Sharekhan by BNP PARIBAS

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Stock Update

Result Update

NTPC Ltd

Decent Q2; thermal/RE capacity addition provides good outlook

Power	Sharekhan code: NTPC

Reco/View: Buy ↔	CMP: **Rs. 404**	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		↔	

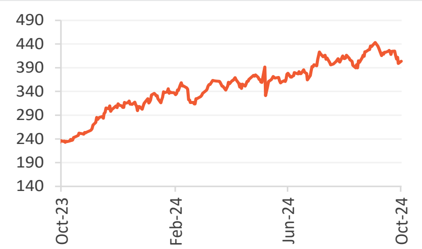
Company details

Market cap:	Rs. 3,91,745 cr
52-week high/low:	Rs. 448/228
NSE volume: (No of shares)	180.7 lakh
BSE code:	532555
NSE code:	NTPC
Free float: (No of shares)	474.2 cr

Shareholding (%)

Promoters	51.1
FII	18.6
DII	26.5
Others	3.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-7.5	2.6	13.5	70.8
Relative to Sensex	-1.0	4.2	5.2	45.4

Sharekhan Research, Bloomberg

Summary

- Q2FY25 standalone PAT was up 19.7% y-o-y to Rs. 4,649 crore with the regulated equity base growing 7.7% y-o-y to Rs. 89,430 crore. Consolidated PAT of Rs. 5,274 crore was up 14% y-o-y.
- NTPC plans to tender 13.6 GW of thermal capacities in the next 2-3 years apart from under-construction thermal capacities of 11.2 GW. Renewable energy capacity target remains strong at 20 GW by FY27 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 (by Q3 end) could help unlock value.
- We maintain a Buy on NTPC with an unchanged PT of Rs. 460. Valuation of 2.2x/2x FY26E/FY27E P/BV are reasonable given strong long-term growth prospects, and the stock offers a decent dividend yield as well.

Q2FY25 standalone PAT grew by 19.7% y-o-y to Rs. 4,649 crore led by a good 7.7% increase in the regulated equity base. Standalone revenue of Rs. 40,328 crore was down 1.3% y-o-y because of the weak electricity generation in the quarter. The electricity demand was muted due to the strong monsoon season. Gross generation of 88.5BU was down 2% y-o-y. Plant load factor (PLF) - Coal decreased to 72.3% (vs 75.8% last year), Gas decreased to 6.8% (vs 18.3% last year), Solar was 18.4% (vs 19.7% last year) while Hydro improved to 97.4% (vs 93.2% last year). The standalone regulated equity grew 7.7% y-o-y to Rs. 89,430 crore. The consolidated regulated equity of Rs. 1,05,049 crore was up 5.5% y-o-y. Company reported a consolidated PAT of Rs. 5,274 crore (+14% 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

- NTPC Green IPO to be completed in Q3.

Key negatives

- Gross generation of 88.5BU declined 2% y-o-y.

Management Commentary

- Company plans to expand the total capacity to 130GW by FY32 from 76GW currently. Thermal capacity of 11.2 GW is under construction and tender pipeline is of 13.6 GW.
- Company intends to increase renewable capacity to 20GW by FY26 and 60GW by FY32 from 4.3GW currently. The renewable energy business (NTPC Green) is expected to list on the exchanges by Q3.
- NTPC signed a MOU to develop 25GW of renewable energy projects in Rajasthan. Another JV was also signed where the company would add 10GW capacity in Maharashtra or any other state.
- Signed a JV with Nuclear Power Corporation of India to setup a 2.8GW nuclear plant.

Revision in estimates: We have fine-tuned our FY25-26 estimates and introduced the FY27 earnings.

Our Call

Valuation – Maintain Buy on NTPC with an unchanged PT of Rs. 460: NTPC's risk-averse regulated business model provides earnings growth visibility/RoE improvement with strong expansion in both thermal and renewable capacities. Additionally, the impending IPO of its RE business (by Q3 end) could further improve shareholders' returns by unlocking value. Valuations at 2.2x/2x its FY26E/FY27E P/BV seem reasonable given potential long-term growth prospects from high-capacity addition for RE/thermal and the stock offers a decent dividend yield as well. Hence, we maintain a Buy on NTPC with an unchanged 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	FY23	FY24	FY25E	FY26E	FY27E
Revenue	1,76,207	1,78,501	2,04,619	2,21,340	2,32,906
OPM (%)	27.1	28.6	28.0	28.7	28.7
Adjusted PAT	16,912	20,812	21,524	24,617	26,462
% YoY growth	1.4	23.1	3.4	14.4	7.5
Adjusted EPS (Rs.)	17.4	21.5	22.2	25.4	27.3
P/E (x)	23.2	18.8	18.2	15.9	14.8
P/B (x)	2.7	2.4	2.3	2.2	2.0
EV/EBITDA (x)	12.0	11.2	10.0	8.7	8.7
RoNW (%)	12.0	13.5	13.0	14.0	14.2
RoCE (%)	9.2	9.2	9.8	10.1	9.8

Source: Company; Sharekhan estimates

Q2FY25 conference call highlights:

Commercial capacity: As on 30 Sept 2024, the commercial capacity of NTPC stands at 59,168 MW on standalone basis and 76,443 MW for the Group as a whole. 395MW of renewable capacity got added in this quarter.

Thermal capacity: Company will add 26GW of thermal capacity by 2032 out of total national addition of 80GW. Out of that, 11.2 GW of capacity is already under construction and 13.6GW is to be tendered by FY27.

Renewable Energy (NTPC Green): Company is going to add 3GW/5GW/GW of renewable energy capacity in FY25/26/27 respectively. In FY25, the company has added 0.4GW till now and the current capacity is 4.3GW. Also, the management intends to increase the capacity to 20GW by FY26 and 60GW by FY32. Company has signed a MOU with the state of Rajasthan and will develop 25GW of renewable energy projects and 1 mn tonne per annum of green hydrogen derivatives through a JV. Another similar JV has been formed with MAHAPREIT to develop 10GW of renewable energy projects in Maharashtra or any other state. NTPC Green is going to be listed on the exchanges by Q3 and DRHP has already been filed.

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. The government has approved the transfer of Mahi Banswara 4x700MW nuclear power project to this JV.

Capex guidance: Company will do more than Rs. 7 lakh crore of capex by FY32.

Results (Standalone) Rs cr

Particulars	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
Revenue	**40,328**	**40,875**	**-1.3**	**44,419**	**-9.2**
Total Expenditure	30,651	30,338	1.0	31,973	-4.1
Reported operating profit	**9,676**	**10,537**	**-8.2**	**12,447**	**-22.3**
Other Income	917	643	42.8	634	44.7
Interest	3,108	2,465	26.1	2,649	17.3
Depreciation	3,647	3,464	5.3	3,654	-0.2
Exceptional (income)/expense	0	0	NA	0	NA
PBT after exceptional items	**3,839**	**5,251**	**-26.9**	**6,777**	**-43.4**
Tax	1,402	1,441	-2.8	1,663	-15.7
PAT before regulatory deferral account balances	2,437	3,810	-36.0	5,114	-52.3
Net movement in regulatory deferral account balances	2,212	75	2835.7	-603	-466.7
Reported PAT	**4,649**	**3,885**	**19.7**	**4,511**	**3.1**
EPS	4.79	4.01	19.7	4.65	3.1
Margins (%)			**BPS**		**BPS**
Adjusted OPM	24.0	25.8	-179	28.0	-403
Effective tax rate	36.5	27.5	906	24.5	1198
NPM	11.5	9.5	202	10.2	137

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 and transmission companies. This would reduce power sector's receivables and strengthen companies' balance sheet.

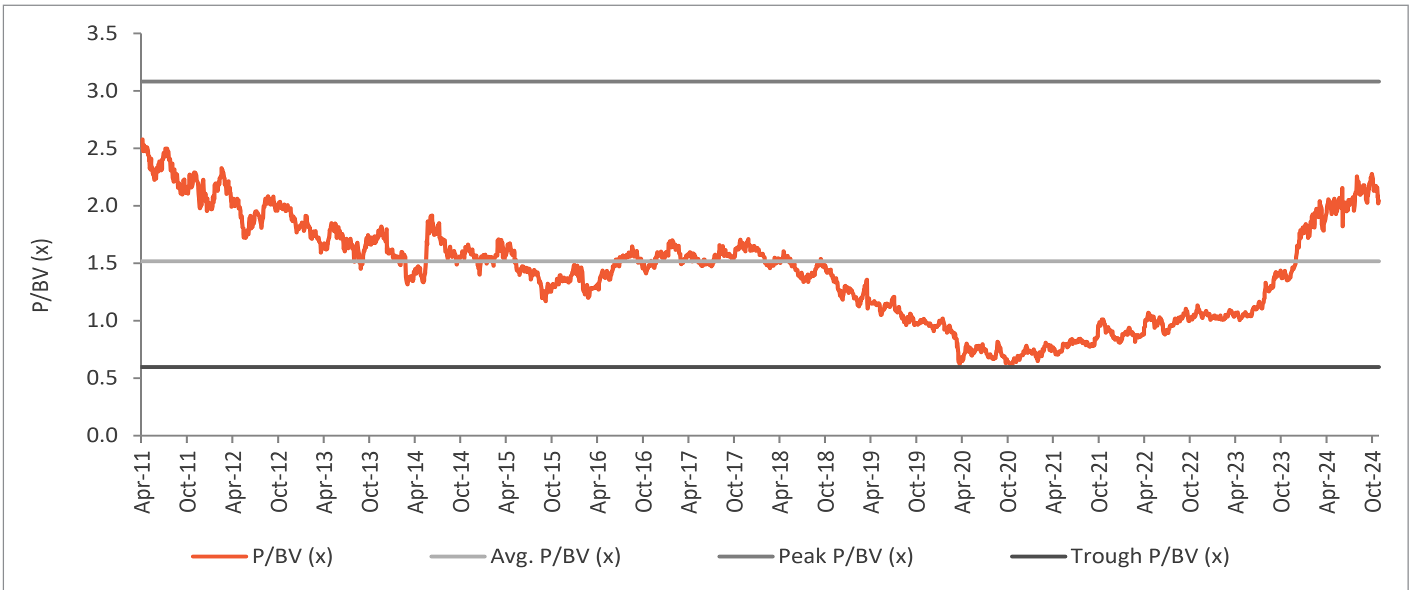
■ Company outlook - Strong commercialisation target to drive 8.3% CAGR in PAT over FY2024-FY2027E

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 6%/8.3% CAGR in regulated equity/PAT over FY24-27E. 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, reduction in the overdue amount from discoms would strengthen NTPC's balance sheet.

■ Valuation - Maintain Buy on NTPC with an unchanged PT of Rs. 460

NTPC's risk-averse regulated business model provides earnings growth visibility/RoE improvement with strong expansion in both thermal and renewable capacities. Additionally, the impending IPO of its RE business (by Q3 end) could further improve shareholders' returns by unlocking value. Valuations at 2.2x/2x its FY26E/FY27E P/BV seem reasonable given potential long-term growth prospects from high-capacity addition for RE/thermal and the stock offers a decent dividend yield as well. Hence, we maintain a Buy on NTPC with an unchanged PT of Rs. 460.

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 76,443 MW as of Sept 30, 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 14% 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

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	ICICI Prudential Asset Management	3.98
2	Life Insurance Corp of India	3.97
3	Nippon Life India Asset Management	3.55
4	Republic of Singapore	2.42
5	Vanguard Group Inc/The	2.00
6	HDFC Asset Management Co Ltd	1.90
7	SBI Funds Management Ltd	1.90
8	Blackrock Inc	1.73
9	NPS Trust A/c Uti Retirement Solut	1.55
10	FMR LLC	1.16

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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