



NHPC

BSE SENSEX
17,602

S&P CNX
5,337

CMP: INR18

Neutral

		Year	Net Sales	PAT	EPS	EPS	P/E	P/BV	RoE	RoCE	EV/	EV/
		End	(INR m)	(INR m)	(INR)	Gr. (%)	(X)	(X)	(%)	(%)	Sales	EBITDA
Bloomberg	NHPC IN	03/11A	51,436	17,956	1.6	16.1	-	-	7.0	8.8	-	-
Equity Shares (m)	12,300.7	03/12A	66,886	21,552	1.9	20.9	9.4	0.78	7.8	9.8	4.6	6.8
52-Week Range (INR)	26/17	03/13E	59,516	22,099	2.0	2.6	9.2	0.7	7.6	7.5	4.9	7.8
1,6,12 Rel. Perf. (%)	-5/-11/-28	03/14E	67,320	24,687	2.2	11.0	8.3	0.7	8.1	7.9	4.6	7.1
M.Cap. (INR b)	221.4											
M.Cap. (USD b)	4.0											

Consolidated financials; Pre Exceptional Earnings

- 1QFY13 Result better than expected:** NHPC adjusted PAT for 1QFY13 stood at INR6.5b v/s our estimate of INR5.7b. Higher PAT is led by 1) Higher incentive income where-in UI income stood at INR440 (v/s INR330 m YoY) and PAF stood at INR630m boosted by higher PAF at 94% v/s 90% YoY, 2) Higher Other Income at INR2.4b (v/s our est of INR2.2b) and 3) Lower taxes at 21% v/s our est. of 25%, owing to tax adjustment related to earlier years.
- Operational performance impacted:** During 1QFY13, the generation for NHPC (Standalone) stood at 6.1BUs, down 2% YoY. Out of its 12 power plant, NHPC reported generation growth from only 3 plants. Average PLFs for the plants stood at 74.5% v/s 76.2% YoY. Lower generation at its plants is led by lack of snow fed water and delayed monsoon. During the quarter NHPC commissioned U-I of Chamera, while it commissioned U-II and III during 1st week of July.
- Projects facing delays:** NHPC has targeted to commission 1.2GW (Including 520MW Parbatti-III) in FY13 and YTD FY13 it has commissioned 231MW Chamera. Management highlighted Chutak and Nimo Bazgo ready for commissioning but need to demonstrate full load, which is partly impacted due to transmission line delays. We understand local agitation has impacted commissioning of Uri -II while Kishanganga project is caught in controversy between India and Pakistan.
- Valuations and view:** We marginally upgrade our earnings for FY13/14 by 5%/2% respectively to factor in 1) Higher incentive income, 2) Higher other income during the quarter. We expect to NHPC to report PAT of INR22.1b in FY13 (v/s INR21.1b earlier) and INR24.7b in FY14 (v/s INR24.3b earlier). Stock trades at PER of 9.2x and 8.3x and P/BV of 0.7x each on FY13E and FY14E basis. Re-iterate **Neutral**, despite 1x P/BV valuations given Subdued RoE of 7-8% (a large part of net worth deployed in cash/CWIP) and delayed capacity addition.

Quarterly Performance (Standalone)										(INR Million)		
Y/E March	FY12				FY13				FY12	FY13E	FY13	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		1QE		(%)
Sales	14,708	18,585	8,820	14,437	14,218	16,330	10,123	8,688	56,550	49,359	13,152	8
Change (%)	44.2	45.1	17.5	23.0	-3.3	-12.1	14.8	-39.8	33.8	-12.7	-10.6	
EBITDA	9,565	13,283	3,788	9,942	9,040	11,355	5,048	3,079	36,579	28,521	8,277	9
Change (%)	17.4	25.4	-17.7	94.6	-5.5	-14.5	33.2	-69.0	28.6	-22.0	-13.5	
As of % Sales	65.0	71.5	43.0	68.9	63.6	69.5	49.9	35.4	64.7	57.8	62.9	
Depreciation	2,258	2,234	2,237	2,199	2,218	2,350	2,500	2,752	8,927	9,819	2,200	
Interest	865	883	876	799	798	820	850	980	3,422	3,448	800	
Other Income	3,275	3,042	2,032	2,255	2,451	2,200	2,300	2,647	10,604	9,597	2,250	
EO Income/(Expense)	0	-352	0	689	0	0	0	0	337	0	0	
PBT	9,717	12,856	2,707	9,889	8,475	10,385	3,998	1,993	35,169	24,851	7,527	13
Tax	1,807	3,191	586	1,868	1,777	2,596	999	332	7,452	5,705	1,882	
Effective Tax Rate (%)	18.6	24.8	21.6	18.9	21.0	25.0	25.0	16.7	21.2	23.0	25.0	
Reported PAT	7,910	9,665	2,122	8,021	6,698	7,789	2,998	1,661	27,717	19,146	5,646	19
Adjusted PAT	6,050	7,769	2,976	2,109	6,450	7,789	2,998	1,662	18,884	19,146	5,646	14
Change (%)	18.4	13.3	63.9	-18.3	6.6	0.3	0.7	-21.2	15.1	1.4	-6.4	

E: MOSL Estimates

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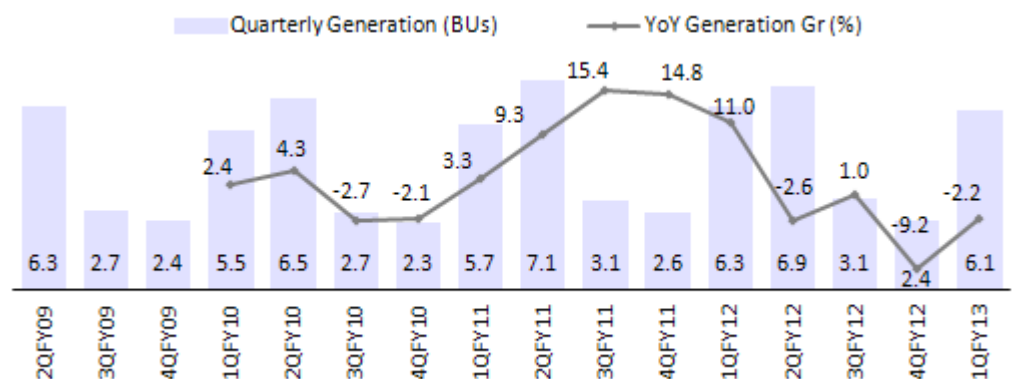
1QFY13 adjusted PAT higher than estimate

- NHPC reported revenues of INR14.2b (down 3% YoY), EBITDA of INR9b (down 6% YoY) and adjusted PAT of INR6.5b v/s our estimate of INR5.7b. Higher PAT is led by 1) Higher incentive income where-in UI income stood at INR440 (v/s INR330 m YoY) and PAF stood at INR630m boosted by higher PAF at 94% v/s 90% YoY, 2) Higher Other Income at INR2.4b (v/s our est of INR2.2b) and 3) Lower taxes at 21% v/s our est. of 25%, due to tax adjustment related to earlier years.
- During the quarter, NHPC has used MAT tax rate for gross-up of RoE (as done in 1QF12) and highlighted it will review its policy in 4QFY13 depending on the status on commissioning and tax rate applicable based on that. We understand given target of commissioning 1.2GW in FY13 (nil commissioned in FY12), NHPC could be under MAT rate.
- As on 1QFY13 NHPC outstanding debtors stood at INR21b and debtors above 60 days stood lower at INR9.1b (v/s INR12b+ as on FY12) and it stood further down to INR8.8b as at July-12. Lower debtors is led by liquidation plan (payments staggered over 10 equal monthly instalments, recovered along with interest as per CERC) implemented by the company for the recovery of dues. Company highlighted state-wise outstanding dues (60 days plus) where-in from UP it stood at INR2.2b (25% of outstanding dues), Delhi at INR3b (35% of outstanding dues), Raj at INR480m, Assam INR160m, Bihar INR900m, Orissa INR700m, Punjab at INR410m, and Jharkhand INR600m.

Operational performance impacted

- During 1QFY13, the generation for NHPC (Standalone) stood at 6.1BUs, down 2% YoY. Out of its 12 power plant , NHPC reported generation growth from only 3 plants. Average PLFs for the plants stood at 74.5% v/s 76.2% YoY. Lower generation at its plants is led by lack of snow fed water and delayed monsoon.
- During the quarter NHPC commissioned U-I of Chamera, while it commissioned U-II and III during 1st week of July.

In 1QFY13 generation de-grew by 2% YoY

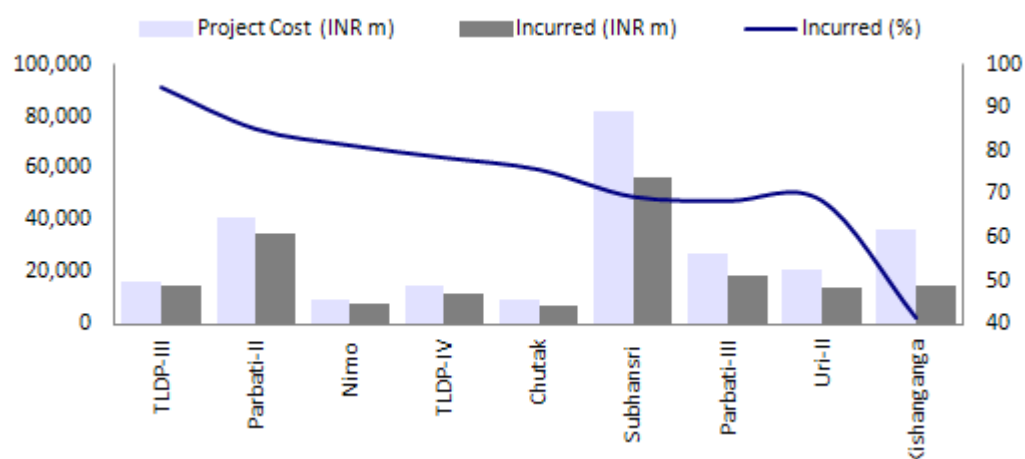


Source: Company, MOSL

Capacity addition facing delays

- NHPC has targeted to commission 1.2GW (Including 520MW Parbatti-III) in FY13 and YTFY13 it has commissioned 231MW Chamera. Management highlighted Chutak and Nimo Bazgo is ready for commissioning but need to demonstrate full load, which is partly impacted due to transmission line delays. We understand local agitation has impacted commissioning of Uri -II while Kishanganga project is caught in controversy between India and Pakistan.
- For Parbatti-II (upstream project for Parbatti-III) management shared project has delayed owing to delay in order award. It expects to award new tender by CY13 and project commissioning schedule of 4 years from award date. We understand this may see Parbatti -III (part of FY13 addition) get delayed.
- For 12th plan NHPC has targeted capex at INR290b (Broadly dividing into on-going scheme at INR89b and new scheme INR139b) and is targeting to commission 4.5GW of under construction capacity.
- We are conservative in our estimates and factored in capacity of 692MW /294MW v/s company's estimate of 1212MW and 164MW in FY13/FY14 respectively.

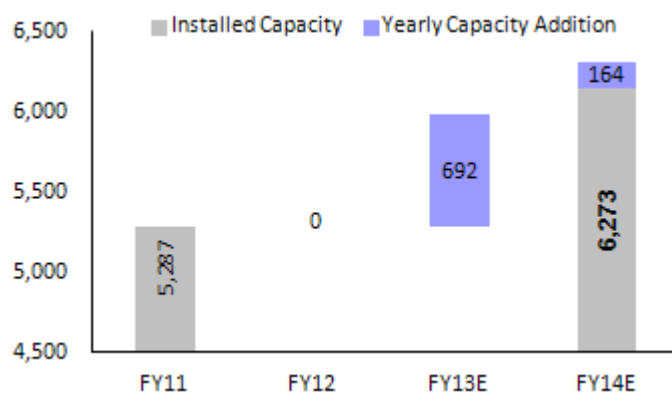
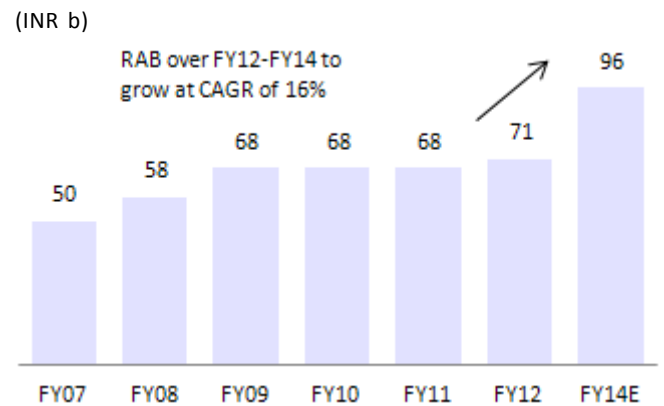
Project Capex: Equity stranded in CWIP, as at 1QFY13 CWIP stood at INR184b



Source: Company, MOSL

Limited scope of RoE expansion in near term, as regulated equity built-up back ended

- Total projects under construction stands at 4.5GW, of which only 0.9GW is expected in FY13/14E, though lower than management's guidance of 1.6GW. We expect NHPC to commission projects under construction by FY17E.
- The commissioning of 0.9GW of projects over FY13-14 will drive NHPC's regulated equity base. We factor in the revised cost estimates and thus delay in approval/disallowance poses a risk to our estimates. However, the addition to RAB is back ended and thus, the full benefit in earnings will be seen in FY15.

NHPC: We expect addition of 856MW over FY13/14**NHPC's RAB to increase sizably, but would be back ended**

Source: Company, MOSL

Valuations and view, earnings upgrade by 5%/2% for FY13E/FY14E

- We marginally upgrade our earnings for FY13/14 by 5%/2% respectively to factor in 1) Higher incentive income and 2) Higher other income during the quarter.
- We expect to NHPC to report PAT of INR22.1b in FY13 (v/s INR21.1b earlier) and INR24.7b in FY14 (v/s INR24.3b earlier). Stock trades at PER of 9.2x and 8.3x and P/BV of 0.7x each on FY13E and FY14E basis.
- Re-iterate Neutral, despite 1x P/BV valuations given Subdued RoE of 7-8% (a large part of net worth deployed in cash/CWIP) and delayed capacity addition.

NHPC: an investment profile

Company description

NHPC, GOI enterprise is a hydro power generator in India with regulated business model and installed capacity of 5.2GW. Company has strong project pipeline with 4.5GW of projects under construction stage, 6GW of projects under clearance stage and 4.2GW of projects under survey stage.

Key investment arguments

- Given delays in commissioning of installed capacity, NHPC will see bunching up capacity commissioning over FY13-15. NHPC expect commissioning of 1.2GW in FY13, 164MW in FY14.
- Hydropower projects have large CWIP, which lowers base RoE: Capital work in progress as a percentage of gross block stood at 37% in FY11. Higher CWIP is largely due to longer construction time period of 5-7 years for hydropower v/s 3-4 years for thermal projects.
- NHPC RAB is expected to grow at CAGR of 16% from INR71b in FY12 to INR96b in FY14.

Key investment risks

- Further meaningful delays in capacity commissioning
- R&R delays can impact land acquisition process.

- Construction of a hydro project carries significant geological risks. Also, the terrain is difficult.

Recent developments

- During the quarter NHPC commissioned U-I of Chamera, while it commissioned U-II and III during 1st week of July.
- FY13 capacity target maintained at 1.2GW.

Valuation and view

- We marginally upgrade our earnings for FY13/14 by 5%/2% respectively to factor in 1) Higher incentive income and 2) Higher other income during the quarter.
- We expect to NHPC to report PAT of INR22.1b in FY13 (v/s INR21.1b earlier) and INR24.7b in FY14 (v/s INR24.3b earlier). Stock trades at PER of 9.2x and 8.3x and P/BV of 0.7x each on FY13E and FY14E basis.

Sector view

- The power sector has seen significant valuation de-rating due to concerns over delayed capacity additions, merchant prices, lower demand and fuel supply issues. We are positive about companies that are better positioned on these fronts.

Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
18	-	-	Neutral

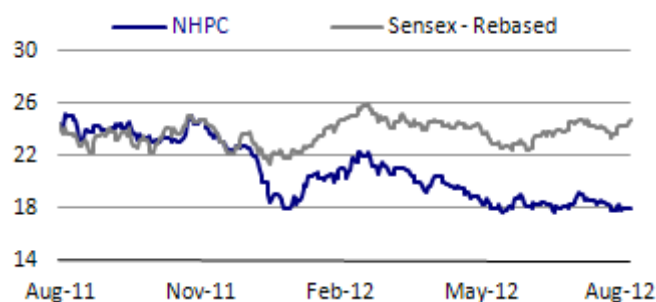
Shareholding pattern (%)

	Jun-12	Mar-12	Jun-11
Promoter	86.4	86.4	86.4
Domestic Inst	3.2	3.2	2.9
Foreign	1.5	1.5	1.9
Others	8.9	8.9	8.9

EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY13	2.0	1.8	9.2
FY14	2.2	2.0	7.6

Stock performance (1 year)



Financials and Valuation

Income Statement		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Net Sales	51,436	66,886	59,516	67,320	
Change (%)	-1.6	30.0	-11.0	13.1	
Total Expenditure	13,798	19,971	20,838	22,715	
EBITDA	36,311	45,536	37,244	43,113	
Margin (%)	70.6	68.1	62.6	64.0	
Depreciation	11,666	11,438	12,338	14,048	
EBIT	24,646	34,098	24,906	29,065	
Interest on Power bonds	1,239	1,115	1,003	903	
Interest	6,709	5,780	5,572	5,720	
Other Income - Rec.	8,071	11,140	10,300	10,209	
Extraordinary	6,565	0	0	0	
Profit before Tax	33,811	40,573	30,637	34,457	
Tax	9,396	8,258	6,540	7,699	
Tax Rate (%)	27.8	20.4	21.3	22.3	
Reported PAT	24,415	32,314	24,097	26,758	
EO (Expense) / Income	-4,993	-8,833	0	0	
Adjusted PAT	19,422	23,481	24,097	26,758	
Change (%)	16.1	20.9	2.6	11.0	
Margin (%)	37.8	35.1	40.5	39.7	
Less: Mionrity Interest	1466	1929	1998	2071	
Net Profit	17,956	21,552	22,099	24,687	

Balance Sheet		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Equity Share Capital	123,007	123,007	123,007	123,007	
Total Reserves	142,295	162,673	174,868	188,293	
Net Worth	265,303	285,681	297,876	311,301	
Minority Interest	17,357	19,286	21,284	23,355	
Deferred liabilities	2,774	2,743	2,743	2,743	
Advance Against Depreci:	15,076	15,089	15,089	15,089	
Long Term Loan	167,716	153,082	147,577	177,649	
Total Loans	167,716	153,082	147,577	177,649	
Capital Employed	468,317	475,882	484,569	530,138	
Gross Block	296,087	291,130	342,429	395,285	
Less: Accum. Deprn.	68,780	79,155	91,492	105,540	
Net Fixed Assets	227,307	211,975	250,937	289,745	
Capital WIP	171,696	182,462	137,159	139,793	
Investments	43,194	40,631	37,624	34,919	
Construction Stores and :	0	13,520	13,790	14,066	
Curr. Assets	86,841	109,800	116,476	133,474	
Inventory	392	499	435	496	
Account Receivables	22,166	23,118	17,351	19,216	
Cash and Bank Balance	42,653	64,338	77,862	91,947	
Others	21,630	21,845	20,829	21,815	
Curr. Liability & Prov.	60,721	82,506	71,417	81,859	
CL	24,143	33,360	28,844	33,106	
Provisions	36,578	49,146	42,572	48,753	
Net Current Assets	26,121	27,294	45,059	51,615	
Appl. of Funds	468,318	475,882	484,569	530,138	

E: MOSL Estimates

Ratios					
Y/E March	2011	2012	2013E	2014E	
Basic (INR)					
EPS (Adjusted)	1.6	1.9	2.0	2.2	
Cash EPS	2.4	2.7	2.8	3.1	
BV/Share	21.6	23.2	24.2	25.3	
DPS	0.6	0.7	0.7	0.8	
Payout (%)	35.1	31.0	41.1	42.1	
Valuation (x)					
P/E		9.4	9.2	8.3	
Cash P/E		6.7	6.4	5.7	
P/BV		0.78	0.74	0.71	
EV/Sales		4.6	4.9	4.6	
EV/EBITDA		6.8	7.8	7.1	
Dividend Yield (%)		3.9	3.9	4.4	
Return Ratios (%)					
RoE	7.0	7.8	7.6	8.1	
RoCE	8.8	9.8	7.5	7.9	
Adjusted ROE	7.5	8.5	8.3	8.8	
Working Capital Ratios					
Debtor (Days)	157	126	106	104	
Inventory (Days)	3	3	3	3	
Leverage Ratio (x)					
Current Ratio	1.4	1.3	1.6	1.6	
Debt/Equity	0.5	0.3	0.2	0.3	

Cash Flow Statement		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Oper. Profit/(Loss) bef. Tax	33,811	40,573	30,637	34,457	
Interest	6,709	5,780	5,572	5,720	
Depreciation	11,666	11,438	12,338	14,048	
Direct Taxes Paid	-9,396	-8,258	-6,540	-7,699	
(Inc)/Dec in WC	5,680	20,511	-4,241	7,529	
CF fr. Oper. incl EO exp.	48,469	70,043	37,766	54,055	
(inc)/dec in FA	-71,236	7,710	-5,725	-55,215	
(Pur)/Sale of Investment:	-9,739	2,563	3,006	2,706	
CF from Investments	-80,975	10,273	-2,719	-52,509	
Issue of Shares	4,851	8,833	0	0	
(Inc)/Dec in Debt	4,201	-14,634	-5,505	30,072	
Dividend Paid	-8,577	-10,007	-9,904	-11,262	
Interest	-6,709	-5,780	-5,572	-5,720	
Others	19,497	-37,045	-541	-552	
CF from Fin. Activity	13,263	-58,632	-21,523	12,539	
Inc/Dec of Cash	-19,243	21,684	13,524	14,084	
Add: Beginning Balance	61,895	42,653	64,338	77,862	
Closing Balance	42,653	64,337	77,862	91,946	

N O T E S

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NHPC

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