

ADANI POWER

HOLD
CMP Rs94
TP Rs101

04 Aug 2011

Adani Power (APL) Q1 FY12 Adj. PAT of Rs1.3bn was significantly lower than our estimate of Rs2.3bn. This was primarily due to lower generation as the company undertook planned shutdown at Unit I of Mundra I&II (for 20 days) and Unit I of Mundra III (for 10-15 days). In addition, lower merchant tariff and increased fuel cost during the quarter impacted earnings. This coupled with higher depreciation and interest translate into lower than expected PAT. Maintain HOLD with a reduced target price of Rs101/share.

Lower merchant tariff and higher PPA sale impact earnings

During Q1 FY12, APL sold 91% of power under long term PPA at Rs2.61/unit and the rest on short term (merchant and UI) at Rs3.60/unit. Merchant and UI tariff for the quarter received by APL was Rs4.40/unit and Rs3.00/unit respectively. This coupled with higher depreciation and interest – due to higher operating capacity – translated into only 15% YoY growth in adj. PAT during the quarter.

Adjusting for reduced MCL linkage coal

Adani Enterprises presentation indicates 6.4mn tons of linkage coal from MCL against 10mn tons envisaged earlier. Hence we make the requisite change in our model and assume the gap of ~2.5mn tons (70% of 3.6mn tons) to be bridged by e-auction or spot coal. As a result, we estimate an increase in cost of generation.

VALUATIONS AND RECOMMENDATION

We reduce our target price to Rs101/share from Rs115 earlier primarily on account of changes in fuel source mix (as mentioned above). We also lower our generation estimate to account for shutdowns taken in Q1, but maintain our FY12 capacity of 5.9GW, merchant tariff at Rs4.25/unit for FY12 and FY13 and landed cost of Indonesian coal (do not build in an increase due to the change in Indonesian regulation). Maintain HOLD, but with a reduced target of Rs101/share.

KEY FINANCIALS (CONSOLIDATED)

(Rs mn)

	FY09	FY10	FY11	FY12E	FY13E
Net Sales	-	4,349	21,352	67,538	126,016
YoY Gr. (%)	-	-	391.0	216.3	86.6
Op. Profits	(55)	2,438	12,205	46,058	76,083
OPM (%)	-	56.1	57.2	68.2	60.4
Adj. Net Profit	(50)	1,640	4,963	22,269	33,620
YoY Gr. (%)	-	-	202.5	348.7	51.0

KEY RATIOS

Dil. EPS (Rs)	-	0.8	2.4	9.5	14.0
ROCE (%)	-	2.0	4.4	11.8	16.5
RoE (%)	-	4.1	8.2	29.8	32.8
PER (x)	-	119.8	39.7	9.8	6.7
EV/ Net Sales (x)	-	68.5	20.4	6.8	3.8
EV/EBDITA (x)	-	110.5	35.2	9.9	6.3

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QUARTERLY SNAPSHOT (Rs mn)

	Quarter Ended		
	Dec-10	Mar-11	Jun-11
Net sales	5,026	8,556	8,187
YoY Gr. (%)	115.2	325.1	131.9
Op. Profit	2,730	5,125	4,102
OPM (%)	54.3	59.9	50.1
Adj. Net Profit	1,091	1,743	1,314
YoY Gr. (%)	50.5	77.3	14.7

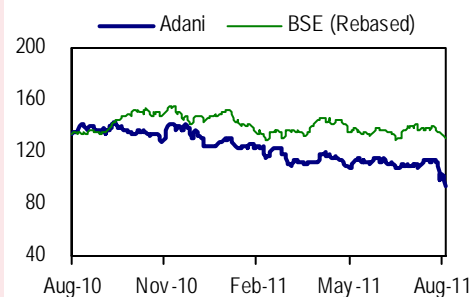
STOCK DATA

Market cap	Rs204bn
Book Value per share	Rs28.8
Eq Shares O/S (F.V. Rs10)	2.18bn
Free Float	26.5%
Avg Trade Value (6 months)	Rs151.1mn
52 week High/Low	146/92
Bloomberg Code	ADANI IN
Reuters Code	ADAN.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	(14.9)	(17.7)	(31.2)
Relative	(8.9)	(14.0)	(28.3)

RELATIVE PERFORMANCE

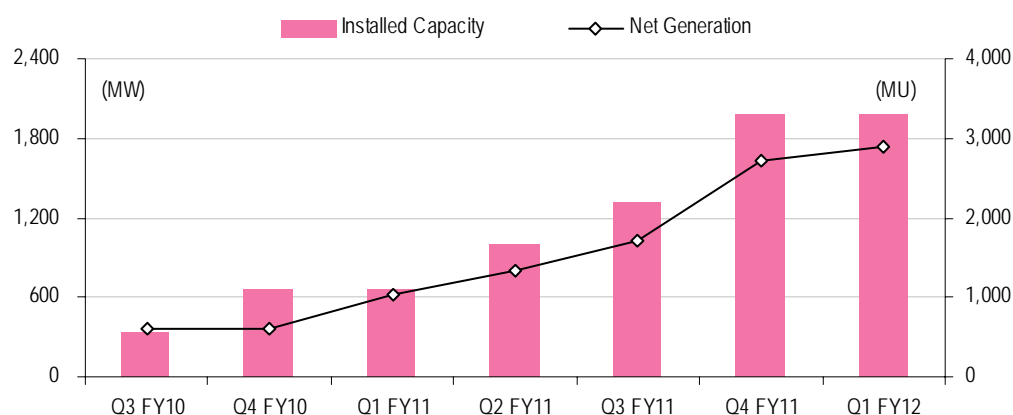


Quarterly result table

Rs mn	Q1FY12	Q1FY11	YoY (%)	Q4FY11	QoQ (%)
Generation (MU)	3,190	1,153	176.7	3,007	6.1
Sold (MU)	2,898	1,030	181.4	2,729	6.2
Avg Realisation (Rs/unit)	2.8	3.4	(17.6)	3.1	(9.9)
Net sales from operations	8,187	3,531	131.9	8,556	(4.3)
Total Expenses	4,085	1,399	192.0	3,431	19.1
<i>%of net sales</i>	<i>49.9</i>	<i>39.6</i>		<i>40.1</i>	
Fuel cost	3,333	1,098	203.5	2,580	29.2
<i>%of net sales</i>	<i>40.7</i>	<i>31.1</i>		<i>30.1</i>	
Employee Cost	119	65	82.2	87	36.5
<i>%of net sales</i>	<i>1.5</i>	<i>1.8</i>		<i>1.0</i>	
Other Expenses	633	235	169.2	764	(17.1)
<i>%of net sales</i>	<i>7.7</i>	<i>6.7</i>		<i>8.9</i>	
EBITDA	4,102	2,132	92.4	5,125	(20.0)
<i>%of net sales</i>	<i>50.1</i>	<i>60.4</i>		<i>59.9</i>	
Depreciation	1,040	279	272.5	711	46.2
EBIT	3,062	1,853	65.3	4,414	(30.6)
<i>%of net sales</i>	<i>37.4</i>	<i>52.5</i>		<i>51.6</i>	
Interest	1,341	433	209.9	1,081	24.1
Other Income	81	79	2.5	178	(54.9)
PBT	1,801	1,499	20.2	3,512	(48.7)
Provision for tax (including deferred tax)	488	354	37.8	1,768	(72.4)
Pre-exceptional Profit	1,314	1,145	14.7	1,743	(24.7)
Extra-ordinary items	455	-	-	-	-
Reported PAT	1,769	1,145	54.5	1,743	1.5
<i>Pre-exceptional PAT margin %</i>	<i>21.6</i>	<i>32.4</i>		<i>20.4</i>	
EPS	0.6	0.5	14.7	0.8	(24.7)

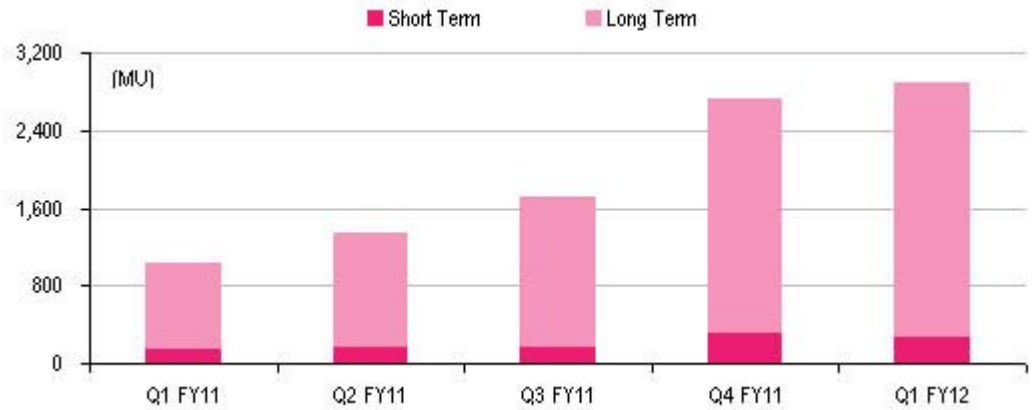
Source: Company, PINC Research

Higher operational capacity aid generation growth



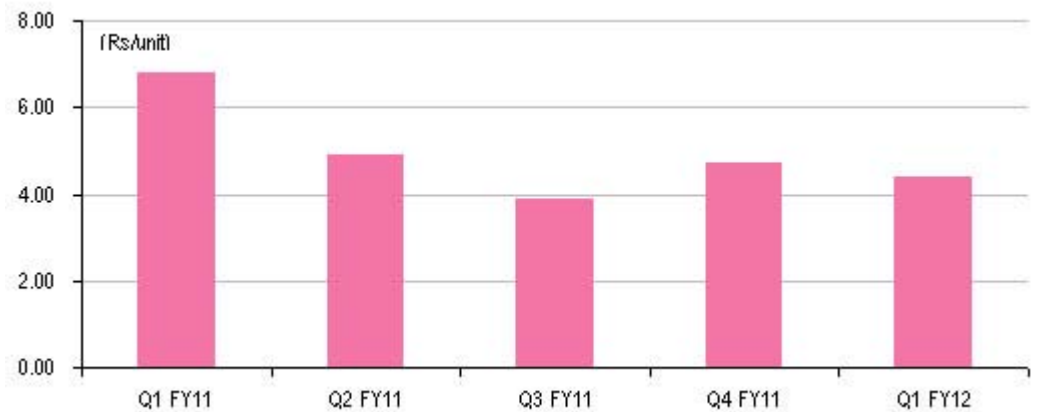
Source: Company, PINC Research

Long term sale increases as PPA become active



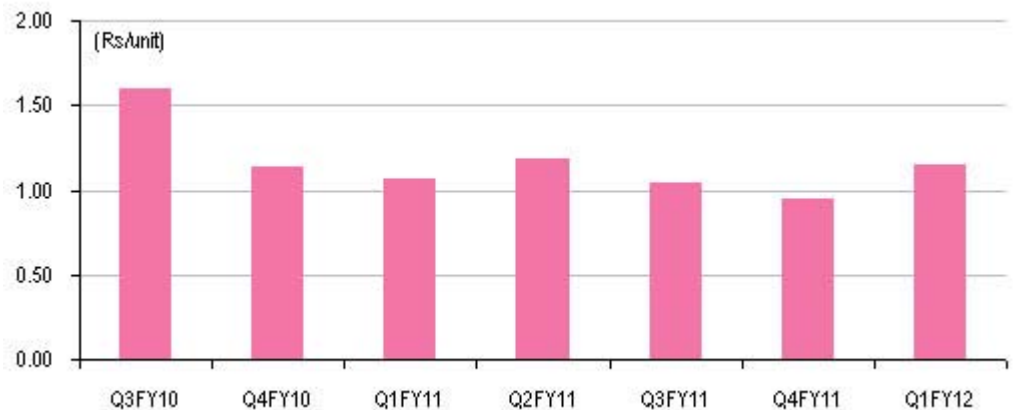
Source: Company, PINC Research

Merchant rates soften to Rs4.40/unit



Source: Company, PINC Research

Fuel cost increases to Rs1.15/unit



Source: Company, PINC Research

Quarter marred by shutdowns

During the quarter, APL undertook planned maintenance shutdown at Unit I - Mundra I&II for 20 days and Unit V - Mundra III for 10-15 days to synchronise Unit VI. As a result, its net generation of 2.9BU, although higher by 181% YoY, was lower than our estimate of 3.4BU. APL's overall PLF contracted to ~74% against 80% in the corresponding period last year.

Adjusted PAT grows only 15% YoY

During the quarter APL earned one time income of Rs455mn on account of foreign exchange and derivative gain. We adjust this from the net interest expenditure and classify it as an extra-ordinary income. This coupled with lower generation, higher fuel cost, depreciation and interest translated into only 15% YoY growth in adjusted PAT. The company continues to report zero current tax; the tax amount shown in the P&L pertains to deferred tax.

Account for lesser domestic coal, reduce target price - HOLD

We reduce our target price to Rs101 from Rs115 earlier primarily on account of changes in fuel source mix. We do not factor 3.6mn tons of MCL coal linkage – the impact of which is 2.5mn tons (70% of 3.6mn tons) – for which the company had applied but was yet to get approval. We now assume this gap will be bridged by either e-auction / spot coal. We continue to build in 6GW of operational capacity (in line with the management guidance) by the end of the year, Rs4.25/unit merchant tariff for FY12 and FY13, 10% decline in coal cost in FY13 and no increase in Indonesian coal cost (despite a change in Indonesian regulation). Despite this we see earnings risk arising out of increasing price of e-auction / spot coal and lower merchant tariff. Maintain HOLD, with a reduced target of Rs101/share.

Year Ended March (Figures in Rs mn)

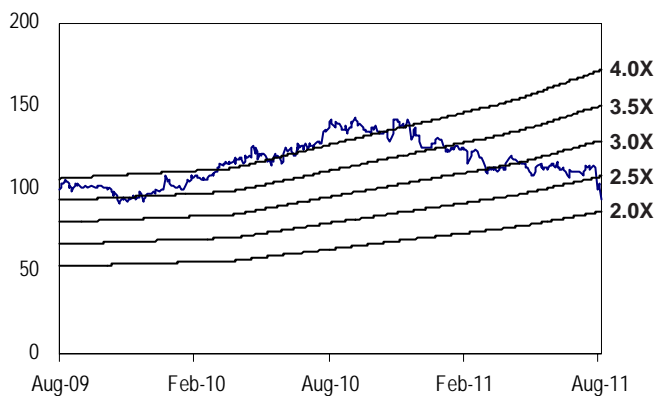
Income Statement	FY09	FY10	FY11	FY12E	FY13E
Revenues	-	4,349	21,352	67,538	126,016
<i>Growth (%)</i>	-	-	391.0	216.3	86.6
Operating Profit	(55)	2,438	12,205	46,058	76,083
Other Income	-	259	190	344	754
EBIDTA	(55)	2,697	12,395	46,403	76,838
<i>Growth (%)</i>	-	-	359.6	274.4	65.6
Depreciation & Amortization	-	353	1,886	7,205	14,523
EBIT	(55)	2,343	10,509	39,197	62,315
Interest Charges (Net)	-	377	2,550	8,511	17,013
PBT (Before E/o items)	(55)	1,967	7,959	30,686	45,302
Tax provision	-	327	3,000	8,417	11,682
Minority interest	(6)	(1)	(4)	-	-
Pre-exceptional PAT	(50)	1,640	4,963	22,269	33,620
Extra-ordinary items	-	61	173	455	-
Net Profit	(50)	1,701	5,136	22,724	33,620
<i>Growth (%)</i>	-	-	201.9	342.5	47.9
Diluted EPS (Rs)	-	0.8	2.4	9.5	14.0
<i>Growth (%)</i>	-	-	201.9	303.1	47.9

Cash Flow Statement	FY09	FY10	FY11	FY12E	FY13E
Pre-tax profit	(55)	1,967	7,959	30,686	45,302
Depreciation	-	353	1,886	7,205	14,523
Total tax paid	-	(0)	-	(6,466)	(9,731)
Chg in working capital	(1,142)	981	17,911	(24,312)	(24,497)
Other items	(6)	60	169	455	-
Cash from oper. (a)	(1,203)	3,361	27,925	7,569	25,597
Capital expenditure	(44,623)	(86,658)	(170,705)	(13,439)	(46,488)
Chg in investments	532	(0)	(100)	-	-
Other items	-	-	-	-	-
Cash from inv. (b)	(44,091)	(86,658)	(170,805)	(13,439)	(46,488)
Free cash flow (a+b)	(45,294)	(83,297)	(142,880)	(5,870)	(20,891)
Equity raised/(repaid)	8,463	33,289	-	2,132	-
Debt raised/(repaid)	39,785	55,958	139,172	6,617	24,225
Change in Minority Int	699	324	4,639	-	-
Dividend (incl. tax)	-	-	-	(1,340)	(1,340)
Other items	11	(205)	(35)	(0)	-
Cash from fin. (c)	48,959	89,366	143,776	7,409	22,885
Net chg in cash (a+b+c)	3,664	6,069	897	1,539	1,994

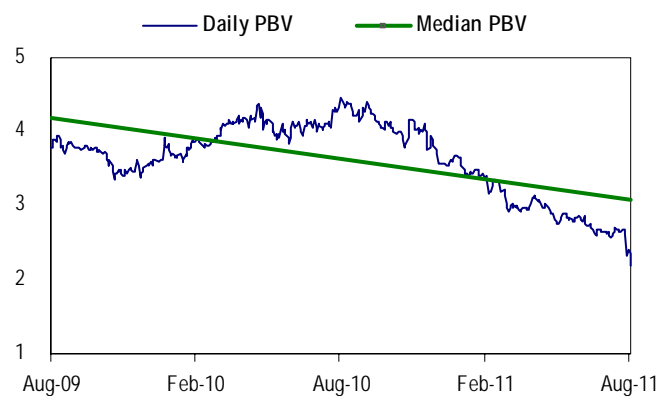
Balance Sheet	FY09	FY10	FY11	FY12E	FY13E
<i>Equity Share Capital</i>	18,420	21,800	21,800	23,932	23,932
<i>Reserves & Surplus</i>	4,371	35,980	41,073	62,457	94,736
Shareholders' Funds	22,790	57,780	62,873	86,389	118,669
Minorities Interest	699	1,023	5,663	5,663	5,663
Total Debt	49,897	105,855	245,027	251,644	275,869
Deferred Tax liability	-	120	3,120	5,071	7,023
Capital Employed	73,387	164,778	316,683	348,767	407,223
Fixed Assets	69,257	155,562	324,381	330,614	362,580
Cash & cash eq.	5,585	11,654	12,551	14,090	16,083
Net current assets	(1,456)	(2,438)	(20,349)	3,963	28,459
Investments	-	-	100	100	100
Total Assets	73,387	164,778	316,683	348,767	407,223

Key Ratios	FY09	FY10	FY11	FY12E	FY13E
OPM (%)	-	56.1	57.2	68.2	60.4
Net Margin (%)	-	37.7	23.2	33.0	26.7
Dividend Yield (%)	0.0	0.0	0.0	0.6	0.6
Net Debt/Equity (x)	1.9	1.6	3.7	2.7	2.2
Net working capital (days)	-	(204.6)	(347.9)	21.4	82.4
ROACE (%)	-	2.0	4.4	11.8	16.5
ROANW (%)	-	4.1	8.2	29.8	32.8
EV/Sales (x)	-	68.5	20.4	6.8	3.8
EV/EBIDTA (x)	-	110.5	35.2	9.9	6.3
PER (x)	-	119.8	39.7	9.8	6.7
PCE (x)	-	99.2	29.0	7.5	4.6
Price/Book (x)	9.3	5.1	3.4	3.0	2.2

P/BV Band



Median P/BV v/s Daily P/BV



T E A M

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