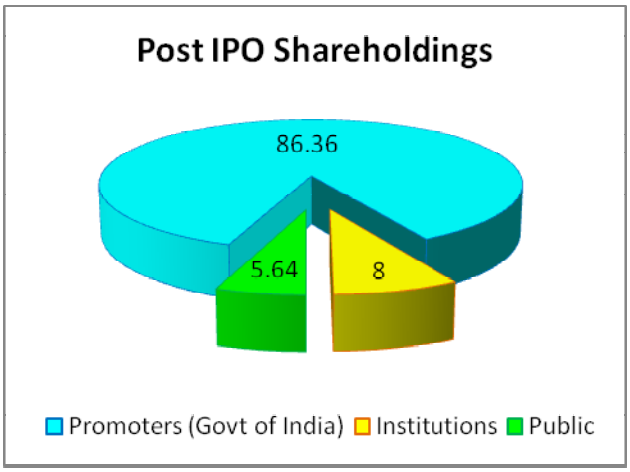
NHPC Limited IPO

Date: 6 August 2009

Issue Open	7-12 August 2009
Offer for Sale	55.9 Crore
Fresh Issue	111.8 Crore
Price Band	Rs.30-36 (FV 10)
Post IPO Equity	Rs.12300 Crore
Lot Size	175 Shares



Company background

Incorporated in 1975, Faridabad (Haryana) based NHPC Limited (Formerly known as National Hydroelectric Power Corporation Ltd.) is "MINI RATNA-I" category PSU. It 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 executes all aspects of the development of hydroelectric projects, from concept to commissioning.

It has developed and constructed 13 hydroelectric power stations and its current total installed capacity is 5,175 MW. However, current total generating capacity is 5,134.2 MW, which takes into account a downgrade of the capacity ratings of the Loktak and Tanakpur power stations by the CEA. This total installed capacity and total generating capacity includes two power stations with a combined capacity of 1,520 MW, constructed and operated through its Subsidiary, NHDC (Govt. of Madhya Pradesh is also minority stake holder in NHDC).

Own Plants with Full Capacity:

Project	Installed Capacity (MW)	Total Capacity (MW)	Year of Commsn.
Baira Siul, HP	3*60	180	1981
Salal, J&K	6*115	690	1983
Chamera-I, HP	3*180	540	1994
Chamera-II, HP	3*100	300	2004
Uri-I, J&K	4*120	480	1997
Rangit, Sikkim	3*20	60	1999
Dhauliganga, Uttkd.	4*70	280	2006
Dulhasti, J&K	3*130	390	2007
Teesta-V, Sikkim	3*170	510	2008
Total Capacity		**3430**	

Own Plants with Capacity Downgraded:

Project	Installed Capacity (MW)	Total Capacity (MW)	Downgraded Capacity (MW)	Year of Commsn.
Loktak, Manipur	3*35	105	90	1983
Tanakpur, Uttkd.	3*40	120	94.5	1992
Total Available Capacity			**184.5**	

Capacity under NHDC:

Project	Installed Capacity (MW)	Total Capacity (MW)	Year of Commsn.
Indira Sagar, MP	8*125	1000	2005
Omkareshwar, MP	8*65	520	2007
Total Capacity		**1520**	

- The company has 11 plants, totaling 4622 MW under various stages of construction; its total installed capacity can go to 9800 MW upon completion of these projects.
- Further, about 7731 MW of capacity is awaiting clearance from the Govt of India and 6505 MW is under survey.

Objective of the Issue

The company is likely to raise about Rs.4025 Crore (at upper band) from the IPO. About Rs.2013 Crore is divestment by Govt. of India. It proposes to utilize IPO proceeds as:

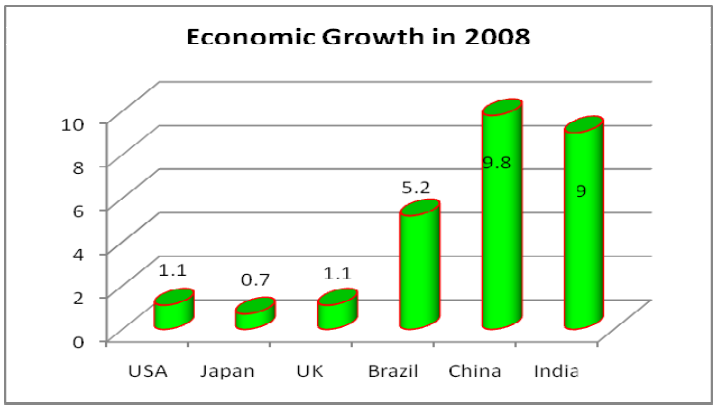
- To part finance the construction and development costs of certain of our projects, namely, Subansiri Lower, Uri – II, Chamera - III, Parbati – III, Nimoo Bazgo, Chutak, and Teesta Low Dam – IV.
- The total costs of these 7 Projects is about Rs.14014 Crore.
- To meet the Corporate, IPO etc. expenses.

Fund Arrangement for these Projects:

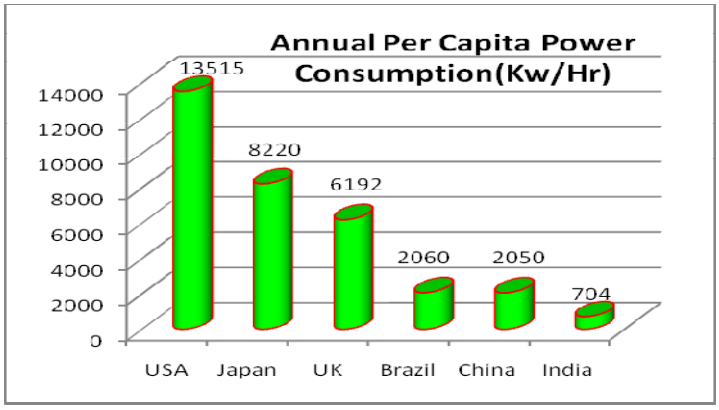
- Govt. has already contributed Rs.2060 Crore as equity.
- Rs.6698 Crore is already deployed.
- NHPC has tied up for Debt of Rs.9810 Crore.

Highlights

- Indian economy is growing at brisk pace, which is resulting in widening power deficit in the country. Government is boosting the power generation capacity but supply is continuously falling short of demand. The situation is unlikely to improve even in next 8-10 years.
- The country has high growth but the lowest per capita power consumption among top 10 world economies:

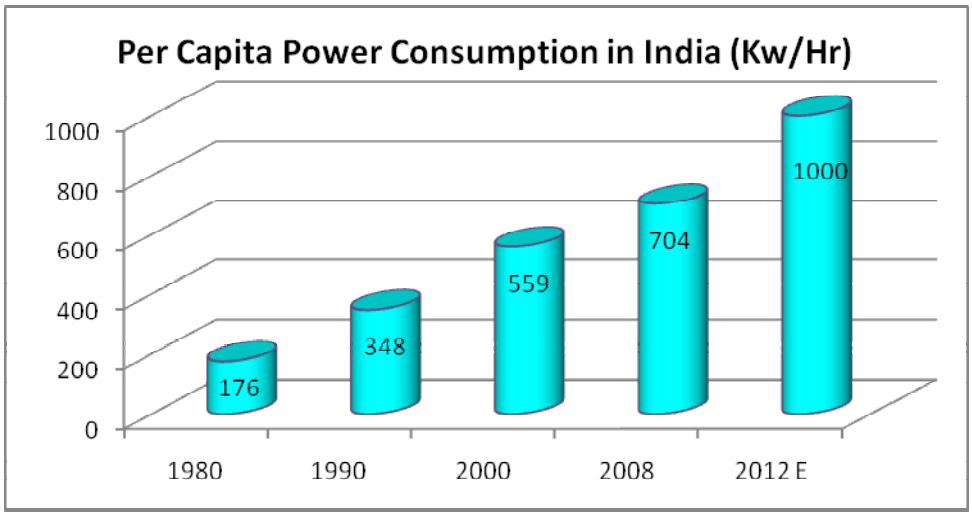


Source: CIA World Fact Sheet



Source: IEA, Key World Energy Statistics 2008

- There is constant rise in Per Capita Power consumption in India:



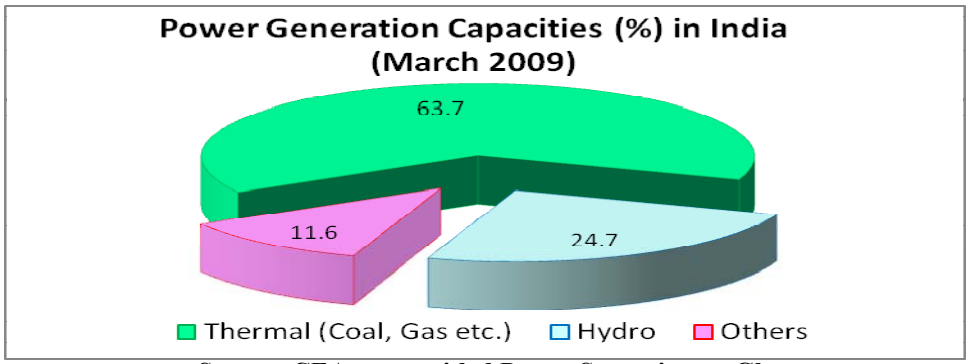
Source: Hydro Power Policy, MoP, 2008 and Monthly Review of the Power Sector, (Executive Summary), CEA, May 2009

- Indian Power Demand-Supply situation stands as:

	Peak		Deficit		Energy		Energy Gap	
	Requirement	Avialability	MW	%	Required (MU)	Avialable (MU)	Million Units	%
North	32223	28075	-4148	-12.9	38704	35535	-3169	-8.2
West	35992	30273	-5719	-15.9	44696	39254	-5442	-12.2
South	29216	26369	-2847	-9.7	36146	33626	-2520	-7.0
East	12913	11610	-1303	-10.1	14816	14036	-780	-5.3
North East	1569	1342	-227	-14.5	1450	1248	-202	-13.9
All India	**111913**	**97669**	**-14244**	**-12.7**	**135812**	**123699**	**-12113**	**-8.9**

Source: CEA, "Power Scenario at a Glance", May 2009

- According to the 17th Electric Power Survey, India's peak demand will reach approximately 152,746 MW with an energy requirement of approximately 968 billion units by fiscal year 2012. By the fiscal year 2017, peak demand is expected to reach 218,209 MW with an energy requirement of 1,392 billion units.
- Presently, the country has about 1.5 Lakh MW of capacity, with an expected addition of about 78000 MW addition coming by 2012, terminal year of 11th 5-year plan:



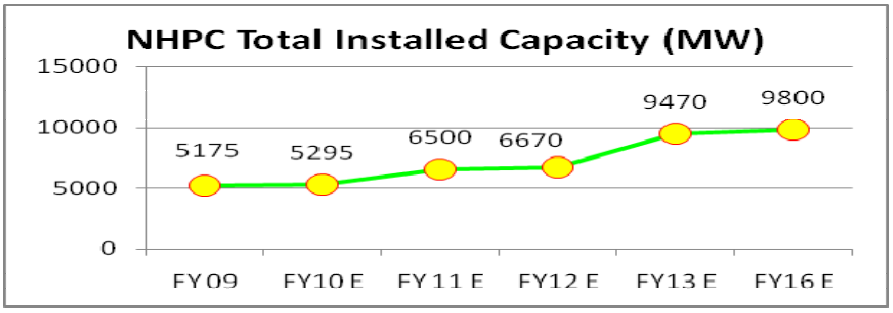
Source: CEA report titled Power Scenario at a Glance

- INDIA is endowed with economically exploitable and viable hydro potential assessed to be about 84,000 MW at 60% load factor (1,48,700 MW installed capacity). In addition, 6780 MW in terms of installed

capacity from Small, Mini, and Micro Hydel schemes (i.e., schemes of capacity up to 25 MW). have been assessed.

- Further according to the India Investment Centre, 56 potential pumped storage sites, with an aggregate installed capacity of 94,000 MW, have also been identified.
- There is good scope for more Hydro Power capacities, as present installed Hydro Power capacity in the country is about 37000 MW.
- Govt. has planned to take Installed Hydro capacity to 50000 MW by 2012, the terminal year of 11th 5-year plan and upto 80000 MW by 2017, the terminal year of 12th 5-year plan.
- Hydropower is a renewable source of energy that is more economical and less polluting and less damaging to the environment than most other forms of energy production.
- Hydro Plants are ideal for meeting demand during peak times.
- Hydro Power Plants have long life - The first hydro project completed in 1897 at Darjeeling is still in operation.
- Developing hydropower enhances energy security and there is no fuel cost during the life of the project. Its generation is unaffected by issues concerning fuel supply and volatility of fuel prices
- Hydropower stations are capable of instantaneous starting and stopping and are able to accommodate various loading alternatives. They help to improve the reliability of power systems.
- Storage based hydro schemes often provide attendant benefits of irrigation, flood control, drinking water supply, navigation, recreation, tourism, pisciculture etc.
- Hydro Power capacity is scattered across the country, among Central Sector, State sector and Private players. NHPC is the largest Hydro Producer with about 20% of the total installed Hydro Power Capacity in India.
- Running and Maintenance Costs of Hydro Power plant is lower than Thermal plants. NHPC enjoys higher margins then NTPC, Tata Power etc.
- The company has healthy Debt-Equity of 0.55 (Post IPO, on Consolidated basis.). NHPC can fund the expansion/capex through Debt..
- By Jan 2010 additional 120 MW capacity can come up. In FY2011, about 1200 MW of capacity addition is expected. It is likely to have total installed capacity of about 6700 MW by 2012 and about 9800 MW by 2016.

Project	Installed Capacity	Total Capacity (MW)	Estimated Total Cost (Rs. Cr.)	Expected Commsn.
Sewa-II, J&K	3*40	120	665	Jan 2010
Chamera-III, HP	3*77	231	1406	Aug 2010
Nimmo-Bazgo, J&K	3*15	45	611	Aug 2010
Parbati-III, HP	4*130	520	2305	Nov 2010
Chutak, J&K	4*11	44	621	Feb 2011
Teesta Low Dam-III, WB	4*33	132	595	Feb 2011
Uri-II, J&K	4*60	240	1725	Feb 2011
Teesta Low dam-IV, WB	4*40	160	1061	Aug 2011
Subansiri (Lower), Assam	8*250	2000	6286	Dec 2012
Parbati-II, HP	4*200	800	3928	March 2013
Kishenganga, J&K	3*110	330	3642	Jan 2016
Total Capacity		**4622**	**22845**	



Financial Highlight (Consolidated)

Rs. Crore	FY2008	FY 2009	FY2010E
Power Sales	2892	3445	3548
Consultancy	39	49	60
Interest on Advances	209	185	190
Other Income	181	372	405
Total Income	**3321**	**4051**	**4203**
Operating Expenses	636	1089	1135
PBDIT	2685	2962	3068
Interest	638	776	795
Depreciation	560	656	680
PBT	1487	1530	1593
Tax	168	168	170
Extra-Ordinary Income	46	33	35
Minority Interest	158	151	151
Net Profit	1207	1244	1307
Equity (FV 10)	11182	11182	12300
EPS Rs./Sh	1.1	1.1	1.1
CMP (upper band Rs.36)	36	36	36
PE X EPS	33.4	32.4	33.9

NHPC vs Peerset

Rs. Crore	NTPC	Tata Power	NHPC	JP Hydro
FY 09 Total Sales	47648	18179	4051	339
FY 09 PBDIT	13946	3856	2962	287
FY 09 Net Profit	8093	1219	1244	149
Equity (FV 10)	8245	221	12300	491
EPS (Rs./Sh)	9.8	55.2	1.1	3
CMP	220	1360	36	82
PE	22.4	24.6	32.7	27.3
Present Total Capacity (MW)	30000	2780	5175	300
Expected Capacity by 2012 (MW)	50000	4500	6700	1300
M. Cap	181390	30056	44280	4026
PBDIT (%)	29.3	21.2	69.0	84.7
NPM (%)	17.0	6.7	30.7	44.0
M.Cap/MW (Rs. Cr.)	6.0	10.8	8.6	13.4

Risks

- Investments are high and gestation period is long for power projects.
- NHPC's some of the projects are running behind schedule. Hydro-Powers are installed mainly in hilly areas and difficult terrains.
- Geographical constraints and infrastructural facilities are the key challenges for project execution.
- Land acquisition is also a critical issue.
- Operations are concentrated in Northern and North-Eastern states, which are socially less stable, besides financials of these states are also not very healthy.
- Hilly regions also pose threat due to natural calamities.
- Due to low rainfall, if a water level in dams fall below critical level, can also impact output of the plants.
- ICRA has given Grade 3 to IPO, for average fundamentals of the company.

Valuation & Recommendation: Apply

The business model of NHPC is robust. There is visibility in Power sector and significant expansion at NHPC. The long term investors can apply for the shares. The response for Adani Power indicates that there is potential for listing gains also.

We recommend applying in the following way for Retail clients applying upto Rs.1 Lakhs-fill all 3 options at Rs.36, Rs.35 and Rs.33, with different No. of Shares Bid for. If Govt. decides to allot at price lower than upper band, Number of shares allotted will be higher.

Bid Option	No. of Equity Shares Bid for (Lot Size 175)		Price Per Share (Rupees) "Cut off Price"	
	In Figures	In Words	In Figures	In Words
Option 1	2625	Twenty Six Hundred & Twenty Five	36	Thirty Six
Or Option 2	2800	Twenty Eight Hundred	35	Thirty Five
Or Option 3	2975	Twenty Nine Hundred & Seventy Five	33	Thirty Three

Amount to be paid is Rs.98175 (Ninety Eight Thousand, One Hundred & Seventy Five) being the highest of the 3 Options' amounts.

Disclaimer: The recommendation made herein does not constitute an offer to sell or a solicitation to buy any of the securities mentioned. Readers using the information contained herein are solely responsible for their actions. The information and views contained herein are believed to be reliable but no responsibility or liability is accepted for errors of fact or opinion. Bonanza, its directors employees and associates may or may not have trading or investment positions in the securities mentioned herein.

BONANZA PORTFOLIO LTD: 2/2-A, 1st Floor, Laxmi Insurance Bldg, Asaf Ali Road,
New Delhi-110002 Phone Nos. 91-11-30181290/94 Fax No. 91-11-30412657