

## Solid 3QFY13; seeks cost-plus PPA for Butibori

### Quick Note

January 25, 2013

<b>Rating</b> Remains	<b>Reduce</b>
<b>Target price</b> Remains	INR 94
<b>Closing price</b> January 25, 2013	INR 94

#### 3QFY13 normalized earnings above ours and consensus forecast

At INR2.54bn, Reliance Power's (RPWR's) 3QFY13 normalized PAT was 6% above our forecast (3% above consensus); reported PAT was higher at Rs2.66bn (in line with our forecast). Significantly, at INR4.81bn, 3QFY13 EBITDA surprised (12% above our forecast) on the back of a stellar performance at Rosa (1200MW) – the cost-plus facility posted an annualized RoE of 49% for the quarter. Non-operating income surprised (yet again); in our view, the bottom line would have been higher if not for higher tax provision (~34% effective tax rate) potentially on account of tax on INR4.1bn profit on redemption of preference shares issued by a wholly owned subsidiary.

**Fig. 1: RPWR – 3QFY13 consolidated financials Actual vs. Estimates**

Normalized EBITDA / Net Profit came in 12% / 6% above our forecast

RPWR - 3QFY13 Results (INR mn)	Actual	Nomura Estimate	Actual vs. Est.	Cons. Estimate	Actual vs. Cons.
Sales	14,518	13,316	9.0%	12,821	13.2%
EBITDA	4,806	4,296	11.9%	4,352	10.4%
Non-operating income	1,219	673	81.2%	NA	NA
Net Profit	2,536	2,400	5.7%	2,464	2.9%
Reported PAT	2,656	2,680	-0.9%	2,507	6.0%

Source: Company data, Bloomberg, Nomura estimates

#### Rosa: Normalized RoE at 49% for 3QFY13; 36% for 9mFY13

For 3QFY13, the 1200MW facility posted Plant Availability (PAF) and utilization level (PLF) at a remarkable 103% and 91.6%, respectively. Normalized for true-up related prior-period adjustments, net profit for the Rosa facility stood at INR2.1bn implying a RoE of 49% (vs. our forecast of 33%), up from 28% in 2QFY13; net profit for April-December 2012 at INR4.35bn pegs annualized RoE at an impressive 36%. We note that 3QFY13 RoE is likely exaggerated by recouping of fixed cost under-recovery in 2QFY13 (on the back of outages-led low PAF). As per the management, [1] coal consumption mix was 43% linkage, 44% imported, remainder from domestic open-market purchases, and [2] receivables stand at ~INR7bn (50 days of sales); substantial portion is expected to be liquidated in February.

#### Butibori: Mgmt. seeks to tie up entire 600MW on 'cost-plus' PPA

On the earnings call, management outlined its revised strategy for the ready-to-be-commissioned 2x300MW Butibori facility – [1] Butibori would begin commercial generation from April 1, 2013. [1] RPWR has filed a petition with Maharashtra Electricity Regulator (MERC) seeking to sign a long-term regulated-return-based PPA for the entire 600MW capacity with Reliance Infrastructure (R-Infra) from FY15. [3] In the interim 1-yr period (FY14), it expects to supply electricity on a similar tariff build-up as petitioned with MERC (long-term PPA with R-Infra). [4] Once the aforesaid offtake arrangements are in place, management expects the facility to start receiving linkage from Coal India; a representation to this effect has been deliberated upon by the Ministry of Coal).

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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

### Other projects: Sasan, wind facility start-ups imminent

Management commentary on project pipeline – [1] Unit-1 (660MW) at Sasan and 45MW wind farm at Vashpet set to begin operations by March 31. [2] Commenced work to comply with stipulations required to secure Stage-II FC for Chhatrasal coal block. [3] 100MW Solar CSP on track to commence operations by May 2013. [4] Entire land Tilaiya power project expected to be in possession by March 31; expect to secure financial closure 6-9 months thereafter. [5] Indonesian coal assets: Still looking for sale options from ID-1 (first concession); commenced land acquisition process in ID-2 (second concession with higher GCV coal).

### Maintain REDUCE; implied 4QFY13 EBITDA, PAT appears high

In our view, management's move to convert Butibori into a cost-plus project (vs. offtake via a mix of merchant and captive sales) would enhance earnings visibility from the project, particularly in the context of linkage coal eligibility. However, one-half of the FCFE-based fair value remains concentrated in projects (Chitrangi, Sasan-II, Samalkot) wherein operational timelines and profitability remain subject to regulatory diktats and fuel supply risk.

Valuation multiples still appear expensive (26.3x P/E and 1.4x P/B on our FY14F estimates) and implied 4QFY13 EBITDA, PAT on our FY13 earnings forecast appears to be a stretch (based on RPWR's 9mFY13 financials).

**Fig. 2: Reliance Power – 3QFY13 Consolidated Financials Snapshot**

Stellar RoE at Rosa drive EBITDA beat | non-operating income surprisingly high | tax provision likely up due to profit on intra-group investment

Qtrly Snapshot	3QFY12	4QFY12	1QFY13	2QFY13	3QFY13	QoQ	YoY	3QFY13F	Actual
	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	(%)	(%)	Dec-12	vs Est
<b>Operational Metrics</b>									
Effective Capacity (MW)	600	646	1,240	1,240	1,240	0.0%	106.7%	1,240	0.0%
PLF	75.1%	78.2%	76.1%	61.5%	89.2%	45.1%	18.7%	91.4%	-2.4%
Generation (mn kWh)	987	1,106	2,068	1,669	2,422	45.1%	145.4%	2,435	-0.5%
Sales (mn kWh)	898	1,001	1,883	1,537	2,202	43.3%	145.2%	2,217	-0.7%
Ex-Solar Realization (INR/kWh)	4.91	5.14	5.22	5.87	5.94	1.3%	21.1%	5.34	11.3%
Fuel Cost (INR/kWh)	2.86	2.75	3.32	3.53	3.73	5.7%	30.5%	3.39	10.0%
<b>Key Financials (INR m)</b>									
<b>Revenues</b>	<b>4,573</b>	<b>5,326</b>	<b>11,238</b>	<b>10,512</b>	<b>14,518</b>	<b>38.1%</b>	<b>217.5%</b>	<b>13,316</b>	<b>9.0%</b>
Power Generation	4,407	5,144	10,000	9,177	13,267	44.6%	201.0%	12,064	10.0%
RNRL	166	182	5	5	4	-24.5%	-97.8%	5	-24.5%
Power Trading (Sales)	-	-	1,233	1,330	1,247	-6.2%		1,247	0.0%
<b>Opex</b>	<b>(3,172)</b>	<b>(3,537)</b>	<b>(7,710)</b>	<b>(6,863)</b>	<b>(9,712)</b>	<b>41.5%</b>	<b>206.2%</b>	<b>(9,019)</b>	<b>7.7%</b>
Power Trading (Purchases)	-	-	(1,053)	(1,000)	(937)	-6.3%		(935)	0.2%
Fuel cost	(2,564)	(2,757)	(6,206)	(5,370)	(8,147)	51.7%	217.7%	(7,465)	9.1%
O&M expenses	(607)	(780)	(452)	(493)	(628)	27.5%	3.4%	(619)	1.4%
<b>EBITDA</b>	<b>1,401</b>	<b>1,788</b>	<b>3,527</b>	<b>3,650</b>	<b>4,806</b>	<b>31.7%</b>	<b>243.0%</b>	<b>4,296</b>	<b>11.9%</b>
Margin	30.6%	33.6%	31.4%	34.7%	33.1%			32.3%	
Depreciation	(323)	(313)	(686)	(719)	(703)	-2.3%	117.3%	(710)	-1.1%
<b>EBIT</b>	<b>1,078</b>	<b>1,476</b>	<b>2,841</b>	<b>2,931</b>	<b>4,104</b>	<b>40.0%</b>	<b>280.7%</b>	<b>3,586</b>	<b>14.4%</b>
Interest expense	(720)	(742)	(1,289)	(1,374)	(1,493)	8.7%	107.4%	(1,350)	10.6%
Non operating income	2,168	1,202	1,159	1,022	1,219	19.2%	-43.8%	673	81.2%
<b>PBT</b>	<b>2,526</b>	<b>1,935</b>	<b>2,712</b>	<b>2,579</b>	<b>3,830</b>	<b>48.5%</b>	<b>51.6%</b>	<b>2,909</b>	<b>31.7%</b>
Tax	(488)	(206)	(437)	(457)	(1,294)	183.0%	165.4%	(509)	154.1%
Effective Tax Rate	19.3%	10.7%	16.1%	17.7%	33.8%			17.5%	
<b>Normalized PAT</b>	<b>2,039</b>	<b>1,729</b>	<b>2,275</b>	<b>2,122</b>	<b>2,536</b>	<b>19.5%</b>	<b>24.4%</b>	<b>2,400</b>	<b>5.7%</b>
Extraordinary Items	-	(585)	(120)	(280)	(120)	-57.1%		(280)	-57.1%
<b>Reported PAT</b>	<b>2,039</b>	<b>2,313</b>	<b>2,395</b>	<b>2,402</b>	<b>2,656</b>	<b>10.6%</b>	<b>30.3%</b>	<b>2,680</b>	<b>-0.9%</b>

Note: 3QFY13 sales, EBITDA, Net Profit normalized for INR120mn prior period revenue

Source: Company data, Nomura estimates

**Fig. 3: RPWR – Return on Regulated Equity at Rosa (1200MW)**

Effective RoE for the project is 36% for 9mFY13

Rosa [1200MW] (INR m)	1QFY12 Jun-11	2QFY12 Sep-11	3QFY12 Dec-11	4QFY12 Mar-12	1QFY13 Jun-12	2QFY13 Sep-12	3QFY13 Dec-12
Effective Capacity	600	600	600	646	1,200	1,200	1,200
PAF	94.0%	81.0%	79.0%	91.7%	81.0%	78.0%	103.0%
PLF	91.0%	76.5%	75.1%	78.2%	78.2%	63.0%	91.6%
Generation (MUs)	1,190	1,005	987	1,106	2,055	1,655	2,407
Sales (MUs)	1,083	908	898	1,001	1,871	1,523	2,187
<b>Revenue</b>	<b>5,290</b>	<b>4,740</b>	<b>4,407</b>	<b>5,144</b>	<b>9,760</b>	<b>8,937</b>	<b>12,995</b>
Fuel Cost	3,070	2,894	2,564	2,757	6,206	5,370	8,147
Other Opex	140	216	213	197	194	247	408
<b>EBITDA</b>	<b>2,080</b>	<b>1,630</b>	<b>1,630</b>	<b>2,190</b>	<b>3,360</b>	<b>3,320</b>	<b>4,440</b>
Margin	39.3%	34.4%	37.0%	42.6%	34.4%	37.1%	34.2%
<b>Net Profit</b>	<b>1,090</b>	<b>750</b>	<b>750</b>	<b>795</b>	<b>1,240</b>	<b>1,130</b>	<b>1,980</b>
<b>RoE</b>	<b>46.7%</b>	<b>32.1%</b>	<b>32.1%</b>	<b>32.2%</b>	<b>30.7%</b>	<b>28.0%</b>	<b>49.0%</b>

Source: Company data, Nomura research

**Fig. 4: RPWR – Update on Generation/Coal Projects**

Start-up of Sasan, wind and solar CSP projects on schedule; looking to tie up entire 600MW at Butibori on a cost-plus PPA with R-Infra starting FY15

Project	Capacity (MW)	Update
Butibori	600 (2X300)	Petition filed w ith MERC to supply power to R-Infra on a cost-plus basis w ef April 1, 2014 Commercial start-up targeted from April 1, 2013; expect to get coal from CIL (represented to MoC) Looking at options to sell open capacity at cost-plus tariff (on lines LT PPA petition) in FY 14
Sasan	3960 (6X660)	Unit-1 on track for CoD by March 31 (w ithin FY 13)
Chitrangi	3960 (6X660)	Commenced work to comply w ith stipulations required to secure Stage-II FC
Tilaiya	3960 (6X660)	Should secure entire land for power project by March 31; target financial closure 6-9mth thereafter Effective 2-yr delay in securing forest land implies PPA start date gets pushed back to May 2017
Krishnapatnam	3960 (6X660)	Hearing on ongoing litigation w ith beneficiaries set on March 7
INA Coal		Still looking for sale options from ID-1; commenced land acquisition process in ID-2
Samalkot	2400	No material update
Tato-II	700 (4X175)	No update
Wind	45	On track to be commissioned by March 2013
Solar CSP	100	On track to be commissioned by May 2013

Note: FC = Forest Clearance

Source: Company data, Nomura research

# Appendix A-1

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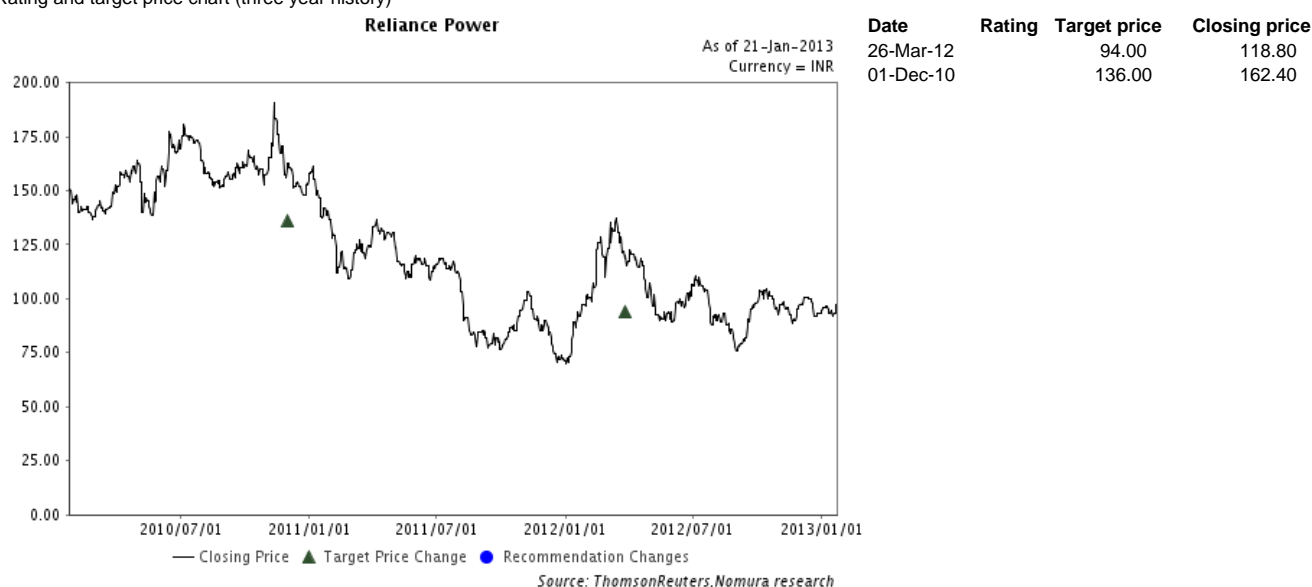
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Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Reliance Power	RPWR IN	INR 94	25-Jan-2013	Reduce	Not rated	

### Reliance Power (RPWR IN) INR 94 (25-Jan-2013) Reduce (Sector rating: Not rated)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

**Valuation Methodology** Our 12-month TP of INR94 is an aggregate of: 1) the milestone risk-adjusted FCFE-based value (based on a 15.5% cost of equity) of RPWR's 25.7GW feasible generation capacity at INR81/share; 2) the milestone risk-adjusted FCF value of its 7.5mtpa coal mining business in Indonesia (7.5mtpa Phase #1) at INR2/share; and 3) FY13F consolidated cash-on-hand of INR11/share.

**Risks that may impede the achievement of the target price** Upside risks: 1) securing sufficient gas supplies to profitably run the Samalkot facility prior to FY16F; 2) higher-than-expected merchant realisation for its 300MW unit at Butibori; 3) better-than-forecast profitability of its Indonesian coal business; 4) securing the required environment/forest clearances for coal mines related to the Chitrangi and Tilaliya projects; and 5) addressing the fuel price risk for its Krishnapatnam UMPP and resuming project construction.

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