Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Company Update

NTPC Ltd

Strong growth visibility; RE key re-rating catalyst

Power	Sharekhan code: NTPC

Reco/View: **Buy**	↔	CMP: **Rs. 258**	Price Target: **Rs. 300**	↑

↑ 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

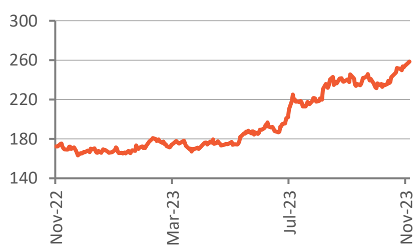
Company details

Market cap:	Rs. 2,50,562 cr
52-week high/low:	Rs. 260 / 161
NSE volume: (No of shares)	136.8 lakh
BSE code:	532555
NSE code:	NTPC
Free float: (No of shares)	474.2 cr

Shareholding (%)

Promoters	51.1
FII	16.7
DII	29.0
Others	3.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	10.2	17.3	46.2	50.0
Relative to Sensex	7.0	15.6	41.1	45.1

Sharekhan Research, Bloomberg

Summary

- NTPC plans to add 11.2 GW (apart from U/C capacity of 10 GW) of thermal power capacity beyond FY26 provides strong earnings growth visibility. A new thermal capacity addition amid rising peak power deficit could act as key re-rating catalyst as its valuations of 1.5x FY26E P/BV remain reasonable despite sharp run-up in the stock price.
- RE expansion plan of 20GW/60GW by FY26E/FY32E and focus on new areas of in green hydrogen/battery storage would diversify earnings, improve ESG ratings and could add significantly to earnings as well as investors' returns going forward.
- Upcoming review of power tariff regulations would be keenly eyed although we do not see material change in regulated RoE of 15.5% for power gencos given MoP's target to add 80 GW of thermal power capacities.
- We maintain a Buy on NTPC with a revised PT of Rs. 300 on strong earnings growth visibility, reasonable valuations and healthy dividend yield of ~3-4%.

NTPC is our top pick in the power sector, given its strong earnings growth visibility (expect 11% PAT CAGR over FY23-26E; RoE of 14%), attractive valuation of 1.5x FY26E P/BV and a healthy dividend yield of 3-4%. NTPC is play on improving capex outlook for thermal power capacities (Ministry of Power aims to add 80 GW of thermal capacities by 2031-32) and focus on RE transition. Moreover, we believe that power tariff regulation to remain unchanged (regulated RoE of 15.5%) given the government's focus to encourage addition of thermal capacities amid rising peak power demand-supply deficit. We maintain our Buy rating on NTPC with a revised PT of Rs. 300.

- **Thermal business in sweet spot:** Robust power demand outlook for the next couple of years would mean rise in peak power demand-supply deficit and having that in view, the Ministry of Power (MoP) has set a target to add a massive 80 GW of new thermal power capacities by 2031-32. We believe that NTPC would benefit the most from the government focus to ensure reliable 24x7 power supply given its plan to add new thermal power capacities. We highlight here that NTPC has under-construction thermal power capacities to the tune of 10 GW (expected to be commissioned by FY26) and plans to add another 11.2 GW of thermal power capacities beyond FY26. Assuming the current regulated RoE model to be continued going forward would drive strong double-digit growth in NTPC's regulated equity base over FY23-26E and provides visibility of earnings growth (expect 11% PAT CAGR over FY23-26E) and cashflows.
- **RE portfolio to grow manifold and diversify earnings:** NTPC plans to take its RE capacity to 20GW/60GW by FY26E/FY32E, which translates into a massive growth of 6x/18x as compared current RE capacity of only 3.3 GW. NTPC has 6.2 GW of RE projects under construction and 11 GW in different stages of planning. The RE capacity addition would mean a capitalisation of Rs. 85,000-90,000 crore over the next three years up to FY26. Along with RE capacity addition and focus on new areas of green hydrogen/battery storage would diversify earnings stream, improve ESG rating and could add significantly to earnings in medium to long term.
- **Strong cashflows to support dividend payout; strong growth from subsidiaries/JVs:** NTPC has strong standalone operating cash flows - Rs. 35,399 crore in FY23 and Rs. 22,038 crore in H1FY24 respectively. High cash flows would help sustain a historical high dividend payout of >40%. Moreover, NTPC's subsidiaries and JV are performing well with PAT of Rs. 1117 crore/Rs. 1082 crore, up 29%/9x y-o-y when compared to PAT of Rs. 868 crore/Rs. 121 crore in H1FY23.

Our Call

Valuation – Maintain Buy on NTPC with a revised PT of Rs. 300: 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 shareholder returns in the coming years. Valuation of 1.5x FY26E P/BV is attractive, and stock offers healthy dividend yield of ~3-4%. Hence, we maintain a Buy on NTPC with a revised PT of Rs. 300 (higher valuation for core thermal power business).

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	FY26E
Revenue	1,16,137	1,63,770	1,74,923	1,92,706	2,09,637
OPM (%)	29.1	26.4	25.3	25.5	25.0
Adjusted PAT	14,701	16,314	18,621	21,154	22,240
% YoY growth	3.4	11.0	14.1	13.6	5.1
Adjusted EPS (Rs.)	15.2	16.8	19.2	21.8	22.9
P/E (x)	17.0	15.3	13.4	11.8	11.2
P/B (x)	2.0	1.8	1.7	1.6	1.5
EV/EBITDA (x)	12.4	10.0	9.7	8.6	8.0
RoNW (%)	11.9	12.2	13.0	13.7	13.5
RoCE (%)	8.8	10.5	10.0	10.6	10.5

Source: Company; Sharekhan estimates

Rising peak power demand-supply deficit – necessitates addition of thermal power capacities; NTPC key beneficiary

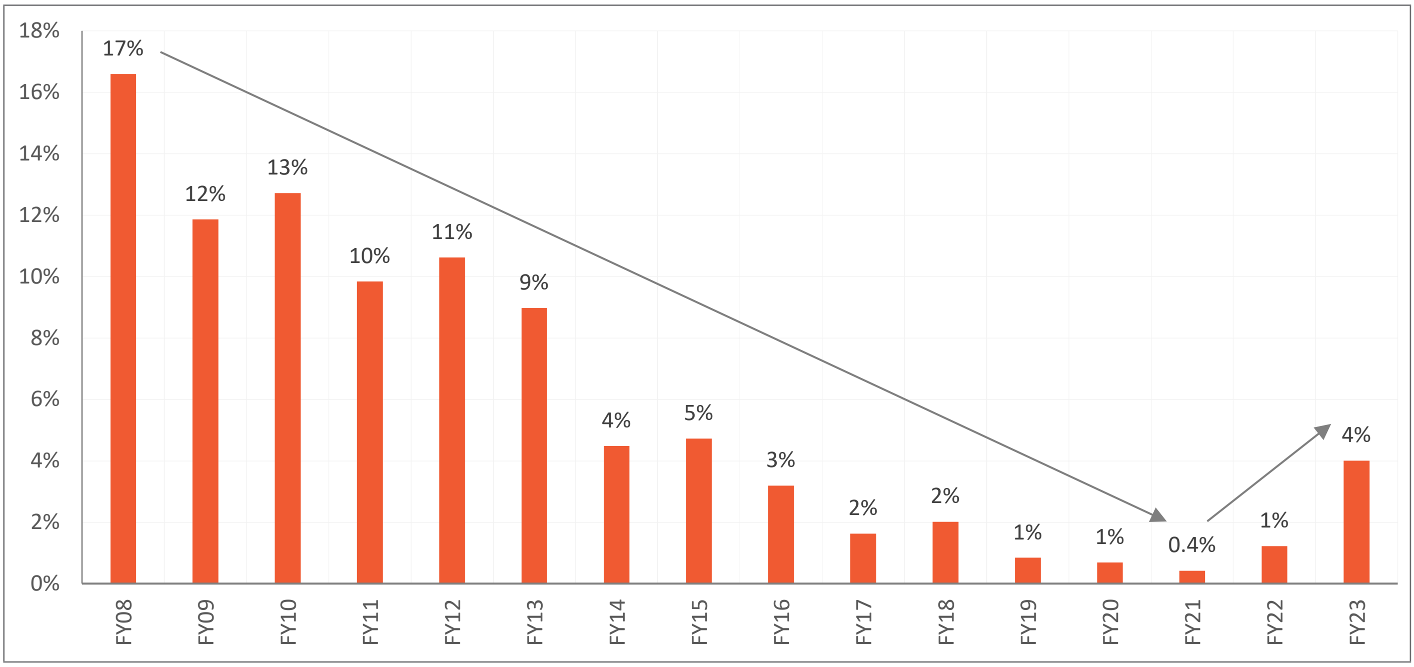
India's power demand rose 7% y-o-y during April-September 2023 and the power demand growth is expected to remain strong going forward and the requirement for the same may not be solely met through renewable energy sources. This necessitates addition of thermal power capacities to meet power demand for India's economic growth. Hence, the MoP has set a target to add 80 GW of thermal power capacities by 2031-32. Moreover, 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 given its strong legacy in the thermal power operation and de-focus of IPPs from conventional power.

India peak power deficit in YTDFY24 to support thermal capacity addition

Capacity (GW)	YTDFY24
Total Capacity	426
Less: Nuclear	7
Less: Hydro	47
Less: Other Renewable	132
Thermal capacity available	239
Peak Demand	243
Peak Demand Met	240
Peak deficit	3

Source: CEA; Media articles; Sharekhan Research

Peak power demand deficit has increased to 4% over FY17-23

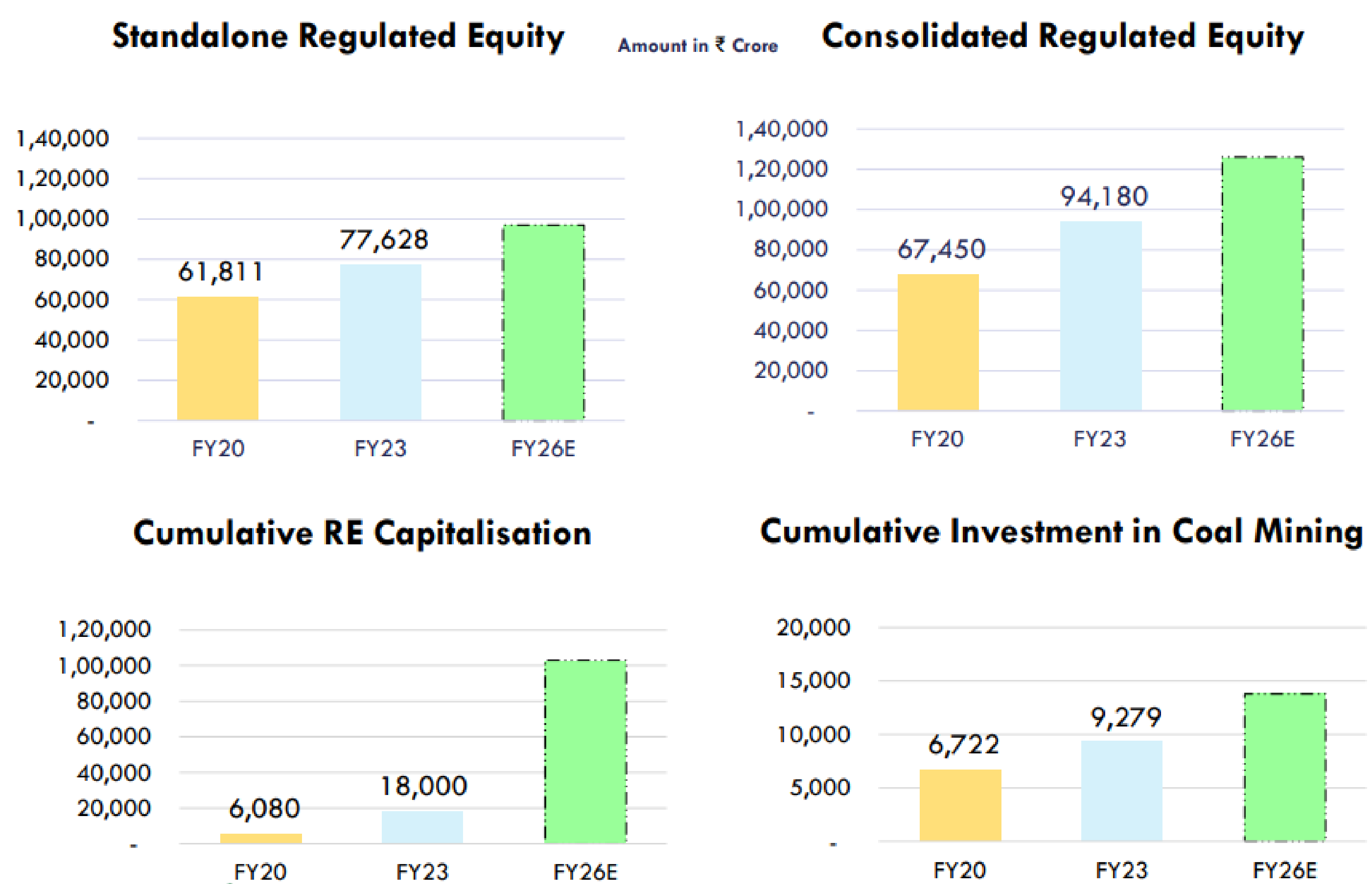


Source: CEA; Media articles; Sharekhan Research

NTPC Thermal power commercialisation plan - 10 GW/11.2 GW by FY26/beyond FY26 provides earnings visibility

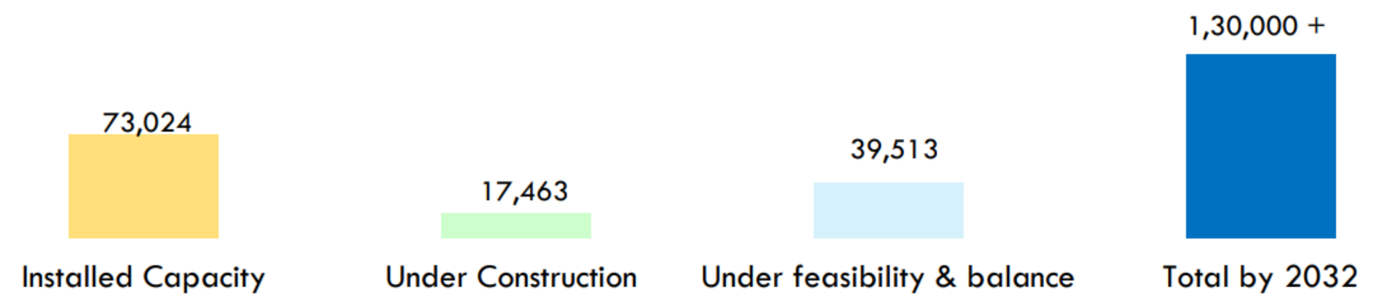
NTPC has a well-planned strategy with 10 GW (under construction) of thermal power capacities to be commissioned by FY26 at a capitalisation of ~Rs. 80,000 crore. Apart from this, the company plans to add another 11.2 GW of thermal power capacities beyond FY26. This mean on an average NTPC would add 3.6 GW of new thermal power capacities over next 6 years. We believe that this would drive strong double digit growth in NTPC's regulated equity base over FY23-26E and reach >Rs. 100,000 crore on standalone basis. Core thermal power business earns regulated RoE of 15.5% and thus we strong earnings growth visibility (11% CAGR over FY23-26E) for NTPC.

NTPC eyes strong growth across parameters by FY26E



Source: Company

NTPC plans to expand its capacity to 130+ GW by FY32



Snapshot of Projects Under Construction

Fuel Mix	In MW
Coal	9,300
Hydro	2,255
RE	5,908
Total	17,463

Coal Technology	In MW
Ultra Super Critical	6,640
Super Critical	2,640
Sub Critical	20
Total	9,300

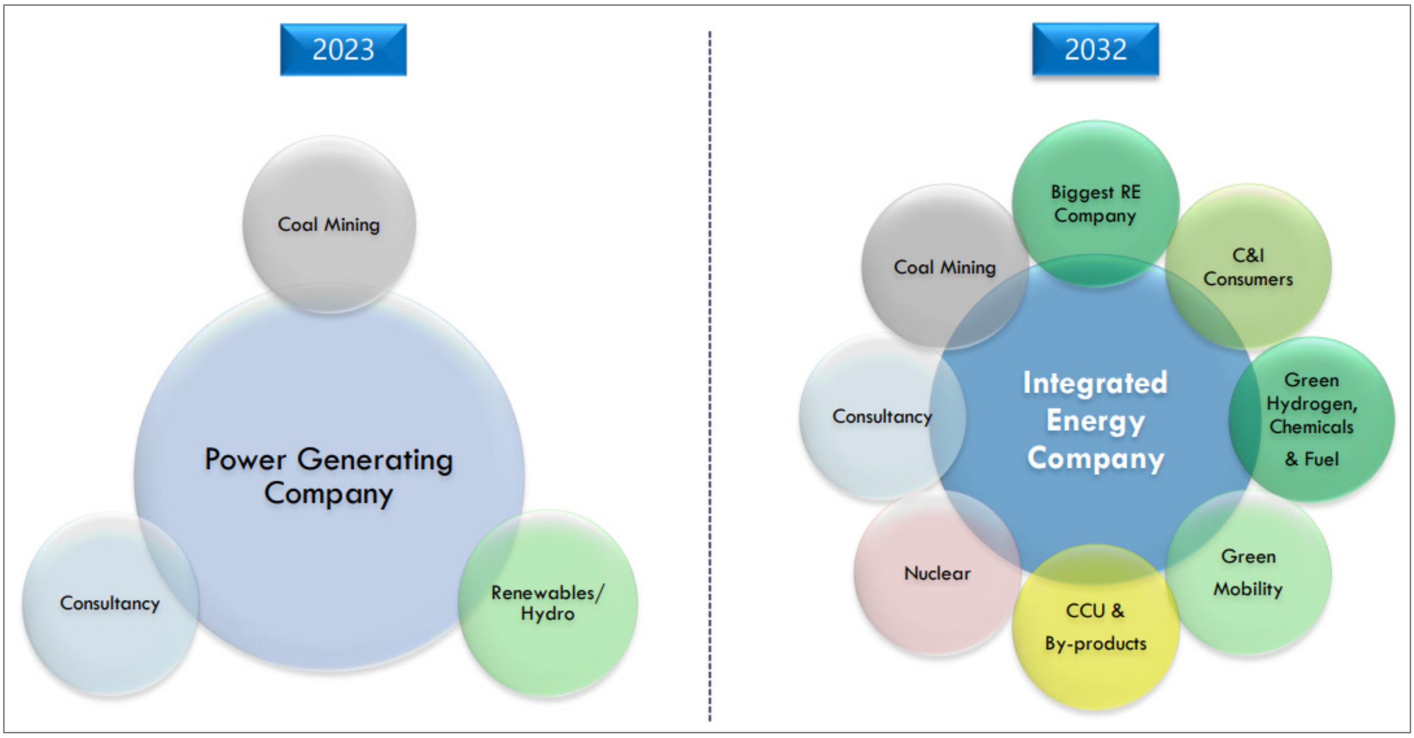
Group Mix	In MW
NTPC	6,569
Domestic JVs	10,234
International JV	660
Total	17,463

Source: Company

RE capacity target of 60GW by FY32E; focus on green hydrogen/battery storage

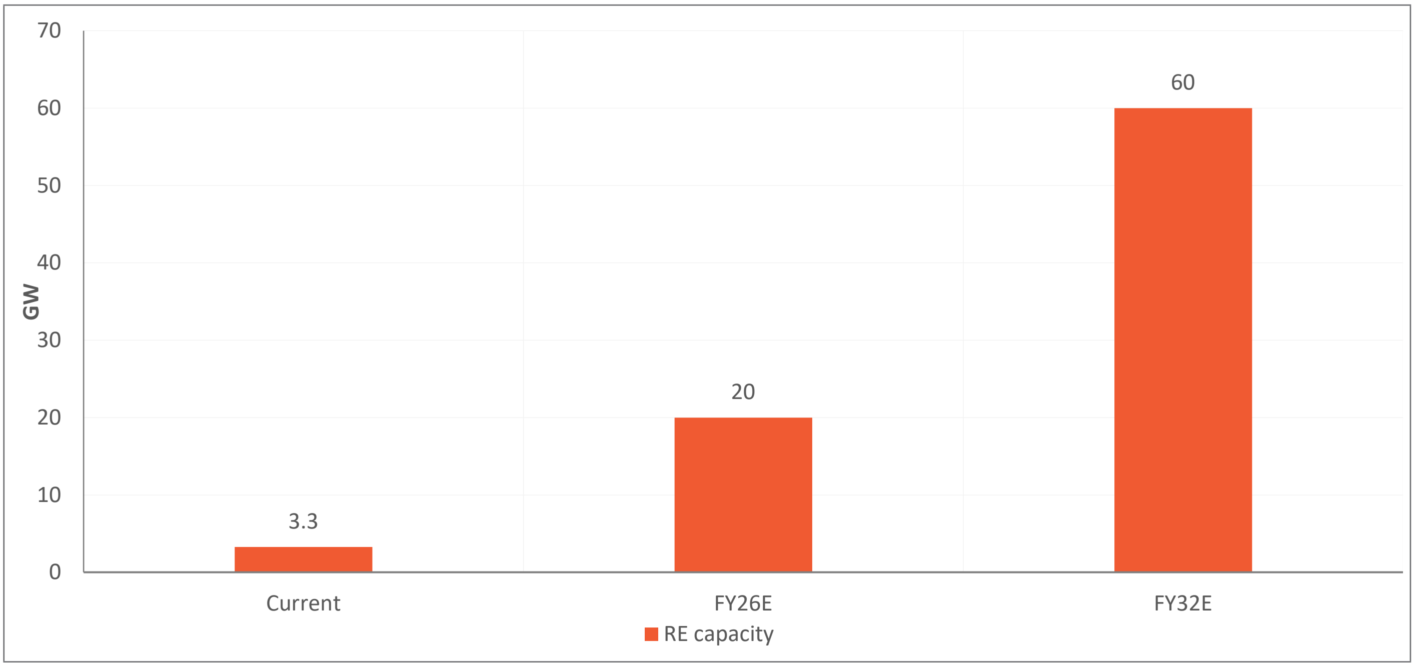
NTPC has a roadmap to increase its total RE capacity to 20GW/60GW by FY26E/FY32E versus only 3.3GW currently. The RE expansion to 60GW would mean significant transition toward green energy as 46% of NTPC's power generation capacity would from RE projects by 2032 versus only 4.5% currently. NTPC has 6.2 GW of RE projects under construction and 11 GW under different stages of planning. Along with RE capacity addition and focus on new areas of green hydrogen/battery storage would diversify earnings stream, improve ESG rating and could add significantly to earnings in medium to long term.

Clear focus for transition from coal to green energy



Source: Company

NTPC RE capacity expansion target of 20 GW/60 GW by FY26E/FY32E



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

Source: Company

Focus to develop green ecosystem

Green Hydrogen

- First Green hydrogen blending with Piped Natural Gas project commissioned in Gujarat
- First Green Hydrogen Mobility project under implementation at Leh and another at Delhi
- MoU with Indian Army for setting up Green Hydrogen Projects in its establishments

Carbon Capture & Utilization (CCU)

- Setting up 10 TPD Flue Gas CO_2 to Methanol demonstration plant at NTPC Vindhyachal
- Development of Indigenous Catalyst for hydrogenation of CO_2 to Methanol by NETRA
- Setting up 10 TPD Flue gas CO_2 to Ethanol demonstration plant at NTPC Lara

Green Chemicals/Fuel

- MOU with GACL and NFL for synthesizing Green Ammonia & Green Methanol
- MOU with Tecnimont to explore commercial scale green methanol production at NTPC
- MOU with Chempolis for exploring the setting up of bamboo based biorefinery

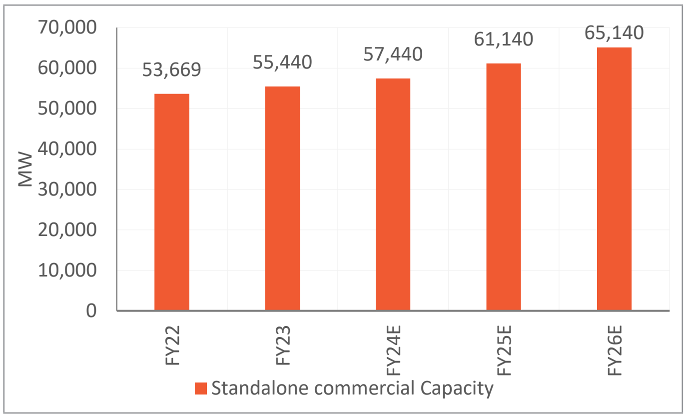
Hydrogen Hub

- Conceptualised setting up of a Green Hydrogen Hub near Visakhapatnam
- Involves Manufacturing facility for Hydrogen related equipment and production & export of Green Hydrogen
- MOU with govt. of AP signed, project DPR and execution strategy under finalisation

Source: Company

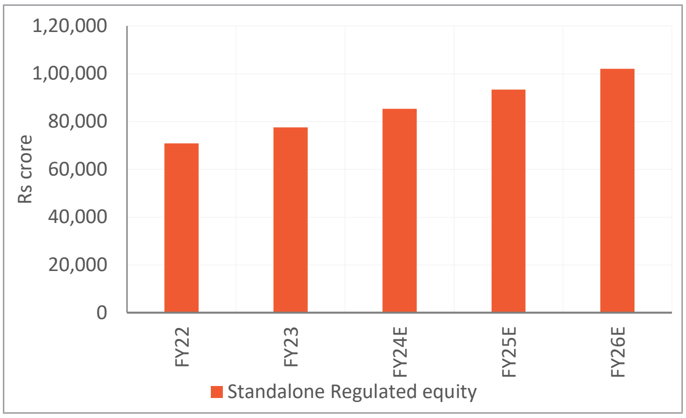
Financials in charts

Commercialisation to remain strong over FY24E-26E



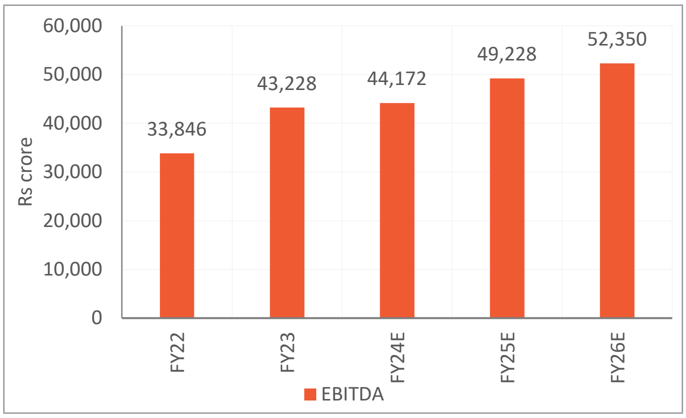
Source: Company, Sharekhan Research

Regulated equity base to grow at 10% CAGR over FY23-26E



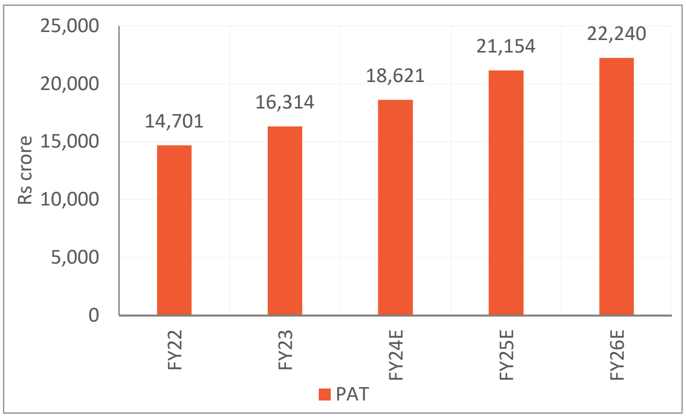
Source: Company, Sharekhan Research

EBITDA trend



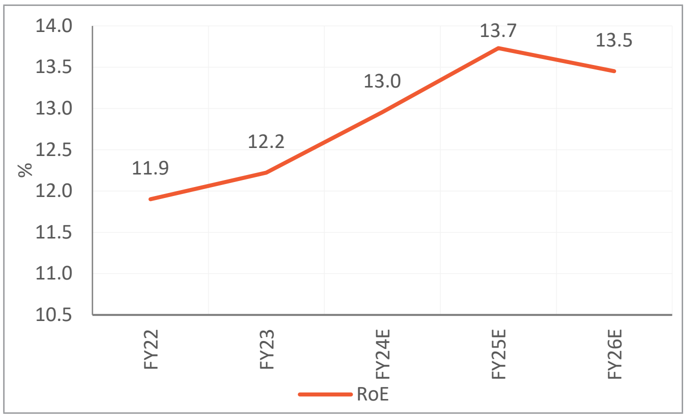
Source: Company, Sharekhan Research

PAT to clock 11% over FY23-FY26E



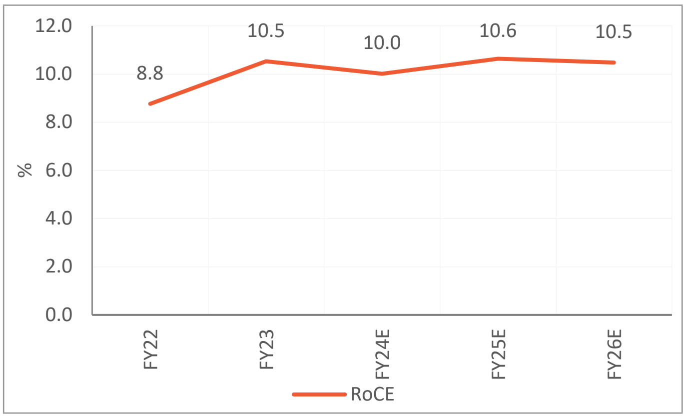
Source: Company, Sharekhan Research

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 on 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.

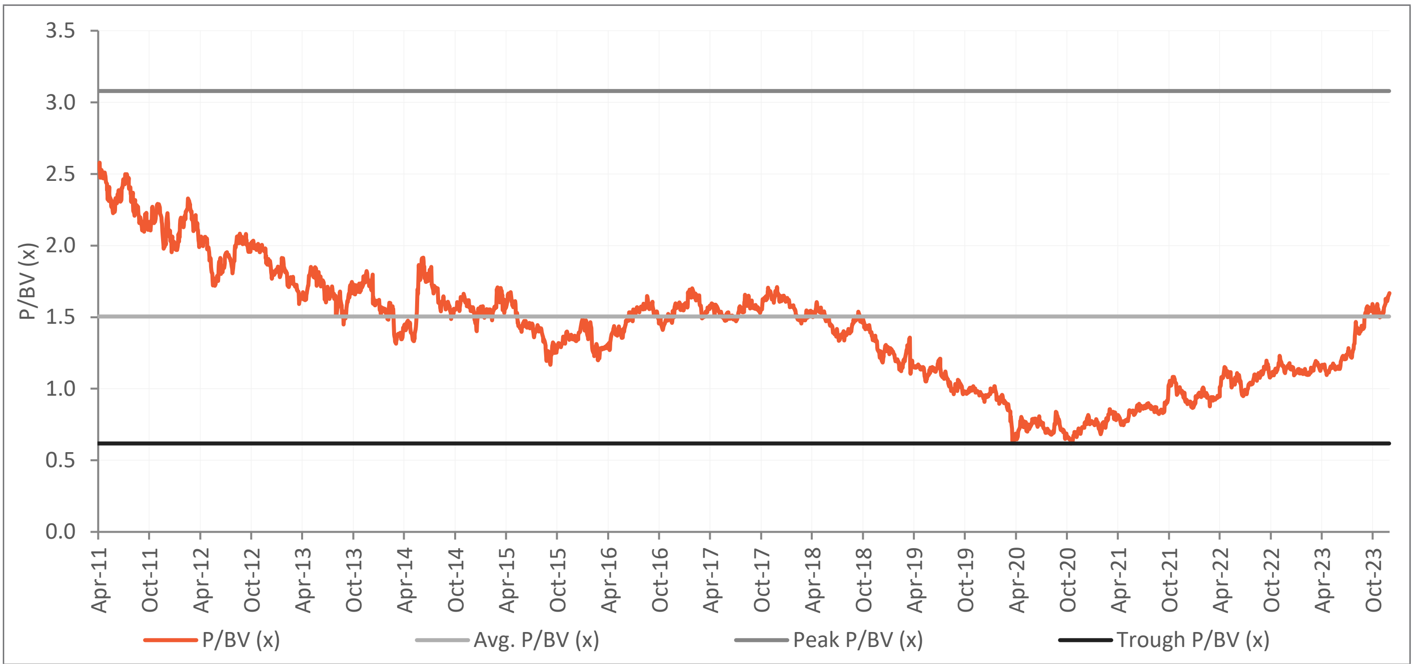
■ Company Outlook – Strong commercialisation to drive 11% CAGR in PAT over FY2023-FY2026E

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%/11% CAGR in regulated equity/PAT over FY23-26E. 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 a revised PT of Rs. 300

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 shareholder returns in the coming years. Valuation of 1.5x FY26E P/BV is attractive, and stock offers healthy dividend yield of ~3-4%. Hence, we maintain a Buy on NTPC with a revised PT of Rs. 300 (higher valuation for core thermal power business).

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 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	5.1
2	Life Insurance Corp of India	4.6
3	Nippon Life India Asset Management	3.5
4	HDFC Asset Management Co Ltd	3.3
5	Vanguard Group Inc/The	2.0
6	SBI Funds Management Ltd	1.7
7	BlackRock Inc	1.4
8	FMR LLC	1.3
9	Mirae Asset Global Investments Co	1.0
10	UTI Asset Management Co Ltd	0.8

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

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