

**NHPC Ltd.**

₹ 25

*Time for the Upflow !***Accumulate**

May 30, 2014

**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 and 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 15 plus projects with an installed capacity of more than 5.5 GW on ownership basis including projects taken up in joint venture. NHPC has also executed projects on turnkey basis. Two of these projects have been commissioned in neighbouring countries i.e. Nepal and Bhutan.

**Key Highlights**

- ➔ NHPC has experience and expertise in implementation of hydro-electric projects which give it a significant competitive edge. It has a strong design and engineering base with in-house expertise in Geology, Geophysics, Geotechnics, Construction and Material Surveys. NHPC's engineering capabilities range right from the stage of conceptualization till the commissioning of projects, i.e. from site identification, pre-feasibility & feasibility studies, project design & implementation, to environmental permission, project formulation and appraisal training on hydro technology & economics.
- ➔ All most all Projects by NHPC are in remote areas which bring in unique logistical, geological and climatic challenges NHPC with its experience can therefore handle any new project.
- ➔ NHPC has also forayed into Solar Power it recently signed an agreement with Kerala State Electricity Board at Thiruvanthapuram for the development of solar power projects in the state of Kerala.
- ➔ NHPC secures its revenues from Long term purchase agreements with State Electricity Boards which are by secured letter of credit backed by the RBI which is a party to the agreement. So return of investment from a project for the whole life cycle is totally guaranteed.

**Key Financials**

Year Ended 31 <sup>st</sup>	Mar 11	Mar 12	Mar 13
Revenue (INR mn)	59,485.3	69,108.4	67,154.0
Rev. growth (%)	17.93	16.18	(2.83)
EBITDA (INR mn)	46,824.9	51,671.5	48,724.4
Net profit (INR mn)	21,685.1	27,750.2	23,531.0
Shares outstanding (mn)	12,300.7	12,300.7	12,300.7
EPS (INR)	1.8	2.3	1.9
EPS growth (%)	3.73	27.97	(15.20)
P/E (x)	14.4	8.7	10.4
RONW (%)	6.1	8.7	6.8
ROCE (%)	3.8	5.4	4.0

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**Info Codes**

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

**Market Data**

52 Wk Range (₹)	: 15 / 29
Shares in Issue (mn)	: 12300.7
Mkt. Cap (₹ bn)	: 305.1
BSE 2 Wk Avg Vol	: 4924000

**Share Holding Pattern (%)**

Promoters	: 85.96
FII's	: 1.66
DII's	: 3.79
Others	: 8.59

**Investment Theme**

The deteriorating hydro-thermal mix, increase in peaking shortages and frequency variations have already forced policy-makers to consider alternate options like hydropower. Projects will now be quickly implemented and decisions taken looking at the current political stability. India has vast untapped hydro potential (~ 74% of total potential) especially in the North Eastern region which would provide ample opportunity for NHPC to expand generation in its core sector or otherwise. Further, with the approval to invest in Thermal Power, NHPC has widened its business prospects to ensure optimum utilization of its resources. All these factors combined backed by the fact that the company is Govt's own enterprise brings in a lot of opportunities for NHPC in the near future. We therefore are bullish on the stock.

**Hands full of Expertise !**

## Financial Statements

### Income Statement

(₹ mn)

Year end	Mar 11	Mar 12	% Chg	Mar 13	% Chg
Total Sales + Excise	43052.9	52973.4	23.04	52779.6	(0.37)
Other Income	15709.4	15234.6	(3.02)	14070.3	(7.64)
Raw Material Con.	39.4	101.4	157.36	270.1	166.37
Employee Exp.	7873.2	9157.6	16.31	8874.1	(3.10)
Indirect Taxes	1465.4	5554.5	279.04	6006.1	8.13
Other Exp.	5731.1	5612.4	(2.07)	6347.6	13.10
Operating Exp.	15109.1	20425.9	35.19	21497.9	5.25
Operating Profit	27943.8	32547.5	16.47	31281.7	(3.89)
Total Interest	7635.2	4533.1	(40.63)	5384.9	18.79
Income Capitalised	1815.6	2107.5	16.08	1704.4	(19.13)
Gross Profit	34202.4	41141.5	20.29	38262.7	(7.00)
Net Dep.	5490.5	6022.3	9.69	6291.1	4.46
Total Taxation	7026.8	7369.0	4.87	8440.6	14.54
Net Profit/Loss	21685.1	27750.2	27.97	23531.0	(15.20)

### 4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 <sup>st</sup>	Mar 10	Mar 11	Mar 12	Mar 13
<b>SOURCES OF FUNDS</b>	<b>371,414.1</b>	<b>391,499.4</b>	<b>439,946.7</b>	<b>464,678.0</b>
Equity Share capital	123,007.4	123,007.4	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	109,724.5	122,799.4	140,527.9	155,397.6
Long Term Loans	138,112.2	145,122.6	174,041.4	185,703.0
Short Term Loans	570.0	570.0	2,370.0	570.0
<b>USES OF FUNDS</b>	<b>371,414.1</b>	<b>391,499.4</b>	<b>439,946.7</b>	<b>464,678.0</b>
Gross Block	213,004.2	228,749.3	230,609.3	257,200.4
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	49,074.4	57,740.4	66,926.1	76,800.8
Net Block	163,929.8	171,008.9	163,683.2	180,399.6
Capital Work in Progress	140,250.2	159,627.7	193,497.4	197,090.4
Investments	43,940.5	29,135.5	27,498.8	26,513.5
Current Assets	91,760.7	144,053.4	145,088.8	141,697.1
Less : Current Liabilities	68,467.1	112,327.7	89,823.2	81,061.0
Total Net Current Assets	23,293.6	31,725.7	55,265.6	60,636.1
Misc. Expenses not written	0.0	1.6	1.7	38.4
<b>NOTE</b>				
Bk Val Unquoted Investments	40,700.8	23,452.1	21,055.4	19,665.7
Mkt Val. Quoted Investments	4,507.0	6,603.8	7,010.1	7,552.2
Contingent Liabilities	151,896.2	138,759.6	135,992.2	147,796.7
Dividend (%)	6	6	7	6

## Quarterly Income Sheets

(₹ mn)

Quarter Ended	Mar 13	Jun 13	Sep 13	Dec 13
Net Sales	10,993.80	16,196.00	16,500.20	11,446.30
Cost Of Sales	4,971.90	5,495.20	6,313.30	4,996.40
Operating Profit	6,021.90	10,700.80	10,186.90	6,449.90
Recurring Income	3,156.40	2,485.50	3,002.10	2,023.90
Adjusted PBDIT	9,178.30	13,186.30	13,189.00	8,473.80
Financial Expenses	1,020.00	1,160.60	1,203.10	1,511.50
Depreciation	2,546.40	2,760.10	2,825.40	3,155.60
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	5,611.90	9,265.60	9,160.50	3,806.70
Tax Charges	2,207.90	2,073.00	2,084.70	1,712.80
Adjusted PAT	3,404.00	7,192.60	7,075.80	2,093.90
Non Recurring Items	2,428.60	0.00	0.00	499.60
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	5,832.60	7,192.60	7,075.80	2,593.50

## 52 Week Index Relative Percentage Appreciation



## NHPC vs SENSEX

## Risks Associated

## ➔ Risk of Capital Expenditure

The development of Hydro Power projects is capital Intensive & typically requires a long period of time as compared to other power projects. Hence non availability of capital expenditure can hamper working of their ongoing projects.

## ➔ Increase in Raw Material Prices

Cement & Steel are major raw materials used in Hydel Power projects. Hence non availability of such materials in quantities & at reasonable prices can impact the margins of the companies engaged.

## ➔ Relation to Government Policies

Though it is expected that the new government will focus mostly on alternative sources of energy to bridge the electricity demand supply gap, however any off focus or delay in announcing policies would hamper or delay the growth prospects of the company. Another issue that hydro projects have to deal with is the requests 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.

## ➔ Other Risks

Technically apart from the above any non-conventional power project is exposed to its own set of risks viz. Prolonged gestation periods, High cost of construction, Environmental issues, Geological Risks, Political Risks, Rehabilitation & Resettlement costs, Infrastructural development costs, etc.

**In a Nutshell**

NHPC is a hydroelectric power generating company dedicated to the planning, development and implementation of an integrated and efficient network of hydroelectric projects in India. It is the largest hydroelectric power generator in the country with 16 Hydro Electric Projects with an installed capacity of 5,747 MW which includes two plants with an installed capacity of 1,520 MW in its 51% owned subsidiary, Narmada Hydroelectric Development Corporation (NHDC). Currently, it is engaged in the construction of 11 additional Hydro Electric Projects totaling 4,622 MW and 8 of these projects totaling 1492 MW are scheduled for completion by the year 2011-12. The company also has seven Hydro Electric Projects totaling 6,731 MW under various stages of clearances, and nine Hydro Electric Projects totaling 7,255 MW, which are currently under Survey and Investigation. With 5,175 MW of capacity under operation, NHPC accounts for almost 14% of the 37,000 MW of hydel generating capacity in India. Looking at the current political stability and the changing focus of the new government to alternate sources of power. It is expected that Hydel, Solar and Wind Power would be the new ecofriendly power generation mantra for India. We therefore feel NHPC seems to have bright days ahead.

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**Rating Interpretation**

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

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