



Adani Power

BSE SENSEX
17,193

S&P CNX
5,169

CMP: INR83

Neutral

		YEAR	NET SALES*	PAT*	EPS	EPS	P/E	P/BY	ROE	ROCE	EY/	EY/
		END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Bloomberg	ADANI IN	3/10A	4,349	1,701	0.8	-	-	3.2	2.9	1.5	-	-
Equity Shares (m)	2,393.2	3/11A	21,352	5,133	2.4	201.8	36.4	3.0	8.5	4.4	20.5	35.9
52-Week Range (INR)	144/76	3/12E	64,384	15,546	6.5	175.5	13.2	2.7	22.1	8.4	7.4	13.8
1,6,12 Rel. Perf. (%)	-3/-9/-17	3/13E	132,224	30,664	12.5	93.1	6.8	2.0	33.3	15.4	3.7	6.8
M.Cap. (INR b)	205.3											
M.Cap. (USD b)	4.2											

* Consolidated

- 2QFY12 performance in-line:** Adani Power (ADANI) reported a PAT of INR1.8b. Adjusted for MTM forex loss, PAT was INR2.3b, in line with our estimate of INR2.3b. On a reported basis, fuel cost for the quarter was INR1.48/unit. This includes forex loss of INR940m, of which INR300m pertains to 2Q. Taking only the forex impact of 2Q, fuel cost for the quarter was INR1.25/unit v/s INR1.15/unit in 1QFY12. During the quarter, ADANI booked INR660m on forward contract, as well as stock, which was not consumed in 2QFY12. Any reversal in exchange movement could mean reversal of forex loss of INR660m.
- Merchant sales at 36% of net generation v/s 9% in 1QFY12:** In 2QFY12, ADANI sold ~1BU or 36% of its sales on merchant basis, much higher than 9% of sales in 1QFY12. We understand that the higher merchant sales were led by the commissioning of the first supercritical unit (U-I Phase-III), where the PPA with GUVNL is expected to start from February 2012. However, ADANI has contested the PPA with GUVNL (PPA at levelized tariff of INR2.35/unit) and has taken the matter to the apex court. (Appellate Tribunal ruled in favor of GUVNL). ADANI's average realization was boosted owing to its medium term agreement with UP (June onwards), with a tariff of INR4.10-4.47/unit. Its MT bid tied up with Maharashtra should begin contributing to revenue from 3QFY12.
- Capacity addition looking up; coal availability under contractual commitment key in future:** Installed capacity as at September 2011 stood at 1.98GW (excluding 660MW synchronized) and ADANI is hopeful of attaining a capacity of 6GW by FY12. We model generation capacity at 4.6GW by FY12 / 6.6GW by FY13, based on which ADANI is likely to burn fuel of 10m ton in FY12 and 24m ton in FY13. Given the constrained availability of coal under agreed fixed price contract with Adani Enterprises as well as through domestic linkages, ADANI would have to procure coal on spot basis.
- Valuation and view:** We expect ADANI's consolidated net profit to increase to INR15.5b (up 1.7x) in FY12 and to INR30.6b (up 93%) in FY13, given the increase in operational capacity. We estimate the earnings contribution of merchant power at 65% in FY12, increasing to ~70% in FY13, as the PPAs get triggered by mid-FY13. The stock trades at 13x FY12E and 7x FY13E earnings. Maintain **Neutral**.

Quarterly Performance

(INR Million)

Y/E March	FY11				FY12				FY11	FY12E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	3,531	3,952	5,026	8,843	8,187	10,724	16,060	29,412	21,352	64,384
Change (%)			1.2	3.4	131.9	171.4	219.5	232.6		201.5
EBITDA	2,132	2,095	2,730	5,248	4,102	5,194	8,898	16,016	12,205	34,449
Change (%)			1.1	3.4	92.4	148.0	226.0	205.1		182.3
As of % Sales	60.4	53.0	54.3	0.6	50.1	48.4	55.4	54.5	57.2	53.5
Depreciation	279	358	455	793	1,040	1,053	1,297	2,424	1,886	5,813
Interest (Net)	433	455	532	947	886	1,336	1,993	4,718	2,366	8,933
Other income	79	188	15	-102	81	6	76	140	180	303
PBT	1,499	1,469	1,758	3,406	2,256	2,811	5,684	9,014	8,132	20,005
Tax	354	211	667	1,768	488	478	1,165	2,328	3,000	4,459
Effective Tax Rate (%)	23.6	14.3	37.9	51.9	21.6	17.0	20.5	25.8	36.9	22.3
Reported PAT	1,145	1,258	1,091	1,638	1,769	1,775	4,519	6,686	5,132	15,546
Adjusted PAT (Pre Exceptional)	1,145	1,292	1,246	1,449	1,769	2,333	4,519	6,686	5,132	15,546
Change (%)					54.5	80.6	262.7	361.3		202.9

E: MOSL Estimates

Nalin Bhatt (NalinBhatt@MotilalOswal.com) +91 22 3982 5429

Satyam Agarwal (AgarwalS@MotilalOswal.com) +91 22 3982 5410 / Vishal Periwal (Vishal.Periwal@MotilalOswal.com) +91 22 3982 5417

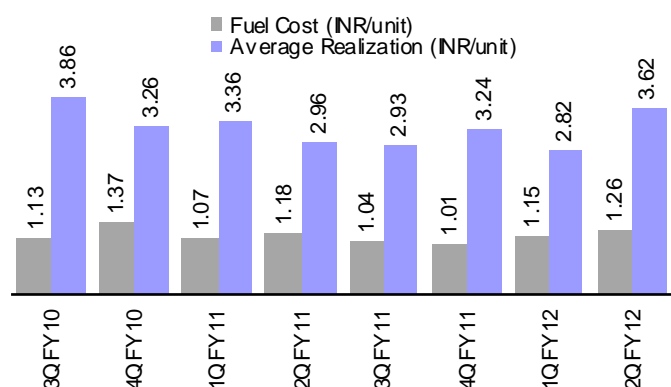
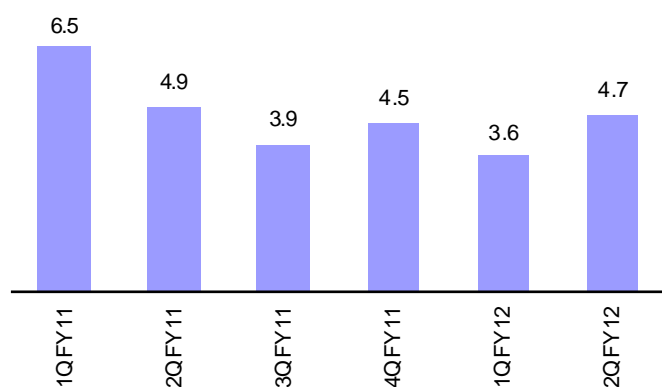
2QFY12 performance in-line

- ADANI reported revenue of INR10.7b (up 171% YoY), EBITDA of INR5.2b (up 148% YoY) and PAT of INR1.8b for 2QFY12. It reported MTM forex loss of INR558m, adjusting for which, PAT was INR2.3b, in line with our estimate.
- Average realization was INR3.6/unit (up 22% YoY) and merchant realization for the quarter was INR4.7/unit, up from INR3.6/unit in 1Q. Average realization was boosted owing to its medium term agreement with UP (June onwards), with tariff ranging between INR4.10/unit and INR4.47/unit.
- Reported fuel cost was INR1.48/unit v/s INR1.15/unit in 1QFY12 and INR1.18/unit in 2QFY11. Rupee depreciation impacted fuel procurement to the extent of INR300m; excluding this, fuel cost was INR1.25/unit. During the quarter, ADANI booked INR660m on forward contract, as well as stock, which was not consumed in 2QFY12. Any reversal in exchange movement could mean reversal of forex loss of INR660m.

Financial summary (INR/unit)

	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	FY11
Realization	3.43	2.96	2.93	3.24	2.82	3.62	3.14
Fuel Cost	1.07	1.18	1.04	1.01	1.15	1.26	1.06
Fuel Cost (FERV for Forward Contract)	0.00	0.00	0.00	0.00	0.00	0.22	0.00
Admn, Other Expenses	0.29	0.21	0.29	0.31	0.26	0.39	0.28
EBIDTA	2.07	1.57	1.59	1.92	1.42	1.76	1.79
Depreciation	0.27	0.27	0.26	0.29	0.36	0.36	0.28
Interest	0.42	0.34	0.31	0.35	0.31	0.45	0.35
Other Income	0.08	0.14	0.01	(0.04)	0.03	0.00	0.03
PBT	1.46	1.10	1.02	1.25	0.78	0.95	1.19
Tax	0.34	0.16	0.39	0.65	0.17	0.16	0.44
PAT	1.11	0.94	0.64	0.60	0.61	0.79	0.75

Source: Company/MOSL

INR depreciation-led fuel cost increase**ST realization up QoQ (INR/unit)**

Source: Company/MOSL

Merchant sales at 36% of net generation v/s 9% in 1QFY12

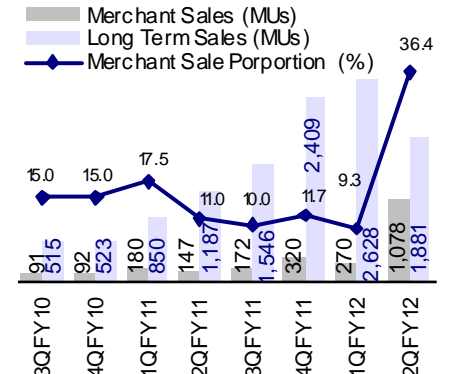
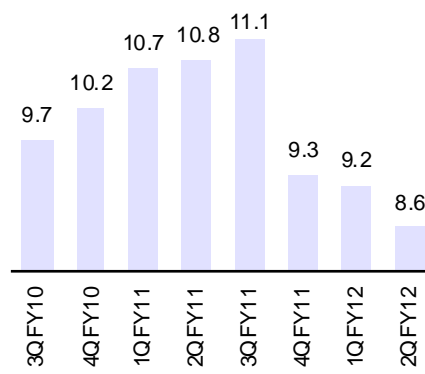
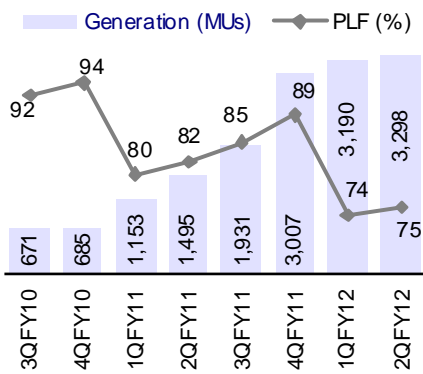
- In 2QFY12, ADANI sold ~1BU or 36% of its sales on merchant basis, much higher than 9% of sales in 1QFY12. We understand that the higher merchant sales were led by the commissioning of the first supercritical unit (U-I Phase-III), where the PPA with GUVNL is expected to start from February 2012. However, ADANI has contested the PPA with GUVNL (PPA at levelized tariff of INR2.35/unit) and has taken the matter to the apex court. (Appellate Tribunal ruled in favor of GUVNL).

- ADANI's average realization was boosted owing to its medium term agreement with UP (June onwards), with a tariff of INR4.10-4.47/unit. Its MT bid tied up with Maharashtra should begin contributing to revenue from 3QFY12.
- During the quarter, ADANI generated 3,298MU (up 3% QoQ), while average PLF stood at 75%. Sales for the quarter were 2,959MU v/s 1,334MU in 2QFY11 and 2,898MU in 1QFY12. ADANI lost ~54MU in transmission. The difference of 339MU (or 10.5%) is not entirely auxiliary consumption. Adjusted for this, auxiliary consumption was 8.6% v/s 10.1% in 1QFY12 and an average of ~10.5% in FY11.

PLFs dip owing to maintenance

Auxiliary consumption dips YoY

Merchant sales up, as Ph-III U-I PPA from Feb-12 (INR/unit)

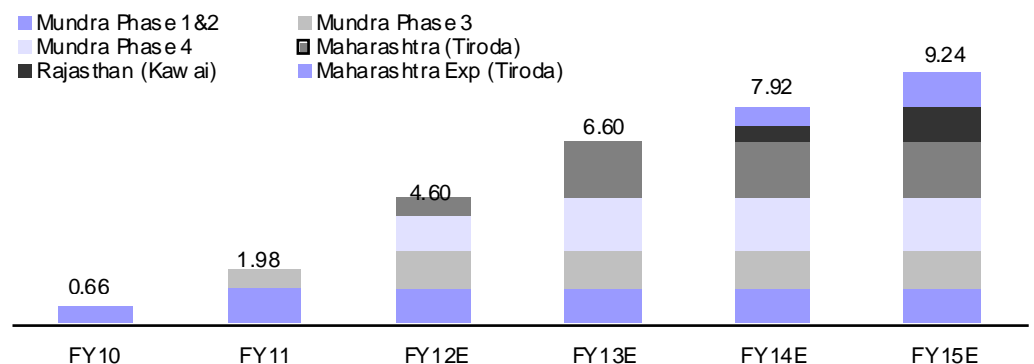


Source: Company/MOSL

Capacity addition looking up; coal availability under contractual commitment key in future

- ADANI's installed capacity as at September 2011 stood at 2,640MW, including 660MW (Phase-III, Unit-II) synchronized capacity at Mundra, where transmission line has impacted the commissioning schedule. ADANI is planning to commission Phase-IV Units I and II (1,320MW) within the next 1-1.5 months and the last unit of Phase-IV by February 2012. In addition, for Tiroda, ADANI plans to synchronize Units I and II by FY12, and targets an installed capacity of 6GW by FY12.
- We model generation capacity at 4.6GW by FY12 / 6.6GW by FY13, based on which ADANI is likely to burn fuel of 10m ton in FY12 and 24m ton in FY13. Given the constrained availability of coal under agreed fixed price contract with Adani Enterprises as well as through domestic linkages, ADANI would have to procure coal on spot basis.

Expected installed capacity (GW)



Source: Company/MOSL

Valuation and view

- We expect ADANI's consolidated net profit to increase to INR15.5b (up 1.7x) in FY12 and to INR30.6b (up 93%) in FY13, given the increase in operational capacity. We estimate the earnings contribution of merchant power at 65% in FY12, increasing to ~70% in FY13, as the PPAs get triggered by mid-FY13.
- The stock trades at 13x FY12E and 7x FY13E earnings. Maintain **Neutral**.

Adani Power: an investment profile

Company description

Adani Power (ADANI) is part of the infrastructure conglomerate, Adani Group. It is a prominent private sector player in power utilities. ADANI's generation capacity is expected to increase to 4.6GW by FY12 / 6.6GW by FY13, and it will be the largest private sector IPP in the country. In addition, 2.6GW capacity is under construction (to be commissioned by FY14-15) and project pipeline stands at 7.2GW.

Key investment positives

- Given its strong patent advantage, ADANI is comfortably positioned on several key parameters including land availability, fuel security, etc. Of the 16.5GW of project portfolio, 10.6GW are being commissioned at Mundra and Dahej, where the Adani group has access to vast tracks of land. On the fuel front, the Adani group has access to 8b tons of reserves in Indonesia and Australia and also controls ~50%+ market share in overall coal trading/imports into India.
- ADANI's generation capacity is expected to increase to 4.6GW by FY12 / 6.6GW by FY13, while PPAs are commissioned in phases providing merchant upside upfront.

- Capex incurred in FY10 / FY11 stands at INR200b, making ADANI one of the highest spenders in the economy (and compares with ~INR230b capex by NTPC).

Key investment risks

- Fuel availability is a challenge in the interim for Tiroda (3.3GW) and Kawai (1.3GW), given constraints of coal linkages.
- Contracted fuel supplies from Adani Enterprises' captive mine in Indonesia at CIF of USD36/ton could be subject to change in laws in Indonesia.

Recent development

- Has tied up MT bids of 480MW with UP at INR4.71/unit and 475MW with Maharashtra at INR4.10/unit.

Valuation and view

- We expect ADANI's consolidated net profit to increase to INR15.5b (up 1.7x) in FY12 and to INR30.6b (up 93%) in FY13, given the increase in operational capacity. We estimate the earnings contribution of merchant power at 65% in FY12, increasing to ~70% in FY13, as the PPAs get triggered by mid-FY13.
- The stock trades at 13x FY12E and 7x FY13E earnings. Maintain **Neutral**.

EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY12	6.5	6.9	-6.4
FY13	12.5	10.7	16.6

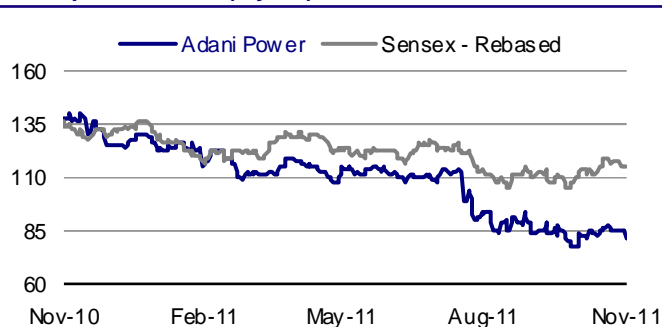
Shareholding pattern (%)

	Sep-11	Jun-11	Sep-10
Promoter	73.5	73.5	73.5
Domestic Inst	0.9	1.4	2.1
Foreign	19.3	18.6	17.7
Others	6.3	6.5	6.7

Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
86	-	-	Neutral

Stock performance (1 year)



Financials and Valuation

Income Statement		(INR Million)			
Y/E March	2010	2011	2012E	2013E	
Net Sales	4,349	21,352	64,384	132,224	
Change (%)	-	391.0	201.5	105.4	
Operating Expenses	1,910	9,147	29,935	60,594	
EBITDA	2,438	12,205	34,449	71,630	
% of Net Sales	56.1	57.2	53.5	54.2	
Depreciation	353	1,886	5,813	12,996	
Interest	377	2,366	8,933	19,905	
Other Income	319	180	303	131	
PBT	2,027	8,133	19,447	38,860	
Tax	327	3,000	4,459	8,196	
Rate (%)	16.1	36.9	22.9	21.1	
PAT before Min. Int.	1,700	5,133	14,987	30,664	
Minority Interest	-1	0	21	681	
Reported PAT	1,701	5,133	14,967	29,983	
Change (%)	-	201.7	191.6	100.3	
Adjusted PAT	1,701	5,133	15,525	29,983	
Change (%)	-	201.7	202.5	93.1	

Balance Sheet		(INR Million)			
Y/E March	2010	2011	2012E	2013E	
Share Capital	21,800	21,800	23,932	23,932	
Reserves	35,980	41,073	53,514	78,437	
Net Worth	57,780	62,873	77,446	102,369	
Minority Interest	1,023	5,663	5,683	6,364	
Loans	105,705	245,027	272,254	293,468	
Deferred Tax Liability	120	3,120	3,120	3,120	
Capital Employed	164,628	316,683	358,504	405,322	
Gross Fixed Assets	28,549	90,283	209,710	306,583	
Less: Depreciation	678	2,811	8,307	21,303	
Net Fixed Assets	27,871	87,472	201,403	285,280	
Capital Work in Progress	127,691	236,909	155,133	102,395	
Inventory	95	2,836	650	1,417	
Debtors	2,563	4,174	2,646	5,434	
Loans and Advances	9,406	5,844	1,000	1,000	
Cash	11,654	12,551	3,268	14,541	
Current Liabilities	14,617	33,187	5,697	4,846	
Provisions	35	16	0	0	
Net Curr. Assets	9,066	-7,798	1,867	17,546	
Misc. Expenses	0	0	0	0	
Application of Funds	164,628	316,683	358,504	405,322	

E: MOSL Estimates

Ratios					
Y/E March	2010	2011	2012E	2013E	
Basic (Rs)					
Adjusted EPS	0.8	2.4	6.5	12.5	
Growth (%)	-2,985.0	201.8	175.5	93.1	
Cash EPS	0.9	3.2	8.9	18.0	
Book Value	26.5	28.8	32.4	42.8	
DPS	0.1	0.0	0.9	1.9	
Payout (incl. Div. Tax.)	15.0	0.0	14.5	15.0	
Valuation (x)					
P/E		36.4	13.2	6.8	
Cash P/E		26.6	9.6	4.8	
EV/EBITDA		35.9	13.8	6.8	
EV/Sales		20.5	7.4	3.7	
Price/Book Value		3.0	2.7	2.0	
Dividend Yield (%)		0.0	1.1	2.2	
Profitability Ratios (%)					
RoE	2.9	8.5	22.1	33.3	
RoCE	1.5	4.4	8.4	15.4	
Leverage Ratio					
Debt/Equity (x)	1.8	3.9	3.5	2.9	

Cash Flow Statement		(INR Million)			
Y/E March	2010	2011	2012E	2013E	
PBT before EO Items	2,027	8,133	19,447	38,860	
Add: Depreciation	353	1,886	5,813	12,996	
Interest	377	2,366	8,933	19,905	
Less: Direct Taxes Paid	-327	-3,000	-4,459	-8,196	
(Inc)/Dec in WC	1,097	17,746	-18,948	-4,406	
CF from Operations	3,527	27,131	10,786	59,159	
(Inc)/Dec in FA	-86,879	-170,952	-37,651	-44,135	
(Pur)/Sale of Investments	0	-100	0	0	
CF from Investments	-86,879	-171,052	-37,651	-44,135	
(Inc)/Dec in Net Worth	-33,479	40	-2,132	0	
(Inc)/Dec in Debt	-55,808	-139,322	-27,227	-21,214	
Less: Interest Paid	-377	-2,366	-8,933	-19,905	
Dividend Paid	510	1,123	2,597	5,060	
CF from Fin. Activity	89,420	138,039	17,829	-3,751	
Inc/Dec of Cash	6,068	-5,883	-9,036	11,273	
Add: Beginning Balance	5,585	11,654	12,551	3,268	
Closing Balance	11,654	5,771	3,514	14,541	

N O T E S

Disclosures

This report is for personal information of the authorized recipient and does not constitute to be any investment, legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and Motilal Oswal Securities Limited (hereinafter referred as MOST) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form.

Unauthorized disclosure, use, dissemination or copying (either whole or partial) of this information, is prohibited. The person accessing this information specifically agrees to exempt MOST or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold MOST or any of its affiliates or employees responsible for any such misuse and further agrees to hold MOST or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

The information contained herein is based on publicly available data or other sources believed to be reliable. While we would endeavour to update the information herein on reasonable basis, MOST and/or its affiliates are under no obligation to update the information. Also there may be regulatory, compliance, or other reasons that may prevent MOST and/or its affiliates from doing so. MOST or any of its affiliates or employees shall not be in any way responsible and liable for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOST or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This report is intended for distribution to institutional investors. Recipients who are not institutional investors should seek advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents.

MOST and/or its affiliates and/or employees may have interests/positions, financial or otherwise in the securities mentioned in this report. To enhance transparency, MOST has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement

Adani Power

- | | |
|---|----|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analysts, strategists, or research associates principally responsible for preparation of MOST research receive compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOST & its group companies to registration or licensing requirements within such jurisdictions.

For U.K.

This report is intended for distribution only to persons having professional experience in matters relating to investments as described in Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (referred to as "investment professionals"). This document must not be acted on or relied on by persons who are not investment professionals. Any investment or investment activity to which this document relates is only available to investment professionals and will be engaged in only with such persons.

For U.S.

MOST is not a registered broker-dealer in the United States (U.S.) and, therefore, is not subject to U.S. rules. In reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") and interpretations thereof by the U.S. Securities and Exchange Commission ("SEC") in order to conduct business with Institutional Investors based in the U.S., Motilal Oswal has entered into a chaperoning agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

This report is intended for distribution only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the Exchange Act and interpretations thereof by SEC (henceforth referred to as "major institutional investors"). This document must not be acted on or relied on by persons who are not major institutional investors. Any investment or investment activity to which this document relates is only available to major institutional investors and will be engaged in only with major institutional investors.

The Research Analysts contributing to the report may not be registered /qualified as research analyst with FINRA. Such research analyst may not be associated persons of the U.S. registered broker-dealer, Marco Polo and therefore, may not be subject to NASD rule 2711 and NYSE Rule 472 restrictions on communication with a subject company, public appearances and trading securities held by a research analyst account.



Motilal Oswal Securities Ltd

3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: reports@motilaloswal.com