

NOT RATED**NLC INDIA**

| Utilities

| 01 December 2022

Capacity addition largely on track

- Higher capacities in power as well as mining to boost profitability and capitalise on the country's strong power demand
- Renewable capacity addition will improve the capacity mix and contribute to improved ESG scores
- Under-recovery at the TPS-II Exp plant to reduce, aiding improvement in overall ROE

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We interacted with Mukesh Agrawal, ED Finance, NLC India (NLC IN, Not Rated). Key takeaways:

Regulated capex to boost bottomline: NLC is adding a 3200MW coal-based thermal plant (3x800MW phase-I and 1x800MW phase-II) in Talabira, Odisha. Management expects the plant to be commissioned by 2027-28. Capex for phase-I totals Rs 194.2bn or ~Rs 6.06 per MW, implying the addition of ~Rs 58.3bn to regulated equity. The Talabira plant has been allotted the Panchwara coal block (9MT normative output, 13MT peak) in Jharkhand which the company is developing in joint venture with the state government, to be commissioned in 2028.

TPS II Exp under-recovery to stabilise: TPS II Exp is the country's first power plant based on circulating fluidised bed combustion (CFBC) technology. Due to technical constraints, the plant is running at low availability and load factors (PAF/PLF). Of NLC's total under-recovery of Rs 1.9bn in H1FY23, the TPS II Exp plant accounts for ~Rs 1.2bn which is expected to reach ~Rs 2.2bn in FY23. However, management has indicated that the company is taking necessary measures to raise availability to 80-85% by FY24, which should ease under-recovery and improve ROE.

Renewable capacity addition on track: NLC's renewable energy capacity is at 1.4GW out of its total capacity of 5GW. About 4.5GW is in the planning and tendering stage, and the company aims to reach 6GW in renewable capacity by 2030 to achieve a healthy balance with its thermal plants. Ramp-up of these capacities will also improve NLC's ESG scores.

Capacity addition at JV/subsidiary level: The company's Ghatampur (Uttar Pradesh) thermal power plant (3x 660MW) is ready for commissioning, and each phase of 660MW will be commissioned every four months starting Mar'23.

Coal ramp-up on the cards: From current coal production of 6MT in FY22 (20MT capacity), NLC plans to ramp up output to 13MT in FY23 and close to 20MT in FY24. The company has tied up ~8MT with NTPC and the balance will be sold in the open market which will fetch higher realisations given elevated global prices.

Ticker/Price	NLC IN/Rs 84
Market cap	US\$ 1.4bn
Free float	21%
52wk high/low	Rs 92/Rs 56
Promoter/FPI/DII	79%/0%/21%

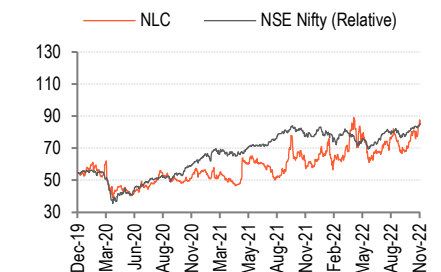
Source: NSE | Price as of 1 Dec 2022

Key financials

Y/E 31 Mar	FY20A	FY21A	FY22A
Total revenue (Rs mn)	79,119	75,644	1,01,300
EBITDA (Rs mn)	27,698	22,642	37,226
Adj. net profit (Rs mn)	14,173	10,573	8,470
Adj. EPS (Rs)	10.2	7.6	6.1
Adj. ROAE (%)	3.7	2.9	2.5
Adj. P/E (x)	8.2	11.0	13.7
EV/EBITDA (x)	5.3	5.6	2.3
Adj. EPS growth (%)	11.6	(28.5)	22.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20A	FY21A	FY22A
Total revenue	84,472	80,053	79,119	75,644	1,01,300
EBITDA	30,605	23,935	27,698	22,642	37,226
Other income	5869	9134	12170	17169	8059
Depreciation	8612	7457	9584	12316	15281
EBIT	27,862	25,612	30,284	27,495	30,004
Finance Cost	2050	3901	8204	9806	7838
Exceptional items	(594)	352	34	468	(3898)
EBT	26,407	21,359	22,046	17,221	26,064
Income taxes	7919	8689	7907	7116	13696
Reported net profit	18,488	12,670	14,139	10,105	12,368
Adjustments	(594)	352	34	468	(3898)
Adjusted net profit	17,893	13,022	14,173	10,573	8,470

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20A	FY21A	FY22A
Accounts payables	15,525	19,881	18,309	15,122	10,765
Other current liabilities	20,813	19,202	24,742	24,579	20,111
Provisions	6578	5101	7483	4651	5727
Debt funds	75,081	1,19,845	1,50,116	1,33,979	91,111
Other liabilities	73,721	57,681	57,536	62,893	70,632
Equity capital	15286	13866	13866	13866	13866
Reserves & surplus	1,18,060	1,11,247	1,12,529	1,15,725	1,24,200
Shareholders' fund	1,33,346	1,25,113	1,26,395	1,29,591	1,38,066
Total liab. and equities	3,25,064	3,46,823	3,84,580	3,70,815	3,36,411
Cash and cash eq.	2,786	3,172	3,733	6,174	6,620
Accounts receivables	33,662	46,062	66,918	56,112	31,287
Inventories	16,889	14,644	13,246	14,217	10,253
Other current assets	48,012	26,457	21,621	23,577	20,763
Investments	24214	28236	35194	36220	39237
Net fixed assets	1,05,678	1,16,782	1,83,018	2,00,212	1,90,092
CWIP	68761	87356	40836	10197	10124
Intangible assets	63	63	64	1,408	1,847
Deferred tax assets, net	-	-	-	-	-
Other assets	25,000	24,053	19,952	22,699	26,188
Total assets	3,25,064	3,46,823	3,84,580	3,70,815	3,36,411

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20A	FY21A	FY22A
Cash flow from	37,607	4,987	11,681	40,516	60,857
Capital expenditures	(32,325)	(30,503)	(26,976)	(8,831)	(2,107)
Change in investments	0	(4,022)	(6,958)	(1,026)	(3,107)
Other investing cash flows	1,339	2,692	2,478	1,745	3,986
Cash flow from investing	(30,986)	(31,833)	(31,456)	(8,112)	(1,228)
Equities issued/Others	0	(12558)	0	0	0
Debt raised/repaid	17,607	44,465	36,142	(18,628)	(48,106)
Interest expenses	(4876)	(7680)	(11574)	(10990)	(7652)
Dividends paid	(7747)	(8070)	(11602)	(1392)	(4159)
Other financing cash flows	(11700)	10700	6800	0	0
Cash flow from	(6,716)	26,858	19,766	(31,010)	(59,918)
Chg in cash & cash eq.	(94)	12	(8)	1,394	(288)
Closing cash & cash eq.	126	138	130	1,524	1,235

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20A	FY21A	FY22A
Reported EPS	13.3	9.1	10.2	7.3	8.9
Adjusted EPS	12.9	9.4	10.2	7.6	6.1
Dividend per share	4.2	4.8	7.1	1.0	1.5
Book value per share	96.2	90.2	91.2	93.5	99.6

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20A	FY21A	FY22A
EV/Sales	2.2	1.5	1.9	1.7	0.8
EV/EBITDA	6.2	4.9	5.3	5.6	2.3
Adjusted P/E	6.5	8.9	8.2	11.0	13.7
P/BV	0.9	0.9	0.9	0.9	0.8

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20A	FY21A	FY22A
Tax burden (Net profit/PBT)	(0.3)	0.6	0.6	0.6	0.5
Interest burden (PBT/EBIT)	12.9	5.5	2.7	1.8	3.3
EBIT margin (EBIT/Revenue)	0.3	0.3	0.4	0.4	0.3
Asset turnover (Rev./Avg TA)	0.3	0.2	0.2	0.2	0.3
Leverage (Avg TA/Avg Equity)	2.4	2.8	3.0	2.9	2.4
Adjusted ROAE	(0.8)	0.7	0.4	0.2	0.3

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20A	FY21A	FY22A
YoY growth (%)					
Revenue	8.6	(5.2)	(1.2)	(4.4)	33.9
EBITDA	21.9	(21.8)	15.7	(18.3)	64.4
EPS	(22.0)	(31.5)	11.6	(28.5)	22.4
Profitability & Return ratios (%)					
EBITDA margin	36.2	29.9	35.0	29.9	36.7
EBIT margin	33.0	32.0	38.3	36.3	29.6
Adjusted profit margin	0.2	0.2	0.2	0.1	0.1
Adjusted ROAE	5.5	3.8	3.7	2.9	2.5
ROCE	13.4	10.5	11.0	10.4	13.1
Working capital days (days)					
Receivables	143.5	207.1	304.5	267.0	111.2
Inventory	72.0	65.9	60.3	67.7	36.4
Payables	66.2	89.4	83.3	72.0	38.3
Ratios (x)					
Gross asset turnover	0.4	0.3	0.3	0.2	0.4
Current ratio	2.4	2.0	2.1	2.3	1.9
Net interest coverage ratio	13.6	6.6	3.7	2.8	3.8
Adjusted debt/equity	0.5	0.9	1.2	1.0	0.6

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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