

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	NHPC IN
Equity Shares (m)	10,045
M.Cap.(INRb)/(USD\$)	218.5 / 3
52-Week Range (INR)	29 / 15
1, 6, 12 Rel. Per (%)	3/4/-11
12M Avg Val (INR M)	157

#### Financials & Valuations (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	100.1	107.1	111.8
EBITDA	54.9	60.6	64.0
Adj. PAT	28.7	28.7	29.2
EBITDA Margin (%)	54.9	56.6	57.2
Cons. Adj. EPS (INR)	2.9	2.9	2.9
EPS Gr. (%)	10.7	-0.2	1.6
BV/Sh. (INR)	31.2	33.1	34.7

#### 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)	7.6	7.6	7.5
P/BV (x)	0.7	0.7	0.6
EV/EBITDA(x)	8.4	7.9	7.8
Div. Yield (%)	6.9	5.5	6.0
FCF Yield (%)	-1.7	0.7	0.0

#### Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	71.0	71.0	73.3
DII	14.2	14.2	11.6
FII	4.5	4.7	4.9
Others	10.4	10.2	10.1
FII Includes depository receipts			

**CMP: INR22 TP: INR23 (+6%) Neutral**

### Impact of rebate flowing through

#### Capex run-rate increasing; Maintain Neutral

- NHPC's 1QFY21 results highlight the impact of INR1.85b rebate to DISCOMs. Accordingly, reported standalone PAT dropped 18% YoY to INR7.2b (in-line).
- Capex run-rate should increase on account of investment in new projects. However, their commissioning remains 4-5 years away, which implies a drag in FCF/RoEs in the near-term. Maintain **Neutral** with TP of INR23/share.

#### Profits impacted as impact rebate flows through

- Standalone (S/A) PAT declined 18% YoY to INR7.2b (v/s est. INR6.8b) due to the impact of rebate (INR1.85b). *We note the rebate amount has been accounted by the company as an exception (v/s the built-in numbers), leading to the apparent difference on an adjusted basis.*
- Generation declined 5% YoY to 8.1BU in 1QFY21 due to the shutdown of 2 Chamera units and lower water availability. Overall, plant availability factor (PAF) was broadly flat YoY at 91.0 %.
- Incentives were up 14% YoY to INR1.8b on higher PAF incentive and deviation income.
- Interest costs were lower at INR1.5b (v/s INR2.4b in the previous year) due to capitalization of borrowing costs for Subansiri. Depreciation was also lower due to the completion of 12 years for Dulhasti.

#### Management commentary highlights – FY21 capex guidance of INR53b intact

- NHPC expects to incur capex of INR53b in FY21. Further, it expects capex in FY22/FY23 to rise to INR76b/INR81b at the group level.
- It has maintained its commissioning timelines for Subansiri and expects it to be completed by FY24. NHPC is also planning to complete the linkage of *nala* work by Oct'20, thereby increasing discharge of water for Parbati-II.
- Trade receivables rose to INR46.7b in 1QFY21 (v/s INR38.2b in FY20). Major receivables were from Jammu & Kashmir (J&K), Uttar Pradesh, Punjab, and West Bengal. Since 1QFY21, this number has decreased and current trade receivables stand at INR44.2b. NHPC expects to receive INR18b from the PFC-REC scheme on completion of certain formalities for J&K.

#### Earnings growth muted; Capex run-rate increasing

- While work restarting at Lower Subansiri is a positive, progress on the same needs to be watched. In the past, agitation by locals has impacted construction activities. Moreover, commissioning for the project is still some time away (FY24 as per its management).
- Capex run-rate, on the other hand, is expected to increase as the company is investing/exploring new projects, which is expected to reduce FCF and drag RoEs in the near term. NHPC's regulated equity growth – a key driver of earnings – should remain muted over the next few years. We maintain **Neutral** with a DCF-based TP of INR23/share.

## Quarterly performance (standalone) – INR m

Y/E March	FY20				FY21				FY20	FY21	FY21	var. (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	
<b>Net Sales</b>	<b>24,213</b>	<b>26,054</b>	<b>17,951</b>	<b>19,136</b>	<b>25,189</b>	<b>28,123</b>	<b>19,376</b>	<b>21,602</b>	<b>87,354</b>	<b>94,289</b>	<b>22,491</b>	12
YoY Change (%)	13.7	4.4	14.2	30.9	4.0	7.9	7.9	12.9	13.9		-7.1	
<b>EBITDA</b>	<b>15,040</b>	<b>15,780</b>	<b>9,278</b>	<b>5,594</b>	<b>14,207</b>	<b>17,516</b>	<b>10,423</b>	<b>9,136</b>	<b>45,691</b>	<b>51,282</b>	<b>13,022</b>	9
Depreciation	3,866	3,857	3,873	3,858	3,303	3,971	3,988	4,650	15,453	15,911	3,980	-17
Interest	2,366	2,521	1,556	1,512	1,467	2,940	1,815	3,056	7,954	9,279	1,656	-11
Other Income	872	4,992	649	3,850	860	3,982	575	3,767	10,362	9,184	850	1
Rate regulated activity	1,989	1,024	17	407	352	352	352	-436	3,436	621	155	
<b>PBT before EO expense</b>	<b>11,668</b>	<b>15,418</b>	<b>4,515</b>	<b>4,481</b>	<b>10,649</b>	<b>14,939</b>	<b>5,548</b>	<b>4,761</b>	<b>36,082</b>	<b>35,897</b>	<b>8,391</b>	27
Extra-Ord expense	0	0	0	0	-1,850	0	0	0	0	-1,850	0	
<b>PBT</b>	<b>11,668</b>	<b>15,418</b>	<b>4,515</b>	<b>4,481</b>	<b>8,799</b>	<b>14,939</b>	<b>5,548</b>	<b>4,761</b>	<b>36,082</b>	<b>34,047</b>	<b>8,391</b>	5
Tax	2,857	2,023	478	652	1,574	2,764	1,026	935	6,010	6,299	1,552	
Rate (%)	24	13	11	15	18	19	19	20	17	19	19	
<b>Reported PAT</b>	<b>8,811</b>	<b>13,395</b>	<b>4,037</b>	<b>3,829</b>	<b>7,225</b>	<b>12,176</b>	<b>4,521</b>	<b>3,826</b>	<b>30,072</b>	<b>27,748</b>	<b>6,839</b>	6
<b>Adj PAT</b>	<b>8,811</b>	<b>13,395</b>	<b>4,037</b>	<b>3,829</b>	<b>9,075</b>	<b>12,176</b>	<b>4,521</b>	<b>3,826</b>	<b>30,072</b>	<b>29,598</b>	<b>6,839</b>	33
YoY Change (%)	19.5	9.9	121.6		3.0	-9.1	12.0	-0.1	40.4	-1.6		

Source: MOFSL, Company



## Conference call takeaways

- Work at Subansiri has resumed and the company is looking to complete it by FY24. Package for powerhouse works would be awarded this week.
- Generation declined 5% YoY to 8.1BU in 1QFY21 due to shutdown of two Chamara units and lower water availability.
- Plant availability factor was broadly flat YoY at 90.98%.
- Depreciation during the quarter was lower due to the completion of 12 years for Dulhasti (impact of INR0.6b) and also on impact of change in life of plants.
- Finance cost decreased due to the capitalization of Subansiri (INR0.7b impact) and partly on repayment and refinance of loans.
- PAF incentives stood at INR1.48b (v/s INR1.41b last year). Deviation income stood at INR0.35b (v/s INR0.19b last year)
- Trade receivables rose to INR46.7b in 1QFY21 (v/s. INR38.2b in FY20). Major receivables were from J&K, Uttar Pradesh, Punjab, and West Bengal. Since 1QFY21, this number has decreased and current trade receivables stand at INR44.2b.
- The company expects to receive INR18b from the PFC-REC scheme on completion of certain formalities for the state of J&K.
- NHPC is also planning to complete nala works at Parbati-II by Oct'20. Therefore, it should increase discharge of water. On linkages, NHPC is planning to generate 325MU from Parbati-II.
- Capital expenditure
  - FY21 capex is expected at INR53b with an equity requirement of INR21b (including INR6b for JV & subs),
  - FY22 capex is expected at INR76b with an equity requirement of INR31b (including INR11b for JV & subs),
  - FY23 capex is expected at INR81b with an equity requirement of INR30b (including INR8b for JV & subs).
- NHPC is also targeting 6-7GW of renewable projects but will mostly be in the trader mode. The company plans to do 0.6-0.7GW on the developer mode in small sizes.

- For Subansiri, NHPC has signed PPA with DISCOMs, except for 103MW with Delhi, which is being pursued. For Parbati-II, the capacity is fully under PPA.
- Regulated equity for S/A is at INR128b; NHDC has a regulated equity of ~INR20b.

### Valuation and view

- While work restarting at Lower Subansiri is a positive, progress on the same needs to be watched. In the past, agitation by locals has impacted construction activities. Moreover, commissioning for the project is still some time away (FY24 as per its management).
- Capex run-rate, on the other hand, is expected to increase as the company is investing/exploring new projects, which is expected to reduce FCF and drag RoEs in the near term. NHPC's regulated equity growth – a key driver of earnings – should remain muted over the next few years. We maintain **Neutral** with DCF based TP of INR23/share.

## Financials and Valuations

Income statement							(INR m)	
Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
Net Sales	82,441	83,540	86,231	77,512	89,829	100,081	107,060	111,799
Change (%)	11.2	1.3	3.2	-10.1	15.9	11.4	7.0	4.4
Total Expenses	30,278	35,323	37,798	35,494	39,830	45,139	46,484	47,829
EBITDA	52,163	48,218	48,433	42,018	49,999	54,941	60,576	63,970
% of Net Sales	63.3	57.7	56.2	54.2	55.7	54.9	56.6	57.2
Depn. & Amortization	17,153	14,320	14,618	14,791	16,580	16,140	16,598	16,598
EBIT	35,010	33,898	33,816	27,227	33,420	38,801	43,978	47,372
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	7,707
Rate regulated	5,220	5,509	7,188	7,362	8,434	-2,405	-5,220	-5,220
PBT before EO	36,634	39,149	45,307	36,376	41,542	36,122	36,691	37,546
EO expense	-550	0	0	0	0	0	-1,850	0
PBT after EO	37,184	39,149	45,307	36,376	41,542	36,122	38,541	37,546
Tax	9,203	10,003	10,531	8,629	13,236	2,905	3,625	4,113
Rate (%)	24.8	25.5	23.2	23.7	31.9	8.0	9.4	11.0
Reported PAT	27,981	29,147	34,776	27,748	28,306	33,217	34,916	33,434
Minority, JV & Asso.	-3,067	-3,130	-4,482	-2,709	-2,349	-4,471	-4,383	-4,280
Adjusted PAT	24,364	26,017	30,294	25,039	25,956	28,746	28,683	29,153
Change (%)	42.0	6.8	16.4	-17.3	3.7	10.7	-0.2	1.6

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	231,734	247,829
Net Worth	307,575	316,427	290,148	300,179	307,978	313,706	332,185	348,280
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
Capital Employed	537,963	562,627	532,891	532,658	574,528	615,697	654,871	691,271
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
Net Fixed Assets	279,161	226,140	222,271	211,772	249,766	244,019	227,421	210,823
Capital WIP	163,775	167,416	175,876	190,871	150,368	171,804	225,457	281,420
Investments	7,633	5,999	10,200	11,248	12,829	13,977	14,007	14,037
Curr. Assets	163,551	228,446	193,424	189,985	254,292	278,906	280,995	277,999
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	36,455	35,219
Cash and Bank Balance	71,975	72,847	34,725	33,191	22,453	16,933	20,110	17,729
Others	61,618	135,626	139,152	142,287	202,207	222,543	223,164	223,784
Curr. Liability & Prov.	76,158	65,375	68,881	71,219	92,727	93,008	93,008	93,008
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
Net Curr. Assets	87,393	163,071	124,544	118,767	161,565	185,898	187,987	184,990
Appl. of Funds	537,963	562,627	532,891	532,658	574,528	615,697	654,871	691,271

## 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>2.9</b>	<b>2.9</b>
growth	42.0	6.8	25.6	-17.3	5.9	10.7	-0.2	1.6
Cash EPS	3.8	3.6	4.4	3.9	4.2	4.5	4.5	4.6
BV/Share	27.8	28.6	28.3	29.3	30.7	31.2	33.1	34.7
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	42.0	44.8
<b>Valuation (x)</b>								
P/E	11.0	10.7	9.9	8.9	8.4	7.6	7.6	7.5
Cash P/E	6.4	6.9	6.7	5.6	5.1	4.9	4.8	4.8
P/BV	0.87	0.88	1.04	0.74	0.71	0.70	0.66	0.63
EV/EBITDA	8.0	9.1	10.2	9.6	8.3	8.4	7.9	7.8
Dividend Yield (%)	2.5	5.2	8.4	5.6	4.6	6.9	5.5	6.0
<b>Return Ratios (%)</b>								
EBITDA Margins (%)	63.3	57.7	56.2	54.2	55.7	54.9	56.6	57.2
Net Profit Margins (%)	29.6	31.1	35.1	32.3	28.9	28.7	26.8	26.1
RoE	7.9	8.2	10.0	8.5	8.5	9.2	8.9	8.6
RoCE (post-tax)	6.5	6.2	7.0	5.6	5.2	7.3	7.5	7.6
RoIC (post-tax)	8.9	8.0	8.3	6.8	6.6	8.9	9.9	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

Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
<b>(INR m)</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>60,576</b>	<b>63,970</b>
WC	-5,631	11,134	35,873	6,409	-12,044	-20,394	1,709	1,236
Others	-21,137	-30,491	-11,834	10,852	6,279	5,911	-3,370	-5,220
Direct taxes (net)	-8,092	-8,718	-10,808	-8,301	-8,772	-7,939	-3,625	-4,113
<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>55,290</b>	<b>55,873</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	7,707
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>-48,877</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>3,177</b>	<b>-2,381</b>
Opening balance	74,162	71,975	72,847	34,725	33,191	22,453	16,933	20,110
<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>20,110</b>	<b>17,729</b>

## 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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