

Morgan Stanley India Company  
Private Limited+

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Stock Rating  
**Underweight**

Industry View  
**Cautious**

## Adani Power

### High Fuel Cost Impacts Earnings; Remain UW

#### What's Changed

Price Target	<b>Rs60.00 to Rs65.00</b>
F2012 EPS	<b>F2012 EPS</b>
F2013 EPS	<b>Down 40%</b>

**Significant increase in fuel cost due to increasing exposure to the imported spot market and possible delays in commercialization of new units pose earning risks. We are about 44-64% lower than consensus on earnings and maintain Underweight.**

Adani Power's F3Q12 adjusted loss showed the significant impact higher coal costs can have on financial performance - fuel cost/unit rose from Rs 1.04/unit in F3Q11 and Rs 1.27/unit in F2Q12 to Rs 2/unit in F3Q12. This was due to the fact that the company purchased almost 70% of its coal requirement from the imported spot market at prices that were US\$20/ton higher than what we had assumed. We believe the company's exposure to imported spot coal will increase going forward as more units go commercial and the domestic coal deficit increases. Our earnings estimate cuts primarily reflect an increase in imported spot coal price estimates.

Despite the cut in earnings, we have increased our price target from Rs 60/sh to Rs 65/sh due to an increase in weightage of the bull case (if the Lohara captive coal block gets reallocated) and a reduction in the cost of equity backed by a decline in the risk free rate.

**Valuation multiples may look expensive as earnings get downgraded:** Given the cut in earnings, the stock is now trading at F2013 P/E multiple of 25.5x which is expensive relative to other IPPs.

**Potential triggers:** Improvement in domestic coal availability or cool 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	Rs65.00
Up/downside to price target (%)	(21)
Shr price, close (Feb 6, 2012)	Rs82.15
52-Week Range	Rs127.75-59.40
Sh out, dil, curr (mn)	2,180
Mkt cap, curr (mn)	Rs179,090
Avg daily trading value (mn)	Rs135

Fiscal Year ending	03/11	03/12e	03/13e	03/14e
ModelWare EPS (Rs)	2.35	3.17	3.22	9.96
Prior ModelWare EPS (Rs)	2.36	4.34	5.33	13.68
Revenue, net (Rs mn)	21,218	43,036	108,292	135,221
EBITDA (Rs mn)	12,193	20,345	45,435	67,240
ModelWare net inc (Rs mn)	5,127	6,900	7,012	21,717
P/E	48.0	26.0	25.5	8.2
P/BV	3.9	2.6	2.3	1.8
EV/EBITDA	40.0	23.5	11.6	7.9
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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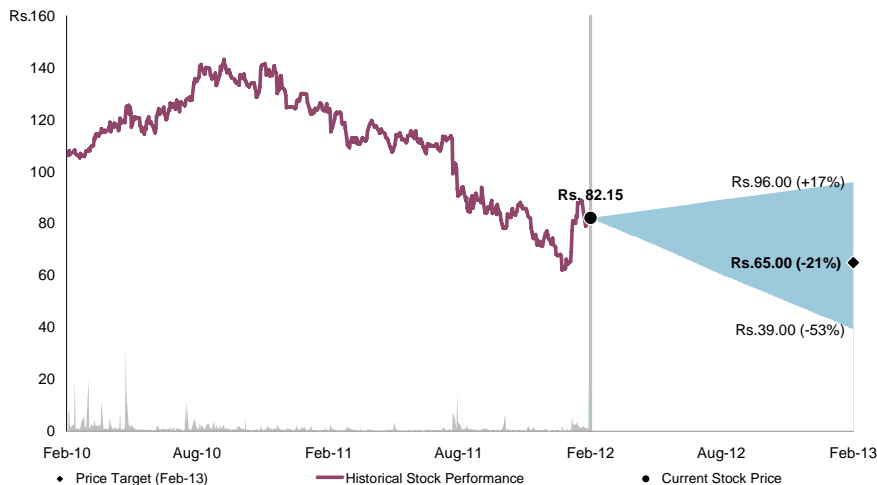
## Financial Summary

<b>Profit and loss statement</b>						<b>Balance Sheet</b>					
Rs Mn (Year-end March 31)	F2011	F2012e	F2013e	F2014e	F2015e	Rs Mn (Year-end March 31)	F2011	F2012e	F2013e	F2014e	F2015e
Proportionate Capacity (MW)	1,011	2,331	6,052	6,716	9,240	<b>Liabilities</b>					
Year End Capacity (MW)	1,980	3,960	6,600	9,240	9,240	Share Capital	21,800	21,800	21,800	21,800	21,800
Proportionate PPA Capacity (MW)	873	1,586	4,657	5,265	7,730	Share Premium	29,826	29,826	29,826	29,826	29,826
Proportionate Merchant Capacity (MW)	138	744	1,395	1,451	1,510	Reserves and Others	11,246	18,146	25,159	46,875	78,993
Total No of Salable Units (Mn Kwh)	6,821	12,776	38,294	44,657	61,164	Miscellaneous Expenditure	-	-	-	-	-
Total PPA tied up (Mn Kwh)	5,925	8,991	29,548	35,006	51,127	Shareholders funds	62,873	69,773	76,785	98,502	130,620
Total Merchant (Mn Kwh)	896	3,785	8,747	9,650	10,037	Total Debt	245,027	293,223	341,858	344,198	296,593
Tariff (Rs/unit)	3.07	3.37	2.83	3.03	3.07	Minority Interest	8,783	6,401	8,401	9,737	11,852
Fuel cost - coal (Rs/unit)	1.03	1.58	1.46	1.34	1.29	<b>Total Liabilities</b>	<b>316,683</b>	<b>369,397</b>	<b>427,045</b>	<b>452,437</b>	<b>439,064</b>
<b>Revenue</b>	<b>21,218</b>	<b>43,036</b>	<b>108,292</b>	<b>135,221</b>	<b>187,687</b>	<b>Assets</b>					
Long Term Revenue	16,657	26,309	73,306	96,620	147,539	Gross Block	90,213	174,952	306,946	447,571	447,571
Merchant Revenue	4,274	16,728	34,987	38,601	40,148	Acc Dep	2,342	6,634	19,655	34,214	54,948
Fleet revenue	288	-	-	-	-	Net Block	87,872	168,318	287,291	413,357	392,622
<b>Expenses</b>	<b>9,025</b>	<b>22,691</b>	<b>62,857</b>	<b>67,981</b>	<b>89,555</b>	CWIP	220,185	194,482	122,431	19,615	19,615
Coal Charges	7,042	20,127	56,016	59,987	79,122	Investments	0	0	0	0	0
O&M Expenses	1,813	2,565	6,841	7,994	10,433	Cash and bank	12,241	700	1,873	523	315
Rebate	-	-	-	-	-	Working Capital	(3,615)	5,897	15,450	18,941	26,512
General expenses	-	-	-	-	-	<b>Total assets</b>	<b>316,683</b>	<b>369,397</b>	<b>427,045</b>	<b>452,437</b>	<b>439,064</b>
Fleet expenses	170	-	-	-	-	<b>Ratio Analysis</b>					
<b>EBITDA</b>	<b>12,193</b>	<b>20,345</b>	<b>45,435</b>	<b>67,240</b>	<b>98,132</b>	<b>(Year-end March)</b>	<b>F2011</b>	<b>F2012e</b>	<b>F2013e</b>	<b>F2014e</b>	<b>F2015e</b>
Depreciation	1,885	4,293	13,020	14,559	20,735	<b>Growth (%)</b>					
<b>EBIT</b>	<b>10,309</b>	<b>16,052</b>	<b>32,415</b>	<b>52,681</b>	<b>77,398</b>	Revenues	388%	103%	152%	25%	39%
Interest on Principal Loan	2,360	6,662	21,586	23,064	31,740	EBITDA	400%	67%	123%	48%	46%
Interest on Working Capital	2	259	1,561	2,084	2,916	EBIT	395%	56%	102%	63%	47%
Other Income	173	194	39	36	13	Net Profit	202%	35%	2%	210%	48%
<b>PBT</b>	<b>8,120</b>	<b>9,326</b>	<b>9,306</b>	<b>27,569</b>	<b>42,754</b>	EPS	186%	35%	2%	210%	48%
Income Tax Payable	2,997	2,423	1,857	5,497	8,522	<b>Margins (%)</b>					
Tax rate (%)	36.9%	26.0%	20.0%	19.9%	19.9%	EBITDA	57%	47%	42%	50%	52%
<b>PAT</b>	<b>5,123</b>	<b>6,903</b>	<b>7,450</b>	<b>22,073</b>	<b>34,233</b>	EBIT	49%	37%	30%	39%	41%
Minority Interest	(4)	3	437	356	2,115	EBT	38%	22%	9%	20%	23%
<b>PAT after Minority Interest</b>	<b>5,127</b>	<b>6,900</b>	<b>7,012</b>	<b>21,717</b>	<b>32,118</b>	Net Profit	24%	16%	6%	16%	17%
EPS (Rs)	2.35	3.17	3.22	9.96	14.73	<b>Return (%)</b>					
DPS (Rs)	-	-	-	-	-	ROE	8%	10%	10%	25%	28%
<b>Cash flow statement</b>						ROCE	4%	5%	8%	12%	17%
<b>Rs Mn (Year-end March 31)</b>	<b>F2011</b>	<b>F2012e</b>	<b>F2013e</b>	<b>F2014e</b>	<b>F2015e</b>	ROA	4%	5%	8%	12%	17%
<b>PAT</b>	<b>5,123</b>	<b>6,903</b>	<b>7,450</b>	<b>22,073</b>	<b>34,233</b>	<b>Gearing</b>					
Depreciation	1,885	4,293	13,020	14,559	20,735	Debt/Equity	3.90	4.20	4.45	3.49	2.27
Change in working capital	1,178	(9,512)	(9,553)	(3,492)	(7,571)	Net Debt/Equity	3.70	4.19	4.43	3.49	2.27
<b>Cash flow from operating activities</b>	<b>8,185</b>	<b>1,684</b>	<b>10,917</b>	<b>33,140</b>	<b>47,397</b>	<b>Valuations</b>					
Capex	(154,231)	(59,036)	(59,941)	(37,809)	(0)	EV/EBITDA	33.8	23.2	11.4	7.8	4.8
Investments	-	-	-	-	-	P/E	34.9	26.0	25.5	8.2	5.6
<b>Cash flow from investing activities</b>	<b>(154,231)</b>	<b>(59,036)</b>	<b>(59,941)</b>	<b>(37,809)</b>	<b>(0)</b>	P/BV	2.8	2.6	2.3	1.8	1.4
Equity issuance	(34)	-	-	-	-	Dividend Yield (%)	0%	0%	0%	0%	0%
Debt proceeds/repayment	139,172	48,196	48,635	2,340	(47,605)						
Minority Interest	7,643	(2,385)	1,563	980	-						
Miscellaneous	-	-	-	-	-						
<b>Cash flow from financing activities</b>	<b>146,782</b>	<b>45,811</b>	<b>50,198</b>	<b>3,319</b>	<b>(47,605)</b>						
Change in cash	736	(11,541)	1,173	(1,350)	(208)						
Opening Cash	11,505	12,241	700	1,873	523						
<b>Closing Cash</b>	<b>12,241</b>	<b>700</b>	<b>1,873</b>	<b>523</b>	<b>315</b>						

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

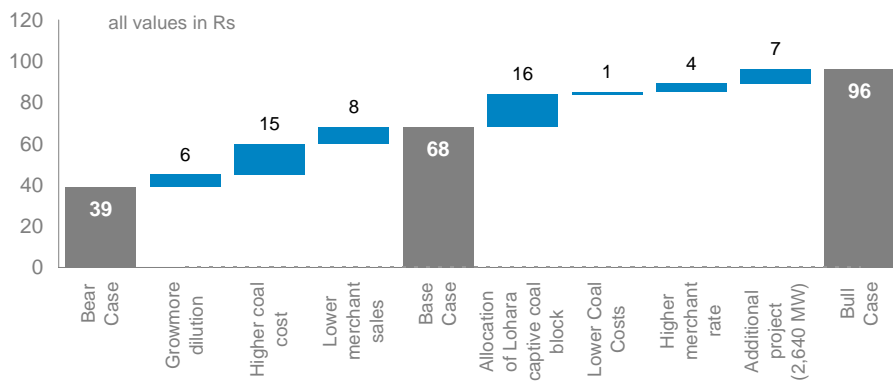
## Risk-Reward Snapshot: Adani Power (ADAN.BO, Rs82.15, UW, PT Rs65)

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



<b>Price Target Rs65</b>	Probability weighted: 10% bull case, 70% base case and 20% bear case.	
<b>Bull Case Rs96</b>	Implies 27x bull-case 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 Rs68</b>	Implies 22x base-case F12E P/E	<b>Capacity of 9,240 MW by F2014:</b> Healthy mix of PPA and short-term sales. Generation business valued at Rs68/share (Rs71/sh previously). 14.9% (15.5%) COE and 2% terminal growth.
<b>Bear Case Rs39</b>	Implies 17x bear-case 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

- Adani Power reported an adjusted loss of Rs 214 mn in F3Q12 due to lower revenue and higher fuel cost.
- Fuel cost/unit is likely to remain high due to high global coal prices and the change in Indonesian regulations which prohibits coal exports at significant discount to the index.
- We have cut F2012e and F2013e EPS by 27% and 40%, respectively to reflect higher coal cost.
- Our earnings for F2012e and F2013e are now 44% and 64% lower than consensus, respectively.
- Stock is trading at a P/E multiple of 25.5x F2013 P/E which is expensive relative to other IPPs.

### Key Value Drivers

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

### Potential Catalysts

- 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

### Risks

**Upside:** Improvement in fuel security, positive news flow on execution, better operational efficiencies, positive developments on projects in development phase  
**Downside:** Change in regulations, execution delays, slowdown in capex, further deterioration in financial health of SEBs

## Investment Case

We maintain our UW rating on the stock with a price target of Rs 65 (from Rs 60/sh earlier). Our key issues on Adani Power are:

1. **Coal challenges** – Fuel cost/unit rose sharply in F3Q12 as the company sourced a large part of its coal requirement (1.5 mt out of total coal quantity of 2.2 mt) from the imported spot market, where coal prices are anyway at elevated levels and the company has to source coal at market driven prices subsequent to the change in Indonesian regulations that prohibits sale of coal at a significant discount to the index price. Also, the company has reduced the quantity it will receive from the Bunyu mine in F2012 from 4 mt earlier to 2.5 mt now, thus increasing its exposure to spot coal. Hence, the key risk the company faces going forward is that with more units coming online, the company will be forced to buy incrementally higher amounts of imported coal from outside the Bunyu mines. We have taken up our imported spot coal price estimate from US\$ 60/ton FOB earlier to US\$ 80/ton now, in-line with F3Q12 trends. As a result, our fuel cost/unit estimate has increased by 12% in F2012, 10% in F2013 and 9% in F2014 and is the key reason for cuts in earnings estimates (given the impact of financial leverage) (see Exhibit 1).
2. **Synchronization/commercialization delays** – while Mundra III unit 2 has been synchronized for a long time, it has not been declared commercial as yet (due to transmission constraint). The company has pushed out synchronization dates for the balance two units of Mundra IV and the units of Tiroda I & II. Hence, to that extent, the performance will not be visible in the P&L, resulting in earnings disappointments. We have reduced total saleable units in F2012 by 16% while F2013 estimate remains largely unchanged. F2014 units are lower by 13% from our earlier estimate as we have pushed out the commercial operation dates of Tiroda III and Kawai projects.
3. **Consensus earnings are aggressive** – we have cut our F2012 and 2013 earnings by 27% and 40%, respectively and we are now 44-64% lower than consensus for these years. We expect consensus to downgrade earnings which will likely hurt stock performance. On our estimates, the stock is expensive – trading at 25.5x F2013 P/E.

On the flip-side, the company mentioned that there is a likelihood for the Lohara captive coal block to be reallocated to the Tiroda I & II project due to the following developments:

- Policy makers at the highest level (including the Prime Minister) are looking at sorting out some of the key issues within the sector. Since coal supply from Coal India is appearing to be one of the key constraints, there is a likelihood that Adani Power may get the Lohara coal block.
- Management stated on the analyst call that the government has asked Adani Power to renew the bank guarantee for the Lohara block. While in our recent report, “Top 10 what if scenarios for 2012”, we had ascribed a less than 25% probability of the Lohara block getting re-allocated, the news about the renewal of bank guarantee is a new piece of information and may point to the government considering a re-allocation of the coal block.

Despite the cut in earnings, we have increased our price target from Rs 60/sh to Rs 65/sh due to the following:

1. Our Bull Case scenario builds in the allocation of the Lohara block which adds Rs 16/share to our Base Case fair value. Given the above mentioned developments, we have reduced the probability of Bear Case from 30% to 20% now and added that to the Bull Case fair value.
2. Our fair values are based on the FCFe methodology which considers free cash flows for the next 15 years and then builds a terminal value. Our free cash flow estimates have been cut significantly for the next 4 years, however, they increase in the long term due to a possibility of lower imported spot coal prices – we assume spot prices come off to US\$ 70/ton beyond March 2016. Our long term coal price assumption reflects the 10-15% decline in long term coal prices assumed by our global commodity team.
3. We have reduced the cost of equity from 15.5% earlier to 14.9% now due to a reduction in the risk free rate.

However, we maintain our Underweight rating on the stock given earnings risk and rich valuations.

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Adani Power

Exhibit 1

## What has Changed?

New	F2012e	F2013e	F2014e
Year End Capacity (MW)	3,960	6,600	9,240
Proportionate Capacity (MW)	2,331	6,052	6,716
Total No of Units (mn)	12,776	38,294	44,657
PPA/Tied up (mn)	8,991	29,548	35,006
Merchant (mn)	3,785	8,747	9,650
PPA %	70%	77%	78%
Merchant %	30%	23%	22%
Tariff (Rs/unit)	3.37	2.83	3.03
Fuel cost (Rs/unit)	1.58	1.46	1.34
Old	F2012e	F2013e	F2014e
Year End Capacity (MW)	3,960	6,600	9,240
Proportionate Capacity (MW)	2,396	6,105	7,859
Total No of Units (mn)	15,181	38,593	51,338
PPA/Tied up (mn)	11,491	29,548	39,192
Merchant (mn)	3,690	9,046	12,146
PPA %	76%	77%	76%
Merchant %	24%	23%	24%
Tariff (Rs/unit)	3.12	2.84	3.08
Fuel cost (Rs/unit)	1.41	1.33	1.24
Change (%)	F2012e	F2013e	F2014e
Year End Capacity (MW)	0%	0%	0%
Proportionate Capacity (MW)	-3%	-1%	-15%
Total No of Units (mn)	-16%	-1%	-13%
PPA/Tied up (mn)	-22%	0%	-11%
Merchant (mn)	3%	-3%	-21%
Tariff (Rs/unit)	8%	0%	-2%
Fuel cost (Rs/unit)	12%	10%	9%

Source: Morgan Stanley Research

### F3Q12 Performance – High Fuel cost

Adani Power reported F3Q12 revenue of Rs10.6 bn (up 111% YoY), EBITDA of Rs 2.8 bn (up 3% YoY) and adjusted loss of Rs 214 mn (adjusted for forex loss of Rs 2 bn and net MTM expense on future coal contracts of Rs 1.3 bn). Before adjusting for the extraordinary items, the reported loss was Rs

3.6 bn. This compares with our revenue estimate of Rs 12 bn, EBITDA of Rs 6 bn and PAT of Rs 2.6 bn.

Weak operating performance was driven by lower revenue and higher fuel cost. Revenue was low due to lower generation numbers recorded in the P&L since Mundra IV unit 1 was declared commercial only in mid Nov 2011 while Mundra III unit 2 was not declared commercial.

Fuel cost/unit more than doubled from Rs 1.04/unit in F3Q11 to Rs 2/unit in F3Q12. The sharp increase in coal cost was primarily driven by the fact that the company sourced coal from the imported spot market at US\$80/ton (FOB) which was higher than our assumption of US\$ 60/ton. The increase in cost is due to high global coal prices and the change in Indonesian regulations which prohibits coal exports at significant discount to the index.

The company sold 1.1 bn units in the merchant market in the quarter at an average realization of Rs 4.65/unit.

The adjusted revenue for 9MF2012 was Rs 29 bn (up 132% YoY), EBITDA was Rs 12.9 bn (up 81% YoY) and adjusted profit was Rs 4 bn (up 17% YoY).

On Mundra III, while the PPA with GUVNL was to start in Feb 2012, the supply has not started as GUVNL has been unable to provide the transmission capacity. We assume that Adani Power will be reimbursed capacity charges for the units (at Rs 1/unit) and will start the supply under the PPA from April 2012 onwards. The company is still in the process of negotiating the tariff upwards and has challenged the recent Appellate ruling in the Supreme Court (see our note "Appellate Dismisses Appeal to Terminate Mundra III PPA" dated Sep 11, 2011).

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Exhibit 2

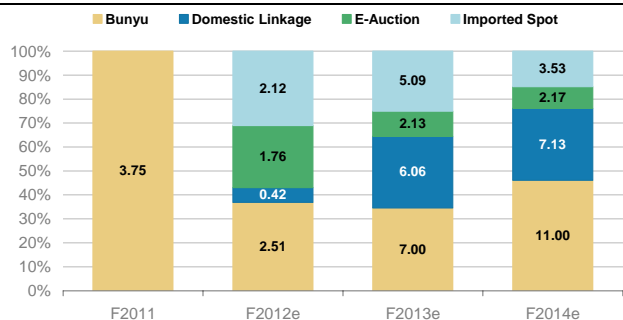
## Adani Power: 9MF2012 Standalone Results

Rs mn	F3Q11	F3Q12	YoY	9MF2011	9MF2012	YoY
Gross Generation (MU)	1,931	3,381	75%	4,579	9,869	116%
Net Generation (MU)	1,718	3,018	76%	4,082	8,875	117%
<b>Total Revenues</b>	<b>5,026</b>	<b>10,595</b>	<b>111%</b>	<b>12,509</b>	<b>29,066</b>	<b>132%</b>
Net income from operations	5,026	10,595	111%	12,509	29,066	132%
<b>Total Expenditure</b>	<b>2,296</b>	<b>7,154</b>	<b>212%</b>	<b>5,364</b>	<b>16,151</b>	<b>201%</b>
Material cost	1,790	6,044	238%	4,276	13,136	207%
<i>per unit cost</i>	<i>1.04</i>	<i>2.00</i>	<i>92%</i>	<i>1.05</i>	<i>1.48</i>	<i>41%</i>
Employee cost	76	137	81%	211	376	79%
Other Expenditure	430	973	126%	878	2,639	201%
<b>EBITDA</b>	<b>2,730</b>	<b>3,441</b>	<b>26%</b>	<b>7,144</b>	<b>12,915</b>	<b>81%</b>
<i>EBITDA margin</i>	<i>54%</i>	<i>32%</i>	<i>-2185 bps</i>	<i>57%</i>	<i>44%</i>	<i>-1268 bps</i>
Depreciation	455	1,570	245%	1,092	3,663	235%
<b>EBIT</b>	<b>2,275</b>	<b>1,870</b>	<b>-18%</b>	<b>6,052</b>	<b>9,252</b>	<b>53%</b>
Other income	3	21	526%	82	108	32%
Interest and finance charges	532	1,387	161%	1,419	3,609	154%
<b>PBT</b>	<b>1,747</b>	<b>505</b>	<b>-71%</b>	<b>4,714</b>	<b>5,751</b>	<b>22%</b>
Taxation	667	719	8%	1,232	1,685	37%
<i>Tax rate (%)</i>	<i>38%</i>	<i>142%</i>	<i>10431 bps</i>	<i>26%</i>	<i>29%</i>	<i>318 bps</i>
<b>PAT</b>	<b>1,080</b>	<b>-214</b>	<b>-120%</b>	<b>3,483</b>	<b>4,065</b>	<b>17%</b>
Extraordinary items	11	-3,367		11	-4,103	
<b>Reported PAT</b>	<b>1,091</b>	<b>-3,581</b>	<b>-428%</b>	<b>3,494</b>	<b>-38</b>	<b>-101%</b>

Source: Company Data, Morgan Stanley Research

Exhibit 3

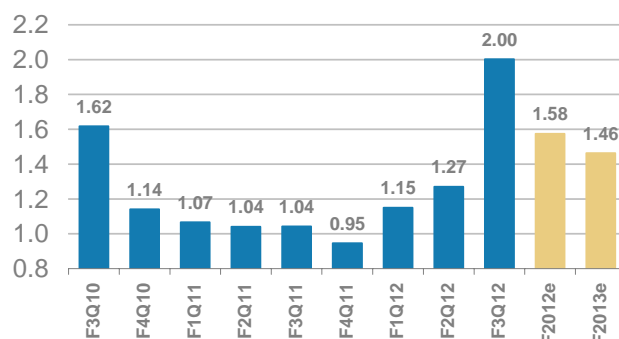
## Fuel Sourcing Mix: Dependence on Coal India set to increase in F13/14



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

Exhibit 4

## Fuel Cost per unit (Rs/unit) to be higher going forward



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

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Exhibit 5

## Change in CoD from our Earlier Estimate

Unit	Size (MW)	Old	New	Delay (days)
Mundra III - unit 2	660	30-Nov-11	2-Feb-12	64
Mundra IV - unit 1	660	15-Dec-11	17-Nov-11	(28)
Mundra IV - unit 2	660	1-Apr-12	30-Apr-12	29
Mundra IV - unit 3	660	30-Apr-12	30-Apr-12	-
Tiroda I & II - unit 1	660	30-Mar-12	30-Mar-12	-
Tiroda I & II - unit 2	660	30-Jun-12	30-Jun-12	-
Tiroda I & II - unit 3	660	30-Aug-12	30-Aug-12	-
Tiroda III - unit 1	660	15-Nov-13	15-Mar-14	120
Tiroda III - unit 2	660	15-Dec-13	15-Mar-14	90
Kawai - unit 1	660	1-Aug-13	15-Mar-14	226
Kawai - unit 2	660	31-Aug-13	15-Mar-14	196

Source: Company Data, Morgan Stanley Research

## Valuation

We have cut our F2012e EPS estimate by 27% and F2013e by 40% primarily due to higher fuel cost and adjustments in commissioning timelines (which reduces merchant volumes).

The cost of equity was high for power companies in 2011 given the sharp rise in bond yields (moving from 7.92% in January

Exhibit 6

## Adani Power: 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	-4,150	4,459	6,824	6,263	6,470	6,714	7,006	7,076	4,573	4,661	8,083	8,328	8,461	2,869	2,371	2,236	2,098
Mundra III	245	-916	3,128	3,391	3,054	3,371	3,725	3,852	4,162	2,874	3,123	7,212	7,543	7,499	6,761	1,130	449
Mundra IV	-1,062	-6,736	2,090	4,190	4,407	5,183	5,573	4,289	4,365	4,762	3,440	12,096	11,911	11,774	11,328	9,201	5,959
Tiroda I and II	963	-4,362	-2,441	-1,223	-1,097	291	743	792	1,084	1,466	1,168	4,128	6,879	6,035	5,795	5,849	5,906
Tiroda III	-1,067	-2,446	-2,818	219	3,625	3,797	3,975	4,144	4,333	4,536	4,748	4,970	3,643	7,350	7,427	7,484	7,543
Kawai	-6,068	-4,158	-3,556	161	3,599	3,826	4,061	4,281	4,531	4,797	5,075	5,366	3,709	9,027	9,102	9,146	9,196
Total	-11,139	-14,159	3,227	13,002	20,057	23,180	25,084	24,433	23,049	23,096	25,638	42,099	42,146	44,554	42,784	35,047	31,150
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	0.3	0.2	0.2	0.2	0.1	0.1
<b>Discounted FCFe</b>		<b>-14,159</b>	<b>2,810</b>	<b>9,857</b>	<b>13,240</b>	<b>13,323</b>	<b>12,553</b>	<b>10,646</b>	<b>8,744</b>	<b>7,629</b>	<b>7,374</b>	<b>10,543</b>	<b>9,190</b>	<b>8,459</b>	<b>7,073</b>	<b>5,044</b>	<b>3,904</b>

Sum of forecast horizon (Rs mn) - F2013e-F2028e	116,230
Terminal Value (Rs mn)	30,987
Total Equity Value (Rs mn)	147,217
<b>Value per share (Power Business) - a</b>	<b>68</b>
Cash balance (F2012e) - Rs mn	700
Cash per share - F2012e - b	0
<b>Total value/share (a+b)</b>	<b>68</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:

2011 to 9% as of mid-November 2011) and an expected risk premium of 6.5% that was implied by the market. However, over the last 2 months bond yields have fallen, given rate cut expectations from the RBI. We have accordingly reduced our cost of equity assuming a lower risk free rate of 8.3% vs our earlier assumption of 8.9%.

We continue to use a 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 Rs65 is probability weighted - 70% for the base case (unchanged), 20% for the bear case (30% earlier) and 10% for the bull case (no probability earlier). We have assigned a probability to the bull case as there may be a possibility that the company can obtain the Lohara captive coal block. While our bull case value is unchanged and the base value goes down by only 4%, our bear case value goes down by 11% largely due to the base effect.

- Positive news flow on execution and better operational efficiencies.

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- Improvement in domestic coal availability or possibility of obtaining captive coal blocks.
- Higher merchant realizations.
- Positive developments on projects in development phase.
- Delays in execution of power projects or any negative news flow on the existing project portfolio.
- Significant increase in coal prices.
- Slowdown in capex spending or credit freeze.

The key downside risks to our target price are:

- A significant change in regulations or political intervention in India and Indonesia.

Exhibit 7

## 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	101	101	5,793	14.6	7.1	4.5	9.7	4.8	2.4	124.3	53.6	21.1
NTPC	178	178	30,084	1.2	1.1	1.0	0.9	0.8	0.7	12.9	12.5	10.9
Tata Power	107	107	5,452	3.3	2.2	1.5	1.8	1.1	0.7	11.6	9.2	7.7
Reliance Infrastructure	549	549	3,009	4.6	5.3	4.3	3.9	3.9	3.9	17.5	13.5	9.3
Adani Power	82	82	3,674	4.3	2.4	1.6	1.9	0.9	0.6	33.8	23.2	11.4
Indiabulls Power	13	13	571	NA	NA	2.0	NA	NA	0.4	NM	NM	37.5
Jindal Steel and Power - @ MS Power Business FV	243	243	4,659	5.2	5.3	2.4	4.7	4.7	2.0	8.8	10.9	8.9
Jindal Steel and Power - implied	574	254	4,872	5.4	5.5	2.5	4.9	4.9	2.1	9.1	11.3	9.3
JSW Energy	56	56	1,880	2.1	1.3	1.4	1.1	0.6	0.6	11.2	10.5	7.6

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	101	101	5,793	1.6	1.6	1.5	4.0%	4.0%	6.0%	39.0	39.5	24.3
NTPC	178	178	30,084	2.1	2.0	1.9	13.5%	13.1%	13.8%	15.9	15.4	13.6
Tata Power	107	107	5,452	2.1	1.9	1.7	12.2%	13.9%	11.2%	17.3	13.4	15.2
Reliance Infrastructure	549	549	3,009	0.6	0.5	0.5	6.0%	4.4%	5.9%	9.4	12.4	8.7
Adani Power	82	82	3,674	2.8	2.6	2.3	8.2%	9.9%	9.1%	34.9	25.9	25.5
Indiabulls Power	13	13	571	0.7	0.7	0.6	0.1%	1.3%	2.7%	508.6	56.5	21.8
Jindal Steel and Power - @ MS Power Business FV	243	243	4,659	3.4	2.7	2.2	28.9%	20.0%	18.7%	11.7	13.5	11.8
Jindal Steel and Power - implied	574	254	4,872	3.5	2.8	2.3	28.9%	20.0%	18.7%	12.2	14.1	12.3
JSW Energy	56	56	1,880	1.6	1.5	1.3	13.8%	7.6%	10.1%	11.6	19.6	13.3

**Notes:**

Stock Prices are as of 2/6/12

Jindal Steel and Power @ MS FV is Morgan Stanley Research estimates for the company's power business @ Rs 243/share (power business + JSPL's 1350 MW plant)

Jindal Steel and Power implied is adjusted for steel business at Rs 320/share

Reliance Power is based on Bloomberg estimates

Exchange Rate of INR/USD = 48.69

NA = Not Available; NM = Not Meaningful

Source: Thomson Reuters, Morgan Stanley Research



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Exhibit 8

## Global Utility Valuations

Company Name	Country	MS Rating	PT	Stock Price	Currency	Mkt Cap (US\$mn)	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	65.0	82.2	INR	3685	34.9	25.9	25.5	33.8	23.2	11.4	62%
Indiabulls Power Limited	India	UW	9.0	12.7	INR	636	906.7	56.6	21.8	NM	NM	39.6	178%
JSW Energy Limited	India	UW	52.0	55.8	INR	1881	15.0	19.6	13.3	12.8	20.6	7.6	-5%
NTPC	India	OW	196.0	177.7	INR	30140	17.3	15.4	13.6	13.8	12.5	10.9	11%
China Resources Power	China	OW	18.6	15.0	HKD	9319	17.4	12.8	11.1	11.7	9.5	9.0	24%
Huadian Power Int'l	China	EW	1.4	1.8	HKD	1581	51.4	94.1	41.5	15.5	11.2	10.9	54%
Huaneng Power	China	EW	3.6	4.7	HKD	8592	14.6	27.8	31.5	9.1	9.3	9.5	-20%
Yangtze Power	China	OW	10.5	6.5	CNY	16938	15.5	12.6	11.6	10.9	9.5	9.2	6%
Drax	UK	UW	410.0	540.5	GBp	3118	5.4	10.2	12.1	3.0	5.6	6.5	-58%
							<b>119.8 x</b>	<b>30.5 x</b>	<b>20.2 x</b>	<b>13.8 x</b>	<b>12.7 x</b>	<b>12.7 x</b>	<b>28%</b>
<b>Integrated Power Cos</b>													
Tata Power Co	India	UW	80.0	107.5	INR	5465	32.6	24.4	30.6	24.6	20.6	20.4	-5%
CLP Holdings	China	EW	70.0	63.0	HKD	19550	16.6	15.8	13.5	9.7	9.0	8.4	7%
Power Assets Holdings Ltd	China	EW	58.0	56.1	HKD	15442	14.5	13.3	12.8	13.3	12.2	11.5	10%
Korea Electric Power	Korea	EW	27,012.0	27200.0	KRW	16112	NM	NM	10.5	9.7	10.5	7.8	-381%
Tenaga Nasional Bhd	Malaysia	OW	6.7	6.0	MYR	10802	11.1	8.2	10.3	7.2	5.6	5.6	0%
EDF	France	EW	23.0	18.5	EUR	44955	11.4	8.7	8.0	6.2	5.9	5.7	-4%
ENEL	Italy	OW	3.9	3.1	EUR	38065	8.0	6.8	7.2	5.4	5.1	5.1	-2%
Tokyo Electric Power	Japan	NA	NA	199.0	JPY	4165	NM	NM	2.8	14.9	12.0	8.8	NA
SSE	UK	EW	1,280.0	1252.0	GBp	18470	12.3	11.0	10.4	8.0	8.1	7.7	5%
							<b>15.2 x</b>	<b>12.6 x</b>	<b>11.8 x</b>	<b>11.0 x</b>	<b>9.9 x</b>	<b>9.0 x</b>	<b>-46%</b>
<b>Diversified Cos</b>													
Jindal Steel & Power	India	EW	535.0	574.8	INR	11039	17.3	14.1	12.3	12.4	9.7	8.4	14%
Reliance Infrastructure Limited	India	EW	450.0	548.7	INR	3012	19.1	15.4	14.0	16.9	14.9	11.4	7%
Cheung Kong Infra.	China	EW	46.1	43.5	HKD	12647	16.4	13.6	12.4	15.3	11.7	10.2	21%
Essar Energy Plc	UK	UW	230.0	133.9	GBp	2760	52.9	16.2	5.2	23.4	12.6	7.6	46%
							<b>26.4 x</b>	<b>14.8 x</b>	<b>11.0 x</b>	<b>17.0 x</b>	<b>12.2 x</b>	<b>9.4 x</b>	<b>22%</b>
<b>Pure Transmission Cos</b>													
Red Electrica	Spain	EW	43.0	35.4	EUR	6287	11.6	9.4	9.5	9.3	7.6	7.5	9%
REN - Redes Energeticas Nacionais	Portugal	EW	2.8	2.1	EUR	1483	12.4	8.7	7.8	8.0	7.1	6.7	9%
National Grid plc	UK	EW	585.0	641.5	GBp	35147	11.9	12.6	12.2	9.0	9.3	9.3	2%
Terna - Rete Elettrica Nazionale Societa P	Italy	NC	NC	2.8	EUR	7274	11.9	14.7	14.2	8.7	9.0	9.0	-5%
CTEEP	Brazil	NC	NC	53.5	BRL	2736	10.0	8.7	8.5	5.2	4.6	4.7	8%
Itec Holdings Corp.	USA	NC	NC	74.4	USD	3817	25.9	22.4	18.4	13.8	12.8	11.6	19%
Power Grid Corp of India	India	OW	124.0	109.0	INR	10364	17.9	17.5	15.3	11.8	11.7	10.4	12%
							<b>14.5 x</b>	<b>13.4 x</b>	<b>12.3 x</b>	<b>9.4 x</b>	<b>8.9 x</b>	<b>8.5 x</b>	<b>8%</b>

This report contains valuation methodology and risks for Adani Power.

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

e = Factset, Morgan Stanley Research estimates; Source: Thomson Reuters, Morgan Stanley Research

NA = Not Available; NM = Not Meaningful; UW = Underweight, EW = Equalweight, OW = Overweight, NC = Not Covered (Thomson Reuters consensus)

Prices are as of Feb 06, 2012 for Asian companies and Feb 03, 2012 for the others

Note: Data for Indian companies is for Fiscal Year End March 31; \* F2011-F2013 for Tokyo Electric Power

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Adani Power

Exhibit 9

## Global Utility Valuations (cont'd)

Company Name	Country	MS Rating	PT	Stock Price	Currency	Mkt Cap (US\$m)	P/B			ROE			Book Value Growth *
							F11e/C10e	F12e/C11e	F13e/C12e	F11e/C10e	F12e/C11e	F13e/C12e	
<b>Pure Generation Cos</b>													
Adani Power	India	UW	65.0	82.2	INR	3685	2.8	2.6	2.3	8%	10%	9%	16%
Indiabulls Power Limited	India	UW	9.0	12.7	INR	636	1.2	0.7	0.6	0%	1%	3%	5%
JSW Energy Limited	India	UW	52.0	55.8	INR	1881	2.1	1.5	1.3	15%	8%	11%	10%
NTPC	India	OW	196.0	177.7	INR	30140	2.3	2.0	1.9	14%	14%	14%	8%
China Resources Power	China	OW	18.6	15.0	HKD	9319	1.6	1.5	1.4	9%	12%	13%	10%
Huadian Power Int'l	China	EW	1.4	1.8	HKD	1581	0.5	0.5	0.6	1%	1%	1%	3%
Huaneng Power	China	EW	3.6	4.7	HKD	8592	0.9	0.9	1.0	7%	3%	3%	0%
Yangtze Power	China	OW	10.5	6.5	CNY	16938	1.9	1.5	1.4	13%	12%	12%	8%
Drax	UK	UW	410.0	540.5	GBp	3118	1.4	1.9	1.8	25%	20%	15%	4%
							<b>1.6 x</b>	<b>1.5 x</b>	<b>1.4 x</b>	<b>10%</b>	<b>9%</b>	<b>9%</b>	<b>7%</b>
<b>Integrated Power Cos</b>													
Tata Power Co	India	UW	80.0	107.5	INR	5465	2.9	2.2	2.1	9%	9%	9%	5%
CLP Holdings	China	EW	70.0	63.0	HKD	19550	1.9	1.9	1.7	12%	12%	13%	6%
Power Assets Holdings Ltd	China	EW	58.0	56.1	HKD	15442	1.9	2.0	1.8	13%	16%	15%	7%
Korea Electric Power	Korea	EW	27,012.0	27200.0	KRW	16112	0.5	0.4	0.4	0%	-2%	4%	2%
Tenaga Nasional Bhd	Malaysia	OW	6.7	6.0	MYR	10802	1.4	0.9	1.0	13%	12%	10%	8%
EDF	France	EW	23.0	18.5	EUR	44955	1.7	1.0	0.9	16%	11%	12%	6%
ENEL	Italy	OW	3.9	3.1	EUR	38065	0.9	0.7	0.7	12%	11%	10%	4%
Tokyo Electric Power	Japan	NA	NA	199.0	JPY	4165	0.3	0.4	0.4	-22%	-14%	15%	-10%
SSE	UK	EW	1,280.0	1252.0	GBp	18470	2.2	2.1	2.0	22%	19%	20%	3%
							<b>1.5 x</b>	<b>1.3 x</b>	<b>1.2 x</b>	<b>8%</b>	<b>8%</b>	<b>12%</b>	<b>3%</b>
<b>Diversified Cos</b>													
Jindal Steel & Power	India	EW	535.0	574.8	INR	11039	4.6	3.0	2.4	31%	24%	22%	25%
Reliance Infrastructure Limited	India	EW	450.0	548.7	INR	3012	1.0	0.8	0.8	6%	5%	6%	4%
Cheung Kong Infra.	China	EW	46.1	43.5	HKD	12647	1.5	1.8	1.5	10%	14%	13%	10%
Essar Energy Plc	UK	UW	230.0	133.9	GBp	2760	2.8	0.8	0.6	7%	5%	11%	9%
							<b>2.5 x</b>	<b>1.6 x</b>	<b>1.3 x</b>	<b>13%</b>	<b>12%</b>	<b>13%</b>	<b>12%</b>
<b>Pure Transmission Cos</b>													
Red Electrica	Spain	EW	43.0	35.4	EUR	6287	2.9	2.5	2.4	28%	29%	28%	10%
REN - Redes Energeticas Nacionais	Portugal	EW	2.8	2.1	EUR	1483	1.3	1.1	1.0	11%	13%	14%	5%
National Grid plc	UK	EW	585.0	641.5	GBp	35147	2.6	2.6	2.5	40%	22%	22%	4%
Terna - Rete Elettrica Nazionale Societa P	Italy	NC	NC	2.8	EUR	7274	2.0	2.0	2.0	18%	14%	14%	-1%
CTEEP	Brazil	NC	NC	53.5	BRL	2736	1.8	1.9	1.9	18%	22%	22%	-1%
Ite Holdings Corp.	USA	NC	NC	74.4	USD	3817	3.4	3.1	2.8	14%	14%	15%	11%
Power Grid Corp of India	India	OW	124.0	109.0	INR	10364	2.2	2.2	2.0	13%	13%	14%	10%
							<b>2.3 x</b>	<b>2.2 x</b>	<b>2.1 x</b>	<b>20%</b>	<b>18%</b>	<b>18%</b>	<b>5%</b>

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e = Factset, Morgan Stanley Research estimates; Source: Thomson Reuters, Morgan Stanley Research

NA = Not Available; NM = Not Meaningful; UW = Underweight, EW = Equalweight, OW = Overweight, NC = Not Covered (Thomson Reuters consensus)

Prices are as of Feb 06, 2012 for Asian companies and Feb 03, 2012 for the others

Note: Data for Indian companies is for Fiscal Year End March 31; \* F2011-F2013 for Tokyo Electric Power



**Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations.** For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

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The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report: Parag Gupta. Unless otherwise stated, the individuals listed on the cover page of this report are research analysts.

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(as of January 31, 2012)

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February 7, 2012

Adani Power

Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
<b>Overweight/Buy</b>	<b>1135</b>	<b>39%</b>	<b>460</b>	<b>44%</b>	<b>41%</b>
<b>Equal-weight/Hold</b>	<b>1248</b>	<b>42%</b>	<b>444</b>	<b>42%</b>	<b>36%</b>
<b>Not-Rated/Hold</b>	<b>107</b>	<b>4%</b>	<b>25</b>	<b>2%</b>	<b>23%</b>
<b>Underweight/Sell</b>	<b>454</b>	<b>15%</b>	<b>121</b>	<b>12%</b>	<b>27%</b>
<b>Total</b>	<b>2,944</b>		<b>1050</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.

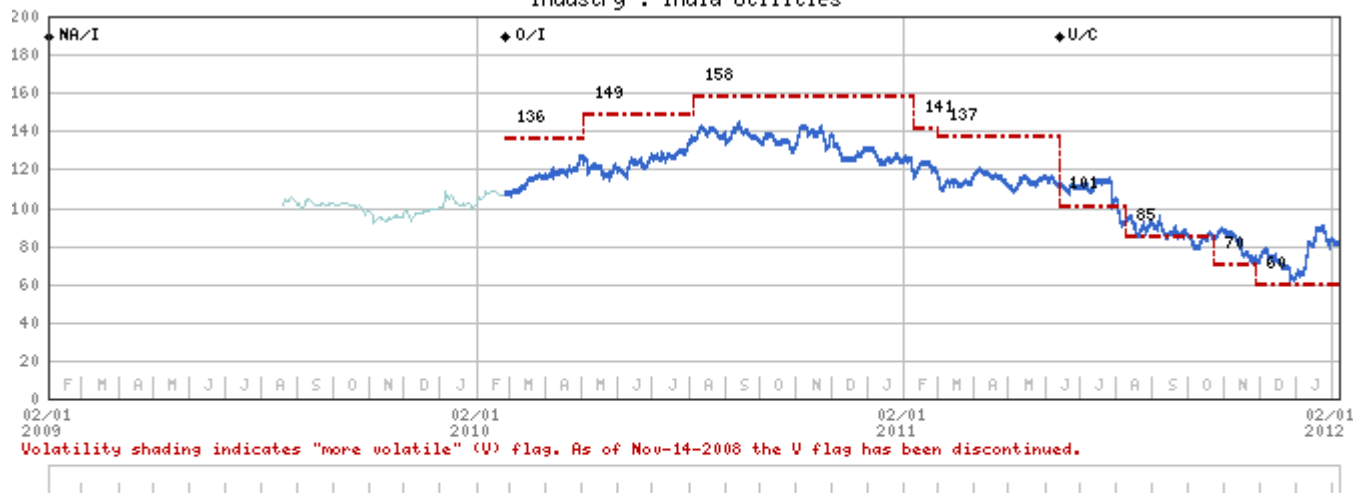
**In-Line (I):** The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

**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 2/6/12 in INR  
Industry : India Utilities



Stock Rating History: 2/1/09 : 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; 10/24/11 : 70; 11/29/11 : 60

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)

February 7, 2012

Adani Power

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February 7, 2012

Adani Power

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## Industry Coverage: India Utilities

Company (Ticker)	Rating (as of)	Price* (02/06/2012)
<b>Parag Gupta</b>		
Adani Power (ADAN.BO)	U (06/13/2011)	Rs82.15
Indiabulls Power Limited (INDP.BO)	U (06/13/2011)	Rs12.66
JSW Energy Limited (JSWE.BO)	U (08/27/2010)	Rs55.75
LANCO Infratech Ltd (LAIN.BO)	E (06/13/2011)	Rs16.15
NTPC (NTPC.BO)	O (06/13/2011)	Rs177.65
Power Grid Corporation of India (PGRD.BO)	O (11/29/2011)	Rs108.85
Reliance Infrastructure Limited (RLIN.BO)	E (06/13/2011)	Rs548.65
Tata Power Co (TTPW.BO)	U (08/26/2011)	Rs107.45

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\* Historical prices are not split adjusted.