

# NHPC Limited IPO

## Company Profile

NHPC is the largest Hydroelectric Power Generating Company in India which was incorporated by Government of India (GoI) in 1975, with an authorized capital of Rs 2000 million. Its objective is to plan, promote and organize the development of hydroelectric and renewable power projects.

The company has 13 Hydroelectric Power (HEP) plants in operation with an installed capacity of 5,175 MW, which includes two plants with an installed capacity of 1,520 MW in its 51% owned subsidiary, Narmada Hydroelectric Development Corporation (NHDC).

Currently NHPC is engaged in construction of 11 HEP plants with 4,622 MW as a total installed capacity. The company's power stations and hydroelectric projects are located largely in the North and North East of India, in the states of Jammu & Kashmir, Himachal Pradesh, Uttarakhand, Arunachal Pradesh, Assam, Manipur, Sikkim and West Bengal.

NHPC generated 16,582 Million Units (MUs) in 2008-09 as against 14,811 MUs in 2007-08. NHDC reported a power generation of 2,369 MUs in 2008-09 from 3,432 MUs in 2007-08.

NHPC is a Mini Ratna Category-I Enterprise of the Govt. of India with an authorized share capital of Rs. 1,50,000 Million and an investment base of over Rs. 3,17,000 Million Approx.

## Objectives of the Issue

The objectives of the Issue are to achieve the benefits of listing on the Stock Exchanges & to raise capital:

1. Part Finance of the Construction & Development Cost
2. General Corporate Purposes;
3. Issue Related Expenses & get the shares listed on the Stock Exchanges

## Financial highlights

Y/e 31 Mar (Rs m)	FY08	FY09	FY10E	FY11E
Revenues	25,426	26,784	35,366	40,646
yoy growth (%)	36.8	5.3	32	14.9
Operating profit	16,212	17,982	25,888	29,939
OPM (%)	63.8	67.1	73.2	73.7
Pre-exceptional PAT	10,513	11,630	14,228	15,879
Reported PAT	10,041	10,703	14,228	15,879
yoy growth (%)	8.6	7	32.9	11.6
EPS (Rs)	0.9	1	1.2	1.3
Debt/Equity (x)	0.5	0.6	0.6	0.6
RoE (%)	5.8	6.2	6.6	6.4
RoCE (%)	6.5	5.9	7	7.2
Source: RHP, India Infoline Research				

# NHPC Limited IPO

Issue Highlights	
Industry	Power Industry
Public Issue Open	August 7,2009
Public Issue Close	August 12,2009
Public Issue Type	100% Book Built Issue (Initial Public Offer IPO)
Issue Size	Rs.5032 Cr – Rs.6038 Cr
Public Issue Number of shares	1,67,73,74,015 Equity Shares of Rs. 10/-
Face Value	Rs. 10/-
Public Issue Price Band	Rs 30/- to Rs 36/-
Market Lot	175 Shares
Minimum Order Quantity	175 Shares
Maximum Subscription Amount for Retail Investor	Rs 100,000/-
Listing	BSE, NSE
Lead Manager	ENAM Securities
	Kotak Mahindra
	SBI Capital Markets Ltd
Registrar	Karvy Computershare Pvt Limited (Ph: +91-40-23420815 Email: nhpcipo@karvy.com)

## NHPC Limited IPO Grading / Rating

ICRA has assigned an **IPO Grade 3** to NHPC Limited IPO. This means as per ICRA, company has **average fundamentals**. ICRA assigns IPO gradings on a scale of 5 to 1, with Grade5 indicating strong fundamentals and Grade 1 indicating poor fundamental

## Bidding Status (IPO Subscription day by day)

As on Date	No. of times issue is subscribed (BSE + NSE)				
	QIBs	Non Institutional	Retail (RIIs)	Employees	Total
Day 1 - 07-Aug-2009 17:00:00 IST	6.0057	0.0062	0.0952	0.0002	3.54

## NHPC Limited IPO

Issue Composition	
<b>Total Issue</b>	167,73,74,015 Shares
<b>Fresh Issue</b>	111,82,49,343 Shares
<b>Offer for Sale</b>	55,91,24,672 Shares
<b>Out of Which,</b>	
<b>Employee Reservation</b>	4,19,34,350 Shares
<b>Net Issue</b>	163,54,39,665 shares
<b>QIBs</b>	98,12,63,799 Shares
<b>NIBs</b>	16,35,43,966 Shares
<b>RETAIL</b>	49,06,31,900 Shares

Shareholding pattern		
(%)	Pre IPO	Post IPO
<b>Government of India</b>	100	86.4
<b>Non promoters</b>	0	9.3
<b>Public</b>	0	4.3

Share reservation	(%)
<b>QIB</b>	58.5
<b>Non institutional</b>	9.7
<b>Retail</b>	31.8

### Strategically located assets

Majority of NHPC's plants are located in the water rich regions of north and north east India. Due to continuous water flow in these regions, NHPC's plants operate at very high availability indices, thus thrashing the benchmark. This leads to the generation of electricity even during non peak period and earn incentive income which in turn improves its RoE. NHPC's average capacity index for FY07-09 was 94.11%, 96.13% and 93.61% respectively, well above the benchmark required under the CERC regulations of 90% availability.

### Strong in-house design and engineering team

NHPC has an expert in-house team for project design and the engineering capabilities ranging from the concept stage to the commissioning of the projects. The team is supported by international and domestic project consultants. As of July 20, 2009, the company had approximately 1,185 inhouse engineers with expertise in a range of engineering disciplines, particularly hydrology, electrical, civil and structural design, hydro-mechanical and geotechnical design. The engineers have specialised tunnel design experience and are able to design for variable and unpredictable geological conditions. They also have an experience with a variety of specialized analysis, design and computer aided design software applications.

### Additional 4.6GW is expected to commission by FY16

NHPC plans to nearly double its standalone capacity to 9,797MW by FY16. It is in the process of adding 4,622MW of fresh capacity, through 11 projects. In addition, it is awaiting government sanction for five projects with an anticipated capacity of 4,565MW and 2,166MW through joint ventures. NHPC is also conducting surveys and investigation works for nine additional projects with an installed capacity of 7,255MW. With the commissioning of all these projects, NHPC's installed capacity will stand at 23.8GW.

### Alliances with state governments to increase growth

# NHPC Limited IPO

---

Along with owning own assets, NHPC has selectively entered into various alliances with state governments to commence various projects. It signed a MoU with the government of Madhya Pradesh and incorporated a subsidiary, Narmada Hydroelectric Development Corporation (NHDC), in 2000 to develop a hydroelectric station across the Narmada River. It also signed a MoU with the government of Manipur to establish JV to develop Loktak Downstream hydroelectric project and entered into a MoA with government of Arunachal Pradesh to implement Dibang project.

Further it signed a MoU with JKSPDC, government of J&K and PTC to implement the Pakal Dul and other hydroelectric projects with an anticipated aggregate installed capacity of 2,100MW across the Chenab River. Currently it operates 1,520MW through these JV's and plans to add another 2,166MW. This should allow the company to expand its geographic presence at lower equity infusion by the company.

## Diversifying fuel base and geography

NHPC plans to diversify its energy generation mix by venturing into non-hydro projects. NHPC through its subsidiary NHDC recently received a mandate to set up 1,000MW thermal power project at Khandwa in Madhya Pradesh. In the past NHPC has executed Kurichhu hydropower project in Bhutan and Devighat hydropower project in Nepal on contract agency basis. It has also arranged a DPR for the Department of Energy, Royal Government of Bhutan, for a 720MW hydropower project in Mangdecchu in Bhutan. Currently it is setting up a DPR for Chamkarchhu I hydropower project (670MW) and Kuri Gangri hydropower project (1,800MW) in Bhutan. In September 2008 it signed a MoU with Department of Hydro Power Implementation of the Ministry of Electric Power, Union of Myanmar to study a master plan for hydropower development of the Chindwin river basin and assessing the DPRs for the Tamanthi hydroelectric project (1,200MW) and the Shwzaye hydroelectric project (600MW).

## Valuations

The stock trades at a P/BV of Rs.2.00 on the lower side of the band and 2.19 on the higher

side of the band of its FY09 book value Rs.16.45. Looking at the post issue valuation, the stock trades at a P/BV of Rs.2.01 on the lower side of the band and 2.40 on the higher side of the band of its post issue book value of Rs.14.95. Considering the P/E valuation, the company is trading at a P/E of 26.96x times on the lower side of the price band and 32.36x times on the higher side of the price band of its consolidated FY09 EPS of Rs.1.11. Looking at post issue valuation, the company is trading at a P/E of 29.66x times on the lower side and 35.60x times on the higher side of its post issue consolidated FY09 EPS of Rs.1.01.

## Growth Utility

Currently NHPC is in its growth phase. Capacity additions are anticipated to remain as per schedule which will drive earnings over FY09-12E. Together with the robust capacity addition over the period, the company will also experience healthy operating cash flow. Since NHPC will continue to be in an investment phase it is expected that the company will become positive free cash flow by earliest FY12. Given higher risks, hydrological and geological, NHPC could trade a lower P/B multiple as compared to NTPC.

## Recommendation

NHPC has a reputable place in hydro power generation business and a considerable size of operating as well as under construction projects with strong operating efficiencies. The healthy track record of power generation from operational projects arising out of favorable hydrology of the rivers on which these projects are located as well as the high Capacity Index of its operational plants enables NHPC to recover full Annual Fixed Charges (AFC). NHPC owing to its project locations has a highly concentrated customer profile, which largely includes North and North-East based State Electricity Utilities (SEUs). While these SEUs have relatively weak financial profiles, however NHPC has been able to realise 100% of its billings in last 6 years.

The company will be an important player in Hydro Power and would be PSU like NTPC in this sector. According to the financials, the stock is trading at a P/BV of Rs.2 for its book value of Rs.16.45 for FY09, which is lower when

## NHPC Limited IPO

compared with the competitors and other players of the industry. Further, looking at the fundamentals and track record, it is

recommended to apply in IPO even at the upper band of Rs.36.

Income statement				
Y/e 31 Mar (Rs m)	FY08	FY09	FY10E	FY11E
Revenue	25,426	26,784	35,366	40,646
Operating profit	16,212	17,982	25,888	29,939
Depreciation	-4,437	-5,175	-5,215	-5,851
Interest expense	-5,838	-5,052	-6,791	-8,359
Other income	5,851	5,032	3,430	3,674
Profit before tax	11,788	12,787	17,312	19,403
Taxes	-1,275	-1,157	-3,084	-3,524
Adj. profit	10,513	11,630	14,228	15,879
Exceptional items	-472	-926	0	0
Net profit	10,041	10,703	14,228	15,879

Balance sheet				
Y/e 31 Mar (Rs m)	FY08	FY09	FY10E	FY11E
Equity capital	111,825	111,825	123,007	123,007
Reserves	73,963	80,188	118,550	128,915
Net worth	185,788	192,013	241,557	251,922
Debt	99,563	122,340	137,505	142,759
Total liabilities	285,351	314,353	379,062	394,682
Fixed assets	247,728	280,360	315,994	352,582
Investments	30,492	27,936	25,097	22,258
Net wrkg cap	-11,282	-12,942	-14,965	-15,292
Inventories	402	372	489	562
Sundry debtors	3,481	2,947	4,263	5,390
Other curr assets	18,504	17,592	20,824	21,540
Sundry creditors	-18,627	-22,102	-27,616	-28,566
Other curr liab	-15,042	-11,750	-12,925	-14,218
Cash	18,413	19,000	52,937	35,133
Total assets	285,351	314,353	379,062	394,682

Cash flow statement				
Y/e 31 Mar (Rs m)	FY08	FY09	FY10E	FY11E

## NHPC Limited IPO

<b>Profit before tax</b>	11,788	12,787	17,312	19,403
<b>Depreciation</b>	4,437	5,175	5,215	5,851
<b>Tax paid</b>	-1,275	-1,157	-3,084	-3,524
<b>Wrkg capital Δ</b>	3,157	1,660	2,024	327
<b>Other op items</b>				
<b>Op cashflow</b>	18,108	18,464	21,466	22,056
<b>Cap expenditure</b>	-28,675	-37,806	-40,849	-42,439
<b>Free cash flow</b>	-10,567	-19,342	-19,383	-20,383
<b>Equity raised</b>	1,314	-762	40,257	0
<b>Investments</b>	2,735	2,556	2,839	2,839
<b>Debt</b>				
<b>financing/disposal</b>	24,244	22,777	15,165	5,254
<b>Dividends paid</b>	-3,510	-3,717	-4,940	-5,514
<b>Other items</b>	-472	-926	0	0
<b>Net Δ in cash</b>	13,744	587	33,937	-17,804

### Key ratios

Y/e 31 Mar	FY08	FY09	FY10E	FY11E
<b>Growth matrix (%)</b>				
<b>Revenue growth</b>	36.8	5.3	32	14.9
<b>Op profit growth</b>	23.5	10.9	44	15.6
<b>EBIT growth</b>	32.9	1.2	35.1	15.2
<b>Net profit growth</b>	6.8	10.6	22.3	11.6
<b>Profitability ratios (%)</b>				
<b>OPM</b>	63.8	67.1	73.2	73.7
<b>EBIT margin</b>	69.3	66.6	68.2	68.3
<b>Net profit margin</b>	41.3	43.4	40.2	39.1
<b>RoCE</b>	6.5	5.9	7	7.2
<b>RoNW</b>	5.8	6.2	6.6	6.4
<b>RoA</b>	3.5	3.5	3.7	3.7
<b>Per share ratios</b>				
<b>EPS</b>	0.9	1	1.2	1.3
<b>Dividend per share</b>	0.3	0.3	0.4	0.4
<b>Cash EPS</b>	1.3	1.5	1.6	1.8
<b>Book value per share</b>	16.6	17.2	19.6	20.5
<b>Payout (%)</b>				
<b>Dividend payout</b>	33.4	32	34.7	34.7

# NHPC Limited IPO

Key ratios				
Y/e 31 Mar	FY08	FY09	FY10E	FY11E
<b>Tax payout</b>	10.8	9.1	17.8	18.2
<b>Liquidity ratios</b>				
<b>Debtor days</b>	50	40	44	48
<b>Inventory days</b>	6	5	5	5
<b>Creditor days</b>	267	301	285	257
<b>Leverage ratios</b>				
<b>Interest coverage</b>	3	3.5	3.5	3.3
<b>Net debt / equity</b>	0.4	0.5	0.4	0.4
<b>Net debt / op. profit</b>	5	5.7	3.3	3.6

## Contact Details:

### Visit us at

[www.mas.net.in](http://www.mas.net.in)

[www.ajsh.in](http://www.ajsh.in)

Send your query to:

[info@mas.net.in](mailto:info@mas.net.in)

Ankit Jain

[ankit@mas.net.in](mailto:ankit@mas.net.in)

Mobile +91 98106 61322

Siddhartha Havelia

[siddhartha@mas.net.in](mailto:siddhartha@mas.net.in)

Mobile +91 98113 25385

Office India

+91 11 4559 6689

US Desk

+1 301 328 2922

**Disclaimer:** In the preparation of the material contained in this document, Mercurius Advisory Services Private Limited (MAS) and AJSH & Co, Chartered Accountants(AJSH), has used information that is publicly available, including information developed inhouse. Some of the material used in the document may have been obtained from members/persons other than the MAS and AJSH and/or its affiliates and which may have been made available to MAS and AJSH and/or its affiliates. Information gathered & material used in this document is believed to be from reliable sources. MAS and AJSH however does not warrant the accuracy, reasonableness and/or completeness of any information. For data reference to any third party in this material no such party will assume any liability for the same. MAS and AJSH and/or any affiliate of MAS and AJSH does not in any way through this material solicit any offer for purchase, sale or any financial transaction/commodities/products of any financial instrument dealt in this material. All recipients of this material should before dealing and or transacting in any of the products referred to in this material make their own investigation, seek appropriate professional advice. We have included statements/opinions/recommendations in this document which contain words or phrases such as "will", "expect" "should" and similar expressions or variations of such expressions, that are "forward looking statements". Actual results may differ materially from those suggested by the forward looking statements due to risks or uncertainties associated with our expectations with respect to, but not limited to, exposure to market risks, general economic and political conditions in India and other countries globally, which have an impact on our services and / or investments, the monetary and interest policies of India, inflation, deflation, unanticipated turbulence in interest rates, foreign exchange rates, equity prices or other rates or prices, the performance of the financial markets in India and globally, changes in domestic and foreign laws, regulations and taxes and changes in competition in the industry. By their nature, certain market risk disclosures are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains or losses could materially differ from those that have been estimated. MAS and AJSH (including its affiliates) and any of its officers directors, personnel and employees, shall not liable for any loss, damage of any nature, including but not limited to direct, indirect, punitive, special, exemplary, consequential, as also any loss of profit in any way arising from the use of this material in any manner. The recipient alone shall be fully responsible/ are liable for any decision taken on the basis of this material. The investments discussed in this material may not be suitable for all investors. Any person subscribing to or investing in any product/financial instruments should do so on the basis of and after verifying the terms attached to such product/financial instrument. Financial products and instruments are subject to market risks and yields may fluctuate depending on various factors affecting capital/debt markets.

## NHPC Limited IPO

---

Please note that past performance of the financial products and instruments does not necessarily indicate the future prospects and performance thereof. Such past performance may or may not be sustained in future. MAS and AJSH (including its affiliates) or its officers, directors, personnel and employees, including persons involved in the preparation issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation in the financial instruments/products/commodities discussed herein or act as advisor or lender / borrower in respect of such securities/financial instruments/products/commodities or have other potential conflict of interest with respect to any Recommendation and related information and opinions. The said persons may have acted upon and/or in a manner contradictory with the information contained here. No part of this material may be duplicated in whole or in part in any form and or redistributed without the prior written consent of MAS and AJSH. This material is strictly confidential to the recipient and should not be reproduced or disseminated to anyone else.