

## Higher tax rate gross up improves near term RoE profile; but project execution lags

NHPC reported a strong 4QFY11 with revenues of Rs. 11.4bn with a PAT of Rs. 6.4bn, a substantial increase both on a qoq basis as well as on a yoy basis. However, adjusted for the Rs. 3.9bn revenue gross up due to >MAT tax rates, revenues as well as profits remained subdued, in line with our expectations. Generation revenues fell ~3% qoq due to a fall in generation (2,692mn units in 4QFY11 vs 3,067mn units in 3QFY11).

Execution for the 1,372MW additional capacity has lagged with expected CoD timelines stretching beyond FY12E. Expect CoD to be achieved at Chutak (132MW) in 2QFY12, Uri (240MW), Chutak (44MW) as well as Chamera III in 4QFY12, and the others by first half of FY13E. Further delays cannot be ruled out, given the complexities in execution.

### Highlights of the quarter's as well as year's performance

- One-time booking revenue gross up due to >MAT tax rates in 4QFY11 (Rs. 3.9bn) led to an optical qoq increase in topline. Adjusted revenues and net profits were only Rs. 6.9bn and Rs. 2.5bn respectively.
- Changes in Depreciation policy (moving from the static rate to a two-stage rate, in line with CERC regulations) has lowered depreciation to levels of ~Rs. 10bn (annual basis), resulting in a higher effective tax rate, thereby resulting in the revenue adjustment mentioned above.
- For FY11, revenues and profits came in at Rs. 50bn and Rs. 23bn respectively. Adjusted for the one-off RoE adjustment pertaining to earlier periods, PAT came in at Rs. 18.8bn, higher than what we expected. We factor in the higher RoE gross up in subsequent years and thereby revise our FY12 and FY13 estimates upwards.
- As a result of improved earnings profile, the RoE expectations for FY12 and FY13 stand revised to ~9% from 8% earlier. Key downside risks to our numbers emanate from delays in project implementation and the possibility of the company shifting back into a MAT regime.

We like NHPC's high quality balance sheet as well as strong ability to fund growth aspirations from accruals. Although RoE profile is to look better than earlier, delays in project execution imply that quantum RoE improvement (>11% RoEs) are possible only after FY13E. Until then we temper our stance on the stock and value it at 1.1x FY13E P/ABV (45% discount to NTPC), yielding a target price of Rs. 28 per share (earlier Rs. 32). Downgrade to Add / Underperform from Buy / Outperform.

### Financial summary - Consolidated

Year	Revenues (Rs. mn)	EBITDA (Rs. mn)	PAT (Rs. mn)	BV (Rs.)	P/BV(x)
FY11	51,437	42,876	23,162	21.3	1.2
FY12E	58,092	41,664	22,226	23.1	1.1
FY13E	62,332	45,132	25,372	25.1	1.0

### 4QFY11 Update

Date	May 31, 2011
<b>Market Data</b>	
SENSEX	18503
Nifty	5560
Bloomberg	NHPC IN
Shares o/s	12,301mn
Market Cap	Rs. 306bn
52-wk High-Low	Rs. 34-22
3m Avg. Daily Vol	Rs. 133mn
Index member	BSE100

### Latest shareholding (%)

Promoters	86.4
Institutions	4.4
Public	9.3

### Stock performance (%)

	1m	3m	12m
NHPC	-1%	5%	-14%
Sensex	-3%	0%	11%
BSE100	-3%	1%	9%

### Vijaykumar Bupathy

[vijaykumar@sparkcapital.in](mailto:vijaykumar@sparkcapital.in)  
+91 44 4344 0036

### Bharanidhar Vijayakumar

[bharanidhar@sparkcapital.in](mailto:bharanidhar@sparkcapital.in)  
+91 44 4344 0038

<b>CMP</b>	<b>Rs. 25</b>	<b>Absolute</b>	<b>Add</b>
<b>Target</b>	<b>Rs. 28</b>	<b>Relative</b>	<b>Underperform</b>

Quarterly Financial Results								
Rs. mn \ Period	31-Mar-11	31-Mar-10	YoY Growth	30-Dec-10	QoQ Growth	FY11	FY12E	Annual Growth
<b>Net Sales</b>	<b>10,775</b>	<b>7,498</b>	<b>44%</b>	<b>7,090</b>	<b>52%</b>	<b>49,650</b>	<b>56,198</b>	<b>13%</b>
Other Operating Income	606	240	153%	418	45%	1,787	1,894	6%
Employee Cost	2,648	1,330	99%	1,819	46%	7,697	7,850	2%
Other Expenses	3,977	1,686	136%	1,088	266%	7,429	7,578	2%
Prior Period Adjustments	(5,777)	0		(787)	634%	(6,565)	1,000	
Total Expenditures	848	3,015	-72%	2,119	-60%	8,561	16,428	92%
<b>EBITDA</b>	<b>10,533</b>	<b>4,722</b>	<b>123%</b>	<b>5,389</b>	<b>95%</b>	<b>42,876</b>	<b>41,664</b>	<b>-3%</b>
Other income	1,858	2,188	-15%	1,663	12%	8,071	7,725	-4%
Depreciation	2,639	2,445	8%	1,247	112%	11,666	9,667	-17%
Interest & Finance Charges	953	1,005	-5%	1,050	-9%	6,709	8,528	27%
PBT	8,799	3,460	154%	4,755	85%	32,572	31,194	-4%
Taxes	2,415	(458)	-627%	1,748	38%	7,945	7,799	-2%
<b>PAT</b>	<b>6,385</b>	<b>3,918</b>	<b>63%</b>	<b>3,006</b>	<b>112%</b>	<b>23,162</b>	<b>22,226</b>	<b>-4%</b>
EPS (in Rs.)	0.5	0.3	63%	0.2	112%	1.9	1.8	-4%

# NHPC

## Quarterly Performance

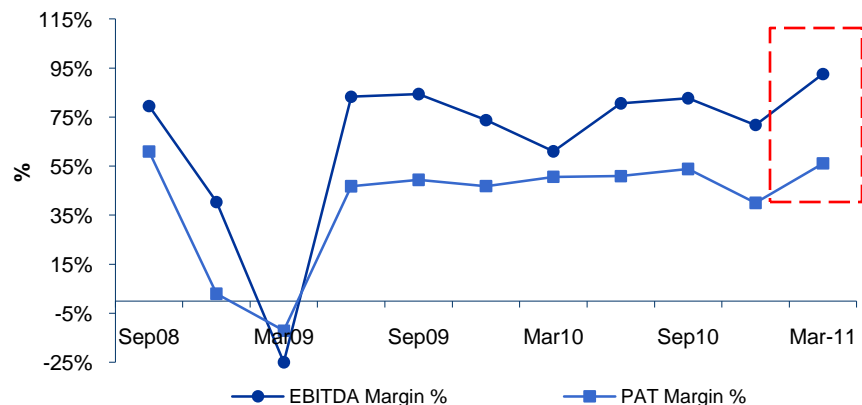
<b>CMP</b>	<b>Rs. 25</b>	<b>Absolute</b>	<b>Add</b>
<b>Target</b>	<b>Rs. 28</b>	<b>Relative</b>	<b>Underperform</b>

### Actual vs. Estimates (Standalone)

4QFY11	Actual	Spark Estimate	Delta
Revenue	10,594	6,925	52.97%
EBITDA	10,533	4,169	152.66%
Margin (%)	99.4%	60.2%	3,923bps
PAT	6,385	1,868	241.77%
Margin (%)	60.3%	27.0%	3,329bps
EPS	0.52	0.15	241.77%

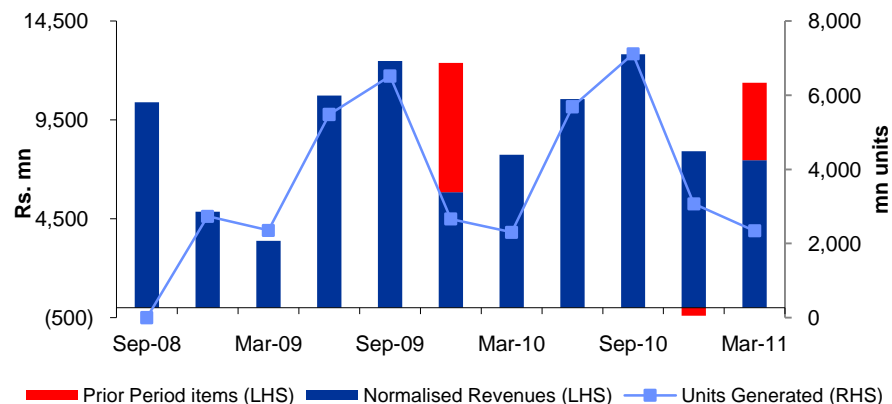
All figures in Rs. mn, except EPS, which is in Rs.

### Reported margins optically high due to prior period adjustments



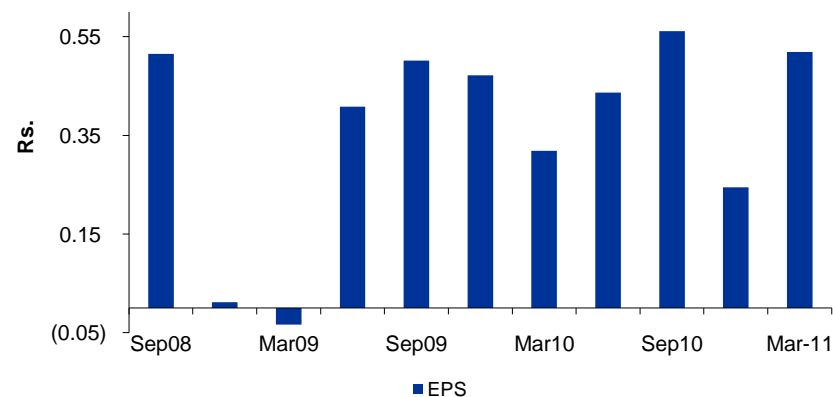
Source: Company, Spark Capital Research

### Prior period item of Rs. 3.9bn in the quarter's revenues



Source: Company, Spark Capital Research

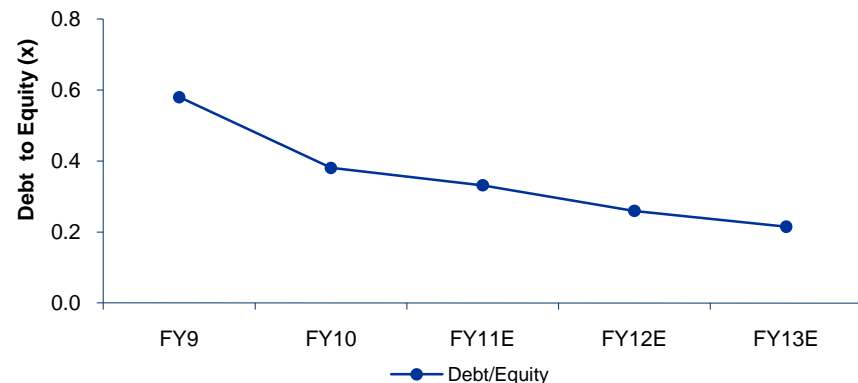
### Trend in Quarterly EPS



Source: Company, Spark Capital Research

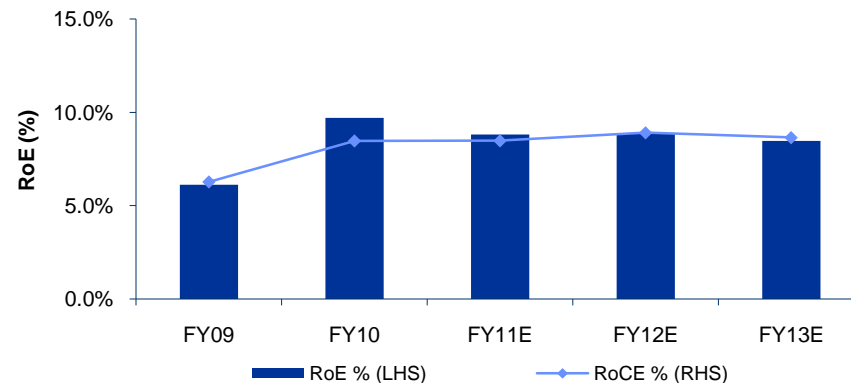
<b>CMP</b>	<b>Rs. 25</b>	<b>Absolute</b>	<b>Add</b>
<b>Target</b>	<b>Rs. 28</b>	<b>Relative</b>	<b>Underperform</b>

### Debt-equity ratio is at a comfortable level



Source: Company, Spark Capital Research

### Capital efficiencies to remain flat



Source: Company, Spark Capital Research

### Key estimate revision (Consolidated)

	FY12E			FY13E		
	Old	New	Change	Old	New	Change
Revenue	50,002	58,092	16.18%	-	62,332	-
EBITDA	37,894	41,664	9.95%	-	45,132	-
Margin (%)	75.78%	71.72%		-	72.41%	-
PAT	19,754	22,226	12.51%	-	25,372	-
Margin (%)	39.51%	38.26%		-	40.70%	-
EPS	1.6	1.8	12.51%	-	2.1	-

All figures in Rs. mn, except EPS, which is in Rs.

### 1 year forward P/ABV



Source: Company, Spark Capital Research

# NHPC

## Financial Summary

<b>CMP</b>	<b>Rs. 25</b>	<b>Absolute</b>	<b>Add</b>
<b>Target</b>	<b>Rs. 28</b>	<b>Relative</b>	<b>Underperform</b>

Abridged Financial Statements (Consolidated)				
Rs. mn	FY10	FY11E	FY12E	FY13E
<b>Profit &amp; Loss</b>				
Revenues	52,273	51,437	58,092	62,332
EBITDA	41,291	42,876	41,664	45,132
Other Income	6,473	8,071	7,725	8,258
Depreciation	12,827	11,666	9,667	9,500
EBIT	34,936	39,281	39,722	43,891
PBT	27,543	32,572	31,194	35,239
PAT after MI	21,757	23,162	22,226	25,372
<b>Balance Sheet</b>				
Net Worth + MI	266,968	291,595	314,991	341,420
Total debt and grants	163,515	168,901	170,878	173,371
Income from Advance Against Dep.	15,398	15,076	15,076	15,076
Deferred Tax	2,521	2,774	2,774	2,774
<b>Total Networth &amp; Liabilities</b>	<b>448,402</b>	<b>478,345</b>	<b>503,718</b>	<b>532,641</b>
Gross Fixed assets	280,120	286,775	371,750	371,750
Net fixed assets	223,020	218,009	293,317	283,818
CWIP	140,620	155,310	96,208	123,901
Investments	33,455	43,194	43,194	43,194
Inventories	2,278	2,170	2,189	2,320
Sundry Debtors	15,338	22,166	13,857	14,875
Cash and bank balances	61,895	72,201	85,563	94,444
Loans & Advances	18,847	19,760	18,943	20,328
Current liabilities	47,047	54,465	49,553	50,239
Net current assets	51,311	61,832	70,999	81,727
Miscellaneous Exp. Not written off	(4)	0	0	0
<b>Total Assets</b>	<b>448,402</b>	<b>478,345</b>	<b>503,718</b>	<b>532,640</b>
<b>Cash Flows</b>				
Cash flows from Operations	42,389	43,039	45,786	42,734
Cash flows from Investing	(34,220)	(31,084)	(25,873)	(27,694)
Cash flows from Financing	156,121	(1,650)	(6,551)	(6,159)

Key metrics				
	FY10	FY11E	FY12E	FY13E
<b>Growth ratios</b>				
Sales	50.4%	-1.6%	12.9%	7.3%
EBITDA	78.7%	3.8%	-2.8%	8.3%
PAT	83.6%	6.5%	-4.0%	14.2%
<b>Margin ratios</b>				
EBITDA	79.0%	83.4%	71.7%	72.4%
PAT	41.6%	45.0%	38.3%	40.7%
<b>Performance ratios</b>				
RoA	5.3%	5.0%	4.5%	4.9%
RoE	9.7%	8.8%	7.8%	8.2%
RoCE	8.5%	8.5%	8.1%	8.5%
Total Assets Turnover (x)	0.12	0.11	0.12	0.12
Fixed Assets Turnover (x)	0.23	0.24	0.20	0.22
Working capital Turnover (x)	1.02	0.83	0.82	0.76
<b>Financial stability ratios</b>				
Net Debt to Equity (x)	0.38	0.33	0.27	0.23
Current ratio (x)	2.09	2.14	2.43	2.63
Working capital days	358	439	446	479
Inventory & Debtor days	121	170	99	99
Creditor days	324	381	307	290
Interest cover (x)	4.7	5.9	4.7	5.1
<b>Valuation metrics</b>				
Fully Diluted shares (mn)	12,301	12,301	12,301	12,301
Fully diluted M. Cap (Rs.mn)	306,288			
Fully Diluted EPS (Rs.)	1.77	1.88	1.81	2.06
P/E (x)	14.1	13.2	13.8	12.1
EV (Rs.mn)	429,537			
EV/ EBITDA (x)	10.4	10.0	10.3	9.5
BV/ share (Rs.)	18.2	21.3	23.1	25.1
Price to BV (x)	1.4	1.2	1.1	1.0

<b>CMP</b>	<b>Rs. 25</b>	<b>Absolute</b>	<b>Add</b>
<b>Target</b>	<b>Rs. 28</b>	<b>Relative</b>	<b>Underperform</b>

## Absolute Rating Interpretation

<b>BUY</b>	<b>Stock expected to provide positive returns of &gt; 15% over a 1-year horizon</b>
<b>ADD</b>	<b>Stock expected to provide positive returns of &lt;=15% over a 1-year horizon</b>
<b>REDUCE</b>	<b>Stock expected to fall &lt;=15% over a 1-year horizon</b>
<b>SELL</b>	<b>Stock expected to fall &gt;15% over a 1-year horizon</b>

## Relative Rating Interpretation

<b>OUTPERFORM</b>	<b>Stock expected to outperform sector index /sector peers in our coverage</b>
<b>UNDERPERFORM</b>	<b>Stock expected to underperform sector index/ sector peers in our coverage</b>

## Recommendation History

Date	CMP	Target price	Absolute Rating	Relative Rating
21-Feb-11	25	29	BUY	OPF
10-Jan-11	28	38	BUY	OPF
02-Nov-10	31	38		OPF
08-Oct-10	33	38		OPF
23-Aug-10	31	38		OPF

### Analyst Certification

The Research Analyst(s) who prepared the research report hereby certify that the views expressed in this research report accurately reflect the analyst(s) personal views about the subject companies and their securities. The Research Analyst(s) also certify that the Analyst(s) have not been, are not, and will not be receiving direct or indirect compensation for expressing the specific recommendation(s) or view(s) in this report.

### Spark Disclaimer

This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Nothing in this document should be construed as investment or financial advice, and nothing in this document should be construed as an advice to buy or sell or solicitation to buy or sell the securities of companies referred to in this document. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose.

This document does not constitute or form part of any offer for sale or subscription or incitation of any offer to buy or subscribe to any securities. This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. Spark Capital Advisors (India) Private Limited makes no representation or warranty, express or implied, as to the accuracy, completeness or fairness of the information and opinions contained in this document. Spark Capital Advisors (India) Private Limited, its affiliates, and the employees of Spark Capital Advisors (India) Private Limited and its affiliates may, from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. This report has been prepared on the basis of information, which is already available in publicly accessible media or developed through the independent analysis of Spark Capital Advisors (India) Private Limited

Copyright in this document vests exclusively with Spark Capital Advisors (India) Private Limited.