

RESULTS REVIEW

Share Data

Market Cap	Rs. 275 bn
Price	Rs. 1,162.90
BSE Sensex	15,757.08
Reuters	RLEN.BO
Bloomberg	RELE IN
Avg. Volume (52 Week)	1.2 mn
52-Week High/Low	Rs. 2,631.7 / 496
Shares Outstanding	236.5 mn

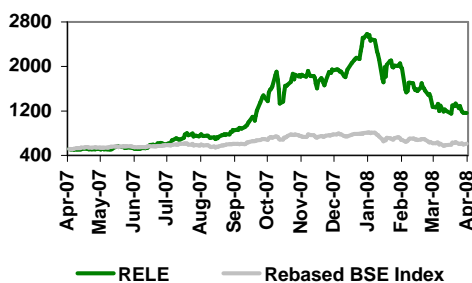
Valuation Ratios (Consolidated)

Year to 31 March	2008E	2009E
EPS (Rs.)	39.5	51.7
+/- (%)	4.6%	30.9%
PER (x)	29.5x	22.5x
EV/ Sales (x)	4.3x	3.3x
EV/ EBITDA (x)	51.4x	38.4x

Shareholding Pattern (%)

Promoters	35
FII's	21
Institutions	24
Public & Others	20

Relative Performance



Reliance Energy Limited

Buy

Geared up for growth

Reliance Energy Limited (REL)'s share price has taken an unprecedented beating since our last report. The stock has fallen around 55% in the last three months in spite of several positive factors. The management has time and again bagged new projects in diversified fields. Operational performance in 9M'08 has been satisfactory, except for the fact that REL had to purchase expensive power from Tata Power. MERC is likely to approve a 14% hike in electricity tariff, which could relax the situation and also improve REL's operational metrics. The Company's EPC business is also doing well. Though there was not much revenue realisation in 9M'08, we believe there would be a spillover effect in Q4'08 and FY09E on the back of a massive order book, which is around 3.9x the EPC segment's FY07 revenues. REL is also participating in several infrastructure projects that are being planned by the Indian Government.

Considering all the positive factors and the management's eye on new projects, we believe there is lot of value in the stock. Based on our SOTP valuation, we arrive at a fair price of Rs. 1,495, which is 28.6% more than the current price. Hence, we upgrade our rating to Buy.

Result Highlights

REL's net sales declined 1.5% yoy to Rs. 15.1 bn. Though the electrical energy business (which comprises more than 80% of sales) shot up

Key Figures (Standalone)

Quarterly data	Q3'07	Q2'08	Q3'08	YoY%	QoQ%	9M'07	9M'08	YoY%
(Figures in Rs. mn, except per share data)								
Net Sales	15,277	15,417	15,055	(1.5)%	(2.4)%	40,782	46,712	14.5%
Adj. EBITDA	767	1,813	741	(3.3)%	(59.1)%	4,202	4,056	(3.5)%
Adj. Net Profit	2,025	1,880	1,375	(32.1)%	(26.8)%	5,655	6,481	14.6%
Margins(%)								
EBITDA	5.0%	11.8%	4.9%			10.3%	8.7%	
NPM	13.3%	12.2%	9.1%			13.9%	13.9%	
Per Share Data (Rs.)								
Adj. EPS	9.2	8.0	5.8	(36.6)%	(27.5)%	25.8	27.4	6.2%

Net sales declined due to EPC's lower sales booking traction

26.2% yoy, the 'EPC and contracts' segment revenue plummeted 54.3% yoy.

EBITDA declined 3.3% yoy to Rs. 741.3 mn and EBITDA margin went down by 10 bps yoy to 4.9%, primarily due to the increased cost of power purchased, even though the quarter saw higher realisations. EBIT grew by 13% yoy on account of a 7.5% yoy lower depreciation expense. EBIT margin also improved by 15 bps to 1.2%.

The adjusted net profit declined by 32.1% yoy to Rs. 1.4 bn and margin went down by 412 bps to 9.1% because of increased interest expense and a higher effective tax rate. The net profit was adjusted for revaluation gains of Rs. 600.2 mn on account of revised valuation of 'forex derivative instruments' as per the change in the accounting policy.

Energy business

Sales of the electrical energy business grew 26.2% yoy to Rs. 12.5 bn because of higher volumes (up 5.2% yoy) and a 28.6% yoy increase in the realisation rate.

During the quarter ended Dec'07, REL bought 1,203 mn units (up 8.7% yoy) at an average rate of Rs. 5.4 per kWh (up 30.9% yoy) from Tata Power to fulfil the demand of the Mumbai area. Since the units purchased were 30.9% costlier than the same quarter last year, EBIT margin compressed 21 bps yoy to 7.8%.

REL needs to buy expensive power in order to meet Mumbai's increasing demand for electricity. In order to pass some burden to the consumers, the Company has sought MERC's approval to hike the electricity tariff by around 14%. If realised, this hike should help the electricity segment make profits.

EPC business

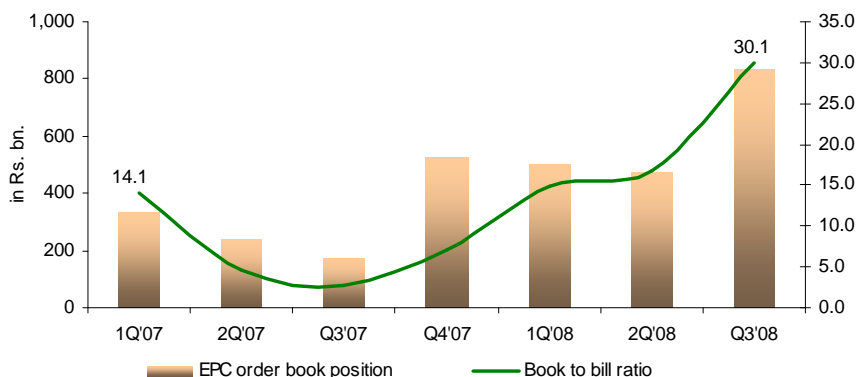
While EPC's net sales declined 54.3% yoy to Rs. 2.8 bn, EBIT margin improved appreciably by 610 bps yoy to 9%. These figures indicate that the current projects are in the completion phase, while there has been a delay in the execution of new projects.

Robust power demand and likely higher tariffs will drive power earnings

EPC's operating profit grew by 40.2% yoy

The EPC order book registered a 385.4% yoy increase to Rs. 83 bn (as on 30 Dec'07). The value of outstanding orders stood at 3.9x FY07 EPC revenues, thus providing strong visibility on the growth prospects of the EPC business.

Order book vs. Book to bill ratio



Source: Company data, Indiabulls research

Key Events

Proposal to change the Company's name

REL's board has decided to change Company's name to 'Reliance Infrastructure Limited' in order to reflect the true nature of its business. This is because REL has taken up a several infrastructure projects in the last 30 months. The name change is subject to the shareholders' approval, a mere formality.

Krishnapatnam UMPP

Reliance Power, REL's 45% subsidiary, has been awarded the 4,000 MW imported-coal based Krishnapatnam UMPP on 30 Nov'07 at the lowest levelised tariff of Rs. 2.33 per unit for 25 years. The estimated cost outlay for the project is Rs. 165.4 bn. The project would have to be fully commissioned by Oct. 2015.

Delhi Airport Metro Project

REL, in consortium with CAF of Spain, has been awarded Delhi's Airport Metro Express Line project worth Rs. 25 bn on BOOT basis for a

*REL will now be known as
Reliance Infrastructure
Limited*

*REL's order book stood at
Rs. 108 bn as on 23 Jan 2008*

concessional period of 30 years by DMRC through an international competitive bidding process. The proposed 22.7 km stretch will connect New Delhi Railway Station and New Delhi International Airport. This project is scheduled to be operational in July 2010.

Buy Back Offer

REL has announced the buy back of its fully paid up equity shares at a price not exceeding Rs. 1,600 per equity share payable in cash, for an aggregate amount not exceeding Rs. 8,000.6 mn.

Acquisition of Tuas Power

REL is in the race of acquiring Tuas Power, a major player in Singapore's electricity industry, for its subsidiary Reliance Power. Tuas Power is valued at \$2 bn and holds a power generation capacity of 2,700 MW.

Outlook

REL is all set to leverage the opportunities emerging in the different infrastructure projects. The Company has diversified in areas such as power generation; transmission and distribution; and construction of bridges, buildings, roads, highways, airports, and metro rails. In addition, the Company is setting up SEZs in Noida and Mumbai areas.

REL's subsidiary, Reliance Power, has won the Krishnapatnam UMPP at the lowest levelised rate of Rs. 2.33 per unit. With the second UMPP in its portfolio, the Company has proved its capability of adding more capacity to its scheduled 28,200 MW. While Reliance Power's growth story is intact, there are concerns regarding the execution of these projects and the assurance of coal and gas linkages for its power plants. Going forward, REL's electricity producing capacity at higher PLFs and the capability to win new UMPPs for Reliance Power should provide better returns to the shareholders.

The Company's power business is also showing good results, except the Mumbai distribution business that is suffering largely due to costly electricity being purchased from Tata Power. However, this problem should be solved as soon as MERC approves the increase in tariffs. Meanwhile,

REL is diversifying in all areas of infrastructure

work on the WRSS projects is going as per schedule and REL is also showing consistent improvement in the PLFs of its generating stations.

For its EPC business, REL won the Rs 25 bn Delhi Airport Metro Project, which will increase its EPC order book to Rs. 108 bn. We expect the Company to maintain its strong order inflow of the EPC order book, driven by the management's initiatives and robust demand in the infrastructure and energy sectors.

Valuation

We upgrade our earnings estimate by 2.8% for FY09E on the back of a likely increase in power tariffs. Driven by all the positive factors and the management's eye on new projects, we believe the stock value is more than what is reflected by the current market price. Based on our SOTP valuation, we arrive at a fair value of Rs. 1,495, which is 28.6% more than the current price. Hence, we upgrade our rating to Buy.

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	73,835	95,011	17.8%
Adj. EBITDA	5,968	7,465	5,497	6,138	8,215	22.2%
Adj. Net Profit	5,246	6,425	8,254	9,335	12,221	21.7%

Margins(%)

EBITDA	14.4%	18.5%	8.0%	8.3%	8.6%
NPM	12.7%	15.9%	12.1%	12.6%	12.9%

Per Share Data (Rs.)

Adj. EPS	26.2	31.5	37.7	39.5	51.7	17.0%
PER (x)	20.2x	19.4x	13.1x	29.5x	22.5x	

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