

## RESULT UPDATE

### LARGE CAP

#### Share Data

Reuters code	LAIN.BO
Bloomberg code	LANCI IN
Market cap. (US\$ mn)	2,485
6M avg. daily turnover (US\$ mn)	27.8
Issued shares (mn)	240.8
Target price (Rs)	536

Performance (%)	1M	3M	12M
Absolute	1	10	433
Relative	3	3	178

#### Valuation ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs)	22.3	36.4
+/- (%)	75.2	63.1
PER (x)	21.7	13.3
PBV (x)	2.7	2.1
EV/Sales (x)	1.8	1.4
EV/EBITDA (x)	10.6	5.9

#### Major shareholders (%)

Promoters	74
FII's	12
MF's	1
BFSI's	3
Public & Others	10

#### Financial highlights

(Rs mn)	2QFY09	2QFY10	YoY (%)	1HFY09	1HFY10	YoY (%)	FY09	FY10E	YoY (%)	FY11E	YoY (%)
Net sales	12,790	19,266	50.6	21,929	41,219	88.0	60,720	87,650	44.4	119,268	36.1
EBITDA	1,979	3,141	58.7	3,730	5,909	58.4	8,874	15,298	72.4	27,338	78.7
EBITDA margins (%)	15.5	16.3	-	17.0	14.3	-	14.6	17.5	-	22.9	-
Other income*	(143)	169	(218.2)	-	736	-	562	793	41.1	691	(13.0)
Interest	455	519	14.1	748	1,124	50.3	2,185	3,188	45.9	8,782	175.5
Depreciation	241	332	38.1	449	661	47.2	1,073	2,617	143.8	3,994	52.6
PBT**	1,140	2,459	115.6	2,281	4,861	113.1	6,178	10,287	66.5	15,253	48.3
Tax	310	769	147.9	599	1,583	164.4	1,690	2,523	49.3	3,229	28.0
PAT	830	1,689	103.6	1,682	3,278	94.8	4,487	7,763	73.0	12,024	54.9
Minority interest	186	257	38.3	373	469	25.4	1,041	1,441	38.4	2,302	59.8
Profits of associates	128	206	61.0	203	425	109.9	643	999	55.3	1,039	4.0
Adjusted PAT	516	1,226	137.7	1,106	2,384	115.5	2,804	5,324	89.9	8,683	63.1
EPS (Rs)	2.3	5.1	119.3	5.0	10.4	106.9	12.8	22.3	75.2	36.4	63.1

\*Including forex gain/loss. \*\*We have adjusted profit from associates after PBT, resulting in a difference to reported numbers.

## Lanco Infratech

## Upgrade to Outperformer

Price: Rs 484

BSE Index: 16,353

28 October 2009

### 2QFY10 Result – Strong performance

**Lanco reported good set of numbers, better than our expectations at PAT level on account of better than expected operating margins and less than expected interest cost. Net sales of the company were in line and grew by 51% YoY, mainly due to strong growth in construction and power trading segments. Due to the improvement in margins of power generation segment, EBITDA margin improved to 16.3%. PAT for the quarter was up by 138% YoY to Rs 1,226 mn.**

### Outlook

Amarkantak phase III and IV project worth Rs 55 bn is added in the construction order book and the order book has now gone up to Rs 147 bn. On the back of execution of current projects, and addition of new projects in the order book, a strong growth in the construction segment is likely to continue.

Currently, 3,913 MW power capacities are under construction and 3,960 MW is in planning stage. Though the commissioning of new power capacity has seen a major delay, initial two power plants (Kondapalli II and Amarkantak I) are likely to be commissioned soon, which will add to the growth. As Lanco's under development power capacity is based on Chinese equipment, performance of the initial plants would be an important benchmark as it would provide clarity on the future capacity. The success or disappointment in terms of smooth operation and decent PLF would be a trigger for the stock.

We have upgraded our EPS estimates by 28.4% for FY10E and 38.1% for FY11E as we build in higher construction sales and higher merchant power rates (Rs 5 for FY10E and Rs 4.75 for FY11E). We expect revenue to grow at 40.2% CAGR and earnings to grow at 76% CAGR over FY09-11E. At the current market price, the stock is trading at 21.7x FY10E and 13.3x FY11E earnings. We upgrade our rating on the stock to Outperformer.

## Highlights

- The company has raised Rs 7.3 bn through a QIP issue.
- Power trading subsidiary of the company traded 1,295 mn units during the quarter against 738 mn units in the corresponding quarter previous year.
- PLF in the Kondapalli power plant was 91% and Aban, 71%.
- Lanco has been declared winner for two coal based methane (CBM) blocks in Orissa.
- The board of the company has approved stock split from Rs 10 face value to Re 1 face value.

## Segment results

(Rs mn)	2QFY09	2QFY10	YoY (%)	1HFY09	1HFY10	YoY (%)
<b>Net sales</b>						
Construction	6,326	14,676	132.0	11,508	29,139	153.2
Power	6,807	7,134	4.8	11,008	17,259	56.8
Property Development	477	109	(77.2)	950	286	(69.9)
Others/Unallocated	25	25	(2.4)	151	49	(67.3)
<b>Total</b>	<b>13,635</b>	<b>21,943</b>	<b>60.9</b>	<b>23,617</b>	<b>46,734</b>	<b>97.9</b>
Less: Inter-segment	846	2,677	216.6	1,688	5,515	226.8
<b>Net Sales</b>	<b>12,790</b>	<b>19,266</b>	<b>50.6</b>	<b>21,929</b>	<b>41,219</b>	<b>88.0</b>
<b>EBIT</b>						
Construction	1,043	2,488	138.6	1,812	4,622	155.1
Power	779	923	18.5	1,463	1,565	7.0
Property development	145	(31)	–	290	7	(97.6)
Others/Unallocated	(149)	(363)	143.2	(133)	(516)	288.2
<b>Total</b>	<b>1,817</b>	<b>3,017</b>	<b>66.1</b>	<b>3,432</b>	<b>5,678</b>	<b>65.4</b>
Less: Inter segment	220	417	89.4	368	857	132.9
Less: Interest	455	519	14.1	748	1,124	50.3
Less: Other un-allocable	(115)	(187)	–	(243)	(563)	131.8
Less: (Gain)/Loss on foreign exchange fluctuations	245	18	(92.6)	483	(173)	(135.7)
<b>PBT</b>	<b>1,011</b>	<b>2,251</b>	<b>122.7</b>	<b>2,076</b>	<b>4,433</b>	<b>113.5</b>

## Total power capacity (our estimate)

(MW)	FY09	FY10E	FY11E	FY12E	FY13E	After FY13E
Total capacity	500	1,486	2,501	3,771	3,771	8,383
Lanco's interest	290	1,042	2,057	3,320	3,320	7,606

## Revised estimates

(Rs mn)	Old estimates		Revised estimates	
	FY10E	FY11E	FY10E	FY11E
Net sales	72,420	101,220	87,650	119,268
PAT	3,826	5,803	5,324	8,683
Adjusted EPS (Rs)	17.4	26.4	22.3	36.4

## SOTP valuation

Business	Basis	Value Rs/share
Power	DCF	233
Construction	12x FY11E EPS (Standalone)	283
Real estate	Fair value	20
<b>Total value</b>		<b>536</b>

**Income Statement**

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
<b>Net Sales</b>	<b>32,413</b>	<b>60,720</b>	<b>87,650</b>	<b>119,268</b>
Growth (%)	101.9	87.3	44.4	36.1
Operating Expenses	(25,418)	(51,846)	(72,352)	(91,931)
Operating Profit	6,994	8,874	15,298	27,338
<b>EBITDA</b>	<b>6,994</b>	<b>8,874</b>	<b>15,298</b>	<b>27,338</b>
Growth (%)	66.6	26.9	72.4	78.7
Depreciation	(776)	(1,073)	(2,617)	(3,994)
Other Income	953	562	793	691
<b>EBIT</b>	<b>7,172</b>	<b>8,363</b>	<b>13,474</b>	<b>24,034</b>
Interest Paid	(921)	(2,185)	(3,188)	(8,782)
Pre-tax profit	6,250	6,178	10,287	15,253
(before non-recurring items)				
Pre-tax profit	6,250	6,178	10,287	15,253
(after non recurring items)				
Tax (current + deferred)	(1,405)	(1,690)	(2,523)	(3,229)
<b>Net Profit</b>	<b>4,846</b>	<b>4,487</b>	<b>7,763</b>	<b>12,024</b>
Minority interests	(1,304)	(1,684)	(2,439)	(3,341)
Reported PAT	3,542	2,804	5,324	8,683
Adjusted net profit	3,542	2,804	5,324	8,683
Growth (%)	88.4	(20.8)	89.9	63.1

**Balance Sheet**

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Current assets	38,769	49,342	65,217	80,285
Cash & Marketable Securities	7,411	9,905	7,584	2,843
Other Current Assets	31,358	39,438	57,633	77,443
Investments	6,966	9,837	10,602	11,445
Net fixed assets	37,048	56,306	82,822	134,100
<b>Total assets</b>	<b>82,783</b>	<b>115,485</b>	<b>158,642</b>	<b>225,830</b>
Current liabilities	27,039	31,331	40,004	53,864
Total debt	31,650	55,970	75,558	116,922
Other non-current liabilities	173	175	175	175
<b>Total liabilities</b>	<b>58,862</b>	<b>87,476</b>	<b>115,736</b>	<b>170,960</b>
Share capital	2,198	2,198	2,383	2,383
Reserves & Surplus	16,119	18,778	31,313	39,996
<b>Shareholders' funds</b>	<b>18,317</b>	<b>20,976</b>	<b>33,696</b>	<b>42,379</b>
Minorities interests	5,604	7,033	9,211	12,491
<b>Total equity &amp; liabilities</b>	<b>82,783</b>	<b>115,485</b>	<b>158,642</b>	<b>225,830</b>
<b>Capital employed</b>	<b>55,744</b>	<b>84,154</b>	<b>118,639</b>	<b>171,967</b>

**Cash Flow Statement**

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Pre-tax profit	6,250	6,178	10,287	15,253
Depreciation	(776)	(1,073)	(2,617)	(3,994)
Chg in working capital	(3,729)	(3,788)	(9,523)	(5,950)
Total tax paid	(1,324)	(1,689)	(2,523)	(3,229)
<b>Cash flow from oper. (a)</b>	<b>1,973</b>	<b>1,775</b>	<b>858</b>	<b>10,068</b>
Capital expenditure	(13,439)	(20,338)	(29,134)	(55,272)
Chg in investments	(936)	(2,871)	(766)	(842)
Others	5	8	0	0
<b>Cash flow from inv. (b)</b>	<b>(14,371)</b>	<b>(23,202)</b>	<b>(29,900)</b>	<b>(56,114)</b>
<b>Free cash flow (a+b)</b>	<b>(12,398)</b>	<b>(21,427)</b>	<b>(29,042)</b>	<b>(46,046)</b>
Equity raised/(repaid)	138	39	7,274	0
Debt raised/(repaid)	14,551	24,320	19,588	41,364
<b>Cash flow from fin. (c)</b>	<b>14,759</b>	<b>23,921</b>	<b>26,722</b>	<b>41,304</b>
<b>Net chg in cash (a+b+c)</b>	<b>2,361</b>	<b>2,493</b>	<b>(2,320)</b>	<b>(4,742)</b>

**Key Ratios**

Yr end 31 Mar (%)	FY08	FY09	FY10E	FY11E
Adjusted EPS (Rs)	16.1	12.8	22.3	36.4
Growth	88.4	(20.9)	75.2	63.1
Book NAV/Share (Rs)	108.8	127.4	180.1	230.3
Tax	22.5	27.4	24.5	21.2
EBITDA margin	21.6	14.6	17.5	22.9
EBIT margin	22.1	13.8	15.4	20.2
RoCE	15.6	12.0	13.3	16.5
Net debt/Equity	101.3	164.5	158.4	207.9

**Valuations**

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
PER	30.1	38.0	21.7	13.3
PCE	24.7	27.5	14.5	9.1
Price / Book	4.5	3.8	2.7	2.1
Yield (%)	0.0	0.0	0.0	0.0
EV/Net sales	3.6	2.7	1.8	1.4
EV/EBITDA	16.5	18.2	10.6	5.9

**Du Pont Analysis – ROE**

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
Net margin (%)	10.9	4.6	6.1	7.3
Asset turnover	0.5	0.6	0.6	0.6
Leverage factor	3.0	3.8	3.9	3.9
Return on equity (%)	16.6	10.8	15.0	17.8

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**Analyst Declaration:** I, Gautam Bafna, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendation or view expressed in this report.

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