

29th July 2024

Adani Power – BUY

CMP : Rs.720.0
Target Price : Rs.875.0
Upside : 21.6%+
Stop Loss : Rs.600.0 (Closing basis)

Investment Thesis

- Adani Power Ltd. (APL) is currently progressing with a 1,600 MW expansion project at the Mahan plant in Singrauli, Madhya Pradesh. Additionally, it has initiated the development process for expanding the Raigarh power plant, where it aims to establish another 1,600 MW thermal power capacity in Chhattisgarh. These strategic expansions signify the company's commitment to scaling up its operational capabilities and bolstering its presence in the power generation sector.
- As of now, APL boasts an organic growth capacity of 10,880 MW and an inorganic capacity of 4,370 MW. Its ongoing expansion efforts include 6,400 MW under construction for organic growth and an additional 3,120 MW from ongoing acquisitions for inorganic growth. Looking ahead, the company anticipates significant future expansions, targeting a total capacity of 38,500 MW in the coming years, comprising 22,080 MW from organic initiatives and 8,590 MW from inorganic expansions.
- APL is actively assessing various growth opportunities, with notable advancements announced in Coastal Energen Ltd. (1,200MW) and Lanco Amarkantak Power Ltd. (1,320MW). Both projects have secured Letters of Intent (LOIs), and the management anticipates imminent approvals from the National Company Law Tribunal (NCLT) for these acquisitions.
- The increasing power demand in India presents a significant growth opportunity for APL. The government has revised its projections for incremental thermal power installations, increasing from 50 GW to over 80 GW. The government's renewed focus on the power sector across consecutive terms and recent budget allocations are expected to benefit APL.
- Various DISCOMs have announced their intention to invite bids for long-term Power Purchase Agreements (PPAs) from thermal power projects. APL intends to aggressively bid for these opportunities, aiming to enhance its market presence and capitalize on the expanding prospects.

Financials

- APL has reported a full-year revenue of Rs.50,351 crores, a significant 29.8% YoY growth. This growth was driven by improved Plant Load Factors (PLFs) at imported coal-based power plants, heightened demand from domestic coal-based PPAs, and increased utilization of merchant capacity.

Particulars (In Crs.)	FY21	FY22	FY23	FY24	FY25E
Revenue	26,221	27,711	38,773	50,351	59,414
EBITDA	8,688	9,881	10,096	18,227	20,795
EBITDA(%)	33.1%	35.7%	26.0%	36.2%	35.0%
PAT	1,269	4,911	10,726	20,828	23,295
EPS (Rs)	3.3	12.7	27.8	54.0	60.4
PE (x)	218.7	56.5	25.9	13.3	11.9
ROE (%)	13.0%	31.1%	44.4%	57.0%	44.1%

Stock Data

Market Cap (Rs. Crs)	2,78,278
Market Cap (\$ Mn)	33,238
Shares O/S (in Crs)	3,860
Avg. Volume (3 month)	93,41,880
52-Week Range (Rs.)	897.00 / 259.00

Shareholding Pattern

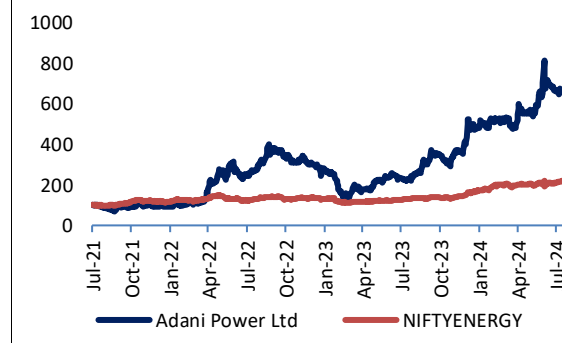
Promoters	72.71%
FII's	14.73%
Institutions	1.42%
Others (incl. body corporate)	11.14%

Key Ratios

Div Yield	0.0%
TTM PE	13.3x
ROE	57.0%
TTM EPS (Rs.)	54.0/-

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	-4.8%	33.4%	189.8%
NIFTY Energy	4.6%	22.8%	69.3%



- Looking at EBITDA, APL reported Rs.18,227 crores, reflecting a notable 80.5% YoY increase. This significant increase was largely attributed to the impact of lower imported coal prices on the Power Purchase Agreement (PPA) tariffs realized during Q4 FY24.
- For the full year, the company reported a Profit After Tax of Rs.20,828 crores, marking a robust YoY growth of 94.1%. Additionally, the company's creditworthiness has significantly improved, evidenced by credit rating upgrades from A to AA family, specifically AA-. These developments highlight the company's strong financial performance and enhanced market standing, reflecting its effective management strategies and the favorable operational environment within the power sector.

Key Business Highlights

- APL specializes in electric power generation through coal-based thermal power plants and engages in coal trading as part of its operational activities. The company plays a crucial role in the power generation sector, leveraging its expertise in coal-based energy production to meet the growing electricity demand in India.
- APL with a substantial power generation capacity of 15,250 MW, operates thermal power plants across multiple states including Gujarat(4,620 MW), Maharashtra(3,300 MW), Karnataka(1,200 MW), Rajasthan(1,320 MW), Chhattisgarh(1,970 MW), Madhya Pradesh(1,200 MW), and Jharkhand (1,600 MW). Additionally, the company has ventured into renewable energy with a 40 MW solar power project in Gujarat.
- Moreover, APL has successfully commissioned its first 800 MW ultra-supercritical thermal power generation unit at Godda in Jharkhand. This state-of-the-art facility marks a significant milestone in the company's expansion efforts. Currently, the plant has commenced operations by supplying 748 MW of power to Bangladesh, emphasizing its role in enhancing regional energy cooperation and infrastructure development. This achievement shows APL's commitment to leveraging advanced technology and sustainable energy solutions to meet growing energy demands while fostering international partnerships in the power sector.
- In the previous month, in a bid to expand thermal power capacity, APL entered into a significant contract worth Rs.7,000 crores with BHEL Ltd. This strategic partnership signifies APL's commitment to bolstering its infrastructure through collaboration with industry leaders like BHEL, aiming to enhance operational capabilities and meet the rising energy demands in India.

Valuation

- Currently APL is trading at a PE of 13.3x against the industry PE of 41.2x indicating huge potential for growth. With the commissioning of new plants at Madhya Pradesh and Chattisgarh with 1,600MW capacity each coupled with the power demand in India at its peak, the company's thermal power servicing base is poised to grow at a 6.6% CAGR and the power demand is expected to grow at 6.2% CAGR (1,908 Billion Units by FY27E). We expect a revenue growth of 18% for FY25 alongside healthy EBITDA margins of 35%

- We are ascribing a **BUY** rating for Adani Power Ltd. (APL) with a **Target Price of Rs.875/-, translating in an upside of 21.6%+.**

Risk & Concern

- Emerging technologies like battery storage, green hydrogen, and concentrated solar power may alter the demand landscape for APL's thermal power portfolio. Adapting to these advancements will be essential to sustain competitiveness and meet evolving energy market dynamics very effectively.
- The business faces a risk from operating under Indian climate regulations, including the tax on domestic coal, which could impact the operations and overall margins.

Graphs & Charts

Figure 1: Net Sales Trend

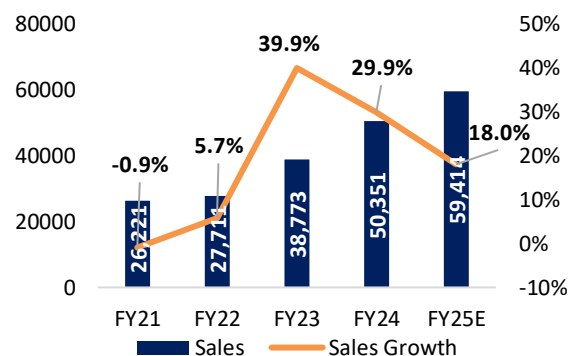


Figure 2: EBITDA & EBITDA Margin Trend

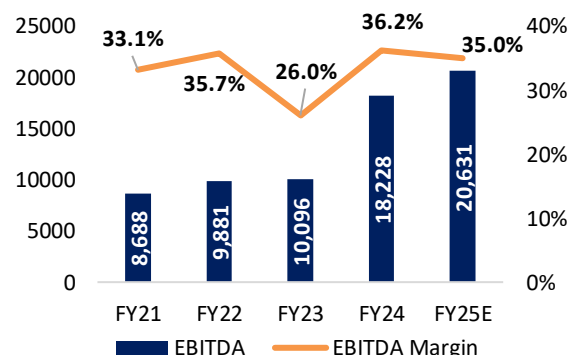


Figure 3: PAT Trend

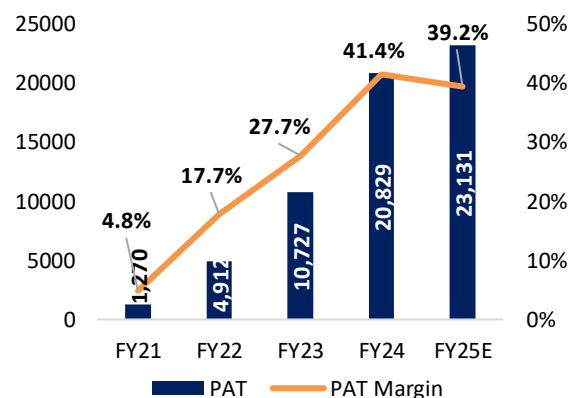
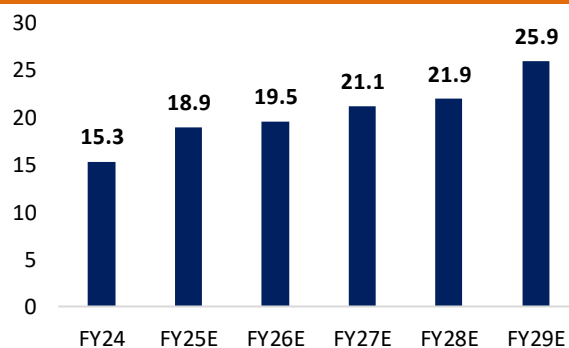


Figure 4: Multi Year Growth Outlook (GW)



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