

## COMPANY UPDATE

**Adani Power (ADAN.BO)**

Buy

**Likely commissioning of Phase III – Unit 1 in 1Q2011 positive; Buy****What's changed**

Adani Power's (APL) CEO at the India Economic summit confirmed that the company will be doubling the Mundra installed capacity by December 2010 with the commissioning of (1) Unit 4 of 330MW of Phase I & II; and 2) Unit 1 of 660MW of Mundra Phase III

**Implications**

While the commissioning timeline of Unit 4 of Phase I & II is on its expected timelines, we believe the likely the commissioning of the 660MW Unit 1 of Phase III by December 2010 (versus our estimate of April 2011) is positive for APL as output from Unit 1 of Mundra Phase III is earmarked for merchant mechanism till Feb 2012 and its timely commissioning just before the commencement of summer season should boost cash flows and earnings of the company.

Assuming an average realization of Rs4/kwh for 1H2011 (Jan- June 2011), our calculations indicate that it could lead to the recovery of 12% of the capital cost incurred for the unit and could suggest upside risk of about 22% to our FY11 EPS.

**Valuation**

We re-iterate our Buy (on Conviction list) on APL with a 12-m SOTP based TP of Rs167/share implying potential upside of 22%. We believe APL is best positioned to withstand the competition compared to its peers as 1) 70% of its capacity is already tied up in long term PPA's which factor in increases in fuel costs due to the shortage of domestic coal; 2) it has the ability to maintain higher availability as 50% of its capacity is located near the ports and 3) lower payment risk as its PPA's are with states having relatively better finances. We estimate APL to have 64% EPS CAGR over FY11E-14E and it is trading at discount to its peers on P/E and P/B.

**Key risks**

Delay in commissioning of capacities; lower than expected short term rates.

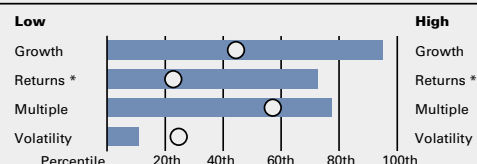
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India  
Power

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**Investment Profile**

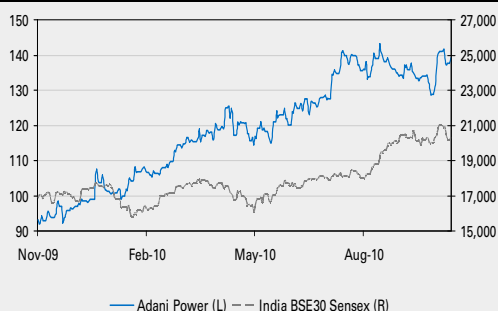
■ Adani Power (ADAN.BO)

○ Asia Pacific Utilities Peer Group Average

\* Returns = Return on Capital For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data	Current
Price (Rs)	139.20
12 month price target (Rs)	167.00
Market cap (Rs mn / US\$ mn)	303,279.0 / 6,778.3
Foreign ownership (%)	--

	3/10	3/11E	3/12E	3/13E
EPS (Rs)	0.78	3.56	12.21	14.58
EPS growth (%)	7,920.0	356.7	243.0	19.4
EPS (diluted) (Rs)	0.78	3.56	12.21	14.58
EPS (basic pre-ex) (Rs)	0.78	3.56	12.21	14.58
P/E (X)	NM	39.1	11.4	9.5
P/B (X)	5.3	4.6	3.3	2.4
EV/EBITDA (X)	114.5	31.2	10.0	7.9
Dividend yield (%)	NM	NM	NM	NM
ROE (%)	4.2	12.6	33.8	29.4
CROCI (%)	2.3	6.5	16.2	17.7

**Price performance chart**

Share price performance (%)	3 month	6 month	12 month
Absolute	(0.4)	15.3	49.6
Rel. to India BSE30 Sensex	(10.9)	(3.5)	24.1

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 11/15/2010 close.

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# Adani Power: Summary Financials

Profit model (Rs mn)	3/10	3/11E	3/12E	3/13E	Balance sheet (Rs mn)	3/10	3/11E	3/12E	3/13E
<b>Total revenue</b>	<b>4,667.9</b>	<b>27,081.0</b>	<b>79,329.9</b>	<b>135,166.9</b>	Cash & equivalents	11,653.9	40,732.6	44,172.6	13,816.9
Cost of goods sold	(1,667.1)	(11,531.9)	(29,256.3)	(62,863.1)	Accounts receivable	11,969.3	6,770.2	19,558.0	34,932.7
SG&A	(243.4)	(1,146.4)	(2,993.2)	(5,662.0)	Inventory	95.2	1,421.7	3,606.9	7,750.2
R&D	--	--	--	--	Other current assets	0.0	0.0	0.0	0.0
Other operating profit/(expense)	0.0	0.0	0.0	0.0	<b>Total current assets</b>	<b>23,718.4</b>	<b>48,924.6</b>	<b>67,337.5</b>	<b>56,499.9</b>
<b>EBITDA</b>	<b>2,757.4</b>	<b>14,402.6</b>	<b>47,080.4</b>	<b>66,641.9</b>	Net PP&E	155,547.8	219,255.4	250,007.0	323,187.0
Depreciation & amortization	(353.5)	(1,835.0)	(5,262.3)	(14,615.5)	Net intangibles	14.2	11.0	7.9	4.7
<b>EBIT</b>	<b>2,403.9</b>	<b>12,567.7</b>	<b>41,818.1</b>	<b>52,026.4</b>	Total investments	0.1	0.1	0.1	0.1
Interest income	--	--	--	851.7	Other long-term assets	0.0	0.0	0.0	0.0
Interest expense	(376.7)	(2,923.7)	(8,741.0)	(13,381.5)	<b>Total assets</b>	<b>179,280.4</b>	<b>268,191.1</b>	<b>317,352.4</b>	<b>379,691.6</b>
Income/(loss) from uncons. subs.	0.0	0.0	0.0	0.0	Accounts payable	13,594.6	13,594.6	13,594.6	13,594.6
Others	0.0	0.0	0.0	0.0	Short-term loans	0.0	0.0	0.0	0.0
<b>Pretax profits</b>	<b>2,027.2</b>	<b>9,644.0</b>	<b>33,077.2</b>	<b>39,496.6</b>	Other current liabilities	1,057.4	1,057.4	1,057.4	1,057.4
Income tax	(327.2)	(1,880.6)	(6,450.0)	(7,701.8)	<b>Total current liabilities</b>	<b>14,651.9</b>	<b>14,651.9</b>	<b>14,651.9</b>	<b>14,651.9</b>
Minorities	0.0	0.0	0.0	0.0	Long-term debt	105,705.1	186,852.4	209,386.6	239,931.0
<b>Net income pre-preferred</b>	<b>1,700.0</b>	<b>7,763.4</b>	<b>26,627.1</b>	<b>31,794.8</b>	Other long-term liabilities	119.9	119.9	119.9	119.9
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	105,825.0	186,972.3	209,506.4	240,050.9
<b>Net income (pre-exceptionals)</b>	<b>1,700.0</b>	<b>7,763.4</b>	<b>26,627.1</b>	<b>31,794.8</b>	<b>Total liabilities</b>	<b>120,476.9</b>	<b>201,624.2</b>	<b>224,158.4</b>	<b>254,702.8</b>
Post tax exceptionals	0.0	0.0	0.0	0.0	<b>Preferred shares</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net income</b>	<b>1,700.0</b>	<b>7,763.4</b>	<b>26,627.1</b>	<b>31,794.8</b>	<b>Total common equity</b>	<b>57,780.1</b>	<b>65,543.5</b>	<b>92,170.7</b>	<b>123,965.4</b>
EPS (basic, pre-exception) (Rs)	0.78	3.56	12.21	14.58	Minority interest	1,023.4	1,023.4	1,023.4	1,023.4
EPS (basic, post-exception) (Rs)	0.78	3.56	12.21	14.58	<b>Total liabilities &amp; equity</b>	<b>179,280.4</b>	<b>268,191.1</b>	<b>317,352.4</b>	<b>379,691.6</b>
EPS (diluted, post-exception) (Rs)	0.78	3.56	12.21	14.58	<b>BVPS (Rs)</b>	<b>26.50</b>	<b>30.07</b>	<b>42.28</b>	<b>56.86</b>
DPS (Rs)	0.00	0.00	0.00	0.00	<b>Ratios</b>	<b>3/10</b>	<b>3/11E</b>	<b>3/12E</b>	<b>3/13E</b>
Dividend payout ratio (%)	0.0	0.0	0.0	0.0	CROCI (%)	2.3	6.5	16.2	17.7
Free cash flow yield (%)	(37.8)	(17.9)	(8.6)	(23.4)	ROE (%)	4.2	12.6	33.8	29.4
<b>Growth &amp; margins (%)</b>	<b>3/10</b>	<b>3/11E</b>	<b>3/12E</b>	<b>3/13E</b>	ROA (%)	1.3	3.5	9.1	9.1
Sales growth	--	480.2	192.9	70.4	Inventory days	10.4	24.0	31.4	33.0
EBITDA growth	14,821.7	422.3	226.9	41.5	Receivables days	630.7	126.3	60.6	73.6
EBIT growth	NM	422.8	232.7	24.4	Payable days	2,103.4	430.3	169.6	78.9
Net income growth	NM	356.7	243.0	19.4	Net debt/equity (%)	159.9	219.5	177.3	180.9
EPS growth	7,920.0	356.7	243.0	19.4	Interest cover - EBIT (X)	6.4	4.3	4.8	4.2
Gross margin	64.3	57.4	63.1	53.5	<b>Valuation</b>	<b>3/10</b>	<b>3/11E</b>	<b>3/12E</b>	<b>3/13E</b>
EBITDA margin	59.1	53.2	59.3	49.3	P/E basic (X)	NM	39.1	11.4	9.5
EBIT margin	51.5	46.4	52.7	38.5	P/B (X)	5.3	4.6	3.3	2.4
<b>Cash flow statement (Rs mn)</b>	<b>3/10</b>	<b>3/11E</b>	<b>3/12E</b>	<b>3/13E</b>	EV/EBITDA (X)	114.5	31.2	10.0	7.9
Net income pre-preferred dividends	1,700.0	7,763.4	26,627.1	31,794.8	EV/GCI (X)	2.1	2.1	1.8	1.4
D&A add-back	353.5	1,835.0	5,262.3	14,615.5	Dividend yield (%)	NM	NM	NM	NM
Minorities interests add-back	0.0	0.0	0.0	0.0	<b>Additional metrics</b>	<b>3/10</b>	<b>3/11E</b>	<b>3/12E</b>	<b>3/13E</b>
Net (inc)/dec working capital	(831.0)	3,872.5	(14,972.9)	(19,518.1)	Unit coal costs (Rs/kWh)	--	--	--	--
Other operating cash flow	(248.2)	0.0	0.0	0.0	Wtd-avg tariffs-total (Rs/kWh)	3.34	3.28	3.65	2.82
<b>Cash flow from operations</b>	<b>1,418.4</b>	<b>13,470.9</b>	<b>16,916.5</b>	<b>26,892.2</b>	Wtd-avg tariffs-coal (Rs/kWh)	--	--	--	--
Capital expenditures	(84,937.3)	(65,539.5)	(36,010.7)	(87,792.4)	Wtd-avg tariffs-wind (Rs/kWh)	--	--	--	--
Acquisitions	185.1	0.0	0.0	0.0	Utilization rate-total (%)	90.0	90.0	90.0	90.0
Divestitures	0.0	0.0	0.0	0.0	Utilization rate-coal (%)	--	--	--	--
Others	0.0	0.0	0.0	0.0	Utilization rate-wind (%)	--	--	--	--
<b>Cash flow from investments</b>	<b>(84,752.2)</b>	<b>(65,539.5)</b>	<b>(36,010.7)</b>	<b>(87,792.4)</b>	Utilization rate-nuclear (%)	--	--	--	--
Dividends paid (common & pref)	0.0	0.0	0.0	0.0	Attributable capacity-total (MW)	660	1,320	4,620	6,600
Inc/(dec) in debt	55,808.2	81,147.3	22,534.2	30,544.5	Attributable capacity-coal (MW)	--	--	--	--
Common stock issuance (repurchase)	33,594.1	0.0	0.0	0.0	Attributable capacity-wind (MW)	--	--	--	--
Other financing cash flows	0.0	0.0	0.0	0.0	Attributable capacity-nuclear (MW)	--	--	--	--
<b>Cash flow from financing</b>	<b>89,402.3</b>	<b>81,147.3</b>	<b>22,534.2</b>	<b>30,544.5</b>	Power generation-total (kWh)	1,504	8,874	23,351	51,564
<b>Total cash flow</b>	<b>6,068.5</b>	<b>29,078.7</b>	<b>3,439.9</b>	<b>(30,355.7)</b>	Power generation-coal (kWh)	--	--	--	--
					Power generation-wind (kWh)	--	--	--	--
					Power generation-nuclear (kWh)	--	--	--	--

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

## Analyst Contributors

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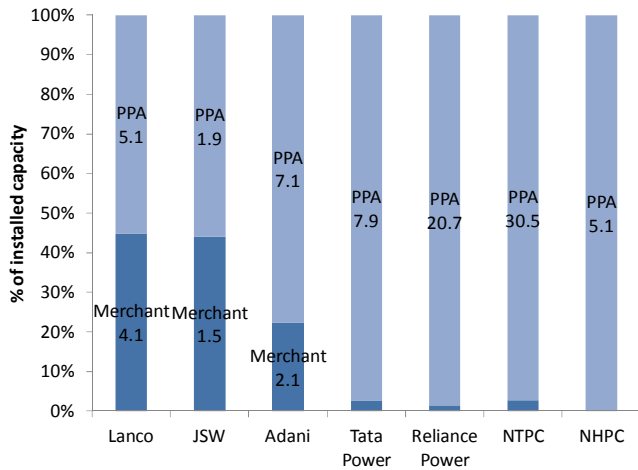
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# Adani power is best positioned to manage industry risks

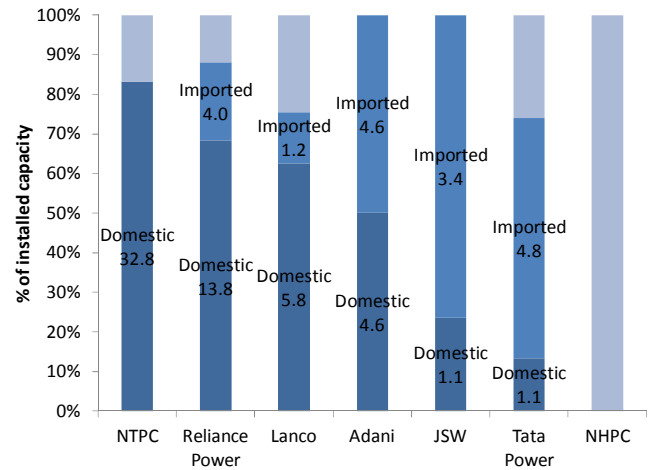
We believe Adani Power (APL; Buy Conviction list) is best positioned to withstand the competition in the merchant space compared to peers. We looked at Adani from the perspective of four industry risks: 1) **Off take risk** – APL has less off-take risk than Lanco or JSW, as 70% of its capacity is already tied up under long term PPA mechanisms; 2) **Fuel risk** – As Adani is vertically integrated (through Adani Enterprises for its Mundra project), and its PPAs already reflect higher fuel-cost expectations, we believe Adani is best positioned to thrive in the rising fuel price environment; 3) **Higher plant availability** – as almost 50% of its capacity is located near ports and the group is vertically integrated in terms of coal trading, ports and logistics, we believe Adani is best positioned to maintain higher plant availability than peers; 4) **Payment risk**: Adani has PPAs with Maharashtra, Gujarat, Rajasthan and Haryana. We believe the finances of Maharashtra, Gujarat, Rajasthan are relatively better than other states

**Exhibit 1: The majority of Adani’s capacity is now tied up under long-term PPA mechanisms**



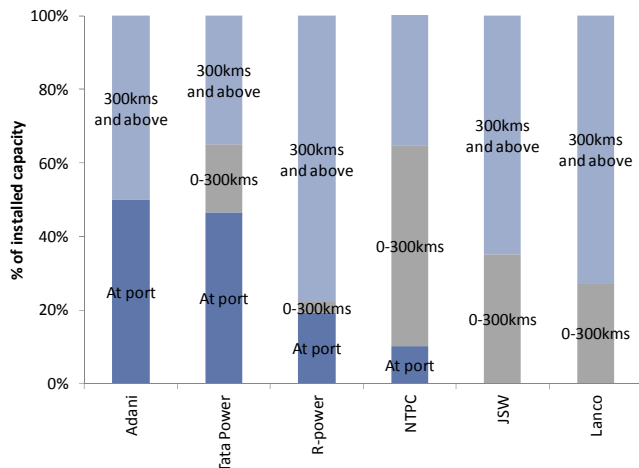
Source: Company data, Goldman Sachs Research.

**Exhibit 2: Adani Power is well positioned to manage fuel price risk as its PPAs already reflects a higher proportion of imported coal component (light blue represents capacities on other fuels)**



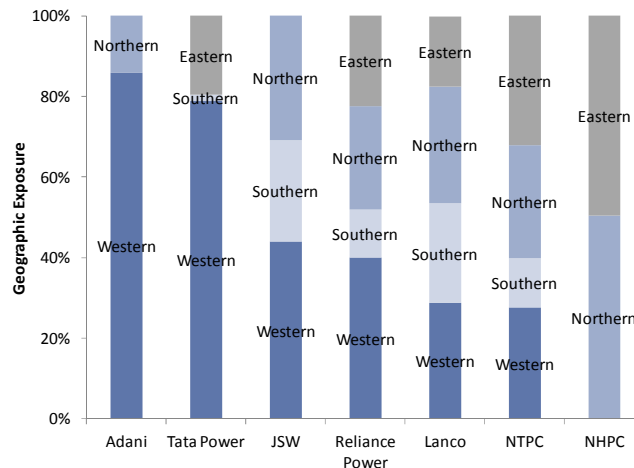
Source: Company data, Goldman Sachs Research.

**Exhibit 3: Proximity to port and the group’s presence in logistics could help Adani Power to maintain higher availability of its power capacity than peers, in our view**  
Distance of power plants from the nearest port



Source: Company data, Goldman Sachs Research.

**Exhibit 4: Adani Power has higher exposure to states in the Western region (primarily Maharashtra and Gujarat), which are financially more stable**  
Region-wise classification of the PPAs



Source: Company data, Goldman Sachs Research.

**Exhibit 5: Our SOTP-based 12-m target price of Rs167 for Adani Power implies 25% potential upside**

Project	Capacity (MW)	COD Unit I	FY12E FCFE value (Rs mn)	Adani Power Stake	Milestone Discount	FY12E FCFE value after discount (Rs mn)
<b>Under construction</b>						
Mundra I & II	1,320	Oct-09	73,304	100%	0%	73,304
Mundra III	1,320	Apr-11	44,331	100%	0%	44,331
Mundra IV	1,980	Dec-11	83,422	100%	0%	83,422
Tiroda	1,980	Nov-11	66,666	77%	0%	51,333
<b>Under development</b>						
Tiroda III	1,320	Aug-13	46,355	77%	10%	32,124
Kawai	1,320	Aug-13	38,855	100%	20%	31,084
Chindwara	1,320					-
Dahej	2,640					-
<b>Total value (Rs mn)</b>	<b>13,200</b>					<b>315,597</b>
<b>Cost of Equity</b>	<b>13.0%</b>					
Shares outstanding - Diluted (mn)						2,180
<b>Value per share (Rs)</b>						<b>145</b>
FY12E Cash (Rs mn)						49,058
FY12E Cash /(Net debt) - Rs/share						<b>23</b>
<b>Valuation (Rs/share)</b>						<b>167</b>

Source: Company data, Goldman Sachs Research estimates.

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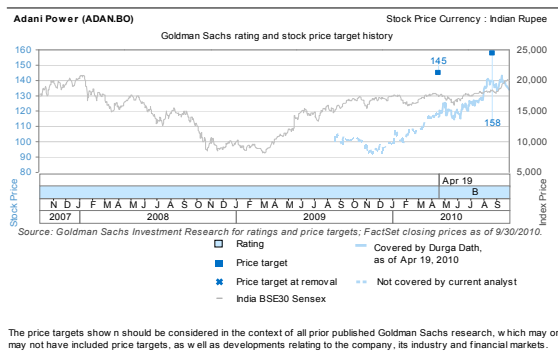
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## Price target and rating history chart(s)



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