



## 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	■	↔	■

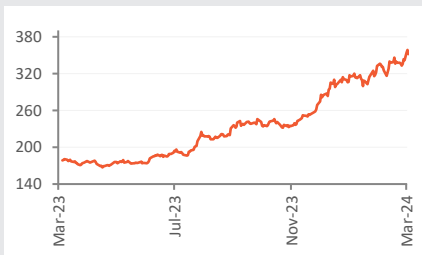
## Company details

Market cap:	Rs. 3,41,177 cr
52-week high/low:	Rs. 360/167
NSE volume: (No of shares)	154.4 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	7.0	24.6	51.1	97.9
Relative to Sensex	4.6	18.3	39.6	75.5

Sharekhan Research, Bloomberg

## NTPC Ltd

## Well-placed to benefit from thermal/RE expansion

Power	Sharekhan code: NTPC		
Reco/View: Buy	↔	CMP: Rs. 352	Price Target: Rs. 425
↑ Upgrade	↔ Maintain	↓ Downgrade	

## Summary

- NTPC plans to add significant thermal power capacities is coming at right timing of peak power cycle. Core thermal power business earns a regulated RoE and a higher capex intensity would drive earnings growth and offer cash flow visibility.
- NTPC's RE expansion plan of 20GW/60GW by FY27E/FY32E would mean meaningful EBITDA contribution apart from improving ESG score.
- Power PSUs' valuations are at a steep discount of 35-40% when compared to private power companies. We expect this gap for NTPC (discount of 45% versus private listed companies) to narrow down, given the favourable dynamics for its core thermal power business supported by rising peak power deficit, high growth for RE and a likely improvement in ESG score.
- We maintain a Buy on NTPC with a revised PT of Rs. 425 given strong earnings growth visibility, reasonable valuation of 2x FY26E P/BV and healthy dividend yield of ~3%.

**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%), reasonable valuation of 2x FY26E P/BV considering discount versus private power companies and a healthy dividend yield of 3%. NTPC is play on improving capex outlook for thermal power capacities and high growth in RE business. We maintain our Buy rating on NTPC with a revised PT of Rs. 425.**

- Robust thermal capacity addition plan – provides earnings and cash flow visibility:** India's strong power demand, rising peak power deficit and the government's focus on energy security would drive revival in thermal power capex as thermal power will be key for reliable power supply (amid seasonality in RE generation) as well as grid stability. NTPC would be key beneficiary of a revival in thermal power capex given its strong legacy in the segment. Given the above backdrop, NTPC has plans to add 16.8 GW of new thermal power capacities in the next three years 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. We highlight here that NTPC earnings regulated RoE on its thermal power business and we expect strong double-digit growth in NTPC's regulated equity base over FY23-26E. This provides strong visibility of earnings growth (expect 14% PAT CAGR over FY23-26E) and cashflows.
- Aggressive growth in renewable energy (RE) portfolio:** NTPC intends to increase its RE capacity to 20GW/60GW by FY27E/FY32E, a robust growth of 7x/18x over current RE capacity of 3.3 GW. The company has ~7.8 GW of RE projects under construction and 11.6 GW under different stages of planning. The RE capacity addition would mean capitalisation of Rs. 85000-90000 crore over the next three years up to FY26. In addition to increasing RE capacity, focus on new green hydrogen and battery storage regions would enhance the ESG rating, diversify the revenue stream and boost earnings significantly in the medium to long term. NTPC has 13-14 GW of pumped storage project opportunities lined up with various stage governments, out of which NTPC plans to develop 8GW PSPs (3MW Tamil Nadu, 2GW Maharashtra, 1.2GW Chhattisgarh, 1GW Gujarat and 1GW Meghalaya) which is expected to company online in 7-8 years.
- Valuation gap with private players should narrow down:** The valuation on P/BV basis for power PSUs is at a steep discount of 35-40% versus private power companies. We believe that NTPC steep valuation gap of 45% versus private power companies should narrow down given its strong focus on both core thermal/RE business, robust cash flows, long standing track record of financial as well as operational expertise in power business and likely improvement in ESG score.

## Our Call

**Valuation – Maintain Buy on NTPC with a revised PT of Rs. 425:** NTPC's risk-averse regulated business model provides earnings growth visibility/RoE improvement and RE capacity 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 2x FY26E P/BV is attractive, and stock offers healthy dividend yield of ~3%. Hence, we maintain a Buy on NTPC with a revised PT of Rs. 425 (higher value for RE business + option value for PSP).

## Key Risks

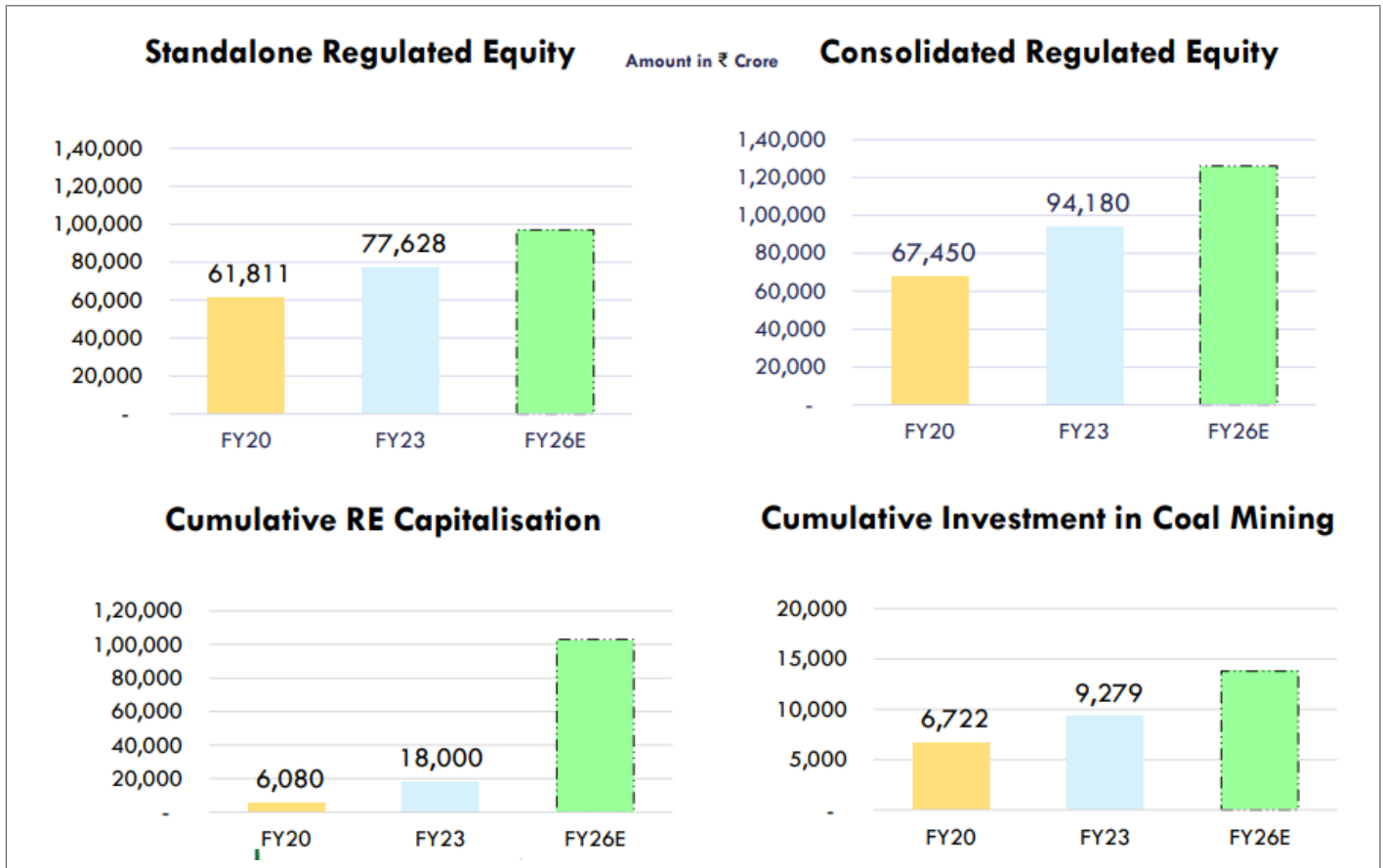
- 1) Lower-than-expected commercial capacity additions amid delay in projects and coal availability shortages could affect earnings,
- 2) Slower-than-expected ramp-up of RE projects and aggressive tariff bidding to win RE projects,
- 3) Any unfavourable change in regulated returns,
- 4) Any write-off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

## Valuation (Standalone)

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)	23.2	20.9	18.8	16.1	15.3
P/B (x)	2.7	2.5	2.3	2.1	2.0
EV/EBITDA (x)	15.0	12.1	11.8	10.4	9.7
RoNW (%)	11.9	12.2	12.6	13.8	13.5
RoCE (%)	8.8	10.5	9.8	10.6	10.5

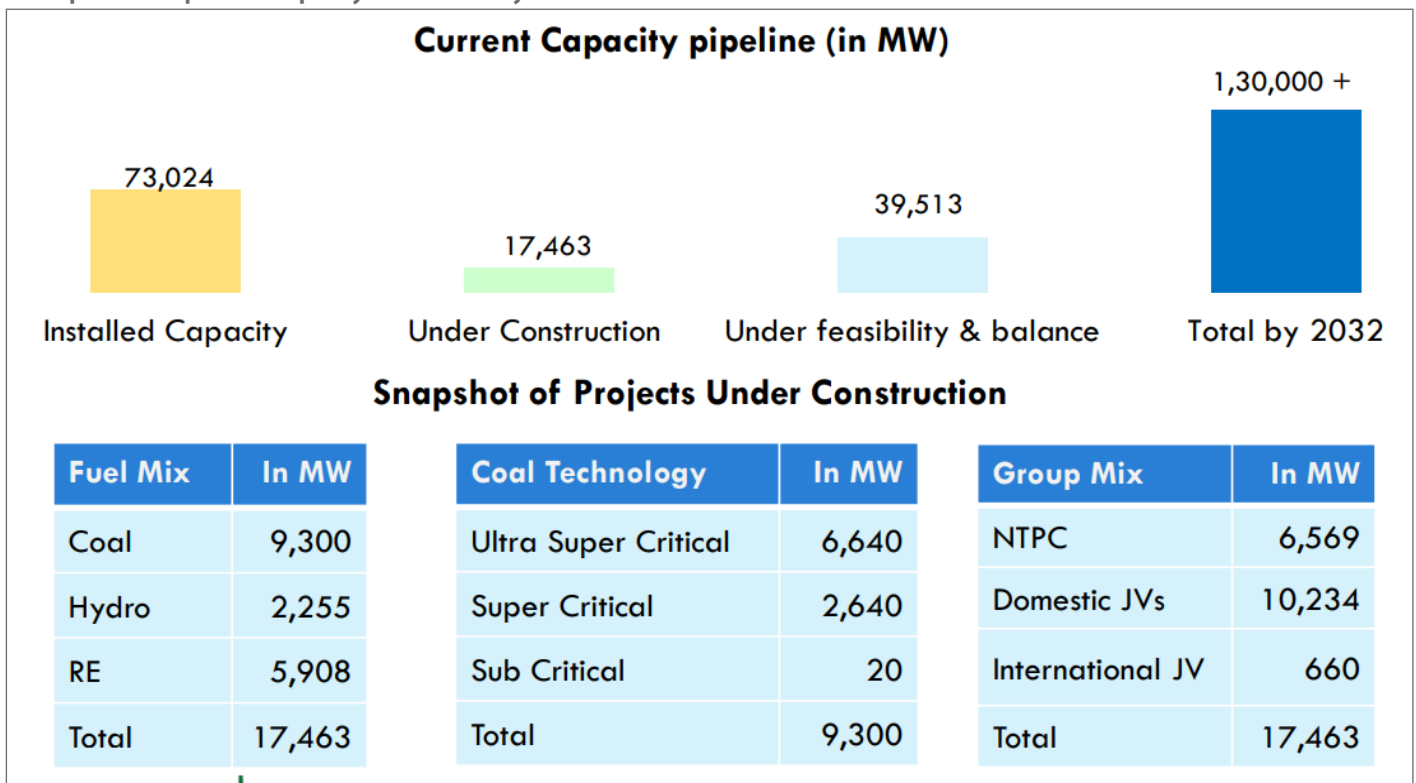
Source: Company; Sharekhan estimates

NTPC expected strong growth across parameters by FY26E



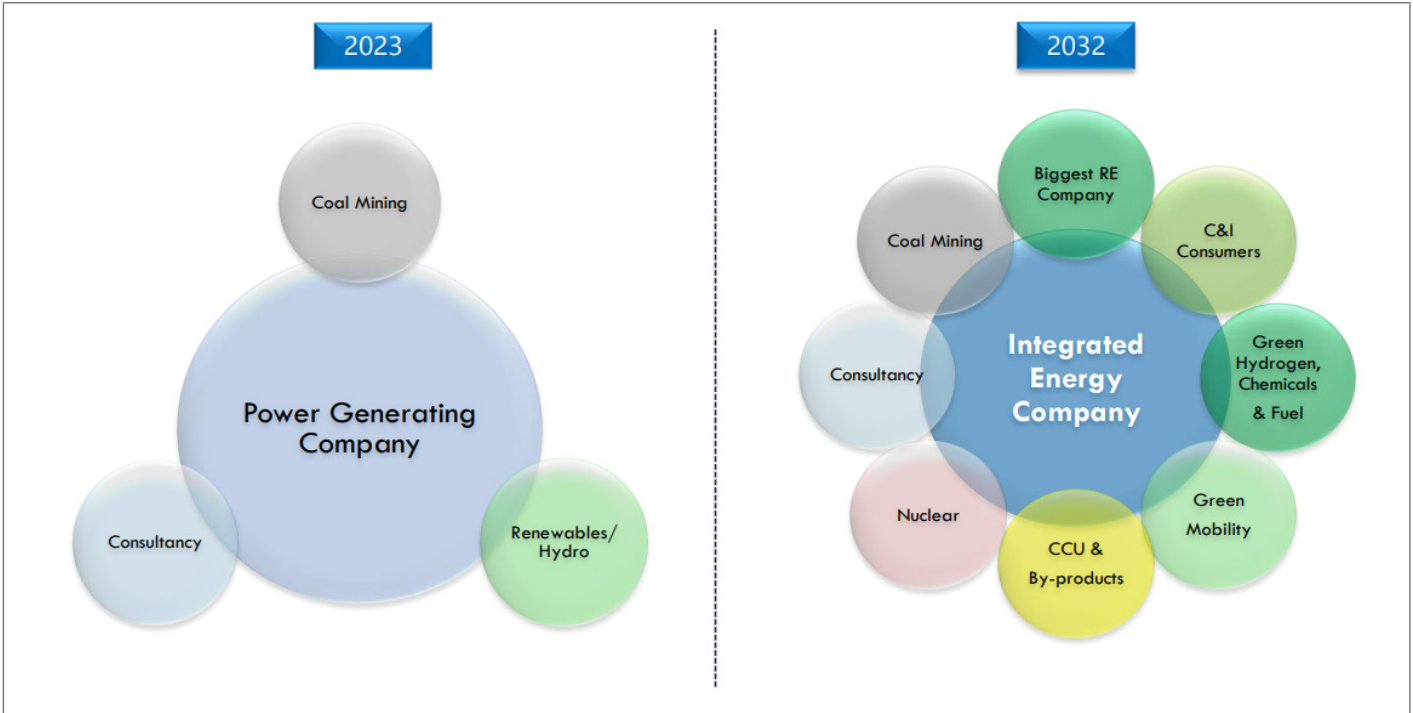
Source: Company

NTPC plans to expand its capacity to 130+ GW by FY2032



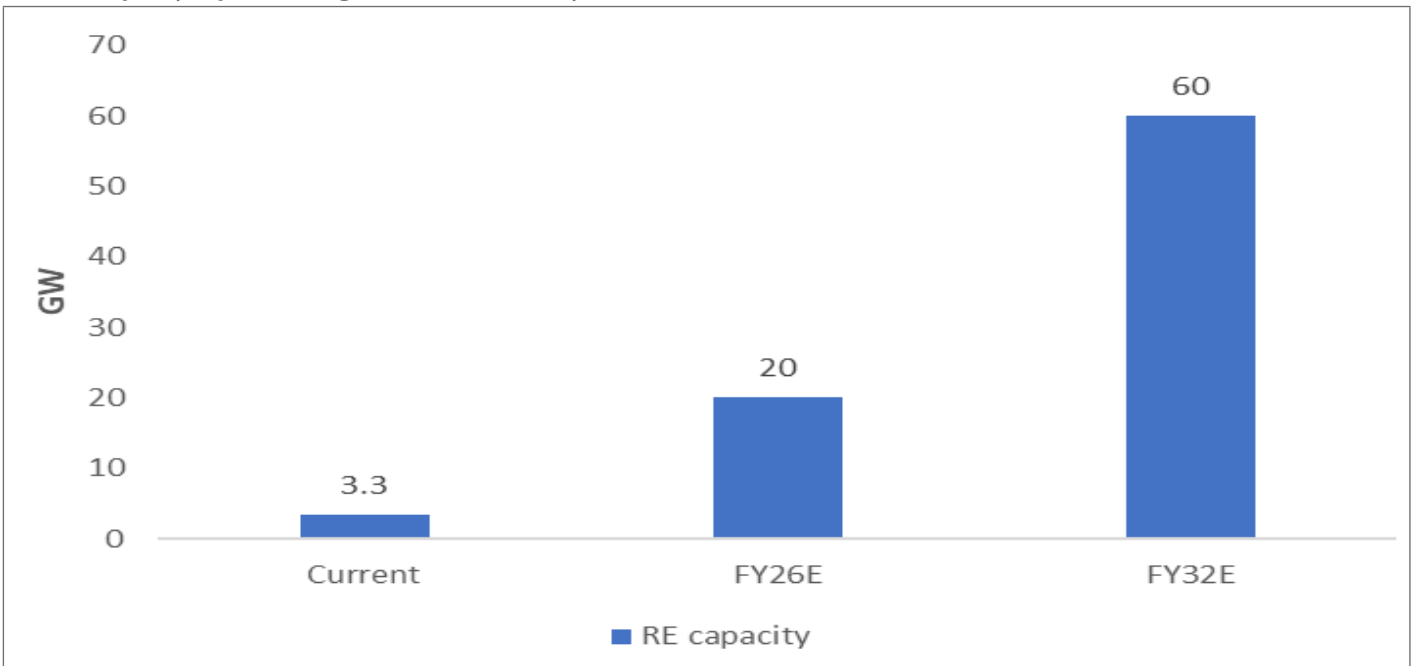
Source: Company

**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

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<sub>2</sub> to Methanol demonstration plant at NTPC Vindhyachal
- Development of Indigenous Catalyst for hydrogenation of CO<sub>2</sub> to Methanol by NETRA
- Setting up 10 TPD Flue gas CO<sub>2</sub> 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

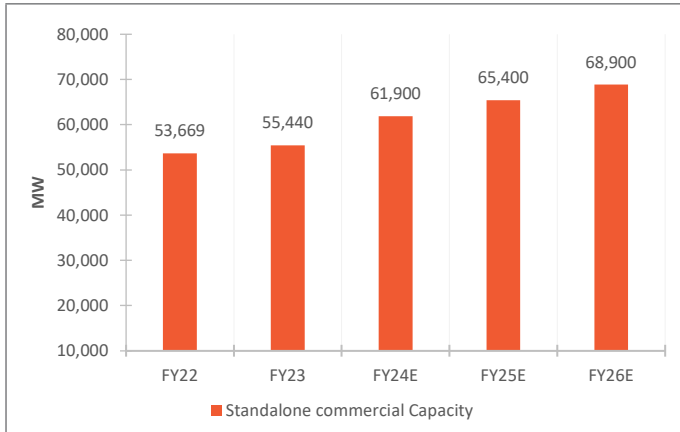
Source: Company

**Recent company Updates**

- ♦ NTPC's wholly-owned subsidiary, NTPC Green Energy Limited (NGEL) has signed a joint venture agreement with Uttar Pradesh Rajya Vidyut Utpaadan Nigam Limited (UPRVUNL) on March 4, 2024 for development of renewable power parks and projects in Uttar Pradesh. The RE power generated from the proposed JVC shall meet the Renewable Generation Obligation (RGO) of the UPRVUNL.
- ♦ The Board of Directors has accorded investment approval for Singrauli Super Thermal Power Project, Stage-III (2x800 MW) at an appraised current estimated cost of Rs. 17,195 crores.
- ♦ Unit-2 of North Karanpura Super Thermal Power Project of 660 MW capacity and Unit 2 of Telangana STPP of 800 MW capacity has successfully completed trial operation and consequently included in the installed capacity of NTPC Limited. With addition of this capacity, the total installed capacity of the company on standalone and grouped basis has become 59298 MW and 75418 MW, respectively.
- ♦ A joint venture agreement was inked by NTPC Green Energy Limited (NGEL), a fully owned subsidiary of NTPC Limited, and Maharashtra State Power Generation Company Limited (MAHAGENCO) to create renewable energy parks in the state of Maharashtra. The JV will be established build renewable energy parks with GW-scale capacity.

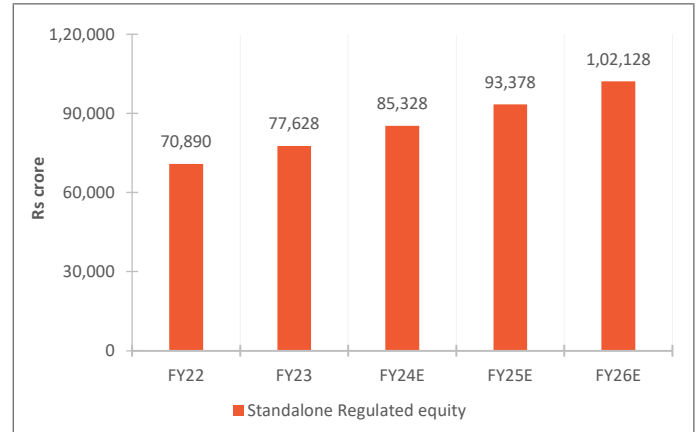
## Financials in charts

### Commercialisation to remain strong over FY24E-26E



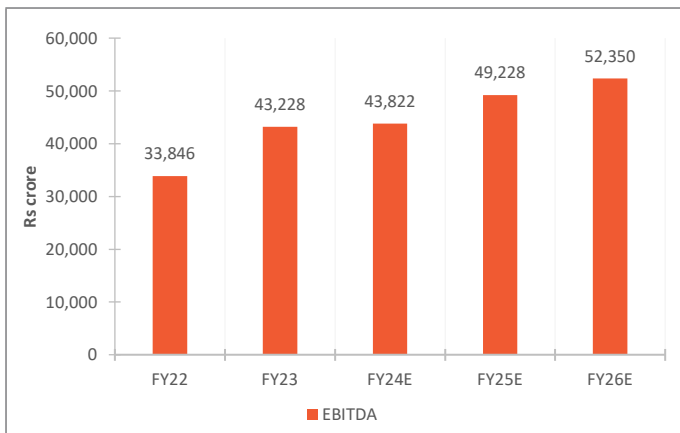
Source: Company, Sharekhan Research

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



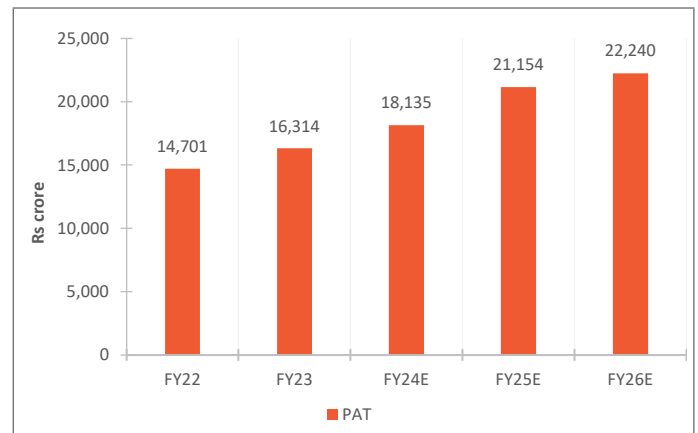
Source: Company, Sharekhan Research

### EBITDA trend



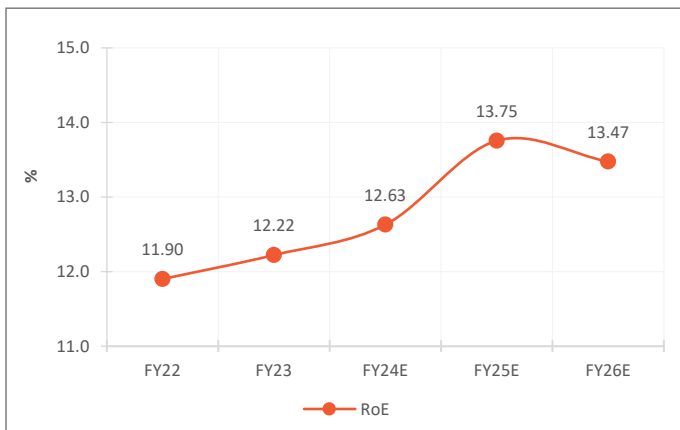
Source: Company, Sharekhan Research

### PAT to clock 11% over FY23-FY26E



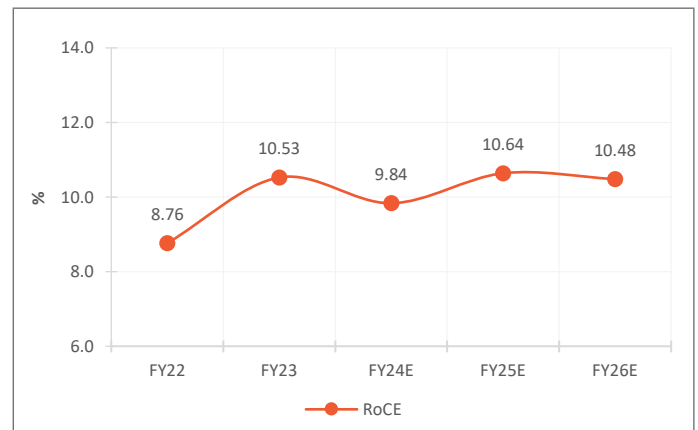
Source: Company, Sharekhan Research

### 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 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 & 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 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 overdues from discoms would strengthen NTPC's balance sheet.

### ■ Valuation – Maintain Buy on NTPC with a revised PT of Rs. 425

NTPC's risk-averse regulated business model provides earnings growth visibility/RoE improvement and RE capacity 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 2x FY26E P/BV is attractive, and stock offers healthy dividend yield of ~3%. Hence, we maintain a Buy on NTPC with a revised PT of Rs. 425 (higher value for RE business + option value for PSP).

#### 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 in 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,
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## 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	Life Insurance Corp of India	4.55
2	ICICI Prudential Asset Management	4.4
3	Nippon Life India Asset Management	3.32
4	HDFC Asset Management Co Ltd	2.55
5	Vanguard Group Inc/The	1.98
6	SBI Funds Management Ltd	1.72
7	BlackRock Inc	1.63
8	GOVERNMENT OF SINGAPORE	1.35
9	NPS Trust A/c Uti Retirement Solut	1.27
10	FMR LLC	1.03

Source: Bloomberg

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## 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 deteriorating 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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