

VISIT UPDATE

LARGE CAP

Share Data

| | |
|----------------------------------|----------|
| Reuters code | LAIN.BO |
| Bloomberg code | LANCI IN |
| Market cap. (US\$ mn) | 3,171 |
| 6M avg. daily turnover (US\$ mn) | 16.6 |
| Issued shares (mn) | 2,408 |
| Target price (Rs) | 59 |

Performance (%) 1M 3M 12M

| | | | |
|----------|---|----|-----|
| Absolute | 7 | 17 | 150 |
| Relative | 6 | 12 | 57 |

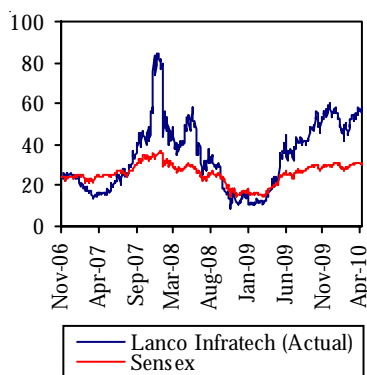
Valuation ratios

| Yr to 31 Mar | FY11E | FY12E |
|---------------|-------|-------|
| EPS (Rs) | 3.6 | 4.4 |
| +/- (%) | 72.4 | 21.8 |
| PER (x) | 16.2 | 13.3 |
| PBV (x) | 2.5 | 2.0 |
| EV/Sales (x) | 2.2 | 2.1 |
| EV/EBITDA (x) | 9.3 | 8.0 |

Major shareholders (%)

| | |
|-----------------|----|
| Promoters | 68 |
| FII's | 18 |
| MF's | 3 |
| BFSI's | 2 |
| Public & Others | 9 |

Relative performance



Lanco Infratech

Maintain Outperformer

Price: Rs 58

BSE Index: 17,694

23 April 2010

Strong project pipeline

B&K's view

Currently, the company has 749 MW of commercially operational power capacity (attributable to Lanco 442 MW), 3,675 MW of financially closed and under construction projects (attributable to Lanco 3,414 MW) and 4,702 MW projects pending for financial closure. Though there has been a delay in commissioning of under development projects, many of the projects have achieved significant milestones and we expect that 1,753 MW incremental capacity will be commercially operational in FY11 and 1,270 MW in FY12.

We estimate that 100% merchant power by Amarkantak I can result in an upside of 42% for FY11 and 31% for FY12 EPS and will add Rs 3 to the target. Selling of 50% power on merchant and 50% on PPA will give an upside of 21% for FY11 and 16% for FY12 EPS and will add Rs 6 to the target price.

In the construction business, the company has an order book of Rs 209 bn as on 31 December 2009. Though, growth in the segment during FY11E is likely to be muted as most of the new projects added to the order book are in initial stages, growth will improve significantly in FY12E with the pick up in execution.

The stock is trading at 16.2x FY11E and 13.3x FY12E earnings and 2.5x FY11E and 2.0x FY12E Price/Book value. We maintain Outperformer with a revised target price of Rs 59.

Management meeting updates

Favourable development on Amarkantak project court case – The company was involved in a case with MPPTC for PPA on its 300 MW Amarkantak I power plant. Lanco was of the view that PPA is not valid and they are not obliged to sell the power under PPA. The Supreme Court has dismissed the case recently. Earlier, MP High Court had also ruled in the company's favour. This power plant has been generating power but is yet to be announced as commercially operational. If there is no further legal action by MPPTC, we believe that the company will go for selling of power on merchant basis or opt for a PPA at higher rates. We estimate that 100% merchant power can result in an upside of 42% for FY11 and 31% for FY12 EPS and will add Rs 3 per share to the target. Selling of 50% power on merchant and 50% on PPA will give an upside of 21% for FY11 and 16% for FY12 EPS and will add Rs 6 per share to the target price.

Under construction power projects, achieved significant milestones – Amarkantak phase II has already been synchronised while Udupi unit I in the process of synchronisation. Work on other projects (Anpara, Teesta, Udupi II, Lanco Green, Lanco Uttaranchal) is also progressing. Though there has been a delay in commissioning of under development projects, many of the projects have achieved significant milestones and we expect that 1,753 MW incremental capacity will be commercially operational in FY11.

Projects in initial stage, seeing progress – The company currently has Kondapalli III (742 MW), Vidarbha (1,320 MW), Babandh (1,320 MW) and Amarkantak III & IV (1,320 MW), where financial closure is yet to be achieved. The company has placed orders for

equipments on all of these plants and expects to achieve the financial closure in 1HFY11E. As construction work on Amarkantak III & IV and Kondapalli III has already commenced, we are including them in our valuations now.

Robust EPC order book – The company has an order book of Rs 209 bn as on 31 December 2009. Though, growth in the segment during FY11E is likely to be muted as most of the new projects added to the order book are in initial stages, growth will improve significantly in FY12E with the pick up in execution.

Road BOT's, nearing completion – Lanco has two under construction road BOT projects (81 km Bangalore-Hoskote-Mudbagal and 82 km Neelamangla-Devihalli). The company expects to complete these projects in the next three-four months.

Real estate, looking to exit – In the Hyderabad real estate project, the company plans to focus on delivery of booked apartments in 1HFY11. There is no visible sign of improvement in Hyderabad real estate market and the company's project in terms of bookings. The company is also looking for exit opportunity from this business.

Power capacity

| Plant | Fuel | Financial closure | Capacity (MW) | Completion (our estimate) | Current status |
|--|---------------|-------------------|---------------|---------------------------|---------------------------------------|
| Operational | | | | | |
| Kondapalli I | Gas | | 368 | | Operational |
| Kondapalli II | Gas | | 233 | | Operational |
| Aban | Gas | | 120 | | Operational |
| Wind mills | Wind | | 13 | | Operational |
| Vamshi | Hydro | | 15 | | Operational |
| Total | | | 749 | | |
| Under construction/Awaiting COD | | | | | |
| Kondapalli II | Gas | Yes | 133 | 1QFY11 | HRSR hydro test under progress |
| Vamshi | Hydro | Yes | 5 | 2QFY11 | Commissioning activity under progress |
| Amarkantak I & II | Coal | Yes | 600 | 1QFY11 | Synchronized and generating power |
| Udupi I & II | Imported coal | Yes | 1,015 | 2Q-4QFY11 | Steam blowing under progress |
| Lanco Green | Hydro | Yes | 70 | 1QFY12 | HRT excavation near completion |
| Anpara | Coal | Yes | 1,200 | 1Q-3QFY12 | DM plant commissioning under progress |
| Lanco Uttaranchal I & II | Hydro | Yes | 152 | FY14 | Dam/HRT/Power House under progress |
| Teesta | Hydro | Yes | 500 | FY14 | River diversion completed |
| Total | | | 3,675 | | |
| Financial Closure pending | | | | | |
| Amarkantak III & IV | Coal | No | 1,320 | | Boiler foundation started |
| Babandh | Coal | No | 1,320 | | Equipment ordered |
| Vidarbha | Coal | No | 1,320 | | EPC and equipment orders awarded |
| Kondapalli -III | Gas | No | 742 | | GT piling work completed |
| Total | | | 4,702 | | |

Source: Company, B&K Research

SOTP sensitivity

| Business | Basis | Value (Rs/share) | | |
|--------------|-------------------------------|------------------|--------------------------------------|---------------------------------------|
| | | (Base case) | (50% merchant power on Amarkantak I) | (100% merchant power on Amarkantak I) |
| Power | DCF | 30.2 | 33.4 | 36.7 |
| Construction | 12x FY11E EPS (Standalone) | 25.5 | 25.5 | 25.5 |
| Real estate | Fair value | 1.5 | 1.5 | 1.5 |
| Road BOT | DCF | 2.0 | 2.0 | 2.0 |
| Total | | 59 | 62 | 66 |

Income Statement

| Yr end 31 Mar (Rs mn) | FY09 | FY10E | FY11E | FY12E |
|---|---------------|---------------|----------------|----------------|
| Net sales | 60,720 | 80,092 | 116,488 | 142,357 |
| <i>Growth (%)</i> | <i>87.3</i> | <i>31.9</i> | <i>45.4</i> | <i>22.2</i> |
| Operating expenses | (51,846) | (66,572) | (89,158) | (105,125) |
| Operating profit | 8,874 | 13,520 | 27,330 | 37,232 |
| EBITDA | 8,874 | 13,520 | 27,330 | 37,232 |
| <i>Growth (%)</i> | <i>26.9</i> | <i>52.4</i> | <i>102.1</i> | <i>36.2</i> |
| Depreciation | (1,073) | (1,768) | (3,947) | (6,450) |
| Other income | 562 | 1,170 | 691 | 745 |
| EBIT | 8,363 | 12,923 | 24,073 | 31,527 |
| Interest paid | (2,185) | (2,539) | (8,757) | (13,354) |
| Pre-tax profit (before non-recurring items) | 6,178 | 10,384 | 15,316 | 18,174 |
| Pre-tax profit (after non-recurring items) | 6,178 | 10,384 | 15,316 | 18,174 |
| Tax (current + deferred) | (1,690) | (3,139) | (3,593) | (4,482) |
| Net profit | 4,487 | 7,245 | 11,723 | 13,692 |
| Adjusted net profit | 2,804 | 4,944 | 8,524 | 10,385 |
| <i>Growth (%)</i> | <i>(20.8)</i> | <i>76.3</i> | <i>72.4</i> | <i>21.8</i> |
| Minority interests | (1,041) | (1,394) | (2,182) | (2,206) |
| Elimination of profit on transaction with associates | (643) | (907) | (1,017) | (1,101) |
| Net income | 2,804 | 4,944 | 8,524 | 10,385 |

Balance Sheet

| Yr end 31 Mar (Rs mn) | FY09 | FY10E | FY11E | FY12E |
|---------------------------------|----------------|----------------|----------------|----------------|
| Current assets | 49,342 | 60,628 | 77,495 | 97,132 |
| Investments | 9,837 | 10,602 | 11,445 | 12,371 |
| Net fixed assets | 56,306 | 83,672 | 134,997 | 189,145 |
| Total assets | 115,485 | 154,903 | 223,936 | 298,648 |
| Current liabilities | 31,331 | 36,691 | 52,645 | 63,985 |
| Total debt | 55,970 | 75,558 | 116,922 | 166,386 |
| Other non-current liab. | 175 | 175 | 175 | 175 |
| Total liabilities | 87,476 | 112,423 | 169,742 | 230,545 |
| Share capital | 2,198 | 2,383 | 2,383 | 2,383 |
| Reserves & surplus | 18,778 | 30,933 | 39,457 | 49,842 |
| Shareholders' funds | 20,976 | 33,315 | 41,839 | 52,225 |
| Minorities interests | 7,033 | 9,164 | 12,355 | 15,879 |
| Total equity & liab. | 115,485 | 154,903 | 223,936 | 298,648 |

Cash Flow Statement

| Yr end 31 Mar (Rs mn) | FY09 | FY10E | FY11E | FY12E |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|
| Pre-tax profit | 6,178 | 10,384 | 15,316 | 18,174 |
| Depreciation | 1,081 | 1,768 | 3,947 | 6,450 |
| Chg in working capital | (3,788) | (7,866) | (7,020) | (3,507) |
| Total tax paid | (1,689) | (3,139) | (3,593) | (4,482) |
| Cash flow from oper. (a) | 1,782 | 1,147 | 8,651 | 16,634 |
| Capital expenditure | (20,338) | (29,134) | (55,272) | (60,598) |
| Chg in investments | (2,871) | (766) | (842) | (926) |
| Cash flow from inv. (b) | (23,210) | (29,900) | (56,114) | (61,524) |
| Free cash flow (a+b) | (21,427) | (28,753) | (47,463) | (44,890) |
| Equity raised/(repaid) | 39 | 7,274 | - | - |
| Chg in minorities | (255) | (170) | (9) | 217 |
| Debt raised/(repaid) | 24,320 | 19,588 | 41,364 | 49,464 |
| Other financing activities | (184) | 122 | - | (0) |
| Cash flow from fin. (c) | 23,921 | 26,813 | 41,356 | 49,681 |
| Net chg in cash (a+b+c) | 2,493 | (1,940) | (6,108) | 4,791 |

Key Ratios

| Yr end 31 Mar (%) | FY09 | FY10E | FY11E | FY12E |
|-------------------|--------|-------|-------|-------|
| EPS (Rs) | 1.3 | 2.1 | 3.6 | 4.4 |
| EPS growth | (20.9) | 62.7 | 72.4 | 21.8 |
| EBITDA margin | 14.6 | 16.9 | 23.5 | 26.2 |
| EBIT margin | 13.8 | 16.1 | 20.7 | 22.1 |
| RoCE | 12.0 | 12.8 | 16.6 | 15.5 |
| Net debt/Equity | 164.5 | 159.1 | 212.3 | 234.6 |

Valuations

| Yr end 31 Mar (x) | FY09 | FY10E | FY11E | FY12E |
|-------------------|------|-------|-------|-------|
| PER | 45.5 | 28.0 | 16.2 | 13.3 |
| PCE | 32.9 | 20.6 | 11.1 | 8.2 |
| Price/Book | 4.6 | 3.3 | 2.5 | 2.0 |
| EV/Net sales | 2.9 | 2.6 | 2.2 | 2.1 |
| EV/EBITDA | 19.6 | 15.2 | 9.3 | 8.0 |

Du Pont Analysis – ROE

| Yr end 31 Mar (x) | FY09 | FY10E | FY11E | FY12E |
|----------------------|------|-------|-------|-------|
| Net margin (%) | 4.6 | 6.2 | 7.3 | 7.3 |
| Asset turnover | 0.6 | 0.6 | 0.6 | 0.5 |
| Leverage factor | 3.8 | 3.8 | 3.9 | 4.3 |
| Return on equity (%) | 10.8 | 14.0 | 17.6 | 17.0 |

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1. **BUY:** Potential upside of > +25% (absolute returns)
 2. **OUTPERFORMER:** 0 to +25%
 3. **UNDERPERFORMER:** 0 to -25%
 4. **SELL:** Potential downside of < -25% (absolute returns)
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