

Company update

Utilities

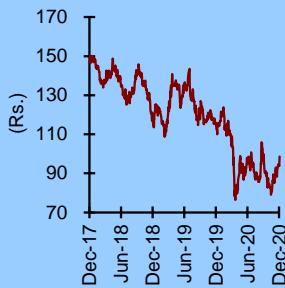
Target price: Rs165

Shareholding pattern

	Mar '20	Jun '20	Sep '20
Promoters	51.0	51.0	51.0
Institutional investors	46.1	46.0	46.3
MFs and others	19.9	20.5	20.8
FI & Banks	1.0	1.0	1.0
Insurance Co	12.6	13.1	13.1
FII	12.6	11.4	11.4
Others	2.9	3.0	2.7

Source: NSE

Price chart



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INDIA

NTPC

BUY

Maintained

Rs99

Committed on the renewable energy front

With a lofty target of 32GW of renewable energy (RE) capacity by FY32, NTPC's RE strategy is beginning to take shape. Its recent SECI bid win affirms its competitiveness among global and domestic peers. We believe NTPC's key strengths in its RE transition includes (but not limited to): strong balance sheet, comparatively low cost of debt, experience in RE projects aiding shape cost-reduction strategies, and its relationship with states helping ease the land acquisition (through UMREPP)/PPA hurdles. In fact, NTPC is looking to set up non-PPA RE capacities as well, and planning innovative usage of the power generated post commissioning. Company aims to maintain its RE projects' IRR at similar levels to thermal. Maintain BUY.

- **Will remain a major competitor in the RE space:** NTPC intends to continue to increase its RE portfolio at 2-3GW p.a. in the next decade in order to reach its target of 32GW by FY32. Currently, its owned operational RE capacity is 1,070MW while 2,404MW is under construction and 2,088MW is under various stages of tendering. Through developer mode, 3,983MW has been commissioned, 1,400MW is under construction and 1,170MW is under various stages of tendering. To achieve its lofty target, NTPC intends to leverage: 1) the strength of its balance sheet; 2) its ability to raise capital at substantially lower rates (it recently raised 91-day CP @ 2.9%); 3) its robust team with significant project experience; 4) project cost optimisation through bulk module procurement, package-based breakup of EPC tenders, and land procurement through UMREPPs among others; 5) tax benefits by undertaking most RE projects through the new subsidiary NTPC RE; and 6) setting up non-PPA projects. NTPC is not interested in manufacturing, having already evaluated the option some time back.
- **Company looking at various routes:** For the 32GW target, several routes are being considered: 1) participating in SECI and state tenders; 2) setting up capacity in UMREPPs [5GW in Gujarat is in final stages; discussion is on with other states including Maharashtra (2.5GW), Rajasthan (10GW) and Andhra Pradesh (5GW)]; 3) non-PPA projects, where NTPC will set up RE capacities regardless of PPAs being in place. In the case of non-PPA projects, the post-commissioning plan is to: i) blend with thermal/hybrid power; ii) substitute thermal power (alleviating high variable cost concerns of recently commissioned non-pithead plants); iii) sell through exchanges and/or tie up PPAs with discoms; and 4) inorganic expansion through acquisitions.
- **Recent SECI win sets standards:** NTPC's bid win for development of 470MW at Rs2.01/unit sets new standards. As per our estimates, cost/MW for this project should range at Rs40mn-42mn and IRR at 12-14%. Apart from timely CoD, NTPC does not expect any major risks [including risks related to module procurement/pricing, receivables (SECI is the intermediary and offtake is guaranteed from Rajasthan), land acquisition and evacuation (transmission lines are under construction)].
- **Maintain BUY:** We believe NTPC is on course to achieve our FY21E target EPS of Rs12.3/Rs14. Maintain BUY with an unchanged target price of Rs165/share.

Market Cap	Rs979bn/US\$13.3bn	Year to March	FY20	FY21E	FY22E	FY23E
Reuters/Bloomberg	NTPC.BO/NTPC IN	Revenue (Rs mn)	977,004	1,056,688	1,160,564	1,245,907
Shares Outstanding (mn)	9,894.6	Net Income (Rs mn)	121,735	121,803	163,448	182,781
52-week Range (Rs)	125/74	EPS (Rs)	12.3	12.3	16.5	18.5
Free Float (%)	49.0	% Chg YoY	14.7	0.1	34.2	11.8
FII (%)	11.4	P/E (x)	8.0	8.0	6.0	5.3
Daily Volume (US\$'000)	37,832	CEPS (Rs)	18.9	23.3	29.0	32.7
Absolute Return 3m (%)	4.1	EV/E (x)	9.7	8.5	7.1	6.3
Absolute Return 12m (%)	(14.2)	Dividend Yield	3.2	6.1	6.4	7.0
Sensex Return 3m (%)	17.7	RoCE (%)	5.6	6.1	7.4	7.8
Sensex Return 12m (%)	11.7	RoE (%)	10.7	10.2	12.6	12.9

Please refer to important disclosures at the end of this report

Chart 1: NTPC plans 30% non-fossil fuel basket by FY32

Present	In GW	In %		NTPC@2032	In GW	In %
Thermal	58.4	92.9%		Thermal	91	70.0%
RES	1.1	1.7%		RES	32	24.6%
Hydro	3.4	5.4%		Hydro	5	3.8%
Nuclear	-	-		Nuclear	2	1.6%
Total	62.9	100%		Total	130	100%

Highlights

- Solar Projects of 2 GW awarded under EPC mode
- MOU with MAHAGENCO for setting up 2.5 GW UMREPP
- MOU with ONGC for offshore wind & other RES
- Bids invited for acquisition of up to 1 GW RE capacity

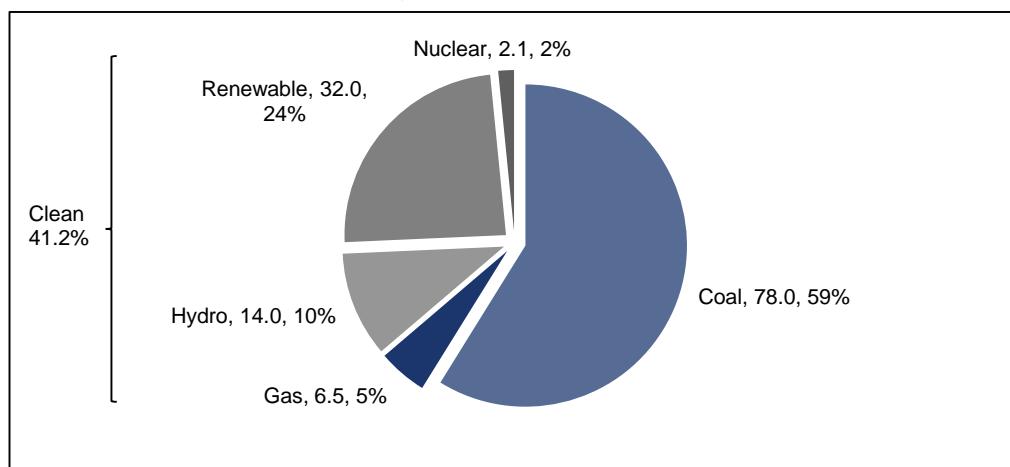
NTPC RE Portfolio (in MW)

Status	EPC	Developer
Installed	1,070	3,983
Under Implementation	2,348	1,600
Under Tendering	2,104	1,200
Total	5,522	6,783

NTPC to play a Pivotal Role

- NTPC being the largest power producer in the country is best placed to support intermittent nature of Renewable Energy Sources
- Our base load plants will play a key role in taking care of RE integration through Flexibilization

Source: Company

Chart 2: Planned capacity target by FY32 (GW)

Source: Company, I-Sec research

Valuation methodology and risks

With adjusted EPS for standalone/consolidated entity at Rs7.4/Rs8 in H1FY21, we believe NTPC is on course to achieve our FY21E target EPS of Rs12.3/Rs14. Maintain **BUY** with an unchanged target price of Rs165/share. The stock is currently trading at FY22E standalone P/BV of 0.7x (P/E of 5.7x) and consolidated P/E of 5.1x.

Table 1: Valuations based on P/BV

Constituent	Multiple (x)	Amount (Rs mn)	Value (Rs/share)
Standalone core business	1.8	1,409,073	142
Cash	1	25,000	3
JV & Subsidiaries	1.25	200,000	20
Total	1.90	1,634,073	165

Source: Company data, I-Sec research

Key risks to our call: i) Delay in capitalisation of assets, leading to lower capital efficiency, and ii) lower-than-expected utilisation due to weak demand, resulting in lower incentive income.

Financial summary (standalone)

Table 2: Profit & Loss statement

(Rs mn, year ending March 31)

	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Operating Income (Sales)	708,438	782,734	834,527	903,074	977,004	1,056,688	1,160,564	1,245,907
Operating Expenses	529,567	569,892	617,854	675,359	706,077	747,082	790,480	836,411
EBITDA	178,871	212,843	216,673	227,715	270,927	309,605	370,084	409,496
% margins	25.2	27.2	26.0	25.2	27.7	29.3	31.9	32.9
Depreciation & Amortisation	51,723	59,208	70,989	72,544	86,229	108,710	123,913	140,593
Gross Interest	32,964	35,972	39,843	47,167	67,820	65,659	66,039	66,419
Other Income	11,654	10,689	17,553	18,721	27,780	19,928	24,178	25,993
Recurring PBT	105,837	128,351	123,395	126,725	144,659	155,163	204,309	228,476
Add: Extraordinaries	121	(4,472)	5,530	(38,413)	48,288	-	-	-
Less: Taxes	(1,738)	30,026	25,493	(29,187)	91,820	33,360	40,862	45,695
Net Income (Reported)	107,696	93,853	103,432	117,499	101,128	121,803	163,448	182,781
Recurring Net Income	97,726	96,021	96,940	106,160	121,735	121,803	163,448	182,781

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Assets								
Total Current Assets	298,898	289,661	373,660	422,606	488,252	491,141	515,613	570,819
of which cash & cash eqv.	44,608	29,305	39,784	21,443	22,091	61,385	93,948	139,802
Total Current Liabilities & Provisions	241,732	271,527	301,520	328,824	335,212	345,212	345,212	345,212
Net Current Assets	57,166	18,134	72,140	93,781	153,040	145,929	170,401	225,608
Investments	83,930	89,524	100,475	131,459	264,009	274,009	284,009	294,009
of which								
Strategic/Group								
Other Marketable								
Net Fixed Assets	1,581,965	1,800,928	1,988,354	2,168,273	2,301,706	2,402,996	2,479,083	2,538,490
of which								
Capital Work-in-Progress	664,232	807,371	777,832	912,067	733,593	657,143	546,893	406,468
Goodwill & other LT assets	186,590	185,662	139,447	186,440	222,708	222,708	222,708	222,708
Total Assets	1,909,651	2,094,248	2,300,416	2,579,954	2,941,463	3,045,642	3,156,201	3,280,814
Liabilities								
Borrowings	931,272	1,068,402	1,216,046	1,429,334	1,685,881	1,727,881	1,737,881	1,747,881
Deferred Tax Liability	11,522	14,848	24,086	42,001	80,940	80,940	80,940	80,940
Equity Share Capital	82,455	82,455	82,455	98,946	98,946	98,946	98,946	98,946
Face Value per share (Rs)	10	10	10	10	10	10	10	10
Reserves & Surplus*	830,482	879,858	935,323	975,136	1,036,749	1,098,928	1,199,487	1,314,100
Net Worth	912,937	962,312	1,017,778	1,074,082	1,135,694	1,197,874	1,298,433	1,413,046
Other LT Liabilities	53,919	48,685	42,506	34,537	38,948	38,948	38,948	38,948
Total Liabilities	1,909,651	2,094,248	2,300,416	2,579,954	2,941,463	3,045,642	3,156,201	3,280,814

*excluding revaluation reserves

Source: Company data, I-Sec research

Table 4: Quarterly trend

(Rs mn, year ending March 31)

	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sept-19	Dec-19	Mar-20	Jun-20	Sep-20
Total Revenues	227,036	222,611	241,204	212,224	241,926	227,646	234,964	272,469	234,535	246,771
EBITDA	59,548	55,924	65,799	46,444	64,524	63,462	69,764	73,178	77,451	71,834
Margin (%)	26.23	25.12	27.28	21.88	26.67	27.88	29.69	26.86	33.0	29.1
Other income	1,364	2,249	1,877	13,232	3,262	8,937	5,263	10,319	5,675	13,462
Add: Extraordinaries	1,601	3,699	(3,100)	(63,759)	5,106	8,678	15,982	18,523	-	(2,136)
Net profit (reported)	25,881	24,260	23,854	43,503	26,028	32,624	29,951	12,524	24,702	35,048
Net profit (adjusted)	25,550	24,653	23,406	34,167	29,765	28,982	29,537	34,012	33,722	34,770

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Operating Cashflow	29,129	177,534	246,414	166,145	221,719	276,245	329,222	363,801
Working Capital Changes	103,784	23,730	(43,528)	(39,982)	(58,611)	46,405	8,091	(9,353)
Capital Commitments	(281,612)	(278,172)	(258,415)	(252,462)	(219,661)	(210,000)	(200,000)	(200,000)
Free Cashflow	(148,699)	(76,908)	(55,528)	(126,299)	(56,553)	112,650	137,313	154,448
Cashflow from Investing Activities	(14,920)	(30,877)	(33,241)	(59,431)	(172,589)	(55,732)	(51,862)	(50,426)
Issue of Share Capital	(0)	-	-	16,491	-	-	-	-
Buyback of shares	-	-	-	-	-	-	-	-
Inc (Dec) in Borrowings	95,949	137,130	147,644	213,288	256,547	42,000	10,000	10,000
Dividend paid	(27,622)	(39,413)	(42,217)	(54,420)	(31,168)	(59,624)	(62,888)	(68,168)
Extraordinary Items	-	-	-	-	-	-	-	-
Chg. in Cash & Bank balance	(95,293)	(10,068)	16,658	(10,371)	(3,763)	39,294	32,563	45,854

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Per Share Data (Rs)								
EPS(Basic Recurring)	11.9	11.6	11.8	10.7	12.3	12.3	16.5	18.5
Diluted Recurring EPS	11.9	11.6	11.8	12.7	12.3	12.3	16.5	18.5
Recurring Cash EPS	19.3	18.6	21.2	19.2	18.9	23.3	29.0	32.7
Dividend per share (DPS)	3.4	4.8	5.1	5.5	3.2	6.0	6.4	6.9
Book Value per share (BV)	110.7	116.7	123.4	108.6	114.8	121.1	131.2	142.8
Growth Ratios (%)								
Operating Income	(3.3)	10.5	6.6	8.2	8.2	8.2	9.8	7.4
EBITDA	11.2	19.0	1.8	5.1	19.0	14.3	19.5	10.6
Recurring Net Income	9.8	(1.7)	1.0	9.5	14.7	0.1	34.2	11.8
Diluted Recurring EPS	9.8	(1.7)	1.0	7.7	(2.8)	0.1	34.2	11.8
Diluted Recurring CEPS	4.9	(4.0)	14.0	(9.2)	(1.4)	23.0	24.7	12.5
Valuation Ratios (x)								
P/E	8.3	8.5	8.4	9.2	8.0	8.0	6.0	5.3
P/CEPS	5.1	5.3	4.7	5.1	5.2	4.2	3.4	3.0
P/BV	0.9	0.8	0.8	0.9	0.9	0.8	0.8	0.7
EV / EBITDA	9.5	8.7	9.2	10.5	9.7	8.5	7.1	6.3
EV / Operating Income	2.4	2.4	2.4	2.6	2.7	2.5	2.3	2.1
EV / Operating FCF	(11.4)	(24.1)	(35.8)	(18.9)	(46.7)	23.5	19.1	16.7
Operating Ratios								
SG&A cost / Revenue	66.9	66.3	65.1	66.4	63.4	62.1	59.9	59.1
Other Income / PBT (%)	11.0	8.3	14.2	14.8	19.2	12.8	11.8	11.4
Effective Tax Rate (%)	(1.6)	24.2	19.8	(33.1)	47.6	21.5	20.0	20.0
NWC / Total Assets (%)	0.7	(0.5)	1.4	2.8	4.5	2.8	2.4	2.6
Inventory Turnover (days)	48.3	41.7	35.8	43.2	55.5	47.5	42.6	40.3
Receivables (days)	40.2	38.1	33.1	34.1	58.5	45.0	40.0	40.0
Payables (days)	116.9	119.9	127.5	137.6	134.7	132.2	124.9	118.1
Net D/E Ratio (x)	1.0	1.1	1.2	1.3	1.5	1.4	1.3	1.1
Profitability Ratios (%)								
Rec. Net Income Margins	13.8	12.3	11.6	11.8	12.5	11.5	14.1	14.7
RoCE	7.3	6.2	5.9	6.8	5.6	6.1	7.4	7.8
RoNW	10.7	10.0	9.5	9.9	10.7	10.2	12.6	12.9
Dividend Payout Ratio	0.3	0.4	0.4	0.4	0.3	0.5	0.4	0.4
Dividend Yield	3.4	4.8	5.2	5.6	3.2	6.1	6.4	7.0
EBITDA Margins	25.2	27.2	26.0	25.2	27.7	29.3	31.9	32.9

Source: Company data, I-Sec research

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