

## Owners to trim stake to meet free-float norms

### Quick Note

October 4, 2012

<b>Rating</b> Remains	<b>Reduce</b>
<b>Target price</b> Remains	INR 35
<b>Closing price</b> October 4, 2012	INR 55

#### What's new: Promoters propose to sell 1.64% stake in APL

In a filing with the Bombay Stock Exchange (BSE), Adani Power (APL) has intimated that Adani Agro Pvt. Ltd. (AAPL), an entity that is part of the Promoter Group of APL, proposes to sell 35.58mn shares of APL (1.63% of the current shares outstanding of APL) on October 8 under the market regulator's (SEBI's) 'Offer for Sale of Shares by Promoters through the Stock Exchange Mechanism'. The shares would be sold on a separate trading window of the BSE; floor price for the sale would be declared post the stock market close on October 5.

#### Analysis: Promoters lowering stake to meet SEBI's free-float norms

- As Promoters' holding in APL currently stands at 76.63% of which AAPL holds 3.13%, the proposed stake sale would bring Promoters' holding to 75% – in compliance with the SEBI requirement on minimum 25% free float for listed entities, which has to be met by June 2013. Our interaction with management post the stake sale announcement confirms the reason for the same as 'need to meet free-float norms'.
- Interestingly, Promoters' holding in APL stood at 73.5% until May 23, 2012 when the merger of two entities (Adishree Tradelinks Pvt. Ltd. and Sanidhya Commodities Pvt. Ltd.) with APL necessitated AAPL acquiring a 3.13% holding in the APL.
- We also note that post the recently approved amalgamation of Growmore Trade & Investment Pvt. Ltd. (Mauritius) with APL takes effect, Promoter Group's holding in APL post the proposed stake sale by AAPL would drop to 68.3% as per our calculations (provided the holding company of Growmore is not treated as a 'Promoter').

**Fig. 1: Adani Power – Breakdown of promoters' shareholding**

Post the proposed stake sale, Promoters' holding would reduce to just below 75%

Shareholders	Current *		Post stake sale	
	Shares (mn)	Holding (%)	Shares (mn)	Holding (%)
<b>Promoters</b>	<b>1,670.6</b>	<b>76.6%</b>	<b>1,635.0</b>	<b>75.0%</b>
Adani Enterprises Ltd.	1,531.4	70.2%	1,531.4	70.2%
Adani Agro Pvt. Ltd. (AAPL)	68.3	3.1%	32.7	1.5%
Ventura Power Investments Pvt. Ltd.	70.9	3.3%	70.9	3.3%
<b>Non-promoters</b>	<b>509.4</b>	<b>23.4%</b>	<b>545.0</b>	<b>25.0%</b>
<b>TOTAL</b>	<b>2,180.0</b>		<b>2,180.0</b>	

Note: \* as of June 2012; Source: BSE, Nomura research

#### Implications: Maintain REDUCE, no change in company's financials

The proposed stake sale by Promoters would not have any implications on our earnings forecast for APL. Unless the 7% appreciation in the INR (vs. USD) over the past four weeks sustains, our FY13F earnings for APL would remain largely intact; our medium-/longer-term earnings outlook continues hinges on of a handful of 'binary outcome' regulatory/legal events relating to PPAs and fuel sourcing, wherein the timeline for securing clarity is difficult to assess.

#### Research analysts

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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

Post a 33% rise in the stock price over the past four weeks, APL trades at 2.0x P/B, 8.2x EV/EBITDA and 15.6x P/E on our FY14F earnings (1.7x P/B, 9.3x EV/EBITDA and 13.0x P/E on consensus FY14F earnings), indicating that valuations are expensive. Maintain REDUCE.

# Appendix A-1

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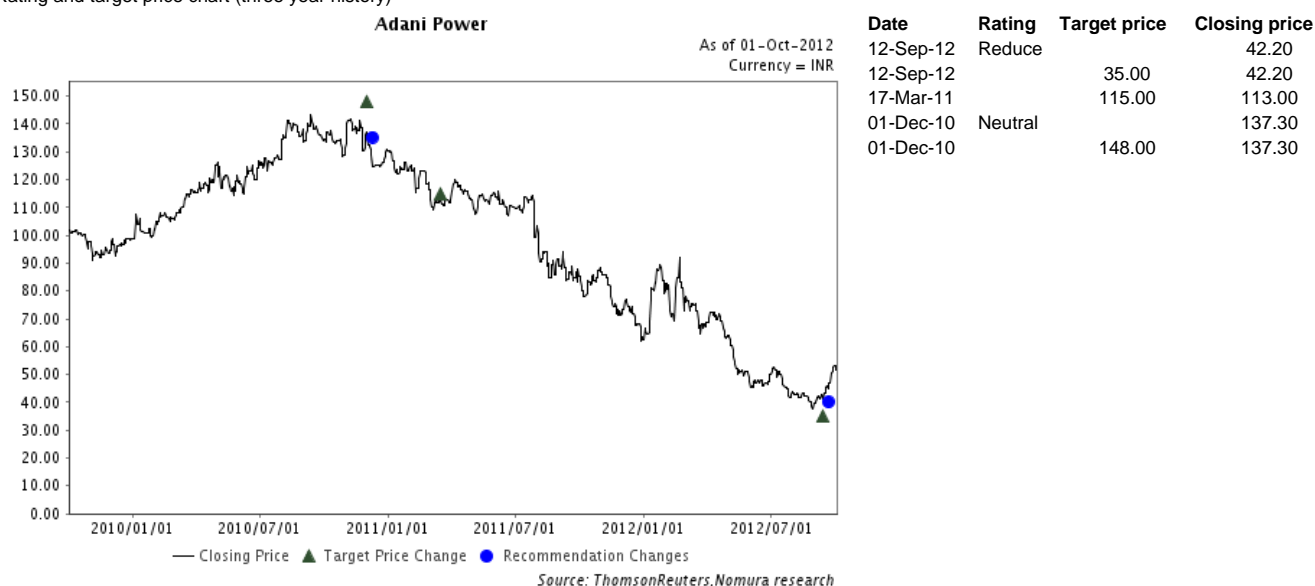
Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Adani Power	ADANI IN	INR 55	04-Oct-2012	Reduce	Not rated	

## Previous Rating

Issuer name	Previous Rating	Date of change
Adani Power	Neutral	12-Sep-2012

## Adani Power (ADANI IN) INR 55 (04-Oct-2012) Reduce (Sector rating: Not rated)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

**Valuation Methodology** We use a FCFE-based methodology (assuming 15% Cost of Equity) to value APL's operational and feasible power generation capacity. In order to capture the risk of a power project from conception to commissioning, we adjust the FCFE value of projects for 'milestone discounts' (risk weights assigned to the non-achievement of six key milestones we identify for various types of projects); accordingly, our 12-mth TP for the stock is INR35/share.

**Risks that may impede the achievement of the target price** Key risks to our view: [1] Re-working / termination of 'fixed-tariff' long-term PPAs; [2] Securing linkage coal for Tiroda-II / Kawai projects; [3] Lower-than-expected landed cost of imported coal on account of INR/USD appreciation and/or decline in seaborne thermal coal prices; [4] Merchant tariff realizations surprise on the upside.

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