

- We are not including real estate business in our valuations unlike the rest of the Street.
- We have built in a higher cost of debt and equity in our DCF valuation.

Net Profit 09 ..... INR3.0b  
.....(From INR4.2b)

Diff from Consensus..... na  
Consensus (mean) ..... na  
Consensus (momentum) ..... na

Target Price ..... INR212.00  
.....(From INR610.00)

Diff from Consensus(46.1%)  
Consensus (median) ....INR393.57  
Consensus (momentum)..... ↓

Current Price .... INR184.80  
Upside/(Downside).....14.7%

**BUY**  
(Unchanged)

Recs in the Market

Positive ..... **8**  
Neutral ..... **2**  
Negative ..... **2**  
Consensus (momentum)..... ↓

Sources: Thomson One Analytics; Bloomberg; BNP Paribas estimates

- Analysis of Lanco Infratech's power projects reveals that the projects will be completed but with execution delays.
- Potential upside of 35.7% on planned stake increase in two major projects.
- TP: INR212 (Base case; Using DCF; Construction: INR100; Power: INR107; Roads: INR5). Reiterate BUY.

## Reiterate BUY after factoring risks

No material financing risk at power plants...

We analyzed Lanco Infratech's (Lanco) power plants primarily with respect to funding risks and conclude that there will be no material funding concerns for its power plants. We estimate the cash on balance sheet (INR700b), and funds generated from EPC (engineering, procurement and construction) contracts and its power generation facilities will be used to fund its equity commitment in the power special purpose vehicles (SPV).

...but there could be other execution delays

According to CEA's project status, there could be execution delays at Lanco's upcoming plants. For instance, CEA's latest update on Amarkantak Unit-I shows a commencement of operation date of January 2009, whereas management has reiterated an October 2008 start. Currently, the project is under testing phase. Our estimates include delays of 1-4 quarters in various projects.

### Valuation

We are reducing our target price to INR212 from INR610 factoring in substantial project risks in our estimates and shifting to DCF based valuation from EV/EBITDA. We have assigned INR100 to its construction business, INR107 to its power plants, and INR5 to its road BOTs. We are including only its existing order book in our new order estimates in the construction business. We have neither included its Vizhinjam Port project (USD2b) (a substantial EPC portion of which could be awarded internally) nor assigned any terminal value to this business. We have also valued its power generation business and road BOTs using DCF approach. We are using a cost of debt of 12.5-13% and cost of equity of 17-18%. We are not including any of the real estate projects in our TP although we believe the residential portion of the projects would add INR5 to our TP.

Stake increase could add 18% upside from TP

There is 18% upside if we consider a majority stake in Udipi and Anpara projects. On the other hand including only the operational projects and approximately 4000MW of plants under constructions would imply a 10% downside from current level.

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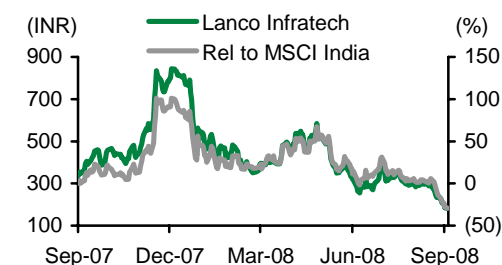
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### Earnings Estimates And Valuation Ratios

YE Mar (INR m)	2008	2009E	2010E	2011E
Revenue	15,745	31,370	67,013	57,196
Reported net profit	2,002	2,997	7,612	6,535
Recurring net profit	2,002	2,997	7,612	6,535
Previous rec net profit	2,002	4,198	4,469	4,794
Chg from previous (%)	—	(28.6)	70.3	36.3
Recurring EPS (INR)	9.26	13.48	34.23	29.39
Prev rec EPS (INR)	9.29	18.88	20.10	21.56
Rec EPS growth (%)	141.6	45.6	154.0	(14.2)
Recurring P/E (x)	20.0	13.7	5.4	6.3
Dividend yield (%)	—	—	—	—
EV/EBITDA (x)	10.9	7.7	3.2	3.2
Price/book (x)	2.5	2.2	1.5	1.2
ROE (%)	13.5	17.2	33.5	21.9
Net debt/equity (%)	8.0	14.7	(16.9)	(23.9)

Sources: Lanco Infratech; BNP Paribas estimates

### Share Price Daily vs MSCI



Next results/event	October 2008
Market cap (USD m)	883
12m avg daily turnover (USD m)	24.7
Free float (%)	14
Major shareholder	Prince Stone Investments (50%)
12m high/low (INR)	845.35/184.80
ADR (USD)	Nil
Avg daily turnover (USD m)	Nil
Discount/premium (%)	Nil
Disc/premium vs 52-wk avg (%)	Nil

Source: Datastream

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Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

\*In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

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