

# NHPC (NHPC)

Rs 30.8

## WHAT'S CHANGED...

PRICE TARGET .....From Rs 39 to Rs 33  
 EPS (FY11E) ..... Unchanged  
 EPS (FY12E) ..... Unchanged  
 RATING..... From Strong buy to Add

## PAT higher on other income, major capacity addition only in FY12E ...

NHPC has reported a 3.8% de-growth in topline to Rs 1019.7 crore from Rs 1060.3 crore in Q1FY10 despite a 3.8% increase in volume. The company generated 5661 million units (MU) compared to 5451 MU in Q1FY10. Overall realisations were lower due to the lower tariff from the Uri plant. The EBITDA margin declined from 88.2% to 83.4% due to the ~50% increase in other expenditure. The increase in other expenditure was on account of repairs and maintenance that took place in some of the plants. Depreciation provisioning was higher by 7.6% to Rs 260.5 crore. Other income rose by 111% to Rs 183.7 crore led by the interest from IPO proceeds. Interest costs declined 14.6% to Rs 104.2 crore. Net profit increased by 7% to Rs 537.4 crore led by higher other income.

### Commissions 120 MW Sewa II project

The company has commissioned the 120 MW Seva II plant during the quarter taking its total capacity to 5295 MW. Out of the three units of 40 MW each, one was commissioned in June '10 and the rest two units in July 2010. However, commissioning of Chamera II, Uri II Nimoo Bazoo and Chutak plants have been delayed to FY12E.

### About to sign three projects in Orissa

NHPC is working on setting up three projects in Orissa in a joint venture with the state government. These plants are likely to be set up with a combined capacity of 300 MW at Sindol (Sindol I, II and III) near Dhenkanal.

## Valuation

At the CMP of Rs 30.8, the stock is trading at FY10 P/BV of 1.6x and FY11E P/BV of 1.5x, which makes NHPC attractively valued. With the delay in commissioning of Nimoo Bazoo and Chutak plants to FY12, the growth in earnings is likely to remain subdued. However, considering the company's aggressive capex plans in FY12 and FY13 would result in higher growth in future. We have changed our rating from STRONG BUY to **ADD** with a price target of Rs 33.

### Exhibit 1: Performance highlights (Standalone)

(Rs Crore)	Q1FY11	Q4FY11E	Q1FY10	Q4FY10	QoQ (Chg %)	YoY (Chg %)
Net Sales	1,019.7	854.0	1,060.3	749.8	36.0	-3.8
EBITDA	850.4	675.0	934.8	395.0	115.3	-9.0
EBITDA Margin (%)	83.4	79.0	88.2	52.7	3070 bps	-480 bps
Depreciation	260.5	179.5	258.9	242.1	7.6	0.6
Interest	104.2	129.7	122.0	100.5	3.6	-14.6
Reported PAT	537.4	317.0	502.1	390.2	37.7	7.0
EPS (Rs)	0.4	0.3	0.4	0.3	37.7	-2.9

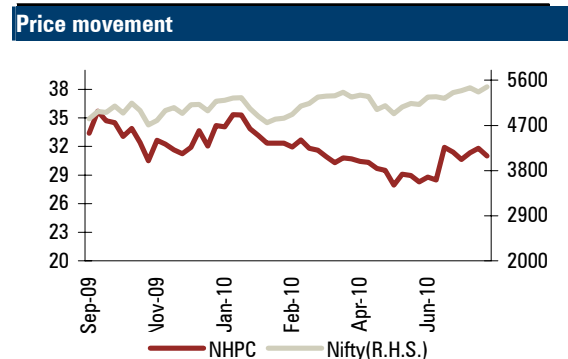
Source: Company, CEA, ICICIdirect.com Research

Rating matrix	
Rating	: <b>Add</b>
Target	: Rs 33
Target Period	: 12 months
Potential Upside	: 7%

Key Financials				
(Rs Crore)	FY09	FY10	FY11E	FY12E
Net Sales	2688.9	4218.9	3351.1	4636.9
EBITDA	1917.1	3332.3	2586.5	3826.4
Net Profit	1111.1	2090.5	1204.5	1520.6

Valuation summary				
	FY09	FY10	FY11E	FY12E
PE (x)	34.2	18.2	31.5	25.0
Target PE (x)	43.2	22.9	39.8	31.5
EV/EBITDA (x)	26.2	15.1	19.4	13.1
P/BV (x)	2.1	1.6	1.6	1.5
RoNW (%)	6.4	10.2	5.1	6.2
RoCE (%)	4.9	6.9	3.9	5.9

Stock data	
Market Capitalisation	Rs 37948 Crore
Debt (FY09)	Rs 14931 Crore
Cash (FY09)	Rs 2606 Crore
EV	Rs 50273 Crore
52 week H/L	42/28
Equity capital	Rs 12301 Crore
Face value	Rs 10
MF Holding (%)	0.8
FII Holding (%)	1.3



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**Exhibit 2: Project wise capex details**

Project	Capacity (MW)	State Code	Total Capex (Rs Cr)	Already	% of capex	Expected CoD -	
				incurred till June 10	already incurred	Mgmt guidance	Expected CoD Our estimates
Sewa - II	120.0	J&K	1064.0	961	90%	FY11	Jun-10
Uri II	240.0	J&K	1705.0	1084	64%	FY11	Q1FY12
Chamera III	231.0	HP	1944.0	1154	59%	FY11	Q1FY12
Nimoo Bazgo	45.0	J&K	903.0	443	49%	FY11	Q1FY12
Chutak	44.0	J&K	980.0	413	42%	FY11	Q1FY12
Teesta Low III	132.0	AP	1400.0	1100	79%	FY11	Q1FY12
Parbati III	520.0	HP	2096.0	993	47%	FY12	Q2FY12
Teesta Low IV	160.0	WB	1794.0	NA	NA	FY12	Q1FY13
Subansiri lower	2000.0	AP	8155.0	3973	49%	FY 12-13	Q1FY13
Parbati II	800.0	HP	4080.0	2444	60%	FY13	Q1FY13
<b>Total</b>	<b>4292.0</b>		<b>24121.0</b>	<b>12565.0</b>	<b>52%</b>		

Source: Company, CEA, ICICIdirect.com Research

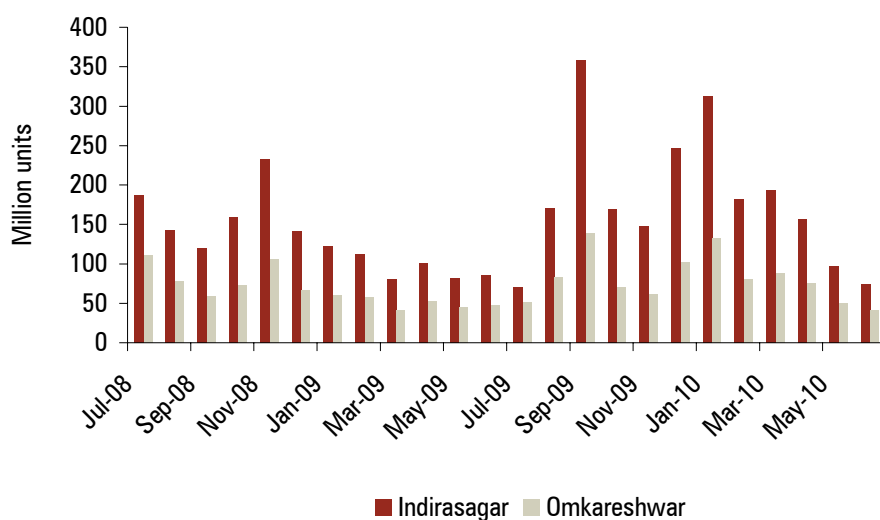
The company spent Rs 12565 crore till June 2010 on capex

**Exhibit 3: Expected project completion date**

Plant	Type of Plant	Capacity		Project Cost	State
		(MW)	Expected CoD		
Uri II	Pondage	240	May-11	1583.4	J&K
Chamera III	Pondage	231	May-11	1727.6	HP
Teesta Low Dam IV	Pondage	160	Mar-12	1307.0	WB
Nimoo Bazgo	ROR	45	May-11	908.6	J&K
Parbati III	ROR	520	Sep-11	2095.7	HP
Chutak hydroelectric	ROR	44	Jul-11	953.8	J&K
Subansiri lower	ROR	2,000	Mar-13	7970.9	AP
Sewa II	ROR	120	Jul-10	1016.1	J&K
Teesta Low Dam III	Pondage	132	Apr-11	1407.5	WB
Parbati II	ROR	800	Mar-13	4321.6	HP
Kishanganga	Pondage	330	Mar-17	3642.0	J&K
<b>Total Capacity</b>		<b>4,622</b>		<b>26,934.3</b>	

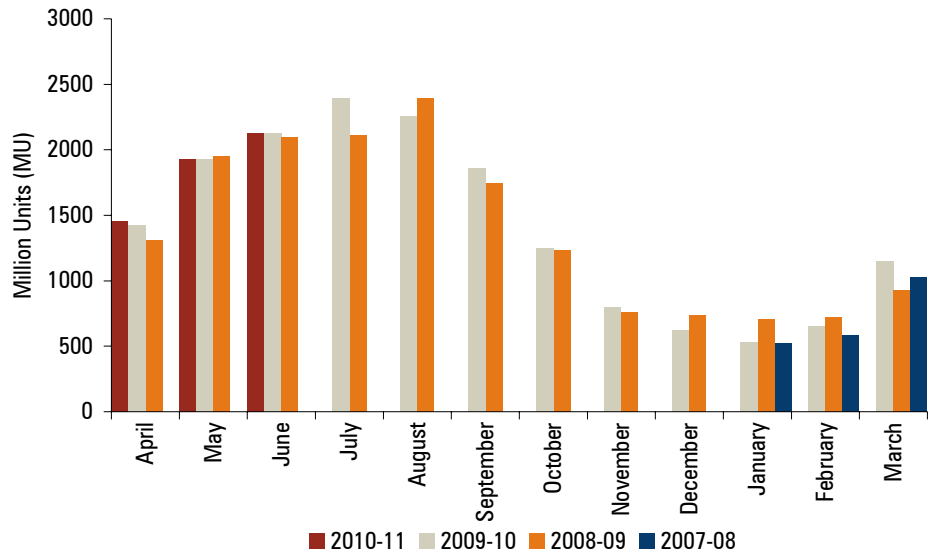
Source: Company, CEA, ICICIdirect.com Research

Capacity addition of ~1492 MW in FY12E assuming no further delays

**Exhibit 4: Monthly generation in NHDC (NHPC has 51% stake)**


Source: Company, CEA, ICICIdirect.com Research

**Exhibit 5: Monthly generation (standalone)**



In Q1FY11, the generation stood at 5661 MUs, growth of 3.8% YoY

Source: Company, CEA, ICICIdirect.com Research

**Outlook and valuations**

NHPC commissioned the 120 MW Seva project in June-July 2010. The total current capacity stands at 5292 MW. We do not expect any further capacity addition in FY11E (no upside on the earnings front). However, capacity addition of ~1492 MW is expected to be commissioned in FY12E (assuming no further delays).

At the CMP of Rs 30.8, the stock is trading at FY10 P/BV of 1.6x and FY11E PB of 1.5x, which makes NHPC attractively valued. With the delay in commissioning of Nimoo Bazoo and Chutak plants to FY12, the growth in earnings is likely to remain subdued. However, considering the company’s aggressive capex plans in FY12 and FY13 would result in higher growth in future. Hence, we have changed our rating from STRONG BUY to **ADD** with a price target of Rs 33.

## Exhibit 6: ICICIdirect.com Coverage universe

					Sales (Rs cr)	EPS (Rs)	PE (x)	EV/E (x)	PB (x)	RoNW (%)	RoCE (%)
<b>NTPC</b>											
<b>Idirect Code</b>	<b>NTPC</b>	<b>CMP</b>	<b>199</b>	<b>FY10</b>	48,256.4	10.7	18.6	14.2	2.6	14.5	13.3
		<b>Target</b>	<b>241</b>	<b>FY11E</b>	53,789.6	10.9	18.3	12.6	2.4	13.8	12.2
<b>Mcap(Rs cr)</b>	<b>167,382.9</b>	<b>% Upside</b>	<b>21.1</b>	<b>FY12E</b>	62,559.9	12.3	16.1	12.3	2.2	14.3	12.2
<b>Lanco Infratech</b>											
<b>Idirect Code</b>	<b>LANINF</b>	<b>CMP</b>	<b>70</b>	<b>FY10</b>	8,114.9	3.2	21.7	13.9	4.5	27.3	17.5
		<b>Target</b>	<b>70</b>	<b>FY11E</b>	14,264.2	5.5	12.8	6.8	3.4	31.5	27.9
<b>Mcap(Rs cr)</b>	<b>3,175.8</b>	<b>% Upside</b>	<b>0.3</b>	<b>FY12E</b>	16,178.2	5.8	12.2	5.9	2.7	25.7	12.1
<b>Neyveli Lignite</b>											
<b>Idirect Code</b>	<b>NEYLIG</b>	<b>CMP</b>	<b>157</b>	<b>FY10</b>	4,121.0	7.4	21.1	16.3	2.4	12.6	7.5
		<b>Target</b>	<b>151</b>	<b>FY11E</b>	4,797.5	8.8	17.9	12.8	2.2	13.7	8.9
<b>Mcap(Rs cr)</b>	<b>26,340.0</b>	<b>% Upside</b>	<b>(4.0)</b>	<b>FY12E</b>	5,194.6	8.7	18.1	12.2	2.0	12.5	8.3
<b>PTC</b>											
<b>Idirect Code</b>	<b>POWTRA</b>	<b>CMP</b>	<b>114</b>	<b>FY10</b>	7,770.3	3.2	25.6	14.5	1.6	5.1	7.2
		<b>Target</b>	<b>132</b>	<b>FY11E</b>	9,976.3	4.4	18.7	9.4	1.5	6.0	8.3
<b>Mcap(Rs cr)</b>	<b>3,293.8</b>	<b>% Upside</b>	<b>15.8</b>	<b>FY12E</b>	10,701.4	7.1	11.6	4.2	1.4	9.3	12.9
<b>NHPC</b>											
<b>Idirect Code</b>	<b>NHPC</b>	<b>CMP</b>	<b>31</b>	<b>FY10</b>	4,332.0	1.7	18.2	12.5	1.6	10.2	6.9
		<b>Target</b>	<b>33</b>	<b>FY11E</b>	3,653.6	1.0	30.8	15.7	1.5	5.3	4.3
<b>Mcap(Rs cr)</b>	<b>36,902.2</b>	<b>% Upside</b>	<b>6.5</b>	<b>FY12E</b>	4,898.1	1.2	25.1	11.8	1.5	6.3	6.0
<b>JP Power</b>											
<b>Idirect Code</b>	<b>JAIHYD</b>	<b>CMP</b>	<b>69</b>	<b>FY10</b>	649.6	1.2	60.0	32.3	4.6	7.4	8.4
		<b>Target</b>	<b>72</b>	<b>FY11E</b>	711.7	4.1	17.0	31.5	4.3	6.5	4.3
<b>Mcap(Rs cr)</b>	<b>15403.2</b>	<b>% Upside</b>	<b>4.8</b>	<b>FY12E</b>	2394.2	4.7	14.7	9.5	3.7	13.2	10.5

Source: Company, ICICIdirect.com Research

## RATING RATIONALE

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 Add: Up to 10%;  
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