

BSE Sensex 19,640	S&P CNX 5,959
Bloomberg	NHPC IN
Equity Shares (m)	12,300.7
M.Cap. (INR b)/(USD b)	344.4/6.5
52-Week Range (INR)	29/15
1,6,12 Rel. Perf. (%)	13/42/24

Financials & Valuation (INR b)

Y/E March	2013E	2014E	2015E
Sales	64.4	69.7	73.5
EBITDA	41.4	45.3	47.6
NP	22.8	24.9	26.5
Adj. EPS (INR)	1.9	2.0	2.2
EPS Gr. (%)	-9.5	9.0	6.4
BV/Sh. (INR)	24.3	25.3	26.4
RoE (%)	7.2	7.6	7.8
RoCE (%)	7.8	8.2	8.4
Payout (%)	42.9	43.2	43.7
Valuation			
P/E (X)	15.1	13.9	13.0
P/BV (X)	1.2	1.1	1.1
EV/EBITDA (X)	10.7	9.6	8.5
Div. Yield (%)	2.6	2.7	2.9

CMP: INR28

TP: INR25

Neutral

- **Adjusted PAT in-line:** NHPC reported PAT of INR3.1b for 3QFY13. This includes adjustment of prior period revenue, reversal of expenditure and interest income on water cess recovery. Adjusted PAT was INR2.4b, in line with our estimate.
- **Standalone generation down 17.8%:** Standalone generation was 2.6BU, down 17.8% YoY due to higher base (good monsoon in the previous year). Average plant availability factor (PAF) for 9MFY13 was 89% v/s 86% in 9MFY12.
- **Targets capacity addition of 552MW in FY14:** NHPC commissioned 275MW capacity in YTFY13 and the management has guided addition of 545MW in 4QFY13. It targets capacity addition of 552MW in FY14 and no addition in FY15/16.
- **Limited growth beyond FY14:** Delays continue at its large projects like 2GW Subanshiri Lower (work halted since December 2011), 800MW Parbati II (contract for tunnel boring machine to be re-awarded), and 330MW Kishanganga Project (river diversification completed; dam spillway in process). NHPC's growth option beyond FY14 is limited.
- **Outstanding debtors at INR20b:** Outstanding debtors stood at INR20b (v/s INR26b as at end-2QFY13 and INR21b as at end-FY12). Debtors above 60 days were at INR12.6b (v/s INR12b+ in FY12). The management is taking steps to realize its dues, as also scheduling the power from defaulting states.
- **Maintain Neutral:** We expect NHPC to report earnings CAGR of 8% over FY13-15, led by capacity commissioning. Possibility of RoE improvement is limited, despite assuming higher RoE for pondage based project. The stock has appreciated 26% over the last three months. We maintain **Neutral**, with a target price of INR25 (1x FY14E BV).

Quarterly Performance (Standalone)

Y/E March	FY12				FY13				FY12	FY13E	FY13 3QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Sales	14,708	18,585	8,820	14,437	14,218	17,725	10,104	12,171	56,550	54,218	9,499	6
Change (%)	44.2	45.1	17.5	23.0	-3.3	-4.6	14.6	-15.7	33.8	-4.1	7.7	
EBITDA	9,565	13,283	3,788	9,942	9,040	12,036	6,132	6,051	36,579	33,258	4,424	39
Change (%)	17.4	25.4	-17.7	94.6	-5.5	-9.4	61.9	-39.1	28.6	-9.1	16.8	
As of % Sales	65.0	71.5	43.0	68.9	63.6	67.9	60.7	49.7	64.7	61.3	46.6	
Depreciation	2,258	2,234	2,237	2,199	2,218	2,532	2,390	2,609	8,927	9,748	2,500	
Interest	865	883	876	799	798	1,047	989	1,955	3,422	4,789	910	
Other Income	3,275	3,042	2,032	2,255	2,451	2,406	1,890	1,827	10,604	8,574	2,300	
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	10,863	4,644	3,314	35,169	27,295	3,314	40
Tax	1,807	3,191	586	1,868	1,777	3,028	1,526	1,018	7,452	7,349	746	
Effective Tax Rate (%)	18.6	24.8	21.6	18.9	21.0	27.9	32.9	30.7	21.2	26.9	22.5	
Reported PAT	7,910	9,665	2,122	8,021	6,698	7,834	3,118	2,296	27,717	19,946	2,568	21
Adjusted PAT	6,050	7,769	2,976	2,109	6,450	7,272	2,416	2,296	18,884	18,680	2,568	-6
Change (%)	18.4	13.3	63.9	-18.3	6.6	-6.4	-18.8	8.8	15.1	-1.1	-13.7	

E: MOSL Estimates

Nalin Bhatt (NalinBhatt@MotilalOswal.com); +91 22 39825429

Aditya Bahety (Aditya.Bahety@MotilalOswal.com); +91 22 39825417

Investors are advised to refer through disclosures made at the end of the Research Report.

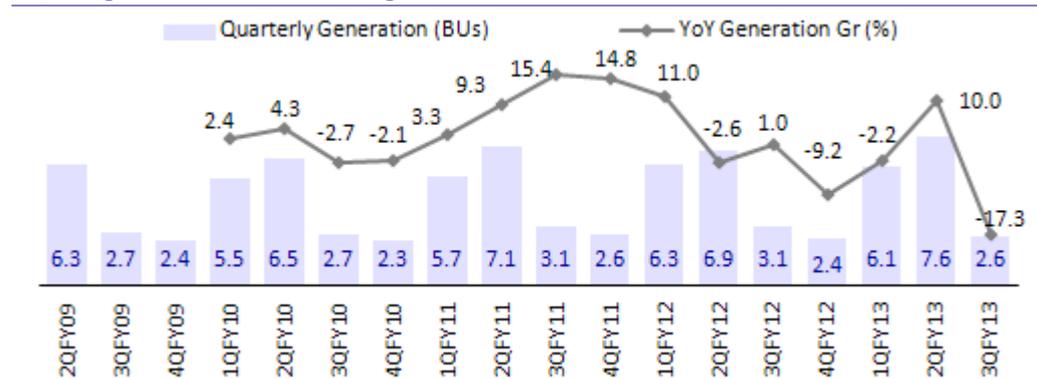
3QFY13 adjusted PAT in-line, interest income on water cess drives reported profit

- NHPC reported revenue of INR10.1b (up 15% YoY), EBITDA of INR6.1b (up 62% YoY) and PAT of INR3.1b for 3QFY13. However, reported PAT includes a one-off item of INR203m on reversal of expenditure booked in 2Q for the 33MW Chutak Project, as CoD for the project was not achieved. With the CoD declared from end-November 2012, the expenditure was reversed in 3Q. PBT was, thus, higher to that extent.
- Also, prior period sales for 3Q were INR11m. Adjusted for this, PAT was INR2.98b. PAT was also boosted by higher other operating income, which includes INR831m of interest on recovery of water cess charges from beneficiaries. Adjusted PAT was INR2.4b, in line with our estimate.
- In 3QFY13, NHPC grossed up RoE at MAT rate, while Tax/PBT ratio was higher (at 33%) due to provision of deferred tax liability. For FY13, the management indicated that gross-up on full tax rate will have to be evaluated only at the year-end; it has not considered the benefit of the same now.
- Employee cost during the quarter was also lower at INR1.9b as compared to INR2.2b in the last quarter, led by natural attrition, reversal of provision for gratuity (INR200m) and elimination of interest earned on deposit for gratuity.
- As at the end of 3QFY13, NHPC's outstanding debtors stood at INR20b (v/s INR26b as at the end of 2QFY13 and INR21b as at the end of FY12). Debtors above 60 days were at INR12.6b (v/s INR12b+ as at the end of FY12). Key states with outstanding receivables are J&K (~INR4.4b), UP (~INR3.7b), Delhi (~INR1.4b) and Bihar (~INR1.2b). The J&K state government has issued a cheque of INR1.4b but this is yet to be cleared. NHPC has initiated several steps to expedite receivables, including scheduling of power supply to UP/Delhi DISCOMs.

Generation de-grows on higher base

- In 3QFY13, NHPC's standalone generation was 2.6BU, down 17.8% YoY due to higher base (good monsoon in the previous year). Average PAF was 89% for 9MFY13 v/s 86% in 9MFY12.
- NHPC has now fully commissioned the Chutak Project (44MW), where revenue is being booked at provisional tariff. Total project cost is estimated at INR9b, translating into cost of INR200m/MW, leading to a tariff of ~INR8/unit. Tariff order for the project is under finalization and entire power from the project is for supply to the state of J&K.

3QFY13 generation declines on higher base



Source: Company, MOSL

Capacity addition growth limited in near term, no addition expected in FY15/16

- NHPC targets to commission 545MW (including 260MW of Parbati-III) in 4QFY13, while it has commissioned 275MW in YTFY13. The management is confident of commissioning Uri-II, Nimoo Bazgo and two units of Parbati-III in the current financial year. The remaining two units of Parbati-III as also TLDP III & IV are likely to be commissioned in FY14.
- Parbati-III is expected to operate at lower level due to delay in construction of Parbati-II (upstream). According to the management, only the first unit would be completely operational, the second unit would be partially operational in FY14 and the balance two units, even if completed, will not be able to generate due to non-commissioning of Parbati-II. Though Parbati-III is designed to generate 1,890MU, actual generation would be lower. NHPC has filed a petition with CERC for review of design energy, as it anticipates generation of just 700MU. If CERC does not allow downward revision of design energy, it would lead to reported losses from the project, as cost would be capitalized for the entire project but fixed charge recovery would be proportionately lower.
- Projects under construction for NHPC stand at 4.2GW (3.1GW with lesser visibility), while 11.3GW of projects are under development phase. Given sizable delays in projects under construction, the management expects no addition to installed capacity base in FY15/16.
- Execution of Subhanshri Lower (2GW) is at a standstill since December 2011 due to agitation by various groups and CoD for the project is yet to be finalized. In Parbati-II (800MW), contract work for tunnel boring machine (TBM) is under progress and is expected to be awarded by March 2013. CoD is not yet finalized. The Kishanganga Project (330MW) is expected to commission in FY17.
- We have assumed commissioning of Uri-II, Nimoo Bazgo and two units of Parbati-III in 4QFY13. We expect the remaining two units of Parbati-III, and Teesta low dam III & IV to get commissioned in FY14.

Valuation and view

We expect NHPC to report earnings CAGR of 8% over FY13-15, led by capacity commissioning. Possibility of RoE improvement is limited, despite assuming higher RoE for pondage based project. The stock has appreciated 26% over the last three months. We maintain Neutral, with a target price of INR25 (1x FY14E BV).

NHPC: an investment profile

Company description

NHPC, a government of India (GoI) enterprise, is a hydro power generator, with regulated business model and installed capacity of 5.5GW. The company has a project pipeline, with 4.2GW of projects under construction and 11.2GW of projects under clearance and survey stage.

Key investment arguments

- Given delays in commissioning of installed capacity, NHPC will see bunching up of capacity commissioning over FY13-15. NHPC expects commissioning of 829MW in FY13 and 552MW in FY14.
- Hydropower projects have large CWIP, which lowers base RoE. Capital work in progress as a percentage of gross block stood at 39% in FY12. Higher CWIP is largely due to longer construction time period of 5-7 years for hydropower v/s 3-4 years for thermal projects.
- Recently, the RoE for pondage based project is increased by 1% to 16.5%.

Key investment risks

- Further meaningful delays in capacity commissioning.
- Large projects like Subhanshri Lower and Parbati-II are inordinately delayed.
- R&R delays can impact land acquisition process.

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

Recent developments

- Chutal 44MW was commissioned during 3QFY13.
- Delay in Parbati-II, Subhanshri Lower and Kishanganga would lead to no capacity addition during FY15/16.

Valuation and view

- We expect NHPC to report earnings CAGR of 8% over FY13-15, led by capacity commissioning. Possibility of RoE improvement is limited, despite assuming higher RoE for pondage based project.
- The stock has appreciated 26% over the last three months. We maintain **Neutral**, with a target price of INR25 (1x FY14E BV).

Sector view

- The Power sector has begun to witness several initiatives by authorities to address concerns on SEBs, fuel supply pacts and PPAs. It would, however, take a while before clarity on several issues emerges. In this environment, we continue to prefer CPSUs, which are relatively better positioned on these fronts.

Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
28	25	-9.7	Neutral

EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY13	1.9	1.9	2.3
FY14	2.0	2.1	-2.9

Shareholding pattern (%)

	Dec-12	Sep-12	Dec-11
Promoter	86.4	86.4	86.4
Domestic Inst	2.8	3.3	3.3
Foreign	2.0	1.5	1.5
Others	8.9	8.9	8.9

Stock performance (1 year)



Financials and Valuation

Income Statement		(INR Million)			
Y/E March	2012	2013E	2014E	2015E	
Net Sales	69,203	64,378	69,707	73,535	
Change (%)	34.5	-7.0	8.3	5.5	
Total Expenditure	19,741	20,960	22,315	23,725	
EBITDA	48,116	41,378	45,271	47,603	
Margin (%)	69.5	64.3	64.9	64.7	
Depreciation	11,500	12,267	13,587	14,670	
EBIT	36,616	29,111	31,684	32,933	
Interest on Power bonds	1,021	835	752	677	
Interest	5,739	6,913	7,319	7,059	
Other Income - Rec.	11,298	9,103	9,089	9,728	
Extraordinary	316	0	0	0	
Profit before Tax	43,513	32,137	34,205	36,278	
Tax	9,477	8,071	9,345	9,821	
Tax Rate (%)	21.8	25.1	27.3	27.1	
Reported PAT	34,036	24,066	24,860	26,457	
EO (Expense) / Income	-8,833	-1,265	0	0	
Adjusted PAT	25,203	22,800	24,860	26,457	
Change (%)	28.4	-9.5	9.0	6.4	
Margin (%)	36.4	35.4	35.7	36.0	
Less: Mionrity Interest	1551	1596	1645	1696	
Net Profit	23,652	21,204	23,215	24,761	

Balance Sheet		(INR Million)			
Y/E March	2012	2013E	2014E	2015E	
Equity Share Capital	123,007	123,007	123,007	123,007	
Total Reserves	163,430	175,582	188,064	201,268	
Net Worth	286,438	298,590	311,072	324,275	
Minority Interest	20,349	21,945	23,590	25,286	
Deferred liabilities	3,504	3,170	3,170	3,170	
Advance Against Depreci:	14,327	14,151	14,151	14,151	
Long Term Loan	179,126	157,006	160,984	151,133	
Total Loans	179,126	157,006	160,984	151,133	
Capital Employed	503,743	494,861	512,966	518,015	
Gross Block	302,107	381,029	398,660	409,541	
Less: Accum. Deprn.	80,280	92,218	105,805	120,475	
Net Fixed Assets	221,826	288,811	292,855	289,066	
Capital WIP	193,987	137,159	139,793	129,243	
Investments	16,559	17,016	16,106	15,287	
Construction Stores and :	0	0	0	0	
Curr. Assets	170,515	137,869	156,098	179,954	
Inventory	496	449	486	509	
Account Receivables	22,471	20,164	21,470	22,255	
Cash and Bank Balance	77,953	57,441	70,234	90,733	
Others	69,595	59,814	63,908	66,457	
Curr. Liability & Prov.	82,647	69,669	75,561	79,211	
CL	25,392	22,463	24,355	25,526	
Provisions	57,255	47,207	51,207	53,685	
Net Current Assets	87,868	68,199	80,537	100,743	
Appl. of Funds	520,239	511,186	529,292	534,340	

E: MOSL Estimates

Ratios		(INR Million)			
Y/E March	2012	2013E	2014E	2015E	
Basic (INR)					
EPS (Adjusted)	2.0	1.9	2.0	2.2	
Cash EPS	2.9	2.7	3.0	3.2	
BV/Share	23.3	24.3	25.3	26.4	
DPS	0.7	0.7	0.8	0.8	
Payout (%)	29.4	42.9	43.2	43.7	
Valuation (x)					
P/E	13.7	15.1	13.9	13.0	
Cash P/E	9.8	10.3	9.4	8.7	
P/BV	1.20	1.15	1.11	1.1	
EV/Sales	6.4	6.9	6.2	5.5	
EV/EBITDA	9.3	10.7	9.6	8.5	
Dividend Yield (%)	2.5	2.6	2.7	2.9	
Return Ratios (%)					
RoE	8.6	7.2	7.6	7.8	
RoCE	10.3	7.8	8.2	8.4	
Adjusted ROE	9.1	7.8	8.2	8.3	
Working Capital Ratios					
Debtor (Days)	119	114	112	110	
Inventory (Days)	3	3	3	3	
Leverage Ratio (x)					
Current Ratio	2.1	2.0	2.1	2.3	
Debt/Equity	0.4	0.3	0.3	0.2	

Cash Flow Statement		(INR Million)			
Y/E March	2012	2013E	2014E	2015E	
Oper. Profit/(Loss) bef. T:	43,513	32,137	34,205	36,278	
Interest	5,739	6,913	7,319	7,059	
Depreciation	11,500	12,267	13,587	14,670	
Direct Taxes Paid	-9,477	-8,071	-9,345	-9,821	
(Inc)/Dec in WC	-15,301	-844	455	293	
CF fr. Oper. incl EO exp.	35,974	42,402	46,221	48,479	
(inc)/dec in FA	-39,923	-22,094	-20,266	-331	
(Pur)/Sale of Investment:	1,776	-458	910	819	
CF from Investments	-38,147	-22,552	-19,355	488	
Issue of Shares	7,523	1,265	0	0	
(Inc)/Dec in Debt	22,890	-22,121	3,979	-9,851	
Dividend Paid	-10,007	-10,318	-10,732	-11,558	
Interest	-5,739	-6,913	-7,319	-7,059	
Others	-2,053	-2,276	0	0	
CF from Fin. Activity	12,614	-40,361	-14,073	-28,468	
Inc/Dec of Cash	10,440	-20,512	12,793	20,499	
Add: Beginning Balance	67,513	77,953	57,441	70,234	
Closing Balance	77,953	57,441	70,234	90,733	

Disclosures

This report is for personal information of the authorized recipient and does not constitute to be any investment, legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and Motilal Oswal Securities Limited (hereinafter referred as MOST) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form.

Unauthorized disclosure, use, dissemination or copying (either whole or partial) of this information, is prohibited. The person accessing this information specifically agrees to exempt MOST or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold MOST or any of its affiliates or employees responsible for any such misuse and further agrees to hold MOST or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

The information contained herein is based on publicly available data or other sources believed to be reliable. While we would endeavour to update the information herein on reasonable basis, MOST and/or its affiliates are under no obligation to update the information. Also there may be regulatory, compliance, or other reasons that may prevent MOST and/or its affiliates from doing so. MOST or any of its affiliates or employees shall not be in any way responsible and liable for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOST or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This report is intended for distribution to institutional investors. Recipients who are not institutional investors should seek advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents.

MOST and/or its affiliates and/or employees may have interests/positions, financial or otherwise in the securities mentioned in this report. To enhance transparency, MOST has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

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

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analysts, strategists, or research associates principally responsible for preparation of MOST research receive compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOST & its group companies to registration or licensing requirements within such jurisdictions.

For U.K.

This report is intended for distribution only to persons having professional experience in matters relating to investments as described in Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (referred to as "investment professionals"). This document must not be acted on or relied on by persons who are not investment professionals. Any investment or investment activity to which this document relates is only available to investment professionals and will be engaged in only with such persons.

For U.S.

Motilal Oswal Securities Limited (MOSL) is not a registered broker - dealer under the U.S. Securities Exchange Act of 1934, as amended (the "1934 act") and under applicable state laws in the United States. In addition MOSL is not a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act" and together with the 1934 Act, the "Acts"), and under applicable state laws in the United States. Accordingly, in the absence of specific exemption under the Acts, any brokerage and investment services provided by MOSL, including the products and services described herein are not available to or intended for U.S. persons.

This report is intended for distribution only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the Exchange Act and interpretations thereof by SEC (henceforth referred to as "major institutional investors"). This document must not be acted on or relied on by persons who are not major institutional investors. Any investment or investment activity to which this document relates is only available to major institutional investors and will be engaged in only with major institutional investors. In reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") and interpretations thereof by the U.S. Securities and Exchange Commission ("SEC") in order to conduct business with Institutional Investors based in the U.S., MOSL has entered into a chaperoning agreement with a U.S. registered broker-dealer, Motilal Oswal Securities International Private Limited. ("MOSIPL"). Any business interaction pursuant to this report will have to be executed within the provisions of this chaperoning agreement.

The Research Analysts contributing to the report may not be registered /qualified as research analyst with FINRA. Such research analyst may not be associated persons of the U.S. registered broker-dealer, MOSIPL, and therefore, may not be subject to NASD rule 2711 and NYSE Rule 472 restrictions on communication with a subject company, public appearances and trading securities held by a research analyst account.

For Singapore

Motilal Oswal Capital Markets Singapore Pte Limited is acting as an exempt financial advisor under section 23(1)(f) of the Financial Advisers Act (FAA) read with regulation 17(1)(d) of the Financial Advisers Regulations and is a subsidiary of Motilal Oswal Securities Limited in India. This research is distributed in Singapore by Motilal Oswal Capital Markets Singapore Pte Limited and it is only directed in Singapore to accredited investors, as defined in the Financial Advisers Regulations and the Securities and Futures Act (Chapter 289), as amended from time to time.

In respect of any matter arising from or in connection with the research you could contact the following representatives of Motilal Oswal Capital Markets Singapore Pte Limited:

Nihar Oza

Email: niharoza.sg@motilaloswal.com

Contact: (+65) 68189232

Kadambari Balachandran

Email: kadambari.balachandran@motilaloswal.com

Contact: (+65) 68189233 / 65249115

Office address: 21 (Suite 31), 16 Collyer Quay, Singapore 049318



Motilal Oswal Securities Ltd

Motilal Oswal Tower, Level 9, Sayani Road, Prabhadevi, Mumbai 400 025

Phone: +91 22 3982 5500 E-mail: reports@motilaloswal.com