

NHPC makes a splash

NHPC Ltd is the largest hydropower-generating utility in the country with an aggregate installed capacity of 7,071MW (15% of India's installed hydropower capacity). With 10,515MW of projects under construction (hydro + renewables), the company's installed capacity with regulated return is set to grow by 3,420 MW by FY26, up by 50% after a gap of 3 years resulting in Revenue/EBITDA/PAT CAGR of 20%/24%/11% over FY23-26E. With a dividend yield of 2.5%, and nation's priority to enhance hydropower due to its load-following ability for grid balancing and pumped hydro storage in place, we maintain our BUY rating on the 'only' large utility with 100% green energy portfolio and raise the TP to INR 85/sh (SOTP-based), implying 10x FY26 blended EV/EBITDA and 1.6x FY26 P/B.

- **Installed capacity to grow 40%:** NHPC is slated to commission 2,000 MW (Subansiri) + 800 MW (Parbati-II) soon, adding 2,800MW to its existing portfolio of 7,071 MW after a gap of five years
- **Regulatory business model providing stable cash flows:** Hydroelectric plants (HEP) of NHPC operate on a regulated model, which provides a post-tax ROE of 15.5/16.5% depending upon the pondage (increased to 16%/17% for new projects in draft CERC Tariff Regulation 2024-29). The long-term power purchase agreements (PPAs) along with stable tariff as determined by the Central Electricity Regulatory Commission (CERC) allow high cash flow visibility. NHPC's core RoE also benefits from the incentives earned through secondary charges, capacity charges and deviation charges.
- **Regulated Equity to grow:** The regulated equity is estimated to grow by 75% from Rs 129bn in FY23 to Rs 226bn in FY25 adding almost INR 10bn to the net profit. The EBITDA/ PAT is to increase from Rs 62,681/42,347mn in FY23 to Rs 93,019/53,286mn in FY25, up by +48%/26% respectively.
- **Forays into Pumped-hydro projects (PSP):** The company has submitted PFR for 525MW Indra Sagar Omkareshwar PSP and 800MW Tekwa-2 for approvals to Central Electricity Authority (CEA). Additionally, it has signed MoUs with Maharashtra for four projects (1,150 MW Kalu, 2,250MW Savitri, 2,400MW Jalond, 1,550MW Kengadi; total 7,350 MW), Odisha (2,000MW) and Andhra Pradesh (950MW Kamlapadu, 1,000MW Yaganti; total 1,950MW) for developing pumpedhydro storage projects. ([Pumped storage hydropower: Revolution is Here!](#))
- **Growth momentum to sustain:** Another 3,634 MW of hydropower projects are under construction, which will be commissioned gradually in the next 5-6 years (the company believes to commission all by FY27) resulting in the addition of certain MW every year. This has never happened before. The hydropower generation has remained largely stagnant during FY15 to FY23 (standalone 22,038MU/ 24,619MU during FY15/23)

Financial Summary					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	91,888	1,06,074	1,19,464	1,46,481	1,82,896
Sales Growth (%)	-4.8	15.4	12.6	22.6	24.9
EBITDA	51,874	62,681	72,282	93,019	1,19,381
EBITDA Margin (%)	56.5	59.1	60.5	63.5	65.3
Adjusted Net Profit	37,743	42,347	44,750	53,286	58,634
Diluted EPS (INR)	3.8	4.2	4.5	5.3	5.8
Diluted EPS Growth (%)	-0.3	12.2	5.7	19.1	10.0
ROIC (%)	7.7	6.1	6.7	7.6	8.4
ROE (%)	11.1	11.8	11.8	13.1	13.3
P/E (x)	19.4	17.3	16.4	13.8	12.5
P/B (x)	2.1	2.0	1.9	1.7	1.6
EV/EBITDA (x)	20.0	17.4	15.1	13.2	10.2
Dividend Yield (%)	2.5	2.5	2.6	2.6	2.7

Source: Company data, JM Financial. Note: Valuations as of 17/Jan/2024

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	85
Upside/(Downside)	17.9%
Previous Price Target	58
Change	48.5%

Key Data – NHPC IN

Current Market Price	INR73
Market cap (bn)	INR733.3/US\$8.8
Free Float	24%
Shares in issue (mn)	10,045.0
Diluted share (mn)	10,045.0
3-mon avg daily val (mn)	INR1,862.0/US\$22.4
52-week range	75/38
Sensex/Nifty	71,501/21,572
INR/US\$	83.1

Price Performance

%	1M	6M	12M
Absolute	12.2	58.5	78.3
Relative*	12.2	47.6	51.2

* To the BSE Sensex

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- **‘Load-following ability’ of hydropower making it a favourite:** The increasing share of variable and intermittent renewable energy (RE) in the power generation mix is challenging the stability and reliability of the grid. Hydropower brings valuable scale and flexibility to help electricity systems adjust quickly to sudden shifts in demand and supply. This ‘load-following ability’ of hydropower necessitates increasing its share in the generation mix for integrating greater amounts of wind and solar power into the whole power system. Hence, we believe HEP is on the cusp of a structural upturn after decades of subdued performance making NHPC with strong core competencies, and significant installed capacities the natural beneficiaries of this growth phase ([Hydro power - Recalling the forgotten giant of clean electricity](#))
- **Last but not least:** NHPC is the only large CPSE utility with a 100% green energy portfolio.

Exhibit 1. SOTP Valuation

Particulars	EBITDA	Multiple	Enterprise Value	Value per share
Hydro Projects	1,19,381	9	10,74,429	107
Renewables	10,031	10	1,00,311	10
Net Debt	3,09,832	1	3,09,832	31
Total			8,64,908	85
CMP				73
Upside				18%

Source: Company, JM Financial

Exhibit 2. 1 Year Fwd P/B (x)



Source: Company, JM Financial

Exhibit 3. 1 Year Fwd EV/EBITDA (x)



Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Sales	91,888	1,06,074	1,19,464	1,46,481	1,82,896	
Sales Growth	-4.8%	15.4%	12.6%	22.6%	24.9%	
Other Operating Income	0	0	0	0	0	
Total Revenue	91,888	1,06,074	1,19,464	1,46,481	1,82,896	
Cost of Goods Sold/Op. Exp	8,887	9,396	10,752	13,037	16,278	
Personnel Cost	15,548	14,353	14,927	15,524	16,145	
Other Expenses	15,580	19,645	21,504	24,902	31,092	
EBITDA	51,874	62,681	72,282	93,019	1,19,381	
EBITDA Margin	56.5%	59.1%	60.5%	63.5%	65.3%	
EBITDA Growth	-3.5%	20.8%	15.3%	28.7%	28.3%	
Depn. & Amort.	11,903	12,147	12,832	16,293	22,744	
EBIT	39,971	50,534	59,450	76,726	96,637	
Other Income	9,641	6,775	7,453	8,943	9,837	
Finance Cost	5,323	4,743	9,576	15,295	29,273	
PBT before Excep. & Forex	44,288	52,567	57,327	70,373	77,201	
Excep. & Forex Inc./Loss(-)	-12,101	-406	-1,071	-2,972	-3,086	
PBT	32,187	52,161	56,256	67,401	74,115	
Taxes	-5,570	9,762	11,455	14,064	15,430	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	2,494	3,397	3,028	3,028	3,028	
Reported Net Profit	35,236	38,900	41,671	50,207	55,556	
Adjusted Net Profit	37,743	42,347	44,750	53,286	58,634	
Net Margin	41.1%	39.9%	37.5%	36.4%	32.1%	
Diluted Share Cap. (mn)	10,045.0	10,045.0	10,045.0	10,045.0	10,045.0	
Diluted EPS (INR)	3.8	4.2	4.5	5.3	5.8	
Diluted EPS Growth	-0.3%	12.2%	5.7%	19.1%	10.0%	
Total Dividend + Tax	18,182	18,583	18,955	19,334	19,721	
Dividend Per Share (INR)	1.8	1.9	1.9	1.9	2.0	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Profit before Tax	44,274	52,516	57,276	70,322	77,150	
Depn. & Amort.	11,903	12,147	12,832	16,293	22,744	
Net Interest Exp. / Inc. (-)	0	0	2,123	6,352	19,436	
Inc (-) / Dec in WCap.	16,907	-7,968	-5,009	8,044	-15,516	
Others	0	546	-4,150	-6,051	-6,164	
Taxes Paid	-8,367	-9,772	-11,455	-14,064	-15,430	
Operating Cash Flow	64,718	47,468	51,617	80,896	82,220	
Capex	-50,117	-49,588	19,057	-2,43,565	-50,551	
Free Cash Flow	14,601	-2,119	70,674	-1,62,669	31,669	
Inc (-) / Dec in Investments	-4,337	3,794	-50,000	35,000	0	
Others	4,793	3,333	7,453	28,943	24,837	
Investing Cash Flow	-49,660	-42,461	-23,491	-1,79,622	-25,714	
Inc / Dec (-) in Capital	594	2,001	0	0	0	
Dividend + Tax thereon	-19,478	-22,629	-18,955	-19,334	-19,721	
Inc / Dec (-) in Loans	27,726	29,728	47,581	78,812	67,132	
Others	-15,225	-17,057	-9,576	-15,295	-29,273	
Financing Cash Flow	-6,383	-7,957	19,050	44,183	18,138	
Inc / Dec (-) in Cash	8,674	-2,949	47,177	-54,543	74,644	
Opening Cash Balance	10,910	29,885	26,936	74,113	19,570	
Closing Cash Balance	19,584	26,936	74,113	19,570	94,214	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Shareholders' Fund	3,49,210	3,68,993	3,91,709	4,22,582	4,58,417	
Share Capital	1,00,450	1,00,450	1,00,450	1,00,450	1,00,450	
Reserves & Surplus	2,48,760	2,68,543	2,91,259	3,22,132	3,57,967	
Preference Share Capital	0	0	0	0	0	
Minority Interest	28,629	48,151	48,151	48,151	48,151	
Total Loans	2,97,720	3,36,365	3,83,945	4,62,758	5,29,890	
Def. Tax Liab. / Assets (-)	-27,896	-27,347	-27,347	-27,347	-27,347	
Total - Equity & Liab.	6,47,663	7,26,162	7,96,458	9,06,144	10,09,111	
Net Fixed Assets	4,43,475	5,34,941	5,03,052	7,30,325	7,58,132	
Gross Fixed Assets	4,07,755	4,23,025	4,32,454	6,53,744	8,62,531	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	1,89,504	2,01,651	2,14,483	2,30,776	2,53,520	
Capital WIP	2,25,224	3,13,567	2,85,081	3,07,356	1,49,120	
Investments	23,865	3,472	53,472	18,472	18,472	
Current Assets	2,33,018	2,55,637	3,08,119	2,66,130	3,57,096	
Inventories	1,404	1,612	1,815	2,226	2,779	
Sundry Debtors	51,758	66,341	71,443	83,586	99,355	
Cash & Bank Balances	19,584	26,936	74,113	19,570	94,214	
Loans & Advances	610	608	608	608	608	
Other Current Assets	1,59,661	1,60,141	1,60,141	1,60,141	1,60,141	
Current Liab. & Prov.	52,695	67,889	68,185	1,08,784	1,24,590	
Current Liabilities	32,520	38,001	38,297	58,895	74,701	
Provisions & Others	20,175	29,888	29,888	49,888	49,888	
Net Current Assets	1,80,323	1,87,748	2,39,934	1,57,347	2,32,507	
Total - Assets	6,47,663	7,26,162	7,96,458	9,06,144	10,09,111	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Margin	41.1%	39.9%	37.5%	36.4%	32.1%	
Asset Turnover (x)	0.1	0.1	0.1	0.1	0.2	
Leverage Factor (x)	2.2	2.2	2.3	2.4	2.6	
RoE	11.1%	11.8%	11.8%	13.1%	13.3%	

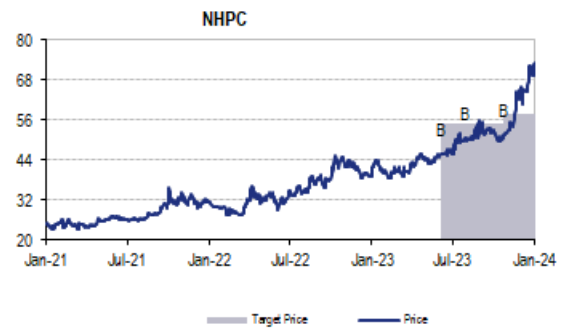
Key Ratios						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
BV/Share (INR)	34.8	36.7	39.0	42.1	45.6	
ROIC	7.7%	6.1%	6.7%	7.6%	8.4%	
ROE	11.1%	11.8%	11.8%	13.1%	13.3%	
Net Debt/Equity (x)	0.8	0.8	0.8	1.0	1.0	
P/E (x)	19.4	17.3	16.4	13.8	12.5	
P/B (x)	2.1	2.0	1.9	1.7	1.6	
EV/EBITDA (x)	20.0	17.4	15.1	13.2	10.2	
EV/Sales (x)	11.3	10.3	9.1	8.4	6.7	
Debtor days	206	228	218	208	198	
Inventory days	6	6	6	6	6	
Creditor days	20	20	20	22	23	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
19-Jun-23	Buy	55	
14-Aug-23	Buy	55	0.6
9-Nov-23	Buy	58	5.0

Recommendation History



APPENDIX I

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Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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