January 30, 2012

NHPC (NHPC)

₹ 20

Rating matrix

Rating	:	**Buy**
Target	:	₹ 28
Target Period	:	12 months
Potential Upside	:	40%

Key Financials

(₹ Crore)	FY10	FY11	FY12E	FY13E
Net Sales	4218.9	4046.6	5219.9	5950.8
EBITDA	3332.3	3464.4	3144.1	3723.1
Net Profit	2090.5	2129.2	2268.3	2644.3

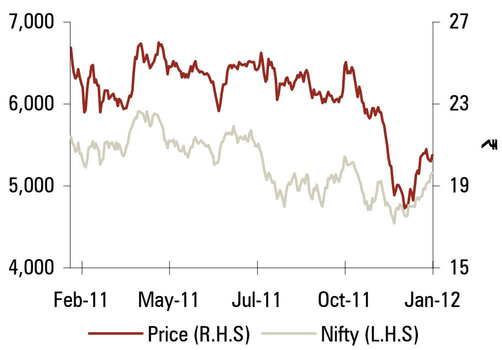
Valuation summary

	FY10	FY11	FY12E	FY13E
EPS (₹)	1.7	1.7	1.8	2.1
PE (x)	12.1	11.6	11.1	9.5
Target PE (x)	16.5	16.2	15.2	13.0
EV/EBITDA (x)	10.2	13.0	12.7	11.5
P/BV (x)	1.1	1.0	1.0	0.9
RoNW (%)	9.0	8.8	8.7	9.5
RoCE (%)	7.7	6.7	7.6	8.1

Stock data

Market Capitalisation	₹ 22141 Crore
Debt (FY11)	₹ 14569 Crore
Cash (FY11)	₹ 2864.1 Crore
EV	₹ 36648 Crore
52 week H/L	27.1/17.5
Equity capital	₹ 12301 Crore
Face value	₹ 10
MF Holding (%)	1.3
FII Holding (%)	1.5

Price movement



Analyst's name

Chirag Shah
shah.chirag@icicisecurities.com

Darshan Dodhia
darshan.dodhia@icicisecurities.com

WHAT'S CHANGED...

PRICE TARGET	Unchanged
EPS (FY12E)	Changed from ₹ 2.2 to ₹ 1.8
EPS (FY13E)	Changed from ₹ 2.2 to ₹ 2.1
RATING	Unchanged

Value play; capacity addition a dampener...

The company reported sales of ₹ 882 crore much higher than our estimate of ₹ 666 crore. Sales included ₹ 70.7 crore as water cess. Adjusted sales came in at ₹ 770 crore. Adjusted profit for the company in Q2FY12 was ₹ 265 crore vs. our estimate of ₹ 255 crore. During the quarter, the company generated 2892 million units (MUs) (down 11% YoY, down 1% YoY). Sales realisation per unit stood at ₹ 3.4/kwhr (net unit sales taken at 88% of gross generation). At the CMP of ₹ 20, the stock is trading at an inexpensive valuation of 0.9x FY13 P/BV. Since lack of capacity addition is the key overhang for the company, our earnings have factored no capacity addition in FY12 and ~ 822 MW in FY13 (these include 515 MW that slipped in FY12). We maintain our BUY rating with a target price of ₹ 28. However, investors will have to be patient enough for earning meaningful returns on the stock.

- **Other key highlights for the quarter**
  In Q3FY12, other expenditure included ₹ 80 crore incurred for the Kotli Bhel project (which is yet to receive environment clearance) and ₹ 20 crore towards relocation expenses. Other income for the quarter came in at ₹ 203 crore (up 12% QoQ, 22% YoY). Of these, ₹ 31 crore was towards interest from beneficiary states, which has risen on finalisation of tariff.

Valuation

At the CMP of ₹ 20, the stock is trading at P/E of 11.1x and 9.5x on FY12E and FY13E EPS, respectively. Similarly, on P/BV multiples, the stock is trading at 1.0x and 0.9x FY12E and FY13E, respectively. We maintain our **BUY** rating on the stock with a target price of ₹ 28. NHPC has least fuel risk in an environment where fuel security can materially impact earnings and valuation of power utilities.

Exhibit 1: Financial Performance

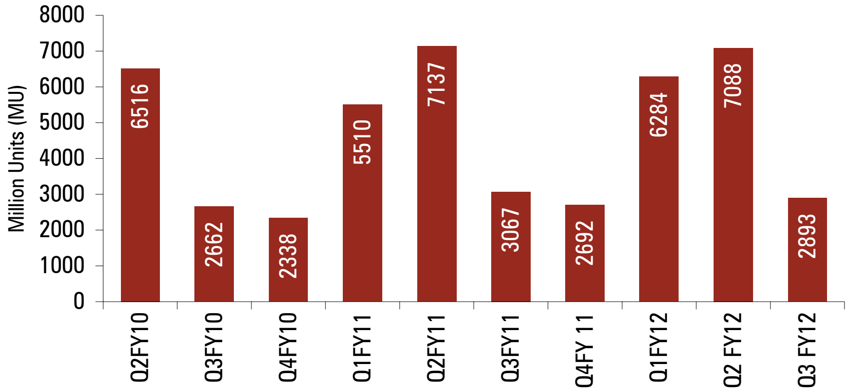
(₹ Crore)	Q3FY12	Q3FY12E	Q3FY11	Q2FY12	QoQ (Chg %)	YoY (Chg %)
Net Sales	882.0	666.0	750.9	1,981.5	-55.5	17.5
EBITDA	378.8	478.0	538.9	1,416.1	-73.2	-29.7
EBITDA Margin (%)	43.0	71.8	71.8	71.5	-28500 bps	-28800 bps
Depreciation	223.7	223.0	124.7	223.4	0.1	79.3
Interest	87.6	90.0	105.0	88.3	-0.8	-16.6
Reported PAT	212.2	255.0	300.7	966.5	-78.0	-29.4
Adjusted PAT	265.0	255.0	300.7	607.0	-56.3	-11.9
EPS (₹)	0.2	0.2	0.2	0.8	-78.0	-29.4

Source: Company, ICICIdirect.com Research

Concall takeaways

- We expect no capacity addition in FY12 and ~822 MW in FY13 (these include 515 MW that slipped from FY12)
- The company expects the first unit of Parbati III (130 MW) project of total 520 MW to be commissioned in FY13. The balance 390 MW would be commissioned after Parbati II (we expect this project to be commissioned in FY15). The total cost of 520 MW is ₹ 2700 crore of which the company would be capitalising ₹ 1700 crore. However, the company would be recording tariff at proportionate capital cost (for 130 MW)
- Outstanding debtors for the company as on December 2011 was ₹ 2600 crore, which included ₹ 900 crore debtors due more than 60 days. The company admitted that payment from beneficiaries is getting delayed
- The company has cash of ~ ₹ 4000 crore as on December 2011

Exhibit 2: Trend in quarterly generation



Source: Company, CEA, ICICIdirect.com Research

Exhibit 3: Incentives earned during the quarter

₹ crore	Q3FY12	Q2FY12	Q1FY12
Incentives	8.7	77.3	71.0
Secondary Charge	33.6	45.6	74.8
UI Charges	33.6	35.5	32.9
Total	75.9	158.4	178.7

Source: Company, ICICIdirect.com Research

We have revised our sales upwards due to higher one offs in this quarter. However, higher provisions have led to cut EBITDA and PAT estimates for FY12. For FY13, we have maintained our topline (assuming grossing up at corporate tax rate). However, cut in EBITDA estimates is on account of higher provisions on water cess and sunk cost on projects in DPR stage.

Exhibit 4: Status of projects under construction and their status

Project	Capacity (MW)	State Code	Expected CoD - Our estimates	CEA and company comments
Uri II	240	J&K	Q1 FY13	Erection of Pressure shaft liner/ penstock completed.Erection o Trash Rack for Head Regulator Gates and HRT Intake has been completed.
Chamera III	231	HP	Q2 FY13	Erection of surge Shaft gate and DC gates is in progress.
Chutak	44	J&K	Q1 FY13	All HM gates have been commissioned
Nimoo Bazgo	45	J&K	Q3 FY13	All radial & Draft tubes gates erection completed. 2nd stage concreting for Intake completed and gate erection is in progress
Teesta Low III	132	WB	Q3 FY13	Erection of Intake stoplog Gantry crane & Draft tube gantry crane is in progress.
Parbati III	520	HP	Q4 FY13	The company expects to comission 1 unit (130 MW) in FY13. The balance 3 units would be comissioned after Parbati II (after FY15)
Teesta Low IV	160	WB	Q4 FY13	Design/Engineering in progress by M/s Om Metals.84.50% erection of Penstock Liner completed. 58.5% erection of Radial gate in Bay-1 to 7 completed. 19% erection of Silt Flushing Gate completed.
Subansiri lower	2000	Ar P	Q2 FY15	Work held up by protestor since last one month
Parbati II	800	HP	FY15	Supply of HM components is in progress
Kishanganga	330	J & K	FY17	
Total	4502			

Source: Company, CEA, ICICIdirect.com Research

Exhibit 5: Revised earnings estimates

	FY12E estimates			FY13E estimates		
	Previous	Revised	% Change	Previous	Revised	% Change
Sales	4475	5219	16.6	5850	5851	0.0
EBITDA	3343	3144	-6.0	4781	3723	-22.1
EBITDA (%)	74.7	60.2		81.7	63.6	
PAT	2462	2268	-7.9	2691	2644	-1.7

Source: ICICIdirect.com Research

Financial summary

Profit and loss statement

(₹ Crore)

(Year-end March)	FY10	FY11	FY12E	FY13E
Total operating Income	4,266.3	4,225.3	5,219.9	5,950.8
Growth (%)	56.8	-1.0	23.5	14.0
Gen. Admin. & other exp	238.7	522.4	1,016.0	1,016.0
Employee Expenses	529.8	699.8	902.1	1,054.0
Provisions	80.5	34.5	34.5	34.5
Exp. On project mgmt	82.4	123.3	123.3	123.3
Other expenses	0.0	0.0	0.0	0.0
Total Operating Expenditure	931.4	1,380.0	2,075.8	2,227.7
EBITDA	3,334.9	2,845.3	3,144.1	3,723.1
Growth (%)	102.2	-14.7	10.5	18.4
Depreciation	1,019.0	916.7	908.9	1,089.4
Interest	457.1	413.6	524.8	678.3
Other Income	545.7	706.9	1,125.0	1,350.0
PBT	388.3	479.0	588.0	685.2
Others	0.0	0.0	0.0	0.0
Total Tax	311.6	711.5	567.1	661.1
PAT	2,090.4	2,166.8	2,268.3	2,644.3
Growth (%)	94.5	3.7	4.7	16.6
EPS (₹)	1.7	1.8	1.8	2.1

Source: Company, ICICIdirect.com Research

Cash flow statement

(₹ Crore)

(Year-end March)	FY10	FY11	FY12E	FY13E
Profit before Tax	2,402.0	2,878.3	2,835.4	3,305.4
Add: Depreciation	1,019.0	916.7	908.9	1,089.4
(Inc)/dec in Current Assets	-927.8	-1,110.5	-295.7	-357.8
Inc/(dec) in CL and Provisions	398.7	1,170.2	469.8	141.0
Others	-100.1	-787.8	-537.0	-811.6
CF from operating activities	2,791.8	3,066.9	3,381.4	3,366.3
(Inc)/dec in Investments	-1,228.4	-456.7	0.0	0.0
(Inc)/dec in Fixed Assets	-2,997.5	-3,426.1	-5,000.0	-5,000.0
Others	0.0	0.0	0.0	0.0
CF from investing activities	-4,225.9	-3,882.8	-5,000.0	-5,000.0
Issue/(Buy back) of Equity	1,118.3	0.0	0.0	0.0
Inc/(dec) in loan funds	1,788.8	429.0	3,500.0	3,500.0
Dividend paid & dividend tax	-230.1	-788.9	-791.5	-791.5
Inc/(dec) in Sec. premium	2,868.7	1.0	0.0	0.0
Others	-914.2	-1,057.4	-524.8	-678.3
CF from financing activities	4,631.5	-1,416.4	2,183.7	2,030.2
Net Cash flow	3,197.4	-2,232.3	565.1	396.5
Opening Cash	1,899.3	5,096.7	2,864.4	3,429.5
Closing Cash	5,096.7	2,864.4	3,429.5	3,826.0

Source: Company, ICICIdirect.com Research

Balance sheet

(₹ Crore)

(Year-end March)	FY10	FY11	FY12E	FY13E
Liabilities				
Equity Capital	12,300.7	12,300.7	12,300.7	12,300.7
Reserve and Surplus	10,972.5	12,283.2	13,760.0	15,612.7
Total Shareholders funds	23,273.2	24,583.9	26,060.7	27,913.4
Total Debt	13,868.2	14,569.3	18,069.3	21,569.3
AAD	1,437.4	1,406.6	1,406.6	1,406.6
Deferred tax balance	139.1	161.3	161.3	161.3
Total Liabilities	38,718.0	40,721.0	45,697.8	51,050.6
Assets				
Gross Block	21,302.4	22,874.9	27,874.9	32,874.9
Less: Acc Depreciation	4,907.4	5,774.0	6,682.9	7,772.4
Net Block	16,394.9	17,100.9	21,192.0	25,102.6
Capital WIP	14,025.0	17,122.5	17,899.6	20,022.8
Total Fixed Assets	30,420.0	34,223.3	39,091.5	45,125.3
Investments	4,394.1	5,399.5	5,399.5	5,399.5
Inventory	44.3	33.7	33.7	33.7
Debtors	1,140.2	1,908.6	2,145.2	2,445.5
Loans and Advances	1,295.7	1,365.4	1,686.8	1,923.0
Other Current Assets	741.5	689.1	827.0	992.3
Cash	5,097.4	2,864.1	3,429.5	3,826.0
Total Current Assets	8,319.2	6,861.0	8,122.2	9,220.6
Current Liabities	2,127.0	2,349.2	2,819.1	2,960.0
Provisions	2,288.3	3,413.6	4,096.3	5,734.8
Total Current Liabilities	4,415.2	5,762.8	6,915.4	8,694.8
Net Current Assets	3,904.0	1,098.2	1,206.8	525.8
Others Assets	0.0	0.0	0.0	0.0
Application of Funds	38,718.0	40,721.0	45,697.9	51,050.6

Source: Company, ICICIdirect.com Research

Key ratios

(Year-end March)	FY10	FY11	FY12E	FY13E
Per share data (₹)				
EPS	1.7	1.8	1.8	2.1
Cash EPS	2.5	2.5	2.6	3.0
BV	18.9	20.0	21.2	22.7
DPS	0.5	0.5	0.5	0.5
Cash Per Share	4.1	2.3	2.8	3.1
Operating Ratios (%)				
EBITDA Margin	78.2	67.3	60.2	62.6
PBT / Total Operating income	56.4	52.6	54.3	55.5
PAT Margin	49.0	51.3	43.5	44.4
Inventory days	NA	NA	NA	NA
Debtor days	97.6	164.9	150.0	150.0
Return Ratios (%)				
RoE	9.0	8.8	8.7	9.5
RoCE	7.7	6.7	7.6	8.1
RoIC	3.5	3.3	3.3	3.7
Valuation Ratios (x)				
P/E	12.1	11.6	11.1	9.5
EV / EBITDA	10.2	13.0	12.7	11.5
EV / Net Sales	8.0	8.7	7.6	7.2
Market Cap / Sales	5.9	6.0	4.8	4.2
Price to Book Value	1.1	1.0	1.0	0.9
Solvency Ratios				
Debt/EBITDA	4.2	5.1	5.7	5.8
Debt / Equity	0.6	0.6	0.7	0.8
Current Ratio	1.9	1.2	1.2	1.1
Quick Ratio	1.2	0.5	0.5	0.4

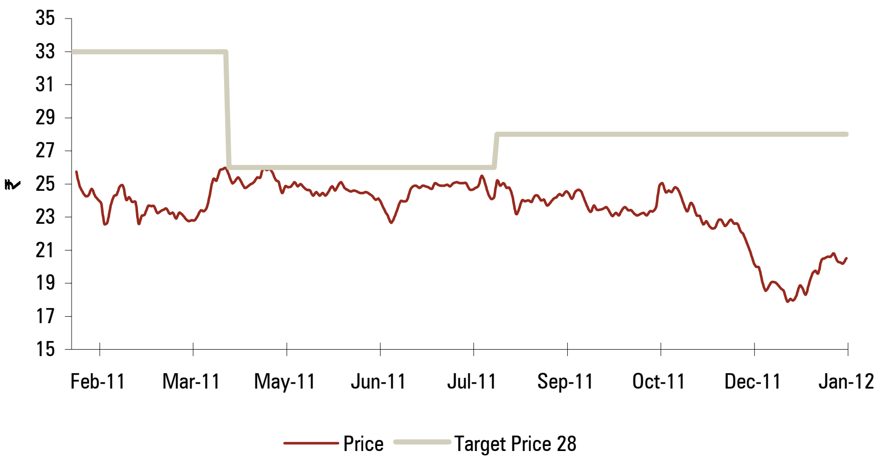
Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Power)

NTPC					Sales (₹ cr)	EPS (₹)	PE (x)	EV/E (x)	PB (x)	RoNW (%)	RoCE (%)
Idirect Code	NTPC	CMP	174	FY11	54874.0	10.7	16.2	12.2	2.1	13.6	13.2
		Target	192	FY12E	60480.0	11.5	15.1	8.9	2.2	14.5	12.9
Mcap(₹ cr)	143,471.1	% Upside	10.3	FY13E	64309.1	12.2	14.3	9.0	1.9	14.5	10.3
Lanco Infratech											
Idirect Code	LANINF	CMP	15	FY11	7783.8	1.9	7.9	10.0	0.8	12.7	6.8
		Target	17	FY12E	9734.7	1.0	14.8	8.2	0.8	6.3	5.6
Mcap(₹ cr)	3,530.5	% Upside	15.3	FY13E	10986.1	1.3	10.9	7.6	0.8	7.1	5.7
Neyveli Lignite											
Idirect Code	NEYLIG	CMP	87	FY11	3949.1	7.7	11.2	11.0	1.2	11.7	5.3
		Target	91	FY12E	4529.7	6.7	13.0	10.2	1.1	10.0	4.6
Mcap(₹ cr)	14,596.1	% Upside	4.6	FY13E	6192.7	7.7	11.3	8.8	1.1	9.9	4.1
PTC											
Idirect Code	POWTRA	CMP	63	FY11	9,063.2	4.7	13.3	15.6	0.7	6.2	6.3
		Target	120	FY12E	9,298.7	4.4	14.3	15.5	0.7	5.5	6.3
Mcap(₹ cr)	1,563.5	% Upside	90.5	FY13E	13,612.4	5.0	12.5	15.0	0.6	5.8	5.8
NHPC											
Idirect Code	NHPC	CMP	21	FY11	4225.3	1.8	11.6	13.0	1.0	8.8	6.7
		Target	28	FY12E	5219.9	1.8	11.1	12.7	1.0	8.7	7.6
Mcap(₹ cr)	25,215.0	% Upside	36.6	FY13E	5950.8	2.1	9.5	11.5	0.9	9.5	8.1
JP Power											
Idirect Code	JAIHYD	CMP	43	FY11	840.7	0.8	54.6	23.3	2.5	7.5	4.7
		Target	45	FY12E	1981.2	1.2	35.9	5.4	2.1	20.2	14.5
Mcap(₹ cr)	11291.8	% Upside	4.7	FY13E	3414.1	4.8	9.0	5.4	0.9	9.8	5.4
Tata Power											
Idirect Code	TATPOW	CMP	105	FY11	19450.8	8.8	11.9	10.3	1.9	15.9	10.6
		Target	96	FY12E	23953.3	6.6	15.9	8.8	1.7	11.0	11.1
Mcap(₹ cr)	24885.0	% Upside	-8.6	FY13E	27096.9	8.2	12.8	9.1	1.6	12.2	9.8
CESC											
Idirect Code	CESC	CMP	254	FY11	4942.5	22.1	11.5	8.1	0.9	5.9	7.4
		Target	302	FY12E	5657.4	31.4	8.1	7.5	0.8	8.0	8.0
Mcap(₹ cr)	3200.4	% Upside	18.9	FY13E	6665.7	32.8	7.8	8.5	0.8	7.9	7.4

Source: ICICIdirect.com Research

Exhibit 6: Recommendation History



Source: ICICIdirect.com Research

Exhibit 7: Recent Releases

31-Jan-11	Q3FY11 Result Update	25	26	Add
8-Apr-11	Q4FY11 Preview	25	26	Add
31-May-11	Q4FY11 Result Update	25	26	Hold
5-Jul-11	Q1 FY12 Preview	25	26	Hold
11-Aug-11	Q1 FY12 Result Update	25	28	Buy
26-Sep-11	Company update	23	28	Buy
5-Oct-11	Q2 FY12 Preview	23	28	Buy
1-Nov-11	Q2 FY12 Review	25	28	Buy
6-Jan-12	Q3 FY12 Preview	18	28	Buy

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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Buy: > 10%/ 15% for large caps / midcaps, respectively;
Hold: Up to +/-10%;
Sell: -10% or more;

Pankaj Pandey **Head – Research** **pankaj.pandey@icicisecurities.com**

ICICIdirect.com Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No. 7, MIDC,
Andheri (East)
Mumbai – 400 093

research@icicidirect.com

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