

27 May 2024

India | Equity Research | Q4FY24 results review

NTPC

Power

The best of both (CORE) worlds

NTPC is one of the best plays on the increasing total addressable market for power capex – led by security of the grid and increasing renewables penetration. It is the beneficiary of both the worlds – conventional (CO) and renewables (RE). It has laid out a plan to add 24GW of thermal capacities and 64GW of RE capacities by 2032. As a result, visibility on cost plus or regulated earnings has improved. We estimate cost plus earnings to grow at 10-12% CAGR in medium term. We expect NTPC to accelerate RE capacity addition on the back of 20GW tied up capacity. As a result, we expect EBITDA of RE capacity to grow at 30% CAGR over the next three years. We resume coverage on NTPC with **BUY** and SoTP-based target price of INR 495 per share.

TAIL of conventional capacity is getting longer...

India needs additional thermal capacity during the energy transition to ensure security of supply. NTPC is the best vehicle to execute the needs given the lack of private interest in thermal capacity. It has increased its under construction portfolio of thermal power plants from 9GW to 24GW. As a result, we expect regulated equity to grow at 10% CAGR over the next 8 years.

...aided by relaxation in regulations

The regulator (CERC) in the new tariff period (FY25-FY29) has relaxed the regulations in favour of thermal power plants. We estimate an impact of INR 10bn in FY25E. NTPC reported under recovery of INR 8bn on a standalone basis due to stringent regulations. Details of the relaxation is in Exhibit 2.

RE Castle is under construction

Companies with a) abilities to execute at low project cost, b) advantage of low cost of capital, c) advantage of huge scale – ability to source cheap, d) ability to execute complex RE bids (new RE bids are complex) and e) sourcing land to execute RE projects will likely have significant advantage over competition. We believe NTPC scores highly on all the above parameters. While near term RE execution has been disappointing, we expect RE cap add to pick up in FY26E.

Resume coverage with BUY rating

We resume coverage on NTPC with **BUY** rating and SoTP-based target price of INR 495 per share.

Financial Summary

| Y/E Mar-31 (INR mn) | FY23A | FY24A | FY25E | FY26E |
|---------------------|-----------|-----------|-----------|-----------|
| Net Revenue | 17,50,032 | 17,85,283 | 21,69,262 | 22,97,132 |
| EBITDA | 4,69,415 | 5,11,203 | 6,18,699 | 6,68,927 |
| EBITDA Margin (%) | 26.8 | 28.6 | 28.5 | 29.1 |
| Net Profit | 1,71,321 | 2,06,699 | 2,25,260 | 2,39,890 |
| EPS (INR) | 17.3 | 20.9 | 22.8 | 24.2 |
| EPS % Chg YoY | 7.7 | 20.4 | 20.3 | 6.5 |
| P/E (x) | 23.9 | 19.8 | 16.5 | 15.5 |
| EV/EBITDA (x) | 12.2 | 11.5 | 9.7 | 9.1 |
| RoCE (%) | 6.6 | 7.2 | 9.0 | 9.0 |
| RoE (%) | 11.0 | 12.2 | 13.4 | 13.2 |

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Market Data

| | |
|---------------------|----------|
| Market Cap (INR) | 3,636bn |
| Market Cap (USD) | 43,746mn |
| Bloomberg Code | NTPC IN |
| Reuters Code | NTPC.BO |
| 52-week Range (INR) | 380 /172 |
| Free Float (%) | 49.0 |
| ADTV-3M (mn) (USD) | 68.8 |

| Price Performance (%) | 3m | 6m | 12m |
|-----------------------|------|------|-------|
| Absolute | 11.0 | 47.7 | 114.3 |
| Relative to Sensex | 7.9 | 33.4 | 92.2 |

Outlook and valuation

India is witnessing strong power demand growth in the post-covid times and we expect the base and peak power demand to grow at 6% each over the next couple of years. Firm capacity addition has been low in the past 5 years, and thus, to meet the peak demand India has to fall back on thermal capacity and NTPC has the best performing thermal capacity in India.

Thus, we believe, as power demand continues to grow at 6% per year, India may need to add more thermal capacity to meet the medium-term demand before storage solutions become economically viable. NTPC is likely to add to this thermal capacity.

NTPC has also demonstrated its ability to execute RE capacities in a timely manner and has set a target of 60GW by 2032. It has a locked in capacity of 20GW as of Mar'24, operational capacity of 3.5GW and under construction capacity of another 5GW and will start contributing significantly in profitability in coming years.

We initiate coverage on the stock with **BUY** recommendation. Our SoTP-based target price is **INR 495**, valuing the thermal business at 18x FY26E EPS of INR 18/share and valuing the RE portfolio at 12x FY26E EV/EBITDA.

Key risks – Delay in execution of thermal and RE projects

Exhibit 1: SoTP-based target price of INR 495/share (INR mn)

| SoTP | Method | Value | Value per share |
|---------------------|---------------------|-----------|-----------------|
| Standalone Business | 18x FY26E PAT | 4,335,682 | 438 |
| RE | 12x FY26E EV/EBITDA | 560,864 | 57 |
| Total | | 4,896,546 | INR 495 |

Source: I-Sec research

Exhibit 2: Tariff regulations trend

| Particulars | Final regulations 2014 | Final regulations 2019 | Final Regulations 2024 |
|---|---|---|---|
| Tariff Structure for thermal stations | | | |
| Capacity Charge | Recovery of annual fixed cost (RoE, interest, depreciation, interest on working capital, O&M expense) | Recovery of annual fixed cost (RoE, interest, depreciation, interest on working capital, O&M expense) | Recovery of annual fixed cost (RoE, interest, depreciation, interest on working capital, O&M expense) |
| Energy charges | Recovery of fuel cost (primary fuel cost and secondary fuel oil cost) | Recovery of fuel cost (primary fuel cost and secondary fuel oil cost) | Recovery of fuel cost (primary fuel cost and secondary fuel oil cost) |
| Return on equity | 15.5% (with additional return of 0.5% on timely completion) | 15.5% (with no additional return on early completion) | 15.5% (with no additional return on early completion) |
| Tax on RoE | Income tax grossed up but recoverable on actuals | Income tax grossed up but recoverable on actuals | Income tax grossed up but recoverable on actuals |
| Interest on loan | Gross normative loan @ 70% with depreciation = repayment | Gross normative loan @ 70% with depreciation = repayment | Gross normative loan @ 70% with depreciation = repayment |
| Depreciation | Straight Line Method at specified rates; higher for 12 years and at lower rate thereafter | Straight Line Method at specified rates; higher for 12 years and at lower rate thereafter | Straight Line Method at specified rates; higher for 12 years and at lower rate thereafter |
| Interest on working capital | State Bank of India Base Rate +350bps | State Bank of India MCLR + 300bps | State Bank of India MCLR + 325 bps |
| Base O&M expense | Lower by 1-2% for FY15 | Increased by 8-10% over FY19 | Increased by 6-7% over FY23 |
| Escalation in O&M expense | O&M expense escalated at 6.6% | O&M expenses escalated at 3.5% | O&M expenses escalated at 5.86% |
| Norms for thermal generators | | | |
| Normative PAF | 83%; till shortage of coal and 85% there after | 85% on seasonal basis (two seasons) | 85% on seasonal basis (two seasons) |
| Payment of capacity charge (CC) | Full recovery of CC as long as PAF>83% (ceiling of AFC) till FY17 and 85% till FY19 | Full recovery of CC as long as PAF>83%; recovery of capacity charge on seasonal basis and introduction of peak and off-peak capacity charge | Full recovery of CC as long as PAF>83%; recovery of capacity charge on seasonal basis and introduction of peak and off-peak capacity charge |
| Incentive | Incentive linked to PLF> 85%; 50 paise/Kwh | Incentive linked to PLF> 85%; peak hours – 65 paise/Kwh and off-peak hours – 50 paise/Kwh | Incentive linked to PLF> 85%; peak hours – 75 paise/Kwh and off-peak hours – 50 paise/Kwh |
| Interest on working capital | Working capital receivable – 2 months, O&M – 1 month, cost of coal – 15 days for pithead, 30 days for non-pithead | Working capital receivable – 45 days, O&M – 1 month, cost of coal – 10 days for pithead, 20 days for non-pithead | Working capital receivable - 45 days, O&M – 1 month, cost of coal - 10 days for pithead, 20 days for non-pithead |
| Financial gains to be shared on account of controllable parameters (SHR, aux and secondary fuel oil cons) | 40:60 ratio between generator and consumer | 50:50 between generator and consumer | 50:50 between generator and consumer |
| Blending of coal | Prior permission if energy charge >30% of base charge or >20% of previous month, whichever is lower | Prior permission if energy charge >30% of base charge or >20% of previous month, whichever is lower | |
| Reduction of equity for older power plants | NA | No provision for reduction in equity | |
| Water charges | Additional recovery separately | Additional recovery separately | Additional recovery separately |
| Security expenses | Part of O&M | Additional recovery separately | Additional recovery separately |
| GSHR of existing station | 200/210/250MW sets – 2,450 Kcal/Kwh and 500MW sets – 2,375 Kcal/kwh | 200/210/250MW sets – 2,430 Kcal/Kwh and 500MW sets – 2,390Kcal/kwh | 200/210/250MW sets – 2,400 Kcal/Kwh and 500MW sets – 2,375Kcal/kwh |
| GSHR of new station | 1.045x design Heat Rate | 1.05* design heat rate | 1.05* design heat rate |
| SFO consumption | 0.5 ml/Kwh | 0.5 ml/Kwh | 0.5 ml/Kwh |
| Aux energy cons for 300/330/500MW & above | 8.50% | 8% | Steam driven boiler feed pumps - 5.25%; electrically driven boiler feed pumps 8% |
| Sharing of gains related to restructuring of loans | 2:1 with consumer | 50:50 with consumer | 50:50 with consumer |
| Late payment surcharge | 1.5% per month | 1.5% per month (applicable from 45 days) | As per LPS Rules Mar'22 |

Source: I-Sec research, CEA

Q4FY24 concall highlights

Operating highlights

- PAF: Coal at 89.42% (-410bps YoY), gas at 94.36% (40bps YoY) and hydro at 90.52% (-1,311bps YoY).
- PLF: Coal/gas based PLF at 79.77%/2.69% (vs 80.32%/1.76% in Q4FY23). Solar/wind PLF stood at 23.16%/0 (vs 23.6%/21.98% in Q4FY23).
- Commercialisation: Standalone commercialised capacity stood at 59.1GW as of Mar'24 (up 2.7GW YoY). Consolidated capacity stood at 76GW (up 3.7 GW YoY) as of Mar'24.
- Generation: Gross generation stood at 93 BU in Q4FY24, up 4% YoY and total sales stood at 86.7BU in Q4FY24, up 3.9% YoY.
- Coal supply position: Coal availability stood at 65.4mt as on Mar'24, up 13% YoY and 4.8% QoQ.
- Coal production: Improved in Q4FY24 to 7.9mt (up 22% YoY).
- Average tariff: For FY24, it came in at INR 4.61/unit vs INR 4.89 in FY23.

Capacity award pipeline of 15.2GW

- Capacity addition pipeline at 15.2GW as of Mar'24 of which largely half will come from standalone and half from subsidiaries and JVs.
- Thermal capacity award plan – coal tendering plan for FY25 at 10.4GW Sipat 3, Darlipalli 2, Meja 2, MPGCL, Telangana 2 and Gadarwara).
- For FY26 – Anpara at 1,600MW, obra at 1,600MW.
- For FY27 – Patratu 2 at 1,600MW.

RE locked-in capacity of 20GW

- It has an operational capacity of 3.5GW and under construction capacity of 5GW.
- Further, it has won 11.5GW of RE projects at various stages of implementation.
- RE financials - EBITDA of INR 18bn and PAT of INR 3.3bn in FY24.

Under recovery for FY24 at INR 7.8bn

- Under recovery for Q4 at INR 360m and for FY24 at INR 7.8bn.
- Major part of UR is coming from two plants i.e. Barh and Barauni.
- Barauni was vintage plant and has decommissioned already.
- For Barh, most of the problems have been identified and are unlikely to repeat. Ex of these under recoveries was INR 1.5bn.
- Also, most of the UR was only due to high and low demand difference in policy but it has been discontinued in the latest tariff order.

Other highlights

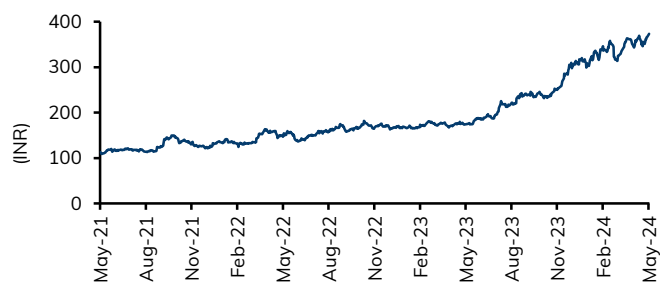
- Regulated equity: Standalone at Mar'24 - INR 877bn (up 13% YoY). Consolidated RE at INR 104bn (vs INR 941bn YoY, up 11% YoY).
- Gross standalone asset at INR 2.98trn and for consol at INR 3.73trn.
- Capex for FY24: INR 225bn for standalone and INR 350bn for consolidated.
- Expect consol capex of INR 350bn per year over the next 2-3 years.

Exhibit 3: Shareholding pattern

| % | Sep'23 | Dec'23 | Mar'24 |
|-------------------------|--------|--------|--------|
| Promoters | 51.1 | 51.1 | 51.1 |
| Institutional investors | 45.7 | 45.7 | 45.4 |
| MFs and others | 19.3 | 19.1 | 17.9 |
| FIs/Banks | 0.1 | 0.0 | 0.0 |
| Insurance | 7.8 | 7.6 | 7.5 |
| FIIIs | 18.5 | 19.0 | 20.0 |
| Others | 3.2 | 3.2 | 3.5 |

Source: Bloomberg

Exhibit 4: Price chart



Source: Bloomberg

Financial Summary

Exhibit 5: Profit & Loss

(INR mn, year ending Mar-31)

| | FY23A | FY24A | FY25E | FY26E |
|--|------------------|------------------|------------------|------------------|
| Net Sales | 17,50,032 | 17,85,283 | 21,69,262 | 22,97,132 |
| Operating Expenses | 65,283 | 65,920 | 72,512 | 79,764 |
| EBITDA | 4,69,415 | 5,11,203 | 6,18,699 | 6,68,927 |
| EBITDA Margin (%) | 26.8 | 28.6 | 28.5 | 29.1 |
| Depreciation & Amortization | 1,47,925 | 1,62,036 | 1,77,501 | 1,98,594 |
| EBIT | 3,21,490 | 3,49,167 | 4,41,199 | 4,70,333 |
| Interest expenditure | 1,15,724 | 1,20,482 | 1,84,142 | 1,94,989 |
| Other Non-operating Income | 17,702 | 26,650 | 24,518 | 24,518 |
| Recurring PBT | 2,23,469 | 2,55,335 | 2,81,574 | 2,99,863 |
| Profit / (Loss) from Associates | - | - | - | - |
| Less: Taxes | 67,961 | 68,092 | 56,315 | 59,973 |
| PAT | 1,55,507 | 1,87,243 | 2,25,260 | 2,39,890 |
| Less: Minority Interest | - | - | - | - |
| Extraordinaries (Net) | 7,907 | 9,728 | - | - |
| Net Income (Reported) | 1,63,414 | 1,96,971 | 2,25,260 | 2,39,890 |
| Net Income (Adjusted) | 1,55,507 | 1,87,243 | 2,25,260 | 2,39,890 |

Source Company data, I-Sec research

Exhibit 6: Balance sheet

(INR mn, year ending Mar-31)

| | FY23A | FY24A | FY25E | FY26E |
|---|------------------|------------------|------------------|------------------|
| Total Current Assets | 8,11,183 | 9,79,593 | 10,01,512 | 10,53,814 |
| of which cash & cash eqv. | 49,485 | 68,473 | 72,659 | 93,636 |
| Total Current Liabilities & Provisions | 5,54,336 | 5,72,770 | 6,14,841 | 6,40,329 |
| Net Current Assets | 2,56,847 | 4,06,823 | 3,86,671 | 4,13,485 |
| Investments | 1,38,848 | 1,58,346 | 1,58,346 | 1,58,346 |
| Net Fixed Assets | 23,98,825 | 25,84,239 | 31,74,733 | 36,01,618 |
| ROU Assets | - | - | - | - |
| Capital Work-in-Progress | 8,91,790 | 8,76,645 | 6,13,866 | 4,29,921 |
| Total Intangible Assets | 5,419 | 5,098 | 5,098 | 5,098 |
| Other assets | 2,13,649 | 1,97,546 | 1,97,546 | 1,97,546 |
| Deferred Tax Assets | - | - | - | - |
| Total Assets | 39,05,379 | 42,28,696 | 45,36,259 | 48,06,013 |
| Liabilities | | | | |
| Borrowings | 22,16,260 | 23,71,310 | 25,39,143 | 26,60,553 |
| Deferred Tax Liability | 1,26,900 | 1,52,318 | 1,52,318 | 1,52,318 |
| provisions | - | - | - | - |
| other Liabilities | 91,987 | 97,975 | 97,975 | 97,975 |
| Equity Share Capital | 96,967 | 96,967 | 96,967 | 96,967 |
| Reserves & Surplus | 13,73,265 | 15,10,126 | 16,49,856 | 17,98,200 |
| Total Net Worth | 14,70,232 | 16,07,093 | 17,46,822 | 18,95,167 |
| Minority Interest | - | - | - | - |
| Total Liabilities | 39,05,379 | 42,28,696 | 45,36,259 | 48,06,013 |

Source Company data, I-Sec research

Exhibit 7: Cashflow statement

(INR mn, year ending Mar-31)

| | FY23A | FY24A | FY25E | FY26E |
|--|-----------------|-----------------|------------------|------------------|
| Operating Cashflow | 3,68,516 | 3,85,995 | 6,11,240 | 6,27,636 |
| Working Capital Changes | (70,040) | (1,08,897) | 24,338 | (5,837) |
| Capital Commitments | (2,83,466) | (3,31,983) | (5,05,216) | (4,41,534) |
| Free Cashflow | 6,51,982 | 7,17,978 | 11,16,457 | 10,69,170 |
| Other investing cashflow | - | - | - | - |
| Cashflow from Investing Activities | (2,83,466) | (3,31,983) | (5,05,216) | (4,41,534) |
| Issue of Share Capital | - | - | - | - |
| Interest Cost | (1,15,724) | (1,20,482) | (1,84,142) | (1,94,989) |
| Inc (Dec) in Borrowings | 1,09,194 | 1,55,050 | 1,67,833 | 1,21,410 |
| Dividend paid | (71,735) | (76,682) | (93,153) | (98,896) |
| Others | (32,586) | (19,498) | - | - |
| Cash flow from Financing Activities | (1,10,851) | (61,612) | (1,09,462) | (1,72,474) |
| Chg. in Cash & Bank balance | (25,801) | (7,600) | (3,438) | 13,627 |
| Closing cash & balance | 18,780 | 41,885 | 65,035 | 86,286 |

Source Company data, I-Sec research

Exhibit 8: Key ratios

(Year ending Mar-31)

| | FY23A | FY24A | FY25E | FY26E |
|-----------------------------|-------|-------|-------|-------|
| Per Share Data (INR) | | | | |
| Reported EPS | 15.7 | 18.9 | 22.8 | 24.2 |
| Adjusted EPS (Diluted) | 17.3 | 20.9 | 22.8 | 24.2 |
| Cash EPS | 32.3 | 37.3 | 40.7 | 44.3 |
| Dividend per share (DPS) | 7.3 | 7.8 | 9.4 | 10.0 |
| Book Value per share (BV) | 148.6 | 162.4 | 176.5 | 191.5 |
| Dividend Payout (%) | 46.1 | 41.0 | 41.4 | 41.2 |
| Growth (%) | | | | |
| Net Sales | 31.9 | 2.0 | 21.5 | 5.9 |
| EBITDA | 16.6 | 8.9 | 21.0 | 8.1 |
| EPS (INR) | 7.7 | 20.4 | 20.3 | 6.5 |
| Valuation Ratios (x) | | | | |
| P/E | 23.9 | 19.8 | 16.5 | 15.5 |
| P/CEPS | 11.6 | 10.1 | 9.2 | 8.5 |
| P/BV | 2.5 | 2.3 | 2.1 | 2.0 |
| EV / EBITDA | 12.2 | 11.5 | 9.7 | 9.1 |
| P / Sales | 2.1 | 2.1 | 1.7 | 1.6 |
| Dividend Yield (%) | 1.9 | 2.1 | 2.5 | 2.7 |
| Operating Ratios | | | | |
| Gross Profit Margins (%) | 30.6 | 32.3 | 31.9 | 32.6 |
| EBITDA Margins (%) | 26.8 | 28.6 | 28.5 | 29.1 |
| Effective Tax Rate (%) | 30.4 | 26.7 | 20.0 | 20.0 |
| Net Profit Margins (%) | 8.9 | 10.5 | 10.4 | 10.4 |
| NWC / Total Assets (%) | 5.3 | 8.0 | 6.9 | 6.7 |
| Net Debt / Equity (x) | 1.4 | 1.3 | 1.3 | 1.3 |
| Net Debt / EBITDA (x) | 4.3 | 4.2 | 3.7 | 3.6 |
| Profitability Ratios | | | | |
| RoCE (%) | 6.6 | 7.2 | 9.0 | 9.0 |
| RoE (%) | 11.0 | 12.2 | 13.4 | 13.2 |
| RoC (%) | 6.6 | 7.2 | 9.0 | 9.0 |
| Fixed Asset Turnover (x) | 0.8 | 0.7 | 0.8 | 0.7 |
| Inventory Turnover Days | 34 | 37 | 32 | 30 |
| Receivables Days | 68 | 69 | 66 | 62 |
| Payables Days | 33 | 23 | 26 | 24 |

Source Company data, I-Sec research

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