RELIGARE Values that bind | Institutional Research

Power Sector

End of the night

Our top picks — **Adani Power, Lanco Infratech**

What has happened?

- Total planned capacity of 150GW+ till '16
- 60%+ of planned capacity is private
- 12-15% of planned is merchant
- Open access >5MW approved ~20GW

What we expect?

- 115 GW by '15
- PLFs and tariffs to drop beyond 2015
- 1,000MW Mundra Phase-3 as merchant
- Likely dilution by Lanco, RPWR

What to look for in the report?

- Conclusion of bottom up supply analysis
- Why distribution open access is unviable?
- Comparison with Chinese power sector
- Sensitivity analysis

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Power

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We think the upside risks outweigh the downside risks for stock performance in the short to medium term (0-2 years) but we are cautious in the long term. Our short term view emanates from our expectation that demand deficit gets bridged earliest only by 2014E based on proprietary demand and bottom up supply model. Our long term view is cautious as we expect drop in PLFs and in tariffs (both merchant and real bid tariffs) by 2014-15E based on 1) studies of pattern of Indian demand and fuel mix of upcoming capacity, 2) above trend increases in new adds and 3) since we do not believe open access in distribution is viable at current levels. In the short term though, companies that have larger share of capacities, and merchant within that, getting completed by FY14E stand to benefit. Our top picks are Lanco Infratech (Lanco) and Adani Power (APL) in that order. We initiate on Reliance Power (RPWR) with HOLD, and on NTPC with Sell.

- **In the short-term, risks are on the upside:** We estimate 1) 115,00MW to be added by 2015E and merchant at 12% of this, 2) PLFs to decline only after 2014E, 3) tariffs to drop gradually given above trend capacity adds and pattern of Indian demand. The conclusion follows study of upcoming projects and likely demand scenarios. We note risks to near-term are on the upside as fuel, execution, approvals are all bottlenecks but we are cautious in the long run.

- **In the Long term we are very watchful and cautious:** We look at two case studies to form a view of the long term scenario – a) Chinese power - The PLFs of the Chinese utilities declined by 10% points as annual capacity adds went from 40GW to 80GW from 2003 to 2007, and as per capita consumption doubled, and b) Indian telecom - The ROE and trading multiples for Bharti has halved over the last 3 years. We also do not rule out the risk of government intervention in tariffs once companies start reporting super-normal profits consistently.

- **Pattern of demand is ignored in any demand-supply analysis:** We understand ~50% of India's electricity demand is from agriculture and residential. These two segments are subsidized and an increasing share of housing/services demand is for cooling/heating, which is seasonal. Contrast this with the fact that 80%+ of new planned projects are coal based which are not the best suited for meeting seasonal highs. Growing demand from these segments compounds viability for open access.

- **Our preferences for those high on our scorecard, and where we see value**: We rate companies on various parameters. Lanco and APL score the highest in our index. NTPC scores the highest overall. Lanco is our top pick followed by APL. Our price targets are based on FCFE of the projects. The key downside risks to our analysis are a) cash flow mismatches due to execution slippages, lower merchant tariffs, higher fuel costs, higher interest costs, b) change in profile of projects, and c) cost of funds.

Recommendation snapshot

Company	CMP	Target	Rating
Adani	119	150	Buy
Lanco	61	85	Buy
NTPC	201	200	Sell
Reliance power	157	140	Hold

Key catalyst

Company	Key catalyst for stock	Impact
Lanco	Commissioning of Udupi plant	Positive
	Full operations of Kondapalli-II and Amarkantak during FY11E	Positive
Adani	Commissioning of Mundra unit 3&4 by Jun-Sep'10	Positive
	Commissioning of Mundra unit 5&6 by Jan'11 and Jun'11	Positive
	News flow on 1,000 MW as merchant power	Positive
Reliance	Gas supply agreement	Positive

Valuation multiples based on FY11 estimates

Company	EV/EBITDA (x)	P/B (x)	ROE (%)
Adani	19.8	3.6	20.4
Lanco	6.8	3.0	39.0
NTPC	9.5	2.4	15.7
Reliance power	27.1	2.1	7.7

Valuation multiples based on FY12 estimates

Company	EV/EBITDA (x)	P/B (x)	ROE (%)
Adani	6.0	2.6	41.8
Lanco	5.8	2.2	30.3
NTPC	8.7	2.2	15.5
Reliance power	24.3	2.0	5.9

Supply deficit to be bridged earliest by 2014E

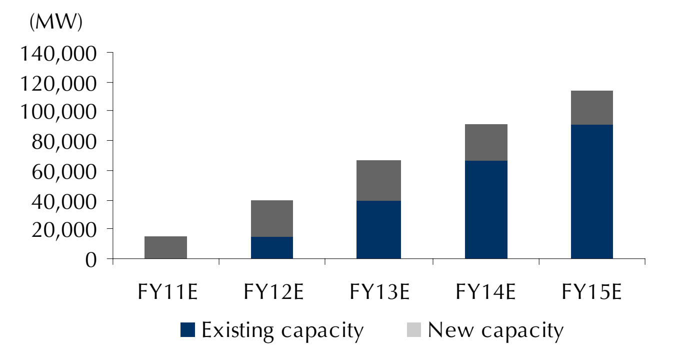
Bottom up analysis says above trend capacity addition

The Indian power sector remains fundamentally strong driven by significant electricity shortages; also returns on the projects appear appealing enough to attract investment.

India to see 116,000MW of capacity addition over 2011-15

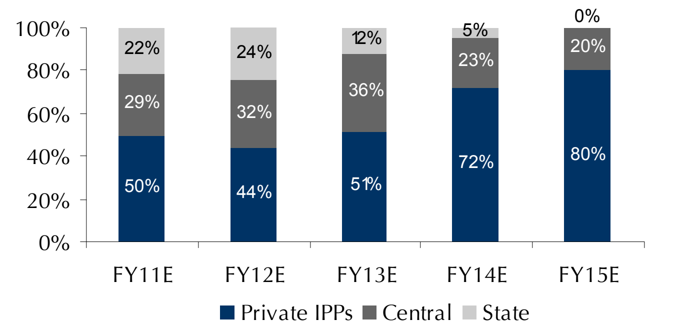
Given the attractive returns on projects, increased flexibility in terms of availability of funding options, and improved fuel supply, a slew of private generation projects have appeared on the horizon. Over 2011-15, we estimate that ~115,000MW of capacity will be added in the country – a CAGR of 12% over this period – led by contribution from independent power producers (IIPs), and supported by central and state level projects (see fig 1 and 2). Following this, the per capita consumption could increase from 612Kwh to 1,130Kwh vis-à-vis ~2,300kwh of China at present.

Fig 1 - Existing capacity versus new capacity addition



Source: Religare estimates

Fig 2 - Ownership split of new capacity added



Source: Religare estimates

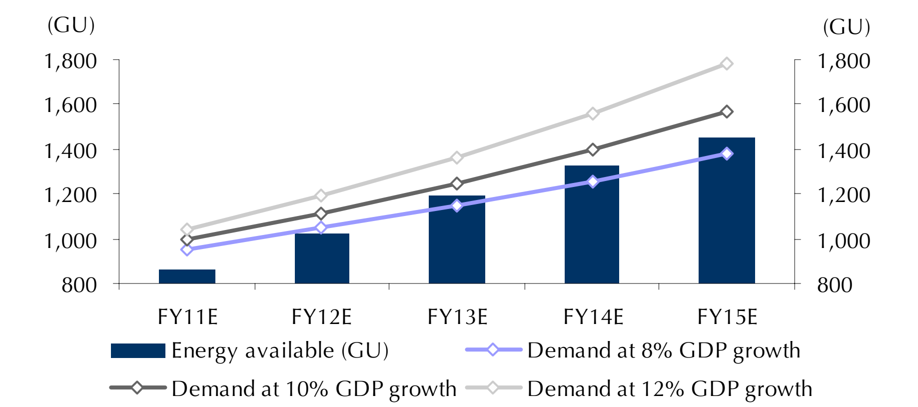
Demand supply scenario

Deficit levels to narrow down

Though India will continue to be a power-deficit country at least until FY13, deficit levels will be lower, going forward, as supply outpaces demand. Our deficit forecasts are 10.2%, 3.7% and -1.1% for 2011, 2012 and 2013, respectively. *We have built a proprietary demand-supply model for power, based on our project-by-project analysis and discussions with industry players.* We have assumed a base case scenario of 9% GDP growth rate (GDP multiplier of 1.2x), and expect demand-supply gap to diminish by FY13.

Under aggressive demand conditions, (9% GDP growth/GDP multiplier of 1.2x) demand-supply gap will diminish by FY13

Fig 3 - At 9% GDP growth (10.8% demand growth) supply evens demand by FY13



Source: Religare estimates

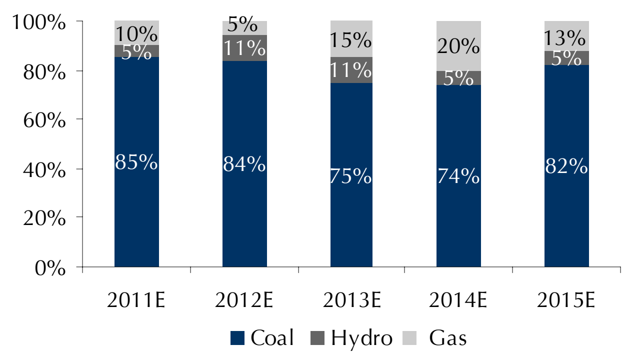
We understand that our estimates are aggressive as these capacities face execution challenges – this leads us to believe that the risks for stock performance in the near-term are to the upside for companies with more upfront capacity. Having said that, the above trend capacity additions should lead to lower capacity utilization and tariffs in the long-term (as discussed later in the report). The biggest challenges are likely to be fuel supply (see below), government approvals, and land acquisition.

High dependence on coal to continue

Incremental coal requirement of 450MMT to be met primarily through imports

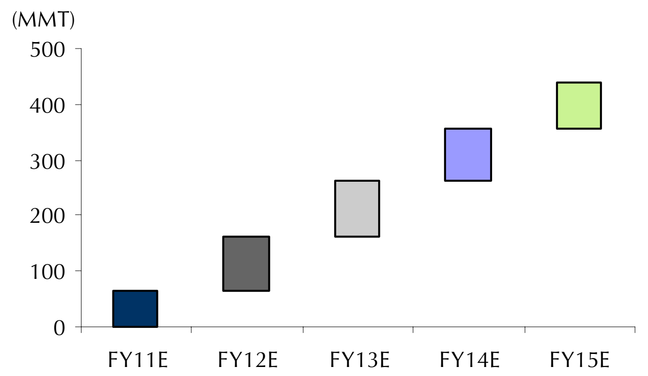
The dependence on coal, as a fuel source, would continue to remain much higher than natural gas and hydro-power, particularly in light of the massive capacity addition of coal-based generation assets over the next two years. Consequently, we reckon that India's power sector may need an incremental coal supply of ~450 million metric tonnes (MMT) over the next five years (see fig 4). In our view, domestic production would not suffice for the incremental need of coal and imported coal would play an instrumental role in Indian power industry. We believe that generation companies, due to their dependence on imported coal, would face significant risk emanating from unfavorable cross currency movements.

Fig 4 - Percentage share of different fuel sources



Source: Religare estimates

Fig 5 - Incremental coal required for new capacity added



Source: Religare estimates

Based on the example on China below, we expect that post FY13 there should be no further increase in the power load factor (PLF) for India's power companies. Rather a moderate slippage is anticipated.

India versus China: different growth stories

Comparing India and China on the 'power capacity' front is not completely fair as the underlying drivers are fundamentally different. China's GDP growth is mainly driven by industry sector, whereas India's growth is mainly dependent on service sector. India's industrial power demand is more of export driven, whereas service sector power demand is seasonal – during summer season, electricity demand surges due to increased cooling requirements. Further, residential and agriculture together account for almost 46% of total consumption, and an increasing share of India's demand is estimated to be heating and cooling demand from ACs/refrigerators/water heaters (Currently at 30% of demand and estimated to increase to 40% over next 15 years as per various studies). Coal based stations are not the best suited for such seasonally high demand, which partly explains why we expect PLFs and tariffs to fall in the future.

Fig 6 - GDP composition by sector for India and China

	China	India
Industry	48.6%	20.0%
Services	40.5%	62.6%
Agriculture	10.9%	10.9%

Source: CIA Factbook

We, however, have taken due consideration of the fact that demand increases as supply increases sharply. For instance, China's demand for power has surged over the years as supply kept its pace.

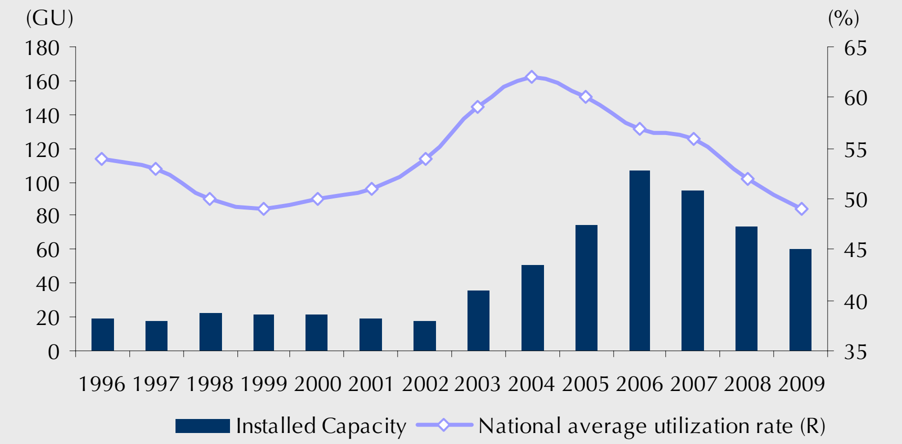
Fig 7 - China supply and consumption

	2001	2002	2003	2004	2005	2006	2007	2008
Electricity Supply Production (KWh billon)	1,481	1,654	1,911	2,203	2,500	2,866	3,282	3,451
% change YoY		12%	16%	15%	13%	15%	15%	5%
Electricity Consumption: Total (KWh billon)	1,472	1,647	1,903	2,197	2,494	2,859	3,271	3,438
% change YoY		12%	16%	15%	14%	15%	14%	5%

Source: Religare estimates

Despite the strong underlying demand, China has recorded a significant drop in its capacity utilization rate. During the same period, China's per capita consumption doubled. Interestingly, India's per capita consumption is also estimated to double over the next five years.

Fig 8 - China: capacity addition and utilization

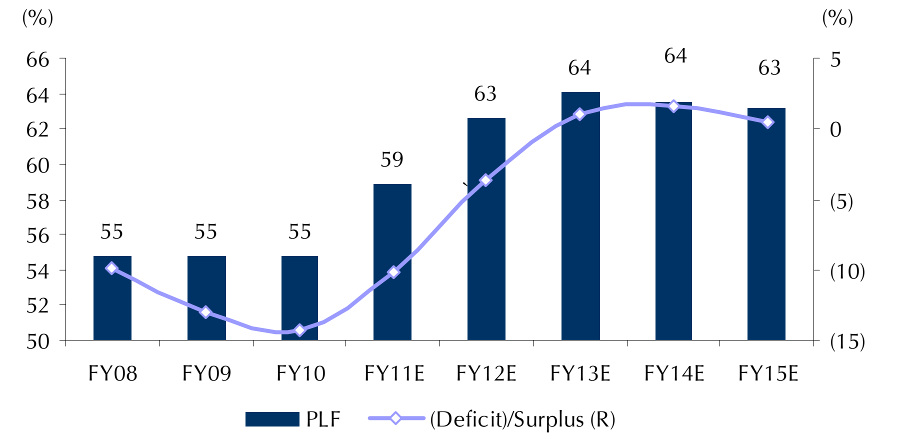


Source: CEC

Indian PLFs set to drop

We remain skeptical on the PLF growth of India's power companies post FY13, as the markets could be oversupplied given the heavy dependence on less energy intensive sectors of the economy. This along with the seasonality involved in demand could also stress margins.

Fig 9 - Overall power load factor for Indian power sector



Note: PLF are calculated using available power and overall existing capacity
Source: CEA, Religare estimates

PLFs to drop due to an oversupply situation and seasonality in demand

Power tariffs in India to fall gradually

Power tariffs – an outcome of supply & demand

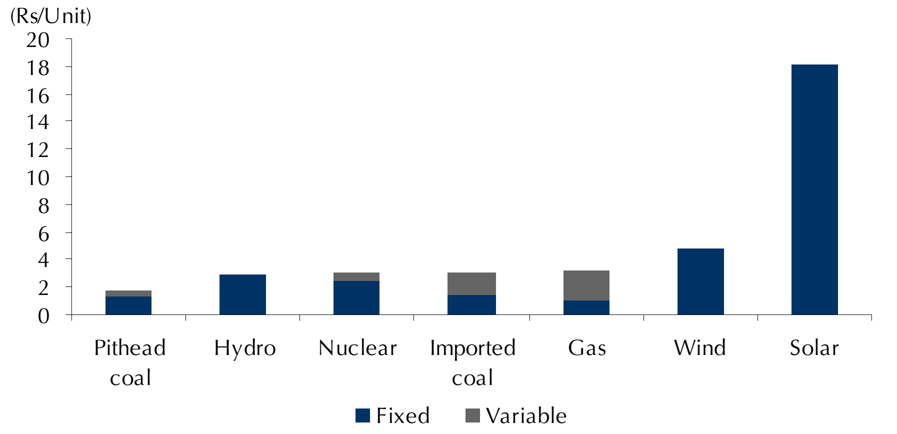
Indian power generation companies mainly operate under regulated, captive and merchant power tariff (spot tariffs). The spot rates tend to depend on factors such as a) the prevailing demand-supply situation, b) the cost of power from the lowest cost source, and c) the existing regulations on tariffs including CERC norms and unscheduled interchange (UI) rates.

Since ~60% of India's capacity is coal-based, the floor price for central utilities is based on CERC norms

Demand supply situation, as discussed above, would remain tight and tariffs are estimated to stay high until 2012-13E. About 60% of India's capacity is coal-based (domestic coal) and hence, the floor is set based on CERC norms for central utilities. We have analysed the competitiveness of projects based on different fuels and found that pithead coal remains most economical fuel for power generation. Overall, tariffs are in the range of Rs 2-3.5/unit for conventional fuel.

Pit-head coal remains the most economical fuel for power generation

Fig 10 - Tariff level for 15.5% regulated ROE

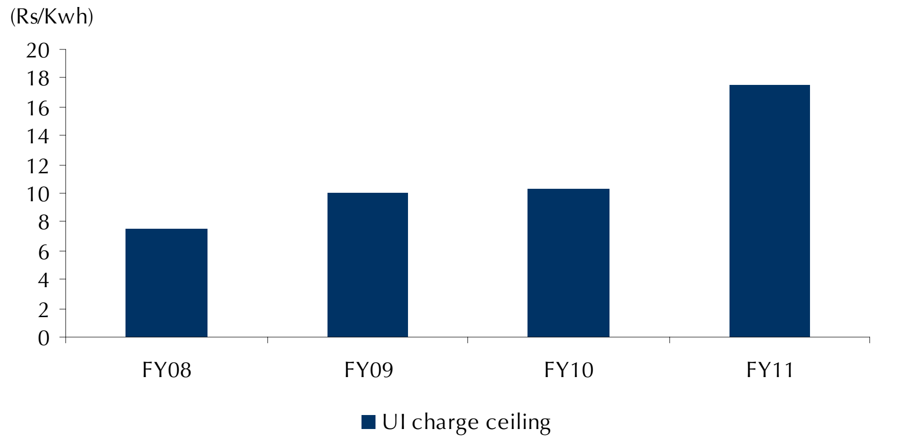


Note: Tariff calculated for regulated ROE
Source: Religare estimates

UI (penalty) charges for overdraw are set by CERC from time to time. Currently, ceiling for UI charge (withdrawal when grid frequency falls lower than threshold frequency) is at Rs 17.46/Kwh. Historically, CERC has taken rigid measures to keep the grid frequency in a safe range and made it economical to meet increased demand by purchasing power in spot market rather than overdrawing the grid.

UI charge ceiling has been revised to 17.46/Kwh from 10.29/Kwh in FY08

Fig 11 - Historical unscheduled interchange charge ceiling

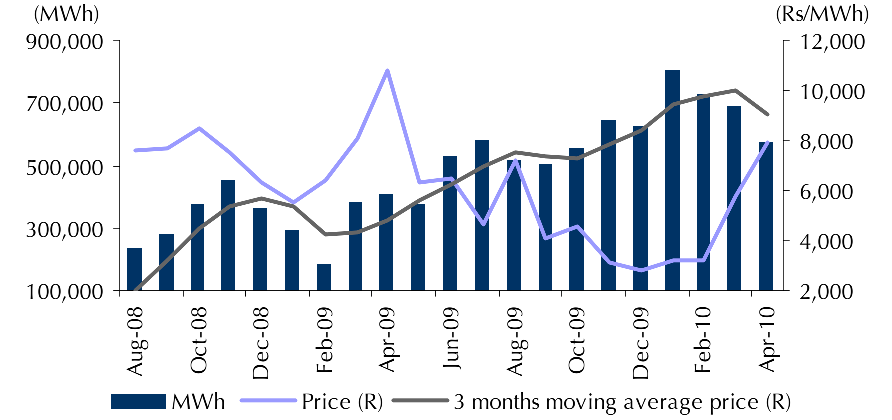


Source: CERC

Merchant tariff seasonality

As discussed earlier, India's power demand is more seasonal in nature. Tariffs tend to be seasonally high during summer months and the lowest during the monsoon period. In our opinion, a rate of >Rs 3/kwh is a given during the monsoon season for any unencumbered capacity. We estimate that in the face of robust GDP growth over the next two years, merchant tariffs could be ~Rs 5/Kwh or higher.

Fig 12 - Seasonality in merchant power tariff and volume



Source: India Energy Exchange

Merchant tariffs tend to head north during the monsoon season

However, we expect tariffs to fall sharply in FY13 and beyond. Our expectation is based on:

1) The presumption that all planned capacity additions will come up as scheduled, bringing down the returns for merchant power projects

2) A likely drop in utilisations

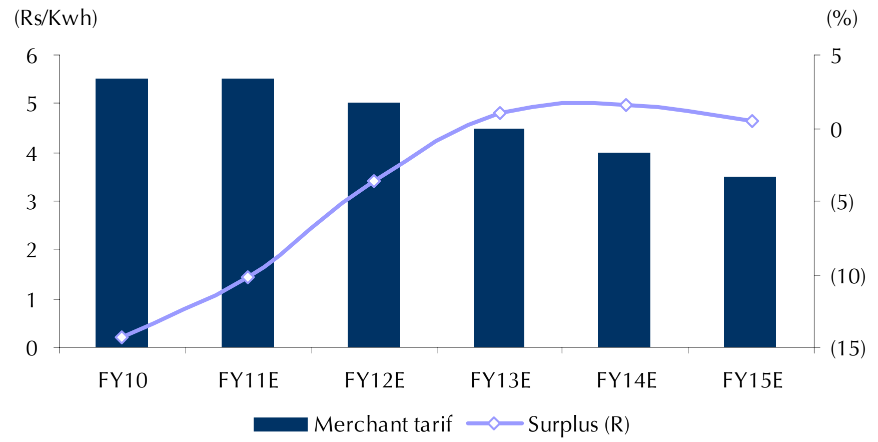
3) Pattern of demand that is skewed towards seasonally consumptive services and residential segments (as explained in detail in the section while comparing with China) while 80% of the upcoming capacity is based on coal which is not the best suited for meeting peak demand

4) Our understanding that distribution in open access of >5MW is not feasible at current levels as it could lead to above trend losses in state GDP

Merchant tariffs to remain attractive in the short-term but start trending downwards in FY13 and beyond

However, over the short term, merchant tariff is likely to remain more attractive than regulated tariff due to higher risk.

Fig 13 - Our current assumption of merchant tariff



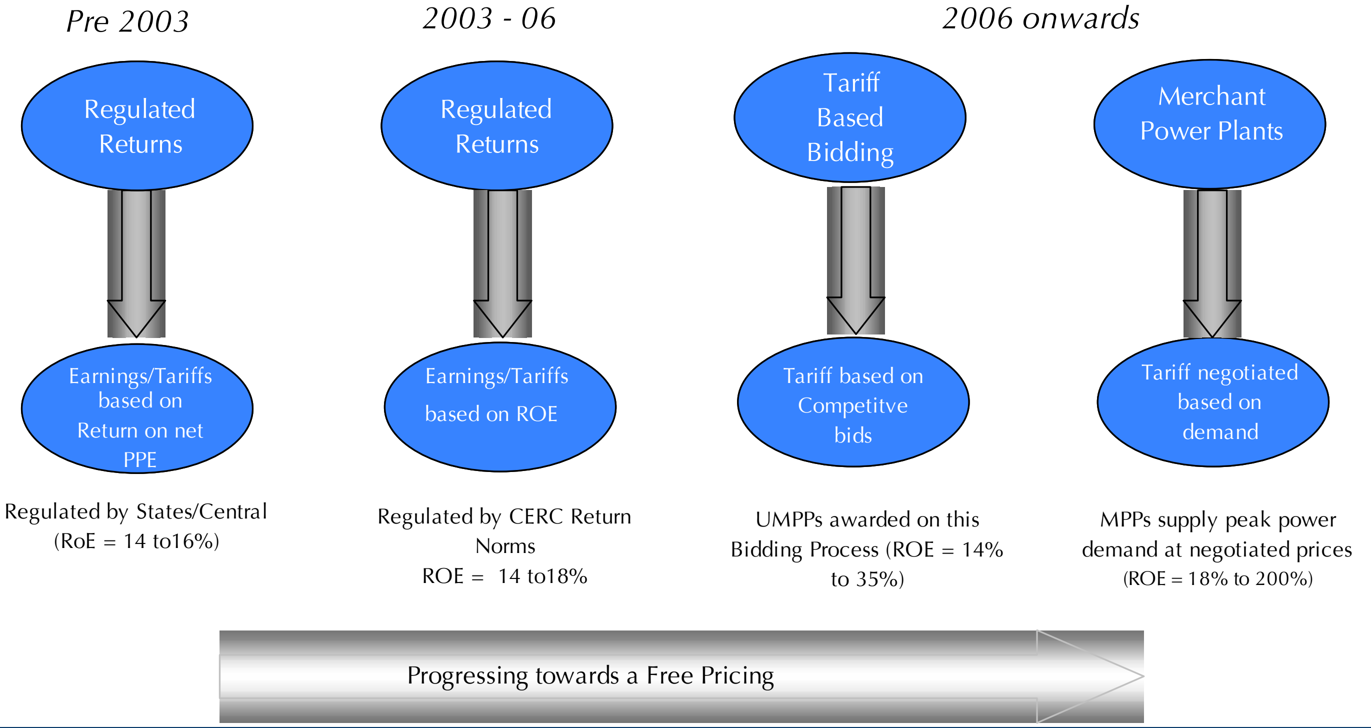
Source: Religare estimates

Supernormal returns for a few in the short-term

Until 2003, all power companies earned regulated returns as specified by the CERC regulations (base ROE as 15.5% with incentives). The UMPPs (Unregulated Merchant Power Plants) attract tariff-based bidding where the returns are de-regulated. Merchant tariff pricing is dependent on supply-demand dynamics and the offtake risk lies with generating company.

Utilities with exposure to merchant power could earn super-normal returns (PAT in excess of 25-30% of sales and ROEs as high as 70-80%). Recently, the CERC has raised its UI charge ceiling from Rs 10.29/unit to Rs 17.46/unit. Given the high correlation between merchant power tariff/spot rates and UI rates, there could be some upside potential in spot rates. However, we strongly believe that these benefits could be reaped by utilities only with upfront merchant power capacity, given the high likelihood of 'normalised' returns beyond 2014E.

Fig 14 - Supernormal returns for a few



Source: Religare estimates

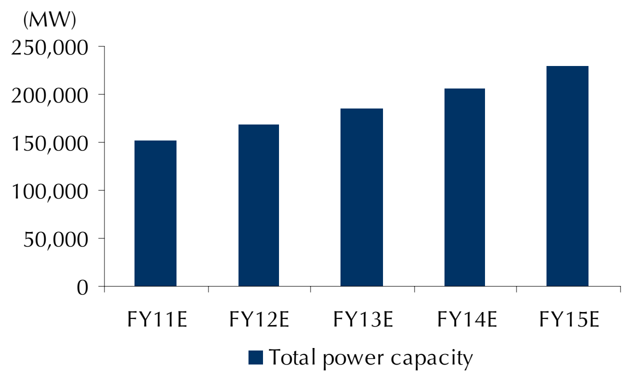
Fig 15 - Economics of a merchant power plant versus a tariff-based plant

	Merchant power plant Year 1	Tariff based plant Year 1
Revenue (Rs mn)	139,240	55,696
Units generated (mn)	29,784	29,784
Units sold (mn)	27,848	27,848
Tariff (Rs/unit)	5.0	2.0
Total revenue	**139,240**	**55,696**
Operating cost	**23,677**	**22,006**
Fuel cost	14,892	14,892
Rebate	2,785	1,114
O&M	6,000	6,000
EBITDA	**115,563**	**33,690**
Depreciation	9,360	9,360
EBIT	**106,203**	**24,330**
Interest Expense	14,850	14,850
PBT	**91,353**	**9,480**
Tax	31,051	1,596
Tax rate (%)	33.99%	16.83%
PAT (Rs mn)	**60,302**	**7,885**
PAT Margin (%)	43.3%	14.20%
ROE(%)	134%	18%

Source: Religare estimates

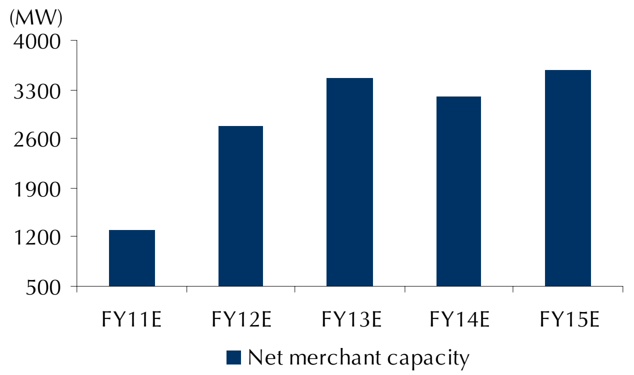
Profits & return ratios of a merchant power plant dwarf that of a tariff-based one

Fig 16 - Total power capacity added during a year



Source: Religare estimates

Fig 17 - Net merchant power capacity added during a year



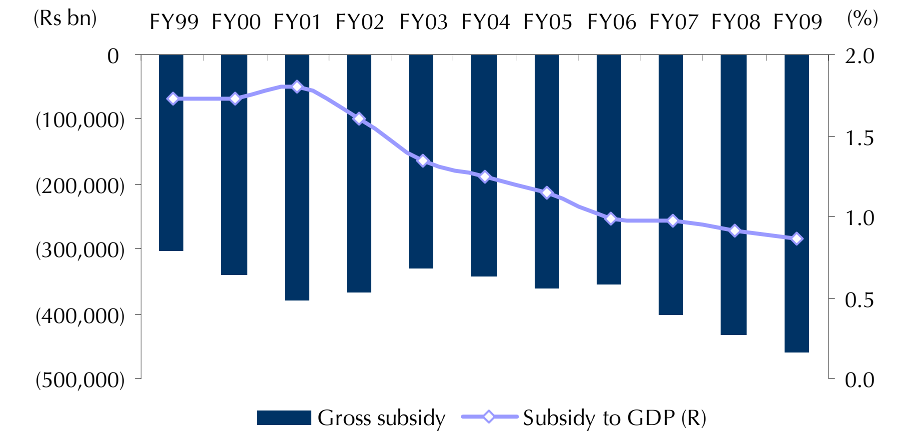
Source: Religare estimates

Why, in our view, open access is not likely to work?

SEB subsidy to the sector (as % of GDP) has fallen

Although losses for state electricity boards (SEB) have widened over a period of time, its share (as a percentage of GDP) has come down. One may argue that there could be some additional room for SEBs to absorb losses and thus promote open access of power. However, in our view, open access has had limited success in emerging markets, given the economic unavailability. The story is likely to be similar for India.

Fig 18 - Snapshot of subsidy given to SEBs



Source: Economic survey of India

Subsidy given to SEBs (as % of GDP) has consistently fallen over the years

Tariffs need to be lower to break-even in case of open access

We do not see much leeway for merchant/case-1 tariffs based on current levels of discom tariffs, except for projects in Gujarat (See last column in Fig 19 below). The peak demand from the top five states account for 30% of the total available capacity; for the majority 70%, the range of possible tariffs is Rs 0.31-2.73/Kwh, leaving less scope for upside. Further, the discom tariffs assumed are those for the highest category of industrial customers where the tariffs are the highest and the losses limited to wheeling and transmission losses. The tariffs for residential usage are generally 20-30% lower and losses are lower. Hence, the break-even tariffs for purchases have to be lower. We do not think a true open access in distribution is feasible and is limited to captive units, and the >5MW customers in a few states. The only solution is possibly to lower the losses but that leads to increase in supply.

Fig 19 - Comparative chart of open access charges at state level

	Wheeling loss (%)	Transmission loss (%)	Net loss (Rs/Kwh)	Open access charge (Rs/Kwh)	Net open access (Rs/Kwh)	Discom tariffs (Rs/kwh)	Possible tariffs (Rs/kwh)
Assam	20.0	6.1	1.3	1.6	2.9	3.3	0.3
Chhattisgarh	6.0	4.0	1.1	0.6	1.7	3.1	1.5
Haryana	6.0	2.1	1.1	0.5	1.6	4.6	3.0
Himachal Pradesh	7.5	3.7	1.1	0.9	2.0	3.0	1.0
Karnataka	4.1	4.0	1.1	1.6	2.6	4.2	1.5
Maharashtra	9.0	4.9	1.2	0.2	1.4	4.5	3.2
Orissa	8.0	4.5	1.1	1.1	2.2	2.9	0.7
Punjab	0.0	9.8	1.1	0.1	1.2	5.2	4.0
Rajasthan	3.8	4.4	1.1	0.6	1.7	4.0	2.3
Uttar Pradesh	8.0	5.0	1.1	0.2	1.3	4.3	3.0
Madhya Pradesh	0.0	4.9	1.1	0.8	1.8	4.6	2.7
Uttarakhand	0.0	-	1.0	0.7	1.7	3.3	1.6
Gujarat	10.0	4.1	1.2	0.7	1.9	7.4	5.5
West Bengal	8.0	4.0	1.1	3.2	4.4	4.7	0.3
Tamil Nadu	7.3	3.5	1.1	2.0	3.1	4.0	0.8

Source: Forum of regulators

The scorecard

We have rated the utilities on various parameters to gauge their readiness factor. In our opinion, Lanco and Adani Power (APL) score highly amongst pure IPPs.

Fig 20 - Scorecard for various power generation companies

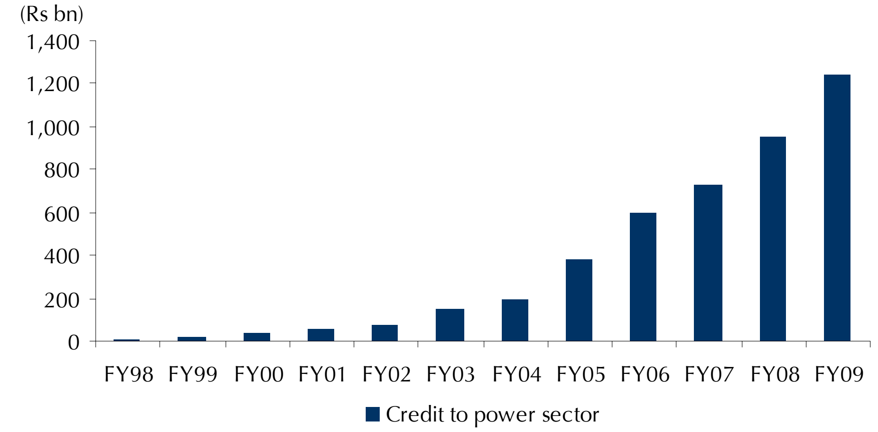
	Project Portfolio	Fuel Supply status	Off takers	Merchant Returns	Land acquisition	Main equipment	Equity Funding	Diversification	Execution	Total
NTPC	5	4	5	1	5	4	5	4	4	37
Lanco Infratech	4	5	3	3	3	4	4	2	4	32
Adani Power	4	3	3	5	4	4	4	1	4	32
Tata Power	4	3	3	1	4	4	4	2	4	29
Jindal Steel & Power	3	3	3	5	4	4	2	1	4	29
Neyveli Lignite Corp	4	4	3	1	3	4	4	2	3	28
Reliance Power	4	3	3	3	2	3	3	4	2	27
NPCIL	2	2	3	1	5	4	5	2	3	27
Jaypee Group	3	3	3	3	3	4	1	3	3	26
Torrent Power	2	3	3	2	4	4	3	2	3	26
Indiabulls Power	2	4	1	2	3	4	4	2	2	24
JSW Energy	4	3	2	3	3	3	3	1	2	24
GMR	3	3	3	3	2	2	3	3	2	24
KSK Energy	1	3	2	2	3	3	4	2	2	22
GVK	3	2	2	2	3	3	2	3	2	22
Sterlite Energy	3	3	3	3	2	3	2	1	2	22
CESC	1	3	3	1	3	3	2	2	3	21

Source: Religare estimates

In our assessment, fuel linkages, government approvals and equity funding are the biggest bottlenecks. We do not see availability of debt as a big constraint. In fact, over the last decade credit availability to power sector has increased significantly.

Credit availability to the power sector has consistently improved over the past decade

Fig 21 - Credit growth to power sector



Source: Religare estimates

Given the huge capacity addition planned over the next four years (FY11-14), we estimate a spending of Rs 3,836bn (US$ 85.2bn) in the power generation sector. The total equity required is Rs 959bn (US$ 21.3bn).

We like companies that are well-placed on execution, funding, and with valuations that offer some margin of safety. We also believe that utilities such as NTPC and private ones with equity funding available (such as APL) stand a better chance of succeeding.

Valuation

Our favoured valuation tools are DCF and EV/EBITDA multiple. We use different valuation tools given the early stage of growth for the companies in the sector. In order to gain clarity on valuations, we look at multiples of various projects/companies in the 'stable year' i.e. MW in the steady state year of operations.

We have used different valuation tools given the early stage of growth for companies in the sector

1. Fair value of the projects
2. EV multiples (EV/E and EV/MW) in the stable year
3. P/B vs. ROE in the stable year

Fair value of projects

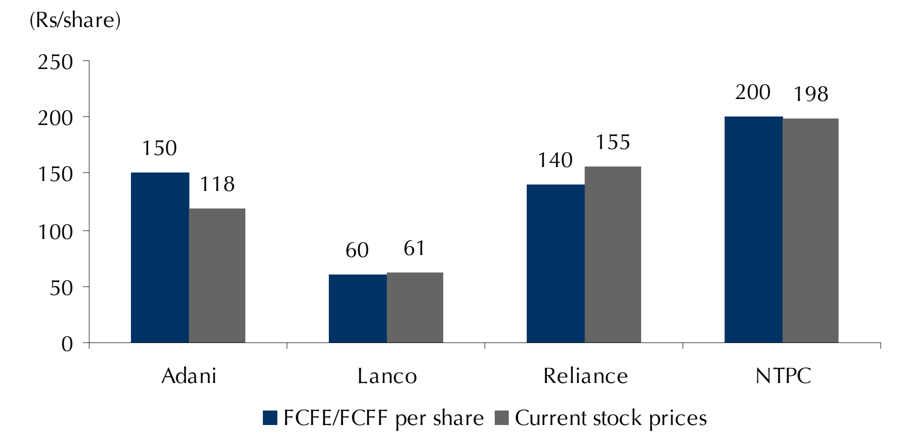
The fair values of projects and the basic assumptions are as shown below. For APL, if we were to assume that the 1,000MW of Mundra Phase III would be used as a merchant plant (currently under contract with GUVNL), the value goes up to Rs 150/share and is 25% higher than the current share price. For NTPC, we use a firm value, given our higher confidence in its projects/execution and its ring-fenced tariff structure.

Fig 22 - Key DCF assumptions

	MW considered	Risk free rate	Equity risk premium	Beta	Cost of equity	Cost of debt
Adani	13,260	8.00%	5.00%	1.20	14.00%	11.50%
Lanco	7,303	8.00%	5.00%	1.20	14.00%	10.50%
Reliance	25,290	8.00%	5.00%	1.25	14.25%	13.50%
NTPC	FCFF model used	8.00%	5.00%	0.85	12.25%	8.00%

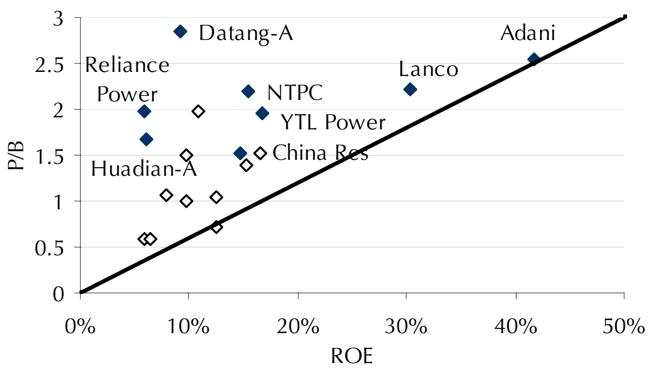
Note: For NTPC 3 stage model is used with medium term growth (FY13-17) of 7.5% and terminal growth of 5% (wef FY 2017)
Source: Religare estimates

Fig 23 - Fair share price versus current price



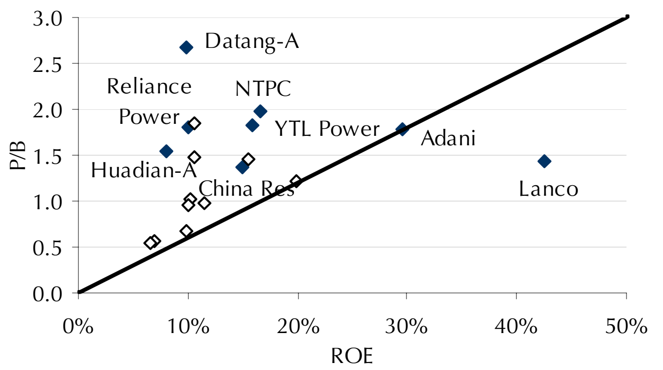
Note: For NTPC, FCFF model is used
Note: Lanco is excluding their value of EPC and infrastructure business values.
Source: Religare estimates

Fig 24 - Price to book ratio versus ROE FY12E



Source: Religare estimates, Bloomberg

Fig 25 - Price book ratio versus ROE FY13E



Source: Religare estimates, Bloomberg

Among the comparables, APL and Lanco are best placed with respect to P/B to ROE ratio, as both of them have huge merchant capacities addition lined up. Therefore, we believe that companies should be able to generate more ROEs as compared to NTPC where returns are largely regulated.

Fig 26 - EV/MW comparables

	NTPC		Reliance Power		APL		Lanco Infratech	
	at CMP of Rs 198	at Religare PT of Rs 175	at CMP of Rs 155.4	at Religare PT of Rs140	at CMP of Rs 117.95	at Religare PT Rs150	at CMP of Rs 61.2	at Religare PT of Rs 78
Market cap (Rs mn)	1,632,602	1,442,956	372,463	335,552	257,135	327,005	147,358	187,809
add: net debt / (cash/investments)	185,229	185,229	87,987	87,987	80,176	80,176	129,491	129,491
EV (Rs mn)	1,817,831	1,628,185	460,450	423,539	337,311	407,181	234,193	274,644
Existing capacity (MW)	30,000	30,000	0	0	330	330	800	800
Addition till 2015E (MW)	25,000	25,000	14,620	14,620	9,900	9,900	7,000	7,000
Debt required for new capacity (Rs mn)	787,500	787,500	526,320	526,320	356,400	356,400	196,000	196,000
Cash generated in next 5 years (PAT+Depreciation)	1,000,453	1,000,453	189,771	189,771	225,236	225,236	37,440	37,440
Equity required for funding of new capacity	337,500	337,500	131,580	131,580	89,100	89,100	78,750	78,750
Value (EV+Debt required) / MW (for 2015 capacity) (Rs m)	35.3	31.9	63.5	61.0	54.5	61.3	60.4	65.6
Value (EV+Debt required) / MW (for 2015 capacity) (US$ m)	0.75	0.68	1.35	1.30	1.16	1.30	1.29	1.40
EV/EBITDA	9.51	8.52	33.60	30.91	22.16	26.74	5.59	6.56
Return over equity (%)	**15-20%**		**5-20%**		**20-40%**		**20-40%**	

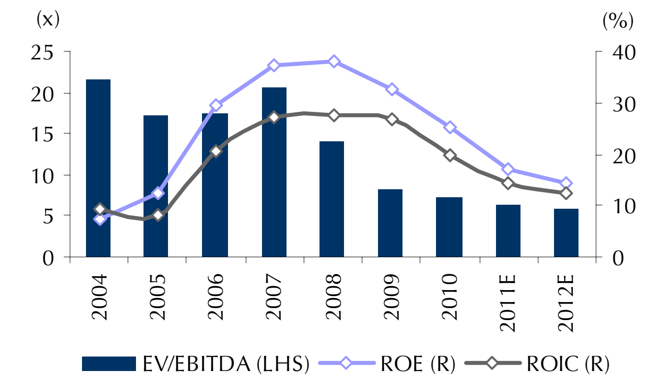
Note: Lanco valuation is excluding value of EPC business
Source: Religare estimates

The fair values are sensitive to what we assume for returns for new projects beyond 2015. As of now, we are assuming that the returns would edge closer to the NTPC regulated return levels by 2015E.

Future of power sector = the present of telecom sector?

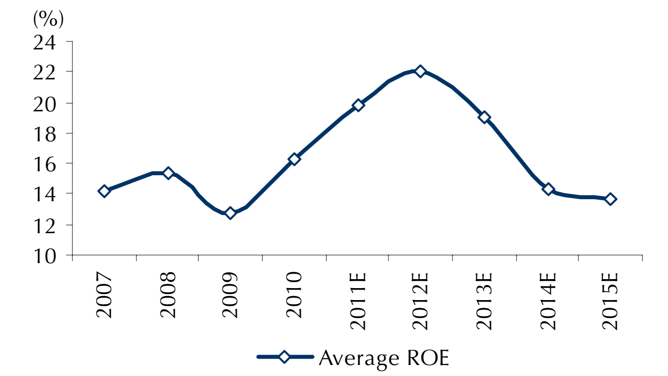
We draw a parallel comparison to the telecom sector in India where Bharti has traded at a high premium during its growth years. As the growth and returns have stabilized to more steady state levels, the multiples have contracted and the stocks have been de-rated despite growth in subscribers.

Fig 27 - Average ROE for (Bharti) telecom sector



Source: Religare estimates

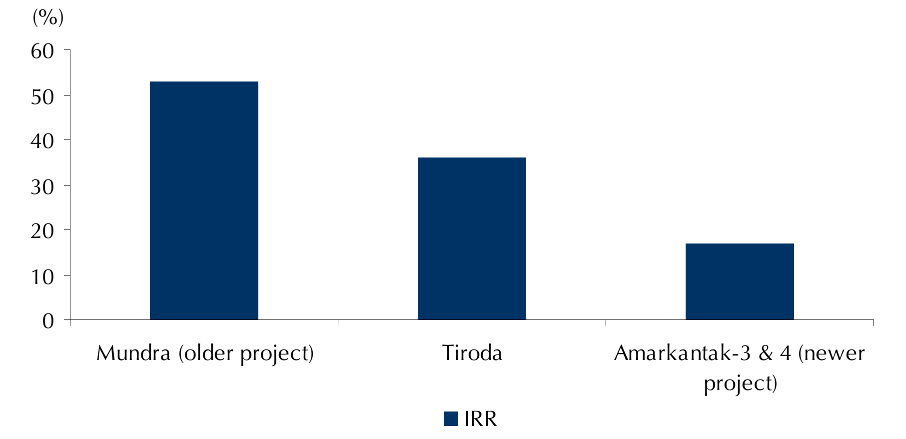
Fig 28 - Average ROE for power sector



Source: Religare estimates

Similarly, in power, we expect that units sold could increase in line with overall growth in the economy but tariffs should stabilize to more normalized levels by 2014-15E (in line with ARPUs) and so will the returns. Therefore, new projects planned beyond 2014-15E should not trade at a P/B of more than 1.5x, given that IRRs of new projects will likely contract to 16-18% or lower. There is also a risk of the new projects running at lower PLFs than that estimated till perpetuity (of 90 %+).

Fig 29 - IRR trend in older project versus newer projects



Source: Religare estimates

Fig 30 - Regional IPP valuation comparison

	Current price	Market cap (mn)	EV to EBITDA (x)			Price to book ratio (x)			Return over equity (%)		
			FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
Regional IPPs											
Adani	119	260,187	19.8	6.0	3.5	3.6	2.6	1.8	20.4	41.8	46.0
China Power Int'l	1.7	8,682	10.8	9.1	7.6	0.6	0.6	0.5	4.6	6.4	6.6
China Resources Power	15.4	72,219	10.2	8.2	6.9	1.8	1.6	1.4	14.1	14.7	14.9
China Yangtze Power	12.4	136,840	12.5	12.2	11.9	2.1	2.0	1.8	10.8	10.8	10.6
Datang - A	7.5	76,350	13.7	11.0	9.1	3.1	2.8	2.7	6.8	9.2	9.8
Datang - H	3.2	87,035	14.3	12.0	9.8	1.1	1.1	1.0	5.8	7.9	10.1
Electricity Generating	78.5	41,328	8.5	9.4	12.2	0.8	0.7	0.7	12.4	12.4	9.9
Glow Energy	35.0	51,200	9.7	8.4	5.7	1.5	1.4	1.2	14.5	15.3	19.9
Huadian - A	4.3	24,955	12.9	9.2	7.4	1.7	1.6	1.5	5.8	6.0	8.1
Huadian - H	1.8	28,447	11.7	9.7	8.0	0.6	0.6	0.6	4.1	5.8	7.0
Huaneng - A	6.3	69,416	9.9	8.9	8.4	1.6	1.5	1.5	8.7	9.7	10.6
Huaneng - H	4.6	79,130	10.3	9.2	8.4	1.0	1.0	0.9	8.8	9.8	10.1
Lanco	61.0	147,358	6.8	5.8	3.7	3.0	2.2	1.4	39.0	30.3	42.4
NTPC	201	1,658,163	9.5	8.7	7.6	2.4	2.2	2.0	15.7	15.5	16.6
Ratchaburi Electricity	36.0	52,200	6.8	6.7	7.1	1.1	1.0	1.0	13.5	12.5	11.5
Reliance Power	157	374,979	27.1	24.3	10.5	2.1	2.0	1.8	7.7	5.9	10.0
Tanjong	17.5	7,057	7.4	7.4	7.2	1.7	1.5	1.5	17.2	16.5	15.6
YTL Power	2.2	15,743	10.1	9.8	9.4	2.1	1.9	1.8	16.9	16.7	15.9

Source: Bloomberg, Religare estimates

Key risks for the sector

A sharp decline in merchant tariffs: Merchant power spot rates have been extremely attractive over the past six months (above Rs 5 on average); this, in fact, has been the key reason for the interest in the sector. We believe there is around a three-year window of opportunity from now to earn attractive merchant power returns, which should favour companies with good execution skills. However, any sharp fall in merchant tariffs or a regulatory cap could adversely impact project profitability.

Fuel availability and cost: Generation companies face substantial execution challenges as there are significant implementation issues related to: 1) funding availability and its cost; 2) fuel supply, 3) land acquisition, and 4) BTG equipment and BOP suppliers.

Political intervention: We believe that regulatory intervention is possible if companies continue to generate a supernormal ROE. If the SEB losses gap widens, we think there is a good chance of governmental interference in the sector.

Increase in competition: Utilities (especially private-sector companies) are planning huge capacity additions in the next five to seven years. If executed well, these projects could lead to oversupply. However, we expect the deficit will continue for the next 10 years or so because not all projects will be completed. Nonetheless, we believe increased supply will put pressure on merchant rates. We have already factored this in as we forecast merchant power tariffs to decline.

Slower-than-expected progress in project execution: The construction and operation of a power plant can be delayed due to execution problems. A delay in capacity commissioning could impact the profitability of projects, as our merchant tariff assumptions are higher in the initial years and then decline gradually.

Transmission linkages: Companies are building their own transmission lines to connect with national/state grids and to supply power to its PPA customers. This takes care of the risk of no evacuation of power due to the unavailability of transmission linkages. However, new projects may face problems due to the availability of transmission linkages. Hence, power generation may suffer due to evacuation problems.

Interest rate risk

Most projects have a debt equity of 70:30. While credit availability may not be a concern, cost of debt would need to be monitored.

Concerns over payment security: SEB discoms are the largest customers of power. While the subsidy to the sector, as a percentage of overall GDP, has come down, the power sector still accounts for 30% of the fiscal deficit of states; therefore it is likely that the losses are concentrated in a few states. Hence, payment security beyond a few states is a matter of concern.

Companies

Adani Power Ltd

Changing colours

We initiate Adani Power (APL) with buy rating. Since IPO, APL has had ongoing issues on fuel, tariffs and delays to its projects, and the consensus EPS over FY11-12E has been lowered by 30%. The stock though has risen by 20% from the IPO price aided by seasonally high merchant tariffs, and the likelihood that APL might be able to convert the 1,000MW of Mundra Phase-III to one based on short term merchant tariffs. Our fair value of projects based on existing contracts works out to Rs135/sh and if one were to value the 1,000MW as merchant, we get to Rs150/sh. Excluding the 1,000MW, APL has the highest MW of upcoming merchant capacity until 2013E in the sector, and hence despite higher fuel costs, we expect APL to report FY10-13E earnings CAGR of 221%. We think until the contract issues are settled, one should value the plant as merchant. Hence, we initiate with Buy rating. Key downside risks to our call are a) higher than estimated fuel costs b) lower than estimated tariffs.

It is better to be conservative on fuel: As of now, technically the contract from AEL kicks in only when the respective last units of Mundra projects are commissioned and until then, APL will likely take the burden of higher coal costs. As against the CIF cost of US$36/te for the 5,200kcal/kg coal from its Indonesian mine, we estimate imported coal costs at > Rs2,250/te (US$50/te) blended with domestic coal at Rs1,600/te.

Tariff uncertainty on a few projects: There are two uncertainties – 1) merchant rates and 2) tariffs on Mundra Phase-III. In our estimate, we expect the company might be in a position to walk out of the contract with GUVNL for the next 2-3years, and hence, we expect merchant tariffs even for the 1,000MW. If we were to assume merchant tariffs higher than by 10% in FY11 and FY12, the value increases by 17%.

Strong point is likely to be sales growth, and in turn EPS, ROE: We estimate ten-fold increase in sales and five-fold increase in EPS. We also expect ROE to increase from 4% to 46% by FY13E. We also do not expect any dilution.

Valuation, we initiate with Buy: Our PT of Rs150 is based on valuation of the projects. The value of the 13,260MW of projects (including Dahej and Kawai) works out to Rs150/sh. Taking the plant as under original contract, the fair value is Rs135/sh. While we are at the higher end of the consensus EPS estimates for FY11E, there could be downgrades to EPS estimates for FY12.

CMP	TARGET	RATING	RISK
Rs 119	Rs 150	BUY	HIGH

BSE	NSE	BLOOMBERG
533096	ADANIPOWER	ADP IN

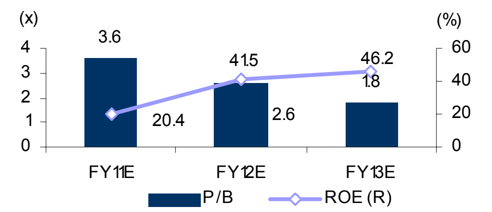
Company data

Market cap (Rs mn / US$ mn)	260,187/5,587
Outstanding equity shares (mn)	2,180
Free float (%)	14.8
Dividend yield (%)	-
52-week high/low (Rs)	129 / 90
2-month average daily volume	1,687,291

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Adani power	119	(3.4)	12.5	27.2
BSEPOWR	3,017	(3.7)	1.9	2.3
Sensex	16,863	(3.0)	2.6	1.4

P/B vs ROE comparison



Valuation matrix

(x)	FY10	FY11E	FY12E	FY13E
P/E @ CMP	151.8	18.5	7.2	4.6
P/E @ Target	191.5	23.4	9.0	5.8
EV/EBITDA @ CMP	121.4	19.8	6.0	3.5

RCML vs consensus

Parameter	FY11E		FY12E	
	RHH	Cons	RHH	Cons
Sales (Rs mn)	24,452	27,186	74,743	82,252
EPS (Rs)	6.1	4.0	16.3	13.4

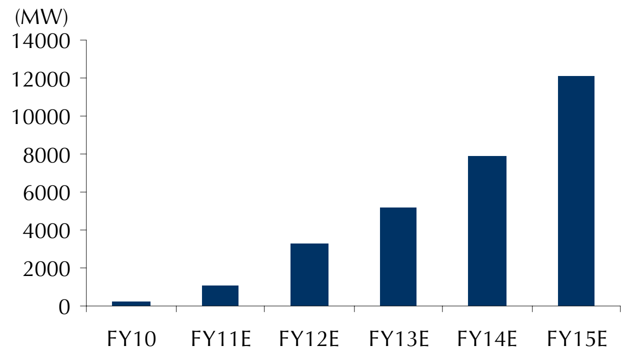
Financial highlights

(Rs mn)	FY10	FY11E	FY12E	FY13E
Revenue	4,349	24,452	74,743	130,028
Growth (%)	*n/a*	*462.3*	*205.7*	*74.0*
Adj net income	1,708	13,309	35,632	56,140
Growth (%)	*n/a*	*679*	*168*	*58*
FDEPS (Rs)	0.8	6.1	16.3	25.9
Growth (%)	*n/a*	*679*	*168*	*58*

Profitability and return ratios

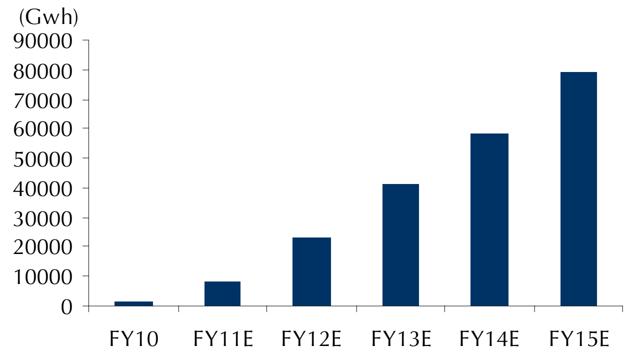
(%)	FY10	FY11E	FY12E	FY13E
EBITDA margin	56	62	67	67
EBIT margin	55	68	63	63
Adj PAT margin	37	48	46	46
ROE	4	20	42	46
ROIC	3	12	23	23
ROCE	2	9	18	18

Fig 31 - Net power capacity at the year end



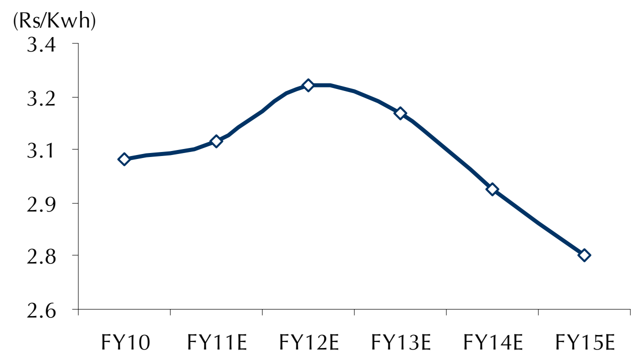
Source: Religare estimates

Fig 32 - Sales volume (Gwh)



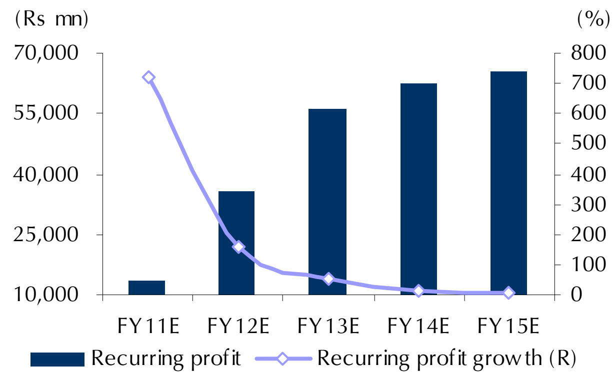
Source: Religare estimates

Fig 33 - Average tariff realization per KWh



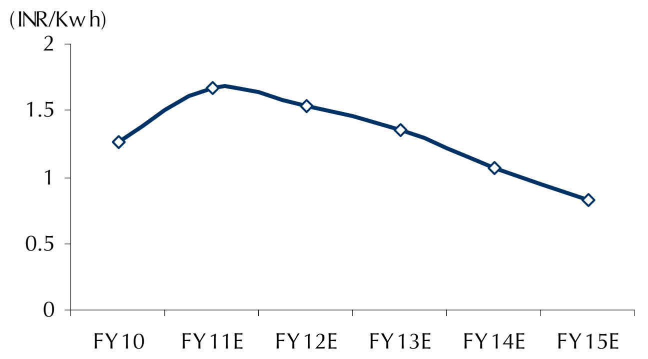
Source: Religare estimates

Fig 34 - Recurring profit growth



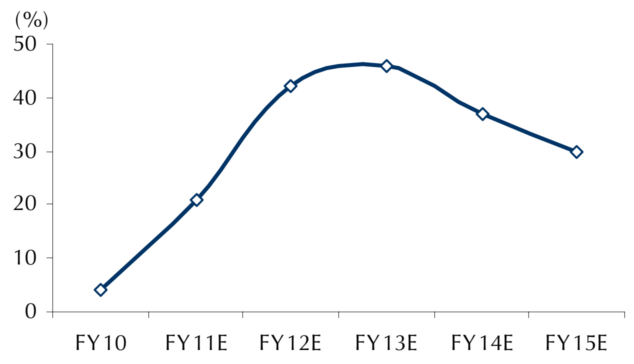
Source: Religare estimates

Fig 35 - Profit per Kwh



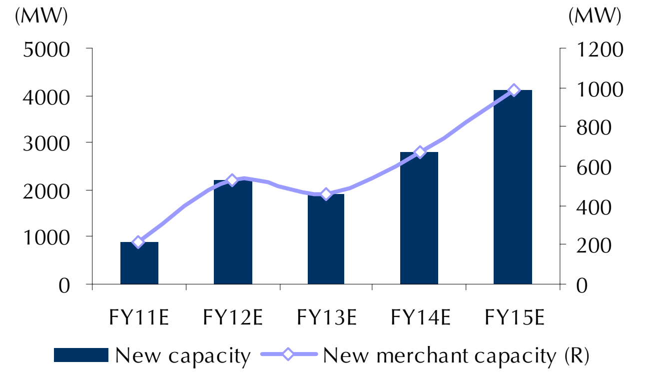
Source: Religare estimates

Fig 36 - ROE profile



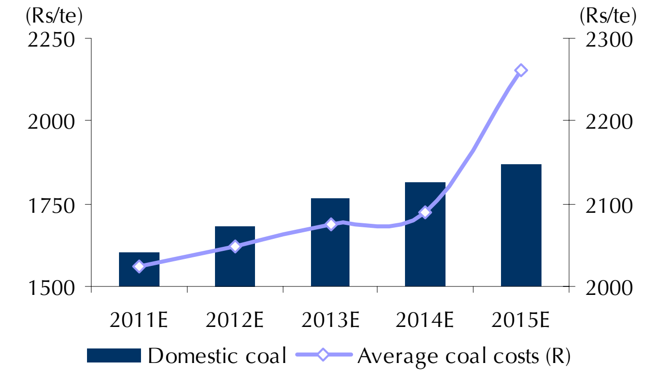
Source: Religare estimates

Fig 37 - Addition of new capacity versus merchant capacity



Source: Religare estimates

Fig 38 - Costs imported coal versus domestic coal



Source: Religare estimates

Valuation

We have used FCFE as the primary tool for valuation of the company. However at steady state, which is year 2014-15E, we estimate Adani's EV/MW at US$1.3mn/MW, which is at the higher end of its peer group justifiable given its higher returns.

Key risks

Besides the risks mentioned in the macro section, there are other company specific risks to which stock is sensitive. The stock price is most sensitive to coal costs, merchant tariffs and Mundra phase III capacity as merchant.

Coal costs – If we were to assume 10% increase (decrease) to fuel costs, the value decreases (increases) from Rs150 to Rs118 (Rs173)

Merchant tariffs – If we assume merchant tariffs higher (lower) by 10%, the value increases (decreases) by 17% (16%)

Mundra phase III as merchant capacity– We have assumed the 1,000MW capacity of Mundra Phase-3 project as merchant power. If we assume this to be based on original contract (PPA), the value falls from Rs150/sh to Rs133/sh

Fig 39 - Share price sensitivity to tariff and duty

	Duty present	Duty absent
-20%	98	125
-10%	123	154
Tariff base case	150	184
10%	172	213
20%	196	242

Source: Religare estimates

Fig 40 - Share price sensitivity to tariff and fuel costs

	-20%	-10%	Fuel	10%	20%
-20%	145	123	98	70	37
-10%	170	148	123	94	60
Tariff	196	173	150	118	84
10%	221	198	172	141	107
20%	246	223	196	165	131

Source: Religare estimates

Fig 41 - Share price sensitivity to discount rate

Discount rate (%)	11%	13%	14%	15%	17%
Share price	196	169	150	130	116

Source: Religare estimates

Fig 42 - EPS FY11 price sensitivity to tariff and duty

	Duty present	Duty absent
-20%	5.5	6.0
-10%	5.8	6.3
Tariff base case	6.1	6.7
10%	6.4	7.1
20%	6.7	7.4

Source: Religare estimates

Fig 43 - EPS FY11 price sensitivity to tariff and fuel costs

	-20%	-10%	Fuel	10%	20%
-20%	6.3	5.9	5.5	5.1	4.7
-10%	6.6	6.2	5.8	5.4	4.9
Tariff	7.0	6.5	6.1	5.7	5.2
10%	7.3	6.8	6.4	6.0	5.5
20%	7.6	7.2	6.7	6.3	5.8

Source: Religare estimates

Fig 44 - EPS FY12 price sensitivity to tariff and duty

	Duty present	Duty absent
-20%	12.6	16.0
-10%	14.6	18.5
Tariff base case	16.6	20.9
10%	18.6	23.4
20%	20.6	25.8

Source: Religare estimates

Fig 45 - EPS FY12 price sensitivity to tariff and fuel costs

	-20%	-10%	Fuel	10%	20%
-20%	15.8	14.2	12.4	10.4	8.4
-10%	17.9	16.2	14.4	12.4	10.3
Tariff	20.0	18.2	16.3	14.3	12.2
10%	22.1	20.3	18.3	16.3	14.1
20%	24.2	22.3	20.3	18.2	16.0

Source: Religare estimates

Consolidated financials

Profit and Loss statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Revenues	**4,349**	**24,452**	**74,743**	**130,028**
Growth (%)	*n/a*	*462.3*	*205.7*	*74.0*
EBITDA	**2,446**	**15,225**	**49,946**	**87,409**
Growth (%)	*n/a*	*522.5*	*228.1*	*75.0*
Depreciation & amortisation	353	1,837	5,379	10,890
EBIT	2,412	16,596	47,112	77,896
Growth (%)	*(12,969.4)*	*588.2*	*183.9*	*65.3*
Interest	377	2,645	9,782	15,986
Other income	319	3,209	2,545	1,377
EBT	2,035	13,951	37,331	61,910
Income taxes	327	642	1,030	2,680
Effective tax rate (%)	16.1	4.6	2.8	4.3
Extraordinary items	-	-	-	-
Min into / inc from associates	-	-	669	3,089
Reported net income	1,708	13,309	35,632	56,140
Adjustments	-	-	-	-
Adjusted net income	**1,708**	**13,309**	**35,632**	**56,140**
Growth (%)	*n/a*	*679*	*168*	*58*
Shares outstanding (mn)	2,180.0	2,180.0	2,180.0	2,180.0
FDEPS (Rs) (adj)	**0.8**	**6.1**	**16.3**	**25.8**
Growth (%)	*n/a*	*679*	*168*	*58*
DPS (Rs)	-	-	3.3	5.2

Balance sheet

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Cash and cash eq	32,206	48,021	15,614	18,819
Accounts receivable	5,098	6,646	11,252	15,586
Inventories	533	1,519	4,572	7,934
Other current assets	-	-	-	-
Investments	10,886	21,772	23,949	26,344
Gross fixed assets	32,625	43,500	163,074	286,952
Net fixed assets	32,215	41,252	155,448	268,436
CWIP	63,874	83,793	96,585	132,092
Intangible assets	-	-	-	-
Deferred tax assets, net	n/a	n/a	n/a	n/a
Other assets	n/a	n/a	n/a	n/a
Total assets	**144,811**	**203,003**	**307,420**	**469,210**
Accounts payable	79	404	1,075	1,829
Other current liabilities	5,444	5,444	5,444	5,444
Provisions	-	-	520	2,404
Debt funds	80,709	125,266	200,030	312,303
Other liabilities	-	-	669	3,758
Equity capital	21,800	21,800	21,800	21,800
Reserves & surplus	36,779	50,089	77,882	121,671
Shareholder's funds	58,580	71,889	99,682	143,472
Total liabilities	**144,811**	**203,003**	**307,420**	**469,210**
BVPS (Rs)	26.9	33.0	45.7	65.8

Cash flow statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Net income + Depreciation	2,020	15,147	41,011	67,031
Non-cash adjustments	(328)	(3,209)	(2,025)	507
Changes in working capital	(810)	(2,209)	(6,989)	(6,941)
Cash flow from operations	881	9,729	31,997	60,596
Capital expenditure	(30,672)	(30,794)	(132,367)	(159,385)
Change in investments	(8,164)	(10,886)	(2,177)	(2,395)
Other investing cash flow	319	3,209	2,545	1,377
Cash flow from investing	(38,517)	(38,471)	(131,998)	(160,402)
Issue of equity	33,935	-	-	-
Issue/repay debt	30,812	44,557	74,765	112,273
Dividends paid	-	-	(7,839)	(12,351)
Other financing cash flow	153	0	669	3,089
Change in cash & cash eq	27,264	15,815	(32,407)	3,205
Closing cash & cash eq	32,206	48,021	15,614	18,819

Financial ratios

Y/E March	FY10	FY11E	FY12E	FY13E
Profitability & Return ratios (%)				
EBITDA margin	56	62	67	67
EBIT margin	55	68	63	60
Net profit margin	37	48	46	43
ROE	4	20	42	46
ROCE	2	9	18	19
Working Capital & Liquidity ratios				
Receivables (days)	-	17	21	24
Inventory (days)	-	546	159	67
Payables (days)	-	17	21	24
Current ratio (x)	6.0	8.8	3.8	3.9
Quick ratio (x)	3.9	7.5	6.3	4.0
Turnover & Leverage ratios (x)				
Gross asset turnover	0.2	0.6	0.7	0.6
Total asset turnover	0.0	0.1	0.3	0.3
Interest coverage ratio	-	6.3	4.8	4.9
Adjusted debt/equity	1.4	1.7	2.0	2.2
Valuation ratios (x)				
EV/Sales	68.3	11.7	3.7	2.1
EV/EBITDA	121.4	19.8	6.0	3.5
P/E	151.8	18.5	7.2	4.6
P/BV	4.4	3.6	2.6	1.8

Economic Value Added (EVA) analysis

Y/E March	FY10	FY11E	FY12E	FY13E
WACC (%)	11.8	11.8	11.8	11.8
ROIC (%)	3	12	23	24
Invested capital (Rs mn)	87,411	128,108	216,950	362,740
EVA (Rs mn)	(7,853)	131	24,384	44,670
EVA spread (%)	(9.0)	0.1	11.2	12.3

DuPont analysis

(%)	FY10	FY11E	FY12E	FY13E
Tax burden (Net income/PBT)	83.9	95.4	95.5	90.7
Interest burden (PBT/EBIT)	84.4	84.1	79.2	79.5
EBIT margin (EBIT/Revenues)	55.5	67.9	63.0	59.9
Asset turnover (Revenues/Avg TA)	3.9	14.1	29.3	33.5
Leverage (Avg TA/Avg equtiy)	274.0	266.6	297.5	319.4
Return on equity	**4.2**	**20.4**	**41.5**	**46.2**

Company profile

Adani Power Ltd is a power project development company. The Company develops, operates and maintains power projects in India. The company is promoted by the Adani group which has interests in ports (Mundra Ports), trading and coal mining (Adani Enterprise)

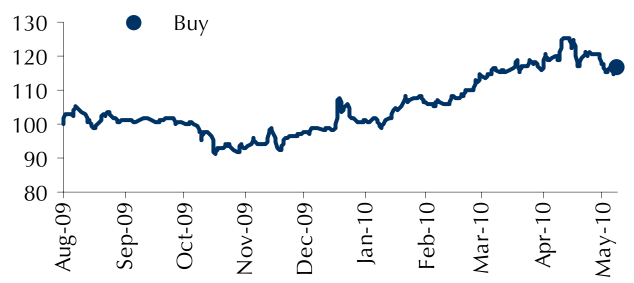
Shareholding pattern

(%)	Sep-09	Dec-09	Mar-10
Promoters	73.5	73.5	73.50
FIIs	7.5	7.7	8.15
Banks & FIs	1.7	1.9	2.57
Public	17.3	16.9	15.78

Recommendation history

Date	Event	Reco price	Tgt price	Reco
31-May-10	Initiating Coverage	119	150	Buy

Stock performance



Lanco Infratech Ltd

With near flawless execution, relatively water tight contracts for fuel, and an increasing share of merchant capacity from 21% in FY10 to 26% in FY15E, Lanco is well-poised to reap extraordinary returns. While PLFs should drop beyond 2013E, it is unlikely that investors will begin to factor in this into valuations now, given the past slippages and tenuous nature of demand though we have estimated lowers PLFs from FY15E onwards. We initiate coverage on Lanco with a Buy to a price target of Rs 85, an upside of 39% from current levels.

Highest rated private sector IPP on our scorecard: Lanco has coal linkages for 100% of its expansion projects and all the other necessary clearances to proceed with construction. We expect that Lanco will be able to take up the new expansion projects only by FY12E given the gaps in cash flows. Among the new projects, we expect the company to take up only Babandh-I and II while Vidarbha project could get delayed due to equity shortfall.

Capacity growth on fast track: We estimate sales volume to increase from 9,109Gwh in FY10E to 49,028Gwh in FY13E as expected capacity addition is till 4,302MW. We expect sales revenues to increase at a 37% CAGR from its current levels till FY13E.

Returns, profitability strong till 2013E: Given our broad demand-supply outlook, we estimate that projects that come up before FY14E will continue to earn returns >25% until FY14E. We estimate EPS to grow seven-fold over FY10-13E; ROE is expected to increase from 17% in FY10E to 42% in FY13E. EPC revenue is estimated to grow at a 17% CAGR till FY13 and EBITDA by 150% from current levels.

Initiate with a Buy: Our price target of Rs 85 is derived by using the sum of the parts method. Of this, the power segment accounts for Rs 61/share that has been derived using FCFE. The key risks specific to stock are its sensitivity to, merchant tariffs, EPC business margins and discount rate.

CMP	TARGET	RATING	RISK
Rs61	Rs85	BUY	HIGH

BSE	NSE	BLOOMBERG
532778	LITL	LANCI IN

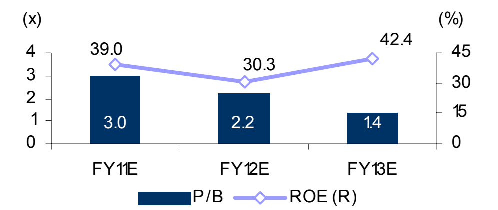
Company data

Market cap (Rs mn / US$ mn)	1,47,358/3,179
Outstanding equity shares (mn)	2,408
Free float (%)	32.1
Dividend yield (%)	n/a
52-week high/low (Rs)	65 / 31
2-month average daily volume	7,683,668

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Lanco	61	(2.1)	33.3	14.8
BSEPOWR	3,017	(3.7)	1.9	2.3
Sensex	16,863	(3.0)	2.6	1.4

P/B vs ROE comparison



Valuation matrix

(x)	FY10E	FY11E	FY12E	FY13E
P/E @ CMP	31.5	9.2	8.4	4.1
P/E @ Target	43.7	12.8	11.7	5.7
EV/EBITDA @ CMP	18.2	6.8	5.8	3.7

RCML vs consensus

Parameter	FY11E		FY12E	
	RHH	Cons	RHH	Cons
Sales (Rs mn)	123,448	83,652	193,563	151,486
EPS (Rs)	6.6	4.5	7.2	5.4

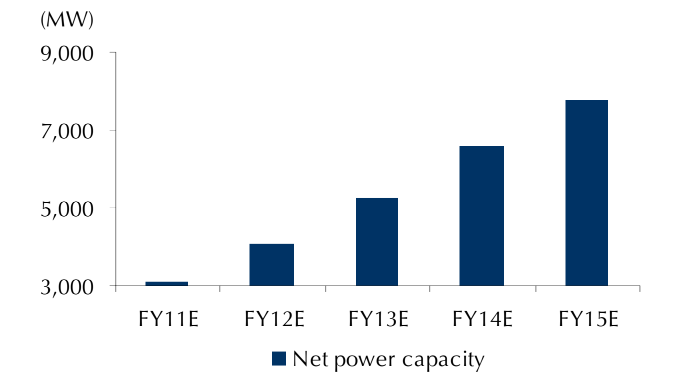
Financial highlights

(Rs mn)	FY10E	FY11E	FY12E	FY13E
Revenue	99,028	158,064	193,563	253,989
Growth (%)	*63.3*	*59.6*	*22.5*	*31.2*
Adj net income	4,680	15,954	17,444	35,737
Growth (%)	*46*	*241*	*8*	*105*
FDEPS (Rs)	1.9	6.6	7.2	14.8
Growth (%)	*46*	*241*	*8*	*105*

Profitability and return ratios

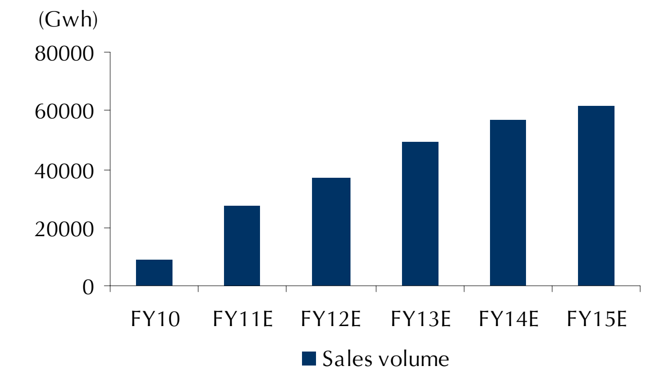
(%)	FY10E	FY11E	FY12E	FY13E
EBITDA margin	15.8	26.5	25.4	30.4
EBIT margin	12.8	22.3	21.3	25.5
Adj PAT margin	4.7	10.1	9.0	14.1
ROE	17.4	39.0	30.3	42.4
ROIC	8.3	15.6	13.5	21.1
ROCE	4.1	10.9	10.4	16.0

Fig 46 - Net power capacity



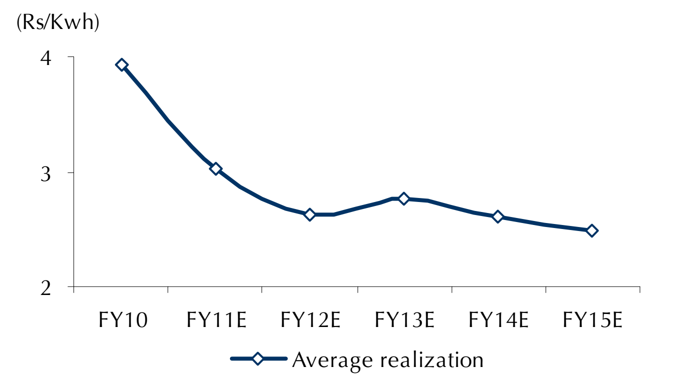
Source: Religare estimates

Fig 47 - Sales volume (Gwh)



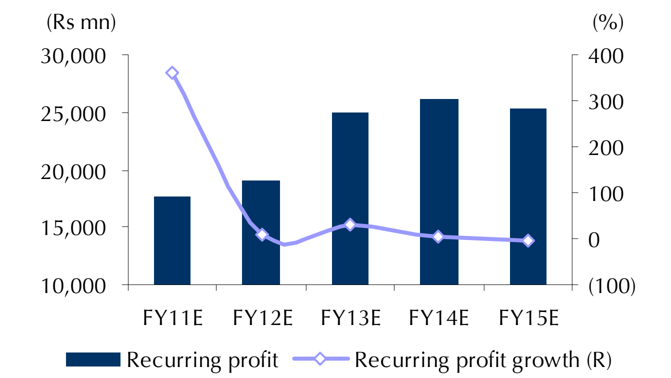
Source: Religare estimates

Fig 48 - Average tariff realisation per Kwh



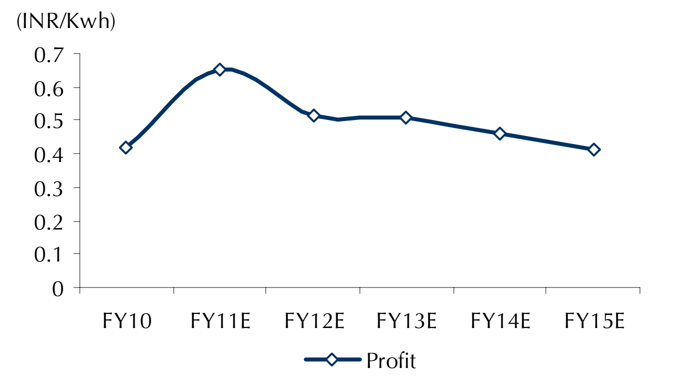
Source: Religare estimates

Fig 49 - Recurring profit growth



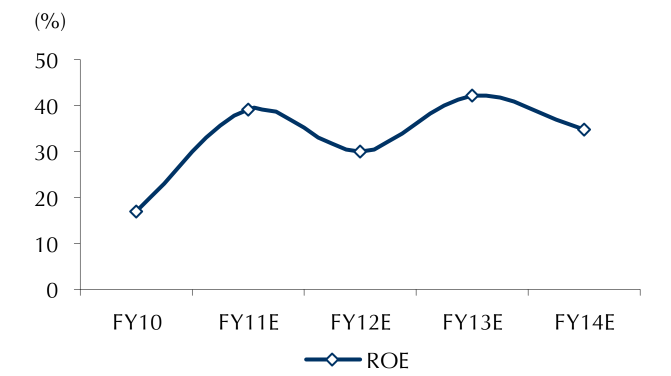
Source: Religare estimates

Fig 50 - Profit per Kwh



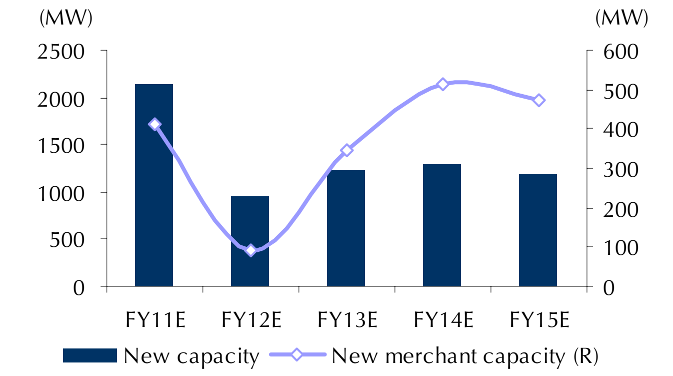
Source: Religare estimates

Fig 51 - ROE profile



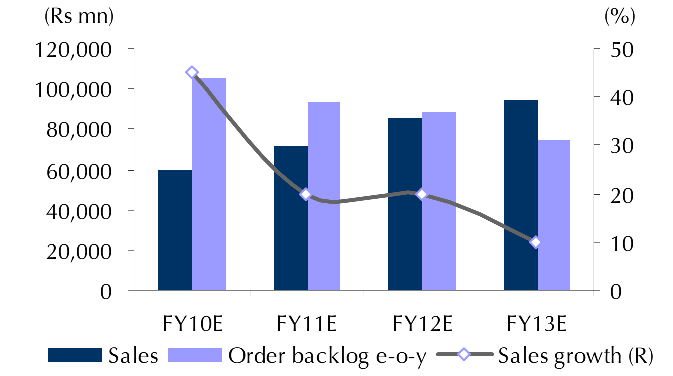
Source: Religare estimates

Fig 52 - Addition of new capacity vs. merchant capacity



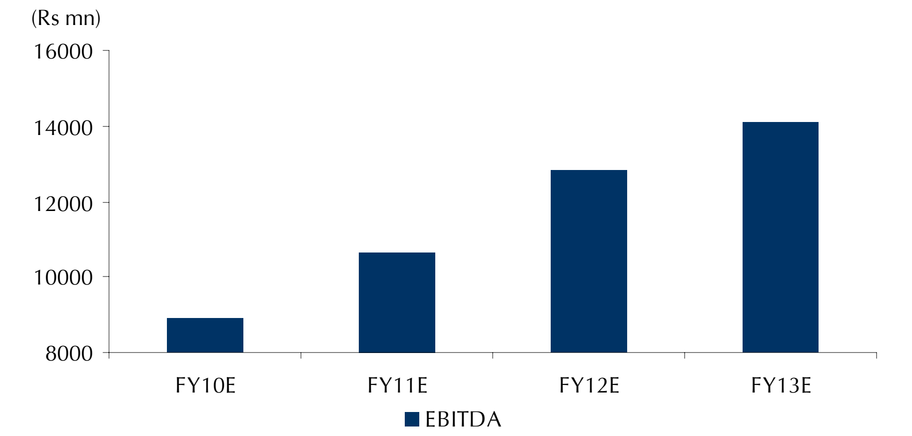
Source: Religare estimates

Fig 53 - Sales growth versus order backlog (end of year)



Source: Religare estimates

Fig 54 - EBITDA forecasts for EPC business



Note: EBITDA shown above reflects only EPC business
Source: Religare estimates

Valuations

We have used FCFE as primary tool for valuing the company. We have valued a total of ~7,300MW (see details below).

Fig 55 - Sum of the parts valuation for Lanco

Business	Benchmark	Equity value (Rs mn)	Rs per share	% value
Power	Asset valuation using DCF	147,720	61	72.8%
Infrastructure	Asset valuation using DCF	9,398	4	4.6%
EPC	6x FY11 EBITDA	42,656		
Debt in EPC division		6,000		
Net value of EPC		36,656	15	18.1%
Net value of Power, Infra and EPC division		193,774	80	95.5%
Real Estate	Asset valuation using DCF	12,155		
	Valuation after 25% discount to NAV	9,116	4	4.5%
No. of shares (mn)		2,408		
Net Equity Value		202,890	**84**	100.0%

Source: Religare estimates

Key risks

Besides the risks mentioned in the macro section, there are other company specific risks to which stock is sensitive. Among these, the stock price is most sensitive to EPC business, merchant tariffs, and discount rate.

EPC segment margins: If we assume EPC segment EBITDA margins to be higher (lower) by 10%, the value of EPC business per share increases (decreases) 12%. Our current estimate for the margin is of 15%.

Discounting rate: We have assumed a discounting rate of 14%. A 10% higher variation (lower) than the assumed discount rate could decrease (increase) the share price by 4% (5%)

Merchant tariffs: If we assume merchant tariffs higher (lower) by 10%, the value of the power business per share increases (decreases) by 2%

Fig 56 - Share price sensitivity to tariff and fuel costs

	-20%	-10%	Discount rate	10%	20%
-20%	64.9	61.6	58.9	56.5	54.5
-10%	66.1	62.9	60.1	57.7	55.7
Tariff	67.4	64.1	61.4	59.0	56.9
10%	68.6	65.4	62.6	60.2	58.2
20%	69.8	66.6	63.8	61.5	59.4

Source: Religare estimates

Fig 57 - Sensitivity of E&C business value per share to EBITDA margins

EBITDA margin (%)	12	14	15	17	18
Share price	11.7	13.5	15.2	17.0	18.8

Source: Religare estimates

Fig 58 - FY11 EPS sensitivity to merchant tariff and discount rate

Merchant tariff (%)	-20	-10	0	10	20
FY11 EPS	5.3	5.9	6.6	7.3	8.0

Source: Religare estimates

Fig 59 - FY11 sensitivity to EBITDA margins

EBITDA margin (%)	12	14	15	17	18
Share price	6.1	6.4	6.6	6.9	7.1

Source: Religare estimates

Consolidated financials

Profit and Loss statement

Y/E March (Rs mn)	FY10E	FY11E	FY12E	FY13E
Revenues	**99,028**	**158,064**	**193,563**	**253,989**
Growth (%)	*63*	*60*	*22*	*31*
EBITDA	**15,599**	**41,875**	**49,079**	**77,336**
Growth (%)	*77*	*168*	*17*	*58*
Depreciation & amortisation	2,933	6,652	7,910	12,529
EBIT	12,667	35,223	41,168	64,807
Growth (%)	*64*	*178*	*17*	*57*
Interest	3,321	10,887	13,150	18,292
Other income	871	817	654	3,502
EBT	10,217	25,152	28,673	50,018
Income taxes	2,727	3,795	5,717	8,345
Effective tax rate (%)	*27*	*15*	*20*	*17*
Extraordinary items	-	-	-	-
Min into / inc from associates	(2,811)	(5,403)	(5,512)	(5,935)
Reported net income	4,680	15,954	17,444	35,737
Adjustments	-	-	-	-
Adjusted net income	**4,680**	**15,954**	**17,444**	**35,737**
Growth (%)	*46*	*241*	*8*	*105*
Shares outstanding (mn)	2,407.8	2,407.8	2,407.8	2,407.8
FDEPS (Rs) (adj)	**1.9**	**6.6**	**7.2**	**14.8**
Growth (%)	*46*	*241*	*8*	*105*
DPS (Rs)	n/a	n/a	n/a	n/a

Cash flow statement

Y/E March (Rs mn)	FY10E	FY11E	FY12E	FY13E
Net income + Depreciation	7,612	22,607	25,354	48,266
Non-cash adjustments	(871)	(817)	(654)	(3,502)
Changes in working capital	730	2,142	6,219	(1,174)
Cash flow from operations	7,471	23,932	30,919	43,590
Capital expenditure	(100,305)	(72,214)	(56,685)	6,596
Change in investments	-	-	-	-
Other investing cash flow	871	817	654	3,502
Cash flow from investing	(99,434)	(71,397)	(56,031)	10098
Issue of equity	184	-	-	-
Issue/repay debt	85,398	40,198	20,536	13,955
Dividends paid	-	-	-	-
Other financing cash flow	8,353	3,934	3,850	4,272
Change in cash & cash eq	1,972	(3,334)	(726)	71,915
Closing cash & cash eq	11,877	8,543	7,817	79,732

Economic Value Added (EVA) analysis

Y/E March	FY10E	FY11E	FY12E	FY13E
WACC (%)	11	11	11	12
ROIC (%)	8	16	13	21
Invested capital (Rs mn)	112,488	192,015	244,473	256,219
EVA (Rs mn)	(3,269)	8,322	5,176	24,215
EVA spread (%)	(3)	4	2	9

Balance sheet

Y/E March (Rs mn)	FY10E	FY11E	FY12E	FY13E
Cash and cash eq	11,877	8,543	7,817	79,732
Accounts receivable	16,279	21,653	23,864	31,314
Inventories	16,193	19,099	23,033	25,312
Other current assets	18,992	25,983	29,167	38,272
Investments	10,329	10,845	11,387	11,957
Gross fixed assets	88,567	154,139	191,379	253,173
Net fixed assets	78,019	136,938	166,267	215,533
CWIP	70,758	75,143	92,491	21,765
Intangible assets	n/a	n/a	n/a	n/a
Deferred tax assets, net	n/a	n/a	n/a	n/a
Other assets	4,409	6,150	7,705	9,471
Total assets	**226,855**	**304,354**	**361,732**	**433,356**
Accounts payable	n/a	n/a	n/a	n/a
Other current liabilities	44,086	61,500	77,048	94,708
Provisions	-	-	-	-
Debt funds	141,368	181,566	202,102	216,056
Other liabilities	8,471	12,405	16,255	20,526
Equity capital	2,383	2,383	2,383	2,383
Reserves & surplus	30,547	46,501	63,945	99,682
Shareholder's funds	32,929	48,883	66,327	102,065
Total liabilities	**226,855**	**304,354**	**361,732**	**433,355**
BVPS (Rs)	13.7	20.3	27.5	42.4

Financial ratios

Y/E March	FY10E	FY11E	FY12E	FY13E
Profitability & Return ratios (%)				
EBITDA margin	16	26	25	30
EBIT margin	13	22	21	26
Net profit margin	5	10	9	14
ROE	17	39	30	42
ROCE	4	11	10	16
Working Capital & Liquidity ratios				
Receivables (days)	60	50	45	45
Inventory (days)	73	62	60	53
Payables (days)	n/a	n/a	n/a	n/a
Current ratio (x)	1.4	1.2	1.1	1.8
Quick ratio (x)	0.6	0.5	0.4	1.2
Turnover & Leverage ratios (x)				
Gross asset turnover	1.8	1.3	1.1	1.1
Total asset turnover	0.4	0.5	0.5	0.6
Interest coverage ratio	3.8	3.2	3.1	3.5
Adjusted debt/equity	4.3	3.7	3.0	2.1
Valuation ratios (x)				
EV/Sales	2.9	1.8	1.5	1.1
EV/EBITDA	18.2	6.8	5.8	3.7
P/E	31.5	9.2	8.4	4.1
P/BV	4.5	3.0	2.2	1.4

DuPont analysis

(%)	FY10E	FY11E	FY12E	FY13E
Tax burden (Net income/PBT)	46	63	61	71
Interest burden (PBT/EBIT)	81	71	70	77
EBIT margin (EBIT/Revenues)	13	22	21	26
Asset turnover (Revenues/Avg TA)	58	60	58	64
Leverage (Avg TA/Avg equtiy)	635	649	578	472
Return on equity	**17**	**39**	**30**	**42**

Company profile

Lanco Infratech Limited is an infrastructure development company with interests in power, construction, and property development.

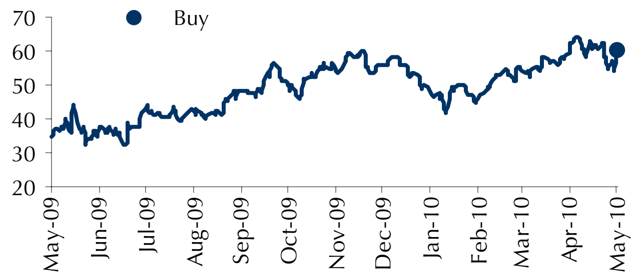
Shareholding pattern

(%)	Sep-09	Dec-09	Mar-10
Promoters	68.0	68.0	68.0
FIIs	18.4	19.3	19.1
Banks & FIs	4.6	4.1	4.2
Public	9.0	8.6	8.7

Recommendation history

Date	Event	Reco price	Tgt price	Reco
31-May-10	Initiating Coverage	61	85	Buy

Stock performance



NTPC Ltd

In A Steady State

We initiate on NTPC with a SELL rating. NTPC scores the highest in our scorecard for its completely ring-fenced equity rate of return and strong execution. We see no triggers for the company to outperform in the near-term given that there are some delays in new capacity additions. Typically, the company has outperformed the broader market only in a falling market (CY08) or in case of favourable regulatory announcements (Jan'09). The key risks to our call are a) changes in regulation that permit higher UI charges, and b) faster than expected completion of new capacity.

Absence of triggers leads to underperformance: NTPC has underperformed the BSE-Sensex by 5.2% over the past 6months. NTPC is not a big beneficiary of the seasonal spurt in merchant tariffs as it has less than 5% of upcoming capacity over next 5 years as merchant/UI. Further, NTPC has missed timelines for completion and the current capacity addition plans look aggressive.

~23,000MW (incl. JVs) capacity addition in next four years: NTPC is executing around 23,000MW in projects. We estimate 23,691MW of capacity commissioning by '15E which is an aggressive estimate given slippages in the past. Of this, we estimate ~2GW to be merchant (500MW each at Korba and Farakka, 600MW at LoharinagPala, 520MW at Tabopan Vishnugad).

EPS growth in line with capacity growth : The EPS and ROE are estimated to increase over the next 3 years but the ROE is expected to increase only marginally. We have also factored in tax related benefits for NTPC as per the CERC order.

Valuation: Our key DCF assumptions are: 1) cost of debt 11%; 2) cost of equity 12.2%; and 3) debt: equity 1:1. Our price target assumes five-year intermediate growth of 7.5%, and terminal growth of 5%. We initiate with a SELL rating.

CMP	TARGET	RATING	RISK
Rs 201	Rs 200	SELL	HIGH

BSE	NSE	BLOOMBERG
532555	NTPC	NATP IN

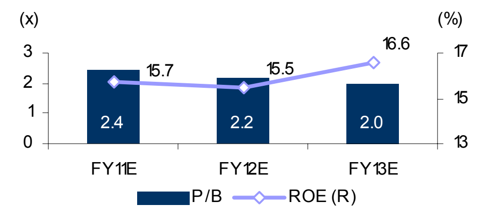
Company data

Market cap (Rs mn / US$ mn)	1,658,163/35,541
Outstanding equity shares (mn)	8,245
Free float (%)	15.5
Dividend yield (%)	1.8
52-week high/low (Rs)	242 / 182
2-month average daily volume	2,979,166

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
NTPC	201	(2.9)	(1.4)	(3.8)
BSEPOWR	3,017	(3.7)	1.9	2.3
Sensex	16,864	(3.0)	2.6	1.4

P/B vs ROE comparison



Valuation matrix

(x)	FY10	FY11E	FY12E	FY13E
P/E @ CMP	1.9	1.6	1.5	1.3
P/E @ Target	1.9	1.6	1.5	1.3
EV/EBITDA @ CMP	11.7	9.5	8.7	7.6

RCML vs consensus

Parameter	FY11E		FY12E	
	RCML	Cons	RCML	Cons
Sales (Rs mn)	488,843	547,060	552,212	623,744
EPS (Rs)	12.4	12.0	13.4	13.4

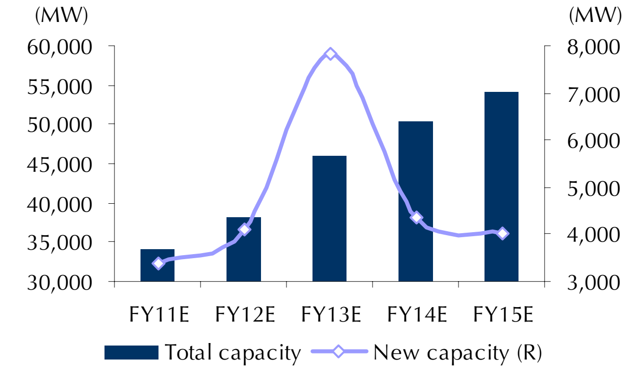
Financial highlights

(Rs mn)	FY10	FY11E	FY12E	FY13E
Revenue	474,980	488,843	552,212	619,701
Growth (%)	*9*	*3*	*13*	*12*
Adj net income	87,282	102,367	110,409	130,064
Growth (%)	*5*	*17*	*8*	*18*
FDEPS (Rs)	10.6	12.4	13.4	15.8
Growth (%)	*6*	*17*	*8*	*18*

Profitability and return ratios

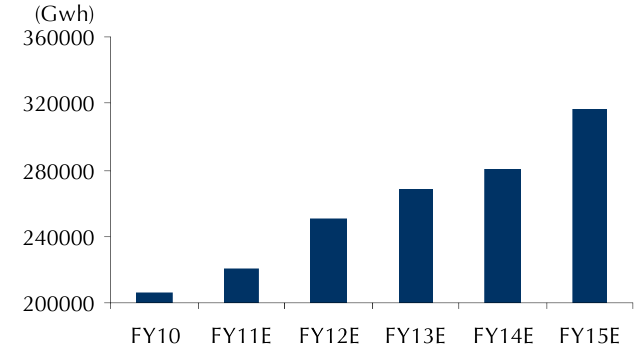
(%)	FY10	FY11E	FY12E	FY13E
EBITDA margin	29	35	35	38
EBIT margin	23	28	28	30
Adj PAT margin	18	20	19	20
ROE	15	16	15	17
ROIC	12	13	12	14
ROCE	19	22	22	24

Fig 60 - Net power capacity versus new capacity



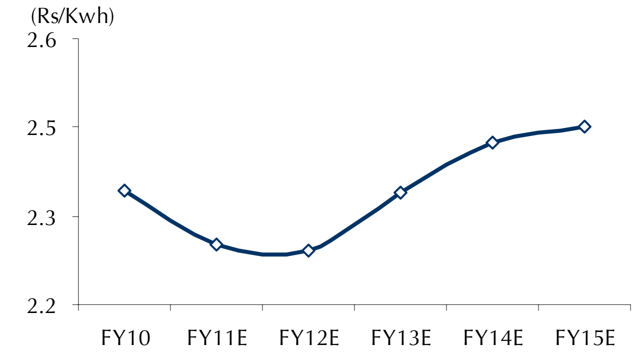
Source: : Religare estimates

Fig 61 - Sales volume (Gwh)



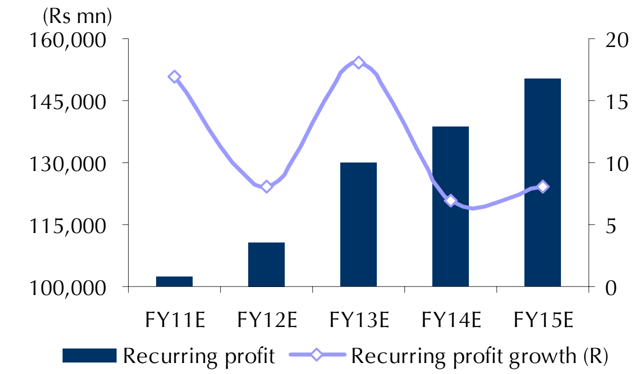
Source: : Religare estimates

Fig 62 - Average realization per Kwh



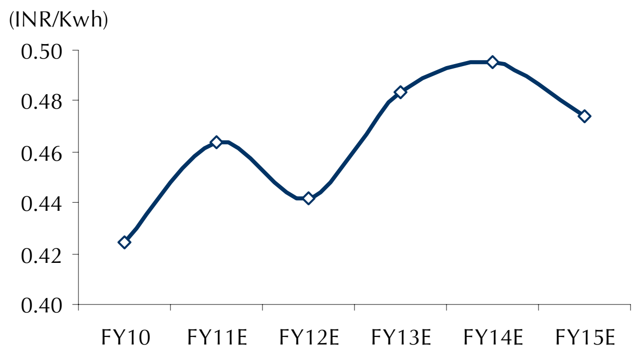
Source: : Religare estimates

Fig 63 - Recurring profit growth



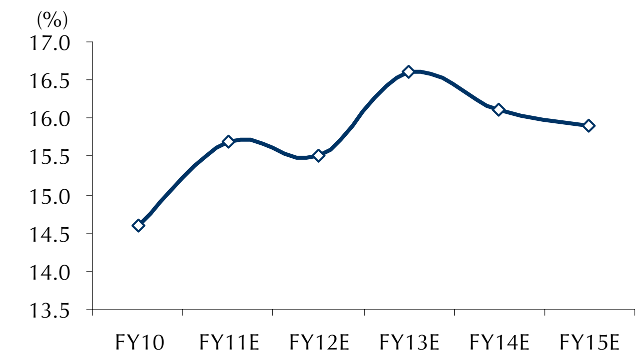
Source: : Religare estimates

Fig 64 - Profit per Kwh



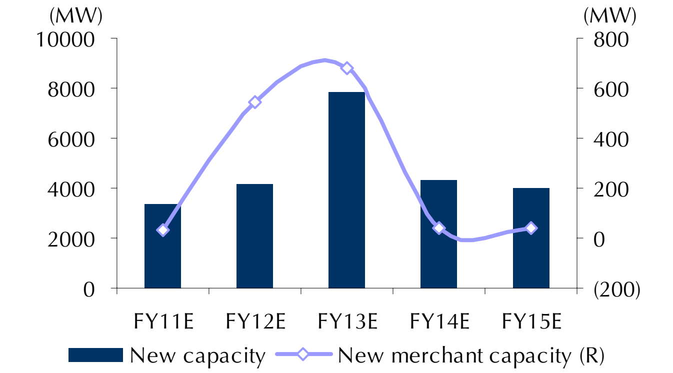
Source: : Religare estimates

Fig 65 - ROE profile



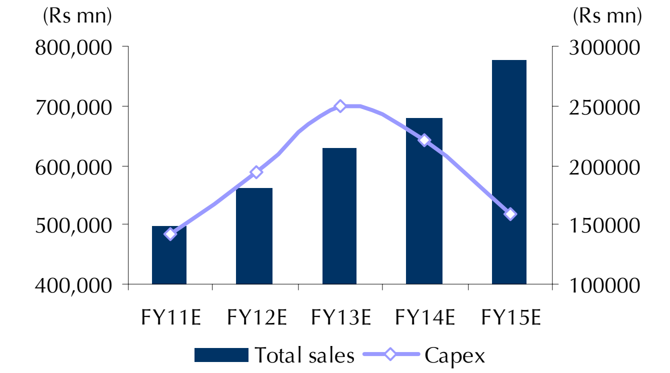
Source: : Religare estimates

Fig 66 - Addition of net power capacity vs. merchant capacity



Source: Religare estimates

Fig 67 - Total sales versus capital expenditure



Source: : Religare estimates

Valuation

We use FCFF as the primary tool for valuation of the company. We have assumed five-year intermediate growth of 7.5%, and terminal growth of 5%

Fig 68 - Valuation assumptions

All figures in Rs mn	Value		
Present Value of Free Cash	1,873,962		
Less: Net Debt (incl. Investments)	203,535		
Equity Value	1,670,427		
O/S no. of shares FY04 (mn)	8,245		
Per share value (Rs)	203		
WACC Calculation			
Avg. cost of debt	8.0%	Marginal tax rate	16.7%
Post tax cost of debt =	6.7%	10 yrs bond yield rate	8.0%
Target debt:equity =	1.00	Equity risk premium	5.0%
WACC =	9.5%	Market rate of return	12.3%
Terminal Growth (wef FY2017)	5.0%		
Medium Term Growth (FY13-17)	7.5%		

Source: Religare estimates

Key risks

Besides the risks mentioned in the macro section, the stock price is most sensitive to UI charges (bn units), and discounting factor.

Fig 69 - Share price sensitivity to UI charges (billion units)

Max UI Charges (bn units)	1.2%	1.4%	1.5%	1.7%	1.7%
Share price	186	194	200	211	219

Source: Religare estimates

Fig 70 - Share price sensitivity to discount rate

Discount rate (%)	11%	13%	14%	15%	17%
Share price	301	244	200	171	147

Source: Religare estimates

Consolidated financials

Profit and Loss statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Revenues	**474,980**	**488,843**	**552,212**	**619,701**
Growth (%)	*9*	*3*	*13*	*12*
EBITDA	**135,958**	**171,552**	**193,185**	**234,602**
Growth (%)	*14*	*26*	*13*	*21*
Depreciation & amortisation	26,501	36,174	41,044	50,020
EBIT	109,457	135,379	152,141	184,582
Growth (%)	*115*	*24*	*12*	*21*
Interest	10,856	17,008	20,199	24,720
Other income	10,253	24,398	22,805	21,695
EBT	108,855	142,768	154,747	181,557
Income taxes	21,573	40,402	44,338	51,493
Effective tax rate (%)	*20*	*28*	*29*	*28*
Extraordinary items	-	-	-	-
Min into / inc from associates	n/a	n/a	n/a	n/a
Reported net income	87,282	102,367	110,409	130,064
Adjustments	-	-	-	-
Adjusted net income	**87,282**	**102,367**	**110,409**	**130,064**
Growth (%)	*5*	*17*	*8*	*18*
Shares outstanding (mn)	8,245.5	8,245.5	8,245.5	8,245.5
FDEPS (Rs) (adj)	**10.6**	**12.4**	**13.4**	**15.8**
Growth (%)	*6*	*17*	*8*	*18*
DPS (Rs)	1.27	1.40	1.54	1.69

Balance sheet

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Cash and cash eq	144,595	132,369	145,854	166,953
Accounts receivable	66,515	13,393	15,129	16,978
Inventories	33,477	46,875	52,952	59,423
Other current assets	63,572	69,517	75,505	81,787
Investments	148,071	135,982	115,834	84,434
Gross fixed assets	719,610	971,337	1,067,759	1,229,333
Net fixed assets	396,722	612,275	667,654	779,208
CWIP	271,935	161,750	259,545	348,264
Intangible assets	n/a	n/a	n/a	n/a
Deferred tax assets, net	n/a	n/a	n/a	n/a
Other assets	-	-	-	-
Total assets	**1,124,885**	**1,172,161**	**1,332,472**	**1,537,047**
Accounts payable				
Other current liabilities	76,876	59,981	70,337	81,365
Provisions	30,706	26,996	29,191	31,581
Debt funds	377,970	403,392	488,920	603,010
Other liabilities	14,959	(1,150)	(1,150)	(1,150)
Equity capital	82,455	82,455	82,455	82,455
Reserves & surplus	541,920	600,488	662,719	739,787
Shareholder's funds	624,374	682,943	745,173	822,241
Total liabilities	**1,124,885**	**1,172,161**	**1,332,472**	**1,537,047**
BVPS (Rs)	75.7	82.8	90.4	99.7

Cash flow statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Net income + Depreciation	113,783	138,540	151,453	180,084
Non-cash adjustments				
Changes in working capital	(16,332)	13,172	(1,248)	(1,186)
Cash flow from operations	97,451	151,713	150,204	178,898
Capital expenditure	(101,730)	(141,543)	(194,217)	(250,293)
Change in investments	(8,236)	12,089	20,148	31,400
Other investing cash flow	(3,252)	(16,108)	-	-
Cash flow from investing	(113,218)	(145,562)	(174,069)	(218,893)
Issue of equity	-	-	-	-
Issue/repay debt	32,293	25,422	85,528	114,090
Dividends paid	(39,817)	(43,799)	(48,178)	(52,996)
Other financing cash flow				
Change in cash & cash eq	(23,291)	(12,226)	13,485	21,099
Closing cash & cash eq	139,425	132,369	145,854	166,953

Financial ratios

Y/E March	FY10	FY11E	FY12E	FY13E
Profitability & Return ratios (%)				
EBITDA margin	29	35	35	38
EBIT margin	23	28	28	30
Net profit margin	18	20	19	20
ROE	15	16	15	17
ROCE	19	22	22	24
Working Capital & Liquidity ratios				
Receivables (days)	51	10	10	10
Inventory (days)	26	35	35	35
Payables (days)	n/a	n/a	n/a	n/a
Current ratio (x)	2.9	3.0	2.9	2.9
Quick ratio (x)	2.0	1.7	1.6	1.6
Turnover & Leverage ratios (x)				
Gross asset turnover	0.7	0.6	0.5	0.5
Total asset turnover	0.5	0.5	0.5	0.5
Interest coverage ratio	10.1	8.0	7.5	7.5
Adjusted debt/equity	0.5	0.5	0.5	0.6
Valuation ratios (x)				
EV/Sales	4.4	4.3	3.8	3.4
EV/EBITDA	11.7	9.5	8.7	7.6
P/E	1.9	1.6	1.5	1.3
P/BV	2.6	2.4	2.2	2.0

Economic Value Added (EVA) analysis

Y/E March	FY10	FY11E	FY12E	FY13E
WACC (%)	9	9	9	9
ROIC (%)	12	13	12	14
Invested capital (Rs mn)	723,445	745,369	923,435	973,399
EVA (Rs mn)	19,340	26,570	21,210	40,165
EVA spread (%)	2.7	3.6	2.3	4.1

DuPont analysis

(%)	FY10	FY11E	FY12E	FY13E
Tax burden (Net income/PBT)	80	72	71	72
Interest burden (PBT/EBIT)	99	105	102	98
EBIT margin (EBIT/Revenues)	23	28	28	30
Asset turnover (Revenues/Avg TA)	49	47	48	47
Leverage (Avg TA/Avg equtiy)	163	161	162	170
Return on equity	**15**	**16**	**15**	**17**

Company profile

NTPC Ltd. owns and operates power generation plants that supply power to state electricity boards throughout India. The Company is a public sector undertaking of the Government of India and it also undertakes turnkey consulting projects to set up power plants.

Shareholding pattern

(%)	Sep-09	Dec-09	Mar-10
Promoters	89.5	89.5	84.5
FIIs	2.52	2.38	2.55
Banks & FIs	4.65	4.86	9.04
Public	3.33	3.26	3.91

Recommendation history

Date	Event	Reco price	Tgt price	Reco
31-May-10	Initiating Coverage	201	200	Sell

Stock performance

Reliance Power Ltd

We initiate on Reliance Power with a HOLD rating and a target price of Rs140. According to us, the big stock price driver viz., the likelihood of a favourable settlement on the gas supply agreement has been largely played out, and we think the risk of upsides and downsides on gas are even now. Our valuation takes into account 7.6GW of gas based stations, excluding which the fair value drops to Rs100. RPWR will have the highest MW capacity getting commissioned by 2015E amongst stocks under our coverage but a majority of it is likely to be regulated, and are not likely to benefit from the strong merchant power market. We note execution risks due to coal and dilution as biggest overhangs.

What if gas…?: Our value (ex-gas) is Rs100. The stock has moved up following initial reports of a new non-compete agreement between the two Ambani brothers and the higher likelihood now of a favourable announcement on the gas supply agreement. We have assumed 28mmsmcd of gas at delivered cost of between US$5.3-6.0/mmbtu to power 7.6GW of gas into our valuations. This adds Rs40/sh to valuation after considering dilution assuming they fast track the project to completion. Hence, we view the risk reward at current price as even.

Ex-gas, fuel side concerns remain: There are issues surrounding coal availability for the Chitrangi project which is based on the coal mines allotted to Sasan, the availability of imported coal for Krishnapatnam, and pace of completion by Coal India. Availability of gas, while has increased probabilities, is an issue now.

Highest MW of operating capacity by 2015E: We estimate 16,130MW of new capacity by 2015E. The major capacities are Sasan 3,960MW, and gas based stations 11,480MW. As a result, sales are expected to surge significantly, whereas EPS three fold increase over '11-15E. We estimate ROE to increase from 5% in FY10 to 8% in FY11E

Valuation: Our valuation is based on FCFE of projects. We value a total of 24,690MW over the next 7-8years into our valuations. The main sensitivities are to 1) Gas based projects, and 2) Coal costs for Krishnapatnam and 3) Discount rate.

CMP	TARGET	RATING	RISK
Rs 157	Rs 140	HOLD	HIGH

BSE	NSE	BLOOMBERG
532939	RPOWER	RPWR IN

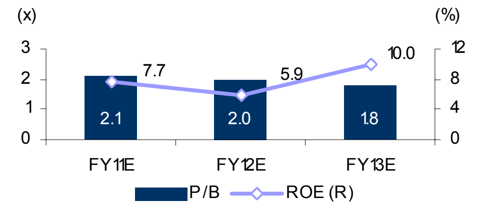
Company data

Market cap (Rs mn / US$ mn)	3,74,979/7,982
Outstanding equity shares (mn)	2,397
Free float (%)	15.2
Dividend yield (%)	-
52-week high/low (Rs)	210 / 130
2-month average daily volume	4,029,456

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Reliance Pwr	157	(2.2)	11.9	9.5
BSEPOWR	3,017	(3.7)	1.9	2.3
Sensex	16,890	(2.8)	2.8	1.5

P/B vs ROE comparison



Valuation matrix

(x)	FY10E	FY11E	FY12E	FY13E
P/E @ CMP	55.0	31.8	34.9	19.1
P/E @ Target	49.0	28.3	31.1	17.1
EV/EBITDA @ CMP	(347.2)	27.1	24.3	10.5

RCML vs consensus

Parameter	FY11E		FY12E	
	RCML	Cons	RCML	Cons
Sales (Rs mn)	23,959	16,369	29,306	41,369
EPS (Rs)	4.9	2.5	4.5	2.8

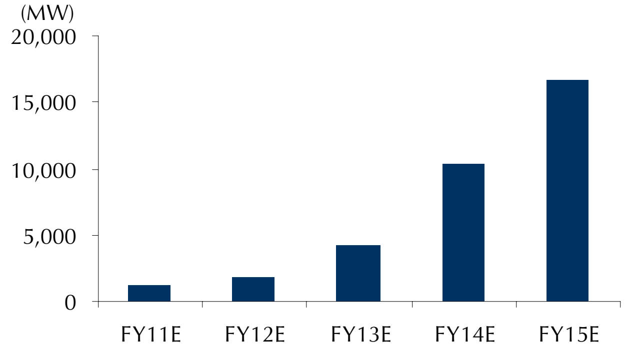
Financial highlights

(Rs mn)	FY10E	FY11E	FY12E	FY13E
Revenue	211	23,959	29,306	65,395
Growth (%)	*n/a*	*11,272.5*	*22.3*	*123.1*
Adj net income	6,842	13,272	12,099	22,051
Growth (%)	*272.7*	*94.0*	*(8.8)*	*82.3*
FDEPS (Rs)	2.9	4.9	4.5	8.2
Growth (%)	*272.7*	*73.1*	*(8.8)*	*82.3*

Profitability and return ratios

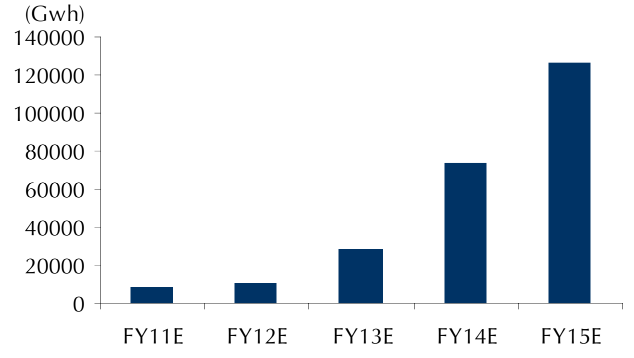
(%)	FY10E	FY11E	FY12E	FY13E
EBITDA margin	(508)	57	52	54
EBIT margin	3370	96	78	58
Adj PAT margin	81	38	31	30
ROE	5	8	6	10
ROIC	(1)	4	3	5
ROCE	3	5	3	4

Fig 71 - Net power capacity



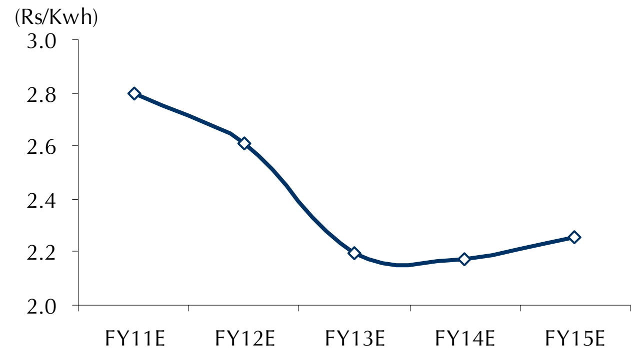
Source: Religare estimates

Fig 72 - Sales volume (Gwh)



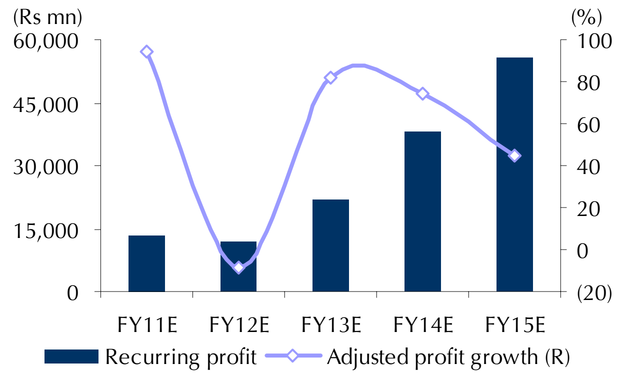
Source: Religare estimates

Fig 73 - Average tariff realization per KWh



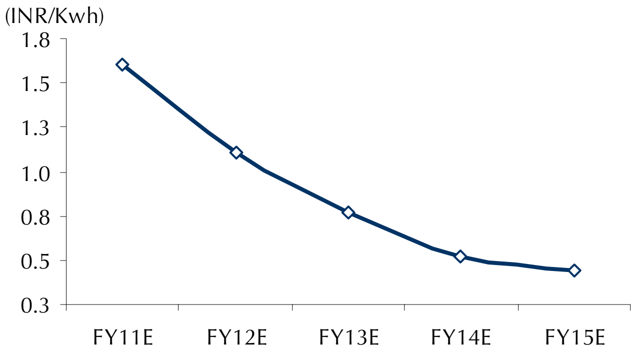
Source: Religare estimates

Fig 74 - Recurring profit growth



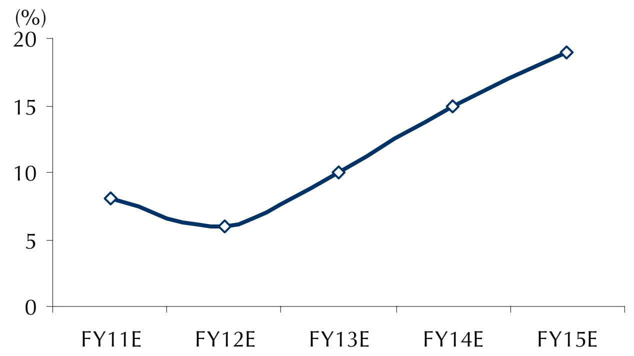
Source: Religare estimates

Fig 75 - Profit per Kwh



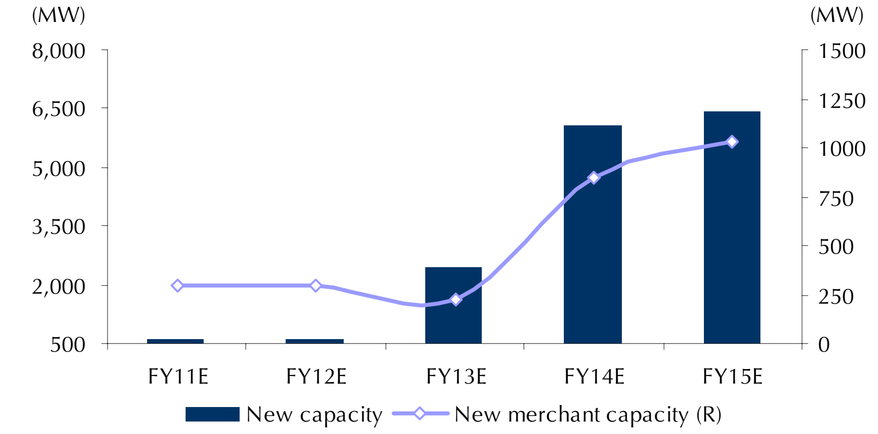
Source: Religare estimates

Fig 76 - ROE Profile



Source: Religare estimates

Fig 77 - Addition of new capacity vs. merchant capacity



Source: Religare estimates

Valuation

We have used FCFE as the primary tool for valuation of the company.

Key Risks

Besides the risks mentioned in the macro section, there are other company specific risks to which stock is sensitive. The most important risks are Shahpur and Dadri gas projects, coal costs for Krishnapatnam project and discount rate.

Shahpur and Dadri gas projects: In our present model we have included both the gas projects and going forward, we have assumed dilution of the equity. Neglecting Shahpur and Dadri gas projects we get a share price of Rs100.

Krishnapatnam project: We do not see company's current guidance of $20-25/ton price for imported coal in FY13 for Krishna. We currently assume $45/ton as the base price for imported coal.

Fig 78 - Share price sensitivity to coal costs related to Krishnapatnam project

Coal costs $/ton	36	41	45	50	54
Share price	156	148	140	126	124

Source: Religare estimates

Fig 79 - Share price sensitivity to discount rate

Discount rate (%)	11%	13%	14%	15%	17%
Share price	182	157	140	124	112

Source: Religare estimates

Consolidated financials

Profit and Loss statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Revenues	**211**	**23,959**	**29,306**	**65,395**
Growth (%)	*n/a*	*11,272.5*	*22.3*	*123.1*
EBITDA	**(1,070)**	**13,702**	**15,268**	**35,379**
Growth (%)	*3.7*	*(1,380.8)*	*11.4*	*131.7*
Depreciation & amortisation	57	1,982	2,592	4,917
EBIT	7,100	22,931	22,920	37,889
Growth (%)	*262.1*	*223.0*	*(0.0)*	*65.3*
Interest	70	5,557	7,076	11,312
Other income	8,227	11,211	10,244	7,427
EBT	7,029	17,375	15,845	26,577
Income taxes	187	4,103	3,745	4,526
Effective tax rate (%)	*2.7*	*23.6*	*23.6*	*17.0*
Extraordinary items	-	-	-	-
Min into / inc from associates	-	-	-	-
Reported net income	6,842	13,272	12,099	22,051
Adjustments	-	-	-	-
Adjusted net income	**6,842**	**13,272**	**12,099**	**22,051**
Growth (%)	*272.7*	*94.0*	*(8.8)*	*82.3*
Shares outstanding (mn)	2,396.8	2,685.8	2,685.8	2,685.8
FDEPS (Rs) (adj)	**2.9**	**4.9**	**4.5**	**8.2**
Growth (%)	272.7	*73.1*	*(8.8)*	*82.3*
DPS (Rs)	-	-	-	-

Cash flow statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Net income + Depreciation	6,879	15,144	14,691	26,968
Non-cash adjustments	(8,479)	(10,474)	(10,311)	(5,801)
Changes in working capital	(441)	(4,823)	(3,610)	(6,050)
Cash flow from operations	(2,041)	(152)	770	15,118
Capital expenditure	(91,381)	(179,721)	(220,953)	(218,059)
Change in investments	10,317	27,857	32,499	25,999
Other investing cash flow	8,227	11,211	10,244	7,427
Cash flow from investing	(72,837)	(140,654)	(178,210)	(184,632)
Issue of equity	-	40,000	-	-
Issue/repay debt	99,566	142,284	174,820	168,037
Dividends paid	-	-	-	-
Other financing cash flow	(0)	0	0	-
Change in cash & cash eq	24,687	41,478	(2,620)	(1,478)
Closing cash & cash eq	24,903	66,381	63,760	62,282

Economic Value Added (EVA) analysis

Y/E March	FY10	FY11E	FY12E	FY13E
WACC (%)	12.6	12.6	12.6	12.6
ROIC (%)	(1)	4	3	5
Invested capital (Rs mn)	191,761	309,660	481,469	672,022
EVA (Rs mn)	(25,214)	(25,287)	(45,353)	(49,235)
EVA spread (%)	(13.1)	(8.2)	(9.4)	(7.3)

Balance sheet

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Cash and cash eq	24,903	66,381	63,760	62,282
Accounts receivable	2,867	7,013	10,200	15,547
Inventories	304	1,863	3,344	5,315
Other current assets	-	-	-	-
Investments	92,855	64,999	32,499	6,500
Gross fixed assets	28,000	64,420	167,967	286,568
Net fixed assets	27,891	62,438	163,393	277,077
CWIP	113,113	256,415	373,821	473,279
Intangible assets	n/a	n/a	n/a	n/a
Deferred tax assets, net	n/a	n/a	n/a	n/a
Other assets	n/a	n/a	n/a	n/a
Total assets	**261,933**	**459,107**	**647,017**	**840,000**
Accounts payable	3,118	3,742	4,490	5,389
Other current liabilities	1,288	1,546	1,855	2,226
Provisions	2	740	672	2,298
Debt funds	112,890	255,174	429,994	598,031
Other liabilities	-	-	-	-
Equity capital	23,968	26,858	26,858	26,858
Reserves & surplus	120,666	171,047	183,147	205,198
Shareholder's funds	144,634	197,905	210,005	232,056
Total liabilities	**261,933**	**459,107**	**647,017**	**840,000**
BVPS (Rs)	60.3	73.7	78.2	86.4

Financial ratios

Y/E March	FY10	FY11E	FY12E	FY13E
Profitability & Return ratios (%)				
EBITDA margin	(508)	57	52	54
EBIT margin	3370	96	78	58
Net profit margin	81	38	31	30
ROE	5	8	6	10
ROCE	-1	4	3	5
Working Capital & Liquidity ratios				
Receivables (days)	-	21	41	27
Inventory (days)	-	654	803	356
Payables (days)	-	21	41	27
Current ratio (x)	-	11.8	10.1	7.4
Quick ratio (x)	3.0	9.0	10.5	8.0
Turnover & Leverage ratios (x)				
Gross asset turnover	0.0	0.5	0.3	0.3
Total asset turnover	0.0	0.1	0.1	0.1
Interest coverage ratio	-	4.1	3.2	3.3
Adjusted debt/equity	0.8	1.3	2.0	2.6
Valuation ratios (x)				
EV/Sales	4,300.7	37.8	30.9	13.9
EV/EBITDA	(347.2)	27.1	24.3	10.5
P/E	54.1	31.3	34.3	18.8
P/BV	2.6	2.1	2.0	1.8

DuPont analysis

(%)	FY10	FY11E	FY12E	FY13E
Tax burden (Net income/PBT)	97	76	76	83
Interest burden (PBT/EBIT)	99	76	69	70
EBIT margin (EBIT/Revenues)	3370	96	78	58
Asset turnover (Revenues/Avg TA)	0	7	5	9
Leverage (Avg TA/Avg equtiy)	148	210	271	336
Return on equity	**5**	**8**	**6**	**10**

Company profile

Reliance Power Limited develops, constructs, and operates power projects both domestically and internationally. Reliance Infrastructure and R-ADAG owns 45% and 40% respectively of RPower.

Shareholding pattern

(%)	Sep-09	Dec-09	Mar-10
Promoters	84.8	84.8	84.8
FIIs	3.7	3.6	3.7
Banks & FIs	1.9	1.8	1.7
Public	9.9	9.9	9.8

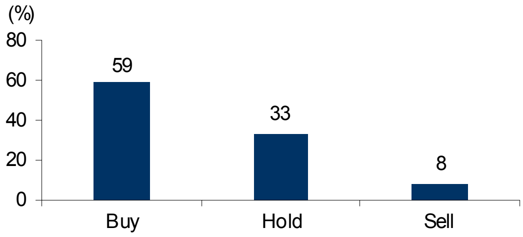
Recommendation history

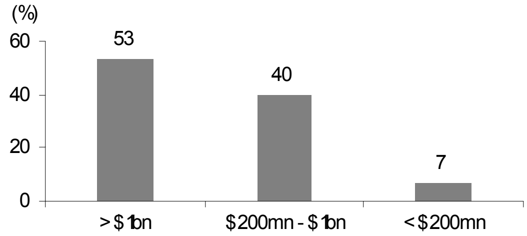
Date	Event	Reco price	Tgt price	Reco
31-May-10	Initiating Coverage	157	140	Hold

Stock performance

Coverage Profile

By recommendation	By market cap (US$)





Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and –5%
Sell	Less than –5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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