

## Strategy In-Depth

29 November 2006 | 8 pages

# India Investment Daily

## Wednesday, 29 November 2006

- National Thermal Power (NTPC.BO): Buy: Revisiting the Power Behemoth; New Target Price of Rs 181** – We raise our target price on NTPC to factor in higher capacity additions and better-than-expected working capital. Our new valuation methodology is based on setting a floor price using replacement cost of assets (Rs141) and setting our target price using DCF (Rs181) to capture the value of future growth opportunities. NTPC is our top pick in the Indian Electric Utility space for its defensiveness (particularly for investors who are benchmarked against broad market indices), large market capitalization, regulated earnings stream and secular growth. *Venkatesh Balasubramaniam, +91 22 6631 9864*  
 Click on [www.citigroupgeo.com/pdf/SAP01039.pdf](http://www.citigroupgeo.com/pdf/SAP01039.pdf) for the full report.

### Key Market Data

#### Markets & Currency

28-Nov	Close	1 Day	YTD
BSE Sensex	13,602	-1.25	44.7
BSE 100	6,899	-1.21	39.3
S&P CNX Nifty	3,922	-1.19	38.3
BSE 500	5,197	-1.18	36.9
Rs/US\$	44.70	-0.09	0.8

#### Institutional Activity

(US\$ Mils.)	24-Nov	MTD	YTD
<b>FIIs</b>			
Purchase	796.4	9,790.6	93,758.1
Sale	574.0	7,773.9	84,954.1
Net	222.5	2,016.7	8,804.0

#### Local MFs

Purchase	65.3	2,327.6	26,489.6
Sale	113.0	2,217.5	23,274.8
Net	(47.6)	110.1	3,214.8
<b>Total - Net</b>	<b>174.8</b>	<b>2,126.8</b>	<b>12,018.8</b>

Source: Bloomberg

### Major Gainers and Losers\*

IPCA LAB LTD.	4.9	HIND.ZINC	4.7
RAMCO SYSTEM	4.5	UNITED PHOSP	4.5
IGATE GLOBAL	3.4	PIDILITE IND	4.1
GUJ MIN DEVL	2.9	GTL LIMITED	3.7
HCL INFOSYS	2.7	CROMPTON GRE	3.6
STR OPTICAL	2.6	ESCORTS LTD.	3.4
ASAHI INDIA	2.4	GEOMET SOFSO	3.3
JINDAL STEEL	2.2	HCL TECHNO	3.3
ADANI ENTER	2.0	BANK OF BARODA	3.2
SUN PHARMACE	2.0	HEXAWARE LTD	3.2

Source: BSE. \*BSE-Group 'A'

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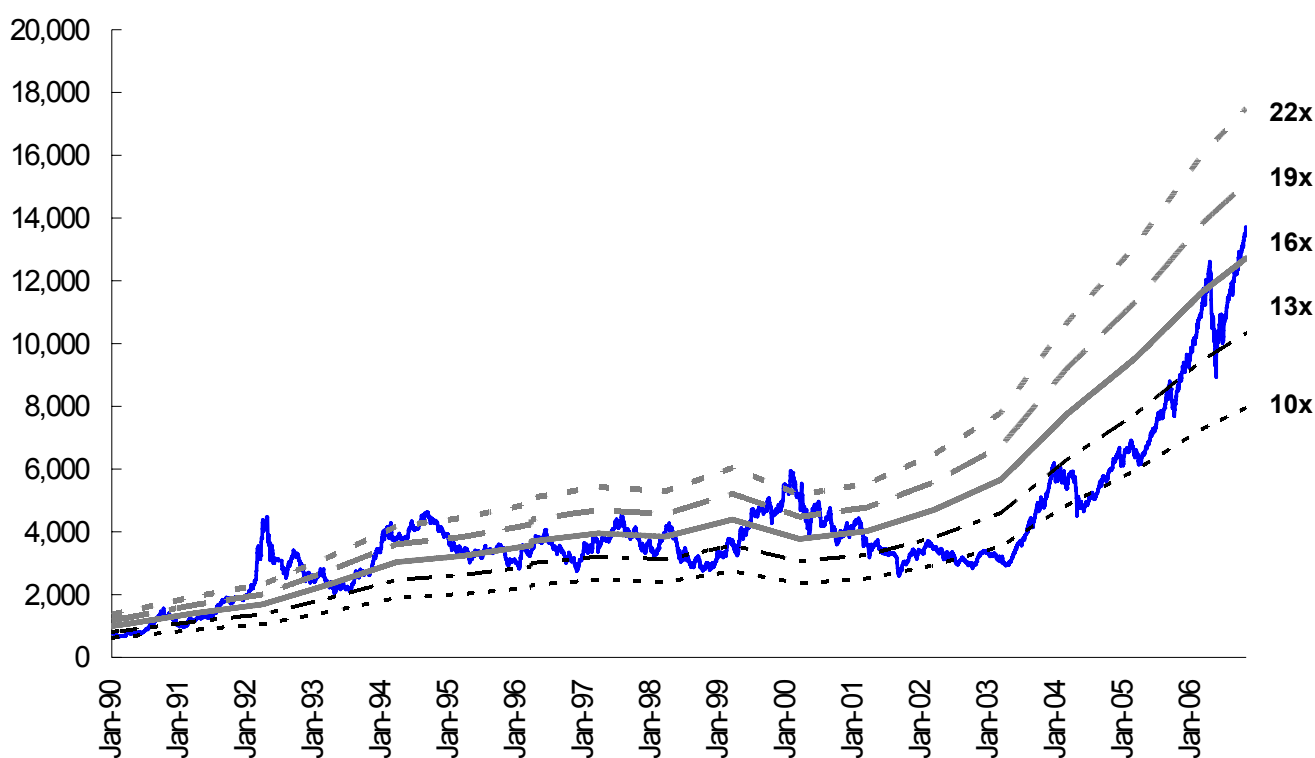
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## BSE- Sensex 12-Month Forward PE Band Chart



Source: Bloomberg, Citigroup Investment Research estimates

## Economy

- The government is likely to announce its decision on petrol and diesel price cuts today. The prices of petrol and diesel were last increased in June by Rs4 per litre and Rs 2 per litre, respectively (*The Hindu Business Line*)
- FII's net investment in India has surged past US\$50 billion; US\$49.98 billion in equities till date and US\$1.08 billion in the debt market (*Business Standard*)
- India's trade deficit increased to US\$6.20 billion in October 2006, up sharply from US\$2.93 billion in October 2005 (*Business Standard*)

## Industry

- The government has permitted private investment in the coal sector by allowing domestic and overseas mining companies to directly access captive coal blocks (*The Economic Times*)
- Steel Authority of India has ruled out the possibility of sharing Chiria Mines with any other player. This is significant as Mittal Steel has ruled out setting up a plant in Jharkand without Chiria (*Business Standard*)

## Company News

- The AV Birla Group will rollout its retail business in the next seven to eight months and is likely to develop the business on its own without a foreign player, according to a senior executive (*The Economic Times*)
- CSN has started discussions with Pension Fund Trustees of Corus (*The Economic Times*)

## National Thermal Power (NTPC.BO)

### Buy: Revisiting the Power Behemoth; New Target Price of Rs181

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<b>Buy/Low Risk</b>	<b>1L</b>
Price (27 Nov 06)	Rs153.95
Target price	Rs181.00
Expected share price return	17.6%
Expected dividend yield	2.1%
<b>Expected total return</b>	<b>19.6%</b>
Market Cap	Rs1,269,389M US\$28,478M

	2006	2007E	2008E
EPS new	6.76	8.40	9.51
EPS Growth	10.1	24.4	13.2
P/E	22.8	18.3	16.2
EV/EBITDA	19.1	14.2	12.6
Consensus Data	7.08	7.94	8.89

#### Price Performance (RIC: NTPC.BO, BB: NATP IN)



**Raising target price to Rs181** — We raise our target price on NTPC to factor in higher capacity additions and better-than-expected working capital. Our new valuation methodology is based on setting a floor price using replacement cost of assets (Rs141) and setting our target price using DCF (Rs181) to capture the value of future growth opportunities (VGO). We also raise our estimates slightly.

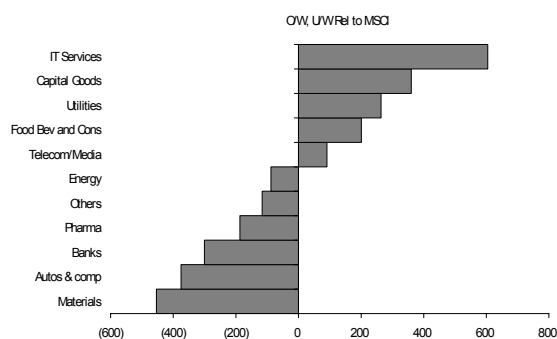
**Capacity increasing 2x in five years and 3x in 10 years** — NTPC aims to double its capacity to 48GW and effectively control 51GW by FY12E. The company has plans to triple capacity to 76GW by FY17E. Its capex is well funded with low current gearing of 0.45x, high current cash levels of Rs84.7bn, a strong credit rating and a high annual cash flow from operations of Rs175bn for FY07E-15E.

**RoE expansion** — Execution of this unprecedented capacity expansion plan would convert cash (max. 5% returns) and bonds (max. 8.5% tax-free returns) to power assets (17- 20% returns), thereby resulting in RoE expansion.

**Coal blocks mitigate fuel supply risks** — NTPC has been allocated eight coal blocks with total reserves of 5902 MT of which two would be developed in a joint venture with Coal India. The company expects to have a total production capacity of 50MTPA by year 2017 with initial production beginning in 2008. This should mitigate fuel supply risk to a large extent, in our view.

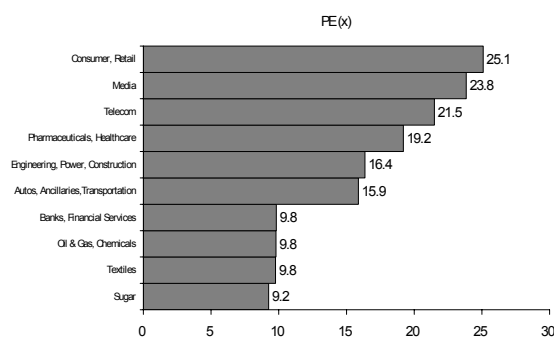
**Our top pick among the Indian electric utilities** — NTPC is our top pick in the Indian Electric Utility space for its defensiveness (particularly for investors who are benchmarked against broad market indices), large market capitalization, regulated earnings stream and secular growth.

#### Key Overweights/ Underweights



Source: Citigroup Investment Research

#### CIR Universe P/E FY07E (x)



Source: Citigroup Investment Research

## Market Snapshot

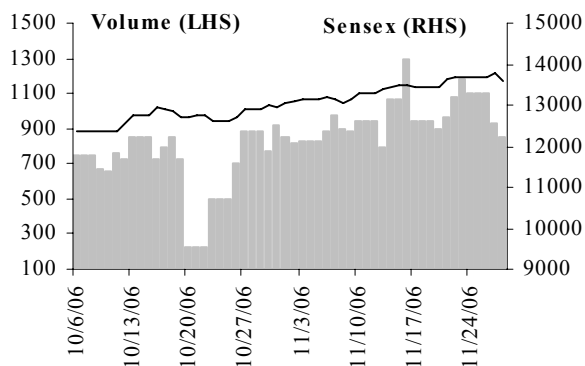
Performance (%)	1-Day	1-Week	1-Month	3-Month	6-Month	12-Month	YTD	Mkt Volume	(Rs Mils.)
<b>Absolute</b>								BSE	41,611
BSE Sensex	(1.2)	(0.1)	5.4	17.1	26.1	51.2	44.7	NSE	82,580
CIR	(0.9)	0.2	4.2	5.6	11.2	25.4	20.4	<b>Top Volume*</b>	(Rs Mils.)
Aluminum	(1.4)	0.8	(4.8)	2.6	(6.2)	23.7	10.3	JAIPRAK ASSO	854.6
Auto	(1.0)	0.6	(3.3)	2.9	2.1	26.0	23.0	NTPC LTD	719.2
Banks	(0.8)	1.3	11.4	32.5	42.2	40.8	38.7	LANCO INFRA	632.9
Capital Goods	(0.7)	2.5	1.8	13.4	24.0	67.5	69.0	REL COM LTD	573.1
Cement	(0.5)	3.7	11.4	20.0	41.4	109.5	106.7	ADANI ENTER	500.5
Consumer	(0.6)	(2.3)	1.9	0.1	(1.9)	15.4	10.9	ZEE TELEF LT	491.4
Hotels	(0.6)	(0.6)	1.0	11.2	16.7	53.7	41.8	INDIA CEMENT	406.8
IT Services	(2.6)	(1.6)	2.9	16.1	30.0	39.2	30.0	STR OPTICAL	374.0
Media	0.4	5.4	19.7	26.5	52.3	133.9	130.8	INDIAN HOTELS COMPANY LTD.	189.9
Oil & Gas	(0.7)	0.4	5.1	6.4	7.4	12.2	3.1	ASHOK LEYLND	65.4
Petrochemical	(0.1)	(1.8)	2.0	10.7	30.3	46.4	39.6	<b>Top Gainers*</b>	<b>Close (Rs)</b>
Pharmaceutical	(0.4)	0.9	0.5	(4.1)	(2.8)	15.0	12.7	IPCA LAB LTD.	483
Power	(2.2)	2.9	9.7	11.0	8.5	10.4	10.8	RAMCO SYSTEM	199
Steel	(2.4)	0.1	(5.5)	2.7	(3.3)	57.1	46.0	IGATE GLOBAL	246
Telecom Equipment	0.8	2.1	17.3	27.3	26.9	37.9	33.8	GUJ MIN DEVL	360
Telecom	(0.5)	0.6	14.7	38.8	50.9	57.4	63.5	HCL INFOSYS	170
<b>Relative to BSE-30 Sensex</b>								STR OPTICAL	226
CIR India Index	0.4	0.3	(1.2)	(11.4)	(14.9)	(25.8)	(24.3)	ASAHI INDIA	127
Aluminum	(0.2)	0.9	(10.2)	(14.4)	(32.3)	(27.5)	(34.5)	JINDAL STEEL	2,115
Auto	0.2	0.7	(8.7)	(14.2)	(24.0)	(25.2)	(21.7)	ADANI ENTER	207
Banks	0.4	1.4	6.0	15.4	16.1	(10.4)	(6.0)	SUN PHARMACEUTICALS LTD.	1,011
Capital Goods	0.5	2.6	(3.5)	(3.7)	(2.1)	16.3	24.2	<b>Top Losers*</b>	<b>Close (Rs)</b>
Cement	0.8	3.8	6.0	3.0	15.3	58.3	61.9	HIND.ZINC	927
Consumer	0.7	(2.2)	(3.4)	(16.9)	(28.0)	(35.8)	(33.8)	UNITED PHOSP	316
Hotels	0.6	(0.5)	(4.4)	(5.9)	(9.4)	2.5	(3.0)	PIDILITE IND	133
IT Services	(1.3)	(1.5)	(2.5)	(0.9)	3.9	(12.0)	(14.8)	GTL LIMITED	123
Media	1.6	5.5	14.4	9.4	26.2	82.7	86.1	CROMPTON GREAVES LTD.	265
Oil & Gas	0.5	0.5	(0.3)	(10.6)	(18.7)	(39.0)	(41.6)	ESCORTS LTD.	111
Petrochemical	1.1	(1.7)	(3.4)	(6.4)	4.2	(4.9)	(5.1)	GEOMET SOFSO	115
Pharmaceutical	0.9	1.0	(4.9)	(21.1)	(28.9)	(36.2)	(32.0)	HCL TECHNO	620
Power	(1.0)	3.0	4.3	(6.1)	(17.6)	(40.8)	(33.9)	BANK OF BARODA-PARI PASSU	262
Steel	(1.1)	0.2	(10.9)	(14.3)	(29.4)	5.9	1.3	HEXAWARE LTD	180
Telecom Equipment	2.1	2.2	11.9	10.3	0.8	(13.4)	(11.0)		
Telecom	0.7	0.7	9.4	21.8	24.8	6.2	18.8		

Source: Citigroup Investment Research estimates

\*BSE-Group A

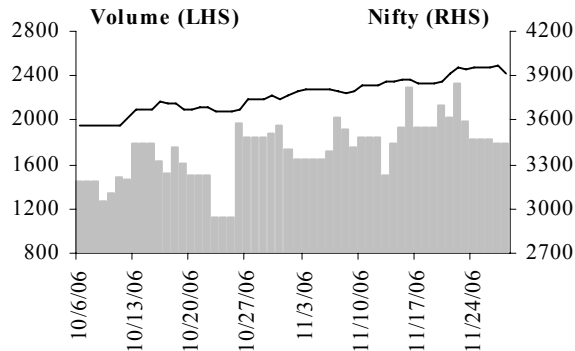
Source: The Economic Times, www.bseindia.com.

BSE-30 – Performance & Volume (US\$ Mils.)



Source: Bloomberg, Citigroup Investment Research estimates

NIFTY – Performance & Volume (US\$ Mils.)



Source: Bloomberg, Citigroup Investment Research estimates

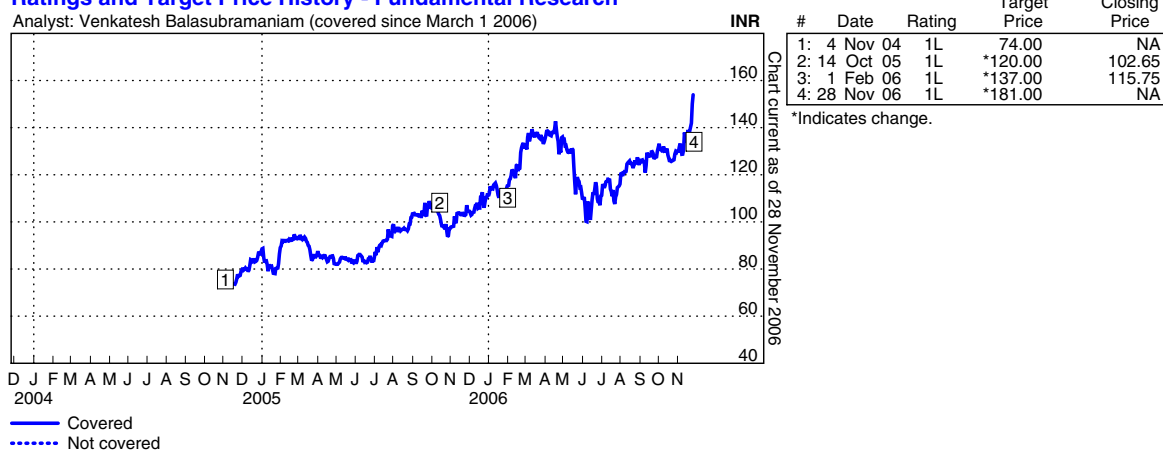
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Analyst: Venkatesh Balasubramaniam (covered since March 1 2006)



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Data current as of 30 September 2006

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