



Adani Power

IPO Fact Sheet

Issue details

Issue opens	: July 28, 2009
Issue closes	: July 31, 2009
Issue size	: 30.16 crore equity shares
Reserved for employees	: 0.8 crore equity shares
Fresh issue to public	: 29.36 crore equity shares
Face value	: Rs10 each
Break-up of fresh issue to public:	
QIB's portion	: At least 17.61 crore shares
Retail portion	: Not less than 8.8 crore shares
Non-institutional portion	: Not less than 2.9 crore shares
Price band	: Rs90-10

Object of the issue

The total issue of 30.16 crore equity shares is aimed at raising Rs2,715 crore to Rs3,016 crore (depending on the price band of Rs90-100 per share). Of the total issue the company is expected to deploy Rs2,193 crore for funding its projects while the balance would be utilised for general corporate purposes.

Objects of the issue	Rs (crore)
Funding of projects	
Mundra IV, Gujarat	1,153
Tiroda, Maharashtra	1,040
General corporate purposes	[..]
Total	[..]

Source: RHP

Shareholding pattern

After the issue the total number of shares of the company will increase from 187.9 crore to 218 crore, bringing down the promoter group's stake to 73.5% of the diluted equity.

Shareholders	Pre-issue		Post-issue	
	No. of shares	%	No. of shares	%
Promoters				
Adani Enterprises	1,531,440,000	81.53	1,531,440,000	70.25
Promoter group (Ventura Power Investment Pvt Ltd)	70,878,997	3.77	70,878,997	3.25
Total holding of promoters and promoter group	1,602,318,997	85.30	1,602,318,997	73.50
Others				
3i Power Investments A1	160,598,342	8.55	160,598,342	7.37
Adishree Tradelinks Pvt Ltd	68,285,000	3.64	68,285,000	3.13
Capital Trade and Investment Pvt Ltd	26,905,830	1.43	26,905,830	1.23
Others	20,275,000	1.08	20,275,000	0.93
Employees	-	-	8,000,000	0.37
Public	-	-	293,652,031	13.47
Total	1,878,383,169	100.00	2,180,035,200	100

Source: RHP

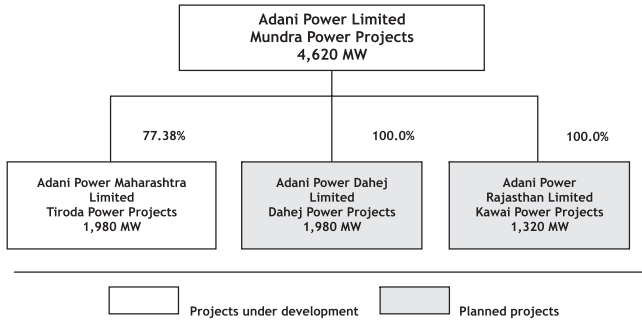
Company background

Adani Power Ltd (APL) is a power project development company that is developing and will operate and maintain power projects in India. The company currently has four thermal power projects under various stages of development, with a combined installed capacity of 6,600 megawatt (MW). In addition, the company is also planning to develop two power projects with a combined installed capacity of 3,300MW.

Adani Enterprise Ltd (AEL), the promoter of APL, is part of the Adani group. AEL is one of the largest traders of coal with coal mining rights both in the international and domestic markets. AEL is one of the largest power traders—in volume terms—in India. Another Adani group company, Mundra Port and Special Economic Zone Ltd (MPSEZL), owns and operates

one of the largest private sector commercial ports in India, a special economic zone (SEZ) at Mundra, and a railway line between Mundra and Adipur. This would help APL to derive strong synergies, what with its projects being located in close vicinity.

The Adani group has coal mining rights in both the international and domestic markets. PT Adani Global, a wholly owned subsidiary of AEL, has entered into agreements with holders of long-term exploitation licences to exclusively mine coal in Bunyu Island, Indonesia. In addition, APL has also been allocated two coal blocks in India to mine coal for the Tiroda Power Project. Adani Shipping Pte Ltd, Singapore, a wholly owned subsidiary of AEL, has entered into a contract for the purchase of two newly built capesize vessels with expected delivery by December 2010 for transportation of coal from the Indonesian coalmines operated by AEL.



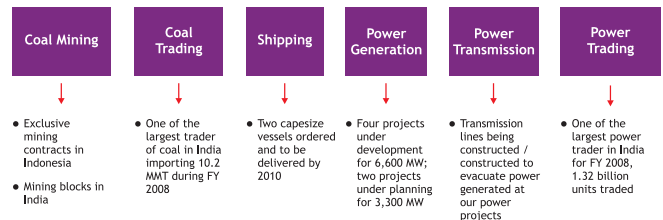
Source: RHP

Key positives

An integrated player

As part of the Adani group APL seeks to be vertically integrated in the Indian power sector. The Adani group operates in coal mining, coal trading, shipping and power trading fields, and is venturing into power generation and power transmission through APL.

An integrated play



Secure fuel supply for many projects

The company has entered into long-term coal supply arrangement with AEL for Mundra power projects. PT Adani Global, a wholly owned subsidiary of AEL, has entered into agreement with holders of long-term exploitation licenses to exclusively mine coal in Bunyu island, Indonesia. For

Projects being executed

Project name, location	Proposed installed capacity, technology	Procurement status	Fuel supply status	Expected commissioning date of first unit/ Expected date for project to be fully commissioned	Estimated project cost (Rs crore)
Mundra phase I and II power project, Gujarat	1,320MW coal fired, sub-critical	BTG and BoP contracts entered	Coal supply agreement entered with AEL	July 2009/ February 2010	4,350
Mundra phase III power project, Gujarat	1,320MW coal fired, super-critical	EPC contracts entered	Coal supply agreement entered with AEL	January 2011/ June 2011	5,796
Mundra phase IV power project, Gujarat	1,980MW coal fired, super-critical	EPC contracts entered	Coal supply agreement entered with AEL; provisional letter of assurance received from Mahanadi Coalfields	August 2011/ April 2012	8,960
Tiroda Power Project (Phase I and II), Maharashtra	1,980 MW coal fired, super-critical	BTG and BoP contracts entered	Captive mines allocated by coal ministry for generating up to 1,000MW of power; provisional letters of assurance received from south-eastern coalfields and western coalfields	July 2011/ April 2012	9,263

Source: RHP

Mundra power projects, AEL proposes to procure coal from these mines in Indonesia. Additionally, the company has received letter from Mahanadi Coalfields that has provisionally agreed to supply approximately 6.4MTPA of Grade 'F' coal for Mundra Phase IV Power Project. For Tiroda Power Project, the company has been allocated coal blocks at Lohara West and Lohara Extension for generating upto 1,000MW of power at our Tiroda Power Project, which have estimated coal reserves of around 170MMT and an average gross calorific value (GCV) ranging between 4,290 and 5,590 Kcal/kg. APL has also received letters from South Eastern Coalfields and Western Coalfields provisionally agreeing to supply ~2.5 MTPA of Grade 'F' coal and 2.2MTPA of Grade 'E' coal for Tiroda Power Project respectively.

APL enjoys locational advantages

APL's power projects enjoy locational advantages in terms of easy access to fuel, water and proximity to power deficit areas. All our power projects under development are located in western India where the deficit of power is high. The company's Mundra power projects are located close to the Mundra port, which is owned and operated by the promoter group company (MPSEL). MPSEZL has proposed to set up a coal jetty at a distance of approximately five kilometre from the Mundra power project site which would help the company to easily transport coal.

Optimal mix of both regulated and merchant power

APL is developing four power projects with an aggregate capacity of 6,600MW. The company has a mix of both long-term agreements and merchant power agreements. This will help the company to benefit from both the long-term as well as a better realization from spot markets. The company has entered into two offtake agreements with Gujarat Urja Vikas Nigam Ltd (GUVNL) for the supply of 1,000MW of power produced from the Mundra phase I and II power project, and for the supply of 1,000MW of power produced from the Mundra phase III power project. The company has also entered into two offtake agreements with Uttar Haryana Bijli Vitran Nigam Ltd (UHBVNL) and Dakshin Haryana Bijli Vitran Nigam Ltd (DHBVNL) for the sale of a total of 1,424MW of power produced from Mundra phase IV power project. For the Tiroda power project the company has entered into an offtake arrangement with MSEDCL for the supply of 1,320MW of power.

The power produced in excess of what is sold under the above mentioned power purchase agreements (PPAs) will be sold on a merchant basis. Further, the company has

entered into an agreement with AEL for selling up to 221MW of surplus power from Mundra phase III power project on a merchant basis.

Key PPA signed

Project	Mundra I&II	Mundra III	Mundra IV	Tiroda
Total capacity (MW)	1,320	1,320	1,980	1,980
PPA signed for (MW)	1,000	1,000	1,425	1,320
Off take Arrangement signed with	GUVNL	GUVNL	UHBVNL	MSEDCL

Key risks

Sourcing equipment from Chinese manufacturers

APL has indicated its intention to procure the equipment for its planned capacity from the Chinese equipment suppliers. There has been significant reports about the quality and poor performance of the Chinese equipment in the country. If the equipment do not operate as required the financials of the company could be significantly affected.

Timely execution of projects

In case the company is not able to execute and commission its projects in time, it could hamper the cash flows and earnings going forward.

Valuation

We have looked at the valuations of the stock on two parameters: the discounted cash flow (DCF) methodology and relative valuations (compared with its peers).

DCF valuations

In case of DCF based valuations (the method essentially calculates the net present value [NPV] of the future cash flows from the proposed projects), we have only considered 6,600MW of projects that are under various stages of development/execution. The key assumption are: (1) plant load factor (PLF) of 90%; and (2) merchant power rates of Rs6 per unit for FY2010-11, Rs5 per unit for FY2012, for FY2013 at Rs4 per unit and for the rest of the year of valuation at Rs3 per unit.

Based on the same and assuming no execution delays, the NPV works out to Rs84 per share. Add to this the cash of Rs12.5-14 per share raised from the public issue, the fair value per share is close to the higher end of the offer price band. Thus, the upside for investors would largely accrue from the additional capacity of 3,300MW, which is still on a planning stage and not included in calculating the fair value due to lack of finer details.

DCF based valuations

Particulars	Capacity (MW)	Equity Value	Per Share Contribution
Mundra I&II	1320	7659.1	35.1
Mundra III	1320	1984.1	9.0
Mundra VI	1980	4261.7	20.1
Tiroda plant	1980	5566.9	19.8
Total value	6600	19472	84

Relative valuations

Compared with its peers such as National Thermal Power Corporation (NTPC), Tata Power and Reliance Power, the issue is priced at 3.9-4.1x its book value, which is at a premium to its peers' valuations.

However, in terms of market capitalisation per MW (for projects that are operational or have achieved financial

closure), the issue is priced largely in line or at a slight discount to the peers' valuations.

On DCF basis, the issue seems to be fairly priced while on market cap/basis the valuations are in line with the valuations of the peers. Qualitatively, APL has advantages in terms of its presence in power deficient areas and its status as an integrated player (with AEL and MPSEZL). Consequently, APL is a good option for investors with a long-term perspective. However, the issue may not provide significant listing gains. On the upside, the key risks to our valuations are a better than expected PLF and a better than expected merchant power rate. However, on the downside, timely execution and the dependence on power equipment from the Chinese manufacturers could pose a risk to the valuations.

Peer comparison

	CMP (Rs)	Market cap (Rs cr)	Book value per share		Price/Book		Capacity* (MW)	Market cap/MW (Rs crore)
			FY10	FY11	FY10	FY11		
NTPC	204	167,795	79.5	82.8	2.0	1.9	48000	3.50
Reliance power	161	38,672	59.0	60.5	2.7	2.7	12500	3.09
Tata Power	1121	24,893	472.1	538.5	2.4	2.1	8035	3.10
Adani Power	90	19,620	23.1		3.9		6600	2.97
Adani Power	100	21,800	24.5		4.1		6600	3.30

*Operational and financially closed projects assumed.

Source: Bloomberg estimates, Sharekhan Research

The "views" expressed in this report are our views only and have been arrived at after analysis of the public offering details. This is not a recommendation under our "Stock Idea" category. It may/may not be included in the Stock Idea by our analysts at a later date.

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