# NHPC Ltd — FY 2025 Annual Report Analysis

# Annual Report Analysis (Consolidated)

## Investor Snapshot

| # | Analytical point | Sentiment |
|---|---|---|
| 1 | **NHPC operates a dominant hydro-utility model with a 73.94% Plant Availability Factor, though it faces increasing vulnerability to climate-induced disruptions.** | Neutral |
| 2 | **Revenue grew 7.78% YoY to □10,380 Cr, primarily driven by the consolidation of NHDC Limited despite significant generation losses elsewhere.** | Positive |
| 3 | **Operating margins remain robust at 52%, reflecting the high profitability of commissioned assets, though net margins are pressured by a 28.6% surge in employee costs.** | Neutral |
| 4 | ***PAT declined 14.7% to  3,412 Cr, weighed down by rising finance costs and the total operational paralysis of the 510 MW Teesta-V plant.*** | Negative |
| 5 | ***Financial leverage is escalating with a 1.0x D/E ratio and borrowing limits hiked to  60,000 Cr to fund an aggressive, debt-heavy expansion phase.*** | Negative |
| 6 | ***Cash Flow from Operations fell 30.7% to  5,026 Cr, failing to cover the  8,851 Cr Capex outlay, resulting in a deeply negative FCF of -  3,823 Cr.*** | Negative |
| 7 | ***Capital allocation is under pressure as ROCE diluted to 7.00%, falling below the cost of debt, while dividend payouts (64%) are increasingly debt-funded.*** | Negative |
| 8 | ***Massive execution risk is evidenced by CWIP reaching  50,601 Cr (2.3x PPE), with  2,070 Cr in capitalized interest artificially inflating current earnings.*** | Negative |
| 9 | ***Earnings quality is compromised by  7,205 Cr in Regulatory Deferral Assets, representing 18% of Net Worth and a high reliance on non-cash accruals.*** | Negative |
| 10 | ***Governance concerns have intensified due to a leadership bottleneck with one individual holding the triple charge of CMD, CFO, and Director (Finance).*** | Negative |
| 11 | ***The board lacks diversity with zero women directors, and transparency is limited by the non-disclosure of individual KMP compensation.*** | Negative |
| 12 | **Outlook depends on the commissioning of Parbati-II and Subansiri Lower (2,800 MW total) to reverse the FCF deficit and reduce the CWIP-to-PPE ratio.** | Neutral |
| 13 | **Investment View: Watch; maintain caution until major projects commission or Net Debt/EBITDA exceeds 6.0x, as execution risks currently outweigh the green narrative.** | Neutral |

## 1. Business overview (In Bullet Points)

- **Business Segments:** NHPC is primarily a hydroelectric power generation company, now aggressively diversifying into Solar, Wind, Pumped Storage Projects (PSP), and Green Hydrogen to transition into a multi-source renewable player.
- **Revenue Drivers:** Revenue is driven by power generation across 21 operational stations, governed by CERC regulated equity models and provisional/final tariff notifications. NHDC Limited is a major contributor, accounting for 15.36% of total revenue.

- **Cost Drivers:** Key costs include **Employee Benefits Expense** (which saw a 28.6% spike), Finance Costs (surging 59.6% as projects transition), and generation expenses. Interest capitalization is a significant factor in managing P&L impact during construction.
- **Industry Position:** Holds "Navratna" PSU status and acts as a high-moat hydro specialist, though it is moving into the more competitive commodity renewable market.
- **Expansion Plans:** Massive expansion phase with a borrowing limit hike to □60,000 Cr to fund a pipeline of hydro and renewable projects.
- **Acquisitions & Capacity:** Focus on Pumped Storage Projects as a new frontier for "peaking power" premiums. Significant capital is locked in **CWIP** (□50,601 Cr), representing nearly 50% of total assets.
- **Segment Performance:** Total generation fell to 19,878 MUs (YoY -8.7%) with a Plant Availability Factor (PAF) drop to 73.94%. Only 7 out of 21 stations achieved design energy.
- **Geographical Presence:** Heavy concentration in the Himalayan region and North East India. Operations face regional instability risks, specifically in Manipur (Loktak) and Sikkim (Teesta-V).

## 2. Management commentary & outlook

- **Strategic Pivot:** Management is rebranding NHPC from a hydro specialist to a "green energy" major, focusing on Solar, Wind, and Pumped Storage to align with GOI mandates.
- **Operational Challenges:** Acknowledgment of "operational fragility" due to climate risks; Teesta-V (510 MW) remains at zero generation following the Oct 2023 glacial flood with no firm restart date.
- **Project Timelines:** Parbati-II (800 MW) is now slated for FY 2025-26; management remains optimistic despite historical delays.
- **Regional Bottlenecks:** Official admission that "Law and Order" issues in Manipur have deferred the Renovation & Modernization (R&M) of Loktak Power Station to FY 2025-26.
- **Funding Strategy:** Reliance on asset monetization (e.g., Kishanganga) and increased borrowing limits (from □50k Cr to □60k Cr) to fund the massive capex pipeline.
- **Growth Guidance:** Continued focus on capturing "peaking power" premiums through PSPs, though these face long gestation periods similar to traditional hydro.
- **Competitive Environment:** Transitioning into solar and wind shifts the company into a space with lower entry barriers and fiercer margin competition compared to its core hydro moat.
- **Management Tone:** The tone is outwardly optimistic regarding the "green transition" and capacity additions, yet the underlying commentary reveals a defensive posture regarding hydrological volatility and regional execution risks. The persistence of a "triple charge" leadership structure (CMD/CFO/Director Finance) suggests a bottleneck in high-level decision-making and a lack of leadership depth during a critical expansion phase. (LAST bullet point).

# 3. Financial analysis

## 3.1 Financial statements

### P&L statement (□Cr)

| Line item | Mar 2025 | Mar 2024 |
|---|---|---|
| Sales | 10,380 | 9,631 |
| Sales Growth % | 7.78 | -9.21 |
| Expenses | 4,957 | 4,695 |
| Manufacturing Cost % | 14.40 | 14.64 |
| Employee Cost % | 24.80 | 20.21 |
| Other Cost % | 8.55 | 13.89 |
| Operating Profit | 5,423 | 4,936 |
| OPM % | 52 | 51 |
| Other Income | 1,726 | 2,030 |
| Exceptional items | -21 | -15 |
| Other income normal | 1,747 | 2,045 |
| Interest | 1,189 | 767 |
| Depreciation | 1,193 | 1,184 |
| Profit before tax | 4,767 | 5,015 |
| Tax % | 28 | 20 |
| Net Profit | 3,412 | 4,000 |
| Minority share | -405 | -404 |
| Exceptional items AT | 64 | 65 |
| Profit excl Excep | 3,348 | 3,935 |
| Profit for PE | 2,951 | 3,538 |
| Profit for EPS | 3,007 | 3,596 |
| Profit Growth % | -17 | -9 |
| EPS (□) | 2.99 | 3.58 |
| Dividend Payout % | 64 | 53 |

## Balance sheet (□Cr)

| Line item | Mar 2025 | Mar 2024 |
|---|---|---|
| Equity Capital | 10,045 | 10,045 |
| Reserves | 29,623 | 28,624 |
| Borrowings | 39,557 | 32,561 |
| Long term Borrowings | 35,682 | 29,382 |
| Short term Borrowings | 3,752 | 3,111 |
| Lease Liabilities | 123 | 68 |
| Other Borrowings | 0 | 0 |
| Other Liabilities | 23,455 | 21,037 |
| Non controlling int | 5,495 | 5,190 |
| Trade Payables | 321 | 282 |
| Advance from Customers | 30 | 14 |
| Other liability items | 17,609 | 15,551 |
| Total Liabilities | 102,680 | 92,267 |
| Fixed Assets | 22,168 | 21,474 |
| Land | 5,747 | 5,552 |
| Building | 3,115 | 2,752 |
| Plant Machinery | 9,211 | 8,596 |
| Equipments | 341 | 287 |
| Computers | 119 | 100 |
| Furniture n fittings | 114 | 89 |
| Railway sidings | 13 | 13 |
| Vehicles | 44 | 44 |
| Intangible Assets | 0 | 0 |
| Other fixed assets | 16,775 | 16,154 |
| Gross Block | 35,480 | 33,588 |
| Accumulated Depreciation | 13,312 | 12,114 |
| CWIP | 50,601 | 39,798 |
| Investments | 444 | 479 |
| Other Assets | 29,467 | 30,516 |
| Inventories | 263 | 195 |
| Trade receivables | 4,793 | 4,420 |
| Cash Equivalents | 2,751 | 3,622 |
| Loans n Advances | 837 | 159 |
| Other asset items | 20,822 | 22,120 |
| Total Assets | 102,680 | 92,267 |

## Cash flow statement (□Cr)

| Line item | Mar 2025 | Mar 2024 |
|---|---|---|
| Cash from Operating Activity | 5,026 | 7,252 |
| Profit from operations | 6,266 | 5,854 |
| Receivables | -328 | 2,236 |
| Inventory | -67 | -29 |
| Payables | 0 | 0 |
| Loans Advances | 0 | 0 |
| Other WC items | 33 | 62 |
| Working capital changes | -362 | 2,270 |
| Direct taxes | -877 | -871 |
| Cash from Investing Activity | -7,550 | -5,940 |
| Fixed assets purchased | -8,851 | -6,969 |
| Fixed assets sold | 2 | 2 |
| Investments purchased | 0 | 0 |
| Investments sold | 12 | 150 |
| Interest received | 457 | 364 |
| Dividends received | 9 | 9 |
| Investment in group cos | 0 | 0 |
| Other investing items | 821 | 503 |
| Cash from Financing Activity | 1,904 | -924 |
| Proceeds from shares | 0 | 0 |
| Proceeds from borrowings | 10,347 | 6,282 |
| Repayment of borrowings | -3,189 | -2,816 |
| Interest paid fin | -3,248 | -2,441 |
| Dividends paid | -2,310 | -2,326 |
| Financial liabilities | -5 | -5 |
| Other financing items | 309 | 382 |
| Net Cash Flow | -620 | 388 |
| Free Cash Flow | -3,823 | 285 |
| CFO/OP | 109 | 165 |

### Key ratios

| Line item | Mar 2025 | Mar 2024 |
|---|---|---|
| Debtor Days | 169 | 168 |
| Inventory Days | 0 | 0 |
| Days Payable | 0 | 0 |
| Cash Conversion Cycle | 169 | 168 |
| Working Capital Days | -58 | -51 |
| ROCE % | 7 | 8 |

## 3.2 Financial analysis summary

- **Revenue** grew by 7.78% to □10,380.00 Cr, primarily driven by NHDC Limited which contributed □1,594.64 Cr (15.36% of total), yet PAT declined by 14.7% to □3,412.00 Cr due to a sharp 28.6% spike in Employee Benefits Expense (□1,823.60 Cr) and a 55% surge in expensed Finance Cost (□1,189.00 Cr).
- **Revenue** recognition remains a key sensitivity, with significant portions based on provisional CERC tariffs, while a lag in cash realization exists due to "Unbilled Revenue" (Contract Assets) awaiting truing-up orders.
- **Operating Profit** margin improved slightly to 52.00% from 51.00%, but value leaked at the Net Profit level as Tax % rose from 20.00% to 28.00% and Other Income fell by 14.9% to □1,726.00 Cr.
- **Trade Receivables** increased to □4,793.00 Cr, growing 8.44% YoY and outpacing Revenue growth, which resulted in a □328.00 Cr cash outflow in the Cash Flow Statement and maintained high Debtor Days of 169.00.
- The **Balance Sheet** is heavily concentrated in "soft assets," with Regulatory Deferral Account debit balances of □7,205.71 Cr representing costs to be recovered in future years, which inflates Total Assets (□102,680.00 Cr) without providing immediate liquidity.
- **CWIP** surged by 27.2% to □50,601.00 Cr, now standing at 2.28x the value of Fixed Assets (□22,168.00 Cr), signaling a massive expansion phase but also high execution risk and potential "profit cliffs" when interest capitalization (□2,070.27 Cr this year) ceases upon commissioning.
- **Total Debt** (Borrowings) increased to □39,557.00 Cr to fund Capex, leading to a deterioration in the Debt / Equity ratio to 1.00 and a drop in Interest Coverage from 6.44 to 4.56.
- **CFO** fell by 30.7% to □5,026.00 Cr, failing to cover the massive Capex of □8,851.00 Cr, resulting in a deeply negative Free Cash Flow of -□3,823.00 Cr and increasing reliance on external Proceeds from borrowings (□10,347.00 Cr).
- **Dividend Payout %** increased to 64.00% (□2,310.00 Cr paid), which appears aggressive given the negative Free Cash Flow and the 14.7% contraction in Net Profit, further straining the Cash Equivalents which dropped to □2,751.00 Cr.
- **ROCE** diluted from 8.00% to 7.00% and ROE fell to 8.60%, reflecting the impact of a bloating Balance Sheet (Total Assets up 11.3%) that is not yet generating commensurate Revenue or PAT due to the long gestation of hydro projects.
- **Other Current Assets** spiked 63.3% to □1,266.22 Cr, likely relating to increased advances to contractors or statutory dues, while Other Non-Current Liabilities rose 20.5% to □5,093.34 Cr, indicating growing long-term obligations beyond standard debt.
- **Other Expenses** remained high at □2,237.18 Cr (21.55% of revenue), acting as a persistent drag on margins alongside the rising Employee Cost which now consumes 17.57% of the top line.

- The dominant financial theme of the year is a **transition into a high-leverage, capital-intensive expansion phase where core cash flows and profitability are being squeezed by rising operational costs and debt servicing, while returns are being diluted by massive, non-earning CWIP.**

### 3.3 Contingent liabilities & commitments

- **Contractor Claims:** Significant claims against the Group from contractors involving arbitration and judicial forums. Management uses judgment to estimate outflows, but there is a risk of material unprovided liabilities (KAM 3).
- **Tax Disputes:** Recognition of MAT credit as a DTA (Deferred Tax Asset) is contingent on future profit projections and regulatory pass-through.
- **Capital Commitments:** While not explicitly totaled, commitments are deemed "High" given the ₹50,601 Cr locked in CWIP and the ongoing ₹60,000 Cr borrowing program.
- **Note 34.2.a.i:** The scale of contractor claims is described as "significant," and any adverse ruling could lead to material cash outflows not currently provided for.

## 3.9 Earnings quality & forensic checks

| # | Check | Impact | Status | Notes detail |
|---|---|---|---|---|
| 1 | PAT vs CFO trend | Profit ↓ — earnings overstate cash; CFO dropped 30.7% as receivables drag liquidity. | — | CFO impacted by □328 Cr receivable increase vs □2,236 Cr decrease. |
| 2 | Receivables & channel-stuffing signal | Revenue ↑↓ — collection lag; receivables + inventory grew 9.5% vs sales growth of 7.8%. | — | Note 34.1: Unbilled revenue signals lag between generation and cash realization. |
| 3 | Revenue timing (unbilled / contract assets) | Profit ↑ — estimation risk; revenue recognized on provisional tariffs creates high accrual uncertainty. | — | Note 24.1: Significant revenue based on provisional tariffs yet to be notified. |
| 4 | Revenue from related parties % | Revenue ↑↓ — concentration risk; subsidiary NHDC Limited contributes over 15% of total revenue. | — | Related Party Note: Transactions primarily with subsidiaries involved in power generation. |
| 5 | Inventory vs revenue growth | Profit ↓ — cash tied in stores; inventory growth of 34.8% significantly outpaces sales. | — | Breakdown: Inventory increase relates to maintenance stores for expanding project base. |
| 6 | Inventory valuation method change | Neutral — consistent accounting; no change in valuation methodology preserves year-on-year profit comparability. | — | Accounting Policy: Inventory valued at lower of cost or net realizable value. |
| 7 | Exceptional items in operating profit | Profit ↓ — non-core drag; exceptional losses of □21 Cr are excluded from operating profit. | — | P&L Statement: Exceptional items reported below operating profit line. |
| 8 | Depreciation rate vs useful life policy | Profit ↑↓ — regulatory alignment; depreciation follows CERC norms ensuring expense matches tariff recovery. | — | Note 1.0/Depreciation: Rates linked to CERC methodology for hydroelectric assets. |
| 9 | Provision reversals boosting PAT | Neutral — clean earnings; lack of material provision reversals indicates high core earnings quality. | — | Note 1.0/H: No impairment envisaged in receivables due to Late Payment Surcharge. |
| 10 | Tax rate consistency + cash tax vs P&L tax | Profit ↓ — tax volatility; effective tax rate jumped to 28% from 20% YoY. | — | KAM 4: MAT credit recognized as DTA based on future profit projections. |
| 11 | CWIP age and stalling projects | Profit ↑ — capitalization risk; massive CWIP hides interest costs that will eventually hit P&L. | — | KAM 2: Auditors highlight impairment risk for projects under construction (CWIP). |
| 12 | Deferred tax asset recognition adequacy | Profit ↑ — judgment dependency; MAT credit DTA recognition relies on subjective future taxable profits. | — | KAM 4: Recognition of MAT credit linked to Regulatory Deferral Liability. |
| 13 | RPT quantum and trend | Neutral — intra-group stability; RPTs are significant but consistent with the PSU subsidiary model. | — | Note 1.0/E: Consolidation includes 7 subsidiaries; some reporting losses (CVPPPL). |
| 14 | Dividend paid vs FCF adequacy | Neutral — debt-funded payouts; dividends of □2,310 Cr paid despite deeply negative free cash flow. | — | CF Statement: High payout ratio amidst heavy capex increases reliance on debt. |
| 15 | Regulatory Asset Quality | Profit ↑ — accrual risk; □7,205.71 Cr in Regulatory Deferral balances inflates assets with non-cash items. | — | Ind AS 114 allows deferral of expenses recoverable through future tariffs, smoothing current profits. |
| 16 | Subsidiary Viability | Profit ↓ — impairment risk; CVPPPL and Loktak Downstream reported operational losses. | — | Ongoing losses in subsidiaries signal project viability risks and potential parent support requirements. |

## 4. Management & governance

A. Auditor Report & Key Audit Matters * **Audit opinion type:** Unqualified. * **KAM 1: Revenue Recognition:** Auditor concern regarding the accrual of revenue based on provisional tariffs and management assumptions for CERC truing-up. Risk involves high estimation uncertainty where final orders are pending. * **KAM 2: Impairment of PPE/CWIP:** Evaluation of □50,398.44 Cr in CWIP. Risk of impairment due to project delays, obsolescence, or demand changes in the Himalayan region. * **KAM 3: Contingent Liabilities:** Significant claims from contractors involving arbitration and judicial forums. Management judgment is used to estimate outflows, posing a risk of material unprovided liabilities. * **KAM 4: MAT Credit Entitlement:** Recognition of MAT credit as a Deferred Tax Asset (DTA) based on future profit projections, which must be passed to beneficiaries via Regulatory Deferral Liabilities. * **Auditor Fees:** Total fees paid to Statutory Auditors on a consolidated basis are disclosed in the Corporate Governance Report. Fees are deemed aligned with the complexity of 7 subsidiaries and massive CWIP oversight.

B. Related Party Transactions

| Party | Relationship | Nature | Amount (□ Cr) | Concern |
|---|---|---|---|---|
| NHDC Limited | Subsidiary | Revenue Generation | 1,594.64 Cr | **Significant contributor (15.36% of total revenue)** |
| CVPPPL | Subsidiary | Revenue / Loss | 10.89 Cr | ***Reported loss of 12.48 Cr; potential for further impairment*** |
| Loktak Downstream | Subsidiary | Operational Loss | 1.03 Cr | ***Ongoing losses signal project viability risks*** |
| NHPTL | Associate | Share of Profit | 2.36 Cr | **Profit share halved from 4.40 Cr in prior year** |

**RPT Risk Checks:** * % of Revenue: 15.47% (calc.) [1,605.53 Cr / 10,380 Cr] → Flagged as >15% * % of CFO: 31.94% (calc.) [1,605.53 Cr / 5,026 Cr] → High concentration * Trend vs Prior Year: Increasing (primarily due to NHDC consolidation/reporting) * **Unbilled Revenue:** Significant RPT revenue is tied to "Contract Assets" pending CERC truing-up.

C. Shareholding | Category | Mar 2025 (%) | Mar 2024 (%) | | :--- | ---: | ---: | | Promoters | 67.40 | 67.40 | | FIIs | 8.93 | 8.93 | | DIIs | 13.91 | 13.91 | | Public | 9.76 | 9.76 |

- **Pledged Shares:** 0.00% of promoter holding.

D. Board Composition + KMP Compensation * **Total Directors:** 10 * **Independent %:** 50.00% (5 out of 10) * ***Women Directors:*** 0 (The current board list shows no women directors; Rupa Deb serves as Company Secretary but not as a Director). * **Leadership Bottleneck:** Shri R.P. Goyal holds triple charge (**CMD, Director Finance, and CFO**), representing a significant governance and oversight risk. * **Employee Cost Surge:** Total Employee Benefit Expenses rose 28.6% to □1,823.60 Cr, significantly outpacing the 7.78% revenue growth. * **Transparency Gap:** Individual KMP remuneration is not detailed in the provided financial notes, preventing a direct assessment of pay-for-performance alignment.

F. Capital Allocation & Capex | Action | FY current (□Cr) | FY prior (□Cr) | % of CFO | Signal | | ------- | ---------- | ---------- | ---------- | -------- | | Dividends Paid | 2,310.00 Cr | 2,326.00 Cr | 45.96% | **Stable** | | Capex (Fixed Assets) | 8,851.00 Cr | 6,969.00 Cr | 176.10% | ***Concern*** | | Net Debt Change | 7,158.00 Cr | 3,466.00 Cr | 142.42% | ***Concern*** | | Interest Payments | 3,248.00 Cr | 2,441.00 Cr | 64.62% | Neutral |

**CAPEX Analytical Notes:** * **CFO Coverage of Capex:** Ratio is **0.56**. NHPC is unable to self-fund its capex, relying heavily on debt markets. * **Nature of Capex:** Purely growth-oriented. **CWIP stands at □50,601.00 Cr, representing 49.28% of total assets.** * **Capex Deployment Efficiency:** Revenue grew only 7.78% despite a

27.2% surge in CWIP, as capital remains locked in non-earning assets. * **Key Takeaway: ₹2,070.27 Cr of interest was capitalized this year**, masking the true P&L impact of the debt used to fund delayed projects. ROCE has deteriorated to 7.00% from 8.00%.

H. Risks * 1. ***Project Execution:*** **₹50,601.00 Cr locked in CWIP.** Impact: Cost overruns and interest capitalization "profit cliff" upon commissioning. (Severity: High) * 2. ***Hydrological / GLOF:*** Glacial Lake Outburst Floods. Impact: **Teesta-V shutdown since Oct 2023**; zero generation from a major asset. (Severity: High) * 3. ***Regulatory Disallowance:*** Dependency on CERC for ₹7,205.71 Cr in Regulatory Assets. Impact: Sudden write-downs if CERC disallows costs during truing-up. (Severity: High) * 4. ***State Hostility:*** Law and order in Manipur. Impact: **Loktak R&M delayed to FY 2025-26**; loss of design energy efficiency. (Severity: Medium) * 5. ***Leverage Risk:*** Borrowings increased to ₹39,557.00 Cr. Impact: Rising interest burden reduces PAT margins. (Severity: High)

## 5. Scorecard & verdict

### Part a: scorecard

| Dimension | Rating (1–5) | Delta | Key evidence | One-line rationale |
|---|---|---|---|---|
| Business quality | 3 | → | PAF 73.94%; Teesta-V zero gen | Stable utility model but high vulnerability to climate and regional risks. |
| Financial health | 2 | ↓ | D/E 1.0x; CFO < Capex; FCF -₹3,823 Cr | Deteriorating health due to heavy debt-funded expansion and negative FCF. |
| Earnings quality | 2 | ↓ | CFO/PAT 1.47; ₹7.2k Cr Reg. Assets | High reliance on "soft" regulatory accruals and interest capitalization. |
| Management & governance | 2 | ↓ | CMD/CFO/DF triple charge; 0 Women Directors | Significant leadership bottleneck and lack of board diversity/transparency. |
| Capital allocation & earnings visibility | 2 | ↓ | ROCE 7% < Cost of Debt; CWIP 2.3x PPE | Value-destructive capex with long gestation and uncertain near-term returns. |

**Business positives (for this company this year)** * **Revenue Growth:** Top-line increased by **7.78% to ₹10,380 Cr**, supported by the consolidation of NHDC Limited. * **Operating Margins:** Maintained a strong **OPM of 52%**, demonstrating the inherent profitability of operational hydro assets. * **Liquidity Buffer: Undrawn credit lines increased to ₹10,148 Cr**, providing a safety net for upcoming debt maturities. * **Strategic Diversification:** Aggressive move into **Pumped Storage and Solar** to mitigate long-term concentration in traditional hydro.

**Business negatives / concerns (for this company this year)** * **Operational Paralysis: Teesta-V (510 MW) reported zero generation** for the entire year following flood damage. * **Negative Free Cash Flow: FCF stood at -₹3,823 Cr**, as CFO (₹5,026 Cr) failed to cover Capex (₹8,851 Cr). * **Governance Red Flag: Shri R.P. Goyal holds the triple charge** of CMD, Director (Finance), and CFO, creating an oversight bottleneck. * **Capitalization Risk: ₹2,070 Cr of interest was capitalized**, artificially inflating PAT while CWIP reached ₹50,601 Cr. * **Cost Pressure: Employee Benefit Expenses surged 28.6%**, significantly outpacing revenue growth and compressing net margins.

**Overall scorecard summary** NHPC is currently in a precarious financial position characterized by a massive, debt-funded expansion that is not yet translating into cash flow. While the core utility model remains profitable at an operating level, the company's financial health is weakening due to negative free cash flow and a rising debt-to-equity ratio. Governance is a significant concern given the concentration of KMP roles and the lack of board diversity. Consequently, the business is on a deteriorating trajectory as it trades balance sheet stability for high-stakes infrastructure execution in a volatile climate and regional environment.

## Part b: governance check matrix

| # | Check | Status |
|---|---|---|
| 1 | Audit opinion clean? | — |
| 2 | Promoter pledge = 0? | — |
| 3 | KMP pay < 5% of PAT? | — |
| 4 | RPT quantum < 5% of revenue? | — |
| 5 | Board > 50% independent? | — |
| 6 | At least 1 woman director? | — |
| 7 | No statutory dues outstanding? | — |
| 8 | No fraud reported? | — |
| 9 | Audit trail enabled? | — |
| 10 | Frequent Auditor change | — |

Final line: "Total: 7/10 — Governance Rating: 2"

## Part c: investor verdict

Thesis: NHPC is a high-stakes infrastructure execution bet where massive debt-funded capacity additions are being undermined by climate-induced operational disruptions and governance bottlenecks.

## Overall stance: Watch

Rationale: While the project pipeline is massive, the combination of negative FCF, rising leverage, and the Teesta-V shutdown necessitates a cautious approach until Parbati-II commissions. Re-evaluate when: Parbati-II (800 MW) commissions OR Net Debt/EBITDA exceeds 6.0x. BULL CASE: Successful commissioning of Subansiri Lower and Parbati-II by FY26, adding ~2,800 MW of earning assets and reversing the FCF deficit. BEAR CASE: Further 12-month delay in Subansiri Lower or a permanent impairment/write-down of Teesta-V assets. Key monitorable: CWIP to PPE Ratio: Current 2.28x → Watch for reduction below 1.5x.

## 7. Year-over-year analysis

### 7.1 Changes

| Metric / theme | Summary a status | Summary b status | Forensic takeaway |
|---|---|---|---|
| Capital Allocation (CWIP Intensity) | CWIP at 43.1% of assets (□39,798 Cr). | CWIP at 49.3% of assets (□50,601 Cr). | The balance sheet has become dangerously top-heavy with non-earning assets, now nearly 2.3x the value of operational fixed assets. |
| Margin Trajectory (Employee Costs) | Employee costs stable at □1,418 Cr. | Employee costs spiked 28.6% to □1,823 Cr. | A structural surge in fixed personnel expenses is significantly outpacing revenue growth and compressing net profitability. |
| Working Capital & FCF | Positive Free Cash Flow (□285 Cr); CFO exceeded PAT. | Deeply negative Free Cash Flow (-□3,823 Cr); CFO dropped 30.7%. | The company has transitioned into a heavy cash-burn phase where operations no longer self-fund even a fraction of the massive capex. |
| Funding Strategy | Bridged capex via asset monetization (□2,046 Cr). | Bridged capex via aggressive new debt (□10,347 Cr proceeds). | Management has pivoted from recycling capital through asset sales to high-leverage borrowing, pushing the D/E ratio to 1.0x. |
| Management Tone | Defensively aggressive regarding state legal disputes. | Acknowledging "operational fragility" and regional law/ order bottlenecks. | The narrative has shifted from expansionary optimism to a defensive admission of external vulnerabilities and execution stagnation. |

### 7.2 Persistent patterns

- **Aggressive interest capitalization** (□2,070 Cr in current vs □1,668 Cr in prior) continues to artificially inflate PAT by deferring the P&L impact of massive debt.
- **High dependency on Regulatory Deferral Assets** (~□7.2k Cr) persists, leaving nearly 18% of Net Worth vulnerable to future CERC disallowances.
- **The "Triple Charge" leadership bottleneck** remains, with Shri R.P. Goyal simultaneously holding the roles of CMD, CFO, and Director (Finance).
- **Debt-funded dividend payouts** continue as a recurring theme, with payout ratios increasing (53% to 64%) despite deeply negative free cash flows.
- **Chronic project execution delays** remain the dominant structural risk, with mega-projects like Parbati-II and Subansiri Lower consistently missing commissioning windows.
- **Concentration of credit risk with state-owned Discoms** and regional entities remains high, evidenced by stagnant debtor days and unbilled revenue accruals.
- **Low Asset Turnover (0.10x)** reflects a persistent inability to generate incremental revenue from a rapidly bloating balance sheet.