

BSE SENSEX
40,575

S&P CNX
11,968

CMP: INR115

TP: INR163(+42%)

Buy



Stock Info

Bloomberg	NTPC IN
Equity Shares (m)	9,895
M.Cap.(INRb)/(USD\$b)	1138.9 / 15.9
52-Week Range (INR)	146 / 107
1, 6, 12 Rel. Per (%)	-9/-14/-22
12M Avg Val (INR M)	1737
Free float (%)	45.5

Financials Snapshot (INR b)

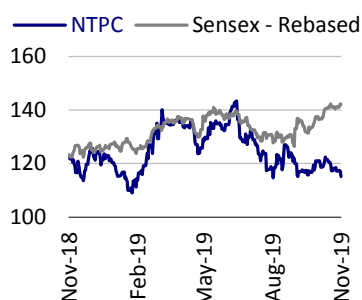
Y/E Mar	2019	2020E	2021E
Net Sales	906.4	993.3	1,099.6
EBITDA	199.1	303.8	363.1
PAT	114.6	129.8	150.4
EPS (INR)	11.6	13.1	15.2
Gr. (%)	30.3	13.2	15.9
BV/Sh (INR)	111.2	118.6	127.5
RoE (%)	10.7	11.4	12.4
RoCE (%)	6.7	6.8	7.6
P/E (x)	9.9	8.8	7.6
P/BV (x)	1.0	1.0	0.9

Shareholding pattern (%)

As On	Sep-19	Jun-19	Sep-18
Promoter	54.5	56.4	61.8
DII	30.8	28.5	23.5
FII	12.1	11.6	11.6
Others	2.6	3.5	3.1

FII Includes depository receipts

Stock Performance (1-year)



NTPC to acquire NEEPCO and THDC

Transaction value yet to be finalized

Government to sell stake in NEEPCO and THDC

- As part of the Indian government’s strategic divestment program, the cabinet has approved the stake sale in NEEPCO (GoI stake: 100%) and THDC (GoI: 74%; UP govt.: 26%) to NTPC (GoI: 54.5%).
- Details on the transaction value though are still awaited. According to our interaction with NTPC, the purchase value for these assets will be decided after an internal assessment. This process could take another 2-3 months.

THDC and NEEPCO: A hydro dominated portfolio

- THDC (~1.5GW) and NEEPCO (~1.45GW) are broadly a hydro dominated portfolio, with combined hydro capacity of 2.3GW (refer exhibits 1/2). Acquisition of the same would increase NTPC’s commercial capacity by ~5%.
- THDC – stable portfolio of hydro:** THDC operates 1.4GW of hydro plants and ~0.1GW of renewable capacity. According to tariff orders, regulated equity for its hydro portfolio stands at ~INR32b. Adj. profits were at INR8.5b for FY19, implying a core RoE of ~19-20% (base RoE: 16.5%). Overall, RoE is at ~9-10% given CWIP and WC investments.
- NEEPCO – u/r likely denting profitability:** NEEPCO’s 1.45GW of operational portfolio includes a mix of hydro (0.9GW) and thermal (0.5GW) capacities. According to our analysis of tariff orders, the regulated equity base would stand at ~INR33b. However, annual PAT for NEEPCO stands at just ~INR2b (implied PAT at 15.5% RoE should have been ~INR5b). We believe that this could be led by: (1) F/C under-recoveries for its thermal plants (given actual PAF is lower than normative availability factors) and (2) lower capital costs approval.

Value accretion dependent on transaction value and upcoming projects

- Value accretion would be dependent on the actual acquisition value and the progress on under-construction projects at THDC and NEEPCO. THDC and NEEPCO together have 2.1GW of hydro assets under construction along with other projects that are awaiting/have recently received approvals. A total of INR117b of works are under CWIP (for THDC + NEEPCO). Given the long gestation period and delays (related to clearances, resettlement & rehabilitation issues) in the commissioning of hydro projects, there remains a risk to execution timelines. NEEPCO’s Kameng (600MW) project though is expected to commission this year, which would be a positive.

- In terms of acquisition, media articles have indicated a purchase price of INR80-100b. We note that a purchase price of INR80b will lead to ~INR3-4b of PAT accretion, implying ~2% upside to our FY21 estimate. RoEs though may take a slight dip (~8bp; exhibit 6).
- We remain positive on NTPC from a medium-term perspective, given the pickup in capitalization and the decline in fuel u/r – which should drive 14% earnings CAGR over FY19-21. **Maintain Buy** with a DCF-based target price of INR163/sh. Over the near term though, the risks related to government divestment and the uncertainty on value accretion over the potential acquisition could be an overhang on the stock.

Exhibit 1: NEEPCO – operational capacity

	Capacity (MW)	FY19 Regulated Equity (INR b)
Kopili	275	2.8
Kopili PS	200	1.7
Khandong PS	50	0.8
Kopli - Stage-II	25	0.3
Doyang	75	3.4
Ranganadi	405	7.4
Turial	60	1.2
Pare Hydro	110	5.0
Hydro	925	19.8
Assam GBCPP	291	7.7
Agartala GT CCPP	135	2.6
Tripura GBPP	101	3.2
Thermal	527	13.5
Total operational	1,452	33.3

Source: NEEPCO, CERC, MOFSL

Exhibit 2: THDC – operational capacity

	Capacity (MW)	FY19 Regulated Equity (INR b)
Tehri HPP	1,000	25.4
Koteshwar	400	6.2
Hydro	1,400	31.7
Patan	50	
Devbhumi	63	
Wind	113	
Total operational	1,513	31.7

Source: THDC, CERC, MOFSL

Exhibit 3: Under-construction projects

	Capacity (MW)	Expected commissioning	Total CWIP (INR b)
NEEPCO			
Kameng	600	FY20	64.4
THDC			
Tehri	1,000	FY23	
Vishnugad Pipalkoti	444	FY23	
Dhukwan	24	FY20	
THDC	1,468		45.6

Source: NEEPCO, THDC, CERC, MOFSL

Exhibit 4: NEEPCO P&L

	FY17	FY18	FY19
Revenue	14,045	16,398	20,827
Employee	2,765	4,103	4,911
Fuel/ material cost	4,074	4,263	5,620
Gen. & admin	1,953	2,088	2,519
Total expenses	8,792	10,454	13,051
EBITDA	5,252	5,944	7,776
Depreciation	1,604	1,831	3,571
EBIT	3,649	4,113	4,205
Finance cost	299	690	1,570
Other income	253	317	1,014
PBT	3,602	3,740	3,648
Exceptional	0	-287	-867
PBT post exceptional	3,602	4,027	4,516
Tax	800	1,281	2,377
Current	800	1,296	972
Deferred	0	-15	1,405
PAT	2,803	2,746	2,139
JV associate prof	-53	99	1
Adj. PAT	2,750	2,650	1,729

Source: NEEPCO, MOFSL

Exhibit 5: THDC P&L

	FY17	FY18	FY19
Revenue	20,947	21,906	23,547
Employee	2,543	3,065	4,118
Gen. & admin	1,951	2,034	2,213
Others	45	0	499
Total expenses	4,538	5,099	6,830
EBITDA	16,409	16,807	16,717
Depreciation	5,256	5,745	5,550
EBIT	11,153	11,062	11,167
Finance cost	2,911	2,279	1,757
Other income	1,412	381	823
PBT	9,655	9,164	10,234
Exceptional	1,615	55	-4,883
PBT post exceptional	8,041	9,109	15,116
Tax	901	1,397	2,560
Current	1,715	1,906	3,228
Deferred	-814	-508	-668
PAT	7,139	7,712	12,556
Adj. PAT	8,573	7,759	8,500

Source: THDC, MOFSL

Exhibit 6: Sensitivity to purchase price

		NTPC	NTPC+ THDC + NEEPCO		
		Current est.	Purchase price of INR80b	Purchase price of INR90b	Purchase price of INR100b
FY21 Consol PAT	INRb	150	154	153	152
PAT change	%		2.2	1.8	1.4
FY21 RoE	%	12.4	12.3	12.3	12.3
RoE change	bps		-8.4	-8.6	-8.8

Source: NEEPCO, THDC, CERC, MOFSL

Financials and Valuations

Income Statement							(INR Million)	
Y/E Mar	2014	2015	2016	2017	2018	2019	2020E	2021E
Net Sales	789,506	806,220	727,055	817,171	877,622	906,369	993,333	1,099,610
Change (%)	20.1	2.1	-9.8	12.4	7.4	3.3	9.6	10.7
EBITDA	197,106	171,941	179,569	218,300	229,808	199,086	303,807	363,133
EBITDA Margin (%)	25.0	21.3	24.7	26.7	26.2	22.0	30.6	33.0
Depreciation	47,700	55,646	52,240	60,099	74,599	76,881	88,696	104,077
EBIT	149,406	116,295	127,329	158,201	155,209	122,205	215,111	259,056
Interest	32,031	35,704	33,137	36,511	44,346	52,609	69,064	82,871
Other Income	27,601	20,789	10,576	9,668	15,583	17,953	18,043	13,853
Extraordinary items	-119	3,182	0	0	0	0	0	0
PBT	144,858	104,562	104,768	131,358	126,446	87,550	164,090	190,038
Tax	30,824	4,638	-1,628	30,467	25,881	-32,064	41,158	47,740
Tax Rate (%)	21.3	4.4	-1.6	23.2	20.5	-36.6	25.1	25.1
Min. Int. & Assoc. Share	0	0	-204	-57	-425	-66	-57	-57
Reported PAT	114,034	99,924	108,012	107,196	105,440	126,400	129,775	150,398
Adjusted PAT	91,496	87,596	96,957	98,717	87,992	114,614	129,775	150,398
Change (%)	-16.6	-4.3	10.7	1.8	-10.9	30.3	13.2	15.9

Balance Sheet							(INR Million)	
Y/E Mar	2014	2015	2016	2017	2018	2019	2020E	2021E
Share Capital	82,455	82,455	82,455	82,455	82,455	98,946	98,946	98,946
Reserves	790,843	738,485	809,511	895,926	953,180	1,001,424	1,074,206	1,162,863
Net Worth	873,297	820,940	891,965	978,380	1,035,635	1,100,370	1,173,152	1,261,808
Debt	814,549	1,022,520	1,120,194	1,137,551	1,300,143	1,616,818	1,688,579	1,709,681
Deferred Tax	12,393	12,656	14,094	14,849	24,081	41,997	41,997	41,997
Total Capital Employed	1,707,044	1,864,995	2,035,181	2,138,812	2,369,337	2,765,833	2,910,376	3,020,135
Gross Fixed Assets	1,313,937	1,443,608	1,632,140	1,170,879	1,501,531	1,665,811	2,006,253	2,448,026
Less: Acc Depreciation	471,858	525,077	587,180	125,562	206,147	287,597	376,293	480,370
Net Fixed Assets	842,080	918,530	1,044,959	1,045,317	1,295,385	1,378,214	1,629,961	1,967,657
Capital WIP	538,250	675,547	815,497	868,957	820,931	1,067,775	942,270	707,897
Investments	16,635	141	148	78,023	92,515	81,000	85,971	85,971
Current Assets	603,487	601,543	543,886	492,677	534,851	646,976	640,196	651,523
Inventory	59,885	79,725	79,592	65,861	61,403	81,194	75,539	80,426
Debtors	67,257	92,499	101,740	89,995	88,122	101,477	99,027	106,286
Cash & Bank	186,876	161,390	57,370	33,015	43,876	27,823	29,148	28,330
Loans & Adv, Others	289,470	267,929	305,185	303,806	341,450	436,482	436,482	436,482
Curr Liabs & Provns	293,408	330,766	369,310	346,162	374,344	408,131	388,022	392,913
Curr. Liabilities	293,408	330,766	369,310	346,162	374,344	408,131	388,022	392,913
Net Current Assets	310,080	270,777	174,577	146,515	160,507	238,845	252,174	258,610
Total Assets	1,707,044	1,864,995	2,035,181	2,138,812	2,369,337	2,765,833	2,910,376	3,020,135

Financials and Valuations

Ratios

Y/E Mar	2014	2015	2016	2017	2018	2019	2020E	2021E
Basic (INR)								
EPS	9.2	8.9	9.8	10.0	8.9	11.6	13.1	15.2
Cash EPS	16.3	15.7	16.2	16.9	18.2	20.5	22.1	25.7
Book Value	88.3	83.0	90.1	98.9	104.7	111.2	118.6	127.5
DPS	4.6	4.6	2.7	3.8	3.6	3.6	4.8	5.2
Payout (incl. Div. Tax.)	39.9	45.5	24.6	35.3	33.8	28.0	36.6	34.2
Valuation(x)								
P/E	10.1	11.6	10.7	10.8	11.0	9.1	8.9	7.7
Cash P/E	7.1	7.4	7.2	6.9	6.4	5.7	5.3	4.5
Price / Book Value	1.3	1.4	1.3	1.2	1.1	1.0	1.0	0.9
EV/Sales	2.3	2.5	3.1	2.8	2.7	3.0	2.8	2.6
EV/EBITDA	10.2	12.6	13.2	10.8	11.4	14.7	9.3	7.8
Dividend Yield (%)	3.9	3.9	2.3	3.3	3.1	3.1	4.1	4.5
Profitability Ratios (%)								
RoE	10.9	10.0	11.3	10.6	8.7	10.7	11.4	12.4
RoCE	8.5	7.3	7.2	6.0	5.8	7.8	6.2	6.9
RoIC	13.7	11.2	11.8	10.5	9.6	11.1	9.4	9.6
Turnover Ratios (%)								
Asset Turnover (x)	1.1	0.9	0.7	0.8	0.7	0.7	0.7	0.6
Debtors (No. of Days)	31	42	51	40	37	41	36	35
Inventory (No. of Days)	37	46	53	40	35	42	40	40
Leverage Ratios (%)								
Net Debt/Equity (x)	0.7	1.0	1.2	1.1	1.2	1.4	1.4	1.3

Cash Flow Statement

(INR Million)

Y/E Mar	2014	2015	2016	2017	2018	2019	2020E	2021E
Adjusted EBITDA	174,568	159,613	168,514	209,821	212,360	187,300	303,807	363,133
Non cash opr. exp (inc)	49,633	35,881	35,146	23,574	38,815	25,731	24,886	21,954
(Inc)/Dec in Wkg. Cap.	-13,109	-11,694	-36,422	-2,073	-58,298	-72,868	-12,005	-7,254
Tax Paid	-26,867	-20,100	-14,584	-26,263	19,257	-30,390	-41,158	-47,740
Other operating activities	-18,917	-16,242	1,452	-3,395	-15,508	53,898	-18,043	-13,853
CF from Op. Activity	165,308	147,459	154,106	201,666	196,627	163,671	257,486	316,239
(Inc)/Dec in FA & CWIP	-189,485	-191,772	-232,470	-243,451	-187,559	-197,548	-214,938	-207,399
Free cash flows	-24,176	-44,314	-78,364	-41,785	9,068	-33,877	42,548	108,840
(Pur)/Sale of Invt	16,225	16,391	16,536	3,436	0	0	0	0
Others	37,017	17,182	-6,986	-17,558	-8,539	-39,152	13,072	13,853
CF from Inv. Activity	-136,243	-158,200	-222,920	-257,573	-196,099	-236,700	-201,866	-193,546
Inc/(Dec) in Net Worth	0	0	0	0	0	0	0	0
Inc / (Dec) in Debt	93,854	205,811	80,528	150,466	145,059	224,698	71,761	21,103
Interest Paid	-62,429	-72,371	-83,473	-75,645	-86,058	-107,672	-69,064	-82,871
Divd Paid (incl Tax) & Others	-58,516	-148,185	-32,261	-43,269	-48,669	-60,049	-56,993	-61,742
CF from Fin. Activity	-27,091	-14,745	-35,206	31,552	10,333	56,976	-54,295	-123,511
Inc/(Dec) in Cash	1,975	-25,486	-104,021	-24,355	10,861	-16,053	1,324	-818
Add: Opening Balance	184,902	186,876	161,390	57,369	33,015	43,876	27,823	29,148
Closing Balance	186,876	161,390	57,369	33,015	43,876	27,823	29,148	28,330

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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