



NEUTRAL

Price	Rs410
Target Price	-
Investment Period	-

Stock Info

Sector	Infrastructure
Market Cap (Rs cr)	9,119
Beta	1.5
52 WK High / Low	458 / 83
Avg Daily Volume	722287
Face Value (Rs)	10

BSE Sensex 15,670

Nifty 4,536

BSE Code 532778

NSE Code LITL

Reuters Code LAIN.BO

Bloomberg Code LANCI@IN

Shareholding Pattern (%)

Promoters	73.6
MF/Banks/Indian FIs	5.9
FII/ NRIs/ OCBs	12.1
Indian Public	8.4

Abs.	3m	1yr	3yr*
Sensex (%)	37.4	9.2	13.8
Lanco (%)	84.6	30.8	69.9

* Since listing on November 27, 2006

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Performance Highlights

- **Top-line spikes 179%:** Lanco's Top-line, on a Standalone basis, grew a robust 179% yoy to Rs1,446.3cr (Rs518.2cr) in 1QFY2010, which was way above our estimate of Rs940.2cr. This strong growth came on the back of strong Order Book and timely expansion in the Power Segment. Going ahead, we expect the company's Revenues to cross the Rs5,000cr mark to Rs5,970cr in FY2010 itself.
- **Margins expand by 71bp:** We had expected the company's Margins to be under pressure as it has been registering high Margins compared to peers. However, in 1QFY2010, Margins expanded by 71bp to 14.5% (13.8%) on account of cost savings. Therefore, EBITDA surged 193.6% yoy to Rs209.4cr (Rs71.3cr), which was due to the substantial growth in Top-line. Going ahead, we expect Margins to stabilise at 14-15% levels.
- **Bottom-line soars 174%:** The company posted 174.4% yoy growth in Bottom-Line to Rs128.7cr (Rs46.9cr) for the quarter, which exceeded our expectation on the back of improvement in Margins and good Top-line growth. However, Interest costs shot up 150% to Rs46.4 (Rs18.5cr).
- **Strong Order Book ensures Revenue visibility:** The Construction and EPC Segment Order Book, as on June 30, 2009, stood at Rs9,467cr. Lanco's internal orders (power projects) constituted a significant portion of its Total Order Book. The company's External Order Book is diversified across the Road, Infrastructure and Transmission-line Segments.
- **Money raised via QIP:** The company has raised US \$100-150mn at Rs395/share. We have assumed equity dilution to the tune of US \$150mn at the Dollar rate of Rs48, and at Rs395/share and accordingly factored in our numbers as the exact numbers are still awaited. We believe that the dilution is good for the company as it would not only help it de-leverage its Balance Sheet, but would also improve the company's liquidity position.

Key Financials (Standalone)

Y/E March (Rs cr)	FY2008	FY2009	FY2010E	FY2011E
Net Sales	1,575	4,051	5,970	5,879
% chg	190.7	157.3	47.4	(1.5)
Net Profit	200.2	264.9	411.9	405.7
% chg	174.0	32.3	55.5	(1.5)
OPM (%)	19.9	13.2	14.6	15.0
EPS (Rs)	9.0	11.9	17.1	16.9
P/E (x)	45.6	34.4	24.0	24.3
P/BV (x)	5.7	5.0	3.4	3.0
RoE (%)	12.5	14.4	14.2	12.5
RoCE (%)	14.0	15.5	15.7	14.5
EV/Sales (x)	4.8	1.8	1.2	1.3
EV/EBITDA (x)	24.1	13.8	8.4	8.4

Source: Company, Angel Research

Consolidated Financial Performance: On a consolidated basis, Lanco reported Top-line of Rs2,195cr for 1QFY2010 registering 140% growth yoy. Segment-wise, the Construction Segment grew 179% yoy to Rs1,446cr (Rs518cr). The Power Segment registered 141% yoy growth to Rs1,013cr (Rs420cr), while the Real Estate Segment contributed Rs18cr to Top-line during the quarter. On the power trading front, Lanco Electric recorded 466% yoy growth in Revenue to Rs690cr (Rs122cr). The growth in Top-line of the Power Segment came on the back of higher trading Revenues and use of naphtha at the Kondapalli power plant.

For 1QFY2010, EBITDA Margins, on a consolidated basis, yoy declined to 20.0% (26%) on account of higher Revenue from Power Trading and naphtha being used at the Kondapalli power plant. Earnings after Minority Interest grew 44% yoy to Rs141cr (Rs98cr).

Outlook and Valuation

We believe that the Indian Infrastructure Sector has high growth opportunities. Increasing levels of investment in the Infrastructure Sector both by the government and private players is expected to be major driver of growth for the Infrastructure players in India going ahead. The government has taken various steps to encourage substantial investments in the Infrastructure space including plans to set up SEZs at various locations in India and providing economic benefits to private sector players for projects executed on a BOT or Annuity basis. The Eleventh Five-Year Plan (FY2007-12) envisages total capacity addition of 78,577MW. However, currently India's per capita consumption of electricity is low compared to most other developing countries, which we believe would increase as the economy grows. Against this backdrop, we believe that going ahead significant capacity addition would be required.

We have valued Lanco's power projects - operational/under construction - by discounting the Free Cash Flow to Equity (FCFE) to arrive at the project value.

We have valued the plants under construction and those that have achieved financial closure, on FCFE and/or P/BV basis. We have factored in all the Hydro Power projects under construction (except Vamshi) at 1-1.5x equity invested as these projects could get delayed. We have also assumed delays in the commissioning of the power plants under construction. Further, power projects at the planning stage and yet to achieve financial closure, have not been factored. The operational power projects, including the trading arm, have been valued at Rs50/share, while the power projects under construction fetch Rs120.7/share. We have conservatively valued the Real Estate initiative at Rs10/share, which is below consensus.

Based on the comparative valuation of Lanco's Construction business vis-a-vis its Indian counterparts, we have assigned FY2011E Target P/E multiple of 10x. In view of Lanco's Order Book being heavily skewed towards internal projects compared to its peers, we have discounted the company's Target P/E multiple for its Construction business by 20-30%. In line with this, Lanco's Construction business fetches Rs169/share at 10x FY2011E Earnings of Rs16.9.

In the BOT Segment, Lanco has bagged two BOT toll-based projects with a total project capitalisation of Rs1,300cr in Karnataka under the NHADP. Lanco has received grants of Rs365cr for these projects. We have valued the BOT business on FCFE basis and arrived at a value of Rs14/share. We have not considered the Vizag port project in our valuations, as it has not achieved financial closure. However, we believe that timely progress on this front will significantly enhance the company's valuation.

Thus, based on the sum-of-the-parts (SOTP) methodology, we have arrived at a Target Price of Rs406 for Lanco valuing its core EPC business at Rs169 (10x FY2011E EPS), Power business at Rs213 (using FCFE and/or P/BV), Real Estate at Rs10 (on NAV basis) and BOT at Rs14/share (using FCFE). **Post the Election results, in line with other infrastructure stocks, in the recent past the Lanco stock has also run up quite a lot leaving very little upside potential from current levels. Hence, we recommend a Neutral rating on the stock.**

Exhibit 2: SOTP Valuation

Segment	Value/Share (Rs)	(%)
Power	213	52.6
C&EPC	169	41.5
Real Estate	10	2.5
BOT	14	3.4
Total	406	100

Source: Company, Angel Research

Exhibit 3: 1QFY2010 Performance (Standalone)

Y/E March (Rs cr)	1QFY2010	1QFY2009	% chg	FY2009	FY2008	% chg
Net Sales	1,446.3	518.2	179.1	4,051.2	1,574.6	157.3
Consumption of RM	1,170.5	398.6	193.6	3,269.2	1,133.9	188.3
(% of Sales)	80.9	76.9		80.7	72.0	
Staff Costs	44.9	34.0	31.9	160.2	61.4	160.8
(% of Sales)	3.1	6.6		4.0	3.9	
Purchase of Finished Goods	-	1.9	(100.0)	9.2	13.0	(29.1)
(% of Sales)	-	0.4		0.2	0.8	
Other Expenses	21.5	12.3	75.2	76.8	52.1	47.6
(% of Sales)	1.5	2.4		1.9	3.3	
Total Expenditure	1,236.9	446.9	176.8	3,515.5	1,260.5	178.9
Operating Profit	209.4	71.3	193.6	535.8	314.1	70.6
OPM (%)	14.5	13.8		13.2	19.9	
Interest	46.4	18.5	150.6	138.6	34.5	302.1
Depreciation	14.3	5.2	176.4	40.5	11.6	248.8
Other Income	40.4	19.0	113.1	46.4	29.1	59.6
PBT (excl. Extr. Items)	189.1	66.6	184.0	403.0	297.1	35.7
Extr. Income/(Expense)	-	-		-	-	
PBT (incl. Extr. Items)	189.1	66.6	184.0	403.0	297.1	35.7
(% of Sales)	13.1	12.8		9.9	18.9	
Provision for Taxation	60.4	19.7	206.8	138.2	96.9	42.6
(% of PBT)	32.0	29.6		34.3	32.6	
Reported PAT	128.7	46.9	174.4	264.9	200.2	32.3
PATM (%)	8.9	9.0		6.5	12.7	
Equity shares (cr)	219.8	219.8		219.8	219.8	
EPS (Rs)	5.9	2.1		12.0	9.1	

Source: Company, Angel Research



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Ratings (Returns) : Buy (Upside > 15%)
Reduce (Downside upto 15%)

Accumulate (Upside upto 15%)
Sell (Downside > 15%)

Neutral (5 to -5%)