

### RESULTS REVIEW

#### Share Data

Market Cap	Rs. 178.2 bn
Price	Rs. 779.75
BSE Sensex	15318.60
Reuters	RLEN.BO
Bloomberg	RELE IN
Avg. Volume (52 Week)	0.4 mn
52-Week High/Low	Rs. 817/436.1
Shares Outstanding	228.5 mn

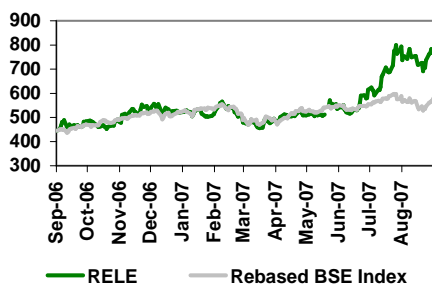
#### Valuation Ratios (Consolidated)

Year to 31 March	2008E	2009E
EPS (Rs.)	40.8	45.8
+/- (%)	6.5%	12.3%
PER (x)	19.1x	17.0x
EV/ Sales (x)	2.9x	2.6x
EV/ EBITDA (x)	36.9x	29.4x

#### Shareholding Pattern (%)

Promoters	35
FII's	21
Institutions	27
Public & Others	17

#### Relative Performance



### Reliance Energy Ltd.

Hold

#### EPC business: the growth engine

Reliance Energy Limited (REL) reported 41% yoy increase in its sales figure for the first quarter FY08. However, EBITDA decreased 70% yoy to Rs. 376 mn on account of Rs. 826.7 mn charge for accounting policy changes and increased tariffs. Net income grew by 25% yoy from 1,766.1 mn to Rs. 2,216 mn due to increased forex gains, higher interest income and lower depreciation expenses.

The Company plans to spend Rs. 600 bn for generation of additional capacity of 15,000 MW over the next five years. REL's spree to grow with the country's power requirements gives greater growth visibility. However, the stock looks fairly valued at the current PE of 20.3x FY07 and forward PE of 19.1x FY08E earnings. Therefore, we maintain our Hold rating.

#### Result Highlights

REL's net revenues grew by 41% yoy to Rs. 16.2 bn as a result of higher volumes, increased electricity tariffs and higher order inflow. REL's revenues from the electrical energy increased 39% yoy resulting from increased sales of electrical units to 2,489 mn (increase of 12% yoy) and 24.5% yoy increase in realization rate to Rs. 5.22 per unit from Rs. 4.19 per unit. EPC division's revenue and net income grew by 40% yoy and 14% yoy respectively driven by a robust order book to Rs. 50.3 bn (50% yoy growth).

#### Key Figures (Standalone)

Quarterly data	1Q'07	4Q'07	1Q'08	Q-o-Q%	Y-o-Y%
(Figures in Rs. mn, except per share data)					
Net Sales	11,489	16,143	16,240	0.6%	41.4%
EBITDA	1,274	598	376	(37.1)%	(70.5)%
<b>Net Profit</b>	<b>1,766</b>	<b>2,374</b>	<b>2,216</b>	<b>(6.7)%</b>	<b>25.5%</b>
<b>Margins(%)</b>					
EBITDA	11.1%	3.7%	2.3%		
NPM	15.4%	14.7%	13.6%		
<b>Per Share Data (Rs.)</b>					
Adjusted EPS	17.8	15.8	14.8	(6.5)%	(16.9)%

*Decreasing EBITDA due to MYT order and accounting policy changes*

EBITDA degrew by 70% yoy to Rs. 376 mn due to accounting policy changes however, excluding change in accounting policy charges EBITDA was down by 6% yoy while EBITDA margins were down by 3.4 pts on the back of higher cost of electricity purchased (Rs. 5.02 per unit vis-à-vis Rs. 2.73 per unit) and increased cost of materials and sub contract charges. In addition, EBITDA margins also faced a downturn due to delayed implementation of the Multi Year Tariff (MYT) order in Mumbai. The Company filed an appeal before the Appellate Tribunal for Electricity (ATE) against the MERC's Multi Year Tariff (MYT) order and if resolved might get an additional relief of Rs. 800 mn for 1QFY08 and Rs. 2,890 mn for FY08.

Despite decline in EBITDA, net profit increased 25% yoy to Rs. 2.2 bn as a result of higher forex gains, interest income and lower depreciation expenses.

### Key Events

#### *Ultra mega power project (UMPP)*

REL bagged the 4,000 MW UMPP Sasan power project in Madhya Pradesh during the quarter. It is India's largest domestic coal based power project, involving a capital outlay of Rs. 200 bn to be capitalised through a separate special purpose vehicle (SPV) named Sasan Power Limited. The Company received the project at lowest levelised Tariff of Rs. 1.196 per unit thus gives better visibility about the long term growth as it is one of the nine projects that the Government is planning to add in the 11th Plan.

Two more UMPPs with the capacity contribution of 4,000 MW each are expected to be put to competitive bidding later this year. They are coal based Krishnanpattanam project in Andhra Pradesh and pithead based Tilaiya project in Jharkhand. Both of them involve an investment outlay of Rs. 400 bn.

#### *Order book expansion plan*

REL is on the edge to acquire a Rs. 40 bn contract in order to set up 1,000 MW thermal power plant at Raghunathpur in Purulia district of

*REL acquired Sasan Power Limited*

*Eye on other UMPP's*

*EPC order book position at Rs. 50.3 bn*

West Bengal for Damodar Valley Corporation (DVC). The Order reinforces confidence in the Company's EPC division growth in the years to come.

### *Backward integration*

REL has applied to the Union ministry of Coal for the allotment of 8 coal blocks, generating the 13,333 MW of additional power with the investment of Rs. 640 bn. These blocks will allow power producers to exercise degree of control over input costs thus ensuring more competitive tariffs and better security of supply.

### *Development of Infrastructure facilities*

To diversify its operations into the infrastructure business, REL promoted three special purpose vehicles (SPVs) through three concession agreements with the National Highways Authority of India (NHAI) to build three national highways of four-lane sections totaling 400 km on NH-7 in Tamil Nadu on Build-Operate-Transfer (BOT) basis. The project entails an investment of Rs. 23.2 bn including government grant of Rs. 7.6 bn.

### *Step in the real estate*

REL led consortium emerged as the preferred bidder for development of business district in Hyderabad over 75 acres, with a constructed area of 11 msf. This includes the construction of 100 storey trade tower in Hyderabad city at an estimated cost of Rs. 65 bn, thus foraying into the booming real estate sector. REL has 66% stake in the project

## **Key Risks**

### *Dadri power project dispute*

Dadri power project is yet to become operational as there is dispute over the gas supply. The agreement with Reliance Natural Resources Ltd (RNRL) is under dispute and Mumbai High Court has restricted RIL to sell share of RNRL to other gas consumers. The settlement in this case would act as a catalyst for further shoot up in the share price.

*Development of Coal blocks*

*Emergence as a serious  
player in road infrastructure  
business*

*100 storey trade tower to be  
the tallest building in South  
East Asia*

### *Delay in project execution*

Since all the projects are capital intensive thus raising the question on the Company's development due to longer gestation period, statutory clearance, financial infrastructural requirement, delay in completion of projects, performance risk and cost over run.

### Outlook

Due to increasing capacity and decreasing T&D losses the power situation is likely to become better in the years to come. With the emerging opportunities and diversification into MRTS, infrastructure and real estate business, we feel the stock has limited downside subject to the risk of successful implementation and execution of projects combined with the macro risk hampering the overall power sector's growth. The settlement of Dadri project would act as a trigger for its currently stalled projects.

Driven by the strong financial background of REL and the high growth prospect of Company's we expect the revenues to grow at CAGR of 9.8% and earnings to grow to Rs. 45.8 by FY09E. We believe that the stock is fairly valued at the current levels and maintain Hold rating on the stock.

*Earnings to grow at a CAGR of 9.3% over the next two years*

### Key Figures (Consolidated)

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs. mn, except per share data)						(FY07-09E)
Net Sales	41,336	40,323	68,478	74,507	82,537	9.8%
Adjusted EBITDA	5,968	7,465	5,497	5,925	7,425	16.2%
<b>Adjusted Net Profit</b>	<b>5,246</b>	<b>6,425</b>	<b>8,254</b>	<b>9,189</b>	<b>10,466</b>	<b>12.6%</b>
<b>Margins(%)</b>						
EBITDA	14.4%	18.5%	8.0%	8.0%	9.0%	
NPM	12.7%	15.9%	12.1%	12.3%	12.7%	
<b>Per Share Data (Rs.)</b>						
Adjusted EPS	28.3	32.3	38.3	40.8	45.8	9.3%
PER (x)	18.7x	18.9x	20.3x	19.1x	17.0x	

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