
% YoY growth	3.4	11.0	14.1	13.6
Adjusted EPS (Rs.)	15.2	16.8	19.2	21.8
P/E (x)	14.4	12.9	11.3	10.0
P/B (x)	1.6	1.5	1.4	1.3
EV/EBITDA (x)	11.2	9.1	8.8	7.8
RoNW (%)	11.9	12.2	13.0	13.7
RoCE (%)	8.8	10.5	10.0	10.6

Source: Company; Sharekhan estimates

Robust thermal capacity commercialisation plan – to drive regulated equity base and provide earnings visibility

NTPC has guided to commercialise 10 GW of thermal power capacity in three years at an estimated capex of Rs. 80000 crore. We thus expect standalone regulated equity to clock 10% CAGR over FY22-24E and reach ~Rs. 93,378 crore by FY25E versus Rs. 77,628 crore in FY22. The regulated tariff model assures us that NTPC will earn fixed RoE of 15.5% on power project equity and thus we expect strong earnings of a 14% CAGR over FY22-25E.

NTPC expected strong growth across parameters by FY26E

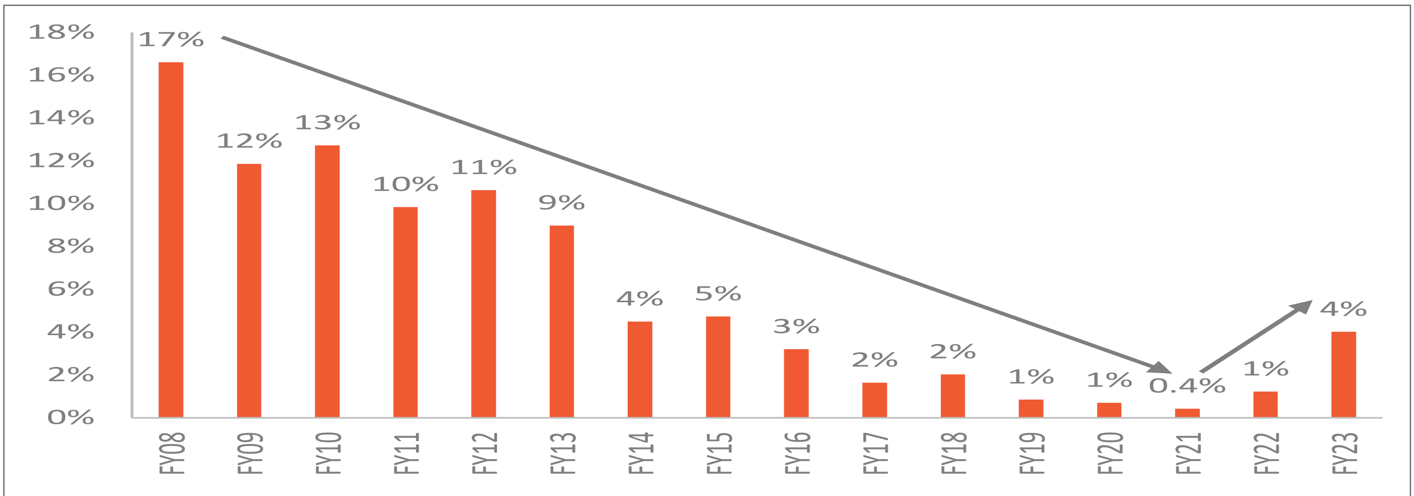


Source: Company

NTPC's core thermal business could see re-rating during rising power deficit period

India's rising peak power demand-supply deficit and focus on energy security provides scope for growth in conventional thermal power capacities over the coming years. We expect NTPC to add a large part of the requirement of thermal capacities in India given its strong legacy in the thermal power operation and de-focus of private players from conventional power. NTPC plans to add thermal power capacities of ~10 GW (Rs. 80,000 crore capex) over next three years. We thus expect a re-rating of NTPC's thermal power business from average LT P/BV multiple of 1.5x in the scenario of consistent rise in India's peak power demand-supply deficit going forward.

India peak power deficit jumped 2x to 4% FY17-23 – driving thermal power capacity additions



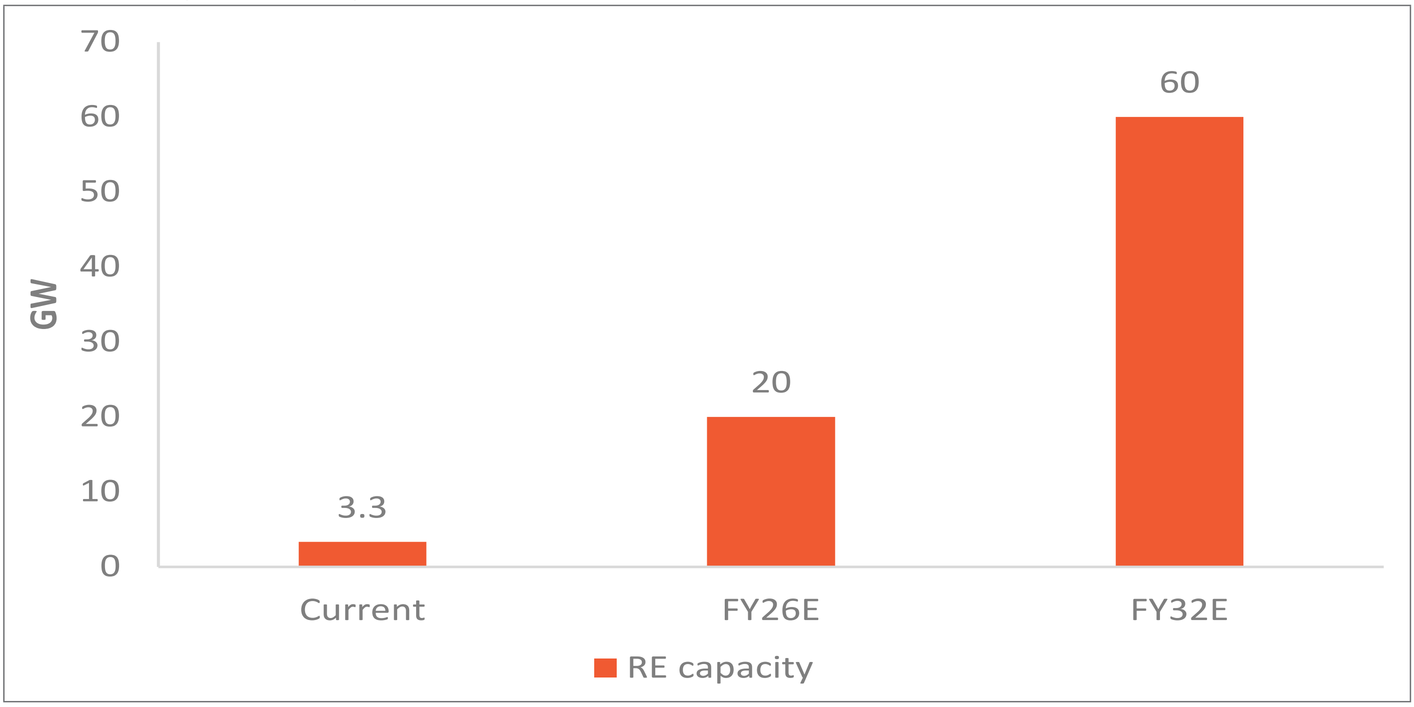
Source: CEA, Media articles and Sharekan Research

RE capacity target of 60GW by FY32E - to drive next leg of growth

The Indian government has plans to increase India's RE capacity to 500GW by 2032 versus 115GW (Solar – 71 GW and Wind – 44 GW) currently. Thus, NTPC has also framed out a clear plan to increase its total RE capacity to 20GW/60GW by FY26E/FY32E versus only 3.3GW as on June 2023. NTPC aims to have 46% of power generation capacity from RE projects by FY2032E versus only 4.5% as of June 2023.

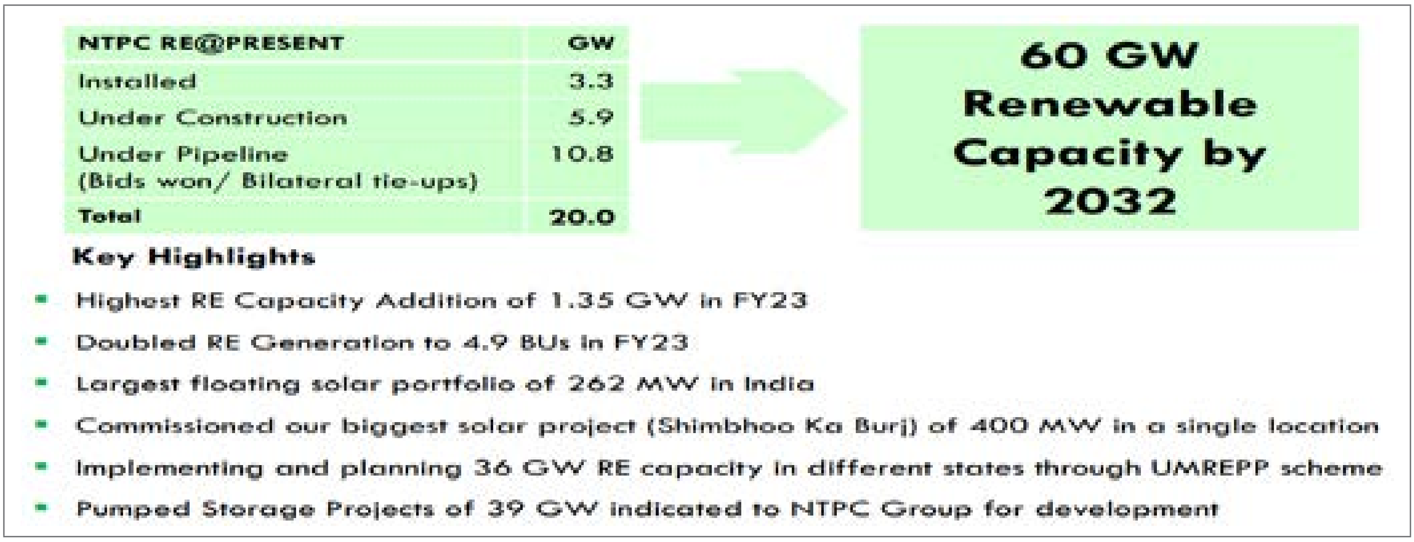
NTPC has an operational RE portfolio of 3.3 GW, 5.9 GW under construction and 10.8 GW in the pipeline (bids won/ Bilateral tie-up) and transition towards cleaner energy (RE capacity target of 60 GW by FY32E) would be achieved over next decade but is crucial to improve ESG score and drive the next leg of growth and re-rating for the company. Strong operating cash flows annual average operating cash flow of Rs. 35,399 crore in FY23) and low-cost debt (6.4% given high credit rating) to help fund investment in RE capacities and generate adequate IRR. NTPC is well-placed to gain from steady earnings from RE expansion.

NTPC RE capacity expansion target



Source: Company; Sharekhan Research

NTPC has visibility to ramp-up RE capacity to 20 GW by FY26



NTPC RE@PRESENT	GW
Installed	3.3
Under Construction	5.9
Under Pipeline (Bids won/ Bilateral tie-ups)	10.8
Total	20.0

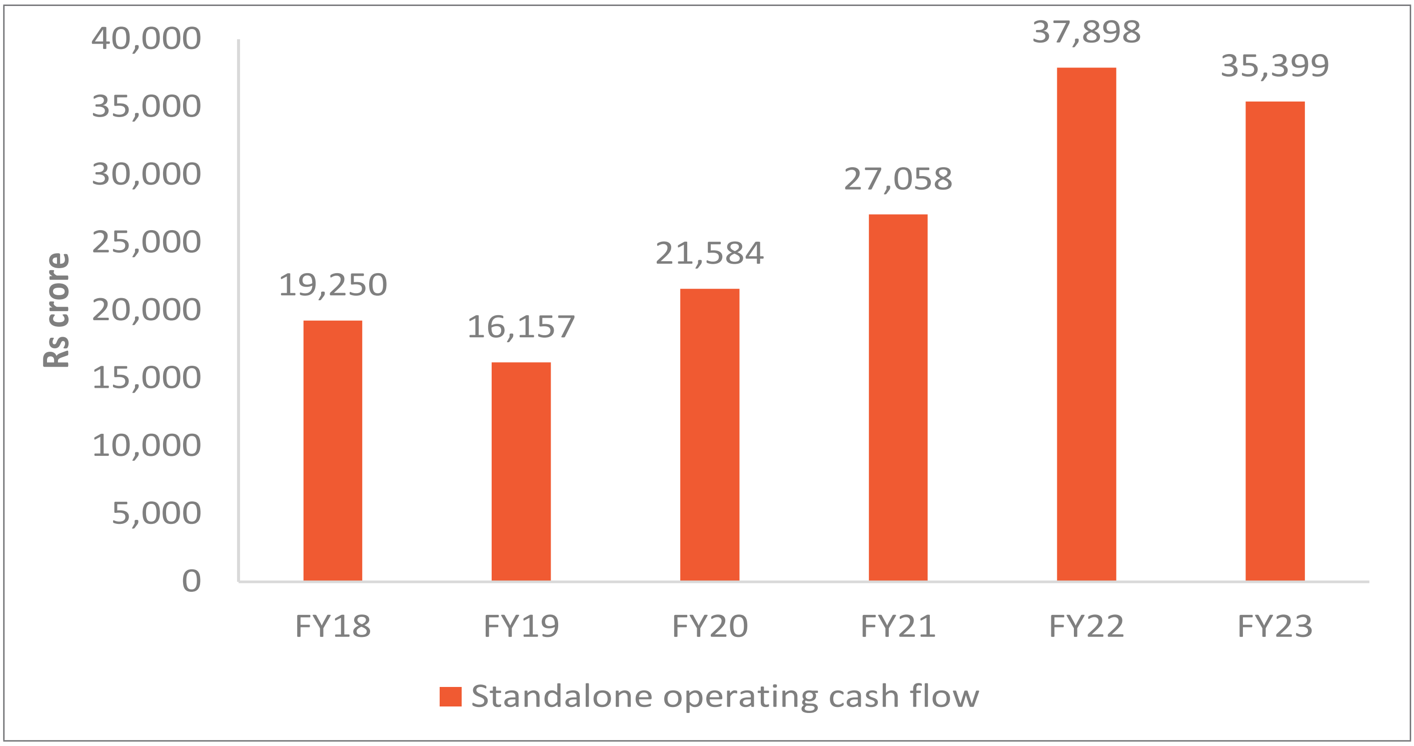
60 GW Renewable Capacity by 2032

Key Highlights

- Highest RE Capacity Addition of 1.35 GW in FY23
- Doubled RE Generation to 4.9 BUs in FY23
- Largest floating solar portfolio of 262 MW in India
- Commissioned our biggest solar project (Shimbhoo Ka Burj) of 400 MW in a single location
- Implementing and planning 36 GW RE capacity in different states through UMREPP scheme
- Pumped Storage Projects of 39 GW indicated to NTPC Group for development

Source: Company

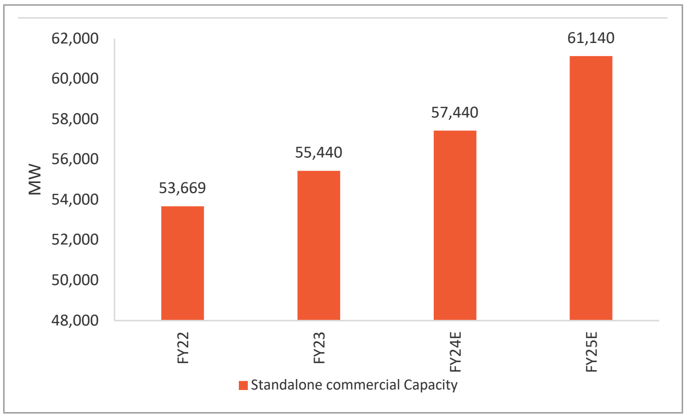
Strong cash flow generation to aid transition towards RE capacity



Source: Company; Sharekhan Research

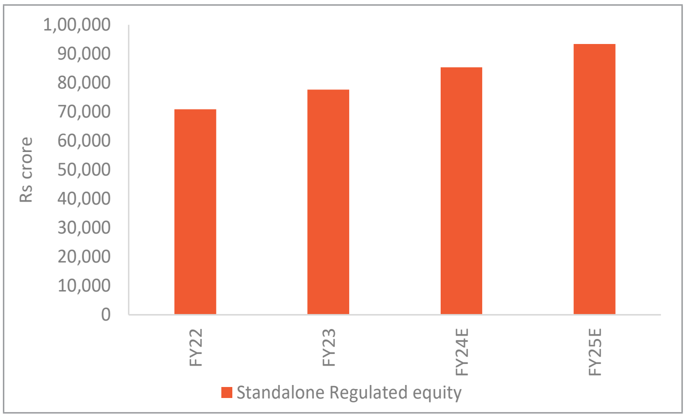
Financials in charts

Commercialisation to remain strong over FY24E-25E



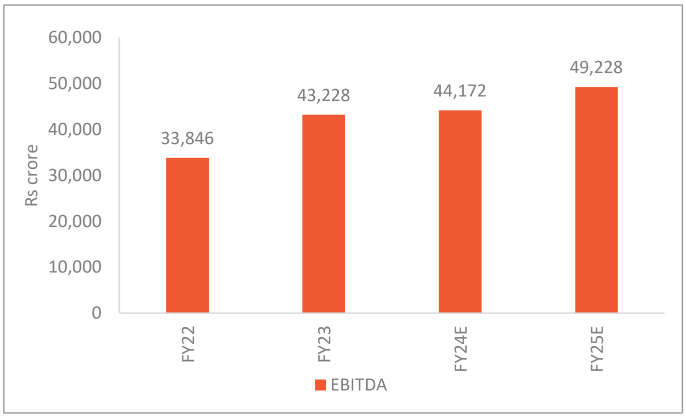
Source: Company, Sharekhan Research

Regulated equity base to grow at 10% CAGR over FY23-25E



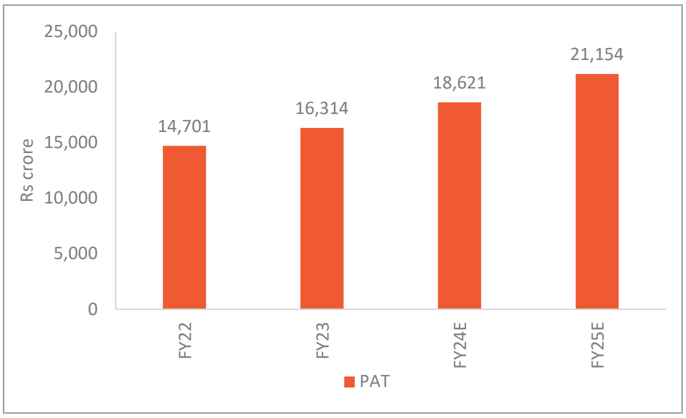
Source: Company, Sharekhan Research

EBITDA trend



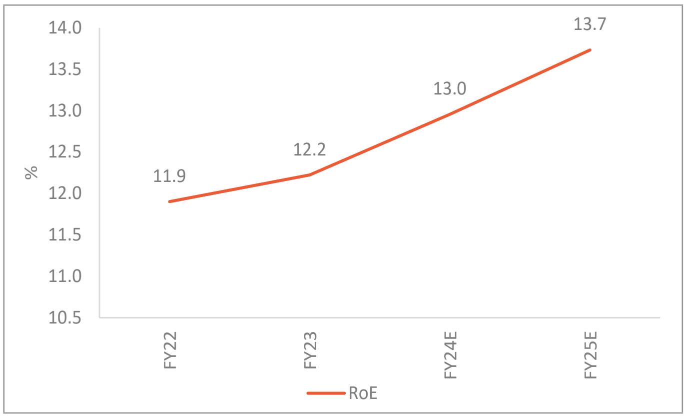
Source: Company, Sharekhan Research

PAT to clock 14% over FY23-FY25E



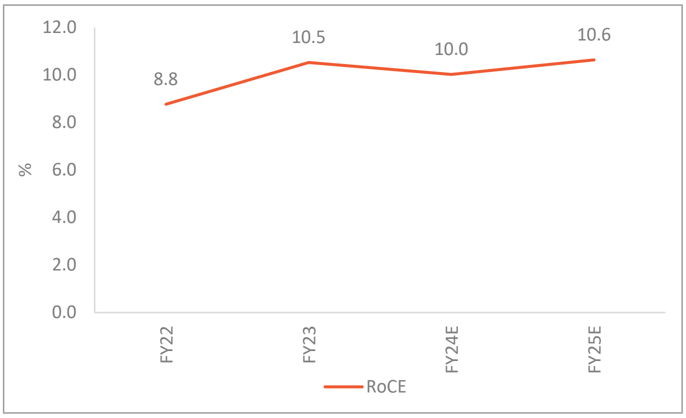
Source: Company, Sharekhan Research

RoE trend



Source: Company, Sharekhan Research

RoCE trend



Source: Company, Sharekhan Research

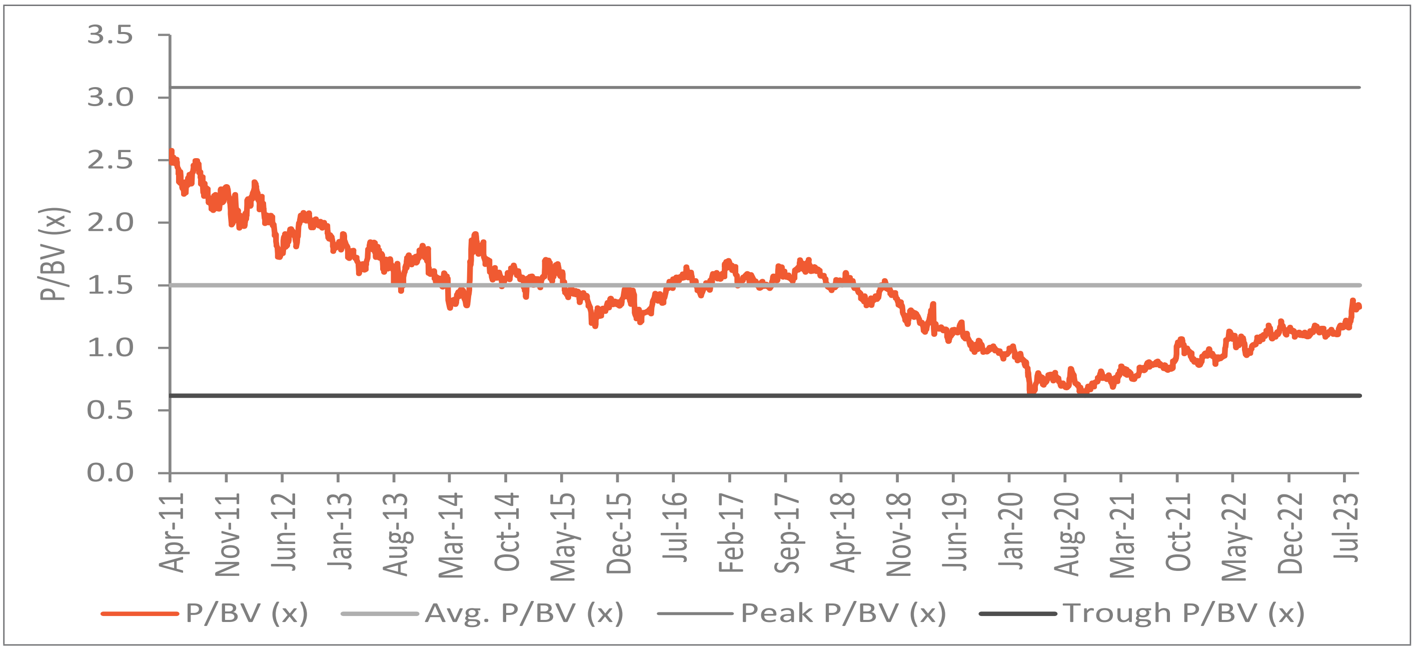
Outlook and Valuation

■ **Sector Outlook – 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 fixed cost 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. 260:** 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, a potential IPO for its RE business could further improve shareholders' returns in the coming years. Valuation of 1.3x FY25E P/BV is attractive, and stock offers healthy dividend yield of ~3-4%. Hence, we maintain a Buy on NTPC with an unchanged PT of Rs. 260.

One-year forward P/BV (x) band



Source: Sharekhan Research

About the 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 commercial capacity additions amid delay in projects and coal availability shortages could affect earnings,
- Slower-than-expected ramp-up of RE projects and aggressive tariff bidding to win RE projects,
- Any unfavourable change in regulated returns,
- Any write-off related to dues from discoms could affect valuations.

Additional Data

Key management personnel

Gurdeep Singh	Chairman and Managing Director
Jaikumar Srinivasan	Director – Finance
Ujjwal Kanti Bhattacharya	Director – Projects

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	ICICI Prudential Asset Management	5.7
2	Life Insurance Corp of India	5.4
3	Nippon Life India Asset Management	3.4
4	HDFC Asset Management Co Ltd	3.4
5	SBI Funds Management Ltd	1.8
6	Vanguard Group Inc/The	1.7
7	BlackRock Inc	1.4
8	FMR LLC	1.2
9	NPS Trust A/c Uti Retirement Solut	1.1
10	Mirae Asset Global Investments Co	1.1

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

by BNP PARIBAS

DISCLAIMER

This information/document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/information focused on fundamental research.

This information/document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this information/report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst might have dealt or traded directly or indirectly in securities of the company and that all the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report. The analyst and SHAREKHAN encourages independence in research report/ material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has not been a part of the team which has managed or co-managed the public offerings of the company, and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Ltd or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com

---

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office: Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/ CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669.

Compliance Officer: Ms. Binkle Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022- 41523200/022 - 33054600