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POWER | Q3FY24 Review | 13 February 2024

Spotlight on capacity additions

- **Q3 in line with flattish revenue growth YoY and healthy operational performance across our coverage universe**
- **Transmission capex plans hiked, NTPC remains aggressive on capacity additions, and benign gas price hits profitability for TPW**
- **NTPC and PWGR remain our preferred picks on strong growth plans; TPW still rated HOLD due to full valuations**

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In-line quarter: Q3FY24 was an in-line quarter with strong plant load factors (PLF) for power generation companies, loss reduction in distribution businesses, and healthy growth for transmission companies.

NTPC reiterates thrust on capacity addition: Renewable energy and hydropower now account for 3.4GW and 3.7GW respectively of NTPC's total 73.9GW capacity. The company plans to add 20GW of renewable capacity by FY27 and a further 40GW by FY32. For FY24, capex is budgeted at Rs 284bn on a consolidated basis and Rs 225bn standalone (~76% incurred in 9M). Management has also identified 14GW of pumped hydro capacity to be executed over 6-9 years. In thermal energy, it has 10GW of projects under construction and expects to award 16.8GW by FY27, in line with the Indian government's target of ~88GW of thermal capacity addition by FY32.

PWGR raises capex outlay: PWGR has planned for capex of Rs 150bn (Rs 125bn earlier) and capitalisation of Rs 170bn in FY25. Beyond this, it has a Rs 2.1tn (Rs 1.9tn earlier) capex plan for the next decade that includes Rs 1.9tn (Rs 1.7tn earlier) for transmission infrastructure, Rs 10bn for solar generation, Rs 150bn for smart metering infrastructure, and Rs 10bn for the data centre business. As the pace of battery-related storage systems is yet to pick up as much as previously anticipated, the scope for transmission capex has increased.

TPW's gas profits winding down: TPW had a slow December quarter as the benefits of gas trading began diminishing with steadier LNG prices. Operational performance held strong as generation grew 62% YoY, DGEN clocked a decent PLF, and T&D losses reduced. The company has aggressive plans on the renewable front, but we expect profitability to be lower until newer projects materialise.

Prefer NTPC, PWGR: We maintain our preference for NTPC (BUY, TP Rs 370) and PWGR (BUY, TP Rs 320) as they continue to ramp up capex plans. Although TPW (HOLD, TP Rs 1,140) is a well-run utility, valuations look full and we would wait for a better entry point for investment.

Recommendation snapshot

Ticker	Price	Target	Rating
NTPC IN	316	370	BUY
PWGR IN	270	320	BUY
TPW IN	1,131	1,140	HOLD

Price & Target in Rupees | Price as of 12 Feb 2024

Power: Q3 result reviews

Company	Result review link
NTPC IN	Normal quarter, aggressive expansion; maintain BUY
PWGR IN	In-line quarter, FY25 capex hiked; maintain BUY
TPW IN	Dull quarter; high valuations – maintain HOLD

Source: BOBCAPS Research

Fig 1 – Valuation matrix

Companies	Rating	Target (Rs)	Upside (%)	Revenue (Rs bn)					EBITDA (Rs bn)					PAT (Rs bn)				
				FY23	FY24E	FY25E	FY26E	CAGR (%)	FY23	FY24E	FY25E	FY26E	CAGR (%)	FY23	FY24E	FY25E	FY26E	CAGR (%)
NTPC	BUY	370	17.1	1,638	1,647	1,840	2,021	7.3	432	433	485	534	7.3	172	158	177	197	4.7
Power Grid	BUY	320	18.6	433	427	517	543	7.8	376	457	480	477	8.2	153	146	181	200	9.3
Torrent Power	HOLD	1,140	0.8	257	269	300	332	8.9	48	44	50	55	5.2	22	25	29	32	14.5

Fig 2 – Valuation matrix

Companies	Rating	Target (Rs)	Upside (%)	Book Value (Rs)					ROE (%)				PB (x)			
				FY23	FY24E	FY25E	FY26E	CAGR (%)	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
NTPC	BUY	370	17.1	1,389	1,475	1,584	1,707	7.1	12.9	12.8	14.2	15.0	2.2	2.1	1.9	1.8
Power Grid	BUY	320	18.6	828	915	1,029	1,156	11.8	19.3	18.0	18.9	18.6	3.0	2.7	2.4	2.2
Torrent Power	HOLD	1,140	0.8	110	124	140	157	12.6	20.7	15.8	16.1	15.7	4.9	4.4	3.9	3.5

Source: Company, BOBCAPS Research

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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

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