

<b>BSE SENSEX</b>	<b>S&amp;P CNX</b>
34,300	10,540
<b>Bloomberg</b>	<b>NHPC IN</b>
Equity Shares (m)	10,259
M.Cap.(INRb)/(USDb)	302.6 / 4.7
52-Week Range (INR)	35 / 26
1, 6, 12 Rel. Per (%)	-6/-15/-24
Avg Val, INRm/ Vol m	222.0
Free float (%)	26.0

**Financials & Valuations (INR b)**

Y/E Mar	2018E	2019E	2020E
Net Sales	90.6	107.5	117.1
EBITDA	52.0	68.0	74.9
PAT	24.8	31.9	32.9
EPS (INR)	2.4	3.1	3.2
Gr. (%)	-18.1	28.5	3.1
BV/Sh (INR)	28.4	29.2	30.0
RoE (%)	8.5	10.8	10.8
RoCE (%)	6.4	8.1	9.2
P/E (x)	12.2	9.5	9.2
P/BV (x)	1.0	1.0	1.0

**Estimate change**

**TP change**

**Rating change**

**CMP: INR30 TP: INR37 (+24%)**
**Buy**
**Strong operating performance**
**Cut estimates on delay at Parbati-II; Maintain Buy**

NHPC's 3QFY18 underlying PAT grew 40% YoY to INR2.7b (ahead of our estimate of INR2b), led by higher incentive income, lower other expenses, and saving in interest cost. Underlying PAT is adjusted for (a) dividend income of INR2.4b from NHDC and (b) late payment surcharge of INR2.3b (gross tax).

- Generation was up 1% YoY to 3.4BU. PAF increased ~270bp YoY to 76.8%.
- Incentive income increased 59% YoY to INR1.1b.
- Interest cost saving of INR1.1b was achieved on repayment and refinancing of debt. Refinancing will generate annualized saving of INR340m, of which INR170m will be retained by NHPC.

**Kishanganga on track, Parbati-II delayed; cut estimates on delay; Maintain Buy**

- Kishanganga 330MW is likely to be commercialized before the end of FY18. Additional subordinate debt of ~INR5b at interest cost of ~1% was granted by the government during the year. Further support of ~INR4b is committed. Parbati-II 800MW is likely to be delayed by about a year due to geological challenges. It has hired international experts and better machinery, and the project is gradually progressing. 3.2km of tunneling work is pending. Progress on Subhasiri 2,000MW is pending the report of the committee set-up under the NGT order, which is expected before March 2018.
- Of the five projects pending capex approval, PIB has cleared three projects and the remaining two are likely to get cleared over the next few months. The next step is approval by Cabinet Committee before final tariff orders are issued by CERC. INR6.8b of revenue was pending recognition due to capex approval at the end of FY17.
- We expect Parbati-II to be commercialized in FY21 against FY20 earlier. Resultantly, consolidated PAT is cut by ~13% and DPS is cut from INR2.25/sh. to INR2/sh for FY20E. Our DCF-based TP on FY20E basis is INR37. Maintain **Buy**.

**Quarterly Performance (Standalone) – INR million**

Y/E March	FY17				FY18				FY17	FY18E	FY18
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			
<b>Net Sales</b>	<b>21,968</b>	<b>24,034</b>	<b>13,086</b>	<b>13,624</b>	<b>23,275</b>	<b>19,717</b>	<b>14,979</b>	<b>20,096</b>	<b>72,712</b>	<b>78,067</b>	<b>14,587</b>
YoY Change (%)	9.7	2.5	-4.3	-16.9	6.0	-18.0	14.5	47.5	-1.1	7.4	11.5
Total Expenditure	8,403	8,438	6,841	11,394	9,412	8,567	7,137	10,741	35,076	35,856	7,047
<b>EBITDA</b>	<b>13,565</b>	<b>15,595</b>	<b>6,244</b>	<b>2,231</b>	<b>13,863</b>	<b>11,150</b>	<b>7,843</b>	<b>9,355</b>	<b>37,636</b>	<b>42,211</b>	<b>7,540</b>
Margins (%)	61.8	64.9	47.7	16.4	59.6	56.5	52.4	46.6	51.8	54.1	51.7
Depreciation	3,384	3,422	3,551	3,527	3,536	3,505	3,469	3,358	13,884	13,868	3,505
Interest	2,751	2,794	2,688	2,499	2,409	2,356	2,279	2,164	10,732	9,208	2,333
Other Income	1,633	8,779	1,750	2,426	1,053	5,194	5,688	1,271	14,587	13,205	1,000
Rate regulated activity	1,379	1,085	1,340	3,336	2,010	1,426	1,710	-1,098	7,140	4,047	0
<b>PBT before EO expense</b>	<b>10,443</b>	<b>19,243</b>	<b>3,095</b>	<b>1,966</b>	<b>10,980</b>	<b>11,908</b>	<b>9,492</b>	<b>4,007</b>	<b>34,746</b>	<b>36,387</b>	<b>2,703</b>
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0
<b>PBT</b>	<b>10,443</b>	<b>19,243</b>	<b>3,095</b>	<b>1,966</b>	<b>10,980</b>	<b>11,908</b>	<b>9,492</b>	<b>4,007</b>	<b>34,746</b>	<b>36,387</b>	<b>2,703</b>
Tax	1,864	3,696	948	282	2,354	1,722	2,613	2,045	6,790	8,733	703
Rate (%)	17.9	19.2	30.6	14.3	21.4	14.5	28	51.0	19.5	24.0	26.0
<b>Reported PAT</b>	<b>8,578</b>	<b>15,547</b>	<b>2,147</b>	<b>1,684</b>	<b>8,627</b>	<b>10,186</b>	<b>6,879</b>	<b>1,962</b>	<b>27,956</b>	<b>27,654</b>	<b>2,000</b>

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## Financials and Valuations

Income Statement						(INR Million)		
Y/E Mar	2013	2014	2015	2016	2017	2018E	2019E	2020E
<b>Net Sales</b>	<b>64,062</b>	<b>74,159</b>	<b>82,441</b>	<b>83,540</b>	<b>86,231</b>	<b>90,565</b>	<b>107,517</b>	<b>117,117</b>
Change (%)	-7.4	15.8	11.2	1.3	3.2	5.0	18.7	8.9
<b>EBITDA</b>	<b>42,730</b>	<b>43,833</b>	<b>57,382</b>	<b>53,727</b>	<b>55,621</b>	<b>56,034</b>	<b>72,273</b>	<b>75,945</b>
EBITDA Margin (%)	66.7	59.1	69.6	64.3	64.5	61.9	67.2	64.8
Depreciation	12,411	14,994	17,153	14,320	14,618	14,606	17,044	17,044
<b>EBIT</b>	<b>30,319</b>	<b>28,839</b>	<b>40,230</b>	<b>39,407</b>	<b>41,004</b>	<b>41,427</b>	<b>55,229</b>	<b>58,901</b>
Interest	5,962	11,802	12,728	11,182	10,734	9,208	12,461	14,797
Other Income	12,152	13,221	9,132	10,924	15,038	9,809	6,888	6,743
Extraordinary items	2,441	-4,972	550	0	0	0	0	0
<b>PBT</b>	<b>38,949</b>	<b>25,286</b>	<b>37,184</b>	<b>39,149</b>	<b>45,307</b>	<b>42,028</b>	<b>49,656</b>	<b>50,847</b>
Tax	10,223	8,954	9,203	10,003	10,531	13,102	13,840	14,122
Tax Rate (%)	26.2	35.4	24.8	25.5	23.2	31.2	27.9	27.8
Min. Int. & Assoc. Share	2,552	4,144	3,067	3,130	4,482	4,126	3,941	3,863
<b>Reported PAT</b>	<b>26,174</b>	<b>12,188</b>	<b>24,914</b>	<b>26,017</b>	<b>30,294</b>	<b>24,800</b>	<b>31,875</b>	<b>32,862</b>
<b>Adjusted PAT</b>	<b>23,733</b>	<b>17,160</b>	<b>24,364</b>	<b>26,017</b>	<b>30,294</b>	<b>24,800</b>	<b>31,875</b>	<b>32,862</b>
Change (%)	-22.3	-27.7	42.0	6.8	16.4	-18.1	28.5	3.1

Balance Sheet						(INR Million)		
Y/E Mar	2013	2014	2015	2016	2017	2018E	2019E	2020E
Share Capital	123,007	110,707	110,707	110,707	102,593	102,593	102,593	102,593
Reserves	180,743	171,753	196,868	205,720	187,555	188,964	197,447	205,686
<b>Net Worth</b>	<b>303,750</b>	<b>282,460</b>	<b>307,575</b>	<b>316,427</b>	<b>290,148</b>	<b>291,557</b>	<b>300,040</b>	<b>308,279</b>
Minority Interest	23,102	30,657	33,257	31,681	33,822	30,892	30,336	29,703
Advance Against Depreciation	0	0	0	0	0	0	0	0
Debt	188,059	193,090	187,245	199,382	192,267	199,751	203,966	197,467
Deferred Tax	6,241	9,344	9,886	15,136	16,653	16,653	16,653	16,653
<b>Total Capital Employed</b>	<b>521,152</b>	<b>515,551</b>	<b>537,963</b>	<b>562,627</b>	<b>532,891</b>	<b>538,852</b>	<b>550,996</b>	<b>552,102</b>
Gross Fixed Assets	329,392	404,868	405,761	342,331	353,055	353,969	413,440	413,440
Less: Acc Depreciation	94,019	108,975	126,600	116,191	130,784	145,390	162,434	179,478
<b>Net Fixed Assets</b>	<b>235,373</b>	<b>295,892</b>	<b>279,161</b>	<b>226,140</b>	<b>222,271</b>	<b>208,579</b>	<b>251,007</b>	<b>233,963</b>
Capital WIP	199,618	149,240	163,775	167,416	175,876	205,789	169,289	183,289
Investments	0	0	7,633	5,999	10,200	10,227	10,255	10,282
<b>Current Assets</b>	<b>188,370</b>	<b>168,879</b>	<b>163,551</b>	<b>228,446</b>	<b>193,424</b>	<b>183,138</b>	<b>189,326</b>	<b>193,449</b>
Inventory	642	798	906	928	1,008	1,008	1,008	1,008
Debtors	22,401	24,224	29,052	19,045	18,540	18,502	21,983	23,954
Cash & Bank	94,235	74,162	71,975	72,847	34,725	20,429	18,887	20,016
Loans & Adv, Others	71,092	69,695	61,618	135,626	139,152	143,199	147,449	148,471
<b>Curr Liabs &amp; Provns</b>	<b>102,209</b>	<b>98,461</b>	<b>76,158</b>	<b>65,375</b>	<b>68,881</b>	<b>68,881</b>	<b>68,881</b>	<b>68,881</b>
<b>Net Current Assets</b>	<b>86,160</b>	<b>70,419</b>	<b>87,393</b>	<b>163,071</b>	<b>124,544</b>	<b>114,257</b>	<b>120,446</b>	<b>124,569</b>
<b>Total Assets</b>	<b>521,152</b>	<b>515,551</b>	<b>537,963</b>	<b>562,627</b>	<b>532,891</b>	<b>538,852</b>	<b>550,996</b>	<b>552,102</b>

## Financials and Valuations

### Ratios

Y/E Mar	2013	2014	2015	2016	2017	2018E	2019E	2020E
<b>Basic (INR)</b>								
EPS	1.9	1.6	2.2	2.4	3.0	2.4	3.1	3.2
Cash EPS	2.9	2.9	3.8	3.6	4.4	3.8	4.8	4.9
Book Value	24.7	25.5	27.8	28.6	28.3	28.4	29.2	30.0
DPS	0.6	0.3	0.6	1.3	2.5	1.9	1.9	2.0
Payout (incl. Div. Tax.)	36.4	22.6	32.8	67.6	98.9	94.3	73.4	74.9
<b>Valuation(x)</b>								
P/E				10.7	9.9	12.2	9.5	9.2
Cash P/E				6.9	6.7	7.7	6.2	6.1
Price / Book Value				0.9	1.0	1.0	1.0	1.0
EV/Sales				0.0	0.0	0.0	0.0	0.0
EV/EBITDA				9.1	10.2	9.9	7.6	6.8
Dividend Yield (%)				5.2	8.4	6.4	6.4	6.8
<b>Profitability Ratios (%)</b>								
RoE	7.8	6.1	7.9	8.2	10.0	8.5	10.8	10.8
RoCE	6.2	6.4	6.5	6.2	7.0	6.4	8.1	9.2
Adjusted RoE	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Turnover Ratios (%)</b>								
Asset Turnover (x)	0.1	0.1	0.2	0.1	0.2	0.2	0.2	0.2
Debtors (No. of Days)	128	119	129	83	78	75	75	75
Inventory (No. of Days)	4	4	4	4	4	4	3	3
<b>Leverage Ratios (%)</b>								
Net Debt/Equity (x)	0.3	0.4	0.3	0.4	0.5	0.6	0.6	0.5

### Cash Flow Statement

(INR Million)

Y/E Mar	2013	2014	2015	2016	2017	2018E	2019E	2020E
Adjusted EBITDA	42,730	43,833	57,382	53,727	55,621	56,034	72,273	75,945
Non cash opr. exp (inc)	1,341	-35,311	-26,357	-36,000	-19,022	0	0	0
(Inc)/Dec in Wkg. Cap.	-11,507	1,909	-5,631	11,134	35,873	38	-3,481	-1,971
Tax Paid	-7,736	-7,942	-8,092	-8,718	-10,808	-13,102	-13,840	-14,122
Other operating activities	0	0	0	0	0	0	0	0
<b>CF from Op. Activity</b>	<b>24,828</b>	<b>2,489</b>	<b>17,302</b>	<b>20,143</b>	<b>61,664</b>	<b>42,970</b>	<b>54,952</b>	<b>59,852</b>
(Inc)/Dec in FA & CWIP	-23,989	-22,499	-17,260	-21,470	-15,870	-30,827	-22,972	-14,000
<b>Free cash flows</b>	<b>839</b>	<b>-20,010</b>	<b>42</b>	<b>-1,326</b>	<b>45,794</b>	<b>12,143</b>	<b>31,980</b>	<b>45,852</b>
(Pur)/Sale of Invt	0	0	0	0	0	0	0	0
Others	10,694	11,746	9,580	14,007	-2,775	5,761	2,638	5,721
<b>CF from Inv. Activity</b>	<b>-13,296</b>	<b>-10,754</b>	<b>-7,680</b>	<b>-7,462</b>	<b>-18,645</b>	<b>-25,065</b>	<b>-20,333</b>	<b>-8,279</b>
Inc/(Dec) in Net Worth	625	-23,679	0	0	-26,259	0	0	0
Inc / (Dec) in Debt	11,179	4,494	-196	-6,184	-8,364	7,483	4,216	-6,499
Interest Paid	-15,320	-16,195	-16,544	-15,020	-13,912	-9,208	-12,461	-14,797
Divd Paid (incl Tax) & Others	-8,293	23,571	4,931	9,395	-32,607	-30,476	-27,915	-29,146
<b>CF from Fin. Activity</b>	<b>-11,809</b>	<b>-11,809</b>	<b>-11,809</b>	<b>-11,809</b>	<b>-81,141</b>	<b>-32,201</b>	<b>-36,160</b>	<b>-50,443</b>
<b>Inc/(Dec) in Cash</b>	<b>-276</b>	<b>-20,074</b>	<b>-2,187</b>	<b>872</b>	<b>-38,122</b>	<b>-14,296</b>	<b>-1,542</b>	<b>1,130</b>
Add: Opening Balance	94,512	94,235	74,162	71,975	72,847	34,725	20,429	18,887
<b>Closing Balance</b>	<b>94,235</b>	<b>74,162</b>	<b>71,975</b>	<b>72,847</b>	<b>34,725</b>	<b>20,429</b>	<b>18,887</b>	<b>20,016</b>

## Explanation of Investment Rating

### Investment Rating

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 becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

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NHPC

Analyst ownership of the stock

No

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