

BUY
 TP: Rs 370 | ▲ 17%

NTPC

| Power

| 30 January 2024

Normal quarter, aggressive expansion; maintain BUY

- Q3 power generation grew 14% YoY with bump-up in PAT to Rs 45.7bn due to movement in regulatory deferral balance
- Renewable and thermal capacity additions of ~11GW and ~10GW respectively planned by FY26
- TP raised to Rs 370 (vs. Rs 290) on higher core target P/B of 2.1x (vs. 1.6x) as we expect valuation gap to private peers to narrow

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In-line quarter: NTPC reported a 5% YoY dip in topline to Rs 395bn in Q3FY24 and 2% growth in PAT to Rs 45.7bn (includes a regulatory deferral movement of Rs 14.7bn with respect to tariff orders of previous years). Thermal PLF stood at 76.4% during 9MFY24 as compared to the all-India PLF of 68.5%. The average tariff in 9MFY24 was Rs 4.57/kWh and NTPC’s regulated equity at the end of the nine-month period was Rs 821bn on standalone and Rs 987bn on consolidated basis. The company had fixed cost under-recovery of Rs 7.4bn at end-9M and expects this figure to normalise to Rs 4bn-4.5bn by the close of FY24.

Aggressive on renewables: NTPC has added 210MW of renewable capacity in the last 12 months and its installed generation capacity now stands at 73.9GW, of which renewable and hydro power account for 3.4GW and 3.7GW respectively. The company plans to commission 20GW of renewable capacity by FY27 and an additional 40GW by FY32. In the thermal business, it plans to add 16.8GW of coal capacity, for which awarding is expected to conclude by FY27. Additionally, it has identified 14GW of pumped hydro capacity to be commissioned over 6-9 years.

Expect discount to private sector peers to narrow: Power stocks have rallied in the past three months, with the BSE Power index up ~50% and both public and private sector utilities showing strong gains. However, the valuation gap between the two is still 60%, with the average TTM P/B of major private players at 3.2x vs. 2.1x for PSUs. This gap rises to ~100% if we exclude CESC which has been a relative underperformer. Given their pedigree and track record, we see no reason why NTPC should not enjoy valuations closer to private sector peers.

TP raised to Rs 370; maintain BUY: We raise our target P/B multiple for NTPC’s core business to 2.2x Dec’25E BV (vs. 1.6x Sep’25E earlier) – still conservative compared to private sector peers – and maintain BUY for a higher SOTP-based TP of Rs 370 (vs. Rs 290). NTPC is among the key players powering India’s economy given its robust thermal portfolio. Considering a thrust on renewables and simultaneous enhancement of thermal capacity, we believe the company is well positioned in the power generation space and hence reiterate our BUY rating.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	NTPC IN/Rs 315
Market cap	US\$ 37.2bn
Free float	49%
3M ADV	US\$ 54.9mn
52wk high/low	Rs 326/Rs 163
Promoter/FPI/DII	51%/16%/33%

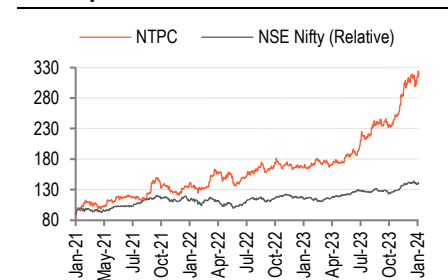
Source: NSE | Price as of 30 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	16,37,698	16,46,500	18,40,000
EBITDA (Rs mn)	4,32,284	4,32,801	4,85,347
Adj. net profit (Rs mn)	1,71,967	1,82,783	2,17,829
Adj. EPS (Rs)	17.7	20.0	22.5
Consensus EPS (Rs)	17.7	19.5	21.8
Adj. ROAE (%)	12.9	12.8	14.2
Adj. P/E (x)	17.8	15.8	14.0
EV/EBITDA (x)	11.1	11.3	10.0
Adj. EPS growth (%)	5.6	12.7	12.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

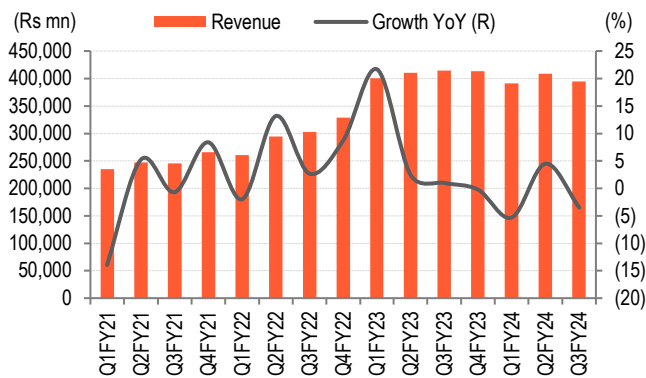


Fig 1 – Quarterly performance

Particulars (Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Revenue	3,94,553	4,14,105	(4.7)	4,08,753	(3.5)	1,194,529	1,224,519	(2.4)
EBITDA	99,411	1,32,392	(24.9)	1,05,375	(5.7)	318,479	325,057	(2.0)
EBITDA Margin (%)	25.2	32.0	(680bps)	25.8	(60bps)	26.7	26.5	10bps
Depreciation	34,907	33,121		34,642		102,152	97,434	
Interest	27,831	28,744		24,647		77,628	77,844	
Other Income	8,325	7,383		6,426		20,335	22,336	
PBT	44,998	77,910	(42.2)	52,511	(14.3)	159,035	172,115	(7.6)
Tax	13,943	15,812		14,415		44,899	47,357	
Adjusted PAT	45,719	44,763	2.1	38,850	17.7	114,136	115,244	(1.0)
Exceptional item	-	-	-	-	-	0.0	-	-
Reported PAT	45,719	44,763	2.1	38,850	17.7	125,230	115,244	8.7
Adj. PAT Margin (%)	11.6	10.8	80bps	9.5	210bps	9.6	9.4	10bps
EPS (Rs)	4.7	4.6	2.1	4.0	2.1	11.8	11.9	(1.0)

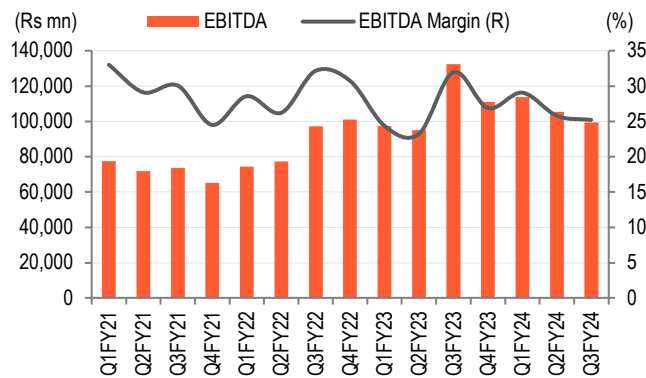
Source: Company, BOBCAPS Research

Fig 2 – Revenue growth



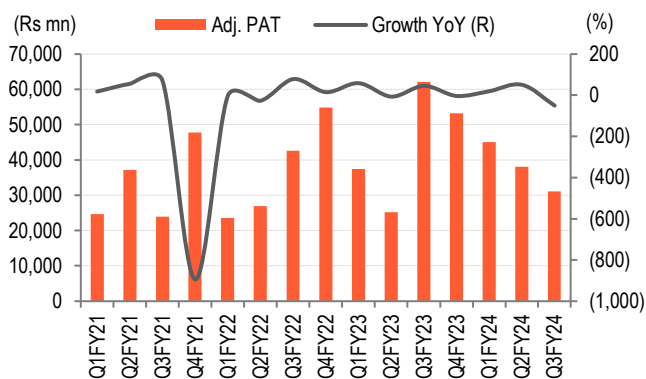
Source: Company, BOBCAPS Research

Fig 3 – EBITDA growth



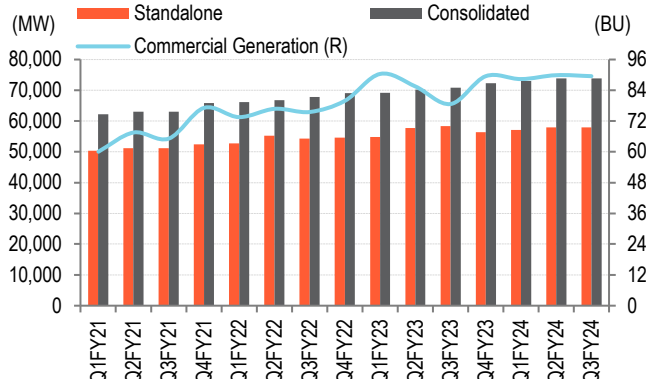
Source: Company, BOBCAPS Research

Fig 4 – Profit growth



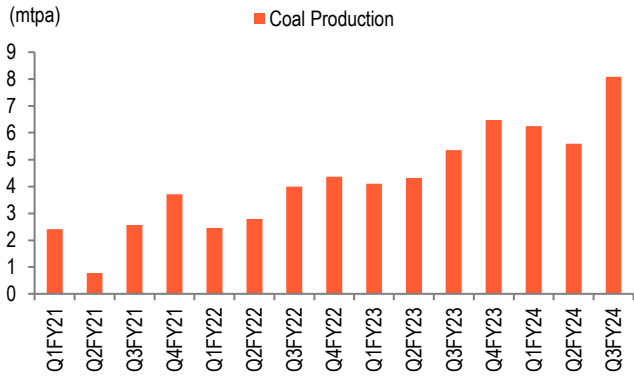
Source: Company, BOBCAPS Research

Fig 5 – Installed capacity and generation performance



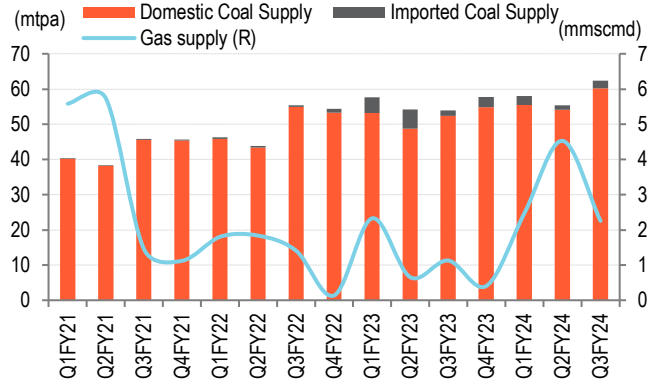
Source: Company, BOBCAPS Research

Fig 6 – Coal mining trend



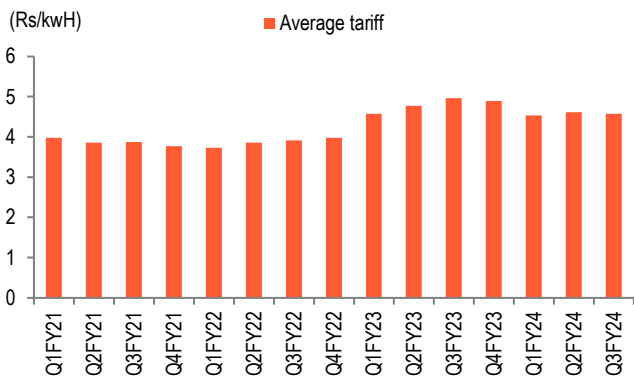
Source: Company, BOBCAPS Research

Fig 7 – Input fuel consumption



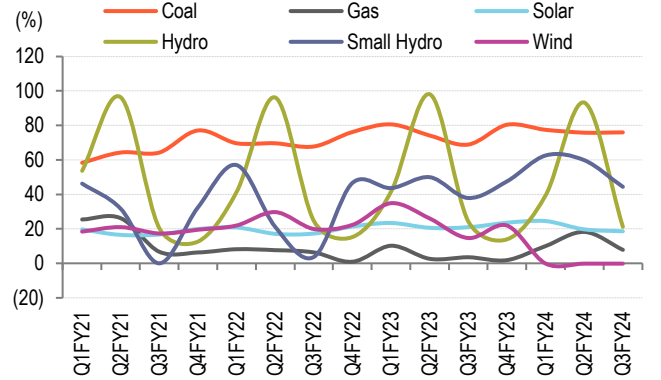
Source: Company, BOBCAPS Research

Fig 8 – Average tariff realised



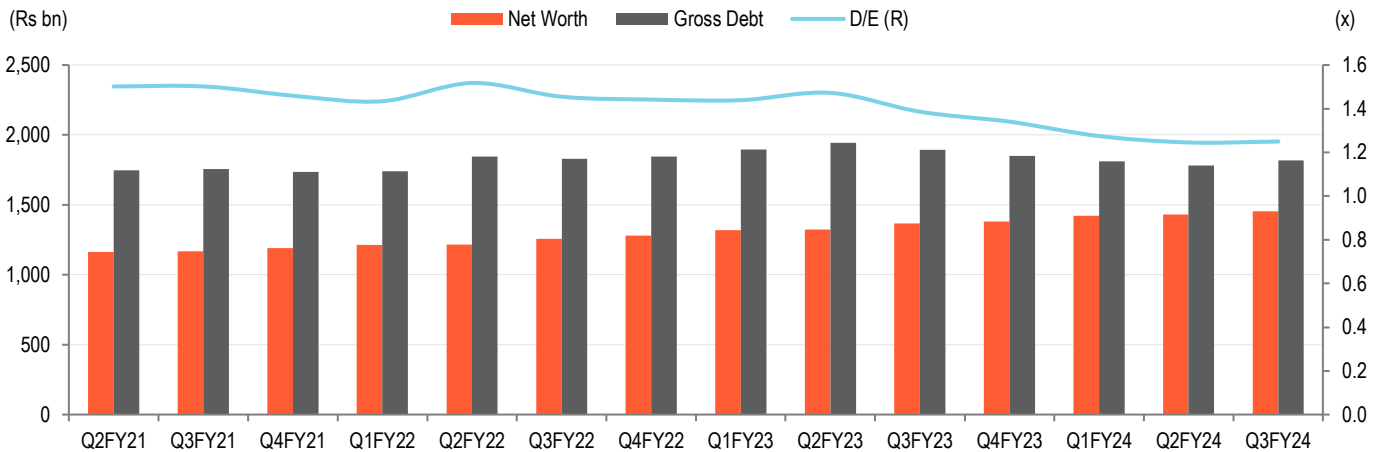
Source: Company, BOBCAPS Research

Fig 9 – Operational performance: PLF



Source: Company, BOBCAPS Research | PLF: Plant Load Factor

Fig 10 – Capital employed



Source: Company, BOBCAPS Research

Earnings call takeaways

Thermal business

- **Thermal capacity additions:** The company has 10GW of thermal capacity under construction, of which it expects to commission 3.5GW in Q4FY24, 4GW in FY25 and 2.7GW in FY26. It intends to award 16.8GW of thermal projects (cost-plus basis) for construction, which includes 5.6GW to be awarded by H1FY25, 6.4GW in FY26, and the remaining 4.8GW in FY27. The government of India is targeting ~88GW of thermal capacity addition in the country by FY32, of which 16.8GW is planned to be added by NTPC directly and another 7GW indirectly by way of the company lending support to state utilities.
- **FGD projects:** NTPC expects to commission FGD (flue-gas desulfurisation) projects for its entire thermal capacity over the next three years. It has awarded projects worth 65.2GW and commissioned ~6GW of FGD projects as of Q3FY24.
- **Incentive:** The company received incentives of Rs 1.24bn and Rs 4.62bn during Q3 and 9MFY24 respectively.
- **Coal under-recovery:** Coal under-recovery stood at Rs 2.6bn and Rs 7.4bn for Q3 and 9MFY24 respectively on account of higher plant overhauls undertaken by the company during this period. The government had directed power producers to refrain from outages during Jun'23 due to high power demand in the country, with a similar directive for Mar'24 in anticipation of summer demand. Consequently, many of NTPC's stations went in for overhaul during Q3FY24, and management expects to close FY24 with lower under-recovery of Rs 4bn-4.5bn. The company also expects lower under-recovery during FY25.

Renewable business

- **Renewable capacity:** NTPC currently has operational renewable capacity of 3.4GW, while 7.8GW is currently under various stages of construction and due to be commissioned over the next 24 months (1GW in Q4FY24, 3GW in FY25 and 3.8GW beyond that).
- **Growth target:** The commissioning of renewable projects is facing delays due to delays in module procurement, but management is confident of achieving its FY26 target of 15GW capacity. Of the 7.8GW capacity under construction, the company has placed orders for 2.5GW of modules. Additionally, 8.2GW is under tendering, and the company has a land bank worth 3.35GW. It has visibility of 22.75GW of renewable capacity potential in all.
- **Pumped storage:** NTPC has announced plans to commission 8GW of pumped storage projects, of which an MoU has been signed for 2GW with the state of Maharashtra. The company expects to sign MoUs of 3GW with Telangana and 1GW each with Chhattisgarh, Gujarat and Meghalaya. These projects will take about seven years to be completed.
- **PPAs:** The company has signed power purchase agreements (PPA) with round-the-clock (RTC) suppliers by outsourcing 500MW of pumped storage capacity. Bids of 1,500MW are currently open in the market.

Other highlights

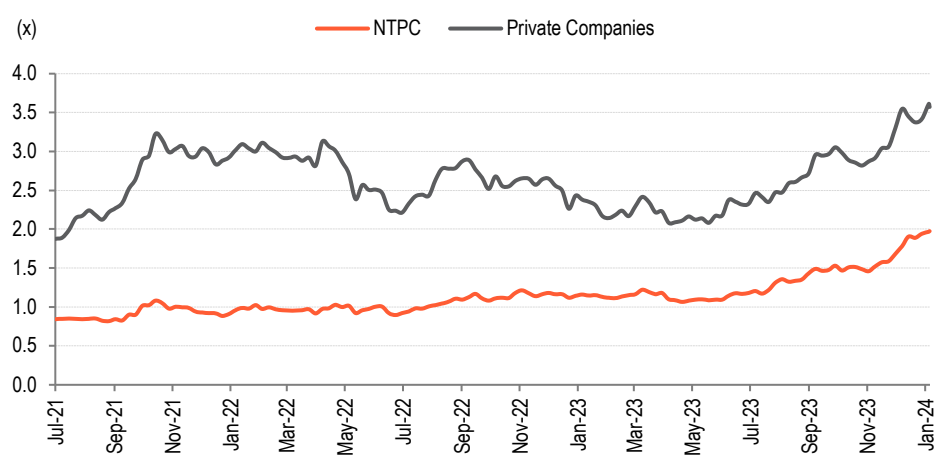
- **Profitability:** Adj. PAT stood at Rs 45.7bn, which included a regulatory deferral movement of Rs 14.7bn with respect to tariff orders of previous years. Recurring PAT (as disclosed) was Rs 44.7bn for Q3FY24 as compared to Rs 44.2bn in Q3FY23.
- **Capex:** Capex incurred in 9MFY24 was at Rs 215.5bn and is guided at Rs 283.7bn for FY24. On a standalone basis, the company expects to spend Rs 227bn and Rs 263bn in FY24 and FY25 respectively.
- **Dividend income:** NTPC earned dividend income of Rs 6.6bn during 9MFY24, with Rs 1.9bn coming from subsidiaries and Rs 4.6bn from joint ventures. In comparison, it received Rs 4.6bn of dividend income in 9MFY23.
- **Coal mining:** NTPC produced 8.1mn tonnes of coal during Q3FY24 and 25.4mt in 9MFY24 (27mt YTD). Management expects to achieve its FY24 target of 34mt and aims to ramp this up to a 50mtpa run rate in the next three years. All the company's six mines have coal contracts in place.

Valuation methodology

Power stocks have rallied in the past three months, with the BSE Power index up ~50% and both public and private sector utilities showing strong gains. However, the valuation gap between the two is still 60%, with the average TTM P/B of major private players at 3.2x vs. 2.1x for PSUs. This gap rises to ~100% if we exclude CESC which has been a relative underperformer. Given their pedigree and track record, we see no reason why NTPC should not enjoy valuations closer to private sector peers.

We raise our target P/B multiple for NTPC's core business to 2.2x Dec'25E BV (vs. 1.6x Sep'25E earlier) – still conservative compared to private sector peers – and maintain BUY for a higher SOTP-based TP of Rs 370 (vs. Rs 290). NTPC is among the key players powering India's economy given its robust thermal portfolio. Considering a thrust on renewables and simultaneous enhancement of thermal capacity, we believe the company is well positioned in the power generation space and hence reiterate our BUY rating.

Fig 11 – Disparity in TTM P/B



Source: Bloomberg, BOBCAPS Research

Fig 12 – Revised estimates

(Rs bn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales	1,647	1,840	2,021	1,676	1,840	2,021	(1.8)	(0.0)	0.0
EBITDA	433	485	534	442	485	534	(2.0)	(0.0)	0.0
PAT	194	218	246	189	218	246	2.4	0.0	(0.0)
EPS (Rs)	20.0	22.5	25.4	19.5	22.5	25.4	2.4	0.0	0.0
EBITDA Margin (%)	26.3	26.4	26.4	26.4	26.4	26.4	(10bps)	0bps	0bps

Source: Company, BOBCAPS Research

Fig 13 – SOTP valuation summary

Particulars	Equity Value	Stake (%)	P/B (x)	Est. Market Cap (Rs mn)	Value per share (Rs)
Regulated business	1,252,411	100	2.2	2,755,303	284
NEEPCO	65,893	100	1.2	79,072	8
THDC	104,276	74	1.5	116,523	12
Patratu	23,456	74	0.7	12,150	1
BRBCL	28,780	74	1	21,297	2

Particulars	Equity Value	Stake (%)	P/B (x)	Est. Market Cap (Rs mn)	Value per share (Rs)
Meja	17,072	50	0.8	6,829	1
APCL	24,479	50	1.8	22,031	2
NTECL	18,989	50	1.2	11,394	1
NTPC-SAIL	14,391	50	1.5	10,793	1
Maitree	10,506	50	1	5,253	1
NGEL	300,000	100	1.5	450,000	46
HURL	22,699	30	1	6,735	1
Jhabua	20,212	50	1	10,106	1
NVVN	7,190	100		7,190	1
Add: Cash and equivalents				37,417	4
Total					370

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- increase in fixed cost under-recoveries due to inadequate coal supply,
- delays in commissioning solar projects, leading to underachievement of renewable targets,
- delays bringing thermal capacity additions onstream, and
- delays commissioning pumped storage projects, leading to lower round-the-clock (RTC) power.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	12,11,746	16,37,698	16,46,500	18,40,000	20,21,000
EBITDA	3,60,250	4,32,284	4,32,801	4,85,347	5,34,315
Depreciation	1,20,582	1,31,367	1,40,949	1,45,364	1,53,777
EBIT	2,39,668	3,00,917	2,91,851	3,39,983	3,80,538
Net interest inc./(exp.)	82,165	99,792	91,641	97,396	1,04,765
Other inc./(exp.)	35,751	39,546	43,501	47,851	52,636
Exceptional items	0	0	0	0	0
EBT	1,93,253	2,40,671	2,43,711	2,90,439	3,28,410
Income taxes	44,578	62,793	60,928	72,610	82,102
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	14,144	(5,911)	11,094	0	0
Reported net profit	1,62,820	1,71,967	1,82,783	2,17,829	2,46,307
Adjustments	0	0	0	0	0
Adjusted net profit	1,62,820	1,71,967	1,82,783	2,17,829	2,46,307

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	98,190	1,20,939	1,21,796	1,36,110	1,49,499
Other current liabilities	2,29,571	2,07,730	2,68,896	3,11,307	3,50,979
Provisions	86,178	91,980	91,980	91,980	91,980
Debt funds	18,55,777	18,59,839	18,32,824	19,47,915	20,95,303
Other liabilities	1,35,280	1,28,318	1,29,007	1,44,169	1,58,351
Equity capital	96,967	96,967	96,967	96,967	96,967
Reserves & surplus	11,89,709	12,91,932	13,77,777	14,86,692	16,09,845
Shareholders' fund	12,86,675	13,88,899	14,74,744	15,83,658	17,06,812
Total liab. and equities	37,11,404	38,23,873	39,45,417	42,41,308	45,79,092
Cash and cash eq.	27,472	37,417	22,676	24,946	30,145
Accounts receivables	2,47,475	2,47,415	2,70,658	3,02,466	3,32,219
Inventories	96,910	1,36,798	1,35,329	1,52,464	1,66,786
Other current assets	1,40,148	2,23,124	2,24,323	2,50,686	2,75,346
Investments	2,31,469	2,91,387	2,91,387	2,91,387	2,91,387
Net fixed assets	19,50,841	19,64,417	20,73,468	21,98,104	23,74,327
CWIP	7,35,191	6,17,439	6,20,757	6,93,710	7,61,950
Intangible assets	5,849	9,643	9,643	9,643	9,643
Deferred tax assets, net	0	0	0	0	0
Other assets	1,47,641	1,75,409	1,76,352	1,97,077	2,16,463
Total assets	37,11,404	38,23,873	39,45,417	42,41,308	45,79,092

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	3,78,982	3,53,986	3,62,783	3,44,611	3,84,409
Capital expenditures	(1,91,751)	(1,72,235)	(2,50,000)	(2,70,000)	(3,30,000)
Change in investments	(8,963)	(66,310)	0	0	0
Other investing cash flows	19,913	97,918	(3,572)	(78,517)	(73,445)
Cash flow from investing	(1,80,801)	(1,40,628)	(2,53,572)	(3,48,517)	(4,03,445)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(1,29,443)	(1,44,201)	(27,015)	1,15,091	1,47,388
Interest expenses	(82,165)	(99,792)	(91,641)	(97,396)	(1,04,765)
Dividends paid	(69,331)	(70,301)	(96,938)	(1,08,915)	(1,23,154)
Other financing cash flows	82,165	99,792	91,641	97,396	1,04,765
Cash flow from financing	(1,98,774)	(2,14,502)	(1,23,953)	6,176	24,235
Chg in cash & cash eq.	(592)	(1,144)	(14,742)	2,270	5,199
Closing cash & cash eq.	27,472	37,417	22,676	24,946	30,145

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	16.8	17.7	20.0	22.5	25.4
Adjusted EPS	16.8	17.7	20.0	22.5	25.4
Dividend per share	7.2	7.3	10.0	11.2	12.7
Book value per share	132.7	143.2	152.1	163.3	176.0

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	3.8	2.9	3.0	2.6	2.4
EV/EBITDA	12.9	11.1	11.3	10.0	9.2
Adjusted P/E	18.8	17.8	15.8	14.0	12.4
P/BV	2.4	2.2	2.1	1.9	1.8

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	84.3	71.5	75.0	75.0	75.0
Interest burden (PBT/EBIT)	80.6	80.0	83.5	85.4	86.3
EBIT margin (EBIT/Revenue)	19.8	18.4	17.7	18.5	18.8
Asset turnover (Rev./Avg TA)	33.9	43.5	42.4	45.0	45.8
Leverage (Avg TA/Avg Equity)	2.9	2.8	2.7	2.7	2.7
Adjusted ROAE	13.1	12.9	12.8	14.2	15.0

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	22.1	35.2	0.5	11.8	9.8
EBITDA	25.1	20.0	0.1	12.1	10.1
Adjusted EPS	7.6	5.6	12.7	12.4	13.1
Profitability & Return ratios (%)					
EBITDA margin	29.7	26.4	26.3	26.4	26.4
EBIT margin	19.8	18.4	17.7	18.5	18.8
Adjusted profit margin	13.4	10.5	11.8	11.8	12.2
Adjusted ROAE	13.1	12.9	12.8	14.2	15.0
ROCE	10.2	9.9	10.0	10.6	11.2
Working capital days (days)					
Receivables	75	55	60	60	60
Inventory	29	30	30	30	30
Payables	30	27	27	27	27
Ratios (x)					
Gross asset turnover	0.5	0.6	0.6	0.6	0.6
Current ratio	0.8	0.9	0.8	0.8	0.8
Net interest coverage ratio	3.4	3.4	3.7	4.0	4.1
Adjusted debt/equity	1.4	1.3	1.2	1.2	1.2

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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BUY – Expected return >+15%

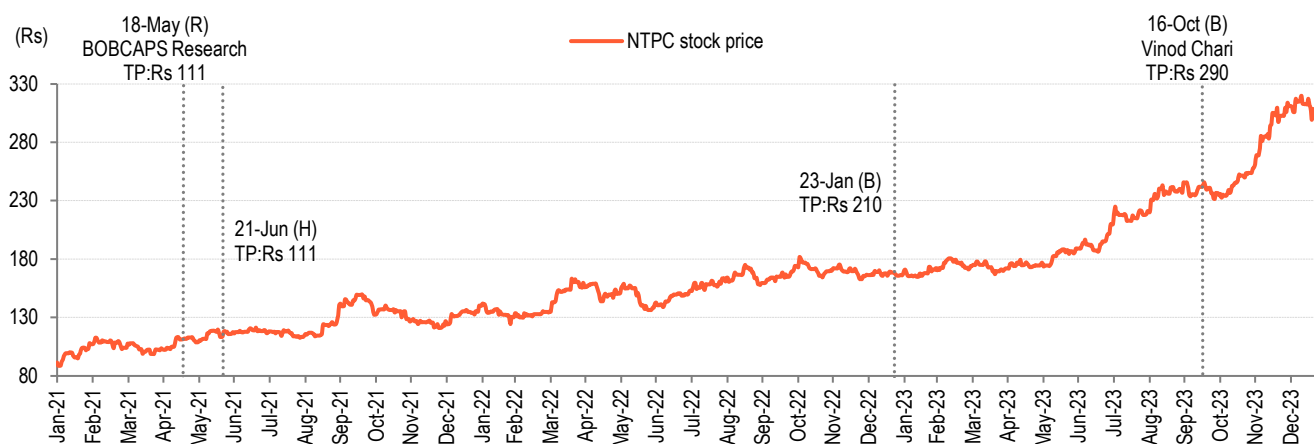
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): NTPC (NTPC IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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