

# ADANI POWER

## Another disappointing quarter

India Equity Research | Power



Adani Power's (APL) Q3FY13 adjusted loss of INR4.1bn surpassed our /consensus INR1.5bn/INR2bn loss estimate. The variance was due to use of high cost imported coal on account of lower-than-expected Bunyu volumes. Subdued PLF at Tiroda also impacted earnings. While management remains confident of improving domestic fuel supplies for pipeline projects, near-term challenges persist. Maintain 'REDUCE'.

### Disappointment continues on coal supplies

APL's consolidated Q3FY13 loss, adjusting for INR1.4bn of forex loss, deferred tax of INR1bn and profit on sale of shipping business of INR238mn, came at INR4.1bn against our estimate of INR1.5bn loss/consensus loss estimate of INR2.0bn. Lacklustre performance at Mundra continued with Bunyu coal supplies dropping to 0.44MT (versus our estimate of 1MT and 0.8MT supplied in Q2FY13). Supplies under FSA from Coal India rose to 0.41MT, but still fell short of ~1.3MT quarterly ACQ. Thus, APL had to consume ~2.5MT high cost imported coal, leading to higher-than-estimated loss. Tiroda plant's first unit (660MW), which commenced operations during Q3FY13, also operated at estimated PLF of ~26% (gross generation of 378MUs and sale of 353MUs), resulting in higher-than-expected loss on higher fuel (INR 2.9/unit) and fixed costs.

### Tiroda FSA inked; targeting 9,240MW by FY14 end

The Tiroda plant signed a FSA for 2.3MTPA (for Units 1&2) on December 28 with South Eastern Coalfields; similar quantum is likely to be inked in Q4FY13 against incremental LoA. Management stated that Tiroda extension and Kawai projects are in advanced stages and will be commissioned by FY14, taking APL's total capacity to 9,240MW.

### Outlook and valuations: Lacks visibility; maintain 'REDUCE'

While management remains confident of securing domestic coal supplies for Tiroda extension and Kawai projects, risks of lower-than-expected supplies from Coal India and scale up issues at Bunyu remain. At CMP of INR60, APL is trading at 2.9x and 2.2x revised FY13E and FY14E BV, respectively. We have introduced FY15 estimates. Maintain 'REDUCE/Sector Underperformer' with SOTP-based target price of INR45/share (INR 47 earlier).

EDELWEISS 4D RATINGS	
Absolute Rating	REDUCE
Rating Relative to Sector	Underperformer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Equalweight

MARKET DATA (R: ADAN.BO, B: ADANI IN)	
CMP	: INR 60
Target Price	: INR 45
52-week range (INR)	: 97 / 37
Share in issue (mn)	: 2,393.3
M cap (INR bn/USD mn)	: 144 / 2,674
Avg. Daily Vol.BSE/NSE('000)	: 4,491.4

SHARE HOLDING PATTERN (%)			
	Current	Q2FY13	Q1FY13
Promoters *	76.6	76.6	76.6
MF's, FI's & BK's	0.9	0.9	0.9
FII's	9.2	9.2	9.2
Others	13.3	13.3	13.3
* Promoters pledged shares (% of share in issue)			18.2

PRICE PERFORMANCE (%)			
	Stock	Nifty	EW Power Index
1 month	7.3	3.4	3.7
3 months	36.0	5.8	2.8
12 months	(25.2)	19.8	(7.6)

#### Financials

(INR mn)

Year to March	Q3FY13	Q3FY12	Change(%)	Q2FY13	Change(%)	FY12	FY13E	FY14E
Net revenues	18,844	10,793	74.6	15,027	25.4	40,898	69,787	163,906
EBITDA	3,785	3,618	4.6	1,753	115.9	13,252	11,995	67,075
Adj. net profit	(4,106)	(196)	1,990.6	(3,894)	5.4	(2,873)	(14,527)	14,139
Dil. EPS (INR)	(1.9)	(0.1)	1,990.6	(1.8)	5.4	(1.3)	(6.7)	6.5
Price/BV(x)						2.2	2.9	2.2
ROAE (%)						(4.7)	(27.3)	26.7
P/BV(x)						2.2	2.9	2.2

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Table 1: SOTP

Unit	MW	Stake	NPV @ Ke 14%		INR / share
			(INR mn)	APL's share	
Mundra I & II	1,320	100%	19,550	19,550	8
Mundra III	1,320	100%	(1,680)	(1,680)	(1)
Mundra IV	1,980	100%	7,926	7,926	3
Tirora	1,980	100%	37,466	37,466	16
Tirora II	1,320	100%	34,488	34,488	14
Kawai	1,320	100%	25,110	25,110	10
<b>Power</b>	<b>9,240</b>		<b>122,860</b>	<b>122,860</b>	
FY13 Cash - Corporate Debt				(14,703)	(6)
<b>Total</b>				<b>108,157</b>	<b>45</b>

Source: Edelweiss research

**Financial snapshot**

(INR mn)

Year to March	Q3FY13	Q3FY12	% change	Q2FY13	% change	YTD13	FY13E	FY14E
Net revenues	18,844	10,793	74.6	15,027	25.4	48,902	69,787	163,906
Cost of operations	13,123	5,969	119.9	11,083	18.4	36,098	49,192	79,235
Staff costs	356	210	69.4	400	(11.0)	1,058	1,290	2,639
Other operating expenses	1,580	996	58.6	1,790	(11.7)	4,744	7,310	14,956
Total expenditure	15,059	7,175	109.9	13,274	13.4	41,899	57,792	96,831
EBITDA	3,785	3,618	4.6	1,753	115.9	7,004	11,995	67,075
Depreciation & amortization	3,806	1,675	127.3	2,683	41.8	8,907	11,939	21,570
EBIT	(21)	1,944	NA	(930)	NA	(1,903)	56	45,505
Other income	436	290	50.3	485	(10.0)	1,448	114	331
Interest	4,522	1,711	164.3	3,449	31.1	10,516	14,076	27,644
Profit before tax	(5,246)	(2,844)	NA	(1,018)	NA	(13,735)	(13,906)	18,192
Provision for taxes	944	719	31.3	1,711	(44.8)	3,360	621	4,053
Net profit	(6,190)	(3,563)	NA	(2,730)	NA	(17,095)	(14,527)	14,139
Adjustments	2,084	3,367	(38.1)	(1,165)	(278.9)	5,324	-	-
Adjusted net profit	(4,106)	(196)	NA	(3,894)	NA	(11,771)	(14,527)	14,139
Equity capital (FV INR 10)	21,800	21,800		21,800		21,800	21,800	21,800
No. of shares (mn)	2,180	2,180		2,180		2,180	2,180	2,180
Adj. EPS (INR)	(1.9)	(0.1)		(1.8)		(5.4)	(6.7)	6.5

**As % of net revenues**

Direct costs	69.6	55.3		73.8		73.8	70.5	48.3
Employee cost	1.9	1.9		2.7		2.2	1.8	1.6
Other operating expenses	8.4	9.2		11.9		9.7	10.5	9.1
EBITDA	20.1	33.5		11.7		14.3	17.2	40.9
Reported net profit	(32.8)	(33.0)		(18.2)		(35.0)	(20.8)	8.6
Tax rate	(18.0)	(25.3)		(168.1)		(24.5)	(4.5)	22.3

**Change in Estimates**

	FY13E			FY14E			Comments
	New	Old	% change	New	Old	% change	
Net revenue	69,787	74,902	(6.8)	163,906	162,780	0.7	Lower PLFs to adjust for Q3 performance
EBITDA	11,995	21,168	(43.3)	67,075	64,881	3.4	Increased fuel cost due to lower Bunui/CIL volumes
EBITDA margin	17.2	28.3		40.9	39.9		
Core profit	(14,527)	(5,842)	148.7	14,139	12,547	12.7	Lower imported coal cost assumption for FY14
PAT margin	(20.8)	(7.8)		8.6	7.7		
Capex	33,300	33,300	0.0	11,100	11,100	0.0	

## Company Description

APL commercialised its first unit of 330 MW at Mundra, Gujarat, in 2009 and scaled up plans to build India's largest and one of the world's top 5 single location thermal power plants with a capacity of 4,620 MW. The company has also made inroads into power generation in Maharashtra, Rajasthan and Madhya Pradesh with an ambitious vision of being a 20,000 MW company by 2020. It commissioned the first supercritical 660 MW unit in the country and also the world's first supercritical technology project to have received 'clean development mechanism (CDM) project' certification from United Nations Framework Convention on Climate Change (UNFCCC).

## Investment theme

The company has operational capacity of ~6 GW (at Mundra, Gujarat and Tiroda, Maharashtra) and another 3 GW to be commissioned by FY14. APL envisages achieving total commercial capacity of 20 GW by FY20. The company has a good blend of projects in terms of diverse locations, imported and domestic coal, long-term PPAs and merchant sales. Out of the expected 9.24 GW capacity by FY14, APL plans to sell ~80% (7.14 GW) under long-term PPAs and the balance in merchant market which imparts earnings visibility. APL's entire capacity (9.24 GW) is coal based with a blend of imported (AEL) and domestic (CIL) coal procured through linkages. Though linkages are in place (except 2.6 GW Tiroda ext/Kawai where linkage is applied for) we anticipate risk to domestic coal supply because of the likely production shortage from CIL in the medium term. The Bunyu mines (reserves of 140 MT) owned by AEL can scale up to ~10 MTPA, which will be sufficient to fuel only ~2.5 GW capacity, but supplies from other overseas mines acquired by AEL are expected only post FY15. Hence during FY13-15 coal for additional capacities will have to be procured on spot basis until domestic supply improves, impacting earnings.

## Key Risks

### CIL honouring its coal contracts

The company expects domestic linkages from CIL to meet coal requirements for much of the 9,240 MW capacity. Our hypothesis is that CIL will not be able to honour its existing contracts in totality (we have factored in 80% of CIL's commitment for Mundra IV i.e. 3x660 and Tiroda I i.e. 3x660 to be met based on draft revised FSAs circulated by CIL) due to current problems in scaling up and logistics (rake availability). CIL honouring its existing contracts (pooling, imported, etc) at the current price level is a risk to our call.

### Commissioning of plants ahead of CEA dates

We have assumed the timeline of commissioning of power units based on the recent status updated by the CEA. However, faster execution and commissioning of plants ahead of the expected schedule (gives them time to generate power and sell on merchant basis) is a risk to our assumptions.

## Financial Statements

### Key Assumptions

Year to March	FY12	FY13E	FY14E	FY15E
<b>Macro</b>				
GDP(Y-o-Y %)	6.5	5.5	6.5	7.0
Inflation (Avg)	8.8	7.8	6.0	6.0
Repo rate (exit rate)	8.5	7.5	6.8	6.0
USD/INR (Avg)	47.9	54.5	54.0	52.0
<b>Sector</b>				
Merchant prices (INR/kWh)	4.0	4.0	4.0	4.0
New Castle 6700 Kcal (USD/t FoB)	117	95	90	90
<b>Company</b>				
Closing capacity (MW)	3,300.0	6,600.0	9,240.0	9,240.0
Average PLF (%)	62.0	63.0	85.0	85.0
Gross generation (MUs)	13,721	25,897	59,363	71,692
Aux consumption (%)	10.0	9.4	7.7	7.7
Net Generation/Sold (mn kwh)	12,350	23,451	54,763	66,168
Average Realisation (INR/kwh)	3.2	3.0	3.0	3.0
Average Energy cost (INR/kwh)	1.9	2.1	1.4	1.4
Average O&M/unit (INR/kwh)	0.38	0.37	0.32	0.32
Average Dep/unit (INR/kwh)	0.48	0.51	0.39	0.38
Average Int/unit (INR/kwh)	0.6	0.6	0.5	0.47
Tax rate (%)	86,717.6	(4.5)	22.3	20.3
Net borrowings (INR mn)	353,405	387,590	370,206	311,411
Capex (INR mn)	106,780	33,300	11,100	-
Debtor days	40	76	76	76
Inventory days	131	46	46	46
Payable days	503	301	241	268

### Income statement

(INR mn)

Year to March	FY12	FY13E	FY14E	FY15E
Net revenue	40,898	69,787	163,906	197,968
Cost of Operations	23,004	49,192	79,235	91,674
Other operating expenses	4,016	7,310	14,956	17,822
Employee costs	626	1,290	2,639	3,145
Total operating expenses	27,646	57,792	96,831	112,642
EBITDA	13,252	11,995	67,075	85,327
Depreciation and amortisation	5,904	11,939	21,570	24,863
EBIT	7,347	56	45,505	60,463
Other income	1,980	114	331	516
Interest expenses	7,375	14,076	27,644	31,096
Profit before tax	3	(13,906)	18,192	29,883
Provision for tax	2,948	621	4,053	6,073
Net profit	(2,945)	(14,527)	14,139	23,810
Core PAT	(2,945)	(14,527)	14,139	23,810
Minority interest	(72)	-	-	-
Profit after minority interest	(2,873)	(14,527)	14,139	23,810
Shares outstanding (mn)	2,180	2,180	2,180	2,180
Diluted EPS (INR)	(1.3)	(6.7)	6.5	10.9

### Common size metrics

Year to March	FY12	FY13E	FY14E	FY15E
Operating expenses	67.6	82.8	59.1	56.9
Depreciation	14.4	17.1	13.2	12.6
Interest expenditure	18.0	20.2	16.9	15.7
EBITDA margins	32.4	17.2	40.9	43.1
Net profit margins	(7.2)	(20.8)	8.6	12.0

### Growth ratios (%)

Year to March	FY12	FY13E	FY14E	FY15E
Revenues	91.5	70.6	134.9	20.8
EBITDA	8.6	(9.5)	459.2	27.2
PBT	(100.0)	(409,106.6)	(230.8)	64.3
Net profit	(155.9)	405.7	(197.3)	68.4
EPS	(155.9)	405.7	(197.3)	68.4

Balance sheet		(INR mn)			
As on 31st March	FY12	FY13E	FY14E	FY15E	
Equity capital	21,800	21,800	21,800	21,800	
Reserves & surplus	38,613	24,086	38,224	62,034	
Shareholders' funds	60,413	45,886	60,025	83,834	
Short term debt	64,205	62,501	69,727	59,604	
Long term debt	321,798	338,575	320,465	283,789	
Borrowings	386,003	401,077	390,192	343,393	
Deferred tax liability	6,023	6,023	6,023	6,023	
Deferred revenue	5,590	5,590	5,590	5,590	
<b>Sources of funds</b>	<b>458,030</b>	<b>458,576</b>	<b>461,830</b>	<b>438,840</b>	
Tangible assets	158,026	324,502	389,265	411,268	
Intangible assets	16	16	16	16	
CWIP (incl. intangible)	267,215	122,100	46,867	-	
Total net fixed assets	425,257	446,618	436,148	411,284	
Non current investments	100	100	100	100	
Current Investments	90	90	90	90	
Cash and equivalents	32,408	13,297	19,796	31,792	
Inventories	8,268	6,149	9,904	11,459	
Sundry debtors	4,492	14,539	34,147	41,243	
Loans and advances	33,136	33,136	33,136	33,136	
Other current assets	10,087	10,087	10,087	10,087	
Total current assets (ex cash)	56,073	64,001	87,364	96,016	
Trade payable	5,608	5,608	5,608	5,608	
Others current liabilities	50,199	59,831	75,970	94,743	
Total current liabilities &	55,808	65,440	81,578	100,352	
Net current assets (ex cash)	265	(1,439)	5,787	(4,336)	
<b>Uses of funds</b>	<b>458,030</b>	<b>458,576</b>	<b>461,830</b>	<b>438,840</b>	
Book value per share (INR)	27.7	21.0	27.5	38.5	

Free cash flow		(INR mn)			
Year to March	FY12	FY13E	FY14E	FY15E	
Net profit	(2,873)	(14,527)	14,139	23,810	
Depreciation	5,904	11,939	21,570	24,863	
Others	8,782	13,962	27,313	30,581	
Gross cash flow	14,762	11,374	63,022	79,254	
Less: Changes in WC	5,118	(1,704)	7,225	(10,122)	
Operating cash flow	9,644	13,078	55,797	89,376	
Less: Capex	106,780	33,300	11,100	-	
<b>Free cash flow</b>	<b>(97,137)</b>	<b>(20,222)</b>	<b>44,697</b>	<b>89,376</b>	

## Peer comparison valuation

Name	Market cap (USD mn)	EV/EBITDA (X)		Price/BV (X)		ROAE (%)	
		FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Adani Power	2,675	43.2	7.5	2.9	2.2	(27.3)	26.7
CESC	749	4.1	3.9	0.8	0.7	8.9	8.5
NTPC	24,139	10.6	9.3	1.7	1.6	11.9	12.6
Power Grid Corp of India	9,659	10.7	9.5	2.0	1.8	14.8	15.5
Tata Power Co	4,704	9.5	6.6	1.7	1.5	8.0	11.1
Median	-	10.6	7.5	1.7	1.6	8.9	12.6
AVERAGE	-	15.6	7.4	1.8	1.5	3.2	14.9

Source: Edelweiss research

Cash flow metrics					
Year to March	FY12	FY13E	FY14E	FY15E	
Operating cash flow	9,644	13,078	55,797	89,376	
Investing cash flow	(134,743)	(33,186)	(10,769)	516	
Financing cash flow	123,557	997	(38,529)	(77,896)	
Net cash flow	(1,542)	(19,111)	6,499	11,996	
Capex	(106,780)	(33,300)	(11,100)	-	

## Profitability &amp; efficiency ratios

Year to March	FY12	FY13E	FY14E	FY15E
ROAE (%)	(4.7)	(27.3)	26.7	33.1
ROACE (%)	1.9	-	9.9	13.4
Debtors days	22	50	54	69
Current ratio	1.6	1.2	1.3	1.3
Debt/EBITDA	29.1	33.4	5.8	4.0
Fixed asset turnover (x)	0.3	0.3	0.5	0.5
Average working capital turnover	4.9	(118.9)	75.4	272.9
Average capital employed	0.1	0.2	0.4	0.4
Debt/Equity	6.4	8.7	6.5	4.1
Adjusted debt/equity	6.4	8.7	6.5	4.1

## Operating ratios

Year to March	FY12	FY13E	FY14E	FY15E
Total asset turnover	0.1	0.2	0.4	0.4
Fixed asset turnover	0.1	0.2	0.4	0.5
Equity turnover	0.7	1.3	3.1	2.8

## Valuation parameters

Year to March	FY12	FY13E	FY14E	FY15E
Diluted EPS (INR)	(1.3)	(6.7)	6.5	10.9
CEPS (INR)	-	(1.2)	16.4	22.3
Diluted PE (x)	(45.6)	(9.0)	9.3	5.5
Price/BV (x)	2.2	2.9	2.2	1.6
EV/Sales (x)	12.0	7.5	3.1	2.3
EV/EBITDA (x)	36.6	43.2	7.5	5.2

## Additional Data

### Directors Data

Mr. Gautam S. Adani	Chairman, Promoter Non Executive	Mr. Rajesh S. Adani	Managing Director, Promoter Executive
Mr. B. B. Tandon	Non Executive (Independent)	Mr. Vijay Ranchan	Non Executive (Independent)
Mr. Berjis M. Desai	Non Executive (Independent)		

Auditors - M/s. Deloitte Haskins & Sells

### Holding – Top10

	Perc. Holding		Perc. Holding
T Rowe Price Associates	1.65	Janus Capital Management Llc	1.48
Mavi Investment Fund	1.18	Capital Trade & Investment	1.00
Dimensional Fund Advisors Lp	0.11	Dsp Blackrock Investment Manager	0.04
Eaton Vance Management	0.03	Emerging Global Shares	0.02
Vanguard Group Inc	0.02	Prudential Financial Inc	0.02

*\*as per last available data*

### Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
06 Nov 2012	The Royal Bank Of Scotland Asia Merchant Bank Singapore Lt	Buy	11969439	48.80
06 Nov 2012	Abn Amro Bank Nv	Sell	11969439	48.80

*\*in last one year*

### Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
17 Jan 2013	Adani Agro pvt Ltd	Buy	546532.00
18 Jan 2013	Adani Agro Pvt. Ltd.	Buy	363690.00
21 Jan 2013	Adani Agro Pvt. Ltd.	Buy	651701.00
22 Jan 2013	Adani Agro Pvt. Ltd	Buy	382510.00

*\*in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Adani Enterprises	BUY	SP	M	Adani Ports and Special Economic Zone	BUY	SO	M
Adani Power	REDUCE	SU	M	CESC	HOLD	SU	H
Essar Ports	BUY	None	None	GMR Infrastructure	BUY	SO	H
Gujarat Pipavav Port	REDUCE	None	None	GVK Power and Infra	HOLD	SU	H
JSW Energy	HOLD	SP	H	Lanco Infratech	BUY	SU	H
Marg	BUY	None	None	Navabharat Ventures	BUY	None	None
NTPC	HOLD	SU	L	Power Grid Corp of India	BUY	SO	L
PTC India	BUY	None	None	Reliance Infrastructure	BUY	SO	M
Tata Power Co	BUY	SO	L				

## ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

## RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

## RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

## SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

Edelweiss  
Ideas create, values protect



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### Coverage group(s) of stocks by primary analyst(s):

Adani Power, Adani Enterprises, Adani Ports and Special Economic Zone, CESC, Essar Ports, GMR Infrastructure, Gujarat Pipavav Port, GVK Power and Infra, JSW Energy, Lanco Infratech, Marg, Navabharat Ventures, NTPC, PTC India, Power Grid Corp of India, Reliance Infrastructure, Tata Power Co

### Recent Research

Date	Company	Title	Price (INR)	Recos
28-Jan-13	<b>Adani Enterprises</b>	Stake sale to promoter family; <i>EdelFlash</i>	253	Buy
28-Jan-13	<b>Adani Ports and SEZ</b>	Stellar performance; <i>Result Update</i>	137	Buy
24-Jan-13	<b>JSW Energy</b>	Positive surprises; <i>Result Update</i>	70	Hold

### Distribution of Ratings / Market Cap

#### Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	118	46	17	181
* - stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	117	57	7	

### Rating Interpretation

Rating	Expected to
<b>Buy</b>	appreciate more than 15% over a 12-month period
<b>Hold</b>	appreciate up to 15% over a 12-month period
<b>Reduce</b>	depreciate more than 5% over a 12-month period

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