



Ultra mega power projects under way

Lanco Infratech and Tata Power emerged as lowest bidders for the first two UMPPs

The bids for two ultra mega power projects (UMPPs) at Sasan and Mundra were opened today. A total of 16 bids were received for the two projects. Ten companies had bid for the Sasan project, which will be based on pithead coal, and six had bid for the Mundra project, which will be based on imported coal. The investment per project will be in the range of Rs16,000-20,000 crore.

The companies in the race for constructing India's largest power plants of 4,000MW of capacity each were Tata Power, Larsen and Toubro, Reliance Energy, Essar Power and Sterlite Industries. All these companies had bid for both the projects. The other bidders for the Sasan project were National Thermal Power Corporation (NTPC), Torrent Power, Jindal Steel & Power, Jaiprakash Associates and Lanco Infratech (with British partner Globeleq). The only other company that had bid for the Mundra project was Adani Enterprises.

And the winners are...

Hyderabad-based Lanco Infratech, in association with the Singapore-based Globeleq, has won the bid for the country's first UMPP coming up at Sasan in Madhya Pradesh.

Lanco Infratech beat Tata Power, Reliance Energy and NTPC by offering a price of Rs1.19 per unit. The power ministry had set a benchmark of Rs1.60 per unit.

Tata Power with a development agreement with Siemens Project Ventures has emerged as the lowest bidder for the 4,000MW Mundra UMPP with a tariff of Rs2.26 per unit.

While there is a 14-month limit for financial closure and commencement of construction, we expect the financial closure and the commencement of construction to happen by May/June 2007, since it would be in the interest of the developer to move fast.

None of the global energy majors had bid for the first two projects. We believe they are likely to wait for the success of the financial closure of the first two UMPPs and then join the fray.

The other two UMPPs are likely to come up for bidding around mid-CY2007.

In order to enhance investors' confidence, reduce the risk perception and get good response to competitive bidding, five shell companies have been set up as wholly-owned subsidiaries of Power Finance Corporation (a Government of India undertaking) to facilitate tie-up of inputs, linkages and clearances for these projects.

These companies will undertake preliminary studies and obtain necessary clearances and tie-ups, including water, land and power-selling arrangements, prior to the awarding of these projects to successful bidders by way of selection of developers through a competitive bidding process. The shell companies shall also facilitate the process of obtaining environmental clearance.

It is proposed to transfer these special purpose vehicles (SPVs) to the successful bidders at the end of the bidding process, on payment of the development costs incurred by each SPV.

The real winners

We believe the real winners will be the power equipment and allied sector companies, such as material handling, and transmission and distribution companies.

Capital expenditure providers who are likely to benefit are Siemens, ABB, Bharat Heavy Electricals and Larsen and Toubro.

The allied sector companies to benefit from the transmission and distribution infrastructure ramp-up would be Bharat Bijlee, Indo Tech Transformers, Crompton Greaves, Areva T&D, Emco, KEI Industries, Genus Overseas, Havells India, Kalpataru Power, Jyoti Structures, KEC International and RPG Transmission.

Material handling companies such as TRF, McNally Bharat and Elecon Engineering would also benefit.

Valuation table

Companies under coverage

Company	Price	EPS		P/E	
		FY07E	FY08E	FY07E	FY08E
BHEL	2391	98.7	125.3	24.2	19.1
Bharat Bijlee	1205	70.6	87.3	17.1	13.8
Indo Tech Trans	252	15.2	23.2	16.6	10.9
Crompton Greaves	206	7.3	9.0	28.2	22.9
KEI Industries	426	38.4	49.2	11.1	8.7
Genus Overseas	196	18.9	27.3	10.4	7.2

Companies not under coverage (consensus estimates)

Company	Price	EPS		P/E	
		FY07E	FY08E	FY07E	FY08E
Siemens*	1163	36.0	54.0	32.3	21.5
ABB**	3668	85.0	111.0	43.2	33.0
L&T	1472	51.0	66.0	28.9	22.3
Areva T&D**	993	25.0	38.0	39.7	26.1
Jyoti Structures	123	6.5	10.0	18.9	12.3
KEC International	345	20.0	30.0	17.3	11.5
Kalpataru Power	945	52.0	63.0	18.2	15.0
RPG Transmission	170	14.0	20.0	12.1	8.5
Havells India	336	18.0	25.0	18.7	13.4
TRF	410	20.0	26.0	20.5	15.8
Mcnally Bharat	144	6.7	10.8	21.5	13.3
Elecon Engineering	411	16.0	26.0	25.7	15.8

*September Year end

**December Year end

The author doesn't hold any investment in any of the companies mentioned in the article.

Disclaimer

"This document has been prepared by Sharekhan Ltd. This Document is subject to changes without prior notice and is intended only for the person or entity to which it is addressed to and may contain confidential and/or privileged material and is not for any type of circulation. Any review, retransmission, or any other use is prohibited. Kindly note that this document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction.

Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report. The information contained herein is from publicly available data or other sources believed to be reliable. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. We do not represent that information contained herein is accurate or complete and it should not be relied upon as such. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction. SHAREKHAN & affiliates may have used the information set forth herein before publication and may have positions in, may from time to time purchase or sell or may be materially interested in any of the securities mentioned or related securities. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. Any comments or statements made herein are those of the analyst and do not necessarily reflect those of SHAREKHAN."