

Reliance Power and Reliance Infrastructure

RELI transfers 433MW of operating capacity to Reliance Power - ALERT

- **RELI to sell 433MW of operating capacity to RPWR for an enterprise value of Rs10.95B.** The projects include three combined cycle gas based plants: 220MW at Samalkot (AP), 165 MW at Kochi (Kerala) and 48MW at Zuarinagar (Goa). All the three plants sell their output to State Electricity Boards at regulated rates. However, RELI continues to retain its 500MW Dahanu plant which supplies power to its licensed area of Mumbai.
- **RPWR bought it cheap, RELI sold it cheap, in our view:** The EV of Rs10.95B includes debt of around Rs6.6B, in our estimate. The equity valuation of Rs4.4B implies P/B of just 0.8x, assuming total investment of Rs40M per MW and 30% funded via equity. Prima facie, this compares unfavourably with the P/B multiple of IPP universe. The age of the plants (5-6 years, vs remaining useful life of 10-12 years), coupled with regulated nature of assets might have partly contributed to the discount. In our SOP, we assign a combined value of Rs9.2B (3% of RELI's SOTP value of Rs1,415/share) for these IPPs, implying a P/B of just under 2x.
- **RPWR to gain scale, access to land for potential gas-based capacity build-out:** With the inclusion of these three plants, RPWR's operating capacity will increase to 1GW including 600MW at Rosa. Moreover, with land available at these sites for at least 1GW of additional projects, and given RPWR's balance sheet size, an expansion at these facilities is imminent, in our view. Samalkot is already served by a gas pipeline while Kochi currently does not have one. If RPWR receives gas allocation from Reliance Industries, it could complete these expansions in a matter of 2-2.5 years, in our estimate.
- **Improved performance of the three plants due to gas availability:** In FY10 Samalkot reported PLF of 93% vs. 53% in FY09; Goa at 88% vs. 80%; while Kochi operated at a 60.5% PLF in FY09. In our view, the three plants generated Rs3.1B of EBITDA in FY10 (27% of RELI's consol EBITDA).

Electric Utilities

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RLIN.BO, RELI IN

Overweight
Rs1,054.60 (intraday)

27 May 2010

RPOL.BO, RPWR IN

Underweight
Rs154.70 (intraday)

27 May 2010

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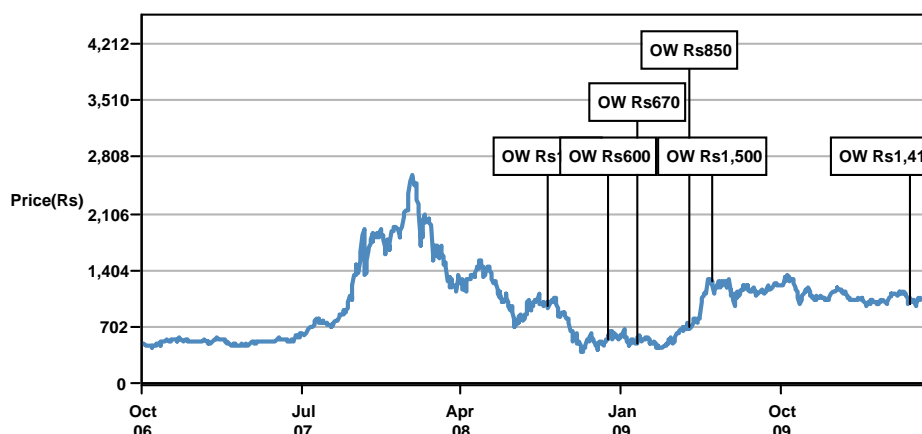
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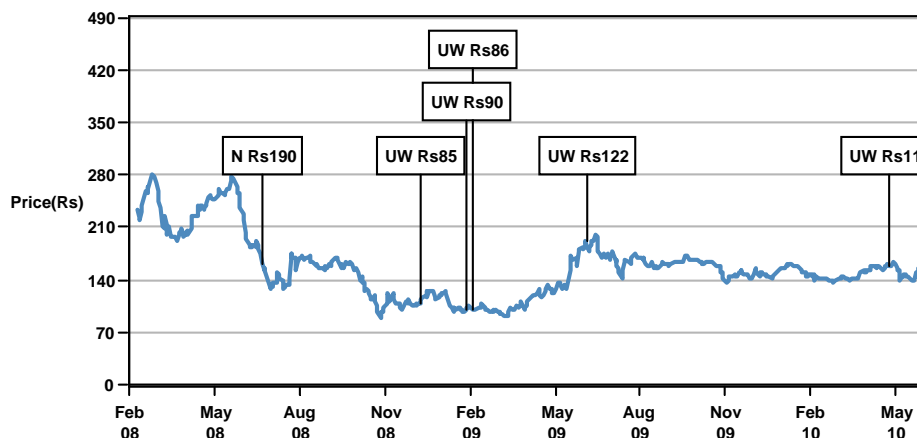
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