NHPC Limited: Buy-Back of Shares for Creating Value

ABSTRACT

NHPC Limited, the largest hydropower generation company in India, reported consistent and impressive growth in revenue and profit but the EPS and ROE of the company remained low. The company had large equity base and a conservative capital structure with large cash surplus. Share buy-back was considered as a possible option for optimizing the capital structure and improving the key financial ratios. However there was also concern about the availability of adequate funding to finance the ongoing and future expansion plans. The buy-back plan was also subject to regulatory restrictions. The Government of India with 86 percent shareholding was also keen for the buy-back to meet its disinvestment targets. Balancing all these considerations was a huge challenge for Mr. Das, the CMD of the Company.