

Morgan Stanley India Company  
Private Limited+

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Stock Rating  
**Underweight**

Industry View  
**Cautious**

## Adani Power

### Earnings May Continue to Disappoint

#### What's Changed

Price Target	<b>Rs85.00 to Rs70.00</b>
F2012e EPS	<b>Down 35%</b>
F2013e EPS	<b>Down 37%</b>

**We believe commissioning delays, lower merchant upside and higher coal costs will constrain earnings. We are about 45-50% lower than consensus on earnings and we maintain an Underweight given expensive valuation.**

**F1Q12 numbers: operationally weak due to lower generation and lower merchant sales:** We expect F2Q12 to display similar trends. We have cut estimates to reflect delays in commercial operations, lower merchant upside and higher coal costs. To derive our price target, we continue to assign a 70% probability to our base case and 30% to our bear case. In our bull case, we assume higher merchant realizations, possible allocation of the Lohara captive coal block, and optionality from additional generation capacity where visibility is low, hence, we do not factor this in when deriving our price target.

**Our earnings in F2012e and F2013e are 45% and 51% lower than consensus, respectively:** We believe lower merchant volumes (stemming from weakness in F1Q12), lower generation (due to commercialization delays) and higher coal cost (lower volumes from Bunyu and lower domestic linkage availability) are key reasons for the difference.

**Valuation multiples may look expensive as earnings get downgraded:** Given our cut in F2012e earnings, the stock is now trading at a P/E multiple of 18x, which is expensive relative to other IPPs and historically.

**Potential triggers:** An improvement in domestic coal availability or a cooling off in imported coal prices could help earnings. Allotment of the Lohara captive coal block could be a significant trigger for the stock.

#### Key Ratios and Statistics

Reuters: ADAN.BO Bloomberg: ADANI IN

##### India Utilities

Price target	Rs70.00
Up/downside to price target (%)	(16)
Shr price, close (Oct 21, 2011)	Rs83.75
52-Week Range	Rs144.40-75.80
Sh out, dil, curr (mn)	2,180
Mkt cap, curr (mn)	US\$3,663
Avg daily trading value (mn)	US\$3

Fiscal Year ending	03/11	03/12e	03/13e	03/14e
ModelWare EPS (Rs)	2.36	4.71	6.01	15.00
Prior ModelWare EPS (Rs)	-	7.21	9.54	15.51
Revenue, net (Rs mn)	21,218	49,348	112,574	165,195
EBITDA (Rs mn)	12,204	24,639	54,348	91,294
ModelWare net inc (Rs mn)	5,136	10,273	13,104	32,700
P/E	47.9	17.8	13.9	5.6
P/BV	3.9	2.5	2.1	1.5
EV/EBITDA	39.9	20.2	9.7	5.6
Div yld (%)	-	-	-	-

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).  
e = Morgan Stanley Research estimates

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Adani Power

## Financial Summary

### Profit and loss statement

Rs Mn (Year-end March 31)	F2011	F2012e	F2013e	F2014e	F2015e
Proportionate Capacity (MW)	1,011	2,477	6,105	8,021	9,240
Year End Capacity (MW)	1,980	3,960	6,600	9,240	9,240
Proportionate PPA Capacity (MW)	873	1,805	4,586	6,260	7,709
Proportionate Merchant Capacity (MW)	138	672	1,518	1,761	1,531
Total No of Salable Units (Mn Kwh)	6,821	15,669	39,365	53,922	62,407
Total PPA tied up (Mn Kwh)	5,925	11,491	29,548	42,092	52,178
Total Merchant (Mn Kwh)	896	4,178	9,817	11,830	10,229
Tariff (Rs/unit)	3.07	3.15	2.86	3.06	3.05
Fuel cost - coal (Rs/unit)	1.03	1.40	1.33	1.22	1.23

<b>Revenue</b>	<b>21,218</b>	<b>49,348</b>	<b>112,574</b>	<b>165,195</b>	<b>190,537</b>
Long Term Revenue	16,657	31,803	73,306	117,876	149,621
Merchant Revenue	4,274	17,546	39,268	47,319	40,916
Fleet revenue	288	-	-	-	-
<b>Expenses</b>	<b>9,014</b>	<b>24,709</b>	<b>58,226</b>	<b>73,901</b>	<b>85,997</b>
Coal Charges	7,042	21,938	52,245	65,920	76,654
O&M Expenses	1,803	2,771	5,982	7,982	9,343
Rebate	-	-	-	-	-
General expenses	-	-	-	-	-
Fleet expenses	170	-	-	-	-
<b>EBITDA</b>	<b>12,204</b>	<b>24,639</b>	<b>54,348</b>	<b>91,294</b>	<b>104,540</b>
Depreciation	1,885	4,589	13,153	17,778	20,735
<b>EBIT</b>	<b>10,319</b>	<b>20,050</b>	<b>41,195</b>	<b>73,516</b>	<b>83,805</b>
Interest on Principal Loan	2,360	7,199	22,125	28,470	31,119
Interest on Working Capital	1	208	1,246	1,982	2,371
Other Income	173	205	47	49	133

<b>PBT</b>	<b>8,132</b>	<b>12,848</b>	<b>17,871</b>	<b>43,112</b>	<b>50,448</b>
Income Tax Payable	3,000	2,571	3,564	8,595	10,061
Tax rate (%)	36.9%	20.0%	19.9%	19.9%	19.9%
<b>PAT</b>	<b>5,132</b>	<b>10,277</b>	<b>14,307</b>	<b>34,517</b>	<b>40,387</b>
Minority Interest	(4)	4	1,202	1,817	2,977
<b>PAT after Minority Interest</b>	<b>5,136</b>	<b>10,273</b>	<b>13,104</b>	<b>32,700</b>	<b>37,410</b>
EPS (Rs)	2.36	4.71	6.01	15.00	17.16
DPS (Rs)	-	-	-	-	-

### Cash flow statement

Rs Mn (Year-end March 31)	F2011	F2012e	F2013e	F2014e	F2015e
<b>PAT</b>	<b>5,132</b>	<b>10,277</b>	<b>14,307</b>	<b>34,517</b>	<b>40,387</b>
Depreciation	1,885	4,589	13,153	17,778	20,735
Change in working capital	1,179	(8,185)	(7,978)	(5,474)	(3,531)
<b>Cash flow from operating activities</b>	<b>8,195</b>	<b>6,681</b>	<b>19,482</b>	<b>46,821</b>	<b>57,591</b>
Capex	(154,173)	(80,736)	(48,283)	(27,723)	(0)
Investments	-	-	-	-	-
<b>Cash flow from investing activities</b>	<b>(154,173)</b>	<b>(80,736)</b>	<b>(48,283)</b>	<b>(27,723)</b>	<b>(0)</b>
Equity issuance	(43)	-	-	-	-
Debt proceeds/repayment	139,172	64,504	28,315	(20,123)	(51,596)
Minority Interest	7,643	(1,436)	957	636	-
Miscellaneous	-	-	-	-	-
<b>Cash flow from financing activities</b>	<b>146,773</b>	<b>63,068</b>	<b>29,272</b>	<b>(19,487)</b>	<b>(51,596)</b>
Change in cash	795	(10,987)	471	(390)	5,995
Opening Cash	11,537	12,332	1,345	1,816	1,426
<b>Closing Cash</b>	<b>12,332</b>	<b>1,345</b>	<b>1,816</b>	<b>1,426</b>	<b>7,421</b>

### Balance Sheet

Rs Mn (Year-end March 31)	F2011	F2012e	F2013e	F2014e	F2015e
<b>Liabilities</b>					
Share Capital	21,800	21,800	21,800	21,800	21,800
Share Premium	29,817	29,817	29,817	29,817	29,817
Reserves and Others	11,256	21,529	34,633	67,334	104,744
Miscellaneous Expenditure	-	-	-	-	-
Shareholders funds	62,873	73,146	86,251	118,951	156,361
Total Debt	245,027	309,531	337,845	317,723	266,127
Minority Interest	8,783	7,351	9,511	11,963	14,940
<b>Total Liabilities</b>	<b>316,683</b>	<b>390,028</b>	<b>433,607</b>	<b>448,637</b>	<b>437,428</b>

<b>Assets</b>					
Gross Block	90,134	174,873	306,867	447,437	447,437
Acc Dep	2,342	6,931	20,084	37,862	58,597
Net Block	87,793	167,942	286,783	409,574	388,840
CWIP	220,174	216,172	132,462	19,615	19,615
Investments	0	0	0	0	0
Cash and bank	12,332	1,345	1,816	1,426	7,421
Working Capital	(3,616)	4,569	12,547	18,021	21,552
<b>Total assets</b>	<b>316,683</b>	<b>390,028</b>	<b>433,607</b>	<b>448,637</b>	<b>437,428</b>

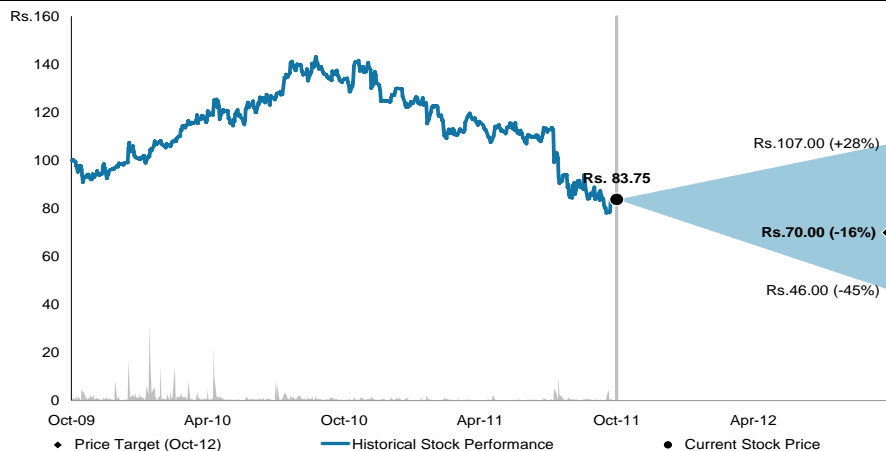
### Ratio Analysis

(Year-end March)	F2011	F2012e	F2013e	F2014e	F2015e
<b>Growth (%)</b>					
Revenues	388%	133%	128%	47%	15%
EBITDA	401%	102%	121%	68%	15%
EBIT	395%	94%	105%	78%	14%
Net Profit	202%	100%	28%	150%	14%
EPS	187%	100%	28%	150%	14%
<b>Margins (%)</b>					
EBITDA	58%	50%	48%	55%	55%
EBIT	49%	41%	37%	45%	44%
EBT	38%	26%	16%	26%	26%
Net Profit	24%	21%	12%	20%	20%
<b>Return (%)</b>					
ROE	9%	15%	16%	32%	27%
ROCE	4%	6%	10%	17%	19%
ROA	4%	6%	10%	17%	19%
<b>Gearing</b>					
Debt/Equity	3.90	4.23	3.92	2.67	1.70
Net Debt/Equity	3.70	4.21	3.90	2.66	1.65
<b>Valuations</b>					
EV/EBITDA	34.0	19.9	9.5	5.5	4.2
P/E	35.5	17.8	13.9	5.6	4.9
P/BV	2.9	2.5	2.1	1.5	1.2
Dividend Yield (%)	0%	0%	0%	0%	0%

e= Morgan Stanley Research Estimates; Source: Company data, Morgan Stanley Research

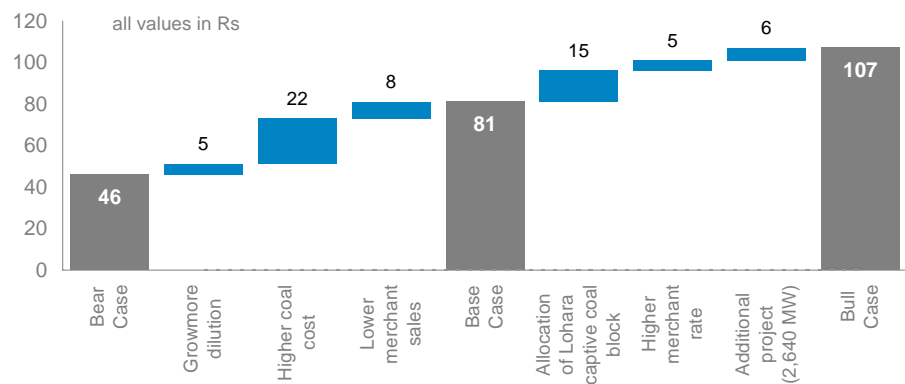
## Risk-Reward Snapshot: Adani Power (ADAN.BO, Rs84, UW, PT Rs70)

### Risk-Reward View: Downside Risks Due to Coal Issues



<b>Price Target Rs70.00</b>	Probability weighted: 70% base case and 30% bear case (rounded).	
<b>Bull Case</b> Rs107.00	Implies 22.7x F12E P/E	<b>Higher capacity and higher merchant tariffs:</b> This scenario values the 2,640 MW Dahej plant, 5% higher spot tariff and possible allotment of Lohara captive coal block
<b>Base Case</b> Rs81	Implies 17x F12E P/E	<b>Capacity of 9,240 MW by F2014:</b> Healthy mix of PPA and short-term sales. Generation business valued at Rs81/share (Rs94/sh previously). 15.3% (15%) COE and 2% terminal growth.
<b>Bear Case</b> Rs46.00	Implies 10.7x F12E P/E	<b>Lower merchant sales and higher coal cost:</b> We assume 10% lower merchant rates, lower proportion of domestic coal than in base case and dilution impact due to merger of Growmore.

### Bear to Bull: Coal Is the Key Driver



Source: Morgan Stanley, FactSet

### Investment Thesis

- F1Q12 numbers were operationally weak due to lower generation and lower merchant sales. We expect F2Q12 to display similar trends.
- We have cut F2012e and F2013e EPS by 35% and 37%, respectively, to reflect commercialization delays, higher coal cost and lower merchant upside.
- Our earnings for F2012e and F2013e are now 45% and 51% lower than consensus, respectively.
- Stock is trading at a P/E multiple of 18x F2012 P/E which is expensive relative to other IPPs and its own history.

### Key Value Drivers

- Capacity and commissioning timelines.
- PPA sales and merchant tariffs.
- Coal costs

### Key Downside Catalysts

- Commercialization delays
- Lower generation
- Lower merchant realization and/or volumes
- Increasing fuel cost/unit

### Key Upside Risks

- Possible resolution on allocation of Lohara coal mines for the Tiroda power plant.
- Equipment ordering for Dahej, Chhindwara and Bhadrashwar projects.
- Clarity on captive coal supplies from Australia and Sumatra
- Improvement in fuel security, positive news flow on execution, better operational efficiencies, positive developments on projects in development phase

## We Maintain Our UW Rating on Adani Power

### Lowering Our Price Target to Rs70

We see five key issues for Adani Power:

- Lower generation** – gross generation has been disappointing due to a combination of operational issues, seasonality in demand and backing-down by SEBs. As an example, generation in F1Q12 was 12% lower than our estimate while in F2Q12, generation has missed our target by 13%.
- Commissioning delays** – this can stem from delays in commercialization and/or construction delays. As regards commercialization, if a unit is commissioned but not commercialized, then the financial performance will not be seen in the P&L (as it will be capitalized). As an example, the second supercritical unit of Mundra III was synchronized on 3<sup>rd</sup> June 2011. However, the unit has still not been commercialized and hence, its performance was not visible in 1Q and will not be there in 2Q either. On commissioning delays, our discussions with management suggest that the Mundra IV and Tiroda I&II units may be delayed by 15 to 120 days from our earlier estimates.
- Merchant earnings may surprise negatively** – in 1Q, merchant sales disappointed on two counts a) Diversion of merchant units into the PPA market to make good the shortfall from the shutdown and from lower demand in the merchant market; and b) Lower merchant realization as

almost 50% of the merchant units were sold in the UI market where rates were lower than in bilateral contracts. In our view, 2Q could mirror similar trends given dampened demand (monsoon months) and possibility of sales happening in the UI market. Also, there were disappointments with respect to volumes sold to UP and Maharashtra under one-year contracts.

- Coal challenges** – the two issues are a) Bunu supplies are expected to be lower than earlier guided for F2012 and F2013; and b) Lower availability of domestic coal will impact cost structure of Mundra IV and Tiroda I&II units.
- Consensus earnings outlook is aggressive** – we have cut our F2012 and 2013 earnings estimates by 35% and 37%, respectively (exhibit 2) and we are now 45-51% lower than consensus for these years. *As can be seen in Exhibit 1, consensus is bunching up earnings primarily in F4Q12. Also, there is a disconnect between total of consensus quarterly and full-year estimates. We expect consensus outlook to fall, which will hurt stock performance. On our estimates, the stock is expensive – trading at 18x F2012e and 14x F2013e P/E.*

The stock has underperformed the market by 21% YTD. However, we believe commissioning delays, weak financial performance and coal woes will persist and, hence, maintain our Underweight rating on the stock.

Exhibit 1

### Disconnect between Consensus Quarterly and Consensus Full Year Estimate for F2012

	F1Q12	F2Q12e	F3Q12e	F4Q12e	Total as per Qtrly (F2012)	F2012e	F2013e
	a	b	c	d	e = a+b+c+d		
Earning - Consensus (Rs mn)	1,769	2,274	3,132	5,294	12,468	18,560	26,866
Earning - MSe (Rs mn)	1,769	2,530	2,824	3,150	10,273	10,273	13,104
<b>MS vs Consensus</b>		<b>11%</b>	<b>-10%</b>	<b>-40%</b>	<b>-18%</b>	<b>-45%</b>	<b>-51%</b>
EPS - Consensus (Rs)					5.72	8.51	12.32
EPS - MSe (Rs)					4.71	4.71	6.01
<b>P/E - Consensus</b>					<b>14.6</b>	<b>9.8</b>	<b>6.8</b>
<b>P/E - MS</b>					<b>17.8</b>	<b>17.8</b>	<b>13.9</b>

Source: Company data, Bloomberg, Morgan Stanley Research; e = Morgan Stanley Research estimates

Exhibit 2

## Changes in Estimates

	F2012e			F2013e		
	Old	New	Change	Old	New	Change
Proportionate Capacity (MW)	3,050	2,477	-19%	6,461	6,105	-6%
Year End Capacity (MW)	5,280	3,960	-25%	6,600	6,600	0%
Total No of Salable Units (Mn Kwh)	19,178	15,669	-18%	42,481	39,365	-7%
Total PPA tied up (Mn Kwh)	11,691	11,491	-2%	29,548	29,548	0%
Total Merchant (Mn Kwh)	7,487	4,178	-44%	12,933	9,817	-24%
Tariff (Rs/unit)	3.33	3.15	-5%	2.94	2.86	-3%
Fuel cost - coal (Rs/unit)	1.22	1.40	15%	1.21	1.33	10%
Revenue (Rs mn)	63,812	49,348	-23%	125,038	112,574	-10%
Operating Expenses (Rs mn)	26,658	24,709	-7%	57,706	58,226	1%
EBITDA (Rs mn)	37,154	24,639	-34%	67,332	54,348	-19%
EBIT (Rs mn)	31,236	20,050	-36%	53,376	41,195	-23%
PAT after minority interest (Rs mn)	15,712	10,273	-35%	20,788	13,104	-37%

Source: Morgan Stanley Research

### Generation Has Been Low

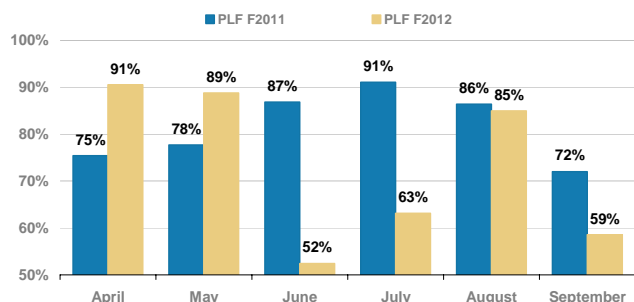
Gross generation in F1Q12 was 3.19bn units – 12% lower than our estimate. The key reasons for the miss were:

1. Planned maintenance shutdown of unit 1 for 20 days
2. Shutdown of unit 5 for 20 days (in order to synchronize unit 6).
3. Lower demand resulting in lower PLF in the month of June.

Similarly, generation in F2Q12 was 3.3 bn units vs. our earlier estimate of 3.8 bn units – a 13% miss. We believe this too would be due to planned shutdown of two units of 330 MW each and lower demand due to seasonality.

Exhibit 3

### Adani Power: PLF Has Been Low Since June



Source: CEA, Morgan Stanley Research

### Commissioning Delays and Lower Merchant Volumes

1,980 MW of capacity is currently commercial, and we now expect the second supercritical unit of Mundra III to be commercialized by Oct 31.

However, we believe the Mundra IV and Tiroda I&II units are likely to be delayed by 15 to 120 days from our earlier estimates (Exhibit 4). We believe this reflects general execution delays.

Exhibit 4

### Expected CoD Is Being Pushed Out

Unit	Size (MW)	Old	New	Delay (days)
Mundra III - unit 2	660	20-Aug-11	31-Oct-11	72
Mundra IV - unit 1	660	30-Oct-11	30-Nov-11	31
Mundra IV - unit 2	660	30-Dec-11	1-Apr-12	93
Mundra IV - unit 3	660	15-Apr-12	30-Apr-12	15
Tiroda I & II - unit 1	660	30-Nov-11	30-Mar-12	121
Tiroda I & II - unit 2	660	30-Mar-12	30-Jun-12	92
Tiroda I & II - unit 3	660	1-Jun-12	30-Aug-12	90
Tiroda III - unit 1	660	16-Oct-13	16-Oct-13	0
Tiroda III - unit 2	660	15-Dec-13	15-Dec-13	0
Kawai - unit 1	660	2-Jun-13	2-Jun-13	0
Kawai - unit 2	660	31-Aug-13	31-Aug-13	0

Source: Company Data, Morgan Stanley Research

We assume that 4.2 bn units in F2012 and 9.8 bn units in F2013 will be sold in the merchant market. The different avenue of merchant sales will be as follows:

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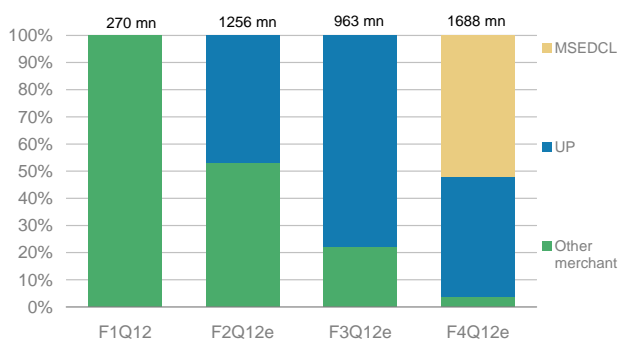
- A 1 year contract with Uttar Pradesh SEB for the supply of 400 MW (net) capacity (vs. 600-650 MW expected earlier) at Rs4.7/unit (including transmission charges of about Rs 0.35/unit) which commenced in early July 2011. However, as per government data, the total supply in Q2 was only 592 mn units as against our earlier estimate of 1.1 bn units.
- The company was expecting to sign a one-year contract with MSEDCL for the supply of 475 MW (net) at Rs4.1/unit in September. However, we understand this PPA may take another 1-2 months to be signed and hence, we are now assuming the supply to begin in January 2012.
- Lastly, we have assumed the balance merchant units to be sold under other bilateral contracts at Rs 4/unit in F2012.

Our average merchant rate for F2012 remains unchanged at Rs4.2/unit.

Adani Power's earnings will be sensitive to merchant sales. For example, a 10% change in merchant realizations could affect F2012 and F2013 earnings by 14% and 22%, respectively. Similarly, a 10% change in merchant volumes could affect F2012 and F2013 earnings by 5% and 10%, respectively.

Exhibit 5

### Adani Power: Quarterly Mix of Merchant Units



Source: Company data, Morgan Stanley Research; e = Morgan Stanley Research estimates

Exhibit 6

### Earnings Sensitivity to Change in Merchant Assumptions

	F2012e	F2013e
10% lower volumes	-4.5%	-10.0%
10% lower realizations	-13.8%	-21.5%

Source: Morgan Stanley Research

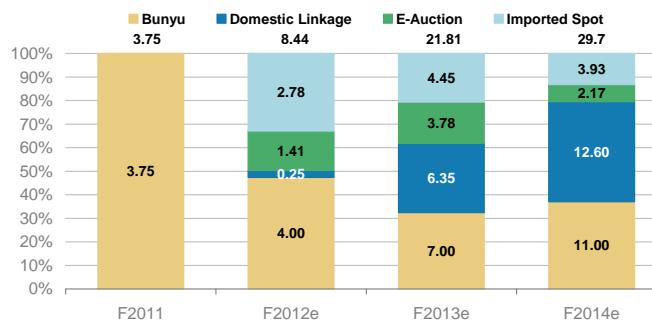
### Lower Coal Supply from Bunyu Mine

Adani Power's Mundra power plants have a coal supply agreement with Adani Enterprises (AEL) under which coal will be supplied from the Bunyu mines (Indonesia) at a fixed price of US\$36/ton (landed at Indian port) and will escalate at 10% every five years. While the company was earlier expecting 6 mt of supplies in F2012 and 11 mt from F2013 onwards, these estimates have now been curbed to 4 mt in F2012, 7 mt in F2013 and 11 mt from F2014 onwards.

As a result, the company's exposure to e-auction and other imports is expected to increase. We now expect fuel cost/unit to trend up to Rs1.4/unit in F2012 as against Rs1.03/unit in F2011.

Exhibit 7

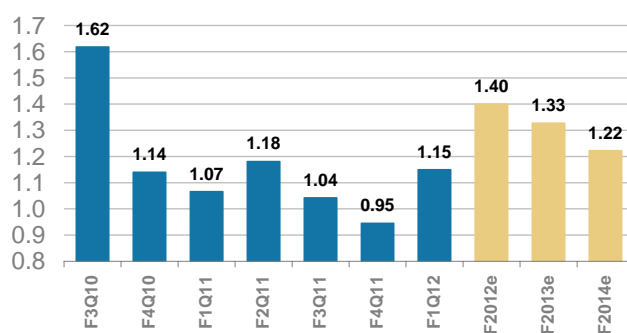
### Fuel Sourcing Mix: Dependence on Coal India Set to Increase in F13/14



Source: Company Data, Morgan Stanley Research; e = Morgan Stanley Research estimates

Exhibit 8

### Fuel Cost Per Unit (Rs/unit) to Be Higher



Source: Company Data, Morgan Stanley Research; e = Morgan Stanley Research estimates

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## Valuation

We have cut our F2012e EPS estimate by 35% and F2013e by 37% primarily due to adjustments in commissioning timelines and higher coal costs.

We continue to use an FCFe model to determine our scenario values which in our view, is a good measure of the intrinsic value of the company's generation business, as it takes into account long-term free cash flows after factoring in capex phasing, debt build-up/repayment, and working capital requirements.

Our price target of Rs70 (down from Rs85) remains probability weighted:

- **70% for the base case – down 13.8%, to Rs81:** this is due to earnings revisions in F2012/13, higher cost of equity and higher coal cost estimate for the Tiroda III project. The base case revision is smaller than the earnings cut as we use a FCFe model to derive the scenario value which takes into account longer term cash flows (exhibit 9).
- **30% for the bear case – down 27.0%, to Rs46:** in this scenario, we assume a lower proportion of domestic coal (linkage and e-auction), lower merchant realization and dilution impact due to the Growmore transaction.

We have increased our cost of equity slightly (from 15% to 15.3% due to increase in risk free rate).

Exhibit 9

### Adani Power: Base Case FCFe Model

FCFe - Rs mn	F2012e	F2013e	F2014e	F2015e	F2016e	F2017e	F2018e	F2019e	F2020e	F2021e	F2022e	F2023e	F2024e	F2025e	F2026e	F2027e	F2028e
Mundra I and II	-1,979	5,654	6,983	6,433	6,641	6,885	7,181	7,236	4,668	4,815	8,238	8,484	8,618	3,099	2,609	2,478	2,344
Mundra III	2,771	1,542	3,542	3,812	3,490	3,815	4,178	4,299	4,631	3,280	3,537	7,635	7,974	7,938	7,216	1,665	1,001
Mundra IV	-773	-4,290	4,078	5,424	5,667	5,594	5,917	4,448	4,560	4,886	3,487	12,063	11,849	11,646	11,111	8,304	4,681
Tiroda	-268	-1,309	-208	716	883	1,038	1,328	1,270	1,456	1,732	1,303	4,171	6,830	5,891	5,554	5,510	5,467
Tiroda Expansion	-2,534	-1,957	-1,340	1,818	4,134	4,300	4,474	4,632	4,815	5,014	5,223	5,443	5,273	7,643	7,719	7,777	7,837
Kawai	-6,761	-4,158	-845	3,660	4,512	4,730	4,958	5,160	5,404	5,665	5,938	6,225	7,871	9,470	9,546	9,589	9,641
<b>Total</b>	<b>-9,545</b>	<b>-4,517</b>	<b>12,210</b>	<b>21,863</b>	<b>25,327</b>	<b>26,363</b>	<b>28,036</b>	<b>27,044</b>	<b>25,535</b>	<b>25,392</b>	<b>27,727</b>	<b>44,021</b>	<b>48,414</b>	<b>45,686</b>	<b>43,755</b>	<b>35,322</b>	<b>30,971</b>
Years		0.0	1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0	12.0	13.0	14.0	15.0
Discounting factor		1.0	0.9	0.8	0.7	0.6	0.5	0.4	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.1	0.1
Discounted FCFe		-4,517	10,587	16,437	16,510	14,902	13,741	11,493	9,409	8,113	7,681	10,574	10,083	8,250	6,851	4,796	3,646

Sum of forecast horizon (Rs mn) - F2013e-F2028e	148,555
Terminal Value (Rs mn)	27,899
Total Equity Value (Rs mn)	176,454
<b>Value per share (Power Business) - a</b>	<b>81</b>
Cash balance (F2012e) - Rs mn	385
Cash per share - F2012e - b	0
<b>Total value/share (a+b)</b>	<b>81</b>

E = Morgan Stanley Research estimates  
Source: Company data, Morgan Stanley Research

## Risks to Our Target Price

The key upside risks to our target price are:

- Positive news flow on execution and better operational efficiencies.
- Improvement in domestic coal availability or possibility of obtaining captive coal blocks
- Higher merchant realizations.
- Positive developments on projects in development phase.

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Adani Power

Exhibit 10

## Indian Utility Valuation Comparison

Company Name	Market Price (Rs/Share)	Adjusted Price (Rs/Share)	Implied Mkt Cap (US\$ mn)	EV/MW - US\$ mn			Mkt Cap/MW - US\$ mn			EV/EBITDA (x)		
				F2011e	F2012e	F2013e	F2011e	F2012e	F2013e	F2011e	F2012e	F2013e
Reliance Power	85	85	4,771	12.7	7.5	4.4	8.0	4.0	1.9	111.6	50.8	16.5
NTPC	169	169	27,894	1.1	1.0	0.9	0.9	0.8	0.7	12.4	12.0	10.5
Lanco Infratech	15	15	715	2.6	1.5	1.7	0.3	0.2	0.2	11.8	8.5	6.9
Tata Power	97	97	4,807	3.1	2.0	1.3	1.6	1.0	0.7	11.0	8.7	7.0
Reliance Infrastructure	399	399	2,128	3.5	4.1	3.2	2.7	2.7	2.7	13.5	10.8	7.0
Adani Power	84	84	3,649	4.2	2.5	1.6	1.8	0.9	0.6	34.0	19.9	9.5
Indiabulls Power	11	11	485	NA	NA	2.3	NA	NA	0.3	NM	NM	31.1
Jindal Steel and Power - @ MS Power Business FV	341	341	6,370	5.6	3.5	3.0	5.0	2.8	2.2	12.3	10.2	8.7
Jindal Steel and Power - implied	530	167	3,111	3.1	2.0	1.9	2.4	1.4	1.1	6.7	6.0	5.5
JSW Energy	49	49	1,608	1.9	1.2	1.3	0.9	0.5	0.5	10.5	9.9	7.2

Company Name	Market Price (Rs/Share)	Adjusted Price (Rs/Share)	Implied Mkt Cap (US\$ mn)	P/B (x)			ROE (%)			P/E (x)		
				F2011e	F2012e	F2013e	F2011e	F2012e	F2013e	F2011e	F2012e	F2013e
Reliance Power	85	85	4,771	1.3	1.3	1.2	4.0%	3.7%	7.9%	33.0	36.1	15.3
NTPC	169	169	27,894	2.0	1.9	1.8	13.5%	13.1%	13.8%	15.2	14.6	13.0
Lanco Infratech	15	15	715	0.7	0.6	0.5	15.0%	19.9%	21.9%	4.4	3.1	2.2
Tata Power	97	97	4,807	1.9	1.6	1.5	12.2%	16.0%	13.0%	15.6	10.3	11.3
Reliance Infrastructure	399	399	2,128	0.4	0.4	0.4	6.0%	4.4%	5.9%	6.9	9.0	6.3
Adani Power	84	84	3,649	2.9	2.5	2.1	8.2%	14.0%	15.2%	35.5	17.8	13.9
Indiabulls Power	11	11	485	0.6	0.6	0.5	0.1%	-0.1%	4.8%	444.3	NM	10.4
Jindal Steel and Power - @ MS Power Business FV	341	341	6,370	4.8	3.4	2.5	28.4%	28.9%	27.0%	17.0	11.9	9.3
Jindal Steel and Power - implied	530	167	3,111	2.4	1.7	1.2	28.4%	28.9%	27.0%	8.3	5.8	4.5
JSW Energy	49	49	1,608	1.4	1.3	1.2	13.8%	7.6%	10.1%	10.2	17.2	11.7

**Notes:**

Stock Prices are as of 10/21/11

Jindal Steel and Power @ MS FV is Morgan Stanley Research estimates for the company's power business @ Rs 341/share (power business + JSPL's 1350 MW plant)

Jindal Steel and Power implied is adjusted for steel business at Rs 363/share

Reliance Power is based on Bloomberg estimates

Exchange Rate of INR/USD = 50.03

NA = Not Available; NM = Not Meaningful

Source: Factset, Morgan Stanley Research



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Adani Power

Exhibit 11

## Global Utility Valuations

Company Name	Country	MS Rating	PT	Mkt Cap (US\$m)	P/E			EV/EBITDA			Earnings CAGR *
					F11e/C10e	F12e/C11e	F13e/C12e	F11e/C10e	F12e/C11e	F13e/C12e	F2011-14e/C2010-13e
<b>Pure Generation Cos</b>											
Adani Power	India	UW	70	3666.2	35.5	17.8	13.9	34.0	19.9	9.5	85%
Indiabulls Power Limited	India	UW	18	542.1	906.7	NM	10.4	NM	NM	32.6	472%
JSW Energy Limited	India	UW	52	1615.4	15.0	17.2	11.7	12.8	19.1	7.2	-5%
NTPC	India	OW	196	28023.0	17.3	14.6	13.0	13.8	12.1	10.5	11%
China Resources Power	China	OW	19	8124.4	17.4	11.2	9.7	11.7	9.1	8.6	24%
Huadian Power Int'l	China	EW	1	966.2	51.4	69.0	25.7	15.5	11.0	10.6	54%
Huaneng Power	China	EW	4	5872.1	14.6	11.3	10.9	9.1	8.2	8.2	2%
Yangtze Power	China	OW	11	16183.3	15.5	12.4	11.2	10.9	9.4	9.0	6%
Drax	UK	UW	410	3047.0	5.4	9.9	11.8	3.0	5.5	6.4	-58%
					119.9 x	20.4 x	13.1 x	13.8 x	11.8 x	11.4 x	65%
<b>Integrated Power Cos</b>											
Tata Power Co	India	UW	90	4829.5	32.6	25.3	27.4	24.6	19.1	19.0	-5%
CLP Holdings	China	EW	64	21713.8	16.6	16.6	15.0	9.7	9.6	9.1	8%
Power Assets Holdings Ltd	China	EW	58	16489.2	14.5	13.9	13.7	13.3	12.7	12.3	10%
Korea Electric Power	Korea	EW	30,100	12976.8	NM	35.4	40.5	9.6	9.5	8.9	-331%
Tenaga Nasional Bhd	Malaysia	OW	7	9490.0	11.1	8.2	9.4	7.2	5.6	5.3	0%
EDF	France	OW	24	55315.7	11.4	10.3	9.0	6.2	6.3	6.0	-3%
ENEL	Italy	OW	5	43909.4	7.0	6.5	6.0	5.8	5.5	5.2	1%
Tokyo Electric Power	Japan	NA	NA	5483.6	NM	NM	3.6	15.1	12.1	8.9	-187%
Scottish & Southern	UK	EW	1,330	19899.2	12.3	11.7	10.7	8.0	8.3	7.8	7%
					15.1 x	16.0 x	15.0 x	11.0 x	9.9 x	9.2 x	-55%
<b>Diversified Cos</b>											
Jindal Steel & Power	India	OW	650	9925.6	17.3	11.5	9.3	12.4	8.7	7.5	21%
LANCO Infratech Ltd	India	EW	32	718.0	11.7	3.1	2.2	14.4	8.5	6.9	41%
Reliance Infrastructure Limited	India	EW	450	2137.6	19.1	11.2	10.2	16.9	10.9	8.2	7%
Cheung Kong Infra.	China	EW	46	12547.5	16.4	12.9	12.4	15.3	10.8	10.2	21%
Essar Energy Plc	UK	UW	230	5753.4	26.9	10.8	8.3	15.2	9.4	7.5	46%
					18.3 x	9.9 x	8.5 x	14.8 x	9.7 x	8.1 x	27%
<b>Pure Transmission Cos</b>											
Red Electrica	Spain	EW	43	6411.8	11.6	9.7	9.2	9.3	7.8	7.4	10%
REN - Redes Energeticas Nacionais	Portugal	EW	3	1552.1	11.2	8.9	7.8	8.6	7.9	7.5	8%
National Grid plc	UK	EW	585	34899.8	10.2	11.9	12.5	9.2	9.0	9.3	-1%
TERNA S.p.A.	Italy	NC	NC	7982.2	9.4	14.3	15.0	9.4	9.3	9.5	-13%
CTEEP	Brazil	NC	NC	4164.0	9.1	8.1	8.0	5.1	4.1	4.4	8%
ITC Holdings Corp.	USA	NC	NC	3721.0	25.5	21.9	17.5	13.7	12.6	11.5	20%
					12.9 x	12.5 x	11.7 x	9.2 x	8.5 x	8.3 x	5%

For valuation methodology and risks associated with any price targets above other than the subject company, please email [morganstanley.research@morganstanley.com](mailto:morganstanley.research@morganstanley.com) with a request for valuation methodology and risks on a particular stock.

(e)=Morgan Stanley Research estimates for companies under coverage; FactSet estimates for non-covered companies

Source: FactSet, Morgan Stanley Research

NA – Not available, NM – Not meaningful, UW = Underweight, EW = Equal-Weight; OW = Overweight, NC = Not covered

Note: Data for Indian companies are for fiscal year end March 31; \*F2011-F2013 for Lanco Infratech

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Exhibit 12

## Global Utility Valuations (cont'd)

Company Name	Country	MS Rating	PT	Mkt Cap (US\$m)	P/B			ROE			Book Value Growth *
					F11e/C10e	F12e/C11e	F13e/C12e	F11e/C10e	F12e/C11e	F13e/C12e	F2011-14e/C2010-13e
<b>Pure Generation Cos</b>											
Adani Power	India	UW	70	3666.2	2.9	2.5	2.1	9%	15%	16%	24%
Indiabulls Power Limited	India	UW	18	542.1	1.2	0.6	0.5	NA	0%	0%	5%
JSW Energy Limited	India	UW	52	1615.4	2.1	1.3	1.2	23%	15%	8%	13%
NTPC	India	OW	196	28023.0	2.3	1.9	1.8	14%	14%	14%	7%
China Resources Power	China	OW	19	8124.4	1.6	1.3	1.2	9%	12%	13%	10%
Huadian Power Int'l	China	EW	1	966.2	0.5	0.4	0.4	1%	1%	1%	3%
Huaneng Power	China	EW	4	5872.1	0.9	0.7	0.7	7%	6%	6%	3%
Yangtze Power	China	OW	11	16183.3	1.9	1.5	1.3	13%	12%	12%	8%
Drax	UK	UW	410	3047.0	1.4	1.9	1.7	25%	20%	15%	4%
					<b>1.6 x</b>	<b>1.3 x</b>	<b>1.2 x</b>	<b>13%</b>	<b>11%</b>	<b>10%</b>	<b>9%</b>
<b>Integrated Power Cos</b>											
Tata Power Co	India	UW	90	4829.5	2.9	2.0	1.9	11%	9%	8%	5%
CLP Holdings	China	EW	64	21713.8	1.9	2.0	1.9	12%	12%	13%	6%
Power Assets Holdings Ltd	China	EW	58	16489.2	1.9	2.1	2.0	13%	16%	15%	7%
Korea Electric Power	Korea	EW	30,100	12976.8	0.5	0.4	0.4	0%	1%	1%	1%
Tenaga Nasional Bhd	Malaysia	OW	7	9490.0	1.4	0.9	0.9	13%	12%	10%	8%
EDF	France	OW	24	55315.7	1.7	1.1	1.0	16%	11%	12%	6%
ENEL	Italy	OW	5	43909.4	1.0	0.9	0.8	15%	14%	14%	6%
Tokyo Electric Power	Japan	NA	NA	5483.6	0.4	0.6	0.6	-8%	-22%	-14%	-21%
Scottish & Southern	UK	EW	1,330	19899.2	2.2	2.3	2.2	NA	22%	20%	20%
					<b>1.5 x</b>	<b>1.4 x</b>	<b>1.3 x</b>	<b>9%</b>	<b>8%</b>	<b>9%</b>	<b>4%</b>
<b>Diversified Cos</b>											
Jindal Steel & Power	India	OW	650	9925.6	4.6	2.7	2.1	41%	31%	27%	31%
LANCO Infratech Ltd	India	EW	32	718.0	1.8	0.6	0.5	22%	18%	20%	25%
Reliance Infrastructure Limited	India	EW	450	2137.6	1.0	0.6	0.6	5%	6%	5%	2%
Cheung Kong Infra.	China	EW	46	12547.5	1.5	1.7	1.5	10%	14%	13%	10%
Essar Energy Plc	UK	UW	230	5753.4	1.3	1.2	1.0	7%	5%	11%	9%
					<b>2.0 x</b>	<b>1.3 x</b>	<b>1.1 x</b>	<b>17%</b>	<b>15%</b>	<b>15%</b>	<b>16%</b>
<b>Pure Transmission Cos</b>											
Red Electrica	Spain	EW	43	6411.8	2.9	2.6	2.4	28%	29%	28%	10%
REN - Redes Energeticas Nacionais	Portugal	EW	3	1552.1	1.3	1.0	1.0	12%	12%	13%	5%
National Grid plc	UK	EW	585	34899.8	3.4	2.6	2.6	NA	40%	22%	15%
TERNA S.p.A.	Italy	NC	NC	7982.2	2.2	2.2	2.2	18%	15%	15%	2%
CTEEP	Brazil	NC	NC	4164.0	1.7	1.7	1.7	19%	21%	21%	1%
ITC Holdings Corp.	USA	NC	NC	3721.0	3.4	3.1	2.8	13%	14%	16%	12%
					<b>2.5 x</b>	<b>2.2 x</b>	<b>2.1 x</b>	<b>18%</b>	<b>22%</b>	<b>19%</b>	<b>7%</b>

For valuation methodology and risks associated with any price targets above other than the subject company, please email [morganstanley.research@morganstanley.com](mailto:morganstanley.research@morganstanley.com) with a request for valuation methodology and risks on a particular stock.

(e)=Morgan Stanley Research estimates for companies under coverage; FactSet estimates for non-covered companies

Source: FactSet, Morgan Stanley Research

NA – Not available, NM – Not meaningful, UW = Underweight, EW = Equal-Weight; OW = Overweight, NC = Not covered

Note: Data for Indian companies are for fiscal year end March 31; \*F2011-F2013 for Lanco Infratech

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### Global Stock Ratings Distribution

(as of September 30, 2011)

For disclosure purposes only (in accordance with NASD and NYSE requirements), we include the category headings of Buy, Hold, and Sell alongside our ratings of Overweight, Equal-weight, Not-Rated and Underweight. Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold, and sell but represent recommended relative weightings (see definitions below). To satisfy regulatory requirements, we correspond Overweight, our most positive stock rating, with a buy recommendation; we correspond Equal-weight and Not-Rated to hold and Underweight to sell recommendations, respectively.

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
<b>Overweight/Buy</b>	<b>1130</b>	<b>40%</b>	<b>457</b>	<b>46%</b>	<b>40%</b>
<b>Equal-weight/Hold</b>	<b>1168</b>	<b>42%</b>	<b>419</b>	<b>42%</b>	<b>36%</b>
<b>Not-Rated/Hold</b>	<b>112</b>	<b>4%</b>	<b>23</b>	<b>2%</b>	<b>21%</b>
<b>Underweight/Sell</b>	<b>400</b>	<b>14%</b>	<b>104</b>	<b>10%</b>	<b>26%</b>
<b>Total</b>	<b>2,810</b>		<b>1003</b>		

Data include common stock and ADRs currently assigned ratings. 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. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

### Analyst Stock Ratings

**Overweight (O or Over)** - The stock's total return is expected to exceed the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

**Equal-weight (E or Equal)** - The stock's total return is expected to be in line with the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

**Not-Rated (NR)** - Currently the analyst does not have adequate conviction about the stock's total return relative to the relevant country MSCI Index on a risk-adjusted basis, over the next 12-18 months.

**Underweight (U or Under)** - The stock's total return is expected to be below the total return of the relevant country MSCI Index, on a risk-adjusted basis, over the next 12-18 months.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

### Analyst Industry Views

**Attractive (A)**: The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

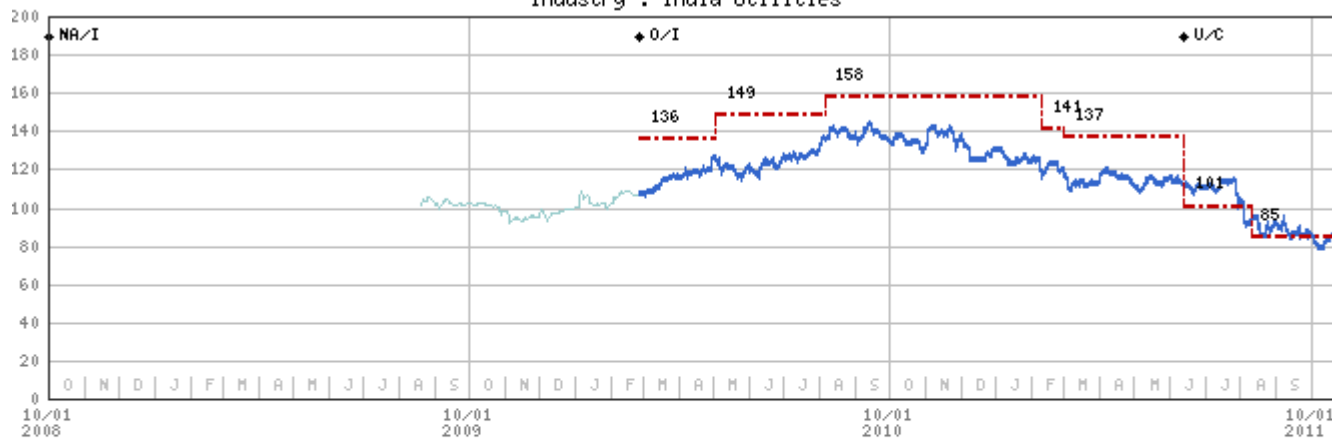
**In-Line (I)**: The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

**Cautious (C)**: The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

### Stock Price, Price Target and Rating History (See Rating Definitions)

Adani Power (ADAN.BO) - As of 10/24/11 in INR  
Industry : India Utilities



Volatility shading indicates "more volatile" (U) flag. As of Nov-14-2008 the U flag has been discontinued.

Stock Rating History: 10/1/08 : NA/I; 2/25/10 : O/I; 6/13/11 : U/C

Price Target History: 2/25/10 : 136; 5/3/10 : 149; 8/5/10 : 158; 2/9/11 : 141; 3/1/11 : 137; 6/13/11 : 101; 8/10/11 : 85

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)  
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ■  
 Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View  
 Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) More Volatile (U) No Rating Available (NA)  
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

October 24, 2011

Adani Power

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October 24, 2011

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## Industry Coverage: India Utilities

Company (Ticker)	Rating (as of)	Price* (10/21/2011)
<b>Parag Gupta</b>		
Adani Power (ADAN.BO)	U (06/13/2011)	Rs83.75
Indiabulls Power Limited (INDP.BO)	U (06/13/2011)	Rs11.05
JSW Energy Limited (JSWE.BO)	U (08/27/2010)	Rs49.05
LANCO Infratech Ltd (LAIN.BO)	E (06/13/2011)	Rs14.85
NTPC (NTPC.BO)	O (06/13/2011)	Rs169.25
Reliance Infrastructure Limited (RLIN.BO)	E (06/13/2011)	Rs399
Tata Power Co (TTPW.BO)	U (08/26/2011)	Rs97.3

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\* Historical prices are not split adjusted.