

BSE SENSEX	S&P CNX	CMP: INR21										Neutral
17,234	5,205											
Bloomberg	NHPC IN	Year	Net Sales	PAT	EPS	EPS	P/E	P/BV	RoE	RoCE	EV/	EV/
Equity Shares (m)	12,300.7	End	(INR m)	(INR m)	(INR)	Gr. (%)	(X)	(X)	(%)	(%)	Sales	EBITDA
52-Week Range (INR)	27/18	03/10A	52,273	15,706	1.4	-	-	-	7.0	8.5	-	-
1,6,12 Rel. Perf. (%)	2/-12/-13	03/11A	51,436	17,956	1.6	16.1	13.1	1.0	7.0	8.8	7.4	10.5
M.Cap. (INR b)	254.6	03/12E	61,071	17,245	1.6	-0.7	13.2	0.92	6.3	7.8	6.1	9.1
M.Cap. (USD b)	5.2	03/13E	66,047	23,086	2.1	30.8	10.1	0.87	8.1	7.9	5.4	8.4

Consolidated financials; Pre Exceptional Earnings

- Adjusted PAT in-line with estimates:** NHPC reported 3QFY12 PAT of INR2.2b. Adjusted for several extraordinary/exceptional items, PAT stood at INR2.7b (up 51% YoY), in-line with our estimates. During 3QFY12, NHPC's (standalone) generation stood at 3.1BUs, up 2% YoY. Barring Loktak, all other NHPC projects reported de-growth in generation and average PLF stood at 38% v/s 37% YoY. Incentives income comprising of UI, Secondary Energy and PAF stood at INR770m v/s INR1.57b in 2QFY12 and INR1.8b in 1QFY12.
- Capacity addition target lowered:** NHPC has lowered its capacity addition targets for FY12 and FY13 to 313MW (v/s earlier guidance of 515MW) and 673MW (v/s 1.1GW earlier), respectively. It is facing (1) regulatory and administrative bottlenecks for some of its projects in J&K (Uri, Chutak, Nimoo Bazgoo) and Arunachal Pradesh (Subhansri Lower), and (2) environment issues at Kotle Bel. This, in our view, has further diminished visibility on capacity addition ramp-up, which is already delayed significantly.
- Receivable issue continues:** NHPC is also facing delays in receivables, and 33% of its debtors (i.e. INR9b) are 60 days old. The SEBs/discoms not paying NHPC on time include Punjab, Jaipur and Reliance Infrastructure, and account for 95% of the receivables over 60 days.
- Cut earnings Estimates:** We cut our FY12/FY13 estimates to factor in capacity delays, and expect NHPC to report PAT of INR17.2b in FY12 (down 1% YoY) and INR23b in FY13 (up 31% YoY). Stock trades at P/E of 13x FY12E and 10x FY13E, and P/BV of 0.9x (both years). Re-iterate **Neutral**.

Y/E March	Quarterly Performance (Standalone)								(INR Million)	
	FY11				FY12				FY11	FY12E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales	10,197	12,813	7,509	11,734	14,708	18,585	8,820	9,765	42,253	51,878
Change (%)	-3.8	7.2	-38.1	71.5	44.2	45.1	17.5	-16.8	1.7	22.8
EBITDA	8,150	10,593	4,602	5,110	9,565	13,283	3,788	4,962	28,455	31,598
Change (%)	-7.4	5.8	-48.1	12.5	17.4	25.4	-17.7	-2.9	-14.7	11.0
As of % Sales	79.9	82.7	61.3	43.5	65.0	71.5	43.0	50.8	67.3	60.9
Depreciation	2,605	2,677	1,247	2,639	2,258	2,234	2,237	2,527	9,167	9,255
Interest	1,042	1,091	1,050	953	865	883	876	991	4,136	3,614
Other Income	2,190	1,711	1,663	1,504	3,275	3,042	2,032	2,504	7,069	10,852
Extraordinary Income/(Expense)	0	0	0	6,564	0	-352	0	0	6,564	-352
PBT	6,694	8,537	3,968	9,586	9,717	12,856	2,707	3,948	28,784	29,228
Tax	1,320	1,635	1,748	2,414	1,807	3,191	586	949	7,118	6,533
Effective Tax Rate (%)	19.7	19.2	44.1	25.2	18.6	24.8	21.6	24.0	24.7	22.4
Reported PAT	5,374	6,902	2,220	7,171	7,910	9,665	2,122	2,999	21,667	22,696
Adjusted PAT	5,108	6,858	1,816	2,582	5,299	7,291	2,735	2,999	16,408	17,886
Change (%)	1.7	11.2	41.2	102.3	3.8	6.3	50.6	16.1	10.3	9.0

E: MOSL Estimates

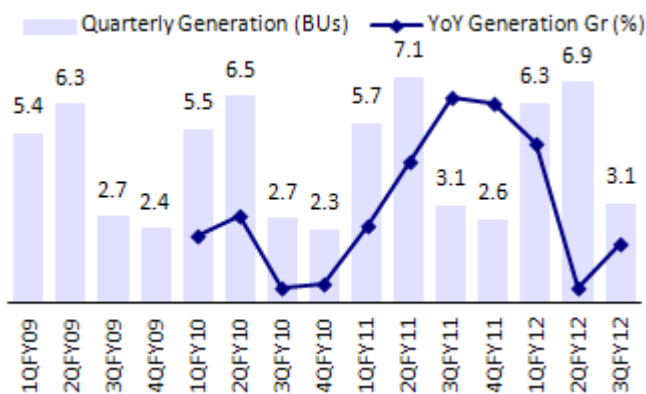
3QFY12 adjusted PAT in-line

- NHPC reported 3QFY12 revenues of INR8.8b (up 18% YoY), EBITDA of INR3.8b (down 18% YoY) and PAT of INR2.1b. There are several adjustments: (i) INR40m impact owing to water cess charges, (ii) Prior period sales INR100m, (iii) Interests from beneficiary (on revenues booked) INR310m, (iv) Corporate office shifting charges (management indicated this to be recurring in nature) INR210m, (v) Write-off of initial expenditure on account of Kotle Bel project (scrapped due to environmental issues) at INR80m, and (vi) VRS of INR90m / tax impact of INR130m. Management indicated Adjusted PAT at INR2.7b (up 51% YoY).
- During the quarter, NHPC has not used corporate tax rate for gross-up of RoE (as was done in 4QF11, with retrospective effect and gain of INR6.5b). Management said it would review the same at the end of the year, based on capacity addition.
- NHPC is also facing delays in receivables and 33% of its debtors (i.e. INR9b) are 60 days old. Total debtors on its book stood at INR26b v/s INR30b QoQ. The SEBs/discoms not paying NHPC on time include Punjab, Jaipur and Reliance Infrastructure, and account for 95% of the receivables over 60 days.

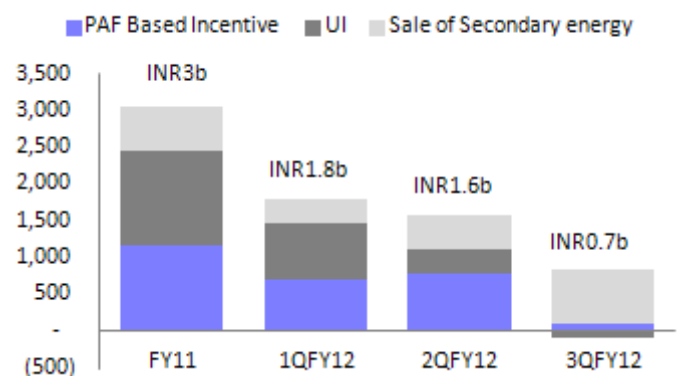
Operating performance impacted, generation up only 2% YoY

NHPC's (standalone) 3QFY12 generation stood at 3.1BUs, up only 2% YoY. Barring Loktak, all other NHPC projects reported de-growth in generation and average PLF stood at 38% v/s 37% YoY. Incentives income comprising of UI, Secondary Energy and PAF for 3QFY12 stood at INR770m v/s INR1.57b in 2QFY12 and INR1.8b in 1QFY12.

NHPC's 3QFY12 generation grew only 2% YoY



Trend in incentives (INR m)



Source: Company/MOSL

Expect further slippages in capacity addition, pipeline projects too impacted

- **FY12 addition at 313MW now v/s 515MW earlier:** NHPC is expected to commission 313MW of capacity in FY12 (all in last 2 months, as capacity addition in YTFDY12 is nil) v/s its earlier guidance of 515MW. Revised capacity addition expected includes: 2 unit of Chutak (22MW), 3 units of Chamera (231MW) and 1 unit of Uri (60MW).
- **FY13 addition at 673MW v/s 1.1GW earlier:** Capacity addition expected includes 2 unit of Chutak (22MW), 3 units of Uri (180MW), TLDP-3 (132MW), TLDP-4 (164MW), one unit of Parbati-III (130MW) and Nimoo Bazgo (45MW).

Regulatory/Political issues with the NHPC capacity

State	Projects	Capacity (MW)	Remarks
Assam	Subhansri Lower	2,000	- Project facing agitation from local people of Assam - Management informed that work on project is standstill from Dec-11 - We understand, project CoD to slip further from earlier guidance of Aug-14
J&K	Uri-II	240	- J&K raised the issue of taking over 690MW Salal and 390MW Dulhasti project
	Nimoo Bazgo	45	- MoP objecting with the provision of converting 3 NHPC project into JV projects
	Chutak	44	- Three projects comprises of Uri-II, Nimoo Bazgoo and Chutak
Uttarakhand	Kotle Bel-IA/IB	515	- Despite CEA technical clearance, project couldn't get MoEF clearance - Provision created of INR800m to write-off the expenses incurred over the project

Source: Company/MOSL

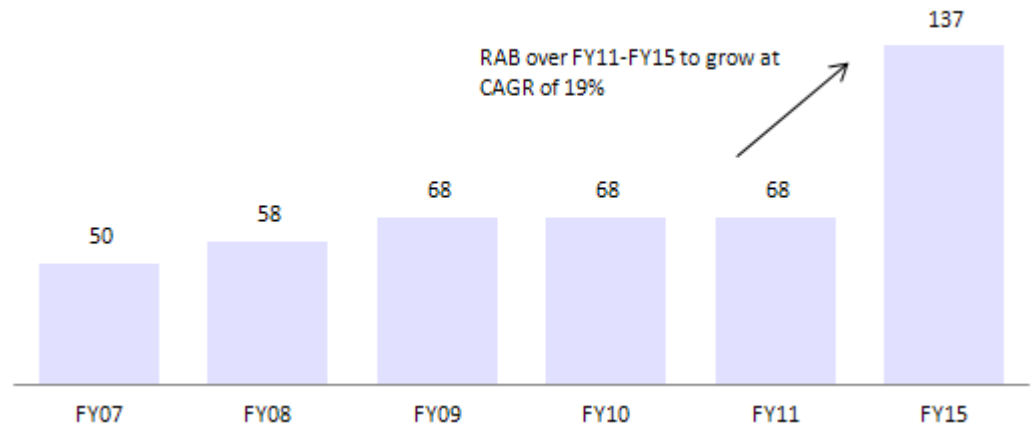
Profitability could be impacted as projects returns could be capped

- NHPC's projects under construction - Uri-II, Nimoo Bazgo, and Chutak - are proposed to be transferred to a JV with J&K government for providing comfort to the later. These projects are currently 100% owned by NHPC and thus, any transfer of value/ stake without appropriate compensation/contribution from state government could lead to lower earnings. **We currently continue to assume full profits accruing to NHPC in these projects.**
- Similarly, **Parbati-III (520MW, cost INR27b)** has been facing several delays. NHPC now expects Unit-1 to get commissioned by September 2012, and thus would lead to major project structural (like dam, Tunnels, etc) capitalized in mid-FY13 itself, while the balance 2 units would be commissioned only in FY14/15. This could mean capitalization of INR17b for NHPC (whereas proportionate could have been INR9b) and thus, the project profitability would be impacted in the near term, as the higher interest/depreciation charge on the capitalized amount would more than negate the return from Unit-1, possibly leading to losses.
- Also, Parbati II (expected now in CY15 v/s CY14 earlier) with cost of INR41b could see similar under-recoveries as units are ramped up in phases.

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

- Total projects under construction stand at 4.5GW, of which only 1.6GW is expected in FY12/13E, lower than management's guidance of 3.1GW. We expect NHPC to commission all projects under construction only by FY16E.
- The commissioning of 1.5GW of projects over FY12-13 will drive NHPC's regulated equity base. We factor in revised cost estimates, and hence, delay in approval and disallowance of overrun are 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's RAB to increase sizably, but would be back-ended (INR b)



Source: Company/MOSL

Valuation and view: Reiterate Neutral

- We cut our FY12/FY13 estimates to factor in capacity delays, and expect NHPC to report PAT of INR17.2b in FY12 (down 1% YoY) and INR23b in FY13 (up 31% YoY).
- Stock trades at P/E of 13x FY12E and 10x FY13E and P/BV of 0.9x each for both years.
- Reiterate **Neutral**, despite < 1x P/BV valuation given muted 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, a government of India enterprise, is a hydropower generator with installed capacity of 5.2GW and a regulated business model. The company has a strong project pipeline with 4.5GW of projects under construction, 6GW in the clearance stage, and 4.2GW of projects under survey.

Key investment arguments

- Given delays in commissioning of installed capacity, NHPC will see bunching up of capacity commissioning over FY13-15. NHPC expects to commission 313MW in FY12 and 673MW in FY13.
- Hydropower projects have large CWIP, which lowers base RoE: NHPC's 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's RAB CAGR is expected to be 19% - from INR70b in FY11 to INR137b in FY14.

Key investment risks

- Significant 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.

Comparative valuations

		NHPC	NTPC	PGCIL
P/E (x)	FY12E	13.2	15.7	15.5
	FY13E	10.1	14.0	13.6
P/BV (x)	FY12E	0.9	1.9	2.0
	FY13E	0.9	1.8	1.8
RoE (%)	FY12E	6.3	12.5	13.5
	FY13E	8.1	13.0	14.0

Shareholding pattern (%)

	Dec-11	Sep-11	Dec-10
Promoter	86.4	86.4	86.4
Domestic Inst	3.3	3.2	2.7
Foreign	1.5	1.8	2.0
Others	8.9	8.7	8.9

Recent developments

- Water Cess charged by J&K government approved by CERC
- Local agitation over the construction of 2GW Lower Subhansri unit continues; project at stand still from Dec-11
- Capacity addition delayed; FY12 addition expected at 313MW v/s 515MW earlier and FY13 at 673MW v/s 1.1GW earlier

Valuation and view

- We cut our FY12/FY13 estimates to factor in capacity delays, and expect NHPC to report PAT of INR17.2b in FY12 (down 1% YoY) and INR23b in FY13 (up 31% YoY).
- Stock trades at P/E of 13x FY12E and 10x FY13E and P/BV of 0.9x each for both years.
- Reiterate **Neutral**, despite < 1x P/BV valuation given muted RoE of 7-8% (a large part of net worth deployed in cash/CWIP) and delayed capacity addition.

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.

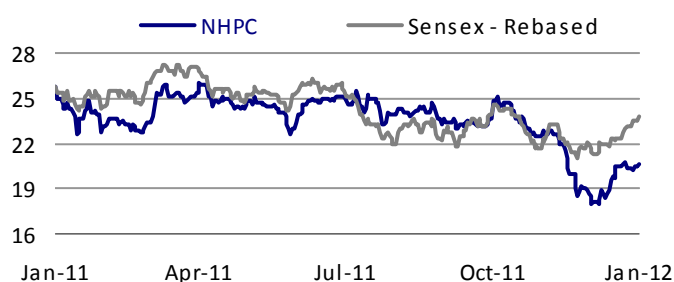
EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY12	1.6	1.8	-10.5
FY13	2.1	2.0	7.0

Target price and recommendation

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

Stock performance (1 year)



Financials and Valuation

Income Statement		(INR Million)			
Y/E March	2010	2011	2012E	2013E	
Net Sales	52,273	51,436	61,071	66,047	
Change (%)	50.4	-1.6	18.7	8.1	
Total Expenditure	9,971	13,798	20,280	23,723	
EBITDA	41,301	36,311	40,804	42,337	
Margin (%)	79.0	70.6	66.8	64.1	
Depreciation	12,827	11,666	11,766	13,932	
EBIT	28,474	24,646	29,038	28,406	
Interest on Power bonds	0	1,239	1,115	1,003	
Interest	7,394	6,709	5,972	6,078	
Other Income - Rec.	6,473	8,071	11,396	9,644	
Extraordinary	11	6,565	-4,458	1	
Profit before Tax	27,564	33,811	31,120	32,976	
Tax	4,766	9,396	7,383	7,756	
Tax Rate (%)	17.3	27.8	23.7	23.5	
Reported PAT	22,798	24,415	23,736	25,219	
EO (Expense) / Income	-6,050	-4,993	-4,458	0	
Adjusted PAT	16,726	19,422	19,279	25,217	
Change (%)	25.7	16.1	-0.7	30.8	
Margin (%)	32.0	37.8	31.6	38.2	
Less: Mionrity Interest	1020	1466	2033	2131	
Net Profit	15,706	17,956	17,245	23,086	

Balance Sheet		(INR Million)			
Y/E March	2010	2011	2012E	2013E	
Equity Share Capital	123,007	123,007	123,007	123,007	
Total Reserves	128,065	142,295	155,228	170,588	
Net Worth	251,072	265,303	278,236	293,595	
Minority Interest	15,895	17,357	19,391	21,521	
Deferred liabilities	2,521	2,774	2,743	2,743	
Advance Against Depreci:	15,398	15,076	15,089	15,089	
Long Term Loan	163,515	167,716	166,312	172,742	
Total Loans	163,515	167,716	166,312	172,742	
Capital Employed	448,402	468,317	481,771	505,692	
Gross Block	280,117	296,087	337,420	406,423	
Less: Accum. Deprn.	57,101	68,780	80,021	93,952	
Net Fixed Assets	223,016	227,307	257,399	312,470	
Capital WIP	128,659	171,696	155,072	111,006	
Investments	33,455	43,194	40,631	37,624	
Construction Stores and :	12,229	0	13,520	13,790	
Curr. Assets	98,390	86,841	90,845	110,564	
Inventory	483	392	462	486	
Account Receivables	15,338	22,166	21,098	18,436	
Cash and Bank Balance	61,895	42,653	48,076	70,044	
Others	20,673	21,630	21,210	21,597	
Curr. Liability & Prov.	47,347	60,721	75,695	79,763	
CL	22,470	24,143	30,614	32,277	
Provisions	24,877	36,578	45,081	47,486	
Net Current Assets	51,043	26,121	15,150	30,801	
Appl. of Funds	448,402	468,318	481,771	505,692	

E: MOSL Estimates

Ratios					
Y/E March	2010	2011	2012E	2013E	
Basic (INR)					
EPS (Adjusted)	1.4	1.6	1.6	2.1	
Cash EPS	2.3	2.4	2.4	3.0	
BV/Share	20.4	21.6	22.6	23.9	
DPS	0.5	0.6	0.6	0.5	
Payout (%)	34.6	35.1	36.9	30.6	
Valuation (x)					
P/E		13.1	13.2	10.1	
Cash P/E		8.6	8.8	6.9	
P/BV		0.96	0.92	0.87	
EV/Sales		7.4	6.1	5.4	
EV/EBITDA		10.5	9.1	8.4	
Dividend Yield (%)		2.9	3.0	2.6	
Return Ratios (%)					
RoE	7.0	7.0	6.3	8.1	
RoCE	8.5	8.8	7.8	7.9	
Adjusted ROE	7.5	7.5	7.1	8.8	
Working Capital Ratios					
Debtor (Days)	107	157	126	102	
Inventory (Days)	3	3	3	3	
Leverage Ratio (x)					
Current Ratio	2.1	1.4	1.2	1.4	
Debt/Equity	0.4	0.5	0.4	0.3	

Cash Flow Statement		(INR Million)			
Y/E March	2010	2011	2012E	2013E	
Oper. Profit/(Loss) bef. Tax	27,564	33,811	31,120	32,976	
Interest	7,394	6,709	5,972	6,078	
Depreciation	12,827	11,666	11,766	13,932	
Direct Taxes Paid	-4,766	-9,396	-7,383	-7,756	
(Inc)/Dec in WC	-535	5,680	16,394	6,317	
CF fr. Oper. incl EO exp.	42,484	48,469	57,868	51,546	
(inc)/dec in FA	-31,771	-71,236	-11,190	-24,666	
(Pur)/Sale of Investment:	-15,552	-9,739	2,563	3,006	
CF from Investments	-47,323	-80,975	-8,626	-21,660	
Issue of Shares	45,578	4,851	4,458	0	
(Inc)/Dec in Debt	14,206	4,201	-1,404	6,430	
Dividend Paid	-7,889	-8,577	-8,770	-7,727	
Interest	-7,394	-6,709	-5,972	-6,078	
Others	-3,835	19,498	-32,131	-543	
CF from Fin. Activity	40,666	13,264	-43,819	-7,918	
Inc/Dec of Cash	35,827	-19,242	5,423	21,968	
Add: Beginning Balance	26,069	61,895	42,653	48,076	
Closing Balance	61,896	42,654	48,076	70,044	

N O T E S

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NHPC

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