

Acquisition at reasonable valuations...

NTPC has acquired 100% and ~75% equity stake in North Eastern Electric Power Corporation (Neepco), THDC, respectively, from Government of India for a cash consideration of ₹ 4000 crore, ₹ 7500 crore, respectively. Neepco has an operating capacity of 1457 MW with another 600 MW under construction and is expected to be operational by July 2020. On the other hand, THDC has an operational capacity to the tune of 1513 MW while capacity to the tune of 2823 MW is under construction. All these projects are expected to get operationalised in FY23-24. Most operating assets acquired are hydro based assets i.e. 2325 MW.

Acquisition multiples reasonable...

The acquisition multiple ascribed is reasonable as Neepco has been acquired at P/BV multiple of 0.6x on FY19 financials (latest available) while on an equity/MW basis the valuation works out to ₹ 1.9 crore/MW (operational plus under construction capacity). Similarly, THDC has been acquired at a P/BV multiple of 1.1x on FY19 financials while on an equity/MW basis, the valuation works out to ₹ 2.9 crore/MW (operational plus under construction capacity). This acquisition will help NTPC diversify its thermal based portfolio as non-thermal capacity before this event was just 800 MW. Post this arrangement, hydro capacity operation will be 3125 MW or 5% of the total consolidated portfolio. NTPC has a target to have 40% of the portfolio from the non-thermal segment by 2032.

THDC to entail capex in FY21-24 for three projects

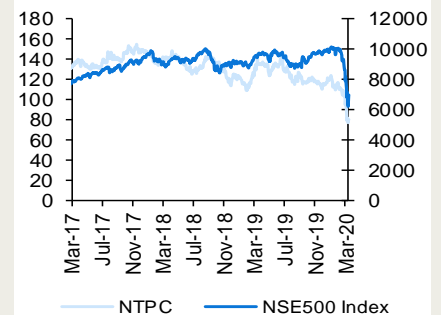
THDC currently has three major projects under construction that will all get commissioned in FY23-24. This includes two hydro projects: a) Tehri PSP (1000 MW, capex spent is ₹ 3293 crore as on February 2020 and project to be commercialised by June 2022), b) Vishnugad (444 MW, capex spent is ₹ 1883 crore as on February 2020 and project to be commercialised by June 2022). The third project is Khurja Thermal on which ₹ 1228 crore has been spent. Capex pegged for this project (main plant plus mine development) is ₹ 12676 crore. So, cumulatively, NTPC would be spending ₹ 15000-16000 crore in FY21E-24E on the above-mentioned projects. For Neepco, majority of the capex is over as the only under construction project Kameng (600 MW) is likely to get fully commissioned by June-July 2020.

Valuation & Outlook

The acquisition will help NTPC diversify from the traditional thermal portfolio. However, in the medium term, aggressive addition in coal-based plants will keep diversification under check. Hence, we believe this will keep the investment multiples for NTPC under check. Optically, valuation at 0.7x may look attractive but the same will not appeal to investors due to skewness on the thermal front. We maintain **HOLD** with a TP of ₹ 90/share.



Price chart



Key Highlights

- NTPC will pay ₹ 11500 crore for acquiring 100% and 75% stake in Neepco (₹ 4000 crore) and THDC (₹ 7500 crore), respectively
- Neepco has a total portfolio of 2057 MW while THDC will have a fully operationalised portfolio of 4351 MW by FY24 (1513 MW is operational as of now)
- Maintain **HOLD** rating with revised target price of ₹ 90

Research Analyst

Chirag J Shah
shah.chirag@icicisecurities.com

Key Financial Summary

(₹ Crore)	FY18	FY19E	FY20E	FY21E	CAGR (FY19-21E)
Net Sales	83453	90507	99140	107551	9%
EBITDA	21667	22971	25606	28045	10%
Net Profit	9790	10766	11885	12789	9%
EPS (₹)	11.9	12.1	12.0	12.9	
PE (x)	10.1	9.9	10.0	9.3	
EV/EBITDA (x)	8.9	9.5	8.8	8.4	
P/BV (x)	1.0	1.1	1.1	1.0	
RoNW (%)	9.6	14.8	10.5	10.7	
RoCE (%)	7.9	6.3	5.2	6.0	

Source: Company, ICICI Direct Research

Key Charts (Neepeco)

Exhibit 1: Portfolio details

Neepeco	Operational Portfolio (MW)	Under construction (MW)	Total
Hydro Power	925.0	600.0	1,525.0
Wind	527.0	-	527.0
Thermal	-	-	0.0
Solar	5.0	-	5.0
Total	1,457.0	600.0	2,057.0

Source: Company, ICICI Direct Research

Exhibit 2: Financials

Financials (₹crore)	FY17	FY18	FY19
Sales	1,430	1,665	2,108
PAT	226	274	214
Networth	5,850	6,131	6,301
Debt	6,031	6,660	7,052
CWIP	7,993	9,386	7,118
Debt: E equity (x)	1.0	1.1	1.1

Source: Company, ICICI Direct Research

Exhibit 3: Matrices at total capacity & operational capacity

Deal Matrices (at 100% stake)			
Equity Value	4,000	Equity Value	4,000
Debt (FY 19)	7,052	Debt (FY 19)	7,052
Total capacity	2,057	Operational capacity	1,457
EV/MW	5	EV/MW	8
Equity/MW (₹crore)	2	Equity/MW (₹crore)	3
P/BV	1		

Source: Company, ICICI Direct Research

Key Charts (THDC)

Exhibit 4: Portfolio Details

THDC	Operational (MW)	Under construction (MW)	Total
Hydro Power	1,400.0	1,468.0	2,868.0
Wind	113.0	-	113.0
Thermal	-	1,320.0	1,320.0
Solar	-	50.0	50.0
Total	1,513.0	2,838.0	4,351.0

Source: Company, ICICI Direct Research

Exhibit 5: Financials

Financials (₹crore)	FY17	FY18	FY19
Sales	2,095	2,185	2,768
PAT	714	771	1,256
Networth	8,101	8,511	9,281
Debt	4,804	4,075	4,415
CWIP	3,035	3,950	4,557
Debt: E equity (x)	0.6	0.5	0.5

Source: Company, ICICI Direct Research

Exhibit 6: Matrices at total capacity & operational capacity

Deal Matrices (at 100% stake)			
E equity Value	10,000	E equity Value	10,000
Debt (FY 19)	4,415	Debt (FY 19)	4,415
Total capacity	4,351	Operational capacity	1,513
EV/MW	3	EV/MW	10
E equity/MW (₹crore)	2	E equity/MW (₹crore)	7
P/BV	1		

Source: Company, ICICI Direct Research

Exhibit 7: Projects under construction

₹crore	Capacity (MW)	Total Capex	Capex Spent (Feb 2020)	Balance to be spent	Commissioning Date
Tehri PSP*	1,000.0	5,024.0	3,293.0	1731	44,713.0
Vishnugad*	444.0	4,397.0	1,883.0	2514	FY 23
Khurja Thermal	1,320.0	11,089.0	918.0	10171	FY 24
Amelia Coal Mine		1,587.0	310.0	1277	
Total		22,097.0	6,404.0	15693	

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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