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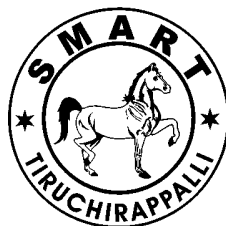
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INITIAL PUBLIC OFFER : - A NICHE
A STUDY ON NATIONAL THERMAL POWER CORPORATION (NTPC)

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Introduction :

The capital market is the place where the medium term and long-term financial needs of business are met. Primary capital market is a market for raising fresh capital from public by floating fresh capital instruments like shares, debentures and bonds. Recently Indian capital market strengthened itself by the floatation of Initial Public Offer by means of companies. The paper is visualizing the need for recent Initial Public Offer for National Thermal Power Corporation.

Objectives of the study

The present study is carried out with the following objectives. They are:

- To study the purpose of IPO for NTPC
- To know the risk factors associated with the investment in NTPC
- To know the initial trend of IPO by NTPC, and
- To know the prospectus of the IPO by NTPC

About NTPC

National Thermal Power Corporation Limited is the largest thermal power generating company of India. It is a public sector company incorporated in the year 1975 to accelerate power development in the country as a wholly owned company of the Government of India. As part of disinvestments process, the Government of India keeps 89.5% of the total equity shares and the balance was offered to the public¹. NTPC is fundamentally a strong company with an established presence in the power generation business.

Purposes of THE IPO by NTPC

The funds raised by NTPC through IPOs are proposed to be utilized:

- To increase the generating capacity of power
- To implement new projects
- To modernize some of the existing power stations

Risk Factors Associated with the investment IN NTPC

The risk factors associated with the investment in NTPC are of two types - external and internal.

External Risk Factors :

- Adverse political, economic and social developments could affect the business
- Terrorist attacks or war involving India could adversely affect the business
- Downgrading of India's debt rating by an International rating agency could have a negative impact on the business
- Depreciation of the Rupee against foreign currencies may have an adverse impact on the operations.

Internal Risk Factors :

- The CEREC's new tariff regulations will adversely affect result of operations
- The Electricity Act could result in increased competition for the company
- Expansion plans require significant capital expenditure
- Changes in government policy may affect the company
- Availability of fuel at competitive prices is crucial for the business

About IPO of NTPC:

The company issued 86,58,30,000 equity shares of Rs. 10 each through Book Building for 52-62 per share ². ICICI Securities, Enam Financial consultants, and Kotak Mahindra Capital are the lead managers to the issue. The issue opened on 7.10.04 and closed on 13.10.04. The shares are listed in both BSE and NSE. NTPC's IPO got off to a flying start. On the first day of IPO, the issue was oversubscribed by as many as 40 times. The investors placed cumulative bids for over 3,323 crore shares on offer, according to bid data available with the Bombay Stock Exchange (BSE) at 5 P.M. The bid price band under 100% book-build issue is Rs.52-62 per share and the maximum number of bids were around the top end of the price band, according to investment banking sources. At the price point of Rs.62, investors had placed demand for 241.5 crore shares according to the BSE data. However, the highest number of shares-around 317.89 crore –were bid at Rs.52. At the lower end of the price band at Rs.52,it was oversubscribed by 3.67 times. While at the upper end of Rs.62, the response from Qualified Institutional Buyers (QIB), especially Foreign Institutional Investors was good. As per BSE bid data, the issue was oversubscribed by 2.17 times in the first one hour of opening of bidding ³. The shares of NTPC were fully sold in 15 minutes on 7.10.04. Mr. Mukerji, Managing director of NTPC said that the demand for the shares has been pre-dominantly from Foreign Institutions. Retail interest in the issue was also quiet encouraging.

Table-I**Share Holding pattern before IPO by NTPC**

Government of India holds	100%
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Source: www.ntpc.org.

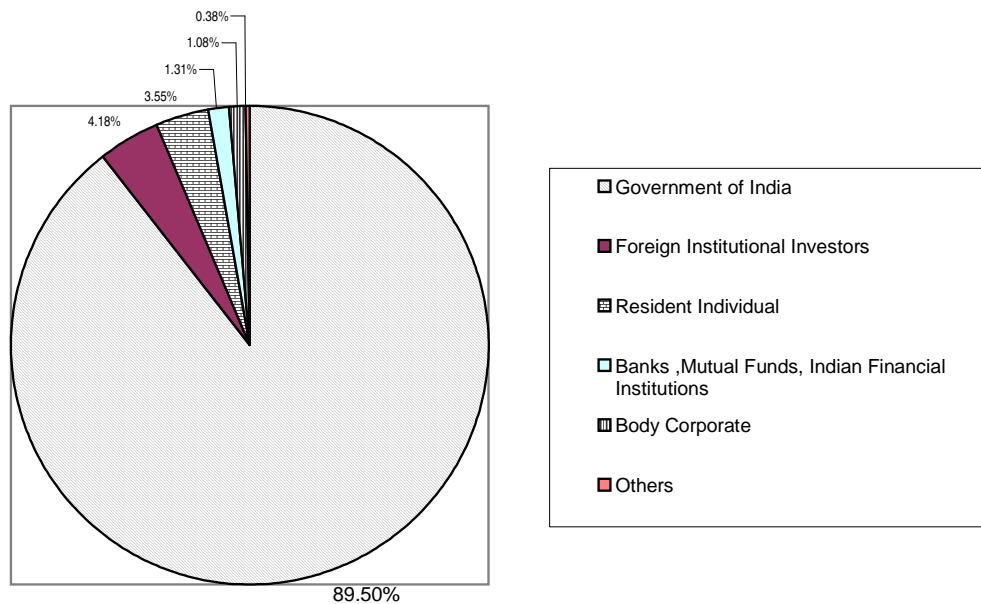
Table : II
Share Holding pattern after IPO by NTPC (as on 26.11.04)⁴

Government of India	89.50%
Foreign Institutional Investors	4.18%
Resident Individual	3.55%
Banks, Mutual Funds, Indian Financial Institutions	1.31%
Body Corporate	1.08%
Others	.38 %
Total	100%

Source: www.ntpc.org.

Table-I shows shareholding pattern of NTPC before IPO. Before 21.11.04, the Govt of India held 100% of shares of NTPC. Table-II shows shareholding pattern of NTPC after IPO (as on 21.11.04). 89.5% of NTPC shares are retained by the Government of India and the balance of 10.5% were offered to the public. Even out of this 10.5% offer, 4.18% is owned by Foreign Institutional Investors and 3.55% by Resident Individuals. The Banks, Mutual Funds, other financial institutions hold 1.31% of the shares. The body corporate retains 1.08% of shares and others retain only .38% of shares, which were offered to the public, the FIIs hold 39.80% and Resident Individual holds 33.81%. This clearly shows the confidence among FIIs & public about their investment in IPO by NTPC. The share holding pattern of NPTC is given in Bi chart-I, which is self-explanatory.

Bi-Chart-I



Future Prospects of IPO

The future of this IPO may have high prospects in the forthcoming years. The reason for its high growth are given below :

- ❖ NTPC is on a major capacity expansion programme and the next three years will see the company adding another 7,370 MW to existing capacity. A further 11,588 MW is planned for execution between 2007 and 2012 taking total capacity to over 40,000 MW.
- ❖ There is clarity on the regulatory front with the Central Electricity Regulatory Commission (CERC) issuing its tariff norms till 2009. As per these, norms NTPC has promised a 14% post- tax return on net worth with raw material costs and tariffs in hydropower typically declining over the years. This will be a major competitive advantage for NTPC.
- ❖ The company is highly competitive in its tariff at an average of Rs.1.47 per unit. This will be a major advantage in the emerging competitive scenario as the cheapest source of power will get sold first.
- ❖ NTPC has a strong balance –sheet with a debt-equity ratio of 0.43, weighted average cost of borrowing of 6.95% and strong cash generation from operation.

Conclusion :

NTPC will be the sixth largest listed company on the Indian Stock Exchanges at a listing price of Rs.62, for which the issue got 72.98% bids. At this price, it is valued at 11.7 times its extended Financial Year 05 earnings compared to 14 times for Tata Power and 29 times for Reliance Energy ⁴. This gives a lot of scope for appreciation, and the analysts expect the stock to hit Rs.100 within 12 months as the company uses the issue proceeds to improve its generation capabilities and meet growing demand. NTPC's IPO has got a very good response. The price, mirrors the confidence of the investors in the management. There are very few stocks offering good returns with growth options. The NTPC's IPO sends a clear signal to foreign investors that the government will go ahead with the reform process and divestment initiatives will not suffer.

References :

1. www.ntpc.org
2. Times News Net Work
3. The Hindu Business Line dated 3.10.04.
4. Ibid, The Hindu Business Line dated 3.10.04.