

## NHPC Ltd

Analyst Recommendation: BUY

BSE Code: 533098

NSE: NHPC

Reuters Code: NHPC.NS

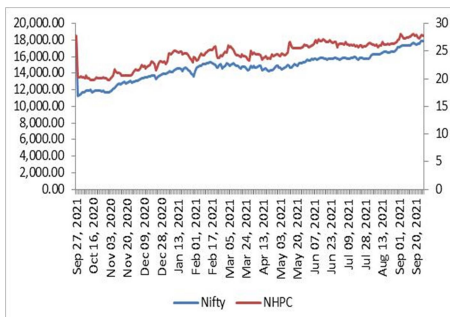
Bloomberg Code: NHPC.IN

**CMP: Rs 28.3**

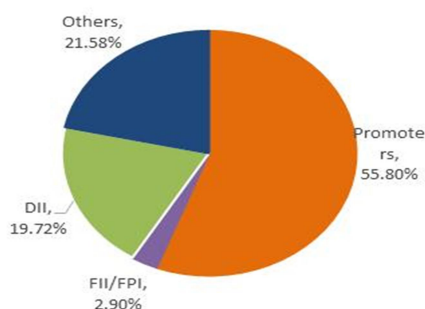
**2 Year Target: Rs 32**

Face Value	10.00
Market Cap (Rs cr)	28,427
52 week high/low	28.9/19.7
Beta	0.50
Shares O/S (Cr)	1004.5
Book Value per Share (Rs)	35.76
Sensex	59,668
Nifty	17,749

### 1 yr. Price Chart of Stock and Nifty



### Shareholding pattern as on 31st Dec 2020.



### Investor's Rationale

- NHPC is expected to expand its standalone capacity by 50% over the next 4/5 years - 5.5GW to 8.4GW with the addition of Parbati II (800MW expected by FY23E) and Subansiri Lower (2,000MW expected by FY25E). Further, it has projects under construction - 500MW (through subsidiary) and 1.6GW (under JV) - that will get commissioned in the medium term. Based on these factors, we estimate ~10% earnings CAGR for the company in FY22-FY26E. More recently, it has emerged as one of the winners (1,000MW) under CPSU Scheme II. Further, NHPC has over 7GW of projects under the clearance stage. Higher incentives (secondary energy and PLF) and manpower recovery have allowed the company to earn higher plantlevel RoE. With the conversion of CWIP into fixed assets in the medium term, we expect RoE to touch 12/13% by FY26E from 9.3% in FY22E (RoE stood at 6%/8% in FY10/FY15).
- NHPC has a D/E ratio of ~0.7x, and we expect it to be under 1x in the medium term despite a 50% increase in capacity. In the last few years, the company has judiciously allocated capital – cash on books in FY16 stood at ~Rs74bn vs. ~Rs22bn as of FY21 although capex and dividend have increased. A large part of the cash and internal accruals have been used to increase capex and the dividend. The dividend has increased from Rs0.7/share to Rs1.6/share in the last five years.

### Valuation

While there has not been much capacity addition in the past few years, we expect 800MW/2,000MW addition in the next 2/4 years. We initiate coverage on NHPC with a Buy rating for Target Price of Rs 32 which is 10x FY23 EPS.

	FY20	FY21	FY22E	FY23E
Revenue (Rs.Cr)	10,008.1	9,647.9	9,818.0	9,991.6
EBITDA (Rs. cr)	5,494.2	5,347.4	5,439.4	5,453.8
Adj. profit (Rs.Cr)	3,475.1	3,224.7	3,141.5	3,212.3
Adj. EPS (Rs.)	3.5	3.2	3.1	3.2
P/E (x)	8.1	8.7	8.9	8.7
EV/Net Sales	5.2	5.4	5.5	5.8
EV/EBITDA (x)	9.6	9.8	10.0	10.7
ROE (%)	11.2%	10.0%	9.3%	9.1%
ROIC (%)	7.5%	7.8%	7.3%	6.9%

**Strong balance sheet and high dividend yield**

- In the last few years, the company has judiciously allocated capital - cash on standalone books in FY16 stood at ~Rs59bn vs. ~Rs9bn as of FY21 although capex and dividend have increased. A large part of the cash and internal accrual has been used to increase capex (annual outflows have now touched Rs36bn from Rs26bn earlier) and dividend (increased from Rs0.7/share to Rs1.6/share) in the last 5-6 years. The yield on cash is far less than the regulated return; hence, this is a step in the right direction, in our view. Dividend is more guided by norms put for PSUs. At CMP, the stock provides a dividend yield of ~6%.

**NHDC – a great asset**

- NHDC is a 51% subsidiary of NHPC with GoMP holding 49%. NHDC has a total capacity of 1,520MW, comprising the 1,000MW Indira Sagar hydroelectric plant and the 520MW Omkareshwar hydroelectric plant. Both the plants have been able to maintain very good PAF, and average generation in the last five years has been ~50% more than the design energy, which helps it earn substantially higher returns. NHDC earns ~Rs7-9bn annual profit (PAT level), while the regulated equity stands at ~Rs17bn, implying ~20% return on the regulated equity. Cash on book for the company stands at Rs13bn.

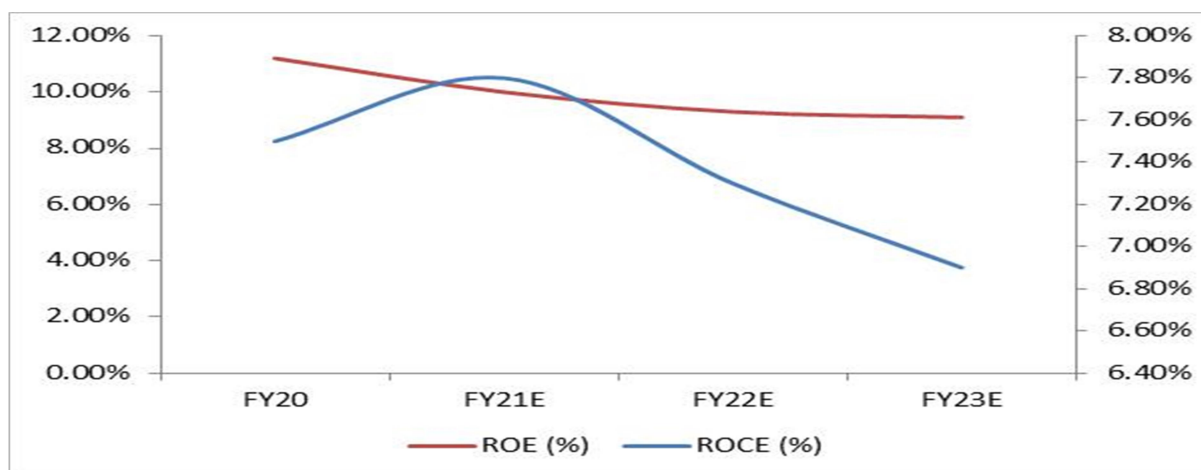
**Manpower Under Recovery**

- Manpower under-recovery has been ~Rs5bn in earlier years due to high manpower and cost associated with it. The company has consciously worked on this aspect, and there has been a continuous fall in the manpower strength. In the last 5/10 years, manpower is down 33%/47%, leading to a better man/MW ratio.

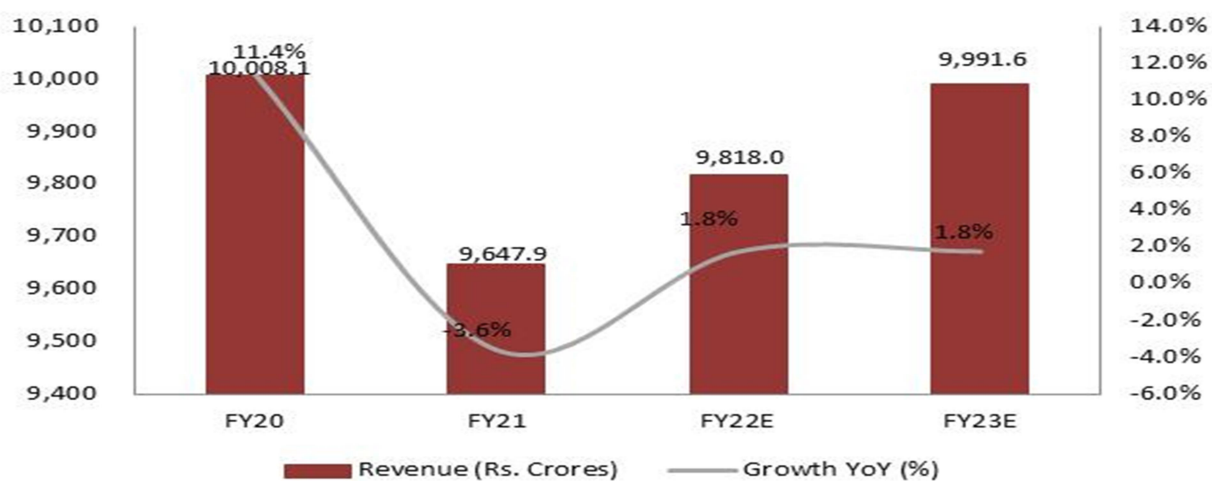
**Overhang of share sale**

- The GoI holds ~71% stake in NHPC; hence, the risk of a share sale through OFS remains an area of concern. In FY20, GoI has divested 2.38% through Bharat ETF in October'19 and CPSE ETF in February'20. In the past, companies such as NTPC and Power Grid have seen continuous share sale by the Government to meet the divestment target. This, in general, has had a negative impact on the stock price. Given that the GoI's holding in both NTPC and Power Grid now stands at ~51%, further share sale is not expected. However, we can expect share sale in NHPC in the coming years till the GoI holding reaches ~51%
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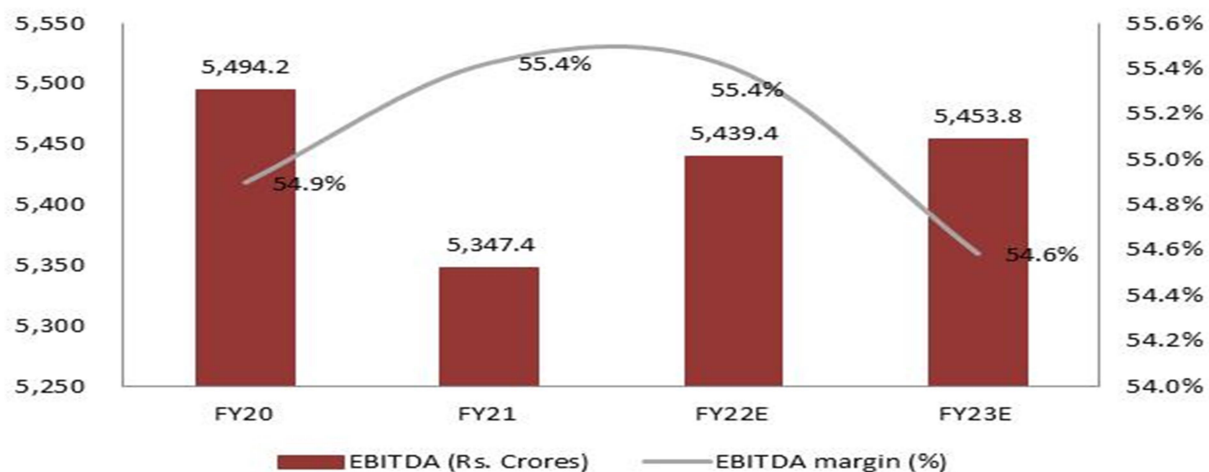
## Return ratios



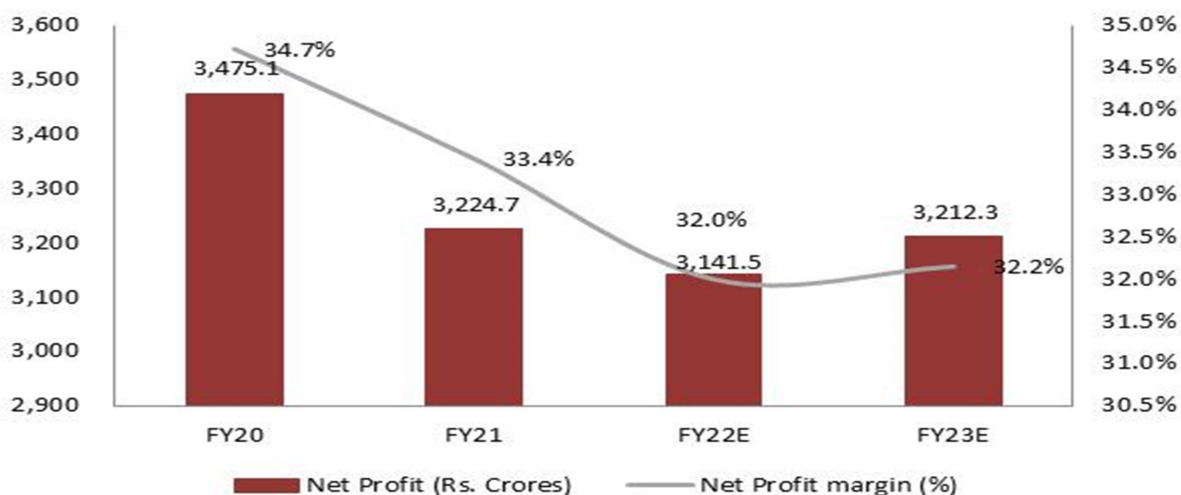
## Revenue will experience growth



## EBITDA will experience strong growth



## Net profit for coming years



## Outlook and Valuation

While there has not been much capacity addition in the past few years, we expect 800MW/2,000MW addition in the next 2/4 years. We initiate coverage on NHPC with a Buy rating for Target Price of Rs 32 which is 10x FY23 EPS.

## NHPC LTD - Company Overview

NHPC Limited (erstwhile National Hydroelectric Power Corporation) is an Indian government hydropower board under the ownership of Ministry of Power, Government of India that was incorporated in the year 1975 with an authorised capital of ₹2000 million and with an objective to plan, promote and organise an integrated and efficient development of hydroelectric power in all aspects. Later on NHPC expanded its objects to include other sources of energy like Solar, Geothermal, Tidal, Wind etc.

## Key Risks

### Project delays

In the past, hydro projects have faced several issues such as law & order and local issues that have led to a delay in project execution. While both the under-construction projects - Subansiri Lower and Parbati - seem not to have these issues as of now, some delays in the commissioning timeline cannot be ruled out, in our view.

### Receivables concentration

Receivables have increased from ~Rs38bn to Rs40bn in the last 12-15months, largely due to Covid-19. Of this, ~Rs23bn is outstanding for more than 45 days and the top state, i.e., J&K, accounts for ~40% of the overall outstanding debt.



## Balance sheet (Consolidated)

(Rs crore)	FY20	FY21E	FY22E	FY23E
<b>Liabilities</b>				
Paid up capital	10,045	10,045	10,045	10,045
Reserves and Surplus	21,336	23,045	24,579	25,983
<b>Net worth</b>	<b>31,381</b>	<b>33,090</b>	<b>34,624</b>	<b>36,028</b>
Minority Interest	2,774	2,828	2,828	2,828
Loan Funds	26,152	26,396	29,089	32,967
Net deferred Tax Liability	3,859	3,852	3,852	3,852
<b>Total Liabilities</b>	<b>64,166</b>	<b>66,167</b>	<b>70,394</b>	<b>75,675</b>
<b>Assets</b>				
Total fixed assets	21,630	19,327	19,651	18,416
Goodwill	-	-	-	-
Investments	8,539	9,211	9,211	9,211
Other non- current assets	17,181	19,072	21,870	28,383
Advances	-	-	-	-
Net Current Assets	16,815	18,557	19,663	19,666
<b>Total Assets</b>	<b>64,166</b>	<b>66,167</b>	<b>70,394</b>	<b>75,675</b>

## Profit & Loss Account (Consolidated)

(Rs crore)	FY20	FY21	FY22E	FY23E
<b>Total operating Income</b>	<b>10,008.10</b>	<b>9,647.90</b>	<b>9,818.00</b>	<b>9,991.60</b>
Operating Expenses	4514	4301	4379	4538
<b>EBITDA</b>	<b>5494</b>	<b>5347</b>	<b>5439</b>	<b>5454</b>
Depreciation	1614	1298	1266	1235
<b>EBIT</b>	<b>3880</b>	<b>4049</b>	<b>4174</b>	<b>4219</b>
Interest cost	796	650	618	587
Other Income	769	1057	784	796
<b>Profit before tax</b>	<b>3853</b>	<b>4456</b>	<b>4340</b>	<b>4428</b>
Tax	-79	901	868	886
<b>Profit after tax</b>	<b>3932</b>	<b>3555</b>	<b>3472</b>	<b>3543</b>
Minority Interests	-457.00	-330.60	-330.60	-330.60
Extraordinary Items	-590.20	32.40	-	-
Others	590	-32	-	-
<b>Adjusted PAT</b>	<b>3475</b>	<b>3225</b>	<b>3142</b>	<b>3212</b>



# Equity Research

## Cash Flow (Consolidated)

Y.E March (Rs crore)	FY20	FY21	FY22E	FY23E
<b>EBIT</b>	<b>4451</b>	<b>4660</b>	<b>6009</b>	<b>7192</b>
Depreciation	1614	1298	1266	1235
Chg in Working Capital	-6027	-1186	-333	-340
Other	3112	527	-2380	-3530
<b>Cash flow from operating activities</b>	<b>3150</b>	<b>5300</b>	<b>4561</b>	<b>4557</b>
Capex	-3672	-1783	-4388	-6513
Others	527	26	784	796
<b>Cash flow from investing activities</b>	<b>-3145</b>	<b>-1757</b>	<b>-3604</b>	<b>-5716</b>
Change in Borrowing	4061	244	2694	3877
Dividend	-2897	-1849	-1607	-1808
Others	-1721	-1375	-1272	-1247
<b>Cash flow from financing activities</b>	<b>-557</b>	<b>-2979</b>	<b>-185</b>	<b>822</b>
Net chg in cash	-552	564	772	-337
Opening Cash	2245	1693	2257	3029
Closing Cash	1693	2257	3029	2692

## Key Ratios & Valuations (Consolidated)

Y.E March (Rs crore)	FY20	FY21	FY22E	FY23E
<b>Gearing Ratios</b>				
Net Debt/ Equity	0.80	0.70	0.80	0.80
Net Debt/ EBITDA	4.50	4.50	4.80	5.60
Working Capital Cycle	91.70	91.10	118.60	104.60
<b>Margin (%)</b>				
EBITDA	54.9%	55.4%	55.4%	54.6%
NPM	34.7%	33.4%	32.0%	32.2%
<b>Return Ratios (%)</b>				
RoE	11.2%	10.0%	9.3%	9.1%
ROCE	7.5%	7.8%	7.3%	6.9%
<b>Valuation(x)</b>				
P/E	8.1	8.7	8.9	8.7
EV/EBITDA	9.6	9.8	10.0	10.7
EV/Net Sales	5.2	5.4	5.5	5.8
<b>Per share data (Rs.)</b>				
EPS	3.5	3.2	3.1	3.2



# Equity Research

Large Cap.	Return	Mid/Small Cap.	Return
<b>Buy</b>	More than equal to 10%	<b>Buy</b>	More than equal to 15%
<b>Hold</b>	Between 10% & -5%	<b>Accumulate*</b>	Upside between 10% & 15%
<b>Reduce</b>	Less than -5%	<b>Hold</b>	Between 0% & 10%
		<b>Reduce/sell</b>	Less than 0%

\* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.



**Member: BSE, NSE, MCX, MCX-SX, CDSL**

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