

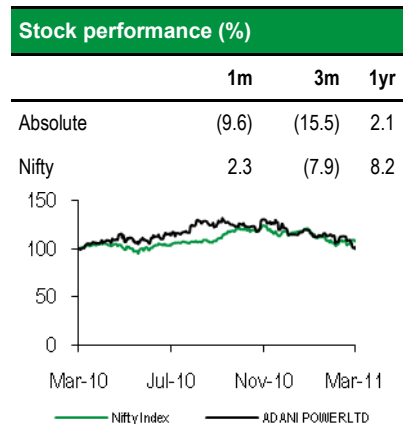
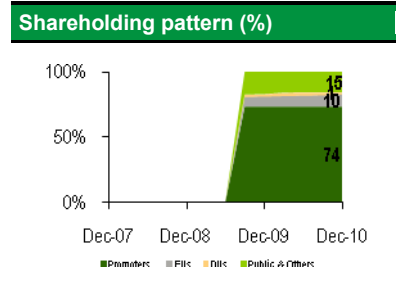
8 March 2011

India Utilities

Price: ₹111*

Target price: ₹120

Stock details	
Bloomberg code	ADANI IN
MCap ₹/US\$, mn	242,965/5,391
Outstanding shares (mn)	2,180
52-wk H/L (₹)	146/102
3m avg trd vol (US\$ mn)	3.8
Nifty / Sensex	5,521/18,440



Source: Bloomberg, Prowess.

*Note: Priced at close of market on Tuesday, 8 March 2011

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Adani Power

Neutral

Floored with MAT

We reduce our TP of ADANI to ₹120 (earlier ₹140) on implementation of MAT on SEZ, hike in coal prices by CIL, lower merchant power rates for FY12 vs our earlier assumption, and other house-keeping changes in the model. ADANI will be keenly watched in FY12 on various counts: (a) whether the incremental ~5GW capacity to be commercialised during the year is on-time (current 1.32-GW), (b) pre-PPA sales proportion and disputes, if any, with procurers on this issue, (c) coal supply from MCL to Mundra plant given the several constraints faced by CIL, (d) tapering coal supply to the Tiroda plant, (e) coal linkage (XIIth Plan projects) for the Tiroda extension, Kawai, Dahej, etc., and (f) clarity on pass-through of the additional MAT burden to the consumers. The multiple challenges ahead will likely keep stock performance muted in the medium term. **Maintain Neutral.**

Will MAT on SEZ be a pass-through in tariff?

Post Budget 2011-12, ADANI's Mundra plant (4,620-MW) has been brought under the purview of MAT. As per the company, this is a 'change in law' case and additional outgo will finally be borne by the consumer (only the PPA portion). To err on the side of conservatism, we assume MAT will be borne by ADANI. This reduces our NPV by ₹10/share. As per our assumption, from Mundra plant, ADANI will sell 79% of FY12's total volume in the merchant market (pre-PPA sales), which will reduce to 37% and 19% of total volume in FY13E and FY14E respectively.

Hike in MCL coal price is negative

Coal India's subsidiary MCL has hiked its E-F grade price by 18-19%, which increases the total fuel cost at ADANI's Mundra plant by ~8% (for domestic component). Note that ADANI wants to blend Mundra-I, II & III (total 2,640-MW) with 30% domestic coal from MCL, starting FY12, which looks difficult given Coal India's current production/dispatch plan for FY12. Also, Mundra-IV (1,980-MW) intends to use 70% domestic coal from MCL.

Lowering merchant rates for FY12

We reduce our merchant price assumption for ADANI in FY12 to ₹4/unit from earlier ₹4.5/unit. The decrease is a result of ADANI competing with GUVNL to sell power in the short-term market, weak SEB financials, higher capacity addition, etc.

Reduce earnings and TP; maintain Neutral

We reduce our FY12 and FY13 earnings estimates by 27% and 7% respectively, on changes as elucidated above. Key downside risks to our call are: delays in CoD vs current dates as suggested in the CEA, and lower availability of domestic coal vs current assumption. Key upside risks remain: faster CoD of plants vs current estimates; smooth managing of domestic coal shortage through active partnership with AEL, and faster clarity on the issue of MAT on SEZ.

Exhibit 1: Key financials

₹ mn unless otherwise stated; year-end March

	FY09	FY10	FY11E	FY12E	FY13E
Revenue	-	4,349	21,200	104,730	150,568
EBITDA	(55)	2,438	11,829	66,279	90,888
PAT	(50)	1,701	6,589	32,222	32,981
EPS (₹)	(0.0)	0.8	3.0	14.8	15.1
EPS (IB consensus) (23)	-	-	3.1	11.9	16.2
EPS growth	-	-	287.3	389.1	2.4
RoE (%)	(0.0)	2.5	7.1	25.0	18.5
PE (x)	-	142.3	36.7	7.5	7.3
EV/EBITDA	-	137.8	36.3	7.9	6.4
P/BV (x)	8.9	4.2	3.7	2.4	1.7

Source: Company, Indiabulls research.

Exhibit 2: ADANI's SoTP valuation

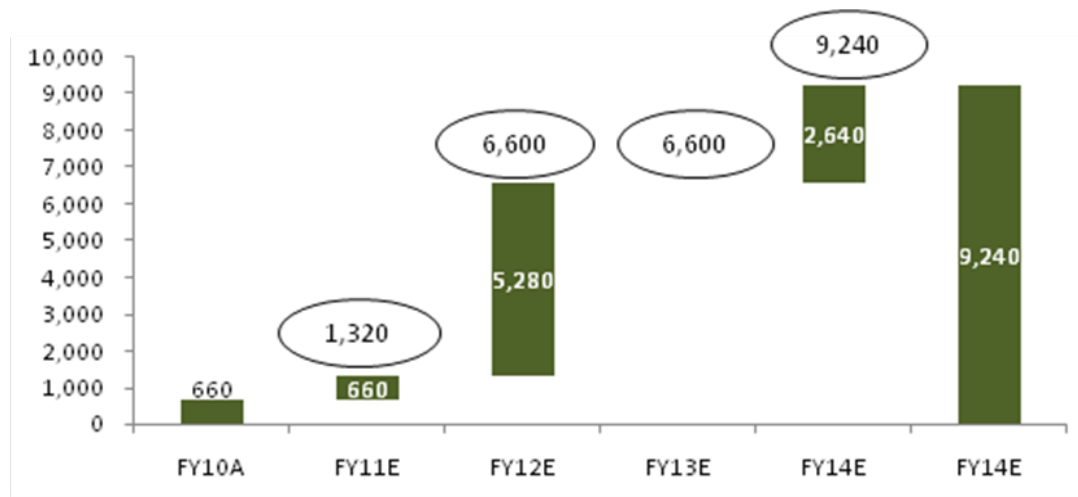
units as shown

Project	Project cost (₹ mn)	Equity proportion (%)	Equity investment (₹ mn)	DCF-E value (FY12E) (₹ mn)	ADANI's share	Value (₹/ share)
Mundra- I &II	43,500	100	7,060	56,177	56,177	25.8
Mundra- III	57,960	100	13,420	37,643	37,643	17.3
Mundra- IV	89,600	100	17,920	74,651	74,651	34.2
Tiroda I	92,630	74	13,709	67,476	49,932	22.9
Tiroda Extension	66,000	74	9,768	24,473	18,110	8.3
Kawai	69,300	100	17,325	12,300	12,300	5.6
Net cash at parent (₹ mn)					12,297	5.6
No. of shares (mn)					2,180	
Total value (₹ mn)	501,190		106,484.3		261,110	120

Source: Company, Indiabulls research.

Exhibit 3: Annual year-end capacity*

MW



Source: Company, Indiabulls research.

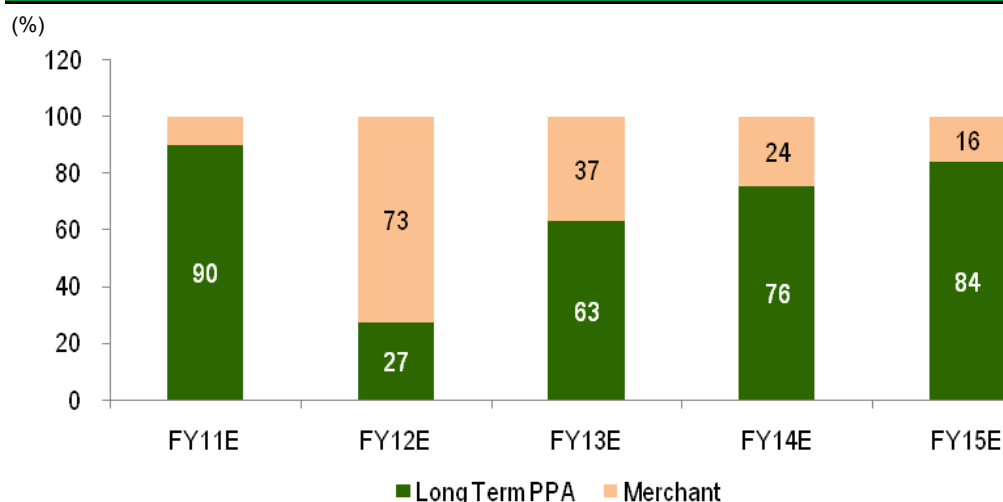
*Note: Assumed for modelling and SoTP valuation

Exhibit 4: Scheduled and actual commissioning dates

Plant	Capacity (MW)	Likely comm. date	Scheduled date as per RHP
Mundra I&II, U-1	330	Aug-09	Jul-09
Mundra I&II, U-2	330	Mar-10	Sep-09
Mundra I&II, U-3	330	Aug-10	Nov-09
Mundra I&II, U-4*	330	Oct-10	Feb-10
Mundra III, U-1*	660	Mar-11	Jan-11
Mundra III, U-2*	660	Aug-11	Jun-11
Mundra IV, U-1*	660	Jun-11	Aug-11
Mundra IV, U-2*	660	Sep-11	Dec-11
Mundra IV, U-3*	660	Nov-11	Apr-12
Tiroda I, U-1*	660	May-11	Jul-11
Tiroda I, U-2*	660	Aug-11	Nov-11
Tiroda I, U-3*	660	Jan-12	Apr-12

Source: CEA, Company, Indiabulls research.

Exhibit 5: Trend in PPA structure



Source: Company, Indiabulls research.

Exhibit 6: Key project assumptions/details

units as shown

		Mundra- I &II	Mundra- III	Mundra- IV	Tiroda I	Tiroda Extension	Kawai
Project	Unit	330	660	660	660	660	660
Capacity	MW	1,320	1,320	1,980	1,980	1,320	1320
Adani Power's stake	%	100	100	100	74	74	100
Total Project cost	₹ mn	43,500	57,960	89,600	92,630	66,000	69300
Project cost	₹ mn/MW	33.0	43.9	45.3	46.8	50.0	52.5
CoD of Unit 1		Aug-09	Mar-11	Jun-11	May-11	Jul-13	Apr-13
Gap between units	months	6	6	6	3	3	3
Gross heat rate	kcal/kwh	2,300	2,200	2,200	2,200	2,200	2,200
GCV of coal	kcal/kg	4,500	4,500	4,100	3,934	3,800	3,800
Fuel type		Imp/Domestic coal	Imp/Domestic coal	Imp/Domestic coal	Domestic	Domestic	Domestic
Fuel requirement at 90% PLF	mn tpa	5.3	5.1	8.4	8.7	6.0	6.0
Fuel Price (all in price for 1st year)	₹/tonne, US\$/tonne	44	45	45	1,615	1,704	1,913
Actual PLF	%	90.0	90.0	90.0	90.0	90.0	90.0
Actual availability	%	90.0	90.0	90.0	90.0	90.0	90.0
Aux consumption	%	8.0	8.5	8.5	8.5	8.5	8.5
Exchange rate (FY10)	₹/US\$	45	45	45	45	45	45
Debt	%	82	77	80	80	80	75
Equity	%	18	23	20	20	20	25
Domestic debt	%	100	25	100	100	100	100
Foreign debt (ECB)	%	-	75	-	-	-	-
Cost of debt (domestic)	%	11.5	11.5	11.5	11.5	11.5	11.5
Cost of debt (overseas)	%	8.5	8.5	8.5	8.5	8.5	8.5
Cost of equity	%	12.5	12.5	12.5	12.5	15.0	15.0

Source: Company, Indiabulls research.

Exhibit 7: Summary financials

₹ mn unless otherwise stated; year-end March

Profit and loss	FY09	FY10	FY11E	FY12E	FY13E
Revenues	-	4,349	21,200	104,730	150,568
Expenses	(55)	(1,911)	(9,371)	(38,451)	(59,680)
EBITDA	(55)	2,438	11,829	66,279	90,888
Other income	-	319	342	341	479
Depreciation	-	(353)	(1,363)	(5,426)	(11,447)
Interest	-	(377)	(2,856)	(13,022)	(22,816)
PBT	(55)	2,027	7,952	48,171	57,103
Taxes	-	(327)	(1,364)	(13,647)	(21,010)
Minority interest	5.5	1	0	(2,302)	(3,112)
Net profit	(50)	1,701	6,589	32,222	32,981
Extra ordinary items	-	-	-	-	-
Reported PAT	(50)	1,701	6,589	32,222	32,981
EPS	(0.0)	0.8	3.0	14.8	15.1
Dividend per share	-	-	-	-	-
Dividend payout ratio	-	-	-	-	-
Balance sheet					
Total liabilities	73,483	164,628	264,992	401,406	515,012
Net worth	22,887	57,780	64,556	96,778	129,759
Equity (A)	18,420	21,800	21,800	21,800	21,800
Reserves (B)	4,467	35,980	42,756	74,978	107,959
Debt	49,897	105,705	198,043	295,931	363,879
Deferred tax liability	-	120	1,370	5,371	14,937
Minority interest	699	1,023	1,023	3,325	6,437
Others	1	0	-	-	-
Total assets	73,483	164,628	264,992	404,406	515,012
Net fixed assets	3,368	27,871	41,186	163,563	255,805
CWIP	57,734	114,379	204,740	204,788	204,720
Investments	0	0	-	-	-
Working capital (excl cash)	(1,456)	(2,587)	7,887	24,529	34,105
Cash & cash equiv.	5,585	11,654	11,179	11,525	20,382
Others	8,252	13,311	-	-	-

Source: Company, Indiabulls research.

Summary financials (cont'd)

₹ mn unless otherwise stated; year-end March

Cash flow	FY09	FY10	FY11E	FY12E	FY13E
Sources	48,344	91,431	101,727	144,839	122,054
Retained earnings (PAT-div.)	(55)	2,027	7,839	38,525	45,659
Non-cash items (incl. dep.)	-	353	1,363	5,426	11,447
Equity issuance	12,899	3,381	-	-	-
Increase in borrowings	39,785	55,808	92,338	100,888	64,947
Others	(4,284)	29,861	188	-	-
Application	48,344	91,431	101,727	144,839	122,054
Capital expenditure	45,324	86,561	91,728	127,851	103,621
Maintenance					
New investment					
Investments	(832)	0	(0.07)	-	-
Change in working capital (excl cash)	890	(1,131)	10,475	16,642	9,575
Change in cash	2,963	6,000	(475)	346	8,857
Ratios					
Revenue growth (%)	-	-	387.5	394.0	43.8
EBITDA growth (%)	269.4	4499.6	385.2	460.3	37.1
EPS growth (%)	-	0.0	287.3	389.1	2.4
EBITDA margin (%)	-	56	56	63	60
PAT margin (%)	-	39.1	31.1	30.8	21.9
Asset turnover					
Inventory days					
Debtor days					
Net working capital days	-	(217)	136	85	83
Sales/net block	-	0.2	0.5	0.6	0.6
RoCE	(0.11)	2	6	23	24
Debt/equity	1.9	1.6	2.9	2.9	2.6
Tax rate	-	16	17	28	37
RoE (%)	(0.0)	2	7	25	19
Valuation					
P/E	-	142.3	36.7	7.5	7.3
EV/EBITDA	-	137.8	36.3	7.9	6.4
P/BV	8.9	4.2	3.7	2.4	1.7
EV/sales	-	77.3	20.2	5.0	3.9
Dividend yield	-	-	-	-	-

Source: Company, Indiabulls research.

Key to Indiabulls Institutional Equities recommendations:**Outperform**= Expected total return is more than 15%**Neutral**= Expected total return is less than 15% but more than zero.**Underperform**= Expected total return is negative

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