

Lanco Infratech

Healthy growth, ambitious pipeline: Reiterate OW

- **Good tidings in store.** Lanco has an operating capacity of 2.08GW currently. We expect a ramp up to 4.85GW by end of FY12 and implementation of the entire portfolio of 9.3GW before FY15. **Our estimates imply 40% EBITDA growth CAGR FY10-FY15.** We expect good tidings on commissioning of Udupi-II (600MW), and financial closure of Amarkantak-III&IV (2x660MW) & Vidharbha (2x660MW), in the near-term, followed by CoD of Anpara (2x600MW) around end of FY11.
- **High on risk--> high on return. (a) Risk#1:** Lanco has high exposure to merchant rates; ~38% of capacity has not yet been tied up in PPAs; **provision in est.:** conservative merchant assumption of Rs4 in FY12, declining to Rs3.26 by FY16. Downside of Rs16/share if merchant price is 50p below est., **(b) Risk#2:** 4.74GW relies on coal linkage, 1GW on captive coal and 1.2GW on imported coal; **provision in est.:** 75-80% PLF est. for under implementation projects. LoA for linkage available for entire 4.74GW, imported coal cost is pass thru in tariff. Downside of Rs6/share if PLF for linkage projects is 500bps below estimates.
- **Ambitious pipeline in store.** According to management, capacity target is 15GW by 2015. Moves to meet target- **(a)** 16x660MW BTG order placed on Harbin, signaling a definite pipeline **(b)** 3.3GW brown field expansion plans, land and clearances are relatively easier to secure, in our view.
- **Key model revisions. (1)** We incorporate Amarkantak-I (300MW) as fully merchant vs. 50% earlier: **+Rs2.5/share**, **(2)** adopt WDV depreciation methodology vs. SLM earlier- NPV accretive but EPS destructive, reduces cash tax outflow in initial (and high merchant rate) years.: **+Rs2.5/share (3)** incorporate Vidharbha (2x660MW) in estimates: **+Rs4.8/share** (~0.8x project equity), **(4)** factor in order book for 9.3GW projects, 14% construction EBITDA margin (+100bps on quarterly track record): **+Rs8/share**, **(5)** higher FY10 net-debt at parent level: **-Rs2.5/share**
- **Reiterate OW, revised Sep-11 SOP PT of Rs86 (vs. Rs70 earlier).** Lanco is trading at 8.7x FY12 EV/EBITDA vs. average of ~11x for the sector. Our PT includes ~Rs26 for operational, ~Rs35 for under implementation projects and Rs25 for in-house EPC (implies 6.3x EV/EBITDA). Delays in execution, lower than expected merchant rates are key risk to est. & PT.

Lanco Infratech (Bloomberg: LANCI IN; Reuters: LAIN.BO)

Rs. in mn, YE-March	FY08	FY09	FY10	FY11E	FY12E	
Revenue	32,413	60,720	80,825	114,237	148,931	52-week range (Rs)
Net profit	3,296	3,216	4,439	7,884	9,006	Market cap (Rs B)
EPS (Rs)	14.8	14.5	1.9	3.3	3.8	Market cap (US\$ B)
Revenue growth (%)	101.9	87.3	33.1	41.3	30.4	Shrs o/s (MM)
Net profit growth (%)	75.3	(2.5)	38.1	77.6	14.2	Free float (%)
EPS growth (%)	75.3	(2.5)	(87.1)	77.6	14.2	Avg daily value (Rs MM)
ROE (%)	19.7	16.4	16.3	21.1	19.6	Avg daily value (US\$ MM)
P/E (x)	4.7	4.8	37.2	20.9	18.3	Avg dly volume (MM shs)
P/BV (x)	0.8	0.7	4.9	4.0	3.3	BSE Sensex
EV/EBITDA (x)	5.4	6.7	14.6	9.7	8.8	Exchange rate (Rs/US\$)
						74.8-40.5
						165
						3.7
						2385.47
						25.40
						257
						5.7
						3.84
						20,073
						45.2

Source: J.P. Morgan estimates, Company data. Price and Valuation as on 28 Sep 2010.

Overweight

LAIN.BO, LANCI IN

Price: Rs66.85

▲ **Price Target: Rs86.00**
Previous: Rs70.00

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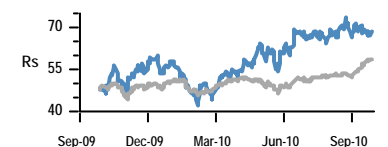
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Price Performance



	YTD	1m	3m	12m
Abs	17.6%	-2.5%	2.1%	41.9%
Rel	2.2%	-14.1%	-11.1%	20.2%

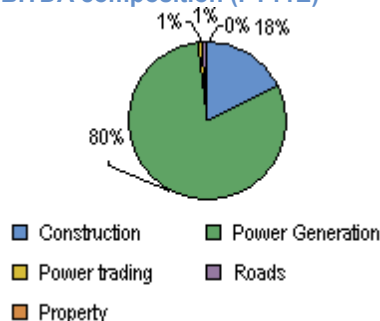
See page 11 for analyst certification and important disclosures, including non-US analyst disclosures.

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Company Description

Lanco is an independent power producer, with 2.08GW of operating capacity, 7.2GW under construction and a further ~5.3GW under development: It's established in-house EPC business enables it to conserve cash during the construction period. Lanco is also developing two road projects of 163kms on the BOT model and 5MM sqft of real estate at Lanco Hills in Hyderabad.

EBITDA composition (FY11E)



Source: Company reports.

EPS: J.P. Morgan vs. consensus

	J.P. Morgan	Consensus
FY11E	3.3	4.1
FY12E	3.8	4.6
FY13E	5.2	6.3

Source: Bloomberg, J.P. Morgan estimates.

P&L sensitivity metrics

	EBITDA impact (%)	EPS impact (%)
Merchant rates		
50p lower merchant prices in FY12	-5.9%	-18.6%
PLF of coal linkage based projects		
500bps lower PLF in FY12	-2.2%	-8.7%
Construction segment EBITDA margin		
100bps higher margin in FY12	1.3%	3.5%

Source: J.P. Morgan estimates.

Price target and valuation analysis

Reiterate OW, revised Sep-11 SOP PT of Rs86 (vs. Rs70 earlier). Our PT includes ~Rs26 for operational, ~Rs35 for under implementation projects and Rs25 for in-house EPC (implies 6.3x EV/EBITDA). See key model revisions on pg6 of this report. Delays in execution, lower than expected merchant rates are key risk to est. & PT.

	Value of Lanco stake (Rs B)	In Rs/share
EPC & Construction	59.4	24.9
Power	149.3	62.6
Roads	5.4	2.2
Property	2.1	0.9
Power trading	4.3	1.8
Parent level net-cash	(15.5)	(6.5)
Grand Total	204.8	86

Lanco is trading at 8.7x FY12 EV/EBITDA vs. average of ~11x for the sector. We see room for further upside in Lanco, despite our conservative estimates on merchant rates and project commissioning.

Power Segment: Key assumptions and estimates

Lanco has an operating capacity of 2.08GW currently. We expect a ramp up to 4.85GW by end of FY12 and implementation of the entire portfolio of 9.3GW before FY15.

Table 1: Lanco Infratech: Estimates of power capacity ramp up

In MW, year-end March

	FY11E	FY12E	FY13E	FY14E	FY15E
Year-end Installed Capacity (MW)	3,354	4,848	5,348	6,008	9,308
Available Installed Capacity (MW)	2,141	3,804	4,848	5,513	8,648
Coal	1,225	2,850	3,000	3,165	6,300
Amarkantak I (100%)	300	300	300	300	300
Amarkantak II (100%)	275	300	300	300	300
Udupi (100%) [Imported coal]	650	1,200	1,200	1,200	1,200
Anpara C (100%)	0	1,050	1,200	1,200	1,200
Amarkantak III & IV (100%)					1,155
Babandh (100%)				165	1,320
Vidharbha (100%)					825
ROR Hydro	73	90	242	742	742
Vamshi Hydro (91%)	10	10	10	10	10
Vamshi Industrial (91%)	10	10	10	10	10
Lanco Green (Budhil) (90%)	53	70	70	70	70
Teesta (74%)				500	500
Lanco Uttaranchal (90%)			152	152	152
Gas	831	852	1,594	1,594	1,594
Kondapalli (59%)	366	366	366	366	366
Aban (51%)	120	120	120	120	120
Kondapalli-II (59%)	345	366	366	366	366
Kondapalli-III (59%)			742	742	742
Wind	12	12	12	12	12
Chitradurga (100%)	3	3	3	3	3
Tamil Nadu Wind (100%)	9	9	9	9	9

Source: J.P. Morgan estimates.

Table 2: Key assumptions on thermal power projects which are operational/ expected to be commissioned over the next 3 quarters

	Amarkantak-I	Amarkantak-II	Udupi	Anpara	Kondapalli-II
Size (MW)	300	300	1200	1200	366
Unit-wise COD	Jun-09	May-10	U1 (507.5MW): Aug-10 U2 (507.5MW): Nov-10	U1 (600MW): Apr-11 U2 (600MW): Jul-11	Gas cycle (240MW): Dec-09 Combined cycle (126MW): Jun-10
Year of full production	FY11	FY12	FY12	FY13	FY12
PLF%	80.0	80.0	85.0	85.0	80.0
Blended tariff (Rs/KWH)	5.50	2.34	2.43	2.06	4.00
Regulated (Rs/KWH)	NA	2.34	2.43	NA	NA
PPA (Rs/KWH)	NA	NA	NA	1.90	NA
Merchant (Rs/KWH)	5.50	NA	NA	3.80	4.00
Total sales (mn units)	2,102	1,945	8,176	8,399	2,488
Regulated	0	1,945	8,176	0	0
PPA	0	0	0	7,699	0
Merchant	2,102	0	0	700	2,488
All-in fuel cost (Rs./Kwh)	0.79	0.88	1.19	0.80	1.93
All-in cost of generation (Rs/KWH)	2.22	2.42	2.49	1.87	3.04
Net margin (Rs/KWH)	2.62	(0.09)	(0.07)	0.13	0.72
Net profit (Rs B)	5.51	(0.18)	(0.58)	1.07	1.80
RoE %	196.8	(6.2)	(5.4)	12.2	NM

Source: J.P. Morgan estimates, Company data.

Lanco switched its depreciation policy for new thermal power stations from SLM @5.26% to WDV (we assume effective rate of 12% of written down asset). Fixed charge for calculation of regulated tariff will continue to factor in lower depreciation using SLM. As a result, we note that RoIE of regulated projects (Udupi and Amarkantak-II is negative in first full year of operation).

Table 3: Key assumptions on thermal power projects expected to be fully operational beyond FY12

	Kondapalli-III	Amarkantak-III	Amarkantak-IV	Babandh-I	Vidharbha
Size (MW)	742	660	660	1320	1320
Unit-wise COD	Apr-12	Apr-14	Jul-14	U1 (660MW): Jan-14 U2 (660MW): Apr-14	U1 (660MW): Jul-14 U2 (660MW): Sep-14
Year of full production	FY13	FY15	FY16	FY15	FY16
PLF%	80.0	80.0	80.0	80.0	80.0
Blended tariff (Rs/KWH)	3.80	3.00	2.86	2.87	2.80
Regulated (Rs/KWH)	NA	2.42	2.32	2.53	NA
PPA (Rs/KWH)	NA	NA	NA	NA	2.43
Merchant (Rs/KWH)	3.80	3.43	3.26	3.43	3.26
Total sales (mn units)	5,044	4,348	4,348	8,696	8,696
Regulated	0	0	0	0	0
PPA	0	1,522	1,522	5,402	4,783
Merchant	5,044	2,826	2,826	3,294	3,913
All-in fuel cost (Rs./KWH)	1.96	0.90	0.93	0.90	1.15
All-in cost of generation (Rs/KWH)	2.87	2.46	2.33	2.64	2.86
Net margin (Rs/KWH)	0.70	0.42	0.40	0.16	(0.08)
Net profit (Rs B)	3.52	1.81	1.74	1.43	(0.72)
RoIE %	45.1	30.1	29.0	10.3	(52.2)

Source: J.P. Morgan estimates, Company data.

Table 4: Lanco Infratech: Summary power segment P&L

Rs. in millions, year-end March

	FY11E	FY12E	FY13E	FY14E	FY15E
Average MW under operation	2,141	3,804	4,848	5,513	8,648
-Regulated	978	1,570	1,570	1,673	2,794
-PPA	518	1,481	1,618	2,118	2,572
-Merchant	645	753	1,660	1,722	3,282
MUs (net)	14,344	25,840	32,755	36,544	51,761
-Regulated	6,495	10,499	10,499	11,174	13,129
-PPA	3,402	10,141	11,104	13,805	16,794
-Merchant	4,520	5,316	11,408	11,846	22,775
Avg prices (Rs/KWH)	3.5	2.6	2.7	2.7	3.0
-Regulated	2.3	2.2	2.1	2.3	2.9
-PPA	3.1	2.4	2.2	2.1	2.2
-Merchant	5.5	4.0	3.8	3.6	3.4
Revenue	49,995	68,423	89,408	98,360	152,891
-Regulated	14,676	22,976	21,905	26,044	37,886
-PPA	10,458	24,181	24,153	29,552	36,899
-Merchant	24,861	21,265	43,350	42,763	78,106
Fuel cost	18,988	29,805	41,119	42,909	63,437
Implied fuel cost/KWH	1.32	1.15	1.26	1.17	1.23
Coal Consumed (mtpa)	4.5	11.6	12.3	13.1	28.4
Gas Consumed (mmscmd)	3.4	3.5	6.5	6.5	6.5
Implied landed coal cost (US\$/ton)	34.7	31.2	31.5	31.9	28.8
Implied gas cost (US\$/mmbtu)	5.2	5.2	5.3	5.3	5.4
Other O&M cost	3,195	4,577	5,721	7,941	11,269
Implied O&M cost/MW	1.49	1.20	1.18	1.44	1.30
EBITDA	27,812	34,040	42,567	47,509	78,185
Interest	5,064	9,002	11,156	12,952	26,963
Depreciation	8,893	13,837	17,200	20,982	30,081
Tax	2,560	2,060	2,862	3,014	4,262
PAT [a]	11,296	9,141	11,349	10,561	16,880

Source: J.P. Morgan estimates. Note: [a] PAT before other income and minority interest. Other income has been modeled at consolidated level.

Lanco has high exposure to merchant rates; ~38% of capacity has not yet been tied up in PPAs; provision in est.: conservative merchant assumption of Rs4 in FY12, declining to Rs3.26 by FY16. There is a downside of Rs16/share if merchant price is 50p below est.

4.74GW relies on coal linkage, 1GW on captive coal and balance 1.2GW on imported coal; provision in est.: 75-80% PLF est. for under implementation projects. LoA for linkage available for 4.74GW, imported coal cost is pass thru in tariff. Downside of Rs6/share if PLF for linkage projects is 500bps below estimates.

Financial Summary

Our estimates imply 40% EBITDA growth CAGR over FY10-FY15 and an earnings CAGR of 35%.

Table 5: Lanco Infratech: Consolidated P&L statement

Rs. in millions, year-end March

	FY10	FY11E	FY12E	FY13E	FY14E	FY15E
Net sales	80,825	114,237	148,931	192,690	203,232	235,470
-Construction	59,285	62,439	80,015	91,472	73,907	25,158
-Power Generation	18,462	50,082	68,509	89,494	98,446	152,978
-Power trading	17,084	24,395	29,860	36,549	44,735	54,756
-Roads		509	2,161	2,292	2,431	2,578
-Property	(257)					
-Inter segment elimination	(13,749)	(23,189)	(31,614)	(27,116)	(16,287)	0
Less: Expenditure	65,050	80,097	105,611	137,888	144,493	151,546
EBITDA	15,775	34,140	43,320	54,802	58,739	83,924
-Construction	7,959	6,247	7,800	10,540	9,292	3,522
-Power Generation	6,395	27,812	34,040	42,567	47,509	78,185
-Power trading	247	353	432	528	647	792
-Roads		(271)	1,049	1,166	1,292	1,425
-Property						
Depreciation	3,479	9,802	14,746	18,110	21,892	30,990
EBIT	12,296	24,338	28,574	36,692	36,848	52,934
Other income	1,115	426	805	548	37	6,140
(Gain)/Loss on foreign exchange fluctuation	(219)					
Interest	3,554	9,996	14,203	15,566	18,871	32,892
Elimination of profit on transaction with associates	755	752	1,023	1,530	1,225	0
PBT	9,321	14,017	14,152	20,144	16,789	26,183
Less: Tax	3,643	3,349	3,387	5,202	4,508	4,194
Less: Minority interest	915	2,784	1,759	2,570	2,242	1,810
Add: Share of profit of associates	(178)					
Net-profit (reported)	4,585	7,884	9,006	12,371	10,039	20,179
Less: Exceptional item	146					
Adjusted net-profit	4,439	7,884	9,006	12,371	10,039	20,179
Wt average shares o/s (mn.)	2,385.47	2,385.47	2,385.47	2,385.47	2,385.47	2,385.47
Diluted EPS (Rs.)	1.9	3.3	3.8	5.2	4.2	8.5
Diluted EPS growth (%)	(87.1)	77.6	14.2	37.4	(18.8)	101.0

Source: J.P. Morgan estimates, Company data. Note: Due to lack of visibility on progress of property development, we do not model any cash inflows from the segment.

Net-D/E was 3.3x at the end of Jun-q. Progress on under construction projects may push the ratio to 4.0x+, in our view. We maintain that fund raising is imminent in Lanco. As per Reuters (28th Sep), Lanco Infratech is considering an IPO of its power business. According to the article, the group has not set a timeline for the fund raising, but is currently consolidating all its power projects under a single company.

Table 6: Lanco Infratech: Consolidated balance sheet

Rs. in millions, year-end March

	FY10	FY11E	FY12E	FY13E	FY14E	FY15E
Shareholder's funds	33,448	41,332	50,338	62,709	72,748	92,927
-Share capital	2,385	2,385	2,385	2,385	2,385	2,385
-Reserves & surplus	31,062	38,946	47,952	60,323	70,362	90,541
Minority interest	7,108	11,121	15,285	18,246	20,488	22,298
Loan funds	83,614	180,487	234,303	261,899	311,641	322,816
Deferred tax liability (net)	1,003	1,003	1,003	1,003	1,003	1,003
Total liabilities	125,173	233,942	300,930	343,856	405,879	439,044
Gross block	61,644	155,628	177,628	230,803	342,808	442,779
Less: Depreciation	10,867	20,669	35,415	53,525	75,417	106,407
Net block	50,777	134,959	142,213	177,278	267,391	336,372
Capital work in progress (incl. capital advances)	19,237	54,557	106,369	113,622	89,397	0
Investments	20,229	15,050	14,182	15,443	16,164	8,623
-Cash & bank balances	9,628	4,302	7,921	4,799	611	60,018
Net current assets ex-cash	25,302	25,075	30,245	32,714	32,316	34,031
Total assets	125,173	233,942	300,930	343,856	405,879	439,044
Book value (Rs.)	14	17	21	26	30	39
Net-debt/Equity (x)	2.0	4.1	4.3	4.0	4.2	2.7
Sales/ Assets (x)	0.6	0.5	0.5	0.6	0.5	0.5
Total assets/Equity (x)	3.7	5.7	6.0	5.5	5.6	4.7
RoE (%)	16.3	21.1	19.6	21.9	14.8	24.4

Source: J.P. Morgan estimates, Company data.

Valuation: We raise our SOTP PT by 23% to Rs86/share

The following key changes have been made to the Lanco model.

- (1) We incorporate Amarkantak-I (300MW) as fully merchant vs. 50% earlier: +Rs2.5/share,
- (2) adopt WDV depreciation methodology vs. SLM earlier- NPV accretive but EPS destructive reduces cash tax outflow in initial (and high merchant rate) years. The move also reduces LT cost of generation: +Rs2.5/share
- (3) incorporate Vidharbha (2x660MW) in estimates: +Rs4.8/share (~0.8x project equity),
- (4) factor in order book for 9.3GW projects, 14% construction EBITDA margin (+100bps on quarterly track record): +Rs8/share,
- (5) Higher FY10 net-debt at parent level: -Rs2.5/share

Our EBITDA estimate is up 22.7% and 13.3% for FY11 and FY12. The impact of WDV depreciation policy vs. SLM earlier is negative, EPS estimate has increased 14.9% in FY11 (vs. 23% increase in EBITDA) and FY12 EPS has reduced by 12%.

Table 7: Lanco Infratech: Sep-11 SOTP PT of Rs86

	Total equity value		Lanco's stake	Value of Lanco's stake			
	(Rs bn)	(US\$ mn)	(%)	(Rs bn)	(US\$ mn)	(Rs/share)	(% Contribution)
EPC & Construction	59.4	1,316	100.0	59.4	1,316	24.9	29.0
Power	169.5	3,759		149.1	3,306	62.5	72.9
Coal based	111.8	2,480		111.8	2,480	46.9	54.6
Amarkantak-I	21.9	486	100.0	21.9	486	9.2	10.7
Amarkantak-II	3.8	85	100.0	3.8	85	1.6	1.9
Udupi	21.0	465	100.0	21.0	465	8.8	10.2
Anpara C	16.8	372	100.0	16.8	372	7.0	8.2
Amarkantak-III	13.7	303	100.0	13.7	303	5.7	6.7
Amarkantak-IV	8.3	183	100.0	8.3	183	3.5	4.0
Babandh	15.0	333	100.0	15.0	333	6.3	7.3
Vidharbha	11.3	252	100.0	11.3	252	4.8	5.5
Gas based	44.3	984		25.9	574	10.8	12.6
Kondapalli-I	10.9	242	59.0	6.4	143	2.7	3.1
Aban	3.6	81	51.0	1.9	41	0.8	0.9
Kondapalli-II	10.1	225	59.0	6.0	133	2.5	2.9
Kondapalli-III	19.7	436	59.0	11.6	257	4.9	5.7
Hydro based	13.3	295		11.4	253	4.8	5.6
Budhil	2.1	47	100.0	2.1	47	0.9	1.0
Teesta	5.4	120	74.0	4.0	89	1.7	2.0
Uttaranchal	5.2	116	90.0	4.7	104	2.0	2.3
Vamshi	0.6	13	99.8	0.6	13	0.2	0.3
Roads	5.4	119		5.4	119	2.2	2.6
Devihalli	2.3	51	100.0	2.3	51	1.0	1.1
Hoskote	3.0	68	100.0	3.0	68	1.3	1.5
Property	2.8	62	74.0	2.1	46	0.9	1.0
Power trading	4.3	96	100.0	4.3	96	1.8	2.1
Parent level net-cash	(15.5)	(345)	100.0	(15.5)	(345)	(6.5)	(7.6)
Grand Total	225.8	5,006.8		204.6	4,538	86	100.0

Source: J.P. Morgan estimates.

We reiterate OW, revised Sep-11 SOP PT of Rs86 (vs. Rs70 earlier). Lanco is trading at 8.7x FY12 EV/EBITDA vs. average of ~11x for the sector. Our PT includes ~Rs26 for operational, ~Rs35 for under implementation projects and Rs25 for in-house EPC (implies 6.3x EV/EBITDA).

Lanco appears expensive on FY12 P/E basis, owing to- (1) WDV depreciation policy adopted by Lanco vs. SLM for other IPP, and (2) We include value for under construction projects which do not contribute to EPS in FY12.

We expect good tidings on commissioning of Udupi-II (600MW), and financial closure of Amarkantak-III&IV (2x660MW) & Vidharbha (2x660MW), in the near-term, followed by commissioning of Anpara (2x600MW) around end of FY11. Babandh-I (2x660MW) has tied up debt funds.

Lanco has an ambitious pipeline in store; these could be potential LT value drivers, in our view. According to management, capacity target is 15GW by 2015.

Moves to meet target- (a) 16x660MW BTG order placed on Harbin, signaling a definite pipeline (b) 3.3GW brown field expansion plans (Babandh-II: 1320MW, Anpara exp.: 660MW, Udupi-II: 1320MW), land and clearances are relatively easier to secure, in our view.

Table 8: IPP valuations

Year-end March

Company	Rating	CMP (Rs)	PT (Rs)	Mkt cap (US\$ bn)	P/E (x)		EV/EBITDA (x)		P/B (x)	
					FY11E	FY12E	FY11E	FY12E	FY11E	FY12E
NTPC	N	219	225	39.9	18.7	16.7	13.8	12.7	2.6	2.4
Adani Power	OW	135	153	6.5	48.6	17.1	36.5	17.0	4.6	3.6
Tata Power	N	1,347	1,425	7.1	22.1	16.0	13.7	10.7	2.4	2.1
Reliance Power	UW	163	145	8.6	82.4	50.2	79.9	44.3	2.6	2.5
JSW Energy	N	122	128	4.4	17.7	12.4	12.8	7.9	3.5	2.9
Lanco Infratech	OW	69	86	3.7	20.8	18.3	9.7	8.8	4.0	3.3

Source: J.P. Morgan estimates, Company data.

Lanco Infratech: Summary of Financials

Profit and Loss statement					Cash flow statement				
Rs in millions, year-end Mar	FY09	FY10	FY11E	FY12E	Rs in millions, year-end Mar	FY09	FY10	FY11E	FY12E
Revenues	60,720	80,825	114,237	148,931	EBIT	7,153	11,541	23,586	27,551
% change YY	87.3	33.1	41.3	30.4	Depreciation & Amortization	1,073	3,479	9,802	14,746
EBITDA Margin (%)	14.6	19.5	29.9	29.1	Tax	(1,690)	(3,643)	(3,349)	(3,387)
EBITDA	8,874	15,775	34,140	43,320	Other income	562	969	426	805
% change YY	26.9	77.8	116.4	26.9	Exceptional	(412)	146	0	0
EBITDA Margin (%)	14.6	19.5	29.9	29.1	Decrease in WC	(3,788)	(17,195)	227	(5,171)
EBIT inc OI	8,363	13,412	24,764	29,379	Operating CF	2,898	(4,703)	30,693	34,544
% change YY	20.7	60.4	84.6	18.6	Capex	(22,612)	(20,898)	(124,125)	(72,944)
EBIT Margin (%)	12.8	15.2	21.3	19.2	Change in investments	(597)	(6,454)	(0)	(0)
Net Interest	(2,185)	(3,335)	(9,996)	(14,203)	Investing CF	(23,210)	(27,352)	(124,125)	(72,944)
Earnings before tax	5,530	9,321	14,017	14,152	Change in debt	24,320	27,644	96,873	53,817
% change YY	(10.4)	68.6	50.4	1.0	Other financing activities	(1,515)	4,044	(8,767)	(11,798)
Tax	(1,690)	(3,643)	(3,349)	(3,387)	Financing CF	22,805	31,688	88,106	42,019
as % of EBT	30.6	39.1	23.9	23.9	Change in cash	2,493	(367)	(5,416)	3,529
Net Income	3,216	4,439	7,884	9,006	Opening Cash	7,411	9,905	9,628	4,302
% change YY	(2.5)	38.1	77.6	14.2	Closing Cash	9,904	9,538	4,212	7,831
Shares Outstanding	222	2,385	2,385	2,385					
EPS	14.5	1.9	3.3	3.8					
% change YY	(2.5)	(87.1)	77.6	14.2					
Balance sheet					Ratio Analysis				
Rs in millions, year-end Mar	FY09	FY10	FY11E	FY12E	% , year-end Mar	FY09	FY10	FY11E	FY12E
Net fixed assets	16,252	50,777	134,959	142,213	Revenue growth	87.3	33.1	41.3	30.4
CWIP	40,054	19,237	54,557	106,369	EBITDA growth	26.9	77.8	116.4	26.9
Investments	9,837	20,229	15,050	14,182	PAT growth	(2.5)	38.1	77.6	14.2
Cash & bank balances	9,905	9,628	4,302	7,921	EPS growth	(2.5)	(87.1)	77.6	14.2
Net current assets ex-cash	8,107	25,302	25,075	30,245	EBITDA margin	14.6	19.5	29.9	29.1
Total Assets	84,154	125,173	233,942	300,930	Sales/assets (x)	0.7	0.6	0.5	0.5
Total debt	55,970	83,614	180,487	234,303	Assets/equity (x)	4.0	3.7	5.7	6.0
Paid-up common stock	2,198	2,385	2,385	2,385	Debt/equity (x)	2.7	2.5	4.4	4.7
Reserves and surplus	18,778	31,062	38,946	47,952	Net debt/ equity (x)	2.1	2.0	4.1	4.3
Shareholders' funds	20,976	33,448	41,332	50,338	ROCE (%)	7.1	7.6	10.0	8.7
Deferred tax liability	175	1,003	1,003	1,003	RoE (%)	16.4	16.3	21.1	19.6
Minority interest	7,033	7,108	11,121	15,285					
Total Liabilities	84,154	125,173	233,942	300,930					
BVPS (Rs)	94.3	14.0	17.3	21.1					

Source: J.P. Morgan estimates, Company data.

Lanco Infratech: Summary of Financials

Income Statement						Cash flow statement					
Rs in millions, year end Mar	FY09	FY10E	FY11E	FY12E	FY13E	Rs in millions, year end Mar	FY09	FY10E	FY11E	FY12E	FY13E
Revenues	60,720	80,825	114,237	148,931	192,690	EBIT	7,800	12,296	24,338	28,574	36,692
% change Y/Y	87.3%	33.1%	41.3%	30.4%	29.4%	Depreciation & Amortization	1,073	3,479	9,802	14,746	18,110
EBITDA	8,874	15,775	34,140	43,320	54,802	Tax	-1,690	-3,643	-3,349	-3,387	-5,202
% change Y/Y	26.9%	77.8%	116.4%	26.9%	26.5%	Other income	562	969	426	805	548
EBITDA Margin	14.6%	19.5%	29.9%	29.1%	28.4%	Decrease in WC	-3,788	-17,195	227	-5,171	-2,468
EBIT	7,800	12,296	24,338	28,574	36,692	Operating CF	2,898	-4,703	30,693	34,544	46,149
% change Y/Y	25.4%	57.6%	97.9%	17.4%	28.4%	Capex	-22,612	-20,898	-124,125	-72,944	-61,690
EBIT Margin	12.8%	15.2%	21.3%	19.2%	19.0%	Change in investments	-597	-6,454	-0	-0	-0
Other income	562	1,115	426	805	548	Investing CF	-23,210	-27,352	-124,125	-72,944	-61,690
Net Interest	-	-	-	-	-	Free cash flow	-20,312	-32,055	-93,432	-38,400	-15,541
Earnings before tax	5,530	9,321	14,017	14,152	20,144	Change in equity	0	6,966	0	0	0
% change Y/Y	-10.4%	68.6%	50.4%	1.0%	42.3%	Change in debt	24,320	27,644	96,873	53,817	27,595
Tax	-1,690	-3,643	-3,349	-3,387	-5,202	Other financing activities	-1,516	-2,922	-8,767	-11,798	-15,176
as % of EBT	30.6%	39.1%	23.9%	23.9%	25.8%	Financing CF	22,805	31,688	88,106	42,019	12,420
Net income	2,804	4,585	7,884	9,006	12,371	Change in cash	2,493	-367	-5,326	3,619	-3,121
% change Y/Y	-20.8%	63.6%	71.9%	14.2%	37.4%	Opening cash	7,411	9,904	9,538	4,212	7,831
Adjusted profit	-	-	-	-	-	Closing cash	9,904	9,538	4,212	7,831	4,709
% change Y/Y	-	-	-	-	-						
Shares outstanding	222	2,385	2,385	2,385	2,385						
EPS	12.61	1.92	3.30	3.78	5.19						
% change Y/Y	(20.8%)	(84.8%)	71.9%	14.2%	37.4%						
Adjusted EPS	14.46	1.86	3.30	3.78	5.19						
% change Y/Y	-2.5%	-87.1%	77.6%	14.2%	37.4%						

Balance sheet						Ratio Analysis					
Rs in millions, year end Mar	FY09	FY10E	FY11E	FY12E	FY13E	Rs in millions, year end Mar	FY09	FY10E	FY11E	FY12E	FY13E
Net fixed assets	16,252	50,777	134,959	142,213	177,278	Revenue growth	87.3%	33.1%	41.3%	30.4%	29.4%
CWIP	40,054	19,237	54,556	106,368	113,622	EBITDA growth	26.9%	77.8%	116.4%	26.9%	26.5%
Investments	9,837	20,229	15,050	14,182	15,443	PAT growth	-20.8%	63.6%	71.9%	14.2%	37.4%
Cash and bank balances	9,905	9,628	4,302	7,921	4,799	EPS growth	(20.8%)	(84.8%)	71.9%	14.2%	37.4%
Net current assets ex-cash	8,107	25,302	25,075	30,245	32,714	EBITDA margin	14.6%	19.5%	29.9%	29.1%	28.4%
Miscellaneous	-	-	-	-	-	Dividend payout ratio	-	-	-	-	-
Total Assets	84,154	125,173	233,942	300,930	343,856	Sales/GFA (x)	0.87	0.77	0.64	0.56	0.60
Total Debt	55,970	83,614	180,487	234,303	261,899	GFA/Equity (x)	4.01	3.74	5.66	5.98	5.48
Paid-up common stock	2,198	2,385	2,385	2,385	2,385	Debt/Equity (x)	-	-	-	-	-
Reserves and surplus	18,778	31,062	38,946	47,952	60,323	Net debt/Equity (x)	-	-	-	-	-
Shareholders' fund	20,976	33,448	41,332	50,338	62,709	ROE (%)	14.3%	16.9%	21.1%	19.6%	21.9%
Deferred tax liability	175	1,003	1,003	1,003	1,003	ROCE (%)	12.3%	12.7%	14.4%	11.3%	12.0%
Minority interests	7,033	7,108	11,121	15,285	18,246						
Total Liabilities	56,145	84,617	181,490	235,306	262,902						
BVPS (Rs)	94.32	14.02	17.33	21.10	26.29						

Source: Company reports and J.P. Morgan estimates.

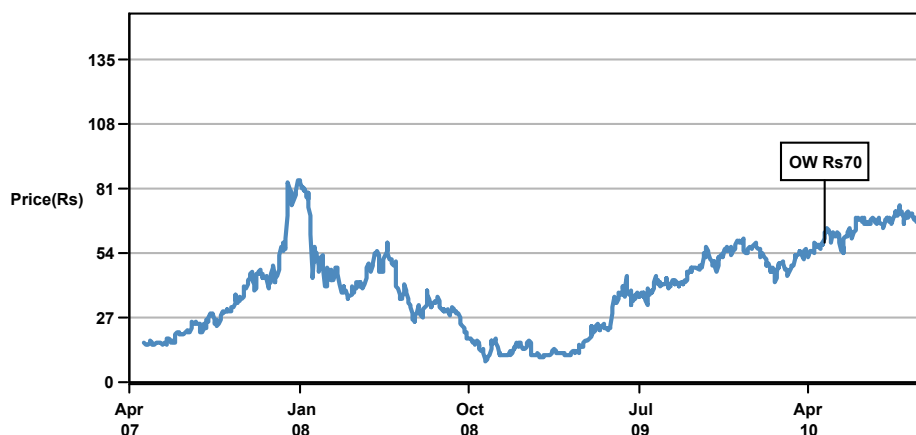
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Lanco Infratech (LAIN.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
26-Apr-10	OW	58.60	70.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Apr 26, 2010. This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period. J.P. Morgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

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