Projects' Status & Features

Option	Mundra – I & II	Mundra - III	Mundra - IV	Tiroda – I & II
Type, Capacity & Technology	Coal Fired, 1320MW, Sub-critical	Coal Fired, 1320MW, Sub-critical	Coal Fired, 1980 MW, Super Critical	Coal Fired, 1980 MW, Super Critical
Expected Completion	Jul 2009 / Feb 2010	Jan 2011 / Jun 2011	Aug 2011 / Apr 2012	Jul 2011 / Apr 2012
Project Cost	4350 crore	5796 crore	8960 crore	9263 crore
Fuel Supply Status	Coal supply agreement with AEL	Coal supply agreement with AEL	Coal supply agreement with AEL, provisional agreement with Mahanadi Coalfields	Captive coal mines allotted by coal ministry for generating upto 1000 MW, provisional assurance from south-east and western coalfields

Investment Positives

- ✓ As part of the Adani group APL seeks to be vertically integrated in the Indian Power Sector. The Adani group operates in coal mining, coal trading, shipping and power trading fields, and is venturing into power generation and power transmission through APL. The Adani group has coal mining rights in both the international and domestic markets. Adani Global, a wholly owned subsidiary of AEL, has entered into agreements with holders of long-term exploitation licenses to exclusively mine coal in Bunyu Island, Indonesia. In addition, APL has also been allocated two coal blocks in India to mine coal for the Tiroda Power Project. Adani Shipping Ltd, Singapore, a wholly owned subsidiary of AEL, has entered into a contract for the purchase of two newly built capesize vessels with expected delivery by December 2010 for transportation of coal from the Indonesian coal mines operated by AEL. It seeks to use leverage its existing business competencies in APL venture.
- ✓ The company has entered into long-term coal supply arrangement with AEL for Mundra power projects. PT Adani Global, a wholly owned subsidiary of AEL, has entered into agreement with holders of long-term exploitation licenses to exclusively mine coal in Bunyu island, Indonesia. For Mundra power projects, AEL proposes to procure coal from these mines in Indonesia. Additionally, the company has received letter from Mahanadi Coalfields that has provisionally agreed to supply approximately 6.4MTPA of Grade 'F' coal for Mundra Phase IV Power Project. For Tiroda Power Project, the company has been allocated coal blocks at Lohara West and Lohara Extension for generating up to 1,000MW of power at our Tiroda Power Project, which have estimated coal reserves of around 170MMT and an average gross calorific value (GCV) ranging between 4,290 and 5,590 Kcal/kg. APML has also received letters from South Eastern Coalfields and Western Coalfields provisionally agreeing to supply ~2.5 MTPA of Grade 'F' coal and 2.2MTPA of Grade 'E' coal for Tiroda Power Project respectively.
- ✓ APL's power projects enjoy locational advantages in terms of easy access to fuel, water and proximity to power deficit areas. All our power projects under development are located in western India where the deficit of power is high. The company's Mundra power projects are located close to the Mundra port, which is owned and operated by the promoter group company (MPSEL). MPSEZL has proposed to set up a coal jetty at a distance of approximately five kilometer from the Mundra power project site which would help the company to easily transport coal.
- ✓ APL is developing four power projects with an aggregate capacity of 6,600MW. The company has a mix of both long term agreements and merchant power agreements. This will help the company to benefit from both the long-term as well as a better realization from spot markets. The company has signed PPA (Power Purchase Agreements) for 4745 MW out of a total projected installed capacity of 6600 MW. The power produced in excess of what is sold under the above mentioned power purchase agreements (PPAs) will be sold on a merchant basis.

Investment Negatives

- ✘ Adani Power has entered into firm fuel supply agreement with Adani Enterprises Limited (AEL), its parent company for supply of imported coal from Indonesia for its project at Mundra. The agreement provides for supply of coal at US$36/ton on CIF (Cost, Insurance, Freight) basis at Mundra, which is substantially lower than average CIF coal price of US$45/ton. Also, the production cash cost for coal mining in Indonesia stands at ~US$20/ton or more. For Q1CY09, the production cash cost for Bumi Resources (Indonesia's largest player) stood at US$27.5/ton and had increased to US$38/ton in

Q2CY09 given higher fuel cost. Current freight charges from Indonesia to India (West coast) stands at US$13-15/ton. Given the cost structures, we believe that CIF cost of US$36/ton exposes Adani Power to regulatory and related risks.

- Quality of Chinese equipment in India has been a key debatable issue in the Indian power context. While the Chinese equipments offer lower cost and quicker delivery time periods, the key point of contention has been the limited track record of such projects to operate on Indian coal and IPR related issues for super-critical projects. There have been wide divergences in PLF of plants using Chinese equipments. While this may be due to other factors like lower fuel supply, improper maintenance etc, the quality and adaptability of Chinese equipments continues to be debated in India.
- Adani Power has achieved financial closure for all its projects under development with Debt-Equity Ratio of 80:20, and close to 30% of capacity on merchant basis. This compares with the normal Debt Equity Ratio of 70:30 (followed by regulated utilities like NTPC, DVC, Powergrid, etc), and many of the private sector players have achieved financial closure at 75:25 Debt Equity Ratio (Sasan UMPP, Mundra UMPP, GMR Kamalanga, etc). This, is an aggressive strategy as poses risks to the company in a scenario of rising interest rates.

Valuations

Compared with its peers such as National Thermal Power Corporation (NTPC), Tata Power and Reliance Power, the issue is priced at 3.9-4.08 times its book value, which is at a premium to its peers' valuations. However, in terms of market capitalisation per MW (for projects that are operational or have achieved financial closure), the issue is priced largely in line or at a slight discount to the peers' valuations. On market cap/MW basis the valuations are in line with the valuations of the peers. Qualitatively, APL has advantages in terms of its presence in power deficient areas and its status as an integrated player (with AEL and MPSEZL). Consequently, APL is a good option for investors with a long-term perspective. However, the issue may not provide significant listing gains. On the upside, the key risks to valuations are a better than expected PLF (Plant Load Factor) and a better than expected merchant power rate. However, on the downside, timely execution and the dependence on power equipment from the Chinese manufacturers could pose a risk to the valuations.

Peer-set Valuation

Company	CMP (Rs.)	M Cap (RS. Crore)	BV/share (Rs.)	P/BV (X)	Capacity * (MW)	M Cap / MW (Rs. Crore)
NTPC	204	1,67,795	73.79	2.88	48000	3.5
Reliance Power	161	38,672	57.16	2.98	12500	3.09
Tata Power	1121	24,893	389.36	3.21	8035	3.1
APL	90 - 100	19,620 - 21,800	23.1 – 24.5	3.90 – 4.08	6600	2.97 – 3.30

***Projects for which operational or for which financial closure has been completed**

Recommendation

Long term investors can apply to the IPO as the company offers an entry into Indian Power Sector which is likely to be on a high growth trajectory in the coming years. However people looking for listing gains should stay away as the issue looks reasonably priced in our view and doesn't offer scope for any more valuation lag.

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