Company Update

NTPC — Rs 159

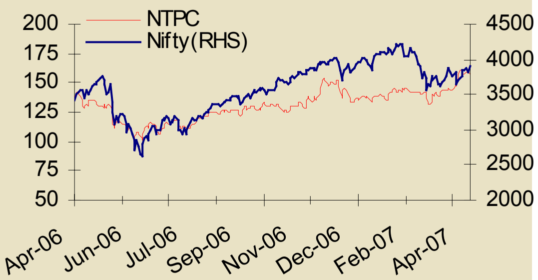
Power Play — Hold

24th April 2007

SCRIP DETAILS	
Market Cap (Rs crores)	131400
P/E (x) – FY09(E)	15.3
Market Cap/ Sales (x) - FY09(E)	3.1
Equity Capital (Rs crores)	8245.5
Face Value (Rs)	10
52 Week High/Low (Rs)	163/ 85
Website: www.ntpc.co.in	
NSE Code	NTPC
Sensex	13,928.3
Nifty	4,085.1

SHARE HOLDING PATTERN (as on 31st March 2007)	
Promoters	89.5
Institutions	1.28
Foreign holding	7.08
Non-promoter corporate holding	0.33
Public & others	1.81

COMPARATIVE PRICE MOVEMENT



Email: content@way2wealth.com
Telephone: 022 – 40192900

NTPC, India's largest power generator with 27 GW of installed capacity has released its robust provisional numbers for the year ended March 2007. The power major has announced a 15.6% jump in its net profit for 2006-07 at Rs.6,726.4 crore, up from Rs.5,820.2 crore during the previous fiscal. Net sales rose 17.2% during the fiscal at Rs.30,638.7 crore, compared to Rs.26,142.9 crore in 2005-06. The company, which has an installed capacity of 27,404 MW (22% of India's total installed capacity), plans to put its nuclear plans into fast track mode while also focusing on adding hydro capacity and foraying into non-conventional energy sources, even though coal would continue to be the mainstay.

Stellar performance

NTPC has posted 15.6% jump in its net profit for 2006-07 to Rs 6,726.4 crore from Rs.5,820.2 crore in 2005-06. Revenues were up 17.2% to Rs.30,638.7 crore compared with Rs.26,142.9 crore in 2005-06, according to provisional numbers released by the PSU major. NTPC's net profit for the fourth quarter this fiscal was marginally up by around 2% at Rs.1,596.4 crore compared to provisional figures during the same quarter a year ago, while net sales is up 17% at Rs.8,524.5 crore. The company is also expecting to boost margins by improving operating efficiencies. All coal-based stations of NTPC performed at the highest-ever plant load factor (PLF) of 89.4% compared with 87.5% last year.

Ambitious capacity addition plan

According to CMD Mr.T. Sankarlingam, the company is looking to increase power generation capacity to 50,000 MW by 2012 and 75,000 MW by 2017 from just over 27,000 MW at present. For FY08, it is expecting to add 3,160 MW of generating capacity. To achieve this, the company has tied up loans worth Rs.20,334.4 crore from domestic and international financial institutions. The company has adopted a multi-pronged strategy to increase capacity, which includes expansion of existing plants, setting up greenfield units and acquiring power plants of state electricity boards.

Future growth plan

The power major plans to put its nuclear plans into fast track mode while also focusing on adding hydro capacity and foraying into non-conventional energy sources, even though coal would continue to be the mainstay. According to Mr. Sankarlingam, NTPC will have 2,000 MW of nuclear power generation by the middle of XIIth Plan. Simultaneously, the company will also start work on two power plants of 2,000 MW each and is already talking to equipment and fuel suppliers for the proposed plants and is scouting for sites in States, including Tamil Nadu, Madhya Pradesh and Maharashtra. On its hydropower foray, Mr. Sankarlingam said the company has signed MoUs with Arunachal Pradesh Government to implement the 4,000 MW Etalin and 500 MW Attunli power projects.

Valuations

Given the current demand-supply mismatch coupled with low usage and penetration levels, we expect the power sector in India will experience a secular growth on a long-term basis, which gives NTPC a good business visibility. At current market price of Rs.159, the stock is available at 15.3x its estimated FY09 earnings, which is reasonable. We believe NTPC is a stable and defensive play in volatile markets and advise our investors to **HOLD** the stock at current level to reap long-term benefits.

Background and Business

NTPC is India's largest power generation company and world's sixth largest thermal power generator. With an installed capacity of 27,404 MW (22% of India's installed capacity), it generates 170 bu (29% of India's generation) of power. Its capacity is spread across 21 locations with coal-based units (22,395MW), gas-based units (3,955MW) and four JV projects (1054MW). NTPC's output is contracted through long-term PPAs (25 years for coal-based and 15 years for gas-based) with its customers (SEBs 99% of its sales). Currently, the entire billing to the SEBs is secured through letters of credit. The company has ambitious plans of doubling its capacity by FY12 (XIth Plan) and to triple its capacity by FY17 (XIIth Plan). The company's strong finances and project implementation track record strongly favours our optimistic stance about the company achieving its targeted growth.

Performance Highlights

- NTPC has posted 15.6% jump in its net profit for 2006-07 to Rs.6,726.4 crore from Rs.5,820.2 crore in 2005-06. Revenues were up 17.2% to Rs.30,638.7 crore compared with Rs.26,142.9 crore in 2005-06, according to provisional numbers released by the PSU major. Its FY07 (prov) revenues are at Rs.33,200 crore as against Rs.26,142.9 crore.

- NTPC's net profit (prov) for the fourth quarter this fiscal was marginally up by around 2% at Rs.1,596.4 crore compared to provisional figures of Rs.1566 crore during the same quarter a year ago, while net sales (prov) is up 17% at Rs.8,524.5 crore.

- The company is also expecting to boost margins by improving operating efficiencies. All coal-based stations of NTPC performed at the highest-ever plant load factor (PLF) of 89.4% compared with 87.5% last year.

Investment Rationale

- **Favourable industry demand supply dynamics is conducive for sustained growth**
  India's per capita consumption of power is expected to substantially rise from the present 606 KWH to over 1000 KWH per annum by 2012. This when compared to the world average of around 3,000 KWH and over 10,000 KWH in the developed countries highlights the need for a massive step-up in energy generation to reach anywhere near the global levels. Even at current levels of consumption there is a huge gap between demand and supply. If we look at the records from April'06 to January'07, the peak demand deficit was 13.9% and energy deficit was 9.3%.

Power Situation : (April 2006 – January 2007)

	Demand	Availability	Surplus / Deficit
Energy	5,72,812 MU	5,19,656 MU	-9.3%
Peak Demand	1,00,403 MW	86,425 MW	-13.9%

Source: Ministry of Power

- **Massive capacity expansion to improve future growth potential**
  NTPC has missed its target addition of 7,710 MW for the Xth Plan by adding only 5,710 MW with 2,000MW slipping into Q1FY08. Slippages into the next plan include the 1,000MW Sipat II and 500MW of Kahalgaon Stage II, which is likely to be added in FY08E along with 660MW of Sipat I and 500MW of the SAIL Bhilai expansion. NTPC's total generation capacity in FY07 has increased by 12% with ~2,400 MW capacity addition. However, unit sales would likely to grow by 7% YoY due to 1,000 MW capacity being operational for less than 20 days. During the course of Xth Plan the company has acquired the 705 MW Badarpur TPS, and took a 28.33% equity stake in Ratnagiri TPS.

  The company has adopted a multi-pronged strategy to increase capacity, which includes expansion of existing plants, setting up greenfield units and acquiring power plants of state electricity boards. NTPC is looking to increase its generation capacity to 50,000 MW by 2012 and 75,000 MW by 2017 from just over 27,000 MW at present. For FY08, it is expecting to add 3,160 MW of generating capacity. To achieve this, the company has tied up loans worth Rs.20,334.4 crore from domestic and international financial institutions.

WAY2WEALTH Securities Pvt. Ltd., 002, Raheja Paramount, 138, Residency Road, Bangalore – 560 025. Ph:(080) 22121512
Research Desk - Mumbai contact no.:022-40192900 email:content@way2wealth.com website:www.way2wealth.com

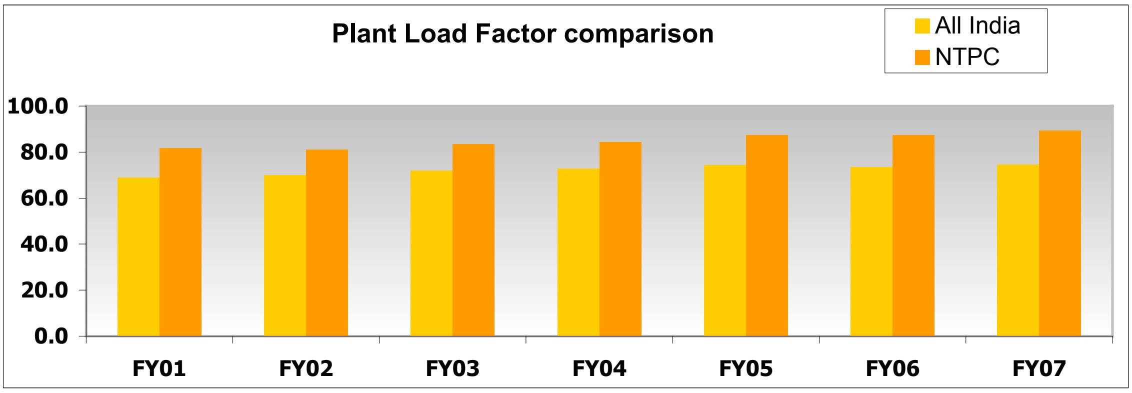
- **Foray into nuclear power generation**

NTPC could kick off its nuclear foray with a 2,000 MW station in Tamil Nadu, most likely to be located in or near Koodankulam. The State Government has agreed to provide nearly 1,000 acres of land to NTPC for the project, which is likely to be based on imported uranium. NTPC had been scouting for potential sites in Western and Southern States over the last two years to set up its first nuclear station. Besides Tamil Nadu, the company has also been looking at Madhya Pradesh and Maharashtra for possible sites. The primary consideration for NTPC for its nuclear land is that water should be available in plenty and the area should be unpopulated. The company is also planning to tie up Russian technology for the first project, with Russian firm Atomstroyexport. According to NTPC , Russian civilian nuclear technology is still among the best in the world and currently, only Russia has specific agreements with India, which can be used to expedite the company's nuclear plans, especially in light of the uncertainties of Indo-US deal negotiations.

Being a state-owned company, NTPC does not have to wait for the Atomic Energy Act to be amended for its nuclear foray, unlike private sector aspirants to the sector. The company has already received a formal Government clearance to enter into nuclear power generation and has amended its articles of association to enter the sector. Though NTPC is primarily looking at Russian technology in view of easier access to nuclear fuel, the company would wait for the Indo-US civilian nuclear pact and the subsequent Nuclear Suppliers Group agreement to be finalised before deciding on sourcing of uranium imports. Besides the Russians, it has been talking to international players such as US firms GE Energy and Thorium Power. The foray into nuclear power is part of the company's strategy to diversify its power generation base. NTPC aims to set up 2,000 MW of nuclear power generation by the middle of the XIIth Plan.

- **Higher than average Plant Load Factor (PLF)**

NTPC's plant load factor (PLF) is better on an all India basis, however it is much lower than more efficient private players. However, given the scale of operations and limitation of raw materials, the improvement in performance (PLF of 89.4%) in FY07 is commendable. All coal-based stations of NTPC performed at the highest-ever plant load factor (PLF) of 89.4% compared with 87.5% last year. We believe that the company will be able to achieve over 90% PLF by FY08 driven by higher availability of raw materials.



- **Spreading across the value chain**

Backward and forward integration would help the company to diversify into power trading, transmission, distribution, coal mining and coal beneficiation. All these are value added services and would help to increase the margins. NTPC has outlined a massive capital outlay of Rs. 1,60,000 crores for the XIth Plan period. The company is also toying with the idea of foraying into capital goods from XIIth Plan onwards. Since the company is the lowest cost power producer in the country, it can offer extremely competitive services and would have edge over its peers. Also the presence in the entire value chain would be positive from the operating margins point of view.

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Investment Concerns

- **Fuel supply constraints**
  NTPC's operations are largely dependent on timely availability of fuel. The raw material (fuel) cost as the percentage of sales has gone up from 53% in FY01 to 63% in FY06. The major raw material for power generation is coal. While the power generating capacities are being added; coal has not been expanded in the similar proportion. Several power plants at times operate at sub-optimal levels due to coal shortage. The recent gas findings though have opened alternative avenues for fuel but gas pricing is the major issue. Also availability of gas to various locations is still facing infrastructure hiccups and may take time before they are really available.

- **Risk of returns**
  The tariff structure for the power sector is regulated and is based on cost plus regime. As per the existing regulations, for the period between 2004-09, the regulated rate of return (post tax RoE) was reduced from 16% to 14% due to falling interest rates and the presence of a payment security mechanism. Any further reduction post 2009 would adversely affect the earnings and profitability of the company.

- **Super-critical technology can pose a threat to implementation capability**
  NTPC is implementing larger modules and newer technologies such as 660 MW and 800 MW super critical technology and alternative fuels such as gas and hydro more aggressively. These initiatives could place demands on the company's project management and technology absorption skills.

Outlook and Valuations

NTPC stands to benefit from improving operational efficiency and consistent enhancement of its generation capacity. Plant load factor (PLF) is expected to improve from 89.4% to more than 90% in FY08. This is owing to the assumption that coal/gas availability would improve going forward. Further diversification into hydropower would help in de-risking its business. In terms of capacity addition, macro economic demand factors are conducive for growth and government has set ambitious targets to ramp up power generation capacity in the country. NTPC added 2400 MW capacity in FY07; which would fully get reflected into FY08 performance. NTPC is looking to increase its generation capacity to 50,000 MW by 2012 and 75,000 MW by 2017 from just over 27,000 MW at present. For FY08, it is expecting to add 3,160 MW of generating capacity. Moreover, the company's plan to enter downstream distribution would also help in business expansion. On long-term basis, diversification into gas fuel and hydro plants would help de-risking of business model. The payment conditions in last fiscal have been cordial with SEBs. With restructuring initiatives by the government, the financial condition of these entities are expected to improve further.

Peer Group Comparison

Particulars (FY09E)	NTPC	Tata Power	Reliance Energy	CESC
Market Cap (Rs Cr)	131400	11248.4	11129.8	3261.1
Market Cap / Sales (x)	3.1	1.6	1.5	1.1
EBITDA Margin (%)	20.3	23.1	13.5	28.2
EV/ EBITDA (x)	20.4	10.4	8.5	6.1
EPS (Rs)	10.4	53.1	51.0	37.9
Price Earning (P/E) (x)	15.3	10.7	10.3	9.9
ROE (%)	15.0	14.9	11.8	14.7
ROCE (%)	10.5	10.1	8.5	7.3

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NTPC is our most stable and safest bet in the power sector due to its stable and regulated earnings and cash flows from operations, with fuel costs being a pass-through. Its debt-equity ratio is only 0.43, while power companies are allowed to finance up to 70% via debt, resulting in a debt-equity ratio of 2.3. Even if the company finances all its projects till FY12, with 70% debt, its debt-equity ratio will rise to 1, which is reasonable. This gives it a strong credit rating. The company is best placed to play on the entire value chain of the power industry. From being the lowest cost power generator to the distributor of power would help the company to expand margins. Given the current demand-supply mismatch coupled with low usage and penetration levels, we expect the power sector in India will experience a secular growth on a long-term basis, which gives NTPC a good business visibility. At current market price of Rs.159, the stock is available at 15.3x its estimated FY09 earnings, which is reasonable. We believe NTPC is a stable and defensive play in volatile markets and advise our investors to **HOLD** the stock at current level to reap long-term benefits.

Financials

YE March 31 (Rs Crores)	FY05	FY06	FY07E	FY08E	FY09E
Net Sales	**22565.0**	**26142.9**	**30464.5**	**35876.2**	**42236.5**
Total expenditure	16490.6	19724.4	24552.3	28767.6	33681.4
EBITDA	**6074.4**	**6418.5**	**5912.2**	**7108.6**	**8555.1**
OPM (%)	*26.9%*	*24.6%*	*19.4%*	*19.8%*	*20.3%*
Other Income	1687.0	2116.2	2498.7	2638.5	2702.7
PBT before Extra-ord	4788.8	5528.5	7242.3	8276.5	8993.6
Extraordinary Items	1289.4	493.9	0	0	0
PBT	6078.2	6022.4	7242.3	8276.5	8993.6
PAT	**5807.0**	**5820.2**	**6882.1**	**7901.8**	**8623.1**
PAT (adj. for extra-ord)	4517.6	5326.3	6882.1	7901.8	8623.1
PAT (%)	*20%*	*20.4%*	*22.6%*	*22.0%*	*20.4%*
Equity capital (FV Rs 10)	8245.5	8245.5	8245.5	8245.5	8245.5
EPS (Rs)	**7.0**	**7.1**	**8.3**	**9.6**	**10.4**
Adj. EPS (Rs)	5.5	6.5	8.3	9.6	10.4
PER	**23.1**	**22.8**	**19.5**	**16.9**	**15.3**

NTPC FY07 Provisional Numbers								
YE March 31 (Rs Crores)	**Q4FY06**	**Q4FY07 (prov)**	**% chg**	**FY06**	**FY07 (prov)**	**% chg**	**FY07E**	**% chg**
Revenues	7291.4	8524.5	17.0	26142.9	30638.7	17.2	30464.5	16.5
PAT	1566.3	1596.4	2.0	5820.2	6726.4	15.6	6882.1	18.2

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