

Perdaman case, price correction overdone

■ Event: Perdaman filed a lawsuit against Lanco in Australia, stock corrects

Lanco Infratech's (Lanco) share price corrected sharply on Friday on media reports that Perdaman Industries had filed a lawsuit against the company in Western Australia. According to media reports, the lawsuit is related to a coal supply agreement between Griffin Coal (Griffin) and Perdaman, and a hearing is expected on 27 July. In February 2011, Lanco acquired Griffin coal mines in Australia for a consideration of A\$730m. Perdaman's urea plant in Western Australia, to be completed in FY15 according to Perdaman, was to receive its coal supply from Griffin mines.

■ Impact: Perdaman seeking damages of A\$3.5bn

As per media reports, Perdaman is seeking damages of A\$3.5bn. As per Lanco, Perdaman has not yet filed the basis of this claim with the Australian court, or how it arrived at the figure of estimated damages. Lanco has confirmed that once the company has clarity on this, it will defend this. However, Lanco management indicated it thinks the case does not have any merit, as the coal agreement has not yet been terminated.

■ Action: we think the price correction is overdone

We checked the timeline of Perdaman's project and it is expected to be completed in December 2014. We believe that the fuel requirement (from Griffin mines to Perdaman's plant) should arise only after the plant becomes operational. We think the price correction on the back of the court case news on Friday seems overdone.

■ Valuation: maintain Buy rating and price target of Rs70.00

We derive our price target using a sum-of-the-parts methodology. We value Lanco as a conglomerate, with power contributing 68% of our valuation and EPC 23%.

Highlights (Rsm)	03/09	03/10	03/11E	03/12E	03/13E
Revenues	60,652	81,076	97,999	136,313	156,371
EBIT (UBS)	7,732	11,792	19,947	25,736	34,566
Net Income (UBS)	3,216	4,366	5,916	9,493	15,584
EPS (UBS, Rs)	1.45	1.81	2.46	3.94	6.47
Net DPS (UBS, Rs)	0.00	0.00	0.00	0.00	0.00

Profitability & Valuation	5-yr hist av.	03/10	03/11E	03/12E	03/13E
EBIT margin %	13.4	14.5	20.4	18.9	22.1
ROIC (EBIT) %	14.6	13.2	13.2	11.8	12.4
EV/EBITDA (core) x	-	10.4	7.0	5.3	3.8
PE (UBS) x	-	23.9	9.3	5.8	3.5
Net dividend yield %	-	0.0	0.0	0.0	0.0

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs22.90 on 24 Jun 2011 23:38 SGT

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Global Equity Research

India

Industrial, Diversified

12-month rating **Buy**
Unchanged

12m price target **Rs70.00/US\$1.56**
Unchanged

Price **Rs22.90/US\$0.51**

RIC: LAIN.BO BBG: LANCI IB

27 June 2011

Trading data (local/US\$)

52-wk range	Rs73.60-22.90/US\$1.61-0.51
Market cap.	Rs55.1bn/US\$1.23bn
Shares o/s	2,408m (ORD)
Free float	20%
Avg. daily volume ('000)	8,725
Avg. daily value (m)	Rs312.1

Balance sheet data 03/11E

Shareholders' equity	Rs43.3bn
P/BV (UBS)	1.3x
Net Cash (debt)	(Rs166bn)

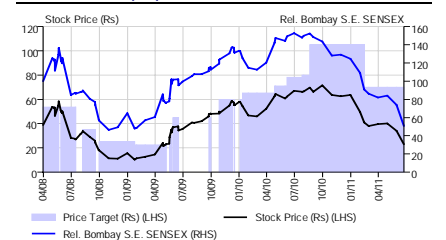
Forecast returns

Forecast price appreciation	+205.7%
Forecast dividend yield	0.0%
Forecast stock return	+205.7%
Market return assumption	13.1%
Forecast excess return	+192.6%

EPS (UBS, Rs)

	03/11E		03/10
	UBS	Cons.	Actual
Q1E	1.02	-	0.34
Q2E	0.33	-	0.42
Q3E	0.73	1.04	0.48
Q4E	0.62	0.62	0.67
03/11E	2.46	2.46	
03/12E	3.94	3.94	

Performance (Rs)



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Perdaman's lawsuit against Lanco in Australia

Lanco corrected sharply on Friday 24 June on media reports that Perdaman Industries had filed a lawsuit against the company in Western Australia. According to media reports, the suit is related to a coal supply agreement between Griffin and Perdaman, and a hearing is expected on 27 July. In February 2011, Lanco acquired Griffin coal mines in Australia for a consideration of A\$730m. Perdaman's urea plant in Western Australia, to be completed in FY15 according to Perdaman, was to receive its coal supply from Griffin mines.

As per media reports, Perdaman is seeking damages of A\$3.5bn. As per Lanco, Perdaman has not yet filed the basis of this claim with the Australian Court or how it arrived at the figure for estimated damages. Lanco has confirmed that once the company has clarity on these matters, it will defend itself in court. However, Lanco management believes the case does not have any merit as the coal supply agreement has not been terminated by Lanco.

Perdaman's project timeline

We checked the timeline of Perdaman's urea project, and according to information available on the Perdaman website, it is expected to be completed in December 2014.

Table 1: Perdaman's urea manufacturing project timeline

Milestone	Timeline
Public announcement of project	March 2009
Commencing community consultation	April 2009
Permitting and environmental approvals	March 2009 - March 2010
Engineering	June 2009 - January 2012 (95% completion)
Construction contract arrangements finalised	February 2010
Financial close	Q2 2011
Field construction start	Q3 2011
Mechanical completion	Q4 2013
Start up begins	Q1 2014
Full production	Q4 2014

Source: Perdaman website

Perdaman's website also indicates that the basic raw material agreement for coal is with Griffin, as the site mentions that Perdaman has signed a 25-year agreement with Griffin Coal for the supply of coal from Collie Mine. This could mean the contract has not been terminated yet.

We believe the fuel requirement (from Griffin mines to Perdaman's plant) should arise only after the plant becomes operational.

We think the price correction on the lawsuit news on Friday seems overdone.

Lanco Infratech

Income statement (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Revenues	1,471	16,058	32,064	60,652	81,076	97,999	20.9	136,313	39.1	156,371	14.7
Operating expenses (ex dephn)	(1,304)	(11,860)	(25,419)	(51,846)	(65,805)	(74,104)	12.6	(104,465)	41.0	(111,768)	7.0
EBITDA (UBS)	167	4,198	6,645	8,806	15,270	23,895	56.5	31,848	33.3	44,603	40.0
Depreciation	(19)	(656)	(776)	(1,073)	(3,479)	(3,948)	13.5	(6,113)	54.8	(10,037)	64.2
Operating income (EBIT, UBS)	148	3,542	5,869	7,732	11,792	19,947	69.2	25,736	29.0	34,566	34.3
Other income & associates	92	426	1,305	(13)	906	1,839	102.9	1,034	-43.7	3,412	229.9
Net interest	(36)	(829)	(920)	(2,185)	(3,554)	(7,673)	115.9	(10,394)	35.5	(12,320)	18.5
Abnormal items (pre-tax)	0	0	0	0	0	0	-	0	-	0	-
Profit before tax	204	3,140	6,254	5,535	9,144	14,112	54.3	16,376	16.0	25,658	56.7
Tax	(33)	(472)	(1,405)	(1,690)	(3,643)	(5,514)	51.4	(4,834)	-12.3	(8,173)	69.1
Profit after tax	171	2,668	4,849	3,844	5,501	8,598	56.3	11,542	34.2	17,486	51.5
Abnormal items (post-tax)	0	0	0	0	0	0	-	0	-	0	-
Minorities / pref dividends	0	(788)	(1,229)	(1,041)	(915)	(2,094)	128.8	(2,050)	-2.1	(1,902)	-7.2
Net income (local GAAP)	171	1,880	3,621	2,804	4,585	6,504	47.8	9,493	45.9	15,584	64.2
Net Income (UBS)	171	1,880	3,621	3,216	4,366	5,916	35.5	9,493	60.5	15,584	64.2
Tax rate (%)	16	15	22	31	40	39	-1.9	30	-24.5	32	7.9
Pre-abnormal tax rate (%)	27	15	22	23	41	43	4.4	30	-31.7	32	7.9
Per share (Rs)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
EPS (local GAAP)	0.08	0.85	1.63	1.26	1.90	2.70	41.8	3.94	45.9	6.47	64.2
EPS (UBS)	0.08	0.85	1.63	1.45	1.81	2.46	35.5	3.94	60.5	6.47	64.2
Net DPS	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Cash EPS	0.09	1.14	1.98	1.93	3.26	4.10	25.7	6.48	58.2	10.64	64.2
BVPS	0.44	6.83	8.32	9.51	14.31	17.99	25.8	22.59	25.6	30.04	33.0
Balance sheet (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Net tangible fixed assets	409	24,390	38,029	56,306	70,015	151,415	116.3	171,163	13.0	238,344	39.2
Net intangible fixed assets	0	0	0	0	0	0	-	0	-	0	-
Net working capital (incl. other assets)	1,097	5,640	10,752	18,011	34,929	45,629	30.6	66,655	46.1	79,613	19.4
Other liabilities	0	0	0	0	0	0	-	0	-	0	-
Operating invested capital	1,506	30,030	48,782	74,317	104,944	197,044	87.8	237,817	20.7	317,957	33.7
Investments	1,015	6,029	6,966	9,837	20,229	21,240	5.0	22,302	5.0	23,418	5.0
Total capital employed	2,521	36,059	55,747	84,154	125,173	218,284	74.4	260,120	19.2	341,375	31.2
Shareholders' equity	985	15,198	18,507	21,151	34,451	43,326	25.8	54,401	25.6	72,337	33.0
Minority interests	138	3,763	5,588	7,033	7,108	8,530	20.0	10,236	20.0	12,283	20.0
Total equity	1,123	18,960	24,094	28,184	41,559	51,856	24.8	64,637	24.6	84,620	30.9
Net debt / (cash)	1,398	17,099	31,653	55,970	83,614	166,428	99.0	195,483	17.5	256,755	31.3
Other debt-deemed items	0	0	0	0	0	0	-	0	-	0	-
Total capital employed	2,521	36,059	55,747	84,154	125,173	218,284	74.4	260,120	19.2	341,375	31.2
Cash flow (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Operating income (EBIT, UBS)	148	3,542	5,869	7,732	11,792	19,947	69.2	25,736	29.0	34,566	34.3
Depreciation	19	656	776	1,073	3,479	3,948	13.5	6,113	54.8	10,037	64.2
Net change in working capital	(285)	(4,543)	(5,112)	(7,259)	(16,918)	(10,700)	-36.8	(21,026)	96.5	(11,855)	-43.6
Other (operating)	0	0	0	0	0	0	-	0	-	0	-
Operating cash flow (pre tax/interest)	(117)	(345)	1,533	1,547	(1,648)	13,196	-	10,822	-18.0	32,748	202.6
Net interest received / (paid)	(36)	(829)	(920)	(2,185)	(3,554)	(7,673)	115.9	(10,394)	35.5	(12,320)	18.5
Dividends paid	0	0	0	0	0	0	-	0	-	0	-
Tax paid	(33)	(472)	(1,405)	(1,690)	(3,643)	(5,514)	51.4	(4,834)	-12.3	(8,173)	69.1
Capital expenditure	(211)	(24,637)	(14,415)	(19,350)	(17,188)	(85,349)	396.6	(25,860)	-69.7	(77,218)	198.6
Net (acquisitions) / disposals	0	0	0	0	0	0	-	0	-	0	-
Other	(419)	(5,014)	(936)	(2,871)	(10,392)	(1,011)	-90.3	(1,062)	5.0	(1,115)	5.0
Share issues	231	1,890	0	0	187	0	-	0	-	0	-
Cash flow (inc)/dec in net debt	(586)	(29,406)	(16,143)	(24,549)	(36,237)	(86,352)	138.3	(31,327)	-63.7	(66,077)	110.9
FX / non cash items	(49)	13,706	1,589	232	8,593	3,538	-58.8	2,273	-35.8	4,805	111.4
Balance sheet (inc)/dec in net debt	(635)	(15,701)	(14,554)	(24,317)	(27,644)	(82,814)	199.6	(29,054)	-64.9	(61,272)	110.9
Core EBITDA	167	4,198	6,645	8,806	15,270	23,895	56.5	31,848	33.3	44,603	40.0
Maintenance capital expenditure	(19)	(656)	(776)	(1,073)	(3,479)	(3,948)	13.5	(6,113)	54.8	(10,037)	64.2
Maintenance net working capital	0	0	0	0	0	0	-	0	-	0	-
Operating free cash flow, pre-tax	148	3,542	5,869	7,732	11,792	19,947	69.2	25,736	29.0	34,566	34.3

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

12-month rating

Buy

12m price target

Rs70.00

Company profile

Lanco Infratech Limited (Lanco), established in 1993, is an integrated infrastructure developer with interests in power, infrastructure, construction and real estate. Lanco is among the leading private sector power generation companies. It has a captive construction division that directly benefits from the award of in-house power, real estate and infrastructure projects.

Valuation (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
P/E (local GAAP)	-	19.8	22.7	8.5	5.8	3.5
P/E (UBS)	-	17.3	23.9	9.3	5.8	3.5
P/CEPS	-	12.9	13.3	5.6	3.5	2.2
Net dividend yield (%)	-	0.0	0.0	0.0	0.0	0.0
P/BV	-	2.6	3.0	1.3	1.0	0.8
EV/revenue (core)	-	1.6	2.0	1.7	1.2	1.1
EV/EBITDA (core)	-	10.9	10.4	7.0	5.3	3.8
EV/EBIT (core)	-	12.4	13.5	8.4	6.5	4.9
EV/OpFCF (core)	-	12.4	13.5	8.4	6.5	4.9
EV/op. invested capital	-	1.6	1.8	1.1	0.8	0.6

Enterprise value (Rsm)	03/09	03/10	03/11E	03/12E	03/13E
Average market cap	55,490	102,136	55,139	55,139	55,139
+ minority interests	6,310	7,071	7,819	9,383	11,259
+ average net debt (cash)	43,811	69,792	125,021	125,021	125,021
+ pension obligations and other	0	0	0	0	0
- non-core asset value	(9,837)	(20,229)	(21,240)	(22,302)	(23,418)
Core enterprise value	95,774	158,769	166,738	167,240	168,001

Growth (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Revenue	139.6	89.2	33.7	20.9	39.1	14.7
EBITDA (UBS)	196.9	32.5	73.4	56.5	33.3	40.0
EBIT (UBS)	NM	31.7	52.5	69.2	29.0	34.3
EPS (UBS)	151.6	-11.2	25.4	35.5	60.5	64.2
Cash EPS	144.4	-2.4	68.9	25.7	58.2	64.2
Net DPS	-	-	-	-	-	-
BVPS	125.3	14.3	50.4	25.8	25.6	33.0

Margins (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBITDA / revenue	15.8	14.5	18.8	24.4	23.4	28.5
EBIT / revenue	13.4	12.7	14.5	20.4	18.9	22.1
Net profit (UBS) / revenue	8.9	5.3	5.4	6.0	7.0	10.0

Return on capital (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBIT ROIC (UBS)	14.6	12.6	13.2	13.2	11.8	12.4
ROIC post tax	-	9.7	7.7	7.5	8.3	8.5
Net ROE	18.0	16.2	15.7	15.2	19.4	24.6

Coverage ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBIT / net interest	4.6	3.5	3.3	2.6	2.5	2.8
Dividend cover (UBS EPS)	-	-	-	-	-	-
Div. payout ratio (% , UBS EPS)	-	-	-	-	-	-
Net debt / EBITDA	5.4	6.4	5.5	7.0	6.1	5.8

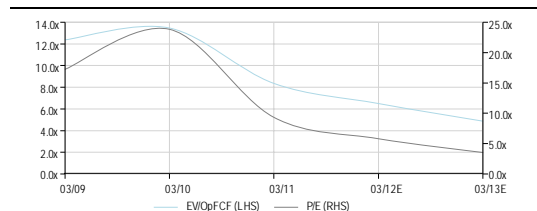
Efficiency ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Revenue / op. invested capital	0.9	1.0	0.9	0.6	0.6	0.6
Revenue / fixed assets	1.2	1.3	1.3	0.9	0.8	0.8
Revenue / net working capital	4.1	4.2	3.1	2.4	2.4	2.1

Investment ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
OpFCF / EBIT	1.0	1.0	1.0	1.0	1.0	1.0
Capex / revenue (%)	NM	NM	21.2	NM	19.0	NM
Capex / depreciation	NM	NM	4.9	NM	4.2	7.7

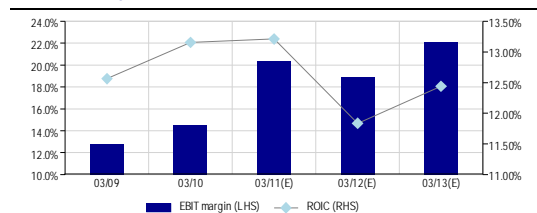
Capital structure (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Net debt / total equity	NM	NM	NM	NM	NM	NM
Net debt / (net debt + equity)	65.4	72.6	70.8	79.3	78.2	78.0
Net debt (core) / EV	-	45.7	44.0	75.0	74.8	74.4

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptional and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs22.90 on 24 Jun 2011 23:38 SGT Market cap(E) may include forecast share issues/buybacks.

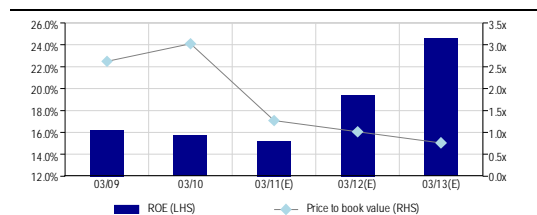
Value (EV/OpFCF & P/E)



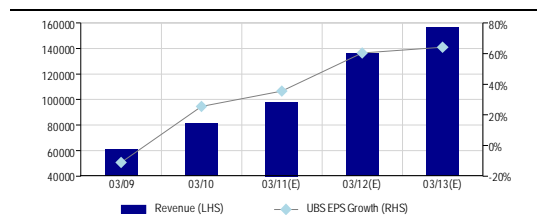
Profitability



ROE v Price to book value



Growth (UBS EPS)



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■ Lanco Infratech

Lanco Infratech Limited (Lanco), established in 1993, is an integrated infrastructure developer with interests in power, infrastructure, construction and real estate. Lanco is among the leading private sector power generation companies. It has a captive construction division that directly benefits from the award of in-house power, real estate and infrastructure projects.

■ Statement of Risk

Risks include: failure to procure coal for existing or future power plants, the inability to fully recover changes in coal prices, slow or non-collection of accounts receivables, difficulties in securing bank or other funding for development projects, lower than expected merchant power prices.

■ Analyst Certification

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	52%	41%
Neutral	Hold/Neutral	40%	37%
Sell	Sell	8%	20%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	30%
Sell	Sell	less than 1%	17%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 March 2011.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

Equity Price Targets have an investment horizon of 12 months.

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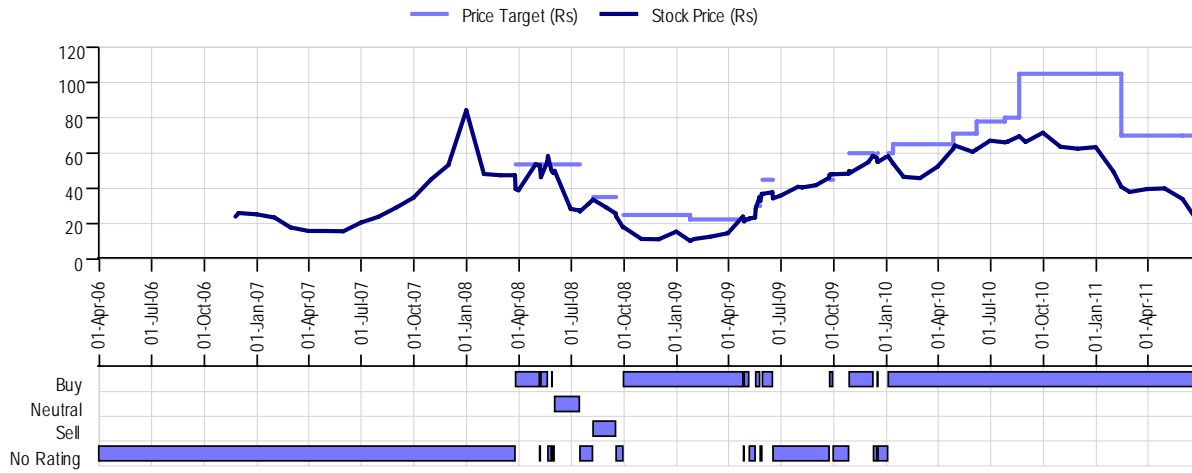
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Lanco Infratech	LAIN.BO	Buy	N/A	Rs22.90	24 Jun 2011

Source: UBS. All prices as of local market close.

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Lanco Infratech (Rs)



Source: UBS; as of 24 Jun 2011

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