

August 17, 2011

Reco	Previous Reco
Hold	Buy
CMP	Target Price
Rs17	Rs23
EPS change FY11E/12E (%)	-37 / -43
Target Price change (%)	-49
Nifty	5,057
Sensex	16,841

Price Performance

(%)	1M	3M	6M	12M
Absolute	(27)	(50)	(58)	(77)
Rel. to Nifty	(19)	(47)	(54)	(75)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Power
Bloomberg	LANCI@IN
Equity Capital (Rs mn)	2408
Face Value(Rs)	1
No of shares o/s (mn)	2408
52 Week H/L	75/16
Market Cap (Rs bn/USD mn)	40/880
Daily Avg Volume (No of sh)	7066820
Daily Avg Turnover (US\$m)	3.6

Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	68.2	68.0	68.0
FII/NRI	17.2	19.4	20.4
Institutions	2.4	3.2	3.6
Private Corp	3.1	2.4	1.8
Public	9.0	7.0	6.3

Source: Capitaline

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- Lanco's PAT of Rs137mn was way below est. due to (1) higher inter-seg elimination (66% rev, 80% EBIT) vs our assumption of 60% elimination and higher tax rate of 55%
- EPC margins at 16.7%, in line and flat yoy but elimination increasing significantly on revenue recognition from subs vs associates earlier - factor in higher elimination of 65%
- Further delay in Udupi and Anpara COD (best case 3Q). cut earnings by 37/43% in FY12E/13E - driven by delays, elimination, higher fuel cost and lower merchant rates
- Correction driven by - (1) domestic fuel issues, (2) Udupi and Anpara delays, (3) perdaman case (one still pending), (4) inv. planned in solar despite stretched BS & (5) interest rates; Issues persisting; downgrade to hold

Performance hit due to elimination and higher tax rate

Lanco's Q1FY12 reported PAT of Rs137mn was way below our estimate of Rs773mn due to (1) higher inter-segment elimination (66% of revenues and 80% of EBIT has been eliminated) driven by higher revenues from subsidiaries vs associates earlier and higher tax rate of 55%. Q1FY12 consolidated revenues (excluding power trading) grew by 8% yoy to Rs16.6bn. Consolidated EBITDA margin declined by 280bps yoy to 25.2%. This decline was led mainly by (1) higher inter-segmental profit elimination and (2) lower power realizations.

Factor in higher elimination, delays, higher fuel cost and lower merchant rates - cut earnings

Since past few qtrs, the elimination is increasing significantly with 1QFY12 revenue elimination at 66% and EBIT elimination even higher at 80% of EPC EBIT. We had factored 55% elimination and therefore the negative surprise. The higher elimination is driven by revenue recognition from subsidiaries vs associates earlier. We now factor in higher elimination of 65%. We also factor in the delays in Udupi and Anpara from Aug-Sep commissioning to 3Q commissioning now (that too is best case as per mgmt). Further, we are factoring in (1) higher fuel cost for its coal based plants and (2) lower merchant rates of Rs3.75/unit vs Rs4/unit earlier for FY12E and FY13E. Thus, there is a significant cut in our earnings by 37/43% for FY12E/FY13E. We do not rule out further cuts as the assumption still are on the higher side but we have assumed as per mgmt guidance.

Issues persisting; downgrade to hold

Lanco has corrected significantly due to various issues in recent times - (1) domestic fuel shortage and plants on domestic fuel, (2) Udupi and Anpara Delays, (3) perdaman case - one still pending, (4) rising interest rates and stretched balance sheet, (5) huge investments planned in solar despite stretched balance sheet and (6) gas supply issues and gas plant kept merchant. We believe that most of these issues are still persisting and will take time to resolve and to remain overhang despite valuations at 0.8x FY12E Book. Downgrade the stock to hold rating with a revised price target of Rs23/Share.

Financial Snapshot

Rs Mn

YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	PAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY10	80,320	14,515	18.1	4,586	1.9	36.8	16.6	9.9	7.6	1.1
FY11E	77,837	18,905	24.3	4,461	1.9	-33.6	12.9	10.2	10.5	0.8
FY12E	92,743	29,579	31.9	4,862	1.9	49.4	12.6	10.0	9.5	0.8
FY13E	119,307	38,229	32.0	5,940	2.3	22.2	12.3	8.2	8.3	0.7

Quarterly Results

Rs mn	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	YoY (%)	QoQ (%)	FY10	FY11	YoY (%)
Revenue	21,256	20,418	15,615	20,548	19,492	-8.3	-5.1	80,320	77,837	-3.1
Expenditure	-15,303	-16,251	-10,815	-16,565	-14,582	-4.7	-12.0	-65,805	-58,933	-10.4
as % of sales	-72.0%	-79.6%	-69.3%	-80.6%	-74.8%			-81.9%	-75.7%	
Consumption of RM	-13,899	-14,914	-8,946	-13,998	-12,241	-11.9	-12.6	-61,132	-51,757	-15.3
as % of sales	-65.4%	-73.0%	-57.3%	-68.1%	-62.8%			-76.1%	-66.5%	
Power and Fuel	0	0	0	0	0			0	0	
as % of sales	0.0%	0.0%	0.0%	0.0%	0.0%			0.0%	0.0%	
Other Mfg Expenses	0	0	0	0	0			0	0	
as % of sales	0	0	0	0	0			0	0	
Employee Cost	-1157	-1082	-1232	-1593	-1609	39.1	1.0	-3,315	-5,063	52.8
as % of sales	-5.4%	-5.3%	-7.9%	-7.8%	-8.3%			-4.1%	-6.5%	
Other expenditure	-248	-255	-636	-973	-732	195.6	-24.8	-1,358	-2,112	55.5
as % of sales	-1.2%	-1.2%	-4.1%	-4.7%	-3.8%			-1.7%	-2.7%	
EBITDA	5,954	4,167	4,800	3,984	4,910	-17.5	23.2	14,515	18,905	30.2
Depreciation	-1551	-1703	765	-1049	-1265	-18.4	20.6	-3,479	-3,537	1.7
EBIT	4,403	2,464	5,565	2,935	3,645	-17.2	24.2	11,036	15,367	39.2
Other Income	251	725	427	-407	332	32.1	-181.6	1,839	2,175	18.3
Interest	-1567	-1754	-1890	-1869	-2308	0.4	23.5	-3,554	-7,555	112.6
PBT	3,087	1,435	4,103	659	1,669	-45.9	153.2	9,321	9,988	7.2
Total Tax	-353	-378	-3369	251	-926	162.1	-469.2	-3,642	-3,850	5.7
Adjusted PAT	2734	1057	734	910	743	-72.8	-18.4	5679	6138	8.1
Extra ordinary items	-359	0	1415	-314	0			0	-1	
Reported PAT	2375	1057	2149	597	743	-68.7	24.6	5679	6138	8.1
(Profit)/loss from JV's/Ass/MI	-430	-353	-508	-739	-606	41.1	-18.0	-1,093	-1,677	53.4
PAT after MI	1945	704	1640	-142	137	-93.0	-196.2	4586	4461	-2.7
Reported EPS	0.9	0.3	0.5	-0.1	0.1	-93.7	-196.2	1.9	1.9	-2.7

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	28.0	20.4	30.7	19.4	25.2	-282	580	18.1	24.3	622
EBIT	20.7	12.1	35.6	14.3	18.7	-201	442	13.7	19.7	600
EBT	12.8	7.0	35.3	3.5	8.1	-474	462	11.6	12.8	123
PAT	10.3	3.4	7.1	-0.7	0.7	-956	140	5.7	5.7	2
Effective Tax rate	13.0	26.4	61.1	-35.1	58.7	4573	9380	39.1	38.5	-53

Power Plant Details (FY11)

	Kondapalli I	Kondapalli II	Amarkantak I	Amarkantak II	Aban	Udupi
Capacity	368	366	300	300	120	600
Sales (mn Units)	2087	1983	1901	1527	839	861
Net Sales(Rs mn)	7204	8426	8687	5433	2740	4560
EBITDA(Rs mn)		5640		9310	1170	1680
PAT(Rs mn)	3210		3750		730	70

Merchant Realizations

(Rs/Unit)	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	FY10	FY11
Kondapalli II	6.15	4.30	3.50	3.87	3.87	5.72	4.25
Amarkantak I	5.63	3.80	4.10	4.35	4.35	5.95	4.57

Construction Revenues	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	FY10	FY11
Revenues	10375	10883	20223	18136	17297	58498	59617
Less: Elimination	-4252	-4177	-13538	-10641	-11461	-12992	-32608
Net Revenues	6123	6706	6686	7494	5836	45506	27009
% Elimination	-41%	-38%	-67%	-59%	-66%	-22%	-55%

Construction (Standalone)	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	FY10	FY11
EBITDA Margins	17.4%	9.9%	13.7%	12.8%	14.1%	15.3%	13.4%

Key Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
Net Sales	80,320	77,837	92,743	119,307
<i>Growth (%)</i>	33.7	-3.1	19.1	28.6
Expenditure	65,805	58,933	63,164	81,078
Fuel Cost	44,657	35,510	42,940	58,073
O&M Cost	21,148	23,423	20,224	23,005
SG&A Expenses	0	0	0	0
Other Expenses	0	0	0	0
EBITDA	14,515	18,905	29,579	38,229
<i>Growth (%)</i>	76.2	30.2	56.5	29.2
EBITDA margin (%)	18.1	24.3	31.9	32.0
Depreciation	3,479	3,537	6,602	9,915
EBIT	11,036	15,367	22,977	28,314
EBIT margin (%)	13.7	19.7	24.8	23.7
Other Income	1,839	2,175	1,391	2,693
Interest expenses	3,554	7,555	14,241	19,523
PBT	9,321	9,988	10,127	11,483
Tax	3,642	3,850	2,804	3,305
<i>Effective tax rate (%)</i>	39.1	38.5	27.7	28.8
Adjusted PAT	5,679	6,138	7,323	8,178
<i>Growth (%)</i>	48.4	-33.6	59.6	22.2
Net Margin (%)	7.1	7.9	7.9	6.9
E/O items	0	0	0	0
Reported PAT	5,679	6,138	7,323	8,178
(Profit)/loss from JV's/Ass/MI	-1,093	-1,677	-2,461	-2,238
PAT after MI	4,586	4,461	4,862	5,940
<i>Growth (%)</i>	48.4	-33.6	59.6	22.2

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
PBT (Ex-Other income)	7,482	8,936	8,736	8,790
Depreciation	3,479	3,537	6,602	9,915
Interest Provided	3,554	7,555	14,241	19,523
Other Non-Cash items	618	12,799	-14,333	0
Chg in working cap	-15,028	-7	-7,158	-4,344
Tax paid	-3,642	-3,850	-2,804	-3,305
Operating Cashflow	-3,537	28,971	5,284	30,580
Capital expenditure	-19,355	-89,930	-111,309	-53,003
Free Cash Flow	-22,893	-60,959	-106,026	-22,423
Other income	1,839	1,052	1,391	2,693
Investments	-3,508	-20,763	31,949	0
Investing Cashflow	-21,024	-109,642	-77,969	-50,310
Equity Capital Raised	8,097	-43	8,848	0
Loans Taken / (Repaid)	27,644	82,903	65,291	54,075
Interest Paid	-3,554	-7,555	-14,241	-19,523
Dividend paid (incl tax)	0	0	0	0
Income from investments				
Others	-1,018	6	-117	1,405
Financing Cashflow	31,169	75,312	59,781	35,957
Net chg in cash	6,608	-5,359	-12,904	16,227
Opening cash position	11,656	18,264	12,905	0
Closing cash position	18,263	12,904	0	16,227

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
Equity share capital	2,385	2,387	2,551	2,551
Reserves & surplus	38,171	52,297	59,222	68,804
Net worth	40,556	54,685	61,773	71,355
Secured Loans	83,614	166,517	231,808	285,883
Unsecured Loans	0	0	0	0
Loan Funds	83,614	166,517	231,808	285,883
Net deferred tax liability	1,003	5,368	0	0
Total Liabilities	125,173	226,570	293,581	357,239
Gross Block	61,644	124,736	218,387	218,387
Less: Depreciation	-10,867	-14,404	-21,497	-31,220
Net block	50,777	110,332	196,889	187,167
Capital work in progress	19,237	46,075	64,225	117,035
Investment	11,593	31,949	0	0
Current Assets	78,675	102,989	69,017	90,800
Inventories	16,267	21,424	18,428	20,248
Sundry debtors	22,270	21,304	28,983	33,109
Cash & bank balance	18,264	12,905	0	16,226
Loans & advances	21,800	47,226	21,290	20,803
Other current assets	74	131	316	414
Current lia & Prov	35,110	64,776	36,550	37,763
Current liabilities	35,110	64,776	36,550	37,763
Provisions	0	0	0	0
Net current assets	43,565	38,213	32,467	53,036
Misc. exp	0	0	0	0
Total Assets	125,173	226,570	293,581	357,238

Key Ratios

Y/E, Mar	FY10	FY11E	FY12E	FY13E
Profitability (%)				
EBITDA Margin	18.1	24.3	31.9	32.0
Net Margin	7.1	7.9	7.9	6.9
ROCE	10.5	8.7	8.8	8.7
ROE	16.6	12.9	12.6	12.3
RoIC	8.4	6.8	7.0	6.4
Per Share Data (Rs)				
EPS	1.9	1.9	1.9	2.3
CEPS	3.4	2.8	4.5	6.2
BVPS	17.0	22.9	24.2	28.0
DPS				
Valuations (x)				
PER	9.9	10.2	10.0	8.2
P/CEPS	5.6	6.9	4.2	3.1
P/BV	1.1	0.8	0.8	0.7
EV / Sales	1.4	2.6	3.0	2.7
EV / EBITDA	7.6	10.5	9.5	8.3
Dividend Yield (%)	0.0	0.0	0.0	0.0
Gearing Ratio (x)				
Net Debt/ Equity	1.8	2.8	3.8	3.8
Net Debt/EBITDA	5.1	8.1	7.8	7.1
Working Cap Cycle (days)	119	100	99	81

Recommendation History: Lanco Infratech – LANCI IN

Date	Reports			
02/06/2011	Lanco Infratech Q4FY11 Result Update	Buy	34	45
09/02/2011	Lanco Infratech Q3FY11 Result Update	Buy	38	56
25/01/2011	Power Sector Report; Too many ends to tie			

Recent Research Reports

Date	Reports	Reco	CMP	Target
17/08/2011	JPVL Q1FY12 Result Update	Hold	38	42
17/08/2011	KSK Energy Q1FY12 Result Update	Hold	102	110
12/08/2011	Reliance Power Q1FY12 Result Update	Buy	91	155
11/08/2011	GIPCL Q1FY12 Result Update	Buy	81	115

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