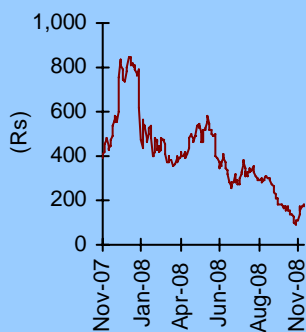


## Shareholding pattern

	Mar '08	Jun '08	Sep '08
Promoters	61.5	61.5	61.5
Institutional investors	12.5	10.4	12.0
MFs and UTI	1.1	0.9	1.2
Banks, FIs	0.2	0.1	0.1
FII	11.2	9.3	10.7
Others	26.0	28.2	26.5

Source: BSE

## Price chart



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## Lanco Infratech

BUY  
Maintained

Rs171

## Upside triggers on horizon

Reason for report: Company update

Lanco Infratech's (Lanco) stock has rallied 87% (outperformed the market by 71%) in the past two weeks. We believe that this strong upward move is due to two positive developments expected in the current month. These are: i) Amarkantak I (300MW) is expected to be commissioned by end-November '08 and will be the first Chinese equipment-based operational power plant in India; this would result in reducing execution risk/discount associated with Lanco's power portfolio. Further, Lanco's ongoing litigation with Madhya Pradesh State Electricity Board (MP SEB) to convert Amarkantak I from PPA to merchant is expected to be resolved soon; even 50% conversion will provide upside of Rs35/share. ii) Lanco has emerged as the sole bidder for the 1,320MW coal-based power plant at Rajpura, Punjab; we expect tariff of the project to be lucrative, providing healthy upside along with Rs70bn EPC potential. We maintain our NAV estimate of Rs296/share for Lanco and remain upbeat on the stock, given visible growth in its construction order book, discounted valuations of its power portfolio and robust business model. Reiterate BUY.

- **Upside from Amarkantak I.** Amarkantak I (300MW) is expected to be commissioned by end November; this is positive as it would be the first Chinese equipment-based operational power plant in India; this would result in reducing execution risk/discount associated with Lanco's power portfolio. Further, Lanco's ongoing litigation with MP SEB to convert Amarkantak I to merchant from PPA is expected to be resolved soon. Though it is difficult to presume the outcome, even 50% conversion would provide upside of Rs7.8bn or Rs35/share (PPA-based tariff levelled at Rs2.25/unit versus merchant tariff of Rs3.5/unit).
- **Sole bidder for the power plant at Rajpura.** Lanco has emerged the sole bidder (of the seven companies that qualified) for the 1,320MW super-critical, coal-based power plant near Rajpura, Punjab. Management estimates project cost of Rs70bn and expects to achieve financial closure within a year. We believe that this project would be lucrative (assuming attractive tariff) for the company; also, EPC work on the Rs70bn project will accrue upside to its construction segment (current order book of Rs120bn). However, given that Lanco is the sole bidder, possibility of re-tendering and litigations by other bidders and between Punjab State Electricity Board (PSEB) and Punjab State Electricity Regulatory Commission (PSERC) cannot be ruled out.
- **Valuations.** Our NAV estimates for Lanco stand at Rs65bn or Rs296/share. Based on our FY09E, FY10E & FY11E EPS estimates of Rs16, Rs19.3 & Rs26.3, Lanco trades at P/E of 10.7x, 8.8x & 6.5x respectively. Maintain our BUY recommendation.

Market Cap	Rs37.6bn/US\$773mn
Reuters/Bloomberg	LAIN.BO/LANCI IN
Shares Outstanding (mn)	220
52-week Range (Rs)	844/92
Free Float (%)	38.5
FII (%)	10.7
Daily Volume (US\$'000)	17,000
Absolute Return 3m (%)	(50.2)
Absolute Return 12m (%)	(56.7)
Sensex Return 3m (%)	(35.3)
Sensex Return 12m (%)	(47.5)

Year to Mar	FY08	FY09E	FY10E	FY11E
Revenue (Rs mn)	32,413	46,150	63,718	98,814
Net Income (Rs mn)	3,542	3,510	4,251	5,779
EPS (Rs)	16.1	16.0	19.3	26.3
% Chg YoY	88.4	(0.9)	21.1	35.9
P/E (x)	10.6	10.7	8.8	6.5
CEPS (Rs)	19.6	22.6	29.7	55.2
EV/E (x)	9.0	11.7	10.9	6.7
Dividend Yield	0.0	0.0	0.0	0.0
RoCE (%)	9.1	6.4	5.2	6.8
RoE (%)	21.2	17.5	17.7	19.9

## Financial Summary

Table 1: Profit and Loss Statement

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
<b>Operating Income (Sales)</b>	<b>32,413</b>	<b>46,150</b>	<b>63,718</b>	<b>98,814</b>
of which Exports	0	0	0	0
of which Domestic	34,429	47,468	66,151	102,155
<b>Operating Expenses</b>	<b>25,508</b>	<b>37,075</b>	<b>50,074</b>	<b>73,588</b>
<b>EBITDA</b>	<b>6,905</b>	<b>9,075</b>	<b>13,643</b>	<b>25,226</b>
% margins	21.3	19.7	21.4	25.5
Depreciation & Amortisation	776	1,453	2,285	6,348
Gross Interest	832	2,326	3,742	8,410
Other Income	953	772	909	1,035
<b>Recurring PBT</b>	<b>6,250</b>	<b>6,069</b>	<b>8,526</b>	<b>11,503</b>
Add: Extraordinaries	0	0	0	0
Less: Taxes	1,405	1,533	2,180	3,007
- Current tax	0	0	0	0
- Deferred tax	0	0	0	0
Less: Minority Interest	1,304	1,026	2,095	2,717
<b>Net Income (Reported)</b>	<b>3,542</b>	<b>3,510</b>	<b>4,251</b>	<b>5,779</b>
<b>Recurring Net Income</b>	<b>3,542</b>	<b>3,510</b>	<b>4,251</b>	<b>5,779</b>

Source: Company data, I-Sec Research

Table 2: Balance Sheet

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
<b>Assets</b>				
Total Current Assets	37,790	41,052	50,430	50,397
of which cash & cash eqv.	7,411	8,038	10,149	10,554
Total Current Liabilities & Provisions	27,038	34,803	42,733	39,854
<b>Net Current Assets</b>	<b>10,752</b>	<b>6,249</b>	<b>7,697</b>	<b>10,544</b>
<b>Investments</b>				
of which	<b>6,966</b>	<b>6,966</b>	<b>6,966</b>	<b>6,966</b>
Strategic/Group	5,637	5,637	5,637	5,637
Other Marketable	1,329	1,329	1,329	1,329
<b>Net Fixed Assets</b>	<b>38,029</b>	<b>94,922</b>	<b>147,048</b>	<b>173,363</b>
of which intangibles	0	0	0	0
Capital Work-in-Progress	24,106	73,844	102,511	100,822
<b>Total Assets</b>	<b>55,747</b>	<b>108,137</b>	<b>161,710</b>	<b>190,872</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>31,653</b>	<b>76,786</b>	<b>121,399</b>	<b>140,767</b>
<b>Deferred Tax Liability</b>	<b>173</b>	<b>173</b>	<b>173</b>	<b>173</b>
Minority Interest	5,588	9,335	14,045	18,058
Equity Share Capital	2,198	2,198	2,198	2,198
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	5,644	9,154	13,405	19,184
<b>Net Worth</b>	<b>18,333</b>	<b>21,843</b>	<b>26,094</b>	<b>31,873</b>
<b>Total Liabilities</b>	<b>55,747</b>	<b>108,137</b>	<b>161,711</b>	<b>190,872</b>

\*excluding revaluation reserves

Source: Company data, I-Sec Research

Table 5: Quarterly trends

(Rs mn, year ending March 31)

	Dec-07	Mar-08	Jun-08	Sep-08
Net sales	7,782	12,249	9,139	12,790
% growth (YoY)	181	250	155	198
EBITDA	1,750	2,799	1,514	1,590
Margin (%)	22	23	17	12
Other income	187	428	128	116
Add: Extraordinaries	0	0	0	0
<b>Net profit</b>	<b>825</b>	<b>1,865</b>	<b>591</b>	<b>516</b>

Source: Company data, I-Sec Research

Table 3: Cash Flow Statement

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
<b>Operating Cash flow</b>	<b>3,633</b>	<b>4,190</b>	<b>5,626</b>	<b>11,092</b>
Working Capital Changes	(3,016)	5,130	663	(2,443)
Capital Commitments	(14,979)	(58,346)	(54,410)	(32,663)
<b>Free Cash Flow</b>	<b>(14,363)</b>	<b>(49,026)</b>	<b>(48,120)</b>	<b>(24,013)</b>
<b>Cash flow from Investing</b>				
<b>Activities</b>	<b>576</b>	<b>772</b>	<b>909</b>	<b>1,035</b>
Issue of Share Capital	0	0	0	0
Buyback of shares	0	0	0	0
Inc (Dec) in Borrowings	14,554	45,133	44,613	19,369
Dividend paid	0	0	0	0
<b>Extraordinary Items</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Chg. in Cash &amp; Bank balance</b>	<b>2,361</b>	<b>627</b>	<b>2,111</b>	<b>404</b>

Source: Company data, I-Sec Research

Table 4: Key Ratios

(Year ending March 31)

	FY08	FY09E	FY10E	FY11E
<b>Per Share Data (in Rs.)</b>				
EPS(Basic Recurring)	16.1	16.0	19.3	26.3
Diluted Recurring EPS	16.1	16.0	19.3	26.3
Recurring Cash EPS	19.6	22.6	29.7	55.2
Dividend per share (DPS)	0.0	0.0	0.0	0.0
Book Value per share (BV)	83.4	99.4	118.7	145.0
<b>Growth Ratios (%)</b>				
Operating Income	101.9	42.4	38.1	55.1
EBITDA	64.5	31.4	50.3	84.9
Recurring Net Income	88.4	-0.9	21.1	35.9
Diluted Recurring EPS	88.4	-0.9	21.1	35.9
Diluted Recurring CEPS	70.3	14.9	31.7	85.5
<b>Valuation Ratios (x)</b>				
P/E	10.6	10.7	8.8	6.5
P/CEPS	8.7	7.6	5.8	3.1
P/BV	2.1	1.7	1.4	1.2
EV / EBITDA	9.0	11.7	10.9	6.7
EV / Operating Income	1.9	2.3	2.3	1.7
EV / Operating FCF	(4.3)	(2.2)	(3.1)	(7.0)
<b>Operating Ratio</b>				
Raw Material/Sales (%)	68.9	72.3	70.7	66.6
SG&A/Sales (%)	0.0	0.0	0.0	0.0
Other Income / PBT (%)	15.2	12.7	10.7	9.0
Effective Tax Rate (%)	22.5	25.3	25.6	26.1
NWC / Total Assets (%)	6.0	(1.7)	(1.5)	(0.0)
Inventory Turnover (days)	92.7	99.1	96.7	68.2
Receivables (days)	52.7	53.5	40.2	28.7
Payables (days)	103.4	212.5	280.0	203.0
D/E Ratio (x)	1.7	3.5	4.7	4.4
<b>Return/Profitability Ratio (%)</b>				
Recurring Net Income Margins	10.6	7.5	6.6	5.8
RoCE	9.1	6.4	5.2	6.8
RoNW	21.2	17.5	17.7	19.9
Dividend Payout Ratio	0.0	0.0	0.0	0.0
Dividend Yield	0.0	0.0	0.0	0.0
EBITDA Margins	21.3	19.7	21.4	25.5

Source: Company data, I-Sec Research

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