Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

NTPC Ltd

Decent Q3; thermal/RE capex bode well for growth

Power	Sharekhan code: NTPC
Reco/View: Buy ↔	CMP: Rs. 315
	Price Target: Rs. 365 ↑

↑ 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		↔	

Company details

Market cap:	Rs. 3,05,881 cr
52-week high/low:	Rs. 326/163
NSE volume: (No of shares)	156.4 lakh
BSE code:	532555
NSE code:	NTPC
Free float: (No of shares)	474.2 cr

Shareholding (%)

Promoters	51.1
FII	17.1
DII	28.7
Others	3.2

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	1.9	33.8	44.4	84.3
Relative to Sensex	3.5	22.4	37.5	64.8

Sharekhan Research, Bloomberg

Summary

- Q3FY24 adjusted PAT was up 1% y-o-y to Rs. 4,468 crore (above estimates) due to higher other income which offsets rise in fixed cost under-recoveries. Regulated equity base grew by 9% y-o-y to Rs. 82,094 crore.
- NTPC plans to add another 16.8 GW of thermal capacities beyond by FY26 besides under-construction thermal capacities of 10 GW. Renewable energy (RE) capacity target remains strong at 15 GW by FY26 but recent execution has been subdued with RE capacity remaining stagnant at 3.3 GW.
- We believe that addition of thermal power capacities would drive regulated equity base and provides earnings growth visibility. Moreover, focus on ramping up of RE portfolio and new areas of green hydrogen/battery storage would be key re-rating catalysts in the medium to long term as it would not only drive growth but also improve ESG score.
- We maintain a Buy on NTPC with a revised PT of Rs. 365. Valuation of 1.8x FY25E P/BV is reasonable given strong long-term growth prospects and stock offers a healthy dividend yield of ~3%.

Q3FY24 standalone adjusted PAT grew by 1% y-o-y to Rs. 4,468 crore (5% above our estimate of Rs. 4,250 crore) led by higher-than-expected other income (up 13% y-o-y) which offset higher fixed cost under-recoveries of Rs. 256 crore (versus over-recovery of Rs. 168 crore in Q3FY23). The increase in fixed cost under-recoveries was on the account of more overhauls taken by the NTPC during the quarter and lower plant availability factor (PAF, declined to 86% in Q3FY24 versus 93% in Q3FY23). We have adjusted reported PAT of Rs. 4,572 crore (up 2% y-o-y) for prior period sales of Rs. 126 crore and tax impact thereon. Operational performance was healthy as commercial generation/energy sold grew by 14%/15% y-o-y to 89 BU/84 BU, respectively. Standalone regulated equity base was up by 9% y-o-y to Rs82,094 crore.

Key positives

- Standalone regulated equity base grew 9% y-o-y to Rs. 82,094 crore in Q2FY24.

Key negatives

- Fixed cost under-recoveries rose to Rs. 740 crore in 9MFY24.

Management Commentary

- NTPC plans to add 16.8 GW of new thermal power capacities apart from under-construction thermal capacities of 10 GW. Out of 16.8 GW, NTPC standalone will do 9.6GW and 7.2GW through JV/subsidiaries.
- Aims to expand RE capacity to 15 GW by FY26 versus 3 GW currently.
- NTPC plans to develop ~8 GW (3 MW Tamil Nadu, 2 GW Maharashtra, 1.2 GW Chhattisgarh, 1 GW Gujarat and 1 GW in Meghalaya) of a pumped storage project, which would take 7-8 years for completion.
- It targets to reduce fixed cost under-recoveries to Rs. 400-450 crore by end of fiscal year.

Revision in estimates – We fine-tuned our FY24-26 earnings estimate

Our Call

Valuation – Maintain Buy on NTPC with a revised PT of Rs. 365: NTPC's risk-averse regulated business model provides earnings growth visibility/RoE improvement and RE expansion would drive a 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 1.8x FY25E P/BV seems reasonable given potential long-term growth prospects from high-capacity addition for RE and stock offers healthy dividend yield of ~3%. Hence, we maintain a Buy on NTPC with a revised PT of Rs. 365.

Key Risks

Lower-than-expected commercial capacity additions amid delay in projects and coal availability shortages could affect earnings. Lower RoE on renewable energy projects. Moreover, 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	25.1	25.5	25.0
Adjusted PAT	14,701	16,314	18,135	21,154	22,240
% YoY growth	3.4	11.0	11.2	16.6	5.1
Adjusted EPS (Rs.)	15.2	16.8	18.7	21.8	22.9
P/E (x)	20.8	18.7	16.9	14.5	13.8
P/B (x)	2.4	2.2	2.1	1.9	1.8
EV/EBITDA (x)	14.0	11.3	11.0	9.7	9.0
RoNW (%)	11.9	12.2	12.6	13.8	13.5
RoCE (%)	8.8	10.5	9.8	10.6	10.5

Source: Company; Sharekhan estimates

Decent Q3, earnings above estimate

Q3FY24 standalone adjusted PAT grew by 1% y-o-y to Rs. 4,468 crore (5% above our estimate of Rs. 4,250 crore) led by higher-than-expected other income (up 13% y-o-y) which offset higher fixed cost under-recoveries of Rs. 256 crore (versus over-recovery of Rs. 168 crore in Q3FY23). The increase in fixed cost under-recoveries was on the account of more overhauls taken by the NTPC during the quarter and lower plant availability factor (PAF, declined to 86% in Q3FY24 versus 93% in Q3FY23). We have adjusted reported PAT of Rs. 4,572 crore (up 2% y-o-y) for prior period sales of Rs. 126 crore and tax impact thereon. Operational performance was healthy as commercial generation/energy sold grew by 14%/15% y-o-y to 89 BU/84 BU, respectively.

Q3FY24 earnings conference call highlights

- **Capex guidance:** For 9MFY24, the company has incurred the capex of Rs. 21,552 crores as compared to Rs. 26,058 crores in 9MFY23. Company plans to incur capex of Rs. t28,373 crores for FY24. Management also plans to incur the capex of Rs. 22,700 for FY25 and Rs. 26,300 crores for FY26. The management plans to fund this capex through the mix of debt as well as equity in ratio of 70:30.
- **New thermal power capacity:** Company plans to install a total of 16.8GW of capacities of which 9.6 GW would be implemented by HTPC standalone and 7.2 GW through JVs. The company plans to tender 5.6GW in H1FY25, 6.4GW in FY26 and 4.8GW in FY27.
- **Renewable energy:** Company has total tangible pipeline of 22,747 MW of renewable energy with 3.3GW of commissioned capacity, another 7,808 MW of renewable energy projects are in the various stage of construction, another 8,225 MW of projects in the tendering process and ~3,350MW of land bank available for future projects.
- **Fixed cost under-recoveries:** Fixed cost under-recoveries in Q3FY24 were close to Rs. 256 crores, and overall close to Rs. 740 crore in 9MFY24. As government of India has asked power companies not to do overhauls from March onwards (Q1FY25), hence company has preponed overhauls which resulted in higher under recoveries. The management expects a reversal in under recoveries in Q4FY24.
- **Adjusted Profit:** The company reported adjusted net profit of Rs. 4468 crores in Q3FY24 vs Rs. 4424 crore in Q3FY23. The company reported adjusted net profit of Rs. 11760 crore in 9MFY24 vs Rs. 11480 crore in 9MFY23.
- **Other updates:** 1) As of December 31, NTPC had a regulated equity of Rs. 82,094 crores on stand-alone basis and Rs. 98,712 crores on consolidated basis. 2) Company is enhancing its coal mining capacity and expects to reach an annual production of 50 million tons in the next three years. 3) Over the next three years, company plans to commission FGD system for its entire operational which ensuring a substantial reduction in soft emissions. 4) Company plans to commission 22 TPD biomass pellet plants at Bathinda in Q4FY24.

Results (Standalone) Rs cr

Particulars	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Revenue	**39,455**	**41,411**	**-4.7**	**40,875**	**-3.5**
Total Expenditure	29,514	28,171	4.8	30,338	-2.7
Operating profit	**9,941**	**13,239**	**-24.9**	**10,537**	**-5.7**
Other Income	833	738	12.8	643	29.6
Interest	2,783	2,874	-3.2	2,465	12.9
Depreciation	3,491	3,312	5.4	3,464	0.8
PBT	4,500	7,791	-42.2	5,251	-14.3
Tax	1,394	1,581	-11.8	1,441	-3.3
PAT before regulatory deferral account balances	3,106	6,210	-50.0	3,810	-18.5
Net movement in regulatory deferral account balances	1,466	-1,733	-184.6	75	1,846.4
Reported PAT	**4,572**	**4,476**	**2.1**	**3,885**	**17.7**
Adjusted PAT	**4,468**	**4,424**	**1.0**	**3,497**	**27.8**
Equity Cap (cr)	970	970		970	
Reported EPS	4.7	4.6	2.1	4.0	17.7
Adjusted EPS	4.6	4.6	1.0	3.6	27.8
Margins (%)			**BPS**		**BPS**
OPM	25.2	32.0	-677	25.8	-58
Tax rate	31.0	20.3	1069	27.5	354
NPM	11.3	10.7	64	8.6	277

Source: Company, Sharekhan Research

Reconciliation of reported and adjusted PAT Rs cr

Particulars	9MFY24	9MFY23	% Change	Q3FY24	Q3FY23	% Change
Reported PAT	12,523	11,524	9%	4,572	4,476	2%
Previous year Sales/Fuel	-1,075	-840		-126	-64	
Pudimadaka	150					
Discounting impact on receivables		333				
Tax impact on above adjustments	162	89		22	11	
Previous year tax impact		122				
Tax impact of Merger		190				
Adjusted PAT	**11,760**	**11,418**	**3%**	**4,468**	**4,424**	**1%**

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 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.

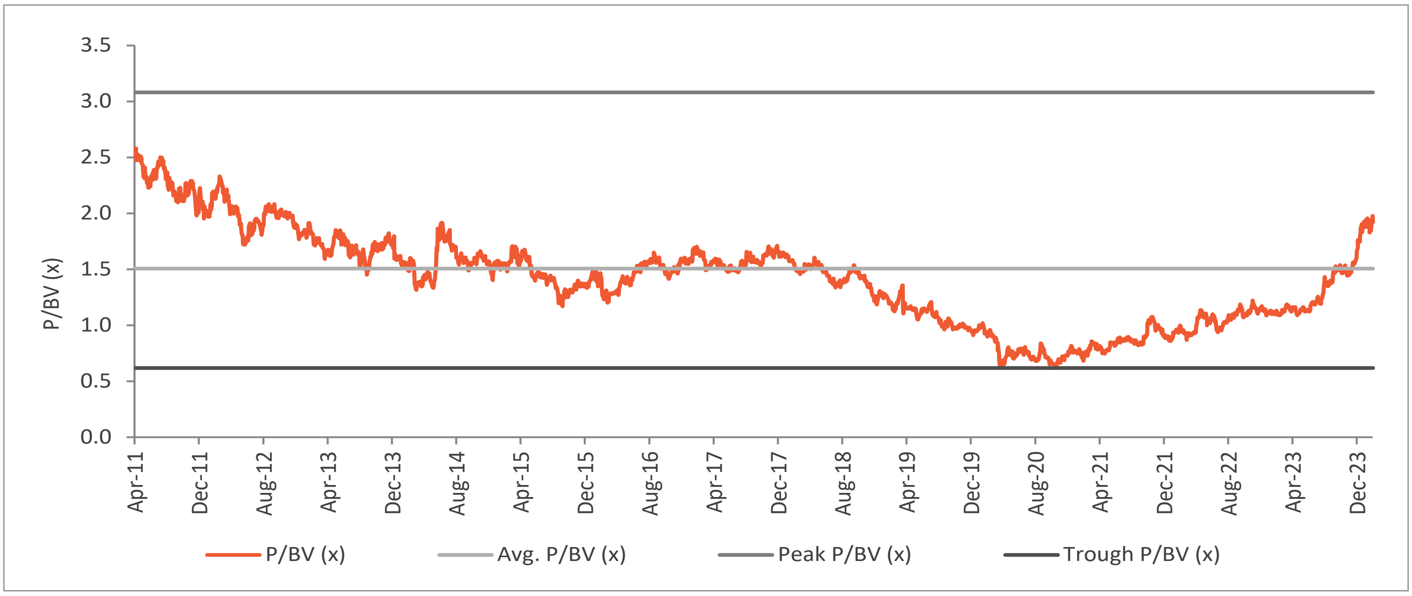
■ Company outlook - Strong commercialisation target to drive 11% CAGR in PAT over FY2023-FY2026E

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. 365

NTPC's risk-averse regulated business model provides earnings growth visibility/RoE improvement and RE expansion would drive a 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 1.8x FY25E P/BV seems reasonable given potential long-term growth prospects from high-capacity addition for RE and stock offers healthy dividend yield of ~3%. Hence, we maintain a Buy on NTPC with a revised PT of Rs. 365.

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 >5-6 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 reasonable 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	4.55
2	ICICI Prudential Asset Management	4.39
3	Nippon Life India Asset Management	3.36
4	HDFC Asset Management Co Ltd	3.19
5	Vanguard Group Inc/The	1.97
6	SBI Funds Management Ltd	1.77
7	BlackRock Inc	1.48
8	GOVERNMENT OF SINGAPORE	1.35
9	FMR LLC	1.19
10	UTI Asset Management Co Ltd	0.92

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

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