

November 12, 2010

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Rating	Accumulate
Price	Rs64
Target Price	Rs78
Implied Upside	21.9%
Sensex	20,589

(Prices as on November 11, 2010)

Trading data

Market Cap. (Rs bn)	152.9
Shares o/s (m)	2,385.5
3M Avg. Daily value (Rs m)	351.8

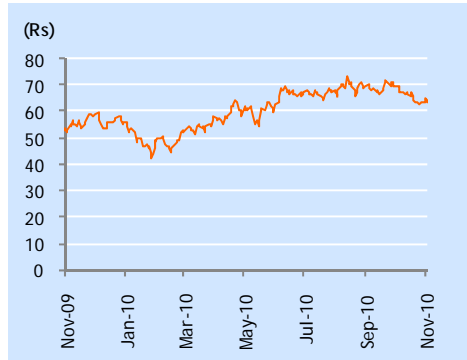
Major shareholders

Promoters	67.95%
Foreign	19.11%
Domestic Inst.	4.21%
Public & Other	8.73%

Stock Performance

(%)	1M	6M	12M
Absolute	(8.4)	5.7	19.3
Relative	22.2	(9.7)	(17.7)

Price Performance (RIC: LAIN.BO, BB: LANCI IN)



Source: Bloomberg

Lanco Infratech

Delayed capacities spoil the show

- **Slippages in capacities lead to lower sales growth:** Lanco Infratech (Lanco) was unable to commission the 600MW Unit-I at Udupi in Q2FY11 on account of delayed COD from KSEB for transmission grid related purpose. Alongwith this, Amarkantak-I was on partial generation for maintenance purpose and thus, realised lower charges. Kondapalli-II, which is in arbitration for tariff-related purpose, is also selling on UI market and thus, earning lower realisations. Hence, even 87% YoY increase in power sales had damp EBIT margins. Further, higher depreciation (on account of WDV method charges) led to PATAMI de-growth of 42.5% YoY.
- **EPC income dips on lower value addition works:** On account of final stages of work in the Udupi plant and advance stages of newer plants, lower value addition took place along with certain milestones which were not reached. This led to a 25.8% YoY dip in income and 700bps YoY plunge in EBIT margins.
- **Higher depreciation continues to erode PAT:** Lanco, as per the new policy, has started charging depreciation on WDV method which has a charge of 13-14% on assets as against 5-6%. Thus, PAT erosion is expected to continue as shown in this quarter.
- **Updates:** Lanco has plans for additional 10000MWs which are in the preliminary stages and have not been included in the order book for EPC of Rs254bn. The company is expected to commission Udupi-II and Anpara-I unit in Q4FY11.
- **Time to buy the correction:** Results, well below expectations, has led to a dip in stock price and thus, created opportunity to buy as long-term fundamentals remain bright. Though we have downgraded our financials and SOTP from Rs83, we maintain 'Accumulate'.

Key financials (Y/e March)	2009	2010	2011E	2012E
Revenues (Rs m)	60,062	80,320	96,569	121,653
Growth (%)	85.3	33.7	20.2	26.0
EBITDA (Rs m)	8,236	14,515	27,583	36,621
PAT (Rs m)	2,803	4,585	7,335	8,521
EPS (Rs)	1.3	1.9	3.1	3.6
Growth (%)	(20.9)	50.7	60.0	16.2
Net DPS (Rs)	—	—	—	—

Source: Company Data; PL Research

Profitability & Valuation	2009	2010	2011E	2012E
EBITDA margin (%)	13.7	18.1	28.6	30.1
RoE (%)	14.3	16.9	19.9	19.3
RoCE (%)	6.5	7.7	7.3	5.8
EV / sales (x)	3.1	2.8	3.3	3.2
EV / EBITDA (x)	22.7	15.6	11.5	10.6
PE (x)	50.3	33.3	20.8	17.9
P / BV (x)	6.7	4.6	3.8	3.2
Net dividend yield (%)	—	—	—	—

Source: Company Data; PL Research

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Q2FY11 Result Overview (Rs m)

Y/e March	Q2FY11	Q2FY10	YoY gr. (%)	Q1FY11	H1FY11	H1FY10	YoY gr. (%)
Net Sales	20,417	19,266	6.0	21,256	41,674	41,219	1.1
Expenditure							
Consumption of Raw Materials, Generation Exps	11,566	11,145	3.8	9,569	21,134	21,514	(1.8)
<i>% of Net Sales</i>	<i>56.6</i>	<i>57.9</i>		<i>45.0</i>	<i>50.7</i>	<i>52.2</i>	
Increase/Decrease in WIP	(2,325)	(918)		(1,515)	(3,840)	331	
<i>% of Net Sales</i>	<i>(11.4)</i>	<i>(4.8)</i>		<i>(7.1)</i>	<i>(9.2)</i>	<i>0.8</i>	
Purchase of Trading Power	5,673	4,676	21.3	5,845	11,518	11,508	0.1
<i>% of Net Sales</i>	<i>27.8</i>	<i>24.3</i>		<i>27.5</i>	<i>27.6</i>	<i>27.9</i>	
Personnel Cost	1,082	851	27.1	1,157	2,238	1,371	63.2
<i>% of Net Sales</i>	<i>5.3</i>	<i>4.4</i>		<i>5.4</i>	<i>5.4</i>	<i>3.3</i>	
Other Expenditure	255	371	(31.3)	248	503	585	(14.2)
<i>% of Net Sales</i>	<i>1.2</i>	<i>1.9</i>		<i>1.2</i>	<i>1.2</i>	<i>1.4</i>	
Total Expenditure	16,251	16,125	0.8	15,303	31,554	35,310	(10.6)
EBITDA	4,166	3,141	32.7	5,954	10,120	5,909	71.3
<i>Margin (%)</i>	<i>20.4</i>	<i>16.3</i>	<i>410.5</i>	<i>28.0</i>	<i>24.3</i>	<i>14.3</i>	<i>2,428.4</i>
Depreciation	1,703	332	412.5	1,551	3,254	661	392.6
EBIT	2,463	2,808	(12.3)	4,403	6,866	5,249	30.8
Interest	1,754	519	238.0	1,567	3,321	1,124	195.4
Other Income	725	187	286.9	251	976	563	73.3
Forex Loss/Gain	-	(18)	(100.0)	(359)	(359)	173	(308.2)
Inter-elimination	94	208	(54.8)	151	245	428	(42.8)
PBT	1,341	2,251	(40.4)	2,577	3,917	4,433	(11.6)
Tax	378	769	(50.8)	353	732	1,583	(53.8)
<i>Tax Rate (%)</i>	<i>28.2</i>	<i>34.2</i>		<i>13.7</i>	<i>18.7</i>	<i>35.7</i>	
Recurring PAT	962	1,482	(35.0)	2,224	3,186	2,850	11.8
Minority Interests	(258)	(256)		(277)	(535)	(466)	
PATAMI	704	1,226	(42.5)	1,947	2,651	2,384	11.2
Margin (%)	4.7	7.7		10.5	7.6	6.9	
Cash Profit	2,407	1,558	54.5	3,498	5,905	3,045	93.9

Source: Company Data, PL Research

Segmental Break-up (Rs m)

	Q2FY11	Q1FY11	Q2FY10
Const	10,883	10,375	14,676
<i>% to total</i>	<i>59.4</i>	<i>56.6</i>	<i>80.1</i>
<i>YoY gr. (%)</i>	<i>(25.8)</i>	<i>(28.3)</i>	<i>132.0</i>
<i>QoQ gr. (%)</i>	<i>4.9</i>	<i>(35.6)</i>	<i>1.5</i>
Power	13,373	14,251	7,134
<i>% to total</i>	<i>73.0</i>	<i>77.8</i>	<i>38.9</i>
<i>YoY gr. (%)</i>	<i>87.5</i>	<i>40.7</i>	<i>4.8</i>
<i>QoQ gr. (%)</i>	<i>(6.2)</i>	<i>8.3</i>	<i>(29.5)</i>
RE	-	345	109
<i>% to total</i>	<i>-</i>	<i>1.9</i>	<i>0.6</i>
<i>YoY gr. (%)</i>	<i>-</i>	<i>93.8</i>	<i>(77.2)</i>
<i>QoQ gr. (%)</i>	<i>-</i>	<i>(162.4)</i>	<i>(39.0)</i>
Unallocated	31	537	25
<i>% to total</i>	<i>0.2</i>	<i>2.9</i>	<i>0.1</i>
<i>YoY gr. (%)</i>	<i>23.8</i>	<i>2,084.6</i>	<i>(2.4)</i>
<i>QoQ gr. (%)</i>	<i>(94.3)</i>	<i>(24.6)</i>	<i>0.8</i>
Total	24,287	25,509	21,943
EBIT	2,620	4,879	3,017
<i>Margin (%)</i>	<i>16.3</i>	<i>30.3</i>	<i>18.7</i>
Construction	1,338	1,758	2,488
<i>Margin (%)</i>	<i>8.3</i>	<i>10.9</i>	<i>15.4</i>
Power	1,807	3,168	923
<i>Margin (%)</i>	<i>11.2</i>	<i>19.7</i>	<i>5.7</i>
RE	(16)	(30)	(31)
<i>Margin (%)</i>	<i>(0.1)</i>	<i>(0.2)</i>	<i>(0.2)</i>
Unallocated	(509)	(17)	(363)
<i>Margin (%)</i>	<i>(3.2)</i>	<i>(0.1)</i>	<i>(2.3)</i>

Source: Company Data, PL Research



Balance Sheet Abstract (Rs m)

Y/e March	2009	2010	2011E	2012E
Shareholders Funds	20,976	33,448	40,109	48,415
Total Debt	55,970	83,614	175,152	245,384
Other Liabilities	7,208	8,111	8,623	9,302
Total Liabilities	84,153	125,173	223,884	303,101
Net Fixed Assets	45,345	64,055	163,855	235,528
Goodwill	—	—	—	—
Investments	9,837	20,229	22,471	22,989
Net Current Assets	20,178	34,929	35,058	42,083
<i>Cash & Equivalents</i>	<i>9,905</i>	<i>9,628</i>	<i>9,684</i>	<i>9,287</i>
<i>Other Current Assets</i>	<i>41,605</i>	<i>60,411</i>	<i>67,809</i>	<i>79,183</i>
<i>Current Liabilities</i>	<i>31,331</i>	<i>35,110</i>	<i>42,435</i>	<i>46,387</i>
Other Assets	8,793	5,959	2,500	2,500
Total Assets	84,153	125,172	223,884	303,100

Quarterly Financials (Rs m)

Y/e March	Q3FY10	Q4FY10	Q1FY11	Q2FY11
Net Revenue	16,107	23,296	21,256	20,417
EBITDA	2,978	5,867	5,954	4,166
% of revenue	18.5	25.2	28.0	20.4
Depr. & Amortization	378	2,440	1,551	1,703
Net Interest	569	1,861	1,567	1,754
Other Income	345	1,152	(108)	725
Profit before Tax	2,171	2,718	2,577	1,341
Total Tax	859	1,201	353	378
Profit after Tax	1,312	1,517	2,224	704
Adj. PAT	1,312	1,517	2,224	704

Key Operating Metrics (Rs m)

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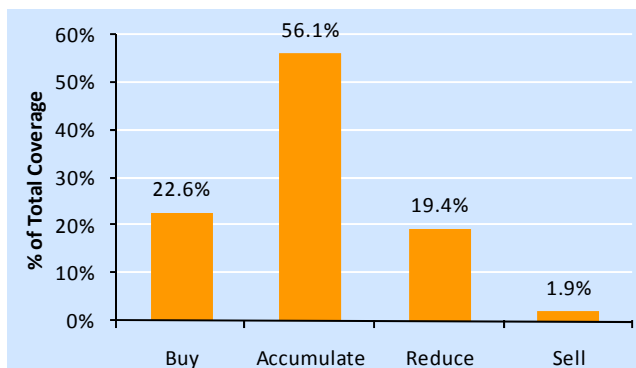
Source: Company Data, PL Research.

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BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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