

October 6th, 2010

GREENKO

Premium wind IRRs on a de-risked approach

Positive outlook on Indian wind power sector....wind energy has huge potential

We believe that wind energy has a huge potential in India. Not surprisingly, India ranks fourth worldwide in All Renewables index, third in the near-term Wind Energy index (a forward-looking two-year view), according to Ernst & Young's (E&Y) Country Attractiveness Indices. We also note that India, which is the fifth largest wind energy producer in the world, has 48.6 GW wind potential, of which only is 11.8 GW is exploited till March 2010. Also, favourable regulations (attractive tariff structure, on top of Generation Based Incentives, CERs, tax holiday) for wind power generation would continue to benefit wind energy power producers.

Based on our assumptions (excluding CERs and GBI), we obtain an equity IRR of 15.9% and a project IRR of 13.0% for a reference 10.0 MW wind energy project in Maharashtra. If we included CER (@ €13/CER for 7 years and GBI revenue) streams, equity IRR could increase to 23.6%.

Greenko's wind approach adds icing on the cake : equity IRR >34%

We believe there are three different elements which differentiates Greenko's wind approach from the average wind project development in India: i) >2yrs wind data on P90 probability, ii) optimised financial leverage resulting in lower cost of debt, higher leverage and iii) optimised turbine design, for the low wind speeds and density sites (classified as Class III sites) which should result in higher PLF of ~27% vs 21%. Greenko has partnered with GE to use the re-designed XLe 1.6MW. Thanks to these trumps, Greenko should be able to realise equity IRR of 34%, in line with the high equity IRR for its Hydro assets. With a faster deployment of the capital, we welcome Greenko's wind initiative. Greenko has started construction on a 65MW project in Maharashtra and aims for a short-term 200MW, for which it already has closed a PPA at Rs 5.07/kWh with Reliance Infrastructure.

Finetuning of valuation and financials

We have included the wind projects into our SoTP valuation. Hence we obtain a fair equity value of €475m, which implies a fair value /share (on 148m fully diluted shares) of £2.78 (up from previously 2.64). We are banking on FY'12 (march) of €48m EBITDA, of which already €10.8m for wind.

€ (end March)	2009A	2010A	2011E	2012E	2013E
Sales	13.9	19.3	77.5	105.6	151.2
EBITDA	4.9	7.9	28.6	48.0	95.7
Net profit	2.7	4.3	11.5	17.4	38.3
Net debt	39.4	-11.7	88.6	239.9	415.1
EV/Sales	7.6	11.1	4.8	4.9	4.6
EV/EBITDA	21.7	27.3	12.9	10.9	7.3
P/E	24.7	52.2	24.5	16.1	7.4
Net debt/EBITDA	8.1	-3.9	3.1	5.0	4.3

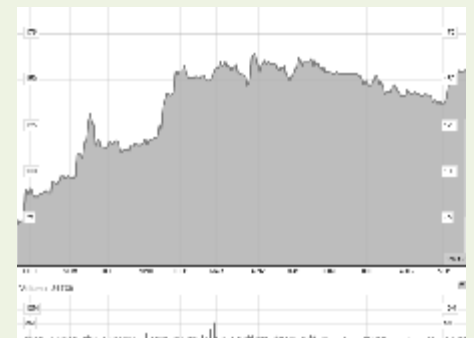
Investment recommendation

Fair value	(+) £2.78
Last price	£1.65
Opinion	Positive

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Bloomberg	GKO LN
Market cap	£ 179m
52-week high	£1.65
52-week low	£10.64
Free float	46.6%

1-year performance



About GREENKO

Greenko has emerged as a leading pure play RES-e IPP (Independent Power Producer) in India. The group currently operates 182MW (biomass, hydro and Liquid Fuel) in India.

The company targets an installed capacity of 1GW by 2015.

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