NHPC Ltd — Jun 2023 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Inline (Financials) / Beat (Operational Progress) **One-line:** The long-term thesis is reinforced as NHPC nears the finish line for its two massive growth catalysts (Subansiri and Parbati II), with a critical accounting insight revealing that 60% of Subansiri's □21,248 Cr cost will be capitalized upon commissioning just the first two units.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Inline	FY23 PAT growth of 8% YoY; Q4 PAT of □569 Cr was flat but met expectations despite lower hydrology.	□
Earnings Quality	Moderate	Q4 PAT was supported by a □344 Cr unbilled revenue gain from tax rate gross-up (28% vs 18%), masking a 67% drop in Q4 incentive income.	□
Guidance Confidence	Strong	Management provided specific months/quarters for Subansiri (Q3 FY24) and Parbati II (March 2024).	□
Management Credibility	Strong	Clear communication on project milestones (Radial gates, HRT excavation) and receivable resolution via LPS rules.	□
Business Quality Signal	Improving	Transitioning from pure-play Hydro to a broader RE major (2,500 Cr Solar capex/yr) with stable regulated ROEs.	□
Key Q&A Exchange	Q7 — Cap. Logic	60% of Subansiri's total cost will be capitalized when the first 2 units (out of 8) go live due to shared civil infrastructure.	□
The Street's Primary Anxiety	Receivable Build-up	Analysts questioned the □5,887 Cr trade receivables; Mgmt countered that net "due" amount is only □563 Cr.	□
Capital Cycle Stage	Investment	Peak CWIP (□25,315 Cr) about to start a massive 3-year harvesting cycle.	□
Margin Trajectory	Stable	EBITDA margins remain robust at 57% (Standalone) despite rising generation expenses (Water Cess).	□
Pricing Power	Stable	Regulated ROE model (15.5% for Hydro) protects against input inflation; Solar ROEs guided at 12.27%.	□
FCF Conversion & Quality	Weak	CFO impacted by □1,266 Cr YoY increase in trade receivables; FCF negative due to □6,961 Cr capex.	□
Competitive Moat Signals	Widening	Massive Siang and Subansiri basin projects (12.7 GW) allocated to NHPC, cementing long-term dominance.	□
Balance Sheet Strength	Adequate	Debt-Equity at 0.85x; comfortable for a regulated utility entering commissioning.	□
Working Capital Efficiency	Deteriorating	Gross Trade Receivables up 27% YoY; unbilled debtors increased to □2,757 Cr.	□
Mgmt Guidance Track Record	Improving	Historically delayed projects are now meeting revised technical milestones (TBM progress, gate operations).	□
Key Vulnerability	Geological Risk	Schist band/cavity formation in Parbati II HRT remains the "last mile" technical hurdle.	□
Management Tone	Confident	Director (Finance) was highly specific on technical milestones and capitalization logic.	□

Key Takeaways (Positives & Negatives): * **Positives:** The project execution at Subansiri Lower (2,000 MW) and Parbati II (800 MW) has entered the "last mile" phase. A crucial valuation lever was revealed: NHPC will capitalize 60% of Subansiri's total project cost (roughly □12,750 Cr) as soon as the first two units are commissioned in Q3 FY24, providing an immediate and disproportionate boost to regulated equity and PAT. Renewable diversification is accelerating with 1,000 MW CPSE solar on track for FY25 and 12.27% guided ROEs. * **Negatives:** Q4 operational performance was weak due to poor hydrology in key plants (Kishanganga, Dulhasti), leading to negative PAF incentives in the quarter. Trade receivables continue to balloon (□5,887 Cr), driven by unbilled revenues and chronic J&K dues, though the Late Payment Surcharge (LPS) scheme provides a structured recovery path. * **Watchpoint:** Monitoring the 150-meter remaining excavation for Parbati II's HRT; completion here by March 2024 is essential to unlocking the project's full □11,135 Cr regulated equity base.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS *Data based on Standalone figures from PPT and Consolidated Capex from Concall.*

Metric	Current Qtr (Q4 FY23)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (□Cr)	1,717	↑ 14.0%	↓ 15.1%	↑	Driven by □344 Cr unbilled tax gross-up; Volume (Generation) was down 14% YoY in Q4.
EBITDA (□Cr)	5,743 (FY)	↑ 12.4%	N/A	↑	FY23 figures show expansion; Q4 specific margin not provided in PPT.
EBITDA Margin %	57.0% (FY)	↑ 300 bps	N/A	↑	Efficient employee cost reduction (superannuation of 316 staff) offset higher water cess.
PAT (□Cr)	569	↑ 1.6%	↓ 26.3%	→	Q4 impacted by lower incentives (PAF/Deviation charges) and impairment in Loktak (□106 Cr).
ROCE (%)	10.83% (FY)	↑ 27 bps	N/A	↑	Reflects return on net worth; set to jump as CWIP capitalizes.
Cash Flow (OCF - FY)	~4,500*	↓	N/A	↓	*Estimated; dragged by □1,266 Cr receivable build-up.
Net Debt / Equity (x)	0.85	↑ 0.01	→	→	Standalone debt at □30,071 Cr (Total Liabilities).
Installed Capacity (MW)	7,071	→ 0.0%	→ 0.0%	→	Includes 1,520 MW from NHDC subsidiary.
Machine Availability (%)	67.96% (Q4)	↓ 880 bps	↓ 2,029 bps	↓	Lower PAF due to specific outages at Kishanganga and Dulhasti.
Generation (MUs)	2,891	↓ 14.4%	↓ 38.6%	↓	Poor hydrology in Q4; FY23 total generation marginally higher (+125 MU).
Working Capital (DSO)	231 Days	↓ 28 Days	↑ 13 Days	↓	Based on Gross Trade Receivables (□5,887 Cr) vs FY Revenue.

2B. SEGMENT BREAKDOWN

Segment	Revenue (□ Cr)	YoY Growth	Margin	Trend	vs Co. Avg	Key Development
Hydro (Standalone)	9,316 (FY)	12.1%	57.0%	↑	Core	Subansiri Lower (2GW) 85% complete; Parbati II (800MW) 94% complete.
NHDC (Subsidiary)	1,318 (FY)	53.6%	58.7%	↑	Above Avg	Generation doubled (5444 MU vs 2645 MU) due to high inflow.
Solar/Wind (Ops)	~110*	Not in doc	Not in doc	→	Below Avg	Small base (200 MW); Solar realization at ~□4.41/unit.
Solar (Pipeline)	N/A	N/A	N/A	↑	Growth	1,000 MW CPSE project awarded; EPC contracts finalized for FY25.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Volume/ Capacity	Commission 2,800 MW Hydro (Subansiri + Parbati II) by FY24-end.	Requires commissioning 2 units of Subansiri by Nov-23 and Parbati II by Mar-24.	Timelines have stabilized over the last 18 months.	High (Geological)
Guidance	Regulated Equity	Jump from □13,000 Cr to □22,000 Cr post commissioning.	Guaranteed once projects achieve COD; 60% of Subansiri equity booked on first 2 units.	First entry for this target.	Low (Regulated)
Guidance	Capex Plan	□10,857 Cr (Consolidated) for FY23-24.	Needs □2,714 Cr/quarter; □2,500 Cr earmarked for Renewables.	Achieved □6,961 Cr in FY23 (86% of target).	Moderate
Strategy	Renewables	Maintain 80:20 Hydro to Solar Capex mix.	Requires significant bidding success; LOI for 200MW GUVNL project is a start.	Historically slow; now accelerating through NHPC REL.	Execution
Balance	Dividend	Maintain 30% of PAT or 5% of Net Worth.	Highly feasible given utility cash flows; FY23 at 48% of profit.	Consistent payer (□1.85/sh).	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
1	5.0	Mohit Kumar, ICICI Sec	Timelines	Capex	When exactly will Subansiri and Parbati II commission?	Management expects two Subansiri units in Q3 FY24 and the full Parbati II project by March 2024. This confirms the multi-year harvesting cycle begins in under 6 months.	None	5.0	Specific timeline
2	4.0	Mohit Kumar, ICICI Sec	Pumped Storage	Capex	Status of the Pumped Storage Project (PSP) pipeline and Sawalkot tendering.	PFRs for 2.3 GW of PSP are submitted, but tendering is only expected in FY25. Delays in PSP mean medium-term growth remains hydro-led.	Modalities	4.0	Directional
3	3.5	Rupesh Sankhe, Elara	Regulated Equity	Financials	What is the current regulated equity and future target?	Current regulated equity is □13,000 Cr, set to rise to □22,000 Cr once Subansiri and Parbati II are fully live. This provides a clear mathematical path to ~70% PAT growth over 3 years.	None	5.0	Quantified
4	3.0	Rupesh Sankhe, Elara	Consolidation	Management	Thoughts on potential merger of other PSU hydro players into NHPC.	Management noted they are at the "initial stage of exploration" and nothing is concrete.	Specifics	2.5	Vague

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						This suggests M&A is on the horizon but not an FY24 event.			
5	4.5	Abhineet Anand, Emkay	Incentive Mix	Financials	Breakup of the lower Q4 incentive income and its impact on PAT.	Q4 incentives fell due to lower Plant Availability Factor (PAF) at 67% vs 77% norm; PAT was saved by unbilled revenue from tax rate gross-up. Highlights that core operations were weak this quarter due to hydrology.	None	5.0	High Transparency
6	4.0	Abhineet Anand, Emkay	Solar ROEs	Financials	What ROEs are expected on the 1000 MW CPSE solar project?	Management is targeting 12.27% ROE with fixed-cost EPC contracts. This is lower than the 15.5% hydro ROE but reduces geological risk.	None	4.5	Specific
7	5.0	Abhineet Anand, Emkay	Capitalization	Financials	How much cost will be capitalized when only 2 units of Subansiri go live?	Management revealed that 60% of the total □21,248 Cr cost will be capitalized immediately because civil works (dam, etc.) are common.	None	5.0	Thesis Pivot

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						This is a massive "front-loading" of earnings that the market may not fully appreciate.			
8	3.5	Rupesh Sankhe, Elara	Dividends	Allocation	Will high capex lead to a dividend cut?	NHPC will maintain dividends at 30% of PAT as per DIPAM; internal accruals are sufficient to fund capex. Reassures yield-focused investors.	None	4.0	Consistent

PATTERN FLAGS & SENTIMENT * **Anxiety over Project Timelines:** Analysts were hyper-focused on Subansiri and Parbati II. Management countered this with very specific technical updates (150m HRT left, radial gate testing), shifting the tone from "if" to "when." Posture: Confident. * **Earnings Quality vs. Accounting:** The tax gross-up mismatch was a recurring theme. While it boosted PAT, analysts were keen to strip it out to see core operational efficiency.Postures: Transparent but defensive about the operational PAF drop. * **Analyst Sentiment Verdict:** Analysts appear "cautiously bullish." There is high conviction in the regulated equity growth model, but skepticism remains regarding the persistent J&K receivables and the "last mile" geological risks of Parbati II. Management's revelation on the 60% capitalization logic for Subansiri significantly improved the outlook for FY24 earnings.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Opening) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | |-------|-----------------------------|-------------------|----------------|----------------| | Subansiri Timeline | Commissioning expected in FY24 | Testing in Q2; Commercial Ops only in Q3 | Slight 1-quarter slippage for COD | Minor revenue delay | | Solar ROE | Diversification into high growth | Target ROE is 12.27% | Lower than Hydro's 15.5% | Margin dilution |

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5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter	This Quarter	Direction
Subansiri Status	Civil works ongoing	Radial Gates (Largest in India) successfully operated	↑ Improving
Capitalization Guidance	General COD guidance	**60% of total cost** to capitalize on first 2 units	↑ Improving
Trade Receivables	□4,621 Cr	□5,887 Cr	↓ Deteriorating
Dividend Yield	6.51% (FY22)	4.31% (FY23 - on higher price)	↓ Deteriorating
Tax Rate Accounting	MAT-based revenue	Normal rate gross-up (□344 Cr boost)	□Neutral (Accounting)
Parbati II Status	HRT excavation ongoing	TBM breakdown; manual excavation of last 150m	□Neutral (Risk-on)
Solar Pipeline	1000 MW Target	EPC contracts awarded; GUVNL 200MW added	↑ Improving

Investor Notes: * **Earnings Quality:** CFO/PAT is distorted. While PAT grew to □3,834 Cr, trade receivables increased by □1,266 Cr (mostly unbilled). This implies roughly 33% of FY23 PAT was not collected in cash during the year. * **The Thesis Pillar:** The thesis remains a "Regulated Equity Re-rating" story. The revelation that 60% of Subansiri's cost (□12,700 Cr+) capitalizes in Q3 FY24 is the single most important delta for the stock's forward PE multiple. * **Forensic Trigger:** Other Expenses rose from □1,348 Cr to □1,708 Cr, largely due to a □106 Cr impairment in Loktak Downstream. This indicates management is cleaning up the balance sheet of stalled legacy subsidiary projects before the major commissioning begins.