

More negative surprises in the offering; Sell

February 8, 2012

Reco	Previous Reco
Sell	Reduce
CMP	Target Price
Rs73	Rs57
EPS change FY12E/13E (%)	-62/-43
Target Price change (%)	-21
Nifty	5,368
Sensex	17,707

Price Performance

(%)	1M	3M	6M	12M
Absolute	12	(15)	(22)	(40)
Rel. to Nifty	(1)	(16)	(25)	(41)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Power
Bloomberg	ADANI@IN
Equity Capital (Rs mn)	21800
Face Value(Rs)	10
No of shares o/s (mn)	2180
52 Week H/L	126/59
Market Cap (Rs bn/USD mn)	160/3,252
Daily Avg Volume (No of sh)	1868868
Daily Avg Turnover (US\$mn)	3.0

Shareholding Pattern (%)

	Dec-11	Sep-11	Jun-11
Promoters	73.5	73.5	73.5
FII/NRI	19.2	19.3	18.6
Institutions	0.9	0.9	1.4
Private Corp	3.7	3.8	3.8
Public	2.6	2.5	2.7

Source: Capitaline

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- 3Q net loss at Rs3.6bn. Adj. for forex, net loss stood at Rs634mn (assumed Rs420mn fuel forex for 3Q). Results are significantly below - due to adj. fuel cost at Rs2.14/unit vs. Rs1.26 in 2Q12 and Rs1.04 in 3Q11
- Higher fuel cost driven by lower Bunyu and higher spot imported coal (major part of earlier coal coming at USD45/MT is now coming at USD 92/MT). As expected, huge Cut in EPS by 62% & 43% and book value by 18% & 24% for FY12E/13E.
- Reiterate EPS/BV cuts to continue for 2-3 qtrs - led by (1) higher fuel cost not fully factored, (2) no linkage supply & fuel mix assumptions, (3) operating assumptions - aux, PLF, heat rate, O&M exp., (4) MAT & (5) lower merchant volumes/tariffs
- Too many ifs & buts. Stock at 2.1x FY13E book - most expensive Indian utility. Maintain negative bias & downgrade the stock to 'Sell' from 'Reduce' with revised DCF based TP of Rs57/Share (1.6x combined equity of all the projects)
- Key risks to our call - termination of PPA with GUVNL (Rs2.35/unit) and MSEDCL (Rs2.64/unit), Coal Mine allocation for Tiroda & higher Bunyu coal at USD 36/MT

Fuel cost and forex adjustment impacted performance

APL has reported net loss of Rs3.6bn during 3Q12 against our expectations of Rs1.9bn of profit. This was primarily due to i) higher adj. fuel cost (69% sequential increase to Rs2.14/unit) and (2) forex loss of Rs2.9bn (including prior period forex adj. related to fuel). Higher supply of Indonesian spot coal (67%) vs. Bunyu coal (33%) led to substantial increase in fuel cost. Adj. net loss stood at Rs0.6bn. We have revised our assumptions for fuel cost, operating parameters, tax, COD timelines. Consequently our revised FY12E/13E EPS stands at Rs2.4/Rs6.8, cut by 62%/43% respectively.

More negative surprises in the offering - downgrade to 'Sell'

We believe that APL is still looming with lot of uncertainties with too many ifs and buts in terms of offtake, fuel and operating parameters. 3Q12 results vindicate our view and we believe that more negative surprises are in the offering for next 2-3 qtrs at least. At Rs73/share, stock is trading at 2.1x FY13E book (likely to be cut further) - most expensive Indian power utility. We downgrade the stock from 'Reduce' to 'Sell' with revised DCF based TP of Rs57/Share. At Rs57/Share, the stock will trade at 1.6x combined equity of all it's under construction projects including Kawai.

Key risks to our call

Key risks to our call are (1) termination of PPA with GUVNL (Rs2.35/unit) and MSEDCL (Rs2.64/unit) without any significant penalties and new PPAs at better rates and (2) coal mine allocation for Tiroda (assuming linkage coal) & higher proportion of Bunyu coal at USD 36/MT (our assumption 8.2mn MT in FY14E)

Financial Snapshot

Rs Mn

YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY10	4,349	2,438	56.1	1,701	0.8	-2,982.8	4.1	93.5	109.2	2.7
FY11P	21,352	12,205	57.2	5,137	2.4	201.9	8.1	31.0	34.4	2.3
FY12E	44,989	19,882	44.2	5,625	2.4	9.5	8.2	31.1	23.6	2.6
FY13E	115,465	50,473	43.7	14,786	6.2	139.4	19.5	11.8	10.0	2.1

Operating Matrix	Actuals							Assumptions		Remarks
	Q111	Q211	Q311	Q411	Q112	Q212	Q312	FY12	FY13	
Capacity (MW)	660	990	1320	1980	1980	1980	2640	2640	6600	Capacity delay
Weighted Average Capacity (MW)	660	825	1045	1555	1980	1980	2303	2200	5390	
PLF	79.8%	82.1%	85.0%	97.7%	74.0%	75.4%	66.5%	76.4%	83.1%	
Aux / Transmission losses	7.9%	12.4%	11.9%	9.0%	8.9%	10.3%	10.7%	10.0%	6.7%	
Fuel Cost	1.07	1.18	1.04	0.95	1.15	1.26	2.14	1.60	1.60	Indonesian regulations impact, spot imported coal, domestic fuel shortage

Valuation Matrix: DCF based SOTP

SOTP	Mundra I	Mundra II	Mundra III	Mundra IV	Tiroda I	Tiroda II	Kawai	Total
Total Capacity	660	660	1,320	1,980	1,980	1,320	1,320	9,240
Equity Stake (%)	100%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	
Cost Of Equity	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	
Equity invested/to be invested	5,940	5,940	11,592	17,920	18,526	12,580	14,060	86,558
Equity Value (NPV) at FY12E end	5,361	4,154	11,296	36,506	34,227	21,759	7,243	120,547
O/S Shares	2,393	2,393	2,393	2,393	2,393	2,393	2,393	2,393
NPV Per Share	2.2	1.7	4.7	15.3	14.3	9.1	3.0	50
Cash Per Share								7
Fair Value Per Share								57

Quarterly Results

Rs mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	9MFY11	9MFY12	YoY (%)
Revenue	5,026	8,556	8,187	10,320	10,594	110.8	2.7	12,508	29,101	132.6
Expenditure	-2,296	-3,431	-4,085	-4,890	-7,573	229.8	54.9	-5,552	-16,548	198.0
<i>as % of sales</i>	<i>-45.7%</i>	<i>-40.1%</i>	<i>-49.9%</i>	<i>-47.4%</i>	<i>-71.5%</i>			<i>-44.4%</i>	<i>-56.9%</i>	
Consumption of RM	-1,790	-2,580	-3,333	-3,740	-6,463	261.1	72.8	-4,464	-13,536	203.2
<i>as % of sales</i>	<i>-35.6%</i>	<i>-30.1%</i>	<i>-40.7%</i>	<i>-36.2%</i>	<i>-61.0%</i>			<i>-35.7%</i>	<i>-46.5%</i>	
Power and Fuel	0	0	0	0	0			0	0	
<i>as % of sales</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>			<i>0.0%</i>	<i>0.0%</i>	
Other Mfg Expenses	0	0	0	0	0			0	0	
<i>as % of sales</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>			<i>0</i>	<i>0</i>	
Employee Cost	-76	-87	-119	-120	-137	80.3	14.2	-211	-376	78.4
<i>as % of sales</i>	<i>-1.5%</i>	<i>-1.0%</i>	<i>-1.5%</i>	<i>-1.2%</i>	<i>-1.3%</i>			<i>-1.7%</i>	<i>-1.3%</i>	
Other expenditure	-430	-764	-633	-1030	-973	126.1	-5.5	-878	-2,636	200.4
<i>as % of sales</i>	<i>-8.6%</i>	<i>-8.9%</i>	<i>-7.7%</i>	<i>-10.0%</i>	<i>-9.2%</i>			<i>-7.0%</i>	<i>-9.1%</i>	
EBITDA	2,730	5,126	4,102	5,430	3,021	10.7	-44.4	6,956	12,553	80.5
Depreciation	-455	-711	-1040	-1050	-1570	245.1	49.5	-1,093	-3,660	235.0
EBIT	2,275	4,415	3,062	4,380	1,451	-36.2	-66.9	5,863	8,893	51.7
Other Income	15	60	81	10	21	40.0	110.0	281	112	-60.2
Interest	-532	-962	-1136	-1340	-1387	160.7	3.5	-1,420	-3,863	172.1
PBT	1,758	3,512	2,007	3,050	85	-95.2	-97.2	4,725	5,142	8.8
Total Tax	-667	-1768	-488	-480	-719	7.8	49.8	-1,232	-1,687	37.0
Adjusted PAT	1091	1744	1519	2570	-634	-158.1	-124.7	3493	3455	-1.1
Extra ordinary items	0	0	250	-800	-2948			1	-3,498	
Reported PAT	1091	1744	1769	1770	-3582	-428.4	-302.4	3494	-43	-101.2
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0			0	0	
PAT after MI	1091	1744	1769	1770	-3582	-428.4	-302.4	3494	-43	-101.2
Reported EPS	0.5	0.8	0.6	1.1	-0.3	-153.0	-124.7	1.6	0.0	-101.2

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	54.3	59.9	50.1	52.6	28.5	-2579	-2410	55.6	43.1	-1247
EBIT	45.3	51.6	37.4	42.4	13.7	-3156	-2875	46.9	30.6	-1632
EBT	35.0	41.1	27.6	21.8	-27.0	-6199	-4883	37.8	17.7	-2011
PAT	21.7	20.4	18.6	24.9	-6.0	-2768	-3089	27.9	-0.1	-2808
Effective Tax rate	37.9	50.3	21.6	21.3	-25.1	-6306	-4645	26.1	32.8	674

Key Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	4,349	21,352	44,989	115,465
<i>Growth (%)</i>		391.0	110.7	156.7
Expenditure	1,911	9,147	25,107	64,992
Fuel Cost	1,667	7,213	21,102	57,603
O&M Cost	243	1,934	4,004	7,388
SG&A Expenses	0	0	0	0
Other Expenses	0	0	0	0
EBITDA	2,438	12,205	19,882	50,473
<i>Growth (%)</i>		400.6	62.9	153.9
EBITDA margin (%)	56.1	57.2	44.2	43.7
Depreciation	354	1,886	5,492	12,861
EBIT	2,084	10,319	14,390	37,613
EBIT margin (%)	47.9	48.3	32.0	32.6
Other Income	320	364	160	173
Interest expenses	377	2,550	5,473	19,347
PBT	2,027	8,133	9,077	18,439
Tax	327	3,000	2,902	3,653
<i>Effective tax rate (%)</i>	16.1	36.9	34.0	19.8
Adjusted PAT	1,700	5,133	6,175	14,786
<i>Growth (%)</i>	-3,511.9	201.9	20.2	139.4
Net Margin (%)	39.1	24.0	13.7	12.8
E/O items	0	0	-550	0
Reported PAT	1,700	5,133	5,625	14,786
(Profit)/loss from JV's/Ass/MI	1	4	0	0
PAT after MI	1,701	5,137	5,625	14,786
<i>Growth (%)</i>	-3511.9	201.9	20.2	139.4

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT (Ex-Other income)	1,707	7,769	8,367	18,266
Depreciation	354	1,886	5,492	12,861
Interest Provided	377	2,550	5,473	19,347
Other Non-Cash items	0	2,768	0	0
Chg in working cap	-7,869	2,758	-1,335	-13,020
Tax paid	-327	-3,000	-2,902	-3,653
Operating Cashflow	-5,758	14,731	15,095	33,800
Capital expenditure	-86,659	-170,704	-35,326	-47,400
Free Cash Flow	-92,417	-155,973	-20,231	-13,600
Other income	320	364	160	173
Investments	0	-100	0	0
Investing Cashflow	-86,339	-170,440	-35,166	-47,227
Equity Capital Raised	33,289	187	0	0
Loans Taken / (Repaid)	64,928	154,322	38,649	19,213
Interest Paid	-377	-2,550	-5,473	-19,347
Dividend paid (incl tax)	0	0	0	0
Income from investments				
Others	325	4,647	-8,806	0
Financing Cashflow	98,165	156,606	24,370	-134
Net chg in cash	6,068	897	4,299	-13,561
Opening cash position	5,585	11,654	12,551	16,851
Closing cash position	11,654	12,551	16,850	3,290

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	21,800	21,800	23,930	23,930
Reserves & surplus	37,003	46,736	44,548	59,333
Net worth	58,803	68,536	68,478	83,263
Secured Loans	118,705	273,027	311,676	330,889
Unsecured Loans	0	0	0	0
Loan Funds	118,705	273,027	311,676	330,889
Net deferred tax liability	120	3,120	0	0
Total Liabilities	177,628	344,683	380,154	414,152
Gross Block	28,549	90,283	120,150	301,493
Less: Depreciation	-678	-2,811	-8,003	-20,864
Net block	27,871	87,472	112,147	280,629
Capital work in progress	127,691	236,908	242,067	108,123
Investment	0	100	100	100
Current Assets	23,718	25,405	35,298	37,746
Inventories	95	2,836	4,544	9,026
Sundry debtors	2,563	4,174	8,060	19,586
Cash & bank balance	11,654	12,551	16,851	3,290
Loans & advances	9,406	5,844	5,844	5,844
Other current assets	0	0	0	0
Current lia & Prov	1,652	5,200	9,459	12,447
Current liabilities	1,652	5,200	9,459	12,447
Provisions	0	0	0	0
Net current assets	22,066	20,205	25,840	25,299
Misc. exp	0	0	0	0
Total Assets	177,628	344,683	380,154	414,152

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	56.1	57.2	44.2	43.7
Net Margin	39.1	24.0	13.7	12.8
ROCE	1.6	4.0	4.0	9.5
ROE	4.1	8.1	8.2	19.5
RoIC	1.5	2.6	2.7	7.8
Per Share Data (Rs)				
EPS	0.8	2.4	2.4	6.2
CEPS	0.9	3.2	4.9	11.6
BVPS	27.0	31.4	28.6	34.8
DPS				
Valuations (x)				
PER	93.5	31.0	31.1	11.8
P/CEPS	77.4	22.7	15.0	6.3
P/BV	2.7	2.3	2.6	2.1
EV / Sales	61.2	19.7	10.4	4.4
EV / EBITDA	109.2	34.4	23.6	10.0
Dividend Yield (%)	0.0	0.0	0.0	0.0
Gearing Ratio (x)				
Net Debt/ Equity	1.8	3.8	4.3	3.9
Net Debt/EBIDTA	43.9	21.3	14.8	6.5
Working Cap Cycle (days)	178	62	28	51

Recommendation History: Adani Power – ADANI IN

Date	Reports	Reco	CMP	Target
15/11/2011	Adani Power Q2FY12 Result Update	Reduce	78	72
09/08/2011	Adani Power Q1FY12 Result Update	Reduce	91	82
09/05/2011	Adani Power Q4FY11 Result Update	Reduce	110	103
09/02/2011	Adani Power Q3FY11 Result Update	Hold	124	113

Recent Research Reports

Date	Reports	Reco	CMP	Target
08/02/2012	GIPCL Q3FY12 Result Update	Buy	73	91
07/02/2012	Nava Bharat Ventures Q3FY12 Result Update	Accumulate	185	204
07/02/2012	JPVL Q3FY12 Result Update	Hold	45	45
06/02/2012	KSK Energy Q3FY12 Result Update	Hold	72	75

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