

BSE SENSEX 51.039 S&P CNX 15,097

CMP: INR108 TP: INR141 (+31%) Buy



Bloomberg	NTPC IN
Equity Shares (m)	9,895
M.Cap.(INRb)/(USD\$b)	1046.8 / 13.8
52-Week Range (INR)	112 / 74
1, 6, 12 Rel. Per (%)	10/-27/-29
12M Avg Val (INR M)	2685

Financials & Valuations (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	1,143	1,116	1,275
EBITDA	364.1	371.3	415.8
Adj. PAT	136.6	149.0	163.3
EBITDA Margin (%)	31.8	33.3	32.6
Adj. EPS (INR)	13.8	15.4	16.8
EPS Gr. (%)	19.2	11.3	9.6
BV/Sh. (INR)	120.1	126.8	135.5

Ratios

Net D:E	1.7	1.6	1.5
RoE (%)	11.9	12.3	12.8
RoCE (%)	6.5	7.3	7.5
Payout (%)	22.8	39.0	41.6

Valuations

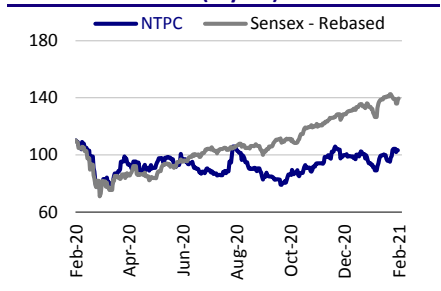
P/E (x)	7.8	7.0	6.4
P/BV (x)	0.9	0.9	0.8
EV/EBITDA(x)	8.4	8.2	7.4
Div. Yield (%)	2.9	5.6	6.5
FCF Yield (%)	6.2	12.3	15.7

Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	51.1	51.0	54.1
DII	33.6	35.0	30.6
FII	12.3	11.4	12.8
Others	3.0	2.6	2.5

FII Includes depository receipts

Stock Performance (1-year)



MoP issues rules on late payment surcharge

- The Ministry of Power (MoP) has issued a notification on Late Payment Surcharge (LPS). As per the new rules, LPS would be based on one-year SBI MCLR v/s a fixed rate of 18% p.a. specified in the tariff regulations issued by CERC. In the current scenario, this would imply a LPS of 12-15% p.a.
- We note that: a) despite the 18% p.a. CERC specified rate, NTPC is currently charging 12% p.a. on overdue, which are settled under the Atmanirbhar scheme, and b) NTPC's WC borrowing cost has also declined ~300bp over the past one year, thereby softening the impact of lower LPS rate. The impact on P&L is therefore not significant. We had already baked in lower LPS income (based on 12% p.a.) for FY22E/FY23E and hence leave unchanged our estimates.
- The overdue and LPS situation is a key monitorable, particularly with the Ministry now stepping in to supersede the regulations set by CERC. The new rules lay emphasis on reducing overdue as well, the addressing of which is of prime importance.

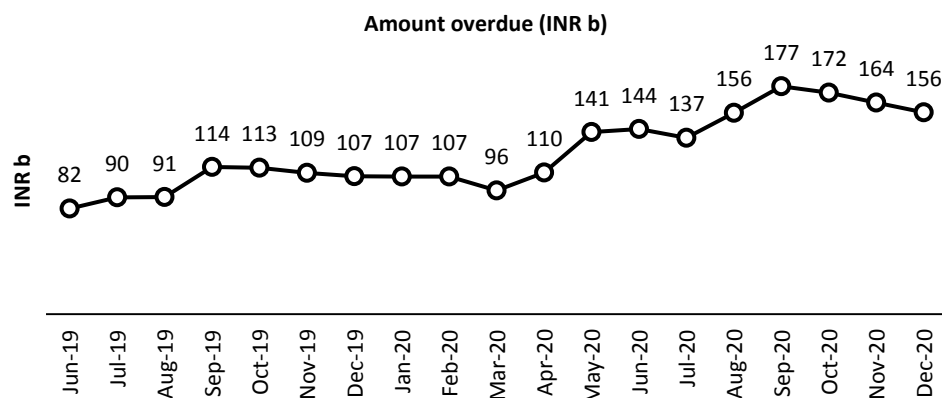
MoP's notification links LPS to MCLR

- The MoP's notification has linked the LPS rate to SBI's MCLR. As per the new rules, the rate of LPS would be equal to the one-year SBI MCLR + 500bp. This rate would increase 50bp for every month of delay, with a cap of 300bp. The LPS will be in the range of one-year MCLR + 500bp to 800bp. Currently, SBI's one-year MCLR stands at 7%, thereby implying a LPS rate of 12-15% p.a. This is lower than the fixed rate of 18% p.a. specified under CERC's tariff regulations.
- The above does not impact our estimate for NTPC. The company is currently charging 12% p.a. on its overdue (settled under the Atmanirbhar scheme). We had built in LPS income at a lower rate for FY22E/FY23E. The company's WC borrowing cost has also declined ~300bp over the past one year, thereby softening the impact of a lower LPS rate.
- The MoP has laid emphasis on reducing overdue. The notification calls for: a) settling the LPS amount first during bill payments, (which means DISCOMs cannot shy away from their LPS payments), and b) restriction on short-term purchases in case of overdue of more than seven months. The intent over here appears to provide a mechanism to control the rise in overdue, which is important.

Receivables may hold the key; Maintain Buy

- The MoP's move to step in and cut the LPS rate, prima facie, does not instill confidence as it reduces the penalty on DISCOMs on such dues. The notification also calls for measures to address the overdue situation. Reduction of these overdue, even at the cost of lower LPS income for NTPC, would be taken positively as it reduces the risk of receivables ballooning. LPS is largely a non-core income for the company and a reflection of the stretch in WC/receivables.

- Over the past one-year, NTPC's receivables have increased significantly due to impact on DISCOMs' revenues on account of the COVID-19 outbreak. Power demand continues to recover, which should improve DISCOMs' revenues. Funds from the Atmanirbhar scheme is flowing through, with NTPC receiving ~INR80b from the scheme. We expect the situation with respect to receivables to improve, which would help ease investor concerns. We remain positive on the stock with valuations at 0.8x FY22E BV and 6% dividend yield. Maintain Buy with a DCF-based target price of INR141 per share.

Exhibit 1: Amount overdue from DISCOMs (INR b)

Source: CEA, MOFSL

Exhibit 2: Amount sanctioned and disbursed under the Atmanirbhar scheme (INR b)

State	Appl. sanctioned INR b	Loans disbursed INR b	Disbursed to sanctioned amount (%)
Andhra Pradesh	84	33	39
Punjab	40	10	25
Rajasthan	65	20	31
Telangana	127	63	50
Uttar Pradesh	339	105	31
Maharashtra	143	25	17
Karnataka	72	0	0
J&K	110	60	55
Tamil Nadu	302	112	37
Others	72	34	47
Total	1,355	461	

Source: REC, Industry, MOFSL

Financials and valuations

Income Statement (INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	727,055	817,171	877,622	906,369	1,143,361	1,115,574	1,274,878	1,381,805
Change (%)	-9.8	12.4	7.4	3.3	26.1	-2.4	14.3	8.4
Expenditure	547,486	598,870	647,813	707,282	779,275	744,263	859,036	918,460
EBITDA	179,569	218,300	229,808	199,086	364,086	371,311	415,842	463,344
Margin (%)	24.7	26.7	26.2	22.0	31.8	33.3	32.6	33.5
Depreciation	52,240	60,099	74,599	76,881	103,562	118,992	135,538	151,470
EBIT	127,329	158,201	155,209	122,205	260,524	252,319	280,304	311,874
Interest	33,137	36,511	44,346	52,609	81,169	96,378	110,870	123,693
Other Income	10,576	9,668	15,583	17,953	29,085	26,150	20,344	15,768
EO reported	0	0	0	0	0	-15,867	0	0
Profit before Tax	104,768	131,358	126,446	87,550	208,441	166,223	189,778	203,949
Tax	-1,628	30,467	25,881	-32,064	93,475	33,792	41,484	44,806
Tax Rate (%)	-1.6	23.2	20.5	-36.6	44.8	20.3	21.9	22.0
Share of JVs	1,412	6,247	4,451	6,721	4,054	6,604	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	163,342	175,961
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	163,342	175,961
Change (%)	14.9	1.8	-10.9	30.3	19.2	9.1	9.6	7.7

Balance Sheet (INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Share Capital	82,455	82,455	82,455	98,946	98,946	96,967	96,967	96,967
Reserves	809,511	895,926	953,180	1,001,424	1,089,446	1,132,338	1,216,990	1,284,401
Net Worth	891,965	978,380	1,035,635	1,100,370	1,188,392	1,229,305	1,313,957	1,381,368
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	2,020,307
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	3,406,695	3,506,521	3,511,018
Gross Block	1,632,140	1,170,879	1,501,531	1,665,811	2,368,792	2,653,540	3,187,663	3,481,802
Less: Accum. Deprn.	587,180	125,562	206,147	287,597	490,764	609,756	745,294	896,764
Net Fixed Assets	1,044,959	1,045,317	1,295,385	1,378,214	1,878,028	2,043,784	2,442,369	2,585,038
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	781,736	785,765	829,499
Inventory	79,592	65,861	61,403	81,194	111,385	105,187	109,128	125,645
Account Receivables	101,740	89,995	88,122	101,477	203,708	153,055	144,280	139,478
Cash and Bank Balance	57,370	33,015	43,876	27,823	32,143	53,037	61,900	93,919
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	474,404	477,986	492,262
Payables	68,266	55,859	67,309	85,658	101,767	105,149	108,731	123,007
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	307,331	307,779	337,237
Application of Funds	2,035,181	2,138,812	2,369,337	2,765,833	3,302,849	3,406,695	3,506,521	3,511,018

Source: Company, MOFSL

Financials and valuations

Ratios								
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Basic (INR)								
EPS	9.8	10.0	8.9	11.6	13.8	15.4	16.8	18.1
Cash EPS	16.2	16.9	18.2	20.5	22.2	26.3	30.8	33.8
BV/Share	90.1	98.9	104.7	111.2	120.1	126.8	135.5	142.5
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	39.0	41.6	55.1
Valuation (x)								
P/E	11.1	10.8	12.1	9.3	7.8	7.0	6.4	5.9
Cash P/E	6.7	6.4	5.9	5.3	4.9	4.1	3.5	3.2
P/BV	1.2	1.1	1.0	1.0	0.9	0.9	0.8	0.8
EV/EBITDA	11.9	10.0	10.1	13.3	8.4	8.2	7.4	6.4
Dividend Yield (%)	2.5	3.5	3.3	5.0	2.9	5.6	6.5	9.3
Return Ratios (%)								
EBITDA Margin (%)	24.7	26.7	26.2	22.0	31.8	33.3	32.6	33.5
Net Profit Margin (%)	14.9	13.1	12.0	13.9	10.1	12.2	12.8	12.7
RoE	11.3	10.6	8.7	10.7	11.9	12.3	12.8	13.1
RoIC (Post-tax)	9.0	10.5	9.3	6.3	10.6	9.0	8.8	8.8
RoCE (Post-tax)	7.2	6.6	6.4	6.7	6.5	7.3	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	1.6	1.6	1.7
Interest Coverage 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	4.9	4.2
Net Debt/Equity	1.2	1.1	1.2	1.4	1.7	1.6	1.5	1.4

Source: Company, MOFSL

Cash Flow Statement (INR m)								
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Profit/(Loss) before Tax	101,035	137,606	132,417	83,719	222,816	169,809	204,826	220,767
Interest	41,090	35,691	44,160	52,431	80,606	96,378	110,870	123,693
Depreciation	61,534	60,099	74,599	76,881	103,562	118,992	135,538	151,470
(Inc.)/Dec. in WC	-36,422	-2,073	-58,298	-72,868	-63,198	60,233	8,416	2,560
Tax paid	-14,584	-26,263	19,257	-30,390	-36,069	-33,792	-41,484	-44,806
Others	1,452	-3,395	-15,508	53,898	-61,885	-26,150	-20,344	-15,768
CF from Operations	154,106	201,666	196,627	163,671	245,832	385,471	397,822	437,916
Capex	-232,470	-243,451	-187,559	-197,548	-180,625	-256,320	-233,161	-126,508
(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. and Div. Income	9,528	2,707	3,033	1,079	58	26,150	20,344	15,768
Others	-16,514	-8,262	-42	343	344			
CF from Investments	-222,920	-257,573	-196,099	-236,700	-302,873	-236,027	-214,573	-110,740
Issue of Shares						-27,649		
Inc./(Dec.) in Debt	80,528	150,466	145,059	224,698	232,572	62,932	15,175	-62,914
Finance cost	-83,473	-75,645	-86,058	-107,672	-133,992	-96,378	-110,870	-123,693
Dividend (incl. tax)	-33,513	-43,269	-48,669	-59,272	-37,751	-58,180	-67,877	-96,967
Others	1,252	0	0	-778	531	-9,275	-10,814	-11,583
CF from Fin. Activity	-35,206	31,552	10,333	56,976	61,361	-128,550	-174,385	-295,157
Inc./Dec. in Cash	-104,021	-24,355	10,861	-16,053	4,320	20,894	8,863	32,019
Add: Beginning Balance	161,390	57,369	33,015	43,876	27,823	32,143	53,037	61,901
Closing Balance	57,369	33,015	43,876	27,823	32,143	53,037	61,901	93,920

Source: Company, MOFSL

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