

May 31, 2006

Stock Rating
Equal-weight

Industry View
In-Line

NTPC

No Surprises in Audited F2006 Earnings

At Rs55.8 billion, F2006 adjusted net profit is 3% higher than our estimate – As expected, NTPC's audited reported net profit (Rs58.2 billion) came in higher than the provisional reported profits of Rs57.1 billion and in line with consensus estimates. While adjusted net profit rose 16.4% YoY, reported net profit was flat YoY. Adjusted net profits for F4Q06 rose 20% YoY to Rs15.4 billion – the highest normalized profits for any quarter after the 'One-time Settlement' scheme came into effect in September 2003.

Commercial electricity generation up 4.2% YoY, PLF stagnant at 87.5% – Commercial electricity generation during the year rose 4.2% to 164.9 million units, driven by incremental commercial capacity addition of 1,000 MW during the year. Despite a PLF of over 90% in F4Q06 for its coal-based plants, for F2006, the PLF was stagnant at 87.5%.

More details in tomorrow's conference call – The management will be sharing their views with the analyst community in a conference call tomorrow at 2:30 pm IST. We particularly look forward to updates on capacity addition, fuel sourcing, captive mining and strategy for 4GW – Ultra Mega Power Projects.

Valuations have come off broadly in line with the market – Based on our F2008 earnings estimates, the stock trades at 13.2x P/E and 1.7x P/Book implying a discount of 4% and 40% to the respective multiples for the BSE Sensex. We rate the stock as Equal-Weight.

Key Ratios and Statistics

Reuters: NTPC.BO Bloomberg: NATP IN

India Utilities

Price target	Rs140.00
Shr price, close (May 31, 2006)	Rs112.25
Mkt cap, curr (mn)	Rs925,553
52-Week Range	Rs144.90-82.10
Sh out, basic, curr (mn)	8,245
EV, curr (mn)	Rs1,001,719
Net debt/cap (06e) (%)	14.6
ROE (06e) (%)	13.0
Sh out, basic, per-end (06e) (mn)	8,245
S'hldr eqty (06e) (mn)	Rs452,259
RNOA (06e) (%)	9.5

e = Morgan Stanley Research estimates

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Exhibit 1

NTPC – F2006 Financial Snapshot

(Rs. Million)	F4Q06	F4Q05		F2006	F2005	
(Period Ending)	31-Mar-06	31-Mar-05	YoY	31-Mar-06	31-Mar-05	YoY
Revenue	72,914	62,769	16.2%	259,899	224,150	15.9%
Labor	2,518	1,888	33.4%	9,684	8,835	9.6%
Fuel	46,964	39,546	18.8%	163,947	137,235	19.5%
Others	4,009	3,359	19.4%	13,580	12,069	12.5%
Total Costs	53,491	44,793	19.4%	187,211	158,139	18.4%
EBITDA	19,423	17,976	8.0%	72,688	66,011	10.1%
Depreciation	5,261	4,952	6.2%	20,311	19,584	3.7%
EBIT	14,162	13,024	8.7%	52,377	46,427	12.8%
Interest & Finance Charges	2,854	2,264	26.1%	10,949	10,142	8.0%
Non Operating Income	4,392	3,213	36.7%	16,668	14,368	16.0%
Pretax Profit	15,700	13,973	12.4%	58,096	50,653	14.7%
Tax	322	1,168	-72.4%	2,307	2,712	-14.9%
Net Profit	15,378	12,805	20.1%	55,789	47,941	16.4%
Extraordinary items	285	10,129		2,413	10,129	
Reported PAT	15,663	22,934	-31.7%	58,202	58,070	0.2%
Operating Margin (%)	26.6	28.6		28.0	29.4	
Net Margin (%)	21.1	20.4		21.5	21.4	
Effective Tax Rate (%)	2.1	8.4		4.0	5.4	
Operating Metrics						
Commercial Generation (MUs)	40.7	41.8	-2.6%	164.9	158.3	4.2%

Source: Company data, Morgan Stanley Research



ModelWare is Morgan Stanley's new system for helping investors and analysts to uncover value, free from the distortions and ambiguities created by accounting data. Morgan Stanley has dissected and fundamentally redefined the components of corporate valuation, giving clients more consistent definitions, more comparable data, and more flexible analytic tools. ModelWare makes investment insights easier by making value more visible.

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(as of April 30, 2006)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	713	36%	261	41%	37%
Equal-weight/Hold	883	45%	295	46%	33%
Underweight/Sell	367	19%	84	13%	23%
Total	1,963		640		

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Overweight (O or Over) - The stock's total return is expected to exceed the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

Equal-weight (E or Equal) - The stock's total return is expected to be in line with the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

Underweight (U or Under) - The stock's total return is expected to be below the total return of the relevant country MSCI Index, on a risk-adjusted basis, over the next 12-18 months.

More volatile (V) - We estimate that this stock has more than a 25% chance of a price move (up or down) of more than 25% in a month, based on a quantitative assessment of historical data, or in the analyst's view, it is likely to become materially more volatile over the next 1-12 months compared with the past three years. Stocks with less than one year of trading history are automatically rated as more volatile (unless otherwise noted). We note that securities that we do not currently consider "more volatile" can still perform in that manner.

Unless otherwise specified, the time frame for price targets included in this report is 12 to 18 months.

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Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

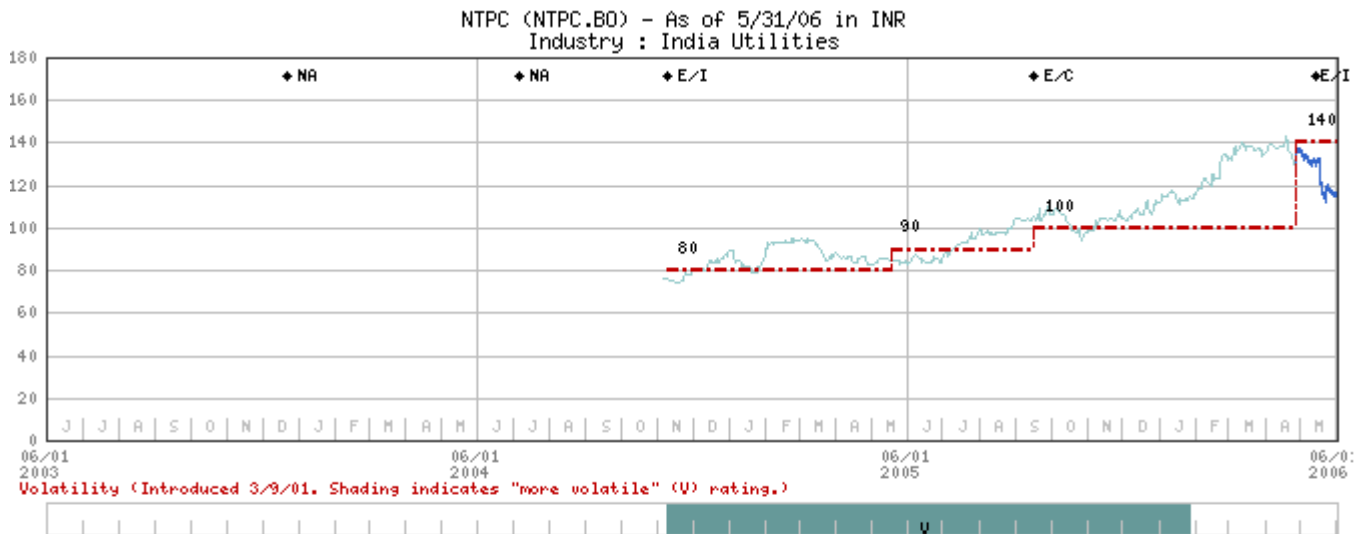
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Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

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Stock Rating History: 12/22/03 : NA; 7/6/04 : NA; 11/10/04 : E/I; 9/16/05 : E/C; 5/15/06 : E/I
Price Target History: 11/10/04 : 80; 5/18/05 : 90; 9/16/05 : 100; 4/27/06 : 140

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target --- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —
Stock Ratings abbreviated as below (Effective 3/18/02, ratings appear as Stock Ratings/Industry View) ♦
Stock Ratings as of 3/18/02: Overweight (O) Equal-weight (E) Underweight (U) More Volatile (V) No Rating Available (NAU)
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Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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Industry Coverage:India Utilities

Company (Ticker)	Rating (as of)	Price (05/31/2006)
Anirudh Gangahar NTPC (NTPC.BO)	Equal-weight (11/10/2004)	Rs112.25
Petronet LNG Limited (PLNG.BO)	U (12/05/2005)	Rs48.65
Tata Power Co (TTPW.BO)	E (05/15/2006)	Rs497.20
Hozefa Topiwalla Reliance Energy (RLEN.BO)	U (09/16/2005)	Rs493.15

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