

Lanco Infratech

OUTPERFORMER

Foray into Solar power - conference call takeaways

Mkt Cap: Rs94bn; US\$2.1bn

Event

Lanco Infratech (Lanco) recently announced plans to position itself as an integrated player in the solar power space with a presence in manufacturing, EPC and energy generation. It plans on developing its solar EPC and manufacturing capabilities for both captive and third-party projects.

Details

- Lanco has signed 25-year PPAs for 41MW using Solar Photo Voltaic Technology (Solar PV) at a project cost of Rs6.6bn. Of these, projects totaling 35MW have been signed with the Gujarat government at a tariff of Rs15/kwh for the first 12 years and Rs5/kwh for the next 13 years. It has commissioned its first 5MW unit in Gujarat and expects to commission the rest in 2011.
- Lanco is also setting up a 100MW solar plant in Rajasthan based on solar thermal technology (project cost, Rs18bn), with a bid tariff of Rs10.5/kwh. It has secured land, power evacuation and water allotment for the project and targets commissioning the plant in May 2013.

Lanco's solar power development portfolio

Technology	Policy	Capacity (MW)	Tariff (Rs/kwh)	Project cost (Rsm)	PPA Duration (yrs)	COD
Solar PV	Gujarat Policy	35	15 for first 12 years 5 for next 13 years	5,600	25	1 unit commissioned 2 unit by April-11, balance by end 2011
Solar PV	JNNSM	5	11.5	823	25	NA
Solar PV	RPSSGP	1	16.5	170	25	NA
Solar PV	Total	41		6,593		
Solar Thermal	JNNSM	100	10.5	18,000	25	May-13
Total Solar projects	Total	141		24,593		

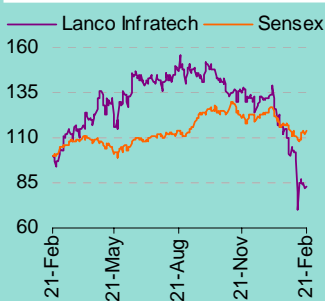
Source: Company data

- Over the next four years Lanco targets developing solar EPC capabilities of 500 MW/annum and project development capability of 400 MW/annum. It also plans to set up integrated manufacturing capacity of 250 MW. The company plans to utilize its EPC and manufacturing capabilities for undertaking third-party contracts as well, and estimates the annual EPC market for solar power at 1000MW, which translates into an opportunity of ~Rs120bn.
- The company is setting up an integrated manufacturing SEZ in Chattisgarh, which would eventually have capacity to manufacture 250MW solar power modules. In the first phase, Lanco will set up capacity to manufacture 1250MT of polysilicon, 80MW of wafer and 50MW of modules at a total capex of Rs13.7bn. It has already tied up financing with a 70% debt component. It plans to commission the module capacity by Q1FY12 and the polysilicon and wafer manufacturing capacities by Q3FY13. Lanco has deals with two US-based technology providers for the necessary technology. The manufacturing facility will enjoy various fiscal incentives, including 20% capital subsidy, import-duty exemption for equipment and raw material, and exemption from MAT. Part of the capacity would be used for internal consumption and the rest for third-party projects.

21 February 2011
BSE Sensex: 18438

Infra Developers

Price chart



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Manufacturing Plans (Phase 1)

Particulars	Details	Units	Comments
Capex	13.7	Rsbn	
Gearing	2.3	x	Financial closure achieved
Capacity			
Polysilicon	1250	MT	COD Q3FY13
Wafer	80	MW	COD Q3FY13
Module line	50	MW	COD Q1FY12

Source: Company data

- In FY12, Lanco plans to undertake 131MW of own solar EPC projects and 180MW third-party solar EPC projects, with a revenue potential of Rs25bn-Rs30bn and at EBITDA margins of 8-10%.
- The total equity requirement is likely to be ~Rs8.5bn over the next two years. Lanco expects to utilize cash generated from solar EPC and solar PV projects to meet a substantial part of this requirement.

Rationale for foray into solar power and key drivers

- Strong global demand: Global demand has grown exponentially from ~300MW/annum in 2003 to ~17,000MW/annum in 2010 and estimated to grow further to 30,000MW/annum by 2014.
- Strong potential in the Indian market: Solar photovoltaic (PV) PPAs worth 1150MW have been signed for construction over the next 12 months. Solar thermal PPAs worth 500MW have been signed for construction over the next 28 months.
- Rationale for setting up manufacturing capabilities - government norms under JNNSM (Jawaharlal Nehru National Solar Mission) mandate a phase-wise increase in domestic manufacturing content, eventually covering the complete value chain.
- Key drivers would be the renewable purchase obligations (RPO) set by CERC and various state regulators. The Solar Power Purchase obligation for states start with 0.25% of power purchased in phase 1 (FY11-13) and up to 3% by 2022.

Our view

Lanco currently has an operating portfolio of 2074MW power plant and is developing power projects totaling ~8500MW to be commissioned over the next 3-4 years. It has a consolidated net worth of ~Rs45bn and, we estimate, cash profits of ~Rs26bn each in FY12 and FY13. As for Lanco's near term equity requirement of ~Rs8.5bn towards solar power, part of it is likely to be funded by EPC margins on these projects. Given Lanco's balance sheet size and future cash flow streams, we do not envisage any constraints in funding the residual equity portion. We believe there is insufficient clarity on the economics and return profile of the solar power business at this point of time. Further, risks also arise due to technological changes as well as Lanco's lack of experience in the sector. As a result, we remain cautious on Lanco's strategy of entering the entire value chain of the solar power segment and have not valued it in our SOTP valuation. We maintain Outperformer rating on the stock with a target price of Rs66.

Key financials (Consolidated)

As on 31 March	FY08	FY09	FY10	FY11E	FY12E	FY13E
Net sales (Rs m)	32,413	60,720	80,825	83,304	152,957	185,961
Adj. net profit (Rs m)	3,542	2,803	4,220	5,506	9,834	9,069
Shares in issue (m)	222	222	2,408	2,408	2,408	2,408
Adj. EPS (Rs)	15.9	12.6	2.3	2.3	4.1	3.8
% change	47.8	(20.9)	79.8	0.9	78.6	(7.8)
PE (x)	2.44	3.08	17.1	17.0	9.5	10.3
Price/ Book (x)	0.36	0.31	1.8	1.8	1.4	1.1
EV/ EBITDA (x)	16.6	15.7	10.2	14.9	7.5	8.2
RoE (%)	16.6	10.8	12.3	12.0	16.5	12.0
RoCE (%)	13.5	11.2	11.0	8.6	11.7	10.1

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3. Underperformer: Less than 5% to Index

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