

Equities

8 February 2012 | 17 pages

Adani Power (ADAN.BO)

Uncertain Outlook - Downgrade to Sell, Target Price Cut to Rs70

- Company Update
- Rating Change
- Target Price Change
- Estimate Change

- **Downgrade to Sell – Target price cut to Rs70** — On (1) a poor quarter; (2) short-term uncertainties on fuel costs given unpredictable ADE coal supplies, (3) medium-term concerns on high dependence on Coal India linkages and case 1 tariffs with limited tariff maneuverability and (4) a delayed capacity ramp-up. We revise down our target price to Rs70 (from Rs86 earlier) to factor in cuts in FY12E-20E EPS estimates by 11-75% and (2) roll forward of target P/BV of 2.0x to Jun13E (from Mar13E).
- **3Q12 significantly below expectations** — The recurring loss of Rs1.5bn compares to CIRA at Rs2.2bn profits. Reported loss was higher at Rs3.6bn on derivative MTM losses on principal-only swaps ~ Rs2.0bn. The key disappointments were (1) average PLF of 66% v/s 85% in 3Q11 and (2) fuel cost of Rs2.18/kWh (vs CIRA at Rs1.20/kWh).
- **Mundra III not on schedule – Tiroda/ Mundra IV could also be delayed** — Adani Power synchronized Mundra III unit # 2 in June 2011 but it has not declared the unit commercial due to transmission constraints. There is no clarity on when the transmission line would be ready for evacuation and management has refrained from giving any timeline. The company has pushed out the synchronization dates for Mundra IV and the three units of Tiroda Phase I.
- **Management cuts estimates for Bunyu coal** — According to management, coal arrangements with ADE at US\$36/ton are still continuing. However, the quantity of coal available in 3Q was lower at 0.73mn tons from Bunyu and hence the company had to import non-Bunyu coal (1.48mn tons) at US\$92/ton. Bunyu will supply only 2.5mn tons in FY12E (v/s 4mn tons earlier).
- **Will things reverse back to normal in the short term?** — According to management's view on the imported coal scenario, there is no doubt that, until the coal reallocation and prioritization is finalised by the Government of India, there will be pressure on margins similar to that in 3Q12.

Sell	3
<i>from Neutral</i>	
Price (08 Feb 12)	Rs73.25
Target price	Rs70.00
<i>from Rs86.00</i>	
Expected share price return	-4.4%
Expected dividend yield	0.0%
Expected total return	-4.4%
Market Cap	Rs159,688M US\$3,251M

Price Performance (RIC: ADAN.BO, BB: ADANI IN)



Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2010A	1,701	0.78	na	93.9	2.8	4.2	0.0
2011A	5,136	2.36	201.9	31.1	2.5	8.5	0.0
2012E	2,357	1.08	-54.1	67.7	2.5	3.7	0.0
2013E	7,932	3.64	236.5	20.1	2.3	11.8	0.0
2014E	20,619	9.46	160.0	7.7	1.7	25.4	0.0

Source: Powered by dataCentral

Venkatesh Balasubramaniam

+91-22-6631-9864
venkatesh.balasubramaniam@citi.com

Atul Tiwari, CFA
atul.tiwari@citi.com

Deepal Delivala
deepal.delivala@citi.com

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Adani Power (ADAN.BO)
8 February 2012

ADAN.BO: Fiscal year end 31-Mar						Price: Rs73.25; TP: Rs70.00; Market Cap: Rs159,688m; Recomm: Sell					
Profit & Loss (Rsm)	2010	2011	2012E	2013E	2014E	Valuation ratios	2010	2011	2012E	2013E	2014E
Sales revenue	4,349	21,352	42,210	95,729	156,091	PE (x)	93.9	31.1	67.7	20.1	7.7
Cost of sales	-1,667	-7,213	-22,799	-44,145	-70,890	PB (x)	2.8	2.5	2.5	2.3	1.7
Gross profit	2,681	14,139	19,410	51,584	85,201	EV/EBITDA (x)	94.2	26.7	29.6	12.2	7.3
Gross Margin (%)	61.7	66.2	46.0	53.9	54.6	FCF yield (%)	-52.1	-90.4	-54.6	-7.2	29.8
EBITDA	2,438	12,205	14,946	41,145	68,693	Dividend yield (%)	0	0	0	0	0
EBITDA Margin (%)	56.1	57.2	35.4	43.0	44.0	Payout ratio (%)	0	0	0	0	0
Depreciation	-353	-1,886	-5,345	-11,373	-16,266	ROE (%)	4.2	8.5	0.2	11.8	25.4
Amortisation	0	0	0	0	0	Cashflow (Rsm)	2010	2011	2012E	2013E	2014E
EBIT	2,085	10,319	9,601	29,772	52,428	EBITDA	2,438	12,205	14,946	41,145	68,693
EBIT Margin (%)	47.9	48.3	22.7	31.1	33.6	Working capital	1,131	17,761	-25,550	7,586	-2,070
Net interest	-377	-2,550	-7,253	-21,799	-28,567	Other	-69	-3,578	-5,411	-4,559	-9,062
Associates	0	0	0	0	0	Operating cashflow	3,501	26,388	-16,016	44,172	57,561
Non-op/Except	319	363	1,879	2,033	2,034	Capex	-86,702	-170,705	-71,236	-55,655	-10,004
Pre-tax profit	2,027	8,132	4,226	10,006	25,895	Net acq/disposals	0	0	0	0	0
Tax	-327	-3,000	-1,869	-2,074	-5,276	Other	0	-100	100	0	0
Extraord./Min.Int./Pref.div.	1	4	-2,214	0	0	Investing cashflow	-86,702	-170,805	-71,136	-55,655	-10,004
Reported net profit	1,701	5,136	143	7,932	20,619	Dividends paid	0	0	0	0	0
Net Margin (%)	39.1	24.1	0.3	8.3	13.2	Financing cashflow	88,829	137,670	130,886	17,672	-19,056
Core NPAT	1,701	5,136	2,357	7,932	20,619	Net change in cash	5,627	-6,747	43,735	6,189	28,502
Per share data	2010	2011	2012E	2013E	2014E	Free cashflow to s/holders	-83,201	-144,317	-87,251	-11,484	47,557
Reported EPS (Rs)	0.78	2.36	0.07	3.64	9.46						
Core EPS (Rs)	0.78	2.36	1.08	3.64	9.46						
DPS (Rs)	0	0	0	0	0						
CFPS (Rs)	1.61	12.10	-7.35	20.26	26.40						
FCFPS (Rs)	-38.17	-66.20	-40.02	-5.27	21.82						
BVPS (Rs)	26.50	28.84	28.91	32.54	42.00						
Wtd avg ord shares (m)	2,180	2,180	2,180	2,180	2,180						
Wtd avg diluted shares (m)	2,180	2,180	2,180	2,180	2,180						
Growth rates	2010	2011	2012E	2013E	2014E						
Sales revenue (%)	na	391.0	97.7	126.8	63.1						
EBIT (%)	nm	395.0	-7.0	210.1	76.1						
Core NPAT (%)	nm	201.9	-54.1	236.5	160.0						
Core EPS (%)	nm	201.9	-54.1	236.5	160.0						
Balance Sheet (Rsm)	2010	2011	2012E	2013E	2014E						
Cash & cash equiv.	11,654	12,551	58,221	65,690	98,965						
Accounts receivables	2,563	4,174	6,317	10,889	14,348						
Inventory	95	2,836	4,364	7,439	12,984						
Net fixed & other tangibles	155,562	324,381	390,272	434,553	428,290						
Goodwill & intangibles	0	0	0	0	0						
Financial & other assets	9,406	5,944	19,442	19,442	19,442						
Total assets	179,280	349,886	478,617	538,013	574,031						
Accounts payable	14,652	33,203	24,922	40,155	47,090						
Short-term debt	0	0	0	0	0						
Long-term debt	105,705	245,027	379,959	414,911	418,601						
Provisions & other liab	120	3,120	5,056	6,336	11,110						
Total liabilities	120,477	281,350	409,938	461,402	476,801						
Shareholders' equity	57,780	62,873	63,017	70,948	91,567						
Minority interests	1,023	5,663	5,663	5,663	5,663						
Total equity	58,804	68,536	68,679	76,611	97,230						
Net debt	94,051	232,477	321,738	349,222	319,636						
Net debt to equity (%)	159.9	339.2	468.5	455.8	328.7						

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Downgrade to Sell – Target Price Rs70

- Downgrade to Sell (from Hold earlier) on (1) unpredictably of ADE coal volumes, (2) high dependence on Coal India linkages, (3) case 1 tariffs with limited fuel cost maneuverability in tariffs and (4) delayed capacity ramp-up.
- We revise down our target price to Rs70 (from Rs86 earlier) to factor in cuts in FY12E-20E EPS estimates by 11-75% and (2) roll forward of target P/BV of 2.0x to Jun13E from Mar13E earlier.

Earnings revision

We revise down EPS estimates over FY12E-20E by 11-75% to factor in delayed commissioning of units and higher fuel costs, as shown below.

Figure 1. Adani Power – EPS Revision Tables

	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E
Sales (mn kWh)									
Old	15,205	33,729	49,894	59,078	59,181	59,158	59,158	59,158	59,181
New	12,622	30,714	49,919	58,962	59,065	59,042	59,042	59,042	59,065
Change	-17.0%	-8.9%	0.1%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%
Merchant %									
Old	30.2%	28.3%	21.6%	15.1%	15.2%	15.2%	15.2%	15.2%	15.2%
New	28.3%	29.1%	17.4%	14.9%	15.1%	15.0%	15.0%	15.0%	15.1%
Change	-1.9%	0.8%	-4.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%
Sales									
Old	50,188	102,336	155,201	180,275	179,789	179,433	179,444	177,603	177,102
New	42,210	95,729	156,091	181,017	179,655	179,299	179,310	177,469	176,968
Change	-15.9%	-6.5%	0.6%	0.4%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%
EBITDA									
Old	26,575	51,145	74,514	83,652	82,739	80,328	78,185	74,123	69,191
New	14,946	41,145	68,693	75,087	72,249	70,478	68,983	65,584	61,417
Change	-43.8%	-19.6%	-7.8%	-10.2%	-12.7%	-12.3%	-11.8%	-11.5%	-11.2%
PAT									
Old	11,376	17,637	28,358	31,669	32,785	32,730	32,914	31,564	29,505
New	2,357	7,932	20,619	22,039	21,929	22,704	23,724	23,221	22,093
Change	-79.3%	-55.0%	-27.3%	-30.4%	-33.1%	-30.6%	-27.9%	-26.4%	-25.1%
EPS									
Old	4.36	6.77	10.88	12.15	12.58	12.56	12.63	12.11	11.32
New	1.08	3.64	9.46	10.11	10.06	10.41	10.88	10.65	10.13
Change	-75.2%	-46.2%	-13.1%	-16.8%	-20.0%	-17.1%	-13.8%	-12.0%	-10.5%

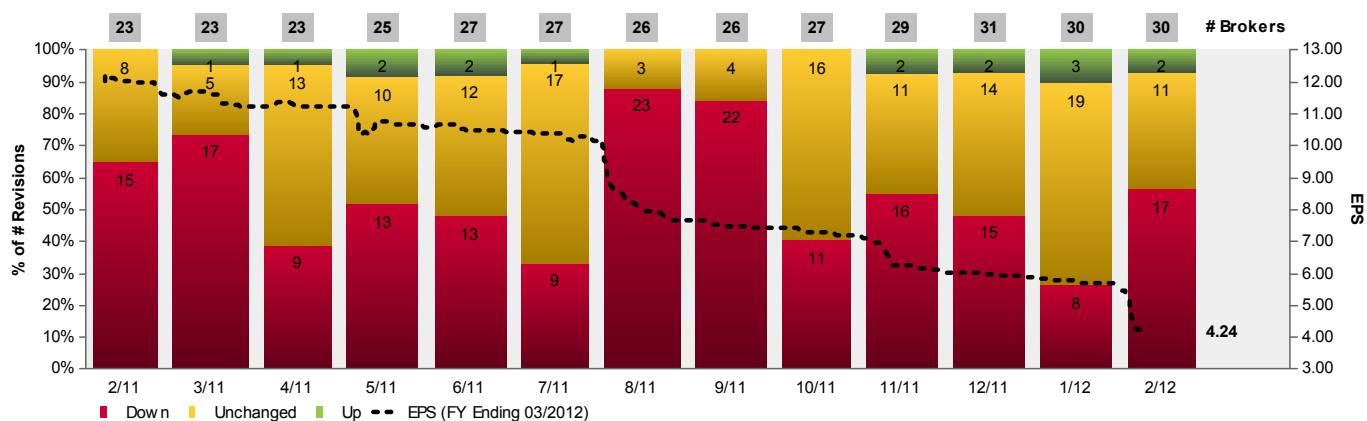
Source: Citi Investment Research and Analysis estimates

Figure 2. Adani Power – CIRA v/s Consensus

	FY12E	FY13E	FY14E	FY15E
PAT				
CIRA	2,357	7,932	20,619	22,039
Consensus	9,288	16,719	23,113	27,091
Difference	-74.6%	-52.6%	-10.8%	-18.6%
EPS				
CIRA	1.08	3.64	9.46	10.11
Consensus	4.15	7.41	10.31	11.93
Difference	-73.9%	-50.9%	-8.3%	-15.3%
BV				
CIRA	28.9	32.5	42.0	52.1
Consensus	33.0	40.1	49.7	64.1
Difference	-12.5%	-18.8%	-15.5%	-18.7%
RoE				
CIRA	3.7%	11.8%	25.4%	21.5%
Consensus	13.0%	19.2%	23.0%	21.6%
Difference	-9.2%	-7.4%	2.4%	-0.1%

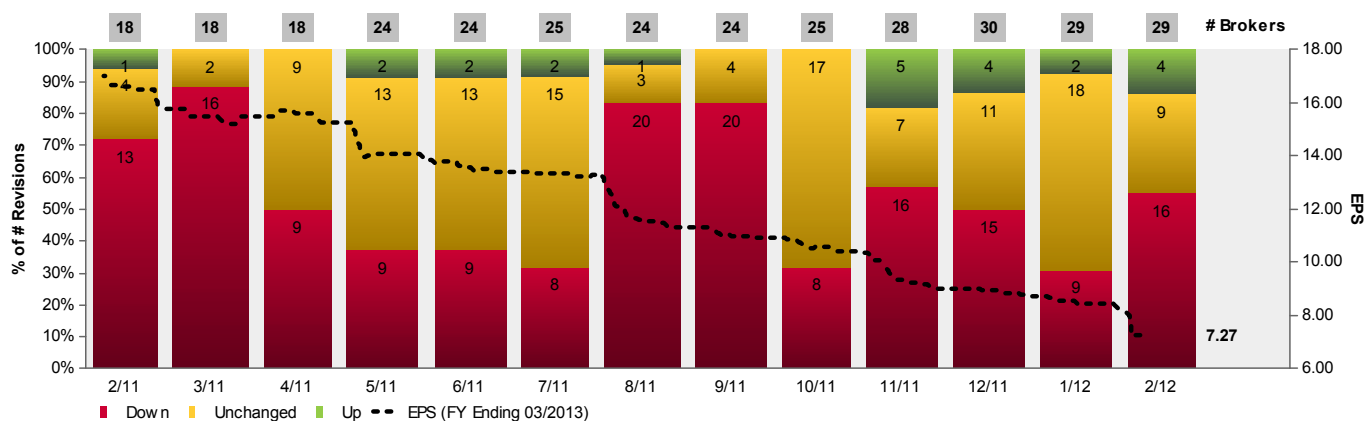
Source: Bloomberg Citi Investment Research and Analysis estimates

Figure 3. Adani Power Consolidated FY12E Consensus Expectations Being Revised Down



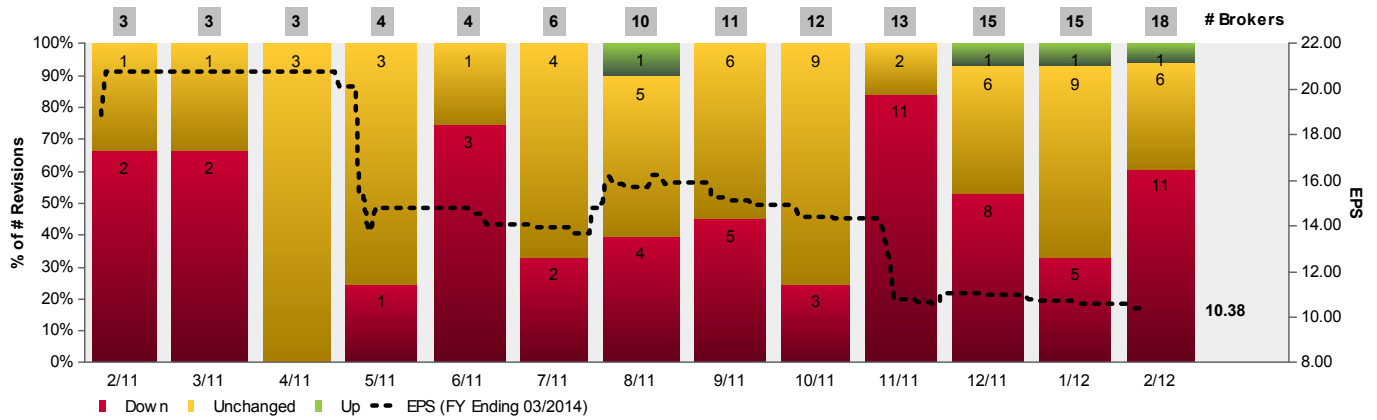
Source: Factset and Citi Investment Research and Analysis

Figure 4. Adani Power Consolidated FY13E Consensus Expectations Being Revised Down



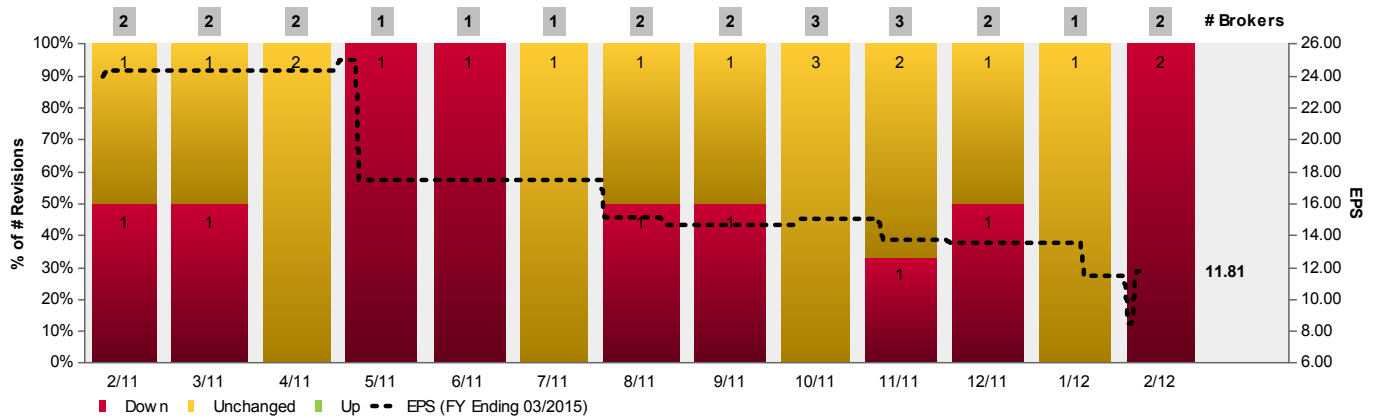
Source: Factset and Citi Investment Research and Analysis

Figure 5. Adani Power Consolidated FY14E Consensus Expectations Being Revised Down



Source: Factset and Citi Investment Research and Analysis

Figure 6. Adani Power Consolidated FY15E Consensus Expectations Being Revised Down



Source: Factset and Citi Investment Research and Analysis

Quants View – Unattractive

Paul Chanin
+65-6432-1153
paul.chanin@citi.com

Data as of: 03-Feb-12

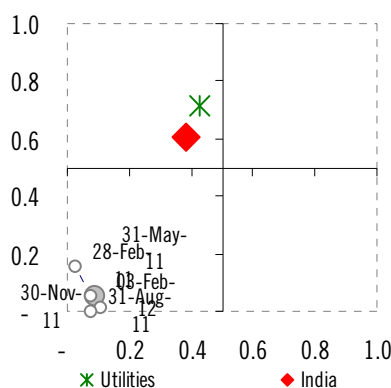
Radar Screen Quadrant Definitions

Glamor Poor relative value but superior relative momentum	Attractive Superior relative value and superior relative momentum
Unattractive Poor relative value and poor relative momentum	Contrarian Superior relative value but poor relative momentum

Adani Power Ltd currently lies in the Extreme corner of the Unattractive quadrant of our Value-Momentum map with weak momentum and weak value scores, having been a resident there for the past 11 months. Compared to its peers in the Utilities sector, Adani Power Ltd fares worse on the valuation metric and on the momentum metric. Similarly, compared to its peers in its home market of India, Adani Power Ltd fares worse on the valuation metric and on the momentum metric.

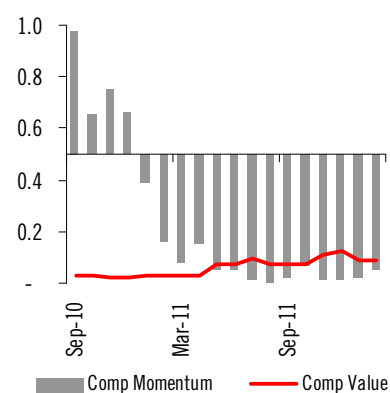
From a macro perspective, Adani Power Ltd has a low Beta to the region, so can be expected to hold its own given a decline in the regional market. It is also likely to benefit from weaker US dollar.

Figure 7. Radar Quadrant Chart History



Source: CIRA

Figure 8. Radar Valuation and Momentum Scores



Source: CIRA

Figure 9. Radar Model Inputs

IBES EPS (Actual and Estimates)			
FY(-2)	0.00	Implied Trend Growth (%)	88.53
FY(-1)	0.82	Trailing PE (x)	34.09
FY0	2.35	Implied Cost of Debt (%)	4.31
FY1	5.53	Standardised MCap	(0.09)
FY2	8.61		

Note: Standardised MCap calculated as a Z score – (mkt cap - mean)/std dev – capped at 3

Source: Citi Investment Research and Analysis, Worldscope, I/B/E/S

Figure 10. Stock Performance Sensitivity to Key Macro Factors

Region	0.49	Commodity ex Oil	(0.22)
Local Market	0.34	Rising Oil Prices	0.02
Sector	0.55	Rising Asian IR's	(0.15)
Growth Outperforms Value	0.18	Rising EM Yields	(0.22)
Small Caps Outperform Large Caps	(0.68)	Weaker US\$ (vs Asia)	1.69
Widening US Credit Spreads	0.04	Weaker ¥ (vs US\$)	0.29

Source: Citi Investment Research and Analysis

Business Update

Extremely disappointing quarter

- Adani Power had a 3Q12 recurring loss of Rs1.5bn vs CIRA expectations of profit of Rs2.2bn. The reported loss was higher at Rs3.6bn on account of derivative MTM losses on principal-only swaps to the tune of Rs2.0bn.
- The key disappointments in the 3Q12 results were: (1) average PLF of 66% v/s 85% in 3Q11 and (2) fuel cost of Rs2.18/kWh (vs CIRA at Rs1.20/kWh).

Figure 11. Adani Power 3Q12 – Operational Statistics

Year End Mar31 (Rsmn)	FY10	1QFY11	2QFY11	3QFY11	4QFY11	FY11	1QFY12	2QFY12	3QFY12
CEA Generation	1,607	1,153	1,520	1,951	2,998	7,622	3,193	3,298	3,693
Company Generation (mu)	1,355	1,153	1,495	1,931	3,007	7,586	3,190	3,298	3,381
Company Sales (mu)	1,221	1,030	1,334	1,717	2,728	6,810	2,898	2,959	3,018
Auxiliary Consumption	9.9%	10.7%	10.8%	11.0%	9.3%	10.2%	9.2%	10.3%	10.7%
GUVNL Sales (mn kWh)		850	1,199	1,543	2,408	6,001	2,628	2,134	1,885
Merchant sales (mn kWh)		180	135	174	320	809	121	1,073	949
UI (mn kWh)							149	(248)	184
Custom Duty		0	37	172	271	480	290	296	302
- GUVNL (Pass Through In Tariff)		0	34	155	239	428	263	213	189
- Merchant		0	4	17	32	53	27	83	113
Rate (Rs/kWh)		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Net Sales		3,531	3,952	5,026	8,367	20,876	8,187	10,324	10,595
Net ASPs (Rs/kWh)		3.43	2.96	2.93	3.07	3.07	2.82	3.49	3.51
- GUVNL Duty Recoverable							263	213	189
- Others							11	88	242
- GUVNL Sales		2,370	3,292	4,347	6,936	16,945	6,859	5,610	5,300
GUVNL Tariff (Rs/kWh)		2.79	2.75	2.82	2.88	2.82	2.61	2.63	2.81
- Merchant Sales		1,161	660	679	1,431	3,930	532	5,040	3,810
Merchant Tariff (Rs/kWh)		6.45	4.88	3.90	4.47	4.86	4.40	4.70	4.01
- UI							522	(627)	1,054
UI Tariff (Rs/kWh)							3.50	2.53	5.73

Source: Company, CEA and Citi Investment Research and Analysis

Is the supply contract with Adani Enterprise at US\$36/ton still on?

We find the same very surprising because, at the Citi India Infrastructure Conference in Nov 11, management had maintained that Bunyu would supply 4mn tons, 6-7mn tons and 10-11mn tons in FY12E, FY13E and FY14E respectively.

- According to the management, the coal arrangements with Adani Enterprises (ADE) at US\$36/ton are still continuing. There has been no change of stance on that. However, the quantity of coal available in the quarter was lower at 0.73mn tons from Bunyu and hence Adani Power had to import non-Bunyu coal to the tune of 1.48mn tons at US\$92/ton (GCV of 5000-5500 kcal/kg). Non-Bunyu coal has become more expensive because of a change in Indonesian laws post Sep 11. Management also believes Bunyu will supply only 2.5mn tons in FY12E.

Is there any possibility that fuel costs could go down to earlier levels in the near future?

- According to the management, looking at the imported coal scenario there is no doubt that, until the coal reallocation and prioritization is finalized by the Government of India, there will be pressure on margins similar to that in 3Q12.

Figure 12. Adani Power 3Q12 Results Review

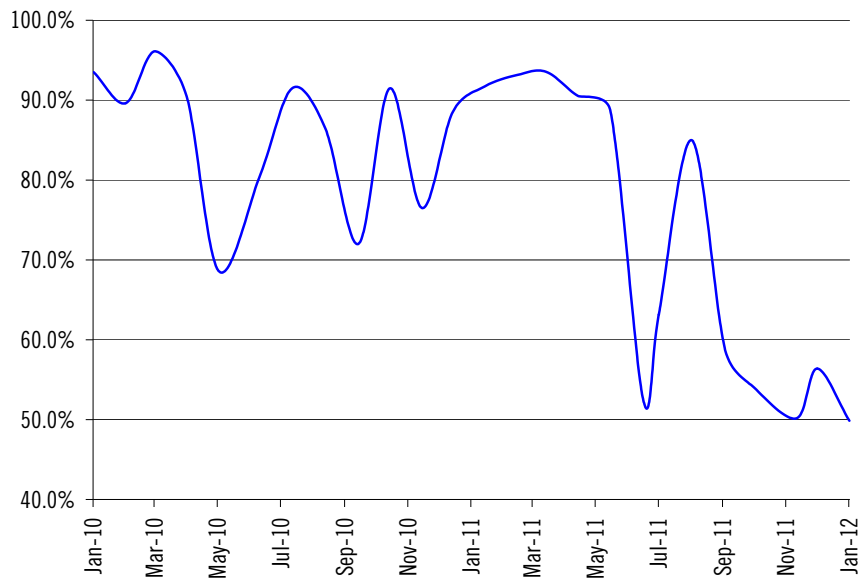
Year End Mar31 (Rsmn)	FY10	1QFY11	2QFY11	3QFY11	4QFY11	FY11	1QFY12	2QFY12	3QFY12
Net Sales	4,349	3,531	3,952	5,026	8,367	20,876	8,187	10,324	10,595
Rs/kWh per unit sold	3.56	3.43	2.96	2.93	3.07	3.07	2.82	3.49	3.51
Fuel Cost	(1,667)	(1,156)	(1,388)	(1,750)	(2,464)	(6,758)	(3,311)	(4,377)	(7,364)
Rs/kWh per unit generated	1.23	1.00	0.93	0.91	0.82	0.89	1.04	1.33	2.18
- Fuel Cost (EX FX)		(1,344)	(1,316)	(1,790)	(2,594)	(7,044)	(3,332)	(3,439)	(6,044)
Rs/kWh per unit generated		1.17	0.88	0.93	0.86	0.93	1.04	1.04	1.79
- FX fluctuation		188	(72)	40	130	286	21	(939)	(1,320)
O&M Cost	(243)	(242)	(281)	(506)	(834)	(1,863)	(752)	(1,153)	(1,110)
Rs/kWh per unit sold	0.20	0.24	0.21	0.29	0.31	0.27	0.26	0.39	0.37
EBITDA	2,438	2,132	2,283	2,770	5,070	12,255	4,123	4,794	2,120
EBITDA margin	56.1%	60.4%	57.8%	55.1%	60.6%	58.7%	50.4%	46.4%	20.0%
Rs/kWh per unit sold	2.00	2.07	1.71	1.61	1.86	1.80	1.42	1.62	0.70
Depreciation	(353)	(279)	(359)	(455)	(711)	(1,804)	(1,040)	(1,053)	(1,570)
Rs/kWh per unit sold	0.29	0.27	0.27	0.26	0.26	0.26	0.36	0.36	0.52
EBIT	2,085	1,853	1,924	2,315	4,359	10,451	3,084	3,741	550
EBIT margin	48%	52%	49%	46%	52%	50%	38%	36%	5%
Net Interest	(377)	(354)	(455)	(532)	(962)	(2,303)	(886)	(1,336)	(1,387)
- Gross Interest		(433)	(773)	(882)	(1,081)	(3,168)	(1,341)	(1,848)	(2,163)
- Interest Income		79	318	350	119	866	455	512	777
Other income	319	0	0	8	5	13	1	6	21
PBT	2,027	1,499	1,469	1,792	3,401	8,161	2,198	2,411	(815)
Tax	(327)	(354)	(211)	(667)	(1,768)	(3,000)	(488)	(410)	(719)
Rate%	16.1%	23.6%	14.3%	37.2%	52.0%	36.8%	22.2%	17.0%	-88.2%
PAT	1,700	1,145	1,258	1,125	1,633	5,161	1,710	2,001	(1,535)
PAT margin	39.1%	32.4%	31.8%	22.4%	19.5%	24.7%	20.9%	19.4%	-14.5%
2Q and 3Q GUVNL Duties	0	0	0	0	188	188	0	0	0
Old receivables recovered		0	0	0	0	0	0	400	0
Tax on receivables		0	0	0	0	0	0	(68)	0
MTM on Derivatives		0	0	(29)	(83)	(112)	59	(558)	(2,047)
Reported PAT	1,700	1,145	1,258	1,096	1,821	5,237	1,769	1,775	(3,581)

Source: Company and Citi Investment Research and Analysis

What capacity utilization levels is Adani Power operating at?

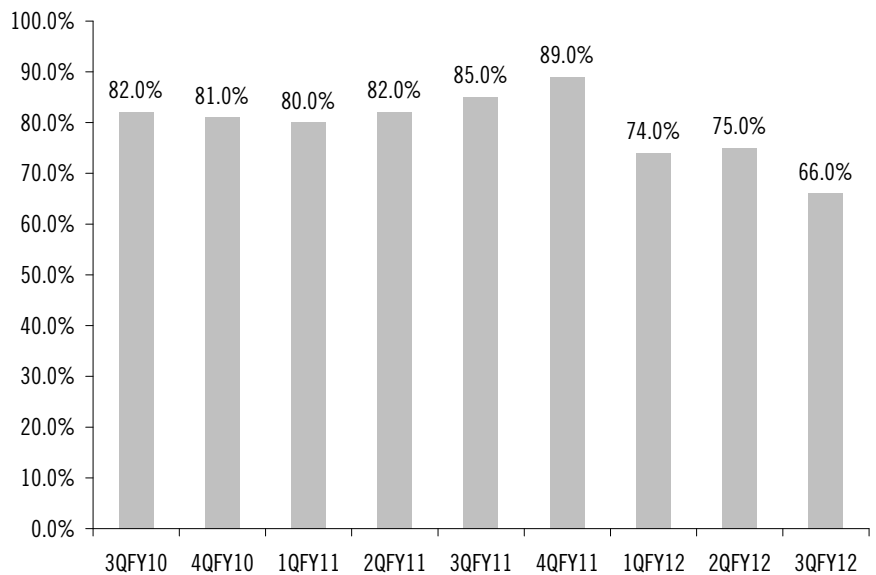
- Both company data and CEA data suggest capacity utilization has come off significantly. According to the latest tentative CEA data available, Mundra operated at a plant load factor (PLF) of 50% in Jan 12.
- The low PLFs have also taken a toll on the numbers as the fixed costs, like O&M, depreciation and interest costs, would remain high irrespective of units generated.

Figure 13. Adani Power Mundra Power Plant Capacity Utilization



Source: CEA and Citi Investment Research and Analysis

Figure 14. Adani Power Mundra Power Plant Capacity Utilization



Source: Company and Citi Investment Research and Analysis

What explains the difference of 312 mnkWh between the company's and CEA's generation data?

- Adani Power synchronized Mundra III unit # 2 in June 2011 but it has not declared the unit commercial due to transmission constraints. As a consequence, profit/ loss from the units generated by this unit have been capitalized.

According to Prayas Energy group, which undertakes research on issues related to energy policy, "If the State Government allows scrapping of PPAs or allows passing of additional cost to, it would take away the sanctity of the process of competitive bidding."

- There is no clarity on when the transmission line would be ready for evacuation for this project and management has refrained from giving any timeline.

What is the update on the GUVNL 1000MW Rs2.35/kWh contract?

- Adani Power entered into PPA dated 2 February, 2007 with Gujarat Urja Vikas Nigam Limited (GUVNL) for supply of power on a long-term basis subject to certain conditions to be complied with within a stipulated time at a levelized tariff of Rs2.35/kWh. Among others, one of the conditions was pertaining to a tie-up of fuel supply based on coal to be provided by Gujarat Mineral Development Corporation (GMDC). This agreement did not materialize.
- Consequent to the same, the company had terminated the PPA and has offered to pay the liquidated damages (LDs). However, GUVNL has contested the termination and approached Gujarat Energy Regulatory Commission (GERC) to resolve the matter. GERC held that the agreement cannot be terminated. Against the decision of GERC, the company filed an appeal before the Appellate Tribunal for Electricity (APTEL).
- In a judgment passed in Sep11, APTEL dismissed Adani Power's appeal and concluded that the company's PPA termination notice to GUVNL is not valid. The company has appealed against the APTEL order in the Supreme Court.

What is the update on the Tiroda 1320MW contract?

- Adani Power had received LoAs for Tiroda Phase I of 1320MW from South Eastern Coalfields/ Western Coalfields for supply of ~ 2.5 MTPA of Grade 'F' coal/ ~ 2.2 MTPA of Grade 'E' coal.
- The company had also been allotted the Lohara mines with 170mn tons of coal at a distance of 260km from the plant. The Lohara mines are 15 km off the Tadoba Andheri Tiger Reserve (TATR) in Maharashtra. Hence the Expert Appraisal Committee (EAC) (Thermal & Coal Mining) has decided to withdraw the Terms of Reference (TORs) granted.
- According to *Mint*, Adani Power wants to terminate the 1320MW PPA with MSEDCL due to "reasons beyond the company's control". It has offered to supply power at a higher price than agreed in the PPA.
- In a similar case, MSEDCL refused to terminate the PPA signed with JSW Energy. JSW wanted to cancel the PPA because of reasons beyond its control. It subsequently approached MERC, which ruled in favor of MSEDCL in Nov 11.

Adani Power

Company description

Adani Power Limited (APL) has five thermal power projects in various stages of development, with combined capacity of 16,500 MW, namely: (i) Mundra Power Project with 4,620MW (ii) Tiroda Power Project with 3,300MW (iii) Kawai Power Project with 1,320MW (iv) Dahej Power Project with a capacity of 2,640MW (v) Chhindwara Power Project with a capacity of 1320MW and (vi) Bhadreshwar with a capacity of 3300MW.

Investment strategy

We rate Adani Power Sell. We have already lived through the disappointment that despite Adani Power management's expectations of selling a big portion of the output from the first 4 units of 330MW in the merchant markets, most of it got sold to GUVNL at PPA rates before the start of the PPA. Further downside risks emanate from (1) unpredictability of ADE coal volumes, (2) high dependence on Coal India linkages, (3) case 1 tariffs with limited fuel cost maneuverability in the tariff and (4) delayed capacity ramp-up.

Valuation

The Indian power sector has seen a sea change over the last 4-5 years from an era of: (1) assured RoE where fuel cost was a pass-through; (2) Coal India honored its coal linkages most of the time; (3) imported coal was a small quantum of India's requirement; (4) analysts/ investors did not have to bother about merchant prices/fuel costs; and (5) though SEBs were making losses, they were not asking generators to back down generation to an era where (1) case 1 and case 2 are becoming more common than assured RoE; (2) one is worried if Coal India will honor its coal linkage contracts; (3) imported coal is becoming increasingly important; (4) analysts/investors have to bother about merchant prices/fuel costs; and (5) SEBs are asking generators to back down generation.

This means one has to adapt valuation approaches to keep up with the sudden changes in operating outlook for companies. As a consequence we now use a pure P/BV multiple set on June13E at 2x. Our target multiple is well supported by EPS CAGR of 59% over FY11-14E with average RoE of 14%

Risks

Upside risks include to our target price: 1) Better-than-expected operating parameters; 2) Faster-than-expected execution; 3) Higher-than-expected merchant tariffs; 4) Significant progress on 3300MW of projects now in planning stages and 5) Lower than expected fuel costs.

Appendix A-1

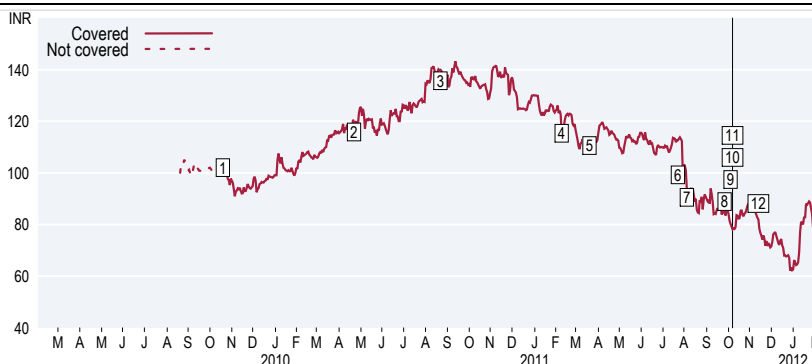
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Adani Power (ADAN.BO) Ratings and Target Price History Fundamental Research

Analyst: Venkatesh Balasubramaniam
Covered since October 20 2009



	Date	Rating	Target Price	Closing Price
1	20-Oct-09	*3M	*88.00	100.15
2	22-Apr-10	3M	*106.00	119.50
3	23-Aug-10	*1L	*159.00	139.95
4	9-Feb-11	1L	*130.00	115.35

* Indicates change

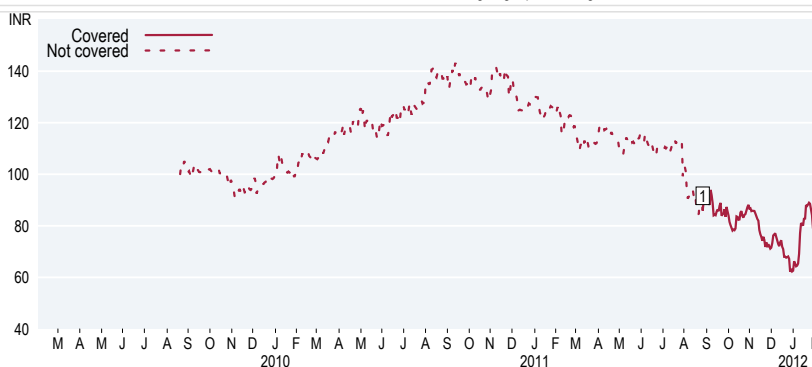
	Date	Rating	Target Price	Closing Price
5	21-Mar-11	1L	*125.00	110.60
6	22-Jul-11	1L	*131.00	112.65
7	4-Aug-11	*2L	*105.00	93.55
8	27-Sep-11	2L	*96.00	86.45

	Date	Rating	Target Price	Closing Price
9	5-Oct-11	2L	*87.00	80.25
10	7-Oct-11	Stock rating system changed		
11	7-Oct-11	*2	87.00	78.15
12	14-Nov-11	2	*86.00	82.00

Rating/target price changes above reflect Eastern Standard Time

Adani Power (ADAN.BO) Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Venkatesh Balasubramaniam
Covered since October 20 2009



	Date	Rating	Target Price	Closing Price
1	26-Aug-11	*ADD LP	-	85.90

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Adani Power Ltd (ADAN.BO) Rating History Global Quantitative Research World Radar Screen

Analyst: Chris Montagu
Covered since September 1 2010



	Date	Rating	Target Price	Closing Price
1	1-Oct-10	*1	-	134.35
2	1-Nov-10	*3	-	131.00
3	1-Jan-11	*1	-	130.10
4	1-Feb-11	*5	-	124.10

* Indicates change

	Date	Rating	Target Price	Closing Price
5	1-Mar-11	*8	-	116.70
6	1-Apr-11	*9	-	115.75
7	1-Jun-11	*7	-	115.55
8	7-Jul-11	*9	-	110.50

	Date	Rating	Target Price	Closing Price
9	9-Aug-11	*8	-	91.60
10	9-Sep-11	*9	-	88.80
11	8-Nov-11	*8	-	85.75

Rating/target price changes above reflect Eastern Standard Time

Adani Power Ltd (ADAN.NS)

Rating History
Global Quantitative Research
Asia Radar Screen

Analyst: Paul R Chanin
Covered since October 1 2010



	Date	Rating	Target Price	Closing Price
1	1-Oct-10	*3	-	134.40
2	29-Oct-10	*4	-	128.95

	Date	Rating	Target Price	Closing Price
3	7-Jan-11	*5	-	126.60
4	19-Aug-11	*3	-	84.55

	Date	Rating	Target Price	Closing Price
5	26-Aug-11	*5	-	85.90

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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<i>% of companies in each rating category that are investment banking clients</i>	45%	41%	40%	49%	43%	41%
Citi Investment Research & Analysis Quantitative World Radar Screen Model Coverage	30%	40%	30%			
<i>% of companies in each rating category that are investment banking clients</i>	22%	24%	21%			
Citi Investment Research & Analysis Quantitative Decision Tree Model Coverage	52%	0%	48%			
<i>% of companies in each rating category that are investment banking clients</i>	54%	0%	44%			
Citi Investment Research & Analysis Asia Quantitative Radar Screen Model Coverage	20%	60%	20%			
<i>% of companies in each rating category that are investment banking clients</i>	21%	22%	20%			
Citi Investment Research & Analysis Australia Radar Model Coverage	41%	0%	59%			
<i>% of companies in each rating category that are investment banking clients</i>	22%	0%	17%			

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CIRA Asia Quantitative Radar Screen model recommendations are based on a regionally consistent framework to measure relative value and momentum for a large number of stocks across regional developed and emerging markets. Relative value and momentum rankings are equally weighted to produce a global attractiveness score for each stock. The scores are then ranked and put into quintiles. A stock with a quintile rating of 1 denotes an attractiveness score in the top 20% of the universe (most attractive). A stock with a quintile rating of 5 denotes an attractiveness score in the bottom 20% of the universe (least attractive).

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