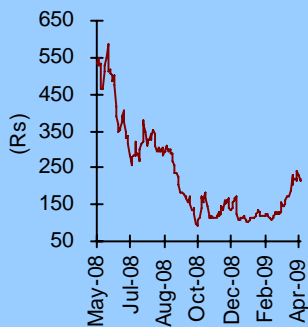


## Shareholding pattern

	Sep '08	Dec '08	Mar '09
Promoters	73.6	73.6	73.6
Institutional investors	14.9	15.8	16.1
MFs and UTI	1.9	1.3	0.5
Banks, FIs	2.7	0.0	0.0
FII	10.3	11.7	12.6
Others	11.5	10.6	10.4

Source: BSE

## Price chart



INDIA

## Lanco Infratech

BUY

Maintained

## Steadfast growth

Rs222

Reason for report: Company update

As per our recent interaction with the management of Lanco, the execution of its power projects is continuing at a fast pace. We expect the company to start commercial operations of Amarkantak-I (300MW) in the next 1-2 months. Lanco's operational capacity will rise to 2,000MW from 500MW in the next 15 months. Other projects expected to be commissioned are Kondapalli-II (October '09; 366MW capacity), Amarkantak-II (November '09, 300MW capacity), hydro projects (20MW capacity) and Udipi (April '10; 600MW capacity). Also, the EPC segment will witness growth as power projects worth ~Rs100bn and 4,000MW capacity are expected to achieve financial closure in the next 12 months. The recently won 3,000MW power projects, Rajpura & Dhopave, and the Vizhinjam port project will provide additional impetus to orderflow. Given the visible growth in Lanco's EPC orderbook, discounted valuations for the power portfolio and healthy execution of its power projects, we maintain BUY on Lanco with revised target price of Rs274/share from Rs206/share.

- **Liquidity concerns overdone.** Lanco's cash & cash equivalent and outstanding debt was at Rs10bn and Rs53bn respectively as of end Q3FY09. We believe this is adequate to fund the company's capex. Cumulative capex for under-construction power projects of 4,000MW capacity was at Rs168bn, of which ~Rs65bn has already been expended, with an equity contribution of Rs22bn (34% of the total project cost). We expect Rs20-25bn equity requirement for projects under construction over the next three years; this could be met by annual cashflows from the EPC business (~Rs4bn) and operational power plants (~Rs4-5bn). We believe that current reserves are sufficient to meet equity requirements of planned projects that are yet to achieve financial closure. Lanco's foreign exchange risk from equipment purchase post the buyer's credit utilisation breaks even at ~Rs49. The company's real-estate portfolio is cashflow neutral; its residential segment has advances of Rs3bn (2.5mn sqft sold of 4mn sqft) and equity contribution of Rs2.6bn, with ~Rs6bn debt outstanding. The company has slowed down the execution of the commercial portfolio and will await better environment to launch its projects.
- **Valuations.** We raise our NAV estimates to Rs60bn or Rs274/share from Rs45bn or Rs206/share earlier. Based on FY09E, FY10E & FY11E EPS estimates, the stock is trading at P/E of 14.4x, 12.2x & 8.6x respectively. We expect earnings to remain stable as revenues from EPC division (50% contribution) are dependent on execution of internal power projects and earnings from power plants would steadily increase owing to commissioning of new projects. Lanco is trading at FY11E P/BV of 1.6x. Maintain BUY.

Market Cap	Rs48.8bn/US\$975mn
Reuters/Bloomberg	LAIN.BO/LANCI IN
Shares Outstanding (mn)	222
52-week Range (Rs)	584/92
Free Float (%)	26.4
FII (%)	12.6
Daily Volume (US\$'000)	8,100
Absolute Return 3m (%)	94.6
Absolute Return 12m (%)	(58.7)
Sensex Return 3m (%)	21.0
Sensex Return 12m (%)	(34.0)

Year to Mar	FY08	FY09E	FY10E	FY11E
Revenue (Rs mn)	32,413	57,087	65,143	95,732
Net Income (Rs mn)	3,542	3,384	4,011	5,671
EPS (Rs)	16.1	15.4	18.2	25.8
% Chg YoY	88.4	(4.4)	18.5	41.4
P/E (x)	13.8	14.4	12.2	8.6
CEPS (Rs)	19.6	22.1	28.2	53.1
EV/E (x)	10.6	12.1	10.0	7.8
Dividend Yield	0.0	0.0	0.0	0.0
RoCE (%)	9.1	6.5	6.4	7.0
RoE (%)	21.2	16.9	16.9	19.9

Gaurav Pathak

gaurav\_pathak@isectld.com  
+91 22 6637 7339

Sunil Teluja

sunil\_teluja@isectld.com  
+91 22 6637 7312

## NAV revision

We raise our target price to Rs60bn of Rs274/share from Rs45bn or Rs206/share. We reduce our cost of equity assumption 200bps to 16% from 18%, primarily due to greater visibility on the project execution. Also, we have increased the value of the EPC business given the potential addition of 7,000MW power projects, including Rajupura & Dhopave and on incremental orderflow from the US\$1.5bn Vizinjam port project. The company has been on track as regards executing its power projects and the delay in Amarkantak-I was due to technical issues rather than execution concerns.

**Table 1: NAV calculation**

(Rs mn)

Segments	Current (Rs bn)	% Contribution	Current NAV/share (Rs)	Previous NAV/share (Rs)
Real estate	4,917	6	22	22
Construction	22,954	29	104	63
Power	52,366	65	238	190
<b>Total</b>	<b>80,237</b>		<b>365</b>	<b>275</b>
Conglomerate discount (%)	25		25	25
<b>SOTP-based valuations</b>	<b>60,178</b>		<b>274</b>	<b>206</b>

Source: I-Sec Research

## Financial Summary

Table 2: Profit &amp; Loss statement

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
<b>Operating Income (Sales)</b>	<b>32,413</b>	<b>57,087</b>	<b>65,143</b>	<b>95,732</b>
of which Domestic	32,413	57,087	65,143	95,732
<b>Operating Expenses</b>	<b>25,508</b>	<b>48,564</b>	<b>51,156</b>	<b>70,565</b>
<b>EBITDA</b>	<b>6,905</b>	<b>8,523</b>	<b>13,987</b>	<b>25,167</b>
% margins	21.3	14.9	21.5	26.3
Depreciation & Amortisation	776	1,477	2,188	5,998
Gross Interest	832	1,886	4,310	8,280
Other Income	953	782	730	486
<b>Recurring PBT</b>	<b>6,250</b>	<b>5,942</b>	<b>8,219</b>	<b>11,375</b>
Add: Extraordinaries	0	0	0	0
Less: Taxes	1,405	1,429	2,034	3,001
Less: Minority Interest	1,304	1,129	2,175	2,703
<b>Net Income (Reported)</b>	<b>3,542</b>	<b>3,384</b>	<b>4,011</b>	<b>5,671</b>
<b>Recurring Net Income</b>	<b>3,542</b>	<b>3,384</b>	<b>4,011</b>	<b>5,671</b>

Source: Company data, I-Sec Research

Table 3: Balance Sheet

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
<b>Assets</b>				
Total Current Assets	37,790	41,561	43,564	47,794
of which cash & cash eqv.	7,411	8,221	6,383	5,760
Total Current Liabilities & Provisions	27,038	32,654	35,902	38,147
<b>Net Current Assets</b>	<b>10,752</b>	<b>8,907</b>	<b>7,663</b>	<b>9,647</b>
<b>Investments</b>				
of which	<b>6,966</b>	<b>6,966</b>	<b>6,966</b>	<b>6,966</b>
Strategic/Group	5,637	5,637	5,637	5,637
Other Marketable	1,329	1,329	1,329	1,329
<b>Net Fixed Assets</b>	<b>38,029</b>	<b>76,188</b>	<b>120,236</b>	<b>184,064</b>
of which				
intangibles	0	0	0	0
Capital Work-in-Progress	24,106	56,133	84,940	127,685
<b>Total Assets</b>	<b>55,747</b>	<b>92,061</b>	<b>134,864</b>	<b>200,676</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>31,653</b>	<b>62,678</b>	<b>98,098</b>	<b>152,811</b>
<b>Deferred Tax Liability</b>	<b>173</b>	<b>173</b>	<b>173</b>	<b>173</b>
Minority Interest	5,588	7,492	10,865	16,293
Equity Share Capital	2,198	2,198	2,198	2,198
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	5,644	9,028	13,039	18,710
<b>Net Worth</b>	<b>18,333</b>	<b>21,717</b>	<b>25,728</b>	<b>31,399</b>
<b>Total Liabilities</b>	<b>55,747</b>	<b>92,061</b>	<b>134,864</b>	<b>200,676</b>

\*excluding revaluation reserves

Source: Company data, I-Sec Research

Table 6: Quarterly trends

(Rs mn, year ending March 31)

	Mar-08	Jun-08	Sep-08	Dec-08
Net sales	12,249	9,139	12,790	18,202
% growth (YoY)	150	55	98	134
EBITDA	2,799	1,514	1,590	2,087
Margin (%)	23	17	12	11
Other income	428	128	116	318
Add: Extraordinaries	1	2	3	4
<b>Net profit</b>	<b>1,645</b>	<b>591</b>	<b>516</b>	<b>799</b>

Source: Company data, I-Sec Research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
<b>Operating Cash flow</b>	<b>3,633</b>	<b>4,079</b>	<b>5,468</b>	<b>11,183</b>
Working Capital Changes	(3,016)	2,655	(593)	(2,607)
Capital Commitments	(14,979)	(39,635)	(46,236)	(69,825)
<b>Free Cash Flow</b>	<b>(14,363)</b>	<b>(32,901)</b>	<b>(41,361)</b>	<b>(61,249)</b>
<b>Cash flow from Investing Activities</b>	<b>576</b>	<b>782</b>	<b>730</b>	<b>486</b>
Issue of Share Capital	0	0	0	0
Buyback of shares	0	0	0	0
Inc (Dec) in Borrowings	14,554	31,025	35,420	54,713
Dividend paid	0	0	0	0
<b>Extraordinary Items</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Chg. in Cash &amp; Bank balance</b>	<b>2,361</b>	<b>810</b>	<b>(1,838)</b>	<b>(623)</b>

Source: Company data, I-Sec Research

Table 5: Key ratios

(Year ending March 31)

	FY08	FY09E	FY10E	FY11E
<b>Per Share Data (in Rs.)</b>				
EPS(Basic Recurring)	16.1	15.4	18.2	25.8
Diluted Recurring EPS	16.1	15.4	18.2	25.8
Recurring Cash EPS	19.6	22.1	28.2	53.1
Dividend per share (DPS)	0.0	0.0	0.0	0.0
Book Value per share (BV)	83.4	98.8	117.1	142.9
<b>Growth Ratios (%)</b>				
Operating Income	101.9	76.1	14.1	47.0
EBITDA	64.5	23.4	64.1	79.9
Recurring Net Income	88.4	(4.4)	18.5	41.4
Diluted Recurring EPS	88.4	(4.4)	18.5	41.4
Diluted Recurring CEPS	70.3	12.6	27.5	88.3
<b>Valuation Ratios (x)</b>				
P/E	13.8	14.4	12.2	8.6
P/CEPS	11.3	10.0	7.9	4.2
P/BV	2.7	2.2	1.9	1.6
EV / EBITDA	10.6	12.1	10.0	7.8
EV / Operating Income	2.3	1.8	2.2	2.0
EV / Operating FCF	(5.1)	(3.1)	(3.4)	(3.2)
<b>Operating Ratio</b>				
Raw Material/Sales (%)	68.9	76.6	71.8	65.7
SG&A/Sales (%)	0.0	0.0	0.0	0.0
Other Income / PBT (%)	15.2	13.2	8.9	4.3
Effective Tax Rate (%)	22.5	24.0	24.7	26.4
NWC / Total Assets (%)	6.0	0.7	0.9	1.9
Inventory Turnover (days)	92.7	69.7	74.0	61.2
Receivables (days)	52.7	43.5	39.1	29.4
Payables (days)	103.4	154.2	242.0	189.7
D/E Ratio (x)	1.7	2.9	3.8	4.9
<b>Return/Profitability Ratio (%)</b>				
Recurring Net Income Margins	10.6	5.8	6.1	5.9
RoCE	9.1	6.5	6.4	7.0
RoNW	21.2	16.9	16.9	19.9
Dividend Payout Ratio	0.0	0.0	0.0	0.0
Dividend Yield	0.0	0.0	0.0	0.0
EBITDA Margins	21.3	14.9	21.5	26.3

Source: Company data, I-Sec Research

---

**ANALYST CERTIFICATION**

We /I, *Gaurav Pathak, PGDM, BTech; Sunil Tuleja, MBA (Finance)* analyst and the author of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of the ICICI Securities Inc.

**Disclosures:**

ICICI Securities Limited (ICICI Securities) and its affiliates are a full-service, integrated investment banking, investment management and brokerage and financing group. We along with affiliates are leading underwriter of securities and participate in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their dependent family members from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on reasonable basis, ICICI Securities, its subsidiaries and associated companies, their directors and employees ("ICICI Securities and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities is acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgement by any recipient. The recipient should independently evaluate the investment risks. The value and return of investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities and affiliates accept no liabilities for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities and its affiliates might have managed or co-managed a public offering for the subject company in the preceding twelve months. ICICI Securities and affiliates might have received compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. ICICI Securities and affiliates expect to receive compensation from the companies mentioned in the report within a period of three months following the date of publication of the research report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. It is confirmed that *Gaurav Pathak, PGDM, BTech; Sunil Tuleja, MBA (Finance)* research analysts and the authors of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Our research professionals are paid in part based on the profitability of ICICI Securities, which include earnings from Investment Banking and other business.

ICICI Securities or its affiliates collectively do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

It is confirmed that *Gaurav Pathak, PGDM, BTech; Sunil Tuleja, MBA (Finance)* research analysts and the authors of this report or any of their family members does not serve as an officer, director or advisory board member of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. ICICI Securities and affiliates may act upon or make use of information contained in the report prior to the publication thereof.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed

---