

Adani Power

1x1 with management: Mundra Ph-II (2x330MW) slips, supercritical units on track

- Reducing FY11 estimates on delay in commissioning of Mundra-II (2x330MW):** In a 1x1 management indicated that the third 330MW unit of the Mundra thermal plant will be commissioned in Jul-10 and Oct-10, respectively. This implies a 3 month delay compared to the original commissioning schedule and a 2 month delay compared to our estimates. As a result we cut our FY11 revenue estimate by 14% and PAT estimate by 37% to Rs.4.2B. However, the negative impact on our SOTP value for Adani is just Rs1/share. Management did not indicate any specific cause for the delay.
- Commissioning of the first supercritical unit on schedule:** Management appeared confident of commissioning the first 660MW unit of Mundra Phase III by Jan-11. We conservatively factor in a 5 month delay, i.e. CoD by Jun-11, and expect the second 660MW unit to come on line in Nov-11.
- Progress on pipeline projects:** The Rs66B Tiroda-II project (2x660MW) has achieved financial closure, while funds for Rs69B Kawai project (2x660MW) are expected to be tied up by the end of the month. We include both Tiroda-II and Kawai in our SOTP valuation, contributing Rs23/share (unchanged) or 16%.
- Pending fuel tie ups:** Both Tiroda I&II are yet to be allotted a captive coal block (TI in lieu of the environmental concerns due to proximity to the Tiger reserve). Tiroda-I has received a tapering coal linkage for 1,180MW, while application for Tiroda II is still being processed. Adani Power has also guided to receipt of linkage coal for Mundra-I&II (upto 30% capacity), starting 3QFY11.
- Our Mar-11 SOTP price target of Rs142** includes Rs115 from under construction projects and Rs23 from pipeline projects. Maintain OW. Increase in coal prices and lower than expected merchant rates (we model Rs4.5/unit in FY11 and Rs4/unit in FY12) are key risks to our rating and PT.

Reuters: ADAN.BO; Bloomberg: ADANI IN

Rs. in millions, year-end March

	FY09	FY10E	FY11E	FY12E	FY13E	
Revenue	0	4,349	20,783	55,366	127,797	52-week range (Rs)
Net profit	(26)	1,700	4,246	18,294	35,117	Market cap (Rs B)
EPS (Rs)	(0.0)	0.8	1.9	8.4	16.1	Market cap (US\$ B)
Revenue growth (%)	NM	NM	377.9	166.4	130.8	Shares o/s (MM)
Net profit growth (%)	NM	NM	149.8	330.8	92.0	Free float (%)
EPS growth (%)	NM	NM	130.4	330.8	92.0	Avg daily value (Rs MM)
ROE (%)	NM	4.2	7.0	25.5	35.7	Avg daily value (US\$ MM)
ROCE (%)	NM	1.8	4.1	9.0	14.8	Avg daily volume (MM shs)
P/E (x)	NM	144.3	62.6	14.5	7.6	BSE Sensex
P/BV (x)	9.8	4.6	4.3	3.3	2.3	Exchange rate (Rs/US\$)
EV/EBITDA (x)	NM	138.7	42.0	15.6	6.9	

Source: J.P. Morgan estimates, Company data. Prices as on 15 Jun 2010.

Overweight

ADAN.BO, ADANI IN

Price: Rs124.45

▼ **Price Target: Rs142.00**
Previous: Rs143.00

India

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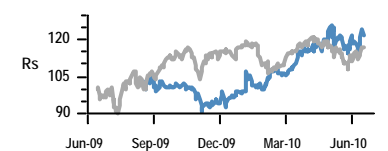
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Price Performance



	YTD	1m	3m	12m
Abs	23.2%	0.4%	10.9%	21.9%
Rel	24.0%	-2.1%	9.5%	4.8%

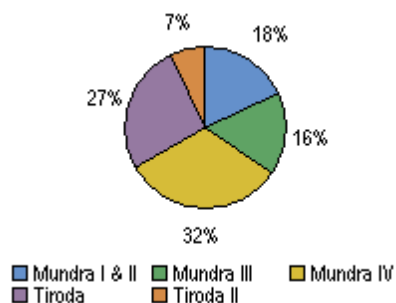
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Company Description

Adani Power is a part of the diversified Adani Group, with interests ranging from infrastructure development to FMCG. Adani Power has 5.94GW of projects under construction and 660MW commissioned capacity. 4.6GW is located in Mundra SEZ, Gujarat and 3.3GW in Tiroda, Maharashtra. The company has an under development pipeline of 5.94GW (Kawai: 1.32GW, Tiroda-II: 1.32GW, Chhindwara: 1.32GW and Dahej: 1.98GW)

Revenue composition (FY13E)



Source: Company reports.

EPS: J.P. Morgan vs consensus

	J. P. Morgan	Consensus
FY11E	1.9	4.1
FY12E	8.4	13.6
FY13E	16.1	18.6

Source: Bloomberg, J.P. Morgan estimates.

Indian Power Sector: Earnings estimates and valuation

Company	Rating	CMP (Rs)	PT (Rs)	Mkt cap (US\$ bn)	P/E (x)		EV/EBITDA		P/B (x)	
					FY11E	FY12E	FY11E	FY12E	FY11E	FY12E
NTPC	N	202	225	35.7	17.3	15.5	12.9	12.0	2.4	2.2
Adani Power	OW	122	142	5.7	62.6	14.5	42.0	15.6	4.3	3.3
Tata Power	N	1,260	1425	6.4	20.7	14.9	13.2	10.3	2.2	2.0
Reliance Power	UW	178	111	9.1	89.8	54.8	83.8	41.8	2.8	2.7
JSW Energy	N	122	127	4.3	16.5	12.4	11.2	7.3	3.3	2.6
Lanco Infratech	OW	66	70	3.4	23.2	15.5	11.5	9.4	3.5	2.9

Source: Bloomberg, J.P. Morgan estimates. Price as on 15 June 2010.

P&L sensitivity metrics

	EBITDA impact (%)	EPS impact (%)
Merchant tariff		
Impact of Rs0.5 decrease in FY11	-20.0%	-10.2%
Coal Cost		
Impact of 10% increase in coal cost	-11.00%	-13.80%

Source: J.P. Morgan estimates.

Price target and valuation analysis

Our SOP-based PT of Rs142 (Rs143 previously) includes Rs115/share for under construction projects (5.94GW) and operational projects (660MW), Rs 23/share for under development pipeline (2.64GW) which has crossed key milestones, affording visibility on execution. We have valued individual projects on a DCF basis.

	Value of Adani's stake (Rs B)	In Rs/share
Projects under construction	250.9	115
Mundra I-IV	197.3	90
Tiroda	53.7	25
Less certain projects (Tiroda-II, Kawai)	49.8	23
Cash raised from IPO	8.0	4
Total	308.8	142

Our implied target multiple for Adani Power, at 14.5x FY12 P/E, in line with the sector, and higher than IPP's with regulated returns. Adani Power trades at 15.6x FY12 EV/EBITDA at the higher end of the IPP trading range of 7x-16x times.

Table 1: Adani Power: Summary P&L

Rs. in million, year-end March

	FY10E	FY11E	FY12E	FY13E	FY14E
Average MW	193	1,045	2,310	5,995	7,810
PPA	0	1,000	1,167	3,719	5,544
Merchant	193	45	1,143	2,276	2,266
MUs (net)	1,458	7,662	17,015	44,325	56,779
PPA	604	7,332	8,472	27,376	43,050
Merchant	854	330	8,543	16,948	13,730
Avg prices (Rs/KWH)	3.09	2.71	3.25	2.88	2.92
PPA	2.51	2.63	2.50	2.32	2.71
Merchant	3.50	4.50	4.00	3.80	3.61
Revenue	4,505	20,783	55,366	127,797	166,039
PPA	1,515	19,298	21,194	63,393	116,475
Merchant	2,990	1,485	34,172	64,404	49,564
Fuel cost	1,667	9,638	20,281	41,804	54,086
Implied fuel cost/KWH [a]	1.14	1.26	1.19	0.94	0.95
Coal consumed (mtpa)	0.7	4.4	9.1	24.5	35.0
Other O&M cost	243	1,277	3,234	9,500	13,077
Implied O&M cost/MW	1.26	1.22	1.40	1.58	1.67
EBITDA	2,594	9,868	31,851	76,493	98,876
Other income	319	625	1,331	2,545	4,711
Interest	377	3,478	6,518	19,948	25,072
Depreciation	353	1,722	4,111	11,791	17,301
PBT	2,183	5,293	22,553	47,300	61,214
Tax	327	1,047	4,259	8,896	11,264
Minority interest	0	0	0	3,287	3,820
PAT	1,856	4,246	18,294	35,117	46,129

Source: Company reports and J.P. Morgan estimates.

Table 2: Adani Power: Key project profiles

	Mundra I and II	Mundra III	Mundra IV	Tiroda	Tiroda-II	Kawai
Size (MW)	1,320	1,320	1,980	1,980	1,320	1,320
Unit-wise COD	U1 (330MW): Oct-09 U2 (330MW): Mar-10 U3 (330MW): Aug-10 U4 (330MW): Oct-10	U1 (660MW): Jun-11 U2 (660MW): Nov-11	U1 (660MW): Jan-12 U2 (660MW): Apr-12 U3 (660MW): Aug-12	U1 (660MW): Apr-12 U2 (660MW): Jun-12 U3 (660MW): Sep-12	U1 (660MW): Oct-13 U2 (660MW): Jan-14	U1 (660MW): Aug-13 U2 (660MW): Nov-13
Year of full production	FY12	FY13	FY14	FY14	FY15	FY15
PLF%	90.0	90.0	90.0	90.0	80.0	80.0
Blended tariff (Rs/KWH)	2.95	2.57	3.21	2.78	3.26	3.22
PPA (Rs/KWH)	2.81	2.35	3.26	2.55	3.28	3.24
Merchant (Rs/KWH)	4.00	3.80	3.80	3.61	3.61	3.61
Total sales (mn units)	9,678	9,782	14,674	14,674	8,696	8,696
PPA	7,332	7,411	10,553	9,782	7,905	7,905
Merchant	2,346	2,372	4,120	4,891	791	791
All-in fuel cost (Rs/Kwh)	1.28	1.06	0.99	0.71	0.81	0.93
All-in cost of gen (Rs/KWH)	2.01	2.01	2.00	1.74	2.05	2.23
Net margin (Rs/KWH)	0.78	0.46	0.99	0.89	0.99	0.81
Net profit (Rs B)	7.50	4.53	14.59	13.06	8.62	7.08
RoIE %	106.3	33.8	81.4	70.5	65.2	51.1

Source: Company reports and J.P.Morgan estimates.

Table 3: Adani Power: SOTP Valuation

Rs. in B, year-end March	FY11E	FY12E	FY13E	FY14E	FY15E	G (%)	WACC (%)	Terminal value	EV	FY10 net-debt	Equity value	Stake (%)	Val Adani's stake	In Rs /share
Certain projects														
Mundra I & II	7.7	14.4	14.0	13.5	12.3	(6.0)	10.3	51	102	36	66	100	66	30.2
Mundra III	(10.0)	5.0	10.5	12.1	11.6	(7.5)	10.5	43	63	30	33	100	33	15.1
Mundra IV	(26.8)	(24.1)	10.9	27.2	28.1	(6.0)	10.5	114	114	15	99	100	99	45.2
Tiroda	(25.0)	(30.0)	3.1	23.4	23.8	(5.5)	10.5	100	83	14	69	77.4	54	24.6
Subtotal -- (1)											267		251	115.1
Less certain projects														
Tiroda-2	(10.0)	(20.0)	(20.0)	(12.3)	15.5	(1.5)	11.8	75	32	0	32	77.4	25	11.5
Kawai	(10.0)	(20.0)	(22.0)	(12.1)	14.4	(1.5)	11.8	70	25	0	25	100	25	11.4
Subtotal -- (2)											57		50	22.9
Unutilized cash from IPO -- (3)											8	100	8	3.7
Grand Total -- (1) + (2) + (3)											332		309	142

Source: J.P. Morgan estimates.

Adani Power: Summary of Financials

Profit and Loss statement					Cash flow statement				
Rs in millions, year-end Mar	FY09	FY10	FY11E	FY12E	Rs in millions, year-end Mar	FY09	FY10E	FY11E	FY12E
Revenues	0	4,349	20,783	55,366	EBIT	(28)	2,085	8,146	27,740
% change Y/Y	NM	NM	377.9	166.4	Depreciation & Amortization	0	353	1,722	4,111
EBITDA	(28)	2,438	9,868	31,851	Tax	0	(327)	(1,047)	(4,259)
% change Y/Y	NM	NM	304.7	222.8	Other income	0	319	625	1,331
EBITDA Margin (%)	NM	56.1	47.5	57.5	Decrease in WC	(1,142)	(2,379)	(2,196)	(1,520)
EBIT	(28)	2,085	8,146	27,740	Operating CF	(1,170)	52	7,250	27,403
% change Y/Y	NM	NM	290.8	240.5	Capex	(44,709)	(61,263)	(81,822)	(104,960)
EBIT Margin (%)	NM	47.9	39.2	50.1	Change in investments	532	0	0	0
Other income	0	319	625	1,331	Investing CF	(44,176)	(61,263)	(81,822)	(104,960)
Net Interest	0	377	3,478	6,518	Free-cash flow	(45,346)	(61,211)	(74,572)	(77,557)
Earnings before tax	(28)	2,027	5,293	22,553	Change in equity	9,226	34,524	0	0
% change Y/Y	NM	NM	161.1	326.1	Change in debt	39,785	45,622	61,509	87,727
Tax	0	327	1,047	4,259	Other financing activities	0	(1,277)	(2,121)	(5,839)
as % of EBT	0.0	16.1	19.8	18.9	Financing CF	49,011	78,870	59,388	81,888
Net Income	(26)	1,700	4,246	18,294	Change in cash	3,665	17,659	(15,184)	4,331
% change Y/Y	NM	NM	149.8	330.8	Opening Cash	1,921	5,585	23,244	8,061
Shares Outstanding	1,842	2,180	2,180	2,180	Closing Cash	5,585	23,244	8,061	12,391
EPS	(0.0)	0.8	1.9	8.4					
% change Y/Y	NM	NM	130.4	330.8					
Balance sheet					Ratio Analysis				
Rs in millions, year-end Mar	FY09	FY10E	FY11E	FY12E	%, year-end Mar	FY09	FY10E	FY11E	FY12E
Net fixed assets	3,368	43,043	41,321	125,037	Revenue growth	NM	NM	377.9	166.4
CWIP	65,845	87,079	168,901	186,035	EBITDA growth	NM	NM	304.7	222.8
Investments	0	0	0	0	PAT growth	NM	NM	149.8	330.8
Cash & bank balances	5,585	23,244	8,061	12,391	EPS growth	NM	NM	130.4	330.8
Net current assets ex-cash	(1,456)	923	3,119	4,639	EBITDA margin	NM	56.1	47.5	57.5
Miscellaneous	194	194	194	194	Dividend payout ratio	0.0	0.0	0.0	0.0
Total Assets	73,537	154,483	221,596	328,296					
Total debt	49,897	95,519	157,029	244,756	Sales/ GFA (x)	0.0	0.1	0.5	0.4
Paid-up common stock	18,420	21,800	21,800	21,800	GFA/equity (x)	0.2	0.7	0.7	1.6
Reserves and surplus	4,517	36,461	40,707	59,001	Debt/equity (x)	2.2	1.6	2.5	3.0
Shareholders' funds	22,937	58,261	62,508	80,802	Net debt/ equity (x)	1.9	1.2	2.4	2.9
Deferred tax liability	0	0	0	0	ROCE (%)	NM	1.8	4.1	9.0
Minority interest	703	703	2,060	2,739	RoE (%)	NM	4.2	7.0	25.5
Total Liabilities	73,537	154,483	221,596	328,296					
BVPS (Rs)	12.5	26.7	28.7	37.1					

Source: Company reports and J.P.Morgan estimates.

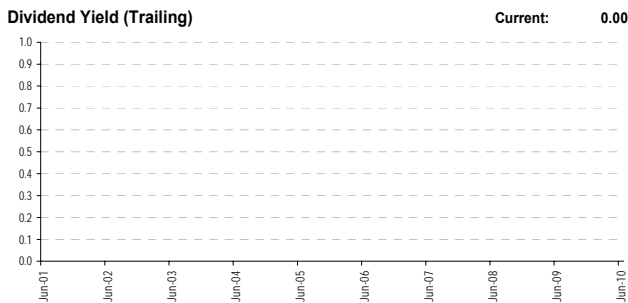
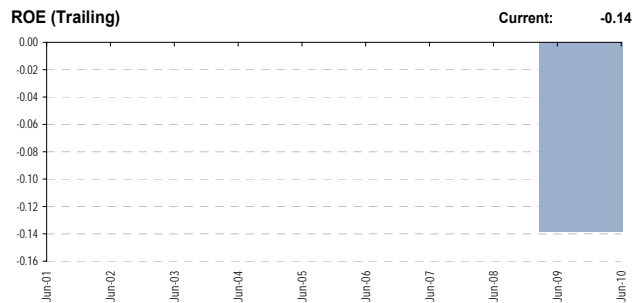
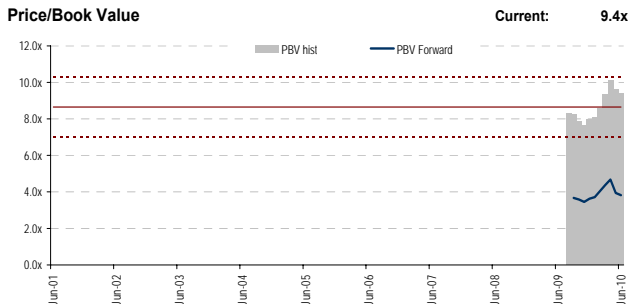
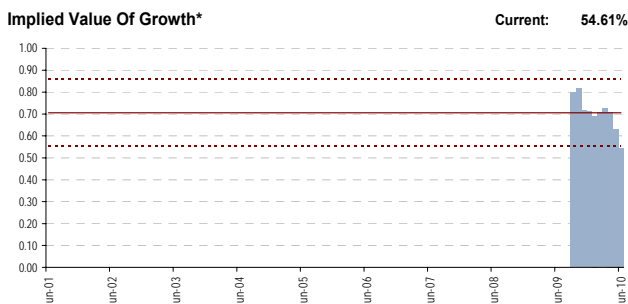
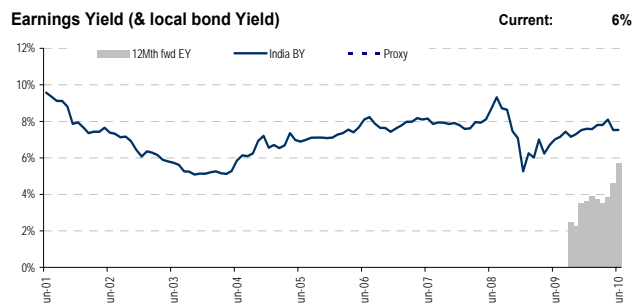
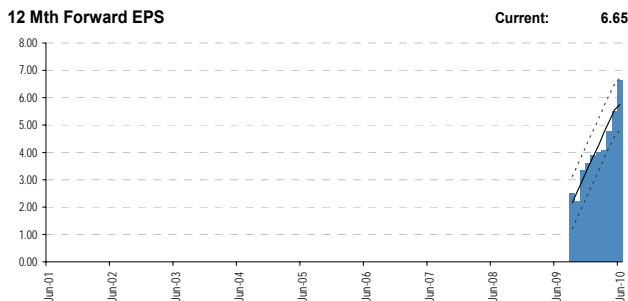
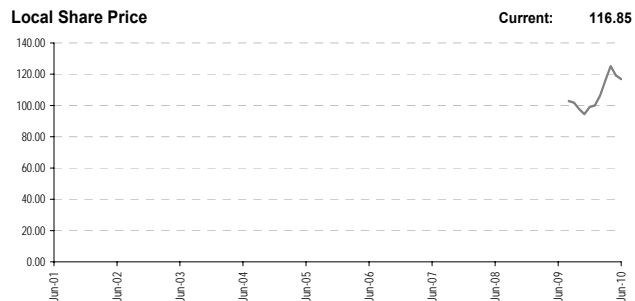
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Asia Pacific Equity Research
15 June 2010

J.P.Morgan

JPM Q-Profile
Adani Power Ltd. (INDIA / Utilities)
 As Of: 11-Jun-2010

Global Equity Quantitative Analysis
 Quant_Strategy@jpmorgan.com



Summary

Adani Power Ltd.		SEDOL		B3WQH49				As Of:		11-Jun-10	
INDIA								Local Price:		116.85	
Utilities								EPS:		6.65	
	Latest	Min	Max	Median	Average	2 S.D.+	2 S.D. -	% to Min	% to Max	% to Med	% to Avg
12mth Forward PE	17.58x	17.58	44.30	27.11	28.70	44.79	12.60	0%	152%	54%	63%
P/BV (Trailing)	9.42x	7.61	10.09	8.29	8.65	10.30	6.99	-19%	7%	-12%	-8%
Dividend Yield (Trailing)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0%	0%	0%	0%
ROE (Trailing)	-0.14	-0.14	-0.14	-0.14	-0.14	-0.14	-0.14	0%	0%	0%	0%
Implied Value of Growth	54.6%	0.55	0.82	0.71	0.71	0.86	0.55	0%	50%	30%	29%

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, J.P. Morgan Calcs

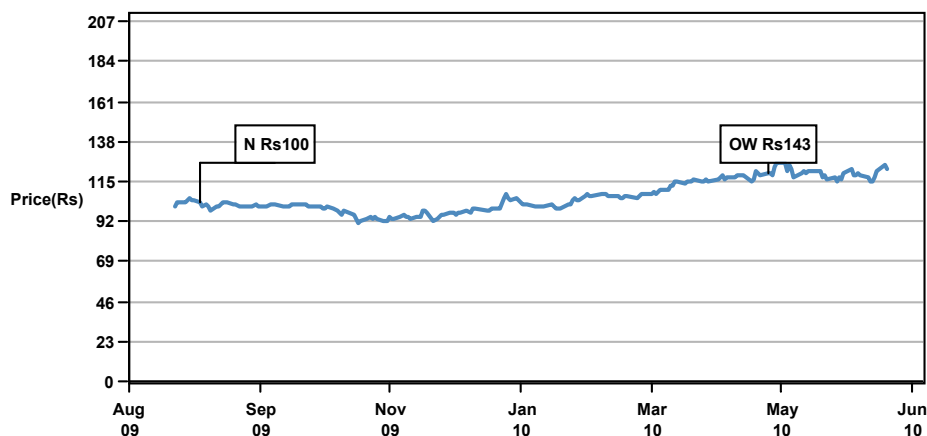
* Implied Value Of Growth = (1 - EY/Cost of equity) where cost of equity = Bond Yield + 5.0% (ERP)

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Important Disclosures

Adani Power (ADAN.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
31-Aug-09	N	102.85	100.00
26-Apr-10	OW	119.85	143.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 Initiated coverage Aug 31, 2009. This chart shows J.P. Morgan’s continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
 J.P. Morgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

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IB clients*	48%	46%	32%
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