EVENT UPDATE

NTPC

THDC and NEEPCO: Value-accretive hydro-power M&As

India Equity Research| Power

We reckon NTPC's acquisition of the Government of India's stakes in THDC and NEEPCO for INR115bn is 3% EPS-accretive. They are also neat strategic fits in NTPC's renewable aspirations. In our view: i) the acquisitions provide NTPC a toehold in renewables with 5GW of capacity (3GW operational), thereby skirting low-RoE solar/wind capex; ii) THDC's RoE profile is robust, but NEEPCO's is sub-par and needs a turnaround (ample scope to soup up operational and financial efficiencies worth INR7bn); iii) NTPC's D/E remains robust at less than 1.5x post-acquisition; and iv) the acquisitions at INR115bn are 10% costlier than our expectation, but still value-accretive. NTPC is back on the growth trajectory (17% EPS growth in FY20), and this should sustain. With no more divestment risks overhanging the company and the stock's attractive valuation, we retain 'BUY' on NTPC— top pick.

Beneficial acquisition; focus on raising efficiency/profitability

NTPC announced the acquisition of GoI's 100% stake in two power companies—THDC (GoI holding 75%) and NEEPCO (100% GoI holding) for INR75bn and INR40bn, respectively. The approved regulated equity is about INR62bn for both companies, and INR25bn is likely to be added over the next six months upon commercialisation of capacity aggregating 600MW. We observe THDC's returns profile passes muster (superior regulated RoE of 20%-plus), but NEEPCO's operating performance needs a leg-up given its lacklustre RoE of 8%. Taking a cue from NTPC's superior returns in Koldam, it can squeeze out maximum benefit from both via cost/debt-optimisation.

Deal EPS-accretive right away

At a combined valuation of INR115bn, the deal is 3% EPS-accretive on FY21 earnings (without taking into account any synergies). The valuation on FY19 P/BV at 0.9x looks a tad expensive, but there is great scope to soup-up earnings over the next two years by: i) reducing PAF-based under-recoveries worth INR2bn at NEEPCO; ii) controlling high O&M charges and slashing them by INR3bn at THDC/NEEPCO; iii)interest cost savings of INR1bn post sharing benefits; and iv) releasing INR15bn worth of working capital .

Outlook and valuation: Set for growth; maintain 'BUY'

We see the two acquisitions as strategic fits to NTPC's big renewable aspirations. Taking a long-term view stretching to FY23/24, NTPC can add INR16bn-plus to its earnings (15% RoE), which is significantly IRR/ROE-accretive. NTPC is trading at an attractive P/BV and P/E of 0.7x /6x FY21E; retain '**BUY/SO**' with a TP of INR145.

Financials **(INR mn)**

Year to March	FY19	FY20E	FY21E	FY22E
Revenues	903,074	938,584	1,092,788	1,225,433
EBITDA	227,715	276,098	328,995	371,418
Adjusted Profit	106,160	121,949	139,048	160,106
Adjusted diluted EPS (INR)	10.7	12.3	14.1	16.2
Price/BV (x)	0.7	0.7	0.7	0.6
ROAE (%)	10.1	11.1	12.0	13.0

EDELWEISS 4D RATINGS

Absolute Rating	**BUY**
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Low
Sector Relative to Market	Underweight

MARKET DATA *(R: NTPC.BO, B: NTPC IN)*

CMP	: INR 81
Target Price	: INR 145
52-week range (INR)	: 146 / 75
Share in issue (mn)	: 9,894.6
M cap (INR bn/USD mn)	: 801 / 10,686
Avg. Daily Vol.BSE/NSE('000)	: 14,483

SHARE HOLDING PATTERN (%)

	Current	Q2FY20	Q1FY20
Promoters *	54.1	54.5	56.4
MF's, FI's & BK's	30.6	30.8	28.4
FII's	12.8	12.1	11.6
Others	2.5	2.6	3.5

** Promoters pledged shares (% of share in issue) : NIL*

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Power Index
1 month	(27.0)	(26.0)	(23.3)
3 months	(31.6)	(28.7)	(28.0)
12 months	(43.4)	(24.7)	(33.3)

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This does not factor in INR7bn plus (including INR 1bn lower interest cost) efficiencies that can potentially accrue over the next 2-3 years

Table 1: Proforma combined financial statement

	THDC	NEPCO		NTPC	
INR mn	**(FY19)**	**(FY19)**	**Sub Total**	**(FY20)**	**Combined**
Profit and Loss *					
Revenue	23,493	17,475	35,094	9,38,584	9,73,678
EBITDA	18,004	6,709	20,212	2,76,098	2,96,309
PAT	9,424	2,382	9,450	1,21,949	1,31,399
Balance sheet					
Networth	92,808	63,013	1,55,821	11,30,178	12,85,999
Debt (LT + ST)	38,704	69,012	1,07,716	15,15,710	16,23,426
Net Fixed assets	68,303	62,641	1,30,944	14,20,203	15,51,147
CWIP	45,571	71,187	1,16,759	8,97,174	10,13,933
Receivable	17,013	6,345	23,358	83,253	1,06,611
Receivable days	224	107	173	32	40
Ratios					
RoE (%)	10.2	3.8	6.1	10.8	10.2
D/E (x)	0.4	1.1	0.7	1.3	1.3
Debt / EBITDA (x) **	2.1	10.3	5.3	5.5	5.5
EV/EBITDA (x) ***	7.7	16.1	12.2	5.7	5.7
P/E (x)	10.6	16.8	14.8	6.5	7.1
P/BV (x)	1.1	0.6	0.9	0.7	0.7

** Note : Last 3 year average for THDC and NEPCO*

*** Debt (ex-CWIP) / EBITDA stands at 0.4 / 2.9x for THDC and NEPCO respectively*

**** EV (ex-CWIP debt) / EBITDA stands at 5.9/8.7x for THDC and NEPCO respectively*

Table 2: Acquisition 3% value accretive

Cost of Debt (%)	Combined EPS	Accretion to FY20 EPS (%)
6.75	12.7	3.0%
7.00	12.7	2.8%
7.25	12.6	2.6%
7.50	12.6	2.4%
7.75	12.6	2.3%
8.00	12.6	2.1%
8.25	12.6	1.9%

Table 3: NEEPCO existing capacity

Plant	PAF (%)	MW
Kopili HEP	84.0	275
Doyang HEP	59.7	75
Rangandi HEP	82.5	405
Tuirial HEP	51.0	60
Pare HEP	85.7	110
Total Hydro		**925**
Assam Gas Power Plant	64.2	291
Agartala Gas Power Plant	60.2	135
Tripura Gas Power Plant	79.3	101
Total Thermal		**527**
Solar PV Power project	**16.2**	**5**
Total capacity		**1,457**

Source: Company, Edelweiss research

Table 4: THDC existing capacity

Plant	PAF (%)	MW
Tehri HPP	84.5	1,000
Koteshwar HEP	68.0	400
Total Hydro	**79.8**	**1,400**
Patan Wind	24.7	50
Devbhumi Dwarka	29.0	63
Total wind	**27.1**	**113**
Total capacity		**1,513**

Table 5: Key financials of THDC and NEEPCO

	THDC			NEEPCO		
Particulars	**FY17**	**FY18**	**FY19**	**FY17**	**FY18**	**FY19**
Income statement						
Revenue	**20,947**	**21,851**	**27,680**	**14,045**	**16,684**	**21,694**
Material cost				4,074	4,263	5,620
Employee	2,543	3,065	4,118	2,765	4,103	4,911
Other expenses	1,996	2,034	2,712	1,953	2,088	2,519
EBITDA	**16,409**	**16,752**	**20,850**	**5,252**	**6,230**	**8,644**
EBITDA margin (%)	***78.3***	***76.7***	***75.3***	***37.4***	***37.3***	***39.8***
Dep	5,256	5,745	5,550	1,604	1,831	3,571
EBIT	**11,153**	**11,007**	**15,300**	**3,649**	**4,400**	**5,073**
Interest	2,911	2,279	1,757	299	690	1,570
Other income	1,412	381	823	253	317	1,014
PBT	**9,655**	**9,109**	**14,366**	**3,602**	**4,027**	**4,516**
Tax	901	1,397	2,560	1,343	1,281	2,376
APAT	**8,754**	**7,712**	**11,806**	**2,260**	**2,746**	**2,140**
PAT margin (%)	***41.8***	***35.3***	***42.7***	***16.1***	***16.5***	***9.9***
Balance sheet						
Equity	81,008	85,113	92,808	58,928	61,550	63,013
Debt	44,291	30,619	38,704	59,257	65,091	69,012
CWIP	30,353	39,503	45,571	79,933	93,867	71,187
Cash and Bank balance	3,174	514	525	2,693	3,361	986
Net Debt	41,117	30,105	38,179	56,564	61,730	68,026
Net Debt / Equity	***0.5***	***0.4***	***0.4***	***1.0***	***1.0***	***1.1***
Average regulated Equity			31,600			30,400
Implied RoE (%)	***27.7***	***24.4***	***37.4***	***7.4***	***9.0***	***7.0***
Receivables	17,323	13,073	17,013	4,411	4,584	6,345
Receivable days	***302***	***218***	***224***	***115***	***100***	***107***
Cashflow						
Operating CF	17,917	19,321	15,383	10,338	7,778	6,348
Investing CF	-18,185	-8,594	-12,294	-11,702	-9,043	-6,433
Financing CF	-822	-15,881	-8,895	-423	1,933	-2,290

Table 6: SoTP

	Value	Comments	Multiple	Comments	Value	Per share
Regulated equity	7,02,796	June 2020E reg equity	1.45	(RoE-g)/(CoE-g)	10,21,982	102
Equity infused in CWIP	2,73,620	PV of FY19 CWIP	1.00	At equity value	2,73,620	28
Investments & Cash	1,52,903	FY19 book	1.00	At book value	1,52,903	15
Total					**14,48,505**	**145**

Source: Company, Edelweiss research

Company Description

NTPC, set up in 1975, is India's largest power generation company with 53.6GW installed capacity (including 7GW from JVs). With 21GW of under construction projects, NTPC is looking to commercialize 4-5GW of capacity each year for the next two years. In near term NTPC is committed to set up 10GW renewable portfolio by 2022. Over the long term NTPC plans to expand its generation portfolio to 130GW by 2032 with 30% of the basket from non-fossil fuel based capacity. Further NTPC has forayed into coal mining operations with multiple mines under various phases of development.

Investment Theme

Regulated returns: NTPC currently has ~45GW of operational capacity (standalone) under the regulated model with pipeline capacity of ~30-35GW plus signed under the regulated model. This enables it to pass on increase in costs, limiting the impact on profitability.

- High efficiency gains: While the current regulation permits post tax RoE of 15.5% (along with PAF based incentive), on regulated equity the company has been able to earn RoE of ~19-20% on the regulated book due to highly efficient plants and economies of scale.
- Inorganic growth opportunities: Ensuing consolidation in thermal space at attractive valuations provides growth opportunities for NTPC given its scale and PPA pipeline in PPA.
- Fuel security: The company has secured fuel supplies through FSAs with CIL in the past; incrementally, the coal blocks being developed should improve NTPC's fuel security.

Key Risks

Delay in execution of capex: Any delay in execution of pipeline projects could result in downside from the estimated earnings/valuations.

- SEB delays: While NTPC makes due efforts to maintain adequate LCs for sale of power to SEBs, failure to secure timely payments is a risk to the working capital cycle and hence earnings.

- Fuel supplies: Fuel non-availability could impact PLF's/PAF's resulting into higher than estimated fixed cost under-recoveries impacting RoE's.

Financial Statements

Key Assumptions

Year to March	FY19	FY20	FY21E	FY22E
Macro				
GDP(Y-o-Y %)	6.8	4.8	5.0	6.0
Inflation (Avg)	3.4	4.3	4.5	5.0
Repo rate (exit rate)	6.3	5.2	4.0	4.0
USD/INR (Avg)	70.0	70.7	75.0	73.0
Sector				
Merchant prices(INR/kWh)	3.9	3.5	3.5	3.5
Company				
Commercial cap. add.(MW)	1,225	3,970	3,500	3,500
Ending comm. cap.(MW)	45,725	49,695	53,195	56,695
Closing Reg. Eqty(INRmn)	539,890	616,424	685,246	755,445

Income statement **(INR mn)**

Year to March	FY19	FY20	FY21E	FY22E
Income from operations	903,074	938,584	1,092,788	1,225,433
Direct costs	552,074	532,146	628,587	712,627
Employee costs	47,799	47,402	50,302	52,255
Other Expenses	75,486	82,938	84,903	89,132
Total operating expenses	675,359	662,486	763,792	854,015
EBITDA	227,715	276,098	328,995	371,418
Depreciation	72,544	87,816	94,671	105,669
EBIT	155,171	188,282	234,324	265,749
Less: Interest Expense	47,167	66,691	61,995	64,193
Add: Other income	18,721	18,018	13,069	11,918
Profit Before Tax	88,312	169,374	185,398	213,475
Less: Provision for Tax	(29,187)	47,425	46,349	53,369
Add: Exceptional items	(38,413)	29,765	-	-
Reported Profit	117,499	121,949	139,048	160,106
Exceptional Items	11,339	-	-	-
Adjusted Profit	106,160	121,949	139,048	160,106
Shares o /s (mn)	9,895	9,895	9,895	9,895
Adjusted Basic EPS	10.7	12.3	14.1	16.2
Diluted shares o/s (mn)	9,895	9,895	9,895	9,895
Adjusted Diluted EPS	10.7	12.3	14.1	16.2
Adjusted Cash EPS	18.1	21.2	23.6	26.9
Dividend per share (DPS)	6.1	5.5	7.7	8.1
Dividend Payout Ratio(%)	61.4	54.0	55.0	50.0

Common size metrics

Year to March	FY19	FY20	FY21E	FY22E
Operating expenses	74.8	70.6	69.9	69.7
Depreciation	8.0	9.4	8.7	8.6
Interest Expense	5.2	7.1	5.7	5.2
EBITDA margins	25.2	29.4	30.1	30.3
Net Profit margins	11.8	13.0	12.7	13.1

Growth ratios (%)

Year to March	FY19	FY20	FY21E	FY22E
Revenues	8.2	3.9	16.4	12.1
EBITDA	5.1	21.2	19.2	12.9
PBT	(43.4)	91.8	9.5	15.1
Adjusted Profit	13.8	14.9	14.0	15.1
EPS	(5.1)	14.9	14.0	15.1

Balance sheet (INR mn)

As on 31st March	FY19	FY20	FY21E	FY22E
Share capital	98,946	98,946	98,946	98,946
Reserves & Surplus	975,136	1,031,233	1,093,805	1,173,858
Shareholders' funds	1,074,082	1,130,178	1,192,750	1,272,803
Long term borrowings	1,196,981	1,283,718	1,357,636	1,413,984
Short term borrowings	231,992	231,992	231,992	231,992
Total Borrowings	1,428,973	1,515,710	1,589,628	1,645,976
Long Term Liabilities	19,512	19,512	19,512	19,512
Def. Tax Liability (net)	42,001	42,001	42,001	42,001
Deferred revenue	21,394	21,394	21,394	21,394
Sources of funds	**2,585,962**	**2,728,796**	**2,865,285**	**3,001,687**
Gross Block	1,529,761	1,784,873	2,014,281	2,248,277
Net Block	1,252,907	1,420,203	1,554,940	1,683,268
Capital work in progress	912,067	897,174	902,848	896,220
Intangible Assets	3,299	3,299	3,299	3,299
Total Fixed Assets	2,168,273	2,320,677	2,461,088	2,582,787
Non current investments	131,459	138,032	144,934	152,181
Cash and Equivalents	21,443	11,187	5,555	4,208
Inventories	79,880	60,895	63,602	69,817
Sundry Debtors	84,339	83,253	91,829	104,796
Loans & Advances	22,745	22,745	22,745	22,745
Other Current Assets	400,638	410,638	411,138	411,638
Current Assets (ex cash)	587,602	577,531	589,314	608,996
Trade payable	75,509	62,380	69,962	80,840
Other Current Liab	247,307	256,252	265,644	265,644
Total Current Liab	322,816	318,632	335,606	346,485
Net Curr Assets-ex cash	264,786	258,899	253,708	262,511
Uses of funds	**2,585,962**	**2,728,796**	**2,865,285**	**3,001,687**
BVPS (INR)	108.6	114.2	120.5	128.6

Free cash flow (INR mn)

Year to March	FY19	FY20	FY21E	FY22E
Reported Profit	117,499	121,949	139,048	160,106
Add: Depreciation	72,544	87,816	94,671	105,669
Interest (Net of Tax)	62,756	48,018	46,497	48,145
Others	(80,596)	18,674	15,499	16,048
Less: Changes in WC	(11,898)	5,887	5,191	(8,804)
Operating cash flow	160,305	282,343	300,906	321,165
Less: Capex	198,466	240,220	235,082	227,368
Free Cash Flow	**(38,161)**	**42,123**	**65,824**	**93,797**

Cash flow metrics

Year to March	FY19	FY20	FY21E	FY22E
Operating cash flow	160,305	282,343	300,906	321,165
Financing cash flow	48,277	(45,807)	(64,554)	(87,898)
Investing cash flow	(208,942)	(246,793)	(241,984)	(234,614)
Net cash Flow	(361)	(10,256)	(5,632)	(1,348)
Capex	(198,466)	(240,220)	(235,082)	(227,368)
Dividend paid	(72,191)	(65,853)	(76,477)	(80,053)

Profitability and efficiency ratios

Year to March	FY19	FY20	FY21E	FY22E
ROAE (%)	10.1	11.1	12.0	13.0
ROACE (%)	7.3	7.9	9.0	9.7
Inventory Days	46	48	36	34
Debtors Days	32	33	29	29
Payable Days	43	47	38	39
Cash Conversion Cycle	35	34	27	25
Current Ratio	1.8	1.8	1.7	1.7
Gross Debt/EBITDA	6.3	5.5	4.8	4.4
Gross Debt/Equity	1.3	1.3	1.3	1.3
Adjusted Debt/Equity	1.3	1.3	1.3	1.3
Interest Coverage Ratio	3.3	2.8	3.8	4.1

Operating ratios

Year to March	FY19	FY20	FY21E	FY22E
Total Asset Turnover	0.4	0.4	0.4	0.4
Fixed Asset Turnover	0.7	0.7	0.7	0.8
Equity Turnover	0.9	0.9	0.9	1.0

Du pont analysis

Year to March	FY19	FY20	FY21E	FY22E
Net Profit Margin	11.8	13.0	12.7	13.1
Total Asset Turnover	0.4	0.4	0.4	0.4
Leverage Multiplier	2.4	2.4	2.4	2.4
ROAE (%)	10.1	11.1	12.0	13.0

Valuation parameters

Year to March	FY19	FY20	FY21E	FY22E
Adj. Diluted EPS (INR)	10.7	12.3	14.1	16.2
Y-o-Y growth (%)	*(5.1)*	*14.9*	*14.0*	*15.1*
Adjusted Cash EPS (INR)	18.1	21.2	23.6	26.9
Diluted P/E (x)	7.4	6.5	5.7	4.9
P/B (x)	0.7	0.7	0.7	0.6
EV / Sales (x)	2.4	2.4	2.2	2.0
EV / EBITDA (x)	9.6	8.3	7.2	6.5
Dividend Yield (%)	7.6	7.0	9.7	10.2

Additional Data

Directors Data

Shri Gurdeep Singh	Chairman and Managing Director	Shri K. Sreekant	Director (Finance)
Shri S.K. Roy	Director (Projects)	Shri P.K. Mohapatra	Director (Technical)
Shri S. Roy	Director (Human Resources)	Shri Prakash Tiwari	Director (Operations)
MS. Archana Agarwal	Government Nominee Director	Dr. Gauri Trivedi	Independent Director
Shri S Chander	Independent Director	Shri M. P. Singh	Independent Director
Shri P. K. Deb	Independent Director		

Auditors - M/s T R Chadha & Co LLP; M/s S.N. Dhawan & Co. LLP; M/s Sagar & Associates; M/s Kalani & Co., M/s P A & Associates; M/s S.K. Kapoor & Co., ; M/s B M Chatrath & Co LLP

Holding – Top10

	Perc. Holding		Perc. Holding
Government of india	51.02	Life insurance corp	10.47
Icici prudential ass	6.67	Hdfc asset managemen	4.2
Reliance capital tru	4.11	Capital group compan	1.64
T rowe price group i	1.13	Sbi funds management	1.12
Aditya birla sun lif	1.03	Franklin resources	0.91

in last one year

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

in last one year

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
03 Apr 2019	The President Of India (Acting Through The Ministry Of Power)	Sell	165151343.00

in last one year

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Adani Power	REDUCE	SU	H	CESC	BUY	None	None
India Grid Trust	BUY	SP	M	JSW Energy	BUY	SO	M
NTPC	BUY	SO	L	Power Grid Corp of India	BUY	SO	L
PTC India	BUY	None	None	Tata Power Co	BUY	SP	M

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Coverage group(s) of stocks by primary analyst(s): ***Power***

Adani Power, Adani Transmission, CESC, India Grid Trust, JSW Energy, NTPC, PTC India, Power Grid Corp of India, Tata Power Co

Recent Research

Date	Company	Title	Price (INR)	Recos
26-Mar-20	**Power**	Merchant power producers: Brace for demand shock; *Sector Update*		
23-Mar-20	**Power**	Indian utilities: High margin of safety amid volatility; *Sector Update*		
17-Mar-20	**India Grid Trust**	A VUCA vaccine…; *Company Update*	96	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

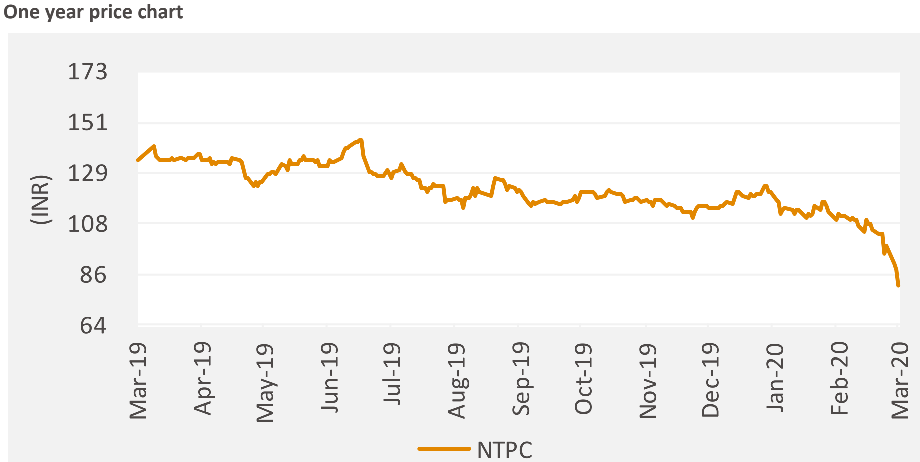
	Buy	Hold	Reduce	Total
Rating Distribution* * 1stocks under review	161	67	11	240

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	156	62	11

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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