

# Factor-in Coal price & MAT hit

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## Cut EPS & PO on 18.8% coal price hike and MAT; Maintain Buy

We cut our FY12-13E consolidated EPS of Adani Power (APL) by 16-24% to factor in 18.8% coal price hike on MCL linkages and the proposed Minimum Alternate tax (MAT) @ 20% on SEZs in the Budget, which impacts APL's Mundra plant. An 18.8% price hike by Mahanadi coalfields (MCL), to align its price with SECL, shall impact APL's ~8mtpa of F grade coal linkage from MCL. Cut PO to Rs140 (153) to factor in EPS cut. Buy on (1) a 4.7x scale-up in capacity by FY14E via an unregulated business model (no cap on RoE) and (2) visibility of 3.7x EPS over FY11-13E led by 77% power pre-sold at remunerative tariff, secured fuel/funding, location advantage & business model - front-loaded merchant power with assured shift to PPAs from FY13E (see Chart 8).

## Double whammy on Mundra to shave 18% of asset value

We cut FY12-13E consolidated EPS by 16-24% to factor in 28-29% earning cut in Mundra plant hit by MAT & MCL coal price hike. CIL coal price hike impacts APL 4.6GW (55% of valued equity capacity) Mundra plant as it hikes coal costs on ~30% of its requirement (MCL linkages) by 6% (6paise/kWh). Mundra has PPA of 3.4GW (74% of its capacity) - GUVNL (2GW) and DHBVNL & UHBVNL (1.4GW) without any pass-through and balance as merchant, hence, we have assumed no pass-through. Levy of MAT on SEZ units shall lead to additional cash outflow for Mundra. APL claims that levy of MAT shall qualify as 'change of law' and hence, shall be pass-through.

## Competitive advantages - coal, location and visible growth

APL has secured low-cost fuel via coal linkages (38% of capacity) and contracts with parent (23%). It has 86% of capacity located in the Western region - highest peak power deficit (17.7%) vs India (13.3%) in FY10. These competitive advantages and healthy pre-sales tariffs at ~Rs2.9 (see Table 1) make APL the top margin (57% in FY13E) and RoE (21%) earner in our IPP universe.

## More projects - 15.9GW, PPAs and risk mitigation since IPO

APL plans to acquire 26% stake in its Tiroda through a stock swap. Its project pipeline is now 15.9GW vs 9.9GW at its IPO (July09). **Risks:** execution, delivery of coal in-line with linkage letters of Ministry of coal, imported coal - exposes it to country, currency & freight risks, and fall in power rates on lower power deficit.

### Estimates (Mar)

(Rs)	2009A	2010A	2011E	2012E	2013E
Net Income (Adjusted - mn)	(50)	1,702	5,261	18,329	19,398
EPS	(0.027)	0.781	2.41	8.41	8.90
EPS Change (YoY)	NA	NM	209.0%	248.4%	5.8%
Dividend / Share	0	0	0	0	0
Free Cash Flow / Share	(24.88)	(45.41)	(49.12)	(38.32)	(3.55)

### Valuation (Mar)

	2009A	2010A	2011E	2012E	2013E
P/E	NM	141.32x	45.73x	13.13x	12.40x
Dividend Yield	0%	0%	0%	0%	0%
EV / EBITDA*	NM	187.92x	40.16x	8.93x	6.75x
Free Cash Flow Yield*	-19.05%	-41.15%	-44.51%	-34.73%	-3.22%
Price/Book Value	10.56	4.15	3.80	2.95	2.38

\* For full definitions of *iQmethod*<sup>SM</sup> measures, see page 9.

### Stock Data

Price	Rs110.35
Price Objective	Rs140.00
Date Established	7-Mar-2011
Investment Opinion	C-1-9
Volatility Risk	HIGH
52-Week Range	Rs102.00-Rs145.90
Mrkt Val / Shares Out (mn)	US\$5,348 / 2,180.0
Average Daily Volume	1,778,689
BofAML Ticker / Exchange	XADPF / BSE
Bloomberg / Reuters	ADANI IN / ADAN.BO
ROE (2011E)	8.7%
Net Dbt to Eqty (Mar-2010A)	180.9%
Est. 5-Yr EPS / DPS Growth	125.0% / NA
Free Float	26.5%

### Key Changes

(Rs)	Previous	Current
Price Obj.	153.00	140.00
2012E EPS	11.01	8.41
2013E EPS	10.59	8.90

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Refer to important disclosures on page 10 to 12. Analyst Certification on Page 8. Price Objective Basis/Risk on page 8. Link to Definitions on page 8.11027122

07 March 2011

# iQprofile<sup>SM</sup> Adani Power Ltd.

Key Income Statement Data (Mar)	2009A	2010A	2011E	2012E	2013E
<b>(Rs Millions)</b>					
Sales	0	4,349	20,804	82,306	119,164
Gross Profit	(55)	2,438	11,409	51,318	67,885
Sell General & Admin Expense	NA	NA	NA	NA	NA
Operating Profit	(55)	2,085	9,605	45,417	55,669
Net Interest & Other Income	0	(57)	(2,127)	(9,894)	(22,047)
Associates	NA	NA	NA	NA	NA
Pretax Income	(55)	2,027	7,478	35,523	33,623
Tax (expense) / Benefit	0	(327)	(2,218)	(15,676)	(10,238)
Net Income (Adjusted)	(50)	1,702	5,261	18,329	19,398
Average Fully Diluted Shares Outstanding	1,842	2,180	2,180	2,180	2,180

## Key Cash Flow Statement Data

Net Income	(50)	1,702	5,261	18,329	19,398
Depreciation & Amortization	0	353	1,804	5,901	12,216
Change in Working Capital	(1,142)	(1,989)	(483)	(108)	(1,861)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(6)	(2)	0	1,519	3,986
Cash Flow from Operations	(1,198)	65	6,582	25,641	33,739
Capital Expenditure	(44,623)	(99,062)	(113,657)	(109,182)	(41,480)
(Acquisition) / Disposal of Investments	532	(408)	0	0	0
Other Cash Inflow / (Outflow)	0	0	0	0	0
Cash Flow from Investing	(44,091)	(99,471)	(113,657)	(109,182)	(41,480)
Shares Issue / (Repurchase)	8,526	33,476	0	0	0
Cost of Dividends Paid	NA	NA	NA	NA	NA
Cash Flow from Financing	48,953	121,579	93,262	81,087	13,274
Free Cash Flow	(45,821)	(98,998)	(107,075)	(83,541)	(7,740)
Net Debt	44,311	108,766	213,489	294,706	301,415
Change in Net Debt	36,121	64,455	104,723	81,217	6,709

## Key Balance Sheet Data

Property, Plant & Equipment	69,257	167,966	279,819	383,100	412,363
Other Non-Current Assets	0	0	0	0	0
Trade Receivables	0	275	1,701	3,632	8,080
Cash & Equivalents	5,585	27,758	13,946	11,492	17,026
Other Current Assets	4,163	1,083	1,685	4,464	6,180
Total Assets	79,006	197,083	297,151	402,688	443,649
Long-Term Debt	49,897	136,214	226,928	306,198	318,441
Other Non-Current Liabilities	NA	NA	NA	NA	NA
Short-Term Debt	0	311	508	0	0
Other Current Liabilities	5,620	417	1,963	6,564	10,867
Total Liabilities	55,516	136,941	229,398	312,762	329,308
Total Equity	23,490	60,141	67,754	89,925	114,341
Total Equity & Liabilities	79,006	197,083	297,151	402,688	443,649

## iQmethod<sup>SM</sup> - Bus Performance\*

Return On Capital Employed	-0.1%	1.5%	3.1%	7.5%	9.6%
Return On Equity	-0.3%	4.2%	8.7%	25.3%	21.3%
Operating Margin	NA	47.9%	46.2%	55.2%	46.7%
EBITDA Margin	NA	56.1%	54.8%	62.4%	57.0%

## iQmethod<sup>SM</sup> - Quality of Earnings\*

Cash Realization Ratio	NM	0x	1.3x	1.4x	1.7x
Asset Replacement Ratio	NA	NM	NM	18.5x	3.4x
Tax Rate (Reported)	NM	16.1%	29.7%	44.1%	30.5%
Net Debt-to-Equity Ratio	188.6%	180.9%	315.1%	327.7%	263.6%
Interest Cover	NA	5.5x	2.8x	4.2x	2.4x

## Key Metrics

 \* For full definitions of iQmethod<sup>SM</sup> measures, see page 9.

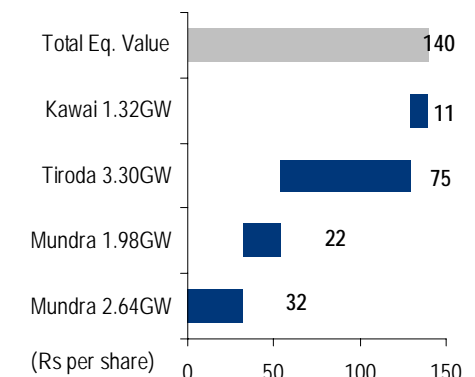
## Company Description

Adani Power (a subsidiary of Adani Enterprises) is engaged in development and operation of a 4620MW Thermal Power Project (TPP) at Mundra, Gujarat. It is also developing a 3300MW TPP at Tiroda, Maharashtra (through its subs. Adani Power Maharashtra Ltd) and 1320MW TPP at Kawai (through its subs. Adani Power Rajasthan Ltd). It has also plan to develop 3300MW as expansion of Mundra and 2640MW TPP at Dahej (through its subsidiary Adani Power Dahej Ltd).

## Investment Thesis

Adani Power is a Buy rating given (1) a 4.7x scale-up in capacity by FY14E via an unregulated business model (no cap on RoE) and (2) visibility of 3.7x EPS over FY11-13E led by 77% power pre-sold at attractive tariff and secured fuel/funding. Our thesis is backed by its competitive advantages of healthy tariffs, low cost & committed fuel supplies as well as location advantage and balanced model

## Chart 1: APL: SOTP Valuation

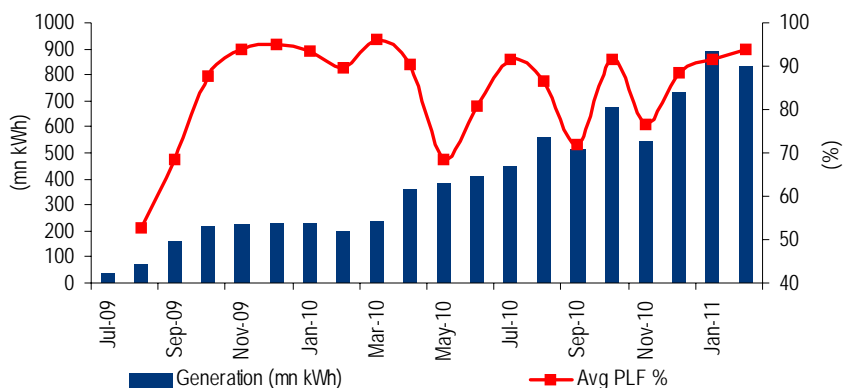


Source: BofA Merrill Lynch Global Research

## Stock Data

Price to Book Value 3.8x

**Chart 2: Average PLF of 4x330MW + 1x660MW of Mundra Phase I, II & III plant**



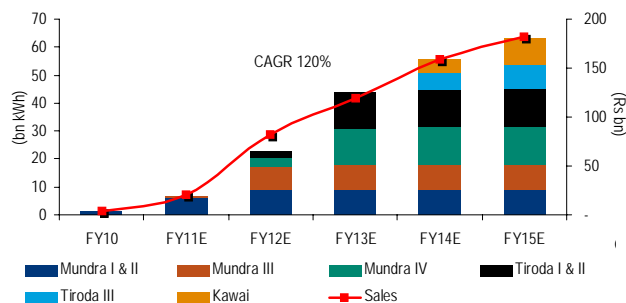
Source: Ministry of Power, BofA Merrill Lynch Global Research

**Table 1: APL: PPA Tariff**

Project	Customer	Date	MW	PPA Term	Levelised Tariff
Mundra I & II	GUVNL	06-Feb-2007	1000	25 years	2.89
Mundra III	GUVNL	02-Feb-2007	1000	25 years	2.35
Mundra IV	DHBVNL & UHBVNL	07-Aug-2008	1424	25 years	2.93
Tiroda I & II	MSEDCL	08-Sep-2008	1320	25 years	2.67
Tiroda III	MSEDCL	4Q FY10	1200	25 years	3.27
Kawai	RRVUNL	Jan-2010	1200	25 years	3.24
<b>Total</b>			<b>7,144</b>		<b>2.91</b>

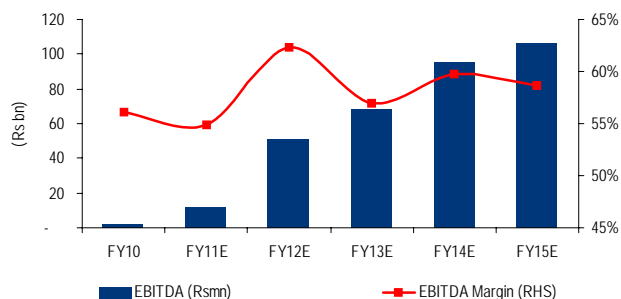
Source: Company

**Chart 3: APL: Generation Break-up (bn kWh) & Sales (Rsbn)**



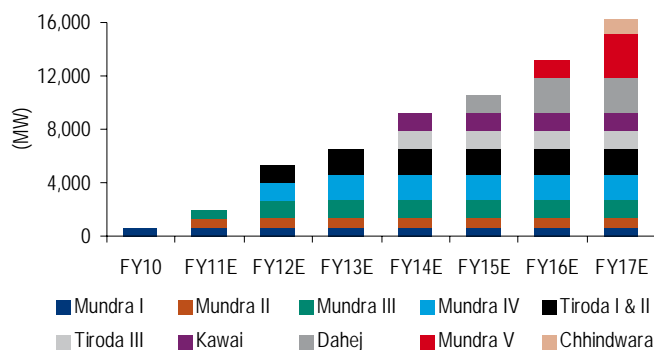
Source: Company, BofA Merrill Lynch Global Research

**Chart 4: APL: EBITDA & EBITDA margin**



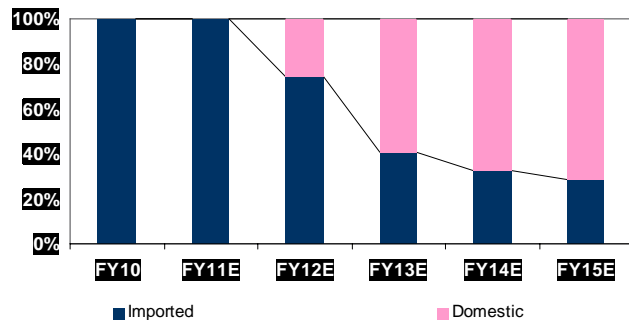
Source: Company, BofA Merrill Lynch Global Research

Chart 5: APL: Likely Planned capacity



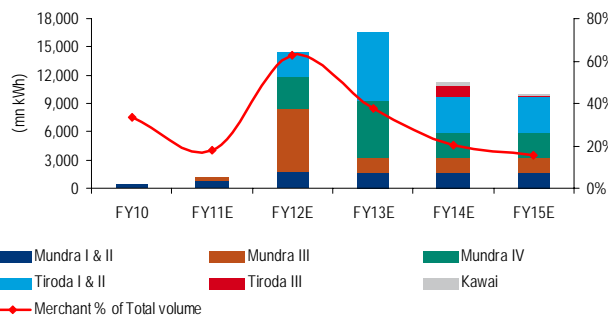
Source: Company, BofA Merrill Lynch Global Research

Chart 6: APL: Coal Mix



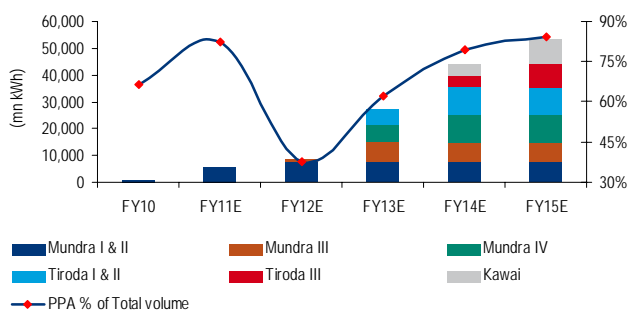
Source: Company, BofA Merrill Lynch Global Research

Chart 7: APL: Merchant volume



Source: Company, BofA Merrill Lynch Global Research

Chart 8: APL: PPA volume



Source: Company, BofA Merrill Lynch Global Research

Table 2: APL: Sum-of-the-parts valuation

Project Name	Capacity (MW)	APL's stake (%)	Rf (%)	Beta (x)	ERP (%)	CoE (%)	APL's Attributable Value		
							Eq. Value (Rsmn)	Eq. Value (Rsmn)	Eq. Value (Rs/share)
<b>Mundra TPP</b>	<b>4620</b>						<b>118,314</b>	<b>118,314</b>	<b>54</b>
Mundra I, II & III	2640	100.0%	8.0%	0.9	5.5%	13.0%	70,848	70,848	32
Mundra IV	1980	100.0%	8.0%	0.9	6.0%	13.4%	47,467	47,467	22
<b>Tiroda TPP</b>	<b>3300</b>						<b>221,741</b>	<b>164,088</b>	<b>75</b>
Tiroda I, II & III	3300	74.0%	8.0%	1.0	6.0%	14.0%	221,741	164,088	75
<b>Kawai TPP</b>	<b>1320</b>						<b>22,967</b>	<b>22,967</b>	<b>11</b>
Kawai TPP	1320	100.0%	8.0%	0.9	6.5%	13.9%	22,967	22,967	11
<b>Total</b>	<b>9240</b>		<b>8.0%</b>	<b>0.9</b>	<b>6.0%</b>	<b>13.6%</b>	<b>363,022</b>	<b>305,370</b>	<b>140</b>

Source: BofA Merrill Lynch Global Research

Table 3: Adani Power (Cons) - Estimate change summary

(Rs mn)	Old	New	% Change
<b>Sales</b>			
FY12E	82,306	82,306	0.0%
FY13E	119,164	119,164	0.0%
<b>EBITDA</b>			
FY12E	51,515	51,318	-0.4%
FY13E	68,569	67,885	-1.0%
<b>PAT post-minority</b>			
FY12E	23,997	18,329	-23.6%
FY13E	23,095	19,398	-16.0%
<b>EPS (Rs)</b>			
FY12E	11.0	8.4	-23.6%
FY13E	10.6	8.9	-16.0%

Source: BofA Merrill Lynch Global Research

Table 4: Adani Power - Consolidated Profit & Loss statement

FY ends on Mar 31st, (Rs mn)	FY09	FY10	FY11E	FY12E	FY13E
<b>Power Sold (mn kWh)</b>	<b>0</b>	<b>1,221</b>	<b>6,764</b>	<b>23,107</b>	<b>43,879</b>
Electricity Sale	-	4,349	20,724	80,761	116,481
- Rs / kWh	0.00	3.56	3.06	3.50	2.65
CER's sale	-	-	-	1,041	1,207
Income from Ash sale	-	-	79	504	1,476
<b>Total Revenue</b>	<b>-</b>	<b>4,349</b>	<b>20,804</b>	<b>82,306</b>	<b>119,164</b>
- Rs / kWh	-	3.56	3.08	3.56	2.72
Coal cost	-	1,450	7,481	25,027	41,151
- % of Total Revenue	NA	33.3%	36.0%	30.4%	34.5%
Fuel oil cost	-	217	369	1,230	2,317
- % of Total Revenue	NA	5.0%	1.8%	1.5%	1.9%
O&M costs	55	243	1,545	4,731	7,810
- % of Total Revenue	NA	5.6%	7.4%	5.7%	6.6%
<b>Total Operating Expenses</b>	<b>55</b>	<b>1,910</b>	<b>9,395</b>	<b>30,988</b>	<b>51,278</b>
<b>EBITDA</b>	<b>(55)</b>	<b>2,438</b>	<b>11,409</b>	<b>51,318</b>	<b>67,885</b>
- EBITDA Margin	NA	56.1%	54.8%	62.4%	57.0%
Depreciation	-	353	1,804	5,901	12,216
<b>EBIT</b>	<b>(55)</b>	<b>2,085</b>	<b>9,605</b>	<b>45,417</b>	<b>55,669</b>
- EBIT Margin	NA	47.9%	46.2%	55.2%	46.7%
Interest expenses	-	377	3,481	10,908	23,600
Interest Income	-	319	1,355	1,014	1,554
<b>PBT</b>	<b>(55)</b>	<b>2,027</b>	<b>7,478</b>	<b>35,523</b>	<b>33,623</b>
- PBT Margin	NA	46.6%	35.9%	43.2%	28.2%
Income Tax	-	327	2,218	15,676	10,238
<b>Rec. PAT Pre-Minority</b>	<b>(55)</b>	<b>1,700</b>	<b>5,261</b>	<b>19,848</b>	<b>23,384</b>
- Rec. PAT Margin - Pre Minority	NA	39.1%	25.3%	24.1%	19.6%
Minority Interest	(6)	(2)	-	1,519	3,986
<b>Rec. PAT Post-Minority</b>	<b>(50)</b>	<b>1,702</b>	<b>5,261</b>	<b>18,329</b>	<b>19,398</b>
- Rec. PAT Margin - Post Minority	NA	39.1%	25.3%	22.3%	16.3%
Exceptiona Income / (Exp)	-	-	-	-	-
<b>Rep. PAT</b>	<b>(50)</b>	<b>1,702</b>	<b>5,261</b>	<b>18,329</b>	<b>19,398</b>

Source: Company, BofA Merrill Lynch Global Research

Table 5: Adani Power - Consolidated Balance Sheet

FY ends on Mar 31st, (Rs mn)	FY09	FY10	FY11E	FY12E	FY13E
<b>Gross Block</b>	<b>3,472</b>	<b>27,986</b>	<b>72,708</b>	<b>245,280</b>	<b>314,162</b>
Less: Accumulated Depreciation	104	457	2,261	8,162	20,378
<b>Net Block</b>	<b>3,368</b>	<b>27,529</b>	<b>70,447</b>	<b>237,118</b>	<b>293,784</b>
CWIP	65,889	140,437	209,372	145,982	118,579
Investments	0	408	408	408	408
Current Assets ex cash	4,163	950	2,978	7,687	13,851
Cash Balance	5,585	27,758	13,946	11,492	17,026
<b>Total Current Assets</b>	<b>9,749</b>	<b>28,708</b>	<b>16,924</b>	<b>19,180</b>	<b>30,877</b>
Current Liabilities	5,620	417	1,963	6,564	10,867
<b>Net Current Assets</b>	<b>4,129</b>	<b>28,291</b>	<b>14,962</b>	<b>12,615</b>	<b>20,010</b>
<b>Total Assets</b>	<b>73,387</b>	<b>196,666</b>	<b>295,189</b>	<b>396,124</b>	<b>432,782</b>
Share Capital	18,420	21,800	21,800	21,800	21,800
Share Premium	4,517	34,613	34,613	34,613	34,613
General Reserves	(147)	1,556	6,816	25,145	44,543
<b>Net Worth</b>	<b>22,790</b>	<b>57,969</b>	<b>63,229</b>	<b>81,558</b>	<b>100,956</b>
Total Loan Funds	49,897	136,525	227,435	306,198	318,441
Minority Interest	699	2,172	4,524	8,367	13,385
<b>Total Liabilities</b>	<b>73,387</b>	<b>196,666</b>	<b>295,189</b>	<b>396,124</b>	<b>432,782</b>

Source: Company, BofA Merrill Lynch Global Research

**Table 6: Adani Power -Consolidated Cash Flow Statement**

<b>FY ends on Mar 31st, (Rs mn)</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11E</b>	<b>FY12E</b>	<b>FY13E</b>
<b>PAT before Minority interest</b>	(55)	1,700	5,261	19,848	23,384
Add: Depreciation	-	353	1,804	5,901	12,216
Net change in Working Capital	(1,142)	(1,989)	(483)	(108)	(1,861)
<b>Cash Flow from Operations</b>	<b>(1,198)</b>	<b>65</b>	<b>6,582</b>	<b>25,641</b>	<b>33,739</b>
Capex/ Disposals	(44,623)	(99,062)	(113,657)	(109,182)	(41,480)
Change in Investments	532	(408)	(0)	-	-
<b>Cash Flow from Investments</b>	<b>(44,091)</b>	<b>(99,471)</b>	<b>(113,657)</b>	<b>(109,182)</b>	<b>(41,480)</b>
Change in Share Capital	10,989	3,380	-	0	-
Change in Reserves & Surplus	(2,526)	30,096	-	-	-
Dividend paid	-	-	-	-	-
Change in Debt	39,785	86,628	90,910	78,763	12,242
Change in minority interest	705	1,475	2,352	2,324	1,032
Others	-	-	-	-	-
<b>Cash Flow from Financing</b>	<b>48,953</b>	<b>121,579</b>	<b>93,262</b>	<b>81,087</b>	<b>13,274</b>
<b>Change in Cash</b>	<b>3,664</b>	<b>22,173</b>	<b>(13,812)</b>	<b>(2,454)</b>	<b>5,534</b>
Opening Cash balance	1,921	5,585	27,758	13,946	11,492
<b>Closing Cash balance</b>	<b>5,585</b>	<b>27,758</b>	<b>13,946</b>	<b>11,492</b>	<b>17,026</b>

Source: Company, BofA Merrill Lynch Global Research

**Table 7: Adani Power - Consolidated Key Ratio & Valuations**

<b>FY ends on Mar 31st</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11E</b>	<b>FY12E</b>	<b>FY13E</b>
<b>No. of Shares o/s (mn)</b>	1,842	2,180	2,180	2,180	2,180
Price (Rs)	110	110	110	110	110
Market Cap (Rs mn)	203,262	240,567	240,567	240,567	240,567
Rec. EPS (Rs)	0.0	0.8	2.4	8.4	8.9
PER (x)	NA	141.3	45.7	13.1	12.4
Cash EPS (Rs)	0.0	0.9	3.2	11.1	14.5
Cash PER (x)	NA	117.0	34.1	9.9	7.6
BVPS (Rs)	12.4	26.6	29.0	37.4	46.3
P/BV (x)	8.9	4.1	3.8	2.9	2.4
Net Worth (Rs mn)	22,790	57,969	63,229	81,558	100,956
Net Debt (Rs mn)	44,311	108,358	213,081	294,298	301,006
EV (Rs mn)	248,273	351,097	458,172	543,231	554,958
EV/EBITDA (x)	NA	144.0	40.2	10.6	8.2
Net D/E (x)	1.9	1.9	3.4	3.6	3.0
<b>Gearing Ratios</b>					
Debt /Capitalization (x)	0.7	0.7	0.8	0.8	0.7
Net Debt /Capitalization (x)	0.7	0.6	0.8	0.8	0.7
EBITDA / Net Interest (x)	NA	42.5	5.0	5.2	3.1
EBIT / Net Interest (x)	NA	36.3	4.2	4.6	2.5
Net Debt / EBITDA (x)	NA	44.4	18.7	5.7	4.4
<b>DuPont Analysis:</b>					
- Net profit / EBIT	NA	81.7%	54.8%	40.4%	34.8%
- EBIT/Sales	NA	47.9%	46.2%	55.2%	46.7%
- Sales / Avg. Assets	NA	3.2%	8.5%	23.8%	28.8%
- Assets / Networth	263.3%	334.4%	405.8%	477.5%	454.2%
RoE	-0.3%	4.2%	8.7%	25.3%	21.3%
RoCE	-0.1%	1.5%	3.1%	7.5%	9.6%

Source: Company, BofA Merrill Lynch Global Research

07 March 2011

Table 8: Utility Valuation Comps

Company Name 04-Mar-11	BofAML Ticker	BofAML Rating	Local Price	Currency	Market Cap (US\$ mn)	EBITDA Margin (%)			P/E (x)			P/BV (x)			EV/EBITDA (x)			RoE (%)		
						FY11	FY12E	FY13E	FY11	FY12E	FY13E	FY11	FY12E	FY13E	FY11	FY12E	FY13E	FY11	FY12E	FY13E
<b>Indian Utility Comps</b>																				
<b>Merchant</b>																				
Adani Power Ltd	XADPF	C-1-9	110	INR	5,347	54.8%	62.4%	57.0%	45.7	13.1	12.4	3.8	2.9	2.4	39.8	10.4	8.0	8.7	25.3	21.3
IndiaBulls Power			23	INR	1,023	NA	NA	NA	NA	NA	NA	1.2	1.2	1.2	NA	NA	NA	NA	NA	NA
JSW Energy			75	INR	2,729	42.0%	42.6%	42.8%	12.1	7.8	8.4	2.1	1.7	1.5	9.6	5.3	5.5	18.9	23.5	18.2
KSK Energy			106	INR	882	54.1%	56.5%	50.1%	18.3	9.3	8.5	1.4	1.2	1.1	15.2	7.9	7.0	9.1	13.9	11.2
Lanco	LNIF	C-1-9	37	INR	1,972	19.9%	24.7%	22.8%	10.2	6.2	5.5	2.1	1.6	1.2	7.3	7.0	6.9	22.9	29.0	25.0
Nava Bharat Ventures			226	INR	384	34.9%	38.7%	25.3%	6.0	5.4	7.3	1.0	0.9	0.8	NA	NA	NA	17.7	16.6	11.7
Orient Green Power			24	INR	246	40.5%	64.9%	68.6%	94.4	16.2	5.1	NA	NA	NA	NA	NA	NA	NA	NA	NA
Reliance Power			121	INR	7,554	37.9%	48.4%	53.1%	43.7	43.4	17.4	1.9	1.8	1.6	91.0	43.8	16.8	4.4	4.1	7.7
Jindal Power Ltd.			350	INR	7,276	85.3%	87.4%	83.3%	14.0	15.2	17.5	6.8	4.3	3.4	9.6	11.1	13.3	61.9	34.5	21.8
Jindal Steel & Power	XJDLF	C-3-7	678	INR	14,087	52.3%	50.4%	42.2%	15.2	12.6	13.5	4.6	4.1	3.7	11.5	10.5	9.7	34.3	34.3	28.6
<b>Merchant IPP Avg.</b>									<b>21.4</b>	<b>14.3</b>	<b>11.0</b>	<b>2.5</b>	<b>1.9</b>	<b>1.6</b>	<b>28.7</b>	<b>14.3</b>	<b>9.6</b>	<b>20.5</b>	<b>21.0</b>	<b>16.7</b>
<b>Regulated IPP</b>																				
Gujarat Inds	GUJIF	C-2-7	89	INR	299	27.4%	31.6%	29.9%	11.6	7.2	6.8	1.0	0.9	0.8	8.2	4.8	4.2	9.1	13.5	12.9
Jaiprakash Power	XJSHF	C-1-9	40	INR	2,375	87.5%	90.7%	83.2%	81.2	16.1	17.4	2.3	2.1	1.9	37.8	14.8	16.5	3.3	13.5	11.3
NTPC Ltd	NTHPF	C-3-7	179	INR	32,835	24.2%	24.8%	26.0%	15.9	14.7	12.9	2.2	2.0	1.8	13.8	11.8	10.0	14.3	14.2	14.9
Neyveli Lignite	NEYVF	C-2-7	101	INR	3,759	35.5%	37.9%	37.0%	13.6	12.2	11.9	1.5	1.4	1.3	10.4	8.1	7.3	11.7	12.0	11.3
NHPC	XNTHF		24	INR	6,466	76.7%	77.9%	79.5%	16.5	14.5	11.6	1.1	1.0	1.0	10.9	9.3	7.8	6.8	7.3	8.8
SJVNL			20	INR	1,867	NA	NA	NA	7.0	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
<b>Regulated IPP Avg.</b>									<b>24.3</b>	<b>12.9</b>	<b>12.1</b>	<b>1.6</b>	<b>1.5</b>	<b>1.4</b>	<b>16.2</b>	<b>9.7</b>	<b>9.1</b>	<b>9.0</b>	<b>12.1</b>	<b>11.9</b>
<b>Integrated IPP</b>																				
CESC Ltd	CSFEF	REVIEW	320	INR	887	18.3%	17.9%	24.7%	11.6	10.0	7.6	0.9	0.8	0.8	8.0	7.6	4.8	10.4	10.0	12.4
Reliance Infra.	RCTDF	C-1-7	607	INR	3,607	12.5%	14.5%	13.0%	17.4	11.2	10.5	1.0	0.9	0.8	7.1	6.1	5.4	5.9	8.3	8.3
Tata Pwr. Co.	XTAWF	C-2-7	1224	INR	6,457	21.6%	23.9%	24.8%	17.7	16.9	34.6	2.2	2.0	2.4	12.2	9.7	25.2	13.5	12.7	7.3
Torrent Power			235	INR	2,468	31.0%	31.7%	28.7%	11.9	9.8	9.4	2.3	1.9	1.7	6.5	5.8	6.0	21.7	22.1	18.5
<b>Integrated IPP Avg.</b>									<b>14.6</b>	<b>12.0</b>	<b>15.5</b>	<b>1.6</b>	<b>1.4</b>	<b>1.5</b>	<b>8.5</b>	<b>7.3</b>	<b>10.3</b>	<b>12.9</b>	<b>13.3</b>	<b>11.6</b>
<b>Transco</b>																				
Power Grid	XPPWF		99	INR	10,188	83.1%	83.5%	83.2%	17.2	14.8	12.9	2.1	1.9	1.7	10.9	9.1	7.8	13.7	13.6	14.3
Gail India	XGLAF	C-3-7	455	INR	12,838	19.2%	20.5%	20.2%	15.3	13.7	12.9	3.0	2.6	2.3	10.5	9.9	10.4	20.9	20.3	19.0
Gujarat State Petronet	GJRSF	C-1-7	94	INR	1,170	93.2%	94.4%	95.3%	11.3	9.8	8.9	2.8	2.3	1.9	6.7	6.1	5.9	26.9	25.4	23.2
<b>Transco Avg.</b>									<b>14.6</b>	<b>12.8</b>	<b>11.5</b>	<b>2.6</b>	<b>2.3</b>	<b>2.0</b>	<b>9.3</b>	<b>8.4</b>	<b>8.0</b>	<b>20.5</b>	<b>19.8</b>	<b>18.8</b>
<b>Indian Utility Avg.</b>									<b>25.5</b>	<b>13.6</b>	<b>12.2</b>	<b>2.0</b>	<b>1.7</b>	<b>1.5</b>	<b>18.6</b>	<b>10.8</b>	<b>9.5</b>	<b>14.9</b>	<b>16.1</b>	<b>14.7</b>
<b>Utility Financial Co</b>																				
Power Finance	PWFEF	C-1-7	268	INR	6,825	NA	NA	NA	11.5	9.3	7.5	2.0	1.7	1.5	NA	NA	NA	18.7	20.1	21.4
REC	XULEF	C-1-7	240	INR	5,278	NA	NA	NA	9.2	7.7	6.4	1.9	1.6	1.4	NA	NA	NA	21.6	22.1	22.9
<b>Indian Utility Financial Co Avg</b>									<b>10.4</b>	<b>8.5</b>	<b>6.9</b>	<b>1.9</b>	<b>1.7</b>	<b>1.4</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>20.1</b>	<b>21.1</b>	<b>22.2</b>
<b>Coal Utility</b>																				
Coal India	XOXCF	C-2-7	324	INR	45,526	27.6%	27.3%	28.0%	19.3	16.6	14.5	6.2	5.0	4.1	11.2	9.7	8.0	36.3	33.5	30.9
<b>Regional Utilities</b>																				
<b>HK / Chinese IPP</b>																				
China Power	CPWIF	C-2-8	1.6	CNY	1,017	25.1%	27.4%	27.6%	11.9	12.1	7.1	0.6	0.6	0.6	13.3	12.2	9.9	5.3	5.0	8.1
CR Power	CRPJF	C-1-8	13.1	HKD	7,936	26.4%	28.6%	35.2%	11.6	8.8	5.1	1.5	1.3	1.0	10.6	8.6	5.4	13.3	15.4	22.4
CLP Holdings	CLPHF	A-3-7	63.1	HKD	19,499	32.6%	34.7%	34.4%	15.0	13.5	13.4	2.0	1.9	1.8	11.2	10.0	9.6	13.9	14.5	13.7
Datang Intl	DIPGF	C-2-8	2.7	CNY	10,175	25.9%	26.6%	31.9%	11.5	13.6	6.8	0.8	0.8	0.7	11.3	11.7	9.1	7.8	5.9	11.2
HKE	HGKGF	A-3-7	51.0	HKD	13,979	81.0%	84.7%	83.0%	15.1	13.4	13.2	2.0	1.9	1.8	15.4	14.6	14.5	13.4	14.3	13.7
Huadian	HPIFF	C-1-8	1.6	CNY	2,980	12.9%	16.9%	18.7%	(10.2)	17.9	7.9	0.7	0.7	0.6	19.4	14.0	11.6	(6.8)	3.9	8.4
Huaneng Power	HUNGF	C-1-8	4.5	CNY	9,733	20.0%	19.8%	21.1%	14.0	14.9	10.3	1.0	1.0	0.9	10.2	10.2	9.4	7.9	6.5	9.1
<b>HK / Chinese IPP Avg.</b>									<b>13.2</b>	<b>13.5</b>	<b>9.1</b>	<b>1.2</b>	<b>1.2</b>	<b>1.1</b>	<b>13.1</b>	<b>11.6</b>	<b>9.9</b>	<b>10.3</b>	<b>9.4</b>	<b>12.4</b>
<b>Malaysian IPP</b>																				
YTL Power	YTLPF	XRWW	2.3	MYR	5,570	22.8%	22.6%	22.9%	14.6	14.1	13.3	2.3	2.2	2.0	9.9	9.7	9.3	16.3	16.4	16.6
YTL Corp.	YTLCF	HOLD	7.3	MYR	4,584	21.5%	21.4%	22.7%	13.2	12.4	11.6	1.2	1.1	1.0	7.9	7.6	7.2	10.8	9.4	NA
MMC Corp BHD	MCPNF	XRWW	2.7	MYR	2,695	39.1%	37.2%	36.8%	23.7	16.5	14.7	11.9	1.2	1.5	8.1	8.4	8.2	5.3	7.1	8.1
Tenaga Nasional	TNABF	A-2-8	6.3	MYR	11,375	27.9%	26.9%	NA	11.8	12.5	NA	1.1	1.0	NA	5.3	5.2	NA	9.7	8.6	NA
<b>Malaysian IPP Avg.</b>									<b>15.8</b>	<b>13.9</b>	<b>13.2</b>	<b>4.1</b>	<b>1.4</b>	<b>1.5</b>	<b>7.8</b>	<b>7.7</b>	<b>8.2</b>	<b>10.5</b>	<b>10.4</b>	<b>12.4</b>
<b>Thailand IPP</b>																				
EGCOMP	EYGGF	C-3-7	97	THB	1,677	47.8%	47.5%	43.7%	7.5	8.1	8.6	0.9	0.9	0.8	14.6	14.6	15.1	13.0	11.2	9.9
Glow Energy	GWEYF	C-3-7	40	THB	1,897	25.6%	25.0%	29.6%	9.7	11.7	7.8	1.7	1.6	1.4	11.5	12.5	7.3	18.3	14.0	19.1
Ratch	RCHPF	C-1-7	38	THB	1,797	23.5%	23.7%	23.2%	9.8	9.7	9.8	1.2	1.1	1.1	7.6	7.5	7.6	12.2	11.7	11.1
<b>Thailand IPP Avg.</b>									<b>9.0</b>	<b>9.9</b>	<b>8.7</b>	<b>1.3</b>	<b>1.2</b>	<b>1.1</b>	<b>11.3</b>	<b>11.6</b>	<b>10.0</b>	<b>14.5</b>	<b>12.3</b>	<b>13.4</b>
<b>Korean IPP</b>																				
KEPCO	KEPLF	B-1-8	27500	KRW	15,792	18.8%	22.1%	26.3%	133.7	12.8	7.2	0.4	0.3	0.3	8.3	7.2	6.2	0.3	2.7	4.7
<b>Regional IPP Avg.</b>									<b>19.5</b>	<b>12.8</b>	<b>9.8</b>	<b>1.9</b>	<b>1.2</b>	<b>1.1</b>	<b>11.0</b>	<b>10.3</b>	<b>9.3</b>	<b>9.8</b>	<b>10.2</b>	<b>12.3</b>
<b>Asian IPP Avg.</b>									<b>22.5</b>	<b>13.2</b>	<b>11.0</b>	<b>2.0</b>	<b>1.4</b>	<b>1.3</b>	<b>14.8</b>	<b>10.5</b>	<b>9.4</b>	<b>12.4</b>	<b>13.2</b>	<b>13.5</b>
<b>SENSEX</b>			<b>18,486</b>						<b>17.8</b>	<b>14.6</b>	<b>12.3</b>	<b>3.0</b>	<b>2.6</b>	<b>2.2</b>				<b>18.2</b>	<b>19.2</b>	<b>19.6</b>

Source: BofA Merrill Lynch Global Research estimates, Bloomberg, Note: FY09E=CY08E and so on

## Price objective basis & risk

### Adani Power Ltd. (XADPF)

Our PO of Rs140 is based on sum-of-the-part valuation basis at CoE of 13.0-14.0%. We have valued the Parent capacity of 4620MW Mundra project at Rs54 per share based on DCF at CoE of 13.0-13.4%. We have valued the 74% stake in 3300MW Tiroda project at Rs75 per share on DCF basis at CoE of 14%. The 100% stake in 1320MW Kawai project is valued at Rs11 per share on DCF basis at CoE of 13.9%. Risks: Project execution, financing, imported coal exposes it to potential country, currency and freight risks, Chinese labour, denial of SEZ benefits, Infra bottleneck and fall in power rates on potential match of demand-supply of power in India.

## Link to Definitions

### Energy

Click [here](#) for definitions of commonly used terms.

## Analyst Certification

I, Bharat Parekh, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

## Special Disclosures

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07 March 2011

India - Engineering/Construction/Utilities Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Adani Enterprises Ltd.	ANIEF	ADE IN	Bharat Parekh
	Adani Power Ltd.	XADPF	ADANI IN	Bharat Parekh
	Bharat Heavy	BHHEF	BHEL IN	Bharat Parekh
	Gujarat State Petronet Ltd	GJRSF	GUJS IN	Vidyadhar Ginde
	GVK Power & Infrastructure Ltd.	GVPWF	GVKP IN	Deepak Agrawala
	IVRCL Infrastruc	IIFRF	IVRC IN	Bharat Parekh
	Jaiprakash Associates Limited	JPRKF	JPA IN	Bharat Parekh
	Jaiprakash Power Ventures Ltd.	XJSHF	JPVL IN	Bharat Parekh
	Lanco Infratech Ltd.	LNIFL	LANCI IN	Deepak Agrawala
	Larsen & Toub -G	LTORF	LTOD LI	Bharat Parekh
	Larsen & Toubro	LTOUF	LT IN	Bharat Parekh
	Nagarjuna Const	NGRJF	NJCC IN	Bharat Parekh
	NCC-GDR	XAKUF	NJGR LX	Bharat Parekh
	Reliance Infrastructure	RCTDF	RELI IN	Bharat Parekh
	Suzlon Energy	XZULF	SUEL IN	Bharat Parekh
<b>NEUTRAL</b>				
	GMR Infrastructure Ltd.	GMRLF	GMRI IN	Deepak Agrawala
	Gujarat Inds	GUJIF	GIP IN	Bharat Parekh
	Mundra Port SEZ	XMANF	MSEZ IN	Bharat Parekh
	Neyveli Lignite	NEYVF	NLC IN	Bharat Parekh
	Tata Pwr. Co.	XTAWF	TPWR IN	Bharat Parekh
<b>UNDERPERFORM</b>				
	ABB	ABVFF	ABB IN	Bharat Parekh
	Gail India	XGLAF	GAIL IN	Vidyadhar Ginde
	Gail Limited - G	GAILF	GAID LI	Vidyadhar Ginde
	NTPC Ltd	NTHPF	NATP IN	Bharat Parekh
<b>RVW</b>				
	Essar Shipping, Ports & Logistics Ltd.	XESSF	ESRS IN	Bharat Parekh
	IRB Infrastructure Developers Ltd.	XIRBF	IRB IN	Bharat Parekh

**iQmethod<sup>SM</sup> Measures Definitions**

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
<b>Quality of Earnings</b>		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
<b>Valuation Toolkit</b>		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Sales Other LT Liabilities	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

*iQmethod<sup>SM</sup>* is the set of BofA Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and valuations. The key features of *iQmethod* are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

*iQdatabase<sup>®</sup>* is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Merrill Lynch.

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## Important Disclosures

### XADPF Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid, NR: No Rating

Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of February 28, 2011 or such later date as indicated.

### Investment Rating Distribution: Utilities Group (as of 01 Jan 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	74	39.57%	Buy	30	46.15%
Neutral	56	29.95%	Neutral	33	63.46%
Sell	57	30.48%	Sell	17	33.33%

### Investment Rating Distribution: Global Group (as of 01 Jan 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	2011	53.86%	Buy	874	48.31%
Neutral	925	24.77%	Neutral	444	52.30%
Sell	798	21.37%	Sell	276	36.75%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
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Neutral	≥ 0%	≤ 30%
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