

Morgan Stanley India Company
Private Limited+

Parag Gupta
Parag.Gupta@morganstanley.com
+91 22 2209 7915

Akshay Soni
Akshay.Soni@morganstanley.com
+91 22 2209 7151

Saumya Srivastav
Saumya.Srivastav@morganstanley.com
+91 22 2209 7084

June 15, 2010

Stock Rating
Overweight

Industry View
In-Line

LANCO Infratech Ltd

Power Business Growing Well; Upgrade to OW

What's Changed

Rating	Equal-weight to Overweight
Price Target	Rs44.00 to Rs79.00
F2011e EPS	From Rs5.28 to Rs4.79
F2012e EPS	From Rs6.92 to Rs5.38

We believe Lanco is becoming a serious player in the power industry: Lanco's installed capacity is likely to reach 4,699 MW by F2013, making it the fifth-largest private generation company in the country. Thus, we expect the power business to contribute a larger proportion of earnings than construction – from 48% of consolidated F2010 EBITDA to 76% by F2012. This should make consolidated cash flows more stable.

We find valuation attractive; our new price target is Rs79: The stock is trading at 8.7x F2011e EV/EBITDA and 13.3x P/E. While we have increased our F2011 and F2012 EBITDA estimates by 27% and 30%, respectively, our EPS estimates for F2011 and F2012 have decreased by 9% and 22%, respectively. This reflects a change in depreciation policy, resulting in higher depreciation. We are moving from a probability-weighted price target to our base case alone.

Execution improving; funding not a constraint: For the entire projected capacity of 9,311 MW by F2014, the company has ordered equipment and commenced construction work. Funding too should not be a constraint; internal accruals coupled with EPC margins should be sufficient to meet equity requirements. Further, the company has already started receiving sanction letters from banks, thus supporting potential financial closure for projects in the next few months.

What could go wrong? Significant delays in the commissioning of new projects could be a dampener for the stock. Further, any government intervention regarding merchant prices or proportion of merchant sales could impair cash flows.

Key Ratios and Statistics

Reuters: LAIN.BO Bloomberg: LANCI IN

India Utilities

Price target	Rs79.00
Up/downside to price target (%)	24
Shr price, close (Jun 14, 2010)	Rs63.95
52-Week Range	Rs65.70-31.30
Shrs out, basic, per-end (03/10e) (mn)	2,408
Mkt cap, curr (mn)	US\$3,042
Avg daily trading value (mn)	US\$11.5

Fiscal Year ending	03/09	03/10e	03/11e	03/12e
ModelWare EPS (Rs)	1.86	2.84	4.79	5.38
Prior ModelWare EPS (Rs)	1.86	2.94	5.28	6.92
Consensus EPS (Rs)§	1.49	1.97	4.65	5.24
Revenue, net (Rs mn)	69,469	97,046	148,580	202,485
EBITDA (Rs mn)	9,257	16,970	43,028	60,670
ModelWare net inc (Rs mn)	4,138	6,844	11,543	12,950
P/E	7.8	18.4	13.3	11.9
P/BV	1.1	3.5	3.1	2.5
EV/EBITDA	11.9	15.6	8.7	7.3
Div yld (%)	-	-	-	-

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).

§ = Consensus data is provided by FactSet Estimates.

e = Morgan Stanley Research estimates

Morgan Stanley does and seeks to do business with companies covered in Morgan Stanley Research. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of Morgan Stanley Research. Investors should consider Morgan Stanley Research as only a single factor in making their investment decision.

For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.

+ = Analysts employed by non-U.S. affiliates are not registered with FINRA, may not be associated persons of the member and may not be subject to NASD/NYSE restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

Financial Summary

Income Statement

Rs Mn (Year-end March)	F2009	F2010E	F2011E	F2012E
Total Net Revenues	69,469	97,046	148,580	202,485
Power	27,069	37,931	81,987	116,965
Construction	40,826	59,372	63,790	81,676
Real Estate	1,574	(257)	2,803	3,844
Total operating expenses	60,212	80,076	105,553	141,815
Fuel cost	22,799	28,115	46,446	65,806
O & M Costs	2,902	4,292	6,400	9,077
Real Estate Cost	1,490	157	2,795	3,768
Other Costs	33,021	47,512	49,912	63,164
EBITDA	9,257	16,970	43,028	60,670
Depreciation	1,105	3,367	13,297	21,384
EBIT	8,152	13,603	29,731	39,287
Other income	564	1,152	851	1,320
Interest and finance charges	1,863	3,322	10,556	17,007
Management Fees	-	-	-	-
PBT	6,853	11,433	20,025	23,600
Taxation	1,681	3,577	5,583	6,978
Tax rate (%)	24.5	31.3	27.9	29.6
PAT	5,172	7,856	14,442	16,622
Minority Interest	1,033	1,012	2,900	3,672
Adjusted Net Profit	4,138	6,844	11,543	12,950
Less :Intercompany profit elimination	1,290	1,691	2,438	3,864
Reported Net Profit	2,848	5,153	9,105	9,087
Basic EPS (Rs) (on adjusted profit)	1.86	2.84	4.79	5.38
DPS (Rs)	-	-	-	-

Ratio Analysis

(Year-end March)	F2009	F2010E	F2011E	F2012E
Growth (%)				
Revenues (%)	101%	40%	53%	36%
EBITDA (%)	29%	83%	154%	41%
EBIT (%)	27%	67%	119%	32%
Net Profit (on adjusted profit) (%)	8%	65%	69%	12%
EPS (on adjusted profit) (%)	8%	53%	69%	12%
Margins (%)				
EBITDA (%)	13%	17%	29%	30%
EBIT (%)	12%	14%	20%	19%
EBT (%)	10%	12%	13%	12%
Net Profit (on adjusted profit) (%)	6%	7%	8%	6%
Return (%)				
ROE (on adjusted profit) (%)	17%	21%	28%	25%
ROCE (%)	9%	9%	12%	11%
ROA (%)	2%	3%	3%	2%
Gearing				
Debt/Equity	2.85	4.48	6.03	5.92
Net Debt/Equity	2.51	3.83	5.12	5.16
Valuations				
EV/EBITDA	23.8	16.9	8.7	7.3
P/E (using Basic EPS)	34.4	22.5	13.3	11.9
P/BV	4.8	4.1	3.1	2.5
Dividend Yield (%)	0%	0%	0%	0%

Balance Sheet

Rs Mn (Year-end March)	F2009	F2010E	F2011E	F2012E
Liabilities				
Share Capital	2,198	2,383	2,383	2,383
Reserves and surplus	27,432	31,211	41,355	53,213
Shareholders funds	29,630	33,594	43,738	55,596
Secured loans	80,663	136,641	245,131	305,477
Unsecured loans	3,697	13,697	18,697	23,697
Minority Interest	3,539	4,551	7,451	11,123
Other Liabilities	178	178	178	178
Total Liabilities	117,708	188,661	315,195	396,071
Assets				
Gross Block	26,558	66,130	162,394	218,975
Accumulated Depreciation	7,555	10,694	23,991	45,374
Net Block	19,003	55,436	138,403	173,600
CWIP	85,142	100,632	119,167	148,183
Investments	287	287	287	287
Cash and Cash Equivalents	10,077	21,513	39,823	42,488
Current assets	36,933	52,423	64,360	84,537
Current Liabilities & Provisions	33,733	41,627	46,844	53,022
Net current assets	13,277	32,308	57,339	74,002
Misc. Expenditure	1	1	1	1
Total Assets	117,708	188,661	315,195	396,071

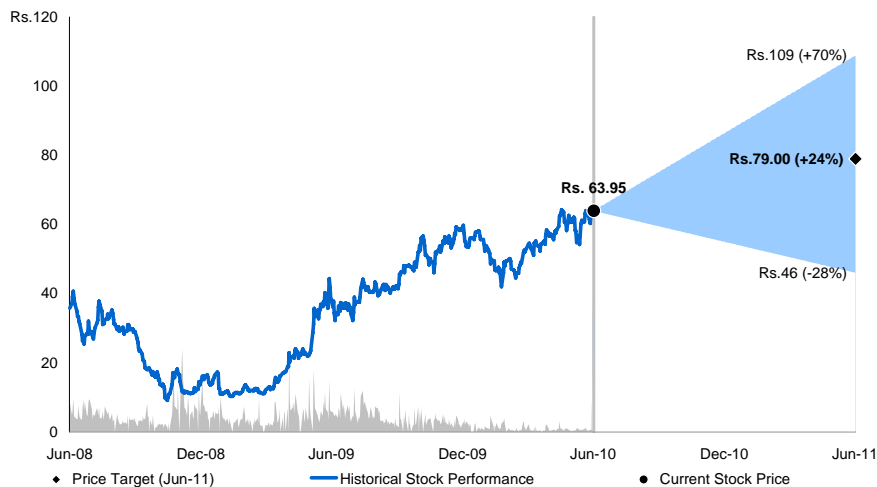
Cash Flow

Rs Mn (Year-end March)	F2009	F2010E	F2011E	F2012E
PAT	4,138	6,844	11,543	12,950
Depreciation	1,105	3,367	13,297	21,384
Changes in Working Capital	(6,092)	(7,595)	(6,720)	(13,999)
Cash flow from operations	(849)	2,615	18,119	20,335
Capex	(48,468)	(55,289)	(114,799)	(85,597)
Cash flow from investing activities	(48,468)	(55,289)	(114,799)	(85,597)
Proceeds from equity issuance	0	7,274	-	-
Proceeds/(repayment) of loan	43,128	65,978	113,489	65,347
Advances on Real Estate	-	-	-	-
Other items	8,895	(9,141)	1,501	2,580
Cash flow from financing activities	52,023	64,110	114,991	67,926
Change in cash and cash equiv	2,706	11,436	18,310	2,665
Opening cash and cash equiv	7,371	10,077	21,513	39,823
Closing cash and cash equiv	10,077	21,513	39,823	42,488

E = Morgan Stanley Research estimates
Source: Company data, Morgan Stanley Research

Risk-Reward Snapshot: LANCO Infratech (LAIN.BO, Rs63.95, OW, PT Rs79)

Execution on Incremental Capacity Will Drive Stock Performance



Investment Thesis

- We believe Lanco is transitioning into a serious player in the power industry, with a likely installed capacity of 4,699 MW by F2013 making it the 5th largest private generation company in the country.
- The power business is becoming a larger proportion of earnings, which should lend higher visibility and stability to the consolidated cash flows of the company.
- Stock is trading at 8.7x F2011e EV/EBITDA and 13.3x P/E, which is attractive, in our view.
- For the entire projected capacity of 9,311 MW by F2014, the company has ordered equipment and commenced construction work.

Key Value Drivers

- Timely project execution.
- Regulatory regime improving in India.

Potential Catalysts

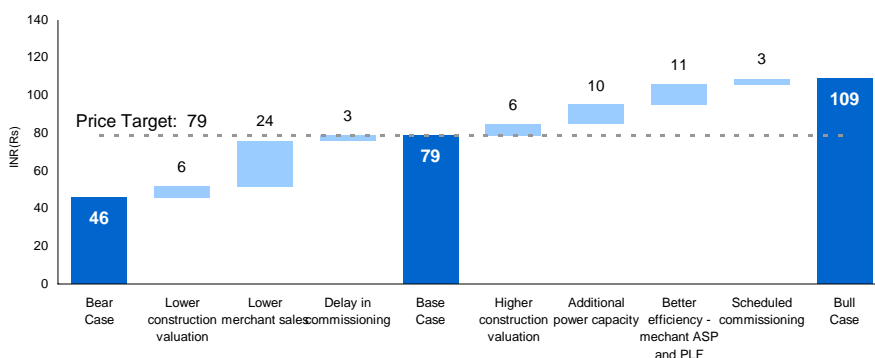
- Significant augmentation to the construction order book, which currently stands at Rs257 bn.
- Increasing power portfolio
- Increasing merchant capacity or merchant rates

Key Risks

- Execution delays in the power projects.
- Lower margins in the construction business
- Slowdown in capex spending or credit freeze.

Price Target Rs79	Base Case scenario value, sum of the parts	
Bull Case Rs109	Implies 11x F2011e Bull Case EV/EBITDA	Scheduled execution and additional opportunities: We assume scheduled commissioning of power projects, 1980 MW of additional capacity from Babandh II and Anpara, higher merchant tariff and peg construction multiples to peers.
Base Case Rs79	Implies 8.7x F2011e Base Case EV/EBITDA	Construction + Power: We have valued 9,311 MW of power capacity on a FCFe model with a CoE of 16.5% and terminal growth rate of 2%. Our construction valuations are driven by construction of these power projects.
Bear Case Rs46	Implies 11x F2011e Bear Case EV/EBITDA	Delays and lower merchant upside in power projects and lower construction valuation: We expect delays of 3-6 months for power projects, assume lower merchant sales and pricing, and assume a higher discount for construction valuation.

Bear to Bull: Additional Capacity, Better Efficiencies Drive Performance



Source: Morgan Stanley Research, FactSet

Sum of the Parts: Scenario Analysis

BULL CASE		Basis
	Rs/Per share	
Power	79	We assume scheduled commissioning of projects, 1980 MW of additional capacity (Babandh and Anpara), higher merchant tariffs and higher PLF We peg valuations to peer target multiples
Construction	30	
Bull Case value	109	
BASE CASE		
	Rs/Per share	
Power	55	FCFe Method : We have used this methodology for the power business due to the long gestation period. We use a beta of 1.5 and a cost of equity of 16.5% (16.3% earlier).
Construction	24	P/E Multiple: We have applied a target P/E multiple of 11.3x (20% discount to the average consensus P/E multiples of its peer group) to the F2011E earnings of the construction business. Previously we applied a 30% discount (target P/E of 10.8x)
Base Case value	79	
BEAR CASE		
	Rs/Per share	
Power	28	We assume 3-6 month delay (previously 3-12 months) in power projects and lower merchant sales (volumes and pricing)
Construction	18	We assume a 40% discount to peer target multiples (previously 50%)
Bear Case value	46	

Source: Morgan Stanley Research

Power Business Growing Well; Upgrade to OW

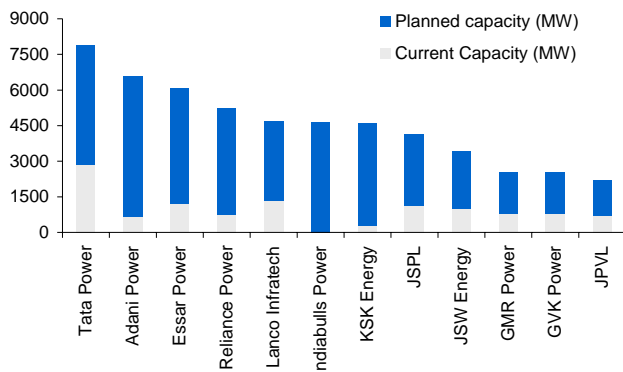
We are upgrading Lanco to Overweight with a price target of Rs79. Our price target is pegged to our Base Case scenario value as we have now factored in a capacity of 9,311 MW at F2014 (we were earlier taking only 5,731 MW in the Base Case), assumed higher merchant offtake from the Amarkantak III & IV and Babandh plants, and assumed lesser delays in execution.

Key Reasons for Overweight

1. **We believe Lanco holds the potential to become a key player in the generation space:** We project installed capacity of 4,699 MW by F2013, ranking 5th in the nation (Exhibit 1). The company is now largely focused on the power industry, and with its in-house construction expertise it can ensure commissioning of project with a high degree of visibility.

Exhibit 1

Lanco Aiming to Be a Large Player in the Generation Industry



Source: Company data, Morgan Stanley Research

2. **We expect the power business to become a larger proportion of earnings than construction:** This is because we project the installed power capacity to increase from 1,349 MW at F2010 to 4,699 MW at F2012 and to 9,311 MW at F2014. In F2010, power EBITDA was 48% of consolidated EBITDA which we expect to increase to 76% by F2012 – this increase in cash flows from the power business should lend higher visibility and stability to the consolidated cash flows of the company.

3. **There has been a marked improvement in execution with several projects under construction:** The company commissioned the 300 MW Amarkantak I project in June 2009 and synchronized the Amarkantak II plant in

March 2010. The first 600 MW unit of the Udupi plant was synchronized in June 2010 and the second unit is expected to be synchronized in August 2010. The first unit of Anpara (600 MW) will be synchronized in Dec 2010 and the second unit in April 2011. In addition to this, the company has ordered equipment and commenced construction work on Kondapalli III (742 MW), Amarkantak III & IV projects (1,320 MW), Babandh I (1,320 MW) and Vidarbha (1,320 MW).

4. **The proportion of merchant capacity too has increased:** Amarkantak I has been ascribed as a merchant plant (it was earlier planned to sell power under a PPA on a fixed tariff). In F2010, merchant sales were 35% of total sale units, which included Kondapalli II and Amarkantak I. We expect merchant sale units to be 27% of total sale units in F2011 and 22% in F2012, which should drive profitability.

5. **We believe availability of funding for the new power projects should not be a constraint:** Internal accruals coupled with margins on the EPC business should be sufficient to meet equity requirements. Internal accruals from the Kondapalli I & II plants and Amarkantak I & II plants should help the company meet equity requirements for the extension projects. Further, the company has already started receiving sanction letters from banks, thus supporting the likelihood of financial closure for projects in the next few months. The net debt:equity ratio for Lanco (standalone) was 0.77:1 at F2010, which leaves enough room for leveraging for other projects.

6. **Valuation looks attractive, in our view:** The stock is trading at 8.7x F2011 EV/EBITDA and 13.3x P/E.

What's Changed?

Earnings estimates: We have increased our F2011 and F2012 EBITDA estimates by 27% and 30%, respectively. The primary reasons are:

- The Amarkantak I plant will now be a merchant plant; earlier it was selling on a fixed tariff. This increases EBITDA by 17% in F2011e and 12% in F2012e.
- We have assumed the commissioning of the Udupi and Anpara plants as per company estimates; earlier we were assuming delays.

- We have included the Kondapalli III plant, which was not included earlier. This project increases our EBITDA estimate by about 11% in F2012.
- We have increased our construction numbers, resulting in about 4% higher EBITDA for the company.

Higher depreciation charges hit EPS... However, our EPS estimates for F2011 and F2012 have decreased by 9% and 22%, respectively. Owing to a change in depreciation policy, the company will now depreciate all new thermal plants (plants commissioned subsequent to April 1, 2009) on the written down value method, versus the straight line method adopted earlier. As a result, thermal plants will be depreciated at a rate of 15.28% (on plant and machinery), up from 5.28% earlier – resulting in a higher depreciation charge. Our depreciation expense has increased by 174% and 186% in F2011 and F2012 respectively due to a change in the depreciation policy.

...and thus it is imperative for investors to focus on

EBITDA: This measure reflects the strong operational performance of the company.

Target price: In our base case sum-of-the-parts valuation, we have increased our power value from Rs18/sh earlier to Rs55/sh now. The primary reasons are:

- We have modeled the Amarkantak I plant as a 100% merchant plant, increasing the value by about Rs9/sh.
- Inclusion of the Kondapalli III plants has increased value by Rs9/sh.
- We have factored in the Babandh I plant in the Base Case (as against the Bull Case earlier), included Vidarbha and taken a higher proportion of merchant sales (50% as against 30% earlier) for the Amarkantak III, IV and Babandh plants. This increases the value by Rs11/sh.
- The Anpara plant will now sell 8% of its capacity in the merchant market thus increasing the value by Rs2/sh.
- Rolling forward our DCF to F2011 increases value by Rs2/share.

Whereas previously we took a probability-weighted approach (70% for base case, 20% for bull case, and 10% for bear case), we now use our base case alone. We have built in 9,311 MW of capacity in our base case as opposed to our earlier assumption of 5,731 MW.

Key triggers: The following events could be triggers for the stock in the short term, in our view:

- Announcement of financial closure for the Kondapalli III, Amarkantak III & IV, Babandh I and Vidarbha plants.
- Commissioning of the Udupi and Anpara projects.
- Improvement in EPC margins as construction work on the new projects assumes significance.

F2010 Financial Performance

Lanco reported F2010 consolidated revenue of Rs80.8 bn (up 35% YoY), EBITDA of Rs15 bn (up 82% YoY) and net profit (adjusted for forex gain) of Rs4.6 bn (up 64% YoY). The company has changed its depreciation policy to WDV method for most thermal power plants, which resulted in a higher depreciation charge during the year.

In the power generation and power-trading segment, Lanco reported F2010 revenue of Rs35.5bn (up 31% YoY), EBIT of Rs5.2bn (up 61% YoY), and EBIT margin of 14.7% (against 11.8% in F2009). Lanco's current power generation capacity stands at 1,349 MW. During the year, the company commissioned the 300 MW Amarkantak I plant (since June 2009), synchronized the 300 MW Amarkantak II plant, commissioned the 233 MW Kondapalli Power Project, 5 MW of Vamshi Hydro Project and 5 MW of Vamshi Industrial Project. The company will synchronize the Udupi plant by Aug 2010 and Anpara by April 2011.

In the construction segment, Lanco reported F2010 revenue of Rs58.5bn (up 44% YoY), EBIT of Rs8.8bn (up 61% YoY), and EBIT margin of 15% (up 152bp YoY). The outstanding order book stood at Rs257bn at the end of March 2010 mainly due to order additions from Amarkantak III and IV (1320 MW), Babandh I (1320 MW) and Vidharbha (1320 MW) power project orders.

In the real estate segment, Lanco reported a F2010 loss of Rs257 mn and an EBIT of Rs464mn. The company will maintain its conservative stance on margins as well.

Exhibit 2

Lanco Infratech: F2010 Consolidated Results

(Rs mn)	F2009	F2010	YOY%
Net Sales	60,062	80,825	35%
Expenditure	51,826	65,805	27%
Construction and Operating Expenses	39,722	47,393	19%
Purchase of trading power	12,234	16,837	38%
(Increase)/ decrease Stock in trade	(2,880)	(2,736)	-5%
Staff Cost	1,975	3,315	68%
Administrative and Other Expenses	775	997	29%
EBITDA	8,236	15,020	82%
EBITDA Margin (%)	13.7%	18.6%	487 bps
Other Income	552	1,115	102%
Interest	1,773	3,554	100%
Depreciation	1,073	3,479	224%
Profit before Tax	5,942	9,102	53%
Tax	1,690	3,643	115%
<i>Effective Tax Rate (%)</i>	28.4%	40.0%	1157 bps
Profit after Tax	4,252	5,459	28%
Less:Minority Interest	1,041	915	-12%
Add:Profit from Associates	5	(178)	-3887%
Net Profit	3,216	4,366	36%
(Gain)/Loss on foreign exchange fluctuations (Net)	412	(219)	-153%
Reported Net Profit	2,804	4,585	64%
Net Profit Margin (%)	4.7%	5.7%	22

Source: Company data, Morgan Stanley Research

Exhibit 3

Lanco Infratech: F2010 Segment Results

	F2009	F2010	YOY
Divisional Revenues (Rs Mn)			
Construction	40,512	58,498	44%
Power	27,139	35,544	31%
Property Development/ Real Estate	1,574	(257)	-116%
Divisional EBIT (Rs Mn)			
Construction	5,445	8,751	61%
Power	3,213	5,221	63%
Property Development/ Real Estate	91	(464)	-612%
Infrastructure			
Divisional EBIT Margins (%)			
Construction (%)	13.4%	15.0%	152 bps
Power (%)	11.8%	14.7%	285 bps
Property Development/ Real Estate (%)	5.8%		

Source: Company data, Morgan Stanley Research

Exhibit 4

Lanco Infratech: Major Subsidiary Companies

Major Operating Subsidiaries	Capacity (MW)	Units Generated (MU)	Net Sales (Rs mn)	EBITDA (Rs mn)	PAT (Rs mn)	EBITDA Margin	Net Realization (Rs/unit)
Kondapalli I	366	2793	8031	2336	1809	29%	2.88
Kondapalli II	233	467	2541	950	361	37%	5.44
Amarkantak	300	1592	6047	3762	610	62%	3.80
Aban	120	717	1716	915	448	53%	2.39
Vamshi Hydro	10	18	52	29	-45	56%	2.89
Power Trading	0	0	19544	226	85	1%	

Source: Company data, Morgan Stanley Research

Exhibit 5

Lanco Infratech: Capex and Debt Buildup

(Rs mn)	CAPEX	Debt
Anpara	29898	22971
Udupi	47544	34301
Amarkantak	27960	19544
Lanco Energy - Teesta	9317	6125
Lanco Green - Budhil	3999	2820
Lanco Hydro Energy - Uttaranchal	2109	1478
Kondapalli II	11083	6561
Vamshi Industrial	949	608
Kondapalli - III & IV	2891	0
Amarkantak III and IV	1036	0
Babndh	1258	2500
Vidharbha	398	2750
Total Power Project	138442	99658
Road Projects		
Devihalli	3869	1300
Hoskote	5437	2480
Total Road Projects	9306	3780
Total	147748	103438

Source: Company data, Morgan Stanley Research

Exhibit 6

Lanco Infratech: EPC Order book

Projects	Rs Mn
Amarkantak I and II	347
Amarkantak III and IV	54291
Teesta VI - Sikkim	16843
Anpara	12093
Udupi (Nagarjuna)	5716
Kondapalli II	528
Kondapalli (Phase III)	20176
Vidharbha	56760
Babandh	55840
Others	4731
Total Power Projects	227325
Building	17216
Road Projects	3150
Water Pipeline and Irrigation Projects	5163
Transmission Line Projects	3962
Chimneys	322
Total EPC Orderbook	257138

Source: Company data, Morgan Stanley Research

Project Update: Power Capacity Increasing to 9,311 MW by F2014

Amarkantak I & II: The company commissioned the Amarkantak I plant (300 MW) in June 2009 and synchronized the Amarkantak II plant (300 MW) in March 2010. The Amarkantak I plant will now be a 100% merchant plant - it sold 1,420 mn units at an average price of Rs4.26/unit in F2010. Power from Unit II will be sold on an infirm basis for about 5-6 months in F2011 post which it will be sold on a PPA basis. Further, the company increased its stake in the Amarkantak projects from 77.7% to 100%.

Amarkantak III & IV: The company is expanding the project with another 1,320 MW. These projects have received coal linkages and has received debt sanction letters for about 25% of the requirement. Complete financial closure is expected in the next 2 months. Construction work has started and equipment has been ordered on Harbin and Dongfang. The company plans to sell 50% of the output through a PPA and the balance in the merchant market. The commissioning timeline is expected to be towards the end of F2014.

Kondapalli II: The simple cycle gas turbine was commissioned in F2010 and the combined cycle is expected to be ready in June 2010. The company has signed a GSPA with Reliance Industries for 1.75 mmscmd of gas for a period of 5 years. The entire off take from this plant will be on a merchant basis.

Kondapalli III: The company is expanding the project by another two units aggregating 742 MW. The equipment has been ordered on GE and construction work has commenced. Financial closure for the project is expected by the end of June 2010. The commissioning is expected in July 2011 for the

single cycle and Jan 2012 for the combined cycle. We have assumed that 50% of the output will be sold on a PPA (under CERC norms) while the balance will be sold in the merchant market. A gas supply agreement will be signed a few months ahead of the commissioning of the project.

Nagarjuna (Udupi): The first unit of 600 MW was synchronized in June 2010 and the second unit is expected in August 2010. The output will be sold on a PPA under CERC norms and coal will be imported.

Babandh: This project will be built in two phases of 1,320 MW each. For Phase I, land for the main plant equipment is almost fully in place with balance likely to be acquired by end of June 2010, debt sanctions have been received in excess of the requirement, coal linkage is available for 660 MW and a captive coal mine is available for another 1,000 MW and equipment ordered on Harbin and Dongfang. The commissioning timeline is expected to be towards the end of F2014. We have assumed that 50% of the output will be sold on a PPA (under CERC norms) while the balance will be sold in the merchant market. We have assumed Phase II in the Bull Case scenario.

Vidarbha: Land for the main plant equipment is almost fully in place, debt sanctions have been received for about 25% of the total requirement, coal linkage is available and equipment ordered on Harbin and Dongfang. The commissioning timeline is expected to be towards the end of F2014. We have assumed that 50% of the output will be sold on a PPA (under CERC norms) while the balance will be sold in the merchant market.

Exhibit 7

Lanco Infratech: Status of Power Projects

Project Name	Capacity (MW)	COD (as per co)	COD (as per MS)	Fuel	Fuel Supply	Financial Closure	Off - Take	EPC	Construction
Kondapalli II	133	F1Q11	Jun-10	Gas	✓	✓	Merchant	✓	✓
Vamshi Industrial - Unit II	5	F2Q11	Oct-10	Hydro	✓	✓	PPA	✓	✓
Udipi I and II	1200	F1Q11	Aug-10	Imported Coal	✓	✓	PPA	✓	✓
Lanco Green	70	F2Q11	Jan-11	Hydro	✓	✓	PPA	✓	✓
Anpara	1200	F4Q11	Apr-11	Coal	✓	✓	PPA, part Merchant	✓	✓
Lanco Uttaranchal I & II	152	F2013	Jul-13	Hydro	✓	✓	Merchant	✓	✓
Kondapalli III	742	F4Q12	Mar-12	Gas	✓	↔	Part PPA, part Merchant	✓	✓
Teesta	500	F4Q13	Jan-14	Hydro	✓	✓	PPA	✓	✓
Amarkantak III and IV	1320	F2014	Mar-14	Coal	↔	↔	Part PPA, part Merchant	✓	✓
Vidarbha	1320	F2014	Mar-14	Coal	↔	↔	Part PPA, part Merchant	✓	✗
Babandh	1320	F2014/F2015	Mar-14	Coal (partly captive)	↔	↔	Part PPA, part Merchant	✓	✗
Total	7962								

Source: Company data, Morgan Stanley Research

✓: Completed. ↔: In Progress. ✗: Not started

Valuation

We use a sum-of-the-parts valuation to arrive at our base case scenario value of Rs79 for Lanco. We value the power business using the FCFe methodology, to derive a fair value for the business of Rs55/share. Exhibit 9 states our key assumptions for cost of equity and terminal growth rate, while our FCF details are included in Exhibit 10.

Exhibit 8

Lanco: Base Case Sum-of-the-Parts

	Exhibit #	Value/share (Rs)
Power	10	55
Construction	11	24

Target Price (Rs/share)	79
--------------------------------	-----------

Source: Morgan Stanley Research

Exhibit 9

Key Assumptions

Equity beta	1.5
10-year risk free rate (%)	7.5%
Equity risk premium (%)	6.0%
Additional risk premium (%)	0.0%
Cost of equity (%)	16.5%

Terminal growth (%)	2%
---------------------	----

Source: Morgan Stanley Research

Exhibit 10

FCFe Model: Power Business

	F2011E	F2012E	F2013E	F2014E	F2015E	F2016E	F2017E	F2018E	F2019E	F2020E	F2021E	F2022E	F2023E	F2024E	F2025E	F2026E
Clarion	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Rithwik	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Aban	266	279	284	227	241	207	225	374	372	393	-	-	-	-	-	-
Kondapalli	10,624	9,938	5,881	5,319	5,376	4,979	4,889	5,540	5,346	5,496	6,010	5,467	6,814	6,794	4,394	5,402
Amarkantak Unit I	3,623	3,984	2,470	2,261	2,221	2,184	2,147	2,111	1,781	1,710	343	2,234	2,244	1,927	1,828	1,725
Amarkantak Unit II	1,686	585	443	418	382	350	323	300	280	262	201	192	656	1,218	1,016	1,016
Nagarjuna	3,382	526	1,279	1,279	1,268	1,181	1,178	1,175	1,171	1,167	1,162	1,158	3,030	3,016	4,820	4,812
Anpara	(2,232)	2,185	2,173	2,134	2,081	1,382	1,430	1,558	1,590	1,716	1,048	1,102	1,251	2,929	4,651	3,414
Vamshi Industrial Power	(184)	(108)	(126)	(112)	(98)	(84)	(73)	(61)	(49)	82	82	81	81	80	79	79
Vamshi Hydro Energies	(71)	(59)	(89)	(80)	(72)	(64)	(56)	(48)	36	35	35	34	33	32	36	35
Lanco Green Power	190	38	98	98	98	98	98	98	98	98	93	98	98	98	98	96
Teestha VI	(673)	(673)	(673)	333	152	492	599	707	813	919	1,025	1,130	1,235	960	1,043	1,124
Lanco Uttranchal	(638)	(547)	(7)	307	765	852	890	929	966	1,004	1,042	1,079	1,116	914	944	974
Amarkantak Unit III	(2,911)	(2,911)	(2,911)	(746)	2,926	4,369	4,225	4,090	3,634	3,474	3,356	3,240	3,124	2,492	2,385	2,255
Amarkantak Unit IV	(2,911)	(2,911)	(2,911)	(746)	2,926	4,369	4,225	4,090	3,634	3,474	3,356	3,240	3,124	2,492	2,385	2,255
Babandh I	(6,440)	(5,198)	(5,821)	(3,705)	5,598	9,274	8,939	8,768	7,955	7,740	7,610	7,488	7,369	5,878	10,511	10,675
Vidarbha	(8,650)	(6,298)	(6,298)	(1,332)	4,678	6,631	6,384	6,161	5,427	5,174	4,992	4,816	4,643	3,571	8,220	7,857
Lanco Electric Utility	95	110	124	139	154	169	184	199	214	229	243	258	273	288	303	-
Total FCFe	(4,843)	(1,059)	(6,082)	5,796	28,697	36,389	35,609	35,989	33,266	32,976	30,599	31,615	35,090	32,689	42,713	41,721
Years of discounting	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Discounting factor	1.00	0.86	0.74	0.63	0.54	0.47	0.40	0.34	0.29	0.25	0.22	0.19	0.16	0.14	0.12	0.10
Discounted FCFe	(4,843)	(909)	(4,481)	3,665	15,579	16,957	14,243	12,356	9,804	8,342	6,644	5,893	5,614	4,489	5,035	4,221

Sum of forecast horizon (Rs mn)	102,609
Terminal Value (Rs mn)	29,696
Total Equity Value (Rs mn)	132,305
No of equity shares (mn)	2407.8
Value per share (Rs/share)	55

Source: Morgan Stanley Research

E = Morgan Stanley Research estimates

Construction Business

The construction business is primarily focused on internal projects, which should drive revenue and profits. We believe that investors will benchmark valuations for Lanco's construction business against those of its Indian counterparts. Given the nature of the business, we believe P/E multiples are the best methodology for valuing companies in this industry in India.

The F2011 target P/E multiple of the company's peer group is 14.2x. Applying this to Lanco's F2011 earnings, we arrive at a value of Rs30/share. However, since the company will be executing several projects at the same time, there is a high degree of risk involved, which could be due to delays in achieving financial closure, obtaining approvals and in construction, and delays due to a lack of adequate manpower. Also, the company's order book is heavily skewed towards internal projects as against that of its peers, resulting in high internalization of risk.

We believe it is important to factor in all these to determine the target P/E multiple for the construction business. Hence we accord a discount of 20% (30% earlier) to our valuation. Accordingly, we arrive at a value of Rs24/share for the construction business.

Exhibit 11

Lanco Infratech: Construction Business

F2011E construction earnings (Rs mn)	5,070
P/E peer target multiple (x)	14.2
Discount (%)	20%
Target multiple (x)	11.3
Value per share (Rs/share)	24

Source: Morgan Stanley Research
E = Morgan Stanley Research estimates

Exhibit 12

India Construction Comparables – Target P/E

	F2010	F2011	F2012
Jaiprakash Associates	18.8	14.9	10.6
IVRCL	15.1	11.8	8.8
Nagarjuna	21.4	15.8	12.1
Average	18.5	14.2	10.5

Source: Morgan Stanley Research

Risks to our Target Price

The key upside risks to our target are:

- Better-than-expected margins in the construction business
- Increase in power project portfolio
- Pickup in real estate demand in Hyderabad and Chennai

The key downside risks to our target price are:

- Delays in the construction of power projects
- Decline in margins in the construction business
- Delay in sale/lease out of real estate projects
- Increase in funding costs or non-availability of credit

June 15, 2010
LANCO Infratech Ltd

Exhibit 13

Global Valuation Comparables

Company Name	MS Rating	Currency	Stock Price	52 Week Range*	PT	Mkt Cap (US\$mn)	EPS			P/E			EV/EBITDA			P/B		
							F10e/C09e	F11e/C10e	F12e/C11e	F10e/C09e	F11e/C10e	F12e/C11e	F10e/C09e	F11e/C10e	F12e/C11e	F10e/C09e	F11e/C10e	F12e/C11e
European Companies																		
Drax	EW	GBp	368	322-522	420	1952	68.3	59.3	41.5	6.1	6.2	8.9	4.4	3.4	4.5	1.4	1.1	1.1
EDF	OW	EUR	34	31-43	50	74927	2.4	2.6	3.2	17.7	13.0	10.7	9.1	7.5	6.8	2.8	2.3	2.1
Endesa	OW	EUR	18	16-24	26	23636	2.2	2.0	1.9	10.8	9.1	9.6	6.1	5.3	5.4	1.6	1.1	1.1
ENEL	OW	EUR	4	3-4	5	43498	0.5	0.5	0.5	8.3	7.7	7.9	6.7	6.2	6.2	1.2	1.0	1.0
Iberdrola	UW	EUR	5	5-7	6	32680	0.5	0.5	0.5	13.2	11.7	11.5	9.1	8.1	8.1	1.3	1.0	1.0
Scottish & Southern	EW	GBp	1106	1005-1206	1300	14559	108.9	113.5	127.4	10.1	9.7	8.7	8.8	8.5	NA	2.9	2.6	2.4
Average										11.0 x	9.6 x	9.5 x	7.4 x	6.5 x	6.2 x	1.9 x	1.5 x	1.4 x
Asia-Pacific Companies																		
Cheung Kong Infra.	EW	HKD	28	27-31	30	8016	1.8	1.8	1.8	16.0	15.1	15.2	14.7	13.0	13.1	1.7	1.5	1.5
China Resources Power	OW	HKD	16	14-20	20	8664	1.1	1.1	1.3	13.9	15.1	12.6	9.8	9.5	7.7	1.9	1.8	1.6
CLP Holdings	EW	HKD	55	51-58	55	17112	3.3	3.6	3.8	15.7	15.3	14.6	8.6	8.5	8.5	1.9	1.9	1.8
Hongkong Electric	EW	HKD	46	41-50	43	12685	3.1	3.2	3.2	13.4	14.4	14.3	10.9	11.6	11.6	1.8	1.9	1.8
Huadian Power Int'l	EW	HKD	2	2-3	2	1376	0.2	0.0	0.0	9.8	73.3	51.0	9.2	12.2	10.9	0.8	0.7	0.7
Huaneng Power	EW	HKD	4	4-7	5	6701	0.4	0.2	0.2	8.8	16.2	15.6	9.1	10.5	9.6	1.1	1.0	1.0
Korea Electric Power	EW	KRW	34200	28000-42250	35220	18146	-121.6	2852.5	2918.6	NM	12.0	11.7	9.1	7.6	7.3	0.5	0.5	0.5
Yangtze Power	EW	CNY	12	12-16	15	19595	0.4	0.6	0.6	32.1	20.9	18.9	23.4	14.8	13.8	2.4	2.4	2.3
Tokyo Electric Power	OW	JPY	2422	2085-2540	2700	35648	132.2	169.8	184.8	18.3	14.3	13.1	8.9	8.1	NA	1.3	1.2	1.1
Tenaga Nasional Bhd	OW	MYR	8	7-9	11	11031	0.2	1.0	0.8	37.9	8.0	10.4	8.0	6.9	6.5	1.3	1.2	1.1
Average										18.4 x	20.4 x	17.7 x	11.2 x	10.3 x	9.9 x	1.5 x	1.4 x	1.3 x
India Companies																		
LANCO Infratech Ltd	OW	INR	64	31-66	79	3042	2.8	4.8	5.4	18.4	13.3	11.9	15.6	8.7	7.3	3.5	3.1	2.5
NTPC	EW	INR	200	187-242	211	35204	11.1	13.5	15.6	18.6	14.8	12.8	15.4	12.1	10.5	2.7	2.4	2.1
Reliance Infrastructure Limited	OW	INR	1160	951-1404	1280	5608	34.4	50.6	52.5	29.0	22.9	22.1	26.8	20.0	18.9	1.6	1.8	1.7
Tata Power Co	EW	INR	1253	995-1519	1087	5962	35.5	35.1	31.4	38.7	35.7	39.9	23.6	20.8	21.4	3.1	2.6	2.5
Adani Power	OW	INR	124	90-129	149	5794	0.8	4.3	18.9	141.0	29.0	6.6	144.5	27.6	7.6	4.4	4.0	2.5
Average										49.2 x	23.1 x	18.6 x	45.2 x	17.8 x	13.1 x	3.1 x	2.8 x	2.3 x

Source: Morgan Stanley Research

* in local currency

Note: Stock prices are as of June 14, 2010 for Asian and Indian Companies and as of June 13, 2010 for the others.

UW = Under Weight, EW = Equal Weight, OW = Over Weight

NM= Not Meaningful; NA= Not Available

June 15, 2010
LANCO Infratech Ltd

Exhibit 14

Indian Utility – Valuation Comparables

Indian Utilities Valuation Comparables

Company Name	Market Price (Rs/Share)	Adjusted Price (Rs/Share)	Implied Mkt Cap (US\$ mn)	EV/MW - US\$ mn				Mkt Cap/MW - US\$ mn				EV/EBITDA (x)			
				F2010e	F2011e	F2012e	F2013e	F2010e	F2011e	F2012e	F2013e	F2010e	F2011e	F2012e	F2013e
Reliance Power	168	168	8,665	12.58	12.44	6.83	4.85	11.82	8.39	3.34	1.66	2,806.78	139.33	96.10	46.78
NTPC	200	200	35,435	1.29	1.21	1.03	0.95	1.11	1.01	0.84	NA	14.95	12.14	10.52	NA
Lanco Infratech	64	64	3,315	4.51	2.43	2.02	2.17	2.46	0.99	0.71	0.71	16.66	8.88	7.25	7.90
Tata Power	1,253	951	4,856	2.55	2.41	1.59	1.16	1.72	1.45	0.89	0.62	14.80	13.46	10.42	7.25
KSK Energy Ventures	164	164	1,316	9.98	3.99	NA	NA	4.72	1.53	0.49	0.29	14.43	11.83	NA	NA
Reliance Infrastructure	1,160	554	2,695	NA	NA	NA	NA	NA	NA	NA	NA	18.36	9.24	6.98	6.07
Adani Power	124	124	5,832	11.96	5.04	2.12	1.65	8.38	2.95	1.10	0.88	150.41	27.26	7.44	5.43
Indiabulls Power	29	29	1,252	NA	NA	NA	NA	NA	NA	0.94	0.27	NA	NA	NA	NA
NHPC	29	29	7,561	1.95	1.59	1.55	1.09	1.43	1.16	1.13	0.80	13.39	11.09	10.17	NA
Jindal Steel and Power - @ MS Power Business FV	354	354	7,106	6.77	4.94	3.68	2.26	6.26	4.24	3.02	1.71	10.63	9.29	6.77	7.38
Jindal Steel and Power - implied	648	336	6,736	6.45	4.72	3.52	2.17	5.94	4.02	2.87	1.62	10.12	8.88	6.48	7.09
JSW Energy	123	123	4,316	5.67	1.80	1.80	1.65	4.34	1.37	1.37	1.27	10.15	7.05	7.13	8.76

Company Name	Market Price (Rs/Share)	Adjusted Price (Rs/Share)	Implied Mkt Cap (US\$ mn)	P/B (x)				ROE (%)				P/E (x)			
				F2010e	F2011e	F2012e	F2013e	F2010e	F2011e	F2012e	F2013e	F2010e	F2011e	F2012e	F2013e
Reliance Power	168	168	8,665	2.94	2.90	2.82	2.82	0.0%	0.6%	1.5%	NM	18,875.46	461.78	182.88	NM
NTPC	200	200	35,435	2.62	2.38	2.14	NA	14.6%	16.1%	16.8%	NA	17.93	14.78	12.76	NA
Lanco Infratech	64	64	3,315	4.58	3.55	2.78	2.19	20.4%	25.8%	23.6%	22.1%	22.50	13.75	11.76	9.88
Tata Power	1,253	951	4,856	2.64	2.38	2.11	1.82	11.8%	12.8%	13.7%	15.6%	22.38	18.55	15.39	11.64
KSK Energy Ventures	164	164	1,316	1.94	1.58	NA	NA	12.5%	16.7%	NA	0.0%	15.52	9.48	NA	NA
Reliance Infrastructure	1,160	554	2,695	0.70	0.66	0.61	0.57	5.0%	6.3%	7.5%	6.3%	14.16	10.56	8.08	9.05
Adani Power	124	124	5,832	4.43	4.02	2.50	1.79	2.9%	13.9%	37.9%	28.3%	151.13	28.95	6.58	6.34
Indiabulls Power	29	29	1,252	NA	NA	NA	NA	NA	NA	NA	0.0%	NA	NA	NA	NA
NHPC	29	29	7,561	1.41	1.34	NA	NA	7.0%	7.7%	NA	NA	20.18	17.35	17.10	NA
Jindal Steel and Power - @ MS Power Business FV	354	354	7,106	7.07	4.49	2.94	2.25	47.3%	36.5%	34.5%	23.4%	14.94	12.32	8.53	9.64
Jindal Steel and Power - implied	648	336	6,736	6.71	4.26	2.79	2.14	47.3%	36.5%	34.5%	23.4%	14.17	11.68	8.08	9.14
JSW Energy	123	123	4,316	3.64	2.50	2.04	2.04	20.3%	24.1%	20.4%	25.0%	17.96	10.37	10.02	8.17

Notes:

Stock Prices are as of 6/14/10

Reliance Infrastructure is adjusted for investment in Reliance Power at Rs 606/share

Tata Power price is adjusted for its investment in Indonesian coal assets (Rs 159/share) and investments in group companies (Rs 143/share)

Jindal Steel and Power @ MS FV is Morgan Stanley Research estimates for the company's power business @ Rs 354/share (power business + JSPL's 1350 MW plant)

Jindal Steel and Power implied is adjusted for steel business at Rs 313/share

Exchange Rate of INR/USD = 46.45

KSK Energy, Indiabulls Power, NHPC and JSW Energy are Factset mean Estimates

NA = Not Available; NM = Not Meaningful

Source: Factset, Morgan Stanley Research

Company Description

Lanco Infratech Ltd. is an integrated infrastructure development company with interests in power, construction and property development. The company has a current installed capacity of 1,349 MW, and plans to increase capacity to 9,311 MW by F2014. In addition, it plans to develop about 20 million sq ft of real estate in Hyderabad that will include IT, residential and commercial space.

India Utilities

Industry View: In-Line



Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations. For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

Disclosure Section

The information and opinions in Morgan Stanley Research were prepared or are disseminated by Morgan Stanley Asia Limited (which accepts the responsibility for its contents) and/or Morgan Stanley Asia (Singapore) Pte. (Registration number 199206298Z, regulated by the Monetary Authority of Singapore, which accepts the responsibility for its contents), and/or Morgan Stanley Asia (Singapore) Securities Pte Ltd (Registration number 200008434H, regulated by the Monetary Authority of Singapore, which accepts the responsibility for its contents), and/or Morgan Stanley Taiwan Limited and/or Morgan Stanley & Co International plc, Seoul Branch, and/or Morgan Stanley Australia Limited (A.B.N. 67 003 734 576, holder of Australian financial services license No. 233742, which accepts responsibility for its contents), and/or Morgan Stanley Smith Barney Australia Pty Ltd (A.B.N. 19 009 145 555, holder of Australian financial services license No. 240813, which accepts responsibility for its contents), and/or Morgan Stanley India Company Private Limited and their affiliates (collectively, "Morgan Stanley").

For important disclosures, stock price charts and equity rating histories regarding companies that are the subject of this report, please see the Morgan Stanley Research Disclosure Website at www.morganstanley.com/researchdisclosures, or contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY, 10036 USA.

Analyst Certification

The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report: Parag Gupta.

Unless otherwise stated, the individuals listed on the cover page of this report are research analysts.

Global Research Conflict Management Policy

Morgan Stanley Research has been published in accordance with our conflict management policy, which is available at www.morganstanley.com/institutional/research/conflictolicies.

Important US Regulatory Disclosures on Subject Companies

The following analyst or strategist (or a household member) owns securities (or related derivatives) in a company that he or she covers or recommends in Morgan Stanley Research: Saumya Srivastav - Adani Power (common or preferred stock), NTPC (common or preferred stock). Morgan Stanley policy prohibits research analysts, strategists and research associates from investing in securities in their sub industry as defined by the Global Industry Classification Standard ("GICS," which was developed by and is the exclusive property of MSCI and S&P). Analysts may nevertheless own such securities to the extent acquired under a prior policy or in a merger, fund distribution or other involuntary acquisition.

As of May 31, 2010, Morgan Stanley beneficially owned 1% or more of a class of common equity securities of the following companies covered in Morgan Stanley Research: LANCO Infratech Ltd, Reliance Infrastructure Limited.

Within the last 12 months, Morgan Stanley managed or co-managed a public offering (or 144A offering) of securities of Adani Power.

Within the last 12 months, Morgan Stanley has received compensation for investment banking services from Adani Power.

In the next 3 months, Morgan Stanley expects to receive or intends to seek compensation for investment banking services from LANCO Infratech Ltd, Reliance Infrastructure Limited, Tata Power Co.

Within the last 12 months, Morgan Stanley has provided or is providing investment banking services to, or has an investment banking client relationship with, the following company: Adani Power, LANCO Infratech Ltd, Reliance Infrastructure Limited, Tata Power Co.

Within the last 12 months, Morgan Stanley has either provided or is providing non-investment banking, securities-related services to and/or in the past has entered into an agreement to provide services or has a client relationship with the following company: Tata Power Co.

The equity research analysts or strategists principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues and overall investment banking revenues.

Morgan Stanley and its affiliates do business that relates to companies/instruments covered in Morgan Stanley Research, including market making, providing liquidity and specialized trading, risk arbitrage and other proprietary trading, fund management, commercial banking, extension of credit, investment services and investment banking. Morgan Stanley sells to and buys from customers the securities/instruments of companies covered in Morgan Stanley Research on a principal basis. Morgan Stanley may have a position in the debt of the Company or instruments discussed in this report. Certain disclosures listed above are also for compliance with applicable regulations in non-US jurisdictions.

STOCK RATINGS

Morgan Stanley uses a relative rating system using terms such as Overweight, Equal-weight, Not-Rated or Underweight (see definitions below). Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold and sell. Investors should carefully read the definitions of all ratings used in Morgan Stanley Research. In addition, since Morgan Stanley Research contains more complete information concerning the analyst's views, investors should carefully read Morgan Stanley Research, in its entirety, and not infer the contents from the rating alone. In any case, ratings (or research) should not be used or relied upon as investment advice. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations.

Global Stock Ratings Distribution

(as of May 31, 2010)

For disclosure purposes only (in accordance with NASD and NYSE requirements), we include the category headings of Buy, Hold, and Sell alongside our ratings of Overweight, Equal-weight, Not-Rated and Underweight. Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold, and sell but represent recommended relative weightings (see definitions below). To satisfy regulatory requirements, we correspond Overweight, our most positive stock rating, with a buy recommendation; we correspond Equal-weight and Not-Rated to hold and Underweight to sell recommendations, respectively.

Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	1079	42%	358	42%	33%
Equal-weight/Hold	1111	44%	397	47%	36%
Not-Rated/Hold	13	1%	3	0%	23%
Underweight/Sell	349	14%	95	11%	27%
Total	2,552		853		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

Analyst Stock Ratings

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.

Not-Rated (NR) - Currently the analyst does not have adequate conviction about the stock's total return relative to 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.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

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.

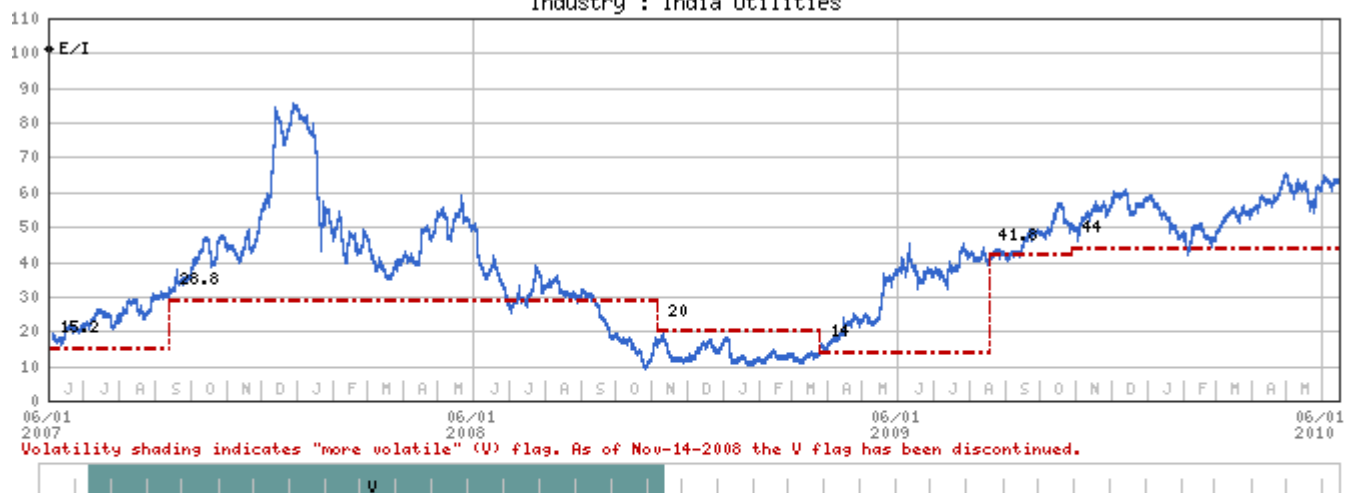
In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

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

Stock Price, Price Target and Rating History (See Rating Definitions)

LANCO Infratech Ltd (LAIN.BO) - As of 6/14/10 in INR
Industry : India Utilities



Stock Rating History: 6/1/07 : E/I

Price Target History: 4/23/07 : 15.2; 9/13/07 : 28.8; 11/6/08 : 20; 3/26/09 : 14; 8/18/09 : 41.8; 10/28/09 : 44

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 and Industry Ratings (abbreviations below) appear as ♦ Stock Ratings/Industry View
 Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) More Volatile (U) No Rating Available (NA)
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

Important Disclosures for Morgan Stanley Smith Barney LLC Customers

Citi Investment Research & Analysis (CIRA) research reports may be available about the companies or topics that are the subject of Morgan Stanley Research. Ask your Financial Advisor or use Research Center to view any available CIRA research reports in addition to Morgan Stanley research reports.

Important disclosures regarding the relationship between the companies that are the subject of Morgan Stanley Research and Morgan Stanley Smith Barney LLC, Morgan Stanley and Citigroup Global Markets Inc. or any of their affiliates, are available on the Morgan Stanley Smith Barney disclosure website at www.morganstanleysmithbarney.com/researchdisclosures.

For Morgan Stanley and Citigroup Global Markets, Inc. specific disclosures, you may refer to www.morganstanley.com/researchdisclosures and https://www.citigroupgeo.com/geopublic/Disclosures/index_a.html.

Each Morgan Stanley Equity Research report is reviewed and approved on behalf of Morgan Stanley Smith Barney LLC. This review and approval is conducted by the same person who reviews the Equity Research report on behalf of Morgan Stanley. This could create a conflict of interest.

Other Important Disclosures

Morgan Stanley & Co. International PLC and its affiliates have a significant financial interest in the debt securities of Tata Power Co.

Morgan Stanley produces an equity research product called a "Tactical Idea." Views contained in a "Tactical Idea" on a particular stock may be contrary to the recommendations or views expressed in research on the same stock. This may be the result of differing time horizons, methodologies, market events, or other factors. For all research available on a particular stock, please contact your sales representative or go to Client Link at www.morganstanley.com.

Morgan Stanley Research does not provide individually tailored investment advice. Morgan Stanley Research has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. Morgan Stanley recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. The securities, instruments, or strategies discussed in Morgan Stanley Research may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

The fixed income research analysts or strategists principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality, accuracy and value of research, firm profitability or revenues (which include fixed income trading and capital markets profitability or revenues), client feedback and competitive factors. Fixed Income Research analysts' or strategists' compensation is not linked to investment banking or capital markets transactions performed by Morgan Stanley or the profitability or revenues of particular trading desks.

Morgan Stanley Research is not an offer to buy or sell or the solicitation of an offer to buy or sell any security/instrument or to participate in any particular trading strategy. The "Important US Regulatory Disclosures on Subject Companies" section in Morgan Stanley Research lists all companies mentioned where Morgan Stanley owns 1% or more of a class of common equity securities of the companies. For all other companies mentioned in Morgan Stanley Research, Morgan Stanley may have an investment of less than 1% in securities/instruments or derivatives of securities/instruments of companies and may trade them in ways different from those discussed in Morgan Stanley Research. Employees of Morgan Stanley not involved in the preparation of Morgan Stanley Research may have investments in securities/instruments or derivatives of securities/instruments of companies mentioned and may trade them in ways different from those discussed in Morgan Stanley Research. Derivatives may be issued by Morgan Stanley or associated persons.

With the exception of information regarding Morgan Stanley, Morgan Stanley Research is based on public information. Morgan Stanley makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. We have no obligation to tell you when opinions or information in Morgan Stanley Research change apart from when we intend to discontinue equity research coverage of a subject company. Facts and views presented in Morgan Stanley Research have not been reviewed by, and may not reflect information known to, professionals in other Morgan Stanley business areas, including investment banking personnel.

Morgan Stanley Research personnel may participate in company events such as site visits and are generally prohibited from accepting payment by the company of associated expenses unless pre-approved by authorized members of Research management.

The value of and income from your investments may vary because of changes in interest rates, foreign exchange rates, default rates, prepayment rates, securities/instruments prices, market indexes, operational or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in securities/instruments transactions. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. If provided, and unless otherwise stated, the closing price on the cover page is that of the primary exchange for the subject company's securities/instruments.

Morgan Stanley may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

To our readers in Taiwan: Information on securities/instruments that trade in Taiwan is distributed by Morgan Stanley Taiwan Limited ("MSTL"). Such information is for your reference only. Information on any securities/instruments issued by a company owned by the government of or incorporated in the PRC and listed in on the Stock Exchange of Hong Kong ("SEHK"), namely the H-shares, including the component company stocks of the Stock Exchange of Hong Kong ("SEHK")'s Hang Seng China Enterprise Index; or any securities/instruments issued by a company that is 30% or more directly- or indirectly-owned by the government of or a company incorporated in the PRC and traded on an exchange in Hong Kong or Macau, namely SEHK's Red Chip shares, including the component company of the SEHK's China-affiliated Corp Index is distributed only to Taiwan Securities Investment Trust Enterprises ("SITE"). The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. Morgan Stanley Research may not be distributed to the public media or quoted or used by the public media without the express written consent of Morgan Stanley. Information on securities/instruments that do not trade in Taiwan is for informational purposes only and is not to be construed as a recommendation or a solicitation to trade in such securities/instruments. MSTL may not execute transactions for clients in these securities/instruments.

To our readers in Hong Kong: Information is distributed in Hong Kong by and on behalf of, and is attributable to, Morgan Stanley Asia Limited as part of its regulated activities in Hong Kong. If you have any queries concerning Morgan Stanley Research, please contact our Hong Kong sales representatives.

Certain information in Morgan Stanley Research was sourced by employees of the Shanghai Representative Office of Morgan Stanley Asia Limited for the use of Morgan Stanley Asia Limited.

Morgan Stanley Research is disseminated in Japan by Morgan Stanley MUFG Securities Co., Ltd.; in Hong Kong by Morgan Stanley Asia Limited (which accepts responsibility for its contents); in Singapore by Morgan Stanley Asia (Singapore) Pte. (Registration number 199206298Z) and/or Morgan Stanley Asia (Singapore) Securities Pte Ltd (Registration number 200008434H), regulated by the Monetary Authority of Singapore, which accepts responsibility for its contents; in Australia to "wholesale clients" within the meaning of the Australian Corporations Act by Morgan Stanley Australia Limited A.B.N. 67 003 734 576, holder of Australian financial services license No. 233742, which accepts responsibility for its contents; in Australia to "wholesale clients" and "retail clients" within the meaning of the Australian Corporations Act by Morgan Stanley Smith Barney Australia Pty Ltd (A.B.N. 19 009 145 555, holder of Australian financial services license No. 240813, which accepts responsibility for its contents); in Korea by Morgan Stanley & Co International plc, Seoul Branch; in India by Morgan Stanley India Company Private Limited; in Canada by Morgan Stanley Canada Limited, which has approved of, and has agreed to take responsibility for, the contents of Morgan Stanley Research in Canada; in Germany by Morgan Stanley Bank AG, Frankfurt am Main and Morgan Stanley Private Wealth Management Limited, Niederlassung Deutschland, regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin); in Spain by Morgan Stanley, S.V., S.A., a Morgan Stanley group company, which is supervised by the Spanish Securities Markets Commission (CNMV) and states that Morgan Stanley Research has been written and distributed in accordance with the rules of conduct applicable to financial research as established under Spanish regulations; in the United States by Morgan Stanley & Co. Incorporated, which accepts responsibility for its contents. Morgan Stanley & Co. International plc, authorized and regulated by the Financial Services Authority, disseminates in the UK research that it has prepared, and approves solely for the purposes of section 21 of the Financial Services and Markets Act 2000, research which has been prepared by any of its affiliates. Morgan Stanley Private Wealth Management Limited, authorized and regulated by the Financial Services Authority, also disseminates Morgan Stanley Research in the UK. Private U.K. investors should obtain the advice of their Morgan Stanley & Co. International plc or Morgan Stanley Private Wealth Management representative about the investments concerned. RMB Morgan Stanley (Proprietary) Limited is a member of the JSE Limited and regulated by the Financial Services Board in South Africa. RMB Morgan Stanley (Proprietary) Limited is a joint venture owned equally by Morgan Stanley International Holdings Inc. and RMB Investment Advisory (Proprietary) Limited, which is wholly owned by FirstRand Limited.

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (DIFC Branch), regulated by the Dubai Financial Services Authority (the DFSA), and is directed at Professional Clients only, as defined by the DFSA. The financial products or financial services to which this research relates will only be made available to a customer who we are satisfied meets the regulatory criteria to be a Professional Client.

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (QFC Branch), regulated by the Qatar Financial Centre Regulatory Authority (the QFCRA), and is directed at business customers and market counterparties only and is not intended for Retail Customers as defined by the QFCRA.

June 15, 2010
LANCO Infratech Ltd

As required by the Capital Markets Board of Turkey, investment information, comments and recommendations stated here, are not within the scope of investment advisory activity. Investment advisory service is provided in accordance with a contract of engagement on investment advisory concluded between brokerage houses, portfolio management companies, non-deposit banks and clients. Comments and recommendations stated here rely on the individual opinions of the ones providing these comments and recommendations. These opinions may not fit to your financial status, risk and return preferences. For this reason, to make an investment decision by relying solely to this information stated here may not bring about outcomes that fit your expectations.

The trademarks and service marks contained in Morgan Stanley Research are the property of their respective owners. Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data. The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property of MSCI and S&P.

Morgan Stanley has based its projections, opinions, forecasts and trading strategies regarding the MSCI Country Index Series solely on publicly available information. MSCI has not reviewed, approved or endorsed the projections, opinions, forecasts and trading strategies contained herein. Morgan Stanley has no influence on or control over MSCI's index compilation decisions.

Morgan Stanley Research, or any portion thereof may not be reprinted, sold or redistributed without the written consent of Morgan Stanley.

Morgan Stanley Research is disseminated and available primarily electronically, and, in some cases, in printed form.

Additional information on recommended securities/instruments is available on request.

The Americas

1585 Broadway

Europe

20 Bank Street, Canary Wharf

Japan

4-20-3 Ebisu, Shibuya-ku

Asia/Pacific

1 Austin Road West

Industry Coverage:India Utilities

Company (Ticker)	Rating (as of)	Price* (06/14/2010)
Parag Gupta		
Adani Power (ADAN.BO)	O (02/25/2010)	Rs124.25
LANCO Infratech Ltd (LAIN.BO)	O (06/15/2010)	Rs63.95
NTPC (NTPC.BO)	E (04/23/2007)	Rs199.6
Reliance Infrastructure Limited (RLIN.BO)	O (01/23/2008)	Rs1,159.6
Tata Power Co (TTPW.BO)	E (11/30/2009)	Rs1,252.8

Stock Ratings are subject to change. Please see latest research for each company.
 * Historical prices are not split adjusted.