

# Rural Electrification Corporation Ltd.

## IPO Note

## Subscribe

### IPO Statistics

Issue Open On	19 <sup>th</sup> February 2008
Issue Close On	22 <sup>nd</sup> February 2008
Price Band	Rs 90-105 Per Share
Face Value	Rs 10 Per Share
Bid Lot	60 Equity shares
Issue Size	156,120,000 Equity Shares
Retail Size	45,665,100 Eq Shares
Fresh Issue	78,060,000 Eq Shares
Offer For Sale	78,060,000 Eq Shares
Pre Issue Eq Capital	Rs 7806.00 Million
Post issue Eq Capital	Rs 8586.60 Million

### Shareholding Pattern (%)

	Pre Issue	Post Issue
Promoter & Group	100.00	81.82
Public	---	18.18

### Other Specifics

Lead Manager	IL&FS Investsmart Securities Ltd, ICICI Securities Ltd
Registrar	Karvy Computershare Private Ltd

### Objects of Issue:

The company intends to use the issue proceeds for:

Augmenting company's capital base to meet its future capital requirements arising out of growth in in company's assets, primarily its loan and investment portfolio due to the growth of the Indian economy and for other general corporate purposes including meeting the expenses of the Issue. Company meets its financial requirements through domestic borrowings, external commercial borrowings and from loan repayments and interest receipts from its borrowers. These resources are used for company's various financial activities, replacement of matured debt and general corporate purposes. Hence, it is not possible to project an activity-wise break up of the disbursement of funds raised. Company is seeking to strengthen its capital base to improve its borrowing capacity in order to support the future growth in company's assets.

### Business Profile

Rural Electrification Corporation commenced its operations in 1969 for the purpose of developing the power infrastructure in rural areas. Company is one of the leading public financial institutions in Indian power infrastructure. Company is engaged in the financing and promotion of transmission, distribution and generation projects throughout India. Company provides funding to its clients and assists them in formulating and implementing various types of power project related schemes. Company's clients include public sector power utilities at the central and state levels and private sector power utilities. Additionally, Company fund power projects for its joint sector clients. Company's financial products primarily include long-term loans, short-term loans, bridge loans and debt refinancing. As a public sector undertaking, company have been accorded "Mini Ratna Grade-I" status by the Gol by virtue of its operational efficiency and financial strength, which affords greater operational freedom and autonomy in decision making.

### Investment Rationale

- Company currently holds the highest domestic credit rating for its long-term borrowings. Domestically, company hold long-term borrowing ratings of "AAA/Stable" from CRISIL Limited, "LAAA" from ICRA Limited, "AAA (ind)" from Fitch and "CARE AAA (Triple A)" from CARE Limited, each of which is the highest long-term domestic rating of the respective agency. On an international basis, company hold long-term borrowing ratings of "BBB-" and "Baa3" from Fitch and Moody's, respectively, which are on par with sovereign ratings for India.
- Company's overall cost of funds was 6.55% for the six months ended September 30, 2007, which compares company favorably with its competitors. As a result, company is able to deliver debt financing at a competitive rate. Company funds its business with market borrowings of various maturities, including bonds and term loans. Company's relationship with the Gol currently provides it with access to lower cost funding and has additionally enabled company to source foreign currency loans from bi-lateral and multi-lateral agencies, such as the Japan Bank for International Cooperation and Kreditanstalt fur Wiederaufbau.
- Company is the nodal agency for the RGGVY, which is primarily aimed at the electrification of all villages. Company's role in RGGVY places it at the centre of the rural electrification projects of the various states in India and makes it an integral part of their current and future financing plans for rural electrification projects. Because of its strategic importance to the Gol, company receives direct and indirect benefits, including tax concessions for some of its bonds that enable company to maintain low cost of funds. Company also benefit from direct tax benefits provided by the Gol.

**Consolidated Annual Results**

Rs Mn

Particulars	Mar'05	Mar'06	Mar'07	31.09.2007(6 Months)
Total Income	<b>21892.72</b>	<b>20583.58</b>	<b>26516.96</b>	<b>15612.82</b>
Growth (%)	----	-5.98	28.83	----
Total Expenditure	609.72	646.03	1075.77	832.96
EBIDTA	<b>21283.00</b>	<b>19937.55</b>	<b>25441.19</b>	<b>14779.86</b>
Growth (%)	----	-6.32	27.60	----
EBIDTA Margin	97.21	96.86	95.94	94.66
Other Income	14666.73	3914.56	2811.01	2304.56
Depreciation	11.48	10.99	11.29	6.93
EBIT	<b>35938.25</b>	<b>23841.12</b>	<b>28240.91</b>	<b>17077.49</b>
Interest	12059.49	13403.30	17155.04	9649.74
PBT	23878.76	10437.82	11085.87	7427.75
Tax	3741.30	2460.04	3321.59	2199.09
PAT	<b>20137.46</b>	<b>7977.78</b>	<b>7764.28</b>	<b>5228.66</b>
Growth%	----	-60.38	-2.68	----
Extra Ordinary Items	-0.15	-0.03	0.38	0.00
PAT after extra Items	20137.31	7977.75	7764.66	5228.66
Adjusted NPM	91.98	38.76	29.28	33.49
Equity Capital	7806.00	7806.00	7806.00	7806.00
Reserves & Surplus	19741.58	25143.66	31078.05	36273.04
Net Worth	<b>27547.58</b>	<b>32949.66</b>	<b>38884.05</b>	<b>44079.04</b>
Equity Shares	780.60	780.60	780.60	780.60
EPS	25.80	10.22	9.95	6.70
ROE (%)	73.10	24.21	19.97	11.86
Book Value	<b>35.29</b>	<b>42.21</b>	<b>49.81</b>	<b>56.47</b>
ROCE (%)	<b>16.24</b>	<b>8.72</b>	<b>8.27</b>	<b>4.69</b>

**Concerns**

- ❑ Company have significant exposure to, and derive most of its income from various SEBs and SPUs. As on September 30, 2007 Company had aggregate loans outstanding to state sector borrowers of Rs. 337,643 million, which constituted 96.33% of company's total loans outstanding. Historically, state sector utilities have had relatively weak financial position and have in the past defaulted on their indebtedness. Consequently, company have had to restructure loans sanctioned to certain SEBs and SPUs, which resulted in Company having to reschedule their loans and waive part of their interest dues on account of such restructuring.
- ❑ Company's statutory auditors have qualified their reports on its financial statements for Fiscal 2004, Fiscal 2007 and for the period of six months ended September 30, 2007. In connection with the preparation of the summary restated financial statements appearing in the Red Herring Prospectus, some of the qualifications contained in company's statutory auditor's reports were deemed to be continuing.
- ❑ The level of NPAs in company's loan portfolio has increased due to its recent implementation of revised prudential norms and could further increase beyond company's expectations. As on September 30, 2007 Company had gross NPAs of Rs. 3,152 million, constituting 0.90% of its loan assets, for which company have made provision of Rs. 798 million. Any future changes to RBI regulation or company's accounting policies could cause a material increase in company's NPAs.

**Valuation**

At a price band of Rs90-105, the stock is being offered at 7.4x-8.6x FY08E annualized earnings and at 1.5x-1.7x adjusted book value basis(Post Issue). The company with its virtues like competitive cost of funds, well developed relationships with major power sector organizations in India and having a key strategic position in the Gol's plan for inclusive growth looks well poised to cater increased investment in Indian power sector. The company has only one comparable peer PFC which is presently running at p/e multiple of 14.83(Basis closing price as on 12/02/2008). Hence looking at the present financials and future business prospects of company we recommend the investor to "Subscribe" the issue.