

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR89 TP: INR140 (+57%) Buy
Underlying numbers strong; Other income drives beat

Bloomberg	NTPC IN
Equity Shares (m)	9,895
M.Cap.(INRb)/(USDb)	883.1 / 11.6
52-Week Range (INR)	125 / 74
1, 6, 12 Rel. Per (%)	3/-24/-26
12M Avg Val (INR M)	1961

Financials & Valuations (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	1,143	1,115	1,276
EBITDA	364.1	370.6	415.9
Adj. PAT	136.6	149.0	164.4
EBITDA Margin (%)	31.8	33.2	32.6
Cons. Adj. EPS (INR)	13.8	15.1	16.6
EPS Gr. (%)	19.2	9.1	10.3
BV/Sh. (INR)	120.1	126.9	135.4

Ratios

Net D:E	1.7	1.6	1.5
RoE (%)	11.9	12.2	12.7
RoCE (%)	6.5	7.2	7.5
Payout (%)	22.8	39.8	42.1

Valuations

P/E (x)	6.5	5.9	5.4
P/BV (x)	0.7	0.7	0.7
EV/EBITDA(x)	7.8	7.7	6.9
Div. Yield (%)	3.5	6.7	7.8
FCF Yield (%)	7.4	14.7	18.6

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	51.0	51.0	54.5
DII	35.0	34.7	30.8
FII	11.4	11.4	12.1
Others	2.6	2.9	2.6

FII Includes depository receipts

- NTPC's 2QFY21 results witnessed strong underlying numbers. This was highlighted by high PLF incentives for the company despite muted power demand. Other income was higher and boosted profitability. S/A Adj. PAT (excl. FC u/r) was up 20% YoY at INR 41.6b.
- Commercialization at 5.3GW in FY20 was at an all-time high. With the addition of THDC/NEEPCO and continued pickup in capitalization, we expect 9% earnings CAGR over FY20-23E. Maintain **Buy** with TP of INR140 (DCF-based).

Strong other income drives beat; however, receivables are elevated

- NTPC's reported S/A PAT (including impact of rebate) was up 7% YoY to INR35b. This included a one-time rebate of INR5.6b. Adj. for rebate, fixed charge under-recoveries (FC u/r) and certain one-offs, S/A PAT was up 20% YoY to INR41.6b (v/s est. INR33b).
- The beat on our numbers was largely led by higher other income (INR13.5b; up 51% YoY) on account of higher (a) late payment surcharge, and dividend from subsidiaries.
- PLF at coal-based plants was flat YoY at 64.3%. PLF incentives, though, were higher YoY at INR1.4b (v/s INR0.4b) due to better off-take from pit-head plants.
- Plant availability factors at coal-based plants rose YoY to 91.8% (v/s 84.1% in the previous year), given better coal availability. FC u/r, though, remained high at INR2.7b (v/s INR3.3b in the previous year), led by under-recoveries at Darlipalli and Kahalgaon.
- Late payment surcharge income was high at INR6.6b (v/s INR6.5b in the previous year), given the increasing profile of DISCOM over-dues.
- S/A receivables were elevated at INR268b (v/s INR194b in the previous year). Over-dues have risen to INR190b from INR164b in 1QFY21.
- The company has also approved a buyback of 197.9m of equity shares at INR115/share with an aggregate amount of INR22.758b.

Management commentary – Hopeful of lowering receivables

- NTPC is hopeful of bringing down its overall receivables to ~INR160-170b at end-FY21. However, the company has noted that it would be dependent on multiple factors, including bill discounting. NTPC has so far realized INR67b from PFC-REC led 'Atmanirbhar' scheme and hopes that further money from the scheme would help in reducing the stretch in receivables.
- The company's 5.5GW of capacities should commercialize in FY21. It expects its plants – Lara U-2, Gadarwara U-2 and Meja U-2 – to commercialize by Dec'20.

Capitalization has gained pace; Reiterate Buy

- NTPC's announced buyback would be EPS accretive as earnings yield is much higher than yield on other income/cost of debt. However, given the small size (~INR23b), it would not change our EPS est. meaningfully (~+1%).

- NTPC commercialized 5.3GW of capacities in FY20 – the highest ever in a single fiscal year – and is guiding for ~5-6GW p.a. to be capitalized over the next couple of years. Capitalization has picked up pace and we expect it to drive regulated equity CAGR of 11% over FY20-23E and boost RoE (+100bp accretion). Receivables, though, would remain the key monitorable and we expect the situation to improve as power demand recovers and money from the PFC-REC scheme flows through. The stock trades attractively at FY22E P/BV of 0.7x and dividend yield of ~8%. Maintain Buy, with DCF-based target price of INR140/share.

Quarterly Performance (standalone) – INR b

Y/E March	FY20				FY21				FY20	FY21E	FY21	var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Sales	247.0	236.3	250.9	291.0	242.6	250.2	256.8	292.5	1,025	1,042	247.9	1
Change (%)	8.0	4.4	5.4	29.6	-1.8	5.9	2.3	0.5	9.0	1.6	4.9	
EBITDA	69.6	72.1	85.7	91.7	85.5	75.3	85.4	81.1	319.2	327.3	74.4	1
Depreciation	20.5	21.2	23.2	21.3	25.3	25.3	26.8	26.7	86.2	104.1	24.5	
Interest	15.7	16.2	17.6	18.4	20.8	17.7	21.6	22.5	67.8	82.6	19.8	
Other income	3.3	8.9	5.3	10.3	5.7	13.5	5.4	5.6	27.8	30.1	5.7	136
Exceptional	0.0	0.0	0.0	0.0	-8.0	-5.6	0.0	0.0	0.0	-13.6	-5.6	
PBT	36.7	43.7	50.2	62.4	37.0	40.1	42.5	37.5	192.9	157.1	35.8	12
Tax	10.7	11.0	20.3	49.8	12.3	5.1	10.0	5.6	91.8	33.0	9.0	
PAT	26.0	32.6	30.0	12.5	24.7	35.0	32.5	31.8	101.1	124.1	26.8	31
Change (%)	0.6	34.5	25.6	-71.2	-5.1	7.4	8.6	154.2	-13.9	22.7	-17.8	
Adj. PAT (excl. FC u/r)	27.1	34.7	29.0	33.0	33.2	41.6	31.7	31.4	123.7	137.8	33.0	26
Change (%)	-8.6	24.5	13.6	3.9	22.7	19.7	9.4	-4.9	7.8	11.4	-5.1	

Source: MOFSL, Company

Exhibit 1: Key Operating Parameters

		FY20				FY21	
		1Q	2Q	3Q	4Q	1Q	2Q
Capacity							
Installed	GW	55.1	57.1	58.2	62.1	62.1	62.9
Commercial	GW	54.3	55.0	56.4	61.1	62.0	62.1
Regulated Equity	INR b	531.2	532.6	565.7	618.1	628.6	628.6
Generation							
Gross	b kWh	68	62	61	68	60	68
Electricity sales	b kWh	64	57	56	63	56	63
Availability							
Coal	%	91.1	84.1	88.3	94.3	95.8	91.8
Gas	%	90.4	93.3	98.8	92.6	93.3	90.2
PLF							
Coal	%	73.9	64.3	63.5	69.5	58.2	64.3
Gas	%	20.6	13.1	10.4	12.3	25.4	26.2
Fuel							
Coal Received	mt	44.0	36.0	44.0	49.1	40.5	38.5
o/w imported	mt	0.9	0.6	0.7	0.7	0.4	0.2
% imported	%	2.0	1.7	1.5	1.4	0.9	0.4
Gas received	mmscmd	4.5	3.1	2.4	2.8	5.6	5.7
Per unit							
Realization	INR/kWh	3.90	4.20	4.38	4.66	4.25	4.01
Fuel cost	INR/kWh	2.30	2.37	2.32	2.38	2.12	2.23
Fixed charge	INR/kWh	1.59	1.82	2.06	2.29	2.14	1.78

Source: MOFSL, Company

Exhibit 2: NTPC Valuation

	Case 1		Base		Case 2	
Rf. Nominal risk free rate	(%)	6.50	(%)	7.00	(%)	7.50
B. Beta		0.85		0.85		0.85
Km. Equity Risk premium	(%)	5.00	(%)	5.00	(%)	5.00
Cost of equity (Rf+Km x B)	(%)	10.75	(%)	11.25	(%)	11.75
DCF	INR m	INR/sh.	INR m	INR/sh.	INR m	INR/sh.
A. FY22-24						
	RoE	Re-Invest	Growth			
	(%)	(%)	(%)			
B. FY25-32	12.00	25	3.0	624,455	63	600,791
C. Terminal Value	11.50	10	1.2	633,873	64	568,225
Target price (A+B+C)					152	140
						131

Source: MOFSL, Company

**Analyst meet takeaways**

- The company has approved buyback of 197.9m equity shares at INR115/share for an aggregate amount of INR22.758b. The government of India will tender shares only to an extent that its share in NTPC does not fall below 51%.
- Fixed cost under recoveries stood at INR4.97b in 1HFY21. NTPC expects it to decline to ~INR2b levels in FY21.
- Late payment surcharge stood at INR11.3b in 1HFY21 (v/s INR8.2b in 1HFY20).
- NTPC's over-dues have increased to INR190b at end-Sep'20 (v/s INR164b at end-Jun '20). These include over-dues from Uttar Pradesh (INR44b), J&K (INR37b), Karnataka (INR30b), Madhya Pradesh (INR19b) and Telangana (INR13b).
- NTPC is hopeful of bringing down its overall receivables to ~INR160-170b at end-FY21 but noted that it would be dependent on multiple factors, including bill discounting. It has realized INR67b from the PFC-REC led 'Atmanirbhar' scheme so far and hopes further money can help in reducing receivables.
- NTPC can trigger tri-partite clause for outstanding dues >90 days. However, it will have to write to the Ministry of Power and Ministry of Finance for the same. ~INR110-120b of the current outstanding would be >90 days but it expects much of these over-dues to come through the PFC-REC scheme.
- The company expects 5.5GW of capacities to commercialize in FY21. It expects its plants Lara U-2, Gadarwara U-2 and Meja U-2 to commercialize by Dec'20.

Valuation and view**Commercialization has picked up pace**

- NTPC commercialized 5.3GW of plants in FY20, the highest-ever in a single fiscal year. While disruptions due to COVID could impact upcoming commercialization plans, we note that even if we assume no incremental commercialization, the full benefit of recent additions should aid FY21 PAT by INR9-10b (6-7% of FY20 adj. PAT).
- Moreover, upcoming capacities are incremental units of plants commercialized in FY19-20, and most resources have been mobilized. NTPC targets ~5.5GW for commercialization in FY21. We remain conservative and build in commercialization of 3.6GW for FY21.

Fixed cost under-recoveries has declined over past few years

- Muted power demand, coupled with production ramp-up at Coal India’s mines has led to an increase in coal stocks at power plants. This bodes well for NTPC and reduces FC u/r. For FY20, FC u/r stood at ~INR2.5b (v/s INR8b in FY19). Given the essential nature of the Power Generation business, the movement of coal through rail or road has not been an issue in the current situation. We expect overall FC u/r to remain low – even though some machine related u/r may occur from time to time.

Regulations lend visibility up to FY24

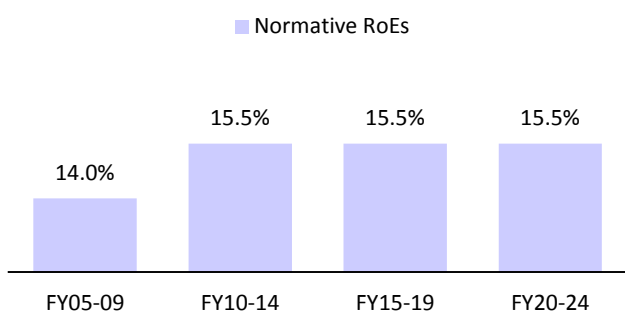
- Tariff regulations for FY20-24 have kept regulated RoE unchanged at 15.5%. This marks the third consecutive five-year period wherein regulators have not tinkered with regulated RoE.
- Besides this, the two-part tariff structure was also retained. This provides strong direction for long-term assured returns.

RoE to improve as capitalization outpaces capex

- With the pickup in capitalization, which was partly hampered due to coal availability issues, we expect regulated equity CAGR of ~11% over FY20-23E. We expect capitalization to outpace capex, which, along with lower u/r, would improve RoE by ~100bp to ~13% by FY23. Reported earnings in FY21 would witness a drop due to the announcement of INR15.9b rebate. However, this is a one-off in nature, attributed to the disruption caused by COVID-19.

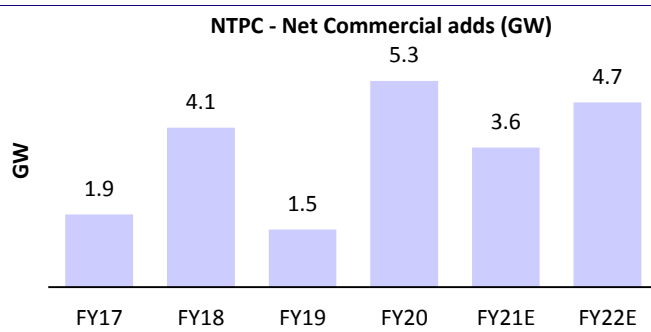
Story in charts

Exhibit 3: New regulations lend visibility to earnings...



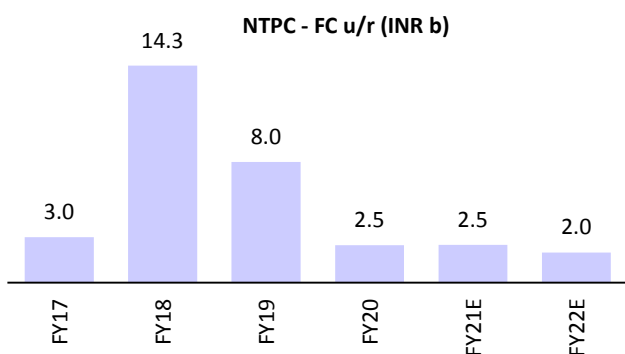
Source: MOFSL, Company

Exhibit 4: ...with pace of commercialization picking up



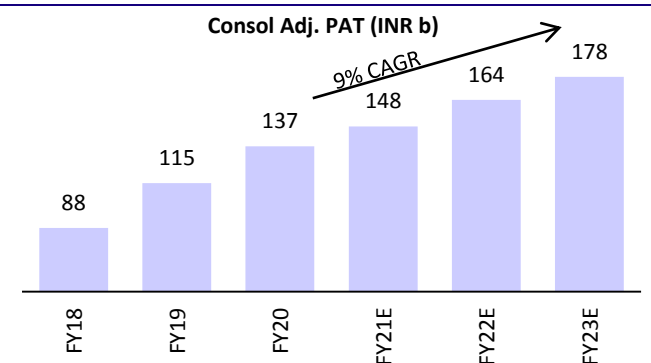
Source: MOFSL, Company

Exhibit 5: While fixed cost u/r decline...



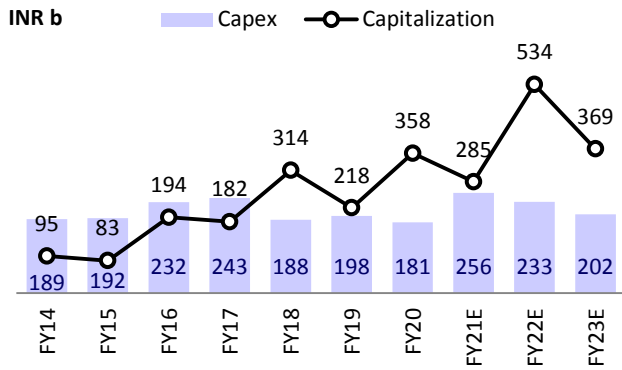
Source: MOFSL, Company

Exhibit 6: ...overall earnings would witness 9% CAGR



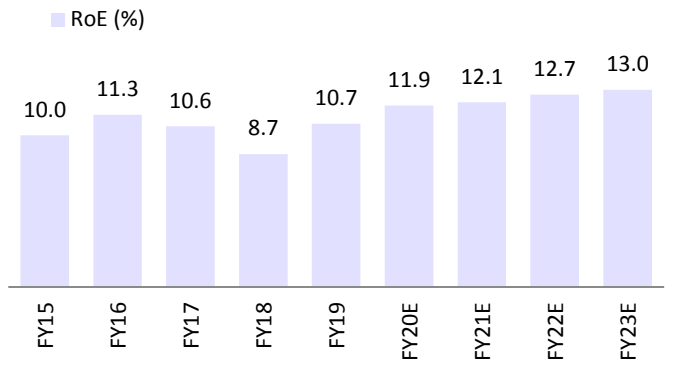
Source: MOFSL, Company

Exhibit 7: Capitalization would outpace capex...



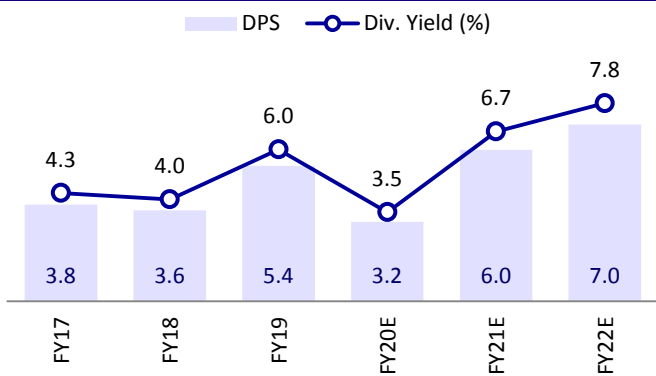
Source: MOFSL, Company

Exhibit 8: ...leading to improvement in RoE



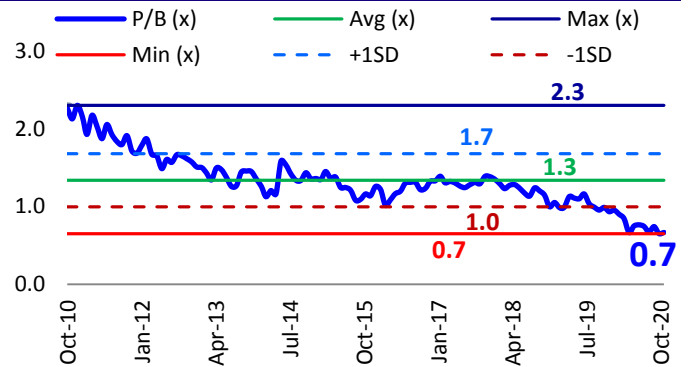
Source: MOFSL, Company

Exhibit 9: Dividend yield remains attractive



Source: MOFSL, Company

Exhibit 10: Stock trades at lower end of its historical valuation



Source: MOFSL, Bloomberg

Financials and valuations

Income Statement								(INR m)
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Net Sales	727,055	817,171	877,622	906,369	1,143,361	1,114,907	1,275,664	1,387,643
Change (%)	-9.8	12.4	7.4	3.3	26.1	-2.5	14.4	8.8
Expenditure	547,486	598,870	647,813	707,282	779,275	744,263	859,805	919,262
EBITDA	179,569	218,300	229,808	199,086	364,086	370,644	415,858	468,381
Margin (%)	24.7	26.7	26.2	22.0	31.8	33.2	32.6	33.8
Depreciation	52,240	60,099	74,599	76,881	103,562	118,992	135,538	152,948
EBIT	127,329	158,201	155,209	122,205	260,524	251,652	280,320	315,433
Interest	33,137	36,511	44,346	52,609	81,169	96,378	110,870	125,888
Other Income	10,576	9,668	15,583	17,953	29,085	25,884	21,633	17,048
XO reported	0	0	0	0	0	-15,867	0	0
Profit before Tax	104,768	131,358	126,446	87,550	208,441	165,291	191,083	206,593
Tax	-1,628	30,467	25,881	-32,064	93,475	33,860	41,759	45,362
Tax Rate (%)	-1.6	23.2	20.5	-36.6	44.8	20.5	21.9	22.0
Share of JVs	1,412	6,247	4,451	6,721	4,054	7,604	18,066	19,836
Minority int	-204	-57	-425	-66	3,018	3,018	3,018	3,018
PAT	108,012	107,196	105,440	126,400	116,002	136,017	164,373	178,049
Prior period	-11,055	-8,479	-17,448	-11,786	20,607	0	0	0
Adj. PAT	96,957	98,717	87,992	114,614	136,609	149,028	164,373	178,049
Change (%)	14.9	1.8	-10.9	30.3	19.2	9.1	10.3	8.3

Balance Sheet								(INR m)
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Share Capital	82,455	82,455	82,455	98,946	98,946	98,946	98,946	98,946
Reserves	809,511	895,926	953,180	1,001,424	1,089,446	1,156,821	1,241,119	1,308,640
Net Worth	891,965	978,380	1,035,635	1,100,370	1,188,392	1,255,767	1,340,065	1,407,585
Minority Interest	8,928	8,033	9,478	6,648	33,172	33,172	33,172	33,172
Loans	1,120,194	1,137,551	1,300,143	1,616,818	2,005,115	2,068,047	2,083,221	2,078,829
Deferred Tax Liability	14,094	14,849	24,081	41,997	76,171	76,171	76,171	76,171
Capital Employed	2,035,181	2,138,812	2,369,337	2,765,833	3,302,849	3,433,157	3,532,629	3,595,757
Gross Block	1,632,140	1,170,879	1,501,531	1,665,811	2,368,792	2,653,540	3,187,663	3,556,802
Less: Accum. Deprn.	587,180	125,562	206,147	287,597	490,764	609,756	745,294	898,242
Net Fixed Assets	1,044,959	1,045,317	1,295,385	1,378,214	1,878,028	2,043,784	2,442,369	2,658,560
Capital WIP	815,497	868,957	820,931	1,067,775	985,085	956,656	655,695	488,063
Investments	148	78,023	92,515	81,000	93,066	98,923	100,679	100,679
Current Assets	543,886	492,677	534,851	646,976	817,693	808,088	811,762	840,898
Inventory	79,592	65,861	61,403	81,194	111,385	105,165	108,997	125,860
Account Receivables	101,740	89,995	88,122	101,477	203,708	152,872	144,142	139,677
Cash and Bank Balance	57,370	33,015	43,876	27,823	32,143	79,594	88,167	104,904
Loans and Advances	202,075	6,133	6,931	6,727	7,638	7,638	7,638	7,638
Others	103,110	297,674	334,519	429,755	462,819	462,819	462,819	462,819
Current Liabilities	369,310	346,162	374,344	408,131	471,022	474,295	477,876	492,444
Payables	68,266	55,859	67,309	85,658	101,767	105,039	108,620	123,189
Other current liabilities	301,044	290,303	307,035	322,473	369,255	369,255	369,255	369,255
Net Working Capital	174,577	146,515	160,507	238,845	346,671	333,793	333,887	348,455
Application of Funds	2,035,181	2,138,812	2,369,337	2,765,833	3,302,849	3,433,157	3,532,629	3,595,757

Financials and valuations

Ratios

Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Basic (INR)								
EPS	9.8	10.0	8.9	11.6	13.8	15.1	16.6	18.0
Cash EPS	16.2	16.9	18.2	20.5	22.2	25.8	30.3	33.5
BV/Share	90.1	98.9	104.7	111.2	120.1	126.9	135.4	142.3
DPS	2.7	3.8	3.6	5.4	3.2	6.0	7.0	10.0
Payout (%)	27.3	38.3	40.5	46.3	22.8	39.8	42.1	55.6
Valuation (x)								
P/E	11.1	8.9	10.0	7.7	6.5	5.9	5.4	5.0
Cash P/E	6.7	5.3	4.9	4.3	4.0	3.5	2.9	2.7
P/BV	1.2	0.9	0.9	0.8	0.7	0.7	0.7	0.6
EV/EBITDA	11.9	9.1	9.3	12.4	7.8	7.7	6.9	6.1
Dividend Yield (%)	2.5	4.3	4.0	6.0	3.5	6.7	7.8	11.2
Return Ratios (%)								
EBITDA Margins (%)	24.7	26.7	26.2	22.0	31.8	33.2	32.6	33.8
Net Profit Margins (%)	14.9	13.1	12.0	13.9	10.1	12.2	12.9	12.8
RoE	11.3	10.6	8.7	10.7	11.9	12.2	12.7	13.0
RoIC (Post-tax)	9.0	10.5	9.3	6.3	10.6	8.9	8.8	8.8
RoCE (Post-tax)	7.2	6.6	6.4	6.7	6.5	7.2	7.5	8.1
Working Capital Ratios								
Debtor (Days)	51	40	37	41	65	50	41	37
Inventory (Days)	40	29	26	33	36	34	31	33
Payable (Days)	34	25	28	34	32	34	31	32
Leverage Ratio (x)								
Current Ratio	1.5	1.4	1.4	1.6	1.7	1.7	1.7	1.7
Interest Cover Ratio	4.2	4.6	3.9	2.7	3.6	2.9	2.7	2.6
Net Debt/EBITDA	5.9	5.1	5.5	8.0	5.4	5.4	4.8	4.2
Net Debt/Equity	1.2	1.1	1.2	1.4	1.7	1.6	1.5	1.4

Cash Flow Statement

Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
(INR m)								
Profit/(Loss) before Tax	101,035	137,606	132,417	83,719	222,816	169,877	206,132	223,411
Interest	41,090	35,691	44,160	52,431	80,606	96,378	110,870	125,888
Depreciation	61,534	60,099	74,599	76,881	103,562	118,992	135,538	152,948
(Inc)/Dec in WC	-36,422	-2,073	-58,298	-72,868	-63,198	60,328	8,480	2,169
Tax paid	-14,584	-26,263	19,257	-30,390	-36,069	-33,860	-41,759	-45,362
others	1,452	-3,395	-15,508	53,898	-61,885	-25,884	-21,633	-17,048
CF from Operations	154,106	201,666	196,627	163,671	245,832	385,832	397,628	442,007
Capex	-232,470	-243,451	-187,559	-197,548	-180,625	-256,320	-233,161	-201,508
(Pur)/sale of Invest.	16,536	3,436	0	0	0			
Acquisition in subs.	0	-12,002	-11,531	-40,574	-122,650	-5,857	-1,756	0
Int. & Div. Income	9,528	2,707	3,033	1,079	58	25,884	21,633	17,048
Others	-16,514	-8,262	-42	343	344			
CF from Investments	-222,920	-257,573	-196,099	-236,700	-302,873	-236,292	-213,284	-184,461
Inc/(Dec) in Debt	80,528	150,466	145,059	224,698	232,572	62,932	15,175	-4,393
finance cost	-83,473	-75,645	-86,058	-107,672	-133,992	-96,378	-110,870	-125,888
Dividend (incl. tax)	-33,513	-43,269	-48,669	-59,272	-37,751	-59,367	-69,262	-98,946
Others	1,252	0	0	-778	-787			
CF from Fin. Activity	-35,206	31,552	10,333	56,976	60,043	-92,814	-164,957	-229,226
Inc/Dec of Cash	-104,021	-24,355	10,861	-16,053	3,002	56,726	19,387	28,320
Add: Beginning Balance	161,390	57,369	33,015	43,876	27,823	30,825	87,551	106,938
Closing Balance	57,369	33,015	43,876	27,823	30,825	87,551	106,938	135,258

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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