



KSK Energy Ventures

STOCK INFO.	BLOOMBERG	21 June 2008	Not Rated
BSE Sensex: 14,571	N.A.		
S&P CNX: 4,348	REUTERS CODE		IPO Price Band: Rs240-255
	N.A.		

IPO KEY DETAILS

Issue Size (shares m)	34.6
Issue Opens	23 June 2008
Issue Closes	25 June 2008
IPO Band	Rs240-255/sh
Pre-issue Equity Capital (m shares)	294.2
Post-issue Equity Capital (m shares)	346.1
Post-issue Market Cap (Rs m) *	83,065
Face Value (Rs)	10 each

* at Rs240/share

POST ISSUE SHARE HOLDING PATTERN (%)

Promoter	55.2
Lehman Brothers	28.4
Pre-IPO Placement	5.0
Others	1.4
Public	10.0

IPO PROCEEDS (RS M)

At a Price Band of Rs240/share	8,307
At a Price Band of Rs255/share	8,826

Demanding valuations

KSK Energy is coming out with a public issue of 34.6m shares, at a price band of Rs240-255/share, translating into a post money valuation of Rs83b-88b. The company has operational power generation capacity of 144MW, and plans to add 8,993MW by FY14. Of this, power capacity currently under construction is 675MW, while projects under development are at 1,973MW.

Key issues

- ⚡ **Execution challenges:** KSK Energy plans to add 8,993MW of power capacity during FY09-14, which calls for execution on an unprecedented scale. Most of KSK Energy projects are at early stages of development, with land acquisition for 8,275MW yet to be completed, coal mines for 7,200MW still in early stages of 'prospecting license' and EPC contracts for 8,318MW yet to be awarded.
- ⚡ **Offtake agreements with state governments result in 18-22% effective project RoE:** KSK Energy currently has fuel supply agreements and/or MoUs with state mining corporations to supply coal for proposed 7,200MW capacity. These SMCs have already been allotted coal blocks by the Government of India. However, we believe that the offtake agreements in lieu of the mine allocations could restrict profitability. For instance, Wardha Chhattisgarh (1,800MW) offtake agreement entails 1,010MW to GMDC at Rs1.92/unit (constant tariff) and 135MW to the government of Chhattisgarh at variable cost. Further, the government of Chhattisgarh will have first right to purchase 540MW (including 135MW at variable cost) at a price determined by Electricity Regulatory Commission. GMDC also has a right to invest in the Wardha SPV to the extent of 26% of the equity.
- ⚡ **Further equity dilutions / SPV sales to finance existing portfolio:** Post IPO, KSK Energy will need additional equity funding of Rs1.7b-2.2b towards Wardha Chhattisgarh (1,800MW) project. Further, 6,518MW of power capacity (Thermal 5,443MW and Hydro 1,075MW) will entail additional equity investment of Rs71.4b by FY13/ FY14, which will result in incremental equity dilutions/SPV sales.

Offer price factors in perfect execution for 8,993MW: We estimate net profit at Rs5.2b by FY13, with 2,792MW of project portfolio (including 675MW under construction and 1,973MW under development). This entails PER of 16-17x FY13E, which is demanding. P/BV as at March 2009 stands at 5x (Post money).

Issue details: KSK Energy valued at Rs83-88b post money

KSK Energy is coming out with a public issue of 34.6m shares (Face value of Rs10) which represents 10% of the post-issue paid up capital of the company (Rs346m). The price band has been fixed at Rs240/sh to Rs255/sh, resulting in a post money valuation of Rs83b to Rs88b respectively. At the IPO price band, KSK Energy will raise Rs8.3b to Rs8.8b. The issue opens for subscription on 23 June 2008 and closes on 25 June 2008. The object of the issue is to part finance the equity commitment of Rs17.2b towards the Wardha Chhattisgarh project (1,800MW). The company has recently raised Rs4.2b through a pre IPO placement of 17.3m shares (5% of the post issue capital) at a price of Rs240/share.

ISSUE DETAILS

Pre-issue Paid-up Capital (m shares)	314.5
Add: Proposed IPO (m shares)	34.6
Post Issue Paid-up Capital (m shares)	346.1
Opens on	23 June 2008
Closes on	25 June 2008

Post Money Equity Valuation (Rs m)

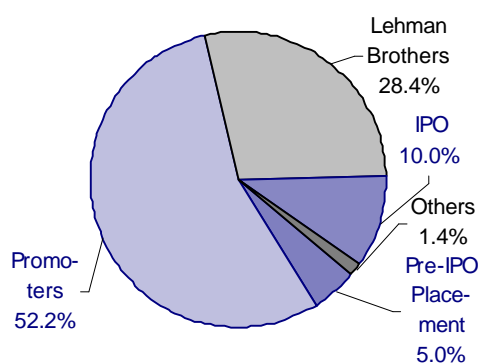
At Rs240/sh	83,065
At Rs255/sh	88,257

Issue Size (Rs m)

At Rs240/sh	8,306
At Rs255/sh	8,826

Source: RHP

POST ISSUE SHAREHOLDING PATTERN (%)



LIST OF PRE-IPO INVESTORS (RS M)

NAME OF INVESTORS/FUND	SHARES (NOS)	STAKE (%)
Tree Line Asia Master Fund	3,583,000	1.04
Macquarie Bank Limited	3,550,000	1.03
Infrastructure Development Finance Company Limited	3,125,000	0.90
Universities Superannuation Scheme Limited	1,800,000	0.52
Axis Bank Limited	2,624,000	0.76
GE Capital international (Mauritius)	2,624,000	0.76

Source: RHP

UTILIZATION OF PROCEEDS (RS M)

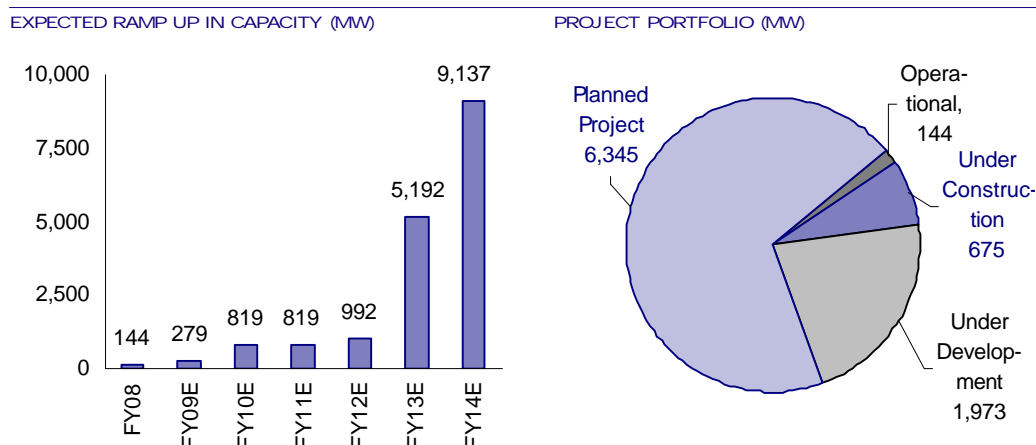
PARTICULARS	TOTAL REQUIREMENT	FINANCING PLAN			PROPOSED EQUITY INVESTMENT						AMT INV AS OF MAY-08
		DEBT	PRE-IPO PLACEMENT	EQUITY	2008	2009	2010	2011	2012	TOTAL	
Wardha Chhattisgarh	68,740	51,560	2,153	15,027	103	3,889	4,000	4,500	4,693	17,185	113
General Corporate Purposes	-	-	2,000	-	-	-	-	-	-	-	-
Total	68,740	51,560	4,153	15,027	103	3,889	4,000	4,500	4,693	17,185	113

Source: RHP

Project profile: Operational 144MW, planned 9,137MW

KSK Energy has operational power generation capacity of 144MW, and plans to add 8,993MW by FY14. Of this, power capacity currently under construction stands at 675MW (7% of targeted capacity addition), while projects under development stands at 1,973MW (22% of targeted capacity addition). Projects with capacity of 6,345MW (Thermal 5,400MW and Hydro 945MW) are under planning stages, with Fuel supply agreement (FSA) /MOUs in place. Expected ramp up in capacity, including planned projects stands at: FY09 - 279MW, FY10 - 819MW, FY11 – 819MW, FY12 – 992MW, FY13 - 5,192MW and FY14 - 9,137MW.

For the thermal power projects aggregating 7,200MW, the company has signed FSA/MOUs with state owned mining companies (SMCs) like Gujarat Mineral Development Corporation (GMDC), Pondicherry Industrial Promotion Development and Investment Corporation (PIPDIC) and Madhya Pradesh State Mining Corporation (MPSMCL). These SMCs have been allocated coal blocks with cumulative reserves of ~1b tons.



Source: RHP

TREND IN CAPACITY ADDITION (MW)								
	CAP (MW)	COD*	FY08	FY09	FY10	FY11	FY12	FY13
Operational Projects								
Arasmeta	43	Comm	43	43	43	43	43	43
Sai Regency	58	Comm	58	58	58	58	58	58
Sitapuram	43	Comm	43	43	43	43	43	43
Under Construction								
VS Lignite	135	39,790		135	135	135	135	135
Wardha Warora	540	39,791			540	540	540	540
Under Development								
Wardha Chattisgarh	1,800	2QFY12					1,800	1,800
Arasmeta Expansion	43	1QFY11				43	43	43
Dibbin Hydro Project	135	4QFY11				135	135	135
Under Planning Stage								
KSK Narmada Project	1,800	2QFY13						1,800
JR Power	1,800	4QFY12					1,800	1,800
Wardha Naini	1,800	1QFY13						1,800
Kameng Dam	600	4QFY12					600	600
Kameng Basin Project	345	2QFY13						345
Total			144	279	819	997	5,197	9,142

*As per RHP

Source: RHP

We believe that the execution timeframes are challenging given that: land acquisition for 8,275MW is yet to be completed, fuel supply agreements for 3,643MW of thermal capacity is yet to be signed, coal mines to supply fuel for 7,200MW still in early stage of 'Prospecting License' and EPC contracts for 8,318MW yet to be awarded.

POWER PROJECTS: OFF TAKE AGREEMENT

PROJECT	CAP (MW)	OFFTAKE ARRANGEMENT
Arasmeta Project	43	<ul style="list-style-type: none"> ✍ PPA with Lafarge India for upto 40MW, Valid till Dec-13; Average tariff of Rs2.65/unit ✍ Surplus power to be supplied to CSEB under short term PPA, valid till June-08, Average tariff of Rs2.80/unit
Sai Regency Project	58	<ul style="list-style-type: none"> ✍ PPA with industrial units, Largest being Chemplast Sanmar for 22MW and Brakes India for 10MW ✍ Valid till Dec-10 (till fuel supply agreement), Average tariff of Rs2.88/unit
Sitapuram Project	43	<ul style="list-style-type: none"> ✍ PPA with Zuari Cements Limited for upto 250MUs, valid for 10 years (FY15) ✍ Average tariff of Rs3.03/unit, Balance power can be sold in open market
VS Lignite Project	135	<ul style="list-style-type: none"> ✍ PPAs with various companies of JK Group, Nahar group for 135MW ✍ Average tariff of Rs2.85/unit, PPA valid ranging from 10-20 years
Wardha Warora Project	540	<ul style="list-style-type: none"> ✍ 25-year PPA with Viraj for a capacity of 270MW ✍ Balance 270MW is not tied-up
Arasmeta Expn Project	43	<ul style="list-style-type: none"> ✍ Agreement with Lafarge India for 17MW ✍ Planning to tap other industrial consumer and CSEB for balance power capacity
Wardha Chattisgarh Project	1,800	<ul style="list-style-type: none"> ✍ GMDC (1,010MW) at Rs1.92/unit constant tariff, ✍ 7.5% power to Govt of Chhattisgarh (135MW) at variable cost, ✍ First right of refusal over 30% of power capacity to Government of Chhattisgarh (540MW) on CERC norms

Source: RHP

NET PROFIT SUMMARY (RS M)

	FY09	FY10	FY11	FY12	FY13
Arasmeta Project	60	80	87	99	114
Sai Regency Project	124	174	225	279	318
Sitapuram Project	26	48	50	55	56
VS Lignite Power Project	105	417	471	526	582
Wardha Warora Project	-	-	781	951	1,215
Wardha Chattisgarh Project	-	-	-	-	2,481
Amarseta Expansion Project	-	-	19	37	43
KSK Dibbin Hydro Project	-	-	-	388	415
Total	314	718	1,634	2,336	5,224
PER (x) at Rs240/Share	265	116	51	36	16

Source: Motilal Oswal Securities

Key challenges: Execution, financing, etc

- ✍ **Execution is the key challenge:** KSK Energy has limited experience in executing large size power projects, as the current project portfolio comprises of small size projects largely catering to group captives. The company currently has operational capacity of 144MW, while projects under construction stand at 675MW. The company plans to add 8,993MW of power capacity during FY09 - 14, which calls for execution on an unprecedented scale. During the past 5 years, capacity addition in India has been 27,486MW, capacity addition targets during Eleventh Five year plan (FY08-12) stands at 78,200MW and NTPC (India's largest power utility with installed capacity

For Wardha Chhattisgarh project, power commitments to the state government companies stands at 1,550MW (86%) which will restrict project RoE to 18-22%

We estimate net profit at Rs5.2b by FY13, with 2,792MW of project portfolio (including 675MW under construction and 1,973MW under development)

of 29,144MW as at Mar 08) is planning to add 21,941MW during Eleventh Plan. Most of KSK Energy projects are at early stages of development, with land acquisition for 8,275MW is yet to be completed, fuel supply agreements for 3,643MW of thermal capacity yet to be signed, coal mines to supply fuel for 7,200MW still in early stage of 'Prospecting License' and EPC contracts for 8,318MW yet to be awarded.

KSK ENERGY'S: PROJECT PORTFOLIO STATUS

PROJECT NAME	CAPACITY (MW)	COMMISS- SIONING	LAND	WATER	ENVIORN- MENTAL CLEARANCE	FUEL	FINANCIAL CLOSURE	OFFTAKE ARRANGE- MENT
Operational Projects								
Arasmeta Project	43	Commissioned	√	√	√	√	√	√
Sai Regency Project	58	Commissioned	√	√	√	√	√	√
Sitapuram Project	43	Commissioned	√	√	√	√	√	√
Under Construction								
VS Lignite Project	135	Oct-08	√	√	√	√	√	√
Wardha Warora Project	540	Dec-09	√	√	√	√	√; 50%	√
Under Development								
Arasmeta Expn Project	43	1QFY11	√	√	X	X	X	√
Wardha Chattisgarh Project	1,800	2QFY12	X	X	X	√	X	√; 86%
KSK Dibbin Hydro Project	130	4QFY11	X	N.A.	X	N.A.	X	X
Planned Projects								
KSK Narmada Project	1,800	2QFY13	X	X	X	MoU	X	X
JR Power Project	1,800	4QFY12	X	X	X	MoU, FSA	X	X
Wardha Naini Project	1,800	1QFY13	X	X	X	MoU	X	X
Kameng Dam Project	600	4QFY12	X	N.A.	X	N.A.	X	X
Kameng Basin Project	345	2QFY13	X	N.A.	X	N.A.	X	X

FSA: Fuel supply agreement

Source: RHP

- **Project award to Chinese players:** KSK Energy has awarded EPC contract for VS Lignite project (135MW) to SEEPCO III, China and Wardha Warora project (540MW) to Sichuan Electric, China. EPC contracts for 8,318MW of power projects, including 1,800MW Wardha Chhattisgarh project are yet to be awarded. The quality of Chinese equipment has been one of the key contentious issues in India, and recently Sagardighi project in West Bengal has been facing start up and operational issues. Also, the cost for the Wardha Chhattisgarh project is estimated at Rs68.7b, which translates into Rs38.2m per MW. This is aggressive in our opinion, given the current tight supply of power equipments and increased commodity prices. Also, the cost estimated by the company is lower by 15-20%, v/s most of the large power projects, which also enjoy tax benefits under 'mega power project status'.

Cost for Wardha Chhattisgarh project is estimated at Rs38.2m/MW, which is aggressive in our opinion, given the current tight supply of power equipments and increased commodity prices

ESTIMATED PROJECT COST

PROJECTS	COST (RS M)	CAPACITY (MW)	COST (RS M/MW)
VS Lignite Project	6,940	135	51.4
Wardha Warora Project	24,160	540	44.7
Arasmeta Expansion Project	2,050	43	47.7
Wardha Chhattisgarh Project	68,740	1,800	38.2

Source: RHP

- ⌘ **Land acquisition issues may result in project delays:** KSK Energy has not acquired 100% of land required for the lignite mines, which would supply fuel to VS Lignite power project (135MW) and is yet to acquire the land for Wardha Chhattisgarh project (1,800MW) scheduled for completion by 2QFY12. We believe that land acquisition can pose significant challenges, given that this is becoming one of the key contentious issues for power projects currently. Also, most of the approvals like environmental and forest clearance are pending for 43MW Arasmeta Expansion project, 1,800MW Wardha Chhattisgarh project and 130MW KSK Dibbin project, which are under development.
- ⌘ **Mining activities are in initial stages, with Prospecting License:** GMDC and other State Mining Corporations (SMCs) which will provide coal linkage to 7,200MW of power portfolio are in the initial stages of mine development with a prospecting license (PL). This entails that the establishment of geological reserves, mining development plan, environment clearance, forest clearance, land acquisition, etc are still pending. Based on the normative timeline as specified by the Ministry of Coal, we understand that the time period from grant of PL till production takes 60-72 months. The company will thus need to obtain tapering linkage in the interim, which again given the quantum of coal consumption, seems challenging.
- ⌘ **Access to coal reserves of ~1b tons, but offtake agreements with state government caps profitability:** KSK Energy currently has Fuel supply agreement and/or MoUs with SMCs like GMDC, PIPDIC and MPSMCL to supply coal for its proposed 7,200MW of thermal power project capacity. These SMCs have already been allotted coal blocks by government of India and thus provides the company with fuel linkage. However, we believe that the offtake agreements in lieu of the mine allocations could restrict profitability from the projects.

Wardha Chhattisgarh (1,800MW): Agreements with various state governments in lieu for fuel access, results in project RoE of 18-22%

The offtake agreement entails that the company will have to offer

- ⌘ 1,010MW power to GMDC at Rs1.92/unit (constant tariff)
- ⌘ 135MW to Government of Chhattisgarh at variable cost
- ⌘ Further, Government of Chhattisgarh will have first right to purchase 540MW (including 135MW at variable cost) at a price determined by the Electricity Regulatory Commission for a period of 20 years.

Under the terms of the Coal Supply and Investment Agreement, GMDC also has a right to invest in the Wardha SPV to the extent of 26% of the equity.

FUEL SUPPLY AGREEMENTS / MOUS

PROJECT	CAP (MW)	MINE	SMC	REMARKS
Wardha Chattisgarh Project	1,800	Morga II	GMDC	☞ Coal supply and investment agreement signed with GMDC for 30 years, 7mtpa of coal supply assured at mutually agreed price for first 3 years
KSK Narmada Project	1,800	Morga I	MPSMCL	☞ MoU signed with MPSMCL and is allotted Morga I block to procure 6.96m ton of coal per annum
JR Power Project	1,800	Naini	PIPDIC	☞ Allocated Naini coal block and has applied for prospecting license, SPV has signed coal supply agreement with PIPDIC ☞ 9mtpa of coal supply with a variation of 10%+/-, SPV requires 8.75mtpa of coal at 85% PLF.
Wardha Naini Project	1,800	Naini	GMDC	☞ MoU signed with GMDC, GMDC and PIPDIC were jointly allotted Naini coal block ☞ Negotiating coal supply agreement with GMDC for its share of production, SPV requires 8.75mtpa of coal at 85% PLF

Source: Company/Motilal Oswal Securities

☞ **Growth would be equity dilutive:** KSK Energy is raising Rs8.3-8.8b through the IPO to finance the equity commitment towards Wardha Chhattisgarh project (1,800MW). Also, the company has raised Rs4.2b through the pre IPO placement, of which Rs2.2b will be towards the equity commitment for the Wardha Chhattisgarh project. The company will need additional Rs1.7-2.2b towards financing the equity commitment for its 74% stake in the project. Further, 6,518MW of power capacity needs to be financed (Thermal 5443MW and Hydro 1,075MW) by FY13/FY14, which will entail an additional equity investment of Rs71.4b. We believe that raising equity financing would entail equity dilutions / SPV sales going forward.

FINANCING, WOULD ENTAIL EQUITY DILUTIONS / SPV SALES (RS M)

PROJECT NAME	CAPACITY (MW)	STAKE (%)	PROJECT COST	DER	EQ. CONT BY KSK	KSK'S EQ. INV.	O/S EQ. COMM
Operational Power Plants							
Arasmeta Project	43	51	1,600	70:30	255	255	-
Sai Regency Project	58	74	2,200	65:35	554	555	-
Sitapuram Project	43	49	1,590	70:30	235	200	35
Under Construction							
VS Lignite Project	135	74	6,940	75:25	1,273	1,273	-
Wardha Warora	540	74	24,160	80:20	3,354	-	3,354
Under Development							
Arasmeta Expn Project	43	51	2,050	88:12	130	-	130
Wardha Chattisgarh Project	1,800	74	68,740	75:25	12,713	414	12,299
KSK Dibbin Hydro Project	130	100	6,920	75:25	1,730	-	1,730
Under Planning Stage							
KSK Narmada Power Project	1,800	100	74,550	75:25	18,637	-	18,637
JR Power Project	1,800	51	73,800	75:25	9,410	-	9,410
Wardha Naini Project	1,800	74	74,300	75:25	13,746	-	13,746
Kameng Dam Hydro Project	600	100	30,140	75:25	7,535	-	7,535
Kameng Basin Hydro Project	345	100	18,070	75:25	4,517	-	4,517
Total	9,137		385,060		74,089	2,697	71,393

Source: RHP



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Disclosure of Interest Statement	KSK Energy Ventures
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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