National Hydroelectric Power Corporation Ltd

IPO NOTE **Recommendation: Subscribe**

04th Aug 2009

Key Details:

Issue Key Highlights:			
Price Band	Rs.30-36	Issue Opens:	07th Aug 2009
Issue size***	Rs. 5031.9Cr – Rs.6038.3 Cr	Issue Close:	12th Aug 2009

***At lower & higher price band

Issue Details

****IPO Rating**	**Grade 3 by ICRA**
Number of share	167.74 Cr Shares
Issue route	100% Book Building
Pre Issue Equity	Rs. 11182.5 Cr
Post Issue Equity	Rs. 12300.7 Cr
Face value	10
Bid lot (Shares)	175 Equity Shares
Lead managers	ENAM Securities Private Ltd Kotak Investment Banking SBI Capital Markets Ltd
Registrar	Kary Computershare Pvt. Ltd.
Listing	BSE & NSE

****CRISIL/ ICRA IPO Grade 3 indicates Above Average fundamentals**

Issue Break-up

Number of shares	**(Cr)**
Fresh Issue of EQ Shares	111.82
Offer for Sale	55.91
Employee Reservation	4.19
Public Issue	163.54
QIB portion	98.13
HNI portion	16.35
Retail portion	49.06

Capital Structure

Capital Structure	**(Cr)**
Pre Issue Equity	11182.49
Fresh Issue(@ Face Value)	1118.25
Post – Issue Equity Capital	12300.74
Fresh Issue % of total Capital	9.1%
Total Issue % of total capital	13.6%
Face value (Rs)	10

Objects of the Issue:

a) Utilize the proceeds to part finance the construction and development cost of certain of Identified projects namely Subansiri Lower, Uri – II, Chamera – III, Parbati – III, Nimoo Bazgo, Chutka and Teesta Low Dam – IV Use the proceeds for future growth opportunities.
b) Use the proceeds for future growth opportunities.
c) For General Corporate Purpose.

Business Overview:

NHPC Limited was incorporated by the Government of India in the year 1975. NHPC is a hydroelectric power generating company committed to the planning, development and implementation of an integrated and efficient network of hydroelectric projects in India. NHPC is involved in all the activities right from commencement to development of hydroelectric projects. The company has experience in the design, development, construction and operation of hydroelectric projects, executing and managing all aspects of projects, from front-end engineering design to commissioning, operation and maintenance. NHPC has selective undertaken projects in alliance with state governments where there is high hydro potential and thus tend to enjoy location and operational advantage. NHPC has constructed and developed 13 hydroelectric power stations with a capacity of 5,175 MW. The current total generation capacity of the company is 5,134.2 MW, taking into account total installed capacity of of the Loktak and Tanakpur power stations (combined capacity of 1,520 MW) constructed and operated through its subsidiary NHDC. The company's power stations and hydroelectric projects are located predominantly in the North and North East of India. In FY09 the company and its subsidiary sold 14,587.88 MUs and 2,345.01 MUs of electricity, respectively. Currently the company is involved in the construction of 11 hydroelectric projects, which are expected to increase its total installed capacity by 4,622 MW. The company is also awaiting the government approval of five projects with an anticipated capacity of 4,565 MW and for certain joint venture projects with an anticipated capacity of 2,166 MW.

Issue Profile:

Investment Positives:

- NHPC is one of the largest hydro power generator in India account to 14% of total hydro capacity in India.
- 150bps increase in ROE from 14% to 15.5% under new CERC norms for FY2009-14.

- The Government has estimated the total investment potential of the sector at Rs 9,000 bn for a specified period up to fiscal year 2011.
- NHPC has strong operating efficiency as reflected in average capacity index of 93.61% for 2008-09.
- Being a mini ratna the company can enter into greater autonomy to undertake new projects without GoI approval subject to investment ceiling of Rs 500 cr.
- NHPC has got into long term power purchase agreements for major portion of capacity under construction.
- NHPC has strong in-house design and engineering team.

Key Risks:

- Long gestation period in term of project execution may depress return on equity in the construction phase.
- Potential upside is limited as the tariffs are regulated by the government. Any change in tariff policy may adversely affect the revenues.
- Particularly when projects are located in complex terrain and harsh climatic conditions, it may lead to time delay and thus increase the cost of the projects.

Industry Overview:

India has emerged as one of the fastest growing economies in the world. The Government of India has identified the power sector as a key sector of focus to promote sustained industrial growth with a mission – Power for all by 2012. Demand for power exceeds supply by 11% compared to 9.90% in FY08.The total energy shortage during the period was 85303 mln units. India peak demand deficit during the period was 12% or 13124 MW. It is expected that by the year 2012, India demand will be 152746 MW with total power requirement of 969 billion units. This presents a significant opportunity for power generation companies, both in the public and the private sector.

Future Outlook:

NHPC revenues and Net profit have grown steadily at a compounded annual growth rate (CAGR) of 21.2 % and 8.9 % in the past three years. At Issue Price band of Rs 30-36 NHPC is trading at 1.81-2.18x of its P/BV which is at 30% discount compared to its peers. We are expecting NHPC to pay 30% dividend approx according to norms prescribed for profit making PSU.As per on the 17th Electronic Power Survey, the total energy requirement in India will increase to 968,659 GWh by fiscal year 2012, 1,392,066 GWh by fiscal year 2017 and to 1,914,508 GWh by fiscal year 2022. This represents a significant opportunity for capacity expansion and growth for power generation companies, both in the public and the private sector. We therefore recommend to **Subscribe** at the higher price band of Rs.36 for the Issue from **medium to long-term perspective.**

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NHPC – Pre and Post IPO holding structure:

	Pre -IPO Holding	Post -IPO holding
Promoters	100	86.36
Public	Nil	13.64
Total	100%	100%

Consolidated Income Statement:

(Rs. Cr)

Particulars	FY09	FY08	FY07
Operating Income	3679	3140	2503
Other income	373	182	77
Total income	4052	3322	2580
Expenditure	2522	1834	1214
Operating Profit	2589	2504	2020
Profit before tax	1529	1487	1366
Profit After Tax	**1244**	**1207**	**1049**

BalanceSheet :

(Rs.Cr)

Particulars	FY09	FY08	FY07
Equity Share Capital	11182	11182	11198
Reserve & Surplus	7210	6347	5486
Liabilities & Provisions	22761	19769	16232
Total Liabilities	**41153**	**37298**	**32916**
Net Fixed Assets	23706	23525	13914
Capital Work in progress	10429	7263	14132
Investments	1791	2047	2320
Current Assets Loans & Advances	5227	4463	2550
Total Assets	**41153**	**37298**	**32916**

Peer comparison:

Peer	Price Rs.	P/E (x)	P/BV (x)	RONW %	EPS Rs.	BV Rs.
NHPC	30	27.0	1.8	6.6	1.1	16.5
	36	32.4	2.2	6.6	1.1	16.5
CESC	321	9.8	1.2	12.9	32.8	271.5
JP Hydro	84	27.9	3.8	15.8	3.0	21.9
KSK Energy	190	48.3	13.0	3.3	3.9	14.6
NTPC	216	22.0	3.1	14.4	9.8	69.6
RPower	170	912.6	3.0	1.1	0.2	57.5
Tata Power Co.	1358	24.7	3.7	8.1	54.9	366.6
Neyveli Lignite	140	28.5	2.5	12.7	4.9	56.4

NHPC Projects:

Hydroelectric Projects	State	Proposed Installed Capacity (MW)	Project Cost (Rs.cr)	Likely Schedule of Commissioning
Sewa II	J&K	120	665.5	Dec-09
Teesta Low Dam III	West Bengal	132	768.9	Feb-11
Uri II(1)	J&K	240	1,724.8	Feb-11
Chamera III(1)	HP	231	1,405.6	Aug-10
Teesta Low DamIV(1)	West Bengal	160	1,061.4	Aug-11
Nimoo Bazgo(1)	J&K	45	611.0	Aug-10
Parbati III(1)	HP	520	2,304.6	Nov-10
Parbati II	HP	800	3,919.6	Mar-13
Chutak(1)	J&K	44	621.3	Feb-11
Subansiri Lower(1)	Assam/Arunachal Pradesh	2,000	6,285.3	Dec-12
Kishanganga	J&K	330	3,642.0	Jan-16
Total		**4622**	**23,010.0**	

SYSTEMATIX GROUP
Investments Re-defined

SYSTEMATIX SHARES & STOCKS (I) LTD
Wealth Management

IPO Return Calculator: National Hydroelectric Power Corporation Ltd

04th July 2008

IPO Details	
Floor Price (Rs.)	30.0
Cap Price (Rs.)	36.0
Total Numbers of Shares (Cr)	167.7
Total Issue Size (Rs. Cr)*	6038.5
Employee Reservation (Rs. Cr)	151.0
Net Issue to Public (Rs. Cr)	5887.6
QIB (Rs. Cr)	3532.5
Non Institutional (Rs. Cr)	588.8
Retail (Rs. Cr)	1766.3
Bid Opening Date	07-Aug-09
Bid Closing Date	12-Aug-09
ICRA IPO Grading**	Grade 3(ind)

*All calculations are on Cap Price
**ICRA Grade 3(ind) indicates above avergae fundamentals

Peer Group Comparision				
Company	Price(Rs.)	EPS'09	P/E'09	MCap (Rs.Cr)
NHPC	30.0	1.0	29.7	36,902.2
	36.0	1.0	35.6	44,282.7
CESC	321.1	32.8	9.8	4,011.8
Jai Prakash Hydro	83.6	3.0	27.9	4,104.8
KSK Energy	189.8	3.9	48.3	6,569.0
NTPC	216.3	9.8	22.0	178,349.3
Reliance Power	170.4	0.2	912.6	76,657.5
Tata Power	1358.2	54.9	24.7	30,153.4
Neyveli Lignite	139.7	4.9	28.5	23,429.2

All values based on maket values as on 03rd Aug 2009.

Other Details	
100% book building where in Allocation to	
QIB	60%
Non Institutional Bidders (HNI's)	10%
Retail Investors	30%
Days Investment (assumed)	13

Equity Dilution Through the IPO:	
Total Number of shares offered in the IPO (Cr)	167.7
Equity Dilution Through the IPO (%)	13.6%
Total numbers of shares post issue (Cr)	1230.1

Retail Portion:

Annualised Gain based on listing (Without Financing)								
Listing Price	No. of times oversubscribed							
	4	5	6	7	8	9	10	11
44	156.0%	124.8%	104.0%	89.1%	78.0%	69.3%	62.4%	56.7%
46	195.0%	156.0%	130.0%	111.4%	97.5%	86.7%	78.0%	70.9%
48	234.0%	187.2%	156.0%	133.7%	117.0%	104.0%	93.6%	85.1%
50	273.0%	218.4%	182.0%	156.0%	136.5%	121.3%	109.2%	99.3%
52	312.0%	249.6%	208.0%	178.3%	156.0%	138.7%	124.8%	113.4%

Non Institutional Portion (HNIs): Without Financing

Annualised Gain based on listing (Without Financing)								
Listing Price	No. of times oversubscribed							
	20	30	35	40	45	50	55	60
44	31.2%	20.8%	17.8%	15.6%	13.9%	12.5%	11.3%	10.4%
46	39.0%	26.0%	22.3%	19.5%	17.3%	15.6%	14.2%	13.0%
48	46.8%	31.2%	26.7%	23.4%	20.8%	18.7%	17.0%	15.6%
50	54.6%	36.4%	31.2%	27.3%	24.3%	21.8%	19.9%	18.2%
52	62.4%	41.6%	35.7%	31.2%	27.7%	25.0%	22.7%	20.8%

Non Institutional Portion (HNIs): With Financing

Annualised Gains Based On listing (With Financing)		Margin 5.0%		Interest 12.00%				
Listing Price	No. of times oversubscribed							
	20	30	35	40	45	50	55	60
44	395.9%	188.0%	128.5%	84.0%	49.3%	21.6%	-1.1%	-20.0%
46	551.9%	291.9%	217.7%	162.0%	118.6%	84.0%	55.6%	32.0%
48	707.9%	395.9%	306.8%	239.9%	188.0%	146.4%	112.3%	84.0%
50	863.9%	499.9%	395.9%	317.9%	257.3%	208.8%	169.0%	136.0%
52	1019.9%	603.9%	485.1%	395.9%	326.6%	271.1%	225.8%	188.0%

Cost per share based on opportunity cost of capital								
Interest Rate	No. of times oversubscribed							
	20	30	35	40	45	50	55	60
12%	38.9	40.4	41.1	41.8	42.6	43.3	44.0	44.8
14%	39.4	41.1	42.0	42.8	43.7	44.5	45.4	46.2
15%	39.7	41.5	42.4	43.3	44.2	45.1	46.0	47.0
16%	39.9	41.8	42.8	43.8	44.8	45.7	46.7	47.7
18%	40.4	42.6	43.7	44.8	45.9	47.0	48.1	49.2

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Branch Network

Branch	Contact No	Branch	Contact No	Branch	Contact No	Branch	Contact No
Behrampur	0680-3202888	Delhi	011-30481213	Kolkata	033-30287505	Mumbai Fort	022-30298225
Bhawanimandi	07433-223644	Gorakhpur	0551-3248003	Kolkata/Sattelite	033-32471210	Pune	020-30277600
Bhilwara	01482-329090	Hyderabad	040-30789113	Kota	0744-3295517	Lucknow-Raebarelli Rd	0522-3205448
Bhubaneswar	0674-3261555	Indore	0731-3018111	Lucknow-Aliganj	0522-3252514	Udaipur	0294-3209111
Chennai-Adiyar	044-32006846	Jagdishpur	9335311217	Lucknow-Indiranagar	0522-3252513	Ujjain	0734-3200909
Chennai	044-30582078	Jaipur(G T Branch)	0141-3048780	Lucknow-Lalbagh	0522-3255348		
Chennai-Sowcarpet	044-32026480	Kanpur	0512-3214230	Lucknow RO	0522-3252516		

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