

July 22, 2011

NATIONAL HYDRO POWER CORPORATION LTD.

HOLD

National Hydro Power Corporation Ltd. (NHPCL), a Government of India Enterprise, is the leading organization in hydro power generation in India. Its core activity involves generation and sale of electricity.

- NHPCL is the one of the efficient player in the hydro power generation segment in India. Currently it has an operating capacity of 5GW comprising of 14 power plants including the JVs. NHPCL has generated more units as compared to target set in MoU for FY11. The target generation for FY12 is set at 19bn units and through its operational efficiency and capacity addition, the company is expected to exceed the generation target.
- The company has a steady stream of cash flow as it has PPA for all the power generated with State Electricity Boards (SEB). Thus, there is no risk in future cash flows. Moreover, NHPCL was able to collect 100% payment from its customers.
- NHPCL is planning to add 1GW of generation capacity in FY12. However, due to various issues related to project clearance we have factored a delay of 3 months for these projects. Thus we estimate a capacity addition of 0.6GW against management guidance of 1GW.
- Most plants of the company are based on snow water and hence there is lower risk due to insufficient rainfall. Despite weak rainfall in FY10, total power generation increased by 2% as compared to previous year.
- Recently, on 31 December 2010, the company has formed a JV "Chenab Valley Power Projects" company with Jammu & Kashmir State Power Development Corporation and PTC India, to implement Pakal Dul and other hydroelectric projects with an aggregate install capacity of about 2GW in the Chenab river basin of Jammu & Kashmir.

Based on FY13 consolidated P/E multiple of 15, the fair value per share for the company works out to Rs. 29

Financial Snapshot

Projections (Rs Mn)	FY09A	FY10A	FY11A	FY12E	FY13E
Total Operating Revenue	34,767	52,273	51,437	51,519	65,157
Y-o-Y Growth %		50%	-2%	0%	26%
EBIDTA	23,165	41,301	36,311	36,960	46,743
Y-o-Y Growth %		78%	-12%	2%	26%
Adjusted PAT	11,849	21,756	23,162	17,638	23,396
Y-o-Y Growth %		84%	6%	-24%	33%
EPS Rs	1.0	1.8	1.9	1.4	1.9
BVPS Rs	17	22	23	24	26
EBIDTA %	67%	79%	71%	72%	72%
NPM %	34%	42%	45%	34%	36%
ROE %	6%	8%	8%	6%	7%
PER x				17	13
P/B Ratio				1.03	0.97

Recommendations	<= 1 year	1 - 2 yrs	2 - 5 yrs
Strong Buy			
Buy			
Hold			
Reduce			
Sell			

Strong Buy – Expected Returns > 20% p.a.

Buy – Expected Returns from 10 to 20% p.a.

Hold – Expected Returns from 0% to 10% p.a.

Reduce – Expected Returns from 0% to 10% p.a. with possible downside risk

Sell – Returns < 0%



STOCK DATA

BSE / NSE Code	533098/ NHPCL
Bloomberg Code	NHPCL IN Equity
No. of Shares (Mn)	12,301
Sensex / Nifty	18,502/ 5,567

PRICE DATA

CMP Rs. (20th July '11)	25
Beta	0.8
Market Cap (Rs mn)	305,058
52 Week High-low	34/ 22
Average Daily Volume	1,734,077

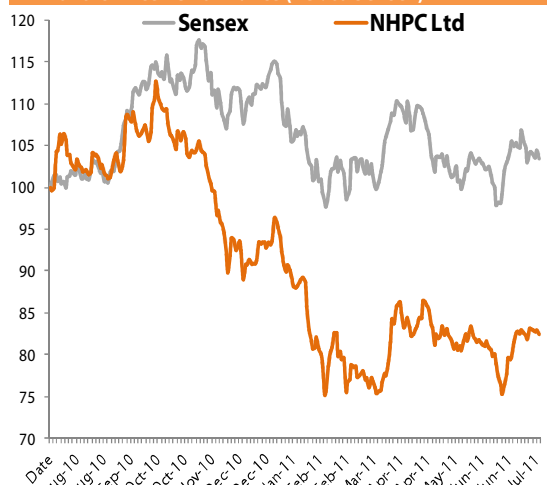
STOCK RETURN (%)

	30D	3M	6M	1Y
NHPCL Ltd	4%	-1%	-7%	-18%
Sensex	6%	-5%	-3%	3%
Nifty	6%	-5%	-3%	4%

SHARE HOLDING PATTERN (%)

Promoter	86
Institutional	4
Non Institutional	9
Total	100

12 Months Price Performance (Rel. to Sensex)

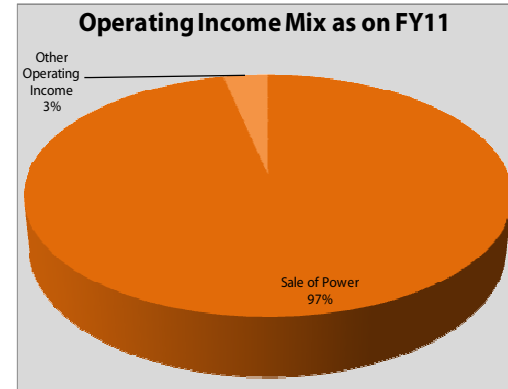


BUSINESS PROFILE

NHPCL is a mini ratna enterprise of the GoI, involved into hydro power generation, hydro project consultancy and project management.

Power Generation and Sales Business: It is India's largest hydro power producer with total 14 operating plant with cumulative capacity of 5GW (including projects under JVs). The company operates two hydro power plants of operating capacity of 1.5GW in joint venture with Madhya Pradesh government under its subsidiary NHDC (Narmada Hydroelectric Development Corporation Ltd). NHPCL's power projects are mainly located in the North and North East of India, in the states of Jammu & Kashmir, Himachal Pradesh, Uttarakhand, Arunachal Pradesh, Assam, Manipur, Sikkim and West Bengal. Through this operating projects, NHPCL generated 19bn units against MoU target of 18bn units in FY11. Historically, the company was able to exceed the target limit set in the MoU. The power stations of NHPCL are very efficient and had achieved Plant Availability Factor (PAF) of 85% against the MoU target of 80 % in FY11. Over the last five years NHPCL has maintained PAF average of 90%.

NHPCL is planning to add a capacity of 5GW by FY16, taking total operating capacity to 10GW by FY16. Besides that, a capacity of another 10GW is awaiting various regulatory clearances. And another capacity of 2GW is under survey and investigation.

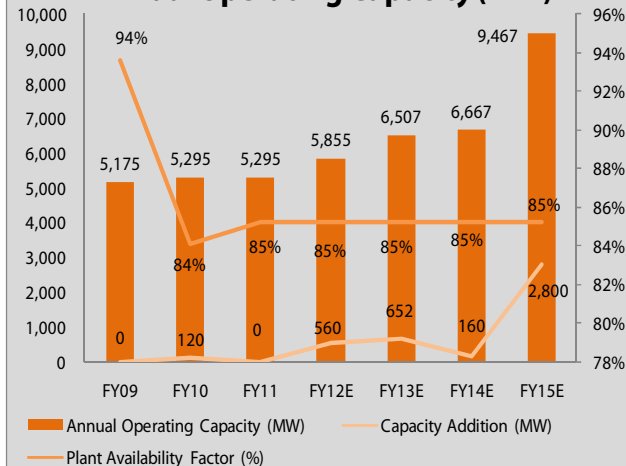


NHPCL has generated 19bn unit of energy against target of 18bn in FY11. For FY12, the generation target is 19bn. Till Q1FY12, it has produced 6bn units

Operating Power Projects as on FY11

Projects	State	Installed Capacity (MW)	Total Capacity (MW)
Bairasiul	Himachal Pradesh	3 x 60	180
Loktak	Manipur	3 x 35	105
Salal	Jammu and Kashmir	6 x 115	690
Tanakpur	Uttarakhand	3 x 40	120
Chamera-I	Himachal Pradesh	3 x 180	540
Uri-I	Jammu and Kashmir	4 x 120	480
Rangit	Sikkim	3 x 20	60
Chamera-II	Himachal Pradesh	3 x 100	300
Dhauliganga	Uttarakhand	4 x 70	280
Dulhasti	Jammu and Kashmir	3 x 130	390
Teesta-V	Sikkim	3 x 170	510
Sewa-II	Jammu and Kashmir	3 x 40	120
Indrasagar	Madhya Pradesh	8 x 125	1,000
Omkarashwar	Madhya Pradesh	8 x 65	520
Total Operating Capacity			5,295

Annual Operating Capacity (MW)



Under Construction Project

Projects	State	Installed Capacity (MW)	Total Capacity (MW)	Expected NHPCL's COD
Parbati - II	Himachal Pradesh	4 x 200	800	Q2FY15
Subansiri (Lower)	Assam	8 x 250	2,000	Q2FY15
Uri-II	Jammu and Kashmir	4 x 60	240	Q4FY12
Chamera-III	Himachal Pradesh	3 x 77	231	Q3FY12
Teesta Low Dam - III	West Bengal	4 x 33	132	Q1FY13
Kishenganga	Jammu and Kashmir	3 x 110	330	Q4FY16
Teesta Low Dam - IV	West Bengal	4 x 40	160	Q4FY13
Parbati - III	Himachal Pradesh	4 x 130	520	Q4FY12
Nimmo-Bazgo	Jammu and Kashmir	3 x 15	45	Q3FY12
0	Jammu and Kashmir	4 x 11	44	Q2FY12
Total Under Construction Capacity			4,502	

For FY12, management has guided to add 1GW to the operating capacity



BUSINESS PROFILE (contd...)

Project Management and Consulting Business: NHPCL also earn a small amount of revenue from hydro power project consulting and project management. These assignments primarily include works pertaining to the Pradhan Mantri Gram Sadak Yojna scheme in connection with the development of rural roads and the Rajiv Gandhi Grameen Vidyutikaran Yojna scheme relating to the establishment of rural electrification infrastructure (especially distribution lines). In FY10, this business generated revenue of Rs. 1bn.

In FY10, the project management and consulting business contributed Rs. 1bn to the total revenues

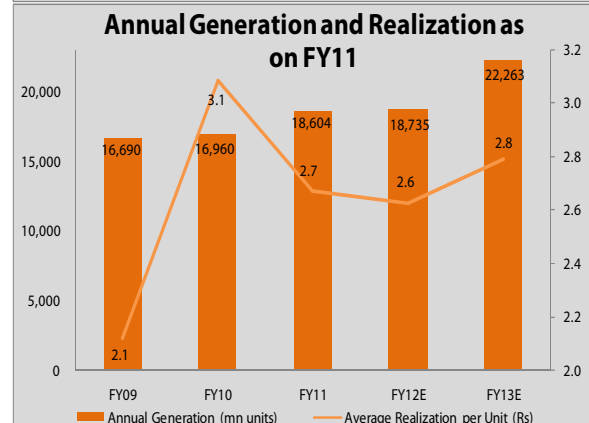
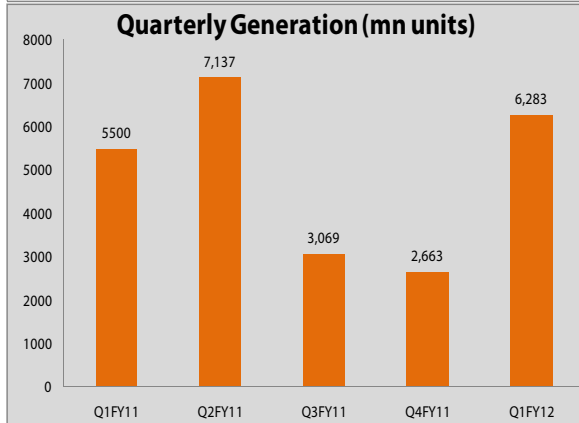
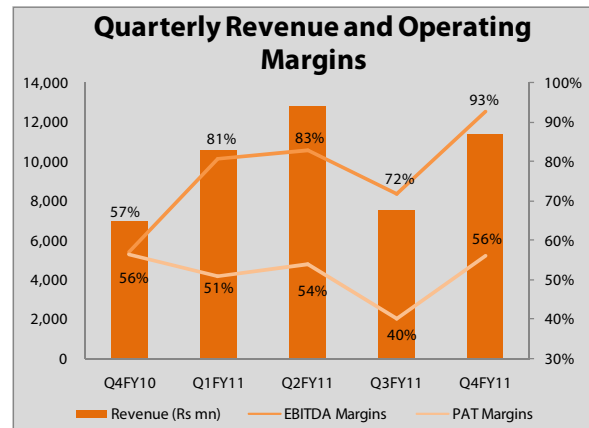
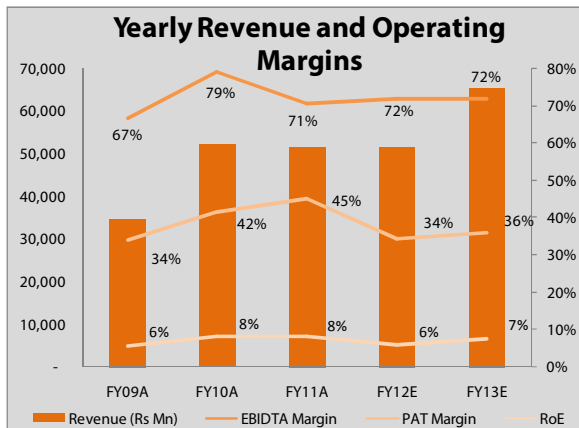
FINANCIAL HIGHLIGHTS: Q4FY11 and FY11

NHPC, the hydro power major, registered 64% Y-o-Y growth in total income and net profit to Rs. 11bn and Rs. 6bn for the quarter ended March 2011. Increase in net sale was basically due the adjustment of the prior period sales of Rs. 6bn. EBITDA stood at Rs. 10bn as against Rs. 4bn, representing an increase of 167% Y-o-Y. EBITDA margin improved to 93% from 57%. Depreciation increased by 11%, interest expenses declined by 5% and other income was lower by 34%. Standalone net profit stood at Rs. 6bn.

In Q4FY11, NHPC generated 3bn units

Yearly standalone revenue stood at Rs. 42bn which was down 1% as compared to previous year. EBITDA was higher by 5% to Rs. 35bn and EBITDA margin expand to 83% from 78%. PAT was up 4% to Rs. 22bn. On a consolidated basis, sales were flat at Rs. 51bn. The EBITDA was higher by 4% to Rs. 43bn and the PBT was higher by 18% to Rs. 33bn. PAT was up 8% to Rs. 25bn. Net profit after minority interest was up 6% to Rs. 23bn.

For FY11, consolidated sales was flat and net profit grew by 6% as compared to previous year



RISK & CONCERNS

- Major concern for NHPCL is the delay in project completion. Average construction period of a hydro plant is 5-7 years, as the project has to pass through various regulatory clearances such as environmental issue, land acquisition, land clearance, local issues etc. Normally this clearance takes around 36 months after which construction work starts. In the past, most of the NHPCL projects are delayed due to these issues. Thus delayed project completion will be negative for NHPCL.
- Hydro power schemes are capital intensive and have long gestation periods. As a result, availability of funds in rising interest scenario has always been a major constraint for exploitation of the vast hydro power potential available in the country.
- As hydro projects have long gestation period, most of CAPEX are stuck in capital work in progress (CWIP) without generating any revenue for years which is reflected in lower return on equity (RoE). As the business of NHPCL is regulated, it is supposed to earn 15.5% RoE as against current rate of 8%. Faster turnaround will be reflected by higher RoE.
- NHPCL derives its whole revenue from SEBs which are in poor financial position; any further deterioration in the financial health of SEBs will adversely affect the cash inflows to the company.
- The amount of power generated by hydropower systems is dependent on available water flow. There may be significant fluctuations in NHPCLs revenues and cash flows due to variations in water flow from season to season, and from year to year, depending on factors such as rainfall, snowfall, snowmelt, other seasonal or climatic conditions and the carrying capacity of the river.
- In India, water is a state subject, and often inter-state river disputes can hamper the progress of hydro projects. In the case of certain projects that are situated in border areas, fragile international relations can also be a cause of concern.

The major concern for NHPCL is getting regulatory clearance which takes around 36 months

Lower RoE is basically due to various projects stuck in CWIP without generating revenue

Any international and interstate river dispute will hamper the progress of hydro projects

SECTOR OUTLOOK

According to the Hydro Power Policy 2008, India has enormous potential for hydroelectric generation, assessed by CEA to be about 84,000 MW at 60% load factor, which translates to 148,700 MW in terms of installed capacity. As on FY11 end only 38GW of the capacity have been harnessed. As India is power deficit country with expected national deficit to be at 10%, power ministry is planning to fast track all the stalled power projects. Also there is concern of coal fuel availability for coming power plants in addition to the environmental concern arising of it. We think major focus of the Govt will be on renewable source of energy especially hydro power, where India has immense potential. The reason behind going for hydro projects are basically lower cost of production, longer life of power plant, economical, non polluting and unaffected by the issues concerning fuel supply, particularly volatile price fluctuation. 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 and are ideal for meeting demand during peak times.

India has hydro electricity generation potential of 84GW

NHPCL has the advantage of strong operating performance and assured off take arrangement

For NHPCL, key competitive advantage is its wide experience and expertise in project implementation. The company has successfully managed the development and implementation of 14 hydroelectric projects. It has a record of successfully completing projects that are located in geo-technically sensitive Himalayan region in logistically difficult areas. Besides this, the company has the advantage of strong operating performance and assured off take arrangement.

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PEERS COMPARISON

Peer Group Comparison

Companies	Revenue (Rs. mn)	EBIDTA Margin (%)	PAT Margin (%)	ROE %	Debt/Equity	P/E (x)	P/B (x)	CMP (Rs.)	FV (Rs.)
NHPC Ltd*	49,650	71%	45%	8%	0.6	13	1	25	10
Jaiprakash Power Ventures Ltd**	7,005	86%	35%	7%	2.0	39	3	45	10

* FY11 Consolidated figures, ** FY10 Consolidated figures

Jaiprakash Power Ventures Ltd (JPVL) is a private player in hydro power sector with operating capacity of 0.7GW. The company is planning to add another capacity of 4GW by FY18. It also has presence in thermal power generation and is expected to add 6GW of capacity by FY14. It is trading at higher multiple because it is expected that 20% of the expected power generation is to be sold as merchant power. Also thermal power plants can be executed fast as compared to hydro power, thus thermal power plants have higher returns as compared to hydro power plant. For thermal projects, the main concern is the fuel security. NHPCL is fully into hydro power and is the efficient hydro power generator having immense experience in building highly complex hydro projects. The is better placed as compared to JPVL because it has a steady stream of cash flows as it supplies power to SEBs and also has better profitability margins and its balance sheet is less leveraged with debt equity ratio of 0.6 as of FY11.

NHPCL has the highest profitability margins in the hydro power segment

As of FY11, debt equity ratio stood at 0.6, and is less leveraged as compared to its peer

VALUATION

In the annual performance review for FY11, NHPCL has guided to add 1GW of operating capacity. But for valuation purpose we have taken a delay of three months for every project. So the expected power addition in FY12 and FY13 are expected to be 203MW and 1770MW respectively. For other projects i.e. under construction, we have also considered a delay of three months. Till FY16, NHPCL is expected to add 5GW of capacity.

Below are the following conservative assumptions which we have taken for forecasting performance. Based on the assumptions we estimate that NHPCL's revenues to grow at 13% CAGR over FY11-13 to Rs. 65bn from Rs. 51bn in FY11. We further estimate that PAT would grow by 1% CAGR over FY11-13 to Rs. 23bn in FY13.

Based on a consolidated FY13 P/E multiple of 15, the fair value per share for the company works out to Rs. 29. Thus we recommend a 'HOLD' rating on the stock.

We estimate that NHPCL's revenues to grow at 13% CAGR and PAT would grow by 1% CAGR over FY11-13

Key Financial Assumptions

Assumptions	FY12E	FY13E
Operating Capacity (MW)	5,855	6,507
Capacity Addition (MW)	560	652
Units Genetated (mn units)	18,735	22,263
Average Capacity Utilization	85%	85%
Realization per Unit (Rs)	2.6	2.8
Tax Rate	24%	24%

Financial Analysis and Projections

Particulars (Rs Mn)	FY09A	FY10A	FY11A	FY12E	FY13E
Total Operating Revenue	34,767	52,273	51,437	51,519	65,157
Operating Expenditure	11,602	10,972	15,126	14,560	18,414
Depreciation	6,441	12,827	11,666	9,310	10,029
EBIT	16,725	28,474	24,645	27,650	36,714
EBIT Margin (%)	48%	54%	48%	54%	56%
Interest Expenses	7,760	7,394	6,709	10,063	9,392
Other Income	5,953	6,473	8,071	7,723	6,250
Profit Before Tax	14,863	27,542	32,572	25,310	33,572
Less: Tax	1,552	4,766	7,945	6,074	8,057
Adjusted PAT	11,849	21,756	23,162	17,638	23,396
PAT Margin (%)	34%	42%	45%	34%	36%
ROE (%)	6%	8%	8%	6%	7%
EPS (Rs)	1.0	1.8	1.9	1.4	1.9
BVPS (Rs)	17	22	23	24	26
Valuation Ratios (x)				FY12E	FY13E
PER x				17.3	13.0
P/B Ratio				1.0	1.0



Board Of Directors

Director Name	Current Position	Description
A. Srivastava	Executive Chairman of the Board, Finance Director, Managing Director	Shri. A. B. L. Srivastava is Executive Chairman of the Board, Finance Director, Managing Director of NHPC Limited. He holds a master's degree in business finance and commerce. He is also a member of the Institute of Chartered Accountants of India. He has served in organisations and has over three decades of experience in the field of finance. He joined Rural Electrification Corporation Limited (REC) in the year 1999 as the Chief (Finance) and was promoted as the General Manager (Finance) in the year 2004. During his tenure at REC, he was closely associated with resource mobilisation, project evaluation as well as its initial public offering. He was also on the board of REC Power Distribution Company Limited, a wholly owned subsidiary of REC. He is also a nominee director on the board of M/s. PTC India Ltd.
D. Bhargava	Director - Technical, Executive Director	Shri. D. P. Bhargava is Director - Technical, Executive Director of NHPC Limited. He holds a bachelor's degree in electrical engineering from the University of Roorkee. He has approximately 31 years of experience in the hydro power sector. While at the Company, he has been involved in the design, construction, testing and commissioning, operation and maintenance of projects/power stations of the Company. He has also worked with Nathpa Jhakri Hydro Power Station of Satluj Jal Vidyut Nigam Limited and was also the Chief Executive Director of the Company's Subsidiary, NHDC. He has also served as the Executive Director (Projects) of the Company. He is currently in charge of activities including design, engineering, contracts, planning, quality assurance, inspection, and operation and maintenance of Power Stations.
Sudhir Kumar	Executive Director - Nominee of Government	Shri. Sudhir Kumar is Executive Director - Nominee of Government. He holds Post-Graduation from Delhi School of Economics, University of Delhi. He was selected for Indian Administrative Service in 1982 and allotted to Bihar Cadre. He joined the Board on October 21, 2009.
R. Mina	Director - Personnel, Executive Director	Shri. R. S. Mina is Director - Personnel, Executive Director of NHPC Limited. He holds a bachelor's degree in electrical engineering from Maulana Azad College of Technology, Bhopal and a master's degree in Business Administration having specialised in Financial Management and Human Resource Development from Indira Gandhi National Open University (IGNOU). He has over 29 years of total work experience including over 28 years in the power sector alone. Apart from handling technical assignments like design, engineering, construction, execution, testing and commissioning of transmission lines and hydro electric projects, he has also headed the Human Resource Development, Corporate Communication, Rajbhasha and Facility Management Divisions. He joined the Board on April 28, 2009. Presently, he is in charge of Human Resource Management, Human Resource Development, Legal, Corporate Communication, Estate and Facility Management Services and Consultancy and Business Development.
J. Sharma	Director - Projects, Executive Director	Shri. J. K. Sharma is Director - Projects, Executive Director of NHPC Limited. He holds a degree in civil engineering from the University of Indore. He is a member of the American Society of Civil Engineers. He is also a fellow of the Institute of Engineers and Chartered Engineers, India. He has over 31 years of experience in the hydro sector infrastructure in India and abroad. Prior to joining the Company, he served as the Director (Civil) in the Satluj Jal Vidyut Nigam Limited. He has published articles on the hydro industry in Indian and international journals. He joined the Board on April 10, 2009. He is currently in charge of construction, survey and investigation of projects of the Company.
R. Taneja	Director of NHDC Ltd	Shri. R. K. Taneja is Director of NHDC Ltd. He is Fellow Member of the Institute of Cost and Work Accountants of India and holds a bachelors degree in science and a bachelors degree in law from Meerut University. He has over 36 years of professional work experience including 16 years of work experience in the power sector alone and has substantial experience in finance and accounts in the PSU sector. He is also a Director on the Board of the Subsidiary, NHDC.
Rakesh Jain	Non-Executive Director	Shri. Rakesh Jain is Non-Executive Director of NHPC Ltd. He holds Masters Degree in physics from Delhi University. He is an officer of Indian Audit & Accounts Service (1981). He is currently the Joint Secretary & Financial Adviser (JS&FA) in the Ministry of Power. He is a Government nominee Director on the Board of Directors of NTPC Limited, Power Finance Corporation Ltd., Power Grid Corporation of India Ltd. and EESL under the Ministry of Power. He joined the Board on September 29, 2009.
K. Dharmarajan	Independent Director	Shri. K. Dharmarajan is Independent Director of NHPC Limited. He holds a bachelor's and masters degree in physics from St. Stephen's College, University of Delhi, and master of science degree in Energy Management and Policy from University of Pennsylvania, USA. A retired member of the Indian Administrative Service, he has 44 years of diverse experience in the fields of energy, finance, administration, trade and commerce, urban governance and poverty. He joined the Board on September 3, 2008
A. Gopalakrishnan	Independent Director	Shri. A. Gopalakrishnan is Independent Director of NHPC Ltd. He is a partner in one of the oldest and reputed firm M/s K. Ventkatachalam Aiyer and Co. Chartered Accountants Head quartered at Thiruvananthapuram. He joined the Board on December 15, 2009.

