

Industry : Power

CMP : Rs.535

Price Target : Rs.525

Hold

 Analyst:
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Current

Recommendation	Hold
CMP (INR)	535.00
Target Price (INR)	525.00

Key Data

Bloomberg	RELE@IN
Reuters Code	BSES.BO
BSE Code	500390
NSE Code	REL
Face Value	10.00
Market Cap. (INR mn)	127405.00
52 Week High (INR)	669.65
52 Week Low (INR)	362.05

Scrip Scan

Equity Rs.mn	2131.70
FY07E	33.09
FY08E	32.38

Shareholding (31.12.06) (%)

Promoters	29.71
FI	29.46
FII	22.06
Public	18.77
Grand Total	100.00

Highlights for the quarter
➤ Results below expectations

REL reported weak performance for Q3 FY07 with sales growing by 55% and net profit growing by 23% largely driven by 92% growth in other income. On operational front, the margins dropped by 1276bps to just 5.39% due to sharp rise in the power purchase cost that squeezed the margins.

➤ Revenues growth remains impressive

Even though the profitability disappoints the numbers the revenues from electricity sale remained impressive with 12.9% growth for the quarter. In terms of unit sale the growth was better at 15.9% for the quarter. The revenues in EPC division reported growth of 253.9% for the quarter. The Dahnu power station operated at 100.6% for the 9M FY07 against 97% in last year. The EPC division ended the quarter with order book of Rs 17.1bn.

➤ Consolidating infrastructure companies

REL during the quarter acquired majority stake in the group companies engaged in various infrastructure projects. These are BSES Kerala Power Ltd (100%), Reliance AWorld Ltd. (100%), Reliance Infrastructure Projects Pvt. Ltd. (100%), Reliance Infrastructure Services Pvt. Ltd. (100%) and Reliance Energy Transmission Ltd. (51%).

Valuations

REL fails to deliver any meaningful growth from its existing operation. However the foray into the infrastructure segment is likely to fill the vacuum created due to long gestation project in power sector. The delay in the Dadri project is likely to fade the future growth visibility for REL. At current market price, the stock trades at 19.3x and 18.5x FY07E and FY08E earnings. **We recommend investors to "HOLD" the stock with fair value price of Rs.525 over next 12 months.**

Quarterly Performance
(Rs.mn)

	Q3 FY07	Q3 FY06A	Q2 FY07A	9M FY07	9M FY06
Net Sales	15336.9	9883.5	14076.3	40961.7	29714.7
% Change (yoy)	55.2			37.8	
Total Expenditure	14510.4	8090.1	12300.8	36580.2	24378.6
EBIDTA	826.5	1793.4	1775.5	4381.5	5336.1
% Change (yoy)	(53.9)			(17.9)	
EBIDTA Margin (%)	5.4	18.1	12.6	10.7	18.0
Interest	550.5	467.4	670.5	1680.3	1441.5
Depreciation	611.7	907.2	635.4	1866.0	2595.0
Other Income	2867.4	1492.8	1760.7	5894.1	4119.6
PBT	2531.7	1911.6	2230.3	6729.3	5419.2
Tax	506.7	265.2	366.3	1089	610.5
Ex Ord Item	0	0	0	0	0
Adj Net Profit	2025.0	1646.4	1864.0	5640.3	4808.7
% Change (yoy)	23.0			17.3	
Net Profit Margin (%)	13.2	16.7	13.2	13.8	16.2
Equity	2131.7	2019.4	2123.6	2131.7	2019.4
EPS	9.5	8.2	8.8	26.5	23.8

Income Statement
(Rs.mn)

	FY05	FY06	FY07E	FY08E
Net Sales	41337.3	40334.9	50186.0	55695.0
Growth (%)		(2.4)	24.4	11.0
Other Income	4588.3	5744.0	6730.0	5500.0
Total Expenditure	35419.8	32859.1	42334.8	46713.5
% to sales	85.7	81.5	84.4	83.9
Fuel Cost	7362.6	8121.0	8390.0	8474.0
% to sales	17.8	20.1	16.7	15.2
Cost of Power Purchase	10041.0	10875.6	11334.8	11788.0
% to sales	24.3	27.0	22.6	21.2
Cost on EPC contracts	11645.5	7288.4	14470.0	18000.0
% to sales	28.2	18.1	28.8	32.3
Employee Cost	1487.1	1634.6	2150.0	2150.0
% to sales	3.6	4.1	4.3	3.9
Repairs & maintainance	1209	1350	1400	1450
% to sales	2.9	3.4	2.8	2.6
Tax on electricity	991.2	1140.0	1287.0	1351.0
% to sales	2.4	2.8	2.6	2.4
Other Expenditure	2683.4	2449.5	3303.0	3500.5
% to sales	6.5	6.1	6.6	6.3
Operating Profit	5917.5	7475.8	7851.2	8981.5
Margins (%)	14.3	18.5	15.6	16.1
Interest	1348.2	1918.8	1800.0	1900.0
Gross Profit	9157.6	11301.0	12781.2	12581.5
Depreciation	3464.4	3486.3	3500.0	3500.0
Tax	490.2	1311.3	1392.0	1362.0
Net Profit	5203.0	6503.4	7889.2	7719.5
Margins (%)	12.6	16.1	15.7	13.9

Balance Sheet

	(Rs.mn)			
	FY05	FY06	FY07E	FY08E
SOURCES OF FUNDS				
Equity share capital	10120.0	10120.0	10120.0	10120.0
Reserves & Surplus	403320.0	466960.0	508980.0	556790.0
Equity share holders funds	413430.0	477070.0	519090.0	566910.0
Secured Loans	0.0	0.0	0.0	0.0
Un Secured Loans	122700.0	146710.0	175090.0	206270.0
Total Loan funds	122700.0	146720.0	175090.0	206270.0
Deferred Tax Liability	13990.0	8760.0	8760.0	8760.0
Capital Employed	550120.0	632550.0	702940.0	781940.0
APPLICATION OF FUNDS				
Gross Block	276950.0	293460.0	328460.0	363460.0
Less: Depreciation	162860.0	177870.0	198970.0	221470.0
Net Block	114080.0	115580.0	129480.0	1419.80.0
Technical Knowhow	410.0	130.0	130.0	130.0
Investments	456060.0	585700.0	643200.0	675150.0
Inventories	22420.0	27290.0	29000.0	39000.0
Sundry Debtors	17630.0	30160.0	36050.0	44530.0
Cash & Bank Bal	10870.0	8210.0	18210.0	28210.0
Other Current assets	6850.0	7210.0	7210.0	7210.0
Loans & Advances	201200.0	212740.0	212740.0	212730.0
Curr Assets, Loans & Adv	258970.0	285610.0	303210.0	331680.0
Curr Liabilities & Provision	78510.0	122890.0	141500.0	135420.0
Provision	200890.0	231590.0	231590.0	231590.0
Curr Liab & Prov	279400.0	354480.0	373090.0	367010.0
Net Current Assets	-20420.0	-68870.0	-69880.0	-35320.0
Total Assets	550120.0	632550.0	702940.0	781940.0

Ratios

	2004-05	2005-06	2006-07	2007-08
Growth (%)				
Net Sales	-	(2.4)	24.4	11.0
Adjusted Net Profit	-	25.0	21.3	(2.2)
EBITDA	-	26.3	5.0	14.4
EPS	-	25.0	0.7	(2.2)
CEPS	-	15.3	(5.4)	(1.5)
Gross Fixed Assets	-	6.0	2.6	1.7
Capital Employed	-	19.4	14.7	3.4
Valuation				
EPS (Rs.)	26.3	32.9	33.1	32.4
CEPS (Rs.)	43.8	50.5	47.8	47.1
BVPS (Rs)	341.6	370.8	421.5	421.5
PER (x)	20.4	16.3	16.2	16.5
PEG (x)	-	0.7	22.9	(7.7)
P/CEPS (x)	12.2	10.6	11.2	11.4
P/BV (x)	1.6	1.4	1.3	1.3
EV/EBITDA (x)	7.3	7.5	6.5	7.1
EV/Net Sales (x)	1.8	2.5	1.9	1.8
Profitability				
ROCE (%)	10.1	10.7	10.3	9.9
ROE (%)	8.2	8.3	7.9	7.7
EBIDTA Margin (%)	14.3	18.5	15.6	16.1
EBDTA Margin (%)	11.1	13.8	12.1	12.7
Net Profit Margin (%)	12.6	16.1	15.7	13.9
Tax/PBT (%)	8.6	16.8	15.0	15.0
Turnover				
Avg. Collection Period (Days)	82	99	76	72
Avg. Payment Period (Days)	537	527	483	495
Net Fixed Assets (x)	1.4	1.4	1.9	2.3
Total Assets (x)	0.4	0.3	0.4	0.4
Other Financial Ratios				
Interest Coverage (x)	4.4	3.9	4.4	4.7
Debt to Equity Ratio (x)	0.6	0.5	0.4	0.4
Basic Data				
Market Capitalisation (Rs.mn)	9,9301.0	11,3613.0	12,7405.0	12,7405.0
Enterprise Value (Rs.mn)	7,6234.0	9,9753.0	9,5236.0	10,2229.0

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