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ON THE ROAD

We hosted NTPC's top mgmt for a NDR in the UK during last week. Appreciating their initiative to reiterate NTPC's robust business model and low risk profile amidst persistent concerns in the power space, most investors still appeared to be in the 'watch' mode on the stock/sector. Key comments – [1] Payments within 60 days of billing cycle; APTEL's order on tariff revisions is a potential watershed for SEBs, [2] Capacity addition, captive mining plans on track; bulk tender awards to begin in Dec-11, [3] Averse to buyback; open to crossholdings if it entails a strategic advantage. Maintain BUY.

Price target: 206.0 INR

Price (28 Nov 2011): 159.65 INR

Research analyst: Anirudh Gangahar +91 22 4037 4516 anirudh.gangahar@nomura.com

Research analyst: Ivan Lee, CFA +852 2252 6213 ivan.lee@nomura.com

Research analyst: Ankit Kumar +91 22 4037 4008 ankit.kumar@nomura.com

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Takeaways from Non-deal Roadshow in UK

We hosted the top management of NTPC – Mr. Arup Roy Choudhury (Chairman & MD) and Mr. A.K. Singhal (Director, Finance), together with Ms. Renu Narang (AGM, Finance-ISD/Bonds & PDS) – for a non-deal roadshow (NDR) in the UK last week (Nov 23-25). NTPC's first NDR in Europe/UK seemed to be well received – clients appreciated the top brass' initiative to be in front of investors to field queries / allay concerns and present their case on why NTPC is well positioned relative to private IPPs amidst the persistent concerns over the power sector in India.

Overall, management's commentary on key issues (payment security, fuel security, capacity addition, funding /capex and cash deployment) was largely along expected lines. However, amidst the persistent negativity surrounding investment in Indian power utilities, management's summary of its low-risk business model and the potential implications of APTEL's recent court order to address the financial health of SEBs did come across as a positive surprise for a few clients. NTPC remains our preferred IPP on relative fuel/payment security; we expect FY12F-17F EPS CAGR at ~11%. Stock trades at 1.7x FY13F P/Book; maintain BUY.

Management commentary on five key issues/concerns –

[1] Financial health of SEBs and payment security

NTPC's management reiterated that, although only a handful of SEBs were paying up within the first few days of the billing cycle, none of the SEBs had dues outstanding for more than 60 days for current billings. While the RBI guarantee for recovery of dues under a payment security mechanism is in place up to 2016, the NTPC management emphasized that recent order by the Appellate Tribunal (APTEL) ensuring annual tariff revisions by State Regulators (SERCs) is the potential inflexion point from where SEB losses will begin to get curtailed.

[2] Coal demand/supply balance for XIIth Plan project pipeline

With the backdrop of growing concern over a ramp-up of production by Coal India (CIL) and delay in restoration of captive coal blocks to NTPC by the Ministry of Coal (MoC), NTPC's coal demand/supply balance was a ubiquitous topic of discussion.

As per the NTPC management –

- Materialization of coal supply under the FSAs (for 125mtpa) and linkage (LoAs) stood at nearly 100% for NTPC; advance payment to CIL for the coal dispatches together with focused personnel on logistical issues are likely to ensure its 'effective' preferred customer status
- Boilers at its existing units can typically accommodate 15-20% of coal blending. However, management would strive to keep the blending at ~10% in order to minimize the rise in variable cost. As regards securing imported coal, preferred option is to enter into long-term supply agreements with mine owners.
- Although the official communiqué on restoration of the five de-allocated coal blocks is awaited, physical work on the captive coal blocks is underway. Coal production from Pakri Barwadih coal mine is on schedule to begin in 3QFY12.
- Mineable reserves in its five captive coal blocks aggregate ~2bn tons. Five additional coal blocks, which MoC has in-principle agreed to allot to NTPC would fuel ~7.7GW of upcoming capacity.
- For its FY2017 target generation capacity of 66GW (~35GW currently), NTPC would require 260-270mt of coal; supply build-up would be 125mt under FSA, ~50mt captive coal (~20% of requirement), 30-35mt equivalent imported coal (implying12-15% blending) and ~60mt incremental supply (~23% of requirement) from CIL.

In our assessment, investors remained circumspect on the ramp-up of coal production from both captive coal blocks as well as CIL's ability to provide the additional 60mt coal supply by FY2017,

[3] Capacity addition on track; bulk tender awards expected by March 2012
Management remains confident of commissioning 4.3GW of capacity in FY12 (1.2GW commissioned so far) and maintaining a similar average annual run-rate thereafter in the XIIth Plan. On bulk tendering – 3x800MW is expected to be awarded by December 2011, remaining 6x800MW by March 2012; although the 660MW tendering is under litigation, management remains hopeful of completing the awards by March 2012 itself.

[4] Funding status, cash flows and leverage
Ruling out the need for fresh equity issuance, management emphasized that its recurring cash flows, existing cash chest and low leverage ensures that funding its target capex of ~US$40bn in the XIIth Plan Period (FY2013-17) is not a constraint. The management mentioned that it expects leverage would rise from 0.64x as of September 2011 to ~1.9x by March 2017, but comfortably below the default ceiling of 2.33x (implied by the 70:30 D/E funding mix for its projects). Highlighting its financial strength, the NTPC management reminded that its recent US$500mn Eurobond issue was oversubscribed by six-times; it has ~US$5bn of undrawn debt at this time.

[5] Crossholdings / buybacks / special dividends
As regards recent commentary by the Government on utilization of 'surplus' cash with public sector enterprises towards crossholding / buybacks / special dividends, the management stated – (1) Crossholdings may be considered by the Board independently, if it results in any strategic advantage for NTPC, (2) Buybacks is not a favored option, (3) Current dividend policy (payout ratio of ~40%) adequately balances growth & payout requirements.

Valuation Methodology and Investment Risks: See Below for Valuation Methodology and Risks

Note: Ratings and Price Targets are as of the date of the most recently published report (http://go.nomuranow.com/research/globalresearchportal) rather than the date of this email.

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Issuer Specific Regulatory Disclosures

Mentioned companies

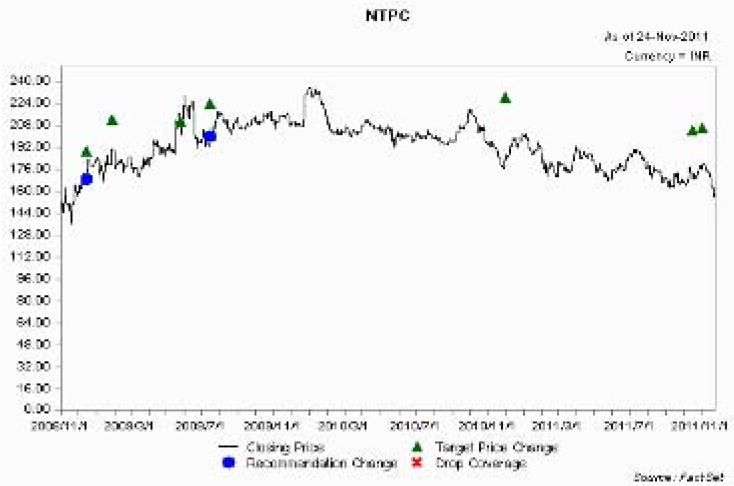
Issuer name	Ticker	Price	Price date	Stock rating	Disclosures
NTPC	NTPC IN	159.65 INR	28 Nov 2011	Buy	

Previous Rating

Issuer name	Previous Rating	Date of change
NTPC	Neutral	15 Jul 2009

NTPC (NTPC IN) **159.65 INR (28 Nov 2011)** Buy

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
03-Nov-2011		206.00	178.00
17-Oct-2011		204.00	168.45
01-Dec-2010		228.00	186.35
15-Jul-2009		224.00	199.50
15-Jul-2009	Buy		199.50
26-May-2009		210.00	201.40
29-Jan-2009		212.00	189.95
15-Dec-2008		189.00	168.50
15-Dec-2008	Neutral		168.50

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our TP of INR206 is a sum of the fair value of operating assets based on a residual income model (INR176), investment in JVs/subsidiaries (~INR10) and book value of FY12F non-operating financial assets (~INR21). Key assumptions of our model are 1) Cost of equity - 12.5%; 2) Terminal RoE - 18.5%; and 3) terminal growth rate - 2%.

Risks that may impede the achievement of the target price 1) Project execution delays; 2) lower coal supplies under already signed FSAs/LoAs; 3) reinvestment risk; and 4) adverse regulatory changes.

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Online availability of research and conflict-of-interest disclosures

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STOCKS

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Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

STOCKS

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Explanation of Nomura's equity research rating system in Japan published prior to 6 January 2009

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Nomura Financial Advisory and Securities (India) Private Limited, India Tel: +91 22 4037 4037

Ceejay House, Level 11, Plot F, Shivsagar Estate, Dr. Annie Besant Road,
Worli, Mumbai- 400 018, India Fax: +91 22 4037 4111

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