

Company update

Power

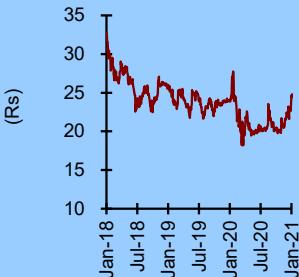
Target price: Rs34

Shareholding pattern

	Mar '20	Jun '20	Sep '20
Promoters	71.0	71.0	71.0
Institutional investors	18.8	18.7	18.7
MFs and others	5.8	5.9	6.1
Banks / Fls	0.6	0.6	0.6
Insurance Cos.	7.7	7.7	7.7
Fls	4.7	4.5	4.3
Others	10.2	10.3	10.3

Source: NSE

Price chart



INDIA

NHPC

BUY

Maintain

Rs25

Receivables decline; pending issues cleared

There have been four important developments in the past week for NHPC: 1) Rs7.34bn received from PFC for the pending dues from J&K – this and other receivables helping reduce receivables by 35% from Rs50bn at Q2FY21-end; 2) Supreme Court allowed processing of tenders for completion of balance works of Teesta-VI HEP; 3) NCLT, Hyderabad bench, approved NHPC's Rs1.65bn resolution plan for the 120MW Jal Power Rangit stage-IV project in Sikkim; and 4) MoU has been signed with J&K government to develop more than 4.1GW of hydro capacity in the UT. All these developments are positive for NHPC and will help boost growth and earnings. Maintain BUY.

- **Receipt through PFC/REC scheme reduces receivables:** NHPC received Rs7.34bn from PFC on account of dues pending from J&K UT through the PFC/REC scheme, under UDAY limit relaxation. The payment comprised of Rs6.73bn as energy dues and Rs0.61bn as power trading dues. During Q3FY21, receivables on account of PFC/REC scheme (~Rs12bn-13bn, primarily for J&K and UP) and others helped reduce overall receivables by ~35% from Q2FY21-end levels of Rs50bn.
- **Supreme Court allows bid for processing tenders for Teesta-VI:** As per media reports ([link](#)), the Supreme Court has allowed NHPC to process the tenders for completion of balance works of 500MW Teesta-VI HEP in Sikkim. The project, which was acquired through NCLT (from Lanco) in Oct'19, is currently a 100% subsidiary of NHPC, but is expected to be merged with NHPC's standalone entity, enabling cheaper debt funding. The estimated project cost is Rs57.5bn (at Jul'18 price level, including NHPC's bid of Rs9bn) and is expected to commission by FY25. Two lots of civil work, one of HM and four lots of E&M work have already been awarded.
- **NCLT approves NHPC's Rangit stage-IV resolution plan:** In another significant development, NCLT Hyderabad bench has approved NHPC's Rs1.65bn resolution plan for the 120MW Jal Power Corporation's Rangit stage-IV project in Sikkim, submitted in Jan'20. NHPC's offer was higher than the liquidation value (Rs514mn) and also the fair value (Rs1.58bn) as per the registered valuers for the project, which was subsequently approved by the committee of creditors. Timeline for completion of balance works is 42 months from CCEA approval.
- **MoU signed with J&K government to install over 4.1GW:** NHPC has signed an MoU with J&K government for execution of five hydro projects totaling 4,134MW in the Union Territory – implementation of 850MW Ratle HEP through a JV, and execution of 930MW Kirthai-II HEP, 1,856MW Sawalkot HEP, 240MW Uri-I (stage-II) and 258MW Dulhasti (stage-II). Total investment in all the projects is estimated at Rs350bn and will ensure 24x7 power supply to all consumers in the state.
- **High dividend yield and attractive valuations:** NHPC's increase in standalone capacity from 5,551MW to 8,351MW in FY24E takes its regulated equity to Rs221bn in FY24E, at a CAGR of 14.5%, resulting in earnings CAGR of over 11%. At CMP of Rs24.8/share, the stock is trading at 7.1 P/E and 0.7 P/B on FY23E basis. Its dividend yield is 6.6%. We maintain our **BUY** rating and target price of Rs34 and we believe the company will be able to maintain its dividend payouts as per the DIPAM guidelines, despite the planned capex (as free cashflows are expected to significantly increase once the 2,800MW currently under construction becomes operational by FY24E).

Market Cap	Rs249bn/US\$3.4bn	Year to Mar	FY20	FY21E	FY22E	FY23E
Reuters/Bloomberg	NHPC.BO/ NHPC IN	Revenue (Rs mn)	87,354	86,687	89,391	108,108
Shares Outstanding (mn)	10,045.0	Net Income (Rs mn)	30,072	28,617	29,560	34,997
52-week Range (Rs)	28/18	EPS (Rs)	3.0	2.8	2.9	3.5
Free Float (%)	29.0	EPS growth (%)	14.3	(4.8)	3.3	18.4
FII (%)	4.3	P/E (x)	8.3	8.7	8.4	7.1
Daily Volume (US\$'000)	1,981	CEPS (Rs)	4.5	4.2	4.2	5.2
Absolute Return 3m (%)	22.8	EV/E (x)	10.4	10.5	10.8	8.2
Absolute Return 12m (%)	10.8	Dividend Yield	6.0	6.0	6.3	6.6
Sensex Return 3m (%)	20.8	RoCE (%)	6.9	6.2	5.8	7.0
Sensex Return 12m (%)	19.1	RoE (%)	10.0	9.1	9.0	10.1

Please refer to important disclosures at the end of this report

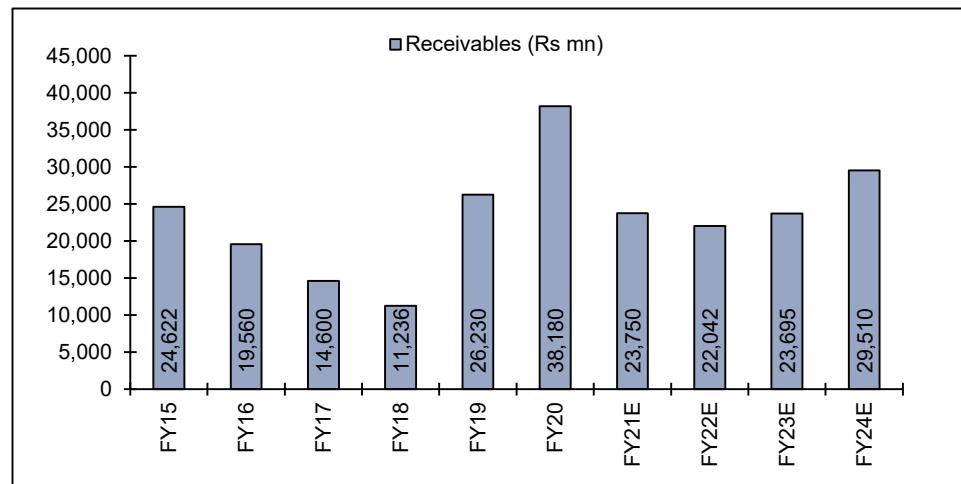
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Chart 1: Receivables

Source: Company, I-Sec research

Table 1: NHPC receivables – top 5 discoms' over the past three years

S. No.	FY18		FY19		FY20	
	Discom	Amount (Rs mn)	Discom	Amount (Rs mn)	Discom	Amount (Rs mn)
Total receivables						
1	PDD, J&K	6,245	PDD, J&K	9,770	PDD, J&K	14,500
2	BYPL, Delhi	1,799	UPPCL, UP	7,800	UPPCL, UP	12,800
3	UPPCL, UP	879	BYPL, Delhi	2,410	JDVNL, Raj	1,570
4	WBSEDCL, WB	782	PSPCL, Punjab	1,880	PSPCL, Punjab	1,350
5	PSPCL, Punjab	491	WBSEDCL, WB	1,070	WBSEDCL, WB	1,260
Receivables >45/60 days						
1	PDD, J&K	5,419	PDD, J&K	6,840	PDD, J&K	13,890
2	BYPL, Delhi	1,799	UPPCL, UP	5,730	UPPCL, UP	12,260
3	MeCL, Meghalaya	123	BYPL, Delhi	2,150	JDVNL, Raj	1,430
4	JDVNL, Raj	87	PSPCL, Punjab	340	PSPCL, Punjab	980
5					WBSEDCL, WB	890

Source: Company, I-Sec research

Financial summary (standalone)

Table 2: Profit and Loss statement

(Rs mn, year ending Mar 31)

	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Operating Income (Sales)	73,530	72,712	69,382	81,612	87,354	86,687	89,391	108,108
Operating Expenses	32,843	35,066	32,246	36,797	41,663	40,894	42,530	44,231
EBITDA	40,687	37,646	37,136	44,815	45,691	45,793	46,861	63,877
% margins	55.3	51.8	53.5	54.9	52.3	52.8	52.4	59.1
Depreciation & Amortisation	13,591	13,884	13,955	15,900	15,453	13,347	12,298	17,640
Gross Interest	10,721	10,732	9,223	8,949	7,954	6,047	5,514	10,757
Other Income	9,921	14,577	14,206	9,248	10,362	8,500	7,000	7,200
Recurring PBT	26,296	27,606	28,163	29,214	32,646	34,899	36,049	42,679
Add: Extraordinaries	5,509	7,140	623	8,234	3,436	-	-	-
Less: Taxes	7,506	6,790	1,096	11,142	6,010	6,282	6,489	7,682
- Current tax	7,450	7,066	6,278	6,498	6,024	6,282	6,489	7,682
- Deferred tax	56	(276)	(5,182)	4,645	(14)	-	-	-
Net Income (Reported)	24,299	27,956	27,690	26,306	30,072	28,617	29,560	34,997
Recurring Net Income	24,299	27,956	27,690	26,306	30,072	28,617	29,560	34,997

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending Mar 31)

	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Assets								
Total Current Assets	98,593	55,509	44,380	55,768	75,863	83,687	88,571	99,434
of which cash & cash eqv.	58,779	15,331	14,724	3,906	3,891	16,648	27,842	38,989
Total Current Liabilities & Provisions	55,384	37,017	38,048	38,178	35,952	34,000	34,000	34,000
Net Current Assets	43,208	18,493	6,332	17,590	39,912	49,687	54,571	65,434
Investments	15,964	21,003	22,096	23,662	34,052	35,155	37,360	41,770
of which								
Strategic/Group	15,964	21,003	22,096	23,662	34,052	35,155	37,360	41,770
Other Marketable	-	-	-	-	-	-	-	-
Net Fixed Assets	394,595	383,406	388,319	387,455	393,887	412,100	456,802	489,162
of which								
intangibles								
Capital Work-in-Progress	165,757	173,501	188,140	148,981	160,977	192,537	249,537	199,537
Goodwill & other long term assets	42,510	90,548	100,881	129,210	142,333	142,333	142,333	142,333
Total Assets	496,277	513,450	517,628	557,916	610,184	639,275	691,065	738,698
Liabilities								
Borrowings	183,853	192,267	186,021	190,558	232,238	247,779	285,679	314,679
Deferred Tax Liability	8,457	36,647	31,454	36,106	36,412	36,412	36,412	36,412
Equity Share Capital	110,707	102,593	102,593	100,450	100,450	100,450	100,450	100,450
Face Value per share (Rs)	10	10	10	10	10	10	10	10
Reserves & Surplus	176,813	166,961	180,925	191,697	199,388	212,938	226,828	245,461
Net Worth	287,520	269,554	283,518	292,147	299,838	313,388	327,279	345,912
Other long term liabilities	16,448	14,981	16,635	39,104	41,695	41,695	41,695	41,695
Total Liabilities	496,277	513,450	517,628	557,916	610,184	639,275	691,065	738,698

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending Mar 31)

	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Operating Cashflow	33,193	33,889	35,496	38,325	41,748	41,964	41,858	52,637
Working Capital Changes	15,807	44,539	1,714	(3,927)	(17,014)	4,331	4,824	3,840
Capital Commitments	(20,614)	(14,964)	(15,304)	(14,925)	(27,087)	(31,560)	(57,000)	(50,000)
Free Cashflow	28,386	63,464	21,906	19,473	(2,353)	14,736	(10,318)	6,477
Cash flow from Investing Activities	12,621	663	7,673	3,275	(4,476)	7,398	4,795	2,790
Issue of Share Capital	-	-	-	-	-	-	-	-
Buyback of shares	-	(26,259)	-	(6,062)	-	-	-	-
Inc (Dec) in Borrowings	1,038	(5,339)	(5,009)	7,008	42,527	15,541	37,900	29,000
Dividend paid	(17,347)	(29,964)	(13,785)	(11,490)	(22,375)	(15,068)	(15,669)	(16,364)
Extraordinary Items								
Chg. in Cash & Bank balance	10,087	(11,345)	(529)	53	(32)	16,560	11,194	11,146

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending Mar 31)

	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Per Share Data (Rs)								
EPS(Basic Recurring)	2.2	2.7	2.7	2.6	3.0	2.8	2.9	3.5
Diluted Recurring EPS	2.2	2.7	2.7	2.6	3.0	2.8	2.9	3.5
Recurring Cash EPS	3.4	4.1	4.1	4.2	4.5	4.2	4.2	5.2
Dividend per share (DPS)	1.5	1.8	1.4	1.5	1.5	1.5	1.6	1.6
Book Value per share (BV)	26.0	26.3	27.6	29.1	29.8	31.2	32.6	34.4
Growth Ratios (%)								
Operating Income	8.1	(1.1)	(4.6)	17.6	7.0	(0.8)	3.1	20.9
EBITDA	1.9	(7.5)	(1.4)	20.7	2.0	0.2	2.3	36.3
Recurring Net Income	14.4	15.1	(1.0)	(5.0)	14.3	(4.8)	3.3	18.4
Diluted Recurring EPS	14.4	24.1	(1.0)	(3.0)	14.3	(4.8)	3.3	18.4
Diluted Recurring CEPS	6.7	19.2	(0.5)	3.5	7.9	(7.8)	(0.3)	25.8
Valuation Ratios (x)								
P/E	11.3	9.1	9.2	9.5	8.3	8.7	8.4	7.1
P/CEPS	7.2	6.1	6.1	5.9	5.5	5.9	6.0	4.7
P/BV	1.0	0.9	0.9	0.9	0.8	0.8	0.8	0.7
EV / EBITDA	9.8	11.5	11.5	9.7	10.4	10.5	10.8	8.2
EV / Operating Income	5.4	5.9	6.1	5.3	5.5	5.5	5.7	4.9
EV / Operating FCF	14.1	6.8	19.4	22.4	(203.0)	32.6	(49.1)	81.0
Operating Ratios								
SG&A cost / Revenue	28.9	26.6	24.3	24.0	27.7	29.0	29.2	25.1
Operating expenses / Revenue	44.7	48.2	46.5	45.1	47.7	47.2	47.6	40.9
Other Income / PBT (%)	37.7	52.8	50.4	31.7	31.7	24.4	19.4	16.9
Effective Tax Rate (%)	23.4	20.3	21.8	17.4	16.7	18.0	18.0	18.0
NWC / Total Assets (%)	(3.1)	0.6	(1.6)	2.5	5.9	5.2	3.9	3.6
Inventory Turnover (days)	9.5	9.5	10.8	11.6	10.4	10.6	10.1	9.8
Receivables (days)	100.1	74.9	57.7	117.3	159.5	140.0	110.0	90.0
Payables (days)	13.6	15.3	20.6	17.9	26.7	26.7	26.7	26.7
Net D/E Ratio (x)	0.4	0.7	0.6	0.6	0.8	0.7	0.8	0.8
Return/Profitability Ratios (%)								
Recurring Net Income Margins	33.0	38.4	39.9	32.2	34.4	33.0	33.1	32.4
RoCE	7.9	8.2	7.7	7.0	6.9	6.2	5.8	7.0
RoNW	8.5	10.4	9.8	9.0	10.0	9.1	9.0	10.1
Dividend Payout Ratio	0.7	0.7	0.5	0.6	0.5	0.5	0.5	0.5
Dividend Yield	6.0	7.3	5.6	5.9	6.0	6.0	6.3	6.6
EBITDA Margins	55.3	51.8	53.5	54.9	52.3	52.8	52.4	59.1

Source: Company data, I-Sec research

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