NTPC Ltd.

Market Capital:	₹ 1,16,166.06 Cr.
Enterprise Value:	₹ 2,80,699.93 Cr.
No. Of Shares:	₹ 969.67 Cr.
Div. Yield:	2.65%

52 Week High:	₹ 2,338
52 Week Low:	₹ 12
Face Value:	₹ 10

NTPC Ltd. Buy

We recommend a Buy position on NTPC Ltd. with a medium to long-term view owing to Strong capitalisation target, regulated tariff model, Reforms in the power sector, Focus on renewable energy and Cost efficiency and higher coal availability bodes well.

We expect gradual re-rating for NTPC as operational performance would improve (lower fixed cost under-recoveries with PAF at 90% plus and potential higher PLF incentive as coal-based power plants have seen improvement in PLF), commercialisation is likely to drive 10% CAGR in regulated equity and improving mix of renewable energy would allay concern of ESG. We derive comfort from NTPC's risk averse regulated business model, which provides earnings visibility (expect a 19% PAT CAGR over FY2021E-FY2023E) as robust commercialisation would drive strong growth in regulated equity base. Moreover, NTPC's buyback price of Rs. 115 is close to NTPC's FY2020 book value and provides support to the stock price. NTPC also offers a healthy dividend yield of 6-7% and is trading at an attractive valuation of 0.8x its FY2023E P/BV (46% discount to historical average one-year forward P/BV of 1.4x). Hence, we maintain our Buy rating on NTPC with a revised PT of Rs. 140 (valued at 1.5x FY2023E regulated equity base + 0.6x for equity value of FY2020 CWIP)

Shareholding Pattern

Shareholding %	March 2021	March 2020	March 2019
Promoters	51.1	51.02	56.1
Promoter's Pledged	0	0	0
FII's	11.9	12.6	11.5
DII's	34.1	33.6	29.1
Public	2.9	2.8	3.4
Others	0	0	0
Total	100	100	100

Consolidated (cr)	**FY2020**	**FY2019**	**FY2018**
Sales	109,464	100,286	88,083
Profit	11,496	13,362	10,056
EBIT			
Basic EPS	11.72	13.88	10.66
ROE (%)	9.76	12.33	10.18
ROCE (%)	7.81	7.54	7.04
D/E (%)	1.62	1.48	1.19
Asset Turnover Ratio (%)	29.00	28.92	31.19
P/E (%)	7.18	9.70	13.27
P/B (%)	0.70	1.20	1.35
EV/EBITDA (%)	5.22	8.02	9.08
P/S (%)	1.48	1.92	1.71

Investment Hypothesis

- Strong capitalisation target of 5-6 GW annually and 15% CAGR in regulated equity over FY2021E-FY2023E
  NTPC aims to add 5-6 GW of new commercial capacities annually and has guided for 15% CAGR in regulated equity over FY2021E-FY2023E. Management has provided robust guidance for growth in regulated equity, which makes us optimistic about strong earnings growth for NTPC over the next couple of years. Management believes receivables of Rs. 19,164 crore currently from discoms should come down with liquidity infusion into discoms under the power sector relief package. The decline in receivables from discoms would strengthen NTPC's balance sheet.

- Regulated tariff model provides earnings visibility; Reforms in the power sector to strengthen the balance sheet of power companies
  India's power sector is regulated by CERC with availability-based earnings model (fixed RoE on power generation assets) and, thus, regulated tariff model provides strong earnings visibility for power generation companies. Additionally, with improved coal stocks at thermal power plants, PAF has improved and, thus, we expect fixed cost under-recoveries to decline for power companies. Power demand in India has also recovered sharply post the initial disruption by COVID-19 led lockdown. Moreover, the government's power sector liquidity infusion package of Rs. 90,000 crore to clear dues of power generation and transmission companies by discoms would reduce receivables of the power sector and strengthen the balance sheet of companies.

- Focus on renewable energy
  NTPC has recently emerged as the lowest bidder for 1.4GW of

projects, thereby highlighting its focus on the Renewable sector. Furthermore, 2.3GW of renewable projects (largely under the CPSU scheme) are under construction and should get commissioned in FY22/FY23.

- Higher coal availability bodes well
  Subdued power demand, coupled with a 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 would aid in reducing coal-related FC u/r. For FY20, FC u/r stood at ~INR2.5b (v/s INR8b in FY19). Machine-related u/r may occur from time to time, with Kahalgaon being impacted due to a breach at the ash dyke embankment. However, on an overall basis, the co. is better placed to manage fuel-related u/r given higher coal availability.

Sector
Overview

The outlook of the power sector however seems positive as represented through various global rankings. India's overall rank in World Bank's "Ease of Doing Business" is 63rd in 2020 improving from 142nd in 2015. Indian Power Sector also has improved its ranking to 22nd in 2020 from 137th in 2015 in "Getting Electricity" which is one of the ten parameters of "Ease of Doing Business" ranking.

During the year 2019-20, the major reforms in the power sector are:

- Proposed amendments in Electricity Act with elements such as formulation of National Renewable Energy Policy, setting up of Electricity Contract Enforcement Authority, Tariff determination with Direct benefit transfer of subsidy by State Governments.
- Implementation of Payment Security Mechanism through LC.
- Smart Metering Setting up of Renewable Energy Management Centre (REMC).

The total conventional power available in the country (including Bhutan) during the financial year 2019-20 was 1,253 BUs as compared to 1,249 BUs during last year, registering a marginal growth of 0.26%.

The transmission network (at voltages of 220 kV and above) in the country has grown at an average rate of ~5% CAGR since the end of 12th Plan in terms of circuit kilometres added. The total inter-regional transmission capacity of country has increased from 75,050 MW at the end of 12th plan to 1,02,050 MW as on 31.03.2020. During the financial year 2019-20, 3,000 MW inter-regional capacity was added. This augmentation of the national grid will help promote competition leading to reliable and lower cost of power for consumers. Further, it is essential for supporting higher injection of renewables into the grid for transfer of power from RE-rich states to other states. This large-scale integration of renewable energy along with other factors such as increasing power generation capacity and reforms in fuel sector is slated to increase the demand for transmission capacity significantly in the coming years.

Distribution is the key link to realize GoI's vision of supplying reliable 24x7 Power for All. For this, the distribution companies need to be healthy to be able to discharge their functions & responsibilities efficiently. To support DISCOMs in COVID-19 pandemic GoI has come out with a liquidity injection scheme for DISCOMs under Aatmanirbhar Bharat Package. Under the scheme PFC/REC will infuse liquidity to DISCOMs against receivables. Loans will be given against State guarantees for exclusive purpose of discharging liabilities of DISCOMs to GENCOs.

Company
OVERVIEW

NTPC is India's largest energy conglomerate with roots planted way back in 1975 to accelerate power development in India. Since then it has established itself as the dominant power major with presence in the entire value chain of the power generation business. From fossil fuels it has forayed into generating electricity via hydro, nuclear and renewable energy sources. This foray will play a major role in lowering its carbon footprint by reducing green house gas emissions. To strengthen its core business, the corporation has diversified into the fields of consultancy, power trading, training of power professionals, rural electrification, ash utilisation and coal mining as well.
NTPC became a Maharatna company in May 2010. As of January 2020, there are 10 Maharatnas CPSEs in India. NTPC is ranked No. 2 Independent Power Producer(IPP) in Platts Top 250 Global Energy Company rankings.
The total installed capacity of the company is 64,875 MW (including JVs) own stations include 24 coal based, 7 gas based, 1 Hydro 1 Wind 12 Solar and 1 Small hydro plant. Under JV, NTPC has 9 coal based, 4 gas based and 12 renewable energy projects. The capacity will have a diversified fuel mix and by 2032, non fossil fuel based generation capacity shall make up nearly 30% of NTPC's portfolio.
NTPC has been operating its plants at high efficiency levels. As on 31.03.2019 the company had 15.5% of the total national capacity and, it contributes 22.3% of total power generation due to its focus on high efficiency.
In October 2004, NTPC launched its Initial Public Offering (IPO) consisting of 5.25% as fresh issue and 5.25% as offer for sale by the Government of India. NTPC thus became a listed company in November 2004 with the Government holding 89.5% of the equity share capital. In February 2010, the Shareholding of Government of India was reduced from 89.5% to 84.5% through a further public offer. Government of India has further divested 9.5% shares through OFS route in February 2013. With this, GOI's holding in NTPC has reduced from 84.5% to 75%. The rest is held by Institutional Investors, banks and Public. Presently, Government of India's holding in NTPC has reduced to 54.14%.
NTPC is not only the foremost power generator; it is also among the great places to work. The company is guided by the "People before Plant Load Factor" mantra which is the template for all its human resource related policies. In 2019, NTPC was recognized as "Laureate" for consistently ranking among "Top 50 Best Companies to Work for in India" for the last 11 years in the Great Place to Work and Economic Times survey. Besides, NTPC was also recognized as the best among PSUs and in Manufacturing.

Peer Comparison

Company	MCap	P/B	P/E	EPS	ROE(%)	ROCE(%)	P/S	EV/EBITA
Power Grid Corp.	1,26,682.94	2.31	12.85	18.85	22.47	12.37	3.50	7.65
Adani Power	49,079.55	6.08	0	-1.29	-16.45	-0.66	48.82	365.19
Tata Power	40,245.30	2.38	43.68	2.88	6.01	6.65	4.99	19.13
NHPC	27,121.59	0.86	9.02	2.99	13.44	10.31	3.10	8.68
Torrent Power	22,483.25	2.19	16.97	27.57	13.66	8.09	1.67	8.77
NTPC	1,16,166.06	1.02	17.55	6.83	9.32	9.91	1.20	8.42

1) Power Grid Corp

Power Grid Corporation of India Ltd (PGCIL) is India's principal electric power transmission company. The company is engaged in the transmission of bulk power across different states of India. It owns and operates 90% of India's interstate and inter-regional electric power transmission system. The company's business segments are Transmission Consultancy Telecom and ULDC/ RLDC. The company has 168140 circuit kilometers of transmission network and 252 sub-stations as on 31 January 2021. It has a total transformation capacity of about 422430 lakh megavolt ampere as on 31 January 2021. This gigantic transmission network spread over length and breadth of the country is consistently maintained at an availability of over 99%. The company has diversified into telecom business to utilize spare telecommunication capacity of unified load dispatch center (ULDC) schemes using country-wide transmission infrastructure.

2) Adani Power

Adani Power Ltd is engaged in power generation and setting up of power projects. The company is a part of the Adani Group. The company is carrying on the business of generation accumulation distribution and supply of power and to generally deal in electricity and to explore develop generate accumulate supply and distribute or to deal in other forms of energy from any source whatsoever. The company is currently operating an aggregate of 10480 megawatts (MW) generation capacity comprising of 4620 MW at Mundra Gujarat 3300 MW at Tiroda Maharashtra 1320 MW at Kawai Rajasthan 1200 MW at Udupi Karnataka and 40 MW (solar) at Kutch Gujarat. Adani Power was the first company to implement and commission 660 MW supercritical technology units in India.

3) Tata Power

Tata Power Company Ltd is India's largest integrated private power company with a significant international presence. The company has an installed generation capacity of 10857 MW (as of August 2018) in India and a presence in all the segments of power sector viz. Fuel & Logistics Generation (thermal hydro solar and wind) Transmission Distribution and Trading. It has successful public-private partnerships in Generation Transmission and Distribution in India namely 'Tata Power Delhi Distribution Limited' with Delhi Government for distribution in North Delhi Powerlinks Transmission Ltd.' with Power Grid Corporation of India Ltd. for evacuation of Power from Tala hydro plant in Bhutan to Delhi and Maithon Power Ltd.' with Damodar Valley Corporation for a 1050 MW Mega Power Project at Jharkhand. Tata Power is one of the largest renewable energy players in India and has developed the country's first 4000 MW Ultra Mega Power Project at Mundra (Gujarat) based on super-critical technology.

4) NHPC

NHPC Ltd is a Mini-Ratna Category-I Enterprise of the Government of India. The company is one of the largest organisations in the field of hydro power development in the country. The company is a hydroelectric power generating company dedicated to the planning development and implementation of an integrated and efficient network of hydroelectric projects in India. They execute all aspects of the development of hydroelectric projects from concept to commissioning of the projects.

5) Torrent Power

Torrent Power Limited is an integrated power utility and is one of the largest private sector players in India having interests in power generation transmission distribution and manufacturing and supply of power cables. It has a portfolio of coal based gas based and renewable power plants with an aggregate generation capacity of 3721 MW with a unique mix of coal based gas based and renewable power plants that use highly efficient power generation technologies. It also has under-construction wind power plants aggregating to 1111 MW. Torrent Power operates 249 km and 105 km 400kV double circuit transmission lines implemented by it for evacuating power generated at SUGEN (the 1147.5 MW gas based power plant near Surat in South Gujarat) and DGEN (the 1200 MW combined cycle gas based Power Plant at Dahej SEZ) plant to various off-take centres. Torrent Power distributes power to over 3 million customers annually in its distribution areas of Ahmedabad Gandhinagar Surat and Dahej SEZ (Gujarat) in Bhiwandi (Maharashtra) and in Agra (Uttar Pradesh).
The cables unit of the company manufactures Power & Control Cables and is one of the market leaders in HT Power Cable segment with a manufacturing capability of up to 132 kV XLPE Cables.

Related to
Industry

Residential and commercial buildings:
According to the report, the construction industry in India is expected to record a CAGR of 15.9% to reach INR 54,914.4 billion by 2024. The residential construction industry in value terms increased at a CAGR of 11.1% during 2015-2019. The commercial building construction market in value terms is expected to record a CAGR of 16.1% over the forecast period. The infrastructure construction was estimated to be INR 16,145.6 billion in 2019, posting a CAGR of 13% during review period.

Transportation Sector:
The transportation sector is a category of companies that provide services to move people or goods, as well as transportation infrastructure. Technically,

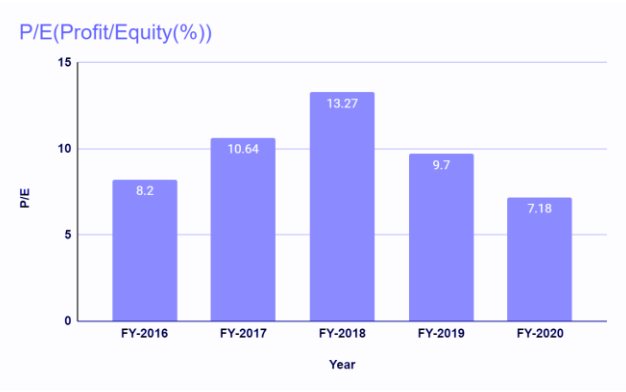
transportation is a sub-group of the industrials sector according to the Global Industry Classification Standard (GICS). The transportation sector consists of several industries including air freight and logistics, airlines, marine, road and rail, and transportation infrastructure. These industries are further broken down into the sub-industries air freight and logistics, airlines, marine, railroads, trucking, airport services, highways and rail tracks, and marine ports and services.

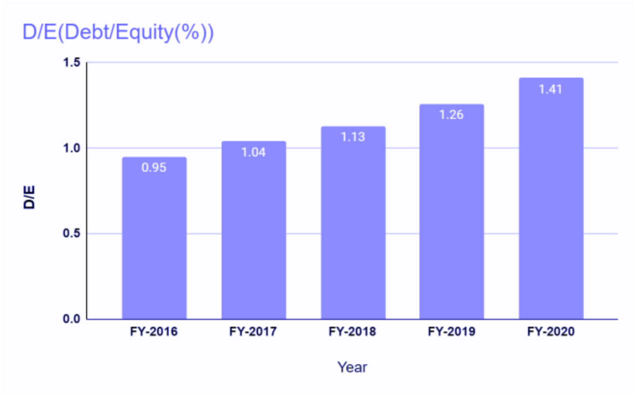
Manufacturing Sector:

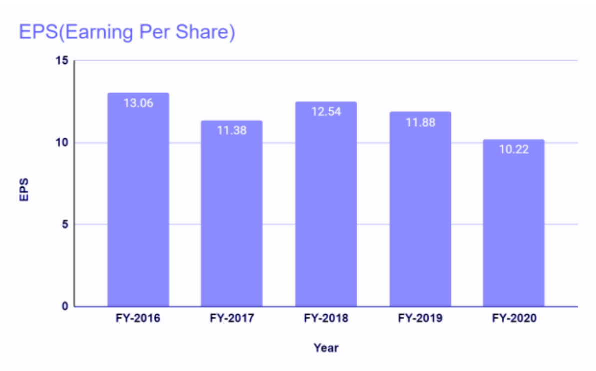
Manufacturing has emerged as one of the high growth sectors in India. Prime Minister of India, Mr Narendra Modi, launched the 'Make in India' program to place India on the world map as a manufacturing hub and give global recognition to the Indian economy. Government aims to create 100 million new jobs in the sector by 2022.The Gross Value Added (GVA) at basic current prices from the manufacturing sector in India grew at a CAGR of 5% during FY16 and FY20 as per the annual national income published by Government of India. The sector's GVA at current prices was estimated at US$ 397.14 billion in FY20PE.Business conditions in the Indian manufacturing sector continue to remain positive. The manufacturing component of IIP stood at 129.8 during FY20. Strong growth was recorded in the production of basic metals (10.8%), intermediate goods (8.8%), food products (2.7%) and tobacco products (2.9%). India's Index of eight core industries stood at 131.9 in FY20.

Risks and Concerns

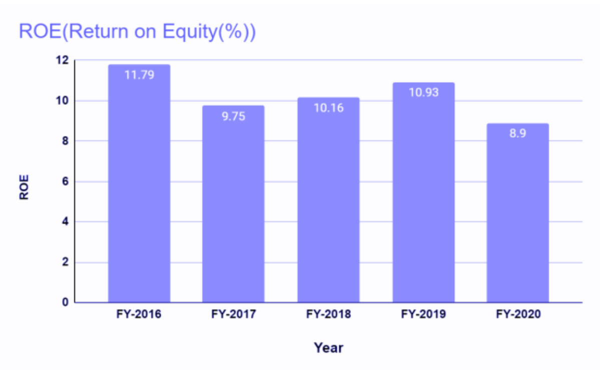
Domestic and Global macroeconomic risks: Energy industry is a cyclical one, is susceptible to changes in domestic and global macro conditions and sometimes can significantly affect the company.
Input Materials : Any changes in availability of input materials as Coal etc could lead to many challenges a major one is production challenge.
High Competition: Recently this sector is facing a high level competition, with many mid level players gaining market share and with the presence of some established Large peers, the Industry will remain highly competitive which could lead to pressure on prices of products.

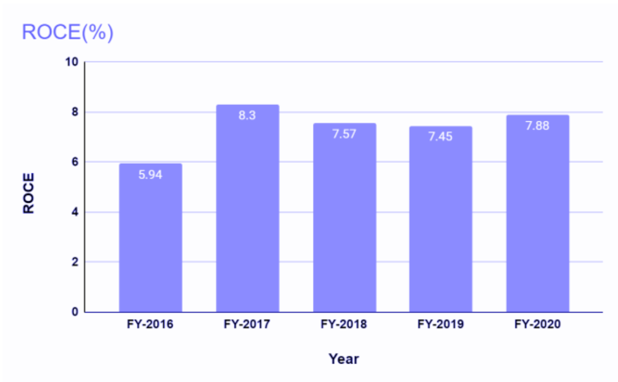

P/E(Profit/Equity(%))
P/E
15
10
5
0
8.2
10.64
13.27
9.7
7.18
FY-2016
FY-2017
FY-2018
FY-2019
FY-2020
Year

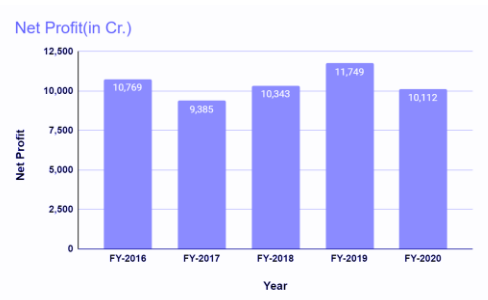

D/E(Debt/Equity(%))
D/E
1.5
1.0
0.5
0.0
0.95
1.04
1.13
1.26
1.41
FY-2016
FY-2017
FY-2018
FY-2019
FY-2020
Year

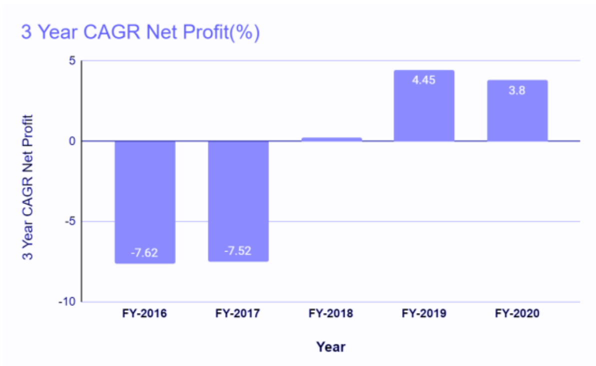

EPS(Earning Per Share)
EPS
15
10
5
0
13.06
11.38
12.54
11.88
10.22
FY-2016
FY-2017
FY-2018
FY-2019
FY-2020
Year

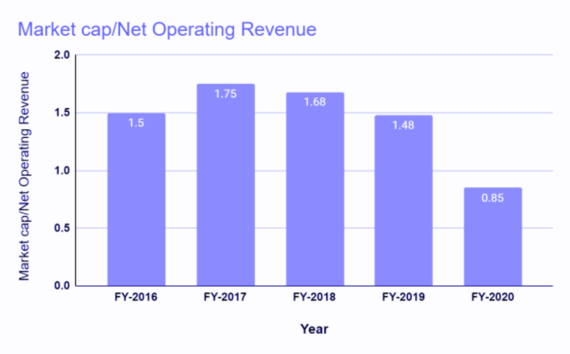

EBIT
EBIT
12
10
8
6
4
2
0
9.87
10.48
10.72
10.83
8.09
FY-2016
FY-2017
FY-2018
FY-2019
FY-2020
Year


ROE(Return on Equity(%))
ROE
12
10
8
6
4
2
0
11.79
9.75
10.16
10.93
8.9
FY-2016
FY-2017
FY-2018
FY-2019
FY-2020
Year


ROCE(%)
ROCE
10
8
6
4
2
0
5.94
8.3
7.57
7.45
7.88
FY-2016
FY-2017
FY-2018
FY-2019
FY-2020
Year


Net Profit(in Cr.)
Net Profit
12,500
10,000
7,500
5,000
2,500
0
10,769
9,385
10,343
11,749
10,112
FY-2016
FY-2017
FY-2018
FY-2019
FY-2020
Year


3 Year CAGR Net Profit(%)
3 Year CAGR Net Profit
5
0
-5
-10
-7.62
-7.52
4.45
3.8
FY-2016
FY-2017
FY-2018
FY-2019
FY-2020
Year



Summing up:

We recommend a **Buy** position on NTPC Ltd. with a medium to long-term view owing to following:-

- Strong capitalisation target
- Regulated tariff model
- Reforms in the power sector
- Focus on renewable energy
- Cost efficiency
- Higher coal availability bodes well

After looking at sector growth from recent years, and policies that the government has made recently, we expect a high growth in the energy sector.

The following industries are directly or indirectly related to cement sector:

- Residential and commercial buildings:
- Transportation Sector
- Manufacturing Sector

Any major change in these sectors will strongly affect the growth of the energy industry.

NTPC Ltd is strongly placed to face the competition and its management is constantly trying to come up with new policies to take it's growth further.

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