

SJVN Ltd: Harnessing Water Power

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SJVN is India's largest Hydropower generator. SJVN Ltd was incorporated on May 24, 1988 as a joint venture of the Government of India (GOI) and the Government of Himachal Pradesh (GOHP) to plan, investigate, organize, execute, operate and maintain Hydro-electric power projects. It was formerly known as Nathpa Jhakri Power Corporation Limited, The Nathpa Jhakri Hydro – Electric Power Station– NJHPS (1500 MW) was its first project undertaken. Besides funding from the World Bank, SJVN has also been financed as loan by a Consortium of European Banks, the Power Finance Corporation (PFC) and other domestic commercial banks. The present authorized share capital of SJVN is Rs 7000 crores.

Out of the total energy generated at SJVN's main station, 12% is supplied free of cost to the home state i.e. Himachal Pradesh. Of the remaining 88% energy generation, 25% is supplied to HP. Balance power has been allocated to the beneficiary states / UTs of Northern Region by Ministry of Power, Government of India.

Stock data (06 Nov 2010)	BSE
Share Price (Rs.)	24.7
No. Of Shares (Million Nos.)	4136
Market Cap (Rs million)	102170
52 week high/low (Rs.)	28.0/20.0
Average Volume (2 week)	304,000

Source: BSE

Shareholding Pattern

The shareholding pattern as on 30th Sep 2010 is as follows:

1. Promoter Group – 89.97%
2. FII – 1.12%
3. DII – 2.95%
4. Rest of the public – 5.96%

Key Milestones

The key milestones achieved by the company are given in the table below:

Timeline	Milestone / Event
2008-10	<ul style="list-style-type: none"> • Grant of Mini Ratna Category I status to the Company; • Upgradation of the Company from Schedule B to Schedule A Central Public Sector Enterprise; • MoU signed for Arun - III HEP with Government of Nepal; • MoU signed between GoHP and the Company for the implementation of Luhri HEP; and MoU signed for the execution of Dhaulasidh HEP with GoHP. • Change of status of Company from private limited company to public limited Company; • Enhancement of authorised share capital of Company from Rs.45,000 million to Rs. 70,000 million; • Sub division of face value of equity shares from Rs.1,000 per equity share to Rs. 10 per equity share • For the first time in the operating history of the NJHPS, 7017.55 million units were generated in the Fiscal 2010 • Came out with IPO in April 2010

2000-07	<ul style="list-style-type: none"> Commercial generation of units for NJHEP GoHP allocated Luhri Hydro Electric Project to the Company for preparation of detailed project report Implementation agreement signed with GoHP for RHEP. DPR cleared by CEA for RHEP Agreement signed with Government of Uttarakhand for execution of Devsari HEP (300 MW), Naitwar Mori HEP Public Investment Board clearance for RHEP. CCEA clearance for RHEP
1988-2000	<ul style="list-style-type: none"> Incorporation of the Company Company took over the execution of NJHEP from HPSEB Enhancement of authorised share capital of Company from Rs.10,000 million to Rs. 22,000 million. Enhancement of authorised share capital of Company from Rs.22,000 million to Rs. 45,000 million.

Source: Company

Brief Financials

(in cr.)	FY06	FY07	FY08	FY09	FY10	CAGR (%)
Operating income	1062.0	1409.0	1250.0	1759.0	1753.0	13.3%
<i>Growth %</i>		32.7%	-11.3%	40.7%	-0.3%	
Cost of sales	125.0	138.0	102.0	163.6	159.2	6.2%
<i>Growth %</i>		10.4%	26.1%	60.4%	-2.7%	
Operating profits	937.0	1271.0	1148.0	1595.4	1593.8	14.2%
<i>Operating margins%</i>	88.2%	90.2%	91.8%	90.7%	90.9%	
Net profit	585.0	649.0	764.0	1015.0	972.0	13.5%
<i>Growth %</i>		11%	18%	33%	-4%	
<i>Net margins %</i>	55.1%	46.1%	61.1%	57.7%	55.4%	
Shareholders' Equity	4882.0	5259.0	5405.0	6046.0	6636.0	8.0%
EPS	1.4	1.6	1.9	2.5	2.4	13.7%
DPS	0.38	0.57	0.59	0.78	0.79	20.1%
<i>Dividend payout %</i>	26.8%	36.1%	31.7%	31.6%	33.3%	
Debt	3082.0	2524.0	2019.0	2141.0	1681.0	-14.1%
Return on Capital (%)	7.3%	8.3%	10.3%	12.4%	11.7%	
ROE (%)	12.0%	12.3%	14.1%	16.8%	14.6%	

Source: Religare Technova Database

- Net sales of the company have increased by 13% CAGR since 2006 while its net profits have also grown by 13% CAGR during the same period. In FY10, the net sales were flat due to non-commissioning of projects in FY0910. The net profit margin of the company is ~55% in FY10 and is one of the best in this industry.
- On the balance sheet front, the company has reduced its debt levels substantially and now has healthy financial position.
- The company has improved its returns on equity by managing operations efficiently. ROE has improved from 12% in FY06 to almost 15% in FY10. SJVN is also consistently dividend payer and has almost 33% as its payout ratio. The dividend yield at current market price stands at 3.3% which is quite decent for the utility company.

Future developments

SJVN is currently constructing the 412 MW Rampur Hydro Electric Project in the state of Himachal Pradesh. It is also implementing three hydro projects 252 MW Devsari, 60 MW Naitwar Mori and 51 MW Jakhol Sankri) in the state of Uttarakhand. Further, SJVN has also been allocated Luhri Hydro Electric Project 775 MW and Dhaulasidh HEP 66 MW in the state of Himachal Pradesh for preparation of Detailed Project Report and subsequent execution. Further, SJVN is entering into a Joint Venture for the implementation of 1500 MW

Tipaimukh HE Project in Manipur with an equity participation to the extent of 26%.

The company has now gone across the borders and has bagged a 900 MW hydroelectric project in Nepal, "Arun III" through, competitive bidding. In addition, the corporation has also been assigned the task of updating/preparing DPRs of two Hydro Electric Projects 900 MW Wangchu HE Project and 486 MW Kholongchu HE Project in Bhutan by Govt. of India.

SJVN proposes to add 5000 MW additional capacity by 2014-15. This would require an additional investment of about Rs. 29,000 Crores to be met mainly from internal accruals and loans from domestic /multi literal funding agencies.

To achieve the target of setting up of additional 5000 MW SJVN is exploring the possibilities of taking up new projects in Himachal Pradesh, Arunachal Pradesh, Nepal and Bhutan.

Moreover, the Company is set to gain from the revised CERC tariff where the guaranteed rate of return on equity (RoE) is set at 15.5% as against 14% under the previous regime.

Risk and concerns

Dependence on single project - SJVNL has only one project which is in the operation. The Rampur project is expected to commission by Sept 2013. Other operational hazards are due to technical difficulties, low water flow and occurrence of any natural calamities like floods etc will hamper the operations and could impact the financials strongly.

Implementation and execution of the projects - Hydropower projects have long gestation periods due to the process involved in commissioning power projects. The timely execution of the projects is very important for avoiding cost overrun and generating revenues.

Valuation and recommendation

Like most of the PSU's, SJVN also has strong and stable balance sheet. It has cash balances of Rs.1500 crores and has 0.25 x debt / equity ratio. It is also a consistent dividend payer, has yield of 3.3%, and has decent ROE of 15%. With generation projects getting executed over the next 3-4 years, the company has better revenue visibility –thereby adding to the bottomline.

While SJVN is quoting a PE 10x and P/B of 1.5x, its nearest competitor NHPC (it is also a government owned company) has a PE of 18x and P/B of 1.5x on FY10 numbers. The strong government backing, improving ROE, consistent dividends, and good prospects makes this stock an attractive BUY.

Company	P/E	P/BV
NHPC	18.5	1.5
JSW Energy	24.1	3.8
Adani Power	180	5.7
SJVN	10.5	1.6

Source: Company/BSE

For more information, please contact vneditor@valuenotes.com

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The author does not hold positions in the stock.