

ADANI POWER

POWER UTILITIES

HOLD

Target Price: Rs 27

Compensatory tariff write-off dents Q4

Q4 EBITDA at Rs 13.2 bn declined ~50% YoY as **(a)** Adani Power (APL) did not recognize compensatory tariff (CT) at Mundra in Q4FY17 post recent Supreme court (SC) order (Total CT booked in Q4FY17 was Rs 2.5 bn vs. Rs 13.7 bn YoY) and **(b)** lower PLF at Mundra and Udupi due to tepid demand.

Post SC verdict on CT, APL has written off entire CT at Mundra of Rs 43.6 bn (exceptional loss of Rs 36.2 bn booked till Mar 16, balance adjusted in FY17 revenue numbers). Going forward, APL will book CT only for Tiroda and Kawai, where it believes it has a strong case (based on SC order) as it was assured domestic linkage coal but not provided the same. Further, it believes it should get CT for Gujarat/ Haryana PPA at Mundra (~20% of Mundra capacity). As a result of write-off, leverage has risen to 17.5x.

CMP : Rs 29
Potential Upside : -7%

MARKET DATA

No. of Shares : 3,857 mn
Free Float : 32%
Market Cap : Rs 111 bn
52-week High / Low : Rs 46 / Rs 23
Avg. Daily vol. (6mth) : 14.6 mn shares
Bloomberg Code : ADANI IB Equity
Promoters Holding : 68%
FII / DII : 16% / 3%

Coal linkage for Tiroda ph2 / Kawai still pending: APL is sourcing coal from e-auction of Coal India. It believes it would get firm linkage in long term as it has PPAs. **APL is hopeful of reducing fuel cost at Tiroda/ Kawai by securing coal linkage by participating in coal auctions – recently announced SHAKTI scheme augurs well.** During Q4, Kawai (1.3 GW) met ~45% coal requirement from domestic E auction coal (landed price is 30-40% lower than imported coal).

Steep leverage (17.5x) and debt repayment obligations (Rs 26 bn each in FY18 and FY19) may require re-capitalizing the balance sheet over next 2-3 years.

Valuations: We roll forward our TP to FY19E. We consider compensatory tariff at Tiroda/ kawai and for Gujarat and Haryana PPA at Mundra. We model turnaround in FY18E via higher PLF, tad lower imported coal cost and CT at Tiroda, Kawai and Mundra (Haryana/ Gujarat PPA) .We have a **HOLD** rating with TP Rs 27.

Financial summary (Consolidated)

Y/E March	FY16	FY17	FY18E	FY19E
Sales (Rs mn)	242,921	227,838	232,940	232,033
EBITDA (Rs mn)	75,621	59,717	78,984	73,079
Adj PAT (Rs mn)	(6,893)	(20,974)	4,950	5,464
Con. EPS* (Rs.)	-	-	(0.9)	1.1
EPS (Rs.)	(2.1)	(5.4)	1.3	1.4
Change YOY (%)	(74.0)	163.0	(123.6)	10.4
P/E (x)	(14.0)	(5.3)	22.5	20.4
RoE (%)	(10.4)	(40.1)	15.2	14.5
EV/EBITDA (x)	8.1	10.6	7.3	7.4
DPS	-	-	-	-

Source: *Consensus broker estimates, Company, Axis Capital

Key drivers

	Units	FY16	FY17	FY18E
Capacity	MW	10,440	10,440	10,440
Volume sold	BU's	64	63	68
Realization	Rs/kWh	3.7	3.6	3.7
Fuel cost	Rs/kWh	2.3	2.1	2.1

Price performance

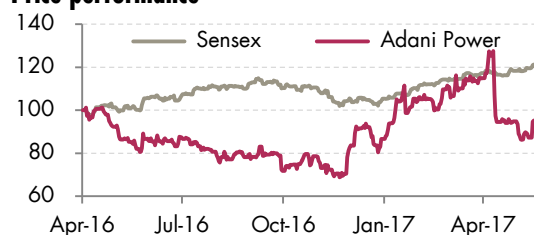


Exhibit 1: Compensatory tariff

(Rs mn)	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Tiroda	664	653	424	686
Kawai	2,035	2,450	937	1,843
Total	2,699	3,103	1,361	2,529
Units sold	13,940	15,022	14,893	16,310
Rs /kWh	0.19	0.21	0.09	0.16

Source: Company, Axis Capital

Exhibit 2: Results update

(Rs mn)	Quarter ended					12 months ended		
	Mar-17	Mar-16	% Chg	Dec-16	% Chg	FY18E	FY17	% Chg
Net Sales	63,522	68,522	(7.3)	54,691	16.1	232,940	227,838	2.2
EBIDTA	13,216	26,192	(49.5)	13,048	1.3	78,984	59,717	32.3
Other income	2,342	1,120	109.2	592	295.3	2,741	2,003	36.8
PBIDT	15,558	27,312	(43)	13,640	14.1	79,588	63,906	25
Depreciation	8,685	8,920	(2.6)	6,077	42.9	25,363	26,724	(5.1)
Interest	14,164	15,470	(8.4)	14,302	(1.0)	47,960	59,017	(18.7)
PBT	(7,291)	2,923	-	(6,739)	-	6,266	(21,835)	-
Tax	(152)	729	-	(60)	-	1,316	(861)	-
Other provisions	89	485	(81.6)	(17)	-	-	-	-
Adjusted PAT	(7,049)	2,679	-	(6,696)	-	4,950	(20,974)	-
Extra ordinary income/ (exp.)	(42,467)	7,928	-	0	-	0	(40,727)	-
Reported PAT	(49,516)	10,607	-	(6,696)	-	4,950	(61,701)	-
No. of shares (mn)	2,939	2,936	0.1	2,939	-	3,857	3,857	-
EPS - quarter (Rs)	(2.4)	0.9	-	(2.3)	-	1.3	(5.4)	-

Source: Company, Axis Capital

Profit & loss (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Net sales	242,921	227,838	232,940	232,033
Other operating income	-	-	-	-
Total operating income	242,921	227,838	232,940	232,033
Cost of goods sold	-	-	-	-
Gross profit	242,921	227,838	232,940	232,033
<i>Gross margin (%)</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>
Total operating expenses	(167,300)	(168,122)	(153,956)	(158,954)
EBITDA	75,621	59,717	78,984	73,079
<i>EBITDA margin (%)</i>	<i>31.1</i>	<i>26.2</i>	<i>33.9</i>	<i>31.5</i>
Depreciation	(26,658)	(26,724)	(25,363)	(23,363)
EBIT	48,962	32,993	53,622	49,716
Net interest	(59,632)	(59,017)	(47,960)	(42,800)
Other income	2,016	4,190	604	-
Profit before tax	(8,654)	(21,835)	6,266	6,916
Total taxation	1,761	861	(1,316)	(1,452)
<i>Tax rate (%)</i>	<i>20.3</i>	<i>3.9</i>	<i>21.0</i>	<i>21.0</i>
Profit after tax	(6,893)	(20,974)	4,950	5,464
Minorities	-	-	-	-
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	(6,893)	(20,974)	4,950	5,464
<i>Adj. PAT margin (%)</i>	<i>(2.8)</i>	<i>(9.2)</i>	<i>2.1</i>	<i>2.4</i>
Net non-recurring items	-	-	-	-
Reported net profit	(6,893)	(20,974)	4,950	5,464

Balance sheet (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Paid-up capital	33,339	38,569	38,569	38,569
Reserves & surplus	41,339	(8,573)	(3,623)	1,841
Net worth	74,678	29,996	34,946	40,410
Borrowing	527,381	525,000	478,885	436,007
Other non-current liabilities	-	88	88	88
Total liabilities	602,059	555,084	513,919	476,505
Gross fixed assets	650,957	652,178	652,456	652,456
Less: Depreciation	(83,451)	(110,175)	(135,537)	(158,900)
Net fixed assets	567,506	542,003	516,918	493,556
Add: Capital WIP	879	1,246	-	-
Total fixed assets	568,385	543,249	516,918	493,556
Total Investment	-	1,643	1,643	1,643
Inventory	16,192	17,604	10,545	10,887
Debtors	124,766	99,727	38,292	38,142
Cash & bank	8,686	6,041	14,632	4,097
Loans & advances	38,004	44,938	38,292	38,142
Current liabilities	155,883	160,026	109,667	113,227
Net current assets	31,765	8,284	(7,907)	(21,959)
Other non-current assets	1,908	1,907	3,265	3,265
Total assets	602,059	555,084	513,919	476,505

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Profit before tax	(8,654)	(21,835)	6,266	6,916
Depreciation & Amortisation	26,658	26,724	25,363	23,363
<i>Chg in working capital</i>	<i>16,792</i>	<i>20,836</i>	<i>24,782</i>	<i>3,516</i>
Cash flow from operations	89,813	84,617	103,055	75,143
<i>Capital expenditure</i>	<i>(141,848)</i>	<i>(1,588)</i>	<i>968</i>	-
Cash flow from investing	(138,276)	(3,231)	969	-
<i>Equity raised/ (repaid)</i>	<i>11,147</i>	<i>16,736</i>	-	-
<i>Debt raised/ (repaid)</i>	<i>79,356</i>	<i>(2,381)</i>	<i>(46,115)</i>	<i>(42,878)</i>
<i>Dividend paid</i>	-	-	-	-
Cash flow from financing	43,152	(85,390)	(94,074)	(85,678)
Net chg in cash	(5,311)	(4,003)	9,949	(10,535)

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	(2.1)	(5.4)	1.3	1.4
CEPS (Rs)	5.9	1.5	7.9	7.5
DPS (Rs)	-	-	-	-
Dividend payout ratio (%)	-	-	-	-
GROWTH				
Net sales (%)	26.9	(6.2)	2.2	(0.4)
EBITDA (%)	38.3	(21.0)	32.3	(7.5)
Adj net profit (%)	(69.8)	204.3	(123.6)	10.4
FDEPS (%)	(74.0)	163.0	(123.6)	10.4
PERFORMANCE				
RoE (%)	(10.4)	(40.1)	15.2	14.5
RoCE (%)	9.2	6.4	10.1	10.0
EFFICIENCY				
Asset turnover (x)	0.4	0.4	0.4	0.5
Sales/ total assets (x)	0.4	0.3	0.3	0.4
Working capital/ sales (x)	0.1	0.1	-	(0.1)
Receivable days	187.5	159.8	60.0	60.0
Inventory days	35.3	38.2	25.0	25.0
Payable days	340.1	347.4	260.0	260.0
FINANCIAL STABILITY				
Total debt/ equity (x)	8.0	10.0	14.7	11.6
Net debt/ equity (x)	7.9	9.9	14.3	11.5
Current ratio (x)	1.2	1.1	0.9	0.8
Interest cover (x)	0.8	0.6	1.1	1.2
VALUATION				
PE (x)	(14.0)	(5.3)	22.5	20.4
EV/ EBITDA (x)	8.1	10.6	7.3	7.4
EV/ Net sales (x)	2.5	2.8	2.5	2.3
PB (x)	1.3	3.7	3.2	2.8
Dividend yield (%)	-	-	-	-
Free cash flow yield (%)	(54.0)	74.5	93.3	67.4

Source: Company, Axis Capital

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HOLD	Between 10% and -10%
SELL	Less than -10%

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