The Royal Bank of Scotland

10 October 2011

Produced by: The Royal Bank of Scotland N.V., (India) Office

Adani Power

Blurry outlook

Adani Power's medium term outlook looks nebulous given the imposition of 'Indonesian Coal Reference Index', high probability of domestic linkage shortfall for Mundra-IV & Tiroda-I and no coal linkage, so far, awarded for Tiroda-II and Kawai projects. Clarity on the issues will drive medium term performance. Hold.

Initiation of coverage

Hold

Target price
Rs75.00

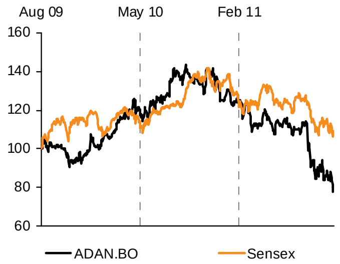
Price
Rs78.05

Short term (0-60 days)
n/a

Market view
Underweight

Price performance

	(1M)	(3M)	(12M)
Price (Rs)	94.05	110.6	137.1
Absolute (%)	-17.0	-29.4	-43.1
Rel market (%)	-12.8	-17.0	-28.8
Rel sector (%)	-10.7	-18.0	-21.6



Market capitalisation
Rs170.15bn (US$3.47bn)

Average (12M) daily turnover
Rs145.29m (US$3.30m)

Sector: BBG AP Electricity
RIC: ADAN.BO, ADANI IN
Priced Rs78.05 at close 7 Oct 2011.
Source: Bloomberg

Key forecasts

	FY10A	FY11A	FY12F	FY13F	FY14F
Revenue (Rsm)	4,349	21,352	67,507	139,735	167,165
EBITDA (Rsm)	2,438	12,205	35,864	68,125	78,084
Reported net profit (Rsm)	1,701	5,136	13,994	18,437	20,709
Normalised net profit (Rsm)[1]	1,701	5,136	13,994	18,437	20,709
Normalised EPS (Rs)	0.85	2.36	6.42	8.46	9.50
Dividend per share (Rs)	0.00	0.00	0.00	0.00	0.00
Dividend yield (%)	0.00	0.00	0.00	0.00	0.00
Normalised PE (x)	92.27	33.13	12.16	9.23	8.22
EV/EBITDA (x)	108.4	33.00	13.00	8.04	7.22
Price/book value (x)	2.94	2.71	2.21	1.78	1.46
ROIC (%)	2.57	4.25	6.83	8.07	7.51

1. Post-goodwill amortisation and pre-exceptional items
Accounting standard: Local GAAP
Source: Company data, RBS forecasts

year to Mar, fully diluted

Buffeted by multiple issues

Adani Power's (APL) seemingly near-perfect business model at IPO has been challenged by the imposition of the Indonesian Coal Reference price, de-allocation of the captive coal block for Tiroda-I, lower pre-PPA sales and a domestic fuel shortage hurting linkage plants. Our calculations indicate the current share price partially factors in the negative impact of these issues. We think the risk to the downside appears higher than to the upside (see Chart 1).

Indonesian Coal Reference price poses a significant problem

The Indonesian government has imposed a transfer price of coal based only on the Indonesian Coal Reference price. In our view, this poses a significant problem for all Indian developers, including APL. The new law makes us wonder again if the 'sweet coal' deal between Adani Enterprise (AEL) and APL will still be honoured. APL's management contends the contract will be unaffected, but we remain cautious. We calculate that every US$10/ton increase in the coal price will negatively affect APL's share price by Rs16/share. Also, a lower-than-expected ramp-up in the Bunyu mines could lead to APL importing spot coal to bridge the gap, thereby affecting project economics. We presently assume the contract between AEL and APL at US$36/ton will be continued.

No coal linkage, so far, for Tiroda II and Kawai

APL had tied up power to be generated from Tiroda II and Kawai (each 1.32GW) under the Case-I competitive bid, presuming coal linkage (partial/full) would be allocated under the XIIth plan dispensation route. However, as detailed in our sector thesis, the award of further coal linkage looks highly unlikely to us, at least in the near term. Given the scenario, APL may have to use a substantial amount of imported and/or e-auction coal to run the plants, which would affect project profitability – allowed fuel price escalation is based on domestic coal (per bidding documents) and all fuel risk must be borne by the developer. We assume linkage/e-auction/imported ratios of 60%/30%/10% for both Tiroda-II and Kawai. Initiate coverage with a hold rating and Rs 75 target price.

This note should be read along with our sector report (*Growth pangs,* 10 October 2011) for a better understanding of the investment argument.

Important disclosures can be found in the Disclosures Appendix.

Analyst

Harish Bihani
India
+91 22 6715 5390
harish.bihani@rbs.com

83/84 Sakhar Bhawan, Nariman Point,
Mumbai 400 021, India

http://research.rbsm.com

The basics

Versus consensus

EPS (Rs)	Ours	Cons	% diff
FY12F	6.4	8.5	(32.5)
FY13F	8.5	12.0	(42.4)
FY14F	9.5	15.1	(58.5)

Source: Bloomberg, RBS forecasts

Forced ranking*

Company	Rec	Upside/ downside
Power Grid	Buy	13%
NHPC	Buy	12%
NTPC	Hold	8%
Tata Power	Hold	7%
Adani Power	Hold	-4%
JSW Energy	Hold	-2%

*by difference to target price as at time of publication. Recommendations may lie outside the structure outlined in the disclosure page.
Source: RBS forecasts

Key events

Date	Event
Last week of Oct-11	2Q FY12 results

Source: Company

Catalysts for share price performance

- If the Ministry of Coal (MOC) delays award of coal linkage under the XIIth plan dispensation, as explained in our sector thesis, it will be a negative for the Tiroda-II and Kawai projects.
- A shortfall in the ramp-up of the Bunyu mines capacity versus the Mundra project coal requirement might lead to APL buying spot imported coal to cover the gap. This could lead us/consensus to reduce our estimates.
- Using a lower proportion of e-auction coal than currently estimated by us/consensus and/or the e-auction coal price being higher than the current Coal India numbers will be negative for all independent power producers (IPPs) and for APL, in particular.

Earnings momentum

We project that revenue, EBITDA and PAT will grow at CAGRs of 99%, 63% and 58%, respectively, over FY11-14. This is largely because APL is adding significant capacity every year from a low base (from 0MW in FY09 to 9,240MW by FY14F).

Valuation and target price

We use a SOTP-based approach to value private utilities, aggregating the DCF-to-equity value of various projects in the company's portfolio. Our cost of equity is 12.5% for operational projects and 13.5-16% for projects under construction, depending on project preparedness for commissioning and other operational factors, especially fuel risk. Accordingly, our SOTP-based target price for Adani is Rs75 (see Table 9)

How we differ from consensus

Our FY12/FY13/FY14F EPS are 32%/42%/59% lower than consensus. This is mainly because we assume lower pre-PPA sales than the market does, coupled with one- to three-month delays in capacity commissioning. We note that any upside risks to our earnings estimates due to higher pre-PPA sales, etc, might be nullified by import of spot coal for Mundra I, II and III given the ramp-up in the Bunyu mines might be lower than we earlier estimated.

Risks to central scenario

- Allocation of an alternative coal block for the Tiroda-I project would be positive for the company and add Rs16/share to our target price (see chart 1).
- APL has contested the imposition of a minimum alternative tax (MAT) on special economic zones (SEZs). Any favourable ruling potentially provides upside to our target price by Rs11/share.

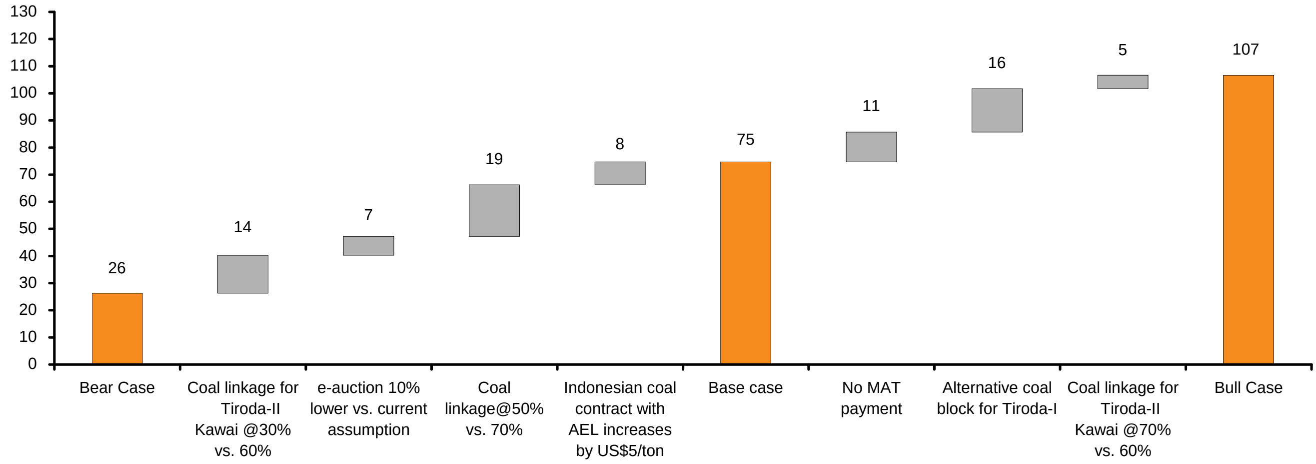
Key assumptions and sensitivities

Table 1 : Key project assumptions

		Mundra I and 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	1,320
Adani Power's stake	%	100	100	100	74	74	100
Total project cost	Rsm	43,500	57,960	89,600	92,630	66,000	69,300
Project cost	Rsm/MW	33.0	43.9	45.3	46.8	50.0	52.5
CoD of Unit 1		Aug-09	Mar-11	Oct-11	Nov-11	Dec-13	May-13
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	3,500	3,634	3,634	3,600
Fuel type		Imported	Imported	Imported/ e-auction/ linkage	Imported/ e-auction/ linkage	Imported/ e-auction/ linkage	Imported/ e-auction/ linkage
Fuel requirement at 90% PLF	m tpa	5.3	5.1	9.5	8.9	6.3	6.3
PLF	%	90	90	90	90	90	90
Debt	%	82	77	80	80	80	75
Equity	%	18	23	20	20	20	25

Source: Company data, RBS forecasts

Chart 1 : Sensitivity to various parameters



Source: Company data, RBS forecasts

Other key assumptions

We present below other key assumptions, such as weighted average capacity per year (based on number of months of operation), fuel mix and fuel price assumptions.

We assume lower pre-PPA sales than the market, coupled with one- to three-month delays in capacity commissioning

Table 2 : Key operational data

	FY12F	FY13F	FY14F	FY15F
Generation capacity (MW)	4,620	6,600	8,580	9,240
Effective annual capacity (MW)	3,135	6,435	7,480	9,240
Net generation (MUs)	21,901	46,675	53,867	67,020
Merchant sales (MUs)	3,564	13,015	11,594	10,697
PPA sales (MUs)	18,337	33,659	42,273	56,323
Overall tariff – Rs/unit	3.1	3.0	3.0	3.0
Merchant tariff – Rs/unit	3.8	3.8	3.5	3.5
Fuel cost – Rs/unit	1.2	1.4	1.4	1.5

Source: Company data, RBS forecasts

Table 3 : Capacity addition actuals and assumptions

MW	FY10A	FY11F	FY12F	FY13F	FY14F	FY15F
Mundra I and II	660	1,320	1,320	1,320	1,320	1,320
Mundra III	0	0	1,320	1,320	1,320	1,320
Mundra IV	0	0	1,320	1,980	1,980	1,980
Tiroda I	0	0	660	1,980	1,980	1,980
Tiroda II (Extension)	0	0	0	0	660	1,320
Kawai	0	0	0	0	1,320	1,320
Total capacity	**660**	**1,320**	**4,620**	**6,600**	**8,580**	**9,240**
Capacity addition per year	**660**	**660**	**3,300**	**1,980**	**1,980**	**660**

Source: Company data, RBS forecasts

Table 4 : Weighted average capacity (based on number of months of operation)

MW	FY10A	FY11F	FY12F	FY13F	FY14F	FY15F
Mundra I and II	165	990	1,320	1,320	1,320	1,320
Mundra III	0	0	1,045	1,320	1,320	1,320
Mundra IV	0	0	495	1,925	1,980	1,980
Tiroda I	0	0	275	1,870	1,980	1,980
Tiroda II (Extension)	0	0	0	0	165	1,320
Kawai	0	0	0	0	715	1,320
Total	**165**	**990**	**3,135**	**6,435**	**7,480**	**9,240**
Capacity addition per year	**165**	**825**	**2,145**	**3,300**	**1,045**	**1,760**

Source: Company data, RBS forecasts

Sourcing tapering linkage for Tiroda-I will be a challenge given shortage in production/dispatch by CIL

Table 5 : Domestic coal linkage details

	MW	Mines	Linkage capacity (MW)	%
Mundra IV	1,980	MCL	1,386	70
Tiroda I	1,980	WCL/SECL	1188	60
Tiroda I (tapering coal linkage)	1,980	WCL/SECL	792	40
Tiroda II (Extension)	1,320		Applied	-
Kawai	1,320		Applied	-

Source: Company data, RBS forecasts

We assume APL will source the full requirement of Mundra I, II and III from its contract with AEL at around US$36/ton (landed cost); any variance could reduce our earnings and target price

Table 6 : Fuel mix assumptions (%)

	FY12F	FY13F	FY14F	FY15F
Mundra I and II				
Imported (AEL)	100	100	100	100
Linkage	0	0	0	0
E-auction	0	0	0	0
Mundra III				
Imported (AEL)	100	100	100	100
Linkage	0	0	0	0
E-auction	0	0	0	0
Mundra IV				
Imported (market)	31	31	31	31
Linkage	49	49	49	49
E-auction	20	20	20	20
Tiroda I				
Imported (market)	10	10	10	10
Linkage	70	70	70	70
E-auction	20	20	20	20
Tiroda II (Extension)				
Imported (market)			10	10
Linkage			60	60
E-auction			30	30
Kawai				
Imported (market)			10	10
Linkage			60	60
E-auction			30	30
Total				
Imported	79	49	44	37
Linkage	16	38	41	45
E-auction	6	13	15	18

Source: RBS forecasts

Table 7 : Fuel price assumptions (landed cost)

	Unit	FY12F	FY13F	FY14F	FY15F
Mundra I and II					
Imported (AEL)	US$/ton	46	47	48	49
Linkage	Rs/ton	-	-	-	-
E-auction	Rs/ton	-	-	-	-
Mundra III					
Imported (AEL)	US$/ton	45	46	47	47
Linkage	Rs/ton	-	-	-	-
E-auction	Rs/ton	-	-	-	-
Mundra IV					
Imported (market)	US$/ton	78	78	78	78
Linkage	Rs/ton	1,792	1,827	1,864	1,901
E-auction	Rs/ton	2,658	2,711	2,765	2,821
Tiroda I					
Imported (market)	US$/ton	98	98	98	98
Linkage	Rs/ton	1,662	1,696	1,730	1,764
E-auction	Rs/ton	2,603	2,655	2,708	2,762
Tiroda II (Extension)					
Imported (market)	US$/ton	-	-	97	97
Linkage	Rs/ton	-	-	1,730	1,764
E-auction	Rs/ton	-	-	2,708	2,762
Kawai					
Imported (market)	US$/ton	-	-	97	97
Linkage	Rs/ton	-	-	1,799	1,835
E-auction	Rs/ton	-	-	2,545	2,596

Source: RBS forecasts

Our estimates significantly below consensus

Our FY12/FY13/FY14F net profit are 37%/48%/63% lower than Bloomberg consensus. This is largely because we assume lower pre-PPA sales than the market does, coupled with one- to three-month delays in capacity commissioning.

Table 8 : RBS versus Bloomberg consensus

	FY12F			FY13F			FY14F		
Rsm	**RBS**	**Consensus**	**% variation**	**RBS**	**Consensus**	**% variation**	**RBS**	**Consensus**	**% variation**
Revenue	67,507	66,395	1.6	139,735	124,378	11.0	167,165	156,530	6.4
EBITDA	35,864	39,093	(9.0)	68,125	67,990	0.2	78,084	84,671	(8.4)
Net income	13,994	19,185	(37.1)	18,437	27,267	(47.9)	20,709	33,787	(63.2)
EPS (Rs/share)	6.4	8.5	(32.5)	8.5	12.0	(42.4)	9.5	15.1	(58.5)

Source: RBS forecasts, Bloomberg consensus

Valuations and target price

We use a SOTP-based approach to value private utilities, aggregating the DCF-to-equity value of various projects in the company's portfolio. Our target price is Rs75.

Our cost of equity is 12.5% for operational projects and 13.5-16.5% for under-construction projects, depending on project preparedness for commissioning and other operational factors (especially fuel risk)

Table 9 : SOTP valuation

Project	Project cost (Rsm)	Equity proportion (%)	Equity investment (Rsm)	DCF-E value (FY13F) (Rsm)	Adani Power's share (FY13)	Value (Rs/share)
Mundra I and II	43,500	100	7,060	57,243	57,243	26.3
Mundra III	57,960	100	13,420	35,815	35,815	16.4
Mundra IV	89,600	100	17,920	33,564	33,564	15.4
Tiroda I	92,630	74	13,709	31,053	22,979	10.5
Tiroda Extension	66,000	74	9,768	11,216	8,300	3.8
Kawai	69,300	100	17,325	7,594	7,594	3.5
Net cash at parent (Rsm)					(985)	(0.5)
No of shares (m)					2,180	
Total value (Rsm)	**501,190**		**106,484**		**164,510**	**75**

Source: Company data, RBS forecasts

Sensitivity to various parameters

Our bull-case scenario gives a target price of Rs107/share for APL (42% potential upside from our base case). Our bear-case scenario gives a target price of Rs26/share for APL (65% potential downside from our base case).

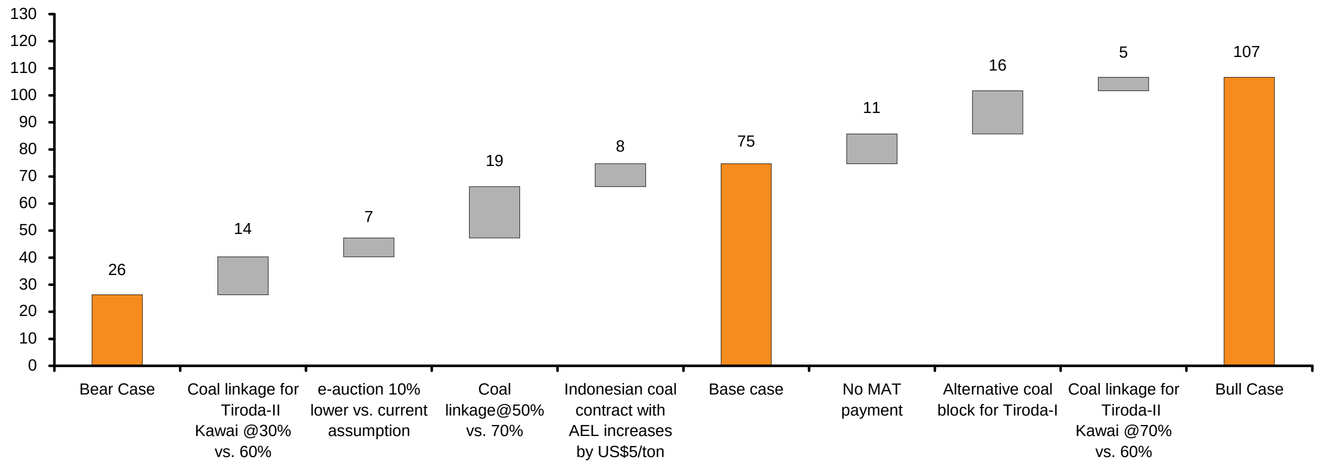
Potential upside to our base-case value (Rs75/share) for APL

- The lack of a MAT payment would lead to Rs11/share upside to our base-case value. APL has challenged the imposition of MAT through an amendment to the Finance Act, 2011. The case is being heard in Gujarat High Court.
- An alternative coal block for Tiroda I, in lieu of the Lohara block, and production ramp-up by FY16E would lead to Rs16/share upside to our base-case value.
- Higher coal linkage for Tiroda II and Kawai at 70% of the total requirement versus the 60% currently assumed by us would lead to Rs5/share upside to our base case value.

Potential downside to our base-case value (Rs75/share) for APL

- If an imported coal contract with AEL increased by US$5/ton, it would lead to Rs8/share downside to our base case.
- Coal linkage for Mundra IV and Tiroda I at 50% versus the 70% currently assumed by us would lead to Rs19/share downside to our base-case value.
- If the e-auction coal received is 10% lower (say, from 30% of total to 20% of total) than our current assumption, it would lead to Rs7/share downside to our base-case value.
- Lower coal linkage for Tiroda II and Kawai at 30% of the total requirement versus the 60% currently assumed by us would lead to Rs14/share downside to our base-case value.

Chart 2 : Sensitivity to various parameters



Source: Company data, RBS forecasts

Income statement

Rsm	FY10A	FY11A	FY12F	FY13F	FY14F
Revenue	4349	21352	67507	139735	167165
Cost of sales	-1911	-9147	-31643	-71610	-89081
Operating costs	n/a	n/a	n/a	n/a	n/a
EBITDA	**2438**	**12205**	**35864**	**68125**	**78084**
DDA & Impairment (ex gw)	-353.5	-1886	-4215	-10045	-15568
EBITA	**2085**	**10319**	**31649**	**58080**	**62516**
Goodwill (amort/impaired)	n/a	n/a	n/a	n/a	n/a
EBIT	**2085**	**10319**	**31649**	**58080**	**62516**
Net interest	-376.7	-2550	-9734	-22693	-27136
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Forex gain / (loss)	n/a	n/a	n/a	n/a	n/a
Exceptionals (pre-tax)	n/a	n/a	n/a	n/a	n/a
Other pre-tax items	319.3	363.3	251.1	294.2	644.6
Reported PTP	**2027**	**8132**	**22165**	**35680**	**36025**
Taxation	-327.2	-3000	-7611	-16517	-14546
Minority interests	1.07	3.90	-561.0	-727.1	-770.1
Exceptionals (post-tax)	n/a	n/a	n/a	n/a	n/a
Other post-tax items	0.00	0.00	0.00	-0.00	0.00
Reported net profit	**1701**	**5136**	**13994**	**18437**	**20709**
Normalised Items Excl. GW	0.00	0.00	0.00	0.00	0.00
Normalised net profit	**1701**	**5136**	**13994**	**18437**	**20709**

Source: Company data, RBS forecasts — year to Mar

Balance sheet

Rsm	FY10A	FY11A	FY12F	FY13F	FY14F
Cash & market secs (1)	11654	12551	4179	15419	27530
Other current assets	12064	12854	17364	32286	40959
Tangible fixed assets	155562	324381	369065	463851	500292
Intang assets (incl gw)	n/a	n/a	n/a	n/a	n/a
Oth non-curr assets	0.06	100.1	0.00	-0.02	0.04
Total assets	**179280**	**349886**	**390608**	**511555**	**568780**
Short term debt (2)	n/a	n/a	n/a	n/a	n/a
Trade & oth current liab	14502	33203	0.00	0.00	0.00
Long term debt (3)	100220	204132	295931	373250	406502
Oth non-current liab	5755	44015	11363	35827	38321
Total liabilities	**120477**	**281350**	**307294**	**409078**	**444823**
Total equity (incl min)	58803	68536	83314	102478	123957
Total liab & sh equity	**179280**	**349886**	**390608**	**511555**	**568780**
Net debt	94201	232477	296752	377832	393972

Source: Company data, RBS forecasts — year ended Mar

Cash flow statement

Rsm	FY10A	FY11A	FY12F	FY13F	FY14F
EBITDA	2438	12205	35864	68125	78084
Change in working capital	981.5	17911	-37713	-14921	-8673
Net interest (pd) / rec	-376.7	-2550	-9734	-22693	-27136
Taxes paid	-0.20	0.00	-4368	-7053	-7051
Other oper cash items	319.3	363.3	251.1	294.2	644.6
Cash flow from ops (1)	**3362**	**27929**	**-15700**	**23752**	**35868**
Capex (2)	-86562	-170705	-67565	-104832	-52008
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	-0.06	-100.0	18766	0.00	0.00
Cash flow from invest (3)	**-86562**	**-170805**	**-48799**	**-104832**	**-52008**
Incr / (decr) in equity	3380	0.00	0.00	0.00	0.00
Incr / (decr) in debt	55958	139172	55904	92319	28251
Ordinary dividend paid	0.00	0.00	0.00	0.00	0.00
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	29930	4601	223.5	0.00	0.00
Cash flow from fin (5)	**89268**	**143773**	**56127**	**92319**	**28251**
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Inc/(decr) cash (1+3+5+6)	**6068**	**896.8**	**-8372**	**11239**	**12112**
Equity FCF (1+2+4)	-83200	-142776	-83265	-81080	-16140

Lines in bold can be derived from the immediately preceding lines. — year to Mar
Source: Company data, RBS forecasts

Standard ratios

Performance	Adani Power FY10A	FY11A	FY12F	FY13F	FY14F	Tata Power FY12F	FY13F	FY14F	JSW Energy FY12F	FY13F	FY14F
Sales growth (%)	n/a	391.0	216.2	107.0	19.6	21.1	23.3	12.8	38.5	17.5	8.45
EBITDA growth (%)	n/a	400.6	193.9	90.0	14.6	37.0	3.26	4.09	47.6	10.8	10.5
EBIT growth (%)	n/a	395.0	206.7	83.5	7.64	44.1	0.66	-2.49	47.7	3.11	9.71
Normalised EPS growth (%)	n/a	178.5	172.5	31.7	12.3	27.5	-13.1	-1.11	12.9	-6.78	19.2
EBITDA margin (%)	56.1	57.2	53.1	48.8	46.7	26.8	22.4	20.7	38.8	36.6	37.3
EBIT margin (%)	47.9	48.3	46.9	41.6	37.4	22.2	18.1	15.7	32.2	28.2	28.6
Net profit margin (%)	39.1	24.1	20.7	13.2	12.4	11.2	7.91	6.94	16.0	12.7	13.9
Return on avg assets (%)	1.56	2.55	5.66	6.95	6.97	6.62	5.17	4.81	8.05	9.20	10.7
Return on avg equity (%)	4.22	8.51	20.0	21.4	19.6	18.6	14.0	12.4	15.7	13.1	14.0
ROIC (%)	2.57	4.25	6.83	8.07	7.51	8.66	6.79	6.01	8.96	9.54	11.4
ROIC - WACC (%)	-10.4	-8.71	-6.13	-4.89	-5.45	-1.70	-3.57	-4.35	-4.00	-3.42	-1.54
					year to Mar			year to Mar			year to Mar

Valuation	Adani Power FY10A	FY11A	FY12F	FY13F	FY14F	Tata Power FY12F	FY13F	FY14F	JSW Energy FY12F	FY13F	FY14F
EV/sales (x)	60.8	18.9	6.92	3.92	3.37	2.08	1.75	1.47	2.72	2.14	1.76
EV/EBITDA (x)	108.4	33.0	13.0	8.04	7.22	7.75	7.81	7.09	7.00	5.85	4.74
EV/EBITDA @ tgt price (x)	105.7	32.4	12.8	7.95	7.14	8.00	8.06	7.33	6.94	5.79	4.69
EV/EBIT (x)	126.8	39.0	14.8	9.44	9.02	9.36	9.68	9.38	8.44	7.57	6.17
EV/invested capital (x)	1.73	1.32	1.21	1.10	1.04	1.14	1.08	1.03	1.09	1.04	0.97
Price/book value (x)	2.94	2.71	2.21	1.78	1.46	1.51	1.34	1.21	1.27	1.15	1.03
Equity FCF yield (%)	-53.0	-83.9	-48.9	-47.7	-9.49	-13.5	-8.67	11.9	4.88	17.2	21.5
Normalised PE (x)	92.27	33.13	12.16	9.23	8.22	8.81	10.14	10.25	8.59	9.22	7.73
Norm PE @tgt price (x)	88.7	31.8	11.7	8.87	7.90	9.41	10.8	11.0	8.45	9.07	7.61
Dividend yield (%)	0.00	0.00	0.00	0.00	0.00	1.27	1.27	1.27	2.01	2.01	2.01
					year to Mar			year to Mar			year to Mar

Per share data	FY10A	FY11A	FY12F	FY13F	FY14F
Tot adj dil sh, ave (m)	2011	2180	2180	2180	2180
Reported EPS (INR)	0.85	2.36	6.42	8.46	9.50
Normalised EPS (INR)	0.85	2.36	6.42	8.46	9.50
Dividend per share (INR)	0.00	0.00	0.00	0.00	0.00
Equity FCF per share (INR)	-41.4	-65.5	-38.2	-37.2	-7.40
Book value per sh (INR)	26.5	28.8	35.4	43.8	53.3
					year to Mar

Solvency	FY10A	FY11A	FY12F	FY13F	FY14F
Net debt to equity (%)	160.2	339.2	356.2	368.7	317.8
Net debt to tot ass (%)	52.5	66.4	76.0	73.9	69.3
Net debt to EBITDA	38.6	19.0	8.27	5.55	5.05
Current ratio (x)	1.64	0.77	0.00	0.00	0.00
Operating CF int cov (x)	9.93	12.0	-0.16	2.36	2.58
Dividend cover (x)	0.00	0.00	0.00	0.00	0.00
					year to Mar

Priced as follows: ADAN.BO - Rs78.05; TTPW.BO - Rs98.30; JSWE.BO - Rs49.80
Source: Company data, RBS forecasts

Valuation methodology

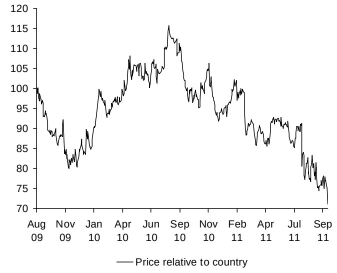
Project	Project cost (Rsm)	Equity proportion (%)	Equity investment (Rsm)	DCF-E value (FY13E) (Rsm)	Adani Power's share (FY13F)	Value (end-FY12F) (Rs/ share)
Mundra I and II	43,500	100	7,060	57,244	57,244	26.3
Mundra III	57,960	100	13,420	35,816	35,816	16.4
Mundra IV	89,600	100	17,920	33,565	33,565	15.4
Tiroda I	92,630	74	13,709	31,055	22,980	10.5
Tiroda Extension	66,000	74	9,768	11,217	8,300	3.8
Kawai	69,300	100	17,325	7,594	7,594	3.5
Net cash at parent (Rsm)					(985)	(0.5)
No of shares (m)					2,180	
Total value (Rsm)	**501,190**		**106,484**		**164,515**	**75**

Source: Company data, RBS forecasts

Company description **Hold**

Adani Power (Adani) is a part of Adani Group, which has interests in infrastructure, power, global trading, logistics, energy, ports and special economic zones (SEZ), mining, oil and gas, agri business, fast-moving consumer goods (FMCG) products, real estate development, bunkering, etc. The company has current installed capacity of over 2GW and intends to reach 20GW capacity by 2020.

Price relative to country



Strategic analysis — Average SWOT company score: 4

Strengths 4

A strong parent (Adani Enterprise) provides smooth backward linkage to port and imported coal and is the biggest strength.

Weaknesses 3

Power purchase agreements (PPAs) have been executed on the basis of either subsidised coal from the parent company and/or reliance on domestic coal linkage (especially Tiroda-II and Kawai).

Opportunities 4

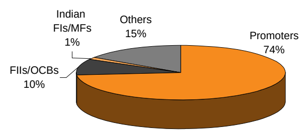
The Indian power sector provides enough growth opportunities to low-cost players with full control over fuel supply.

Threats 4

Threat is from its own PPAs that have been executed on the basis of subsidised coal from the parent company and/or reliance on domestic coal linkage (especially Tiroda-II and Kawai, where coal linkage award looks difficult).

Scoring range is 1-5 (high score is good)

Shareholdings, June 2011



Source: BSEIndia

Market data

Headquarters
Adani House, Near Mithakhali Six Roads, Navrangpura, Ahmedabad – 380 009.

Website
http://www.adanigroup.com/

Shares in issue
2180.0m

Freefloat
26%

Majority shareholders
Adani Enterprise (74%)

Country view: India

The compression of multiples typically characteristic of a market undergoing the transition from growth to value continued to pressure Indian equities in the 2Q. While the economic deceleration is well under way, we continue to view the country as a major potential loser from higher costs of capital in quarters and perhaps even years ahead. Still, given the significant short-term relative underperformance and the expected decline in commodities prices, clearly a bounce is possible. Yet, as valuations are broadly unattractive and returns declining, we continue to consider the risk-reward trade-off as unattractive.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.

Country rel to Asia Pacific

Competitive position — Average competitive score: 2-

Supplier power 3-

Supplier power of both coal and gas is high given domestic shortages and rising prices overseas.

Barriers to entry 3+

The capital-intensive nature of thermal power plants makes it difficult for others unless they are financially sound.

Customer power 2-

Lowest-cost power producer will have little worry about customer power. Customer default risk has increased due to weak financial health.

Substitute products 1-

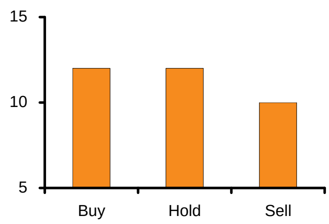
There is no real substitute for power. However, there are substitute sources, ie, wind energy, hydro power, etc.

Rivalry 2-

Enough opportunity for all players to survive. Right business model with the right PPA structuring and full control over fuel cost is the key.

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse

Broker recommendations



Source: Bloomberg

Recommendation structure

Absolute performance, short term (trading) recommendation: A Trading Buy recommendation implies upside of 5% or more and a Trading Sell indicates downside of 5% or more. The trading recommendation time horizon is 0-60 days. For Australian coverage, a Trading Buy recommendation implies upside of 5% or more from the suggested entry price range, and a Trading Sell recommendation implies downside of 5% or more from the suggested entry price range. The trading recommendation time horizon is 0-60 days.

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and, except as follows, only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. For UK-based Investment Funds research, the recommendation structure is not based on upside/downside to the target price. Rather it is the subjective view of the analyst based on an assessment of the resources and track record of the fund management company. For research on Australian listed property trusts (LPT) or real estate investment trusts (REIT), the recommendation is based upon total return, ie, the estimated total return of capital gain, dividends and distributions received for any particular stock over the investment horizon.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Distribution of recommendations

The tables below show the distribution of recommendations (both long term and trading). The first column displays the distribution of recommendations globally and the second column shows the distribution for the region. Numbers in brackets show the percentage for each category where there is an investment banking relationship. These numbers include recommendations produced by third parties with which RBS has joint ventures or strategic alliances.

Long term recommendations (as at 10 Oct 2011)

	Global total (IB%)	Asia Pacific total (IB%)
Buy	857 (11)	556 (3)
Hold	411 (7)	225 (4)
Sell	87 (6)	47 (0)
Total (IB%)	1355 (9)	828 (3)

Source: RBS

Trading recommendations (as at 10 Oct 2011)

	Global total (IB%)	Asia Pacific total (IB%)
Trading Buy	1 (100)	1 (100)
Trading Sell	1 (0)	1 (0)
Total (IB%)	2 (50)	2 (50)

Source: RBS

Valuation and risks to target price

Adani Power (RIC: ADAN.BO, Rec: Hold, CP: Rs78.05, TP: Rs75.00): We calculate DCF-to-equity values for the company's projects in our SOTP valuation. Upside risks to our target: 1) allocation of alternative coal blocks for Tiroda-I project; 2) any favourable ruling on APL's challenge to the imposition of MAT on SEZs. Downside risks: 1) Ministry of Coal announcing no coal linkage can be awarded for projects under XIIth plan; 2) a shortfall in Bunyu mine capacity versus Mundra project's coal requirement might lead APL to buy spot imported coal to cover the gap.

Regulatory disclosures

Global disclaimer

This Material was prepared by the legal entity named on the cover or inside cover page. It is provided for informational purposes only and does not constitute an offer to sell or a solicitation to buy any security or other financial instrument. While based on information believed to be reliable, no guarantee is given that it is accurate or complete. While we endeavour to update on a reasonable basis the information and opinions contained herein, there may be regulatory, compliance or other reasons that prevent us from doing so. The opinions, forecasts, assumptions, estimates, derived valuations and target price(s) contained in this Material are as of the date indicated and are subject to change at any time without prior notice. The investments referred to may not be suitable for the specific investment objectives, financial situation or individual needs of recipients and should not be relied upon in substitution for the exercise of independent judgement. The stated price of any securities mentioned herein is as of the date indicated and is not a representation that any transaction can be effected at this price. Neither RBS nor other persons shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way from the information contained in this Material. This Material is for the use of intended recipients only and the contents may not be reproduced, redistributed, or copied in whole or in part for any purpose without RBS' prior express consent. In any jurisdiction in which distribution to private/retail customers would require registration or licensing of the distributor which the distributor does not currently have, this Material is intended solely for distribution to professional and institutional investors.

THIS MATERIAL IS CLASSIFIED AS INVESTMENT RESEARCH AS DEFINED BY THE FINANCIAL SERVICES AUTHORITY.

Australia: This Material is issued in Australia by The Royal Bank of Scotland plc (ABN 30 101 464 528), 88 Phillip Street, Sydney NSW 2000, Australia which is authorised and regulated in Australia by the Australian Securities and Investments Commission (AFS License No. 241114) and the Australian Prudential Regulation Authority.

Canada: The securities mentioned in this Material are available only in accordance with applicable securities laws and many not be eligible for sale in all jurisdictions. Persons in Canada requiring further information should contact their own advisors.

EEA: This Material constitutes "investment research" for the purposes of the Markets in Financial Instruments Directive and as such contains an objective or independent explanation of the matters contained in the Material. Any recommendations contained in this Material must not be relied upon as investment advice based on the recipient's personal circumstances. In the event that further clarification is required on the words or phrases used in this Material, the recipient is strongly recommended to seek independent legal or financial advice.

Denmark: Royal Bank of Scotland N.V. is authorised and regulated in the Netherlands by De Netherlandsche Bank. In addition, Royal Bank of Scotland N.V. Danish branch is subject to local supervision by Finanstilsynet, The Danish Financial Supervisory Authority.

Hong Kong: Material in connection only with equity securities is distributed in Hong Kong by, and is attributable to, RBS Asia Limited which is regulated by the Securities and Futures Commission of Hong Kong. All other material is distributed in Hong Kong by The Royal Bank of Scotland plc (Hong Kong branch), 30/F AIA Central, 1 Connaught Road Central, Hong Kong, which is regulated by the Hong Kong Monetary Authority.

India: Shares traded on stock exchanges within the Republic of India may only be purchased by different categories of resident Indian investors, Foreign Institutional Investors registered with The Securities and Exchange Board of India ("SEBI") or individuals of Indian national origin resident outside India called Non Resident Indians ("NRIs"). Any recipient of this Material wanting additional information or to effect any transaction in Indian securities or financial instrument mentioned herein must do so by contacting a representative of RBS Equities (India) Limited. RBS Equities (India) Limited is a subsidiary of The Royal Bank of Scotland N.V..

Italy: Persons receiving this Material in Italy requiring further information should contact The Royal Bank of Scotland N.V. Milan Branch.

Japan: This report is being distributed in Japan by RBS Securities Japan Limited to institutional investors only.

South Korea: This Material is being distributed in South Korea by, and is attributable to, RBS Asia Limited (Seoul) Branch which is regulated by the Financial Supervisory Service of South Korea.

Malaysia: RBS research, except for economics and FX research, is not for distribution or transmission into Malaysia.

Netherlands: the Authority for the Financial Markets ("AFM") is the competent supervisor.

Russia: This Material is distributed in the Russian Federation by RBS and "The Royal Bank of Scotland" ZAO (general banking license No. 2594 issued by the Central Bank of the Russian Federation, registered address: building 1, 17 Bolshaya Nikitskaya str., Moscow 125009, the Russian Federation), an affiliate of RBS, for information purposes only and is not an offer to buy or subscribe or otherwise to deal in securities or other financial instruments, or to enter into any legal relations, nor as investment advice or a recommendation with respect to such securities or other financial instruments. This Material does not have regard to the specific investment purposes, financial situation and the particular business needs of any particular recipient. The investments and services contained herein may not be available to persons other than 'qualified investors" as this term is defined in the Federal Law "On the Securities Market".

Singapore: Material in connection only with equity securities is distributed in Singapore by The Royal Bank of Scotland Asia Securities (Singapore) Pte Limited ("RBS Asia Securities") (RCB Regn No. 198703346M) under MICA (P) 155/08/2011. All other material is distributed in Singapore by The Royal Bank of Scotland plc (Singapore branch) ("RBS plc Singapore") under MICA (P) 158/06/2011. Both entities are regulated by the Monetary Authority of Singapore. Singapore recipients should contact RBS Asia Securities or RBS plc Singapore at +65 6518 8888 for additional information. This material and the securities, investments or other financial instruments referred to herein are not in any way intended for, and will not be available to, investors in Singapore unless they are accredited investors, expert investors and institutional investors (as defined in Section 4A(1) of the Securities and Futures Act (Cap. 289) of Singapore ("SFA")). Further, without prejudice to any of the foregoing disclaimers, where this material is distributed to accredited investors or expert investors, RBS Asia Securities and RBS plc Singapore are exempted by Regulation 35 of the Financial Advisers Regulations from the requirements in Section 36 of the Financial Advisers Act (Cap.110) of Singapore ("FAA") mandating disclosure of any interest in securities referred to in this material, or in their acquisition or disposal. Recipients who are not accredited investors, expert investors or institutional investors should seek the advice of their independent financial advisors prior to making any investment decision based on this document or for any necessary explanation of its contents.

Thailand: Pursuant to an agreement with Asia Plus Securities Public Company Limited (APS), reports on Thai securities published out of Thailand are prepared by APS but distributed outside Thailand by RBS Bank NV and affiliated companies. Responsibility for the views and accuracy expressed in such documents belongs to APS.

Turkey: The Royal Bank of Scotland N.V. is regulated by Banking Regulation and Supervision Authority (BRSA).

UAE and Qatar: This Material is produced by The Royal Bank of Scotland N.V and is being distributed to professional and institutional investors only in the United Arab Emirates and Qatar in accordance with the regulatory requirements governing the distribution of investment research in these jurisdictions.

Dubai International Financial Centre: This Material has been prepared by The Royal Bank of Scotland N.V. and is directed at "Professional Clients" as defined by the Dubai Financial Services Authority (DFSA). No other person should act upon it. The financial products and services to which the Material relates will only be made available to customers who satisfy the requirements of a "Professional Client". This Material has not been reviewed or approved by the DFSA.

Qatar Financial Centre: This Material has been prepared by The Royal Bank of Scotland N.V. and is directed solely at persons who are not "Retail Customer" as defined by the Qatar Financial Centre Regulatory Authority. The financial products and services to which the Material relates will only be made available to customers who satisfy the requirements of a "Business Customer" or "Market Counterparty".

United States of America: This Material is intended for distribution only to "major institutional investors" as defined in Rule 15a-6 under the U.S. Exchange Act of 1934 as amended (the "Exchange Act"), and may not be furnished to any other person in the United States. Each U.S. major institutional investor that receives these Materials by its acceptance hereof represents and agrees that it shall not distribute or provide these Materials to any other person. Any U.S. recipient of these Materials that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this Material, should contact and place orders solely through a registered representative of RBS Securities Inc., 600 Washington Boulevard, Stamford, CT, USA. Telephone: +1 203 897 2700. RBS Securities Inc. is an affiliated broker-dealer registered with the U.S. Securities and Exchange Commission under the Exchange Act, and a member of the Securities Investor Protection Corporation (SIPC) and the Financial Industry Regulatory Authority (FINRA).

- Material means all research information contained in any form including but not limited to hard copy, electronic form, presentations, e-mail, SMS or WAP.

The research analyst or analysts responsible for the content of this research report certify that: (1) the views expressed and attributed to the research analyst or analysts in the research report accurately reflect their personal opinion(s) about the subject securities and issuers and/or other subject matter as appropriate; and, (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views contained in this research report. On a general basis, the efficacy of recommendations is a factor in the performance appraisals of analysts.

For a discussion of the valuation methodologies used to derive our price targets and the risks that could impede their achievement, please refer to our latest published research on those stocks at research.rbsm.com.

Disclosures regarding companies covered by us can be found on our research website. Please use research.rbsm.com for Equity Research and http://strategy.rbsm.com/disclosures for FICC Research.

Our policy on managing research conflicts of interest can be found at https://research.rbsm.com/Disclosure/Disclosure.AspX?MI=2.

Should you require additional information please contact the relevant research team or the author(s) of this Material.