

EPS cut on persistent high Wardha fuel cost; Buy

November 08, 2012

Rating	Previous Reco
Buy	Buy
CMP	Target Price
Rs60	Rs76
EPS Chg FY13E/FY14E (%)	-19/-20
Target Price change (%)	NA
Nifty	5,739
Sensex	18,846

Price Performance

(%)	1M	3M	6M	12M
Absolute	-6	-10	-1	-39
Rel. to Nifty	-7	-16	-13	-43

Source: Bloomberg

Relative price chart



Source: Bloomberg

Stock Details

Sector	Power
Bloomberg	KSK IB
Equity Capital (Rs mn)	3,726
Face Value(Rs)	10
No of shares o/s (mn)	373
52 Week H/L	103/ 33
Market Cap (Rs bn/USD mn)	22/ 410
Daily Avg Volume (No of sh)	195,230
Daily Avg Turnover (US\$mn)	0.2

Shareholding Pattern (%)

	S'12	J'12	M'12
Promoters	74.9	74.9	74.9
FII/NRI	15.3	15.8	15.8
Institutions	4.0	5.5	5.3
Private Corp	4.1	2.1	2.2
Public	1.7	1.7	1.8

Source: Bloomberg

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- 2Q13 APAT slightly lower than est. on 1) higher fuel cost again in Wardha and 2) lower than expected generation and PAT from VS lignite (135MW) mainly due to shutdown
- Wardha Warora fuel cost continues to be high despite CIL supplies due to lower quality coal receipt and transportation - adjustments for quality remain tricky. Build in higher fuel cost - leading to FY13/14E est. cut by 19%/20%
- Our thesis of earnings improvement not yet visible since two qtrs; Given Wardha fuel cost to remain high, disappointment may continue until Mahanadi COD & coal production ramp-up
- Though stock looks attractive at 0.5x FY14E book and retain Buy with PT of Rs76; But upside would be driven by 1) coal supply clarity for Mahanadi and 2) lower fuel cost at Wardha

Wardha continues to pay higher for lower quality coal

KSK 2Q13 PBT stood at Rs256mn, slightly below our estimates primarily on account of i) higher fuel cost at Wardha (continues to receive lower quality of coal (3800kcal) while paying for higher quality (~4300kcal), ii) lower than expected generation and PAT at VS Lignite mainly due to maintenance shutdown taken at the plant. Reported PAT stood at Rs544mn after accounting for deferred tax reversal due to which tax expense came negative in the quarter. Fuel cost at Wardha stood at Rs3.0/unit, up 16%qoq. However increase in fuel cost is negated by higher realizations by 25%yoy to Rs5.8/unit due to captive power sale (~120MW) during the quarter at 15-20% discount to state tariff. Generation has improved by 12%yoy but declined 14%qoq to 1.3BU. PLF at Wardha stood at 67% during the quarter against 80% in 1Q13 largely due to wet coal issues and open access awaited for last unit.

Wardha – Price adjustments for quality remain tricky, cut estimates

Fuel cost at Wardha continues to remain high due to transportation cost and no price adjustment by CIL for supply of lower quality coal. We believe that the adjustment for the quality of coal receipt will remain tricky. Thus we build in higher fuel cost for Wardha in our numbers which result into earnings cut for FY13E/FY14E by 19%/20% respectively.

Clarity over few areas to drive upside; Maintain Buy

We haven't seen our thesis of earnings improvement reflecting in numbers since last two quarters. As we believe now that fuel cost at Wardha might remain high, disappointment at earnings level would continue until the commissioning of Mahanadi and production ramp up at coal mines. In our view, stock looks attractive at 0.5x FY14E book and thus we retain Buy on the stock with price target of Rs76. However we believe that the upside from here would primarily be driven by 1) coal supply clarity in Mahanadi (clearance for mines and tapering linkage) and 2) lower fuel cost/fuel cost adjustments in Wardha.

Financial Snapshot (Consolidated)

(Rsmn)

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/EBITDA	P/BV
Mar										
FY11A	10,961	5,080	46.3	1,818	4.9	3.8	5.9	12.3	15.4	0.7
FY12A	19,462	6,871	35.3	759	2.0	-58.3	2.2	29.5	18.6	0.6
FY13E	23,134	9,318	40.3	1,796	4.8	136.7	4.9	12.5	15.8	0.6
FY14E	39,255	16,908	43.1	2,136	5.5	14.9	5.3	10.8	9.8	0.5

Exhibit 1: Results snapshot

Rs mn	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	YoY (%)	QoQ (%)	YTD'12	YTD'13	YoY (%)
Revenue	4,343	5,707	5,010	5,689	5,627	29.6	-1.1	8,762	11,317	29.2
Expenditure	-3,037	-3,323	-3,533	-3,624	-3,661	20.5	1.0	-5,800	-7,285	25.6
as % of sales	-69.9%	-58.2%	-70.5%	-63.7%	-65.1%			-66.2%	-64.4%	
Consumption of RM	-2,443	-2,666	-2,702	-2,910	-2,964	21.3	1.9	-4,621	-5,874	27.1
as % of sales	-56.3%	-46.7%	-53.9%	-51.1%	-52.7%			-52.7%	-51.9%	
Power and Fuel	0	0	0	0	0			0	0	
as % of sales	0.0%	0.0%	0.0%	0.0%	0.0%			0.0%	0.0%	
Other Mfg Expenses	0	0	0	0	0			0	0	
as % of sales	0	0	0	0	0			0	0	
Employee Cost	-103	-103	-134	-101	-99	-3.2	-1.7	-194	-201	3.5
as % of sales	-2.4%	-1.8%	-2.7%	-1.8%	-1.8%			-2.2%	-1.8%	
Other expenditure	-491	-554	-697	-614	-597	21.6	-2.6	-985	-1,211	22.9
as % of sales	-11.3%	-9.7%	-13.9%	-10.8%	-10.6%			-11.2%	-10.7%	
EBITDA	1,306	2,383	1,477	2,065	1,966	50.5	-4.8	2,962	4,031	36.1
Depreciation	-557	-585	-585	-562	-571	2.6	1.7	-994	-1,133	14.0
EBIT	749	1,798	892	1,503	1,395	86.1	-7.2	1,968	2,898	47.2
Other Income	204	311	473	245	321	57.2	31.3	394	566	43.5
Interest	-1399	-1473	-1461	-1590	-1460	4.4	-8.2	-2,455	-3,050	24.3
PBT	-445	636	-96	158	256	-157.6	62.4	-92	414	-551.0
Total Tax (excl'd exceptional items)	223	191	-55	-229	331			363	102	-71.8
Adjusted PAT	-222	827	-150	-71	587	-364.4	-927.8	271	516	90.6
(Profit)/loss from JV's/Ass/MI	44	-72	-75	48	-43			-43	5	
Adjusted PAT after MI	-178	755	-225	-23	544	-405.7	-2484.1	228	521	128.7
Extra ordinary items (post tax)	0	0	555	0	0			0	0	
Reported PAT	-178	755	329	-23	544	-405.7	-2484.1	228	521	128.7
Adjusted EPS	-0.5	2.0	-0.6	-0.1	1.5			0.6	1.4	128.7

Margins (%)						(bps)	(bps)				(bps)
EBIDTA	30.1	41.8	29.5	36.3	34.9	487	-136	33.8	35.6	182	
EBIT	17.3	31.5	17.8	26.4	24.8	753	-164	22.5	25.6	315	
EBT	-10.2	11.2	11.9	2.8	4.6	1480	178	-1.0	3.7	471	
PAT	-4.1	13.2	-4.5	-0.4	9.7	1377	1007	2.6	4.6	201	
Effective Tax rate	NA	NA	32.4	144.9	NA			NA	NA		

Source: Company, Emkay Research

Exhibit 2: Operations snapshot

Rs mn	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	YoY (%)	QoQ (%)	YTD'12	YTD'13	YoY (%)
Installed capacity (MW)	914	933	933	881	881	-	-	914	881	-3.6
Units generated (MU)	1,140	1,360	1,255	1,468	1,276	-	-	2,247	2,744	-
PLF - Wardha Warora (%)	54	68	66	80	67	-	-	51	73	-
Units sold (MU)	986	1,207	1,108	1,301	1,121	13.7	-13.8	1,956	2,422	23.8
Net sale from power (Rs mn)	4,337	5,572	4,886	5,565	5,627	29.7	1.1	8,616	11,192	29.9
Realisation (Rs/unit sold)	4.4	4.6	4.4	4.3	5.0	14.2	17.3	4.4	4.6	4.9
Fuel cost	2,443	2,666	2,702	2,910	2,964	21.3	1.9	4,621	5,874	27.1
Fuel cost (Rs/unit sold)	2.5	2.2	2.4	2.2	2.6	6.8	18.2	2.4	2.4	2.7
Contribution (Rs/unit sold)	1.9	2.4	2.0	2.0	2.4	23.7	16.3	2.0	2.2	7.5

Source: Company, Emkay Research

Exhibit 3: SOTP valuations

	Total Capacity	Equity Stake (%)	CoE	Equity	Equity invested FY12 end	NPV at FY13E end	NPV Per Share
Arasmeta	43	51%	15.2%	510	510	928	2
Sai Regency	58	74%	16.5%	550	550	1,455	4
Sitapuram	43	49%	15.2%	480	480	716	2
VS Lignite	135	74%	13.7%	1,725	1,725	5,148	13
Wardha Warora	540	74%	17.3%	4,820	4,820	6,595	17
Arasmeta Exp	43	51%	15.5%	440	440	148	0
Mahanadi	3600	92%	15.4%	40,475	10,928	11,481	31
Free cash						2,663	7
Total	4592			49,000	19,453	29,134	76

Source: Emkay Research

Exhibit 4: Cash flows

Rsmn	FY09-12	FY13E	FY14E
Opening Cash In Hand	5,006	20,760	5,516
Equity Requirement	26752	17404	6665
Arasmeta Expansion	440		
VS Lignite	1294		
Wardha Warrora	3615		
Mahanadi	10928	17404	6071
Others-Wind/Hydro	10475	0	594
Cash flow from Operations	9,257	3,562	5,269
Debt Repayment	1290	2976	2515
143MW operational	858	792	330
Arasmeta Expansion	0	147	147
VS Lignite	431	431	431
Wardha Warrora		1607	1607
Mahanadi			
Dibbin			
Wind Power			
Others			
Equity Issuance	16,814	0	0
Other Debt	17725	1574	1586
Debt Repayment	0	0	3011
Closing Cash	20,760	5,516	181

Source: Company, Emkay Research

There could be some issues in FY14E in terms of cash flow management and might require some funding depending upon debt repayment at parent level

Exhibit 5: Effective capacity built-up

MW	FY11	FY12	FY13E	FY14E	FY15E
Arasmeta	43	43	43	43	43
Sai Regency	58	58	58	58	58
Sitapuram	43	43	43	43	43
VS Lignite	113	135	135	135	135
Wardha Warora	169	473	540	540	540
Arasmeta Exp	0	25	43	43	43
Mahanadi	0	0	0	1,050	2,850
Dibbin HEP	0	0	0	0	0
Others					
Total	425	777	862	1,912	3,712

Source: Company, Emkay Research

Exhibit 6: Generation built-up

MU	FY11	FY12	FY13E	FY14E	FY15E
Arasmeta	306	208	301	301	301
Sai Regency	445	455	406	406	406
Sitapuram	290	256	301	301	301
VS Lignite	746	927	946	946	946
Wardha Warora	1,035	2,804	3,548	3,548	3,784
Arasmeta Exp	0	83	0	188	301
Mahanadi	0	0	0	7,358	19,973
Dibbin HEP	0	0	0	0	0
Others					
Total	2,822	4,733	5,503	13,050	26,014

Source: Company, Emkay Research

Exhibit 7: Revenue built-up

Rs mn	FY11	FY12	FY13E	FY14E	FY15E
Arasmeta	1,053	660	995	1,015	1,037
Sai Regency	1,989	1,871	1,601	1,550	1,509
Sitapuram	1,087	1,176	1,326	1,334	1,379
VS Lignite	2,267	2,637	2,714	2,725	2,736
Wardha Warora	3,957	12,749	15,999	13,735	12,578
Arasmeta Exp	0	269	0	666	1,087
Mahanadi	0	0	0	17,704	48,352
Dibbin HEP	0	0	0	0	0
Others	608	99	500	525	551
Total	10,961	19,462	23,134	39,255	69,229

Source: Company, Emkay Research

Exhibit 8: Debt built-up

Rs mn	FY11	FY12	FY13E	FY14E	FY15E
Arasmeta	793	694	595	496	397
Sai Regency	1,238	1,375	963	825	688
Sitapuram	840	933	653	560	467
VS Lignite	5,175	4,744	4,313	3,881	3,450
Wardha Warora	17,352	19,280	17,673	16,067	14,460
Arasmeta Exp	1,760	1,760	1,613	1,467	1,320
Mahanadi	35,294	78,117	84,998	103,211	121,425
Dibbin HEP	0	0	0	356	1,781
Others and WC loan	9,029	19,501	19,730	15,848	12,931
Total	71,481	126,404	130,537	142,711	156,918

Source: Company, Emkay Research

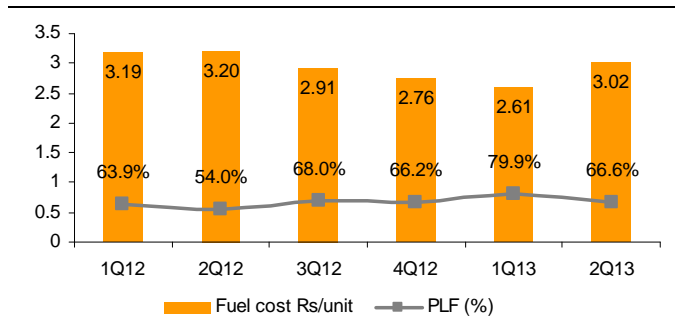
KSK Energy– Investment summary

Earnings forecast - Emkay vs. Consensus

(Rs mn)	Emkay	Consensus	Variance
FY13E	1,796	2,596	-30.8%
FY14E	2,136	3,352	-36.3%

Source: Bloomberg

Wardha – operational highlights



Source: Company, Emkay Research

Company description:

KSK Energy Ventures Ltd was incorporated in 2001 as a power generation utility. Company owns and operates 881MW of generation capacity with another 3.7GW of under-construction and 1.9GW of under-development power plants. It came up with an IPO in 2008 at Rs240 per share.

Recent update

- Wardha continues to receive lower quality coal from CIL while paying for higher quality of coal
- Stage-II forest clearance for Gare Pelma-III still awaited

Promoters background

- S Kishore:** 50yrs old; CA, Co-chaired the Energy Committee of Federation of Andhra Pradesh Chambers of Commerce and Industry. He was a financial advisor & consultant for major domestic as well as international businesses in emerging technology areas and multiple energy companies/utilities/market entrants since early nineties. Prior to KSKVL, worked as practicing partner with Kishore & Sastry Chartered Accountant firm
- KA Sastry:** 53yrs old; CA, Responsible for financial accounting and records in the group; Prior to KSKVL, worked as practicing partner with Kishore & Sastry Chartered Accountant firm

Investment rationale

- Wardha Warrora fuel cost continues to be high despite supplies from CIL due to lower quality coal and transportation – adjustments for quality remain tricky
- Mahanadi Phase-I in advanced stage of construction and commissioning is expected by 4Q13. Linked mine- Stage-II forest clearance of Gare Pelma-III block (GIDC) awaited; Fuel supply from Gare Pelma-III would account for about half of coal requirement
- Our thesis of earnings improvement is not visible for two qtr now; Given Wardha fuel cost to remain high, disappointment may continue until Mahanadi COD & coal production ramp-up

Valuations

- Stock looks attractive at 0.5x FY14E book, Retain Buy with price target of Rs76/share
- However upside would be driven by 1) coal supply clarity for Mahanadi and 2) lower fuel cost at Wardha

Investment risk

- 1) Fuel availability for Mahanadi Phase-II doesn't materialize and 2) lower than expected coal supply level and Coal India for Wardha Warrora plant

Top Institutional holdings

Name	Holding %
Ashmore EMM LLC	1.6
Universities Superannuation Scheme	1.5
JF Asset Management	1.4
LIC	1.1
Amundi Hong Kong	0.8

Source: Factset

Shares pledge

Period	Promoters holding	Pledge % of Prom. holding	Pledge % of total holdings
Sep-11	54.9%	25.4%	14.0%
Dec-11	74.9%	47.0%	35.3%
Mar-12	74.9%	55.6%	41.7%
Jun-12	74.9%	64.2%	48.1%
Sep-12	74.9%	64.2%	48.1%

Source: Capitaline

Key Financials (Consolidated)

Income Statement

Y/E Mar (Rsmn)	FY11A	FY12A	FY13E	FY14E
Net Sales	10,961	19,462	23,134	39,255
Growth (%)	118.1	77.6	18.9	69.7
Expenditure	5,881	12,591	13,817	22,347
Fuel cost	4,232	9,989	11,180	17,921
O&M cost	1,649	2,603	2,637	4,425
Other Exp	0	0	0	0
EBITDA	5,080	6,871	9,318	16,908
Growth (%)	66.1	35.2	35.6	81.5
EBITDA margin (%)	46.3	35.3	40.3	43.1
Depreciation	1,224	2,163	2,043	4,537
EBIT	3,856	4,707	7,274	12,371
EBIT margin (%)	35.2	24.2	31.4	31.5
Other Income	631	1,131	460	100
Interest expenses	2,561	5,389	5,425	9,559
PBT	1,927	450	2,309	2,912
Tax	-353	-499	462	582
Effective tax rate (%)	-18.3	-110.9	20.0	20.0
Adjusted PAT	2,280	948	1,847	2,330
Growth (%)	19.2	-58.4	94.8	26.1
Net Margin (%)	20.8	4.9	8.0	5.9
(Profit)/loss from JVs/Ass/MI	462	190	51	193
Adj. PAT After JVs/Ass/MI	1,818	759	1,796	2,136
E/O items	0	555	0	0
Reported PAT	1,818	1,314	1,796	2,136
PAT after MI	1,818	759	1,796	2,136
Growth (%)	3.8	-58.3	136.7	18.9

Cash Flow

Y/E Mar (Rsmn)	FY11A	FY12A	FY13E	FY14E
PBT (Ex-Other income)	1,296	12	1,849	2,812
Depreciation	1,224	2,163	2,043	4,537
Interest Provided	2,561	5,389	5,425	9,559
Other Non-Cash items	238	0	0	0
Chg in working cap	2,673	-2,770	-1,221	-1,597
Tax paid	-176	-181	608	-582
Operating Cashflow	7,815	4,614	8,705	14,728
Capital expenditure	-22,734	-50,090	-24,285	-25,235
Free Cash Flow	-14,918	-45,477	-15,580	-10,507
Other income	631	1,131	460	100
Investments	0	0	0	0
Investing Cashflow	-22,102	-48,959	-23,825	-25,135
Equity Capital Raised	3,684	0	0	1,988
Loans Taken / (Repaid)	17,968	54,923	4,133	12,173
Interest Paid	-2,561	-5,389	-5,425	-9,559
Dividend paid (incl tax)	0	0	0	0
Income from investments				
Others	-1,239	30	1,168	469
Financing Cashflow	17,853	49,565	-124	5,072
Net chg in cash	3,566	5,219	-15,244	-5,335
Opening cash position	11,975	15,541	20,761	5,516
Closing cash position	15,541	20,760	5,516	181

Balance Sheet

Y/E Mar (Rsmn)	FY11A	FY12A	FY13E	FY14E
Equity share capital	3,726	3,726	3,726	3,859
Reserves & surplus	24,659	25,880	27,676	31,668
Net worth	28,385	29,606	31,402	35,527
Minority Interest	4,855	5,283	6,678	7,339
Secured Loans	71,481	126,404	130,537	142,711
Unsecured Loans	0	0	0	0
Loan Funds	71,481	126,404	130,537	142,711
Net deferred tax liability	-237	-894	0	0
Total Liabilities	104,484	160,399	168,617	185,577
Gross Block	35,798	52,400	52,400	133,350
Less: Depreciation	2,086	4,249	6,292	10,829
Net block	33,712	48,151	46,108	122,521
Capital work in progress	56,781	90,269	114,554	58,839
Investment	0	0	0	0
Current Assets	23,531	31,951	17,103	13,915
Inventories	763	1,232	1,336	2,161
Sundry debtors	2,199	3,802	4,095	5,417
Cash & bank balance	15,541	20,761	5,516	181
Loans & advances	4,378	4,681	4,681	4,681
Other current assets	650	1,475	1,475	1,475
Current lia & Prov	9,541	9,972	9,147	9,698
Current liabilities	9,541	9,972	9,147	9,698
Provisions	0	0	0	0
Net current assets	13,990	21,979	7,956	4,217
Misc. exp	0	0	0	0
Total Assets	104,483	160,399	168,617	185,577

Key Ratios

Y/E Mar	FY11A	FY12A	FY13E	FY14E
Profitability (%)				
EBITDA Margin	46.3	35.3	40.3	43.1
Net Margin	20.8	4.9	8.0	5.9
ROCE	4.7	4.2	4.5	6.8
ROE	5.9	2.2	4.9	5.3
RoIC	15.1	11.5	14.9	14.1
Per Share Data (Rs)				
EPS	4.9	2.0	4.8	5.5
CEPS	8.2	7.8	10.3	17.3
BVPS	89.2	93.6	102.2	111.1
DPS	0.0	0.0	0.0	0.0
Valuations (x)				
PER	12.3	29.5	12.5	10.8
P/CEPS	7.4	7.7	5.8	3.5
P/BV	0.7	0.6	0.6	0.5
EV / Sales	7.1	6.6	6.4	4.2
EV / EBITDA	15.4	18.6	15.8	9.8
Dividend Yield (%)	0.0	0.0	0.0	0.0
Gearing Ratio (x)				
Net Debt/ Equity	1.7	3.0	3.3	3.3
Net Debt/EBITDA	11.0	15.4	13.4	8.4
Working Cap Cycle (days)	-51.7	22.9	38.5	37.5

Recommendation History: KSK Energy – KSK IN

Date	Reports	Reco	CMP	Target
08/08/2012	KSK Energy Q1FY13 Result Update	Buy	66	76
29/05/2012	KSK Energy Q4FY12 Result Update	Hold	59	75
06/02/2012	KSK Energy Q3FY12 Result Update	Hold	72	75
21/11/2011	KSK Energy Q2FY12 Result Update	Hold	59	75

Recent Research Reports

Date	Reports	Reco	CMP	Target
02/11/2012	JSW Energy Q2FY13 Result Update	Sell	63	45
01/11/2012	Power Grid Corporation Q2FY13 Result Update	Accumulate	117	121
31/10/2012	NHPC Q2FY13 Result Update	Buy	22	26
26/10/2012	Nava Bharat Ventures Q2FY13 Result Update	Hold	187	204

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