

Recommendation	Not Rated
Price Band	Rs. 23-26
Bidding Date	29 April-3 May 2010
Book Running Lead Manager	JM Fin, IDFC, IDBI, SBI
Sector	Power Utility
Retail Application- Detail At Cut off Price	
Number of Shares	3750
Application Money	97500
Amount Payable	97500
P/ BV (U/L)*	1.58-1.40
EV/MWATT *	6.51
* 9M Annualized	
No of Equity Shares Offered	41.50 crores
Post Issue Promoter Holding	89.97%
Offer structure for different categories	
QIB	60%
Non-Institutional	10%
Retail	30%
Lot Size	250
Post issue Equity (Rs. in crs)	4136.62
Issue Size (Rs. in crs) (U/L)	1079-954.5
Face Value (Rs.)	10
Shareholding pattern (Post issue)	
Promoter & Promoter Group	89.97%
Others	10.03%

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Background

SJVN Limited (formerly known as Nathpa Jhakri Power Corporation Private Limited) is a Joint Venture between Government of India and Government of Himachal Pradesh. It was formed to develop hydro electricity generation facility on the Sutlej river of Himachal Pradesh and (Nathpa Jhakri Hydro Power Station) NJHP was the first project undertaken by SJVNL for execution. 1500MW NJHP is the only project which is operational right now in SJVNL. The upcoming 412MW Rampur project where construction work is in progress will be operational by FY14. Apart from this around 3604MW of hydro projects are at Initial phases of planning & land acquisitions.

Objects of the Issue

- Disinvestment by the Government of India.
- Proceeds from the offering will not be available to the company, but will be added to the Central Governments treasury.
- Retail Investors are offered 5% discount on Issue price.

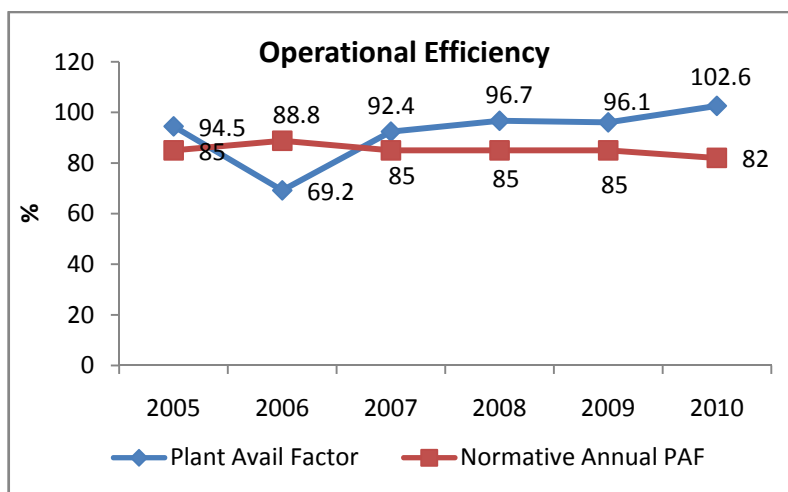
Investment Rationale

- **Expertise of Hydro Project Development**

Nathpa Jhakri Hydro Power Station (NJHPS) is the largest and unique hydroelectricity power generation project in India. Hydro electricity project takes a longer period of time for development as compared to thermal projects and is also posed with significant uncertainties and geological risks. SJVNL has executed and operates the project which is located in the geo-technically sensitive Himalayan region. The expertise SJVNL has gathered, will help them to leverage in executing the projects of around 4016 MW capacity which are in the pipeline. Apart from this hydro potential capacity of 148701 MW in India has been identified, SJVNL can bid competitively and tap the potential lying therein.

- **Excellent operational Track Record**

SJVNL has track record of operating the plant (Plant Availability Factor) above the NAPAFA (Normative Annual Plant Availability factor). Operating above NAPAFA enables the company to earn incentives apart from the Return on equity of 15.5%, thus enhancing the returns to the shareholders.



Source: RHP & Nirmal Bang Research

- **Stable revenue ahead with Strong cash position.**

SJVNL has entered into long term PPA with various state electricity companies and has cash balance of around 1500 crores. Long term PPA entails it to stable revenue earnings and generate cash, which will further strengthen the cash position, and can be utilized over the ongoing projects. SJVNL has a debt to equity of 0.26, which is very low. Strong Cash Position with low debt will relieve it from hassles of financial closure for new projects.

- **Existing Project has a Normative Equity of 50%.**

Power Projects have a normative equity of 30%, but the existing NJHPS project has availed special dispensation of 50% from the CERC. The additional ROE which it gains enhances the earnings to the shareholder.

- **Hydro Power- Clean Energy**

Hydropower is a renewable source of energy. It is most economical and causes less damage to the environment as compared to other forms of energy production. Developing hydropower increases energy security at a low cost, as it is not dependant on fossil fuels, which are depletable resources and prone to heavy price fluctuations. There is no waste product generated from hydro power and is therefore one of the cleanest form of electricity. SJVNL has applied for CDM process for Rampur project, thus it can benefit by earning carbon credit.

Risk Concerns

- **Dependant on Single Project**

SJVNL has only one project which is in the operation. The Rampur project is expected to commission by Sept 2013, which is down project of existing NJHPS project. These projects are located in geo sensitive regions of Himalayas. Operational disruptions due to technical difficulties, low water flow and occurrence of any natural calamities like floods etc will hamper the operations and impact the financials strongly, as all other ongoing projects will start after 2015-16.

- **Longer Execution period & delay in project implementation:**

Hydropower projects have long gestation periods due to the process involved in commissioning power projects. There are number of difficulties inherent to development and construction of hydroelectric projects which includes geographical factors, land acquisition, forest clearance and cross border issues. All these factors are critical for the timely execution of hydroelectric power plant. The timely execution of the projects is very important for avoiding cost overrun and generating revenues.

- **Contingencies over litigations**

SJVNL has involved over various litigation proceedings before various courts and appellate bodies which amounts around Rs 670 crores. So any adverse outcomes over these litigations may lead to huge cash out flows and also impact the financials plans of the company.

Business Overview

SJVNL is the leading hydro power generation company in India, it has installed capacity of 1500MW & 412MW of capacity is under construction. Apart from this around 3604MW of capacities are at initial phase of development. It also carries out project consultancy works for various state government and private sector companies. It has interest in the joint venture for laying transmission line from Nepal to India. NJHPS with 1500 MW operational plant is located on the Sutlej river of Himachal Pradesh and the upcoming Rampur project which is of 412MW is a downstream project of NJHPS.

No new projects commissioning in near term leading to stagnant revenues over next two years.

Summary Of Projects

Summary of projects			
Operational Project		Capacity	
		MW	
NJHPS(Nathpa Jhakri Hydro Power station)	HP	1500	
Project under Construction			
Rampur	HP	412	Civil Construction contract awarded
Expected to Commn - Sept 2013			

Project under development/Implementation:

Project under Devpt/Implent.		Capacity (MW)	Estimated cost (Cr\$)	Project Structure	Expected to Commn	Stage of Devpt
Luhri	HP	775	4795	51-49 JV with Govt of HP	2015-16	DPR submitted to CEA
Dhulasidh	HP	66	403	51-49 JV with Govt of HP	2015-16	Feasibility report submitted to state govt
Devsari	UTK	252	1341			DPR submitted to CEA
Naitwar	UTK	60	473.9			DPR submitted to State govt
Jakhol Sankri	UTK	51	358.5			DPR under preperation
Arun III	Nepal	900	4460	BOOT project		Feasibility report submitted to CEA
Tipaimukh	Manipur	1500				Negotiation w.r.to establishment of the JV company
Transmission	Indo Nepal			JV (SJVNL-26%, ILFS-37%, PGCIL-26%, PTC-11%)		

DPR-Detailed Project Report

Valuations & Recommendations

Peer Comparison

Peer Comparison	SJVNL	NHPC
Power Gen Capacity(MW)	1500	5295
Addition between(2010-2013)	0	932
SALES	1423.1	4929.75
EBIDTA	1400.09	4273.99
EBIDTAM	92.72%	82.39%
EPS	2.51	2.03
PE(U/L)	10.38/9.18	15.22
PB(U/L)	1.58/1.40	1.70
EV/MWatt	6.51	8.72
ROCE	11.32%	7.19%
RONW	10.53%	8.07%

9M figures annualized

We have valued the stock on P/BV, Price earnings & EV/MWATT basis. The stock is offered 1.58 and 1.40 times on P/BV basis, 10.38 & 9.18 times on price earning basis, at upper & lower band respectively. And on the EV/MWatt basis the stock is valued at 6.51 crores per MWatt.

We have compared SJVNL with NHPC, which we believe is appropriate peer, as NHPC is also being PSU and has only hydro generation business. On the P/BV the stock is offered at a discount of 7.36% & 21.37% at upper & lower band respectively over NHPC. In terms of PE & EV/Mwatt also the offering looks cheap. As we don't see any growth coming up in next 3 years, we don't see any great upside in the stock. One may subscribe for listing gain of 5% to 7%.

Financials- Profit & Loss Account

Rs in Cr	FY05	FY06	FY07	FY08	FY09	9MFY10
Revenue						
Income from Operations	1277.50	1062.36	1409.46	1356.75	1490.78	1423.1
Other Income	67.42	288.58	66.71	105.53	144.06	86.9
Total Income	1344.92	1350.94	1476.17	1462.28	1634.84	1510.00
General, Admin & Other Expenses	104.92	124.82	138.33	149.87	177.51	109.91
Total Expenditure	104.92	124.82	138.33	149.87	177.51	109.91
EBIDTA	1240.00	1226.12	1337.84	1312.41	1457.33	1400.09
Depreciation	218.28	232.56	245.61	239.92	234.23	325.99
EBIT	1021.72	993.56	1092.23	1072.49	1223.10	1074.10
Interest	407.54	341.53	322.98	254.61	220.55	139.62
EBT	614.18	652.03	769.25	817.88	1002.55	934.48
Prior Period Expenditure	0.00	0.00	0.00	0.00	0.00	0.00
Tax	24.23	66.60	119.27	100.89	234.23	159.11
Profit after Tax	589.95	585.43	649.98	716.99	768.32	775.37
Extra Ordinary Items	0.00	0.00	0.00	0.00	0.00	0.00
Profit after Tax	589.95	585.43	649.98	716.99	768.32	775.37

Margin Matrix	FY 05	FY 06	FY 07	FY 08	FY 09	9MFY10
EBIDTAM	92.20%	90.76%	90.63%	89.75%	89.14%	92.72%
EBTM	45.67%	48.26%	52.11%	55.93%	61.32%	61.89%
PATM	43.87%	43.34%	44.03%	49.03%	47.00%	51.35%
Growth Matrix		FY 06	FY 07	FY 08	FY 09	9MFY10
SALES		0.45%	9.27%	-0.94%	11.80%	23.15%
EBIDTA		-1.12%	9.11%	-1.90%	11.04%	28.10%
EBT		6.16%	17.98%	6.32%	22.58%	24.28%
PAT		-0.77%	11.03%	10.31%	7.16%	34.56%
9MFY 10 figures are annualized						

Balance Sheet

Balance Sheet	FY 05	FY 06	FY 07	FY 08	FY 09	9M FY 10
Share Capital	4108.81	4108.81	4108.81	4108.81	4108.81	4108.81
Reserve & surplus	370.70	774.33	1151.35	1582.80	1967.74	2649.51
Share Application Money	0.00	0.00	0.00	0.00	0.00	16.70
Net Worth	4479.51	4883.14	5260.16	5691.61	6076.55	6775.02
Secured Loan	3,137.15	2682.84	2186.83	1710.93	1307.51	1130.51
Unsecured Loan	494.55	399.89	337.37	309.15	834.93	639.37
Capital Employed	8111.21	7965.87	7784.36	7711.69	8218.99	8544.90
Gross Block	7,965.34	7941.46	8137.09	8399.81	8572.52	8622.93
Less:- Depreciation	360.56	542.57	788.33	1034.08	1218.36	1547.22
Net Block	7604.78	7398.89	7348.76	7365.73	7354.16	7075.71
CWIP	56.03	94.40	152.92	255.40	563.64	736.17
Advance for CWIP	24.53	30.76	17.35	61.55	155.99	192.23
Construction Stores & Spares	0.79	1.96	13.58	0.66	0.63	0.61
Investments	0.00	0.00	0.00	0.00	0.00	0.00
Current Assets						
Inventories	33.72	62.55	58.71	53.63	55.85	61.15
Other Current Assets	3.25	3.38	22.88	33.55	82.57	40.18
Sundry Debtors	333.22	757.89	250.83	316.96	364.55	266.04
Loans & advances	222.45	434.67	560.52	663.38	462.46	621.05
Cash & Bank	342.77	133.35	621.04	693.60	1271.44	1487.15
	935.41	1391.84	1513.98	1761.12	2236.87	2475.57
Current Liabilities	271.88	335.62	338.62	544.71	499.53	411.89
Provisions	184.58	363.70	474.74	538.95	743.42	674.15
Income Received in Advance	53.87	252.66	448.87	649.11	849.35	849.35
Net Current Assets	425.08	439.86	251.75	28.35	144.57	540.18
Capital Deployed	8111.21	7965.87	7784.36	7711.69	8218.99	8544.90

FINANCIAL RATIOS:

Ratios	FY05	FY06	FY07	FY08	FY 09	9MFY10
RoCE	12.60%	8.26%	9.28%	9.24%	10.13%	11.32%
RoNW	13.17%	8.22%	8.44%	8.62%	8.61%	10.53%
Book value	10.90	11.88	12.80	13.85	14.79	16.42
Debt Equity	0.81	0.63	0.48	0.35	0.35	0.26
EPS	1.44	1.42	1.58	1.75	1.87	2.51

NOTE

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