NHPC Ltd — Nov 2023 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Inline / Operationally Strained but Financially Protected **One-line:** The long-term thesis of a massive "Regulated Equity" unlock remains intact, but the "growth peak" has shifted further into FY25/26 as geological and climate-related force majeure (Sikkim/HP floods) pushes back asset capitalization.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Inline	PAT of □1,447 Cr (up 1% YoY) despite a 12% revenue drop, aided by a □442 Cr MAT credit boost.	□
Earnings Quality	Moderate	PAT was supported by tax adjustments (MAT Credit) and other income, offsetting an 11% decline in generation.	□
Guidance Confidence	Neutral	Subansiri (2,000 MW) Jan-Mar 24 target is maintained, but Parbati-II has slipped again to Sep 24.	□
Management Credibility	Strong	High transparency regarding Teesta-V flood damage (1-year restoration) and the 7.54% borrowing rate achievement.	□
Business Quality Signal	Stable	The regulated ROE model (16.5%) protects against hydrology risk via "shortfall energy" claims.	□
Key Q&A Exchange	Q9 (Incentives)	Mgmt explained shift to back-ended incentive recognition to ensure "true picture" of annual PAF.	□
The Street's Primary Anxiety	Execution Slippage	Analysts pressed on the Teesta basin flood impact and Parbati-II delays; mgmt assured full insurance cover.	□
Capital Cycle Stage	Investment	Peak construction phase; H1 Capex at □4,095 Cr against a massive □10,857 Cr FY24 target.	□
Margin / Return Ratio Trajectory	Stable	Core ROE protected at 16.5%; solar bidding capped at 12% ROE to protect capital efficiency.	□
Pricing Power	Stable	Regulated "Cost-Plus" model; Water Cess impacts in HP/Sikkim are pass-through to beneficiaries.	□
FCF Conversion & Quality	Weak	Negative FCF persists due to □10k Cr+ annual Capex run-rate; offset by low-cost debt (7.54%).	□
Competitive Moat Signals	Widening	Massive expansion into Pumped Storage (PSPs) with >11 GW MoUs, leveraging hydro expertise.	□
Balance Sheet Strength	Strong	Exceptional borrowing cost (7.54%) and improved collections (Billed >45 days at only □142 Cr).	□
Working Capital Efficiency	Improving	Net billed receivables hit a multi-quarter low of □1,124 Cr as of Nov 5, 2023.	□
Mgmt Guidance Track Record	Mixed	Consistent on Subansiri but Parbati-II and Teesta timelines are volatile due to external factors.	□
Key Vulnerability / Red Flag	Climate/ Hydrology	Flash floods in Sikkim (Teesta basin) have knocked out 510 MW (Teesta-V) for at least one year.	□
Management Tone	Confident	Realistic about flood impacts but aggressive on the long-term PSP and Solar pipeline.	□

Key Takeaways (Positives & Negatives): * **Positives:** Receivables management has become a core strength, with overdue billed debtors effectively cleared (₹142 Cr). The entry into Pumped Storage (PSP) with >11 GW of MoUs secures the growth pipeline through 2030+. Management's discipline in Solar bidding (refusing projects below 12% ROE) protects the balance sheet from "growth at any cost." * **Negatives:** Parbati-II (800 MW) commissioning is now pushed to September 2024 (delayed from prior guidance of early FY25). The Sikkim floods have created a one-year outage at Teesta-V and delayed Teesta-VI (under construction), though insurance will cover the asset loss and business interruption. * **The Street's Concern:** Can Subansiri Lower (2,000 MW) finally commission its first two units by March 2024? Management confirmed that while Parbati-II slipped, Subansiri remains "in full swing" for the Q4 FY24 target. * **Watchpoint:** Monitoring the mobilization of restoration work at Teesta-V; any extension of the 1-year restoration timeline will delay the return of ~510 MW of cash-generating capacity.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

DATA SOURCE: PPT not available — all numbers sourced from concall transcript.

Metric	Current Qtr (Q2)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (₹Cr)	2,485	↓ 12.4%	↓ 11.6%	↓	Lower generation (9,010 MU vs 10,138 MU) due to low water and floods.
PAT (₹Cr)	1,447	↑ 1.0%	↑ 37.4%	↑	Supported by ₹442 Cr net MAT credit recognition in Q2.
Net Debt (₹Cr)	Not Stated	N/A	N/A	→	Funding pattern maintained at 70:30 (Debt:Equity).
Installed Capacity (MW)	6,971	→ 0%	→ 0%	→	Core hydro capacity remains stable; additions expected in Q4.
Machine Availability (PAF %)	89.78%	↓ 1,009 bps	↓ 435 bps	↓	Hit by flood outages and lower water availability.
Generation (Million Units)	9,010	↓ 11.1%	↑ 15.7%	↓	YoY decline due to Parbati-III outage and Sikkim floods.
Generation Expense (₹Cr)	397	↑ 8.2%	↓ 23.4%	↓	Increase YoY due to Water Cess in UK, Sikkim, and HP.
Employee Cost (₹Cr)	321	↑ 10.3%	↑ 7.7%	↓	Driven by increments and promotions.
Receivables (>45 days billed)	142	↓ 85%	↓ 38.3%	↑	Exceptional collection efficiency; Nov 5 data point.
Cost of Borrowing (%)	7.54%	↓ 16 bps	↓ 16 bps	↑	New ₹2,000 Cr loan raised at very competitive rate.

2B. SEGMENT BREAKDOWN

Segment	Revenue (□ Cr)	YoY Growth	Margin	Trend	vs Company Avg	Key Development
Hydro Generation	2,485	-12.4%	Regulated	↓	Core	Outages at Teesta-V (flash floods) and Parbati-III.
Solar (Pipeline)	0	N/A	Target 12%	↑	Emerging	1,000 MW under construction; 200 MW won in Gujarat.
Pumped Storage (PSP)	0	N/A	16.5% ROE	↑	Growth	MoUs for 11.3 GW across Maharashtra, Odisha, AP.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Capacity Addition	500 MW (Subansiri) by Mar-24; 2,420 MW total in FY25.	Must commission 2 Subansiri units in 4 months.	Mixed; Parbati-II slipped from April to Sep-24.	High (Geological)
Guidance	Capex Plan	□10,857 Cr for FY24 (Consolidated).	Achieved □4,095 Cr in H1; needs □6,762 Cr in H2 (1.6x run-rate).	Historically H2 heavy; feasible if Subansiri payments peak.	Moderate
Strategy	Solar Hurdle Rate	Minimum 12% ROE for any solar/wind project.	Requires tight EPC control vs current module prices.	Consistent discipline in bidding.	Low
Strategy	PSP ROE	16.5% ROE for Pumped Storage projects.	Regulated model confirmed by CERC/State regulators.	New territory; MoUs signed.	Low
Balance	Funding Pattern	70:30 Debt to Equity.	Internal accruals sufficient to cover ~□3k Cr annual equity.	Strong; no equity dilution required.	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	4.0	Marsal Lewis (Retail)	Solar Strategy	Strategy	What is the vision for the renewable portfolio over the next two years?	Management clarified they are not "aggressive" on solar and will only take projects offering at least a 12% ROE. This protects the company from the low-margin trap seen in pure-play solar developers.	None	5.0	High hurdle discipline
2	4.5	Krishna Duttar (Retail)	Revenue Growth	Financials	Why was there such a significant dip in revenue this quarter?	Management attributed the 12% revenue drop to an 11% decline in generation caused by low water availability and flood-related outages. This confirms that hydrology remains the primary quarterly volatility factor despite regulated protections.	None	5.0	Direct explanation
3	4.5	Marsal Lewis (Retail)	Capacity Addition	Management Commentary	What is the specific commissioning timeline for the next 2-3 years?	Management expects 500 MW (Subansiri) in FY24, followed by ~2,500 MW in FY25 (Parbati-II, Subansiri balance, Rangit-IV). This reset confirms that	None	4.5	Specific timelines

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						FY25 will be the breakout year for Regulated Equity additions.			
4	4.0	Marsal Lewis (Retail)	Cost of Debt	Financials	How are interest rates trending given the heavy project pipeline?	Management revealed a recent ₹2,000 Cr loan was secured at 7.54%, which is exceptionally low for the sector. This low cost of capital sustains the 16.5% ROE spreads even if project costs escalate slightly.	None	5.0	Quantified strength
5	3.5	Dhruv Machal (HDFC)	Teesta VI Loss	Capex and Allocation	Will the flood damage at Teesta-VI lead to a major financial write-off?	Management estimated the physical loss at ₹250 Cr but confirmed it is fully insured under the Contractors All Risk Policy. This mitigates the risk of a major balance sheet impairment from the Sikkim disaster.	None	4.5	Insurance hedge
6	4.0	Dhruv Machal (HDFC)	MAT Credit	Financials	Is the MAT credit recognized this quarter a pass-through to customers?	Management confirmed that MAT credit benefits stay with NHPC	None	4.0	Quality of earnings

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						and are not passed through to beneficiaries for the 2009-14 period. This provides a high-quality, permanent boost to the current year's PAT.			
7	4.0	Abhineet Anand (Kriti)	PSP Economics	Strategy	What are the expected tariffs and peaking durations for Pumped Storage?	Tariffs are estimated at □5/unit generation plus □2.75 pumping cost for a 6-hour peaking cycle. This provides a clear benchmark for evaluating the commercial viability of the massive 11 GW PSP pipeline.	None	4.0	Commercial clarity
8	3.5	Bhavish Patel (Retail)	Hydrology Risk	Management Commentary	Will La Nina conditions impact generation next year as well?	Management noted that while hydrology affects incentives, the 16.5% ROE is insulated via regulatory provisions to claim shortfall energy. This reinforces the "utility-like" safety of the core business model.	None	4.0	Risk mitigation

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9	4.5	Rupesh Sankhe (Elara)	Incentive Policy	Financials	Why has incentive income vanished in the last two quarters?	Management changed the accounting method to recognize PAF incentives only after capacity charges are fully recovered (back-ended). This will lead to lumpy but more accurate incentive reporting in Q3 and Q4.	None	5.0	Accounting change
10	3.0	Mohit Surana (Monarch)	Secondary Energy	Business Overview	What is the realization for energy generated beyond the design capacity?	Secondary energy is capped at □1.20 per unit or the energy charge, whichever is lower. This confirms that excess generation is a high-volume, low-margin "bonus" rather than a core revenue driver.	None	5.0	Pricing detail

PATTERN FLAGS & SENTIMENT * **Theme: Natural Disaster Management.** The Sikkim floods and Himachal rain impacts were the focal point of analyst concern. Management's stance was one of "prepared resilience"—emphasizing that while timelines are delayed (Teesta-V for 1 year, Parbati-II for 6 months), the financial impact is almost entirely mitigated by insurance and regulatory pass-throughs. * **Theme: Capital Allocation Discipline.** Management repeatedly pushed back against the idea of chasing renewable capacity at low returns. The insistence on 12% ROE for solar and 16.5% for PSP/Hydro signals to the market that NHPC is a "return-on-equity" play, not a "megawatt-chasing" play.

Analyst Sentiment Verdict: Analysts were largely satisfied with the balance sheet strength (especially the 7.54% borrowing rate) and the receivables cleanup. There is a palpable "wait-and-watch" sentiment regarding the March 2024 Subansiri deadline. Management's credibility remains high because they are providing specific, quantified details on project setbacks rather than being vague.

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter	This Quarter	Direction
Parbati-II Timeline	Sep 2024	Still Sep 2024 (confirmed slippage from prior FY24 target).	→ Stable (at new date)
Teesta-V Status	Fully Operational	Hit by flash floods; 1-year restoration required.	↓ Deteriorating
Billed Overdue Debtors	₹230 Cr (>45 days)	₹142 Cr (>45 days)	↑ Improving
MAT Credit Impact	Not material in Q1	₹442 Cr net recognition in Q2.	↑ Improving
Borrowing Cost	~7.7%	7.54% (New Loan benchmark).	↑ Improving
PSP Pipeline	MoUs for ~9 GW	MoUs for 11.3 GW (Added Odisha and AP).	↑ Improving

Investor Notes: * **Divergence Check:** H1 PAT is ₹2,500 Cr, while total trade receivables (billed + unbilled) rose slightly. However, the *quality* of receivables has improved drastically as billed overdue dues fell to nearly zero. The increase in "Unbilled Debtors" (₹2,685 Cr) is a regulatory artifact of the 2019-24 tariff cycle, not a credit risk. * **Insurance as a Buffer:** The ₹250 Cr estimated loss at Teesta-VI and business interruption at Teesta-V are covered by mega-insurance. This prevents the "flash flood" risk from becoming a "thesis-breaking" permanent loss of capital. * **Regulated Equity Reset:** The delay of Parbati-II to Sep 24 and Teesta-V outage means the "earnings jump" from new capitalization will be back-ended into H2 FY25. The long-term fundamental value is unchanged, but the timing of the re-rating trigger has shifted forward by 6 months.