



12th October 2009

Indiabulls Power Limited

Recommendation: Subscribe



Issue Summary		
Price Band (Rs)	40	45
Bid Lot	150 shares	
Face Value	Rs.10	
Opens on	12 th Oct'09	
Closes on	15 th Oct'09	
Total no of shares to be issued		
W/o GSO	33.98 cr	
With GSO	39.07 cr	

* GSO – Green Shoe Option

Pre-issue share capital	Rs. 1659.0 cr	
Post- issue share Cap		
W/o GSO	Rs. 1998.8 cr	
With GSO	Rs. 2049.7 cr	
Issue Size		
W/o GSO	Rs. 1359.2 cr	Rs. 1529.1 cr
With GSO	Rs. 1562.8 cr	Rs. 1758.1 cr
Post Issue Market Cap		
W/o GSO	Rs. 7995.2 cr	Rs. 8994.6 cr
With GSO	Rs. 8198.8 cr	Rs. 9223.6 cr

Company & Business Profile

Indiabulls Power Ltd (IPL) incorporated in 2007 is a power project development company. It is a subsidiary of Indiabulls Real Estate (IBREL).

IPL has ventured into the power business to take advantage of the opportunities presented by the huge gap in Demand and Supply of power in India and plans to develop, construct and operate power projects domestically and internationally. Indiabulls is participating in various Coal based Thermal, Hydro and Renewable Energy projects as well as is actively pursuing various coal mining opportunities.

IPL is currently executing five power projects: 1,320 MW Amravati Power Project – Phase I, 1,335 MW Nashik Power Project, 1,320 MW Bhaiyathan Power Project, 1320 MW Amravati Power Project – Phase II and 1320 MW Chhattisgarh Power Project. The details of the projects under various stages of development are given below:

Project Name	Amravati Power Project – Phase I,	Nashik Power Project	Bhaiyathan Power Project	Amravati Power Project – Phase II,	Chhattisgarh Power Project
Proposed Capacity	1320 MW	1335 MW	1320 MW	1320 MW	1320 MW
Fuel Type	Coal	Coal	Coal	Coal	Coal
Technology	Super-Critical		Super-Critical	Super-Critical	Super-Critical
Fuel Supply Status	Agreement entered Western Coalfields Limited and South Eastern Coalfields Limited	Agreement entered Western Coalfields Limited and South Eastern Coalfields Limited	Captive Mines allocated by the ministry	Applied to CEA for recommendation of long term coal linkage	Under Consideration
Off Take Arrangement Status	Long Term PPA for 1,000 MW entered with TPTCL. MoU with MSEDCL for sale of power aggregating 1,000 MW	Yet to be ascertained	Long Term PPAs Chhattisgarh State Electricity Board for sale of 65% of power generated	Yet to be ascertained	Yet to be ascertained
Expected Commission Year	July 12/ Sept 12	Sept 11/ Feb 12	Dec 12/ Mar 13	Mar 13/ Jun 13	Jun 13/ Sept 13

Net Issue	No. of Shares	%
QIB's	20.38 cr	52.2
Non Institutional	3.39 cr	8.6
Retail	10.19 cr	26.1
GSO	5.09 cr	13.1
Total	39.07 cr	100

* GSO – Green Shoe Option

Financial Closure	Completed	Completed	Under-written	Yet to be tied up	Yet to be tied up
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It is also developing four medium size Hydro Power Projects in Arunachal Pradesh aggregating to 167 MW. Indiabulls has also entered into MoUs with the Govt. of Madhya Pradesh and Jharkhand for setting up of 2640 MW & 1320 MW Thermal Power Projects.

Book Running Lead Managers:

- Morgan Stanley India Co Pvt Ltd.

Objects of the Issue

Particulars	Amount (Rs. in crs)
To part finance the construction and development of the 1,320 MW Amravati Power Project Phase – I.	6,888
Funding equity contribution in the Company's wholly owned subsidiary, IRL, to part finance the construction and development of the 1,335 MW Nashik Power Project	6,048
General Corporate Purposes	[*]
Issue Expenses	[*]
Total	[*]

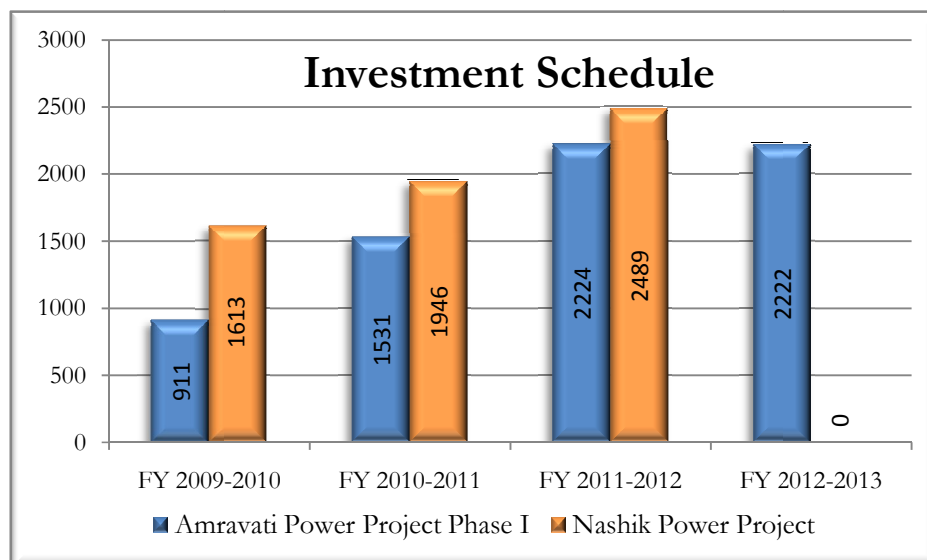
Means of Finance & Investment Schedule

Means of Finance (Rs. in crs)		
Projects	Amravati Power Project Phase-I	Nashik Power Project
Amt Proposed to be Financed by Issue Proceeds	775.0	660.0
Balance Amount	6,113.0	5,388.0
Total Expenditure	6,888.0	6,048.0

Investment Schedule of total proposed expenditure (Rs. in crs)		
Projects	Amravati Power Project Phase-I	Nashik Power Project
For FY 2009-2010	911.0	1,613.0
For FY 2010-2011	1,531.0	1,946.0
For FY 2011-2012	2,224.0	2,489.0
For FY 2012-2013	2,222.0	-
Total	6,888.0	6,048.0

Investment Schedule of Net Proceeds from the Issue (Rs. in crs)		
Projects	Amravati Power Project Phase-I	Nashik Power Project
For FY 2009-2010	-	253.0
For FY 2010-2011	60.0	179.0
For FY 2011-2012	358.0	228.0
For FY 2012-2013	357.0	-
Total	775.0	660.0

Investment schedule of the total funds to be invested (Rs. in crs)



Total funds required excluding the Issue Proceeds	
Particulars	Amount (Rs. in crs)
Sanctioned debt proposed to be utilized by the Company for Amravati Power Project Phase - I	5166.0
Underwriting commitment from Axis Bank Limited for the Nashik Power Project	3400.0
Funding through existing equity	1100.0
Balance requirement of funds not arranged for	1850.0
Grand Total	11501.0

Shareholding Pattern

	Pre-issue		Post Issue w/o GSO		Post Issue with GSO	
	No. of shares (in crs)	% holding	No. of shares (in crs)	% holding	No. of shares (in crs)	% holding
Promoters	118.50	71.43	118.50	59.23	118.50	57.76
LNM India Internet Ventures Limited	17.77	10.71	17.77	8.88	17.77	8.66
FIM Limited	29.62	17.86	29.62	14.81	29.62	14.44
Public	-	-	33.98	16.98	39.07	19.04
Total	165.90	100	199.88	100	204.97	100

* GSO – Green Shoe Option

Investment Positives

- **Demand Supply Gap:** India has been suffering from acute power shortage and with the deregulation in the power sector there are plenty of opportunities up for grabs for private sector players. According to Central Electricity Authority (CEA), for the month of August, 2009 the total peak shortage was 16258MW. The peak deficit varies across India, ranging from 7% of peak demand requirements in the eastern region to 22% of peak demand requirements in the north eastern region. This represents a significant growth opportunity for company presented by the power sector, which is set for growth and has inherent demand, in turn playing a significant role in the growth of the Indian power sector.

Region	Energy Requirement (MU)	Deficit %	Peak Demand (MW)	Peak Supply (MW)	Deficit %
Northern	24,369	-13.6	35,932	30,288	-15.7
Western	20,990	-12.6	35,503	28,556	-19.6
Southern	18,465	-6.4	28,387	26,015	-8.4
Eastern	8,091	-6.5	12,829	11,925	-7.0
North Eastern	844	-12.9	1,760	1,369	-22.2
All India	72,759	-10.7	1,14,412	98,154	-14.2

- **Secured Fuel Supply:** IPL has been granted coal linkage for its two power projects- Amravati phase- I power project and Nashik power project by the Ministry of Coal. The Company claims that the domestic coal linkage awarded is of superior grade with calorific value in excess of 4500 kcal/kg as compared to average calorific value of 3000-3500 kcal/kg available in India. IPL has also been allocated two captive coal mines in Chattisgarh for its Bhaiyathan power plant. This helps IPL for securing domestic coal supply for its projects at low fuel cost and lower exposure to fuel price volatility.
- **Focus on Western demand deficit:** IPL is currently targeting the Western India demand by setting up of power plants in Maharashtra and Chhattisgarh. Since its projects are being developed in region where according to CEA the power deficit is 19.6% (6947 MW) for the month of August 2009, IPL is positioning itself to serve the high power demand in the region which is currently experiencing significant deficit in power supply.
- **Long Term power off take agreements:** IPL has entered into long term PPA with TPTCL (Tata Power Trading Co. Ltd.) for sale of up to 1000 MW of power proposed to be generated at the Amravati Phase I Power Project, longterm PPA with the Chhattisgarh State Electricity Board for the sale of 65% of power proposed to be generated by the Bhaiyathan Power Project aggregating to around 858 MW of electricity. The term of both the PPAs are of 25 years from the date of commencement of commercial operation of the respective power projects. IPL has also executed a MoU with MSEDCL wherein it has agreed to supply 1,000 MW of electricity generated from the Amravati Phase I Power Project.

Concerns

- **Long gestation period:** Mega power projects which are under development have a long gestation period and even small size projects take a minimum of 2 to 3 years to complete whereas large projects take a period of 5 to 6 years to commence commercial production. The project completion involves various risks such as contractor performance shortfalls, engineering problems, unanticipated cost increases, environmental clearances and government approvals, any of these factors could lead to delays or cost overruns of a project's development.
- **Chinese Equipment supply:** IPL has entered into engineering, procurement and supply of goods and services agreement with EPIL a wholly owned subsidiary of IPL for its Amaravati power plant phase- I. EPIL has placed orders from China for the supply of boiler, turbine and generators for the plant. There lies a concern because there have been significant reports about the quality and poor performance of the Chinese equipments in the country.
- **Execution Risk:** As per the new directives issued by GoI, foreign nationals cannot undertake commercial activities without holding an employment visa and visas would be extended to skilled workers only. As a result, all foreign vendors would need to employ local workforce for unskilled works. There lies a concern for the execution of the power projects since most of the Chinese suppliers deployed close to 30,000 workers (largely semi- skilled) on business visa on multi projects. Though Indiabulls has demonstrated strong execution capabilities in real estate & financial services, but lack of prior experience in the power sector leads to high execution risk.

Financials

Indiabulls Power at present has no operational power plants. Therefore IPL does not have any business earnings as of now. As such, we have avoided putting up the financial statements.

Valuations

The comparable peers are valued as follows

Company	P/E	EPS
Reliance Infrastructure Limited	25.05	53.13
NTPC Limited	20.16	10.51

Tata Power Limited	27.92	46.81
Gujarat Industries Power Company Limited	18.89	6.10
Torrent Power	31.63	9.47
Reliance Power Limited	131.22	1.23
KSK Energy Ventures Limited	61.91	3.19

Indiabulls Power is developing projects which are yet to commence operations. Hence, the operations of the company are not comparable with other companies.

Recommendation

IPL is currently executing five power projects. Three of its projects are relatively at advanced stage of implementation with coal linkages/captive mines in place & BTG equipment supply orders to Chinese vendors already awarded for 2 projects. Power sector in India is riding high on the huge investments in capacity expansion plans due to aggressive plans of government to enhance capacity. Also India faces acute power shortage and with the deregulation in the power sector — there are plenty of opportunities up for grabs for private sector players.

Indiabulls Power currently has no operational power plants. The company has laid out an ambitious plan of 6,615-MW power generation capacity over the next five years. Keeping in mind IPL's advantages in terms of its presence in power deficient areas, its status as an integrated player and presence in a sector which is set for growth and inherent demand, we believe IPL is a good option for investors with a long-term perspective. We recommend our investors to subscribe to the issue with an investment horizon of 1 – 2 years.

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