

Estimate change

TP change

Rating change



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Bloomberg	NHPC IN
Equity Shares (m)	10,045
M.Cap.(INRb)/(USD\$)	201.4 / 2.7
52-Week Range (INR)	29 / 15
1, 6, 12 Rel. Per (%)	-5/-2/-9
12M Avg Val (INR M)	143

## Financials & Valuations (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	100.1	105.2	111.8
EBITDA	54.9	58.7	63.9
Adj. PAT	28.7	26.8	29.1
EBITDA Margin (%)	54.9	55.8	57.2
Cons. Adj. EPS (INR)	2.9	2.7	2.9
EPS Gr. (%)	10.7	-6.7	8.3
BV/Sh. (INR)	31.2	32.7	34.3

## Ratios

Net D:E	0.7	0.7	0.7
RoE (%)	9.2	8.4	8.6
RoCE (%)	7.3	7.2	7.6
Payout (%)	61.9	44.9	44.9

## Valuations

P/E (x)	7.0	7.5	6.9
P/BV (x)	0.6	0.6	0.6
EV/EBITDA(x)	8.1	7.9	7.6
Div. Yield (%)	7.5	6.0	6.5
FCF Yield (%)	-1.9	-0.7	-0.4

## Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	71.0	73.1	73.3
DII	14.2	12.2	11.6
FII	4.7	4.7	4.9
Others	10.2	10.0	10.2
FII Includes depository receipts			

**CMP: INR20**
**TP: INR22 (+10%)**
**Neutral**

## Adj. profits improve on low base, higher generation

### Capex run-rate increasing; maintain Neutral

- NHPC's results highlight the benefit of higher generation and the low base of the previous year. Adjusted PAT rose to INR3.8b (v/s INR40m in 4QFY19).
- The capex run-rate is expected to increase on account of investments in new projects. However, their commissioning remains four to five years away, implying FCF/RoEs would be dragged down in the near term. Maintain **Neutral**, with TP of INR22/sh.

### Profits rise on low base

- NHPC's standalone PAT increased sharply YoY to INR3.8b (adj. nos of INR40m in 4QFY19) v/s our est. of INR3.5b. The YoY increase was attributed to: 1) non-recognition of Subansiri income in the previous year, 2) higher generation, and 3) higher other income, partly offset by the impact of Survey & Investigation (S&I) expense. The slight beat on our estimate came on account of higher other income, led by dividend from subs. On a reported basis, PAT was 22% YoY lower at INR3.8b v/s reported PAT of INR4.9b last year. The previous year, though, saw one-off gains related to prior-period sales (INR4.8b).
- Generation rose 8% YoY to 4.0BU in 4QFY20 on account of higher water availability. Overall, plant availability factor was marginally lower at 73.7% (v/s 74.1% in the previous year).
- S/A other income was up 63% YoY to INR3.85b (v/s our est. of INR1.7b) led by dividend from subs. Although, other expenses were up 81% YoY to INR6.5b, led by an INR1.5b impact on account of S&I expense.
- With the start of construction at the co.'s Lower Subansiri (2,000MW) project (Oct'19), the co. has capitalized borrowing and administrative costs for the same. This was not recognized in 4QFY19.
- For FY20, consol. PAT was up 11% YoY to INR28.7b. CFO declined 8% YoY to INR32.5b on account of stretched WC.

### Management commentary: FY21 capex guidance increased to INR53b

- NHPC noted it expects to incur capex of INR53b for FY21. A large part of this pertains to the Subansiri, Parbati-II, Dibang, and Teesta-IV projects.
- Construction works at the Subansiri project were impacted and suspended for 20 days due to the nationwide lockdown. It has maintained its commissioning timelines and expects completion by FY24.

### Muted earnings growth; capex run-rate increasing

- While the resumption of works at Lower Subansiri is a positive, progress on the same needs to be monitored. In the past, agitation by locals has impacted construction activities. Moreover, commissioning for the project is still some time away (FY24 as per the management).
- The capex run-rate, on the other hand, is expected to increase as the company invests in / explores new projects, which would reduce FCF and drag down RoEs in the near term. NHPC's regulated equity growth, the key earnings driver, would be muted over the next few years. We maintain **Neutral**, with DCF-based TP of INR22/sh.

## Quarterly performance (standalone) – INR m

Y/E March	FY19				FY20				FY19	FY20	FY20	var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	
<b>Net Sales</b>	<b>21,290</b>	<b>24,950</b>	<b>15,714</b>	<b>14,617</b>	<b>24,213</b>	<b>26,054</b>	<b>17,951</b>	<b>19,136</b>	<b>76,725</b>	<b>87,354</b>	<b>17,400</b>	<b>3</b>
YoY Change (%)	-8.5	26.5	4.9	28.6	13.7	4.4	14.2	30.9	10.7	13.9	19.0	
<b>EBITDA</b>	<b>12,904</b>	<b>15,966</b>	<b>5,958</b>	<b>4,945</b>	<b>15,040</b>	<b>15,780</b>	<b>9,278</b>	<b>5,594</b>	<b>39,928</b>	<b>45,691</b>	<b>8,521</b>	<b>9</b>
Depreciation	3,726	4,044	4,016	4,115	3,866	3,857	3,873	3,858	15,900	15,453	3,949	-2
Interest	2,212	2,283	2,226	2,228	2,366	2,521	1,556	1,512	8,949	7,954	1,773	-12
Other Income	1,129	4,716	1,199	2,359	872	4,992	649	3,850	9,248	10,362	1,692	-62
Rate regulated activity	1,431	575	1,775	917	1,989	1,024	17	407	8,234	3,436	19	
<b>PBT before EO expense</b>	<b>9,527</b>	<b>14,930</b>	<b>2,690</b>	<b>1,878</b>	<b>11,668</b>	<b>15,418</b>	<b>4,515</b>	<b>4,481</b>	<b>32,561</b>	<b>36,082</b>	<b>4,510</b>	<b>0</b>
Extra-Ord expense	0	0	0	4,887	0	0	0	0	4,887	0	0	
<b>PBT</b>	<b>9,527</b>	<b>14,930</b>	<b>2,690</b>	<b>6,765</b>	<b>11,668</b>	<b>15,418</b>	<b>4,515</b>	<b>4,481</b>	<b>37,448</b>	<b>36,082</b>	<b>4,510</b>	<b>0</b>
Tax	2,151	2,745	868	1,842	2,857	2,023	478	652	11,142	6,010	961	
Rate (%)	23	18	32	27	24	13	11	15	29.8	17	21	
<b>Reported PAT</b>	<b>7,376</b>	<b>12,185</b>	<b>1,822</b>	<b>4,923</b>	<b>8,811</b>	<b>13,395</b>	<b>4,037</b>	<b>3,829</b>	<b>26,306</b>	<b>30,072</b>	<b>3,549</b>	<b>14</b>
<b>Adj PAT</b>	<b>7,376</b>	<b>12,185</b>	<b>1,822</b>	<b>36</b>	<b>8,811</b>	<b>13,395</b>	<b>4,037</b>	<b>3,829</b>	<b>21,419</b>	<b>30,072</b>	<b>3,549</b>	
YoY Change (%)	-14.5	19.6	-73.5	-98.1	19.5	9.9	121.6		-22.4	40.4		

Source: MOFSL, Company

## Conference call takeaways

- Generation for 4Q was up 8% YoY to 4.0BU in 4QFY20 on account of higher water availability. Although, plant availability factor was marginally lower at 73.7% (v/s 74.1% in the previous year) due to R&M activities at Baira Siul and the shutdown of two units at Chamera II.
- NHPC would provide a rebate of INR1.85b for the disruption caused by COVID-19 at the DISCOM end.
- Works at Subansiri were impacted and suspended for ~20 days due to the nationwide lockdown. Work has now resumed and is being carried out in the day shift. However, the company has not changed its scheduled date of commissioning and expects the project to be completed in FY24.
- Incentives: For FY20, the PAF incentive stood at INR3.6b, DSM incentive at INR1.3b, and secondary energy income at INR3.3b.
- FY20 capex stood at INR41.6b. The co. expects capex at INR53b for FY21.
- NHPC noted the current quarter was impacted by higher S&I and CSR expenses.

## Valuation and view

- The resumption of works at Lower Subansiri is a positive, with the company now also capitalizing expenses for the same. However, progress on this needs to be monitored. In the past, agitation by locals has impacted construction activities. Moreover, commissioning for the project is still some time away (FY24 as per the management).
- The capex run-rate, on the other hand, is expected to increase as the company invests in / explores new projects, which would reduce FCF and drag down RoEs in the near term. NHPC's regulated equity growth, the key earnings driver, would be muted over the next few years. We maintain Neutral, with a DCF-based TP of INR22/sh.

## Financials and valuations

Income statement							(INR m)	
Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
<b>Net Sales</b>	<b>82,441</b>	<b>83,540</b>	<b>86,231</b>	<b>77,512</b>	<b>89,829</b>	<b>100,081</b>	<b>105,210</b>	<b>111,774</b>
Change (%)	11.2	1.3	3.2	-10.1	15.9	11.4	5.1	6.2
Total Expenses	30,278	35,323	37,798	35,494	39,830	45,139	46,484	47,829
<b>EBITDA</b>	<b>52,163</b>	<b>48,218</b>	<b>48,433</b>	<b>42,018</b>	<b>49,999</b>	<b>54,941</b>	<b>58,726</b>	<b>63,944</b>
% of Net Sales	63.3	57.7	56.2	54.2	55.7	54.9	55.8	57.2
Depn. & Amortization	17,153	14,320	14,618	14,791	16,580	16,140	16,598	16,598
<b>EBIT</b>	<b>35,010</b>	<b>33,898</b>	<b>33,816</b>	<b>27,227</b>	<b>33,420</b>	<b>38,801</b>	<b>42,128</b>	<b>47,346</b>
Net Interest	12,728	11,182	10,734	9,226	8,951	7,960	9,284	12,312
Other income	9,132	10,924	15,038	11,014	8,639	7,686	7,217	7,612
Rate regulated	5,220	5,509	7,188	7,362	8,434	-2,405	-5,220	-5,220
<b>PBT before EO</b>	<b>36,634</b>	<b>39,149</b>	<b>45,307</b>	<b>36,376</b>	<b>41,542</b>	<b>36,122</b>	<b>34,841</b>	<b>37,425</b>
EO expense	-550	0	0	0	0	0	0	0
PBT after EO	37,184	39,149	45,307	36,376	41,542	36,122	34,841	37,425
Tax	9,203	10,003	10,531	8,629	13,236	2,905	3,625	4,090
Rate (%)	24.8	25.5	23.2	23.7	31.9	8.0	10.4	10.9
<b>Reported PAT</b>	<b>27,981</b>	<b>29,147</b>	<b>34,776</b>	<b>27,748</b>	<b>28,306</b>	<b>33,217</b>	<b>31,216</b>	<b>33,335</b>
Minority, JV & Asso.	-3,067	-3,130	-4,482	-2,709	-2,349	-4,471	-4,383	-4,280
<b>Adjusted PAT</b>	<b>24,364</b>	<b>26,017</b>	<b>30,294</b>	<b>25,039</b>	<b>25,956</b>	<b>28,746</b>	<b>26,833</b>	<b>29,055</b>
Change (%)	42.0	6.8	16.4	-17.3	3.7	10.7	-6.7	8.3
Balance sheet							(INR m)	
Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
Share Capital	110,707	110,707	102,593	102,593	100,450	100,450	100,450	100,450
Reserves	196,868	205,720	187,555	197,586	207,528	213,256	228,034	244,031
<b>Net Worth</b>	<b>307,575</b>	<b>316,427</b>	<b>290,148</b>	<b>300,179</b>	<b>307,978</b>	<b>313,706</b>	<b>328,485</b>	<b>344,481</b>
Minority Interest	33,257	31,681	33,822	29,349	28,685	27,639	28,283	28,824
Total Loans	187,245	199,382	192,267	186,021	190,658	232,061	252,113	271,876
Deferred Tax Liability	9,886	15,136	16,653	17,109	47,207	42,291	42,291	42,291
<b>Capital Employed</b>	<b>537,963</b>	<b>562,627</b>	<b>532,891</b>	<b>532,658</b>	<b>574,528</b>	<b>615,697</b>	<b>651,171</b>	<b>687,472</b>
Gross Block	405,761	342,331	353,055	255,977	310,216	320,609	320,609	320,609
Less: Accum. Deprn.	126,600	116,191	130,784	44,204	60,450	76,591	93,188	109,786
<b>Net Fixed Assets</b>	<b>279,161</b>	<b>226,140</b>	<b>222,271</b>	<b>211,772</b>	<b>249,766</b>	<b>244,019</b>	<b>227,421</b>	<b>210,823</b>
Capital WIP	163,775	167,416	175,876	190,871	150,368	171,804	225,457	281,420
Goodwill	0	0	0	0	0	0	0	0
Investments	7,633	5,999	10,200	11,248	12,829	13,977	14,007	14,037
<b>Curr. Assets</b>	<b>163,551</b>	<b>228,446</b>	<b>193,424</b>	<b>189,985</b>	<b>254,292</b>	<b>278,906</b>	<b>277,295</b>	<b>274,200</b>
Inventories	906	928	1,008	1,047	1,252	1,266	1,266	1,266
Account Receivables	29,052	19,045	18,540	13,460	28,380	38,164	35,796	35,211
Cash and Bank Balance	71,975	72,847	34,725	33,191	22,453	16,933	17,069	13,939
Others	61,618	135,626	139,152	142,287	202,207	222,543	223,164	223,784
<b>Curr. Liability &amp; Prov.</b>	<b>76,158</b>	<b>65,375</b>	<b>68,881</b>	<b>71,219</b>	<b>92,727</b>	<b>93,008</b>	<b>93,008</b>	<b>93,008</b>
Account Payables	1,649	1,304	1,576	1,838	1,963	3,167	3,167	3,167
Provisions & Others	74,509	64,070	67,305	69,381	90,764	89,842	89,842	89,842
<b>Net Curr. Assets</b>	<b>87,393</b>	<b>163,071</b>	<b>124,544</b>	<b>118,767</b>	<b>161,565</b>	<b>185,898</b>	<b>184,287</b>	<b>181,192</b>
<b>Appl. of Funds</b>	<b>537,963</b>	<b>562,627</b>	<b>532,891</b>	<b>532,658</b>	<b>574,528</b>	<b>615,697</b>	<b>651,171</b>	<b>687,472</b>

## Financials and valuations

### Ratios

	2015	2016	2017	2018	2019	2020	2021E	2022E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>2.2</b>	<b>2.4</b>	<b>3.0</b>	<b>2.4</b>	<b>2.6</b>	<b>2.9</b>	<b>2.7</b>	<b>2.9</b>
growth	42.0	6.8	25.6	-17.3	5.9	10.7	-6.7	8.3
Cash EPS	3.8	3.6	4.4	3.9	4.2	4.5	4.3	4.5
BV/Share	27.8	28.6	28.3	29.3	30.7	31.2	32.7	34.3
DPS	0.6	1.3	2.5	1.2	1.0	1.5	1.2	1.3
Payout (%)	32.8	67.6	98.9	55.1	44.3	61.9	44.9	44.9
<b>Valuation (x)</b>								
P/E	11.0	10.7	9.9	8.2	7.8	7.0	7.5	6.9
Cash P/E	6.4	6.9	6.7	5.2	4.7	4.5	4.6	4.4
P/BV	0.87	0.88	1.04	0.69	0.65	0.64	0.61	0.58
EV/EBITDA	8.0	9.1	10.2	9.2	8.0	8.1	7.9	7.6
Dividend Yield (%)	2.5	5.2	8.4	6.1	5.0	7.5	6.0	6.5
<b>Return Ratios (%)</b>								
EBITDA Margins (%)	63.3	57.7	56.2	54.2	55.7	54.9	55.8	57.2
Net Profit Margins (%)	29.6	31.1	35.1	32.3	28.9	28.7	25.5	26.0
RoE	7.9	8.2	10.0	8.5	8.5	9.2	8.4	8.6
RoCE (post-tax)	6.5	6.2	7.0	5.6	5.2	7.3	7.2	7.6
RoIC (post-tax)	8.9	8.0	8.3	6.8	6.6	8.9	9.3	10.9
<b>Working Capital Ratios</b>								
Fixed Asset Turnover (x)	0.3	0.4	0.4	0.4	0.4	0.4	0.5	0.5
Asset Turnover (x)	0.2	0.1	0.2	0.1	0.2	0.2	0.2	0.2
Inventory (Days)	4	4	4	5	5	5	4	4
Debtor (Days)	129	83	78	63	115	139	124	115
Payables (Days)	7	6	7	9	8	12	11	10

### Cash flow statement

	2015	2016	2017	2018	2019	2020	2021E	2022E
<b>(INR m)</b>								
<b>Y/E March</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022E</b>
<b>EBITDA</b>	<b>52,163</b>	<b>48,218</b>	<b>48,433</b>	<b>42,018</b>	<b>49,999</b>	<b>54,941</b>	<b>58,726</b>	<b>63,944</b>
WC	-5,631	11,134	35,873	6,409	-12,044	-20,394	2,368	585
Others	-21,137	-30,491	-11,834	10,852	6,279	5,911	-5,220	-5,220
Direct taxes (net)	-8,092	-8,718	-10,808	-8,301	-8,772	-7,939	-3,625	-4,090
<b>CF from Op. Activity</b>	<b>17,302</b>	<b>20,143</b>	<b>61,664</b>	<b>50,978</b>	<b>35,463</b>	<b>32,519</b>	<b>52,249</b>	<b>55,219</b>
Capex	-17,260	-21,470	-15,870	-15,673	-10,853	-36,312	-53,653	-55,963
Interest income	8,425	7,667	7,024	4,167	3,125	2,671	7,217	7,612
Investments								
Others	1,155	6,341	-9,799	-2,377	-12,325	1,177	-621	-621
<b>CF from Inv. Activity</b>	<b>-7,680</b>	<b>-7,462</b>	<b>-18,645</b>	<b>-13,883</b>	<b>-20,053</b>	<b>-32,464</b>	<b>-47,057</b>	<b>-48,972</b>
Share capital	0	0	-26,259	0	-6,062	0	0	0
Borrowings	-196	-6,184	-8,364	43,550	25,880	60,157	20,051	19,763
Finance cost	-16,544	-15,020	-13,912	-11,440	-12,151	-13,326	-9,284	-12,312
Dividend	-8,484	-18,952	-32,737	-22,310	-15,267	-28,974	-15,824	-16,828
Others	13,415	28,347	131	-48,429	-18,547	-17,740	0	0
<b>CF from Fin. Activity</b>	<b>-11,809</b>	<b>-11,809</b>	<b>-81,141</b>	<b>-38,629</b>	<b>-26,148</b>	<b>117</b>	<b>-5,056</b>	<b>-9,377</b>
<b>(Inc)/Dec in Cash</b>	<b>-2,187</b>	<b>872</b>	<b>-38,122</b>	<b>-1,534</b>	<b>-10,738</b>	<b>171</b>	<b>136</b>	<b>-3,130</b>
Opening balance	74,162	71,975	72,847	34,725	33,191	22,453	16,933	17,069
<b>Closing balance</b>	<b>71,975</b>	<b>72,847</b>	<b>34,725</b>	<b>33,191</b>	<b>22,453</b>	<b>22,624</b>	<b>17,069</b>	<b>13,939</b>

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

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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