

Morgan Stanley India Company
Private Limited+

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Stock Rating
Equal-weight-V

Industry View
In-Line

LANCO Infratech Ltd

F2Q09: Improvement in Margins

Quick Comment: Lanco reported F2Q09 consolidated revenues of Rs12.8 bn (up 113% YoY) and earnings after minority interest (excluding forex losses) of Rs516 mn (down 8% YoY). During the quarter, Lanco incurred foreign exchange translation losses of Rs259 mn, after adjusting for which earnings would have been Rs775 mn (up 38% YoY). Reported EBITDA margin was 15.5% during F2Q09 as against 19.4% in F2Q08, however, on adjustment of sales on account of power trading and on account of naphtha, EBITDA margin in F2Q09 would be 25% vs 22% in F2Q08.

Segmental Performance: In the **power generation and power-trading segment**, Lanco reported F2Q09 revenues of Rs6.8 bn (up 146% YoY), EBIT of Rs745 mn (up 5% YoY) and EBIT margins of 10.9% (as against 25.6% in F2Q08). The weak performance of the power generation segment was due to the usage of naphtha for fuelling the Kondapalli power plant, which inflated revenues but dampened margins, and due to forex losses for both the Kondapalli and Aban plants. On power trading, Lanco Electric utility recorded revenue of Rs3.5 bn however, earnings were only Rs14 mn.

In the **construction segment**, Lanco reported F2Q09 revenues of Rs6.3 bn (up 70% YoY), EBIT of Rs1 bn (up 100% YoY) and EBIT margins of 16.5% (up 246 bps YoY). The outstanding order book stood at Rs120.6 bn at the end of September 2008 of which over 80% is constituted by internal power projects.

In the **Real estate segment**, Lanco reported F2Q09 revenues of Rs477 mn, EBIT of Rs182 mn and EBIT margins of 38.2%. The company had pre-sold about 3 mn square feet however, during the quarter it has only received regular payments from holders of 2-2.5 mn sq ft. While the company is not taking down its realizations, it is facing pressure from customers in the form of cancellations or delays in bookings.

Key Ratios and Statistics

Reuters: LAIN.BO Bloomberg: LANCI IN

India Utilities

Price target	Rs288.00
Shr price, close (Oct 31, 2008)	Rs113.50
52-Week Range	Rs887.95-83.10
Mkt cap, curr (mn)	US\$512

Fiscal Year ending	03/07	03/08e	03/09e	03/10e
ModelWare EPS (Rs)	19.63	17.20	38.79	55.27
P/E	8.1	22.6	2.9	2.1
P/BV	2.3	4.5	0.9	0.6
EV/EBITDA	12.1	15.0	5.5	5.0

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).
e = Morgan Stanley Research estimates

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Implications: We believe there has been some delay in the implementation of power projects which will also have an impact on construction revenue. On real estate, the company seems to be cautious given tough market conditions. We are in the process of reviewing our estimates and maintain an Equal weight rating on the stock.

Exhibit 1

Lanco Infratech: Reported Consolidated Results

(Rs mn)	Sep-07	Sep-08	YOY%
Net Sales	6,006	12,790	113%
Expenditure	4,843	10,811	123%
Construction and Operating Expenses	4,569	7,435	63%
Purchase of trading power	746	3,502	369%
(Increase)/ decrease Stock in trade	(781)	(913)	17%
Staff Cost	178	493	177%
Administrative and Other Expenses	130	293	126%
EBITDA	1,163	1,979	70%
EBITDA Margin (%)	19.4%	15.5%	-389 bps
Other Income	220	116	-47%
Interest	226	455	101%
Depreciation	169	241	43%
Elimination of Profit on transactions with Associates		129	
Profit before Tax	988	1,270	29%
Tax	186	310	67%
<i>Effective Tax Rate (%)</i>	<i>18.9%</i>	<i>24.4%</i>	<i>557 bps</i>
Profit after Tax	802	960	20%
Less:Minority Interest	239	186	-22%
Add:Profit from Associates	0	1	973%
Net Profit	563	775	38%
(Gain)/Loss on foreign exchange fluctuations (Net)		259	
Reported Net Profit	563	516	-8%
Net Profit Margin (%)	9.4%	6.1%	-331 bps

Source: Company data, Morgan Stanley Research

Exhibit 2

Major Operating Subsidiary Companies

Particulars	Kondapalli	Aban	Electric Utility
Capacity	368MW	120MW	Power Trading
Fuel Type	Gas	Gas	
Generation (Mus)	566	228	
PLF%	70.0%	88.0%	
Net Sales	2643	489	3535
Operating margin (%)	22.3%	51.6%	0.6%
Profit After Tax	146	70	14

Source: Company data, Morgan Stanley Research

Exhibit 3

Lanco Infratech: Consolidated Segment Results

	Sep-07	Sep-08	YOY
Divisional Revenues (Rs Mn)			
Construction	3,715	6,326	70%
Power	2,762	6,807	146%
Property Development/ Real Estate	-	477	
Infrastructure		-	
Unallocated	19	25	31%
Less: Intersegment revenues	491	846	72%
Total	6,006	12,790	113%
Divisional EBIT (Rs Mn)			
Construction	520	1,042	100%
Power	707	745	5%
Property Development/ Real Estate	(82)	182	323%
Infrastructure	-	-	
Divisional EBIT Margins			
Construction (%)	14.0%	16.5%	246 bps
Power (%)	25.6%	10.9%	-1467 bps
Property Development/ Real Estate (%)		38.2%	
Infrastructure			

Source: Company data, Morgan Stanley Research

Company Description

Lanco Infratech Ltd. is an integrated infrastructure development company with interests in power, construction and property development. The company has installed capacity of 518 MW, and plans to increase capacity to 3,793 MW by F2011. In addition, it plans to develop about 20 million sq ft of real estate in Hyderabad that will include IT, residential and commercial space.

India Utilities

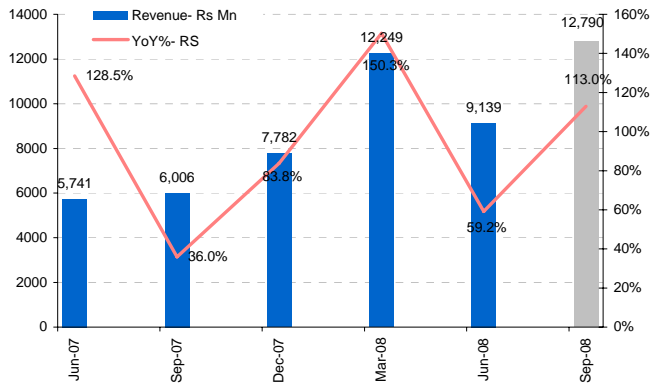
Industry View: In-Line

MSCI Country: India

Asia Strategist's Recommended Weight: 2.7%
MSCI Asia/Pac All Country Ex Jp Weight: 6.5%

Exhibit 4

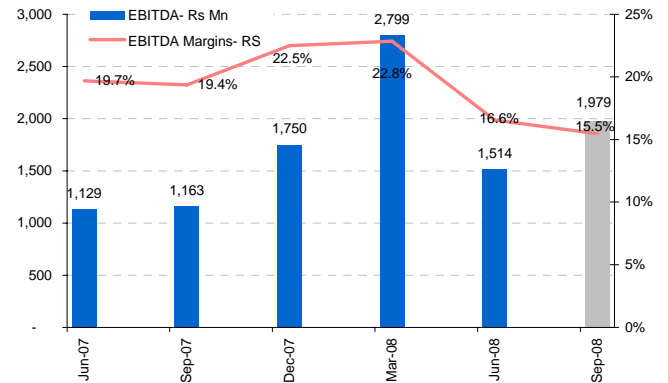
Lanco Infratech: Revenue



Source: Company data, Morgan Stanley Research

Exhibit 7

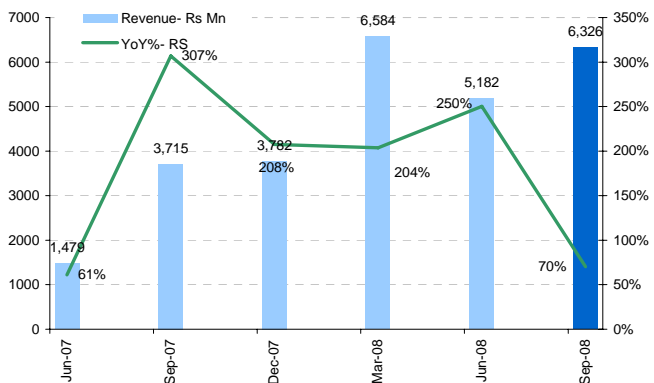
Lanco Infratech: EBITDA



Source: Company data, Morgan Stanley Research

Exhibit 5

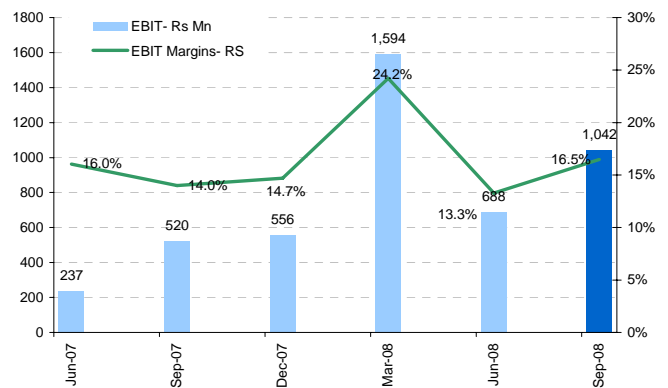
Lanco Infratech: Construction Segment Revenue



Source: Company data, Morgan Stanley Research

Exhibit 8

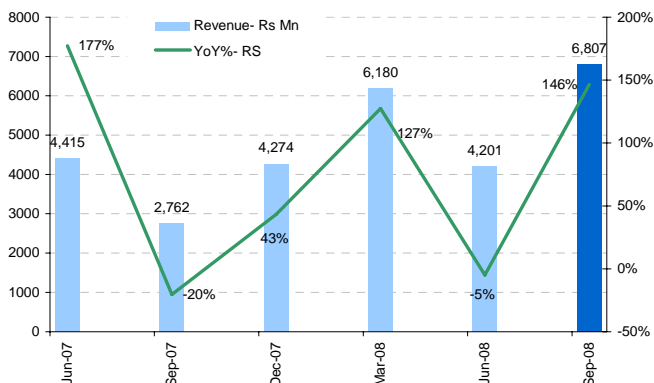
Lanco Infratech: Construction Segment EBIT



Source: Company data, Morgan Stanley Research

Exhibit 6

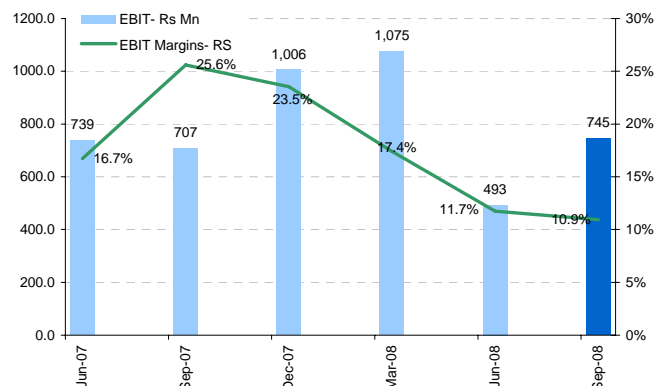
Lanco Infratech: Power Segment Revenue



Source: Company data, Morgan Stanley Research

Exhibit 9

Lanco Infratech: Power Segment EBIT



Source: Company data, Morgan Stanley Research



Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations. For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

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(as of October 31, 2008)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	869	39%	275	42%	32%
Equal-weight/Hold	983	44%	286	44%	28%
Underweight/Sell	403	18%	89	14%	22%
Total	2,255		650		

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Overweight (O or Over) - The stock's total return is expected to exceed the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

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More volatile (V) - We estimate that this stock has more than a 25% chance of a price move (up or down) of more than 25% in a month, based on a quantitative assessment of historical data, or in the analyst's view, it is likely to become materially more volatile over the next 1-12 months compared with the past three years. Stocks with less than one year of trading history are automatically rated as more volatile (unless otherwise noted). We note that securities that we do not currently consider "more volatile" can still perform in that manner.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

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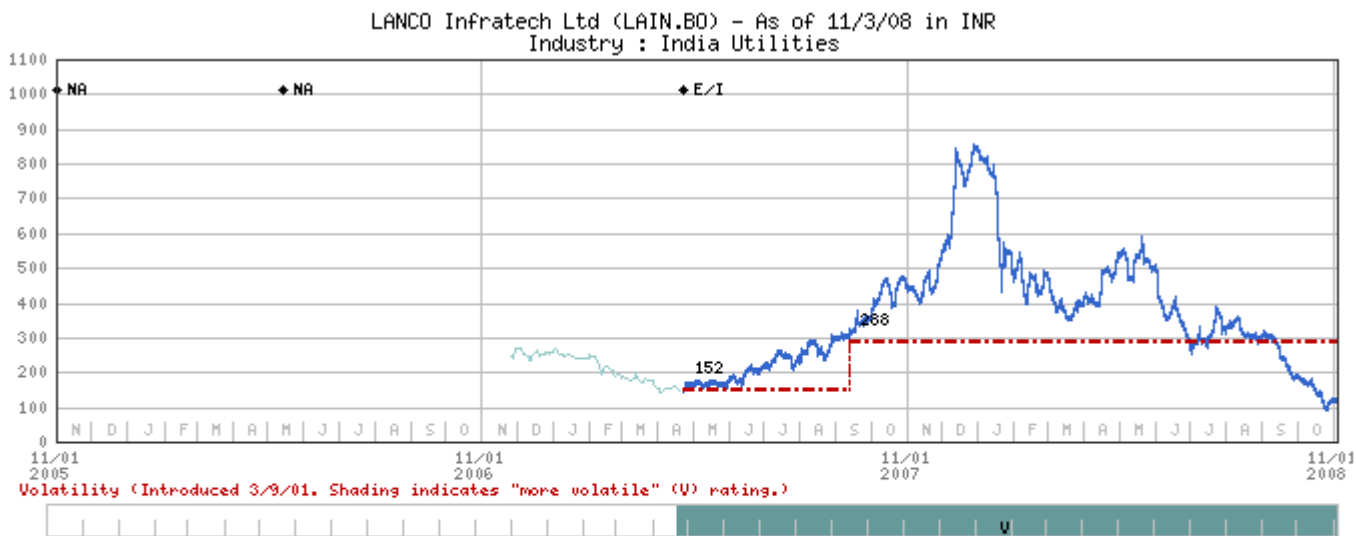
Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 11/1/05 : NA; 5/15/06 : NA; 4/23/07 : E/I

Price Target History: 4/23/07 : 152; 9/13/07 : 288

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target --- No Price Target Assigned (NA)
 Stock Price (Not Covered by Current Analyst) --- Stock Price (Covered by Current Analyst) ---
 Stock Ratings abbreviated as below (Effective 3/18/02, ratings appear as Stock Ratings/Industry View) ♦
 Stock Ratings as of 3/18/02: Overweight (O) Equal-weight (E) Underweight (U) More Volatile (U) No Rating Available (NAU)
 Stock Ratings prior to 3/18/02: Strong Buy (SB) Outperform (OP) Neutral (N) Underperform (UP) No Rating Available (NAU)
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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Industry Coverage:India Utilities

Company (Ticker)	Rating (as of)	Price (10/31/2008)
Parag Gupta		
LANCO Infratech Ltd (LAIN.BO)	E-V (04/23/2007)	Rs113.5
NTPC (NTPC.BO)	E (04/23/2007)	Rs140.55
Reliance Infrastructure Limited (RLIN.BO)	O (01/23/2008)	Rs456.75
Tata Power Co (TTPW.BO)	O (04/23/2007)	Rs689.65

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