

Reliance Energy Limited

Sector: Power Generation and Supply	CMP: Rs. 753.35	Book Value: Rs. 378.10	Avg. Daily Vol. BSE (6m): 1690353
BSE Code: 500390	Trailing EPS: Rs. 37.04	M Cap: Rs17216.31mn	Face Value: Rs. 10
NSE Code: REL	Trailing P/E: 19.85x	Free Float: 63.28%	52Wk H/L: Rs. 817 / 436.10.

Technical Outlook

The short-term trend is range bound. There is no conclusive evidence for the medium trend. Any violation below Rs 707 will take the stock to Rs 648 levels.

Background

- Incorporated in the year 1929 as ‘Bombay Suburban Electric Supply Limited’, later changed to ‘**Reliance Energy Ltd**’ (REL) is managed by Anil Ambani. Group. The core business of the company includes distribution of electricity and also diversified into EPC division and coal washery segment.
- The company was initially only in the business of distribution of electricity to a limited suburban area within city of Mumbai. It has emerged as integrated power company present into power generation, transmission and distribution, with commission of 500MW thermal plant at Dahanu, near Mumbai.
- Power demand grew at a CAGR of 5% in last decade, to meet this demand government had planned a capacity expansion plan of 41110 MW in 10th five-year plan, but only 23000 MW have been added, as the supply-demand scenario shows a deficit. The sector has huge potential to get unlock. The deficit for FY06 was 9.1% as compared to FY05’s 7.89%.

Energy (Bn kWh)	2005-06	2004-05	% Change
Demand	631.737	591.373	6.83
Supply	578.819	548.115	5.60

- The company also owns power generation facilities in Goa and Kerala. The company recently took over Aditya Birla group’s stake in the Rosa Power Project.
- After Globeleq-Lanco bid was declared null and void, Reliance Power subsidiary of REL, which was the second lowest bidder for the 4000MW ultra mega power project at Sasan in Madhya Pradesh would be beneficiary with an estimated cost of Rs 200 Bn.
- REL has emerged as the sole bidder for a 1300 MW coal based plant for Domodar Valley corporation power project in Purulia district of West Bengal. The company intent to invest Rs 50 Bn over the next three years period for the project.
- REL- promoted three SPV have bagged contract worth Rs.2320 Cr to build three National Highways on Build-Operate-Transfer (B-O-T) basis. The awarded project includes high trade density corridors from Salem to Ulundurpet, Trichy to Dindigul and Trichy to Karur.
- REL is setting up 7480 MW gas-based power plant at Dadri, Uttar Pradesh for which the company has

received all the statutory clearances from state and central governments.

SWOT analysis:

Strength: -Huge Capacity generation in pipeline -Growth in EPC division	Weakness: -Effect on balance sheet due to funding of New project
Opportunities: -Huge scope in power sector. -Setting up largest thermal plant in Orissa, which has huge deposits of Coal Reserves.	Threat: -Any delay in project implementation -Increase in interest rate

- Going ahead, Indian power sectors momentum will be fueled by thermal energy, as India has huge coal reserves.
- Currently REL generates 941 MW of power, through its power plant located in Maharashtra, Andhra Pradesh, Kerala, Karnataka and Goa. After the company’s capacity generation plan, capacity of REL will be 12780 MW in next 8-9 years period.
- REL has recorded revenue growth of 40% in Q1FY08 to Rs. 16240.1 mn from Rs.11548.5 mn in Q1FY07. Whereas the net profit grew 37% in Q1FY08 on Q-o-Q basis.
- At CMP of Rs.753.35, the stock trades at P/E of 19.85x of its trailing EPS of Rs.37.04. considering REL robust order book from NHAI, EPC division and Capacity generation and favorable decision in Sasan Power project, one can consider investing in REL.

Financial Overview

(Rs in million)

Particulars	FY06	FY07	Q1FY07	Q1FY08
Sales (Rs.)	40190.7	56929.5	11548.5	16240.1
% Growth	-2.70	41.65	21.60	40.63
Operating Profit	13219.8	13627.5	3045.3	3975.1
% Growth	25.8	3.1	3.1	30.5
OPM (%)	32.9	23.9	26.4	24.5
PAT (Rs.)	6503.4	8014.5	1967.1	2700.9
% Growth	25.0	23.2	14.9	37.3
PATM (%)	16.2	14.1	17.0	16.6
Equity Capital	2123.6	2285.7	2123.6	2285.7
EPS (Rs.)	32.7	37.2	8.3	9.7
RONW (%)	10.79	10.23	-	-

(Source: Capitaline, BSE filings)

Technical view



The short-term trend is range bound. There is no conclusive evidence for the medium trend. Any violation below Rs 707 will take the stock to Rs 648 levels.

Rating Methodology

“**Equity pick**” is an investment idea with the purpose to recommend a fundamentally good company with future growth prospects and a technical outlook advising the entry and exit from the investment.

In order to recommend a fundamentally strong company a ranking system has been carved out based on various financial parameters on a ranking scale of 1.5-9.5 for each metric.

Analyst Stock Rating

After ranking each parameter a final score is arrived at and the rating is done as follows:

- ❑ **Average (*)**-A stock with final score between 49 and 76 is given an “average” rating denoted by one star.
- ❑ **Good (**)** -A stock with final score between 77 and 104 is given a “good” rating denoted by two stars.
- ❑ **Excellent (***)**- A stock with final score of 105 and above is given an “excellent” rating denoted by three stars.

The rating system would give an assurance as to the strong fundamentals of the company but should not be relied upon as an investment advice. The decision for entry and exit will depend upon the technical outlook.

Notes

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