

HOLD

TP: Rs 111 | ▼ 2%

NTPC

| Power

| 21 June 2021

Renewables target doubled but not giving up on coal yet

- NTPC reported strong 31% YoY growth in Q4FY21 net income driven by capacity expansion
- Renewables target for FY32 has been doubled to 60GW but further addition of coal plants is possible and will depend on CEA's assessment
- We maintain HOLD with a Mar'22 TP of Rs 111

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Strong results: NTPC's underlying Q4 income (estimated by the company) was up 31% YoY and 16% QoQ driven by better realisations. FY21 underlying income increased 17% aided by rising capacity. The only sore point was the increase in under-recoveries in FY21 (Rs 6bn vs. Rs 2.5bn) due to technical issues faced by new plants in the start-up phase.

Reported Q4FY21 net income grew over 200% YoY led by higher regulated income and a tax credit versus very high tax in Q4FY20. Sequentially, net income grew 21% aided by the tax credit, as underlying EBIT dropped. FY21 net income was up 39% again due to lower taxes (pre-tax income declined 18%). Consolidated receivables fell from 68 days in FY20 to 58 days in FY21 but are still higher than history.

New targets: NTPC doubled its renewable capacity target to 60GW by FY32 and plans to reach 15GW by FY24 from just 1GW at the end of FY20. The company has not revised its FY32 total capacity target of 130GW. On new coal plant additions, NTPC will be guided by CEA's ongoing study on requirements of coal generation.

Set to remain coal-asset heavy: NTPC's Q4 results were strong and the increase in its renewables target is positive, but the company is still open to building new coal plants. The targeted 15GW renewable capacity by FY24 looks steep as the current under-construction/planned pipeline is lower at 7GW. Even with these new targets, NTPC will remain a majority coal generation company till 2030 which will make it less attractive for the growing list of investors incorporating ESG in their investment process.

Retain HOLD: We maintain our HOLD rating on the stock despite income growth as we believe ESG-related issues will continue to cap stock upside. Our Mar'22 TP of Rs 111 is arrived at using a DCF-based SOTP valuation. Key positive drivers include the company's move towards renewables. Negative drivers include announcements of more coal plants, operational issues and unfavourable regulatory changes.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	NTPC IN/Rs 114
Market cap	US\$ 15.2bn
Free float	49%
3M ADV	US\$ 30.0mn
52wk high/low	Rs 121/Rs 78
Promoter/FPI/DII	51%/12%/32%

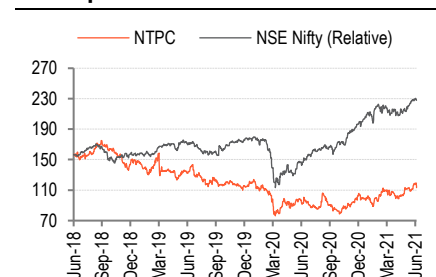
Source: NSE | Price as of 18 Jun 2021

Key financials

Y/E 31 Mar	FY21P	FY22E	FY23E
Total revenue (Rs mn)	11,15,311	14,30,644	15,09,449
EBITDA (Rs mn)	3,59,318	4,20,430	4,65,255
Adj. net profit (Rs mn)	1,61,469	1,68,088	1,89,788
Adj. EPS (Rs)	16.3	17.0	19.2
Consensus EPS (Rs)	0.0	15.7	18.6
Adj. ROAE (%)	12.8	10.1	13.2
Adj. P/E (x)	7.0	6.7	5.9
EV/EBITDA (x)	8.0	7.2	6.6
Adj. EPS growth (%)	39.2	4.1	12.9

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Valuation methodology

We make minor changes to our FY22-FY23 estimates following the release of NTPC's FY21 results. Our Mar'22 TP remains unchanged at Rs 111 and is based on an SOTP valuation, arrived at via a DCF assessment of various assets.

Fig 1 – Revised estimates

(Rs bn)	New		Old		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	1,431	1,509	1,417	1,495	1.0	0.9
EBITDA	420	465	420	465	0.2	0.2
EBIT	285	320	286	321	(0.4)	(0.4)
Pretax Income	206	233	206	233	(0.1)	(0.2)
Net Income	168	190	168	190	(0.1)	(0.2)
EPS (Rs per share)	17.0	19.2	17.0	19.2	(0.1)	(0.2)

Source: BOBCAPS Research

Our valuation model discounts cash flows from the company's projects till the end of respective PPAs and assumes 25-year PPAs for both renewable and generation plants. In the case of plants operating for more than 25 years, we have assumed a life of 40 years. Key DCF assumptions include (1) cost of equity of 11.7% based on a risk-free rate of 6.12% as per the 10-year India bond yield as of end-Mar'21, (2) beta of 0.82 based on the last two-year weekly returns as of end-Mar'21, and (3) cost of debt of 7.5%.

NTPC is at current valuations of 7.2x FY22E EV/EBITDA. Our TP of Rs 111 implies an FY22E EV/EBITDA of ~7.3x, in line with recent history but 21% below the 10-year mean. We retain our HOLD rating on the stock.

Fig 2 – SOTP valuation

Business (Rs mn)	EV	Net Debt FY22E	Equity Value	Share (%)	Contribution to Group Equity Value	EBITDA FY22E	EV/EBITDA (x)
Standalone Business (A)	22,53,831	17,38,341	5,15,489	100	5,15,489	3,46,183	6.5
Subsidiaries							
THDC	2,42,663	53,843	1,88,820	100	1,88,820	15,646	15.5
NEEPCO	71,561	64,124	7,437	100	7,437	11,379	6.3
Nabinagar Power Generating Company	1,19,099	1,26,427	(7,328)	74	(5,423)	17,270	6.9
Patratu Vidyut	1,17,672	0	1,17,672	74	87,077	NA	
Bhartiya Rail Bijlee	81,255	64,677	16,579	100	16,579	9,026	7.1
Other Renewables	5,876	4,563	1,313	100	1,313	593	9.9
Others	61,913	26,950	34,963	100	34,963	8,929	6.9
Sub-Total (B)	7,00,040	3,40,585	3,59,455		3,30,766	62,844	11.1
Elimination / Corporate Costs (C)	79,076	(75,832)	1,54,908	100	1,54,908	11,404	6.9
Majority Owned (D = A+B+C)	30,32,946	20,03,094	10,29,853		10,01,163	4,20,430	7.2
Joint Ventures (E)					73,518		
Total (F = D + E)					10,74,681		7.3
Number of shares (mn) (G)					9,895		
Price per Share (Rs/sh) (H = F / G)					109		
Target Price (Rs) (I = H rounded to nearest 1)					111		

Source: BOBCAPS Research

Fig 3 – Peer comparison

Company	Rating	Target Price (Rs)	Market Cap (US\$ bn)	EPS (Rs)		ROE (%)		Target P/E FY 23 (x)
				FY22E	FY23E	FY22E	FY23E	
NTPC	HOLD	111	15.2	17.0	19.2	13.1	14.0	5.8
PWGR	HOLD	261	16.4	23.6	24.6	16.9	16.2	10.6
TPWR	BUY	141	5.3	4.5	8.5	6.4	11.7	16.6
TPW	HOLD	261	3.0	31.5	33.8	14.2	13.8	7.7
CESC	HOLD	751	1.4	103.8	110.3	13.4	13.3	7.4

Source: BOBCAPS Research

Key risks

- Upside risks to our estimates include new renewable plant completions and updates on the company's plans for the green energy business.
- Downside risks include adverse news flow related to coal-based generation, either from the government or increasingly ESG-conscious investors.

Sector recommendation snapshot

Stock	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
CESC	CESC IN	1	765	751	HOLD
NTPC	NTPC IN	15	114	111	HOLD
Power Grid Corp	PWGR IN	17	233	261	HOLD
Tata Power	TPWR IN	5	121	141	BUY
Torrent Power	TPW IN	3	455	461	HOLD

Source: BOBCAPS Research, NSE | Price as of 18 Jun 2021

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21P	FY22E	FY23E	FY24E
Total revenue	10,94,640	11,15,311	14,30,644	15,09,449	14,77,019
EBITDA	3,64,086	3,59,318	4,20,430	4,65,255	4,95,295
Depreciation	(1,03,562)	(1,25,051)	(1,35,240)	(1,45,239)	(1,52,629)
EBIT	2,60,524	2,34,267	2,85,191	3,20,016	3,42,665
Net interest inc./(exp.)	(78,488)	(89,606)	(1,10,991)	(1,18,020)	(1,21,586)
Other inc./(exp.)	26,405	37,521	27,182	24,525	21,284
Exceptional items	0	(15,122)	0	0	0
EBT	2,12,495	1,73,900	2,06,036	2,32,666	2,49,009
Income taxes	(93,475)	(24,205)	(35,185)	(39,578)	(42,346)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	1,037	3,492	1,892	2,845	(55)
Reported net profit	1,16,002	1,46,347	1,68,088	1,89,788	1,99,964
Adjustments	0	15,122	0	0	0
Adjusted net profit	1,16,002	1,61,469	1,68,088	1,89,788	1,99,964

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21P	FY22E	FY23E	FY24E
Accounts payables	1,01,086	87,263	1,37,185	1,44,742	1,41,632
Other current liabilities	1,73,965	1,68,399	2,18,321	2,25,878	2,22,768
Provisions	11,692	10,424	10,424	10,424	10,424
Debt funds	19,25,762	19,72,365	20,37,883	20,93,050	20,44,436
Other liabilities	1,81,898	2,08,829	2,11,592	2,14,893	2,21,593
Equity capital	98,946	96,967	96,967	96,967	96,967
Reserves & surplus	10,89,446	11,60,418	12,09,269	13,05,568	13,99,973
Shareholders' fund	11,88,392	12,57,385	13,06,236	14,02,534	14,96,940
Total liab. and equities	37,73,871	39,89,662	41,56,716	43,19,038	43,68,421
Cash and cash eq.	32,143	43,878	34,789	45,283	44,311
Accounts receivables	2,03,708	1,77,181	1,76,381	1,86,096	1,82,098
Inventories	1,11,385	98,096	1,17,587	1,24,064	1,21,399
Other current assets	2,21,822	2,49,018	2,49,018	2,49,018	2,49,018
Investments	503	971	971	971	971
Net fixed assets	18,71,765	20,25,980	21,71,329	23,01,454	23,52,495
CWIP	9,82,109	12,55,881	11,43,540	11,22,206	8,29,466
Intangible assets	6,263	7,490	7,490	7,490	7,490
Deferred tax assets, net	10,966	10,759	10,759	10,759	10,759
Other assets	3,33,207	1,20,408	2,36,722	2,63,566	5,62,284
Total assets	37,73,871	39,89,662	41,48,585	43,10,908	43,60,291

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21P	FY22E	FY23E	FY24E
Cash flow from operations	2,45,832	3,24,441	4,16,476	4,17,041	4,56,503
Capital expenditures	(1,82,304)	(2,33,123)	(2,12,270)	(2,08,310)	(1,53,970)
Change in investments	(1,22,650)	0	0	0	0
Other investing cash flows	1,031	(19,177)	0	0	0
Cash flow from investing	(3,03,924)	(2,52,301)	(2,12,270)	(2,08,310)	(1,53,970)
Equities issued/Others	0	(27,638)	0	0	0
Debt raised/repaid	2,31,785	1,08,005	65,517	55,167	(48,613)
Interest expenses	(1,33,991)	(1,33,074)	(1,53,962)	(1,62,521)	(1,51,990)
Dividends paid	(37,751)	(57,784)	(1,19,237)	(93,489)	(1,05,558)
Other financing cash flows	(60,043)	1,10,491	2,07,682	2,00,843	3,06,161
Cash flow from financing	0	0	0	0	0
Chg in cash & cash eq.	2,658	3,605	(959)	10,494	(973)
Closing cash & cash eq.	32,143	35,748	34,789	45,283	44,311

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21P	FY22E	FY23E	FY24E
Reported EPS	11.7	14.8	17.0	19.2	20.2
Adjusted EPS	11.7	16.3	17.0	19.2	20.2
Dividend per share	3.2	6.5	5.1	5.8	6.1
Book value per share	120.1	127.1	132.0	141.7	151.3

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21P	FY22E	FY23E	FY24E
EV/Sales	2.3	2.6	2.1	2.0	2.1
EV/EBITDA	6.9	8.0	7.2	6.6	6.4
Adjusted P/E	9.7	7.0	6.7	5.9	5.6
P/BV	0.9	0.9	0.9	0.8	0.8

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21P	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	54.6	85.4	81.6	81.6	80.3
Interest burden (PBT/EBIT)	81.6	80.7	72.2	72.7	72.7
EBIT margin (EBIT/Revenue)	23.8	21.0	19.9	21.2	23.2
Asset turnover (Rev./Avg TA)	30.2	28.7	35.2	35.7	34.1
Leverage (Avg TA/Avg Equity)	3.1	3.2	3.2	3.1	3.0
Adjusted ROAE	10.1	13.2	13.1	14.0	13.8

Ratio Analysis

Y/E 31 Mar	FY20A	FY21P	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	9.2	1.9	28.3	5.5	(2.1)
EBITDA	61.0	(1.3)	17.0	10.7	6.5
Adjusted EPS	(15.6)	39.2	4.1	12.9	5.4
Profitability & Return ratios (%)					
EBITDA margin	33.3	32.2	29.4	30.8	33.5
EBIT margin	23.8	21.0	19.9	21.2	23.2
Adjusted profit margin	10.6	14.5	11.7	12.6	13.5
Adjusted ROAE	10.5	12.8	10.1	13.2	13.1
ROCE	8.9	7.3	8.6	9.2	9.6
Working capital days (days)					
Receivables	68	58	45	45	45
Inventory	37	32	30	30	30
Payables	34	29	35	35	35
Ratios (x)					
Gross asset turnover	0.5	0.5	0.5	0.5	0.5
Current ratio	0.9	0.8	0.8	0.8	0.8
Net interest coverage ratio	3.3	2.6	2.6	2.7	2.8
Adjusted debt/equity	1.6	1.6	1.6	1.5	1.4

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

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

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

SELL – Expected return <-6%

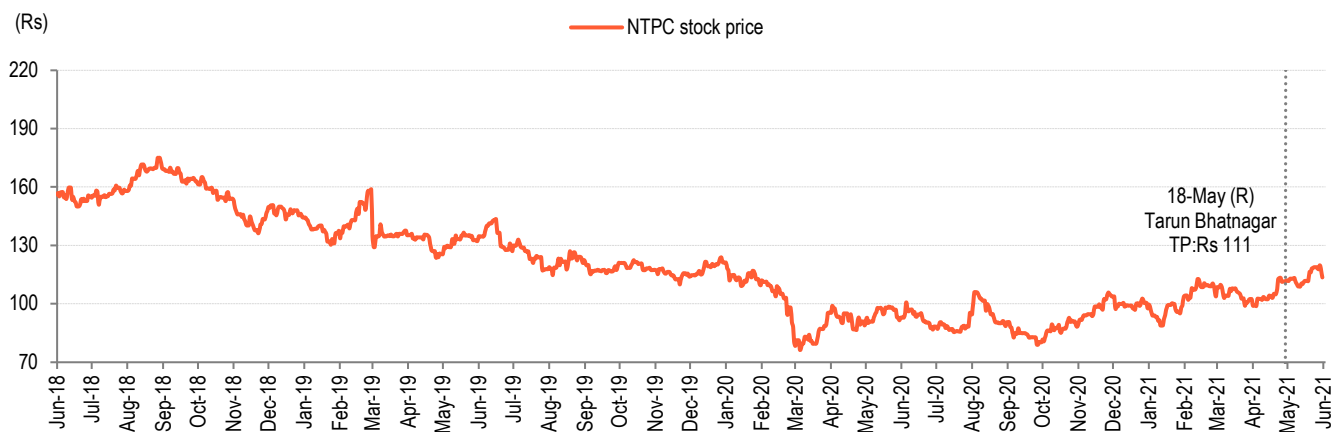
Note: Recommendation structure changed with effect from 21 June 2021

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



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

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