

Adani Power: Well placed amidst trapped IPPs (ADANI IN, mcap US\$3.9bn, BUY, TP ₹116, 35% upside)

Analyst: Bhargav Buddhadev, bhargavbuddhadev@ambitcapital.com, 91-22-3043 3252

Analyst: Puneet Bambha, puneetbambha@ambitcapital.com, 91-22-3043 3259

Given that more than 40GW of operating and upcoming pipeline has been impacted due to issues relating to fuel, land acquisition and environment clearance, stock prices of Independent Power Producers (IPPs) have underperformed the Sensex since April '11. In this scenario we prefer IPPs with strong operational track record, low exposure to merchant power and spot coal. Adani Power ticks all boxes. We continue to believe that Adani Power is best placed amidst several trapped IPPs given its 100% fuel linkage (for power plants getting commissioned until FY13) and minimal exposure to merchant power (~20%). We also believe that the Adani Group is likely to be the least impacted due to the change in the Indonesian coal regulation as the regulation stipulates exporting coal at market price. In Adani's case the exporter is PT Adani Global which is a 100% subsidiary of Adani Enterprises. Lastly we note that Adani Power has demonstrated good execution track record at a time when peers like KSK, Lanco, JSW Energy, Indiabulls Power are struggling with project delays. Our DCF valuation for Adani Power stands at ₹116, implying FY13 P/B of 1.8x. On a relative basis, it trades at ~37% premium to peers, which we believe is justified given Adani's stellar RoEs (30% v/s 11% for peers) and superior growth rate in PAT CAGR over FY11-13 (129% v/s 28% for peers).

Institutional Equities Team

Saurabh Mukherjea, CFA Managing Director – Institutional Equities – (022) 30433174 saurabhmukherjea@ambitcapital.com

Research

Analysts	Industry Sectors	Desk-Phone	E-mail
Aadesh Mehta	Banking / NBFCs	(022) 30433239	aadeshmehta@ambitcapital.com
Anand Mour	FMCG	(022) 30433169	anandmour@ambitcapital.com
Ankur Rudra, CFA	Technology / Education Services	(022) 30433211	ankurrudra@ambitcapital.com
Ashvin Shetty	Automobile	(022) 30433285	ashvinshetty@ambitcapital.com
Bhargav Buddhadev	Power / Capital Goods	(022) 30433252	bhargavbuddhadev@ambitcapital.com
Chandrani De, CFA	Metals & Mining	(022) 30433210	chandrani@ambitcapital.com
Chhavi Agarwal	Construction / Infrastructure	(022) 30433203	chhaviagarwal@ambitcapital.com
Dayanand Mittal	Oil & Gas	(022) 30433202	dayanandmittal@ambitcapital.com
Gaurav Mehta	Derivatives Research	(022) 30433255	gauravmehta@ambitcapital.com
Hardik Shah	Technology / Education Services	(022) 30433291	hardikshah@ambitcapital.com
Krishnan ASV	Banking	(022) 30433205	krishnan@ambitcapital.com
Nitin Bhasin	Construction / Infrastructure / Cement	(022) 30433241	nitinbhasin@ambitcapital.com
Pankaj Agarwal, CFA	NBFCs	(022) 30433206	pankajagarwal@ambitcapital.com
Parita Ashar	Metals & Mining / Media / Telecom	(022) 30433223	paritaashar@ambitcapital.com
Puneet Bambha	Power / Capital Goods	(022) 30433259	puneetbambha@ambitcapital.com
Rakshit Ranjan, CFA	Mid-Cap	(022) 30433201	rakshitranjan@ambitcapital.com
Ritika Mankar	Economy	(022) 30433175	ritikamankar@ambitcapital.com
Ritu Modi	Cement	(022) 30433292	ritumodi@ambitcapital.com
Shariq Merchant	Consumer	(022) 30433246	shariqmerchant@ambitcapital.com

Sales

Name	Regions	Desk-Phone	E-mail
Deepak Sawhney	India / Asia	(022) 30433295	deepaksawhney@ambitcapital.com
Dharmen Shah	India / Asia	(022) 30433289	dharmenshah@ambitcapital.com
Dipti Mehta	India / Europe	(022) 30433053	diptimehta@ambitcapital.com
Pramod Gubbi, CFA	India / Asia	(022) 30433228	pramodgubbi@ambitcapital.com
Sarojini Ramachandran	UK	+44 (0) 20 7614 8374	sarojini@panmure.com

Production

Sajid Merchant	Production	(022) 30433247	sajidmerchant@ambitcapital.com
Kausalya Vijapurkar	Editor	(022) 30433284	kausalyavijapurkar@ambitcapital.com
Praveen Mascarenhas	Database	(022) 30433251	praveenmascarenhas@ambitcapital.com

Explanation of Investment Rating

Investment Rating	Expected return (over 12-month period from date of initial rating)
Buy	>5%
Sell	≤5%

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Ambit Capital Pvt. Ltd.

Ambit House, 3rd Floor
449, Senapati Bapat Marg, Lower
Parel, Mumbai 400 013, India.
Phone: +91-22-3043 3000
Fax: +91-22-3043 3100