Initiating Coverage | 18 September 2014
Sector: Utilities

Indiabulls Power

Building blocks in place

Nalin Bhatt (NalinBhatt@MotilalOswal.com); +91 22 3982 5429

Indiabulls Power: Building blocks in place

Page No.

Indiabulls Power

BSE Sensex	S&P CNX
27,112	8,115

Indiabulls Power Limited.

CMP: INR12 | **TP: INR21** | **Buy**

Stock Info

Bloomberg	IBPOW IN
Equity Shares (m)	2,643
52-Week Range (INR)	16/6
1, 6, 12 Rel. Per (%)	11/44/36
M.Cap. (INR b)	32.5
M.Cap. (USD b)	0.5

Financial Snapshot (INR b)

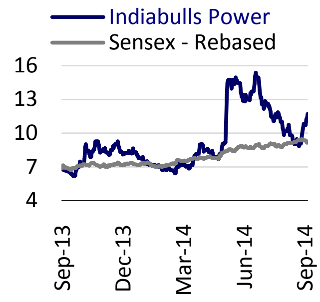
Y/E Mar	2015E	2016E	2017E
Net Sales	25.0	63.8	71.6
EBITDA	12.2	28.4	30.2
NP	0.2	5.0	8.0
EPS (INR)	0.1	1.9	3.0
BV/Sh (INR)	20.4	22.0	24.5
P/E (x)	140.0	6.4	4.0
P/BV (x)	0.6	0.6	0.5
EV/EBITDA	12.0	5.1	4.4
EV/ Sales (x)	5.8	2.3	1.8
RoE (%)	0.4	9.0	13.1
RoCE (%)	4.5	12.2	13.2

Shareholding pattern % (Jun-14)

	Jun-14	Mar-14	Jun-13
Promoter	60.8	60.8	60.8
DII	0.5	0.6	0.6
FII	25.2	24.9	24.5
Others	13.4	13.7	14.2

Notes: FII includes depository receipts

Stock Performance (1-year)



Building blocks in place

Valuations compelling; Buy

- **IBPOW's capacity will grow to 2.7GW by CY15, 3x the current 810MW. It also has land and requisite clearances for ~4GW of capacity, offering visibility on growth option.**
- **Secured PPA, sub-INR4/unit average tariff, and PPAs with financially better placed DISCOMs would trigger higher generation, as demand outlook improves.**
- **FY17 would be the first full year of operation for the entire 2.7GW of projects. We expect PAT to grow from INR232m in FY15 to INR5b in FY16 and further to INR8b in FY17.**
- **The stock quotes at compelling valuations – 6.4x FY16E EPS, 0.6x FY16E BV (RoE of 9%), and EV of 5.1x FY16E EBITDA. Buy; our SOTP-based target price is INR21.**

Well placed on several fronts: IBPOW's capacity will grow to 2.7GW by CY15, 3x the current 810MW. It is best placed on several fronts: (a) 2.1GW of net capacity (~85% of total capacity) tied up under LT PPA with reasonable tariff, (b) 9.7mtpa of domestic linkages/FSA for projects, (c) best-in-class contractors, domestic equipment provide comfort on operations and alleviate risk on equipment servicing/forex debt, (d) location in high load consuming western region, and (e) 84% of capex already incurred, with equity infusion of 88%. Visibility of PPA/FSA is crucial, given that open capacities face issues of both fuel availability and transmission. In addition, IBPOW has land and requisite clearances for ~4GW of capacity, offering visibility on growth option. Recent restructuring amongst promoters is set to bring unified focus to IBPOW and accelerate growth, in our view. IBPOW also stands out given that it is not affected by captive coal imbroglio.

Bid tariffs, structure offer near regulated return: IBPOW's bid tariffs for power projects are skewed in favor of variable component, providing leverage to high generation/PLF. Secured PPA, sub-INR4/unit average tariff, and PPAs with financially better placed DISCOMs would trigger higher generation, as demand outlook improves. Also, approval of compensatory tariff towards cost of imported coal aids project profitability. Core returns/profitability from generation are close to regulated returns (RoE of ~20%) and offer comfort. Possibility of alternate PPA for Nashik project with Uttar Pradesh Power Purchase Corporation (UPPCL) could provide significant fillip to project/overall profitability and valuations.

Robust earnings growth and cash flow accretion; gearing comfortable: FY17 would be the first full year of operation for the entire 2.7GW of projects. We expect PAT to grow from INR232m in FY15 to INR5b in FY16 and further to INR8b in FY17. We have, however, factored in compensatory tariff for the Nashik project on the lines of the Amravati project and based on CCEA approval. If not for compensatory tariff, PAT for FY17 would be lower to INR6.2b. Strong earnings growth and limited capex should drive free cash flows. Consolidated FY17E DSCR of 1.2x and DER of 1.5x are comfortable.

Valuations compelling, Buy: The stock has corrected significantly from its all-time high of INR45 in FY09. It now quotes at compelling valuations – 6.4x FY16E EPS, 0.6x FY16E BV (RoE of 9%), and EV of 5.1x FY16E EBITDA. Better visibility on commissioning of assets and secured project portfolio are positives. Renewed focus led by group restructuring, sizable earnings/cash flow accretion would provide further momentum. We initiate coverage with a Buy rating. Our SOTP-based target price is INR21.

Utilities: Comparative valuation

Company	Recom	EPS (INR/sh)			RoE (%)			P/BV (x)			P/E (x)			EV/EBITDA (x)		
		FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E
CPSUs																
NTPC	Buy	10.6	12.4	14.7	9.9	11.0	12.2	1.2	1.1	1.1	12.7	10.8	9.1	9.6	8.6	7.4
PGCIL	Buy	9.8	11.7	13.8	14.2	15.4	16.4	1.9	1.7	1.5	13.8	11.6	9.8	11.1	10.0	9.1
Coal India *	Neutral	27.6	30.5	34.5	25.1	24.4	24.1	4.4	3.8	3.3	12.3	11.2	9.9	8.3	7.0	5.7
NHPC	Neutral	2.3	2.8	2.9	8.7	8.9	8.7	0.7	0.7	0.7	8.7	7.1	6.9	6.9	6.2	5.8
Private Sector																
CESC	Buy	56.0	61.2	66.2	11.0	10.9	10.7	1.5	1.3	1.2	14.1	12.9	11.9	8.9	8.1	7.2
Tata Power	Neutral	4.2	4.3	4.7	8.1	7.4	7.7	1.5	1.4	1.4	16.7	13.3	10.9	12.0	10.4	9.6
JSW Energy	Neutral	6.6	6.0	5.6	15.5	12.7	10.9	1.6	1.5	1.4	11.3	12.4	13.3	6.4	6.5	6.5
Reliance Infra	Buy	53.6	61.8	63.2	6.4	7.0	6.8	0.8	0.7	0.7	12.2	10.6	10.4	5.2	4.2	3.9
JPVL	Buy	1.3	2.9	4.1	6.5	13.6	16.9	0.7	0.6	0.5	10.4	4.9	3.4	9.0	5.3	4.7
PTC	Buy	9.5	13.3	15.0	7.0	10.4	10.9	1.0	1.0	0.9	9.5	6.8	6.0	9.5	4.9	3.7
Indiabulls Power	**Buy**	**0.1**	**1.9**	**3.0**	**0.4**	**9.0**	**13.1**	**0.6**	**0.6**	**0.5**	**-**	**6.4**	**4.0**	**12.0**	**5.1**	**4.4**

*ROE Adjusted for OB reserves provisions; Source: Company, MOSL

Well placed on PPA/FSA; growth option exists

2.7GW installed base by CY15, land/clearances in place for additional 4GW

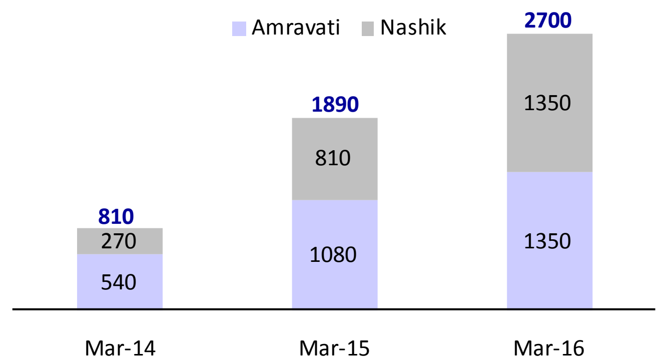
- **IBPOW's operating capacity is set to multiply 3x to 2.7GW by CY15. It has already incurred most of the capex required for both its projects, providing high visibility on CoD.**
- **It is well placed on the PPA/FSA matrix, with 2.1GW of net capacity tied up under LT PPA and backed by FSAs (totaling to 9.7mtpa). Bid tariffs are reasonable. Option to sign PPA with Uttar Pradesh out of Nashik project can provide upside.**
- **Compensatory tariff for cost of imported coal has been approved for Amravati project, based on CCEA directive (INR1.55/unit). This aids project availability and profitability.**
- **IBPOW has land and all clearances in place for its 2.7GW brownfield expansion and 1.32GW greenfield development. Visibility on PPA/FSA would help expedite project execution. It has already invested INR15b of equity in brownfield expansion projects and ~INR5b in greenfield project.**

Operating capacity to increase from 810MW to 2.7GW by CY15

Indiabulls Power (IBPOW) is developing 2.7GW of projects – 1.35GW each at Amravati and Nashik. Of these, it has already commissioned three units of 270MW each (two at Amravati and one at Nashik) and its current operating capacity stands at 810MW. The second unit at Nashik is scheduled for commissioning in 3QFY15, taking IBPOW's operating capacity to 1.1GW.

Based on progress at Amravati project, all units are likely to be commissioned by the end of FY15. However, the balance three units at Nashik should be commissioned by CY15. FY16 would be the first full year of operations for the Amravati project. IBPOW has already incurred sizable part of the capex on both the projects (94% at Amravati and 74% at Nashik). It has also invested 96% of equity towards its Amravati project and 77% equity towards its Nashik project. This provides comfort on project commissioning schedule.

Expect 2.7GW capacity by CY15 (MW)



Source: Company, MOSL

Large part of capex already spent

INR m	Amravati	Nashik
Project cost	**77,770**	**80,130**
Debt @ 75%	**58,328**	**60,098**
- Drawn*	54,370	43,960
% of total debt	93%	73%
Equity @ 25%	**19,443**	**20,033**
- Invested*	18,740	15,420
% of total equity	96%	77%
Total cost incurred*	**73,110**	**59,380**
% of total cost	94%	74%

*As at June 2014

Source: Company, MOSL

Scores well on PPA/FSA matrix

The current scenario of the Power sector in India is possibly the most grave for open/merchant capacity, as it faces lack of both committed fuel supply and transmission corridor availability. The dearth of long-term power purchase agreements (LTPPA) with DISCOMs has worsened the situation for several developers.

IBPOW's Amaravti project has already signed 1.2GW of capacity on net basis with Maharashtra State Electricity Distribution Company Limited (MSEDCL). Thus, in effect, it has tied-up 1.32GW (adjusting for auxiliary consumption) of capacity out of the project's total capacity of 1.35GW, representing 98% of total capacity. The Maharashtra State Electricity Regulatory Commission (MERC) has already approved the PPA and supply from the first two units under LT PPA has commenced.

For its Nashik project too, it has got approval from the Government of Maharashtra for purchase of 950MW of net capacity, representing 77% of total capacity on gross basis. MSEDCL will procure 650MW while The Brihanmumbai Electric Supply & Transport Undertaking (BEST) will procure 300MW. MERC has already accorded approval for the PPA with MSEDCL, approval for the PPA with BEST is expected shortly. Alternatively, it is in discussions with Uttar Pradesh Power Purchase Corporation (UPPCL) for supply of 1.2GW (net) of power from the project at a lucrative levelized tariff of INR5.73/unit (net realization of INR5.32/unit).

2.1GW of net capacity (~85% on gross basis) out of total 2.7GW is through LT PPA

Particulars	Beneficiary	Cap (MW)	Remarks
Amravati (Ph I)	MSEDCL	1,200	Net 1.2GW sold at levelized tariff of INR3.26/unit
			Additional compensatory tariff of INR1.55/unit for usage of imported coal
Nashik (Ph I)	MSEDCL	650	PPA with MSEDCL approved by Government of Maharashtra
	BEST	300	Tariff components being negotiated, levelized tariff of INR3.42/unit offered
			BEST PPA too on similar lines, both PPAs yet to be signed
			Eligible for compensatory tariff, on lines of Amravati project, as PPAs are effective
	OR		
	UPPCL	1200	1.2GW net capacity proposed to be tied-up with UPPCL
			Lucrative levelized tariff of INR5.73/unit, net at INR5.32/unit

Source: Company, MOSL

Given its firm PPA with MSEDCL for the Amravati project, IBPOW has assured linkages from Coal India. It has signed Fuel supply Agreement (FSA) with South East Coalfields Limited (SECL) for 5.49mtpa of coal supply. IBPOW has already begun to receive coal supply for the project. Similarly, the Nashik project has Letter of Assurance (LoA) from Mahanadi Coalfields Limited (MCL) and SECL for 5.226mtpa of coal. This removes uncertainty on project availability and in turn plant load factor (PLF). Current fuel supply would be sufficient to meet normative availability of 85%.

Fuel supply too secured through linkages

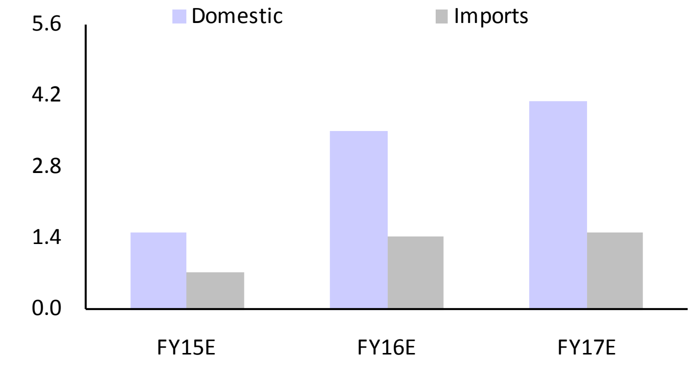
Project	Remarks
Amravati	
- Phase I	5.49m tons from SECL, FSA signed for 5.49m tons
- Phase II	LoA for 4.89m tons of from MCL and WCL
Nashik	
- Phase I	5.226m tons from MCL, SECL; FSA signed for 4.1808m tons
- Phase II	LoA of 5.093m tons from WCL and SECL

Source:

However, for the balance requirement/shortfall in commitment from Coal India, imported coal would be used. The cost of imported coal would be offset by compensatory tariff. We calculate usage of imported coal at 27% for Amravati and 44% for Nashik on sustainable basis.

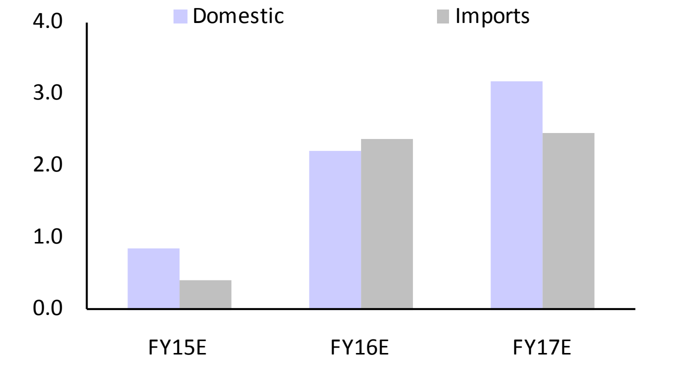
Coal sourcing mix – import component high, but compensatory tariff provides cushion (m tons)

A] Amravati



Source: Company, MOSL

B] Nashik



Source: Company, MOSL

Compensatory tariff for usage of imported coal is positive

For its Amravati project, IBPOW has also received approval from MERC for compensatory tariff of INR1.55/unit, over and above the energy charge quoted as part of the bid. The compensatory tariff is towards supply of imported coal under Fuel Supply Agreement (FSA), as commitment to supply domestic coal by Coal India is restricted to 65% in FY15. Based on FSAs signed, Coal India will deliver 67% in FY16 and 75% in FY17 from domestic linkages. The balance commitment will be met through imports, either carried out by Coal India (on cost plus basis) or procured directly by the developer. The Cabinet Committee on Economic Affairs (CCEA) had approved such fuel cost as a pass through for all projects with PPA and fuel linkages.

This augurs well for the project, as it will ensure higher availability and generation. While recovery of capacity charge is linked to availability of 85%, higher operating rates would aid profitability, given that tariff is loaded in favor of variable cost.

IBPOW would be eligible for compensatory tariff for its Nashik project too. We calculate the benefit at INR1.20-1.25/unit, on a similar framework as approved by MERC for the Amravati project, and factor this in our estimates.

EXTRACT FROM MERC ORDER ON COMPENSATORY TARIFF: COVERS IBPOW'S INTEREST IN ENTIRETY

- Indicative compensatory fuel charge at the current level of linkage materialization (70% of quantity) works out to INR1.55/unit and is applicable only to incremental generation from imported coal.
- Compensatory fuel charge shall be applicable from the later of (a) date of MoP advice (31 July 2013); (b) scheduled date of delivery; and (c) actual date of delivery.
- Periodic review of compensatory fuel charge is required on account of changes in the business environment related to coal demand-supply situation, prices of coal in the international market, etc. Accordingly, the compensatory fuel charge will be reviewed by the Commission at the end of FY16-17. Further, the procurer may approach the Commission intermittently for review of any aspect of the compensatory fuel charge with changing scenarios.

Source: MERC

Growth option exists; brownfield expansion to provide cost efficiency

IBPOW has received land and all clearances for brownfield expansion at both its Amravati and Nashik power projects, which can double its capacity. The total operating capacity at these two projects can work out to 5.4GW. Given that a large part of the associated infrastructure is common, this will bring savings in capital cost too. Consider this: phase-1 capacity addition at the Amravati and Nashik projects average costs at ~INR58.5m/MW, but capex for phase-2 would work out to INR48m-49m/MW. This entails savings of 15-19% on capital cost, improving the margin profile/cost competitiveness of expansion.

Given lack of visibility on PPA/FSA, and balance sheet related issues faced by several IPPs, they lack growth option. IBPOW, on the other hand, has already invested equity of INR15b in brownfield expansion projects and ~INR5b in greenfield project. Going forward, the management expects to expedite work on phase-2, as phase-1 is near completion. This would also bring operational efficiency and O&M cost/MW could be competitive.

IBPOW has also entered into a memorandum of understanding (MoU) with Punjab State Power Corporation (PSPCL) to set up a 1,320MW supercritical power project in Mansa, Punjab. The project is located along the Delhi-Ferozpur railway line at village Gobindpura, and complete land required for the project is already under possession (815 acres, including 73 acres of rail siding). Also, the water allocation has been obtained for the entire project. Progress is contingent on coal block allocation through auction route or otherwise, as being contemplated by Government of India.

Brownfield expansion to offer capital cost efficiency

	Amravati		Nashik	
	Ph I	Ph II	Ph I	Ph II
Capacity (MW)	1,350	1,350	1,350	1,350
Cost (INR b)	77.8	66.5	80.1	65.2
Cost (INR m/MW)	57.6	49.2	59.4	48.3
Savings (%)		**-15%**		**-19%**

Source: Company

Aggregate profitability close to regulated return; operational performance to look up

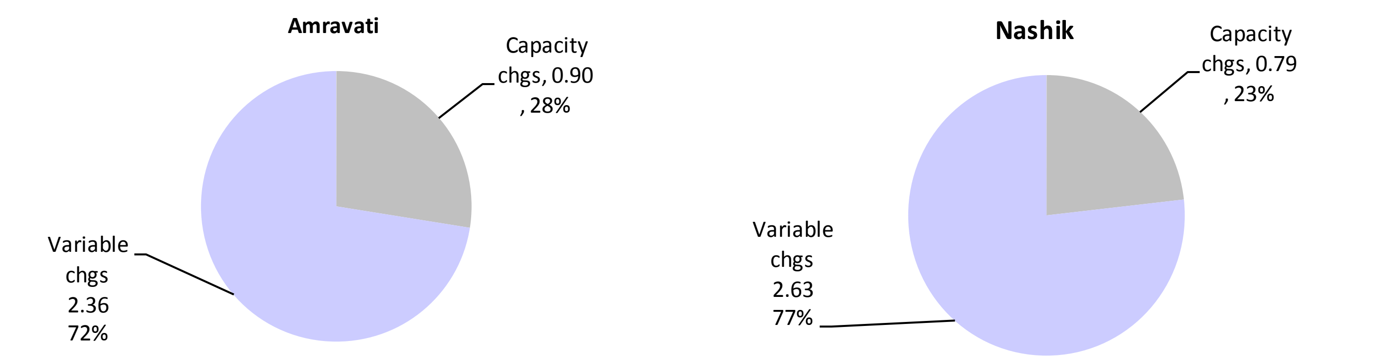
High variable component in tariff, marquee subcontractors provide comfort

- **IBPOW's bid tariff is skewed towards variable components, providing leverage to higher generation/PLF. However, Nashik PPA bid components are still under negotiation.**
- **Operating parameters are set to improve, given the quality of subcontractors and equipment. This coupled with compensatory tariff for usage of imported coal will boost generation and PLF.**
- **Besides, the location of projects in the high load consuming western region bodes well. Bid structure, reliance on domestic equipment, no foreign loan exposure, aggregate profitability of projects close to regulated return are the key differentiating factors.**

Bid tariff reasonable; skewed in favor of variable components

IBPOW's levelized tariff is INR3.26/unit for the Amravati project and INR3.42/unit for the Nashik project. Its tariffs for the Amravati and Nashik projects are structured in favor of variable component, more than capacity charge, which entails higher absolute recovery, as projects operate on higher PLF. We note that the variable component accounts for 72.5% of the levelized tariff for the Amravati project (INR2.363/unit), and capacity charge is only INR0.897/unit. Similarly, for the Nashik project, the variable component in levelized tariff works out to 77% of bid tariff. Thus, levelized capacity charge works out to just INR0.793/unit.

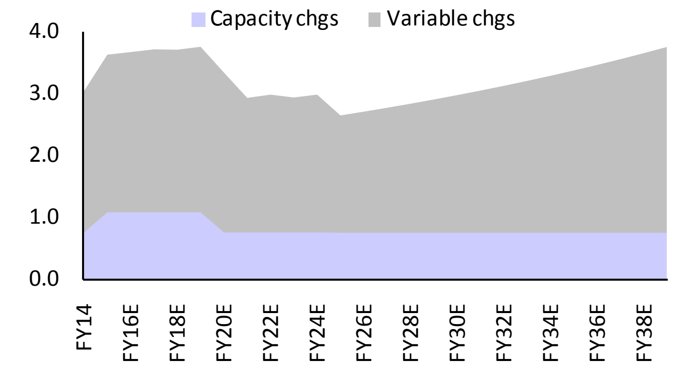
Levelized tariff break-up (INR/unit)



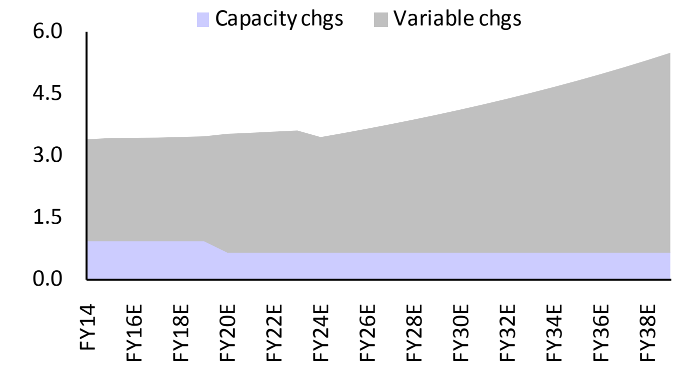
Source: MOSL, Company

Year-wise bid tariff adjusted for CERC escalation for project life (INR/unit)

A] Amravati



B] Nashik



Source: MOSL, Company

PPA terms for Nashik project under negotiation, alternate option exists though

While approval is available from MERC for the 650MW MSEDCL PPA for the Nashik project, the PPA is not signed – IBPOW and MSEDCL are still negotiating on the components of tariff. This is also a reason for lack of approval on BEST PPA. In its recent order, MERC has directed both parties to reach an acceptable solution on the matter and submit the PPA for approval.

IBPOW has asked for levelized tariff for the Nashik project at INR3.42/unit against its initial bid of INR3.45/unit. While the levelized tariff is lower vs initial bid, there is higher variable components unlike earlier. This is the point of contention between the parties. Given that the project is ready and there is not much loss to MSEDCL (as cited in MERC order), there is likelihood of resolution on the matter soon.

Components of tariff for Nashik PPA are being re-negotiated (INR/unit)

	Capacity Charges		Variable Charges		Trans. Chg
	Escalable	Non-escalable	Escalable	Non-escalable	Escalable
Original bid	0.00	1.07	0.76	0.60	1.02
IRL proposed*	**0.00**	**0.79**	**1.54**	**0.24**	**0.85**
MSEDCL proposed	0.00	1.07	0.76	0.59	1.01

*Indiabulls Realtech Limited (IRL) is an SPV housing Nashik power project.

Impact owing to new tariff for MSEDCL/Consumers (INR m)

Particulars	Levelised Tariff/unit	W/out Discounting rate	NPV @10.19% As per bid	NPV @14.5% As per IRL	NPV @9.75% As per MSEDCL
Original bid - A	3.45	45,717	15,065	11,084	15,612
IRL proposed - B	3.42	48,904	14,936	10,715	15,523
MSEDCL proposed - C	3.42	45,319	14,934	10,988	15,477
Difference (C-B)	**0.00**	**(3,585)**	**(2)**	**273**	**(46)**

Notes: Rates proposed by IRL is based on advance rate of SBI, while MSEDCL assumed bond rate.

Since IBPOW had also applied for UPDISCOM’s bid (UPPCL), there exists an alternate arrangement for the Nashik project to firm up PPA with UPPCL. Given that the “additional capacity” offered by IBPOW from its Nashik project to MSEDCL does not contain any bid bond/guarantee, the option to sign PPA with UPPCL is being looked at. Signing of PPA with UPPCL would be advantageous too, given lucrative tariff of INR5.72/unit. This is a key monitorable in the near term, in our view.

Current operating rates not a true reflection, expect recovery

The initial operating experience for the Amravati and Nashik projects has been muted owing to teething issues pertaining to stabilization of units. We note that IBPOW has roped in best-in-class subcontractors for project execution. This, in our view, lends credibility to project operations. Also, the receipt of compensatory tariff order from MERC (dated 20 August 2014) would enable the projects to fire using imported coal, which should aid operating performance.

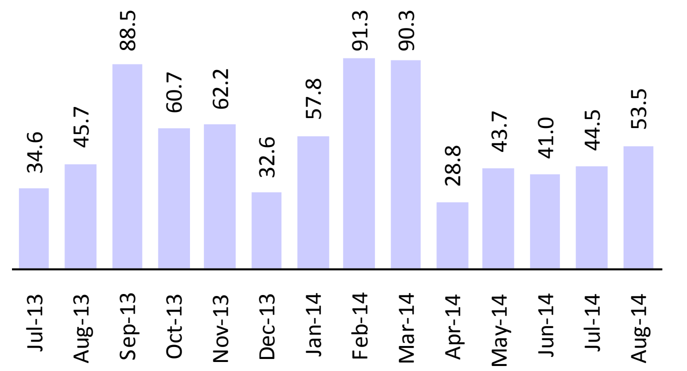
Marquee subcontractors

Contractor	Package
BHEL	Boiler, Turbine, Generator & Auxiliaries along with accessories
L&T	Coal Handling System, EBOP including station lighting, DG Sets & service (LT) Transformers
Shapoorji Pallonji	BTG Civil & Structural works
Areva	Power Transformers (GT, ST, UAT)
ABB	Switchyard
Siemens	GIS, Field Instruments, AAQMS, Mercury Analyzer (Supply + Installation)
GDCL	General Civil Works for BOP (GCW-1)
Gammon India Ltd	Chimney
Paharpur Cooling Towers	Cooling Tower
Kirloskar Brothers	Water Pumps
Voltas	Air Conditioning System including ducting and Ventilation
BSBK	Ash Handling System, Mill Reject System

Source: Company

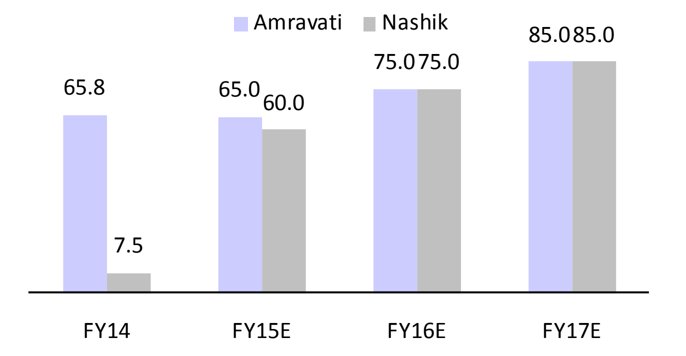
Further, it is noteworthy that project PLF for Amravati Unit 1 touched ~90% for three months out of the total 14 months of operation. We understand that constrained coal availability led to poor operations of the plant. We have factored gradual ramp-up in PLF for both projects and expect PLF to reach 85% in FY17. Firm PPA, domestic fuel linkages, and lower average tariff should help operations run at robust PLFs and we believe there exist upsides to our estimates. Besides, the Western region is likely to see strong demand revival. We remain upbeat on demand push driving higher drawal/generation.

PLF touched ~90% for 3 months in 14 months of operation (%)



Source: CEA

Expect gradual pick-up in PLFs (%)



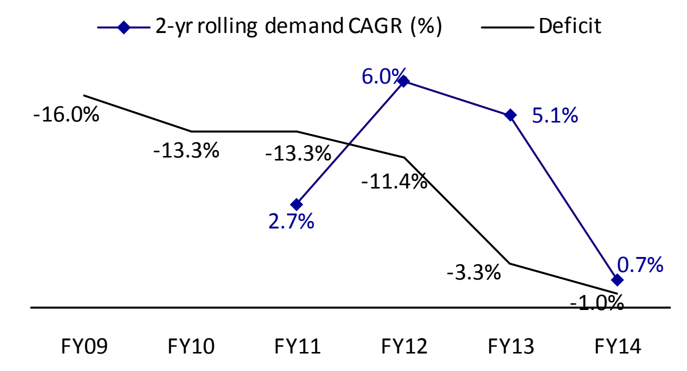
Source: MOSL

Western region – current state not true reflection of demand/deficit

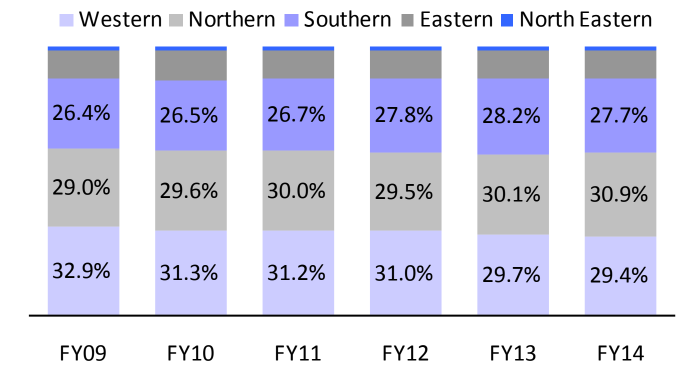
Location of projects in the western region bodes well, in our view. The western region constituted the highest load among all regions in India. However, its share has been dwindling and currently, the northern region is the highest in terms of load. In FY14, all-India demand growth was 0.4%, against decline of 0.62% in the western region. This is in contrast with the past trend, where western region load used to be the highest among all regions, led by robust demand growth. The two-year rolling demand CAGR for the western region is 0.7% against all-India CAGR of 3.4%. In the past, demand growth for the western region used to be in line with the all-India growth.

Large-scale infrastructure projects like DFCC, DMIC, port development, etc, planned in the western region would be the key drivers of demand growth. The mushrooming of industrial demand owing to this would bode well for power projects within the region.

Demand muted in last two years, leading to low deficits



Western region was highest load across regions (% of total)



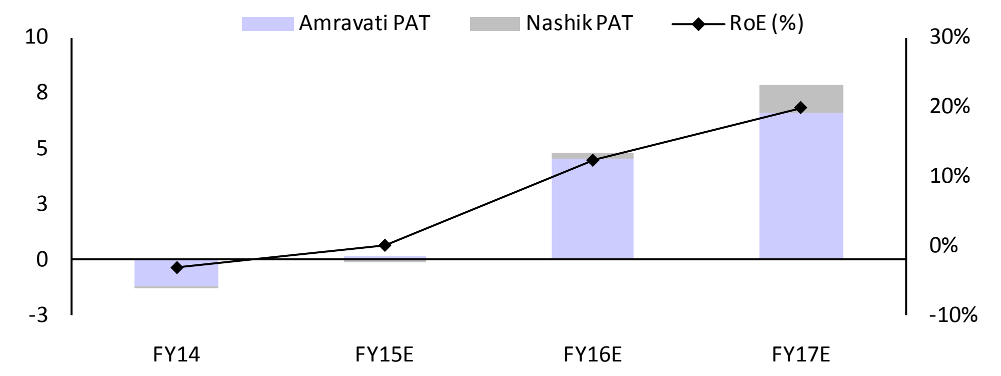
Source: CEA

Aggregate PAT close to regulated returns

Given average tariffs of sub-INR4/unit, the projects are likely to witness higher drawal/generation. Average tariff is lower despite INR1.55/unit compensatory tariff in addition to variable cost for Amravati project PPA, as it is recoverable only on the units generated from imported coal. This is as per the order finalized by MERC and our calculation works out to 15-17% in case of both projects.

For open capacity at Nashik, however, we have assumed ST realization at INR3.50/unit in FY15, escalated at 2% per annum, which is the base case, in our view. Assuming operating rate at 85%, we believe aggregate profitability from both projects would be closer to regulated returns. Higher lead distance for coal transportation for Nashik project leads to lower returns. However, the notification from Ministry of Coal that allows inter-plant transfer of linkages coal, could improve project economics.

Aggregate PAT from projects close to regulated return (INR b)



Source: MOSL

Upside possibilities exist, analyzing the triggers

Earnings highly sensitive to interest cost, realization, and PLFs

- **PAF-based incentive, high variable component in tariff, cost of debt, and higher realization for open capacity at Nashik are key factors that offer upside.**
- **We believe our estimates – PAF of 90% FY18 onwards, peak PLF of 85% through the project life beginning FY17, and average cost of debt at 13.5% for FY15/16 and 12.5% for FY17 – are base case estimates.**
- **Our earnings estimates for FY16 and FY17 are most sensitive to cost of debt (11-18%), followed by higher realization for Nashik open capacity (7-9%), and then PLF (3-4%).**
- **IBPOW is not affected by captive coal imbroglio and sourcing of domestic coal through mine acquisition is another possible avenue to boost returns.**

IBPOW's project tariff, PPA structure, funding/cost of funding could be the key catalysts driving upside. These, along with lucrative tariff for balance open capacity at Nashik could aid overall project returns.

We look at the key triggers and sensitivity, below.

#1.Higher operating rates, availability

The PPA structure for the Amravati and Nashik projects entails availability-based incentive/penalty. Availability of projects above 85% would entail 40% of capacity charge OR INR0.25/unit, whichever is lower, as incentive on units exceeding 85% availability. While there is penalty for availability of below 80%, the scenario is distant, given fuel supply assurance, established project/equipment quality. We have assumed that IBPOW would reach availability of 90% (peak) in FY18 for both Amravati and Nashik projects. Faster ramp-up and higher availability would entail higher return. For every 1% increase in PAF above 85%, our consolidated PAT estimates for FY16 and FY17 increase by 0.9% and 0.6%, respectively.

Similarly, the PLF for projects is considered to peak at 85% levels. Given compensatory tariff hike and lower average tariff, there is high possibility of sustained higher PLF. Given that tariff break-up is skewed in favor of variable component, higher operating rates would boost overall project returns. To illustrate, 1% increase in PLF improves consolidated earnings by 3.8%/2.7% for FY16E/17E. Increase of 1% in PAF and 1% in PLF would raise SOTP valuations by ~3%.

PLF sensitivity higher given that tariff is skewed towards variable components

	FY15E	FY16E	FY17E
PAT (INR m)	232	5,049	8,031
PAF up by 1%	253	5,094	8,080
Upgrade (%)	**9.1%**	**0.9%**	**0.6%**
PLF up by 1%	313	5,242	8,244
Upgrade (%)	**35.2%**	**3.8%**	**2.7%**

Source: MOSL

#2.Interest cost sensitivity high, benefit to accrue as projects are commissioned

IBPOW's projects are financed reasonably, with debt-equity of 75:25. Also, capital cost is competitive at ~INR58.5m/MW. The current terms of debt, however, entail repayment in 12 years and cost of debt ranges from 11.5% to 16%. Availability of LT debt and refinancing will help reduce cost and improve project return profile, as the entire savings in interest cost and restructuring of repayment schedule are retained by the developer.

Currently, we estimate IBPOW's average cost of debt at 13.5% for FY15/16, and 12.5% for FY17, bringing it gradually down to 10.5% by FY19, but assume repayment schedule of 12 years. Any sizable reduction in borrowing cost or rejig in repayment schedule would help improve valuations/cash flow accretion. A 100bp decline in interest rate over FY16-17 improves consolidated earnings by 11-18%.

100bp reduction in interest cost improves PAT by 11-18%

	FY15E	FY16E	FY17E
PAT (INR m)	232	5,049	8,031
Current interest rates (%)	13.5	13.5	12.5
Interest rate lower by 100bps	678	5,959	8,920
Upgrade (%)	**192.6%**	**18.0%**	**11.1%**

Source: MOSL

#3.Better tariff for Nashik project

Currently, the Nashik project has 1.1GW of gross capacity tied up under LT PPA, while the balance ~300MW is open. We have considered merchant realization of INR3.50/unit in FY15, growing it at 2% escalation. Tapping industrial consumers through open access, lucrative tariff under fresh bids could provide higher return possibility. We note that INR0.25/unit increase in merchant realization increases our FY16E/17E consolidated earnings by 7-9% and valuations by ~9%.

INR0.25/unit higher realization at Nashik to drive 7-9% upgrade

	FY15E	FY16E	FY17E
PAT (INR m)	232	5,049	8,031
Current ST realization (INR/unit)	3.50	3.57	3.64
Realization higher by INR0.25/unit	468	5,479	8,585
Upgrade (%)	**101.8%**	**8.5%**	**6.9%**

Source: MOSL

Ownership restructuring, renewed management focus key positive

Unified focus to accelerate growth

- **Group restructuring, inter-se promoter transfer to help bring unified focus to Indiabulls Power.**
- **Indiabulls Power set to get new identity, distant from "Indiabulls" brand.**
- **Renewed focus to help accelerate growth of business. Promoter infusion at premium is positive.**

The Indiabulls group has announced restructuring of its operations. Mr Rajiv Rattan, co-founder of the group has taken over charge of IBPOW. There has also been consolidation of holding and Mr Rattan has taken over the stake from outgoing promoter. We believe the restructuring will bring unified focus on IBPOW. The restructuring also entails a new identity for the Power vertical, distinct from the "Indiabulls" brand. This would not only ensure higher resource and management bandwidth, but also enhance focus on acceleration of growth.

Currently, Mr Rajiv Rattan and related entities hold ~45% stake in IBPOW, though through a holding company, Indiabulls Infrastructure and Power Limited (IBIPL). For IBIPL too, the inter-se promoter transfer results in consolidation of holding in favor Mr Rattan and related entities. At the time of creation of IBIPL, post de-merger of the Power vertical from Indiabulls Real Estate (IBREL), there was a proposal to merge IBIPL with IBPOW. We await any development on this front.

IBIPL: Change in holding post restructuring (%)

	IBIPL	
Particulars	**Jun-14**	**Current**
Kritikka Infrastructure	9.37	0.0
Jyestha Infrastructure	6.79	0.0
Yantra Energetics	6.46	6.46
Gragerious Projects	4.70	0.0
Laurel Energetics	2.39	30.49
Punarvasu Builders & Developers	2.26	0.0
Powerscreen Media	2.09	0.0
Daisy Projects	1.52	0.0
Dahlia Infrastructure	0.95	0.0
Sameer Gehlaut	0.28	0.0
Saurabh Kumar Mittal	0.14	0.0
Rajiv Rattan	0.14	0.14
Total	**37.09**	**37.09**

IBPOW: Shareholding remains unchanged (%)

	IBPOW	
Particulars	**Jun-14**	**Current**
Indiabulls Infra. & Power	44.8	44.8
Indiabulls Real Estate	8.3	8.3
IPL PPSL Scheme Trust	7.7	7.7
Total	**60.8**	**60.8**

Source: BSE, Bloomberg

It is pertinent to note that IBPOW has been capitalized well through infusion of funds from promoters and strategic investors. Strategic investors like FIM and LNM had put in INR15.8b at INR33/share (pre-IPO, total 474m shares). Later, IBPOW raised INR16.2b through an initial public offering (IPO) in which it issued 390m shares at INR45/share. Mr. Rajiv Rattan, founding Chairman reaffirming his faith in the power sector and strong commitment in Indiabulls Power Ltd. is further investing INR3.6b through a preferential allotment of shares in the company at

INR11.6/share, ~30% premium to prices prevailing on 5th September 2014. Apart from this equity infusion, Mr. Rajiv Rattan who had incubated and scaled up the power business within the Indiabulls Group has also bought out complete shareholding of Mr. Sameer Gehlaut and Mr. Saurabh Mittal in the holding company Indiabulls Infrastructure and Power Ltd. in separate transactions amounting to INR1.96b. Post this and preferential issue, total investment by Mr. Rajiv since restructuring would be to the tune of INR5.6b. After reorganization within the promoters of Indiabulls Group, Rajiv Rattan and Saurabh Mittal continue to hold 15% stake in Indiabulls Housing Finance Ltd., 18% stake in Indiabulls Securities Ltd. and a substantial stake in Indiabulls Real Estate Ltd. valued at around ~INR30b.

Project commissioning to drive earnings growth, cash flows

DSCR, DER comfortable, limited capex in near term

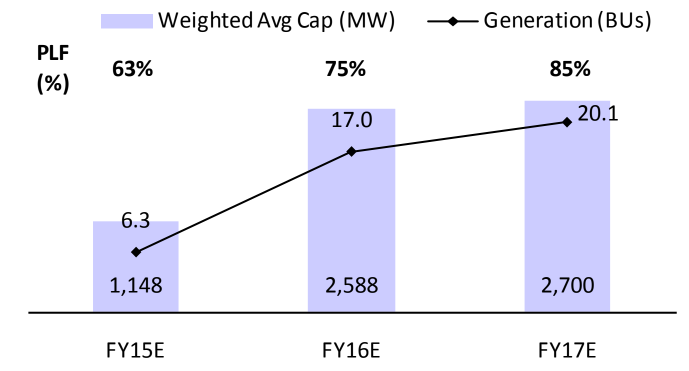
- **FY17E is first full year of earnings as 2.7GW capacity is commissioned by CY15E. Lower average tariff and PPA would drive strong revenue growth.**
- **EBIDTA and PAT margin are reasonable despite competitive tariff. Core RoE on project is ~ 20%, which is healthy, more so given no major risk of equipment, forex, fuel, etc.**
- **This would drive strong cashflow, and given that sizable capex on expansion is sometime away, FCF accretion too is robust. DSCR and DER is extremely comfortable.**

Robust earnings growth, led by project commissioning; FY17 to be first full year of operations

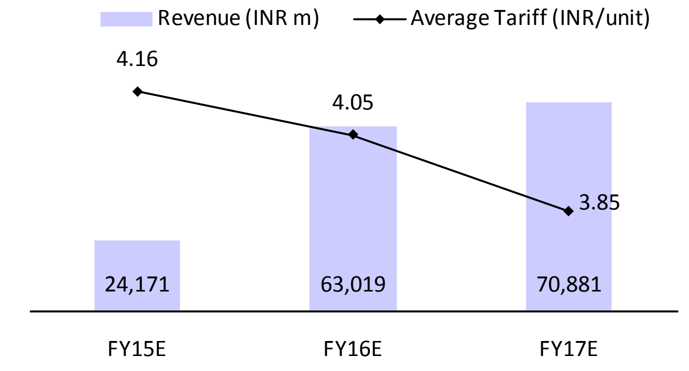
IBPOW's operating capacity would move up from the current 810MW to 1.9GW by the end of FY15 and 2.7GW by the end of FY16. Given the ramp-up in capacity, earnings would be proportionate to the period of operations and FY17 would be the first full year of operations. We expect IBPOW to get benefit of 1.1GW in FY15, 2.5GW in FY16, and 2.7GW in FY17. The annual report for FY14 highlights commissioning of the entire Amravati project by FY15 and both the projects commissioning by FY16.

We assume moderate ramp-up of operating rates for the project and achievement of peak PLF of 85% by FY17. On the tariff front, we take the approved tariff for the Amravati project. For the Nashik project, we have assumed the revised tariff proposed by IBPOW. In addition, we have factored in a compensatory tariff of INR1.20/unit for usage of imported coal. We expect IBPOW's revenue to grow from INR3.4b in FY14 to INR71b in FY17. Also, our estimates till FY17 do not assume any benefit of incentives on account of availability.

Assume gradual ramp-up in PLFs



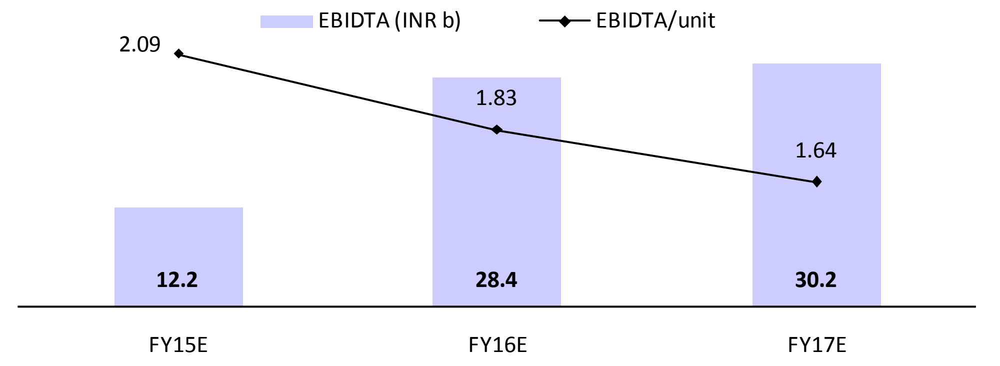
High capacity charge leading to higher tariff, upfront



Source: MOSL, Company

For the Amravati project, the average fuel cost works out to ~INR1.70/unit, after factoring in linkages (FSA signed) of 5.49m tons from SECL and materialization levels of 67% for FY16 and 75% for FY17. Balance coal is imported. For the Nashik project, we have not assumed any further linkage coal, other than the agreed 5.226m tons according to the Letter of Assurance (LoA) received from MCL/SECL. We expect IBPOW to grow EBITDA from INR427m in FY14 to INR30b in FY17. Assuming no compensatory tariff for the Nashik project, FY17E EBITDA would be ~INR28b.

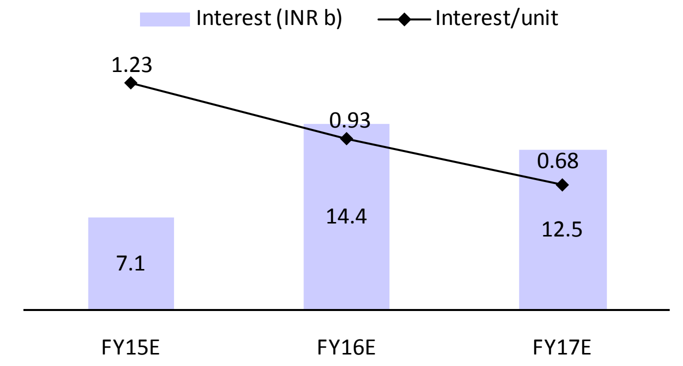
Blended EBITDA margin decent, despite competitive tariff



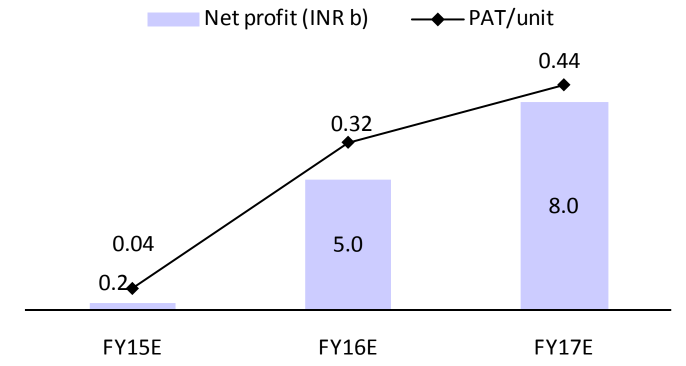
Source: MOSL, Company

We have assumed benefit of 100bp in financing cost for IBPOW till FY17 (12.5% rate of interest) and assume further moderation of ~200bp over the next two years. We assume depreciation on pro-rata basis, based on asset commissioning. IBPOW should report net profit of INR0.2b in FY15 (v/s loss of INR1b in FY14), going up to INR5.0b in FY16 and INR8.0b in FY17.

Interest cost reduction could be a key benefit



Net margin mirrors regulated returns

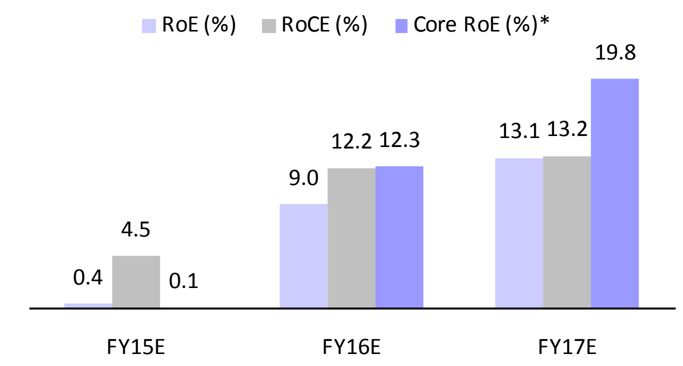


Source: MOSL, Company

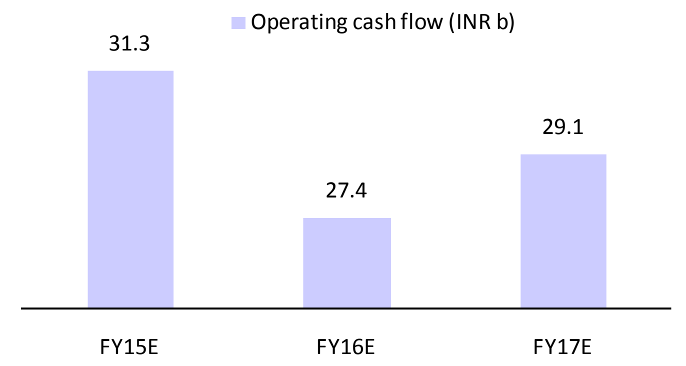
Return ratio, operating cash flows to look up sizably

Robust earnings growth for IBPOW would reflect in improved return ratios. RoE and RoCE are likely to move up from -2% and 0.3%, respectively in FY14 to 13% each in FY17, being the first full year of operations. However, the core RoE on power projects would be close to 20% in FY17. Operating cash flows would reach INR27b in FY16, and further to INR29b in FY17.

"Reported" return ratio reasonable, core RoE higher



Cash flow accretion robust on full CoD



*On project equity

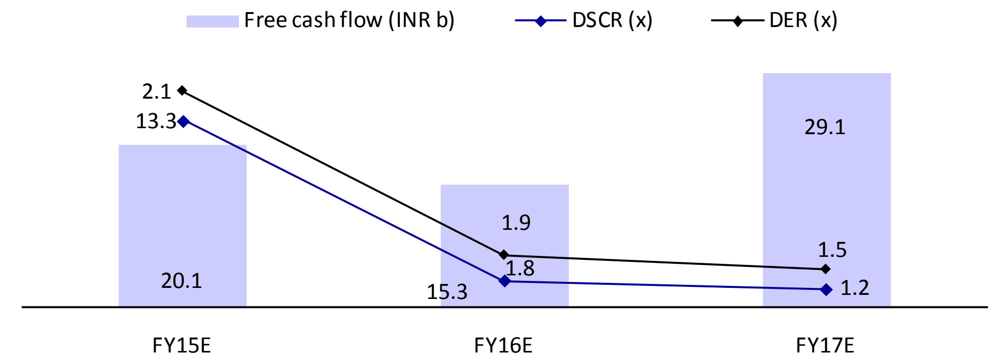
Source: MOSL, Company

Capex contingent on expansion projects; DSCR, DER healthy

IBPOW is working on 2.7GW of brownfield projects at Amravati and Nashik, and has also invested towards 1.32GW power project in Punjab. Capex towards the project would be linked to improved clarity on PPA/FSA availability. Given this, we have currently not assumed any major capex on the project. This leads to higher FCFF in the near term for IBPOW.

Also, based on repayment obligation for phase I at Amravati and Nashik, the DSCR for the consolidated entity is healthy at 1.8x in FY16E and 1.2x in FY17E. This along with reported DER of 2x as at FY14 and expected DER of 1.5x as at FY17 puts IBPOW in a comfortable position. Fund raising, if any, in the near term would be to expedite project commissioning, triggered by higher visibility on the project's PPA/FSA.

Strong FCFF; leverage, debt servicing ratios comfortable



Source: MOSL

Valuations compelling

Buy with a target price of INR21

- The IBPOW stock corrected from its all-time high of INR45 in FY09 to a low of INR6 in FY13. Delays in project commissioning, cost escalation, sectoral issues, and overhangs on linkages/PPA/demand led to this correction.
- Better visibility on commissioning of assets and secured project portfolio (from both PPA/FSA view) are positives. Also, renewed focus led by group restructuring, sizable earnings/cash flow accretion would provide further momentum. Most importantly, the de-rating has been too severe and IBPOW appears attractive on all valuation parameters. The stock now quotes at 6.4x FY16E EPS, 0.6x FY16E BV (RoE of 9%), and EV of 5.1x FY16E EBITDA. Rolling over to FY17E, the first full year of operations, valuations appear even more compelling at a P/E of 4x, P/B of 0.5x (RoE of 13%), and EV/EBITDA of 4.4x.
- We value IBPOW on sum of the parts valuation methodology. Our combined valuation of Amravati and Nashik phase I is equal to the total equity invested in these projects. We believe there are upside possibilities to our estimates. We further add cash on hand (FY14) and equity investment in phase II projects at book value. We arrive at a target price of INR21; Buy.

SOTP valuation

	Value (INR m)	Value (INR/sh)	% to NPV	Rationale		Current Stake (%)
Operational project						
- Amravati Project	20,443	8	37%	DCF, CoE of	11.3%	100%
- Nashik Power Project	13,897	5	25%	DCF, CoE of	11.3%	100%
- Phase I Transmission Project	1,338	1	2%	DCF, CoE of	11.3%	100%
Project under development						
- Amravati & Nashik Phase II	15,180	6	27%	1x book value		
- Mansa project	5,000	2	9%	1x book value		
Total	**55,679**	**21**	**100%**			

Source: MOSL

Utilities: Comparative valuation

Company	Recom	EPS (INR/sh)			RoE (%)			P/BV (x)			P/E (x)			EV/EBITDA (x)		
		FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E
CPSUs																
NTPC	Buy	10.6	12.4	14.7	9.9	11.0	12.2	1.2	1.1	1.1	12.7	10.8	9.1	9.6	8.6	7.4
PGCIL	Buy	9.8	11.7	13.8	14.2	15.4	16.4	1.9	1.7	1.5	13.8	11.6	9.8	11.1	10.0	9.1
Coal India *	Neutral	27.6	30.5	34.5	25.1	24.4	24.1	4.4	3.8	3.3	12.3	11.2	9.9	8.3	7.0	5.7
NHPC	Neutral	2.3	2.8	2.9	8.7	8.9	8.7	0.7	0.7	0.7	8.7	7.1	6.9	6.9	6.2	5.8
Private Sector																
CESC	Buy	56.0	61.2	66.2	11.0	10.9	10.7	1.5	1.3	1.2	14.1	12.9	11.9	8.9	8.1	7.2
Tata Power	Neutral	4.2	4.3	4.7	8.1	7.4	7.7	1.5	1.4	1.4	16.7	13.3	10.9	12.0	10.4	9.6
JSW Energy	Neutral	6.6	6.0	5.6	15.5	12.7	10.9	1.6	1.5	1.4	11.3	12.4	13.3	6.4	6.5	6.5
Reliance Infra	Buy	53.6	61.8	63.2	6.4	7.0	6.8	0.8	0.7	0.7	12.2	10.6	10.4	5.2	4.2	3.9
JPVL	Buy	1.3	2.9	4.1	6.5	13.6	16.9	0.7	0.6	0.5	10.4	4.9	3.4	9.0	5.3	4.7
PTC	Buy	9.5	13.3	15.0	7.0	10.4	10.9	1.0	1.0	0.9	9.5	6.8	6.0	9.5	4.9	3.7
Indiabulls Power	**Buy**	**0.1**	**1.9**	**3.0**	**0.4**	**9.0**	**13.1**	**0.6**	**0.6**	**0.5**	**-**	**6.4**	**4.0**	**12.0**	**5.1**	**4.4**

*ROE Adjusted for OB reserves provisions; Source: Company, MOSL

Key risks

Tariff component finalization key monitorable

IBPOW's Nashik power project PPA is currently under negotiation for want of agreement on capacity and variable components with MSEDCL. We assume that the tariff proposed by IBPOW would be accepted, as it entails marginal difference to MSEDCL. We also assume compensatory tariff towards cost of imported coal for gap in commitment under FSA by Coal India. Similar arrangement has been approved by MERC for the Amravati project; the finalization of compensatory tariff is the key monitorable.

Lower materialization of coal, availability

IBPOW has FSA for its Amravati project, while LoAs are given for the Nashik project. We have assumed materialization levels as per FSA terms (65% in FY15, 67% in FY16, and 75% in FY17) for both projects, assuming that the Nashik project will have FSA, once PPA is signed. Lower materialization levels and delays in signing of PPA (consequently, FSA) can have a bearing on earnings and valuations.

Financials and valuations

Income Statement						(INR Million)
Y/E March	2012	2013	2014	2015E	2016E	2017E
Net Sales	**0**	**0**	**3,388**	**25,034**	**63,816**	**71,641**
Operating Expenses	382	1,668	2,961	12,870	35,424	41,487
EBITDA	**-382**	**-1,668**	**427**	**12,165**	**28,392**	**30,155**
% of Net Sales			12.6	48.6	44.5	42.1
Depreciation	12	13	665	4,857	8,217	8,569
Interest	47	60	1,315	7,140	14,429	12,464
Other Income	1,678	676	588	132	337	554
PBT	**1,238**	**-1,065**	**-965**	**299**	**6,082**	**9,675**
Tax	362	-175	45	68	1,034	1,644
Rate (%)	29.3	16.4	-4.7	22.6	17.0	17.0
PAT before Min. Int.	**876**	**-890**	**-1,010**	**232**	**5,049**	**8,031**
Minority Interest	6	2	0	0	0	0
Reported PAT	**870**	**-892**	**-1,010**	**232**	**5,049**	**8,031**
Change (%)	1,636.6	-202.6	13.2	LP	2,078.7	59.1
Adjusted PAT	**870**	**-893**	**-1,013**	**232**	**5,049**	**8,031**
Change (%)	1,636.6	-202.6	13.4	LP	2,078.7	59.1

Balance Sheet						(INR Million)
Y/E March	2012	2013	2014	2015E	2016E	2017E
Share Capital	22,273	26,427	26,427	26,427	26,427	26,427
Reserves	21,814	27,657	27,296	27,488	31,685	38,361
Net Worth	**44,087**	**54,084**	**53,723**	**53,916**	**58,112**	**64,788**
Minority Interest	13	16	19	19	19	19
Loans	19,920	57,085	106,791	113,014	112,069	99,896
Deferred tax liability	9	0	1	0	0	0
Capital Employed	**64,030**	**111,186**	**160,534**	**166,948**	**170,200**	**164,703**
Gross Fixed Assets	**2,127**	**2,212**	**47,583**	**114,694**	**162,300**	**162,300**
Less: Depreciation	79	128	832	6,687	14,904	23,474
Net Fixed Assets	**2,047**	**2,084**	**46,751**	**108,007**	**147,396**	**138,826**
Capital Work in Progress	60,285	90,949	67,976	35,522	0	0
Exp during construction	10,063	20,415	23,224	0	0	0
Investments	**2,438**	**203**	**203**	**0**	**0**	**0**
Goodwill on Consolidation	3	3	3	0	0	0
Deffered Tax Assets	45	107	79	0	0	0
Inventory	0	153	224	323	865	1,016
Debtors	0	0	1,056	1,029	2,623	2,944
Other Current Assets	292	664	1,648	0	0	0
Loans and Advances	31,364	34,057	30,148	0	0	0
Cash	4,178	4,725	2,949	23,126	22,228	25,327
Current Assets	**35,834**	**39,599**	**36,024**	**24,478**	**25,716**	**29,287**
Curr. Liabilities	46,159	41,755	13,318	1,058	2,912	3,410
Provisions	526	419	409	0	0	0
Current Assets	**46,685**	**42,174**	**13,726**	**1,058**	**2,912**	**3,410**
Net Curr. Assets	**-10,851**	**-2,575**	**22,298**	**23,420**	**22,804**	**25,877**
Application of Funds	**64,030**	**111,186**	**160,534**	**166,948**	**170,200**	**164,703**

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	2012	2013	2014	2015E	2016E	2017E
Basic (INR)						
Adjusted EPS	**0.4**	**-0.3**	**-0.4**	**0.1**	**1.9**	**3.0**
Growth (%)				*LP*	*2,078.7*	*59.1*
Cash EPS	0.4	-0.3	-0.1	1.9	5.0	6.3
Book Value	19.8	20.5	20.3	20.4	22.0	24.5
DPS	0.0	0.0	0.0	0.0	0.3	0.5
Payout (incl. Div. Tax.)	0.0	0.0	0.0	15.0	15.0	15.0
Valuation (x)						
P/E			-32.1	140.0	6.4	4.0
Cash P/E			-93.4	6.4	2.4	2.0
EV/EBITDA			322.4	12.0	5.1	4.4
EV/Sales			40.6	5.8	2.3	1.8
Price/Book Value			0.6	0.6	0.6	0.5
Dividend Yield (%)			0.0	0.1	2.3	3.7
Profitability Ratios (%)						
RoE	2.0	-1.8	-1.9	0.4	9.0	13.1
RoCE	2.2	-1.1	0.3	4.5	12.2	13.2
Leverage Ratio						
Debt/Equity (x)	0.5	1.1	2.0	2.1	1.9	1.5

Cash flow statement **(INR Million)**

Y/E March	2012	2013	2014	2015E	2016E	2017E
PBT before Extraordinary Items	**1,238**	**-1,065**	**-965**	**299**	**6,082**	**9,675**
Add : Depreciation	12	13	665	4,857	8,217	8,569
Interest	47	60	1,315	7,140	14,429	12,464
Less : Direct Taxes Paid	-362	175	-45	-68	-1,034	-1,644
(Inc)/Dec in WC	30,722	-7,729	-26,649	19,055	-282	26
CF from Operations	**31,657**	**-8,546**	**-25,679**	**31,284**	**27,413**	**29,091**
(Inc)/Dec in FA	-51,495	-41,102	-25,207	-11,432	-12,085	0
(Pur)/Sale of Investments	10,801	2,172	28	285	0	0
CF from Investments	**-40,693**	**-38,930**	**-25,178**	**-11,148**	**-12,085**	**0**
(Inc)/Dec in Networth	-994	-10,890	-651	0	0	0
(Inc)/Dec in Debt	-9,569	-37,166	-49,706	-6,223	945	12,173
(Inc)/Dec in Differed Tax Liability	-39	-28	-39	-125	0	0
Less : Interest Paid	47	60	1,315	7,140	14,429	12,464
Dividend Paid	0	0	0	39	852	1,355
CF from Fin. Activity	**10,556**	**48,023**	**49,081**	**-831**	**-16,226**	**-25,992**
Inc/Dec of Cash	**1,519**	**548**	**-1,777**	**19,305**	**-898**	**3,099**
Add: Beginning Balance	2,658	4,178	4,725	2,949	23,126	22,228
Closing Balance	**4,177**	**4,726**	**2,949**	**22,254**	**22,228**	**25,327**

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In respect of any matter arising from or in connection with the research you could contact the following representatives of Motilal Oswal Capital Markets Singapore Pte Limited:

Anosh Koppikar
Email:anosh.Koppikar@motilaloswal.com
Contact(+65)68189232
Office Address:21 (Suite 31),16 Collyer Quay,Singapore 04931

Kadambari Balachandran
Email : kadambari.balachandran@motilaloswal.com
Contact: (+65) 68189233 / 65249115

MOTILAL OSWAL

Motilal Oswal Securities Ltd

Motilal Oswal Tower, Level 9, Sayani Road, Prabhadevi, Mumbai 400 025
Phone: +91 22 3982 5500 E-mail: reports@motilaloswal.com