

## RESULT UPDATE

### LARGE CAP

#### Share Data

Reuters code	NHPC.BO
Bloomberg code	NHPC IN
Market cap. (US\$ mn)	7,557
6M avg. daily turnover (US\$ mn)	7.9
Issued shares (mn)	12,301
Target price (Rs)	27

#### Performance (%) 1M 3M 12M

Absolute	(5)	(9)	0
Relative	3	(9)	0

#### Valuation ratios

Yr to 31 Mar	FY10P	FY11E
EPS (Rs)	1.0	1.3
+/- (%)	(17.3)	22.7
PER (x)	28.0	22.9
PBV (x)	1.5	1.5
Dividend/Yield (%)	1.9	2.1
EV/Sales (x)	10.3	11.1
EV/EBITDA (x)	11.4	13.1

#### Major shareholders (%)

Promoters	86
FII's	2
MF's	1
BFSI's	3
Public & Others	8

#### Financial highlights

(Rs mn)	4QFY09	4QFY10	YoY (%)	3QFY10	QoQ (%)	FY09	FY10	YoY (%)	FY11E	YoY (%)
Net Sales	3,392	6,931	104.4	12,770	(45.7)	27,208	43,320	59.2	41,221	(4.8)
EBITDA	(163)	3,950	(2,523.3)	9,497	(58.4)	16,611	33,323	100.6	30,891	(7.3)
EBITDA Margin (%)	(4.8)	57.0	-	74.4	-	61.1	76.9	-	74.9	-
Other Income	3,038	2,919	(3.9)	1,463	99.6	5,407	5,601	3.6	4,018	(28.3)
Depreciation	(1,310)	(2,421)	84.7	(2,756)	(12.2)	(5,182)	(10,333)	99.4	(10,722)	3.8
EBIT	1,565	4,449	184.3	8,204	(45.8)	16,835	28,592	69.8	24,186	(15.4)
Interest	(1,158)	(1,005)	(13.1)	(1,113)	(9.7)	(5,052)	(4,571)	(9.5)	(5,624)	23.0
PBT	407	3,443	745.8	7,090	(51.4)	11,783	24,021	103.9	18,563	(22.7)
Tax	(134)	397	(397.6)	(1,274)	(131.2)	(1,031)	(3,116)	-	(2,935)	(5.8)
Reported PAT	274	3,841	1,303.7	5,816	(34.0)	10,752	20,905	94.4	15,628	(25.2)
Extraordinary items	-	(2,056)	-	(6,109)	(66.3)	3,046	(8,165)	-	-	-
Adjusted PAT (After extraordinary)	274	1,784	552.2	(293)	(709.2)	13,798	12,740	(7.7)	15,628	22.7
Adjusted PAT margin (%)	8.1	25.7	-	(2.3)	-	50.7	29.4	-	37.9	-
Adjusted EPS (Rs) post extra-ordinary and fully diluted equity	0.02	0.15	492.9	(0.03)	(100.0)	1.23	1.04	(16.1)	1.27	22.7

## NHPC

## Maintain Underperformer

Price: Rs 29

BSE Index: 16,388

26 May 2010

### 4QFY10 Result – Operating performance in line, other income boosted the bottom line

Net sales have gone up by 104.4% to Rs 6.93 bn in 4QFY10 which includes Rs 2.05 bn (30% of the total reported revenue) revenue relating to past year sales. Accordingly, the adjusted net sales during the quarter are up by 18% to Rs 5.4 bn backed by 2% decline in total generation and 21% rise in average tariff (on estimated energy sold) during the quarter. Similarly, the adjusted net profit (adjusted to previous year sales) for the quarter came at Rs 1.78 bn as against Rs 274 mn reported during the corresponding quarter last year. Largely higher other income relating to income on surplus liquid funds (Rs 81 bn by the end of FY10) led to higher other income at Rs 1.97 bn during the quarter. Overall, the operational performance of the company remains in line with our expectation.

#### B&K's view

We expect the company to commercialise 396 MW (120 MW: Sewa 2, 231 MW: Chamera 3, 45 MW: Nimo Bazgo) capacity at the standalone level in FY11 wherein the annualised benefit from these plants is estimated at 121 MW. We estimate bottoming out of standalone RoE of NHPC in FY10. With the commissioning of another 1,052 MW during FY12, the company will improve its RoE by 100 bps each during FY11E and FY12E. We feel this has already been factored in the current prices and considering the significant uncertainty relating to the project execution we feel the upside looks difficult from the current levels. The stock is trading at 1.6x of FY12 book value. We maintain Underperformer rating on the stock with a revised target price of Rs 27. Opportunity in selling power at merchant rates (which needs change in tariff policy) and allowing return on the capital work in progress to remain key risks to our target price.

## Conference call highlights

### Conservatism in revenue booking

Due to conservatism the company has booked revenue at 8% lower than the calculated regulated revenue as per CERC norms. This has been made to take care of a possibility of regulatory disallowance in the final tariff order. Due to this, for FY10 the sales have been booked at Rs 3.4 bn lower than the regulatory revenue that could have been booked.

NHPC booked Rs 8.1 bn (Post tax) relating to sales of previous year sales. Majority of this revenue worth Rs 6.6 bn is relating to the Dulhasti (390 MW) project led by an increase in tariff recognised.

### Capacity addition is targeted at 692 MW for FY11 (We expect 396 MW)

The company plans a total capex worth Rs 49 bn during the FY11 and is targeting commissioning of 692 MW during the year. Five projects that are lined up for commission include Sewa 2 (120 MW by the end of 1QFY11), Nimo Bazgo (45 MW by 3QFY11), Chutak (44 MW by 4QFY11), Chimera 3: (231 MW by the end of 4QFY11) and Teesta Low Dam Stage 3 (132 MW by the end of 4QFY11). Part of the Uri 2 project is also targeted during the year. Including these projects, the company is currently working on 11 projects. We expect 396 MW to get commissioned during FY11 led by Sewa 2, Chamera 3 and Nimo Bazgo.

### Still no clarity on the allowance of equity returns on capital WIP

The company has represented its case for allowing the equity return on the capital employed in the capital WIP. But no concrete decision has been taken by the government so far. The capital work in progress currently stands at Rs 119,880 mn in which Rs 42,660 mn worth of equity has been deployed. The company has a regulated equity of Rs 66,440 mn for FY10. This has almost remained same as that of FY09, as the company has not commissioned any project during the year.

### NHDC profitability maintained

The net profit of NHDC (51% subsidiary) during the year stands at Rs 2.12 bn as against Rs 3.06 bn reported last year. The regulated equity of NHDC for FY10 stands at Rs 17 bn. NHDC has booked Rs 1.13 bn relating to deferred tax which the company may partly recover from the beneficiaries going forward. NHDC has a total regulatory equity at Rs 17 bn.

### Outlook and valuation

We expect the company to commercialise 396 MW (120 MW: Sewa 2, 231 MW: Chamera 3, 45 MW: Nimo Bazgo) capacity at the standalone level in FY11 wherein the annualised benefit from these plants is estimated at 121 MW. With the commissioning of another 1,052 MW during FY12, the company will improve its RoE by 100 bps each during FY11E and FY12E. We feel this has already been factored in the current prices and considering the significant uncertainty relating to the project execution we feel the upside looks difficult from the current levels. The stock is trading at 1.6x of FY12 book value. We maintain Underperformer rating on the stock with a revised target price of Rs 27. Opportunity in selling power at merchant rates (which needs change in tariff policy) and allowing return on the capital work in progress to remain key risks to our target price.

### SOTP

	Rs
Hydro Power DCF	20.9
51% JV NHDC	1.2
Tax Free Power Bonds	1.2
Cash	3.3
<b>Total SOTP</b>	<b>27</b>
Book Value FY11	19.5
<b>Implied P/BV (x)</b>	<b>1.37</b>

## Income Statement

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
<b>Net sales</b>	<b>29,231</b>	<b>43,320</b>	<b>41,221</b>	<b>53,548</b>
<i>Growth (%)</i>	<i>18.1</i>	<i>48.2</i>	<i>(4.8)</i>	<i>29.9</i>
Operating expenses	10,060	9,997	10,330	12,087
Operating profit	19,171	33,323	30,891	41,462
<b>EBITDA</b>	<b>19,171</b>	<b>33,323</b>	<b>30,891</b>	<b>41,462</b>
<i>Growth (%)</i>	<i>1.4</i>	<i>73.8</i>	<i>(7.3)</i>	<i>34.2</i>
Depreciation	(5,175)	(10,333)	(10,722)	(13,848)
Other income	3,179	5,601	4,018	4,518
<b>EBIT</b>	<b>17,175</b>	<b>28,592</b>	<b>24,186</b>	<b>32,131</b>
Interest paid	(5,052)	(4,571)	(5,624)	(9,696)
Pre-tax profit	12,123	24,021	18,563	22,436
(before non-recurring items)				
Tax (current + deferred)	(1,157)	(3,116)	(2,935)	(3,559)
<b>Net profit</b>	<b>10,965</b>	<b>20,905</b>	<b>15,628</b>	<b>18,877</b>
Non-recurring items	3,046	(8,165)	–	–
<b>Adjusted net profit</b>	<b>14,012</b>	<b>12,740</b>	<b>15,628</b>	<b>18,877</b>
<i>Growth (%)</i>	<i>32.1</i>	<i>(9.1)</i>	<i>22.7</i>	<i>20.8</i>

## Balance Sheet

Yr end 31 Mar (Rs mn)	FY09	FY10P	FY11E	FY12E
Current assets	39,909	83,192	94,156	108,726
Investments	27,936	43,941	22,856	20,316
Net fixed assets	280,360	304,226	337,225	362,974
<b>Total assets</b>	<b>348,205</b>	<b>431,358</b>	<b>454,237</b>	<b>492,016</b>
Current liabilities	33,852	44,178	33,983	38,670
Total Debt	122,340	138,682	165,110	188,443
Other non-current liab.	13,295	15,765	15,765	15,765
<b>Total liabilities</b>	<b>169,487</b>	<b>198,626</b>	<b>214,859</b>	<b>242,878</b>
Share capital	111,825	123,007	123,007	123,007
Reserves & surplus	66,917	109,748	116,394	126,154
Less: Misc. expenditure	(23)	(23)	(23)	(23)
<b>Shareholders' funds</b>	<b>178,718</b>	<b>232,732</b>	<b>239,378</b>	<b>249,138</b>
<b>Total equity &amp; liabilities</b>	<b>348,205</b>	<b>431,358</b>	<b>454,237</b>	<b>492,016</b>

## Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY09	FY10P	FY11E	FY12E
Pre-tax profit	15,169	24,021	18,563	22,436
Depreciation	5,183	10,333	10,722	13,848
Chg in working capital	2,175	1,727	(6,697)	2,245
Total tax paid	(1,060)	(3,116)	(2,935)	(3,559)
Other operating activities	6,196	(703)	1,040	5,178
<b>Cash flow from oper. (a)</b>	<b>27,663</b>	<b>32,261</b>	<b>20,693</b>	<b>40,148</b>
Capital expenditure	(31,570)	(34,223)	(43,721)	(39,597)
Chg in investments	2,556	(16,005)	21,084	2,540
Other investing activities	541	5,601	4,018	4,518
<b>Cash flow from inv. (b)</b>	<b>(28,474)</b>	<b>(44,627)</b>	<b>(18,619)</b>	<b>(32,539)</b>
<b>Free cash flow (a+b)</b>	<b>(810)</b>	<b>(12,366)</b>	<b>2,074</b>	<b>7,609</b>
Equity raised/(repaid)	0	40,257	0	0
Debt raised/(repaid)	15,604	16,342	26,428	23,333
Dividend (incl. tax)	(3,717)	(7,714)	(8,416)	(9,117)
Other financing activities	(7,777)	(4,571)	(5,624)	(9,696)
<b>Cash flow from fin. (c)</b>	<b>4,111</b>	<b>44,314</b>	<b>12,389</b>	<b>4,520</b>
<b>Net chg in cash (a+b+c)</b>	<b>3,300</b>	<b>31,948</b>	<b>14,463</b>	<b>12,129</b>

## Key Ratios

Yr end 31 Mar (%)	FY09	FY10P	FY11E	FY12E
Adjusted EPS post extra. (Rs)	1.3	1.0	1.3	1.5
Adjusted EPS growth	32.1	(17.3)	22.7	20.8
EBITDA margin	0.7	0.8	0.7	0.8
EBIT margin	0.6	0.7	0.6	0.6
RoCE	0.1	0.1	0.1	0.1
RoE	0.1	0.1	0.1	0.1
Debt/Equity	0.7	0.6	0.7	0.8

## Valuations

Yr end 31 Mar (x)	FY09	FY10P	FY11E	FY12E
PER	23.2	28.0	22.9	18.9
PCE	20.1	11.4	13.6	10.9
Price/Book	1.8	1.5	1.5	1.4
Yield (%)	1.0	1.9	2.1	2.2
EV/Net sales	15.8	10.3	11.1	8.7
EV/EBITDA	20.6	11.4	13.1	10.2

## Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY09	FY10P	FY11E	FY12E
Net margin (%)	0.5	0.3	0.4	0.4
Asset turnover	0.1	0.1	0.1	0.1
Leverage factor	1.9	1.9	1.8	1.9
Return on equity (%)	0.1	0.1	0.1	0.1

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1. **BUY:** Potential upside of > +25% (absolute returns)
  2. **OUTPERFORMER:** 0 to +25%
  3. **UNDERPERFORMER:** 0 to -25%
  4. **SELL:** Potential downside of < -25% (absolute returns)
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