

Power Utilities

Impact of coal price hikes by CIL

Event

Coal India Limited (CIL) has increased the price of coal to power utilities (including IPPs) from its subsidiary, Mahanadi Coal Fields (MCL), by Rs100/ MT on an average w.e.f. 27 February 2011.

Details

CIL has increased the price of coal supplied to power utilities (including IPPs), fertilizers and defence customers from subsidiary Mahanadi Coal Fields (MCL) w.e.f. 27 February 2011. Base prices for grade C to grade G have been increased by Rs80-110/ MT (11-23%), while that for grades A and B have been nearly trebled. Power utilities largely consume coal of grades E to G, implying an average increase of Rs100/ MT in cost of fuel.

Impact

In our coverage universe, Tata Power, Adani Power, Lanco, GMR and Navabharat Ventures have coal linkages tied up with MCL. We have presented below the impact on each of these companies.

Tata Power

Higher coal prices to be passed through in tariffs; no impact on earnings: Tata Power's 428MW Jojobera plant (Unit 1 to Unit 4) and 120MW Jojobera Unit 5 (under IEL) operate as captive power plants for Tata Steel. All these units source coal from MCL, and to that extent will see an increase in fuel cost. However, offtake from these plants under PPA with Tata Steel provides for pass-through of fuel and interest costs by way of tariff and, hence, we do not see any impact on Tata Power's earnings or fair value estimates. Maintain Outperformer with price target of Rs1420.

Key Financials (standalone)

As on 31 March	FY08	FY09	FY10	FY11E	FY12E	FY13E
Net sales (Rs m)	59,159	72,362	66,411	65,515	70,033	75,540
Adj. net profit (Rs m)	5,216	5,221	7,105	7,264	8,112	8,887
Shares in issue (m)	208	221	237	237	237	237
Adj. EPS (Rs)	25.1	23.4	30.5	29.4	32.8	36.0
% change	(30.3)	(6.6)	30.3	(3.7)	11.7	9.6
PE (x)	45.8	49.1	37.6	39.1	35.0	32.0
Price/ Book (x)	3.2	3.2	2.7	2.7	2.6	2.5
EV/ EBITDA (x)	25.6	24.6	20.2	23.0	20.4	20.6
RoE (%)	8.0	6.7	7.8	7.1	7.6	8.0
RoCE (%)	6.1	6.3	6.0	4.1	4.8	4.8

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Adani Power

FY13 earnings downgraded marginally by ~2% on higher coal prices; overall downgrade of 19% in FY12 and 23% in FY13 after accounting for MAT provisioning starting FY12: Adani Power's Mundra Phase IV power plant (1980MW) would largely use coal under linkage from MCL. Offtake from this plant is secured by way of Case 1 PPA with Uttar Haryana Bijli Vikas Nigam (UHBVNL) for 1424MW, while the balance capacity is likely to be sold on a merchant basis. We estimate Mundra Phase IV to be commissioned in phases from January 2012 to July 2012. After accounting for an increase of ~Rs100/MT in the price of coal supplied from MCL, we estimate a marginal 2% downgrade in our FY13 earnings for Adani Power. Further, the Union Budget 2012 has imposed MAT for SEZ developers and units operating in SEZ areas starting FY12. Adani Power, being a co-developer in the Mundra SEZ, so far did not provide MAT on its operations in Mundra. After accounting for MAT provisioning, we have downgraded FY12E and FY13E earnings by 19% and 23% respectively for Adani Power. Maintain Outperformer with price target of Rs145.

Key Financials

As on 31 March	FY10	FY11E	FY12E	FY13E
Net sales (Rs m)	4,349	20,129	82,054	118,165
Adj. net profit (Rs m)	1,708	6,184	21,977	14,813
Shares in issue (m)	2,180	2,180	2,180	2,180
Adj. EPS (Rs)	0.8	2.8	10.1	6.8
% growth	NC	262	255	(33)
PER (x)	152.1	42.0	11.8	17.5
Price/Book (x)	4.5	3.4	2.5	2.1
EV/EBITDA (x)	141.9	39.4	10.4	9.5
RoE (%)	4.2	9.2	24.6	13.2
RoCE (%)	1.8	4.3	13.2	10.9

Lanco Infratech

No material impact on earnings and fair value estimates: Lanco is developing the 2640MW Babandh Power Plant in Orissa in two phases – Babandh I (1320MW) and Babandh II (1320MW). Fuel for the Babandh power plant has been secured by way of coal linkage from the Talcher Coal Fields of MCL. The Babandh power plant is likely to be commissioned in H1FY14, with the power offtake from this plant being largely open at this stage. Hence we assume that tariffs bid by the company for supply of power from this plant would factor in the increase in coal prices and hence not materially impact fair value estimates. Maintain Outperformer with price target of Rs66.

Key Financials

As on 31 March	FY08	FY09	FY10	FY11E	FY12E	FY13E
Net sales (Rs m)	32,413	60,720	80,825	83,304	152,957	185,961
Adj. net profit (Rs m)	3,542	2,803	4,220	5,506	9,834	9,069
Shares in issue (m)	222	222	2,408	2,408	2,408	2,408
Adj. EPS (Rs)	15.9	12.6	2.3	2.3	4.1	3.8
% change	47.8	(20.9)	79.8	0.9	78.6	(7.8)
PE (x)	2.39	3.03	16.8	16.7	9.3	10.1
Price/ Book (x)	0.35	0.30	1.8	1.8	1.4	1.1
EV/ EBITDA (x)	16.4	15.5	10.1	14.8	7.5	8.2
RoE (%)	16.6	10.8	12.3	12.0	16.5	12.0
RoCE (%)	13.5	11.2	11.0	8.6	11.7	10.1

GMR

No material impact on earnings and fair value estimates: GMR is developing the 1400MW Kamalanga power plant in Orissa (80% owned) based on coal. Part of the coal requirement for this project would be sourced from its share of ~112mt in the Rampia Dip captive coal block and the balance is likely to be sourced from MCL. The Kamalanga power plant is likely to be commissioned in phases starting September 2012, with the last unit likely to be commissioned by July 2013. Part of the power offtake from this plant (25%) has been tied up on regulated tariffs, while the balance is largely open at this time. Hence we do not expect any material impact on our fair value estimates for GMR due to the hike in coal prices. Maintain Outperformer with price target of Rs49.

Key Financials

As on 31 March	FY08	FY09	FY10	FY11E	FY12E	FY13E
Net sales (Rs m)	22,948	40,192	45,495	53,327	63,430	95,531
Adj. net profit (Rs m)	1,943	2,794	1,481	(533)	(1,679)	1,937
Shares in issue (m)	1,821	1,821	3,667	3,892	3,892	3,892
Adj. EPS (Rs)	1.1	1.5	0.4	(0.1)	(0.4)	0.5
% change	1.3	43.8	(73.7)	(133.9)	215.4	(215.3)
PE (x)	38.5	26.7	101.7	n/a	n/a	82.5
Price/ Book (x)	1.0	0.9	1.8	1.6	1.6	1.6
EV/ EBITDA (x)	26.2	17.7	26.7	26.2	21.6	13.4
RoE (%)	4.0	3.6	1.8	(0.6)	(1.7)	1.9
RoCE (%)	3.9	3.8	2.9	2.0	1.5	4.0

Nava Bharat Ventures

FY12E earnings downgraded by 5% and FY13E earnings by 6%: Nava Bharat Ventures has 237MW operational captive power capacity at its ferro alloy units in Kharagprasad (Orissa) and Paloncha (AP), which receive linkage coal from Coal India's Mahanadi coalfields. This fulfills 70% of NBVL's coal requirement, with the balance met by washery rejects and e-auction coal. Nava Bharat's expansion projects (two units of 150MW each) at Kharagprasad and Dharmavaram also have linkages approved. Coal India has increased the price of coal by an average of Rs100/tonne for grade E and F coal for coal supplied from MCL. Accordingly, we have downgraded Nava Bharat's FY11 earnings by 0.4%, FY12 earnings by 5% and FY13 earnings by 6%. Our revised estimates for FY12 and FY13 consolidated earnings are Rs36.3/ share and Rs30.4/ share respectively. The revised fair value estimate for NBVL is Rs444. Maintain Outperformer.

Key Financials

As on 31 March	FY08	FY09	FY10	FY11E	FY12E	FY13E
Net sales (Rs m)	9,326	13,457	11,639	10,816	13,022	16,356
Adj. net profit (Rs m)	3,197	5,498	4,935	2,934	3,291	2,750
Shares in issue (m)	78	78	77	91	91	91
Adj. EPS (Rs)	43.9	70.5	63.8	35.1	36.3	30.4
% growth	137.6	60.4	(9.4)	(45.0)	3.4	(16.5)
PER (x)	5.2	3.2	3.6	6.5	6.3	7.5
Price/Book (x)	2.0	1.5	1.1	1.0	0.9	0.8
EV/EBITDA (x)	4.4	2.8	2.6	6.9	8.6	8.9
RoE (%)	50.3	54.6	35.4	16.5	15.5	11.4
RoCE (%)	35.2	41.9	27.7	11.5	10.2	8.8

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