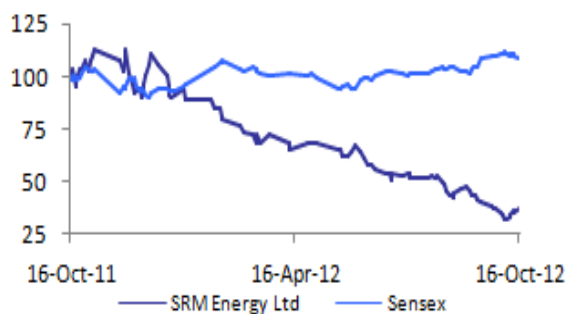


October 18, 2012

**\*CMP** **Rs. 19.1**

BSE Code	SRMENERGY
BSE ID	523222
High/Low 1Y (Rs.)	28.25/7.96
Average Volume (3M)	461
Market Cap (Rs. Cr.)	8

Shareholding %	Jun-12	Mar-12
Promoters	71.19	71.19
DII <sup>#</sup>	3.37	3.37
FII <sup>#</sup>	-	0.2
Public & Others	25.43	25.23

**Stock Chart ( Relative to Sensex)**


Stock Perf. (%)	1M	6M	1Yr
SRM Energy Ltd	-5.2	-46.5	-63.6
Sensex	-0.5	8.4	9.1

Financials	FY10	FY11	FY12
Revenue	-	-	-
Y-o-Y	-100.0%	-	-
EBITDA	-0.0	-0.4	-0.3
Y-o-Y	-81.8%	956.7%	-18.3%
Net Profit	0.0	-0.4	-0.4
Y-o-Y	-86.8%	1019.0%	-13.9%
EPS (Dil.)	-0.04	-0.45	-0.39
EBITDA Margin	-	-	-
Net Profit Margin	-	-	-
P/E(x)	-227.5x	-20.2x	-23.3x

Financial year ends at March 31 on consolidated basis for FY11 &amp; FY12 and on stand-alone basis for FY10.

All figures in Rs. crore except for per share data

<sup>#</sup>FIIs- Foreign Institutional Investors

<sup>#</sup>DII<sup>s</sup>- Domestic Institutional Investors

\*CMP as on 16 Oct 2012

## SRM Energy Limited.

### Company Overview

Incorporated in 1985 as Hitkari Fibres Limited (HFL), the company was initially involved in the manufacturing of non-woven fabrics such as blankets, carpets, upholstery, floor coverings, and automotive carpets with its manufacturing plant located at Birwadi, Maharashtra. Later, the company shifted its focus into the business of power and energy generation and hived off its fibre division to Hitkari Hitech Fibres Private Limited. To facilitate immediate entry into the power business, HFL took over the power project of SRM Energy Private Limited (Special Purpose vehicle of Spice Energy Group). In December 2008, HFL merged with SRM Energy Private Limited and was renamed as SRM Energy Limited (SRMEL) with effect from January 19, 2009.

### Company Fundamentals

#### Power project in nascent stage of operations

The company is in the process of setting up a super critical thermal power project of 1980 MW capacity in Tamil Nadu. As the power project is still in the implementation stage, the company has not earned any income for the past three years. During the year under review, the SRMEL has posted loss of Rs. 0.4 crore as there are no other operations at present and the related expenses incurred during the current period are considered as pre-operative expenses pending allocation to the power project.

The total project cost for setting up of the power plant is estimated at \$1.97 billion, funded by debt to equity ratio of 70:30. The power plant is expected to be completed in 51 months from the commencement of construction with the first unit likely to be commissioned in 39 months.

#### Hive off plan

In order to proceed at a faster pace with the implementation of the project, the company plans to hive off the Cuddalore power project to its wholly-owned subsidiary, SRM Energy Tamil Nadu Pvt. Ltd.

#### Projects in pipeline

In addition to this power project plant at Cuddalore, Tamil Nadu, the company has planned 1800-2000 MW pit head coal-based plant in eastern India. However, the project cost and the project location are still under evaluation.

#### Key Strengths

- Immense growth potential foreseen in power and energy sector segment, driven by high demand in electricity
- Proximity to the coal/lignite mining area of Tamil Nadu coupled with favorable logistics.

## Company Business

SRM Energy Limited, formerly known as Hitkari Fibres Limited was primarily engaged in the manufacturing of non-woven fabrics, mostly automotive moulded car carpets and blankets with reputed clientele base such as Maruti Udyog Limited, General Motors, Tata Motors Ltd, Fiat, Hyundai Motor India Ltd, Mahindra & Mahindra, Hindustan Motors, Toyota Motor Company and other automotive manufacturers. However, over the years, HFL's business volumes fluctuated due to liquidity crunch and fall in margins, thus resulting in financial losses. Hence, the company decided to foray into the business of power and energy generation and hived off its fibre division to Hitkari Hitech Fibres Private Limited. SRM Energy Private Limited was promoted as an SPV by the Spice Energy Group to develop and implement power projects. In December 2008, HFL merged with SRM Energy Private Limited and its name was changed to SRM Energy Limited with effect from January 2009.

SRMEL is involved in the business of power and energy generation and is in the process of implementing 3x660 MW (1980 MW) super critical thermal power plant based mainly on imported coal in Tamil Nadu. Along with this, the company has also ventured into trading of coal business. The project plant is located in coastal Tamil Nadu at Cuddalore, with favorable logistics (port, road and rail access), grid connectivity, cheap land and water availability. The company has identified the required land for the project and acquisition of the same is under progress. The coal will be transported by overhead conveyors and the sea water by pipe lines. The off-take prospects of SRMEL project owing to the current supply-demand gap in power sector is likely to support the growth of the company.

*Engineering Procurement Construction (EPC) contract:* EPC contract bidding process for the project has been completed and the same was awarded to China Datang Technologies & Engineering Co. Ltd. (CDTE). CDTE is a specialized engineering corporation and EPC contractor in China and a subsidiary of China Datang Corporation (CDC), the largest power utility in China. The EPC contract is for supply of three thermal power units of 660 MW each based on super-critical technology on Turnkey EPC basis at a value of \$1.40 billion. Also, CDTE will be entering into an operation and maintenance contract with assured supply of spares for a minimum term of three years for SRM's project.

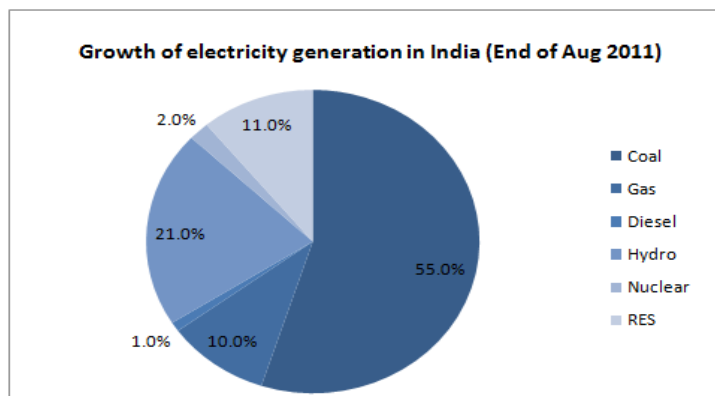
*Fuel supply for the project:* For usage in the power plant, imported and domestic coal will be blended in the ratio of 70:30. The company has signed MoU for 5 MTPA of imported coal from Indonesia and 7 MTPA from mines of Malawi, Africa. The domestic coal linkage of 3.2 MTPA for the power project is likely to be sourced from Mahanadi Coal Ltd. and the coal will be transported through barges from Orissa to Tamil Nadu coast.

*Port services:* The company has signed MoU with upcoming Cuddalore port being developed by Cuddalore Port Company Pvt. Ltd and also with Karaikal port for delivery of imported coal to the project site.

## Industry Overview

The Indian power sector is one of the most diversified in the world. Sources for power generation range from commercial sources like coal, lignite, natural gas, oil, hydro and nuclear power to other viable non-conventional sources like wind, solar and agriculture and domestic waste. The demand for electricity in the country has been growing at a rapid rate and is expected to grow further in the years to come. In order to meet the increasing requirement of electricity, massive addition to the installed capacity in the country is required.

Indian power sector has made substantial progress both in terms of enhancing power generation and distributing the available power to widespread Indian geographical boundaries. The installed generation capacity in the utility sector has increased to about 1, 81,500 MW by the end of August 2011. The Indian power sector is largely coal based with the total installed capacity comprising 99,503 MW coal based, 17,706 MW gas based, 1200 MW diesel generation, 38,206 MW hydro, 4,780 MW nuclear and 20,162 MW from renewable energy sources\*.



The performance of thermal power plants in the country has steadfastly improved and the plant load factor of coal-based stations has increased from 52.4% during 1985-86 to 77.68% in 2009-2010 and 75.06% during 2010-11\*. Availability of coal for the coal-based thermal power stations is a matter of serious concern owing to overall inadequate domestic coal availability. It is estimated that around 1095 billion units of coal are required for coal based thermal plants during the year 2016-17\*. In order to overcome this acute shortage of coal, imported coal based thermal power stations, particularly at costal locations, are being encouraged based on economic viability. In order to bridge the gap between demand and coal availability, power utilities are expected to import around 159 MT to meet shortage in coal supply from Coal India Limited (CIL). This quantity of imported coal would be in addition to 54 MT coal likely to be imported by thermal power stations designed on imported coal. Therefore, the total quantity of coal expected to be imported is about 213 MT during the XII<sup>th</sup> year plan (2012-2017). However, huge quantity of imported coal for blending may not be feasible as with the available capacity of boilers in India, it is estimated that maximum of 15% of blending of imported coal is possible. Given the demand supply gap of coal, the substitute - lignite resources located at Tamil Nadu, Gujarat and Rajasthan can be utilised for thermal power generation as it is available in abundant.

\*Source: Report by Planning Commission of India XII<sup>th</sup> year plan (2012-2017)

## Competitor Analysis

We have compared SRM Energy Ltd. with its close peers in the electric utilities industry.

Company	Year End	CMP*	M Cap	Revenue	EBIT Margin	EPS	P/E
SRM Energy Ltd	Mar-12	9.1	8	-	-	-0.39	-
Sun Source (India) Ltd	Mar-12	3.6	5	0.0	3.0%	0.00	-
Karma Energy Ltd	Mar-12	11.8	13	23.5	84.1%	2.03	5.8x

Source: Company Financials, BSE and Capitaline, ICRA Online Research Market cap and Revenue in Rs. Crore, \*CMP as on 16 Oct 2012

## Summary Financials

Particulars (Rs crore)	FY10	FY11	FY12
<b>Net Sales</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Other Op. Revenue			
<b>Total Revenue</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<i>Growth (%)</i>	<i>-100.0%</i>	<i>-</i>	<i>-</i>
Cost of Goods Sold	0.0	0.0	0.0
<b>Gross Profit</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Employee Costs	0.0	0.0	0.0
Other Expenditure	0.0	-0.4	-0.3
<b>EBITDA</b>	<b>0.0</b>	<b>-0.4</b>	<b>-0.3</b>
<i>Growth (%)</i>	<i>-81.8%</i>	<i>NA</i>	<i>-18.3%</i>
Depreciation			
<b>EBIT Profit</b>	<b>0.0</b>	<b>-0.4</b>	<b>-0.3</b>
Finance cost	0.0	0.0	0.0
Other Income	0.0	0.0	0.0
Exceptional Items	0.0	0.0	0.0
<b>PBT</b>	<b>0.0</b>	<b>-0.4</b>	<b>-0.4</b>
<i>Growth (%)</i>	<i>-85.0%</i>	<i>NA</i>	<i>-13.9%</i>
Income Tax	0.0	0.0	0.0
<b>Profit after Tax</b>	<b>0.0</b>	<b>-0.4</b>	<b>-0.4</b>
Extra Ordinary Items	0.0	0.0	0.0
<b>Net Profit</b>	<b>0.0</b>	<b>-0.4</b>	<b>-0.4</b>
<i>Growth (%)</i>	<i>-86.8%</i>	<i>NA</i>	<i>-13.9%</i>
Rep. Basic EPS	-0.04	-0.45	-0.39
Rep. Diluted EPS	-0.04	-0.45	-0.39
Equity Capital	9.1	9.1	9.1
Face value	10	10	10

Ratio Analysis	FY10	FY11	FY12
<b>Margins</b>			
EBITDA Margin (%)	-	-	-
Net Profit Margin (%)	-	-	-
<b>Valuation</b>			
P/E (x)	-	-	-
P/BV (x)	0.9	4.4	5.4
<b>Profitability</b>			
ROCE (%) *	-	-20.8%	-21.0%
RONW (%)	-0.4%	-21.9%	-23.2%
<b>Solvency Ratio</b>			
Debt/ Equity Ratio (x)	4.3	0.5	0.2
Interest Cover (x)	-	-	-

\*Bifurcation between Long Term and Short Term debt is not available for FY10

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