

Company update

Utilities

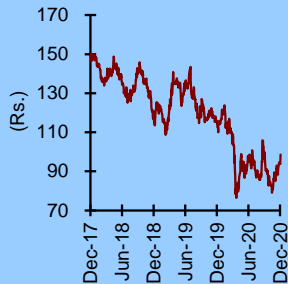
Target price: Rs165

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's	12.6	11.4	11.4
Others	2.9	3.0	2.7

Source: NSE

Price chart



Research Analysts:

Rahul Modi

rahul.modi@icicisecurities.com
+91 22 6637 7373

Anshuman Ashit

anshuman.ashit@icicisecurities.com
+91 22 6637 7419

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)

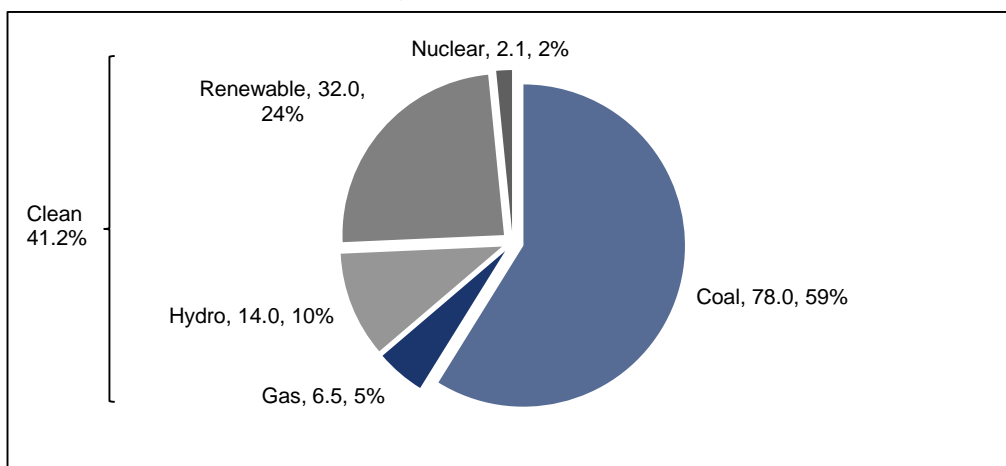
Status	EPC	Developer
Installed	1,070	3,983
Under Implementation	2,348	1,600
Under Tendering	2,104	1,200
Total	5,522	6,783

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
<i>% margins</i>	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
<i>of which cash & cash eqv.</i>	<i>44,608</i>	<i>29,305</i>	<i>39,784</i>	<i>21,443</i>	<i>22,091</i>	<i>61,385</i>	<i>93,948</i>	<i>139,802</i>
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
<i>of which</i>								
<i>Strategic/Group</i>	<i>83,930</i>	<i>89,524</i>	<i>100,475</i>	<i>131,459</i>	<i>264,009</i>	<i>274,009</i>	<i>284,009</i>	<i>294,009</i>
<i>Other Marketable</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
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
<i>of which</i>								
<i>Capital Work-in-Progress</i>	<i>664,232</i>	<i>807,371</i>	<i>777,832</i>	<i>912,067</i>	<i>733,593</i>	<i>657,143</i>	<i>546,893</i>	<i>406,468</i>
<i>Goodwill & other LT assets</i>	<i>186,590</i>	<i>185,662</i>	<i>139,447</i>	<i>186,440</i>	<i>222,708</i>	<i>222,708</i>	<i>222,708</i>	<i>222,708</i>
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
<i>Face Value per share (Rs)</i>	<i>10</i>	<i>10</i>	<i>10</i>	<i>10</i>	<i>10</i>	<i>10</i>	<i>10</i>	<i>10</i>
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

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92, Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

*New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return*

ANALYST CERTIFICATION

I/We, *Rahul Modi, Masters in Finance; Anshuman Ashit, BE, PGDM*; authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.