

NHPC Ltd.**₹ 18****Re-Charging.....****Accumulate**

Jun 29, 2012

Company Background

NHPC, a government of India enterprise, was incorporated in the year 1975 with an objective to plan, promote and organize an integrated and efficient development of hydroelectric power in all aspects. At present, NHPC is a Mini Ratna Category-I Enterprise of the Govt. of India with an investment base of over Rs. 3,87,180 Million Approx. NHPC is among the TOP TEN companies in the country in terms of investment. Initially, on incorporation, NHPC took over the execution of Salal Stage-I, Bairasiul and Loktak Hydro-electric Projects from Central Hydroelectric Project Construction and Control Board. Since then, it has executed 14 projects with an installed capacity of 5295 MW on ownership basis including projects taken up in joint venture. NHPC has also executed 5 projects with an installed capacity of 89.35 MW on turnkey basis. Two of these projects have been commissioned in neighbouring countries i.e. Nepal and Bhutan.

Investment Rationale

- ➔ NHPC currently operates 14 hydropower stations with capacity of 5295 MW. It has further submitted DPRs of 1200 MW Tamanthi HE Project in Myanmar and 770 MW Chamkharchhu-I HE Project in Bhutan. The Company has obtained concurrence of CEA for 600 MW Tawang-I & 800 MW Tawang-II Projects in Arunachal Pradesh. Environment clearances have also been accorded by MOEF for both these projects. Its Teesta –V Station has been validated in VCS mechanism of Verified Emission Reduction (VER) Scheme.
- ➔ It has signed MoU with Russia's largest power generating company JSC RusHydro on 23.05.2011 for cooperation in the field of hydropower development, renewable energy sources and other areas of power generation.
- ➔ NHPC's Unit No. 2 & 3 with an installed capacity of 77 MW each of Chamera Hydro Electric Project (stage III) will come under commercial operation on June 30, 2012 after successful trial run and demonstration of peaking capacity.
- ➔ The Company generated 18683 Million Units (MUs) against the target of 18500 Million Units for "Excellent" MoU rating. In 2010-11, the Company had achieved a generation of 18606 MU. Chamera-I, Dhauliganga, Dulhasti, Loktak, Rangit, Salal, Sewa-II, Tanakpur & Uri Power Stations achieved higher generation than the targets for excellent rating.

Key Financials

Year Ended 31 st	Mar 09	Mar 10	Mar 11
Revenue (INR mn)	2898.0	3127.1	4077.7
Rev. growth (%)	15.88	7.91	30.40
EBITDA (INR mn)	552.1	534.4	1303.2
Net profit (INR mn)	(138.8)	136.6	765.5
Shares outstanding (mn)	14.0	14.0	14.0
EPS (INR)	(9.9)	9.8	54.9
EPS growth (%)	(232.57)	(198.41)	460.40
P/E (x)	(13.7)	35.9	7.3
ROCE (%)	(3.79)	3.66	19.38

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Info Codes

Reuters	: NHPC.BO
Bloomberg	: NHPC@IN
NSE	: NHPC
BSE	: 533098

Previous Report

Date	: Apr 30, 2010
Recommendation	: Buy
Price	: ₹ 30
High Reached	: ₹ 35

Market Data

52 Wk Range (₹)	: 26 / 17
Shares in Issue (mn)	: 13.95
Mkt. Cap (₹ bn)	: 224.48
BSE 2 Wk Avg Vol	: 459000

Share Holding Pattern (%)

Promoters	: 86.36
DII's	: 3.23
FII's	: 1.38
Others	: 9.03

Investment Theme

The Company has 10 projects having aggregate installed capacity of 4502 MW under construction. With the commissioning of these projects, NHPC aspires to become a 9500 MW company in the next five years. NHPC is putting all efforts to add 1190 MW capacity addition through six projects namely 231 MW Chamera-III, remaining 2 units of 44 MW Chutak, 45 MW Nimoo Bazgo, 132 MW Teesta Low Dam-III, 520 MW Parbati-III & 240 MW Uri-II. NHPC is committed to maintain a leading position in hydro sector and also expand its business domain.

Power-Full!!!

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 09	Mar 10	% Chg	Mar 11	% Chg
Total Sales + Excise	25547.5	32017.0	25.32	41264.7	28.88
Other Income	10436.2	18053.9	72.99	17766.2	(1.59)
Change in Stocks	7.3	(7.3)	(200.00)	0.0	(100.00)
Raw Material Con.	89.2	42.8	(52.02)	39.4	(7.94)
Employee Exp.	5218.3	5756.2	10.31	7593.9	31.93
Indirect Taxes	33.8	28.7	(15.09)	1455.2	4970.38
Other Exp.	4420.9	4408.2	(0.29)	5920.9	34.32
Operating Exp.	9754.9	10243.2	5.01	15009.4	46.53
Operating Profit	15792.6	21773.8	37.87	26255.3	20.58
Total Interest	9027.9	5249.6	(41.85)	7710.2	46.87
Gross Profit	17200.9	34578.1	101.02	36311.3	5.01
Net Dep.	3226.3	8813.4	173.17	6594.5	(25.18)
Total Taxation	3136.1	4859.7	54.96	8049.7	65.64
Net Profit/Loss	10838.5	20905.0	92.88	21667.1	3.65

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 08	Mar 09	Mar 10	Mar 11
SOURCES OF FUNDS	272,333.9	302,146.5	371,414.1	391,531.5
Equity Share capital	111,824.9	111,824.9	123,007.4	123,007.4
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	60,945.7	67,981.3	109,724.5	122,831.5
Secured Loans	70,034.9	82,123.8	109,531.8	108,843.6
Unsecured Loans	29,528.4	40,216.5	29,150.4	36,849.0
USES OF FUNDS	272,333.9	302,146.5	371,414.1	391,531.5
Gross Block	206,254.4	214,582.0	213,004.2	228,724.5
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	32,619.6	38,162.7	49,074.4	57,740.4
Net Block	173,634.8	176,419.3	163,929.8	170,984.1
Capital Work in Progress	74,024.5	104,986.2	140,250.2	171,224.5
Investments	30,492.2	27,936.0	43,940.5	53,079.4
Current Assets	39,312.1	50,941.2	91,760.7	82,490.4
Less : Current Liabilities	45,133.1	58,159.5	68,467.1	86,246.9
Total Net Current Assets	(5,821.0)	(7,218.3)	23,293.6	(3,756.5)
Misc. Expenses not written off	3.4	23.3	0.0	0.0
NOTE				
Bk Val Unquoted Investments	30,368.6	27,812.4	40,700.8	47,396.0
Mkt Val. Quoted Investments	1,210.3	855.8	4,507.0	6,603.8
Contingent Liabilities	141,179.9	161,459.3	151,896.2	138,759.6
Dividend (%)	2.8	0	5.5	6

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Jun 11	Sep 11	Dec 11	Mar 12
Net Sales	12,852.00	18,584.70	8,819.80	14,436.60
Cost Of Sales	3,201.80	5,302.00	5,027.80	4,128.50
Operating Profit	9,650.20	13,282.70	3,792.00	10,308.10
Recurring Income	2,378.50	3,042.70	2,031.50	2,254.90
Adjusted PBDIT	12,028.70	16,325.40	5,823.50	12,563.00
Financial Expenses	864.90	883.00	876.00	798.50
Depreciation	2,257.80	2,234.20	2,236.60	2,198.80
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	8,906.00	13,208.20	2,710.90	9,565.70
Tax Charges	1,807.80	3,191.40	585.50	1,868.00
Adjusted PAT	7,098.20	10,016.80	2,125.40	7,697.70
Non Recurring Items	2,833.30	(352.10)	(3.60)	382.80
Other Non Cash Adjust	2,021.00	0.00	0.00	59.80
Net Profit	7,910.50	9,664.70	2,121.80	8,020.70

52 Week Index Relative Percentage Appreciation



NHPC vs SENSEX

Risks Associated

- Hydro power schemes are capital intensive and have long gestation periods. As a result, availability of funds is always seen as one of the major constraints for exploitation of the vast hydro power potential available in the country.
- Another issue that hydro projects have to deal with is the one related to free power: water being a state subject, State Governments demand higher share of free power and other incentives, which lead to higher tariff.
- Significant delays in capacity commissioning. R&R delays can impact land acquisition process. Construction of a hydro project carries significant geological risks. Also, the terrain is difficult.
- Major reasons for non achievement of capacity addition are usually beyond control as major contribution for delays is attributed to adverse geology, natural calamities (Heavy rainfall / snowfall, cloud burst, landslides etc.), strikes/ bandh called by local groups, law & order problems, etc.
- NHPC is actively pursuing clearances from Government of India for 5 hydropower projects having aggregate capacity of 5115 MW to be implemented by NHPC on its own. As Parbati 2 will be delayed, the commissioning of three units of Parbati 3 will also suffer till FY16. The company will take a dual hit as it will start booking the depreciation and interest on cost of projects from FY13E onwards.



In a Nutshell

NHPC Limited (Formerly known as National Hydroelectric Power Corporation Ltd.), A Govt. of India Enterprise is a hydro-power generator in India with a regulated business model and installed capacity of 5.2GW. The company has a strong project pipeline with 4.5GW of projects in the construction stage, 6GW of projects in the clearance stage and 4.2GW of projects in the survey stage. Presently NHPC is engaged in the construction of 10 projects aggregating to a total installed capacity of 4502 MW. NHPC has added 1970 MW during the 10th Plan period and planned to add 2230 MW during 11th Plan period. 12 projects of 9651 MW are awaiting clearances/Govt. approval for their implementation. Detailed Projects reports are being prepared for 7 projects of 2485 MW. Since its inception in 1975, NHPC has grown to become one of the largest organizations in the field of hydro power development in the country. With its present capabilities, NHPC can undertake all activities from concept to commissioning of Hydroelectric Projects. We therefore are bullish on this stock.

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Rating Interpretation

Buy	: Expected to appreciate 20% or more over 12-months	Reduce	: Expected to depreciate up to 10% over 12-months
Accumulate	: Expected to appreciate 10% to 20% over 12-months	Sell	: Expected to depreciate 10% or more over 12-months
Trade Buy	: Expected to appreciate more than 10% over 45-days	Trade Sell	: Expected to depreciate more than 10% over 45-days

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