Utilities
India

HSBC Global Research

Indian Power

Operational parameters will be closely monitored as capacities come on stream

Indian power stocks under HSBC coverage – rating and target price summary

Company	BBG ticker	Rating	New TP (INR)	Old TP (INR)	Price (INR)	Diff to TP
Large caps						
Power Grid	PWGR IN	OW	140	130	101	38.3%
NTPC	NTPC IN	N	172	172	148	16.6%
Tata Power	TPWR IN	N (V)	114	114	94	21.3%
Adani Power	ADANI IN	UW (V)	51	75	50	1.0%
Mid caps						
PTC	PTCIN IN	OW (V)	83	90	51	63.5%
CESC	CESC IN	OW	375	475	261	43.8%
Lanco Infra	LANCI IN	N (V)	14.5	13.7	12.0	20.8%
Hydro						
NHPC	NHPC IN	OW	24	24	18	31.5%
JPVL	JPVL IN	OW	50	50	37	35.3%

Note: No rating changes across the sector, except for adding volatility flags to Adani Power and PTC
Source: HSBC estimates; Price as at close 14 May 2012

17 May 2012

Arun Kumar Singh*
Senior Analyst, Indian Power Utilities
HSBC Securities and Capital Markets (India) Private Limited
+91 22 2268 1778 arun4kumar@hsbc.co.in

Murtuza Zakiuddin*
Associate
Bangalore

- **Capacity addition concerns recede but operational parameter concerns increase**
- **Margins and earnings stress to persist during FY13, bounce back only in FY14**
- **Power Grid with high capacity and lower operational risk remains our top pick; we also like NHPC, JPVL, CESC, PTC**

Capacity addition concerns recede but lowest ever PLF and PAF increase investor concerns about margins. Private sector-led record capacity addition of 33GW in FY11-12 has considerably reduced investor concerns about capacity**.** However a sharply reduced PLF and PAF (plant load and availability factor) for both public and private generators (lowest since FY07) is a matter of concern and we believe has greatly eroded margins and profitability. The operational weakness was most acute for the newest projects, while a drop in operating levels was sharper for private companies with less visibility on coal supply.

We expect the top line as well as margins to remain under pressure during FY13 due to operational stress. Two major utilities (NTPC and Adani Power) reported a lower than expected top line and much lower margins due to operational stress. We expect the same story to be repeated for most of the utilities, except Power Grid, NHPC and JPVL. We believe operational performance will remain stressed for most of FY13 as demand and supply side pressure is likely to persist; we expect a bounce-back only in FY14 (see page 7).

Prefer companies with growth and lower operational risk. In the current scenario we prefer companies that will show strong top line growth in FY13-14 but are not impacted by fuel supply constraints; these are Power Grid, NHPC and JPVL. We also like companies that show a significant improvement in other parameters; we like PTC which is likely to see recovery of its receivables and CESC which is likely to see a big reduction in losses from its retail business. We lower our net profit estimates and target price for Adani, PTC and CESC, while increasing for Power Grid and Lanco. Our net profit estimates for the sector are 1-3% lower versus consensus for FY13-14 while 4-5% ahead for Power Grid.

HSBC

1. Indian power stocks under HSBC coverage – Investment summary, risks, investor concerns and our view

Company	Investment case	Risks	Key investor concern	Our view
Large caps				
Power Grid	1. Limited competition and least operational risk in the power space with no fuel risk	1.Downside risks are longer-than-expected delays in commissioning of projects	1.Capacity addition may not accelerate as guided	1.Company has significant capital work in progress which will convert into assets in next 2-3 years
OW, TP INR140	2. Accelerated capacity addition to drive regulated equity growth at 23% CAGR over FY13-14 providing strong EPS CAGR of 16% over FY13-14. The growth is expected to sustain until FY17 with equity base increasing by 2.5x, ensuring EPS growth of 14%+ over FY15-17 3. PGCIL is trading at lower end of its PB (1.8x vs range of 1.6-3.3x) and PE (13.0x vs range of 12-26x), 20-25% below its historical average offering value Our DCF-based target price implies FY14 PE of 15.3x and PB of 2.1x which is at the mid range of its historical trading range	2. Downside risks are a potential default by SEB and a reduction in regulated returns		2.Company has already ordered 56% of its capex to be incurred in the next plan
NTPC	1. 37GW of operating assets, some of which is facing fuel issues, still better than private IPPs, regulated model limits downside	1. Upside risks from profits from captive coal mines	1. Slippage in capacity addition and outlook weak on operational parameters	1. Agree and remain cautious, low valuation supports downside from current level
N, TP INR172	2. Operating parameters like PLF & PAF will continue to be under pressure for next 2 years impacting revenue and earnings growth 3. Moderate EPS growth of 4% in FY13, 10% in FY14, trading at low valuations given weak outlook - PE of 12.0x (range of 12-28x) and PB of 1.5x (1.5-4.0x), 30-36% below its historical average	2. Downside risks include non-availability of fuel beyond our current expectations		
Tata Power	1. Strong performance track record in both power generation and distribution business and high level of management credibility	1. Upside risk is a tariff hike accepted by customers of Mundra.	1. Mundra is loss making and no growth triggers in terms of new capacity addition over next 3-4 years	1. Agree and remain cautious, low valuation supports downside from current level
N(V), TP INR114	2. Coal business been the main driver of earnings growth in last few years but it will increasingly be neutralized by losses at Mundra	2. Downside risks include higher-than-expected mining costs, a proposed tax on coal imposed by Indonesian government further increasing losses at Mundra		
	3. Mundra project losses will peak in FY15 and unless the project gets a tariff relief will remain a major overhang for the stock 4. Moderate EPS growth at 8.8% CAGR over FY13-14e, trading at low valuations given weak outlook - PE of 11.2x (range of 6-48x) and PB of 1.4x (1.1-4.7x), 38-40% below its historical average			
Adani Power	1. Strong capacity addition in FY11-12 with operational assets of 4.6GW increasing to 6.6GW by end FY13	1. Upside risk is a tariff hike accepted by customers of Mundra and Tiroda	1. Low realisation, losses in last two quarters, high fuel costs, depreciating currency, loss making PPA	1. We factor in these risks and do not see issues resolving in next one year
UW(V), TP INR51	2. Utilisation levels are low due to transmission bottlenecks, fuel constraints, few loss making sales contracts, issues unlikely to resolve in next few quarters and will remain an overhang on the stock 3. Strong growth on low base, trading at low valuations given weak outlook - PE of 7.6x (range of 7-45x) and PB of 1.3x (1.3-4.1x), 54-55% below its historical average			

Source: HSBC estimates

HSBC

1. Indian power stocks under HSBC coverage – Investment summary, risks, investors concerns and our view

Company	Investment case	Risks	Key investor concern	Our view
Mid caps				
PTC	1. Worst is behind us and PTC is likely to offer strong volume growth over next two years - CAGR of 25%	1. Downside risk is lower than expected volume	1. Significant investable cash surplus locked with two customers who may default	1. One of its customers TN has already raised tariffs and is likely to pay to PTC over next quarter (2QFY13). The company expects UP to start paying the following quarter
OW(V), TP INR83	2. Company to receive bulk of outstanding receivables (INR11bn, c70% of its market cap) by 2QFY13 removing an overhang on the stock			2. We do not expect any risk of default and recovery of dues over next 1-2 quarters should act as a catalyst for stock price movement
	3. Strong EPS growth of 40% CAGR in FY13-14e, trading at lowest valuations on concerns which are likely to abate in our view - PE of 11.7x (range of 7-58x) and PB of 0.6x (0.4-8.5x), 46-66% below its historical average			
CESC	1. One of four private distribution companies in India with a good track record, doubling its generation capacity by end FY14, to accelerate earnings growth in FY15 to c40%	1. Downside risk is higher than expected losses in the retail business	1. Retail business using up cash generated by the power business	1. The reduction in loss in the retail business, company strategy focusing on high margin large stores should help further reduction in loss. Retail losses to reduce significantly to 6% of its power business by FY14e from 40% in FY11
OW, TP INR375	2. Retail losses to reduce significantly to 6% of its power business by FY14e from 79% in FY09 (was c40% in FY11), removing overhang on the stock 3. EPS growth at 16% CAGR in FY13-14e accelerating to 40% in FY15e, trading at lowest valuations - PE of 5.9x (range of 5-26x) and PB of 0.6x (0.4-2.5x), 44-46% below its historical average	2. Downside risks are execution and fuel risks for power projects under development		
Lanco Infratech	1. 3.9GW of operational power projects is expected to show improved operational performance and 58.5% pa EPS growth over FY13-14	1. Upside risks include a faster-than-expected ramp up in production at Griffin Coal	1. Below par operational performance of power plants, high debt, loss making Griffin business with huge debt burden as well as property development business	1. Stock price adequately reflects these concerns, operation at the power plants is improving and likely to sustain. Huge debt at Griffin and property business to remain an overhang on the stock
N(V), TP INR14.5	2. Huge debt at Griffin coal remains the single largest overhang on the stock; high net debt to equity at 5.2x	2. Downside risks include higher-than-expected interest rates, equity dilution, and any litigation-related costs due to the Pedarman case		
	3. Strong EPS growth at 58% CAGR in FY13-14e, albeit on a low base, but overhang to remain, trading at low valuation supports further downside - PE of 6.6x (range of 3-32x) and PB of 0.5x (0.4-7.2x), 43-78% below its historical average			

Source: HSBC estimates

1. Indian power stocks under HSBC coverage – Investment summary, risks, investors concerns and our view

Company	Investment case	Risks	Key investor concern	Our view
Hydro companies				
NHPC	Largest hydro company in India with operational assets of 5.2GW, all on regulated long-term contracts earning stable returns with low operational risks	1. Downside risks being higher than expected delay in completion of projects	1. Further project delays beyond company's control	1. Stock price reflects these risks, company is likely to add 1.1GW of capacity over next two years after a lull in last four years improving its ROE by 21% over next three years to 8.9%
OW, TP INR24	Slow capacity additions, low ROE resulted in stock underperformance and lower multiples. Things to improve with capacity addition of 1.1GW in next two years, ROE to improve by 21% to 8.9% by FY15e We expect to see EPS grow 8.5% in FY13 and 16% in FY14. Trading at low valuations - PE of 12.2x (range of 8-71x) and PB of 1.7x (1.0-9.0x), 37-56% below its historical average			
JPVL	Largest private hydro company with operational assets of 1.7GW, expanding into thermal with 3.8GW of new capacity by FY16e - better placed than peers to manage coal supply concerns	1. Downside risks include equity dilution, or the company is unable to raise equity or debt to support project expansion, resulting in delays in existing projects or stalling of new projects	1. High leverage and non-approval of development of coal blocks for Nigrie power project	1. Stock price reflects these risks, large operational hydro capacity protects downside, while clearance of the captive coal block would provide key catalyst
OW, TP INR50	Earnings to grow at 80% CAGR in FY13-14e as new capacity comes on, cash flow in FY13e for equity investment remains the risk			

Source: HSBC estimates

2. Indian power stocks under HSBC coverage - peer valuation sheet

Company	Ticker	CMP	TP	Diff	Rating	Mcap	PE (x)			Net profit CAGR	PB (x)			ROE		
		INR	INR	to TP		(USDm)	FY12e	FY13e	FY14e	FY13-14e	FY12e	FY13e	FY14e	FY12e	FY13e	FY14e
Large caps																
Power Grid	PWGR IN	101	140	38%	OW	7,902	14.8	12.7	11.0	17%	2.0	1.8	1.6	14%	15%	15%
NTPC	NTPC IN	148	172	17%	N	22,553	13.1	12.6	11.4	7%	1.6	1.5	1.4	13%	13%	13%
Tata Power	TPWR IN	94	114	21%	N (V)	4,136	12.4	10.7	10.5	11%	1.8	1.5	1.4	14%	14%	13%
Adani Power	ADANI IN	50	51	2%	UW (V)	2,027	na	11.4	12.0	nm	1.8	1.5	1.4	-1%	14%	12%
Mid caps																
PTC India	PTCIN IN	51	83	64%	OW (V)	278	9.0	6.5	4.6	40%	0.6	0.6	0.5	7%	9%	11%
CESC	CESC IN	261	375	44%	OW	604	8.0	7.5	6.0	15%	0.6	0.6	0.6	8%	8%	9%
Lanco Infra	LANCI IN	12.0	14.5	21%	N (V)	536	10.3	6.7	4.1	59%	0.6	0.5	0.5	6%	8%	12%
Hydro																
NHPC	NHPC IN	18	24	32%	OW	4,163	11.2	10.3	8.9	12%	0.8	0.8	0.7	7%	8%	8%
JPVL	JPVL IN	37	50	35%	OW	1,798	25.4	12.6	7.9	81%	2.4	2.0	1.6	10%	17%	22%
Total avg - weighted							**12.9**	**12.0**	**10.7**	**13.4%**	**1.6**	**1.5**	**1.3**	**12%**	**13%**	**13%**

Source: HSBC estimates, Bloomberg, Price as at close of 14 May 2012

Shifting investor focus

- Investors to focus more on operational parameters as capacity addition fears reduce after high capacity addition in FY11-12
- Coal supply constraint led to an unexpected drop in PLF (plant load factor) and PAF (plant availability factor) in FY12; we expect fuel pressure to reduce only in FY14
- Companies with growth and least operational risks are our preferred picks (Power Grid, NHPC and JPVL); mid-caps like PTC and CESC are other value stocks

Investors likely to focus more on operational parameters

Utility sector companies have, by and large, underperformed during the past year (an exception being Power Grid). We believe the main reason for the underperformance has been concerns about the poor financial health of the state distribution companies, as well as the pressure on fuel supply. While initially there was scepticism about the capacity additions, this gradually reduced as we saw unprecedented capacity added over the last two years, both in the generation and transmission segments.

We expect investors to continue to focus on operational parameters as they have performed poorly in the current year. While we expect the demand side issues (e.g. state financial health) to improve, fuel supply-related operational pressure should continue during FY13 despite intervention by the Prime Minister's office on the issue (refer to *Indian power and coal – New supply deal won't hurt Coal India*, dated 3 May 2012).

Our top pick is Power Grid, with least operational risk (no fuel risk), 44% capacity addition during FY11-12, and capacity estimated to grow at a 23% CAGR over FY13-14 resulting in EPS growing at a 16% CAGR over the same period. We also like NHPC and JPVL, which have hydro projects without any fuel risks, plus expected good capacity addition in FY13-14. We believe mid-caps like CESC and PTC that saw price corrections over the past year (mainly due to other business concerns) are trading at attractive valuations and could provide a good potential return.

Initial concerns on capacity addition to reduce significantly after record capacity addition in FY12

We expect that a record 22% increase in generation capacity during FY11-12 to reduce initial concerns about capacity addition. 20GW of capacity was added during FY12 (18.5GW of this capacity was thermal) and 11.3GW was added in FY11. Power Grid added 44% capacity in the two years ended FY12. The bulk of the capacity addition has come from private power companies (refer Table 3).

3: India coal capacity installed over 11th Five-year Plan

Installed capacity (MW)	FY08	FY09	FY10	FY11	FY12	YoY %
Central	26,525	27,275	29,015	32,505	36,825	13.3%
State	39,912	40,672	43,177	44,987	47,987	6.7%
Private	4,350	4,850	7,395	11,955	22,789	90.6%
Total coal	**70,787**	**72,797**	**79,587**	**89,447**	**107,601**	**20.3%**
y/y		**2.8%**	**9.3%**	**12.4%**	**20.3%**	

Source: CEA

Closely monitor operating parameters post poor performance in FY12

We believe investors will start to monitor operating parameters more closely as these could suppress margins and hence impact earnings (refer Exhibits 4-5).

PLF and PAF dropped sharply in last two years. Demand as well as supply side pressure caused a sharp drop in the operating performance of new power plants, which also saw a marginal drop in the operational performance of existing power plants.

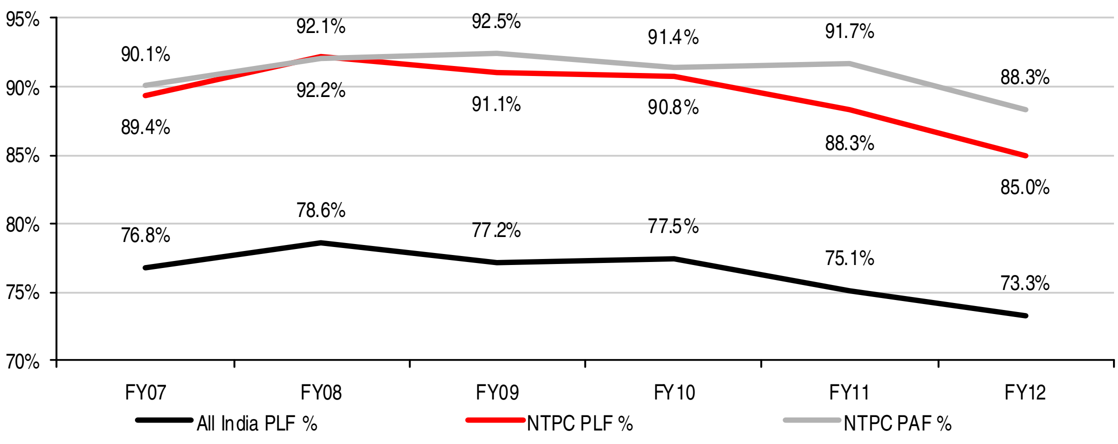
The result was a sharp 2ppt drop in the PLF of power plants at an all-India level and an average 16ppt drop in the PLF for private sector plants. While NTPC reported a 3.4ppt decline in PAF, we estimate the PAF drop for the private power plants will be even sharper. PAF drop is mainly attributable to two factors: lack of fuel supply or non-readiness of evacuation lines for new power projects. We expect this to result in lower than expected revenue growth and margin compression for utilities.

While we expect a q-o-q improvement in 4Q performance for most companies, performance is poor across the board on a y-o-y basis.

We expect improvement from FY14 as fuel and demand pressure ease

We expect a significant improvement from FY14 for several reasons, such as consumer tariff revisions by the states and increasing pressure on Coal India to supply coal to projects with approved linkage. However, the Central Electricity Authority (CEA) forecasts only 5% growth yoy in generation for FY13 after a 13% increase in capacity addition in FY12 and 10% expected in FY13. Hence despite the new fuel supply agreement (FSA) being signed by Coal India for projects coming up in FY10-15e, we do not expect coal supply or demand pressure to ease significantly during FY13. Improvements are likely to be gradual; we expect them to become apparent in FY14 as capacity added in FY10-13 becomes operational and shows a better performance after easing of supply and demand constraints.

4. NTPC PLF compared to all-India and its PAF



Source: CEA, NTPC

5. All-India capacity, generation and PLF details by sector and fuel mix – Growth in thermal generation in FY12 has been moderate despite strong capacity addition

Effective capacity (MW)	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12	yoy %	FY11	FY12	yoy %
Central	38,492	38,982	40,122	40,747	41,747	43,432	44,567	46,317	14%	40,747	46,317	14%
State	49,917	49,938	50,733	50,733	50,733	51,838	52,088	54,134	7%	50,733	54,134	7%
Private - IPPs	11,688	13,351	15,976	16,183	17,218	19,039	22,147	26,528	64%	16,183	26,528	64%
Private - Utilities	3,865	3,865	3,865	3,865	3,865	3,865	3,865	3,865	0%	3,865	3,865	0%
Total - Thermal	**103,962**	**106,136**	**110,696**	**111,527**	**113,562**	**118,174**	**122,667**	**130,844**	**17%**	**111,527**	**130,844**	**17%**
Nuclear	4,560	4,560	4,560	4,780	4,780	4,780	4,780	4,780	0%	4,780	4,780	0%
Hydro	36,953	37,328	37,367	37,467	37,856	38,706	38,748	38,990	4%	37,467	38,990	4%
Grand Total	**145,475**	**148,024**	**152,623**	**153,775**	**156,199**	**161,660**	**166,195**	**174,614**	**14%**	**153,775**	**174,614**	**14%**

Generation (MU)	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12	yoy %	FY11	FY12	yoy %
Central	69,355	64,622	67,833	71,969	68,703	65,000	70,266	75,894	5%	273,779	281,036	3%
State	69,864	60,492	71,762	78,317	75,103	64,120	77,088	80,389	3%	280,435	296,929	6%
Private - IPPs	19,826	19,056	20,841	24,119	25,285	23,485	27,392	28,906	20%	83,843	104,822	25%
Private - Utilities	7,433	6,801	6,344	5,747	6,819	6,440	6,570	5,999	4%	26,325	26,019	-1%
Total - Thermal	**166,479**	**150,972**	**166,780**	**180,151**	**175,910**	**159,045**	**181,316**	**191,187**	**6%**	**664,382**	**708,806**	**7%**
Nuclear	5,252	5,627	6,975	8,412	7,892	8,123	7,352	8,475	1%	26,266	32,287	23%
Hydro	27,723	37,601	24,845	24,088	32,202	47,895	27,616	23,030	-4%	114,257	130,511	14%
Bhutan Imp	1,053	3,055	1,251	251	1,032	2,961	1,064	228	-9%	5,611	5,285	-6%
Grand total	**200,507**	**197,256**	**199,851**	**212,903**	**217,036**	**218,024**	**217,348**	**222,921**	**5%**	**810,516**	**876,888**	**8%**

PLF %	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12	yoy %	FY11	FY12	yoy %
Central	86.6	80.0	83.4	91.2	84.1	75.8	80.7	87.8	-343	85.1	82.1	-300
State	67.6	57.2	67.3	75.1	70.8	58.3	69.8	74.0	-109	66.7	68.0	128
Private - IPPs	91.3	76.0	81.8	87.8	78.6	67.2	67.6	72.4	-1,542	83.5	67.3	-1,620
Private - Utilities	87.4	78.7	73.8	67.7	80.4	74.8	79.3	70.9	320	76.7	76.2	-51
Total - Thermal	**76.7**	**67.8**	**74.3**	**81.6**	**76.7**	**66.6**	**73.8**	**78.0**	**-366**	**75.0**	**73.3**	**-165**

Source: CEA, Note: PLF for thermal stations is for coal/lignite based stations only

6. Indian power stocks under HSBC coverage - operational and financial summary for FY11-12e

Company	Capacity (MW)			Generation (MU)			Sales (INRm)			EBIDTA (INRm)			Margins			Net profit (INRm)		
	FY11	FY12e	yoy%	FY11	FY12e	yoy%	FY11	FY12e	yoy%	FY11	FY12e	yoy%	FY11	FY12e	bps yoy	FY11	FY12e	yoy%
Large caps																		
Power Grid	71,495*	120,000*	68%	na	na	na	83,887	101,430	21%	70,470	84,364	20%	84.0%	83.2%	-83	26,969	31,700	18%
NTPC	34,194	37,014	8%	227,814	233,043	2%	567,553	623,453	10%	134,954	142,493	6%	23.8%	22.9%	-92	88,020	92,652	5%
Tata Power	3,127	4,552	46%	17,112	19,284	13%	194,508	248,826	28%	45,964	58,531	27%	23.6%	23.5%	-11	17,451	17,950	3%
Adani Power	1,980	4,620	133%	7,586	13,721	81%	21,352	39,664	86%	12,205	12,488	2%	57.2%	31.5%	-2,567	5,136	-920	nm
Mid caps																		
PTC	na	na	na	24,874#	24,692#	-1%	90,944	87,700	-4%	1,492	1,693	14%	1.6%	1.9%	29	1,660	1,670	1%
CESC	1,225	1,225	0%	8,757	9,049	3%	49,425	58,797	19%	7,525	9,922	32%	15.2%	16.9%	165	2,996	4,058	35%
Lanco Infra	2,687	3,887	45%	10,114	13,698	35%	77,430	115,841	50%	18,497	26,907	45%	23.9%	23.2%	-66	4,461	2,803	-37%
Hydro																		
NHPC	5,254	5,254	0%	21,802	21,970	1%	51,437	52,908	3%	36,311	38,634	6%	70.6%	73.0%	243	16,693	20,017	20%
JPVL	700	1,700	143%	3,490	5,896	69%	7,369	15,537	111%	6,560	14,091	115%	89.0%	90.7%	167	1,746	3,320	90%
Total – Power generators	**49,167**	**58,252**	**18%**	**296,675**	**316,662**	**7%**	**969,074**	**1,160,629**	**20%**	**262,016**	**302,496**	**15%**	**27.0%**	**26.1%**	**-97**	**136,503**	**139,872**	**2%**
Grand total							**1,143,904**	**1,368,278**	**20%**	**333,977**	**388,671**	**16%**	**29.2%**	**28.4%**	**-79**	**165,132**	**173,242**	**5%**

Note: *For Power Grid capacity addition is in terms of INRm, #For PTC it refers to units traded. Total - Power Generators exclude Power Grid and PTC
Source: Company data, HSBC estimates

Coal consumption another indicator of expectations for PLF and PAF

Coal consumption levels by power utilities are an important indicator to monitor operational performance. Coal India would need to supply 407MT of coal to power utilities in FY13, but in a best-case scenario can supply only 350MT (see *Indian power and coal – New supply deal won't hurt Coal India*, 3 May).

We note that despite 28GW capacity being added between early FY11 and end FY12, coal consumption by the power sector as a whole increased only 21MT (12MT from Coal India and 9MT from imports). Even assuming more coal supply would have come from captive mines in India, this is far shy of the actual requirement which takes additional 110-120MT coal consumption. Gas-based power projects also saw a marginal drop in the supply of gas. Lower fuel consumption by the power sector is clearly reflected in the lower operational performance of plants across the country and even more so by power plants in the private sector.

Hence fuel supply is a key measure of operational expectations which should be monitored for early signs of expected operational performance.

7. Coal dispatches to power utilities in last plan period

MT	FY08	FY09	FY10	FY11	FY12
CIL	280	297	299	304	312
SCCL	30	30	34	33	37
Total	**310**	**327**	**333**	**337**	**349**
growth y/y		5.4%	1.8%	1.3%	3.4%

Source: CIL, SCCL

Top pick is Power Grid

Power Grid has added 44% capacity during FY11-12 and is on track for large capex during FY13-14. We expect the stock to continue to outperform the Sensex; key points of our investment case are listed below:

1 Limited competition and least operational risk in the power space with no fuel risk

2 Accelerated capacity addition to drive the regulated equity growth at a 23% CAGR over FY13-14, underpinning a strong 16% CAGR in EPS over FY13-14e. The growth is expected to sustain until FY17 with the equity base increasing 2.5x, supporting 14%+ EPS growth over FY15-17. Our net profit estimates for FY13-14 are ahead of consensus by 4-5%.

3 PGCIL is trading at the lower end of its PB (1.8x vs range of 1.6-3.3x) and PE (13.0x vs range of 12-26x), 20-25% below its historical average, offering value despite outperformance in the last year.

4 Our DCF-based target price implies FY14 PE of 15.3x and PB of 2.1x, which is at the mid range of its historical trading range.

Mid-cap companies provide higher return albeit with higher risk

Some of mid-cap names like PTC, CESC and JPVL are trading at great discounts to their large-cap peers and do have significant growth potential. We believe these stocks will be the first to bounce bank once the power issues start getting resolved.

However concerns about these stocks have mostly focussed on their non-core businesses. For PTC, non-payment of dues from SEBs (which make up c70% of its market cap) has been an issue, but we expect it to get the bulk of these dues next quarter. For CSEC, concerns have centred around ongoing losses in its retail business and delayed start-up of its new projects. Concerns on JPVL have been its high leverage and captive coal block approval. While we expect these issues to be resolved, the risk of non-resolution is an overhang for these stocks.

Hydro companies set to outperform as next two quarters are seasonally best

We believe hydro companies will do well over the next two years. We have seen the worst hydro project additions over the last five years, especially in government sector companies like NHPC which added only 120MW (since its IPO four years ago). However in the next two years we expect NHPC to add 1,372MW and hence see upside from current levels. JPVL is the largest private sector hydro player with 1,700MW operational projects, and is another company we expect to do well, although all of its new projects will be thermal which have much better visibility on fuel supply. In addition, from a short-term perspective, while 4Q is typically the worst quarter for the hydro sector we expect the next two quarters to be much stronger.

Estimate, rating and target price changes

We lower our net profit estimates and target price for Adani, PTC and CESC while increasing for Power Grid and Lanco. Our ratings are unchanged (but we add the volatility flag to Adani and PTC; see Tables 10-10A).

Our net profit estimates for the sector are 1-3% lower than consensus for FY13-14 while ahead for Power Grid by 4-5% (see Table 11).

8. Indian power stocks under HSBC coverage – price performance over last 3M and 1Y

Company	BBG ticker	Absolute return % 3M	Absolute return % 1Y	Relative to Sensex % 3M	Relative to Sensex % 1Y	Relative to BSE Power Index % 3M	Relative to BSE Power Index % 1Y
Large caps							
Power Grid	PWGR IN	-7%	0%	2%	12%	10%	30%
NTPC	NTPC IN	-19%	-16%	-10%	-3%	-1%	15%
Tata Power	TPWR IN	-10%	-24%	-1%	-11%	8%	7%
Adani Power	ADANI IN	-28%	-56%	-18%	-44%	-10%	-26%
Mid caps							
PTC	PTCIN IN	-10%	-43%	-1%	-30%	7%	-13%
CESC	CESC IN	-4%	-10%	5%	3%	13%	20%
Lanco Infra	LANCI IN	-36%	-65%	-27%	-52%	-19%	-34%
Hydro							
NHPC	NHPC IN	-16%	-27%	-6%	-15%	2%	3%
JPVL	JPVL IN	-21%	-22%	-11%	-9%	-3%	9%
Indices							
BSE Sensex		-9%	-12%	na	na	8%	18%
BSE Power Index		-17%	-30%	-8%	-18%	na	na

Source: Thomson Reuters Datastream, Price as at close of 14 May 2012

9. Indian power stocks under HSBC coverage – Historical trading PE and PB band based on consensus one-year forward earnings

	Large caps				Mid caps			Hydro	
	Power Grid	NTPC	Tata Power	Adani Power	PTC	CESC	Lanco Infra	NHPC	JPVL
PE (x)									
Average	17.2	17.0	17.9	16.7	21.7	10.5	11.5	27.6	17.0
Min	11.7	12.0	5.5	7.2	7.1	4.7	3.1	8.4	9.2
Max	25.5	28.1	47.5	45.5	58.3	26.4	32.0	71.3	28.6
Current*	12.9	12.0	11.2	7.6	11.7	5.9	6.6	12.2	9.3
PB (x)									
Average	2.3	2.4	2.2	2.9	1.8	1.1	2.3	2.7	1.2
Min	1.6	1.5	1.1	1.3	0.4	0.4	0.4	1.0	0.7
Max	3.3	4.1	4.7	4.1	8.5	2.5	7.2	9.0	1.8
Current*	1.8	1.5	1.4	1.3	0.6	0.6	0.5	1.7	0.8

Source: Thomson Reuters Datastream, *Pricing as at close of 14 May 2012

10. Indian power stocks under HSBC coverage – Changes to estimates summary

Company	Revenue			EBITDA			Net profit				Comments
	FY12e	FY13e	FY14e	FY12e	FY13e	FY14e	FY12e	FY13e	FY14e		
Large caps											
Power Grid	2%	5%	6%	3%	6%	8%	4%	6%	8%	+	Better capacity addition and capex outlook
NTPC	-1%	-2%	-1%	3%	0%	0%	2%	1%	1%	+	Lower rebates and higher other income for FY12, rebates already factored, hence update other income for FY13-14
Tata Power	0%	0%	0%	0%	0%	0%	0%	0%	0%		No change
Adani Power	-21%	-10%	-6%	-44%	-19%	-17%	-113%	-41%	-45%	-	Lower PLF, realisation and higher fuel cost due to FX changes
Mid caps											
PTC	-17%	-13%	-12%	-6%	-3%	-11%	-13%	-9%	-9%	-	Lower volumes and margins
CESC	7%	-7%	na	17%	-27%	na	14%	-36%	na	-	Shifting of project to Fy14 from Fy13
Lanco Infra	-4%	1%	-5%	2%	5%	1%	6%	6%	-9%	+/-	Better PLF and operations in power business for FY12-14 offset by reduction in EPC business and Griffin for FY14
Hydro											
NHPC	0%	0%	0%	0%	0%	0%	0%	0%	0%		No change
JPVL	0%	0%	0%	0%	0%	0%	0%	0%	0%		No change

Source: Company data, HSBC estimates

HSBC

10A. Indian power stocks under HSBC coverage – rating and target price summary

Company	BBG ticker	Rating	New TP (INR)	Old TP (INR)	Price (INR)	Diff to TP
Large caps						
Power Grid	PWGR IN	OW	140	130	101	38.3%
NTPC	NTPC IN	N	172	172	148	16.6%
Tata Power	TPWR IN	N (V)	114	114	94	21.3%
Adani Power	ADANI IN	UW (V)	51	75	50	1.0%
Mid caps						
PTC	PTCIN IN	OW (V)	83	90	51	63.5%
CESC	CESC IN	OW	375	475	261	43.8%
Lanco Infra	LANCI IN	N (V)	14.5	13.7	12.0	20.8%
Hydro						
NHPC	NHPC IN	OW	24	24	18	31.5%
JPVL	JPVL IN	OW	50	50	37	35.3%

Note: No rating changes across the sector, except for adding volatility flags to Adani Power and PTC
Source: HSBC estimates; Price as at close 14 May 2012

11. Indian power stocks under HSBC coverage – HSBC estimates versus consensus summary

INRm	Sales		Net profit	
	FY13e	FY14e	FY13e	FY14e
HSBC estimates				
Power Grid	122,792	145,799	37,046	43,388
NTPC	684,572	737,220	96,585	106,385
Tata Power	295,287	338,670	21,677	22,097
Adani Power	97,703	124,079	9,560	9,145
PTC	131,286	162,098	2,304	3,283
CESC	64,838	77,160	4,353	5,399
Lanco Infra	153,331	170,208	4,283	7,045
NHPC	58,898	71,539	21,717	25,166
JPVL	29,699	43,630	6,793	10,918
Total	**1,638,405**	**1,870,402**	**204,317**	**232,827**
Consensus estimates				
Power Grid	119,220	140,944	35,344	41,532
NTPC	703,780	801,670	99,216	111,176
Tata Power	291,783	332,404	20,264	19,876
Adani Power	103,765	143,928	11,444	19,560
PTC	117,699	165,108	1,923	3,198
CESC	66,926	77,203	4,967	5,081
Lanco Infra	154,077	172,190	4,000	5,338
NHPC	62,736	70,505	23,620	26,370
JPVL	32,066	43,789	6,336	8,855
Total	**1,652,052**	**1,947,741**	**207,114**	**240,986**
% variance				
Power Grid	3%	3%	5%	4%
NTPC	-3%	-8%	-3%	-4%
Tata Power	1%	2%	7%	11%
Adani Power	-6%	-14%	-16%	-53%
PTC	12%	-2%	20%	3%
CESC	-3%	0%	-12%	6%
Lanco Infra	0%	-1%	7%	32%
NHPC	-6%	1%	-8%	-5%
JPVL	-7%	0%	7%	23%
Total	**-1%**	**-4%**	**-1%**	**-3%**

Source: HSBC estimates, Bloomberg for consensus as at close of 14 May 2012

Power Grid

- Accelerated capacity addition to drive regulated equity growth at a 23% CAGR over FY13-14e
- Strong capex during FY13-14 assured as contracts already awarded, however 5% equity dilution likely in FY14
- Stock should continue to outperform the sector; reiterate OW with new INR140 TP (INR130) as we revise estimates and roll over

Investment thesis

Amid the gloom surrounding the generation companies, Power Grid stock has outperformed the Sensex as well as the major utilities stocks over the past year. We think this is due to its strong operating performance over the last few quarters, in terms of capacity addition and capital expenditure. Capacity addition saw a significant acceleration during FY11-12 from a disappointing FY10. Power Grid is likely to add INR120bn of capacity in FY12, equal to what was added over the last 2.5 years. The company is also likely to exceed the capex target of INR550bn for the 11th Plan (FY07-12) as a result of unexpectedly strong capex in FY12. Both capex and capacity addition in FY12 are likely to be well ahead of Street and our expectations by c20-30%.

PGCIL expects 12th Plan (FY13-17) capex of INR1trn to be front-loaded as 56% of tenders are already awarded. We believe the company will beat most estimates by more than 5% over the next two years and report a strong 22-25% CAGR in its regulated equity base with limited downside; thus we remain positive on the stock and reiterate our OW rating with a new target price of INR140.

Since we expect accelerated capex in excess of its current cash and additional free cash flow, we expect the company to raise equity. We have built c5% dilution for FY14 in our valuation. Power Grid could also raise capital through long debt instruments as part of equity contribution during FY13-14.

We expect aggressive capex and capacity addition in FY13-14

Management targets capex of INR200bn pa for FY13-14, ahead of our new estimate of INR185bn pa (from INR138bn). Given a 24-30-month project gestation, we believe this will result in accelerated capacity addition for FY13-14 as the company already had cINR320bn under capital works in progress at end FY12e. This should result in capacity addition of INR135-150bn pa over the next two years, driving growth in revenue and earnings.

During the 12th Plan we expect the company to incur capex of INR1trn (from INR800bn) and capacity addition of INR825bn (from INR685bn).

Capex for 12th Plan (FY13-17) likely to be front-loaded

The company, which has INR1trn in projects for the 12th Plan, has already awarded contracts worth INR560bn, with the work on these projects having either commenced or expected to commence soon. Hence, we foresee front-loading of the 12th Plan capex over the next three years. PGCIL is likely to issue contracts for most of the remaining INR440bn over the next two years.

Regulated equity base likely to increase fast

The company's regulated equity base of INR163bn (end FY12e) is likely to increase to INR250bn by end FY14e.This drives our expectation of net profit growing at a 15.7% CAGR over FY13-14 from a high base in FY12. EPS grew 26% in FY11 and 12% in FY12. We do not see any significant downside risks to our earnings estimates, given the assured return model (15.5% post-tax ROE) once the asset is operational.

4QFY12 preview

We expect Power Grid to report another strong quarter with a net profit of INR9.4bn (up 26% yoy) backed by strong capacity addition in FY11-12e.

12. Power Grid quarterly earnings summary

INRm	4Q12e	yoy%	4Q11	1Q12	2Q12	3Q12
Revenue	32,095	45%	22,108	22,025	22,644	24,666
EBITDA	25,904	39%	18,570	18,455	18,978	21,027
Net profit (adjusted)	9,445	26%	7,485	7,065	7,066	8,123
Segmental revenue						
Transmission	29,470	47%	20,078	20,441	20,416	22,542
Consultancy	1,033	13%	915	561	696	734
Telecom	662	19%	558	454	501	536
Short-term open access	930	67%	558	569	1,031	854

Source: Company data, HSBC estimates

Increase FY12-13 estimates by 4-6% to account for higher capacity addition

We raise our capex and capacity addition forecasts for FY12-13 by 20-30% which results in our revenue and earnings forecasts increasing 4-6%. We introduce FY14 estimates in this note and expect the company to report EPS growth of 15.7% over FY13-14.

13. Power Grid change in estimates summary

	New		Old		% change	
INRm	FY12e	FY13e	FY12e	FY13e	FY12e	FY13e
Capex	178,000	180,000	135,000	135,000	32%	33%
Capacity addition	120,000	135,000	99,689	116,659	20%	16%
Sales	101,430	122,792	99,497	117,374	2%	5%
EBITDA	84,364	102,243	81,755	96,342	3%	6%
PBT	42,881	50,208	41,251	47,521	4%	6%
Net profit	31,700	37,046	30,503	35,072	4%	6%
EPS (INR)	6.8	8.0	6.6	7.6	4%	6%

Source: HSBC estimates

Reiterate OW with a new TP of INR140 (from INR130)

We use DCF to value Power Grid and apply a cost of equity of 11.8% and terminal growth rate of 3% to derive our new target price of INR140 per share. The increase in target price is driven by our increase in estimates and roll over of valuation period to March 2014.

Under our research model, for stocks without a volatility indicator, the Neutral band is 5ppts above and below the hurdle rate for Indian stocks of 11%. Our target price implies a potential return of 38.3%, above the Neutral band; therefore, we are reiterating our Overweight rating. Potential return equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated.

Our target price implies a FY14e PB of 2.1x versus current FY13e PB of 1.8x, and an FY14e PE of 15.3x versus the current FY13e PE of 12.7x.

Risks

Key downside risks include longer-than-expected delays in commissioning of projects. Other risks include a potential default by SEB and a reduction in regulated returns, although both look improbable in the immediate future.

HSBC

Financials & valuation: Power Grid Corp of India

Overweight

Financial statements

Year to	03/2011a	03/2012e	03/2013e	03/2014e
Profit & loss summary (INRm)				
Revenue	83,887	101,430	122,792	145,799
EBITDA	70,470	84,364	102,243	121,171
Depreciation & amortisation	-21,994	-26,496	-32,491	-39,191
Operating profit/EBIT	48,476	57,868	69,752	81,981
Net interest	-17,339	-19,993	-22,659	-25,472
PBT	38,247	42,881	50,208	58,891
HSBC PBT	38,247	42,881	50,208	58,891
Taxation	-11,278	-11,181	-13,163	-15,503
Net profit	26,969	31,700	37,046	43,388
HSBC net profit	26,969	31,700	37,046	43,388
Cash flow summary (INRm)				
Cash flow from operations	44,108	67,893	78,937	93,278
Capex	-135,675	-178,000	-180,000	-190,000
Cash flow from investment	-135,052	-176,250	-178,250	-188,250
Dividends	-7,607	-10,772	-12,119	-14,047
Change in net debt	60,636	119,129	99,432	82,818
FCF equity	-105,564	-115,114	-104,178	-99,104
Balance sheet summary (INRm)				
Intangible fixed assets	0	0	0	0
Tangible fixed assets	638,486	789,990	937,499	1,088,308
Current assets	105,171	88,168	85,550	98,339
Cash & others	36,801	15,012	7,720	16,620
Total assets	757,332	890,082	1,033,224	1,195,072
Operating liabilities	94,612	109,094	123,169	137,758
Gross debt	408,828	506,168	598,308	690,026
Net debt	372,027	491,156	590,588	673,406
Shareholders funds	213,670	234,598	259,525	315,066
Invested capital	612,245	754,051	892,160	1,032,270

Ratio, growth and per share analysis

Year to	03/2011a	03/2012e	03/2013e	03/2014e
Y-o-y % change				
Revenue	17.7	20.9	21.1	18.7
EBITDA	22.1	19.7	21.2	18.5
Operating profit	27.8	19.4	20.5	17.5
PBT	45.6	12.1	17.1	17.3
HSBC EPS	25.8	12.2	16.9	14.6
Ratios (%)				
Revenue/IC (x)	0.2	0.1	0.1	0.2
ROIC	6.2	6.3	6.3	6.3
ROE	14.5	14.1	15.0	15.1
ROA	5.6	5.6	5.6	5.6
EBITDA margin	84.0	83.2	83.3	83.1
Operating profit margin	57.8	57.1	56.8	56.2
EBITDA/net interest (x)	4.1	4.2	4.5	4.8
Net debt/equity	174.1	209.4	227.6	213.7
Net debt/EBITDA (x)	5.3	5.8	5.8	5.6
CF from operations/net debt	11.9	13.8	13.4	13.9
Per share data (INR)				
EPS Rep (fully diluted)	6.10	6.85	8.00	9.17
HSBC EPS (fully diluted)	6.10	6.85	8.00	9.17
DPS	1.75	2.00	2.25	2.50
Book value	46.15	50.67	56.06	65.23

Key forecast drivers

Year to	03/2011a	03/2012e	03/2013e	03/2014e
Capex (INRbn)	136	178	180	190
Capitalisation (INRbn)	71	120	135	150
Regulated Equity (INRbn)	128	164	204	249

Valuation data

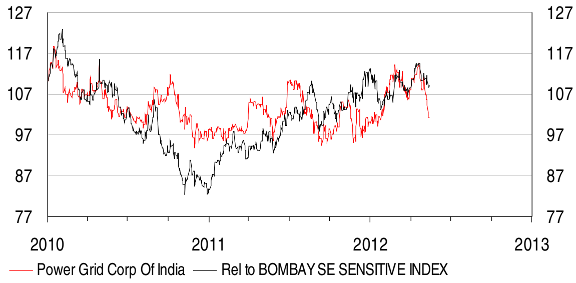
Year to	03/2011a	03/2012e	03/2013e	03/2014e
EV/sales	9.4	8.9	8.2	7.5
EV/EBITDA	11.1	10.7	9.8	9.0
EV/IC	1.3	1.2	1.1	1.1
PE*	16.6	14.8	12.7	11.0
P/Book value	2.2	2.0	1.8	1.6
FCF yield (%)	-25.6	-27.8	-25.0	-23.7
Dividend yield (%)	1.7	2.0	2.2	2.5

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price	(INR)101.25	Target price	(INR)140.00
Reuters (Equity)	PGRD.BO	Bloomberg (Equity)	PWGR IN
Market cap (USDm)	7,902	Market cap (INRm)	426,145
Free float (%)	31	Enterprise value (INRm)	905401
Country	India	Sector	ELECTRIC UTILITIES
Analyst	Arun Kumar Singh	Contact	+9122 22681778

Price relative



Source: HSBC

Note: price at close of 14 May 2012

Tata Power

- Coal business has been the main driver of earnings growth in last few years but will increasingly be neutralized by losses at Mundra
- Mundra project losses to peak in FY15; unless the project gets a tariff relief it will remain a major overhang for the stock
- Most of the negative news is already in the price and we see no growth triggers on the horizon; remain N(V) with INR114 target price

Investment thesis

Tata Power stock has declined 24% and underperformed the Sensex by 11% over the last year, post the announcement of the Indonesian new coal policy. Current policy is likely to increase losses at the 4GW Mundra project. Even those who look at Mundra and the Indonesian coal mine together have found an incremental negative impact on Tata's earnings as a result of the new policy. The company has started talking to its customers, mainly the state government of Gujarat and the central government, but any relief in tariffs is unlikely to come quickly (possibly one year), if at all. Meanwhile, Tata has been keeping Mundra operations such as to ensure minimum losses for the company.

There are other concerns about a possible carbon tax in Indonesia, and a lack of visible growth drivers. We believe these factors will keep the stock range bound. Catalysts for the stock could come from an accretive acquisition, either in India or overseas, or a tariff revision for Mundra. Thus we maintain our Neutral (V) rating on the stock.

Mundra project losses and Indonesian coal policy overhang unlikely to be resolved soon

Mundra project losses and concerns about the Indonesian coal policy being regressive, with more possible bad news, remain. Despite noise on tariff revisions for Mundra, there is little clarity on how these issues will get resolved. We expect the uncertainty to remain until after the Gujarat state elections, scheduled for later in the year, and do not expect any major growth triggers during FY13. However, if Mundra were to receive a tariff increase of 25 paise, our sensitivity analysis shows our target price increasing by c13%.

Moderate growth outlook; capacity additions, other than Mundra, unlikely

Other than Mundra, Tata's ongoing projects are behind initial schedules and unlikely to be operational over the next 3-4 years, thus we do not see any major growth triggers during FY13. One catalyst we see is a value accretive acquisition, either in India or overseas.

4QFY12 preview

Tata Power should report strong 4QFY12 revenue (up 33% yoy) and EBIT growth (up 24% yoy) driven by increased volumes in both power and coal businesses. Revenue growth in the power business will come from the commissioning of Maithon and a unit of Mundra while EBIT growth primarily comes from Maithon as Mundra is expected to be loss making. A c21% increase in coal business volumes should support revenue and EBIT growth of c38%, helped by a yoy depreciating rupee. However the increased capital costs (depreciation and interest) due to the commissioning of new projects as well as increased effective tax rate will result in an estimated net profit decline of 19% yoy to INR5.4bn in 4QFY12.

14. Tata Power consolidated earnings summary

INRm	4QFY12e	yoy %	1QFY12	2QFY12	3QFY12
Capacity (MW)	4,554	46%	3,124	3,229	3,754
Generation (MU)	4,524	28%	3,889	3,890	4,302
Coal sales (MT)	16.9	21%	15.3	17.0	17.5
Coal realisation (USD/t)	88	1%	94	95	95
Revenue	**66,126**	**33%**	**58,245**	**62,823**	**66,599**
- ow Power	40,880	28%	37,203	39,344	39,099
- ow Coal	23,646	38%	19,907	21,672	27,007
EBITDA	15,135	29%	14,234	13,848	15,803
EBIT	**11,517**	**24%**	**11,515**	**10,781**	**12,334**
- ow Power	5,191	37%	6,270	4,622	4,819
- ow Coal	6,266	38%	6,421	5,962	7,126
PBT	8,867	0%	9,230	8,543	8,801
Net profit (Adjusted)	5,376	-19%	3,702	3,725	4,912
Net profit (Reported)			4,304	-11,873	2,980

Source: Company data, HSBC estimates

Remain Neutral (V) with a target price of INR114

We use a sum-of-the-parts (SOTP) methodology to value Tata Power, given the differing risk/reward profiles for its various businesses. Based on our assumptions (see Exhibit 15), we maintain our target price of INR114.

Under our research model, for stocks with a volatility indicator, the Neutral band is 10ppts above and below the hurdle rate for Indian stocks of 11%. At the time we set our target price, it implied a potential return that was within the Neutral band; therefore, we rate the stock Neutral (V). Potential return equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated.

Our target price implies a 1.7x FY14e PB and 12.7x FY14e PE compared to the current FY13e PB of 1.5x and PE of 10.7x.

The outlook for growth in the power business is moderate, while Mundra is expected to be loss-making with some offset provided by the coal business. We expect Tata Power to report a moderate EPS CAGR of 8.8% over FY13-14 and thus we maintain our Neutral (V) rating.

Risks

The key upside risk is a tariff hike accepted by customers of Mundra. **Downside risks** include higher-than-expected mining costs, a proposed export tax on coal imposed by the Indonesian government further increasing losses at Mundra, rupee depreciation, increased interest rates and unfavourable regulatory changes in India or Indonesia.

15. Tata Power consolidated valuation summary and changes

Business	Basis	Value (INRm)	Multiple	% share	Value (INRm)	INR per share	%
Parent company	DCF Basis. WACC of 10.1%, g=3%	84,277		100%	84,277	34	30%
Subsidiaries							
IEL - 240MW	DCF Basis. WACC of 10.1%	8,384		74%	6,204	3	2%
Maithon - 1,050MW	DCF Basis. WACC of 10.1%	17,958		74%	13,289	5	5%
Mundra - 4,000MW	DCF - FCFE Basis. COE of 11.5%	-31,262		100%	-31,262	-13	-11%
NDPL	Regulated Equity	9,351	1.5x	51%	7,154	3	3%
Power Links	Equity base	4,640	1.5x	51%	3,550	1	1%
Tata Power Trading	7.5x on FY14e Earnings	115	7.5x	100%	865	0	0%
Associates/JVs							
Stake in KPC and Arutmin (30%)	DCF Basis. WACC of 10.1%	513,565		30%	154,069	62	55%
Tata BP Solar	8x on FY14e Earnings	739	8.0x	49%	2,897	1	1%
Others							
Investments	Market price/Premium to book	28,410	1.1x	100%	30,509	12	11%
Cash surplus	Consolidated cash net of parent	3,057	1.0x	100%	3,057	1	1%
Total equity value		**639,234**			**274,609**	**111**	**98%**
Projects under development	Value only 1.6GW				6,915	3	2%
Target price					**281,524**	**114**	**100%**

Source: HSBC estimates

Financials & valuation: Tata Power

Neutral (V)

Financial statements

Year to	03/2011a	03/2012e	03/2013e	03/2014e
Profit & loss summary (INRm)				
Revenue	194,508	248,826	295,287	338,670
EBITDA	45,964	58,531	69,231	78,162
Depreciation & amortisation	-9,802	-11,487	-15,788	-20,222
Operating profit/EBIT	36,162	47,044	53,443	57,939
Net interest	-8,684	-13,510	-15,749	-18,738
PBT	33,501	19,574	40,928	42,724
HSBC PBT	29,615	35,687	40,031	41,736
Taxation	-10,940	-16,547	-16,799	-17,675
Net profit	20,596	1,021	21,677	22,097
HSBC net profit	17,451	17,950	21,677	22,097
Cash flow summary (INRm)				
Cash flow from operations	29,040	11,632	34,092	38,451
Capex	-92,321	-33,571	-25,833	-19,835
Cash flow from investment	-90,309	-33,571	-25,833	-19,835
Dividends	-4,165	-6,254	-6,654	-6,798
Change in net debt	64,196	28,192	-15,706	-11,818
FCF equity	-69,735	-7,163	5,922	16,080
Balance sheet summary (INRm)				
Intangible fixed assets	0	0	0	0
Tangible fixed assets	363,533	385,616	395,661	395,274
Current assets	110,928	105,437	128,768	140,869
Cash & others	22,066	14,854	27,154	26,337
Total assets	502,872	520,279	554,553	567,254
Operating liabilities	87,506	87,160	93,263	100,349
Gross debt	247,624	268,604	265,199	252,563
Net debt	225,558	253,750	238,044	226,227
Shareholders funds	131,036	125,803	154,926	170,225
Invested capital	364,890	389,039	404,012	409,457

Ratio, growth and per share analysis

Year to	03/2011a	03/2012e	03/2013e	03/2014e
Y-o-y % change				
Revenue	2.4	27.9	18.7	14.7
EBITDA	19.3	27.3	18.3	12.9
Operating profit	21.5	30.1	13.6	8.4
PBT	10.9	-41.6	109.1	4.4
HSBC EPS	29.7	2.9	16.0	1.9
Ratios (%)				
Revenue/IC (x)	0.6	0.7	0.7	0.8
ROIC	7.6	1.9	7.9	8.4
ROE	14.2	14.0	15.4	13.6
ROA	6.3	1.0	6.2	6.4
EBITDA margin	23.6	23.5	23.4	23.1
Operating profit margin	18.6	18.9	18.1	17.1
EBITDA/net interest (x)	5.3	4.3	4.4	4.2
Net debt/equity	155.4	178.8	137.2	118.0
Net debt/EBITDA (x)	4.9	4.3	3.4	2.9
CF from operations/net debt	12.9	4.6	14.3	17.0
Per share data (INR)				
EPS Rep (fully diluted)	8.68	0.43	8.78	8.95
HSBC EPS (fully diluted)	7.35	7.56	8.78	8.95
DPS	1.25	1.30	1.35	1.40
Book value	55.22	53.02	62.73	68.92

Key forecast drivers

Year to	03/2011a	03/2012e	03/2013e	03/2014e
Capacity Installed (MW)	3,127	4,552	6,677	8,277
Units Sold (MU)	17,758	19,884	33,120	44,854
Coal production (m tons)	17.6	20.0	21.0	22.1
Coal - ASP (USD/ton)	77.5	93.0	95.0	95.0

Valuation data

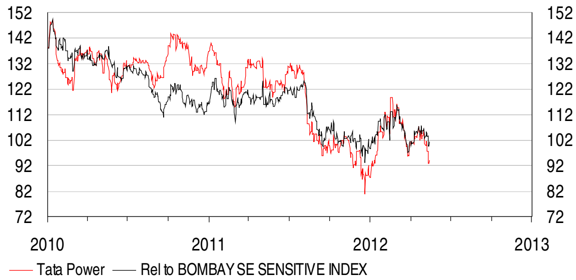
Year to	03/2011a	03/2012e	03/2013e	03/2014e
EV/sales	2.2	1.9	1.5	1.3
EV/EBITDA	9.4	7.9	6.5	5.6
EV/IC	1.2	1.2	1.1	1.1
PE*	12.8	12.4	10.7	10.5
P/Book value	1.7	1.8	1.5	1.4
FCF yield (%)	-33.4	-3.4	2.8	7.5
Dividend yield (%)	1.3	1.4	1.4	1.5

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price	(INR)94.00	Target price	(INR)114.00
Reuters (Equity)	TTPW.BO	Bloomberg (Equity)	TPWR IN
Market cap (USDm)	4,136	Market cap (INRm)	223,069
Free float (%)	67	Enterprise value (INRm)	463742
Country	India	Sector	ELECTRIC UTILITIES
Analyst	Arun Kumar Singh	Contact	+9122 22681778

Price relative



Source: HSBC

Note: price at close of 14 May 2012

NTPC

- NTPC has guided a very bearish capacity addition target for the next five years, despite a large pipeline of projects
- Operating parameters like PLF and PAF should remain under pressure for two years, impacting revenue and earnings growth
- Stock is inexpensive vs historical levels limiting downside; remain Neutral with INR172 target price

Investment thesis

NTPC stock has underperformed in the last year declining 16% compared to the Sensex decline of 12%. Its power plants' operating parameters are under pressure, with both PLF and PAF dropping 330-340bps due to demand and supply pressures impacting profitability. NTPC has had a poor track record of capacity addition during the current plan, adding 9.6GW compared with 19.1GW of coal-based capacity added by the private sector and NTPC's initial target of 22GW.

We do not expect an improvement in the PLF and PAF for NTPC given the fuel pressures – the domestic coal demand-supply mismatch is unlikely to improve in the next 3-5 years. Thus, growth for NTPC will be driven by capacity additions which are likely to be moderate. We remain Neutral as we do not see any strong triggers for the stock in the next year and with the stock at historically cheap levels limiting downside.

Capacity addition unlikely to accelerate in the next few years

NTPC added 9.6GW during the 11th Plan, and we expect the pace of capacity addition to remain at 3.3-3.5GW pa over the 12th Plan and the company to add 17GW in the new plan period. This is due to its poor track record of capacity addition in the past few years as well as increasing fuel pressures. The company has now provided cautious guidance on capacity addition, at 14GW in the 12th Plan versus its earlier expectation of 29GW (of which it expects to add 4.2GW in FY13 and 4.3GW in FY14).

Coal-based capacities in India increased 20% yoy to 108GW in FY12, while domestic coal supplies from Coal India and SCCL (Not listed) to power utilities increased by only 3.5% yoy to 349MT in FY12 impacting the PAF of power generators including NTPC. The coal demand-supply mismatch is unlikely to improve in the next 3-5 years.

Operating parameters remain weak

NTPC has seen a steep decline in its operating parameters due to both demand and supply pressures. PLF fell by c580bps in the last two years while PAF, a good indicator of supply side pressure (read: coal shortage) declined by 340bps in FY12. We expect the operating parameters to continue to be under pressure. This should result in a lower increase in power generation, which we estimate to increase to grow at a 6.8% CAGR, with capacity addition at a 9.2 % CAGR over FY13-14.

Remain Neutral with a target price of INR172

The company reported FY12 figures on 10 May. We largely keep our estimates for FY13-14 unchanged. Net profit of INR92.8bn in FY12, up 8% yoy, was 2% ahead of our estimate largely on higher than expected other income.

We use a DCF methodology to value NTPC and apply a WACC of 10.0% – assuming a cost of debt of 8.0%, cost of equity of 10.9%, beta of 0.9, and terminal growth of 3.5% – to derive our 12-month target price which is maintained at INR172. Under our research model, for stocks without a volatility indicator, the Neutral band is 5ppts above and below the hurdle rate for Indian stocks of 11%. At the time we set our target price, it implied a potential return that was within the Neutral band; therefore, we rate the stock Neutral. Potential return equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated.

Our target price of INR172 implies a FY14e PB of 1.6x versus the current FY13e PB of 1.5x, and an FY14e PE of 13.5x versus the current FY13e PE of 12.6x.

16. NTPC DCF valuation summary

Particulars	INRm	INR per share
Enterprise value	**1,745,509**	**212**
Less: Gross Debt	571,895	69
Add: Cash & bank	185,302	22
Add: Investments	67,059	8
Less: Minorities	4,851	1
Equity value – Total / Target price	**1,421,125**	**172**

Source: HSBC estimates

Key upside risks, in our view, are faster-than-expected execution of projects under construction and upside from profits from captive coal mines. **Downside risks** include non-availability of fuel beyond our current expectations impacting its operations and efficiency gains.

HSBC

Financials & valuation: NTPC

Neutral

Financial statements

Year to	03/2011a	03/2012e	03/2013e	03/2014e
Profit & loss summary (INRm)				
Revenue	567,553	623,453	684,572	737,220
EBITDA	134,954	142,425	149,091	171,422
Depreciation & amortisation	-27,197	-28,345	-35,110	-41,281
Operating profit/EBIT	107,757	114,080	113,980	130,141
Net interest	-17,456	-16,360	-15,723	-16,573
PBT	121,496	126,212	120,842	133,627
HSBC PBT	115,473	126,212	120,842	133,627
Taxation	-27,453	-33,633	-24,257	-27,242
Net profit	94,043	92,578	96,585	106,385
HSBC net profit	88,020	92,578	96,585	106,385
Cash flow summary (INRm)				
Cash flow from operations	100,906	92,410	112,161	139,106
Capex	-137,358	-126,424	-154,543	-145,825
Cash flow from investment	-103,159	-109,910	-138,029	-129,311
Dividends	-31,492	-31,358	-32,982	-34,631
Change in net debt	47,995	54,140	64,457	30,723
FCF equity	-73,171	-62,506	-64,967	-26,779
Balance sheet summary (INRm)				
Intangible fixed assets	7	7	7	7
Tangible fixed assets	897,182	995,261	1,114,693	1,219,237
Current assets	380,453	419,226	461,727	520,190
Cash & others	178,598	188,806	207,171	251,900
Total assets	1,361,215	1,481,553	1,626,972	1,773,464
Operating liabilities	133,385	133,482	138,082	143,255
Gross debt	507,548	571,895	654,718	730,170
Net debt	328,950	383,090	447,547	478,270
Shareholders funds	684,435	740,354	798,351	864,218
Invested capital	965,659	1,092,206	1,231,174	1,344,278

Ratio, growth and per share analysis

Year to	03/2011a	03/2012e	03/2013e	03/2014e
Y-o-y % change				
Revenue	17.4	9.8	9.8	7.7
EBITDA	9.1	5.5	4.7	15.0
Operating profit	13.7	5.9	-0.1	14.2
PBT	10.0	3.9	-4.3	10.6
HSBC EPS	6.6	5.2	4.3	10.1
Ratios (%)				
Revenue/IC (x)	0.6	0.6	0.6	0.6
ROIC	9.3	8.1	7.8	8.0
ROE	13.4	13.0	12.6	12.8
ROA	8.4	7.4	7.0	7.0
EBITDA margin	23.8	22.8	21.8	23.3
Operating profit margin	19.0	18.3	16.6	17.7
EBITDA/net interest (x)	7.7	8.7	9.5	10.3
Net debt/equity	47.7	51.4	55.7	55.0
Net debt/EBITDA (x)	2.4	2.7	3.0	2.8
CF from operations/net debt	30.7	24.1	25.1	29.1
Per share data (INR)				
EPS Rep (fully diluted)	11.41	11.23	11.71	12.90
HSBC EPS (fully diluted)	10.67	11.23	11.71	12.90
DPS	3.80	3.80	4.00	4.20
Book value	83.01	89.79	96.82	104.81

Key forecast drivers

Year to	03/2011a	03/2012e	03/2013e	03/2014e
Installed Capacity (MW)	34,194	37,014	40,334	44,099
Generation - parent (BU)	221	222	233	249
Generation - total (BU)	228	233	248	266

Valuation data

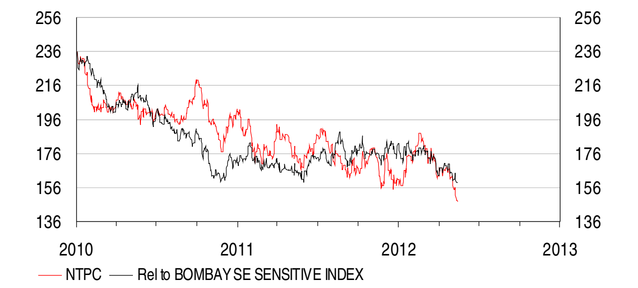
Year to	03/2011a	03/2012e	03/2013e	03/2014e
EV/sales	2.6	2.5	2.4	2.3
EV/EBITDA	10.8	10.8	10.8	9.7
EV/IC	1.5	1.4	1.3	1.2
PE*	13.8	13.1	12.6	11.4
P/Book value	1.8	1.6	1.5	1.4
FCF yield (%)	-6.5	-5.4	-5.6	-2.3
Dividend yield (%)	2.6	2.6	2.7	2.8

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price	(INR)147.50	Target price	(INR)172.00
Reuters (Equity)	NTPC.BO	Bloomberg (Equity)	NTPC IN
Market cap (USDm)	22,553	Market cap (INRm)	1,216,206
Free float (%)	11	Enterprise value (INRm)	1532236
Country	India	Sector	ELECTRIC UTILITIES
Analyst	Arun Kumar Singh	Contact	+9122 22681778

Price relative



Source: HSBC

Note: price at close of 14 May 2012

HSBC

Adani Power

- FY12 was disappointing, with low PLF, high fuel costs and lower realisation resulting in net loss despite strong capacity addition
- Outlook unlikely to improve significantly over next few quarters, reduce EBITDA estimates for FY13-14 by 17-19%, consequently net profit is lower by 41-45%
- Reiterate UW (adding volatility flag) with new INR51 target price (INR75)

Investment thesis

Adani Power increased capacity from 2GW in FY11 to 4.6GW at present, with a further increase to 6.6GW by end FY13e. While in a "business as usual" scenario this should have been a good story, the company currently faces four serious bottlenecks. These are higher than originally estimated fuel costs, rupee depreciation impacting operational costs even further, delays in power evacuation lines, and tariff disputes with its counterpart for two projects at Mundra and Tiroda. In addition, Adani has an unhedged foreign debt exposure of USD1.2bn.

The impact of these bottlenecks was evident in its current year results where the company showed a loss of INR930m compared to INR5.2bn profit in FY11. We have reduced our estimates for the following: operational PLF, recovery on merchant power sale, and exchange rates. Our new estimates reduce our target price and we remain Underweight on the stock as we expect the company to take more than a year to come out of these stressors.

Strong capacity addition but lower utilisation and realisation

The company more than doubled capacity to 4.6GW in FY12 from 2GW in FY11; however, capacity utilisation at these power plants was sub-optimal at 69% versus 85% in FY11 due to transmission bottlenecks, fuel constraints, tariff disputes in a loss-making PPA not encouraging power generation, and stabilisation of new units commissioned in the last two quarters (2GW). Although we expect things to improve from the low base of FY12 as transmission issues get resolved and new units start to stabilise over the next few quarters, it is doubtful that the company will be able to operate its power plants at more than 80% PLF (earlier 80-85%) in the next 1-2 years.

On the other hand, realisation has been lower at INR3.2 per unit in FY12 (INR2.87 in 4Q) compared to incremental fuel cost per unit of INR2.2-2.4 leaving little room for disappointment. This should keep margins and earnings under pressure.

Earnings and stock very sensitive to rupee depreciation and higher cost of imported fuel

The company imports coal for use in its plants at Mundra which is bought in US dollars. The continued rupee depreciation has impacted earnings over the last two quarters. We currently build in an INR-USD rate of 51.75 for FY13 (average of our HSBC analysts' latest quarterly forecast). If the rupee depreciates further, then this would pose a risk to our estimates.

Our analysis suggests that if the rupee depreciates by INR1, this would lower FY13e EPS by INR0.27 (6%) and our target price by INR3 (6%). Further an increase of USD1 per ton for imported coal price would reduce FY13e EPS by INR0.23 (5%) and our target price by INR2.6 (5%).

Earnings also very sensitive to relief on current tariff and higher domestic coal supply, an upside

The company is in dispute for two of its contracts – one with Gujarat for 1GW (15% of FY13e capacity) at INR2.35/unit and another with Maharashtra for 1.32GW (20%) at INR2.64/unit. Any price relief should provide upside – we find a 25 paise hike would result in a 17.5% increase to our FY13 EPS (INR0.77) and 18% increase to our target price (INR9.4). The company expects additional domestic coal supply including reallocation of its captive coal block. However, given the lack of clarity we do not factor this into our estimates.

Cut our FY13-14e EBITDA by 17-19%, net profit by 41-45%

As discussed earlier, we lower our PLF forecasts for FY13-14 to 80% (from 80-85%) as the company grapples with various issues such as transmission, tariff disputes and fuel constraints, which results in a 4-8% decline in volumes for FY13-14. 4Q realisation fell to INR2.9 per unit compared to INR3.5-3.6 in the previous two quarters due to the commencement of sales to Gujarat at INR2.35/unit (1GW loss-making PPA) and lower rates realised by the company in the open market. Accordingly we lower our price assumptions in the open market by INR0.25 per unit to INR3.75, resulting in 6-10% lower revenues for FY13-14. As we factor in rupee depreciation (INR-USD at 51.75 from 50 earlier), fuel cost increases result in 17-19% lower EBITDA. However our net profit estimates are lower by 41-45% as interest and deprecation cost remains unchanged resulting in a steep decline.

17. Adani consolidated changes in estimates summary

	New			Old			Diff		
INRm	FY12	FY13e	FY14e	FY12	FY13e	FY14e	FY12	FY13e	FY14e
Capacity (MW)	3,960	6,600	6,600	3,960	6,600	6,600	0.0%	0.0%	0.0%
PLF %	69%	80%	80%	75%	83%	82%	-7.5%	-3.2%	-2.5%
Volumes (MU)	12,350	31,914	42,553	15,239	34,548	44,278	-19.0%	-7.6%	-3.9%
ASP (INR per unit)	3.21	3.06	2.92	3.31	3.13	2.98	-2.8%	-2.2%	-2.2%
Fuel cost (INR per unit)	1.86	1.50	1.49	1.60	1.40	1.40	16.2%	6.7%	6.4%
Revenue	39,664	97,703	124,079	50,368	108,103	132,024	-21.3%	-9.6%	-6.0%
EBITDA	12,488	42,381	50,248	22,482	52,344	60,228	-44.5%	-19.0%	-16.6%
Depreciation	5,541	11,076	14,744	5,726	11,458	14,744	-3.2%	-3.3%	0.0%
Interest	6,163	19,733	24,832	7,972	20,540	24,898	-22.7%	-3.9%	-0.3%
Other Income	1,190	1,000	1,500	500	1,000	1,500	138.0%	0.0%	0.0%
Taxation	-2,903	-2,579	-2,499	-1,923	-4,328	-4,475	50.9%	-40.4%	-44.2%
Net profit	-929	9,560	9,145	7,261	16,212	16,560	-112.8%	-41.0%	-44.8%
EPS (INR)	-0.43	4.39	4.19	3.3	7.4	7.6	-112.8%	-41.0%	-44.8%

Source: Company data, HSBC estimates

Reiterate UW (adding the volatility flag) with a target price of INR51 (from INR75)

Based on the sum of our DCF valuations for individual projects, our new target price is INR51 (see Table 18 for assumptions).

Under our research model, for stocks with a volatility indicator, the Neutral band is 10ppts above and below the hurdle rate for Indian stocks of 11%. Our target price implies a potential return of 1%, below the Neutral band; therefore, we are reiterating our Underweight (V) rating. Potential return equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated.

Our DCF-based target price implies a FY14e PE of 12.2x and 1.4x PB versus the current FY13 PE of 11.4x and PB of 1.5x.

Key upside risks are any tariff hike relief or lower-than-expected coal costs.

18. Adani Power consolidated SOTP valuation summary

Particulars	Capacity (MW)	WACC	Equity value (INRm)	Stake	New –INR per share	Equity investment	Implied PB (x)	Old – INR per share
Operating plants								
Mundra I&II	1,320	11.0%	32,240	100%	14.8	11,880	2.7	20.0
Mundra III	1,320	11.0%	4,345	100%	2.0	11,592	0.4	8.5
Mundra IV	1,980	11.0%	40,749	100%	18.7	17,920	2.3	23.7
Sub-total	**4,620**		**77,334**		**35.5**	**41,392**	**1.9**	**52.2**
Under construction								
Tiroda	1,980	11.0%	27,037	74%	9.2	18,526	1.5	13.5
Tiroda - Extension @50% discount	1,320	11.0%	9,088	74%	3.1	11,880	1.5	3.5
Kawai - @50% discount	1,320	11.0%	7,514	100%	3.4	11,778	1.3	4.1
Sub-total	**4,620**		**43,639**		**15.7**	**42,184**	**1.0**	**21.1**
Investments			100	100%	0.0	100	1.0	0.0
Net cash (FY12)			0	100%	0.0	0	na	1.6
Grand Total / Target price (rounded)	**9,240**		**121,072**		**51.0**	**83,676**	**1.4**	**74.9**

Source: Company data, HSBC estimates

Financials & valuation: Adani Power

Underweight (V)

Financial statements

Year to	03/2011a	03/2012e	03/2013e	03/2014e
Profit & loss summary (INRm)				
Revenue	21,352	39,664	97,703	124,079
EBITDA	12,205	12,488	42,381	50,248
Depreciation & amortisation	-1,886	-5,541	-11,076	-14,744
Operating profit/EBIT	10,319	6,947	31,306	35,503
Net interest	-2,366	-6,163	-19,733	-24,832
PBT	8,132	1,975	12,573	12,172
HSBC PBT	8,132	1,975	12,573	12,172
Taxation	-3,000	-2,903	-2,579	-2,499
Net profit	5,136	-929	9,560	9,145
HSBC net profit	5,136	-929	9,560	9,145
Cash flow summary (INRm)				
Cash flow from operations	-3,226	2,176	11,396	20,020
Capex	-139,759	-73,577	-71,446	-28,573
Cash flow from investment	-139,859	-73,577	-71,446	-28,573
Dividends	0	0	0	0
Change in net debt	138,275	69,951	58,037	7,880
FCF equity	-136,352	-72,591	-61,050	-10,052
Balance sheet summary (INRm)				
Intangible fixed assets	0	0	0	0
Tangible fixed assets	324,381	392,417	452,788	466,616
Current assets	25,405	24,001	30,804	32,011
Cash & others	12,551	8,710	5,840	2,651
Total assets	349,886	416,518	483,692	498,727
Operating liabilities	33,187	33,187	33,187	33,187
Gross debt	245,027	311,137	366,305	370,996
Net debt	232,477	302,427	360,464	368,345
Shareholders funds	62,873	61,945	71,505	80,649
Invested capital	304,048	374,521	444,565	462,789

Ratio, growth and per share analysis

Year to	03/2011a	03/2012e	03/2013e	03/2014e
Y-o-y % change				
Revenue	391.0	85.8	146.3	27.0
EBITDA	400.6	2.3	239.4	18.6
Operating profit	395.0	-32.7	350.6	13.4
PBT	301.1	-75.7	536.7	-3.2
HSBC EPS	186.7	-118.1		-4.3
Ratios (%)				
Revenue/IC (x)	0.1	0.1	0.2	0.3
ROIC	2.8	-1.0	6.1	6.2
ROE	8.5	-1.5	14.3	12.0
ROA	2.5	-1.0	5.7	6.0
EBITDA margin	57.2	31.5	43.4	40.5
Operating profit margin	48.3	17.5	32.0	28.6
EBITDA/net interest (x)	5.2	2.0	2.1	2.0
Net debt/equity	339.2	437.9	444.7	403.0
Net debt/EBITDA (x)	19.0	24.2	8.5	7.3
CF from operations/net debt		0.7	3.2	5.4
Per share data (INR)				
EPS Rep (fully diluted)	2.36	-0.43	4.39	4.19
HSBC EPS (fully diluted)	2.36	-0.43	4.39	4.19
DPS	0.00	0.00	0.00	0.00
Book value	28.84	28.41	32.80	36.99

Key forecast drivers

Year to	03/2011a	03/2012e	03/2013e	03/2014e
Capacity (MW)	1,980	3,960	6,600	6,600
Unit Sold (MUs)	6,810	12,350	31,914	42,553
PLF %	85.0	69.0	80.0	80.0
Merchant Tariff (INR/unit)	3.7	3.8	3.8	3.8

Valuation data

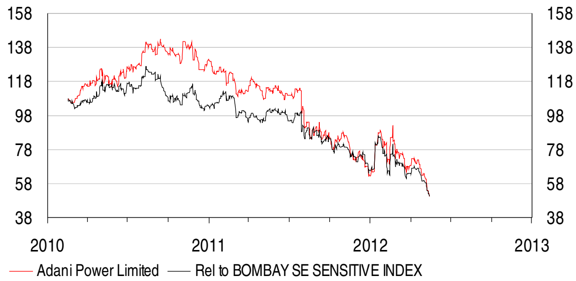
Year to	03/2011a	03/2012e	03/2013e	03/2014e
EV/sales	16.3	10.6	4.9	3.9
EV/EBITDA	28.5	33.5	11.3	9.7
EV/IC	1.1	1.1	1.1	1.1
PE*	21.3		11.4	12.0
P/Book value	1.7	1.8	1.5	1.4
FCF yield (%)	-118.7	-62.4	-51.4	-8.4
Dividend yield (%)	0.0	0.0	0.0	0.0

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price	(INR)50.15	Target price	(INR)51.00
Reuters (Equity)	ADAN.NS	Bloomberg (Equity)	ADANI IN
Market cap (USDm)	2,027	Market cap (INRm)	109,329
Free float (%)	27	Enterprise value (INRm)	418769
Country	India	Sector	INDEPENDENT POWER PRODUCERS
Analyst	Arun Kumar Singh	Contact	+9122 22681778

Price relative



Source: HSBC

Note: price at close of 14 May 2012

PTC

- Worst is behind as volume shrinkage of FY12 and outstanding receivables issues likely to resolve in 1HFY13
- Expect 27% volume growth in FY13 after a flat FY12; part of the outstanding receivables of INR11bn expected back in 1QFY13
- Stock currently trades at FY14e PB of 0.5x and PE of 4.7x; reiterate OW (adding volatility flag) with INR83 target price

Investment thesis

We believe underperformance in the last 6-12 months due to delayed payments from its customers has been far in excess of its actual impact. Two of PTC's largest customers (UP and TN) have not paid their dues totalling cINR11bn (70% of its current market cap) over the last two quarters, which has resulted in the company stopping sales to these customers, thereby lowering sales volume for FY12. Volumes have been flat yoy versus expectations of c12% yoy growth and compared to a 36% CAGR over the last three years. PTC has blocked all of its surplus investable cash into working capital, including resorting to a small loan. Though the pain is likely to be there over the next few quarters, we see encouraging signs of a revival at these customers and PTC should start receiving the payments and volumes should start picking up. We do not foresee any risk of default from these customers. The stock is trading at its lowest multiple and we expect strong EPS growth over FY13-14.

Volumes to pick up in FY13-14e after a flat FY12

After an average 35%+ increase in volumes in FY09-11, PTC is likely to post a flat volume at c25.0bn units in FY12. Volumes are likely to pick up in FY13-14; we expect them to grow at a 24% CAGR over FY13-14 to 38.7bn units due to:

- TN raised tariffs by c37% in April, which will ease its cash flow and payments are expected to flow to PTC in FY13
- UP is in the process of restructuring loans, which should ease its cash flow and improve payments to PTC in FY13
- Volumes from projects commissioned in FY13-14 through long-term PPAs (2.4GW) with incremental volumes of 8.4bn units, one-third of existing volumes.

Margins to improve in FY13-14e

We expect margins to improve from 4.9 paise in FY12 to 5.5 paise in FY14 as the proportion of long-term volumes to overall sales increases.

HSBC

19. PTC standalone quarterly earnings summary

INRm	4QFY12e	yoy %	4QFY11	1QFY12	2QFY12	3QFY12
Volume (MUs)	4,520	-13%	5,191	6,726	8,655	4,564
Gross margin (paise/unit)	4.3	-18%	5.2	4.9	4.3	3.8
Trading income (reported)	392	-10%	434	569	505	281
- ow Rebates and surcharge income	200	22%	164	239	137	108
- ow Trading income	192	-29%	270	330	368	173
Revenue	17,500	-16%	20,788	24,874	23,890	13,300
EBITDA	316	-8%	343	476	444	210
Interest cost	-103	nm	-1	-14	-79	-103
Other income	40	-72%	143	174	140	43
Net profit - adjusted	171	-49%	334	453	356	95
Net profit - reported			335	453	356	95

Source: Company data, HSBC estimates

Improvement in working capital cycle and loan reduction

The company has stopped financing customers through early payments and is working on a back-to-back sale arrangement. This will keep its net working capital under control (receivables less payables) and is likely to improve as payments from TN and UP flow in FY13. This should also help the company to reduce its debt of INR4bn raised in FY12.

4QFY12 preview

We expect PTC to report a 13% yoy volume decline to 4.5bn units in 4Q, which will result in lower trading income of INR192m (-29% yoy). Consequently, PAT will decline to INR171m (-49% yoy) as the company incurs interest cost on its loan while other income will be marginal given a lower cash surplus. We build in rebate/surcharge of INR200m for 4Q which could be higher or lower based on actual receipt of outstanding due during the quarter which is a risk to our estimates.

Reduce FY12-14e by 9-12% on lower volumes in FY12

Sales volume in FY12 is expected to be flat (-0.7% yoy) versus our earlier expectation of 12% growth due to a lack of sales to two of its largest customers in 2H. Accordingly we reduce our volume forecast for FY12 while maintain our growth assumptions for FY13-14 on a lower base, thus volume declines by c10% for FY13-14.

The company earned higher surcharge income in FY12 on late payments from some of its customers which should increase in FY13 as it

20. PTC consolidated earnings change summary

INRm	New			Old			Diff		
	FY12e	FY13e	FY14e	FY12e	FY13e	FY14e	FY12e	FY13e	FY14e
Volume (MUs)	24,692	31,610	38,648	27,846	35,289	43,116	-11.3%	-10.4%	-10.4%
Gross margin (paise/unit)	4.9	5.3	5.5	5.4	5.6	5.7	-10.3%	-5.8%	-4.7%
Trading Income	**1,202**	**1,661**	**2,111**	**1,511**	**1,968**	**2,471**	**-20.5%**	**-15.6%**	**-14.6%**
Add: Rebates and surcharge income	591	681	498	423	480	505	39.8%	41.9%	-1.3%
Total Trading Income	**1,793**	**2,342**	**2,610**	**1,934**	**2,448**	**2,976**	**-7.3%**	**-4.3%**	**-12.3%**
Sales	**87,700**	**131,286**	**162,098**	**106,219**	**150,300**	**185,059**	**-17.4%**	**-12.7%**	**-12.4%**
EBITDA	1,693	2,516	2,867	1,811	2,597	3,205	-6.5%	-3.2%	-10.5%
Other Income	1,298	1,473	2,474	1,298	1,513	2,533	0.0%	-2.7%	-2.3%
Interest	299	254	127	0	0	0	na	na	na
PBT	**2,500**	**3,485**	**4,923**	**2,893**	**3,838**	**5,418**	**-13.6%**	**-9.2%**	**-9.2%**
Tax	721	1,032	1,427	851	1,145	1,585	-15.3%	-9.9%	-10.0%
Net profit	**1,670**	**2,304**	**3,283**	**1,918**	**2,529**	**3,600**	**-12.9%**	**-8.9%**	**-8.8%**
EPS (INR)	5.66	7.81	11.13	6.50	8.57	12.20	-12.9%	-8.9%	-8.8%

Source: HSBC estimates

receives pending payments from TN and UP. We factor in an increase in the rebate and surcharge income, plus the interest cost from the loan raised in Q2. Thus our EPS estimates are lower by 9-13% for FY12-14.

Reiterate OW (adding volatility flag) with a TP of INR83 (from INR90)

PTC had cash and bank balances of INR11.8bn at the end of FY11, which is 76% of its current market cap. Most of this is locked in with two of its largest customers (TN and UP about INR11bn). Though we do not see any risk of default, we expect recovery of these dues over next 1-2 quarters. TN already raised tariffs in April 2012, while UP is yet to do the same. The company expects dues from TN to be received by 2Q and those from UP likely to come in the following quarter. Since the company had to resort to a small amount of borrowing to meet its working capital needs, we have excluded cash and current investments from our valuation.

We use a sum-of-the-parts (SOTP) methodology to value PTC, given the different risk-reward profiles for different businesses. Based on our assumptions, our new target price is INR83 (from INR90). The reduction in target price is largely on account of our reduction in volumes in the trading business.

Under our research model, for stocks with a volatility indicator, the Neutral band is 10ppts above and below the hurdle rate for Indian stocks of 11%. Our target price implies a potential return of 63.5%, above the Neutral band; therefore, we are reiterating our Overweight rating (adding the volatility flag). Potential return equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated.

Our new TP implies a FY14e PB of 0.84x and PE of 7.5x versus current FY13 PB of 0.60x and PE of 6.5x.

Downside risks include delays in projects on which power purchase agreements (PPAs) have been signed, which could affect the outlook for long-term volume, and the renegotiation of PPAs by developers, which could affect margins.

21. PTC consolidated valuation summary

Business	Method	Multiple	Value (INRm)	INR per share (New)	Book value	Implied PB (x)	%	INR per share (Old)
Trading Business	DCF	WACC of 11.8%	15,815	54		Implied PE of 9.5x FY14 income	65%	60
Power Exchange	PE	25x	592	2	163	3.6	2%	2
Investments								
Investments - Subs/Associates	PB	1.20	3,995	14	3,329	1.2	16%	14
Investments - PFS	PB	1.00	5,169	18	5,169	1.0	21%	18
Sub total investments			**9,165**	**31**	**8,499**	**1.1**	**37%**	**31**
Investments - Current	PB	1.00	0	0	2,755	0.0	0%	0
Cash and bank balances	PB	1.00	0	0	11,883	0.0	0%	0
Debt (net of loan financing)		1.00	-1,057	-4	-1,057	na	-4%	-4
Total			**24,514**	**83**	**22,243**	**1.1**	**100%**	**90**

Source: HSBC estimates

Financials & valuation: PTC India

Overweight (V)

Financial statements

Year to	03/2011a	03/2012e	03/2013e	03/2014e
Profit & loss summary (INRm)				
Revenue	90,944	87,700	131,286	162,098
EBITDA	1,492	1,693	2,516	2,867
Depreciation & amortisation	-105	-58	-58	-58
Operating profit/EBIT	1,387	1,636	2,458	2,809
Net interest	0	-299	-254	-127
PBT	2,501	2,500	3,485	4,923
HSBC PBT	2,501	2,500	3,485	4,923
Taxation	-733	-721	-1,032	-1,427
Net profit	1,660	1,670	2,304	3,283
HSBC net profit	1,660	1,670	2,304	3,283
Cash flow summary (INRm)				
Cash flow from operations	-848	-11,335	2,140	2,012
Capex	0	0	0	0
Cash flow from investment	-1,241	522	1,569	2,610
Dividends	-514	-514	-514	-514
Change in net debt	3,159	13,856	792	-3,923
FCF equity	-727	-10,901	2,586	2,373
Balance sheet summary (INRm)				
Intangible fixed assets	0	0	0	0
Tangible fixed assets	683	625	568	510
Current assets	22,663	30,274	35,182	39,497
Cash & others	11,883	4,981	7,811	10,293
Total assets	40,673	51,900	60,992	65,561
Operating liabilities	6,722	9,661	13,096	15,989
Gross debt	5,699	12,652	16,275	14,834
Net debt	-6,184	7,672	8,464	4,540
Shareholders funds	23,445	24,601	26,390	29,159
Invested capital	4,742	16,258	14,843	13,725

Ratio, growth and per share analysis

Year to	03/2011a	03/2012e	03/2013e	03/2014e
Y-o-y % change				
Revenue	16.6	-3.6	49.7	23.5
EBITDA	111.2	13.5	48.6	14.0
Operating profit	113.2	17.9	50.3	14.3
PBT	47.8	0.0	39.4	41.3
HSBC EPS	54.0	0.9	37.9	42.5
Ratios (%)				
Revenue/IC (x)	22.9	8.4	8.4	11.3
ROIC	24.6	11.1	11.1	14.0
ROE	7.4	7.0	9.0	11.8
ROA	5.0	4.3	4.7	5.7
EBITDA margin	1.6	1.9	1.9	1.8
Operating profit margin	1.5	1.9	1.9	1.7
EBITDA/net interest (x)		5.7	9.9	22.5
Net debt/equity	-22.4	26.5	27.4	13.3
Net debt/EBITDA (x)	-4.1	4.5	3.4	1.6
CF from operations/net debt			25.3	44.3
Per share data (INR)				
EPS Rep (fully diluted)	5.61	5.66	7.81	11.13
HSBC EPS (fully diluted)	5.61	5.66	7.81	11.13
DPS	1.50	1.50	1.50	1.50
Book value	79.48	83.40	89.47	98.86

Key forecast drivers

Year to	03/2011a	03/2012e	03/2013e	03/2014e
Volumes (MU)	24,874	24,692	31,610	38,648
Gr. Margin per unit (INR paise	5.2	4.9	5.3	5.5

Valuation data

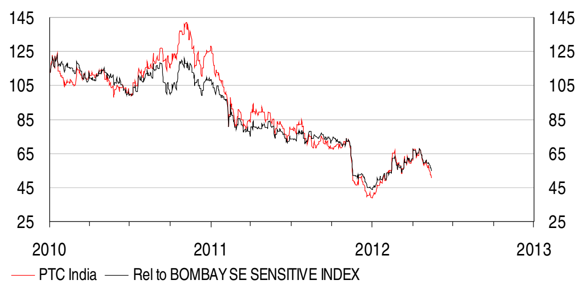
Year to	03/2011a	03/2012e	03/2013e	03/2014e
EV/sales	0.0	0.2	0.1	0.0
EV/EBITDA	1.6	9.2	6.6	2.8
EV/IC	0.5	1.0	1.1	0.6
PE*	9.0	9.0	6.5	4.6
P/Book value	0.6	0.6	0.6	0.5
FCF yield (%)	-8.5	-138.9	32.0	66.8
Dividend yield (%)	3.0	3.0	3.0	3.0

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price	(INR)50.75	Target price	(INR)83.00
Reuters (Equity)	PTCI.BO	Bloomberg (Equity)	PTCIN IN
Market cap (USDm)	278	Market cap (INRm)	14,970
Free float (%)	73	Enterprise value (INRm)	15521
Country	India	Sector	Independent Power Producers
Analyst	Arun Kumar Singh	Contact	+9122 22681778

Price relative



Source: HSBC

Note: price at close of 14 May 2012

CESC

- Power business to grow moderately at 2% CAGR to FY14, earnings growth will mainly come from reduced losses in retail business
- Power capacity to double by end FY14; expected to accelerate earnings growth to c40% in FY15
- Reiterate OW with new INR375 TP (INR475) as we push the expected project commissioning and factor in new FSA regime for coal pricing

Investment thesis

The stock has declined 7% over the last year mostly on account of an overhang of fuel supply issues and its retail business continuing to incur losses. The good news is that the losses in its retail business have come down significantly. We expect the loss to reduce to INR0.4bn in FY14, which is only c6% of its power business from c79% in FY09 (c40% in FY11) at the PBT level. While growth in the current power business remains moderate, a doubling in capacity addition (1.2GW) by FY14 should drive the next leg of growth. We do not see any major catalysts in the next year as both of these projects are due to be commissioned in 4QFY14. However the low valuation and strong growth over FY14-15 can provide a strong return for investors with a 1-2 year horizon.

Recent tariff hike positive, covers increased costs in Kolkata distribution business

CESC received a tariff hike of 69 paise from the regulator retrospectively from April 2011 in its Kolkata distribution business which covers the increased fuel and other operating costs in FY12. For FY12e, net profit grew 15.5% to INR5.65bn partly helped by an increase in other income. We expect the business to provide steady cash flow with moderate growth (c2%) in line with demand growth.

Growth in power business by FY15 as capacity doubles with visibility on fuel

The company is doubling its capacity with two plants under construction at Chandrapur (600MW) and Haldia (600MW), both expected to be operational in 4QFY14. This will drive growth in the power business by 13% in FY14e and 30% in FY15e.

While for Chandrapur the company has coal linkage from Coal India for the full capacity, for Haldia it has linkage for only 50% capacity with the rest coming from imports. But the company has tied up 75% of Haldia sales to its own distribution business under the regulated model where fuel will be a pass through which limits its risk on fuel. This is not the case for Chandrapur where it has tied up only one-third of its capacity (200MW) with Maharashtra at cINR3.3 per unit.

Retail business losses coming down but remains main investor concern

Retail business losses reduced from INR3.6bn (before tax) in FY09 to INR2.5bn in FY11 which is c40% of its power business from c79% in FY09.We expect the loss to reduce further to INR0.4bn in FY14, at only c6% of its power business, as sales per sqft increase by adding large hyper stores and closing down some loss-making stores over the next two years.

Q4FY12 results – better

CESC report net profit of INR2.66bn, up 137.5% yoy on the back of a revision in tariffs received in March 2012. This was well ahead of our estimate of INR2.0bn and consensus at INR1.8bn. The results were also boosted by higher than expected other income in the quarter, which was up 90% yoy to INR380m. For FY12, net profit at INR5.6bn was up 16% yoy, 13% ahead of our estimate and 16% ahead of consensus.

Reduce FY13e EPS by 36% as we shift power projects to FY14

We shift the commissioning of the Chandrapur plant from FY13 to 4QFY14 based on the current progress. Also we factor in higher input cost based on the new FSA to be signed by Coal India, at most getting 50% of its requirement on capacity signed under PPA only (200MW of 600MW Chandrapur is tied up) unlike earlier expectations of full capacity. This reduces the margin on the project, resulting in a reduction in EPS by c36% for FY13 on a consolidated basis for CESC. The increase in FY12 earnings is based on the actual standalone results reported on 8 May.

22. CESC consolidated earnings change summary

INRm	New		Old		% change	
	FY12e	FY13e	FY12e	FY13e	FY12e	FY13e
Sales	58,797	64,838	55,045	69,723	7%	-7%
EBITDA	9,922	10,471	8,502	14,416	17%	-27%
Net profit	4,058	4,353	3,548	6,850	14%	-36%
EPS (INR)	32.5	34.8	28.4	54.8	14%	-36%

Source: HSBC estimates

Reiterate OW with a TP of INR375 (from INR475)

We use SOTP to value CESC and reduce our target price to INR375 based on our assumptions detailed below. The reduction in target price is mainly for the projects under construction at Chandrapur and Haldia which shaves off INR77 from our target price on account of lower margins due to increased fuel cost. Under our research model, for stocks without a volatility indicator, the Neutral band is 5ppts above and below the hurdle rate for Indian stocks of 11%. Our target price implies a potential return of 43.8%, above the Neutral band; therefore, we are reiterating our Overweight rating. Potential return equals the

23. CESC consolidated valuation summary

Particulars	Details	Basis	Equity value (INRm)	% Stake	Equity value (INRm)	INR per share – New	Equity invested (INRm)	PB (x)	INR per share - Old
Power									
West Bengal Licence Area	1,225 MW	FCF - WACC of 11.0%	34,444	100%	34,444	276	24,060	1.4	268
Under construction									
Chandrapur	600 MW	FCF - WACC of 11.0%	3,035	100%	3,035	24	7,000	0.4	83
Haldia Phase I	600 MW	FCF - WACC of 11.0%	4,787	100%	4,787	38	7,500	0.6	56
Sub-total			**42,265**		**42,265**	**338**	**38,560**	**1.1**	**408**
Retail		FCF - WACC of 13.0%	-4,368	95%	-4,137	-33	408	-10.1	-29
Real Estate			1,948	100%	1,948	16	1,948	1.0	16
Investments (Liquid)		1x book value	4,174	100%	4,174	33	4,014	1.0	35
Net debt / -Cash			2,398	100%	2,398	19	2,398	1.0	45
Total / Target price (rounded)			**46,417**		**46,648**	**375**	**47,328**	**1.0**	**475**

Source: Company data, HSBC estimates

percentage difference between the current share price and the target price, including the forecast dividend yield when indicated.

Our new TP implies a FY14e PB of 0.81x and PE of 8.7x versus current PB of 0.60x and PE of 7.5x.

Downside risks include higher than expected losses in the retail business; execution risks for power projects under development; disallowance of capex by the regulator in the distribution business; and merchant tariff risk and coal availability, particularly for the Chandrapur power project.

Financials & valuation: CESC

Overweight

Financial statements

Year to	03/2011a	03/2012e	03/2013e	03/2014e
Profit & loss summary (INRm)				
Revenue	49,425	58,797	64,838	77,160
EBITDA	7,525	9,922	10,471	13,349
Depreciation & amortisation	-3,165	-3,414	-3,538	-4,286
Operating profit/EBIT	4,360	6,508	6,933	9,064
Net interest	-2,988	-3,081	-2,995	-3,890
PBT	3,304	5,199	5,714	6,955
HSBC PBT	6,143	7,060	6,823	7,676
Taxation	-530	-1,213	-1,405	-1,579
Net profit	2,784	4,058	4,353	5,399
HSBC net profit	2,996	4,058	4,353	5,399
Cash flow summary (INRm)				
Cash flow from operations	5,664	8,965	8,838	11,159
Capex	-12,109	-23,350	-17,265	-6,580
Cash flow from investment	-11,658	-23,350	-17,265	-6,580
Dividends	-580	-943	-1,012	-1,255
Change in net debt	5,478	15,328	9,439	-3,324
FCF equity	-7,703	-16,156	-10,203	2,797
Balance sheet summary (INRm)				
Intangible fixed assets	0	0	0	0
Tangible fixed assets	89,419	109,356	123,082	125,377
Current assets	25,237	26,640	28,321	35,950
Cash & others	12,291	12,273	12,594	17,678
Total assets	122,110	143,448	158,857	168,781
Operating liabilities	32,427	35,412	37,763	41,806
Gross debt	41,278	56,588	66,348	68,108
Net debt	28,987	44,315	53,754	50,430
Shareholders funds	47,008	50,123	53,464	57,608
Invested capital	69,939	88,309	101,046	101,844

Ratio, growth and per share analysis

Year to	03/2011a	03/2012e	03/2013e	03/2014e
Y-o-y % change				
Revenue	17.6	19.0	10.3	19.0
EBITDA	65.3	31.8	5.5	27.5
Operating profit	113.9	49.3	6.5	30.7
PBT	90.0	57.4	9.9	21.7
HSBC EPS	49.5	35.5	7.3	24.0
Ratios (%)				
Revenue/IC (x)	0.7	0.7	0.7	0.8
ROIC	5.5	6.3	5.5	6.9
ROE	6.5	8.4	8.4	9.7
ROA	4.5	4.8	4.3	5.1
EBITDA margin	15.2	16.9	16.1	17.3
Operating profit margin	8.8	11.1	10.7	11.7
EBITDA/net interest (x)	2.5	3.2	3.5	3.4
Net debt/equity	61.6	88.5	100.7	87.7
Net debt/EBITDA (x)	3.9	4.5	5.1	3.8
CF from operations/net debt	19.5	20.2	16.4	22.1
Per share data (INR)				
EPS Rep (fully diluted)	22.28	32.48	34.84	43.21
HSBC EPS (fully diluted)	23.98	32.48	34.84	43.21
DPS	4.00	4.52	4.23	4.77
Book value	376.25	401.19	427.93	461.10

Key forecast drivers

Year to	03/2011a	03/2012e	03/2013e	03/2014e
Installed Capacity (MW)	1,225	1,225	1,225	2,425
Units Sold (MU)	8,300	8,516	8,933	11,018

Valuation data

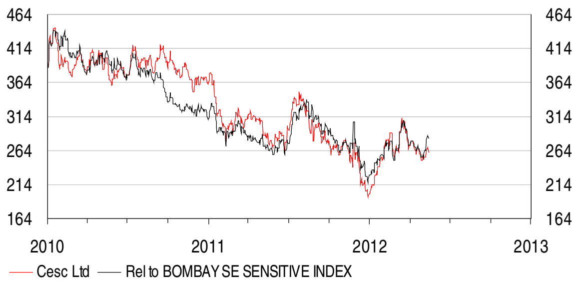
Year to	03/2011a	03/2012e	03/2013e	03/2014e
EV/sales	1.2	1.2	1.3	1.0
EV/EBITDA	7.6	7.3	7.8	5.9
EV/IC	0.8	0.8	0.8	0.8
PE*	10.9	8.0	7.5	6.0
P/Book value	0.7	0.6	0.6	0.6
FCF yield (%)	-27.1	-56.9	-35.9	9.8
Dividend yield (%)	1.5	1.7	1.6	1.8

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price	(INR)260.75	Target price	(INR)375.00
Reuters (Equity)	CESC.BO	Bloomberg (Equity)	CESC IN
Market cap (USDm)	604	Market cap (INRm)	32,577
Free float (%)	48	Enterprise value (INRm)	72718
Country	India	Sector	ELECTRIC UTILITIES
Analyst	Arun Kumar Singh	Contact	+9122 22681778

Price relative



Source: HSBC

Note: price at close of 14 May 2012

Lanco Infratech

- 3.9GW of operational power projects expected to show improved operational performance and 58.5% EPS growth pa over FY13-14
- Debt at Griffin Coal remains the single largest overhang, other than its high net debt to equity at 5.2x
- Remain Neutral (V) with a TP of INR14.5 as we see the Griffin overhang persisting despite operationally good power assets

Investment thesis

The stock has been quite volatile and has underperformed over the last year (absolute decline of 65%) as it has been facing issues with respect to:

- Tariff dispute at its 300MW Amarkantak plant where it is supplying power at below the cost of generation.
- One unit of 600MW Udupi power plant lying idle due to evacuation constraints.
- High debt burden at Griffin Coal, the business which is EBITDA neutral but incurs losses due to high interest and depreciation cost.
- High debt burden in its property development business (Lanco Hills) with progress stalled in the last year due to a land dispute which is now behind with the recent Supreme Court order.

In addition to the power sector overhang due to a domestic fuel shortage (coal and gas) resulting in lower PLF at its plants, weak financial health of customers (SEBs) is resulting in payment delays, impacting Lanco as well.

In the last few months, there has been an improvement in the operating parameters at its power plants. With the tariff dispute and evacuation issue likely to be resolved in 1HFY13, the power business should provide growth. However the high debt burden at Griffin and Lanco Hills with neutral EBITDA resulting in negative net profit will remain an overhang on the stock. Thus we remain cautious and retain our Neutral (V) rating on the stock. The low valuation provides downside support to the stock.

Power business – a value driver, operating parameters improving and will provide growth

We see signs of improving operating parameters at Lanco's thermal power plants which leads us to raise volume forecasts by 4-5% for FY13-14 mainly in the case of Udupi. The PLF at its Udupi power plant improved in 4Q to c90% from 57% in 9MFY12. The evacuation line for the second unit which is lying idle should be completed by end June 2012. This should result in increasing utilisation levels at the plant which we now build in at 75% (earlier 55-70%).

Exhibit 24 lists the progress in the operating parameters at its various power plants in 4Q and Exhibit 25 shows our assumptions for the power business for FY12-14.

24 Summary of operational performance of power projects

Coal based	Capacity (MW)	Volumes (MU)- 9M	Volumes (MU)- 4Qe	PLF % - 9M	PLF % - 4Qe
Aban	120	595	205	75%	78%
Kondapalli I	368	1,443	530	60%	66%
Kondapalli II	366	1,833	434	76%	54%
AmarkantaK 1	300	1,609	571	82%	87%
AmarkantaK 2	300	1,326	506	67%	77%
Udupi - U1	600	2,233	1,183	57%	90%
Udupi - U2	600	0	0	0%	0%
Anpara	1,200	160	920	na	35%
Total	**3,854**	**9,199**	**4,349**		

Source: Company data, HSBC estimates

25 Summary of financial performance of the power business

Power summary	FY11	FY12e	FY13e	FY14e	CAGR (FY13-14e)
Installed Capacity (MW)	2,687	3,887	4,457	4,533	8.0%
Operating Capacity (MW)	2,087	3,287	4,457	4,533	17.4%
Average PLF (%)	74%	58%	73%	73%	
Generation (MU)	10,114	13,698	24,778	28,583	44.5%
Revenue (INRm)	47,245	59,374	92,534	102,027	31.1%
- Power Generation	30,713	47,834	79,840	88,064	35.7%
- Power Trading	16,532	11,540	12,694	13,964	10.0%
EBIT (INRm)	11,523	15,767	24,096	28,157	33.6%
- Power Generation	11,314	15,593	23,910	27,957	33.9%
- Power Trading	209	174	187	200	7.4%
Interest	-4,177	-8,251	-13,249	-14,936	
PBT	7,346	7,516	10,847	13,222	32.6%
Margin and trend					
EBIT margin %	24%	27%	26%	28%	
- Power Generation	37%	33%	30%	32%	
- Power Trading	1%	2%	1%	1%	
Power segment					
as % to total revenue	61%	51%	60%	60%	
as % to total EBIT	77%	78%	83%	83%	

Source: Company data, HSBC estimates

Growth in EPC business to be flat in FY13-14e as order book declines

Lanco's EPC order book has come down from INR302bn in March 2011 to INR220bn by end December 2011 as projects got executed with no significant orders booked in FY12e. The current order book provides visibility for the next 2-3 sales (2.5x trailing 12 months revenue), beyond which there is little visibility as a large portion of its order book is from in-house power projects (c72%).

The growth in revenue and EBIT in FY13-14 is expected to be muted at a 3.8% and -3% CAGR respectively given the higher than expected execution in FY12 and no significant new orders.

Griffin Coal high debt burden + neutral EBITDA = net loss + overhang

At existing production of 4MT with exports of 0.7-0.8MT to Griffin, the company is only EBITDA neutral given the domestic sales contracts barely cover production costs despite recent negotiations. However the interest burden of the huge AUD550m loan (increasing to AUD800m by FY15) taken to acquire the mines will keep the business incurring losses over the next 3-4 years putting pressure on consolidated profit.

Furthermore, the plan to ramp up production to 18MT requires an investment of AUD850m. We think it may not materialise for 3-4 years, given its current losses. Also, at the group level, the balance sheet is stretched, with a net debt-to-equity ratio of 5.2x as of 3QFY12.

Also there is a risk of refinancing the above loan due for repayment in March 2014 which will remain an overhang. However the company remains confident of refinancing in FY13.

Property development high debt + marginal sales = negative value

There has been no significant progress on its property development and sale business in Hyderabad (Lanco Hills) for the last 1-2 years due to the land dispute. Given the huge debt of cINR11.7bn as of FY11, the business has been an overhang on the stock with negative value assigned by us (INR3.6per share). The recent relief by the Supreme Court allowing it to go ahead with the development and sale is positive for the stock and could provide upside to our estimates and target price as the company starts to generate income and repay its loan.

HSBC

26. Lanco consolidated quarterly earnings summary

INRm	4QFY12e	yoy %	qoq %	4QFY11	1QFY12	2QFY12	3QFY12
Operational parameters #							
Power capacity (MW)	3,887	45%	19%	2,687	2,687	2,687	3,254
Generation (MU)	4,362	52%	36%	2,878	2,846	3,139	3,214
PLF %	74%	1,115	1,221	63%	62%	69%	62%
Power traded (MU)	1,400	-2%	22%	1,424	1,433	1,546	1,151
Sales (MU)	5,762	34%	32%	4,302	4,279	4,685	4,365
Realisation (INR/unit)	3.8	-14%	-1%	4.4	3.5	3.4	3.8
Financial summary *							
Revenue	40,898	99%	35%	20,549	19,491	18,966	30,290
- Power generation	16,446	70%	60%	9,695	7,950	7,447	10,284
- Power trading	3,556	-2%	31%	3,612	2,820	2,500	2,723
- EPC (net of intersegment)	18,255	144%	17%	7,494	5,836	8,106	15,537
- Others (largely Resources)	2,640	nm	51%	-252	2,885	913	1,746
EBITDA	8,326	109%	38%	3,985	4,910	4,509	6,028
Margins %	20.4%	97	46	19.4%	25.2%	23.8%	19.9%
Depreciation	-2,086	99%	39%	-1,049	-1,265	-1,243	-1,501
Interest	-4,323	84%	61%	-2,344	-2,308	-2,508	-2,682
Other income	500	-312%	103%	-236	241	272	247
PBT	2,418	580%	16%	356	1,579	1,030	2,090
Tax	-725	nm	36%	251	-926	-567	-534
% tax rate	30%			-71%	59%	55%	26%
Net profit (adjusted)	2,101	nm	142%	-190	138	-206	868
Net profit (reported)				-190	138	-2,595	609

Note # Operational parameters for Lanco includes Udupi and Anpara for the past quarters as well for better comparison by us while *financial summary do not include the same as the company did not consolidated both these companies until Q3FY12. The both companies became subsidiaries in Q4FY12.
Source: Company data, HSBC estimates

4QFY12 preview

The company is expected to report strong revenue and EBITDA growth of 99% and 109% respectively in 4QFY12 driven by 1) better performance at its existing power plants as well as contribution from Udupi and Anpara, 2) strong execution in its EPC business and 3) contribution from Griffin Coal which is expected to be EBITDA neutral unlike earlier. However the increased interest expense from new plants, loan at the parent level and Griffin Coal will result in a net profit of INR2.1bn from a loss of INR190m last year and net profit of INR868m in 3QFY12. Both Udupi and Anpara are now subsidiaries and we have consolidated them for the full year.

Estimate changes for FY12-14

We raise our revenue and EBIT forecasts in the power business by 17-19% and 9-12% for FY12-14e respectively to account for improved PLF. Our revenue and EBIT estimates for the EPC business are reduced by 5-19% for FY13-14 given the strong execution in FY12 and no new order booking. We also account for higher interest expense in FY14 for Griffin as a new tranche of loan of AUD100m is drawn in March 2013 to pay for the balance of deferred payments for the acquisition. Consequently our net profit estimates are up 6% for FY12-13 but down 9% for FY14.

Remain Neutral (V) with a TP of INR14.5 (from INR13.7)

We continue to use a sum-of-the-parts (SOTP) valuation approach, given the different risk/reward profiles of Lanco's various businesses. Based on our assumptions (see Exhibit 28) our new target price is INR14.5 (from INR13.7).

Based on our new estimates, the value of the power business increases by c23% to INR24.6 per share from INR20.1 per share, while it comes down to INR8.6 per share (from INR9.9) for the EPC business. Griffin and the property business continue to dilute value with a negative value of INR12.9/share and INR3.6/share, respectively, resulting in a TP reduction. Under our research model, for stocks with a volatility indicator, the

27. Lanco consolidated change in estimates summary

	New			Old			% change		
INRm	FY12e	FY13e	FY14e	FY12e	FY13e	FY14e	FY12e	FY13e	FY14e
Sales	115,841	153,331	170,208	121,094	151,091	179,766	-4%	1%	-5%
EBITDA	26,907	37,986	43,845	26,323	36,249	43,361	2%	5%	1%
EBIT	20,244	29,082	34,028	19,657	27,472	33,635	3%	6%	1%
Interest	-14,380	-20,142	-22,033	-13,979	-19,066	-20,741	3%	6%	6%
PBT	7,481	10,639	13,780	7,795	10,054	14,627	-4%	6%	-6%
Tax rate	43%	47%	39%	49%	47%	38%	-13%	-1%	2%
Net profit	2,803	4,283	7,045	2,640	4,054	7,738	6%	6%	-9%
EPS (INR)	1.2	1.8	2.9	1.1	1.7	3.2	6%	6%	-9%

Source: HSBC estimates

Neutral band is 10ppts above and below the hurdle rate for Indian stocks of 11%. Our target price implies a potential return of 20.8%, within the Neutral band; therefore, we are reiterating our Neutral (V) rating. Potential return equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated.

We do not factor projects under construction, worth 4.7GW, into the valuation, as most of them are not expected until FY15e and also there is uncertainty on project fuel and offtake arrangements.

Key upside risks include a faster-than-expected ramp-up in production at Griffin Coal, higher PLF and realisation at its existing power plants. Also if the company is able to repay its debt in its property business from the income generated from development post the court relief, this could be positive.

Key downside risks include higher-than-expected interest rates for its power projects and equity dilution, and any litigation-related costs due to the Pedarman case.

28. Lanco consolidated SOTP valuation summary

Particulars	Basis	Capacity (MW)	WACC	Equity value (INRm)	Lanco stake (%)	Lanco's (INR/Share) - New	Lanco's (INR/Share) - Old
Operating Plants							
Aban Power	DCF - WACC 12.5%	120	12.5%	4,102	51.0%	0.9	0.7
Lanco Kondapalli I	DCF - WACC 12.5%	368	12.5%	10,660	59.0%	2.6	2.3
Lanco Kondapalli II	DCF - WACC 12.5%	366	12.5%	5,493	59.0%	1.3	1.0
Lanco Amarkantak I	DCF - WACC 12.5%	300	12.5%	8,749	100.0%	3.6	4.0
Lanco Amarkantak II	DCF - WACC 12.5%	300	12.5%	4,343	100.0%	1.8	1.6
Udupi	DCF - WACC 12.5%	1,200	12.5%	13,102	100.0%	5.4	3.1
Anpara	DCF - WACC 12.5%	1,200	12.5%	13,408	100.0%	5.6	4.0
Chitradurga Power	PB based (1.5x)	3	Na	66	100.0%	0.0	0.0
Tamilnadu Wind Power	PB based (1.5x)	10	Na	226	100.0%	0.1	0.1
Vamshi Hydro	DCF - WACC 12.5%	10	12.5%	228	97.1%	0.1	0.1
Vamshi Industrial	DCF - WACC 12.5%	10	12.5%	190	97.0%	0.1	0.0
Sub total		**3,887**		**60,566**		**21.6**	**17.0**
Under Construction							
Lanco Energy (Teesta)	DCF - WACC 12.5%	500	12.5%	5,147	100.0%	2.1	1.9
Lanco Green - Budhil	DCF - WACC 12.5%	70	12.5%	-114	100.0%	0.0	-0.1
Lanco Uttaranchal I	DCF - WACC 12.5%	76	12.5%	1,120	97.2%	0.5	0.6
Sub total		**646**		**6,153**		**2.5**	**2.4**
Lanco power trading co	9.5x FY14 EPS (from 10x earlier)			1,270	99.8%	0.5	0.8
Power Total		**4,533**		**67,990**		**24.6**	**20.1**
Construction & EPC business	4.0x EV/EBIT - FY14 (from 5.0x earlier)			20,761	100.0%	8.6	9.9
Lanco Road projects – Devihalli and Hoskote	DCF-FCFE		13.3%	4,752	26.4%	0.5	0.2
Resources - Griffin	6.5x EV/EBITDA - FY14 and net of debt (from 8.0x earlier)			-30,970	100.0%	-12.9	-10.1
Property - Lanco Hills	Net debt only as business is loss making			-11,567	74.0%	-3.6	-3.6
Net Cash/Investments (Debt)	At 1.0x book value			-7,014	100.0%	-2.9	-2.9
Grand Total / Target price (rounded)		**4,533**		**43,951**		**14.5**	**13.7**

Source: Company data, HSBC estimates

Financials & valuation: Lanco Infratech

Neutral (V)

Financial statements

Year to	03/2011a	03/2012e	03/2013e	03/2014e
Profit & loss summary (INRm)				
Revenue	77,430	115,841	153,331	170,208
EBITDA	18,497	26,907	37,986	43,845
Depreciation & amortisation	-3,537	-6,663	-8,903	-9,817
Operating profit/EBIT	14,960	20,244	29,082	34,028
Net interest	-7,554	-14,380	-20,142	-22,033
PBT	10,014	7,511	10,669	13,810
HSBC PBT	10,014	7,511	10,669	13,810
Taxation	-3,850	-3,214	-4,991	-5,382
Net profit	4,461	2,803	4,283	7,045
HSBC net profit	4,461	2,803	4,283	7,045
Cash flow summary (INRm)				
Cash flow from operations	22,577	-3,380	11,499	12,309
Capex	-89,930	-13,631	-8,064	-1,000
Cash flow from investment	-89,930	-13,631	-8,064	-1,000
Dividends	0	0	0	0
Change in net debt	79,626	95,601	-3,441	-11,309
FCF equity	-70,064	-18,628	1,736	9,524
Balance sheet summary (INRm)				
Intangible fixed assets	0	0	0	0
Tangible fixed assets	156,407	274,575	273,735	264,918
Current assets	102,989	78,412	97,414	104,154
Cash & others	12,905	2,220	3,977	2,954
Total assets	291,346	376,815	395,008	392,961
Operating liabilities	63,000	59,249	73,441	75,299
Gross debt	166,517	251,433	249,750	237,418
Net debt	153,612	249,213	245,773	234,464
Shareholders funds	46,231	49,035	53,318	60,363
Invested capital	183,493	291,517	293,731	290,820

Ratio, growth and per share analysis

Year to	03/2011a	03/2012e	03/2013e	03/2014e
Y-o-y % change				
Revenue	-4.2	49.6	32.4	11.0
EBITDA	23.2	45.5	41.2	15.4
Operating profit	29.6	35.3	43.7	17.0
PBT	9.5	-25.0	42.0	29.4
HSBC EPS	-2.7	-37.2	52.8	64.5
Ratios (%)				
Revenue/IC (x)	0.6	0.5	0.5	0.6
ROIC	6.6	4.9	5.3	7.1
ROE	11.2	5.9	8.4	12.4
ROA	4.8	3.7	4.2	5.6
EBITDA margin	23.9	23.2	24.8	25.8
Operating profit margin	19.3	17.5	19.0	20.0
EBITDA/net interest (x)	2.4	1.9	1.9	2.0
Net debt/equity	280.9	422.5	380.0	320.7
Net debt/EBITDA (x)	8.3	9.3	6.5	5.3
CF from operations/net debt	14.7		4.7	5.2
Per share data (INR)				
EPS Rep (fully diluted)	1.85	1.16	1.78	2.93
HSBC EPS (fully diluted)	1.85	1.16	1.78	2.93
DPS	0.00	0.00	0.00	0.00
Book value	19.20	20.36	22.14	25.07

Key forecast drivers

Year to	03/2011a	03/2012e	03/2013e	03/2014e
Installed Capacity (MW)	2,087	3,287	4,457	4,533
Units Sold (MU)	9,629	12,991	23,397	26,617
EPC - EBIT Margins %	8.6	12.0	9.7	9.7

Valuation data

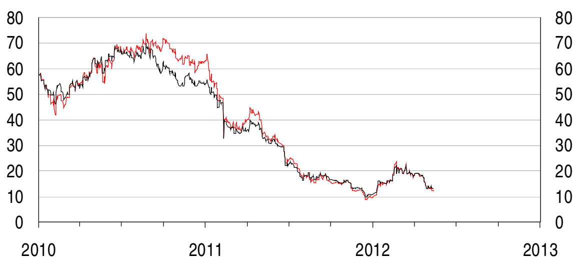
Year to	03/2011a	03/2012e	03/2013e	03/2014e
EV/sales	2.1	2.3	1.7	1.5
EV/EBITDA	8.6	9.8	6.9	5.8
EV/IC	0.9	0.9	0.9	0.9
PE*	6.5	10.3	6.7	4.1
P/Book value	0.6	0.6	0.5	0.5
FCF yield (%)	-1298.1	-124.0	10.6	53.7
Dividend yield (%)	0.0	0.0	0.0	0.0

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price	(INR)12.00	Target price	(INR)14.50
Reuters (Equity)	LAIN.BO	Bloomberg (Equity)	LANCI IN
Market cap (USDm)	536	Market cap (INRm)	28,894
Free float (%)	26	Enterprise value (INRm)	264231
Country	India	Sector	ELECTRIC UTILITIES
Analyst	Arun Kumar Singh	Contact	+9122 22681778

Price relative



Source: HSBC

Note: price at close of 14 May 2012

NHPC

- NHPC is likely to see earnings growth of 8.5% in FY13e, accelerating to 16% in FY14e as capacity additions pick up after a lull since its IPO in September 2009
- 4QFY12 is seasonally weak, the next two quarters should be strong as generation picks up
- Reiterate OW with a target price of INR24

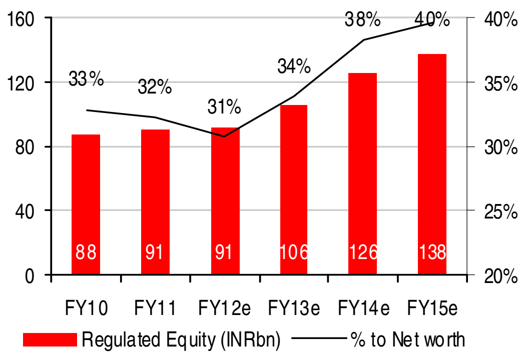
Investment thesis

The last few years have been disappointing for NHPC, India's largest hydro company, on slow capacity additions. This resulted in stock underperformance - down 27% over the last year. The company deploys only 31% of its net worth as regulated equity earning itself a return (15.5% post tax), which has suppressed ROE to just 7.4%. However, as more projects are commissioned, we expect to see EPS grow 8.5% in FY13 and 16% in FY14, which, in turn, should enhance its ROE by 21% to 8.9% by FY15e. We estimate 40% of its net worth will be deployed as regulated equity by FY15. Admittedly, we may see a flat performance in FY13, if the completion of 515MW is delayed by 1-2 quarters beyond our estimate of 2QFY13. However, with more projects coming in FY14 (857MW), we think the stock offers good upside potential for investors with a long-term view, especially given that it currently trades close to its all-time low valuation level.

ROE to improve as more projects are commissioned

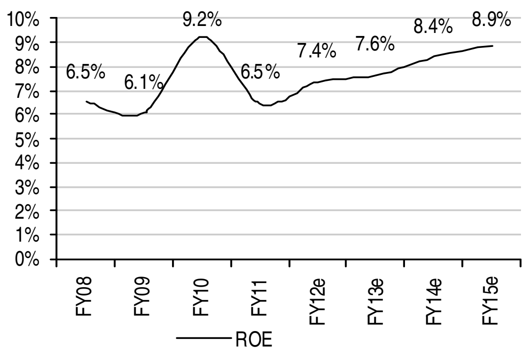
With a very high capital work in progress (CWIP) and long period of gestation, a large part of NHPC's own equity is stuck in non-earning assets. Our analysis of NHPC compared to similar utilities suggests that it has a lower level of net worth deployed as regulated equity – at 30% versus 42% for NTPC and 68% for Power Grid. This situation is likely to improve by FY15e, when NHPC could have 40% of its net worth deployed on operational regulated equity. NHPC's ROE is 7.4% – compared to 12.6% and 15% for NTPC and Power Grid, respectively, which is expected to rise to 8.9% by FY15e.

29. NHPC – regulated equity to net worth improving going forward, improving ROE as well



Source: Company data, HSBC estimates

29. NHPC – ROE set to rise by 21% to 8.9% over next three years



Source: Company data, HSBC estimates

Possible delays factored into our estimates, but remain the main risk

While NHPC is set to deliver strong growth in the next five years relative to the last few years, concerns remain over project delays. We have factored project delays of 2-3 quarters in our estimates, although greater delays are possible and represent the main downside risk to our estimates. We believe the market will remain generally cautious about pricing in the value and prospective earnings of new projects until very close to the actual commissioning of the projects.

4QFY12 preview – Off season

Seasonally, 4Q is the weakest for a hydro company as there is very little water availability and consequently no significant operations. The generation starts picking up from March and will peak in July-August resulting in the next two quarters being very strong. We expect a marginal net profit of cINR597m, flat yoy compared to net profit of INR19.9bn (up 38% yoy) posted by the company in 9MFY12.

30. NHPC standalone quarterly earnings summary

INRm	4QFY12e	yoy%	4QFY11	1QFY12	2QFY12	3QFY12
Capacity (MW)	3,767	0%	3,767	3,767	3,767	3,767
Generation (MU)	2,395	-10%	2,661	6,284	7,089	2,890
Sales (MU)	2,098	-10%	2,330	5,503	6,208	2,531
Sales	8,272	-27%	11,348	15,605	18,584	8,820
EBITDA	3,087	-34%	4,649	10,383	13,282	3,792
PBT	1,870	-38%	3,013	9,638	13,208	2,711
Net profit (adjusted)	597	0%	599	7,831	10,017	2,125
Net profit (reported)			6,384	7,911	9,665	2,122

Source: Company data, HSBC estimates

Reiterate Overweight rating and target price of INR24

Since NHPC works on a regulated equity model with certainty of earnings and cash flows, we have valued the company using a DCF methodology assuming a WACC of 10.3% (cost of equity at 13%, cost of debt at 9.0% and beta of 1.2). Our 12-month forward target price is INR24. Under our research model, for stocks without a volatility indicator, the Neutral band is 5ppts above and below the hurdle rate for Indian stocks of 11%. Our target price implies a potential return of 31.5%, above the Neutral band; therefore, we are reiterating our Overweight rating. Potential return equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated.

Our target price implies a FY14e PE of 11.7x and PB of 1.0x, below our implied target PE of 13.5x for NTPC and 15.3x for Power Grid.

31. NHPC– DCF summary table

Particulars	INRm	INR per share
Enterprise value	429,676	34.9
Less: Gross Debt	205,894	16.7
Add: Cash & bank	61,791	5.0
Add: Investments	30,065	2.4
Less: Minorities	20,341	1.7
Equity value	**295,298**	**24.0**

Source: HSBC estimates

The key risk regards the timing of the completion of new projects, although our estimates factor in a delay of 2-3 quarters from the announced dates of CEA and the company.

Catalysts include any news of major projects drawing close to being commissioned, given the uncertainty and delays surround past hydro project commissioning. Therefore, we expect the likely commissioning of three projects – Chamera, Chutak and Uri II with a total capacity of 515MW in 1HFY13 – to drive the share price.

HSBC

Financials & valuation: NHPC

Overweight

Financial statements

Year to	03/2011a	03/2012e	03/2013e	03/2014e
Profit & loss summary (INRm)				
Revenue	51,437	52,908	58,898	71,539
EBITDA	36,311	38,634	43,825	54,564
Depreciation & amortisation	-11,666	-11,989	-12,959	-15,290
Operating profit/EBIT	24,645	26,645	30,866	39,274
Net interest	-6,709	-6,168	-7,510	-10,798
PBT	32,476	28,863	31,144	35,772
HSBC PBT	26,008	28,863	31,144	35,772
Taxation	-7,848	-7,354	-7,935	-9,114
Net profit	23,162	20,017	21,717	25,166
HSBC net profit	16,693	20,017	21,717	25,166
Cash flow summary (INRm)				
Cash flow from operations	25,044	33,130	30,222	36,165
Capex	-34,658	-45,000	-46,800	-48,672
Cash flow from investment	-44,671	-38,436	-40,236	-42,108
Dividends	-8,028	-7,480	-8,115	-9,404
Change in net debt	23,443	6,699	12,340	9,851
FCF equity	-11,994	-14,458	-18,889	-14,665
Balance sheet summary (INRm)				
Intangible fixed assets	0	0	0	0
Tangible fixed assets	399,003	432,014	465,855	499,237
Current assets	86,749	92,378	100,900	112,213
Cash & others	42,653	55,016	61,791	69,417
Total assets	528,946	561,022	596,820	634,950
Operating liabilities	39,219	37,914	39,193	42,235
Gross debt	167,716	186,778	205,894	223,370
Net debt	125,063	131,762	144,102	153,953
Shareholders funds	265,303	277,840	291,442	307,204
Invested capital	403,880	431,461	465,771	499,798

Ratio, growth and per share analysis

Year to	03/2011a	03/2012e	03/2013e	03/2014e
Y-o-y % change				
Revenue	-0.3	2.9	11.3	21.5
EBITDA	-12.1	6.4	13.4	24.5
Operating profit	-13.9	8.1	15.8	27.2
PBT	13.6	-11.1	7.9	14.9
HSBC EPS	-22.7	20.1	8.5	15.9
Ratios (%)				
Revenue/IC (x)	0.1	0.1	0.1	0.1
ROIC	4.9	4.8	5.1	6.1
ROE	6.5	7.4	7.6	8.4
ROA	5.8	4.8	5.0	5.6
EBITDA margin	70.6	73.0	74.4	76.3
Operating profit margin	47.9	50.4	52.4	54.9
EBITDA/net interest (x)	5.4	6.3	5.8	5.1
Net debt/equity	44.2	44.4	46.2	46.8
Net debt/EBITDA (x)	3.4	3.4	3.3	2.8
CF from operations/net debt	20.0	25.1	21.0	23.5
Per share data (INR)				
EPS Rep (fully diluted)	1.88	1.63	1.77	2.05
HSBC EPS (fully diluted)	1.35	1.63	1.77	2.05
DPS	0.60	0.52	0.56	0.65
Book value	21.57	22.59	23.69	24.97

Key forecast drivers

Year to	03/2011a	03/2012e	03/2013e	03/2014e
Capacity (MW)	5,254	5,254	5,769	6,626
Unit Sold (MUs)	19,482	19,629	21,571	24,103
PLF %	0.0	0.0	0.0	0.0
Merchant Tariff (INR/unit)	0.0	0.0	0.0	0.0

Valuation data

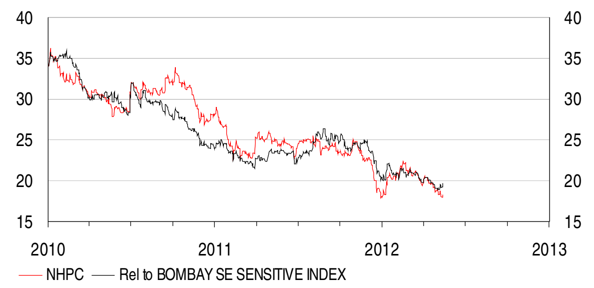
Year to	03/2011a	03/2012e	03/2013e	03/2014e
EV/sales	6.3	6.4	6.1	5.3
EV/EBITDA	8.9	8.8	8.2	6.9
EV/IC	0.8	0.8	0.8	0.8
PE*	13.5	11.2	10.3	8.9
P/Book value	0.8	0.8	0.8	0.7
FCF yield (%)	-6.0	-7.0	-8.8	-6.6
Dividend yield (%)	3.3	2.8	3.1	3.6

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price	(INR)18.25	Target price	(INR)24.00
Reuters (Equity)	NHPC.NS	Bloomberg (Equity)	NHPC IN
Market cap (USDm)	4,163	Market cap (INRm)	224,489
Free float (%)	14	Enterprise value (INRm)	338470
Country	India	Sector	ELECTRIC UTILITIES
Analyst	Arun Kumar Singh	Contact	+9122 22681778

Price relative



Source: HSBC

Note: price at close of 14 May 2012

JPVL

- Earnings to growth at 80% CAGR in FY13-14e on new capacity: cash flow in FY13e for equity investment remains the risk
- While large operational hydro capacity protects the downside, clearance of the captive coal block would provide upside
- Reiterate OW rating with a target price of INR50

Investment thesis

Jai Prakash Venture Ltd (JPVL) has a good track record of executing its hydro projects on time and hence managing its cost overruns. It has a mixture of coal-based and hydro power projects in its portfolio. With a solid pipeline of projects set to be completed in the next two years, we expect its earnings to grow at an 80% CAGR in FY13-14. The stock has outperformed in the last six months on back of strong earnings from its 1GW Karcham Wangtoo hydro power project commissioned in FY12, as the power was sold as merchant.

In addition to Karcham Wangtoo, the company is set to launch coal-based projects in Bina, Nigrie and Bara in the states of Madhya Pradesh and Uttar Pradesh in FY13-15e. Though there are concerns about coal availability for some of these projects (such as the ones in Bina and Bara), we see limited risks to earnings, given the terms of the sale contracts guarantees fixed costs recovery in the case of Bara, while Bina is located near to the railway line, assuring no logistic constraints.

The main concern for JPVL is its high debt-to equity ratio of c4.0x, along with a high promoter holding (76.5%). In addition, it faces cash flow constraints in FY13e, as it needs to deploy a significant amount of equity in projects – a total of INR11-12bn in FY13e.

Expanding into thermal power

The company is likely to start the 500MW Bina thermal project in FY13 followed by the 1,320MW Nigrie thermal project in FY14- 15. Both projects are under a MOU with the state government of Madhya Pradesh. About 70% of the power from the Bina project is committed to the state government. In the case of Nigrie, it has committed to sell 37.5% to the state government, with the balance open to merchant sales. Its last major project is the 1,320MW Bara project in Uttar Pradesh, for which 90% sales are tied up with the state on a cost-plus basis. The project is likely to be commissioned in FY15.

Better placed than peers to manage coal supply concerns

The Bina project has coal linkage with CCL (Central Coal Ltd) and SECL (South Eastern Coal Ltd) and is located on the main Jhansi-Bhopal railway line, ensuring transport accessibility. The Nigrie project, on the other hand, relies on the captive coal blocks of Amela (North) and Dongri Tal II. These blocks are located in environmentally protected no-go zones; but as the

HSBC

no-go classification (which prevents mining of areas falling under thick forests) has been removed, the mines could be cleared by the committee for mining, which is currently reviewing mines in the region. The company is confident of the approval coming through soon.

JPVL has also applied for permission for part of the surplus from the Amela (North) and Dongri Tal II captive mines to be allocated to the Bina project (since both the Bina and Nigrie project supply power to Madhya Pradesh). This would ensure a full supply of coal for the Bina project.

For the Nigrie project, we expect all coal supplies to come from the captive mines at Amela (North) and Dongri Tal II. The Bara project in Uttar Pradesh has an agreement with UPPCL (Uttar Pradesh Power Corp) under which the latter has committed to provide all coal supplies and purchase power on a cost-plus basis. Hence despite our concerns about fuel availability for the project, given that it is located far away from coal mines, we expect the company to recover at least the fixed costs, including returns (part of the tariff) once it is operational.

Strong earnings growth expected

With three large projects becoming operational in the next three years (Karcham Wangtoo in FY12, Bina in FY13 and Nigrie in FY14), we expect earnings growth to be strong at an 80% CAGR in FY13-14.

4QFY12 preview – Off season

Seasonally, the 4Q is the weakest and this will result in JPVL reporting a marginal loss of INR190m in 4Q (compared to INR172m profit last year) due to high capital costs and lower volumes at Karcham Wangtoo (1GW) sold in the open market which drove strong earnings in 9MFY12 at INR4.1bn (up c159% yoy).

32. JPVL consolidated quarterly earnings summary

INRm	4QFY12e	yoy%	4QFY11	1QFY12	2QFY12	3QFY12
Capacity (MW)	1,700	143%	700	950	1,200	1,700
Generation (MU)	586	169%	218	1,397	2,915	1,174
Sales (MU)	510	168%	190	1,216	2,537	1,022
Sales	2,989	102%	1,480	2,753	6,497	3,967
EBITDA	2,583	110%	1,231	2,467	6,083	3,571
PBT	(237)	-211%	215	869	3,509	744
Net profit (adjusted)	(190)	-210%	172	696	2,807	595
Net profit (reported)	(190)		169	696	2,807	595

Source: Company data, HSBC estimates

Reiterate Overweight rating and target price of INR50

Given the company's portfolio comprises a mix of hydro and thermal assets, we have used a DCF-based, sum-of-the-parts (SOTP) valuation methodology to derive our 12-month target price of INR50. Under our research model, for stocks without a volatility indicator, the Neutral band is 5ppts above and below the hurdle rate for Indian stocks of 11%. Our target price implies a potential return of 35.3%, above the Neutral band; therefore, we are reiterating our Overweight rating. Potential return equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated.

Our target price implies a FY14e PE of 10.7x and PB of 2.1x below our implied target PE of 13.5x for NTPC and 15.3x for Power Grid.

Downside risks include: 1) equity dilution is expected, or the company is unable to raise equity; 2) the company is unable to raise debt to support project expansion, resulting in delays in existing projects or stalling of new projects; and 3) higher-than-expected coal costs and SEB default risk is common to all utilities in India.

Catalysts: One of the captive mines for the Nigrie project is in a no-go classification area. Resolution of the issue and granting of environmental and forest clearance for the development of the mine could be a key catalyst. Approval received for use of surplus coal from captive mines allocated for the Nigrie power project at its other Bina power project is another catalyst.

33. JPVL DCF-based SOTP valuation summary

Particulars	Fuel	Basis	Capacity (MW) - Valued	WACC / COE	Equity value (INRm)	Stake	INR per share
Operating Plants							
Baspa-II	Hydro	DCF	300	10.5%	13,031	100%	5.6
Vishnuprayag	Hydro	DCF	400	10.5%	12,227	100%	5.3
Karcham Wangtoo	Hydro	DCF	1,000	11.5%	35,043	100%	15.1
Sub-total			**1,700**		**60,302**		**25.9**
Under Construction							
Bina Power - Phase I	Dom. Coal	DCF	500	12.0%	11,185	100%	4.8
Jaypee Nigrie	Captive Coal	DCF	1,320	12.0%	36,721	100%	15.8
Bara - Phase I	Dom. Coal	DCF	1,980	12.0%	29,326	100%	12.6
Sub-total			**3,800**		**77,231**		**33.2**
Jaypee Powergrid Limited		PB of 1.5x		10.5%	4,500	74%	1.4
Investments		1x book value			0	100%	0.0
Cash		1x book value			16,236	100%	7.0
Less: Debt excl project debt		1x book value			-40,518	100%	-17.4
Grand Total (rounded)			**5,500**		**117,750**		**50.0**

Note: We exclude 344m treasury shares held by JPVL in a trust for the purpose of our valuation
Source: HSBC estimates

HSBC

Financials & valuation: JPVL

Overweight

Financial statements

Year to	03/2011a	03/2012e	03/2013e	03/2014e
Profit & loss summary (INRm)				
Revenue	7,369	15,537	29,699	43,630
EBITDA	6,560	14,091	23,683	33,239
Depreciation & amortisation	-949	-2,109	-3,884	-5,546
Operating profit/EBIT	5,611	11,982	19,799	27,693
Net interest	-4,484	-8,763	-12,135	-13,816
PBT	2,036	3,943	8,664	14,878
HSBC PBT	2,165	3,943	8,664	14,878
Taxation	-414	-623	-1,771	-3,839
Net profit	1,618	3,320	6,793	10,918
HSBC net profit	1,746	3,320	6,793	10,918
Cash flow summary (INRm)				
Cash flow from operations	1,426	4,889	13,518	17,474
Capex	-43,500	-38,353	-36,426	-56,110
Cash flow from investment	-42,261	-37,629	-35,426	-55,110
Dividends	0	0	0	0
Change in net debt	68,934	32,740	19,908	37,636
FCF equity	-42,737	-33,464	-22,908	-38,636
Balance sheet summary (INRm)				
Intangible fixed assets	0	0	0	0
Tangible fixed assets	149,425	185,669	218,211	268,776
Current assets	28,637	24,954	26,502	27,428
Cash & others	22,281	16,236	15,043	12,526
Total assets	178,061	210,623	244,714	296,203
Operating liabilities	17,707	19,587	24,390	27,945
Gross debt	124,231	150,925	169,640	204,759
Net debt	101,949	134,689	154,597	192,233
Shareholders funds	31,804	35,124	43,917	54,835
Invested capital	138,074	174,800	205,281	255,733

Ratio, growth and per share analysis

Year to	03/2011a	03/2012e	03/2013e	03/2014e
Y-o-y % change				
Revenue	6.7	110.8	91.2	46.9
EBITDA	7.8	114.8	68.1	40.4
Operating profit	10.9	113.6	65.2	39.9
PBT	-30.7	93.7	119.7	71.7
HSBC EPS	-34.0	90.1	100.7	60.7
Ratios (%)				
Revenue/IC (x)	0.1	0.1	0.2	0.2
ROIC	4.4	6.4	8.3	8.9
ROE	5.3	9.9	17.2	22.1
ROA	3.6	5.5	7.3	7.9
EBITDA margin	89.0	90.7	79.7	76.2
Operating profit margin	76.1	77.1	66.7	63.5
EBITDA/net interest (x)	1.5	1.6	2.0	2.4
Net debt/equity	314.1	376.5	346.1	345.1
Net debt/EBITDA (x)	15.5	9.6	6.5	5.8
CF from operations/net debt	1.4	3.6	8.7	9.1
Per share data (INR)				
EPS Rep (fully diluted)	0.71	1.46	2.92	4.70
HSBC EPS (fully diluted)	0.77	1.46	2.92	4.70
DPS	0.00	0.00	0.00	0.00
Book value	13.95	15.40	18.89	23.58

Key forecast drivers

Year to	03/2011a	03/2012e	03/2013e	03/2014e
Capacity (MW)	700	1,700	2,200	2,860
Unit Sold (MUs)	3,049	5,131	8,519	12,585
Merchant Tariff (INR/unit)	0.0	0.0	0.0	0.0

Valuation data

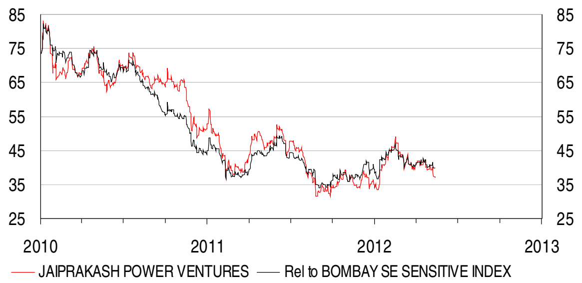
Year to	03/2011a	03/2012e	03/2013e	03/2014e
EV/sales	27.1	15.0	8.5	6.6
EV/EBITDA	30.4	16.5	10.7	8.7
EV/IC	1.4	1.3	1.2	1.1
PE*	48.3	25.4	12.6	7.9
P/Book value	2.6	2.4	2.0	1.6
FCF yield (%)	-43.8	-34.3	-23.4	-39.5
Dividend yield (%)	0.0	0.0	0.0	0.0

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price	(INR)36.95	Target price	(INR)50.00
Reuters (Equity)	JAPR.BO	Bloomberg (Equity)	JPVL IN
Market cap (USDm)	1,798	Market cap (INRm)	96,985
Free float (%)	24	Enterprise value (INRm)	232324
Country	India	Sector	ELECTRIC UTILITIES
Analyst	Arun Kumar Singh	Contact	+9122 22681778

Price relative



Source: HSBC

Note: price at close of 14 May 2012

HSBC

Disclosure appendix

Analyst Certification

The following analyst(s), economist(s), and/or strategist(s) who is(are) primarily responsible for this report, certifies(y) that the opinion(s) on the subject security(ies) or issuer(s) and/or any other views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Arun Singh

Important disclosures

Stock ratings and basis for financial analysis

HSBC believes that investors utilise various disciplines and investment horizons when making investment decisions, which depend largely on individual circumstances such as the investor's existing holdings, risk tolerance and other considerations. Given these differences, HSBC has two principal aims in its equity research: 1) to identify long-term investment opportunities based on particular themes or ideas that may affect the future earnings or cash flows of companies on a 12 month time horizon; and 2) from time to time to identify short-term investment opportunities that are derived from fundamental, quantitative, technical or event-driven techniques on a 0-3 month time horizon and which may differ from our long-term investment rating. HSBC has assigned ratings for its long-term investment opportunities as described below.

This report addresses only the long-term investment opportunities of the companies referred to in the report. As and when HSBC publishes a short-term trading idea the stocks to which these relate are identified on the website at www.hsbcnet.com/research. Details of these short-term investment opportunities can be found under the Reports section of this website.

HSBC believes an investor's decision to buy or sell a stock should depend on individual circumstances such as the investor's existing holdings and other considerations. Different securities firms use a variety of ratings terms as well as different rating systems to describe their recommendations. Investors should carefully read the definitions of the ratings used in each research report. In addition, because research reports contain more complete information concerning the analysts' views, investors should carefully read the entire research report and should not infer its contents from the rating. In any case, ratings should not be used or relied on in isolation as investment advice.

Rating definitions for long-term investment opportunities

Stock ratings

HSBC assigns ratings to its stocks in this sector on the following basis:

For each stock we set a required rate of return calculated from the cost of equity for that stock’s domestic or, as appropriate, regional market established by our strategy team. The price target for a stock represents the value the analyst expects the stock to reach over our performance horizon. The performance horizon is 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, must exceed the required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock must be expected to underperform its required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands are classified as Neutral.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation of coverage, change of volatility status or change in price target). Notwithstanding this, and although ratings are subject to ongoing management review, expected returns will be permitted to move outside the bands as a result of normal share price fluctuations without necessarily triggering a rating change.

*A stock will be classified as volatile if its historical volatility has exceeded 40%, if the stock has been listed for less than 12 months (unless it is in an industry or sector where volatility is low) or if the analyst expects significant volatility. However, stocks which we do not consider volatile may in fact also behave in such a way. Historical volatility is defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility has to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

Rating distribution for long-term investment opportunities

As of 16 May 2012, the distribution of all ratings published is as follows:

Overweight (Buy)	48%	(26% of these provided with Investment Banking Services)
Neutral (Hold)	38%	(25% of these provided with Investment Banking Services)
Underweight (Sell)	14%	(16% of these provided with Investment Banking Services)

Information regarding company share price performance and history of HSBC ratings and price targets in respect of its long-term investment opportunities for the companies the subject of this report,is available from www.hsbcnet.com/research.

HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
JAIPRAKASH POWER VENTURES LTD	JAPR.BO	37.95	15-May-2012	2,5
NHPC	NHPC.NS	18.30	15-May-2012	2,5
NTPC	NTPC.NS	143.40	15-May-2012	2,5,6,7,11
TATA POWER	TTPW.BO	94.85	15-May-2012	2,6,7

Source: HSBC

1 HSBC* has managed or co-managed a public offering of securities for this company within the past 12 months.
2 HSBC expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
3 At the time of publication of this report, HSBC Securities (USA) Inc. is a Market Maker in securities issued by this company.
4 As of 30 April 2012 HSBC beneficially owned 1% or more of a class of common equity securities of this company.
5 As of 31 March 2012, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of investment banking services.
6 As of 31 March 2012, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of non-investment banking-securities related services.
7 As of 31 March 2012, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of non-securities services.
8 A covering analyst/s has received compensation from this company in the past 12 months.
9 A covering analyst/s or a member of his/her household has a financial interest in the securities of this company, as detailed below.
10 A covering analyst/s or a member of his/her household is an officer, director or supervisory board member of this company, as detailed below.
11 At the time of publication of this report, HSBC is a non-US Market Maker in securities issued by this company and/or in securities in respect of this company

Analysts, economists, and strategists are paid in part by reference to the profitability of HSBC which includes investment banking revenues.

For disclosures in respect of any company mentioned in this report, please see the most recently published report on that company available at www.hsbcnet.com/research.

** HSBC Legal Entities are listed in the Disclaimer below.*

Additional disclosures

1 This report is dated as at 17 May 2012.
2 All market data included in this report are dated as at close 14 May 2012, unless otherwise indicated in the report.
3 HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Information Barrier procedures are in place between the Investment Banking and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.

HSBC

Disclaimer

** Legal entities as at 04 March 2011*

'UAE' HSBC Bank Middle East Limited, Dubai; 'HK' The Hongkong and Shanghai Banking Corporation Limited, Hong Kong; 'TW' HSBC Securities (Taiwan) Corporation Limited; 'CA' HSBC Securities (Canada) Inc, Toronto; HSBC Bank, Paris Branch; HSBC France; 'DE' HSBC Trinkaus & Burkhardt AG, Düsseldorf; 000 HSBC Bank (RR), Moscow; 'IN' HSBC Securities and Capital Markets (India) Private Limited, Mumbai; 'JP' HSBC Securities (Japan) Limited, Tokyo; 'EG' HSBC Securities Egypt SAE, Cairo; 'CN' HSBC Investment Bank Asia Limited, Beijing Representative Office; The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Branch; HSBC Securities (South Africa) (Pty) Ltd, Johannesburg; 'GR' HSBC Securities SA, Athens; HSBC Bank plc, London, Madrid, Milan, Stockholm, Tel Aviv; 'US' HSBC Securities (USA) Inc, New York; HSBC Yatirim Menkul Degerler AS, Istanbul; HSBC México, SA, Institución de Banca Múltiple, Grupo Financiero HSBC; HSBC Bank Brasil SA – Banco Múltiplo; HSBC Bank Australia Limited; HSBC Bank Argentina SA; HSBC Saudi Arabia Limited; The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch

Issuer of report

HSBC Securities and Capital Markets (India) Private Limited

Registered Office
52/60 Mahatma Gandhi Road
Fort, Mumbai 400 001, India
Telephone: +91 22 2267 4921
Fax: +91 22 2263 1983
Website: www.research.hsbc.com

This document has been issued by HSBC Securities and Capital Markets (India) Private Limited ("HSBC") for the information of its customers only. HSBC Securities and Capital Markets (India) Private Limited is regulated by the Securities and Exchange Board of India. If it is received by a customer of an affiliate of HSBC, its provision to the recipient is subject to the terms of business in place between the recipient and such affiliate. This document is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. HSBC has based this document on information obtained from sources it believes to be reliable but which it has not independently verified; HSBC makes no guarantee, representation or warranty and accepts no responsibility or liability as to its accuracy or completeness. Expressions of opinion are those of the Research Division of HSBC only and are subject to change without notice. HSBC and its affiliates and/or their officers, directors and employees may have positions in any securities mentioned in this document (or in any related investment) and may from time to time add to or dispose of any such securities (or investment). HSBC and its affiliates may act as market maker or have assumed an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis and may also perform or seek to perform investment banking or underwriting services for or relating to those companies and may also be represented in the supervisory board or any other committee of those companies. The information and opinions contained within the research reports are based upon publicly available information and rates of taxation applicable at the time of publication which are subject to change from time to time. Past performance is not necessarily a guide to future performance. The value of any investment or income may go down as well as up and you may not get back the full amount invested. Where an investment is denominated in a currency other than the local currency of the recipient of the research report, changes in the exchange rates may have an adverse effect on the value, price or income of that investment. In case of investments for which there is no recognised market it may be difficult for investors to sell their investments or to obtain reliable information about its value or the extent of the risk to which it is exposed.

HSBC Securities (USA) Inc. accepts responsibility for the content of this research report prepared by its non-US foreign affiliate. All U.S. persons receiving and/or accessing this report and wishing to effect transactions in any security discussed herein should do so with HSBC Securities (USA) Inc. in the United States and not with its non-US foreign affiliate, the issuer of this report.

In the UK this report may only be distributed to persons of a kind described in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001. The protections afforded by the UK regulatory regime are available only to those dealing with a representative of HSBC Bank plc in the UK. In Singapore, this publication is distributed by The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch for the general information of institutional investors or other persons specified in Sections 274 and 304 of the Securities and Futures Act (Chapter 289) ("SFA") and accredited investors and other persons in accordance with the conditions specified in Sections 275 and 305 of the SFA. This publication is not a prospectus as defined in the SFA. It may not be further distributed in whole or in part for any purpose. The Hongkong and Shanghai Banking Corporation Limited Singapore Branch is regulated by the Monetary Authority of Singapore. Recipients in Singapore should contact a "Hongkong and Shanghai Banking Corporation Limited, Singapore Branch" representative in respect of any matters arising from, or in connection with this report. In Australia, this publication has been distributed by The Hongkong and Shanghai Banking Corporation Limited (ABN 65 117 925 970, AFSL 301737) for the general information of its "wholesale" customers (as defined in the Corporations Act 2001). Where distributed to retail customers, this research is distributed by HSBC Bank Australia Limited (AFSL No. 232595). These respective entities make no representations that the products or services mentioned in this document are available to persons in Australia or are necessarily suitable for any particular person or appropriate in accordance with local law. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient. This publication is distributed in New Zealand by The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch.

In Japan, this publication has been distributed by HSBC Securities (Japan) Limited. In Hong Kong, this document has been distributed by The Hongkong and Shanghai Banking Corporation Limited in the conduct of its Hong Kong regulated business for the information of its institutional and professional customers; it is not intended for and should not be distributed to retail customers in Hong Kong. The Hongkong and Shanghai Banking Corporation Limited makes no representations that the products or services mentioned in this document are available to persons in Hong Kong or are necessarily suitable for any particular person or appropriate in accordance with local law. All inquiries by such recipients must be directed to The Hongkong and Shanghai Banking Corporation Limited. In Korea, this publication is distributed by The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch ("HBAP SLS") for the general information of professional investors specified in Article 9 of the Financial Investment Services and Capital Markets Act ("FSCMA"). This publication is not a prospectus as defined in the FSCMA. It may not be further distributed in whole or in part for any purpose. HBAP SLS is regulated by the Financial Services Commission and the Financial Supervisory Service of Korea.

Global Natural Resources & Energy Research Team

Metals and Mining

EMEA

Andrew Keen
Global Sector Head, Metals and Mining
+44 20 7991 6764 andrew.keen@hsbcib.com

Lourina Pretorius
+44 20 7992 3686 lourina.pretorius@hsbcib.com

Thorsten Zimmermann, CFA
+44 20 7991 6835 thorsten.zimmermann@hsbcib.com

Vladimir Zhukov
+7 495 783 8316 vladimir.zhukov@hsbc.com

CEEMEA

Cor Booysen
+27 11 6764224 cor.booysen@za.hsbc.com

Richard Hart
+27 11 676 4218 richard.hart@za.hsbc.com

North America & Latin America

Jonathan Brandt
+1 212 525 4499 jonathan.l.brandt@us.hsbc.com

James Steel
+1 212 525 3117 james.steel@us.hsbc.com

Patrick Chidley, CFA
+1 212 525 4915 patrick.t.chidley@us.hsbc.com

Howard Wen
+1 212 525 3726 howard.x.wen@us.hsbc.com

Asia

Simon Francis
Regional Head of Metals and Mining, Asia Pacific
+852 2996 6620 simonfrancis@hsbc.com.hk

Sarah Mak
+852 2822 4551 sarahmak@hsbc.com.hk

Thomas Zhu
+852 2822 4687 thomasjzhu@hsbc.com.hk

Chris Chen
+852 2822 4277 chrislchen@hsbc.com.hk

Jigar Mistry, CFA
+91 22 2268 1079 jigarmistry@hsbc.co.in

Amit Pansari, CFA
+91 80 3001 3760 amitpansari@hsbc.co.in

Energy

Europe

Paul Spedding
Global Sector Co-head, Oil and Gas
+44 20 7991 6787 paul.spedding@hsbcib.com

David Phillips
Global Sector Co-head, Oil and Gas
+44 20 7991 2344 david1.phillips@hsbcib.com

Peter Hitchens
+44 20 7991 6822 peter.hitchens@hsbcib.com

Phillip Lindsay
+44 207 991 2577 phillip.lindsay@hsbcib.com

John Tottie
+966 1 299 2101 john.tottie@hsbc.com

Kirtan Mehta, CFA
+91 80 3001 3779 kirtanmehta@hsbc.co.in

CEEMEA, Latam

Anisa Redman
+1 212 525 4917 anisa.redman@us.hsbc.com

Bülent Yurdagül
+90 212 376 46 12 bulentyurdagul@hsbc.com.tr

Ildar Khaziev, CFA
+7 495 645 4549 ildar.khaziev@hsbc.com

Asia

Dennis Yoo, CFA
+852 2996 6917 dennishcyoo@hsbc.com.hk

Kumar Manish
+91 22 2268 1238 kmanish@hsbc.co.in

Puneet Gulati
+91 22 681235 puneetgulati@hsbc.co.in

Alternative Energy

Charanjit Singh
+91 80 3001 3776 charanjit2singh@hsbc.co.in

Chemicals

Europe

Dr Geoff Haire
+44 20 7991 6892 geoff.haire@hsbcib.com

Sebastian Satz, CFA
+44 20 7991 6894 sebastian.satz@hsbcib.com

Jesko Mayer-Wegelin, CFA
+49 211 910 3719 jesko.mayer-wegelin@hsbc.de

CEEMEA

Yonah Weisz
+972 3 710 1198 yonahweisz@hsbc.com

Sriharsha Pappu, CFA
+971 4 423 6924 sriharsha.pappu@hsbc.com

Omprakash Vaswani
+91 80 3001 3786 omprakashvaswani@hsbc.co.in

Asia

Dennis Yoo, CFA
+852 2996 6917 dennishcyoo@hsbc.com.hk

Utilities

Europe

Adam Dickens
+44 20 7991 6798 adam.dickens@hsbcib.com

José A López
+44 20 7991 6710 jose1.lopez@hsbcib.com

Verity Mitchell
+44 20 7991 6840 verity.mitchell@hsbcib.com

Asia

Suman Guliani
+91 80 3001 3747 sumanguliani@hsbc.co.in

Arun Kumar Singh
Analyst
+91 22 2268 1778 arun4kumar@hsbc.co.in

Latin America

Eduardo J Gomide
+55 11 3371 9502 eduardo.j.gomide@hsbc.com.br

CEEMEA

Levent Bayar
Analyst
+90 212 376 46 17 leventbayar@hsbc.com.tr

Dmytro Konovalov
+7 495 258 3152 dmytro.konovalov@hsbc.com

Specialist Sales

Mark van Lonkhuyzen
+44 20 7991 1329 mark.van.lonkhuyzen@hsbcib.com

Billal Ismail
+44 20 7991 5362 billal.ismail@hsbcib.com

Annabelle O'Connor
+44 20 7991 5040 annabelle.oconnor@hsbcib.com

James Lesser
+44 207 991 1382 james.lesser@hsbcib.com