

## Lanco Infratech

### Performance Highlights

Lanco Infratech (Lanco) posted numbers below market estimates for 3QFY2010. This was mainly on account of a disappointing Top-line, owing to lower generation at the Aban and Kondapalli Phase-I projects, on account of lower gas supplies and no naphtha-based generation, respectively; however, this did not have an impact on profits, given the take-or-pay nature of these contracts. We had expected the company's Margins to be under pressure, as it has been registering high Margins compared to its peers. However, for 3QFY2010, the company reported margins above our expectations. We are positive on the business of Lanco and expect it to continue its growth momentum. **However, we continue to remain cautious about its rich valuations, and maintain our Neutral view on the stock.**

**Decent all-round performance:** Lanco reported a growth of 25.7% at Rs1,316cr (Rs1,047cr) on the Top-line front. The EBITDA Margin for the quarter came in at 16.6% (12.7%), which was above our estimates. The Bottom-line grew by 95% to Rs114.5cr (Rs58.7cr). We are expecting a moderation in construction revenues, going forward, as Amarkantak I and Kondapalli Extension are near commissioning and have stopped contributing to construction revenues. The management has, however, highlighted an increase in the outstanding Order Book to Rs20,900cr, increasing the long-term visibility for construction revenues.

**Outlook and Valuation:** Our Fair Value for the stock is Rs50.1, which includes: 1) DCF-equity of the power project portfolio at Rs23.4/share, 2) the construction business's value at Rs24.2/share (at a P/E of 10x on FY2011 estimates), 3) the Real Estate project at 50% of its NAV, at around Rs1.1/share, and 4) DCF/equity of BOT road projects at Rs1.4/share. Although we expect the company to do well on the back of the positive outlook for the business and its good execution capability, we remain Neutral on the stock due to its rich valuations.

### Key Financials (Standalone)

Y/E March (Rs cr)	FY2009	FY2010E	FY2011E	FY2012E
<b>Net Sales</b>	<b>4,051</b>	<b>6,970</b>	<b>7,079</b>	<b>7,877</b>
% chg	157.3	72.1	1.6	11.3
<b>Net Profit</b>	<b>264.9</b>	<b>504.7</b>	<b>518.8</b>	<b>575.0</b>
% chg	32.3	90.6	2.8	10.8
OPM (%)	13.2	14.6	15.0	14.6
<b>EPS (Rs)</b>	<b>1.2</b>	<b>2.1</b>	<b>2.2</b>	<b>2.4</b>
P/E (x)	39.5	22.4	21.8	19.6
P/BV (x)	6.5	5.0	3.5	3.3
RoE (%)	16.6	22.3	25.0	24.0
RoCE (%)	16.7	20.8	21.9	21.1
EV/Sales (x)	2.2	1.3	1.3	1.2
EV/EBITDA (x)	16.8	9.0	8.5	8.0

Source: Company, Angel Research

## NEUTRAL

CMP	Rs47
Target Price	-

Investment Period	-
-------------------	---

### Stock Info

Sector	Infrastructure
Market Cap (Rs cr)	11,232
Beta	1.5
52 WK High / Low	61/11
Avg. Daily Volume	765541
Face Value (Rs)	1
BSE Sensex	16,358
Nifty	4,882
Reuters Code	LAIN.BO
Bloomberg Code	LANCI@IN

### Shareholding Pattern (%)

Promoters	68.0
MF/Banks/Indian FIs	5.2
FII/NRIs/OCBs	19.9
Indian Public	6.9

Abs. (%)	3m	1yr	3yr
Sensex	1.9	77.1	15.1
Lanco Infra.	(6.9)	321.8	96.7

### Shailesh Kanani

Tel: 022 – 4040 3800 Ext: 321

E-mail: shailesh.kanani@angeltrade.com

### Aniruddha Mate

Tel: 022 – 4040 3800 Ext: 335

E-mail: aniruddha.mate@angeltrade.com

**Exhibit 1: 3QFY2010 Performance (Standalone)**

Y/E March (Rs cr)	3QFY10	3QFY09	% chg	9MFY10	9MFY09	% chg
<b>Net Sales</b>	<b>1,316.3</b>	<b>1,047.1</b>	<b>25.7</b>	<b>4,242.8</b>	<b>2,219.8</b>	<b>91.1</b>
<b>Total Expenditure</b>	<b>1,098.4</b>	<b>913.9</b>	<b>20.2</b>	<b>3,576.7</b>	<b>1,898.8</b>	<b>88.4</b>
<b>Operating Profit</b>	<b>217.9</b>	<b>133.2</b>	<b>63.6</b>	<b>666.1</b>	<b>321.0</b>	<b>107.5</b>
OPM (%)	16.6	12.7		15.7	14.5	
Interest	43.6	38.5	13.0	136.9	91.6	49.4
Depreciation	16.0	11.5	39.3	44.4	24.9	78.5
Non Operating Income	14.5	4.7	0.0	57.8	12.0	382.6
Nonrecurring items	0.0	0.0	0.0	0.0	0.0	0.0
Profit Before tax	172.8	87.8	96.8	542.6	216.5	150.6
Tax	58.3	29.1	100.4	172.1	71.0	142.3
<b>Net Profit after Tax</b>	<b>114.5</b>	<b>58.7</b>	<b>95.0</b>	<b>370.5</b>	<b>145.5</b>	<b>154.7</b>
Adj. PAT (%)	8.7	5.6	-	8.7	6.6	-
<b>Adj. FDEPS</b>	<b>0.5</b>	<b>0.2</b>	<b>95.0</b>	<b>1.5</b>	<b>0.6</b>	<b>144.3</b>

Source: Company, Angel Research

**Outlook and Valuation**

Our Fair Value for the stock is Rs50.1, which includes: 1) DCF-equity of the power project portfolio at Rs23.4/share, 2) the construction business's value at Rs24.2/share (at a P/E of 10x on FY2011 estimates), 3) the Real Estate project at 50% of its NAV, at around Rs1.1/share, and 4) DCF/equity of BOT road projects at Rs1.4/share. **Although we expect the company to do well on the back of the positive outlook for the business and its good execution capability, we remain Neutral on the stock due to its rich valuations.**

Research Team Tel: 022-4040 3800

E-mail: research@angeltrade.com

Website: www.angeltrade.com

## DISCLAIMER

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions.

Opinion expressed is our current opinion as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true and are for general guidance only. While every effort is made to ensure the accuracy and completeness of information contained, the company takes no guarantee and assumes no liability for any errors or omissions of the information. No one can use the information as the basis for any claim, demand or cause of action.

Recipients of this material should rely on their own investigations and take their own professional advice. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions - futures, options and other derivatives as well as non-investment grade securities - involve substantial risks and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

We do not undertake to advise you as to any change of our views expressed in this document. While we would endeavor to update the information herein on a reasonable basis, Angel Securities, its subsidiaries and associated companies, their directors and employees are under no obligation to update or keep the information current. Also there may be regulatory, compliance, or other reasons that may prevent Angel Securities and affiliates from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Angel Securities Limited and affiliates, including the analyst who has issued this report, may, on the date of this report, and from time to time, have long or short positions in, and buy or sell the securities of the companies mentioned herein or engage in any other transaction involving such securities and earn brokerage or compensation or act as advisor or have other potential conflict of interest with respect to company/ies mentioned herein or inconsistent with any recommendation and related information and opinions.

Angel Securities Limited and affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.

**Note: Please refer important 'Stock Holding Disclosure' report on Angel web-site (Research Section).**

Disclosure of Interest Statement	Lanco Infratech
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
3. Broking relationship with company covered	No

Note: We have not considered any Exposure below Rs 5 lakh for Angel, its Group companies and Directors.

<b>Ratings (Returns) :</b>	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
----------------------------	-------------------------------------	---	--------------------

**Address: Acme Plaza, 'A' Wing, 3rd Floor, M.V. Road, Opp. Sangam Cinema, Andheri (E), Mumbai - 400 059.  
Tel : (022) 3952 4568 / 4040 3800**

Angel Broking Ltd: BSE Sebi Regn No : INB 010996539 / CDSL Regn No: IN - DP - CDSL - 234 - 2004 / PMS Regn Code: PM/INP000001546 Angel Securities Ltd: BSE: INB010994639/INF010994639 NSE: INB230994635/INF230994635 Membership numbers: BSE 028/NSE:09946

Angel Capital & Debt Market Ltd: INB 231279838 / NSE FNO: INF 231279838 / NSE Member code -12798 Angel Commodities Broking (P) Ltd: MCX Member ID: 12685 / FMC Regn No: MCX / TCM / CORP / 0037 NCDEX : Member ID 00220 / FMC Regn No: NCDEX / TCM / CORP / 0302