Sharekhan by BNP PARIBAS

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Stock Update

Result Update

NTPC Ltd

Good Q1; thermal/RE capex bodes well for growth

Power	Sharekhan code: NTPC
Reco/View: Buy ↔	CMP: **Rs. 407**
	Price Target: **Rs. 460** ↑

↑ 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		↔	

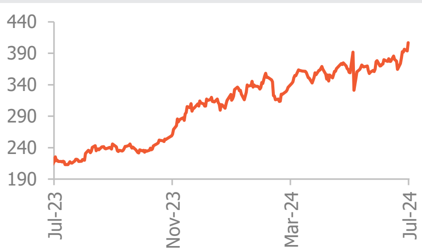
Company details

Market cap:	Rs. 3,94,654 cr
52-week high/low:	Rs. 413/210
NSE volume: (No of shares)	180.6 lakh
BSE code:	532555
NSE code:	NTPC
Free float: (No of shares)	474.2 cr

Shareholding (%)

Promoters	51.1
FII	17.7
DII	27.6
Others	3.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.6	12.1	25.4	93.8
Relative to Sensex	4.5	1.6	12.1	70.7

Sharekhan Research, Bloomberg

Summary

- Q1FY25 standalone PAT was up 11% y-o-y to Rs. 4,511 crore with the regulated equity base growing 13% y-o-y to Rs. 88,600 crore. Consolidated PAT of Rs. 5,506 crore was up 12% y-o-y.
- NTPC plans to tender 15.2 GW of thermal capacities in the next 2-3 years apart from under-construction thermal capacities of 9.5GW. Renewable energy capacity target remains strong at 20 GW by FY26 and 60GW by FY32.
- We believe that addition of thermal power capacities would drive regulated equity base and provides earnings growth visibility. Moreover, focus on ramping up of Renewable energy portfolio and its impending IPO would be key re-rating catalyst over the medium to long term.
- We maintain a Buy on NTPC with a revised PT of Rs. 460. Valuation of 2.2x FY26E P/BV are reasonable given strong long-term growth prospects, and the stock offers a decent dividend yield as well.

Q1FY25 standalone PAT grew by 11% y-o-y to Rs. 4,511 crore led by good generation of 97.9 BU (+10.6% y-o-y). Plant load factor (PLF) - Coal increased to 80.4% (vs 77.4% last year), Hydro improved to 57.4% (vs 39.6% last year) and gas rose to 23.8% (vs 10.1% last year). Company reported a standalone revenue of Rs. 44,419 crore which grew 13.5% y-o-y. There were no under-recoveries as such in the quarter. The standalone regulated equity grew 13% y-o-y to Rs. 88,600 crore. Company reported a consolidated PAT of Rs. 5,506 crore (+12% y-o-y). NTPC will expand the total capacity from 76GW currently to 130GW in FY32. For that, 26GW thermal capacity will be added and RE portfolio will expand to 60GW. Company has also formed a JV with Nuclear Power Corporation of India for 2.8GW nuclear capacity at the cost of Rs. 42,000 crore.

Key positives

- Generation of 97.9 BU increased 10.6% y-o-y.
- There were no under-recoveries in the quarter.

Management Commentary

- Company plans to expand the total capacity to 130GW by FY32 from 76GW currently; 21GW is under construction and 26GW is in planning stage.
- Thermal capacity of 9.5GW is under construction and tender pipeline is of 15.2GW.
- Company intends to increase renewable capacity to 20GW by FY26 and 60GW by FY32 from 3.6GW currently. Management declined to comment much on the renewable business as they are looking for a potential IPO of the business. They will come with an announcement in the next 3 months.
- Signed a JV with Nuclear Power Corporation of India to setup a 2.8GW nuclear plant.

Revision in estimates – We fine-tuned our FY25-26 earnings estimates a little.

Our Call

Valuation – Maintain Buy on NTPC with an revised PT of Rs. 460: NTPC's risk-averse regulated business model provides earnings growth visibility/RoE improvement with Renewable energy (RE) expansion that would drive 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. Valuations at 2.2x FY26E P/BV seem reasonable given potential long-term growth prospects from high-capacity addition for RE and the stock offers a decent dividend yield as well. Hence, we maintain a Buy on NTPC with a revised PT of Rs. 460.

Key Risks

- Lower-than-expected additions to commercial capacity.
- Any write-off related to dues from discoms could impact valuation.

Valuation (Consolidated) Rs cr

Particulars	FY22	FY23	FY24	FY25E	FY26E
Revenue	1,32,669	1,76,207	1,78,501	2,02,373	2,18,965
OPM (%)	30.4	27.1	28.6	28.0	29.1
Adjusted PAT	16,676	16,912	20,812	22,864	25,854
% YoY growth	17.3	1.4	23.1	9.9	13.1
Adjusted EPS (Rs.)	17.2	17.4	21.5	23.6	26.7
P/E (x)	23.7	23.3	19.0	17.3	15.3
P/B (x)	2.9	2.7	2.5	2.3	2.2
EV/EBITDA (x)	14.0	12.1	11.3	8.2	6.9
RoNW (%)	13.1	12.0	13.5	13.7	14.6
RoCE (%)	8.0	9.0	8.1	12.0	13.0

Source: Company; Sharekhan estimates

Q1FY25 analyst meet key takeaways

- **Commercial capacity:** As on 30th June 2024, the commercial capacity of NTPC stands at 59,168 MW on standalone basis and 76,048 MW for the Group as a whole.
- **Thermal capacity:** Company will add 26GW of thermal capacity by 2032 out of total national addition of 80GW. Out of that, 9.5 GW of capacity is already under construction, 8GW is under tendering and rest will be announced by next year.
- **Renewable Energy:** Company has 3.6GW of current capacity, 8.4GW is under construction and the pipeline is of 11.2GW. Also, the management intends to increase the capacity to 20GW by FY26 and 60GW by FY32. Management declined to comment much on the renewable business as they are gearing up for a potential IPO of this segment.
- **Nuclear energy:** NTPC has signed a JV with Nuclear Power Corporation of India for setting up a 2.8GW nuclear plant for Rs. 42,000 crore.
- **Capex guidance:** Company will do more than Rs. 7 lakh crore of capex by FY32.
- **Coal mining:** Company mined 34 million metric tonne (MMT) of coal in FY24, a growth of 48% y-o-y. It aims to produce 25% of its own coal requirement by FY30.
- **Flue Gas Desulphurization (FGD):** Over the next three years, company plans to commission FGD system for its entire operations for Rs. 27,000 crore which will ensure a substantial reduction in SOx emissions.

Results (Standalone) Rs cr

Particulars	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Revenue	**44,419**	**39,122**	**13.5**	**42,532**	**4.4**
Total Expenditure	31,973	27,753	15.2	31,198	2.5
Reported operating profit	**12,447**	**11,369**	**9.5**	**11,334**	**9.8**
Other Income	634	558	13.5	1,689	-62.5
Interest	2,649	2,515	5.3	2,488	6.5
Depreciation	3,654	3,260	12.1	3,728	-2.0
Exceptional (income)/expense	0	0	NA	-835	NA
PBT after exceptional items	**6,777**	**6,153**	**10.1**	**7,642**	**-11.3**
Tax	1,663	1,654	0.5	2,110	-21.2
PAT before regulatory deferral account balances	5,114	4,498	13.7	5,531	-7.5
Net movement in regulatory deferral account balances	-603	-432	39.5	25	-2,522.2
Reported PAT	**4,511**	**4,066**	**10.9**	**5,556**	**-18.8**
Reported EPS	**4.65**	**4.19**	**10.9**	**5.7**	**-18.8**
Margins (%)			BPS		BPS
Adjusted OPM	28.0	29.1	-104	26.6	137
Effective tax rate	24.5	26.9	-235	31.0	-646
NPM	***10.2***	***10.4***	***-24***	***13.1***	***-291***
Adjusted OPM	26.6	26.9	-24	25.2	145
Effective tax rate	31.0	22.5	849	31.0	1
NPM	12.0	11.8	16	11.3	68

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector Outlook – 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 and transmission companies. This would reduce power sector's receivables and strengthen companies' balance sheet.

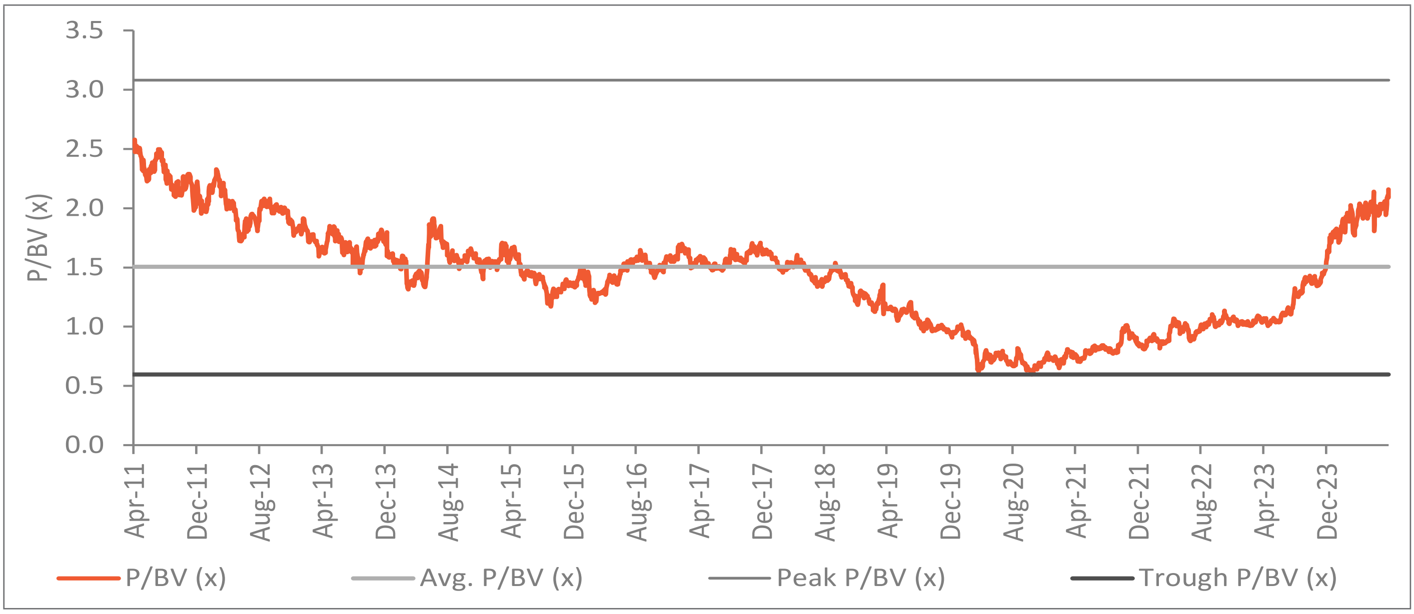
■ Company Outlook – Strong commercialisation target to drive 11% CAGR in PAT over FY2024-FY2026E

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 7%/11% CAGR in regulated equity/PAT over FY24-26E. 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 an revised PT of Rs. 460

NTPC's risk-averse regulated business model provides earnings growth visibility/RoE improvement with Renewable energy (RE) expansion that would drive 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. Valuations at 2.2x FY26E P/BV seem reasonable given potential long-term growth prospects from high-capacity addition for RE and the stock offers a decent dividend yield as well. Hence, we maintain a Buy on NTPC with a revised PT of Rs. 460.

One-year forward P/BV (x) band



Source: Sharekhan Research

About the company

NTPC, established in 1975, is India's largest power generation company in India with an installed capacity of 76,048 MW as of March 31, 2024. 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 16% 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.
- 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 Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	4.46
2	ICICI Prudential Asset Management	4.13
3	Nippon Life India Asset Management	3.82
4	HDFC Asset Management Co Ltd	1.94
5	SBI Funds Management Ltd	1.85
6	Republic of Singapore	1.82
7	BlackRock Inc	1.8
8	NPS Trust A/c Uti Retirement Solut	1.56
9	Vanguard Group Inc/The	1.43
10	FMR LLC	1.11

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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