



NHPC

6 August 2009

Bloomberg: N.A.

IPO Price Band: **Rs30-36**

IPO KEY DETAILS

Issue Size (m shares)	1,677
IPO Size (Rs b)	50.3-60.4
IPO Band	Rs30-36/sh
Face Value (Rs)	10 each
Issue Opens	7 August 2009
Issue Closes	12 August 2009
Post-issue Equity (m shares)	12,860

POST ISSUE MARKET CAP (RS B)

At a price band of Rs30/sh	386
At a price band of Rs36/sh	463

POST ISSUE SHARE HOLDING PATTERN (%)

Government of India	86
Fresh issue	9
Offer for sale by Gol	5

FINANCIAL SUMMARY (RS B)

	FY09	FY10E	FY11E
Revenue	34.4	51.5	61.2
EBITDA	24.8	40.8	47.5
PAT (Reported)	12.4	18.0	21.0
PAT (Adjusted)	16.6	18.0	21.0

* Adjusted for tariff under-recovery on Dulhasti project and one-off.

COMPARATIVE VALUATIONS

	FY10E	FY11E
P/E (x)		
NHPC*	18.7-22.4	16.0-19.2
NTPC	21.8	20.8
Powergrid	25.3	21.1
P/BV (x)		
NHPC*	1.8-2.0	1.6-1.9
NTPC	2.8	2.6
Powergrid	3.2	2.9
RoE (%)		
NHPC	9.1	9.9
NTPC	14.3	14.7
Powergrid	13.0	14.2
EV/EBITDA (x)		
NHPC*	11.9-13.5	10.2-11.6
NTPC	17.1	12.2
Powergrid	12.2	10.9

*At price band of Rs30-36/share

National Hydro Power Corporation (NHPC) is coming out with a public issue of 1,677m shares, which represents 13.6% of its post-issue paid-up capital. The price band has been fixed at Rs30-36/share, implying post-money valuation of Rs386b-463b. At the indicated price band, the IPO will raise Rs50.3b-60.4b.

Key issues to focus on

#1. Back-ended capacity addition: Of the planned capacity addition of 4.3GW over FY10-13, 2.8GW is expected to be commissioned in FY13, which increases earnings risks due to execution delays.

#2: Hydropower projects are prone to execution delays, given large R/R issues, geological surprises. Also, Arunachal Pradesh accounts for 47% of projects under construction, 65% of the projects awaiting sanctions, and 70% of projects under survey and investigation stage, which exposes the company to project execution risks, given the difficult terrains.

#3: Stated project costs are approved costs, actual could be higher: Approved project cost for projects under construction stands at Rs45m/MW, while normative costs currently stand at Rs60m-80m/MW. Upward revision of costs also exposes the company to regulatory risks, as the regulator may disallow a part of increased costs, impacting project return and RoE.

#4: Hydropower projects have large CWIP, which lowers base RoE: Capital work in progress as a percentage of gross block stood at 33% in FY09, and is expected at 46% in FY10. Higher CWIP is largely due to longer construction time period of 5-7 years for hydropower v/s 3-4 years for thermal projects.

#5: FY09 reported RoE at 6.8%, adjusted RoE at 9%: Reported FY09 RoE for NHPC stands at 6.8% and is lower due to: (1) lower recovery of fixed charges for Dulhasti project at Rs3/unit (v/s Rs4.9/unit on normative basis), and (2) adjustments of Rs2.5b pertaining to Sixth Pay Commission arrears, tariff arrears, actuarial gratuity, etc, adjusted for which FY09 RoE stands at 9%.

#6: Net profit (adjusted) CAGR of 15% over FY09-13E, driven by project commissioning; reported earnings CAGR higher at 23% given that FY09 reported profits include several one-offs and adjustments. We expect reported RoE to improve from 6.8% in FY09 to 11.6% in FY13.

#7: Equity commitments for identified projects largely met: IPO proceeds could possibly be utilized towards cost over-runs on existing projects, general purposes.

Issue details

National Hydro Power Corporation (NHPC) is coming out with a public issue of 1,677m shares (face value of Rs10), which represent 13.6% of the post-issue paid up capital of the company (Rs129b). The price band of Rs30-36/share implies post-money valuation of Rs386b-463b. At the indicated IPO price band, the IPO will raise Rs50.3b-60.4b. The issue opens for subscription on 7 August 2009 and closes on 12 August 2009.

ISSUE DETAILS (M SHARES)

Pre-issue paid up capital	11,182
Add: Fresh Issue	1,118
Add: Offer for sale by Gol	559
Post Issue paid up capital	12,860
Dilution (%)	
Pre issue capital	15.0
Post issue capital	13.6
Issue opens on	7-Aug-09
Issue closes on	12-Aug-09
Post money equity valuations (Rs b)	
At Rs30/sh	386
At Rs36/sh	463
Issue Size (Rs b)	
At Rs30/sh	50.3
At Rs36/sh	60.4

Source: RHP

The proposed issue comprises of fresh issue of shares of 1,118m shares, while 559m represents offer for sale by Government of India. Thus, the net issue proceeds for the company would be Rs34b at the lower end of the price band (Rs30/share) and Rs40b at the upper end (Rs36/share). Post-issue, the holding of Government of India will be 86%.

NHPC: PRE-ISSUE AND POST-ISSUE SHAREHOLDING PATTERN (M SHARES)

PROMOTERS	PRE-ISSUE		POST-ISSUE	
	EQ. SHARES (M)	%	EQ. SHARES (M)	%
Government of India	11,182	100	10,623	86
Fresh Issue	-	-	1,118	9
Offer for Sale by Gol	-	-	559	5
Total	11,182	100	12,301	100

Source: RHP

OBJECTS OF ISSUE (RS M)

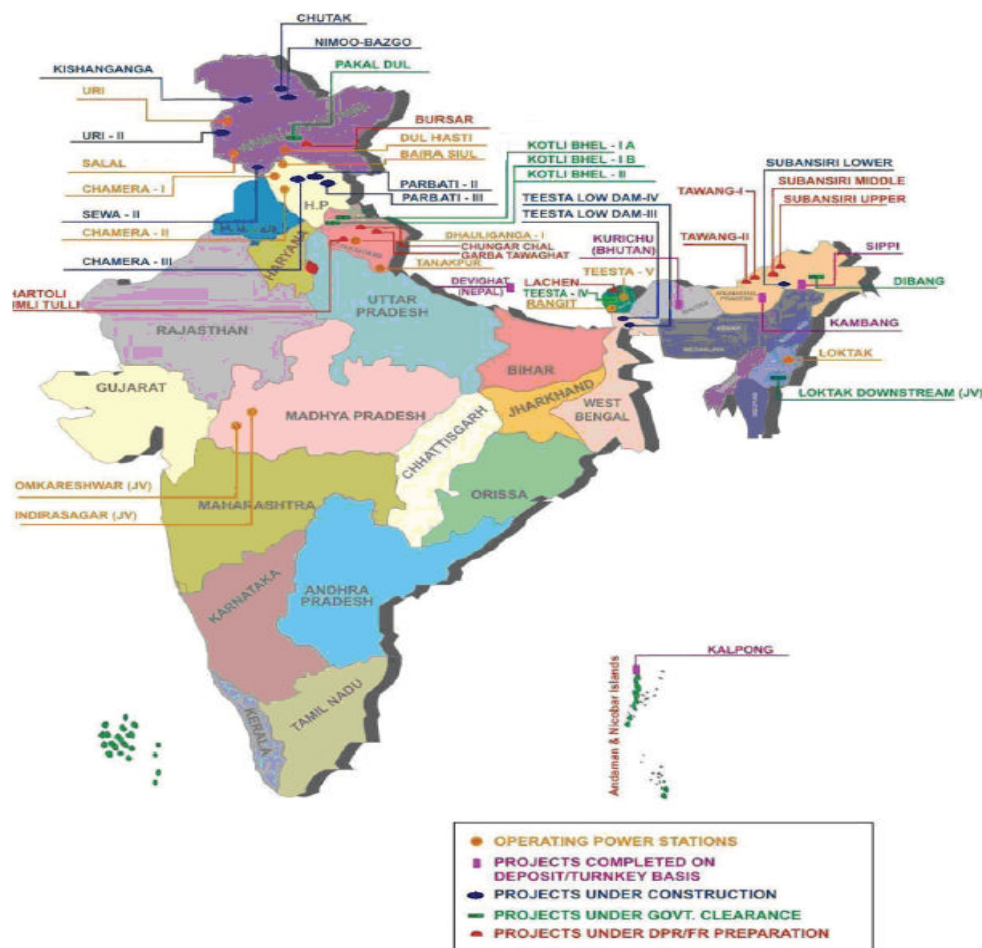
PROJECT	CAPACITY (MW)	APPROVED COST FUNDED AS					AMOUNT DEPLOYED			BALANCE REQ.	
		APPROVED COST	DEBT	GOI DEBT	EQUITY	DEPLOYED JUN-09	DEBT	GOI INTERNAL EQUITY	ACCUALS	DEBT	EQUITY
Subansiri Lower	2,000	62,853	43,997	-	18,856	31,706	7,284	14,481	9,940	36,713	(5,565)
Uri II	240	17,248	12,074	-	5,174	8,389	2,308	1,362	4,719	9,766	(906)
Chamera III	231	14,056	9,839	-	4,217	8,679	2,785	1,736	4,158	7,054	(1,677)
Parbati III	520	23,046	16,132	-	6,914	7,555	3,115	1,307	3,133	13,017	2,474
Nimmo Bazgo	45	6,110	1,578	2,700	1,832	2,866	848	529	1,489	3,430	(186)
Chutak	44	6,213	709	3,640	1,864	2,621	700	420	1,502	3,649	(58)
Teesta Low Dam IV	160	10,613	7,430	-	3,183	5,171	3,460	765	946	3,970	1,472
Total	3,240	140,139	91,759	6,340	42,040	66,987	20,500	20,600	25,886	77,599	(4,446)

Source: RHP

Project profile: 5.2GW operational; 4.3GW under implementation

NHPC’s operational capacity as of March 2009 stands at 5.2GW, and is expected to increase to 9.5GW by FY13 – capacity addition CAGR of 16.3%. Of the planned capacity addition of 4.3GW by FY13, 2.8GW of projects are expected for commissioning in FY13 (comprising of Subansiri Lower project of 2GW and Parbati II of 800MW), representing 65% of the capacity under development.

NHPC: PROJECT LOCATION MAP



Majority of projects by NHPC are located in the North and North Eastern part of the country

Source: RHP

PROJECTS UNDER CONSTRUCTION OF 4.3GW, TO BE COMMISSIONED BY FY13

NAME OF PROJECT	STATE	CAPACITY (MW)	COD (CCEA)	COD (NHPC)
Parbati II	Himachal Pradesh	800	-	Mar-13
Sewa II	J&K	120	-	Dec-09
Teesta Low Dam III	West Bengal	132	-	Feb-11
Subansiri Lower	Arunachal Pradesh	2,000	Sep-10	Dec-12
Uri II	J&K	240	Nov-09	Feb-11
Chamera III	Himachal Pradesh	231	Aug-10	Same
Parbati III	Himachal Pradesh	520	Nov-10	Same
Nimmo Bazgo	J&K	45	Aug-10	Same
Chutak	J&K	44	Feb-11	Same
Teesta Low Dam IV	West Bengal	160	Sep-09	Aug-11
Total		4,292		

Source: RHP

Projects in the pipeline are still at a preliminary stage, given that MoEF clearance is pending for 4.6GW of projects, while 2.1GW of projects are still under initial approval stages from the government. This indicates that substantial part of the land acquisition will happen over the next 1-3 years

PROJECT PIPELINE OF 6.7GW AWAITING SANCTIONS

PROJECTS	STATE	CAP (MW)	REMARKS
Kotli Bhel IA	Uttarakhand	195	Yet to receive forest and MoEF Clearance
Kotli Bhel IB	Uttarakhand	320	Yet to receive forest and MoEF Clearance
Kotli Bhel II	Uttarakhand	530	Yet to receive forest and MoEF Clearance
Dibang	Arunachal Pradesh	3,000	Yet to receive forest, MoEF and State Pollution Board clearance
Teesta IV	Sikkim	520	
Total		4,565	
JV Projects			
Loktak Downstream	Manipur	66	
Pakal Dul and other hydroelectric projects in the Chenab River Basin *	J&K	2,100	Supreme Court approval required as located at Kishtwar high Altitude National Park
Total		6,731	

Source: RHP

NHPC has identified projects with cumulative capacity of 7.3GW, which are still at MoU stages and have been signed in 2005-06 (except 1GW Bursar project). The DPRs for these projects are under preparation.

IDENTIFIED PROJECTS (UNDER SURVEY AND INVESTIGATION) AT 7.3GW, LARGELY AT MOU STAGE

	STATE	TYPE	CAPACITY (MW)	REMARKS
Bursar	J&K	Storage	1,020	MOU signed on July 20, 2000
Karmoli Lumti Tulli	Uttarakhand	RoR	55	MOA signed on November 21, 2005
Garba Tawaghat	Uttarakhand	RoR	630	MOA signed on November 21, 2005
Chungar Chal	Uttarakhand	RoR	240	MOA signed on November 21, 2005
Lachen	Sikkim	RoR	210	MOA signed on March 1, 2006
Tawang I	Arunachal Pradesh	RoR	750	MOA signed on September 21, 2006
Tawang II	Arunachal Pradesh	RoR	750	MOA signed on September 9, 2006
Subansiri (Middle)	Arunachal Pradesh	RoR	1,600	Under consideration of National Board for wildlife
Subansiri (Upper)	Arunachal Pradesh	RoR	2,000	Under consideration of National Board for wildlife
Total			7,255	

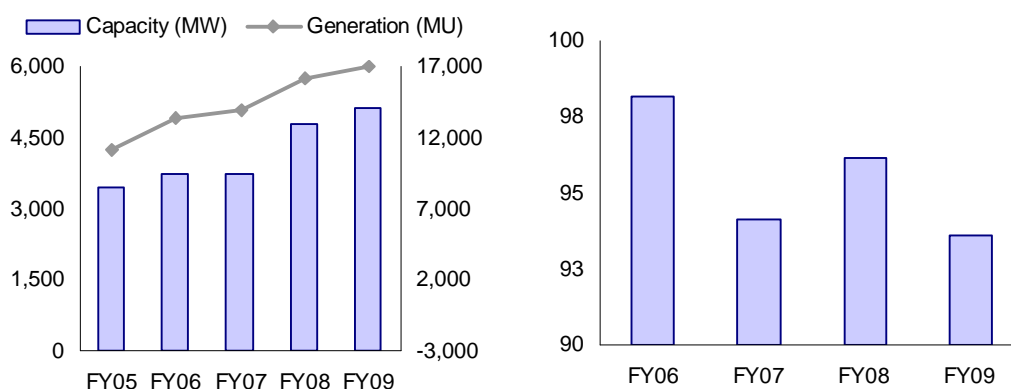
Source: RHP

OPERATIONAL POWER PROJECT PORTFOLIO BEING MANAGED EFFICIENTLY

NHPC: CAPACITY (MW) & GENERATION (MU)

AVERAGE CAPACITY INDEX (%)

NHPC has been consistently managing capacity index of over 90%, indicating efficient operations of the project under operations. This also enables the company to earn efficiency incentives



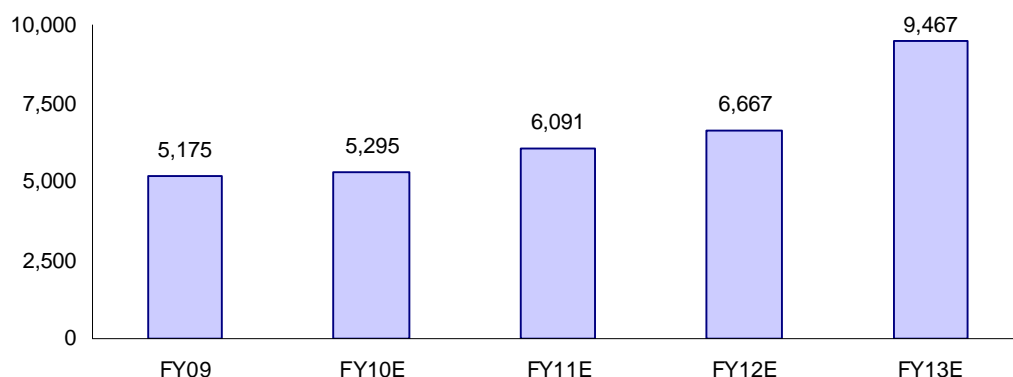
Source: RHP

Key issues to focus on

#1. Back-ended capacity addition to result in lower near-term earnings CAGR

TREND IN CAPACITY ADDITIONS (MW)

Of the planned capacity addition of 4.3GW over FY10-13, 2.8GW is expected to be commissioned in FY13, which will lead to muted near-term earnings and lower RoE



Source: RHP

#2: Hydropower projects are prone to execution delays, given large R/R issues, geological surprises

DELAYS IN PROJECT COMMISSIONING

Key projects of NHPC under implementation have meaningful delays given project complexity in terms of difficult terrains, R/R issues, geological surprises, etc

NAME OF PROJECT	STATE	UNITS	CAPACITY (MW)	COD (CCEA)	COD (NHPC)
Subansiri Lower	Arunachal Pradesh	8x250	2,000	Sep-10	Dec-12
Uri II	J&K	4x60	240	Nov-09	Feb-11
Teesta Low Dam IV	West Bengal	4x40	160	Sep-09	Aug-11
Chamera III	Himachal Pradesh	3x77	231	Aug-10	Same
Parbati III	Himachal Pradesh	4x130	520	Nov-10	Same
Nimmo Bazgo	J&K	3x15	45	Aug-10	Same
Chutak	J&K	4x11	44	Feb-11	Same
Total			3,240		

Source: RHP

Subansiri Lower project (2GW) has been delayed, as the project is located on disputed border between Arunachal Pradesh and Assam; Uri II and Teesta Low dam IV delayed due to pending clearances, land acquisition and rehabilitation issues. Also, Arunachal Pradesh accounts for 47% of projects under construction, 65% of the projects awaiting sanctions and 70% of projects under survey and investigation stage, which exposes the company to project execution risks, given the difficult terrain.

#3: Stated project costs are approved costs, actual costs could be higher

Approved project cost for NHPC of Rs45m/MW for 4.3GW of projects under construction is also lower compared to a thermal power project at Rs50m-55m/MW, while normative costs for hydropower now stand at Rs60m-80m/MW. These projects were approved during 2001-05, and thus we believe that actual costs could possibly be much higher.

NHPC: APPROVED COSTS FOR PROJECTS UNDER CONSTRUCTION AT FY02-05 LEVELS

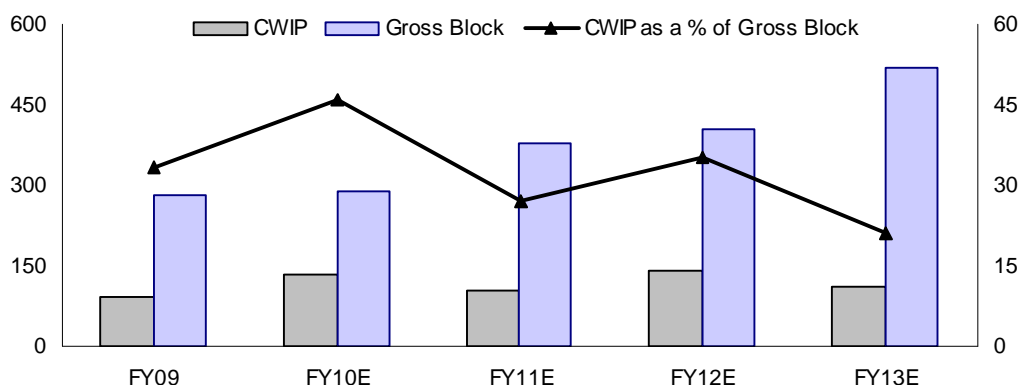
	CAPACITY (MW)	COST (RS M)	COST APPROVED IN	COST (RS MMM)	COD
Parbati II	800	39,196	Dec-01	49.0	Mar-13
Sewa II	120	6,650	NA	55.4	Dec-09
Teesta Low Dam III	132	7,689	Dec-02	58.3	Feb-11
Subansiri Lower	2,000	62,853	Dec-02	31.4	Dec-12
Uri II	240	17,248	Jan-04	71.9	Feb-11
Chamera III	231	14,056	Feb-05	60.8	Aug-10
Parbati III	520	23,046	May-05	44.3	Nov-10
Teesta Low Dam IV	160	10,614	Mar-05	66.3	Aug-11
Nimoo Bazgo	45	6,110	Dec-05	135.8	Aug-10
Chutak	44	6,213	Dec-05	141.2	Feb-11
Total*	4,292	193,675		45.1	

Source: RHP

The upward revision of costs also exposes the company to regulatory risks, as the regulator may disallow a part of increased costs, impacting project return and RoE

#4: Hydropower projects have large CWIP, which lowers base RoE

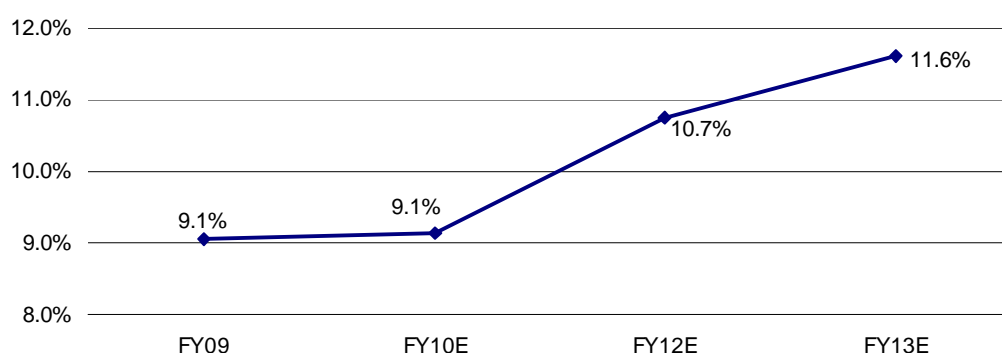
TREND IN CWIP, GROSS BLOCK (RS B)



Source: RHP

Capital work in progress as a percentage of gross block stood at 33% in FY09, and we expect this to increase to 46% in FY10. This will also impact reported RoE

ADJUSTED ROE IMPACTED GIVEN LARGE CWIP AND CONSTRUCTION TIME OF 5-7 YEARS (%)



Source: RHP

We expect adjusted RoE for NTPC at ~9% in FY10, increasing to 11.6% in FY13 as projects enter operations. These are sensitive to delays in project commissioning, non approval of part of the increased project cost by CERC, etc

#5: FY09 reported RoE at 6.8%, adjusted at 9%

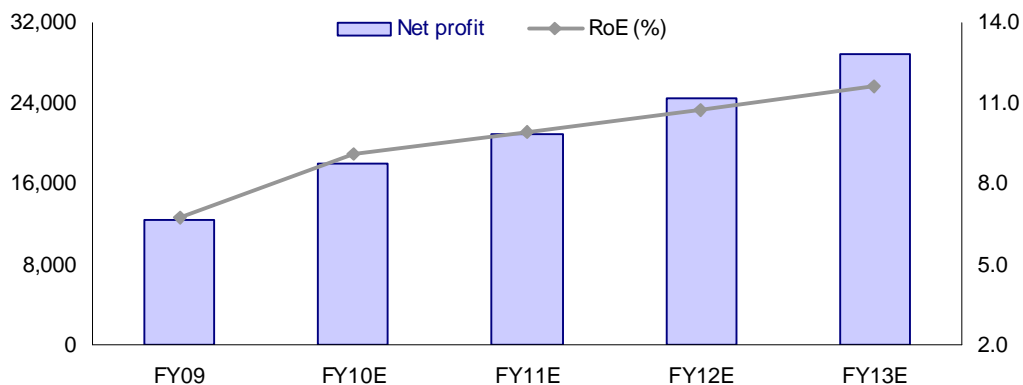
Reported FY09 RoE for NHPC stands at 6.8% and is lower due to the following reasons: (1) lower recovery of fixed charges for Dulhasti project at Rs3/unit (v/s Rs4.9/unit on normative basis), and (2) adjustments of Rs2.5b pertaining to Sixth Pay Commission arrears, tariff arrears, actuarial gratuity, etc. Dulhasti project in J&K (390MW) was set up at capex of Rs53b and was commissioned in April 2007. Of the total consolidated regulatory asset base (RAB) of Rs76b as at March 2009, Rs20b is invested in Dulhasti, which

accounts for 26% of the RAB. We understand that NHPC has applied to CERC for tariff revision for Dulhasti and the same is expected to be approved in FY10, which will lead to higher returns.

#6: Net profit earnings CAGR of 23% over FY09-13E, driven by full tariff recovery for Dulhasti project and commissioning of various projects

TREND IN NET PROFIT (RS M) AND ROE (%)

We expect NHPC to deliver earnings CAGR of 23% over FY09-11, driven largely on account of full recovery of tariff assumed for Dulhasti from FY10 onwards. We expect reported RoE to improve from 6.8% in FY09 to 11.6% in FY13



Source: RHP

#7: Equity commitments for identified projects largely met; IPO proceeds could possibly be utilized towards cost overruns on existing projects, general purposes

The 'Objects of the Issue' section of the Red Herring Prospectus states that the IPO proceeds will be towards 3.2GW projects with total approved cost of Rs140b, which would be commissioned in phases over FY10-13E. The equity requirement towards these projects stands at Rs42b, DER of 70:30. Of this, NHPC has already invested Rs46b as equity towards these projects as at June 2009, comprising of contribution from GoI at Rs20.6b (through infusion) and internal accruals at Rs26b. Thus, of total project capex of Rs67b towards these projects, Rs46b has been invested in the form of equity, while debt has been drawn to the extent of Rs20.5b.

One of the reasons for higher upfront equity investment towards these projects was impetus by GoI to lower interest during construction (IDC) and thus lower project cost, by investing equity upfront. Also, the government has been providing budgetary support to NHPC till 2007 and all these projects had entered into construction phase prior to 2007 and this had resulted in upfront equity investment.

OBJECTS OF ISSUE (RS M)

PROJECT	CAPACITY (MW)	APPROVED COST FUNDED AS					AMOUNT DEPLOYED			BALANCE REQ.	
		APPROVED COST	DEBT	GOI DEBT	EQUITY	DEPLOYED JUN-09	DEBT	GOI	INTERNAL EQUITY ACCRUALS	DEBT	EQUITY
Subansiri Lower	2,000	62,853	43,997	-	18,856	31,706	7,284	14,481	9,940	36,713	(5,565)
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Parbati III	520	23,046	16,132	-	6,914	7,555	3,115	1,307	3,133	13,017	2,474
Nimmo Bazgo	45	6,110	1,578	2,700	1,832	2,866	848	529	1,489	3,430	(186)
Chutak	44	6,213	709	3,640	1,864	2,621	700	420	1,502	3,649	(58)
Teesta Low Dam IV	160	10,613	7,430	-	3,183	5,171	3,460	765	946	3,970	1,472
Total	3,240	140,139	91,759	6,340	42,040	66,987	20,500	20,600	25,886	77,599	(4,446)

Source: RHP

Financials

NHPC: FINANCIAL HIGHLIGHTS (RS.M)

	FY09	FY10E	FY11E	FY12E
Revenues	34,448	51,486	61,232	70,211
% Change	19	49	19	15
EBIDTA	24,808	40,844	47,500	55,437
% Change	10	65	16	17
EBIT	15,294	27,331	31,706	36,913
% Change	3	79	16	16
Net Profit (Reported)	12,442	17,957*	20,960	24,515
% Change	3	44	17	17
EPS (Rs /sh) **	1.1	1.6	1.9	2.2

* Increase driven largely on account of full recovery of tariff assumed for Dulhasti from FY10 onwards; also FY09 profits impacted due to one-offs of Rs2.5b; ** Pre-money
Source: RHP

Valuations comparative

NHPC: VALUATION MATRIX

	FY09	FY10E	FY11E	FY12E	FY13E
EPS	1.1	1.6	1.9	2.2	2.6
EPS Growth (%)	3.1	44.3	16.7	17.0	17.7
RoE (%)	6.8	9.1	9.9	10.7	11.6
Adjusted RoE (%)	9.1	9.1	9.9	10.7	11.6
P/BV (x) - At Rs30/sh	1.8	1.8	1.6	1.5	1.3
P/BV (x) - At Rs36/sh	2.2	2.0	1.9	1.8	1.6
P/E (x) - At Rs30/sh	27.0	18.7	16.0	13.7	11.6
P/E (x) - At Rs36/sh	32.4	22.4	19.2	16.4	13.9

Source: RHP

UTILITIES: COMPARATIVE VALUATIONS

COMPANY	EPS (RS/SH)		EPS GROWTH (%)		ROE (%)		P/BV (X)		P/E (X)		EVEBITDA (X)	
	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E
NTPC	10.4	11.7	5.0	12.4	14.3	14.7	2.8	2.6	21.8	20.8	17.1	12.2
Reliance Infra	54.8	62.5	35.5	14.1	10.4	10.9	2.0	1.8	18.7	16.4	30.9	25.7
Tata Power	62.5	62.7	0.2	0.0	9.6	9.6	2.0	1.8	18.7	16.4	16.6	14.3
CESC	28.0	30.0	-5.0	7.2	11.0	10.7	1.3	1.2	11.2	10.4	6.3	8.2
Powergrid	4.7	5.6	2.1	19.8	13.0	14.2	3.2	2.9	25.3	21.1	12.2	10.9
NHPC *	1.6	1.9	7.9	16.7	9.1	9.9	1.8-2.0	1.6-1.9	18.7-22.4	16.0-19.2	11.9-13.5	10.2-11.6

* Pre-money; EPS growth based on adjusted profit; valuation based on IPO price band of Rs30-36/share

Source: MOSL

N O T E S



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Disclosure of Interest Statement

Disclosure of Interest Statement	NHPC
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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