

UBS Investment Research

India Power Utilities

India

Electric Utilities

Sector Comment

Sarguja UMPP bid to open on 15 March

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According to media reports, the government is planning to invite initial bids for the 4,000-MW ultra mega power project (UMPP) at Sarguja in Chhattisgarh on 15 March. This is one of the nine such projects (four already awarded), which would contribute in the XII Plan period (2012-17). The Sarguja UMPP would be a pit-head coal-based project.

■ The government is sincere about capacity addition

We believe the Central Government is keen on growth in the power sector and it remains a top priority for the Prime Minister's Office (PMO) as well. On the basis of our interactions with sector participants, we believe the Planning Commission and the Ministry of Power are making serious efforts to ensure that generation capacity addition targets are met. Please refer to our sector note, '*India Power Utilities: Key take away from meetings with sector participants*,' dated 25 February 2010.

■ Reliance Power is not eligible to bid for new UMPPs

According to a circular issued on 24 February 2010 by the Ministry of Power, any group/company cannot have more than three UMPPs at pre-commissioning. Consequently, a developer can bid for the next UMPP only after all the units of one of the three UMPPs have achieved commercial operations. This makes Reliance Power ineligible to bid for new UMPPs for around three years.

■ Our top picks: Adani Power and Lanco Infratech

We prefer Adani Power (Buy rating, sum-of-the-parts-based price target of Rs130) and Lanco Infratech (Buy rating, DCF-based price target of Rs65). Momentum on new capacity addition and superior earnings growth will drive stock prices, in our view.

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Ultra mega power projects (UMPPs)

In 2005, the government of India identified the need to develop large capacity projects at the national level to meet the requirements of a number of states under the competitive bidding guidelines dispensation. Accordingly, the UMPPs were planned. The objectives were:

- To reduce power shortages;
- To provide a thrust to competitive bidding;
- To reduce execution problems by providing infrastructure support.

Table 1: Already awarded UMPPs

	Capacity (MW)	Configuration (Units x MW)	Location (state)	Fuel	Won by	Levelised tariff
Sasan	3,960	6 x 660MW	Madhya Pradesh	Pit-head coal	Reliance Power	1.19
Mundra	4,000	5 x 800MW	Gujarat	Imported coal	Tata Power	2.26
Krishnapatnam	4,000	5 x 800MW	Andhra Pradesh	Imported coal	Reliance Power	2.33
Tilaiya	4,000	5 x 800MW	Jharkhand	Pit-head coal	Reliance Power	1.77

Source: UBS estimates

The government has envisaged a total of nine UMPPs, of which five are in the pipeline.

Table 2: UMPPs in the pipeline

	Capacity (MW)	Location (state)	Fuel
Girye	4,000	Maharashtra	Imported coal
Tadri	4,000	Karnataka	Imported coal
Akaltara/Sarguja	4,000	Chhattisgarh	Pit-head coal
Sudergarh District	4,000	Orissa	Pit-head coal
Cheyur	4,000	Tamil Nadu	Imported coal

Source: UBS estimates

Reliance Power is ineligible for new UMPPs

According to a circular issued on 24 February 2010 by the Ministry of Power, any group or company cannot have more than three UMPPs at pre-commissioning. Hence, a developer can bid for the next UMPP only after all the units of one of the three UMPPs have achieved commercial operations. This makes Reliance Power ineligible for new UMPPs for around three years. We believe implications of this could be:

- Less aggressive bidding could make projects more profitable for developers;
- L&T could be one of the key beneficiaries as it plans to grow its generation capacity aggressively. As per media reports, L&T Power is targeting 5,000MW capacity by 2015. Already, for the 1,320MW Rajpura project in Punjab, L&T is the lowest bidder with a levelised tariff of Rs2.89/unit, followed by Welspun with a bid of R2.94/unit. Please refer to our note, '*Lanco Infratech: Third-lowest bidder for Rajpura project*,' dated 17 November 2009.

■ **Statement of Risk**

In the Indian power sector, we believe key risks for companies include regulatory risks, execution-related risks, funding availability, and interest rates.

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UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	48%	40%
Neutral	Hold/Neutral	40%	35%
Sell	Sell	13%	26%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	17%
Sell	Sell	less than 1%	67%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 December 2009.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

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Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

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UBS Securities India Private Ltd: Pankaj Sharma; Sandip Bansal.

Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Adani Power ⁴	ADAN.BO	Buy	N/A	Rs107.90	08 Mar 2010
Lanco Infratech ^{2, 4}	LAIN.BO	Buy	N/A	Rs51.90	08 Mar 2010

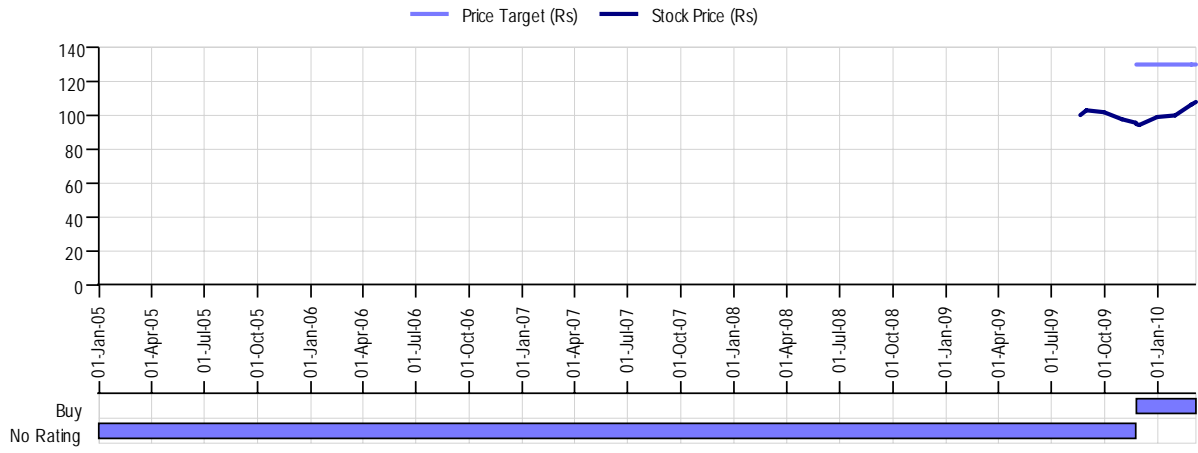
Source: UBS. All prices as of local market close.

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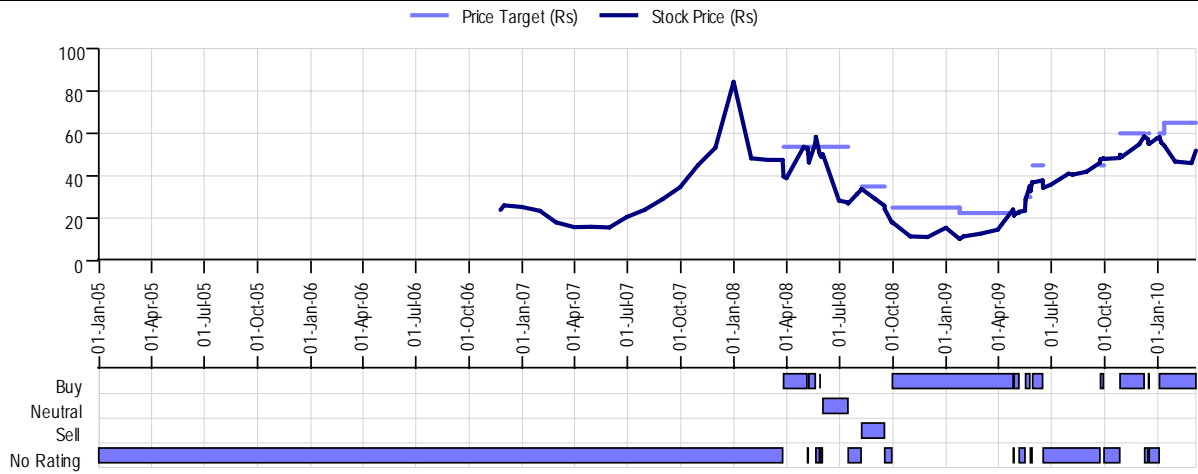
Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Adani Power (Rs)



Source: UBS; as of 08 Mar 2010

Lanco Infratech (Rs)



Source: UBS; as of 08 Mar 2010

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