

RESULTS REVIEW

Share Data

Market Cap	Rs. 1,684.1 bn
Price	Rs. 204.3
BSE Sensex	16,371.29
Reuters	NTPC.BO
Bloomberg	NATP IN
Avg. Volume (52 Week)	2.2 mn
52-Week High/Low	Rs. 291 / 141
Shares Outstanding	8,245.5 mn

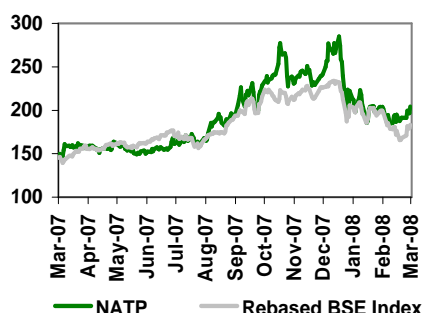
Valuation Ratios

Year to 31 March	2008E	2009E
EPS (Rs.)	9.0	11.2
+/- (%)	4.8%	25.4%
PER (x)	22.8x	18.2x
EV/ Sales (x)	5.0x	4.3x
EV/ EBITDA (x)	16.0x	13.1x

Shareholding Pattern (%)

Promoters	90
FII's	6
Institutions	2
Public & Others	2

Relative Performance



NTPC LIMITED

Hold

Gas shortage affects efficiency

NTPC is one of the major beneficiaries of the 11th five year plan. In this plan, there is a target to add 78,577 MW to India's total power generation capacity, out of which NTPC is supposed to contribute around 27%. However, the Company has lowered its earlier planned capacity addition by 6.4% to 2,490 MW and 11% to 2,670 MW in FY08E and FY09E, respectively. Additionally, the gas-based power plants, which form around 15% of the total capacity, are facing acute gas shortage. Considering the revised lower target and gas shortage, it appears that the Company would not be able to add the planned capacity, and there would be some spillover effect in the 12th five year plan. Moreover, unlike other private utilities, NTPC is exempted from tariff-based competitive bidding route for five years; therefore, the Company's success in the 12th five year plan is uncertain. On the positive front, besides increasing its presence in newly diversified areas such as hydropower, coal mining, power trading, oil & gas exploration, and consultancy services, NTPC, in the long term, is also planning to become an integrated regional player by entering into the LNG value chain. NTPC is also forming joint ventures with companies such as BHEL and Bharat Forge to enter into the EPC and equipment-supplier businesses.

Valuations

At the current market price, the stock is trading at a forward P/E of 22.8x and 18.2x for FY08 and FY09 earnings estimates. The lower

Key Figures (Standalone)

Quarterly data	Q3'07	Q2'08	Q3'08	QoQ%	YoY%	9M'07	9M'08	YoY%
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(Figures in Rs. bn, except per share data)

Net Sales	85.3	80.2	93.3	16.4%	9.4%	237.4	263.1	10.8%
EBITDA	26.4	27.5	29.7	8.0%	12.5%	77.3	84.0	8.7%
Adj. Net Profit	17.4	16.3	19.9	22.3%	14.3%	47.1	53.9	14.5%

Margins(%)

EBITDA	30.9%	34.3%	31.8%			32.5%	31.9%
Adj. NPM	20.4%	20.3%	21.3%			19.8%	20.5%

Per Share Data (Rs.)

Adj. EPS	2.1	2.0	2.4	22.1%	14.4%	5.7	6.5	14.6%
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Please see the end of the report for disclaimer and disclosures.

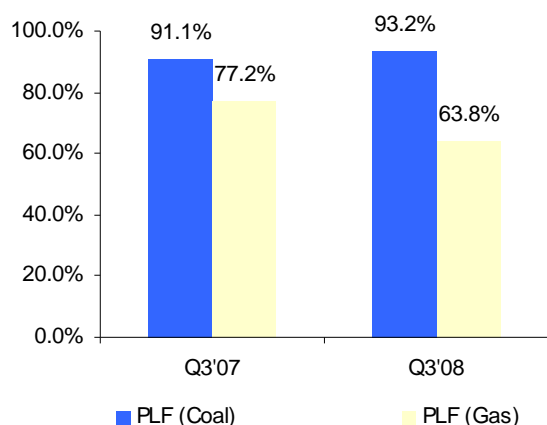
addition in capacity and the absence of gas linkages will affect the power generation, so we have lowered our EPS estimate for FY09 by 4.1% yoy. Based on our DCF valuation, we have come to the conclusion that the target price does not indicate any major upside from the current levels. Hence, we maintain our Hold rating. However, any faster commissioning of power plants could result in a positive surprise to the earnings.

Result Highlights

For the quarter ended Dec'07, net sales grew by 9.4% yoy to Rs. 93.3 bn primarily due to an improved PLF of coal-based power plants and increased average selling price per unit. NTPC has added an additional capacity of 500 MW each at Vindhyachal, Sipat and Kahalgaon, taking the total installed capacity to 26,850 MW from 25,350 MW in the same quarter last year. The Company has also commissioned its second unit of 740 MW at Dabhol power plant as on 3rd Nov'07; however, there are some issues regarding the non-availability of gas to NTPC, hence the plant is not fully operational. This supply constraint of gas is also affecting all the six gas-based power plants hence reducing the power generation.

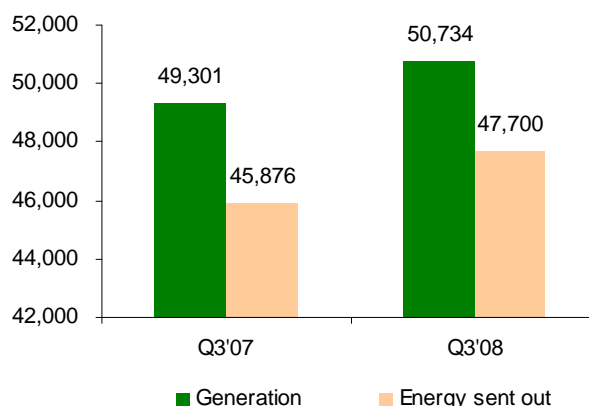
Revenues driven by improved PLF of coal based power plants

PLF position (in %)



Source: Company data, Indiabulls research

Generation vs. Sales volume (in mn units)



Source: Company data, Indiabulls research

Wage revision provisions limited profitability growth

EBITDA increased 12.5% yoy to Rs. 29.7 bn, and margin improved 87 bps to 31.8% primarily due to a decline in fuel cost (as a percentage of sales) by 266 bps. However, EBITDA growth was contained by rising staff

cost due to the wage provisioning. Since wage revision will be reflected in the tariffs and charged to the customer, hence, we believe it won't matter as far as the Company's profitability is concerned.

Reported net profit declined 15.4% yoy to Rs. 17.8 bn due to increased interest outgo and higher tax provisioning. Increase in taxes is accountable to the lower tax-free bond's income and higher income from the fixed deposit. However, after making adjustment for Rs. 2.1 bn of one time expenses/income related to the previous year sales, foreign exchange rate variation, wage provision, pension, and additional incentives the adjusted net profit stood at Rs. 19.9 bn (up by 14.3% yoy), while margin remained at 21.3%, (up by 90 bps).

Key Events

Plans to invest USD 40 bn in next 5 years

NTPC is planning to invest approx. USD 40 bn over the next five years to become an integrated regional energy player from just a national power utility. The Company is eyeing on to make an entry into the LNG value chain. Besides it is also planning to make its presence felt in newly diversified areas such as hydropower, coal mining, power trading, oil and gas exploration, and consultancy services. In addition, it is planning to bag coal assets in countries including Indonesia, Mozambique and Australia. The power major is also expanding its operations across Asia and Africa, with upcoming projects in South Asia, Africa and possibly West Asia.

Foray into new businesses

In order to achieve backward integration, NTPC had signed an MoU with Bharat Forge on 8th Feb'08 to set up a joint venture company with an initial equity participation of 49:51 respectively. The purpose of the JV is to set up an equipment manufacturing facility. NTPC already has a similar pact with Bharat Heavy Electricals Ltd (BHEL) to set up a 50:50 joint venture company for taking up engineering, procurement and construction (EPC) assignments.

Plans to change the business model

Achieving backward integration

Interim dividend @ 27% on the face value of equity shares

Interim dividend of Rs. 2.7 per share

As on 30th Jan'08, NTPC had decided to pay interim dividend of Rs. 2.7 per share for the financial year 2007-08.

Key Risks

- Uncertainty in fuel prices and the risk of gas linkages lead to the fear of supply shortage
- Risk due to reforms in the power sector
- Risk of delay in approval or losing of contracts

Outlook

NTPC is planning to expand its present installed capacity of approx. 27,000 MW to over 50,000 MW in the next five years. NTPC is an efficient generator as its coal-based power plants operate at the PLF of around 93.2% as compared to all India PLF of 79.2%. However, the case is different as far as the efficiency of gas-based stations is concerned. Here, all the six units of gas-based power plants are under-utilised due to the acute shortage of domestic gas, and thus the Company is left with a choice of either to run the plants at lower PLF or secure the costly imported liquefied natural gas at spot prices.

Going steadily

NTPC stands to benefit from improving operational efficiency and consistent enhancement in its generation capacity. Due to higher operating efficiencies of its coal-based power plants, the Company supplied power at an average price of Rs. 1.79 during 9M'08, which is very competitive as compared to its peers. However, we expect a rise in the power cost due to wage revisions and the increasing prices of coal. Since wage revision will be reflected in the tariffs and charged to the customer, hence, we believe it won't matter as far as the Company's profitability is concerned.

We anticipate that there would be some slippage in the 11th five year plan; therefore, the Company may not achieve its target.

Valuations

At the current market price, the stock is trading at a forward P/E of 22.8x and 18.2x for FY08 and FY09 earnings estimates, respectively. Based on our DCF valuation, the target price does not provide any major upside from the current levels. Hence, we maintain our Hold rating. However, any faster commissioning of power plants would result in a positive surprise to the earnings.

Key Figures (Consolidated)

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs. mn, except per share data)						(FY07-09E)
Net Sales	235,161	275,754	338,757	364,240	421,123	11.5%
EBITDA	68,423	81,638	102,529	113,860	139,189	16.5%
Net Profit	58,987	62,972	70,472	73,881	92,655	14.7%

Margins(%)

EBITDA	29.1%	29.6%	30.3%	31.3%	33.1%
NPM	25.1%	22.8%	20.8%	20.3%	22.0%

Per Share Data (Rs.)

EPS	7.4	7.6	8.5	9.0	11.2	14.7%
PER (x)	11.6x	17.5x	17.5x	22.8x	18.2x	

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