

INDIA

Reliance Power

SELL
Maintained
Rs150

Lack of meaningful triggers

Reason for report: Q2FY10 results review

Reliance Power's (RPower) project execution for Rosa phase I is in line with expectations – 300MW Unit 1 will likely achieve commercial operations in early Q4FY10. The visibility on other projects is limited as most of the projects are at nascent stage. The company has spent Rs28.8bn (Rs27.5bn in Q1FY10) of ~Rs115.6bn proceeds from its IPO. RPower's Q2FY10 PAT grew 423% YoY to ~Rs1.95bn owing to ~332% hike in other income on the back of maturity of fixed maturity plans accounted during the quarter and reduction in other expenses. We revise our earning estimate to reflect the lumpiness in FMP accounting (RPower does not account for FMP on an accrual basis). We revise FY10E PAT ~206%. Owing to no operating assets, current earnings are insignificant and this revision increases our target price only by Rs1/share to Rs145/share. Owing to high sensitivity of the target price to project timelines and limited visibility of project execution (ex Rosa) we maintain SELL.

► **Rosa execution on track.** Rosa phase I is likely to commence operations by early-Q4FY10. The equipment has started arriving at 4,000MW Sasan ultra mega power project (UMPP). The company has also taken over Tilayia UMPP from Power Finance Corporation (PFC) and is planning to source coal on a contractual basis for Krishnapatnam for the next 5-6 years to account for likely delay in production of coal that will be imported by RPower from Indonesia.

► **Earnings upgrade owing to higher interest income.** We raise FY10E and FY11E earning estimates 195% and 45% respectively owing to higher other income that RPower reported in the previous two quarters – this was due to the bunching of FMP (other income in H1FY10 was ~Rs5.8bn on the current cash balance of ~Rs95bn). While this has no impact on the operations of the company and execution rate of capacity addition, it does increase our estimation of cash balance in FY10.

► **Maintain SELL.** Despite significant tailwind in the Power sector owing to IPOs, RPower has underperformed the Sensex ~23% since Q1FY10. Though our target price suggests limited downside from the current level (~3%), we maintain SELL owing to high sensitivity of our valuation to: i) project timelines, ii) ambiguity over gas supplies and iii) limited visibility of projects other than Rosa.

Market Cap	Rs360bn/US\$7.7bn
Reuters/Bloomberg	RPOL.BO/RPWR IN
Shares Outstanding (mn)	2,397
52-week Range (Rs)	200/92
Free Float (%)	15.2
FII (%)	3.7
Daily Volume (US\$/'000)	27,000
Absolute Return 3m (%)	(13.5)
Absolute Return 12m (%)	60.3
Sensex Return 3m (%)	6.4
Sensex Return 12m (%)	81.5

Year to Mar	2008	2009	2010E	2011E
Revenue (Rs mn)	0	0	1,374	11,146
Rec. Net Income (Rs mn)	854	2,445	6,229	2,542
EPS (Rs)	0.3	1.1	2.8	1.1
% Chg YoY	NA	274.2	154.8	(59.2)
P/E (x)	518.8	138.6	54.4	133.3
CEPS (Rs)	0.3	1.0	2.7	1.6
EV/E (x)	NM	NM	NM	115.6
Dividend Yield (%)	-	-	-	-
RoCE (%)	0.9	1.7	3.3	1.4
RoE (%)	1.0	1.8	4.4	1.8
Consolidated				

Utilities

Target price Rs145

Earnings revision

(%)	FY10E	FY11E
Sales	0	0
EBITDA	0	0
EPS *	↑ 206	↑ 41

* Owing to FMP accounting

Target price revision

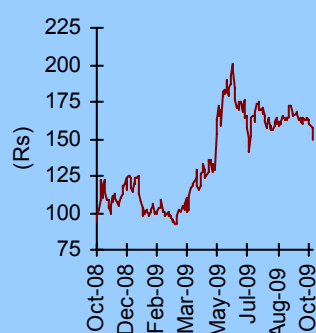
Rs145 from Rs144

Shareholding pattern

	Mar '09	Jun '09	Sep '09
Promoters	84.8	84.8	84.8
Institutional investors	5.4	5.7	5.6
MFs and UTI	0.3	0.4	0.5
Insurance Cos.	0.6	0.7	0.8
FIs	3.8	3.8	3.7
Others	9.8	9.5	9.6

Source: NSE

Price chart



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Table 1: Q2FY10 results review (consolidated)

(Rs mn, year ending March 31)

	Q2FY10	Q2FY09	Q1FY10	% chg. (YoY)	% chg. (QoQ)	I-Sec est.
Revenue	0	0	0	NA	NA	0
EBITDA	(158)	(196)	(318)	NA	(50)	(334)
Depreciation	1	0	1	NA	(23)	1
Other Income	2,462	570	3,355	332	(27)	1,173
Interest	0	0	0	NA	NA	0
PBT	2,303	374	3,036	516	(24)	838
Taxes	358	2	403	23,579	(11)	142
PAT	1,945	372	2,633	423	(26)	696

Source: Company data, I-Sec Research

Table 2: Development update

Project	Capacity (MW)	Expected CoD*	Update
Rosa Ph I	600	Q4FY10	Unit 1 ready for commissioning, grid linkage expected next month; 110 out of 125 engineers required are already on site
Rosa Ph II	600	FY12	Construction activity started
Sasan	3,960	Q4FY12	Site grading completed
Butibori	300	FY12	Boiler erection to start early next quarter, RPower has bid for Case 1 Reliance Infra bid to supply 124MW in FY13-14
Krishnapatnam	4,000	FY14	Land acquisition and infrastructure development is being completed.
Tilaiya	3,960	FY16	Shell company acquired from PFC, mine plan may be submitted for approval by January '10
MP Power - Chitrangi	3,960	FY15	Launched financing for the project

*CoD: Commercial operations date; PFC: Power Finance Corporation

Source: Company data, I-Sec Research, CERC

Table 3: Earnings revision (consolidated)

	FY10E			FY11E			Reason
	Old	Revised	%chg	Old	Revised	%chg	
Sales	1,374	1,374	0	11,146	11,146	0	Bunching of FMPs increases other Income
EBITDA	(121)	(121)	0	4,794	4,794	0	
EPS	0.9	2.8	206	0.8	1.1	41	

Source: Company data, I-Sec Research

Financial Summary (Consolidated)

Table 4: Profit & Loss statement

(Rs mn, year ending March 31)

	FY08	FY09	FY10E	FY11E
Operating Income (Sales)	-	-	1,374	11,146
of which EXIM	-	-	-	-
of which Domestic	-	-	1,374	11,146
Operating Expenses	407	1,031	1,495	6,353
EBITDA	(407)	(1,031)	(121)	4,794
% margins	NM	NM	(8.8)	43.0
Depreciation & Amortisation	-	2	169	1,330
Gross Interest	-	-	290	2,251
Other Income	1,129	3,604	7,950	1,884
Recurring PBT	721	2,570	7,370	3,097
Add: Extraordinaries	200	-	-	-
Less: Taxes	68	125	1,141	554
- Current tax	64	119	1,105	448
Less: Minority Interest	-	-	-	-
Net Income (Reported)	854	2,445	6,229	2,542
Recurring Net Income	653	2,445	6,229	2,542

Source: Company data, I-Sec Research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY08	FY09	FY10E	FY11E
Assets				
Total Current Assets	4,877	2,212	8,206	9,551
of which cash & cash eqv.	4,270	216	6,056	6,293
Total Current Liabilities & Provisions	6,603	3,927	878	1,252
Net Current Assets	(1,727)	(1,715)	7,328	8,299
Investments	131,234	103,172	74,689	33,439
of which				
Other Marketable	131,234	103,172	74,689	33,439
Net Fixed Assets	10,310	49,659	161,959	339,643
of which				
Capital Work-in-Progress	8,178	46,780	133,450	283,680
Total Assets	139,817	151,116	243,976	381,380
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	119,960	122,410
Net Worth	135,334	137,792	143,928	146,378
Total Liabilities	139,817	151,116	243,976	381,380

*excluding revaluation reserves

Source: Company data, I-Sec Research

Table 8: Quarterly trend

(Rs mn, year ending March 31)

	Dec-08	Mar-09	Jun-09	Sep-09
Total Revenues	-	-	-	-
% growth (YoY)	-	-	-	-
EBITDA	(190)	(472)	(318)	(158)
Margin (%)	NA	NA	NA	NA
Other income	1,313	916	3,355	2,462
Add: Extraordinaries	-	-	-	-
Recurring Net profit	1,057	404	2,633	1,945

Source: Company data, I-Sec Research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY08	FY09	FY10E	FY11E
Operating Cash flow	(475)	(1,157)	(1,553)	1,989
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)	(117,225)	(177,759)
Cash flow from Investing Activities	(130,618)	31,665	36,434	43,133
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)	5,840	237

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	2.8	1.1
Diluted Recurring EPS	0.3	1.1	2.8	1.1
Recurring Cash EPS	0.3	1.0	2.7	1.6
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	59.9	57.5	60.1	61.1
Growth Ratios (%)				
Operating Income	NM	NM	NM	711.4
EBITDA	NM	153.1	(88.3)	NM
Recurring Net Income	NM	274.2	154.8	(59.2)
Diluted Recurring EPS	NM	274.2	154.8	(59.2)
Diluted Recurring CEPS	NM	253.2	161.4	(39.5)
Valuation Ratios (x)				
P/E	518.8	138.6	54.4	133.3
P/CEPS	518.8	146.9	56.2	92.8
P/BV	2.5	2.6	2.5	2.5
EV / EBITDA	NM	NM	NM	115.6
EV / Operating Income	NM	NM	275.3	49.7
EV / Operating FCF	(48.6)	(6.0)	(3.2)	(3.1)
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	107.9	60.8
Effective Tax Rate (%)	8.9	4.6	15.1	15.0
NWC / Total Assets (%)	33.7	53.4	41.5	25.7
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	1.6

Return/Profitability Ratio (%)

Recurring Net Income Margins	57.9	67.8	66.8	19.5
RoCE	0.9	1.7	3.3	1.4
RoNW	1.0	1.8	4.4	1.8
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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