

Price Band:

Rs. 40-45

Recommendation:

AVOID

12th October 2009

Issue Details	
Shares Offered	339,800,000
Price band (Rs.)	40-45
Lot Size	150
Face Value (Rs.)	10
Listing	BSE/NSE
Offer Opens	12-Oct
Offer Closes	15-Oct
Issue Size (Rs. Cr)	1359.2 - 1529.1
M.Cap (Rs. Cr)	9223.7

Shareholding Pattern (%)			
	Pre-Issue	Post-Issue (GSO not exercised)	Post-Issue (GSO exercised in full)
Promoter	71.4	59.2	57.8
LNM India	10.7	8.9	8.7
FIM Limited	17.9	14.8	14.4
Public	0.0	17.0	19.0

GSO - Green Shoe Option

Indiabulls Power Limited is a subsidiary of Indiabulls Real Estate, a part of the Indiabulls group and was established in 2007 to capitalize on the emerging opportunities in the power sector. The company intends to develop, operate and maintain power projects in India. It is in the process of developing five thermal power projects with a combined installed capacity of 6,615 MW.

The company plans to sell the power generated from these projects in a combination of long-term PPAs to industrial and state-owned consumers and on merchant basis. The company is also developing four medium sized hydro-power projects aggregating to 167 MW in Arunachal Pradesh. The proposed hydro-power projects are to be developed as run-of-the river projects.

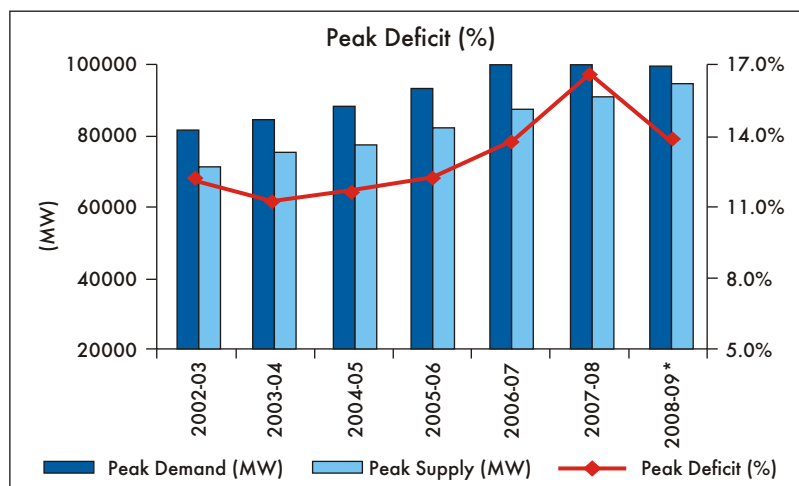
Objects of the Issue

(Rs.Crs.)

Objects of the Issue	Total Estimated Cost	Cost to be Financed from Net Proceeds
Part Finance Amravati Power Project, Phase - I	6,888	775
Part Finance Nashik Power Project	6,048	660
General Corporate Purposes	-	-

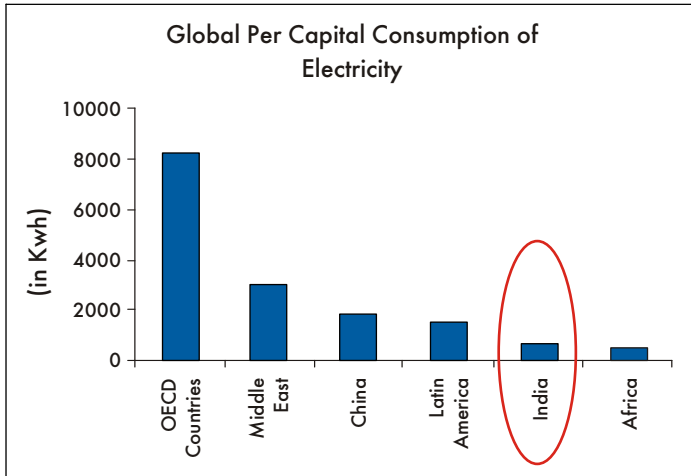
Industry Overview

- Historically, India has been characterized by huge energy shortages. The peak energy deficit during April'08 to February'09 was estimated to be at 13.8%, whereas the normative energy deficit was estimated to be 11%.

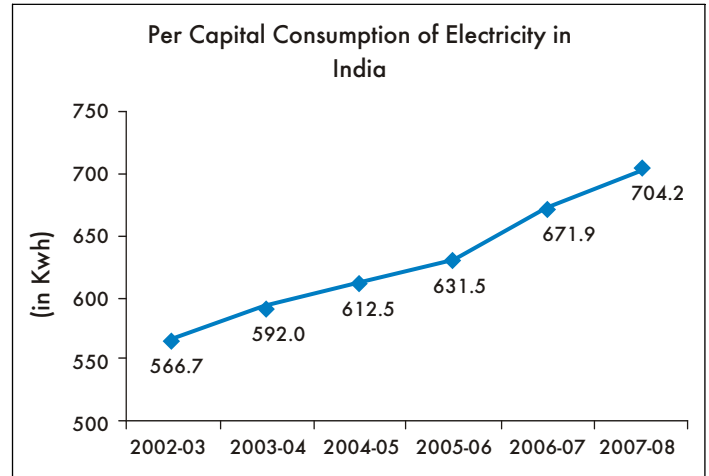


Source: CEA

- India is at a nascent stage in terms of per capita consumption of electricity, when compared to mature economies like OECD, Middle East, China etc. In India, per capita consumption in 2007-08 was ~704 Kwh which is quite low when compared to OECD (~8000 Kwh), Middle East (~ 3000 Kwh) & China (~ 1900 Kwh) & hence is likely to go up in the future.



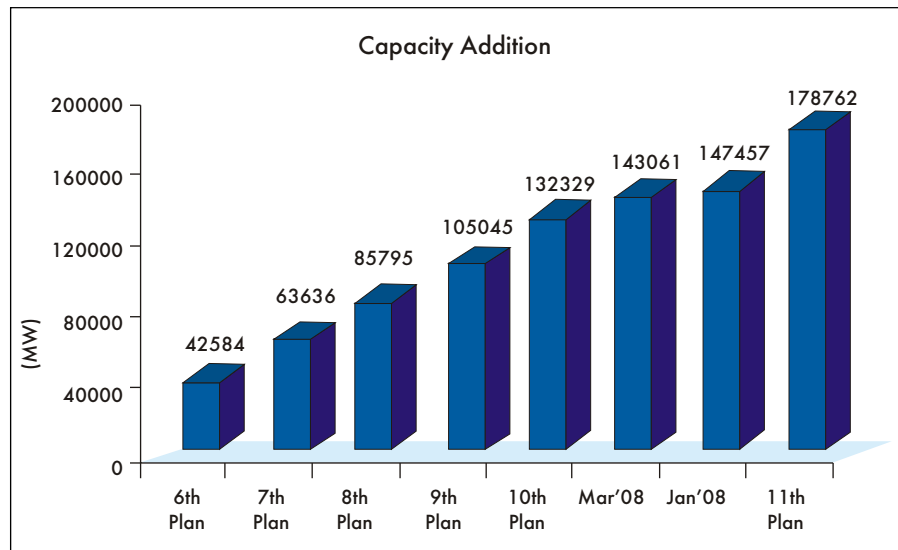
Source: CEA



Source: CEA

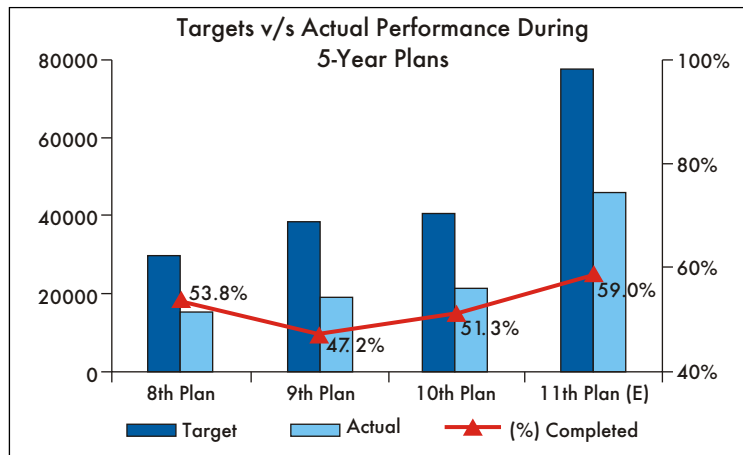
- Despite of slowdown in the economy over a last couple of quarters, there is no major drop in the peak power deficit over the same period. However with the revival in economy over a period of time, the demand for power is likely to further pick up which could lead to further increase in power deficit. Hence in order to narrow down this demand-supply mismatch, the government has drawn huge capacity addition plans over the next few years.
- Huge Capacity Addition:** According to CEA, as on July 31, 2009, India had a total installed generation capacity of 151,073.41 MW. India has always been a laggard in achieving its targets. The target for 2009-10 capacity addition was 14,507 MW, of which only 3,454 MW has been added. Such delays further fuels the supply shortage prevailing in the country

In order to bridge the demand-supply gap, Government has planned huge capacity additions in its 11th Five Year Plan.



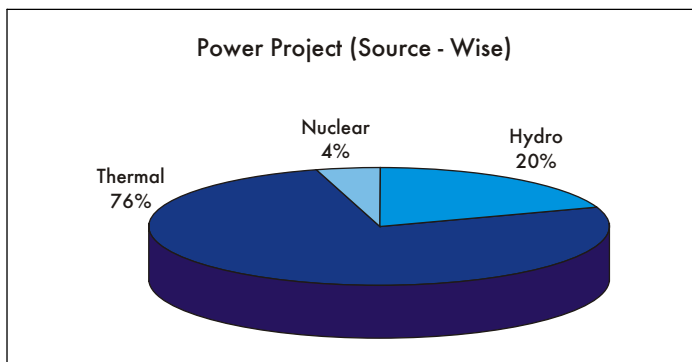
Source: CEA

The targeted capacity addition for 2008 & 2009 was 27,396 MW cumulatively, of which only 12,716 MW has been achieved. This indicates the need for a private player or a public-private partnership model to fasten the process of achieving the set targets.

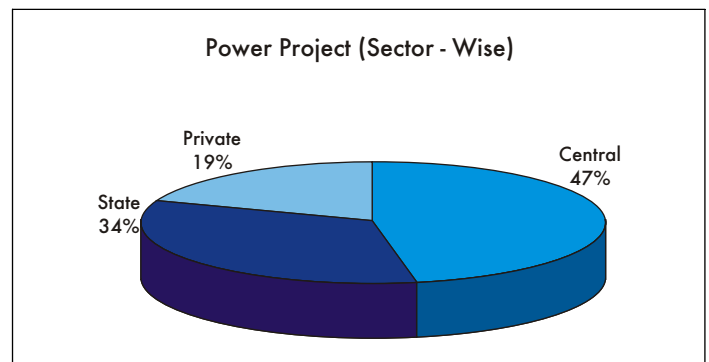


Source: CEA

- Of the total incremental capacity to be added in 11th plan, ~76% will be contributed by Thermal Power projects while the remaining will come from Hydro & Nuclear power projects. Only ~19% of the total power projects is managed by the private sector. Thus, it leaves huge opportunities for the private players to enter in the power space.

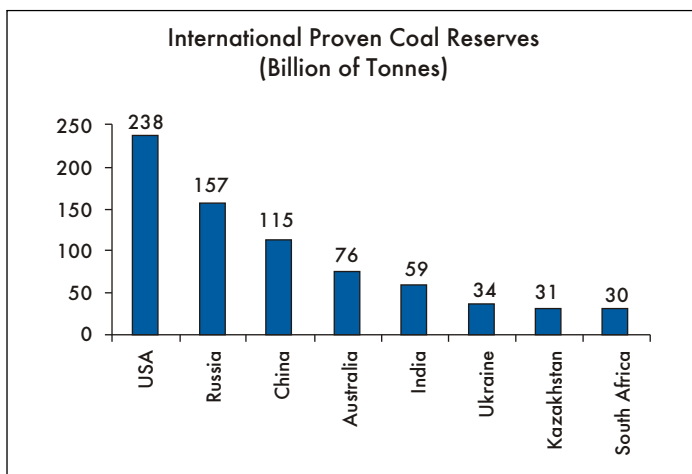


Source: CEA

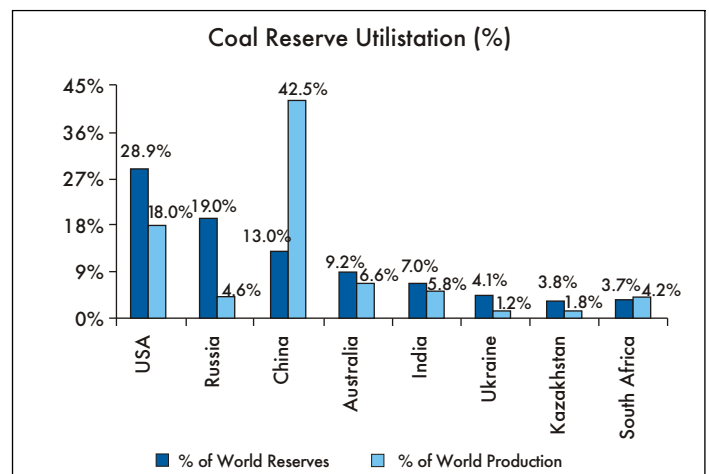


Source: CEA

- Coal Mining:** As majority of thermal power plants are coal based, it becomes extremely important to analyze the availability of coal. India has the fifth largest coal Reserve in the world. Despite of this fact, India's coal production has remained low in comparison to its reserves. According to BP Statistical Review of world Energy 2009, China has 13.9% of the World's proven coal reserves and accounts for ~42.5% of world's coal production; whereas India has 7.1% of the world's proven coal reserves and yet it accounts for only 5.8% of the world's coal production.



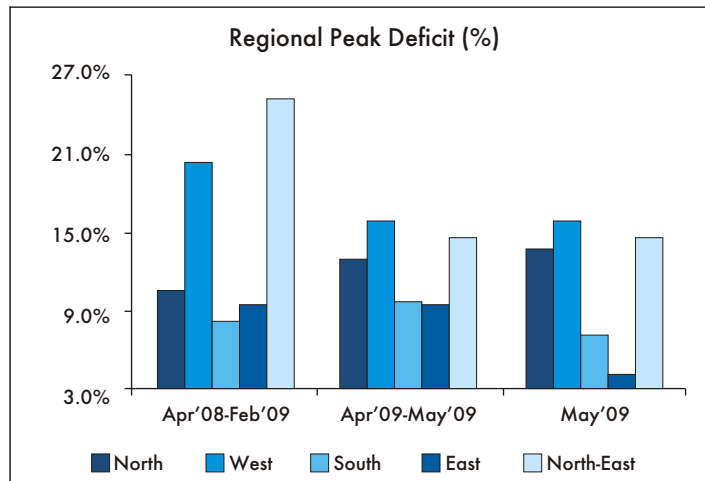
Source: BP Statistical Review of World Energy 2009



Source: BP Statistical Review of World Energy 2009

INVESTMENT ARGUMENTS

- Strong Portfolio of Power Generation Projects:** The Company intends to develop and operate five thermal power projects with a combined installed capacity of 6,615 MW in Maharashtra & Chattisgarh. The company has already signed MOU with the Government of Jharkhand and Madhya Pradesh. The Company has also signed MoUs with the government of Arunachal Pradesh for developing four hydro-power projects with an aggregate capacity of 167 MW.
- Long-Term Power Purchase Agreements:** The Company plans to sell its power to state-owned and private distribution companies and industrial consumers. The Company intends to maintain an appropriate mix of off-take arrangements, including PPAs and Merchant selling in the ratio of 70:30. The company has already entered into long-term power off-take arrangements for the Amravati Phase-I power project and the Bhaiyathan power project. The company entered into a long-term PPA with Tata Power Trading Corporation for supply of upto 1,000 MW of proposed power to be generated at Amravati Phase-I project for a term of 25 years. It has also entered into a long-term PPA with the Chattisgarh State Electricity Board for sale of 65% of proposed power generation from Bhaiyathan Power Project aggregating to ~858 MW of electricity.
- Availability of Land & Water:** Land and water are the key raw materials for any power project. The company has been successful in acquiring the land and making arrangements for the necessary water supply for all of its projects except for the Chattisgarh Project.
- Fuel Linkages:** Coal is the main ingredient for thermal power generation. The company has already been granted the coal linkages by the ministry of coal for its Amravati Phase-I Power Project and Nashik Power Project. The Company has also received letters of assurances for supply of coal from various coalfields. In addition to above, the company has also been allotted two captive coal mines in chattisgarh for the Bhaiyathan power project.
- Focus on Power Deficit Areas:** The company has focused their power projects in the high power deficit western regions of Maharashtra and Chattisgarh. This will help the company to reduce their transmission cost, where the inter-state transfer of electricity costs the company an increase of 41 paise per unit and inter-regional transfer costs an increase of 85 paise per unit, and thereby increase the profit margins.



Source: CEA

RISK & CONCERNS

- Projects to be operational by 2012:** The projects of the company are at a very nascent stage. The Company expects to commission its first project from 2012, which leaves uncertainty regarding future cash flows. Also, the company has no operational history in the power sector, hence the management's capability to execute projects in a timely manner is a question.
- Inability to Arrange Funding:** The Company's total estimated project cost in respect of the projects under development is Rs.31,052.4 Crs. Of the above projects under development, the company has been able to arrange the debt financing for only two projects namely Amravati Phase-I Power Project and Nashik Power Project. Any failure on the company's side to arrange timely funding could significantly affect the company's ability to complete the projects and in turn its revenues and profitability.
- Executorial Delays:** Any delay on account of execution inefficiencies or regulatory issues will affect the revenues of the company.

- **High Dependence on Subsidiaries:** The Company's power business is primarily being developed through the subsidiaries of the company. Of the five power projects, two projects - Amravati Phase-I & Phase-II power projects are being directly developed by the company, whilst, the Nashik power project, the Bhaiyathan Power project and the Chattisgarh Power Project are being developed and will be operated by the company's subsidiaries. Also, the company does not have any operational income and is dependent on the other income in the form of dividends and interest payments from its subsidiaries. Any adversity on this part may significantly affect the operations and financial conditions of the company.
- **Climatic Adversaries:** The Company is also involved in the hydro-power generation with a proposed installed capacity of 167 MW. Hydropower generation is dependent on availability of water supply which in turn is dependent on various factors like rainfall, snowfall, snowmelt or other seasonal or climatic conditions and the carrying capacity of water. This makes the company a little cyclic in nature as the company is able to generate more power during monsoons due to easy availability of water. However; poor monsoons will hamper the operations of the company.
- **Regulatory Approval:** The company has enhanced the configuration of the Nashik power project from 1,320 MW to 1,335 MW for which it needs to seek regulatory approval from the relevant authorities. Any denial from the authorities could adversely impact the business, its results of operations and financial conditions of the company.

Summary of Projects under Development

Project Name/Location	Proposed Installed Capacity	Fuel Supply Status	Off-take Arrangement Status	Expected date of commissioning	Estimated Project Cost
Amravati Power Project Phase-I, Maharashtra	1,320 MW Coal fired, super Critical	Coal Linkage of 1,320 MW granted by ministry of coal	Long term PPA with TPTCL for sale of power aggregating 1,000 MW, MoU with MSEDCL for sale of power aggregating 1,000 MW	First unit expected to be commissioned by June 2012, Proposed Commercial operation date September 2012.	Rs.6,888 Crs
Nashik Power Project, Maharashtra	1,335 MW coal fired	Captive Linkage of 1,320 MW granted by ministry of coal	To be ascertained	5 units of 135 MW expected to be commissioned by September 2011, Proposed commercial operation date February 2012	Rs.6,048 Crs.
Bhaiyathan Power Project, Chattisgarh	1,320 MW coal fired, super critical	Captive coal mines allocated by ministry of coal with reserves of 349.51 million tonnes based on survey conducted by CMPDI	Long term PPA with CSEB for sale of 65% of power generated	First unit expected to be commissioned by December 2012, Proposed Commercial Operation date March 2013.	Rs.6,796 Crs.
Amravati Power Project Phase-II, Maharashtra	1,320 MW coal fired, super critical	The Company has applied to the CEA for recommendation of long term coal linkage for Amravati Phase-II Project	To be ascertained	First unit expected to be commissioned by March 2013, proposed commercial operation date June 2013.	Rs.5,586.6 Crs
Chattisgarh Power Project	1,320 MW coal fired, super-critical	Coal Supply under consideration	To be ascertained	First unit expected to be commissioned by June 2013, Proposed Commercial date Operation date September 2013.	Rs.5,733.8 Crs

Comparative Analysis of Peers

Name of Company	CMP (Rs.)	EPS (Rs.)	Book Value (Rs.)	P/E Ratio (x)	P/BV (x)	RoNW (%)
Indiabulls Power	45	0.4	17.6	111.0	2.6	2.3
NTPC	210.9	10.5	72.7	20.1	2.9	14.4
Reliance Power	160.1	1.0	57.5	160.1	2.8	-
Tata Power	1,302.0	37.1	369.1	35.1	3.5	8.2
Reliance Infra	1,292.9	51.3	499.9	25.2	2.6	10.2
KSK Energy	202.6	2.2	56.3	92.1	3.6	5.2
Torrent Power	298.5	9.6	68.4	31.1	4.4	13.3

VALUATIONS:

At the upper-band of Rs.45, the stock is trading at a P/E of 111x and P/BV of 2.6x, which is quite expensive when compared to its peers having better operational history. Also, all of the company's projects are at a nascent stage and are likely to get operational by 2012, which results into huge uncertainties regarding the future cash flows. Hence, taking into consideration all the above risk and concerns, we recommend 'AVOID' rating on the stock.

FINANCIALS

INDIABULLS POWER (Rs. Cr.)	FY09	Q1FY10
Income from operations	-	-
Other Operating Income	-	-
Total Revenue	-	-
Employee Cost	9.2	2.4
Other Expenses	10.3	0.6
Total Expenditure	19.5	3.0
EBITDA	(19.5)	(3.0)
Depreciation	0.0	0.0
EBIT	(19.6)	(3.0)
Interest	9.4	0.0
Other Income	141.3	22.0
Extraordinary Income	-	-
PBT	112.3	19.0
Current Tax & FBT	29.0	6.5
Deffered Tax	0.2	-
Total Tax	29.2	6.5
PAT	83.1	12.5
Diluted EPS - GSO exercised	0.4	0.1
Diluted EPS - GSO not exercised	0.4	0.1
Reserves (Rs. Cr)	1,560.4	1,505.5
Equity @ Rs.10	2,049.7	2,049.7
Net worth (Rs. Cr)	3,610.1	3,555.2
BV (Rs.)	17.6	17.3
P/BV (x)	2.6	2.6
ROE (%)	2.3%	0.4%

Equity given on the assumption that GSO is exercised
(Source: RHP)



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1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with Company covered	No