

**October 31, 2011**

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	<b>Accumulate</b>
Rating	
Price	Rs25
Target Price	Rs29
Implied Upside	16.0%
Sensex	17,705

*(Prices as on October 31, 2011)*
**Trading data**

Market Cap. (Rs bn)	308.1
Shares o/s (m)	12,300.7
3M Avg. Daily value (Rs m)	115.1

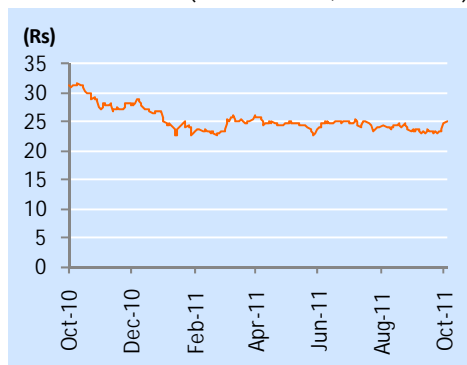
**Major shareholders**

Promoters	86.36%
Foreign	1.65%
Domestic Inst.	3.18%
Public & Other	8.81%

**Stock Performance**

(%)	1M	6M	12M
Absolute	6.6	(3.3)	(19.7)
Relative	(1.0)	4.2	(8.1)

Price Performance (RIC: NHPC.BO, BB: NHPC IN)



Source: Bloomberg

■ **Adjusted sales up 3.6% YoY:** Revenues from operations at Rs13.2bn (PLe: Rs16.4bn) for Q2FY11, which was below expectations, mainly on account of lower volumes of 7.1bn units, down 1.3% YoY. The generation pattern has been undergoing change on account of changes in weather conditions in J&K which has led to lower water availability. Teesta V in Sikkim also generated less on account of maintenance purpose in September. The company has included prior period sales to the tune of Rs704m, interest from beneficiaries was at Rs1.2bn and the major one-off was inclusion of water cess levied by the J&K government of Rs4.6bn. Reported sales, thus, was up by 54.4% YoY.

■ **Adjusted PAT up 6.3%:** Adjusted PAT stands at Rs7.2bn (PLe: Rs7bn) as against reported PAT of Rs9.7bn (grossed up at MAT rate). One-off expenses during the quarter stands at Rs2.8bn. Incentives booked during the quarter stand at Rs1.6bn, up by 14.2% YoY.

■ **Target of 500MWs to be commissioned in FY12E:** NHPC's *Chutak HEP Unit 1* will get commissioned in November and the rest by March 2012. *Chamera* and *Uri 2* will get commissioned by end of FY12. The company has plans to add close to 857MWs in FY13E. Capex envisaged for FY12E stands at Rs51bn, of which, the company plans to spend Rs22bn as equity from internal accruals. Cash stands at Rs43bn. Regulated equity stands at Rs71bn. Kotli Bhel Stage-1A has got forest clearance.

■ **Valuation and Recommendation:** NHPC currently has been lagging behind in terms of capacity addition which will lead to a flat generation growth in FY12E. However, we believe it is factored in the price. The stock is trading at a P/BV of 1.1x FY13E. We maintain '**Accumulate**' as it is safest play (non-fossil fuel) in the Power Sector.

Key financials (Y/e March)	2010	2011	2012E	2013E
Revenues (Rs m)	43,320	42,253	50,148	61,134
Growth (%)	59.2	(2.5)	18.7	21.9
EBITDA (Rs m)	33,349	28,455	34,824	45,677
PAT (Rs m)	17,340	19,940	21,011	26,752
EPS (Rs)	1.4	1.6	1.7	2.2
Growth (%)	46.7	15.0	5.4	27.3
Net DPS (Rs)	0.6	0.7	0.6	0.7

Source: Company Data; PL Research

Profitability & Valuation	2010	2011	2012E	2013E
EBITDA margin (%)	77.0	67.3	69.4	74.7
RoE (%)	8.4	8.3	8.3	10.0
RoCE (%)	5.8	5.7	5.5	6.6
EV / sales (x)	9.1	10.1	8.7	7.5
EV / EBITDA (x)	11.9	14.9	12.6	10.0
PE (x)	17.8	15.5	14.7	11.5
P / BV (x)	1.3	1.3	1.2	1.1
Net dividend yield (%)	2.6	2.8	2.4	2.6

Source: Company Data; PL Research

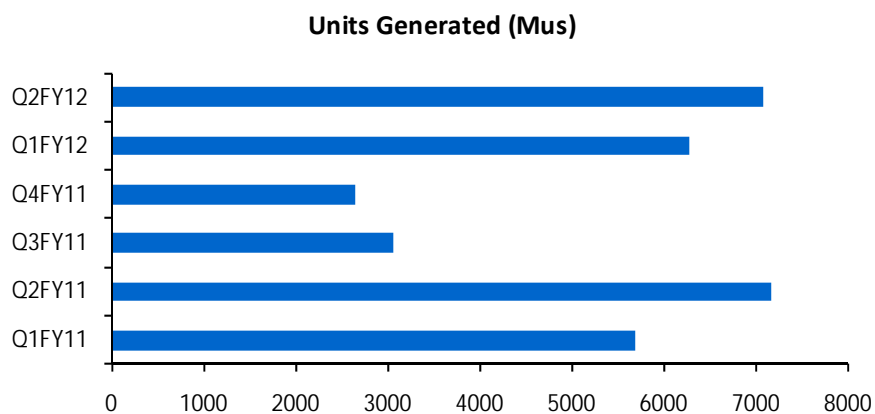
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**Exhibit 1: Q2FY12 Result Overview (Rs m)**

Y/e March	Q2 FY12	Q2 FY11	YoY gr. (%)	Q1 FY12	H1FY12	H1FY11	YoY gr. (%)
<b>Net Sales</b>	<b>19,815</b>	<b>12,826</b>	<b>54.5</b>	<b>15,605</b>	<b>35,421</b>	<b>23,396</b>	<b>51.4</b>
<b>Adj Sales</b>	<b>13,254</b>	<b>12,797</b>	<b>3.6</b>	<b>11,965</b>	<b>25,200</b>	<b>23,396</b>	<b>7.7</b>
<b>Expenditure</b>							
Employee Cost	2,046	1,321	132.3	2,058	4,104	2,530	62.2
<i>% of Net Sales</i>	<i>10.3</i>	<i>10.3</i>		<i>13.2</i>	<i>11.6</i>	<i>16.6</i>	
Other Expenses	3,256	1,009	29.8	3,165	6,421	1,952	228.9
<i>% of Net Sales</i>	<i>16.4</i>	<i>7.9</i>		<i>20.3</i>	<i>18.1</i>	<i>16.1</i>	
Total Expenditure	5,302	2,330	127.6	5,223	10,525	4,482	134.8
<b>EBITDA</b>	<b>14,513</b>	<b>10,497</b>	<b>38.3</b>	<b>10,383</b>	<b>24,896</b>	<b>18,914</b>	<b>31.6</b>
<i>Margin (%)</i>	<i>73.2</i>	<i>81.8</i>		<i>66.5</i>	<i>70.3</i>	<i>80.8</i>	
Depreciation	2,234	2,677	(16.5)	2,258	4,492	5,224	(14.0)
<b>EBIT</b>	<b>12,279</b>	<b>7,820</b>	<b>57.0</b>	<b>8,125</b>	<b>20,404</b>	<b>13,690</b>	<b>33.3</b>
Interest	883	973	(9.2)	865	1,748	1,909	(8.4)
Other Income	1,812	1,697	6.8	2,379	4,191	3,458	21.2
PPI	(352)	(10)		(80)	272	8	
<b>PBT</b>	<b>12,856</b>	<b>8,534</b>	<b>50.6</b>	<b>9,718</b>	<b>22,574</b>	<b>15,247</b>	<b>48.1</b>
Tax	3,191	1,635	95.2	1,808	4,999	2,955	69.2
<i>Tax Rate (%)</i>	<i>24.8</i>	<i>19.2</i>		<i>18.6</i>	<i>22.1</i>	<i>19.4</i>	
<b>Recurring PAT</b>	<b>9,665</b>	<b>6,900</b>	<b>40.1</b>	<b>7,911</b>	<b>17,575</b>	<b>12,276</b>	<b>43.2</b>
<b>Adj PAT</b>	<b>7,291</b>	<b>6,858</b>	<b>6.3</b>	<b>6,069</b>	<b>13,360</b>	<b>12,892</b>	<b>3.6</b>
Unit generated	7,088	7,184	(1.3)	6,284	13,372	12,873	3.9

Source: Company Data, PL Research

**Exhibit 2: Generation Quarterly**


Source: Company Data, PL Research

**Exhibit 3: Future projects snapshot... (status as on August 2011)**

Project	State	Capacity MWs	Company COD	Likely COD	Issues	Present status	Probability of Completion
Teesta Low Dam III	Sikkim/WB	132	FY12	FY14	Delay in clearances Local law & order problem Floods in 2007,2009 & 2010	Earthwork completed up to 90%, E&M work to be completed in FY12 Unit 1-2 Box Up completed	High in FY13
Uri II	Jammu & Kashmir	240	FY12	FY12	Disturbances in valley affecting supplies Earthquake in 2005 Flood 2007 & 2010 Land slide and bridge collapse in 2008	Earthwork completed up to 90%, HM (May 2011) /E&M to be completed in FY12 Unit 1-2 Box Up completed	High in FY12
Chamera III	Himachal Pradesh	231	FY12	FY12	Labour agitation in 2006 Coffer dam washed away in 2007	Earthwork completed up to 98%, HM expected in FY12 Pre-commissioning of Unit 1-2 complete	High in FY12
Teesta Low Dam IV	Sikkim/WB	160	FY13	FY15	Delay in clearances Local law & order problem Floods in 2007, 2009 & 2010	Earthwork completed up to 87%, E&M work to be completed in FY12/FY13, current completion 80%	Low in FY13
Nimoo Bazgo	Jammu & Kashmir	45	FY12	FY13	Extreme cold climate Poor participation in tendering	Earthwork completed up to 80%, E&M work to be completed in FY12, current completion 75%	High in FY13
Parbati III	Himachal Pradesh	520	FY12	FY13	Poor Geology Delay in award of packages Alternate road had to be constructed Land acquisition problem	Earthwork completed up to 75%, E&M work to be completed in FY12 Scroll case erection of Unit 2,3 completed	High in FY13
Parbati II	Himachal Pradesh	800	FY15	FY16	Poor Geology Fault Zone Rock busting, slide in power house in 2004,2006 & 2007	Earthwork completed up to 70%, E&M works also started	Low in FY15
Chutak	Jammu & Kashmir	44	FY12	FY13	Extreme cold climate/ Floods in Laddak Disturbances in Valley affecting supplies High price bid delayed award of HM works	Earthwork completed up to 80%, E&M work to be completed in FY12 Radial gates commissioned	High in FY12
Subansiri Lower	Assam /A.P.	2,000	FY15	FY17	Local law & order problem Coffer dam washed away Disputes between states	Earthwork completed up to 55%, Concreting & other earth works to be completed Intake gates work started	Low in FY15
Kishanganga	Jammu & Kashmir	330	FY16	FY18	Pakistan building another HEP on same river Heavy rainfall in March 2011 Disturbances in Valley affecting supplies	Earthwork completed up to 30%	High in FY16

Source: Company Data, PL Research

\*Some calculations are based upon the 'Cu metre '&amp;'Metre' excavation completed and thus an approximation

## Analyst Meet highlights

- 14000MWs is in the pipeline, of which, 5000MWs is awaiting sanctions, 2485MWs is under investigation and surveillance and 6600MWs (under JV route) in various stages. From this, Kotli Bhel Stage -1A and Teesta would come up first for construction.
- Capex plans for 12<sup>th</sup> Plan stand at Rs250bn, as against Rs180bn in the 11<sup>th</sup> Plan.
- Generation was lower in Q2FY12, since on account of early winter, snow melting was lower and thus, the water supply (4-10MUs daily). In H2FY12E, the generation is expected to remain at least flat YoY. In Sikkim plants, it was lower on account of planned maintenance as the PPM levels in water had gone up.
- NHPC has taken the matter of handling the two projects in J&K (Salal & Dulhasti) back to the Government and maintains that it will not happen. However, even if it happens, adequate financial consideration will be sought.
- On the issue of Water Cess, NHPC expects an average 74 paisa impact on tariff and on plants under construction of 94 paisa.

**Income Statement (Rs m)**

Y/e March	2010	2011	2012E	2013E
<b>Net Revenue</b>	<b>43,320</b>	<b>42,253</b>	<b>50,148</b>	<b>61,134</b>
Raw Material Expenses	—	—	—	—
Gross Profit	43,320	42,253	50,148	61,134
Employee Cost	5,298	6,996	7,346	7,713
Other Expenses	4,673	6,801	7,978	7,744
<b>EBITDA</b>	<b>33,349</b>	<b>28,455</b>	<b>34,824</b>	<b>45,677</b>
Depr. & Amortization	10,333	9,167	8,852	12,567
Net Interest	4,571	4,136	3,783	5,388
Other Income	5,627	13,632	8,194	5,718
<b>Profit before Tax</b>	<b>24,073</b>	<b>28,785</b>	<b>30,383</b>	<b>33,440</b>
Total Tax	3,116	7,118	6,772	6,688
<b>Profit after Tax</b>	<b>20,957</b>	<b>21,667</b>	<b>23,611</b>	<b>26,752</b>
Ex-Od items / Min. Int.	3,565	1,727	(3,000)	—
<b>Adj. PAT</b>	<b>17,340</b>	<b>19,940</b>	<b>21,011</b>	<b>26,752</b>
<b>Avg. Shares O/S (m)</b>	<b>12,300.7</b>	<b>12,300.7</b>	<b>12,300.7</b>	<b>12,300.7</b>
<b>EPS (Rs.)</b>	<b>1.4</b>	<b>1.6</b>	<b>1.7</b>	<b>2.2</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2010	2011	2012E	2013E
C/F from Operations	9,059	77,260	37,281	64,466
C/F from Investing	20,836	5,194	(15,693)	(15,412)
C/F from Financing	2,078	(104,787)	(11,326)	(51,472)
Inc. / Dec. in Cash	31,973	(22,332)	10,262	(2,418)
Opening Cash	19,001	50,974	28,641	38,903
Closing Cash	50,974	28,641	38,903	36,485
FCFF	28,241	19,104	(1,954)	3,699
FCFE	44,583	26,114	21,787	21,273

**Key Financial Metrics**

Y/e March	2010	2011	2012E	2013E
<b>Growth</b>				
Revenue (%)	59.2	(2.5)	18.7	21.9
EBITDA (%)	102.2	(14.7)	22.4	31.2
PAT (%)	61.3	15.0	5.4	27.3
EPS (%)	46.7	15.0	5.4	27.3
<b>Profitability</b>				
EBITDA Margin (%)	77.0	67.3	69.4	74.7
PAT Margin (%)	40.0	47.2	41.9	43.8
RoCE (%)	5.8	5.7	5.5	6.6
RoE (%)	8.4	8.3	8.3	10.0
<b>Balance Sheet</b>				
Net Debt : Equity	0.4	0.5	0.5	0.5
Net Wrkng Cap. (days)	—	—	—	—
<b>Valuation</b>				
PER (x)	17.8	15.5	14.7	11.5
P / B (x)	1.3	1.3	1.2	1.1
EV / EBITDA (x)	11.9	14.9	12.6	10.0
EV / Sales (x)	9.1	10.1	8.7	7.5
<b>Earnings Quality</b>				
Eff. Tax Rate	13.0	24.7	22.0	20.0
Other Inc / PBT	23.3	31.8	27.4	17.1
Eff. Depr. Rate (%)	4.9	4.0	3.4	4.2
FCFE / PAT	257.1	131.0	103.7	79.5

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e March	2010	2011	2012E	2013E
Shareholder's Funds	232,732	245,839	259,496	278,222
Total Debt	138,682	145,693	169,434	187,007
Other Liabilities	15,765	15,679	15,897	15,897
<b>Total Liabilities</b>	<b>387,179</b>	<b>407,210</b>	<b>444,826</b>	<b>481,126</b>
Net Fixed Assets	304,200	342,233	371,483	418,420
Goodwill	—	—	—	—
Investments	43,941	53,995	49,450	45,196
Net Current Assets	39,040	10,985	23,894	17,510
<i>Cash &amp; Equivalents</i>	<i>50,974</i>	<i>28,641</i>	<i>38,903</i>	<i>36,485</i>
<i>Other Current Assets</i>	<i>32,244</i>	<i>39,971</i>	<i>49,555</i>	<i>53,397</i>
<i>Current Liabilities</i>	<i>44,178</i>	<i>57,627</i>	<i>64,564</i>	<i>72,372</i>
Other Assets	—	176	—	—
<b>Total Assets</b>	<b>387,180</b>	<b>407,389</b>	<b>444,827</b>	<b>481,127</b>

**Quarterly Financials (Rs m)**

Y/e March	Q3FY11	Q4FY11	Q1FY12	Q2FY12
<b>Net Revenue</b>	<b>7,509</b>	<b>11,381</b>	<b>15,605</b>	<b>19,815</b>
<b>EBITDA</b>	<b>5,389</b>	<b>4,748</b>	<b>10,383</b>	<b>14,513</b>
<i>% of revenue</i>	<i>71.8</i>	<i>41.7</i>	<i>66.5</i>	<i>73.2</i>
Depr. & Amortization	1,247	2,696	2,258	2,234
Net Interest	1,050	953	865	883
Other Income	1,663	1,915	2,379	1,812
<b>Profit before Tax</b>	<b>4,755</b>	<b>8,799</b>	<b>9,718</b>	<b>12,856</b>
Total Tax	1,748	2,415	1,808	3,191
<b>Profit after Tax</b>	<b>3,007</b>	<b>6,385</b>	<b>7,831</b>	<b>9,665</b>
<b>Adj. PAT</b>	<b>3,007</b>	<b>6,385</b>	<b>5,980</b>	<b>7,291</b>

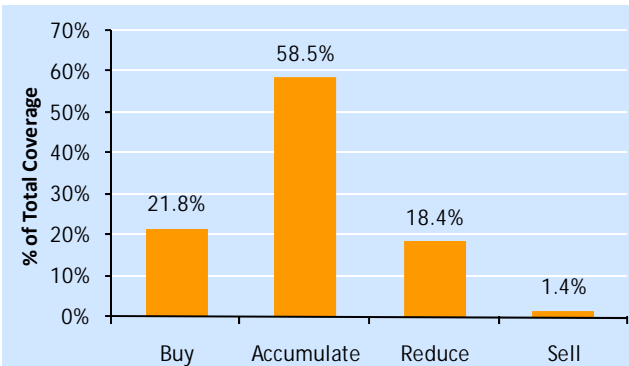
Source: Company Data, PL Research.

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#### PL's Recommendation Nomenclature

<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months	<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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