

<b>BSE SENSEX</b>	<b>S&amp;P CNX</b>
40,470	11,940
Bloomberg	NHPC IN
Equity Shares (m)	10,045
M.Cap.(INRb)/(USDb)	234.6 / 3.3
52-Week Range (INR)	27 / 21
1, 6, 12 Rel. Per (%)	-5/-2/-24
12M Avg Val (INR M)	114
Free float (%)	26.7

**CMP: INR23**
**TP: INR25(+7%)**
**Neutral**

### In-line; Work on Subansiri restarts

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

2QFY20 standalone PAT increased ~10% YoY to INR13.4b (v/s est. INR12.4b) on the back of resumed income recognition for its Subansiri project (since 1QFY20). Generation declined 5% YoY on lower water availability, shutdown at Chamera and R&M activities at Baira Siul. Revenue rose 4% YoY to INR26.1b on recognition of pay revision. Other income was up 6% YoY to INR5b (v/s est. INR4.2b). For 1HFY20, PAT was up 14% YoY to INR22.2b.

- Construction on NHPC's Lower Subansiri (2,000MW) project has restarted from Oct'19. Contracts for construction of the power house though are yet to be awarded. NHPC expects the project to be completed by 2QFY24.
- Parbati-II (800MW) continues to face geological challenges. Company expects the project to be commissioned in FY22 (unchanged).
- The final capital cost approval for the five projects is expected over the next few months. This, we estimate would boost revenues by ~INR2-3b per annum.
- Capex stood at INR16b for the quarter. Full-year guidance is at INR38b (unchanged).

#### Earnings growth muted, capex run-rate increasing; Maintain Neutral


- The recommencement of work at Lower Subansiri is a major positive. In the past, however, agitation by locals had impacted construction activities. Moreover, commissioning of the project is still some time away (FY24 according to management) and we await progress on the same. Capex run-rate, on the other hand, is expected to increase as the company is investing/exploring new projects. This should reduce FCF and drag RoEs in the near term.
- NHPC's regulated equity growth – key driver of earnings – will be muted over the next few years as no new projects are being commissioned. We maintain **Neutral** with DCF-based TP of INR25/share.

#### Financials & Valuations (INR b)

Y/E Mar	2019	2020E	2021E
Net Sales	89.8	97.6	98.7
EBITDA	50.0	56.1	55.8
PAT	26.0	30.4	30.2
EPS (INR)	2.6	3.0	3.0
Gr. (%)	5.9	17.1	-0.7
BV/Sh (INR)	30.7	32.2	33.8
RoE (%)	8.5	9.6	9.1
RoCE (%)	5.2	6.7	6.4
P/E (x)	9.0	7.7	7.8
P/BV (x)	0.8	0.7	0.7

 Estimate change 

 TP change 

 Rating change 

#### Quarterly Performance (standalone) – INR m

Y/E March	FY19				FY20				FY19	FY20E	FY20 2QE
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			
Net Sales	21,290	24,950	15,714	19,503	24,213	26,054	16,747	19,963	81,612	86,977	23,931
YoY Change (%)	-8.5	26.5	4.9	71.5	13.7	4.4	6.6	2.4	17.7	6.6	-4.1
EBITDA	12,904	15,966	5,958	9,832	15,040	15,780	6,467	10,918	44,815	48,204	14,938
Depreciation	3,726	4,044	4,016	4,115	3,866	3,857	4,050	3,032	15,900	14,804	4,050
Interest	2,212	2,283	2,226	2,228	2,366	2,521	2,495	4,505	8,949	11,886	2,342
Other Income	1,129	4,716	1,199	2,359	872	4,992	1,079	1,382	9,248	8,324	4,245
Rate regulated activity	1,431	575	1,775	917	1,989	1,024	494	3,218	8,234	6,724	1,962
<b>PBT before EO expense</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>1,495</b>	<b>7,981</b>	<b>37,448</b>	<b>36,562</b>	<b>14,753</b>
Extra-Ord expense	0	0	0	0	0	0	0	0	0	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>1,495</b>	<b>7,981</b>	<b>37,448</b>	<b>36,562</b>	<b>14,753</b>
Tax	2,151	2,745	868	1,842	2,857	2,023	227	1,657	11,142	6,764	2,388
Rate (%)	23	18	32	27	24	13	15	21	29.8	18.5	16
<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>1,268</b>	<b>6,324</b>	<b>26,306</b>	<b>29,798</b>	<b>12,365</b>
<b>Adj 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>1,268</b>	<b>6,324</b>	<b>26,306</b>	<b>29,798</b>	<b>12,365</b>
YoY Change (%)	-14.5	19.6	-73.5	159.9	19.5	9.9	-30.4	-4.6	13.3	1.5	1.5

Note: The quarterly numbers do not add up to the full year due to adj. in prior quarter numbers

## Conference call takeaways

### Lower Subansiri

- Management has noted that work on Subansiri project has resumed and the project is expected to be completed by 2QFY24.
- The tender for Power house is yet to be awarded and company is in the process of finalizing the same.

### Parbati- II

- The project requires a tunnel of 31km, of this, 2.5km is yet to be completed and faces geological challenges.
- NHPC expects the project to be commissioned in FY22.

### Teesta VI

- Company expects the project to be completed in 5 years' time. The project requires construction of two tunnels, which will take time given the difficult geographical conditions.
- Tender for appointing contractors has been floated.
- Company would continue as 100% subsidiary of NHPC.

### Pilot Scheme-II

- According to management, there is uncertainty on pilot scheme-II.
- Prices on the ST market have declined. Company is in discussion with MoP and PFC, if prices can be rediscovered.

### Others

- **Incentive income:** For 1HFY20, PLF incentive stood at INR2.5b, DSM incentive stood at INR0.5b, while Secondary Energy income stood at INR0.4b.
- PAF during the quarter was down from 92.9% in 2QFY19 to 90% in 2QFY20 due to R&M shutdown at Baira Siul power plant and shutdown at Chamera plant.

## Financials and Valuations

Income Statement							(INR Million)	
Y/E Mar	2014	2015	2016	2017	2018	2019	2020E	2021E
<b>Net Sales</b>	<b>74,159</b>	<b>82,441</b>	<b>83,540</b>	<b>86,231</b>	<b>77,512</b>	<b>89,829</b>	<b>97,574</b>	<b>98,682</b>
Change (%)	15.8	11.2	1.3	3.2	-10.1	15.9	8.6	1.1
<b>EBITDA</b>	<b>43,833</b>	<b>57,382</b>	<b>53,727</b>	<b>55,621</b>	<b>49,380</b>	<b>58,433</b>	<b>62,807</b>	<b>62,548</b>
EBITDA Margin (%)	59.1	69.6	64.3	64.5	63.7	65.0	64.4	63.4
Depreciation	14,994	17,153	14,320	14,618	14,791	16,580	15,356	15,356
<b>EBIT</b>	<b>28,839</b>	<b>40,230</b>	<b>39,407</b>	<b>41,004</b>	<b>34,589</b>	<b>41,854</b>	<b>47,451</b>	<b>47,193</b>
Interest	11,802	12,728	11,182	10,734	9,226	8,951	11,886	11,749
Other Income	13,221	9,132	10,924	15,038	11,014	8,639	6,862	6,567
Extraordinary items	-4,972	550	0	0	0	0	0	0
<b>PBT</b>	<b>25,286</b>	<b>37,184</b>	<b>39,149</b>	<b>45,307</b>	<b>36,376</b>	<b>41,542</b>	<b>42,426</b>	<b>42,010</b>
Tax	8,954	9,203	10,003	10,531	8,629	13,236	8,427	8,335
Tax Rate (%)	35.4	24.8	25.5	23.2	23.7	31.9	19.9	19.8
Min. Int. & Assoc. Share	4,144	3,067	3,130	4,482	2,709	2,349	3,609	3,490
<b>Reported PAT</b>	<b>12,188</b>	<b>24,914</b>	<b>26,017</b>	<b>30,294</b>	<b>25,039</b>	<b>25,956</b>	<b>30,391</b>	<b>30,185</b>
<b>Adjusted PAT</b>	<b>17,160</b>	<b>24,364</b>	<b>26,017</b>	<b>30,294</b>	<b>25,039</b>	<b>25,956</b>	<b>30,391</b>	<b>30,185</b>
Change (%)	-27.7	42.0	6.8	16.4	-17.3	3.7	17.1	-0.7

Balance Sheet							(INR Million)	
Y/E Mar	2014	2015	2016	2017	2018	2019	2020E	2021E
Share Capital	110,707	110,707	110,707	102,593	102,593	100,450	100,450	100,450
Reserves	171,753	196,868	205,720	187,555	197,586	207,528	223,454	239,174
<b>Net Worth</b>	<b>282,460</b>	<b>307,575</b>	<b>316,427</b>	<b>290,148</b>	<b>300,179</b>	<b>307,978</b>	<b>323,904</b>	<b>339,624</b>
Minority Interest	30,657	33,257	31,681	33,822	29,349	28,685	27,769	26,735
Debt	193,090	187,245	199,382	192,267	186,021	190,658	194,534	208,839
Deferred Tax	9,344	9,886	15,136	16,653	17,109	47,207	47,207	47,207
<b>Total Capital Employed</b>	<b>515,551</b>	<b>537,963</b>	<b>562,627</b>	<b>532,891</b>	<b>532,658</b>	<b>574,528</b>	<b>593,414</b>	<b>622,404</b>
Gross Fixed Assets	404,868	405,761	342,331	353,055	255,977	310,216	310,216	310,216
Less: Acc Depreciation	108,975	126,600	116,191	130,784	44,204	60,450	75,806	91,161
<b>Net Fixed Assets</b>	<b>295,892</b>	<b>279,161</b>	<b>226,140</b>	<b>222,271</b>	<b>211,772</b>	<b>249,766</b>	<b>234,411</b>	<b>219,055</b>
Capital WIP	149,240	163,775	167,416	175,876	190,871	150,368	177,054	213,441
Investments	0	7,633	5,999	10,200	11,248	12,829	12,828	12,827
<b>Current Assets</b>	<b>168,879</b>	<b>163,551</b>	<b>228,446</b>	<b>193,424</b>	<b>189,985</b>	<b>254,292</b>	<b>261,848</b>	<b>269,808</b>
Inventory	798	906	928	1,008	1,047	1,252	1,252	1,252
Debtors	24,224	29,052	19,045	18,540	13,460	28,380	30,704	31,095
Cash & Bank	74,162	71,975	72,847	34,725	33,191	22,453	20,960	21,806
Loans & Adv, Others	69,695	61,618	135,626	139,152	142,287	202,207	208,932	215,656
<b>Curr Liabs &amp; Provns</b>	<b>98,461</b>	<b>76,158</b>	<b>65,375</b>	<b>68,881</b>	<b>71,219</b>	<b>92,727</b>	<b>92,727</b>	<b>92,727</b>
<b>Net Current Assets</b>	<b>70,419</b>	<b>87,393</b>	<b>163,071</b>	<b>124,544</b>	<b>118,767</b>	<b>161,565</b>	<b>169,121</b>	<b>177,081</b>
<b>Total Assets</b>	<b>515,551</b>	<b>537,963</b>	<b>562,627</b>	<b>532,891</b>	<b>532,658</b>	<b>574,528</b>	<b>593,414</b>	<b>622,404</b>

## Financials and Valuations

### Ratios

Y/E Mar	2014	2015	2016	2017	2018	2019	2020E	2021E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>1.6</b>	<b>2.2</b>	<b>2.4</b>	<b>3.0</b>	<b>2.4</b>	<b>2.6</b>	<b>3.0</b>	<b>3.0</b>
Cash EPS	2.9	3.8	3.6	4.4	3.9	4.2	4.6	4.5
Book Value	25.5	27.8	28.6	28.3	29.3	30.7	32.2	33.8
DPS	0.3	0.6	1.3	2.5	1.2	1.0	1.2	1.2
Payout (incl. Div. Tax.)	22.6	32.8	67.6	98.9	55.1	44.3	47.6	47.9
<b>Valuation(x)</b>								
P/E	14.9	11.0	10.7	9.9	9.6	9.0	7.7	7.8
Cash P/E	8.0	6.4	6.9	6.7	6.0	5.5	5.1	5.2
Price / Book Value	0.9	0.9	0.9	1.0	0.8	0.8	0.7	0.7
EV/Sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EV/EBITDA	9.3	8.0	9.1	10.2	10.0	8.6	7.8	8.0
Dividend Yield (%)	1.3	2.5	5.2	8.4	5.2	4.3	5.1	5.1
<b>Profitability Ratios (%)</b>								
RoE	6.1	7.9	8.2	10.0	8.5	8.5	9.6	9.1
RoCE	6.4	6.5	6.2	7.0	5.6	5.2	6.7	6.4
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	0.2	0.1	0.2	0.1	0.2	0.2	0.2
Debtors (No. of Days)	119	129	83	78	63	115	115	115
Inventory (No. of Days)	4	4	4	4	5	5	5	5
<b>Leverage Ratios (%)</b>								
Net Debt/Equity (x)	0.4	0.3	0.4	0.5	0.5	0.5	0.5	0.5

### Cash Flow Statement

(INR Million)

Y/E Mar	2014	2015	2016	2017	2018	2019	2020E	2021E
Adjusted EBITDA	43,833	57,382	53,727	55,621	49,380	58,433	62,807	62,548
Non cash opr. exp (inc)	-35,311	-26,357	-36,000	-19,022	3,490	-2,155	0	0
(Inc)/Dec in Wkg. Cap.	1,909	-5,631	11,134	35,873	6,409	-12,044	-2,324	-390
Tax Paid	-7,942	-8,092	-8,718	-10,808	-8,301	-8,772	-8,427	-8,335
Other operating activities	0	0	0	0	0	0	0	0
<b>CF from Op. Activity</b>	<b>2,489</b>	<b>17,302</b>	<b>20,143</b>	<b>61,664</b>	<b>50,978</b>	<b>35,463</b>	<b>52,056</b>	<b>53,823</b>
(Inc)/Dec in FA & CWIP	-22,499	-17,260	-21,470	-15,870	-15,673	-10,853	-26,686	-36,387
<b>Free cash flows</b>	<b>-20,010</b>	<b>42</b>	<b>-1,326</b>	<b>45,794</b>	<b>35,306</b>	<b>24,610</b>	<b>25,369</b>	<b>17,436</b>
(Pur)/Sale of Invt	0	0	0	0	0	0	0	0
Others	11,746	9,580	14,007	-2,775	1,790	-9,200	137	-158
<b>CF from Inv. Activity</b>	<b>-10,754</b>	<b>-7,680</b>	<b>-7,462</b>	<b>-18,645</b>	<b>-13,883</b>	<b>-20,053</b>	<b>-26,549</b>	<b>-36,545</b>
Inc/(Dec) in Net Worth	-23,679	0	0	-26,259	0	-6,062	0	0
Inc / (Dec) in Debt	4,494	-196	-6,184	-8,364	43,550	25,880	3,876	14,305
Interest Paid	-16,195	-16,544	-15,020	-13,912	-11,440	-12,151	-11,886	-11,749
Divd Paid (incl Tax) & Others	23,571	4,931	9,395	-32,607	-70,739	-33,815	-18,989	-18,989
<b>CF from Fin. Activity</b>	<b>-11,809</b>	<b>-11,809</b>	<b>-11,809</b>	<b>-81,141</b>	<b>-38,629</b>	<b>-26,148</b>	<b>-26,999</b>	<b>-16,433</b>
<b>Inc/(Dec) in Cash</b>	<b>-20,074</b>	<b>-2,187</b>	<b>872</b>	<b>-38,122</b>	<b>-1,534</b>	<b>-10,738</b>	<b>-1,492</b>	<b>846</b>
Add: Opening Balance	94,235	74,162	71,975	72,847	34,725	33,191	22,453	20,960
<b>Closing Balance</b>	<b>74,162</b>	<b>71,975</b>	<b>72,847</b>	<b>34,725</b>	<b>33,191</b>	<b>22,453</b>	<b>20,960</b>	<b>21,806</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

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