NTPC

Accumulate CMP: Rs 173

BSE Code	532555
NSE Code	NTPC

Key Data

Sensex	14484
52 week H/L (Rs.)	291/148.75
August month H/L (Rs.)	189/166
Market Cap (Rs cr)	143017
Avg. daily vol. (6m)	1996202
Face Value	10

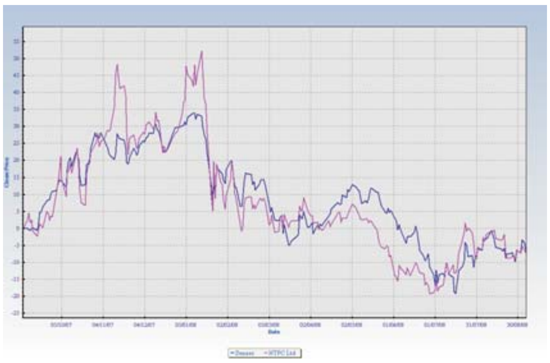
Source: Capitaline

Shareholding Pattern (%)

Promoters	89.49
Institution	6.68
Public & Others	3.83

Source: Capitaline

One-Year Performance (Rel. to Sensex)



Source: Capitaline

Analysis: Team Anagram
equity@anagram.co.in

BACKGROUND & BUSINESS

NTPC is the largest thermal power generation company of India. It is engaged in the business of engineering, construction and operation of power generating plants and also provides consultancy to power utilities in India and abroad. Of the company's installed capacity of 27350MW 86% is coal based and 14% is gas based.

INVESTMENT POSITIVES

Acceleration in power generation

In order to sustain a GDP growth of 8% India needs to bring significant addition in power generation. Power shortage of 10% in normal hours and 14% in peak hours, which has increased from previous years, can only be reduced through acceleration in power generation.

Thermal plants especially coal based have advantages in terms of competitive tariffs due to their location and lower cost of domestic coal, due to this the capacity addition in eleventh plan will be more inclined towards thermal power generation. The company stands well in place to leverage upon this opportunity and is expected to add around 21941 MW during eleventh plan, which is 33% of total capacity addition (78000 MW).

Capacity Addition- Growth driver

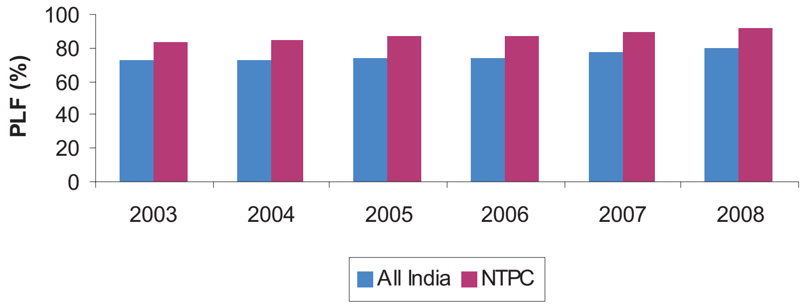
Growth in topline comes with capacity addition as company have no pricing power as tariffs are capped (14% ROEs) but looking at the current deficit scenario and capex plans till FY 12 it makes us believe that company will grow at 15% CAGR over 4 years.

	FY 08	FY 09 (E)	FY 10 (E)	FY 11 (E)	FY 12 (E)
Installed capacity	27350	30170	33770	40390	**48040**
Addition	1740	2820	3600	6620	7650

During the current year capacity at Bhillai has already been commissioned, 500 MW capacity at Kahlagaon II, 500 MW Sipat II and 1320 MW at Sipat I is due to be commissioned in current fiscal year.

Sustained Operational Efficiency

NTPC is among the cheapest power producer in Asia. The company has been able to maintain higher PLF as compared to all India PLF as share of coal based plants in NTPC's portfolio is higher. Coal supply has not been an issue and hence company is able to maintain a higher overall PLF.



RISK CONCERNS

- Delay in capacity addition could impact the earning estimates.
- Starvation of gas plants had been a major impediment in past and any distortion from current supply could impact PLF (Plant load factor) of gas-based plants, which accounts for 16% of capacity. As far as allocation of gas from KG basis is concerned, fertilizer will be the priority sector for allocation and any surplus thereafter will be allocated to power.

VALUATIONS

Replacement cost of the power plant works out be Rs 120/share and if we add up the value of its subsidiary business (Engaged in power trading and power projects undertaken jointly with SAIL, GAIL and others, we believe that the stock is trading at attractive valuation. Typically growth in topline comes with capacity addition as company have no pricing power as tariffs are capped (14% ROEs) but looking at the current deficit scenario and capex plans till FY 12 it makes us believe that company will grow at 15% CAGR over 4 years.

NSG waiver will augment further capacity addition in nuclear space for the company subject to government approvals. We believe the joint venture between Bharat Forge and NTPC will immensely benefit from this move. The joint venture plans to setup 15000 tonne press at a coastal location for manufacture of 500 tonne single forging piece which is needed in power sector. Forging compromises of 60-70% of a nuclear reactor. The company is expecting deliveries of equipment to begin in less than three years.

We arrive at a price target of Rs 210 at a P/E of 21.5x on a estimated EPS of Rs 9.8. We have not factored in the recently announced NSG waiver effects in our EPS estimates. We recommend investors to ***Accumulate*** the stock

	Q1 FY09	Q1 FY08	QoQ (%)	FY08	FY07	YoY (%)
Net Sales	9539.5	8958.8	6%	37050.1	32595.0	14%
Expenditure	7117.7	6275.3	13%	25826.2	22538.5	15%
Core EBITDA	2421.8	2683.5	-10%	11223.9	10056.5	12%
Depreciation	552.4	491.4		2138.5	2075.4	
Core EBIT	1869.3	2192.1	-15%	9085.4	7981.1	14%
Other Income	717.2	729.0		2967.6	2785.5	
Interest	421.9	27.8		1798.0	1859.4	0
PBT	2164.7	2893.4		10254.9	8907.2	
Tax	438.1	523.5		2840.1	2042.5	
Net Profit	1726.5	2369.9	-27%	7414.8	6864.7	8%
Equity	8245.5	8245.5		8245.5	8245.5	
EBITDA Margins	25.4%	30.0%		30.3%	30.9%	
EBIT Margins	19.6%	24.5%		24.5%	24.5%	
Net profit Margins	18.1%	26.5%		20.0%	21.1%	
EPS*	8.4	11.5		9.0	8.3	

RATING INTERPRETATION
Buy Expected to appreciate more than 20% over a 12-month period
Accumulate Expected to appreciate up to 20% over a 12-month period
Hold Expected to remain in a narrow range
Avoid Expected to depreciate up to 10% over a 12-month period
Exit Expected to depreciate more than 10% over a 12-month period