

**January 27, 2012**

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	<b>Accumulate</b>
Rating	
Price	Rs21
Target Price	Rs22
Implied Upside	4.8%
Sensex	17,234
Nifty	5,205

**(Prices as on January 27, 2012)**
**Trading data**

Market Cap. (Rs bn)	252.2
Shares o/s (m)	12,300.7
3M Avg. Daily value (Rs m)	149

**Major shareholders**

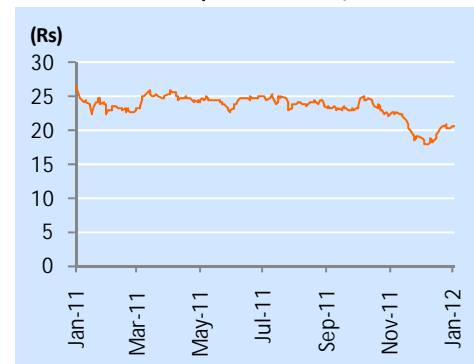
Promoters	86.36%
Foreign	1.33%
Domestic Inst.	3.29%
Public & Other	9.02%

**Stock Performance**

(%)	<b>1M</b>	<b>6M</b>	<b>12M</b>
Absolute	9.6	(18.2)	(20.4)
Relative	1.7	(11.2)	(11.2)

**How we differ from Consensus**

<b>EPS (Rs)</b>	<b>PL</b>	<b>Cons.</b>	<b>% Diff.</b>
2013	1.2	2.0	-37.8
2014	1.2	2.2	-43.2

**Price Performance (RIC: NHPC.BO, BB: NHPC IN)**


Source: Bloomberg

■ **Adjusted sales flat YoY:** Revenues from operations at Rs7.7bn (PLe: Rs7bn) for Q3FY11, flat YoY, was on account of underutilisation of operating capacities, with generation down by 5.8% YoY. The company has included items in revenues to the tune of Rs1.1bn, mainly arising out of water cess billing and recovery of tariffs and interest on that amount. Expenditure also had major extraordinary items of Rs800m pertaining to provisions created for *Kotli Bhel Stage-1&2* projects, as these projects have less chances of getting approved by MOEF.

■ **Adjusted PAT up 16.8%:** Adjusted PAT stands at Rs2.6bn (PLe: Rs2.4bn) as against reported PAT of Rs2.1bn (grossed up at MAT rate).

■ **Fails to reach the target of 500MWs commissioning in FY12E:** NHPC's *Chutak HEP Unit 1* will now get commissioned by March 2012 instead of November 2011, mainly due to bad weather conditions. *Chamera* and *Uri 2* will now get now commissioned by June 2013 instead of March 2012, mainly due to non-availability of load from Discoms and bad weather conditions. The company has plans to add close to 822MWs in FY13E. Cash stands at Rs40bn. Regulated equity stands at Rs71bn. Also, the company will take a hit on P/L as Parbati 2 is delayed which will affect the COD of Parbati 3. NHPC will book the capitalisation cost from FY13E on Parbati 3, whereas the tariffs will be booked when the full plant achieves COD in FY16E.

■ **Valuation and Recommendation:** NHPC currently has been lagging behind in terms of capacity addition which will lead to a flat generation growth in FY12E. We have changed our estimates to factor in capacity delays and adverse effect of Parbati 3 capitalisation into FY13E and beyond numbers. We have, thus, reduced our target price and believe that the stock is fairly priced with negative bias. The stock is trading at a P/BV of 0.9x FY13E/14E. We maintain 'Accumulate' just because it is the safest play (non-fossil fuel) in the Power Sector, but lower our target price from Rs24.

<b>Key financials (Y/e March)</b>	<b>2011</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>
Revenues (Rs m)	42,253	43,015	48,621	52,874
<i>Growth (%)</i>	(2.5)	1.8	13.0	8.7
EBITDA (Rs m)	28,455	25,228	30,846	33,766
PAT (Rs m)	19,940	17,303	15,028	15,036
EPS (Rs)	1.6	1.4	1.2	1.2
<i>Growth (%)</i>	15.0	(13.2)	(13.1)	—
Net DPS (Rs)	0.7	0.6	0.4	0.4

<b>Profitability &amp; Valuation</b>	<b>2011</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>
<i>EBITDA margin (%)</i>	67.3	58.6	63.4	63.9
<i>RoE (%)</i>	8.3	6.8	5.7	5.5
<i>RoCE (%)</i>	5.7	4.7	4.3	4.1
EV / sales (x)	8.7	8.4	8.4	7.3
EV / EBITDA (x)	13.0	14.4	13.2	11.4
PE (x)	12.6	14.6	16.8	16.8
P / BV (x)	1.0	1.0	0.9	0.9
<i>Net dividend yield (%)</i>	3.4	3.0	1.8	1.8

Source: Company Data; PL Research

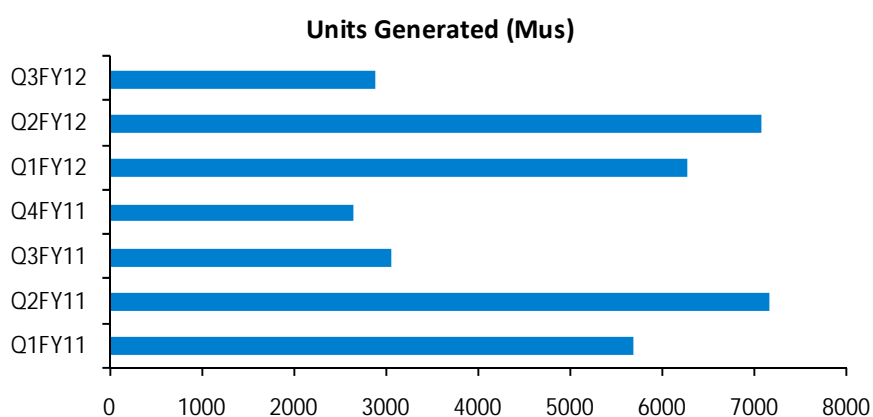
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**Exhibit 1: Q3FY12 Result Overview (Rs m)**

Y/e March	Q3FY12	Q3FY11	YoY gr. (%)	Q2FY12	9MFY12	9MFY11	YoY gr. (%)
<b>Net Sales</b>	<b>8,820</b>	<b>7,509</b>	<b>17.5</b>	<b>19,815</b>	<b>42,110</b>	<b>30,872</b>	<b>36.4</b>
<b>Expenditure</b>							
Employee Cost	2,279	1,819.0	132.3	2,046	6,383	4,349	46.8
<i>% of Net Sales</i>	<i>25.8</i>	<i>24.2</i>		<i>10.3</i>	<i>15.2</i>	<i>16.6</i>	
Other Expenses	2,749	1,088.0	29.8	3,256	9,169	3,144	191.6
<i>% of Net Sales</i>	<i>31.2</i>	<i>14.5</i>		<i>16.4</i>	<i>21.8</i>	<i>16.1</i>	
Total Expenditure	5,028	2,907	73.0	5,302	15,553	7,493	107.6
<b>EBIDTA</b>	<b>3,792</b>	<b>4,602</b>	<b>(17.6)</b>	<b>14,513</b>	<b>26,558</b>	<b>23,379</b>	<b>13.6</b>
<i>Margin (%)</i>	<i>43.0</i>	<i>61.3</i>		<i>73.2</i>	<i>63.1</i>	<i>75.7</i>	
Depreciation	2,237	1,247	79.4	2,234	6,728	6,472	4.0
<b>EBIT</b>	<b>1,555</b>	<b>3,355</b>	<b>(53.6)</b>	<b>12,279</b>	<b>19,829</b>	<b>16,907</b>	<b>33.3</b>
Interest	876	1,050	(16.6)	883	2,624	2,854	(8.1)
Other Income	2,032	1,663	22.2	1,812	8,352	5,154	62.1
PPI	(4)	(787)		(352)	(275)	779	
<b>PBT</b>	<b>2,707</b>	<b>4,755</b>	<b>(43.1)</b>	<b>12,856</b>	<b>25,283</b>	<b>19,986</b>	<b>26.5</b>
Tax	586	1,748.0	(66.5)	3,191	5,584	4,703	18.7
<i>Tax Rate (%)</i>	<i>21.6</i>	<i>36.8</i>		<i>24.8</i>	<i>22.1</i>	<i>23.5</i>	
<b>Recurring Pat</b>	<b>2,122</b>	<b>3,007</b>	<b>(29.4)</b>	<b>9,665</b>	<b>19,699</b>	<b>15,283</b>	<b>28.9</b>
<b>Adj PAT</b>	<b>2,594</b>	<b>2,220</b>	<b>16.8</b>	<b>7,291</b>	<b>15,521</b>	<b>14,940</b>	<b>3.9</b>
Units generated	2,890	3,068	(5.8)	13,376	16,262	15,941	2.0

Source: Company Data, PL Research

**Exhibit 2: Generation Quarterly**


Source: Company Data, PL Research

Exhibit 3: xxx

Project	State	Capacity MWs	Company COD	Likely COD	Issues	Present status	Probability of Completion
Teesta Low Dam III	Sikkim/WB	132	FY12	FY13	Delay in clearances Local law & order problem Floods in 2007,2009 & 2010	Earthwork completed upto 92%, E&M work to be completed in FY12 Unit 1-2 Box Up completed	High in FY13
Uri II	Jammu & Kashmir	240	FY12	FY13	Disturbances in Valley affecting supplies Earthquake in 2005 Flood 2007 & 2010 Land slide and bridge collapse in 2008	Earthwork completed upto 95%, HM completed 85% /E&M to be completed in FY12 Unit 1-2-3 Box Up completed Reservoir filling completed	Low in FY12
Chamera III	Himachal Pradesh	231	FY12	FY13	Labour agitation in 2006 Coffer dam washed away in 2007 Snowfall	Earthwork completed Reservoir filling started Pre commissioning of Unit 1-2 -3complete	Low in FY12
Teesta Low Dam IV	Sikkim/WB	160	FY13	FY15	Delay in clearances Local law & order problem Floods in 2007,2009 & 2010	Earthwork completed upto 87%, E&M work to be completed in FY12/FY13, current completion 80%	Low in FY13
Nimoo Bazgo	Jammu & Kashmir	45	FY12	FY13	Extreme cold climate Poor participation in tendering	Earthwork completed upto 85%, E&M work to be completed in FY12, current completion 75%	High in FY13
Parbati III	Himachal Pradesh	520	FY12	FY13/15	Poor Geology Dealy in award of packages Alternate road had to be constructed Land Acquisition problem	Earthwork completed upto 75%, E&M work to be completed in FY12, however seepage in Power house Scroll case erection of Unit 2,3 completed Flodds in Aug 2011	High in FY13
Parbati II	Himachal Pradesh	800	FY15	FY16	Poor Geology & Fault Zone Floods in Aug 2011,Rock busting, slide in power house in 2004,2006 & 2007 Contractual issues	Earthwork completed upto 85%, E&M wroks also started HM also started	Low in FY15
Chutak	Jammu & Kashmir	44	FY12	FY13	Extreme cold climate/ Floods in Ladhak Disturbances in Valley affecting supplies High price bid delayed award of HM works	Earthwork completed E&M work to be completed in FY12, unit 1 spinning archived Radial gates/HM gates commissioned	High in FY12
Subansiri Lower	Assam /A.P.	2,000	FY15	FY18	Local law & order problem Coffer dam washed away Disputes between states	Earthwork completed upto 55%, Concreting and other earth works need to be completed Intake gates work started	Low in FY15
Kishanganga	Jammu & Kashmir	330	FY16	FY18	Pakistan building another HEP on same river Heavy Rainfall in March 2011 Disturbances in Valley affecting supplies	Earthwork completed upto 30%,	High in FY16

Source: Company Data, PL Research

\*Some calculations are based upon the 'Cu metre '&amp;'Metre' excavation completed and thus an approximation

## Key Highlights of the Conference Call

- Regarding handing over the two projects, namely Uri and Salal, MoP has decided not to give back the projects to the J&K Government.
- Uri 2, Chamera 3 and Chutak are running late on account of issues of bad weather conditions and lack of manpower. However, NHPC is trying to synchronise some of the units of these plants by March 2012.
- The gap of Rs750m pertaining to Water Cess recognition in sales is on account pending clearances by court.
- Extraordinary expense of Rs1bn booked in Q3FY12 was pertaining to provision created for Kotli Bhel Stage-1&2 as the project has not been approved by Environment Ministry.
- Receivables are increasing and from the current amount of Rs26bn, Rs9bn are pending for more than 60 days. Major SEBs are BSES Rajdhani, BSES Yamuna, UP SEB, Jaipur SEB and Punjab SEB.
- 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.

**Income Statement (Rs m)**

Y/e March	2011	2012E	2013E	2014E
<b>Net Revenue</b>	<b>42,253</b>	<b>43,015</b>	<b>48,621</b>	<b>52,874</b>
Raw Material Expenses	—	—	—	—
Gross Profit	42,253	43,015	48,621	52,874
Employee Cost	6,996	8,535	8,962	9,141
Other Expenses	6,801	9,252	8,812	9,966
<b>EBITDA</b>	<b>28,455</b>	<b>25,228</b>	<b>30,846</b>	<b>33,766</b>
Depr. & Amortization	9,167	8,401	12,858	15,212
Net Interest	4,136	3,236	6,072	6,534
Other Income	13,632	8,194	7,351	7,256
<b>Profit before Tax</b>	<b>28,785</b>	<b>21,784</b>	<b>19,267</b>	<b>19,277</b>
Total Tax	7,118	4,880	4,239	4,241
<b>Profit after Tax</b>	<b>21,667</b>	<b>21,480</b>	<b>15,028</b>	<b>15,036</b>
Ex-Od items / Min. Int.	1,727	4577	—	—
<b>Adj. PAT</b>	<b>19,940</b>	<b>17,303</b>	<b>15,028</b>	<b>15,036</b>
<b>Avg. Shares O/S (m)</b>	<b>12,300.7</b>	<b>12,300.7</b>	<b>12,300.7</b>	<b>12,300.7</b>
<b>EPS (Rs.)</b>	<b>1.6</b>	<b>1.4</b>	<b>1.2</b>	<b>1.2</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2011	2012E	2013E	2014E
C/F from Operations	77,260	19,527	59,818	41,068
C/F from Investing	5,194	18,552	(49,887)	27,301
C/F from Financing	(104,787)	(27,817)	(12,349)	(58,204)
Inc. / Dec. in Cash	(22,332)	10,261	(2,418)	10,165
Opening Cash	50,974	28,641	38,903	36,485
Closing Cash	28,641	38,903	36,485	46,650
FCFF	19,104	18,237	(27,579)	43,218
FCFE	26,114	21,404	14,156	33,642

**Key Financial Metrics**

Y/e March	2011	2012E	2013E	2014E
<b>Growth</b>				
Revenue (%)	(2.5)	1.8	13.0	8.7
EBITDA (%)	(14.7)	(11.3)	22.3	9.5
PAT (%)	15.0	(13.2)	(13.1)	—
EPS (%)	15.0	(13.2)	(13.1)	—
<b>Profitability</b>				
EBITDA Margin (%)	67.3	58.6	63.4	63.9
PAT Margin (%)	47.2	40.2	30.9	28.4
RoCE (%)	5.7	4.7	4.3	4.1
RoE (%)	8.3	6.8	5.7	5.5
<b>Balance Sheet</b>				
Net Debt : Equity	0.5	0.4	0.6	0.5
Net Wrkng Cap. (days)	—	—	—	—
<b>Valuation</b>				
PER (x)	12.6	14.6	16.8	16.8
P / B (x)	1.0	1.0	0.9	0.9
EV / EBITDA (x)	13.0	14.4	13.2	11.4
EV / Sales (x)	8.7	8.4	8.4	7.3
<b>Earnings Quality</b>				
Eff. Tax Rate	24.7	22.0	22.0	22.0
Other Inc / PBT	31.8	38.2	38.2	37.6
Eff. Depr. Rate (%)	4.0	3.7	4.3	5.2
FCFE / PAT	131.0	123.7	94.2	223.7

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

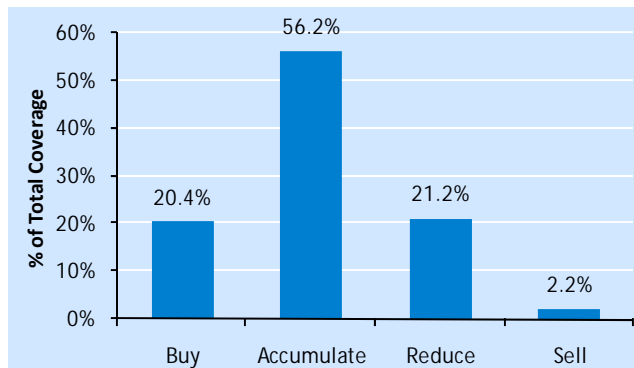
Y/e March	2011	2012E	2013E	2014E
Shareholder's Funds	245,839	259,801	270,321	280,846
Total Debt	145,693	148,860	190,595	181,019
Other Liabilities	15,679	15,897	15,897	15,569
<b>Total Liabilities</b>	<b>407,210</b>	<b>424,558</b>	<b>476,813</b>	<b>477,434</b>
Net Fixed Assets	342,233	344,948	418,809	415,748
Goodwill	—	—	—	—
Investments	53,995	49,450	45,196	44,045
Net Current Assets	10,985	30,160	12,777	16,972
<i>Cash &amp; Equivalents</i>	<i>28,641</i>	<i>38,903</i>	<i>36,485</i>	<i>46,650</i>
<i>Other Current Assets</i>	<i>39,971</i>	<i>62,226</i>	<i>62,287</i>	<i>67,057</i>
<i>Current Liabilities</i>	<i>57,627</i>	<i>70,970</i>	<i>85,995</i>	<i>96,735</i>
Other Assets	176	—	—	—
<b>Total Assets</b>	<b>407,389</b>	<b>424,558</b>	<b>476,783</b>	<b>476,765</b>

**Quarterly Financials (Rs m)**

Y/e March	Q4FY11	Q1FY12	Q2FY12	Q3FY12
<b>Net Revenue</b>	<b>11,381</b>	<b>15,605</b>	<b>19,815</b>	<b>8,820</b>
<b>EBITDA</b>	<b>4,748</b>	<b>10,383</b>	<b>14,513</b>	<b>3,792</b>
<i>% of revenue</i>	<i>41.7</i>	<i>66.5</i>	<i>73.2</i>	<i>43.0</i>
Depr. & Amortization	2,696	2,258	2,234	2,237
Net Interest	953	865	883	876
Other Income	1,915	2,379	1,812	2,032
<b>Profit before Tax</b>	<b>8,799</b>	<b>9,718</b>	<b>12,856</b>	<b>2,715</b>
Total Tax	2,415	1,808	3,191	586
<b>Profit after Tax</b>	<b>6,385</b>	<b>7,831</b>	<b>9,665</b>	<b>2,129</b>
<b>Adj. PAT</b>	<b>5,000</b>	<b>6,069</b>	<b>7,291</b>	<b>2,129</b>

Source: Company Data, PL Research.

#### Rating Distribution of Research Coverage



#### PL's Recommendation Nomenclature

<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months	<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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