

Reliance Power

SELL
Maintained
Rs170

Gaining on momentum

Reason for report: Q1FY10 results review

Reliance Power (RPower) posted PAT growth of ~330% YoY to ~Rs2.6bn owing to ~317% hike in other income on the back of maturity of some fixed maturity plans. Although RPower's quarterly results do not largely impact valuations as the company has not yet commenced operations, Q1FY10 results were, nevertheless, above our expectations. Notably, RPower's project execution is in line with expectations – the company has achieved financial closure for ~4.9GW capacity (with ~Rs250bn capital outlay) and already spent ~Rs27.5bn of the ~Rs115.6-bn proceeds from its IPO. While the stock has run up ~23% in the past three weeks owing to newsflow on power-sector IPOs and financial closure of Butibori project, we maintain our target price of ~Rs144/share owing to: i) in line ongoing project execution and ii) litigation risks as regards the Chitrangi (3,960MW) and Dadri projects (7,480 MW). Our target price implies ~18% downside. Maintain SELL.

- **Sasan, Rosa & Butibori achieve financial closure.** RPower has announced financial closure of the ~4.9GW projects in the past four months – 3,960MW Sasan in April '09 (D:E::75:25), 600MW Rosa phase II in July '09 (D:E::80:20) and Butibori 300MW also in July '09. Overall, RPower has achieved financial closure for ~5.5GW capacity, most of which will become operational in FY11E-13E.
- **Project execution on track.** While Rosa phase I is likely to commence operations by end-FY10E, Butibori and Rosa phase II would be operational by FY12E. Although RPower has announced expansion of the Butibori project by 300MW capacity, owing to lack of visibility as regards land acquisition & financial closure, we have not allocated any value to this expansion.
- **Recent run-up in stock owing to positive newsflow and power-sector IPOs.** RPower's stock price has increased ~23% since the past three weeks on the back of positive news regarding Rosa and Butibori projects and tailwind from various power-sector IPOs such as Adani Power and NHPC.
- **Waiting for positive surprise as regards execution; maintain SELL.** Given RPower's project plans, uncertainty about Chitrangi and Dadri and lack of positive surprise on project execution, we believe the stock is currently trading at a premium, largely owing to positive sentiment in the power sector. Our target price of Rs144/share implies ~18% downside; maintain SELL.

Market Cap	Rs407.5bn/US\$8.4bn
Reuters/Bloomberg	RPOL.BO/RPWR IN
Shares Outstanding (mn)	2,260
52-week Range (Rs)	200/92
Free Float (%)	15.2
FII (%)	3.8
Daily Volume (US\$/'000)	26,150
Absolute Return 3m (%)	33.4
Absolute Return 12m (%)	4.1
Sensex Return 3m (%)	25.0
Sensex Return 12m (%)	6.2

Year to Mar	2008	2009	2010E	2011E
Revenue (Rs mn)	-	-	1,374	11,146
Rec. Net Income (Rs mn)	854	2,445	2,136	1,767
EPS (Rs)	0.3	1.1	0.9	0.8
% Chg YoY	NA	274.2	(12.7)	(17.3)
P/E (x)	588.0	157.1	179.9	217.5
CEPS (Rs)	0.3	1.0	1.0	1.3
EV/E (x)	NM	NM	NM	126.6
Dividend Yield (%)	-	-	-	-
RoCE (%)	0.9	1.7	1.2	1.2
RoE (%)	1.0	1.8	1.5	1.3

Utilities

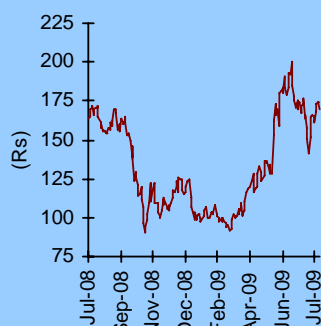
Target price Rs144

Shareholding pattern

	Dec '08	Mar '09	Jun '09
Promoters	84.8	84.8	84.8
Institutional investors	5.8	5.4	5.7
MFs and UTI	0.2	0.3	0.4
Insurance Cos.	0.6	0.6	0.7
FII	4.2	3.8	3.8
Others	9.4	9.8	9.5

Source: NSE

Price chart



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Table 1: Q1FY10 results review (Standalone)

(Rs mn., year ending March 31)

	Q1FY10	Q1FY09	% chg. (YoY)	FY09	FY08	% chg. (YoY)
Revenue	0	0	NA	0	0	NA
EBITDA	(285)	(160)	NA	(780)	(314)	NA
Depreciation	1	0	NA	2	0	NA
Other Income	1,442	777	86	3,347	1,128	197
Interest	0	0	NA	0	0	NA
PBT	1,156	617	87	2,565	814	215
Taxes	100	20	409	76	68	12
PAT	1,056	597	77	2,489	746	234

Source: Company data, I-Sec Research

Table 2: Q1FY10 results review (Consolidated)

(Rs mn., year ending March 31)

	Q1FY10	Q1FY09	% chg. (YoY)	FY2009	FY08	% chg. (YoY)
Revenue	0	0	NA	0	0	NA
EBITDA	(318)	(174)	NA	(1,031)	(407)	NA
Depreciation	1	0	NA	2	0	NA
Other Income	3,355	806	317	3,604	1,129	219
Interest	0	0	NA	0	0	NA
PBT	3,036	632	381	2,570	721	256
Taxes	403	20	1,958	125	68	
PAT	2,633	612	330	2,445	653	274

Source: Company data, I-Sec Research

Table 3: Butibori, Rosa achieve financial closure in July '09

Project	Capacity (MW)	Expected CoD*	Offtake arrangement	Fuel linkage	Land acquired	EPC/BTG awarded	Financial closure
Sasan	3,960	Q4FY12	☺	☺	☺	☺	☺
Rosa Ph I	600	Q4FY10	☺	☺	☺	☺	☺
Rosa Ph II - 300MW	300	Q3FY12	☺	☺	☺	☺	☺
Rosa Ph II - 300MW	300	Q1FY12	☺	☺	☺	☺	☺
Butibori	300	FY12	☺	☺	☺	☺	☺
Krishnapatnam	4,000	FY14	☺	☺	☺	☺	☺
Tilaiya	3,960	FY16	☺	☺	☺	☺	☺
MP Power - Chitrangi	3,960	FY15	☺	☺	☺	☺	☺
Shahpur Coal	1,200	FY16	☺	☺	☺	☺	☺
Shahpur Gas	2,800	FY16	☺	☺	☺	☺	☺
Dadri Gas	7,480	FY15	☺	☺	☺	☺	☺
Butibori Expansion	300	-		Pre-development stage			
Urthing Sorba	400	FY17+		Pre-development stage			
Siyom	1,000	FY17+		Pre-development stage			
Tato II	700	FY17+		Pre-development stage			
Kalai II	1,200	FY17+		Pre-development stage			
Amulin	420	FY17+		Pre-development stage			
Emini	500	FY17+		Pre-development stage			
Mihundon	400	FY17+		Pre-development stage			

*CoD: Commercial operations date; ☺ - Completed; ☺ - In process; ☺ - Not started

Source: Company data, I-Sec Research, CERC

Financial Summary (Standalone)

Table 4: Profit & Loss statement

(Rs mn, year ending March 31)

	FY08	FY09	FY10E	FY11E
Operating income (Sales)	-	-	-	-
Operating Expenses	314	780	897	945
EBITDA	(314)	(780)	(897)	(945)
% margins				
Depreciation & Amortisation	-	2	4	10
Gross Interest	-	-	-	-
Other Income	1,128	3,347	2,951	837
Recurring PBT	814	2,565	2,050	(117)
Add: Extraordinaries	200	-	-	-
Less: Taxes	68	76	229	14
- Current tax	64	71	205	(12)
- Deferred tax	-	-	-	-
Less: Minority Interest	-	-	-	-
Net Income (Reported)	947	2,489	1,821	(131)
Recurring Net Income	746	2,489	1,821	(131)

Source: Company data, I-Sec Research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY08	FY09	FY10E	FY11E
Assets				
Total Current Assets	53,501	74,220	60,849	39,244
of which cash & cash eqv.	3,612	144	699	1,621
Total Current Liabilities & Provisions	4,247	443	472	484
Net Current Assets	49,254	73,776	60,376	38,760
Investments	84,897	62,827	77,827	97,303
of which				
Strategic/Group	1,103	4,172	56,577	97,303
Other Marketable	83,795	58,655	21,250	-
Net Fixed Assets	1,275	1,325	1,546	3,555
of which				
intangibles	-	-	-	-
Capital Work-in-Progress	611	558	727	2,456
Goodwill	-	-	-	-
Total Assets	135,427	137,928	139,749	139,618
Liabilities				
Borrowings	-	-	-	-
Deferred Tax Liability	-	-	-	-
Equity Share Capital	22,600	23,968	23,968	23,968
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	112,827	113,960	115,781	115,650
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	135,427	137,928	139,749	139,618
Total Liabilities	135,427	137,928	139,749	139,618

*excluding revaluation reserves

Source: Company data, I-Sec Research

Table 8: Quarterly trend

(Rs mn, year ending March 31)

	Sep-08	Dec-08	Mar-09	Jun-09
Total Revenues	-	-	-	-
% growth (YoY)	-	-	-	-
EBITDA	-167	-190	-263	-285
Margin (%)	-	-	-	-
Other income	641	1,313	617	1,442
Add: Extraordinaries	-	-	-	-
Recurring Net profit	472	1,057	363	1,056

Source: Company data, I-Sec Research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY08	FY09	FY10	FY11
Operating Cash flow	(382)	(856)	(1,126)	(958)
Working Capital Changes	(45,199)	(27,108)	13,955	22,538
Capital Commitments	(1,206)	(3,122)	(52,629)	(42,745)
Free Cash Flow	(46,787)	(31,086)	(39,801)	(21,165)
Cash flow from Investing Activities	(82,289)	27,606	40,356	22,087
Issue of Share Capital	20,599	1,368	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	-	-	-	-
Extraordinary Items	200	-	-	-
Chg. in Cash & Bank balance	3,604	(3,468)	555	922

Source: Company data, I-Sec Research

Table 7: Key ratios

(Year ending March 31)

	FY08	FY09	FY10E	FY11E
Per Share Data (Rs)				
EPS(Basic Recurring)	0.3	1.1	0.8	(0.1)
Diluted Recurring EPS	0.3	1.1	0.8	(0.1)
Recurring Cash EPS	0.3	1.0	0.8	(0.1)
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	59.9	57.5	58.3	58.3
Growth Ratios (%)				
Operating Income	NM	NM	NM	NM
EBITDA	NM	NM	NM	NM
Recurring Net Income	NM	233.5	(26.8)	(107.2)
Diluted Recurring EPS	NM	233.5	(26.8)	(107.2)
Diluted Recurring CEPS	NM	214.7	(26.8)	(106.6)
Valuation Ratios (x)				
P/E	514.8	154.4	211.0	NM
P/CEPS	514.8	163.6	223.3	NM
P/BV	2.8	3.0	2.9	2.9
EV / EBITDA	NM	NM	NM	NM
EV / Operating Income	NM	NM	NM	NM
EV / Operating FCF	(6.5)	(12.4)	30.6	20.7
Operating Ratio				
Employee cost / Revenue	NM	NM	NM	NM
Operating expenses / Revenue	NM	NM	NM	NM
Other Income / PBT (%)	138.6	130.5	144.0	(713.2)
Effective Tax Rate (%)	7.9	2.8	10.1	8.2
NWC / Total Assets (%)	33.7	53.4	42.7	26.6
Inventory Turnover (days)	NM	NM	NM	NM
Receivables (days)	NM	NM	NM	NM
Payables (days)	355.7	181.2	84.1	87.7
D/E Ratio (x)	-	-	-	-
Return/Profitability Ratio (%)				
Recurring Net Income Margins	66.1	74.4	61.7	(15.6)
RoCE	1.1	1.8	1.3	(0.1)
RoNW	1.1	1.8	1.3	(0.1)
Dividend Payout Ratio	-	-	-	-
Dividend Yield	-	-	-	-

Source: Company data, I-Sec Research

Financial Summary (Consolidated)

Table 9: Profit & Loss statement

(Rs mn, year ending March 31)

	FY08	FY09	FY10E	FY11E
Operating income (Sales)	-	-	1,374	11,146
Operating Expenses	407	1,031	1,495	6,353
EBITDA	(407)	(1,031)	(121)	4,794
% margins	#DIV/0!	#DIV/0!	(8.8)	43.0
Depreciation & Amortisation	-	2	169	1,330
Gross Interest	-	-	290	2,251
Other Income	1,129	3,604	3,014	978
Recurring PBT	721	2,570	2,434	2,191
Add: Extraordinaries	200	-	-	-
Less: Taxes	68	125	298	424
- Current tax	64	119	262	318
- Deferred tax	-	-	-	-
Less: Minority Interest	-	-	-	-
Net Income (Reported)	854	2,445	2,136	1,767
Recurring Net Income	653	2,445	2,136	1,767

Source: Company data, I-Sec Research

Table 10: Balance sheet

(Rs mn, year ending March 31)

	FY08	FY09	FY10E	FY11E
Assets				
Total Current Assets	4,877	2,212	4,112	4,682
of which cash & cash eqv.	4,270	216	1,962	1,424
Total Current Liabilities & Provisions	6,603	3,927	878	1,252
Net Current Assets	(1,727)	(1,715)	3,234	3,429
Investments	131,234	103,172	74,689	33,439
of which				
Strategic/Group	-	-	-	-
Other Marketable	131,234	103,172	74,689	33,439
Net Fixed Assets	10,310	49,659	161,959	339,643
of which				
intangibles	-	-	-	-
Capital Work-in-Progress	8,178	46,780	133,450	283,680
Goodwill	-	-	-	-
Total Assets	139,817	151,116	239,882	376,511
Liabilities				
Borrowings	4,483	13,325	99,463	234,418
Deferred Tax Liability	-	-	-	-
Equity Share Capital	22,600	23,968	23,968	23,968
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	112,735	113,824	115,866	117,540
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	135,334	137,792	139,834	141,508
Total Liabilities	139,817	151,116	239,882	376,511

*excluding revaluation reserves

Source: Company data, I-Sec Research

Table 11: Cashflow statement

(Rs mn, year ending March 31)

	FY08	FY09	FY10E	FY11E
Operating Cash flow	(475)	(1,157)	(710)	2,119
Working Capital Changes	6,509	(4,065)	(3,203)	(734)
Capital Commitments	(10,310)	(39,351)	(112,469)	(179,014)
Free Cash Flow	(4,276)	(44,573)	(116,382)	(177,629)
Cash flow from Investing Activities	(130,618)	31,665	31,497	42,228
Issue of Share Capital	22,600	1,368	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	4,483	8,842	86,138	134,955
Dividend paid	-	-	-	-
Extraordinary Items	200	-	-	-
Chg. in Cash & Bank balance	4,270	(4,053)	1,746	(539)

Source: Company data, I-Sec Research

Table 12: Key ratios

(Year ending March 31)

	FY08	FY09	FY10E	FY11E
Per Share Data (Rs)				
EPS(Basic Recurring)	0.3	1.1	0.9	0.8
Diluted Recurring EPS	0.3	1.1	0.9	0.8
Recurring Cash EPS	0.3	1.0	1.0	1.3
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	59.9	57.5	58.3	59.0
Growth Ratios (%)				
Operating Income	NM	NM	NM	711.4
EBITDA	NM	153.1	(88.3)	NM
Recurring Net Income	NM	274.2	(12.7)	(17.3)
Diluted Recurring EPS	NM	274.2	(12.7)	(17.3)
Diluted Recurring CEPS	NM	253.2	(5.8)	34.4
Valuation Ratios (x)				
P/E	588.0	157.1	179.9	217.5
P/CEPS	588.0	166.5	176.8	131.6
P/BV	2.8	3.0	2.9	2.9
EV / EBITDA	NM	NM	NM	126.6
EV / Operating Income	NM	NM	313.2	54.5
EV / Operating FCF	(59.2)	(7.1)	(3.7)	(3.4)
Operating Ratio				
Employee cost / Revenue	NM	NM	51.4	11.8
Operating expenses / Revenue	NM	NM	20.9	7.4
Other Income / PBT (%)	156.5	140.2	123.8	44.6
Effective Tax Rate (%)	8.9	4.6	10.9	15.3
NWC / Total Assets (%)	33.7	53.4	42.7	26.6
Inventory Turnover (days)	NM	NM	NM	NM
Receivables (days)	NM	NM	-	-
Payables (days)	274.4	137.1	50.5	13.0
D/E Ratio (x)	0.0	0.1	0.7	1.7
Return/Profitability Ratio (%)				
Recurring Net Income Margins	57.9	67.8	48.7	14.6
RoCE	0.9	1.7	1.2	1.2
RoNW	1.0	1.8	1.5	1.3
Dividend Payout Ratio	-	-	-	-
Dividend Yield	-	-	-	-
EBITDA Margins	NM	NM	(8.8)	43.0

Source: Company data, I-Sec Research

I-Sec investment ratings (all ratings relative to Sensex over next 12 months)

BUY: +10% outperformance; **HOLD:** -10% to +10% relative performance; **SELL:** +10% underperformance

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