

India Investment

Clearance of projects worth 8% of GDP could be an investment catalyst

The Ministry of Environment and Forests (MoEF) has often been held responsible for delaying large projects in the country. However, we note that in the past four months, the MoEF has cleared projects worth Rs 2.3tn. Another Rs 5tn worth of projects are awaiting clearance, distributed between the thermal power (43%), nuclear power (17%), metals (16%), metro, cement, roads and hydro power segments. Further, the MoEF is looking to allow mining in certain areas, earlier classified as 'no-go' areas, in order to increase coal production. This, coupled with the award of clearances, will boost overall investment in the next few years. We expect a spate of announcements from the MoEF in the coming months and our top picks to play the investment theme are L&T, Cummins and Thermax.

Recent approvals will enable Rs 2.3tn of investment: Since October '10, the MoEF has awarded clearances to the Rs 1.2tn Jaitapur nuclear power project (9,990MW in six phases), Rs 422bn of thermal power projects, Rs 345bn of road projects (including the Rs 300bn Ganga Expressway project), the Rs 150bn Posco integrated steel project, and Rs 111bn of airport projects.

Projects awaiting approvals may provide further boost to investment: Currently, the MoEF has Rs 5tn of projects awaiting its approval. Of these, 43% are in the thermal power segment, 17% in nuclear power, 16% in metals, and 5% each in the hydro power, cement, metro and roads segments.

Decisions on go, no-go and end-use of coal projects keenly awaited:

- After a re-examination of 582 coal blocks, the MoEF had classified 157 coal blocks covering 23.3% of the total area as category A (no-go). We expect the ministry to reclassify a few more mines in 'no-go areas' as 'go areas' in the coming months given the severe shortage of coal. (On coal shortages, please see our earlier note titled *Captive coal to partly bridge supply gap* dated Sep'10.) **Companies that could benefit are Sterlite Industries, GMR Energy and Lanco Infratech** if the coal blocks in IB Valley (Orissa) are cleared for mining.
- We have analysed the progress of end-use projects (EUP) for 33 major coal blocks under category A with a total reserve of 8.7bn tonnes. We expect EUPs related to coal blocks in Hasdeo-Arand (16) to remain 'no-go areas'. **Companies which could have coal mines in these areas are Indiabulls Power, KSK Energy Ventures and Adani Enterprises.**

Strategy outlook: The last investment cycle (FY03-FY08) was the longest since 1952, with an average growth of 17%—much above the 7.6% long-term average. If a significant proportion of projects pending approval are given the green signal, then the cycle could revive after a three-year hiatus. We believe that the approach to playing investment in India has to be selective, depending on one's positioning in the investment cycle. Domestic financing and commodity demand plays such as cement or steel are preferred, while we would stay clear of contractors and asset owners (utilities and developers). In the capital goods space, the choice has to be based on market dynamics; for instance, power transmission over power generation. In this context, given that there may be a slew of power projects, we like **Cummins, Thermax and L&T.**

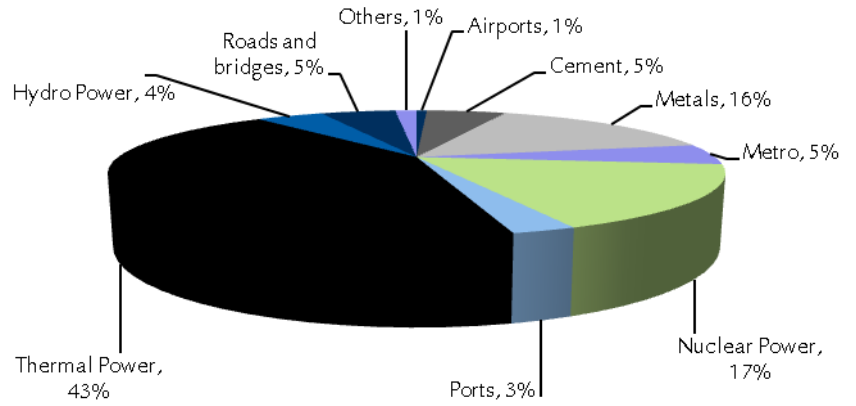
Companies which could be positively/negatively impacted

	CMP (Rs)	Reco	PE (x)	
			FY11	FY12
Adani Power	123	Sell	29.5	6.2
Cummins India	669	Buy	21.6	17.1
Lanco Infratech	39	Buy	10.1	7.5
L&T	1,639	Buy	22.4	18.2
Sterlite Industries	160	Buy	12.1	7.0
Thermax	642	Buy	21.8	17.0



Thermal and nuclear power projects account for 60% of projects awaiting clearance

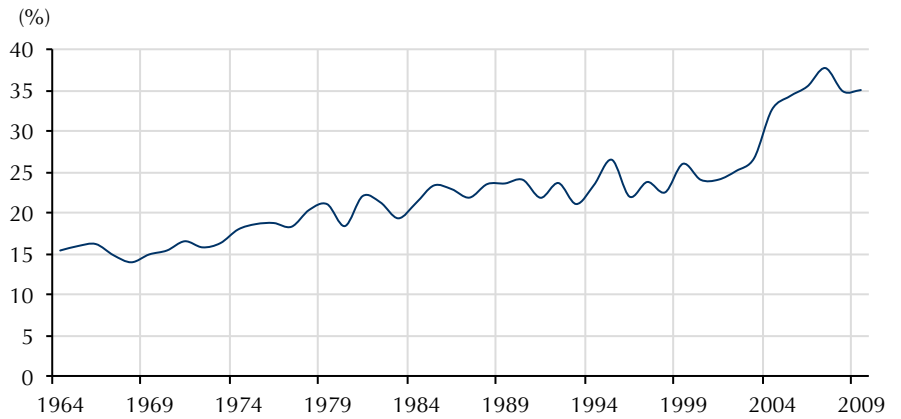
Fig 1 - Pending projects worth Rs 5tn to be cleared by MoEF – could lead to significant rise in investment



Source: CME

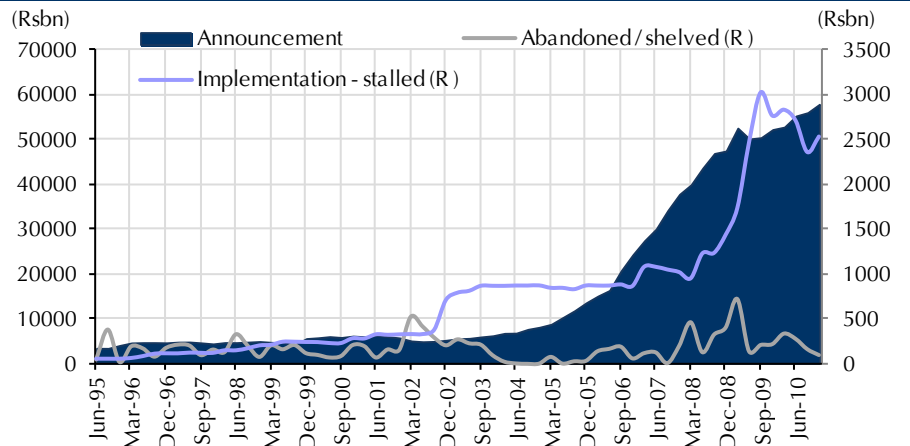
Rise in investment to GDP ratio – GDP growth over FY04-08 driven by investments

Fig 2 - Investment- to-GDP ratio in India



Source: RCML Research

Fig 3 - Non-financial capex projects announced, stalled, abandoned



Source: CME



Fig 4 - Status of end-use projects linked to major category 'A' blocks

Name of Coal Fields/Coal Block	Geological Reserves (GR) MT	End Use Projects (EUP)	Status	Remarks
Singrauli				
Mahan	144	1) Mahan TPS-2x600 MW Essar Power Ltd	Under Construction. Order for main plant placed	
		ii) Hindalco CPP- 6x150 MW for Smelter Plant (359 ktpa)	Under Construction. Order for main plant placed	Order for INR 35.3 billion for Smelter Plan placed
Mohar				
Mohar Amlori Extn	546	i) Sasan UMPP - 6x660 MW.	Under Construction. Order for main plant placed	Forest Clearance for Mohar & Mohar Amlori Extn. received
Chhatrasal				
Amelia North	123	i) Jaypee Nigri TPP - 2 x 660 MW, MP	Main plant Eqpt. Ordered Boiler foundation commenced	Block allocated to MP State Mining Corp. Ltd under Govt. dispensation route. The EUP selected through competitive bidding.
Amelia	394	i) 60% coal to be supplied to existing and upcoming power plant of MPPGCL to make up for short fall from CIL	Amarkantak TPS (450 MW) Satpura TPS (1142 MW) & Sanjay Gandhi TPS (1340 MW) Plants of MPPGCL are existing	Block allocated to MP State Mining Corp. Ltd. under Govt. dispensation route, MPMSCL Indicated investment of INR 21.3 billion stated to be made on SGTPS In the last three years.
		ii) 40% coal will be supplied to private power project to be identified by Sate Govt.		
Mara II Mahan	955	It is proposed to set up a pithead TPP.	Site for pithead TPP to be identified after forest clearance.	Block is Regionally Explored. Block allotted to NCT of Delhi to HPGCL jointly through Govt. dispensation route.
Hasdeo				
Parsa East	533	Chhabra TPP RRVUNL 2x250 MW	Under Construction. Order for main plant placed	Block to RRVUNL under Govt. dispensation route
Kanta Basan		ii) Kalisindh TPP - RRVUNL - 2x600 MW	Under Construction. Order for main plant placed	
Morga-II	350	i) KSK Mahanadi Power Co. Ltd TPP, Chhattisgarh 3x600 MW (Ph I) & 3x 300 MW (Ph II)	Under Construction. Order for main plant placed for Ph-I & Ph-II	Block allotted to GMDC under Govt. dispensation route GMDC signed an agreement with the EUP developer for supply of coal Ph-I of the EUP is linked to Morga II block investments is for Ph I & Ph II Ph II is linked to Gare Palma coal block in Mand Raigarh Allocated to GIDC
Parsa	150	i) Marwa TPP Chhattisgarh - CSEB-2X500 MW	Under Construction. Order for main plant placed	Block allotted to CSEB under Govt. dispensation route.
Morga IV	35	i) Chanda Cements Works-ACC Ltd, Maharashtra Expansion from 2.46 mtpa to 3.8 mtpa	Installation of all equipments completed. Commissioning by Aug. 2010	Block allocated to MP State Mining Corp. Ltd through Govt. dispensation route EUP selected based on competitive bidding
Morga III	35	i) CPP of Monnet Ispat & Energy Ltd, Raigarh Chhatisgarh. 90 + 80=170 MW	90 MW CPP existing Since 3/08. 80 MW expansion under construction.	Block allocated to MP State Mining Corp. through Govt. dispensation route; Ltd. EUP selected based on competitive bidding



Name of Coal Fields/Coal Block	Geological Reserves (GR) MT	End Use Projects (EUP)	Status	Remarks
Morga I	250	i) EUP yet to be selected		Block allocated to MP State Mining Corp. Ltd through Govt. dispensation route. Due to litigation in court, tender for JV partner for mine development and power plant could not be processed: The case since settled. Tender now under process.
Chotia	34	i) 4 LTPA sponge Iron Plant of Prakash Industries at Janjgir Champa, Chhattisgarh	Under Operation since 1993	
Tara Central	259	i) IFFCO Chhattisgarh Power Plant in Sarguja Dist, Chhattisgarh - 2x660 MW	Land and water allocation obtained 62% land acquired. Proposal for diversion of forest land (279 ha) for EUP filed. MoEF: Expert Committee recommended environmental clearance, order yet to be placed.	Block allocated to CMDC. through Govt., dispensation route for JV of CSEB. IFFCO Chhattisgarh Power Ltd is the JV of CSEB (26%) and IFFCO (74%). Bids for main plant equipments evaluated and ready for placement of order.
Gidhmuri	80.27			
Paturia	269.25	i) Bhaiyathan TPP - Sarguja Dist - 2x660	Land and water allocated. About 50% land acquired. MoEF clearance obtained. Order yet to be placed.	Block allotted to CSEB under Govt., dispensation route. EUP selected through tariff based competitive bidding.
Nakia I & II	359	Chhattisgarh captive coal Mining Ltd. Consortium of following five companies		
Madanpur South	176	i) Hindustan Zinc Ltd - CPP 234 MW (2x77 + 1 x 80 MW)	Commissioned 1 x 77 - 2/05 1 x 77 - 3/05 1x80-2/08	
		ii) Sarda Energy & Mineral Ltd Sponge (Ph-I: 1.5 LTP, Ph-II: 1.5LTPA) Iron Plant, Raipur, Chhattisgarh 3.0 LTPA	Ph-1 ready for commissioning. Consent to operate obtained on 27.06.08. Ph-II to be commissioned in commensurate with opening of the coal block	
		iii) MSP Steel & Power Ltd. Sponge Iron Plant 4.0 LTPA Raigarh, Chhattisgarh	2.0 LTPA plant under: operation since March 2006. 1.0 LTPA plant commissioned & consent to operate applied 1.0 LTPA Plan under Implementation to be commissioned by Dec 2010	
		iv) Chhattisgarh Steel & Power Ltd 3x30 MW power plant. Sponge iron 3x350 TPD; Janjgir Champa, Chhattisgarh	1x30 MW power plant commissioned in July 2008 rest of the plant yet to be taken up.	
		v) Akshay Ispat Udyog (P) Ltd - Sponge Iron Plant 1.05 LTPA. Rajnand Gaon, Chhattisgarh	Order placed for major Machinery (Ph-I-190 TPD). Site work yet to start.	
		vi) Chhattisgarh Captive Coal Mining Ltd- Consortium of five companies having EUPs same as for Nakia I & II. Combined Capacity 18.27 LTPA and CPP 149 MW	Status given against Nakia-I & II. 13.02 LTPA sponge Iron Plant in Operation with CPP of 111 MW 1.05 LTPA plant under construction	Chhattisgarh captive coal mining Ltd - Consortium of five companies have also been allocated Nakia-I & II block as well as part of coal from Madanpur South & Madanpur North coal blocks. The total investment on these EUPs is INR 21.1 billion



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Madanpur North	175	i) Anjani Steel Ltd Sponge Iron 2.8 LTPA, CPP 12 MW	1.05 LTPA & 12 MW CPP commissioned. Balance plant under finalisation	
		ii) Prakash Industries Ltd Sponge Iron 4 LTPA	2.0 LTPA plant started production in Dec 2009. Another 2.0 LTPA to be commissioned by Oct/Nov. 2010	
		iii) Singhal Enterprise Pvt. Ltd Sponge Iron 1150 TPD.	Order yet to be placed Civil work in process	
		iv) Sunflag Iron & Steel Co Ltd Sponge Iron 1.5 LTPA	Material handling equipments commissioned. Orders for balance equipments in progress	
		vi) Vandana Energy & Steel Pvt Ltd Power Plant 72 MW & Sponge Iron 1600 TPD	Most Of the orders placed. Delivery and erection of equipments under progress	
		vii) Chhattisgarh Captive Coal Mining Ltd Consortium of five companies having EUPs same as for Nakia I & II. Combined Capacity 18.27 LTPA and CPP 149 MW	Status given against Nakia-I & II. 13.02 LTPA sponge Iron Plant in Operation with CPP Of 111 MW 1.05 LTPA plant under Construction	Chhattisgarh captive coal mining Ltd. Consortium of five companies have also been allocated Nakia-I & II block as well as part of coal from Madanpur South & Madanpur North coal blocks. The total investment on these EUPs is INR 21.1 billion
Pindrakhi	421	i) Chhattisgarh UMPP-4000 MW	Land and water allocated. Section 4 notified EIA study completed RFQ bid issued in March 2010	Developer to be selected through tariff based ICB- Case-II
Putra - Parogia	692			
Wardha				
Lohara West & Lohara Extn	170	i) Adani Power TPP at Tiroda 3x660 MW	Under Construction Order for main plant placed	Coal linkage provided against the mine
West Bokaro				
Kotre- Basantpur	93	i) Tata Steel Jamshedpur Enhancement in capacity from 4 mtpa to 5 mtpa	Completed in 2006	Plant running Partially on imported coal
North Karanpura				
Chakla	83	i) Tori TPP - Essar Power (Jharkhand) Ltd-Ph-I 2x600 MW & Ph-II.-1x800 MW	Land & Water tied up 59% land purchased/ being transferred. Order for main plant & some BoPs placed for phase (2 x 600 MW	Investment committed consists of ICs in favour of offshore equipments supplier and BG to PGCIL & BSEB
Ashok Karkata	150			
Ib Valley				
Manoharpur	182 350			
Manoharpur dip side		Orissa Power Gen. Corp (OPGCL) Plant - 2 x 660 MW, Jharsuguda, Orissa	Land for power plant in possession. Water allocated. MoEF clearance obtained on 4.2.10. Pre-construction works completed (boundary wall, site leveling, R&R colony etc.) order yet to be placed	Block allotted through Govt. dispensation route. Tender for main plant floated in July 2010
Dulanga	245	Darlipali TPP, Orissa - NTPC - 4X800 MW	Land and water allocated. EIA completed. Project to be awarded as part of bulk tenderly NTPC for 800 MW units.	Block allotted through Govt. dispensation route.



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Meenakshi B	250	Orissa UMPP, Sundergarh, Orissa 4000 MW	Land & Water allocated; Section 4 issued for land. EIA completed. RFQ issued on 11.6.10	Meenakshi, Meenakshi B and Meenakshi, dipside blocks have been allocated for Orissa UMP. Meenakshi & Meenakshi dipside are in 'B' category
Mand Raigarh				
Fatehpur	120	i) SKS Ispat TPP, Chhattisgarh, 1200 MW	Land & Water allocated 62% land acquired Public hearing held. MoEF clearance awaited Lol issued to Thermax Ltd for EP: Dec 2009. Site Leveling	350 MW to be fed from captive block Balance based on LT linkage. Bids for main plant equipments evaluated and ready for placement of order
		ii) Prakash Industries - CPP, Chhattisgarh - 625 MW (5 x 25 + 2x 100 + 2x150)	Land in possession. Water for 4x 25 MW allocated. MoEF clearance for 4 x 25 MW under process. Order for 4 x 25 MW placed in Sept 2009 & 2 x 100 MW In Dec 2009/Jan 2010. Boiler erection for 4 x 25 MW commenced.	
Sayang	110	i) AES Chhattisgarh TPP\Raigarh, Chhattisgarh - 1200 MW;±20%	Land & Water allotted. Public hearing yet to be held	
Total reserves	8,780			

Source: RCML Research



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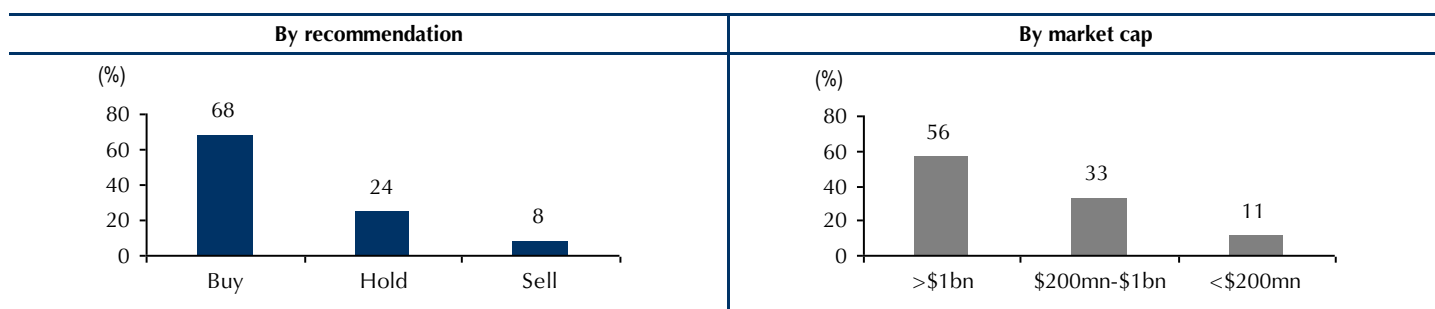
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Buy	More than 15%
Hold	Between 15% and -5%
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Recommendation structure changed with effect from March 1, 2009

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