

Decent quarter, renewable capacity addition key...

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

Q3FY23 Results: NTPC posted a decent set of numbers for Q3FY23.

- Revenue from operations for the quarter increased to ₹ 41410.5.0 crore
- PLFs or load factor for Q3FY23 was at 68.9% vs. 67.7% in Q3FY22
- EBITDA was at ₹ 13239 crore vs. estimate of ₹ 10188 crore. Consequently, PAT came in at ₹ 4476 crore vs. our estimate of 4379.8 crore. The company has declared ₹ 4.25/share as interim dividend during Q3FY23

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 and strong capacity addition in excess of 3000 MW on the renewable side.

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

Target Price and Valuation: We value NTPC at ₹ 207 i.e. 1.4x FY24E book value.

Key triggers for future price performance:

- Monetisation of stake (dilution of 10-20% in the renewable subsidiary) and aggressive addition of capacity in excess of 3000 MW in FY24E on the renewables side will lead to rerating of the company

Alternate Stock Idea: Apart from NTPC, in our capital goods coverage, we like L&T. The company is the best play on capex theme in India with strong sectoral and geographical diversification coupled with strong visibility going ahead.

- We value L&T at ₹ 2355 on FY24E (SOTP basis)



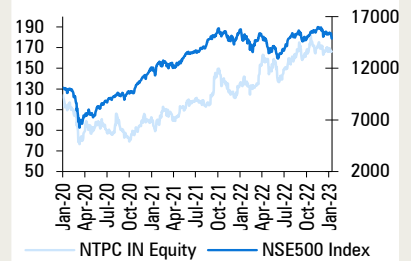
Particulars

Particulars	Amount
Market Capitalisation	₹ 162680 Crore
Debt (FY22)	₹ 170500 Crore
Cash (FY22)	₹ 2438 Crore
EV	₹ 330742 Crore
52 week H/L	₹ 182/112
Equity capital	₹ 9696.7 Crore
Face value	₹ 10

Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22
Promoter:	51.1%	51.1%	51.1%	51.1%
FII	14.7%	14.0%	15.0%	15.7%
DII	30.8%	31.3%	31.3%	30.5%
Others	3.4%	3.6%	2.6%	2.7%

Price Chart



Recent event & key risks

- Under construction capacity of 18 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

Key Financials	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	97,700.4	99,206.7	1,16,137.3	8.9%	1,24,651.6	1,50,080.5	13.7%
EBITDA	27,092.7	28,803.4	33,845.7	11.8%	35,415.5	44,353.8	14.5%
EBITDA Margins (%)	27.7	29.0	29.1		28.4	29.6	
Net Profit	10,112.8	13,769.5	16,111.4	8.3%	16,670.2	20,215.9	12.0%
EPS (₹)	10.2	13.9	16.3		16.8	20.4	
P/E	15.3	11.2	9.6		9.3	7.6	
RoNW (%)	8.9	11.5	12.6		12.3	13.8	
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...

- Revenue from operations for the quarter increased to ₹ 41410.5.0 crore; higher than our estimate of ₹ 35526.2 crore. From an operational perspective, gross generation and energy sold was at 78.6 billion units (BUs) and 72.9 Bus, which were lower than our estimates of 82 BUs and 76.4 BUs. However, higher than expected tariff at ₹ 5.5 per unit (expected at ₹ 4.65/unit) led to a rise in revenues and cushion for the shortfall in gross generation for Q3FY23. The company as of Q3FY23 has an installed and commercial capacity of 58269 MW each whereas group level capacity is at 70884 MW
- PLFs or load factor for Q3FY23 were at 68.9% vs. 67.7% in Q3FY22. The same for the gas stations was at 3.4% for the quarter. The company received coal supplies to the tune of 54 million tonne (MT) out of which 1.6 MT was from imported sources
- Higher revenues led to better-than-expected EBITDA despite other expenses and employee expenses were higher than estimates. EBITDA came in at ₹ 13239 crore vs. estimate of ₹ 10188 crore. Consequently, PAT came in at ₹ 4476 crore vs. our estimate of 4379.8 crore
- The company declared ₹ 4.25/share as interim dividend during Q3FY23

Q3FY23 conference call highlights

- NTPC expects capacity addition of 6810 MW in FY24E out of which capacity addition in the renewable segment will be excess of 3000 MW (735 MW in standalone and 2300 MW in NREL). The company has 4700 MW of renewable projects under construction and 24000 MW in various stages of planning and feasibility study. NTPC is on track to achieve incremental 5000-6000 MW of renewable projects in the next one and half to two years
- In order to move away from coal assets, the company is planning to set up a JV with NPCIL and mark its foray into the nuclear power generation space. The company has identified projects to the tune of 4200 MW projects in MP (2x700 MW) and Rajasthan (4x700 MW) out of which the company is confident of adding 2000 MW by 2032
- The company incurred a capex of 84% of the total capex planned for FY23E. Going ahead, for the next three years average annual capex will be in the range of ₹ 25000 crore per annum
- The company is planning to open bids for Lara extension (1600 MW) and will order the same in April 2023
- NTPC produced 14.55 MT of coal from its coal mines in 9MFY23 vs. 9.6 MT in 9MFY22. Production from coal mines is likely to reach 50 MT by FY27E. The company has cumulatively spent ₹ 8933 crore on capex of coal mines
- The regulated equity (RE) for Q3FY23 was at ₹ 75449 crore vs. ₹ 74856 crore as of Q2FY23 on a standalone basis. The company expects RE to grow in excess of 10%+ CAGR over the next three years
- The management is of the view that equity IRR will be in the range of 11-12% on solar assets
- The company has raised ₹ 1325 crore with green loan from Union Bank of India for 20 years at an attractive rate of interest
- Average cost of borrowing is at 6.32% in Q3FY23 vs. 6.22% in Q2FY23 and 5.95% in Q3FY22
- Under construction capacity is at 18253 MW out of which coal based plants are at 11280 MW, Hydro 2255 MW and renewable at 4718 MW
- From a longer-term perspective, 42000 MW of projects are in various stages of planning and development. Out of this, only 6000 MW will be coal and rest are for renewable projects
- The management seemed quite confident on the monetisation of stake in the renewable portfolio and expects the same to conclude by FY23E. It is likely to dilute between 10% and 20% stake

Exhibit 1: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Energy sales net	41,410.5	35,526.2	28,854.8	43.5	41,015.1	1.0	Revenues were above estimates on account of higher than expected tariff
Other operating income	0.0	0.0	0.0	-	0.0	-	
Total Income	41,410.5	35,526.2	28,854.8	43.5	41,015.1	1.0	
Fuel	21,892.0	21,359.3	16,430.9	33.2	27,224.2	(19.6)	
G&A	4,781.5	2,486.8	3,062.0	56.2	2,045.5	133.8	
Employee expense	1,497.8	1,492.1	1,326.5	12.9	1,207.4	24.1	
Total expenses	28,171.3	25,338.2	20,819.4	35.3	30,477.1	(7.6)	
EBITDA	13239.2	10,188.0	9,061.9	30.0	9,521.6	40.0	Higher revenue led to EBITDA beat
EBITDA Margin (%)	32.0	28.7	31.4	59 bps	23.2	879 bps	
Depreciation	3,312.1	3,300.0	2,891.4	14.6	3,287.2	0.8	
Interest	2,874.4	2,700.0	1,733.8	65.8	2,737.1	5.0	
Other Income	738.3	1,000.0	972.3	(24.1)	795.8	(7.2)	
PBT	7,791.0	5,188.0	5,409.0	44.0	4,293.2	81.5	
Total Tax	1,581.2	1,308.2	1,220.0	29.6	1,774.1	(10.9)	
Adjusted PAT	4,476.0	4,379.8	4,132.0	8.3	3,331.2	34.4	PAT was higher than estimates

Key Metrics

Generation (Crore units)	7,864.6	8,215.1	7,270.0	8.2	8,548.7	(8.0)	Generation was lower than expected
Sales (Crore units)	7,287.0	7,640.0	6,764.1	7.7	8,020.9	(9.1)	
Tariff rate (₹/Kwh)	5.7	4.7	4.3	33.0	5.1	11.2	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% change
Revenue	1,21,809.8	1,24,651.6	2.3	1,36,427.0	1,50,080.5	10.0
EBITDA	35,197.1	35,415.5	0.6	41,406.7	44,353.8	7.1
EBITDA Margin (%)	28.9	28.4	-48 bps	30.4	29.6	(2.6)
PAT	15,928.2	16,670.2	4.7	19,775.3	20,215.9	2.2
EPS (₹)	16.1	16.8	4.7	20.0	20.4	2.2

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	1,24,652	1,50,081
Growth (%)	2	17	7	20
Raw Material Expenses	55,881	67,614	73,719	89,320
Employee Expenses	4,942	5,290	5,660	6,056
Other expenses	9,580	9,388	9,858	10,350
Total Operating Expenditure	70,403	82,292	89,236	1,05,727
EBITDA	28,803	33,846	35,416	44,354
Growth (%)	10	24	7	39
Depreciation	10,412	11,234	13,088	15,758
Interest	7,459	7,351	8,726	10,506
Other Income	4,346	3,905	4,000	4,000
PBT	15,279	19,166	17,601	22,090
Others	416	1,312	3,500	3,500
Total Tax	1,925	4,366	4,431	5,374
PAT	13,770	16,111	16,670	20,216
Adjusted PAT	13,770	16,111	16,670	20,216
Growth (%)	36	17	3	21
EPS (₹)	13.9	16.3	16.8	20.4

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	16,670	20,216
Add: Depreciation	10,412	11,234	13,088	15,758
(Inc)/dec in Current Assets	13,104	-11,869	-4,493	-17,985
Inc/(dec) in CL and Provisions	3,036	5,944	3,472	8,245
Others	7,459	7,351	8,726	10,506
CF from operating activities	15,500	40,621	39,505	56,220
(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 tax	-7,064	-8,041	-8,615	-9,764
Inc/(dec) in Sec. premium	3	3	3	3
Others	-7,459	-7,351	-8,726	-10,506
CF from financing activities	39,644	13,627	-5,632	-3,447
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	1,26,152	1,36,604
Total Shareholders funds	1,19,920	1,27,991	1,36,046	1,46,498
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 / Others	1,152	1,152	1,152	1,152
Total Liabilities	2,87,108	3,03,383	3,20,053	3,39,551
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	13,385	15,859
Debtors	12,897	14,517	13,712	16,509
Loans and Advances	29,762	34,841	37,395	45,024
Other Current Assets	19,841	23,227	24,930	30,016
Cash	3,624	1,170	2,170	3,170
Total Current Assets	76,684	86,099	91,592	1,10,578
Creditors	10,561	12,344	13,385	15,859
Other Liabilities	24,641	28,802	31,233	37,004
Provisions	7,466	7,466	7,466	7,466
Total Current Liabilities	42,668	48,612	52,084	60,330
Net Current Assets	34,016	37,487	39,508	50,248
Others Assets	0	0	0	1
Application of Funds	2,87,108	3,03,384	3,20,053	3,39,551

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	13.9	16.3	16.8	20.4
Cash EPS	24.4	27.6	30.1	36.4
BV	121.2	129.4	137.5	148.1
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	28.4	29.6
PBT / Total Operating income	15.4	16.5	14.1	14.7
PAT Margin	13.9	13.9	13.4	13.5
Inventory days	69.0	66.6	66.3	64.8
Debtor days	47.5	45.6	40.2	40.2
Creditor days	10.1	10.1	10.1	10.1
Return Ratios (%)				
RoE	11.5	12.6	12.3	13.8
RoCE	5.8	5.4	5.5	6.3
RoIC	5.9	5.5	5.6	6.4
Valuation Ratios (x)				
P/E	11.9	10.2	9.9	8.1
EV / EBITDA	11.3	9.9	9.7	7.9
EV / Net Sales	3.3	2.9	2.8	2.3
Market Cap / Sales	1.7	1.4	1.3	1.1
Price to Book Value	1.4	1.3	1.2	1.1
Solvency Ratios				
Debt/EBITDA	5.7	5.1	5.1	4.3
Debt / Equity	1.4	1.3	1.3	1.3
Current Ratio	2.2	2.1	2.1	2.1
Quick Ratio	0.1	0.0	0.0	0.1

Source: Company, ICICI Direct Research

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