

Strong capacity addition to drive performance, going ahead

About the stock: NTPC is India's largest power generation company with a total installed capacity of 69134 MW at the group level.

- NTPC has 17% of total installed capacity in India with 24% generation share
- The company's vision is to become a 130 GW+ company by 2032 of which 60 GW would be contributed by renewable energy

Q2FY23 Results: NTPC posted a good set of numbers for Q2FY23.

- Revenues came in at ₹ 41015.1 crore vs. our estimate of ₹ 33969 crore
- EBITDA was at ₹ 9520.6 crore vs. our estimate of ₹ 7224.4 crore, up 23.3% YoY
- Reported PAT was at ₹ 3330.1 vs. our estimate of ₹ 3155.6 led by higher than expected depreciation and Interest charges

What should investors do? With strong focus on alternate energy spectrum, we believe NTPC may be able to break the underperformance of the last decade and witness a rerating coupled with monetisation of the renewable energy arm in FY23E.

- We maintain our **BUY** rating on the stock

Target Price and Valuation: We value NTPC at ₹ 195 i.e. 1.3x FY24E book value.

Key triggers for future price performance:

- NTPC has 2000 MW commercialised renewable capacity while ~5000 MW is under construction. Capacity addition to be around 13 GW in FY24-25. The company expects to spend ~40% of total capex planned for FY23, FY24 on renewable projects

Alternate Stock Idea: Apart from NTPC, in our power coverage, we like Thermax. Thermax offers solutions in areas of energy and environment.

- We value Thermax at ₹ 2405 i.e. 45x P/E on FY24E EPS



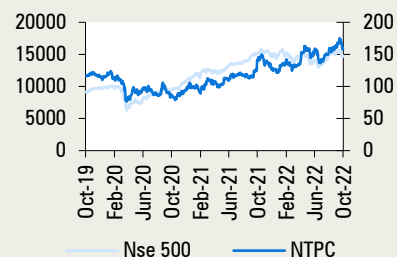
Particulars

Particular	Amount
Market Capitalization	1,65,474
Total Debt (FY21)	1,70,500
Cash and Investments (FY21)	2,438
EV (FY21)	3,33,536
52 week H/L (₹) (BSE)	176 / 119
Equity capital	9,696.7
Face value (₹)	10.0

Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22
Promoters	51.1%	51.1%	51.1%	51.1%
FII	14.5%	14.7%	14.0%	15.0%
DII	31.1%	30.9%	31.5%	31.4%
Others	3.3%	3.2%	3.4%	2.5%

Price Chart



Recent event & key risks

- Under construction capacity of 17 GW
- Key Risk:** (i) Muted economic recovery to keep blended PLFs lower (ii) Delay in capacity addition in solar space

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Key Financial Summary

(₹ Crore)	FY20	FY21	FY22 · CAGR(FY17-22)	FY23E	FY24E	2 Year CAGR (FY22-24E)	
Revenue	97,700.0	99,206.7	116137.3%	8.9%	1,21,809.8	1,36,427.0	11.2%
EBITDA	27,092.7	28,803.4	33845.7%	11.8%	36,101.5	41,406.7	12.9%
EBITDA margin (%)	27.7	29.0	29.1	29.6	30.4		
Net Profit	10,112.8	13,769.5	16,111.4	8.3%	17,605.0	19,755.3	12.8%
EPS (₹)	10.2	13.9	16.3	17.8	20.0		
P/E (x)	15.3	11.2	9.6	9.7	8.6		
RoNW(%)	8.9	11.5	12.6	12.9	13.5		
RoCE (%)	4.8	5.8	5.4	5.5	6.3		

Key takeaways of recent quarter & conference call highlights

Q2FY23 Results: Strong capacity addition to drive performance, going ahead...

- Reported revenues came in at ₹ 41015.14 crore vs. estimate of ₹ 33969.6 crore. The key reason for the beat was higher-than-expected generation during Q2FY23 at 85.5 billion units (BUs) vs. expectation of 81.1 BUs. On the other hand, energy sold was also higher than estimates at 80.2 BUs vs. 75.5 BUs. PLFs of coal plants were at 74.08% vs. 80.5% in Q1FY23. As of Q2FY23, commercial capacity was at 54935 MW whereas installed capacity was at 55185 MW
- Coal production from captive mines was at 4.32 million tonnes (MT) vs. 4.10 MT in Q1FY23
- EBITDA came in at ₹ 9520.11 crore vs. our estimate of ₹ 7224.4 crore, mainly on account of higher-than-expected revenues and higher EBITDA margins. Average tariff per unit during H1FY23 was at ₹ 4.77/unit vs. ₹ 3.86/unit YoY
- Reported PAT came in at ₹ 3330.17 crore vs. our estimate of ₹ 3211.9 crore on account of higher depreciation and interest charges

Q2FY23 Analyst meet Highlights

- The company commercialised capacity to the tune of 1952 MW in H1FY23. The installed and commercial capacity as of Q2FY23 for NTPC was at 57639 MW. Renewable addition was at 672 MW in H1FY23
- NTPC currently has ~5348 MW of renewable ongoing projects. Projects worth ~650 MW have been won recently. The company will be adding renewable projects to the tune of 18-19 GW till FY25.
- The company incurred a capex of ₹ 16664.2 crore in H1FY23 and set a target of ₹ 27500 crore for FY23E. For FY24 & FY25, capex value was at ₹ 25000-26000 crore and ₹ 20000-22000 crore, respectively
- NTPC produced 8.4 MT of coal from its three coal mines in H1FY23 vs. 5.25 MT in H1FY22. Production from coal mines is expected to reach 50 MT by FY27E. The company expects to commence operation of two more coal mines (Kerandari and Badam) in early FY24E
- The regulated equity(RE) for Q2FY23 was at ₹ 74856 crore on a standalone basis. The company expects RE to grow in excess of 10%+ CAGR over the next three years
- As of now, FGD systems have been commissioned in nearly 2000 MW of projects. The same is expected to get commissioned across all operational and under construction projects in the next three years
- The company will incrementally put brownfield coal-based power plants of 6000 MW in the next three to four years. NTPC has finalised plans to award 2X660 Talcher plant
- The management is of the view that equity IRR will be in the range of 11-12% on solar assets
- The company has raised ₹ 5000 crore with term loan and ₹ 3500 crore through bonds. Average cost of borrowing is at 6.22%
- On the green initiatives side, the company is focusing on many areas like a) green hydrogen projects, b) pilot projects for synthesising green methanol, c) entering into power distribution business (the company had put in a serious bid for Chandigarh circle wherein it was third in the bidding process), d) Nuclear power for which they are in discussions with all necessary government entities

Exhibit 1: Variance Analysis

Year	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ(%)	Comments
Revenue	41,015.1	29,471.2	39.2	40,026.2	2.5	Better performance due to higher generation
Other Income	795.8	834.7	(4.7)	699.4	13.8	
Total Income	41,811.0	30,305.8	38.0	40,725.6	2.7	
Cost of materials cc	27,224.2	18,032.5	51.0	26,605.1	2.3	
Employee cost	1,207.4	1,369.8	(11.9)	1,329.5	(9.2)	
Other expenses	3,061.9	2,355.7	30.0	2,346.8	30.5	
EBITDA	9,521.6	7,723.2	23.3	9,744.9	(2.3)	
EBITDA Margin (%)	23.2	26.2	-300 bps	24.3	-110 bps	EBITDA margins dipped due to high fuel cost
Depreciation	3,287.2	2,940.7	11.8	3,144.2	4.5	
Interest	2,737.1	1,943.6	40.8	2,172.9	26.0	
PBT	5,105.3	4,133.1	23.5	5,097.3	0.2	
Taxes	1,774.1	976.3	81.7	1,380.4	28.5	
PAT	3,331.2	3,156.7	5.5	3,716.9	(10.4)	Lower PAT due to higher depreciation and interest cost

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% change
Revenue	1,21,809.8	1,21,809.8	0.0	1,36,427.0	1,36,427.0	0.0
EBITDA	35,197.1	35,197.1	0.0	41,406.7	41,406.7	0.0
EBITDA Margin	28.9	28.9	0 bps	30.4	30.4	0.0
PAT	15,928.2	15,928.2	0.0	19,775.3	19,775.3	0.0
EPS (₹)	16.1	16.1	0.0	20.0	20.0	0.0

Source: ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total operating Income	99,207	1,16,137	1,21,810	1,36,427
Growth (%)	2	17	5	12
Raw Material Expenses	55,881	67,614	70,191	78,614
Employee Expenses	4,942	5,290	5,660	6,056
Other expenses	9,580	9,388	9,858	10,350
Total Operating Expend	70,403	82,292	85,708	95,020
EBITDA	28,803	33,846	36,102	41,407
Growth (%)	10	24	10	23
Depreciation	10,412	11,234	12,790	14,325
Interest	7,459	7,351	8,527	9,550
Other Income	4,346	3,905	4,000	4,000
PBT	15,279	19,166	18,785	21,532
Others	416	1,312	3,500	3,500
Total Tax	1,925	4,366	4,680	5,257
PAT	13,770	16,111	17,605	19,775
Adjusted PAT	13,770	16,111	17,605	19,775
Growth (%)	36	17	9	12
EPS (₹)	13.9	16.3	17.8	20.0

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit Before Tax	13,770	16,111	17,605	19,775
Add: Depreciation	10,412	11,234	12,790	14,325
(Inc)/dec in Current Assets	13,104	-11,869	-2,231	-10,313
Inc/(dec) in CL and Provis	3,036	5,944	1,708	4,656
Others	7,459	7,351	8,527	9,550
CF from operating activities	15,500	40,621	39,444	49,307
(Inc)/dec in Investments	4,246	27,739	15,000	10,000
(Inc)/dec in Fixed Assets	-21,000	-20,000	-20,000	-20,000
Others	0	0	0	0
CF from investing activities	-16,754	7,739	-5,000	-10,000
Issue/(Buy back) of Equity	0	0	0	0
Inc/(dec) in loan funds	54,164	29,015	11,706	16,819
Dividend paid & dividend t	-7,064	-8,041	-8,615	-9,764
Inc/(dec) in Sec. premium	3	3	3	3
Others	-7,459	-7,351	-8,527	-9,550
CF from financing activities	39,644	13,627	-5,433	-2,491
Net Cash flow	-6,522	-2,454	1,000	1,000
Opening Cash	10,145	3,624	1,170	2,170
Closing Cash	3,624	1,170	2,170	3,170

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	9,895	9,895	9,895	9,895
Reserve and Surplus	1,10,026	1,18,096	1,27,086	1,37,098
Total Shareholders fund	1,19,920	1,27,991	1,36,981	1,46,993
Total Debt	1,64,089	1,72,294	1,80,909	1,89,954
AAD	1,947	1,947	1,947	1,947
Minority Interest / Other	1,152	1,152	1,152	1,152
Total Liabilities	2,87,108	3,03,383	3,20,988	3,40,045
Assets				
Gross Block	2,78,995	2,98,995	3,18,995	3,38,995
Less: Acc Depreciation	90,897	95,919	95,919	96,432
Net Block	1,88,098	2,03,076	2,23,076	2,42,563
Capital WIP	63,067	58,067	53,067	48,067
Total Fixed Assets	2,51,164	2,61,143	2,76,143	2,90,629
Investments	12,293	12,293	12,293	12,293
Inventory	10,561	12,344	12,856	14,253
Debtors	12,897	14,517	13,399	15,007
Loans and Advances	29,762	34,841	36,543	40,928
Other Current Assets	19,841	23,227	24,362	27,285
Cash	3,624	1,170	2,170	3,170
Total Current Assets	76,684	86,099	89,330	1,00,643
Creditors	10,561	12,344	12,856	14,253
Other Liabilities	24,641	28,802	29,998	33,257
Provisions	7,466	7,466	7,466	7,466
Total Current Liabilities	42,668	48,612	50,320	54,976
Net Current Assets	34,016	37,487	39,009	45,667
Others Assets	0	0	0	1
Application of Funds	2,87,108	3,03,384	3,20,988	3,40,045

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per Share Value				
EPS	13.9	16.3	17.8	20.0
Cash EPS	24.4	27.6	30.7	34.5
BV	121.2	129.4	138.4	148.6
DPS	6.2	7.0	7.5	8.5
Cash Per Share	3.7	1.2	2.2	3.2
Operating Ratios (%)				
EBITDA Margin	29.0	29.1	29.6	30.4
PBT / Net Sales	15.4	16.5	15.4	15.8
PAT Margin	13.9	13.9	14.5	14.5
Inventory days	69.0	66.6	66.9	66.2
Debtor days	47.5	45.6	40.2	40.2
Creditor days	10.1	10.1	10.1	10.1
Return Ratio				
RoE	11.5	12.6	12.9	13.5
RoCE	5.8	5.4	5.5	6.3
RoIC	5.9	5.5	5.6	6.4
Valuation Ratio				
P/E	12.4	10.6	9.7	8.6
EV / EBITDA	11.6	9.9	9.2	8.1
EV / Net Sales	3.4	2.9	2.7	2.4
Market Cap / Sales	1.7	1.4	1.4	1.2
Price to Book Value	1.4	1.3	1.2	1.2
Solvency Ratio				
Debt/EBITDA	5.7	5.1	5.0	4.6
Net Debt / Equity	1.4	1.3	1.3	1.3
Current Ratio	2.2	2.1	2.1	2.1
Quick Ratio	0.1	-	0.1	0.1

Source: Company, ICICI Direct Research

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