

July 11, 2011

Price Performance

APL

(%)	1M	3M	6M	12M
Absolute	(4)	(9)	(14)	(13)
Rel. to Nifty	(6)	(5)	(10)	(18)

JSW Energy

(%)	1M	3M	6M	12M
Absolute	(7)	(20)	(29)	(46)
Rel. to Nifty	(9)	(17)	(26)	(49)

Lanco

(%)	1M	3M	6M	12M
Absolute	(23)	(45)	(59)	(63)
Rel. to Nifty	(24)	(43)	(57)	(66)

RPL

(%)	1M	3M	6M	12M
Absolute	0	(13)	(24)	(32)
Rel. to Nifty	(2)	(9)	(21)	(37)

JPVL

(%)	1M	3M	6M	12M
Absolute	(10)	(5)	(12)	(33)
Rel. to Nifty	(12)	(2)	(8)	(37)

KSK

(%)	1M	3M	6M	12M
Absolute	(2)	5	(9)	(33)
Rel. to Nifty	(4)	9	(5)	(37)

NBVL

(%)	1M	3M	6M	12M
Absolute	4	(17)	(29)	(44)
Rel. to Nifty	1	(14)	(26)	(48)

NTPC

(%)	1M	3M	6M	12M
Absolute	9	2	(4)	(5)
Rel. to Nifty	6	6	1	(11)

GIPCL

(%)	1M	3M	6M	12M
Absolute	(7)	(16)	(23)	(34)
Rel. to Nifty	(9)	(13)	(20)	(38)

Amit Golchha

amit.golchha@emkayglobal.com
+91 22 6624 2408

Forward curve; buyers shying away from bilateral

- In CERC's May 2011 report, more than price what's important to note is 50%+ contracts are 'less than a week' and contract volumes are at just 18% of April month contract volumes
- This means buyers are shying away from entering into '1 week +' contracts. This we believe is after-effect of exchange prices being lower than bilateral prices for past one year
- Other observations - 1) 65% of volumes signed in May11 are at Rs3.58/unit, 5% volumes at Rs4/unit + and 2) Aug11 price prediction is Rs3.84/unit and Sep11 even lower at Rs3.58/unit.
- Foresee bilateral merchant prices heading towards avg. Rs3.5-3.7/unit in FY12E & Rs3.0-3.2/unit in FY13E (Rs4.7/unit in FY11); Use any upswings to reduce weights

50% of contracts are 'less than a week' contracts - buyers shying away

In CERC's May 2011 report, more than the price what's important to note is >50% of the contracts are 'less than a week' contracts and the contract volumes have declined and are at 18% of April month contract volumes only. This means that buyers are shying away from entering into '1 week +' contracts - after effects of exchange prices consistently being lower than bilateral prices for past one year.

September 2011 prediction at Rs3.58/unit

Other Observations - (1) 65% of contract volumes signed in May 2011, is at Rs3.58/unit and only 5% of volumes are at higher than Rs4/unit and (2) August 2011 price is predicted to be Rs3.84/unit and September even lower at Rs3.58/unit. Though we believe, below average monsoon might be a positive for the merchant market, capacity additions are likely to make up for most of the shortfall in hydro generation (if at all).

May11 contract volumes at just 18% of Apr11

CERC had reported huge volumes Apr11 of 9.3bn units vs 1.4bn units contracted in Mar11. However, we believe that since most of these contracts were for one month (delivery max up to May 2011), these were driven by state elections (5 states in April and May). As per our expectations contract volumes have come down to 1.7bn units in May11.

Merchant power prices are headed towards Rs3.2/unit in FY13E; Stick to regulated utilities; Top pick - NHPC

FY11 bilateral merchant prices stood at Rs4.7/unit mainly driven by prices in first 6 months. After analyzing (1) electricity demand, (2) supplies scheduled and (3) state distribution company losses - we believe that merchant power prices including bilateral are headed towards Rs3.5-3.7/unit (average) in FY12E and Rs3.0-3.2/unit in FY13E. Our estimate of sustainable merchant power prices stands at Rs2.7/unit (tariff at which discom's losses do not increase) beyond FY13E.

We reiterate negative view on private power utilities (except Reliance Power) and prefer regulated utilities. Our top sell is Adani Power (valuations do not price in risks and recent negative news flow). Reliance Power (huge captive fuel at cheap cost) is our top pick in private utilities space. We like regulated utilities for their defensiveness, decent growth in next five years. NHPC (Valuations comfort, regulatory triggers and commissioning pick up) in our top pick in regulated utilities space, followed by power grid (low risk, reasonable returns) and NTPC (lower risks, reasonable valuations and improving execution) in the same order.

Forward curve predictions, actual bilateral prices and deviation from predictions

Month	Predictions (months back)				Actual	yoy %	Deviation From			Contract Volumes mn Units
	4	3	2	1			Avg Predictions	1st estimate	1 month back	
Sep-10				5.20	4.73	0.0%	-9.1%	-9.1%	-9.1%	2152
Oct-10			4.29	4.62	4.00	-21.1%	-10.2%	-6.7%	-13.4%	2397
Nov-10		4.28	4.65	4.21	3.91	-26.6%	-10.8%	-8.6%	-7.2%	1054
Dec-10		4.75	4.40	4.30	3.95	-20.8%	-11.9%	-16.8%	-8.1%	1985
Jan-11		4.38	4.38	4.25	4.00	-24.0%	-7.7%	-8.7%	-5.9%	2392
Feb-11	4.37	4.37	4.27	4.29	4.24	-16.0%	-2.0%	-3.0%	-1.2%	3157
Mar-11	4.35	4.32	4.36	4.41	4.67	-5.5%	7.1%	7.4%	5.9%	1410
Apr-11	4.59	4.60	4.68	4.68	4.76	-17.1%	2.6%	3.7%	1.7%	9325
May-11	4.81	4.85	4.83	4.67						1659
Jun-11	4.04	4.05	4.08							
Jul-11	3.49	4.56	4.53							
Aug-11	4.58	3.84								
Sep-11	3.58									

Source: CERC, Emkay Research

	From	to	Max	Min	Avg	Volumes	Monthly Avg	Total Volumes
						Wgtd		
May-11	1-Jan	7-Jan	4.36	3.69	4.04	71		
	8-Jan	14-Jan	4.48	4.48	4.48	5		
	15-Jan	21-Jan	8.54	3.29	3.57	29		
	22-Jan	28-Jan	5.54	3.17	4.18	471		
	29-Jan	4-Feb	4.86	2.75	3.58	1083		
							3.77	1659

	>3 Mths	>1 Mths	>1 wk	<1wk	Total
Sep-10	0	50	7	6	63
Oct-10	0	43	12	13	68
Nov-10	0	34	6	4	44
Dec-10	0	50	15	8	73
Jan-11	0	72	13	24	109
Feb-11	0	72	27	3	102
Mar-11	0	40	5	13	58
Apr-11	5	58	3	12	78
May-11	0	39	20	63	122

Valuation Table – Power Utilities

Companies	Rating	Target	PE (x)		P/BV (x)		EV/EBITDA (x)		RoE (%)	
			FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
APL	REDUCE	103	10.5	6.7	2.7	1.9	11.1	6.9	30.7	35.4
JSW Energy	REDUCE	78	9.1	11.4	1.6	1.4	9.5	11.7	20.0	13.3
RPL	Buy	153	51.4	19.6	1.8	1.5	48.9	17.4	3.6	8.6
Lanco	BUY	56	7.4	5.5	0.9	0.8	8.7	7.3	16.0	18.6
JPVL	HOLD	47	25.5	20.9	2.1	1.8	11.9	12.4	11.0	9.3
KSK Energy	HOLD	110	12.2	9.8	1.4	1.2	13.8	11.7	12.6	14.0
NBVL	ACCUM	290	5.6	4.7	0.8	0.7	8.6	9.0	16.8	16.1
NTPC	BUY	204	17.1	15.3	2.1	2.0	13.2	11.4	12.9	13.3
GIPCL	BUY	115	8.5	7.9	0.9	0.8	5.3	5.2	10.7	10.8

Emkay Global Financial Services Ltd.

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

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