

# UBS Investment Research

## Reliance Power

### Q2 FY12: satisfactory operating performance

#### ■ Rs4.9bn of sales and Rs2.4bn of PAT in Q2 FY12

In Q2 FY12, Reliance Power reported Rs4.9bn of operating revenue (up 189% YoY) and Rs2.6bn of other income (decline of 23% YoY). EBITDA increased 326% YoY to Rs1.2bn. Reported PAT is Rs2.4bn (flat YoY). Since Reliance Power only has 600MW (vs. project portfolio of 35,000MW) currently operational, the Q2 results are not that significant. However, the results are ahead of UBS estimates.

#### ■ Rosa Phase I (600MW) has delivered good operational performance

The utilisation at the only operational plant of Reliance Power (Rosa Phase I, 600MW) has been reasonable in Q2 FY12. The plant operated at a plant load factor (PLF) of 77%, generating 1,030 MUs (vs. 530 MUs in Q2 FY11), and net profit for the plant was Rs750m (vs. a Rs220m loss in Q2 FY11). As per the company, the regulated plants are very profitable if they are run efficiently.

#### ■ We hosted Reliance Power at UBS India CEO/CFO Forum 2011

The highlights are: a) Rosa—the first unit of 600MW is operating very well (~90% PLFs) and the unit 2 of 600MW would start by March 2012. Rosa would make an RoE of ~25% on a full-year basis in FY12; b) Sasan UMPP execution—Unit 1 would get commissioned in December 2012; c) Sasan coal mines—coal mine development is ahead of schedule (production starting July 2012).

#### ■ Valuation: maintain Buy rating and price target of Rs105

We use a DCF valuation methodology to derive our price target and only include 13,680MW of projects. Our key assumptions are: 1) a risk-free rate of 8.3%; 2) risk premium of 5.5%; and 3) an FY15 tariff of Rs2.75/unit for the Chitrangi power station.

Highlights (Rsm)	03/10	03/11	03/12E	03/13E	03/14E
Revenues	207	10,548	19,778	33,850	64,262
EBIT (UBS)	(1,130)	2,307	5,012	11,066	26,884
Net Income (UBS)	6,839	8,373	7,214	9,605	14,774
EPS (UBS, Rs)	2.85	2.99	2.57	3.42	5.27
Net DPS (UBS, Rs)	0.00	0.00	0.00	0.00	0.00

Profitability & Valuation	5-yr hist av.	03/11	03/12E	03/13E	03/14E
EBIT margin %	-	21.9	25.3	32.7	41.8
ROIC (EBIT) %	-	1.9	2.4	3.4	6.0
EV/EBITDA (core) x	-	>100	55.3	30.8	17.0
PE (UBS) x	-	51.1	40.0	30.0	19.5
Net dividend yield %	-	0.0	0.0	0.0	0.0

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs102.75 on 09 Nov 2011 23:54 SGT

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## Global Equity Research

India

Electric Utilities

12-month rating **Buy**  
**Unchanged**

12m price target **Rs105.00/US\$2.11**  
**Unchanged**

Price **Rs102.75/US\$2.06**

RIC: RPOL.BO BBG: RPWR IB

10 November 2011

#### Trading data (local/US\$)

52-wk range	Rs188.60-76.80/US\$4.24-1.57
Market cap.	Rs288bn/US\$5.78bn
Shares o/s	2,805m (ORD)
Free float	15%
Avg. daily volume ('000)	4,142
Avg. daily value (m)	Rs355.2

#### Balance sheet data 03/12E

Shareholders' equity	Rs163bn
P/BV (UBS)	1.8x
Net Cash (debt)	(Rs93.0bn)

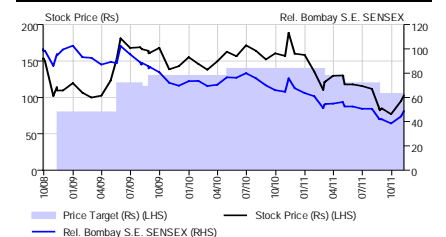
#### Forecast returns

Forecast price appreciation	+2.2%
Forecast dividend yield	0.0%
Forecast stock return	+2.2%
Market return assumption	13.5%
Forecast excess return	-11.3%

#### EPS (UBS, Rs)

	03/12E	03/11	Actual
Q1	0.00	-	1.58
Q2E	0.00	-	1.83
Q3E	0.00	-	1.57
Q4E	0.00	-	(1.49)
03/12E	2.57	2.57	
03/13E	3.42	3.42	

#### Performance (Rs)



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 ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 5.

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Table 1: Reliance Power—Q2 FY12 results

(Rs m)	Q2 FY12	Q2 FY11	% change	H1 FY12	H1 FY11	% change
Net sales/income from operations	4,875	1,687	189.0%	10,294	3,080	234.2%
Total expenditure	3,672	1,405	161.4%	7,244	2,706	167.7%
EBITDA	1,203	282	326.8%	3,049	374	715.2%
Depreciation	293	375	-21.9%	578	612	-5.6%
EBIT	911	(93)	-1079.3%	2,471	(238)	-1136.5%
Interest	753	499	50.9%	1,514	789	92.0%
Other income	2,631	3,437	-23.4%	4,106	6,311	-34.9%
PBT	2,789	2,845	-2.0%	5,063	5,284	-4.2%
Tax	431	497	-13.3%	747	982	-24.0%
Profit after Tax	2,358	2,348	0.4%	4,316	4,302	0.3%
Minority interest	-	(0)	0.5%	-	(0)	0.5%
Reported net profit after tax and minority interest	2,358	2,348	0.4%	4,316	4,302	0.3%
Fuel cost/Sales	59.4%	59.1%	0.2%	57.9%	56.3%	1.7%
Employee cost/Sales	4.6%	9.1%	-4.5%	3.9%	10.2%	-6.4%
Other costs/Sales	4.0%	6.7%	-2.7%	2.9%	14.8%	-11.9%
EBITDA Margin	24.7%	16.7%	8.0%	29.6%	12.1%	17.5%

Source: Company data

# Reliance Power

Income statement (Rsm)	03/07	03/08	03/09	03/10	03/11	03/12E	% ch	03/13E	% ch	03/14E	% ch
Revenues	0	0	0	207	10,548	19,778	87.5	33,850	71.1	64,262	89.8
Operating expenses (ex depn)	(17)	(391)	(1,031)	(1,280)	(7,232)	(13,752)	90.2	(19,150)	39.3	(30,592)	59.7
EBITDA (UBS)	5	(391)	(1,031)	(1,073)	3,316	6,026	81.7	14,700	143.9	33,670	129.0
Depreciation	0	(17)	(2)	(57)	(1,009)	(1,014)	0.6	(3,634)	258.2	(6,786)	86.7
Operating income (EBIT, UBS)	5	(407)	(1,034)	(1,130)	2,307	5,012	117.2	11,066	120.8	26,884	142.9
Other income & associates	0	0	0	0	0	0	-	0	-	0	-
Net interest	0	1,129	2,995	8,156	6,182	4,006	-35.2	940	-76.5	(8,416)	-
Abnormal items (pre-tax)	0	0	0	0	0	0	-	0	-	0	-
Profit before tax	5	721	1,961	7,026	8,489	9,017	6.2	12,006	33.1	18,468	53.8
Tax	(4)	(68)	(125)	(187)	(116)	(1,803)	1460.3	(2,401)	33.1	(3,694)	53.8
Profit after tax	2	653	1,836	6,839	8,373	7,214	-13.8	9,605	33.1	14,774	53.8
Abnormal items (post-tax)	0	0	0	0	0	0	-	0	-	0	-
Minorities / pref dividends	0	0	0	0	0	0	-	0	-	0	-
Net income (local GAAP)	2	653	1,836	6,839	8,373	7,214	-13.8	9,605	33.1	14,774	53.8
Net Income (UBS)	2	653	1,836	6,839	8,373	7,214	-13.8	9,605	33.1	14,774	53.8
Tax rate (%)	70	9	6	3	1	20	1368.9	20	0.0	20	0.0
Pre-abnormal tax rate (%)	70	9	6	3	1	20	1368.9	20	0.0	20	0.0
Per share (Rs)	03/07	03/08	03/09	03/10	03/11	03/12E	% ch	03/13E	% ch	03/14E	% ch
EPS (local GAAP)	0.00	0.29	0.77	2.85	2.99	2.57	-13.8	3.42	33.1	5.27	53.8
EPS (UBS)	0.00	0.29	0.77	2.85	2.99	2.57	-13.8	3.42	33.1	5.27	53.8
Net DPS	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Cash EPS	0.00	0.30	0.77	2.88	3.34	2.93	-12.3	4.72	60.9	7.69	62.9
BVPS	8.85	61.26	57.15	60.82	57.72	58.18	0.8	58.25	0.1	58.26	0.0
Balance sheet (Rsm)	03/07	03/08	03/09	03/10	03/11	03/12E	% ch	03/13E	% ch	03/14E	% ch
Net tangible fixed assets	0	10,310	49,659	91,436	162,582	260,838	60.4	396,157	51.9	499,820	26.2
Net intangible fixed assets	0	0	0	0	0	0	-	0	-	0	-
Net working capital (incl. other assets)	0	(2,893)	(2,751)	(3,744)	(3,280)	(4,596)	40.1	3,018	-	(942)	-
Other liabilities	0	0	0	0	0	0	-	0	-	0	-
Operating invested capital	0	7,416	46,908	87,693	159,302	256,243	60.9	399,176	55.8	498,878	25.0
Investments	0	0	0	0	0	0	-	0	-	0	-
Total capital employed	0	7,416	46,908	87,693	159,302	256,243	60.9	399,176	55.8	498,878	25.0
Shareholders' equity	20,000	138,437	136,972	145,777	161,905	163,205	0.8	163,400	0.1	163,412	0.0
Minority interests	0	0	0	0	0	0	-	0	-	0	-
Total equity	20,000	138,437	136,972	145,777	161,905	163,205	0.8	163,400	0.1	163,412	0.0
Net debt / (cash)	(20,000)	(131,021)	(90,064)	(58,084)	(2,603)	93,037	-	235,775	153.4	335,466	42.3
Other debt-deemed items	0	0	0	0	0	0	-	0	-	0	-
Total capital employed	0	7,416	46,908	87,693	159,302	256,243	60.9	399,176	55.8	498,878	25.0
Cash flow (Rsm)	03/07	03/08	03/09	03/10	03/11	03/12E	% ch	03/13E	% ch	03/14E	% ch
Operating income (EBIT, UBS)	5	(407)	(1,034)	(1,130)	2,307	5,012	117.2	11,066	120.8	26,884	142.9
Depreciation	0	17	2	57	1,009	1,014	0.6	3,634	258.2	6,786	86.7
Net change in working capital	0	5,992	(4,316)	2,786	(8,417)	(4,252)	-49.5	(17,564)	313.0	(12,435)	-29.2
Other (operating)	0	0	0	0	0	0	-	0	-	0	-
Operating cash flow (pre tax/interest)	5	5,601	(5,347)	1,713	(5,101)	1,774	-	(2,863)	-	21,235	-
Net interest received / (paid)	0	1,129	2,995	8,156	6,182	4,006	-35.2	940	-76.5	(8,416)	-
Dividends paid	0	0	0	0	0	0	-	0	-	0	-
Tax paid	(4)	(68)	(125)	(187)	(116)	(1,803)	1460.3	(2,401)	33.1	(3,694)	53.8
Capital expenditure	0	(10,326)	(39,405)	(41,869)	(72,155)	(99,109)	37.4	(138,953)	40.2	(110,449)	-20.5
Net (acquisitions) / disposals	0	0	0	0	0	0	-	0	-	0	-
Other	-	46	0	0	12,010	0	-100.0	0	-	0	-
Share issues	0	114,434	12	0	4,088	0	-	0	-	0	-
Cash flow (inc)/dec in net debt	2	110,816	(41,871)	(32,186)	(55,092)	(95,133)	72.7	(143,278)	50.6	(101,324)	-29.3
FX / non cash items	-	205	914	207	(390)	(508)	30.3	540	-	1,633	202.3
Balance sheet (inc)/dec in net debt	-	111,021	(40,957)	(31,979)	(55,481)	(95,640)	72.4	(142,738)	49.2	(99,691)	-30.2
Core EBITDA	5	(391)	(1,031)	(1,073)	3,316	6,026	81.7	14,700	143.9	33,670	129.0
Maintenance capital expenditure	0	0	0	0	0	0	-	0	-	0	-
Maintenance net working capital	0	0	0	0	0	0	-	0	-	0	-
Operating free cash flow, pre-tax	5	(391)	(1,031)	(1,073)	3,316	6,026	81.7	14,700	143.9	33,670	129.0

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

12-month rating

Buy

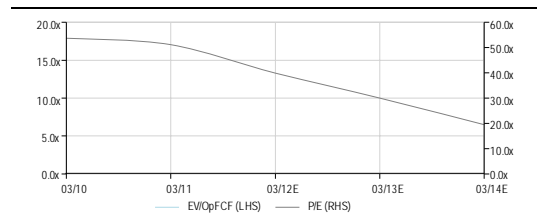
12m price target

Rs105.00

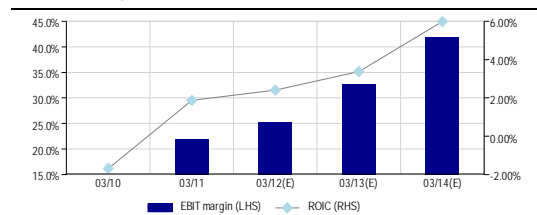
Company profile

Reliance Power is a subsidiary of Reliance-ADA Group (one of India's largest business groups) in the power generation sector. With a project pipeline of 28,200MW, Reliance Power targets to become one of the largest private sector generation companies in India by 2017. The projects are well diversified with a coal:gas:hydro mix of 52:36:12, and plants in six states across 13 locations. Reliance Power expects to start power generation in FY11.

Value (EV/OpFCF & P/E)



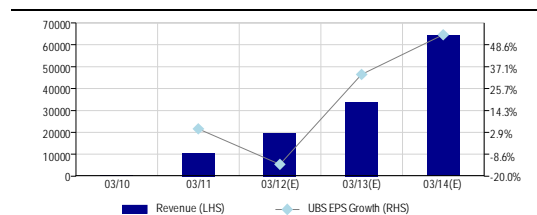
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	03/10	03/11	03/12E	03/13E	03/14E
P/E (local GAAP)	-	53.7	51.1	40.0	30.0	19.5
P/E (UBS)	-	53.7	51.1	40.0	30.0	19.5
P/CEPS	-	53.3	45.6	35.0	21.8	13.4
Net dividend yield (%)	-	0.0	0.0	0.0	0.0	0.0
P/BV	-	2.5	2.6	1.8	1.8	1.8
EV/revenue (core)	-	NM	NM	NM	NM	8.9
EV/EBITDA (core)	-	<-100	>100	55.3	30.8	17.0
EV/EBIT (core)	-	NM	NM	NM	NM	21.3
EV/OpFCF (core)	-	NM	NM	NM	NM	17.0
EV/op. invested capital	-	4.4	2.9	1.6	1.4	1.3

Enterprise value (Rsm)	03/10	03/11	03/12E	03/13E	03/14E
Average market cap	367,315	387,681	288,224	288,224	288,224
+ minority interests	0	0	0	0	0
+ average net debt (cash)	(74,074)	(30,344)	45,217	164,406	285,621
+ pension obligations and other	0	0	0	0	0
- non-core asset value	0	0	0	0	0
Core enterprise value	293,241	357,337	333,441	452,630	573,845

Growth (%)	5Yr Avg	03/10	03/11	03/12E	03/13E	03/14E
Revenue	-	-	NM	87.5	71.1	89.8
EBITDA (UBS)	NM	4.1	-	81.7	143.9	129.0
EBIT (UBS)	NM	9.4	-	117.2	120.8	142.9
EPS (UBS)	NM	NM	4.6	-13.8	33.1	53.8
Cash EPS	NM	NM	16.2	-12.3	60.9	62.9
Net DPS	-	-	-	-	-	-
BVPS	59.8	6.4	-5.1	0.8	0.1	0.0

Margins (%)	5Yr Avg	03/10	03/11	03/12E	03/13E	03/14E
EBITDA / revenue	-	NM	31.4	30.5	43.4	52.4
EBIT / revenue	-	<-500	21.9	25.3	32.7	41.8
Net profit (UBS) / revenue	-	NM	NM	36.5	28.4	23.0

Return on capital (%)	5Yr Avg	03/10	03/11	03/12E	03/13E	03/14E
EBIT ROIC (UBS)	-	NM	1.9	2.4	3.4	6.0
ROIC post tax	-	NM	1.8	1.9	2.7	4.8
Net ROE	-	4.8	5.4	4.4	5.9	9.0

Coverage ratios (x)	5Yr Avg	03/10	03/11	03/12E	03/13E	03/14E
EBIT / net interest	-	-	-	-	-	3.2
Dividend cover (UBS EPS)	-	-	-	-	-	-
Div. payout ratio (% , UBS EPS)	-	-	-	-	-	-
Net debt / EBITDA	NM	NM	NM	NM	NM	10.0

Efficiency ratios (x)	5Yr Avg	03/10	03/11	03/12E	03/13E	03/14E
Revenue / op. invested capital	-	0.0	0.1	0.1	0.1	0.1
Revenue / fixed assets	-	0.0	0.1	0.1	0.1	0.1
Revenue / net working capital	-	NM	NM	NM	NM	61.9

Investment ratios (x)	5Yr Avg	03/10	03/11	03/12E	03/13E	03/14E
OpFCF / EBIT	NM	0.9	1.4	1.2	1.3	1.3
Capex / revenue (%)	NM	NM	NM	NM	NM	NM
Capex / depreciation	NM	NM	NM	NM	NM	NM

Capital structure (%)	5Yr Avg	03/10	03/11	03/12E	03/13E	03/14E
Net debt / total equity	(50.0)	(39.8)	(1.6)	57.0	NM	NM
Net debt / (net debt + equity)	NM	(66.2)	(1.6)	36.3	59.1	67.2
Net debt (core) / EV	-	(25.3)	(8.5)	13.6	36.3	49.8

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs102.75 on 09 Nov 2011 23:54 SGT Market cap(E) may include forecast share issues/buybacks.

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## ■ Reliance Power

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## ■ Statement of Risk

We believe the key risks are fuel availability; equipment availability and performance; funding costs; and payment security, as well as off-take related and project execution risks.

## ■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner, including with respect to UBS, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

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### UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage <sup>1</sup>	IB Services <sup>2</sup>
Buy	Buy	59%	35%
Neutral	Hold/Neutral	35%	33%
Sell	Sell	6%	14%
UBS Short-Term Rating	Rating Category	Coverage <sup>3</sup>	IB Services <sup>4</sup>
Buy	Buy	less than 1%	0%
Sell	Sell	less than 1%	20%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 September 2011.

### UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

**KEY DEFINITIONS**

**Forecast Stock Return (FSR)** is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

**Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

**Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

**Short-Term Ratings** reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

**Equity Price Targets** have an investment horizon of 12 months.

**EXCEPTIONS AND SPECIAL CASES**

**UK and European Investment Fund ratings and definitions are:** Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.

**Core Banding Exceptions (CBE):** Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

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**UBS Securities India Private Ltd:** Pankaj Sharma.

**Company Disclosures**

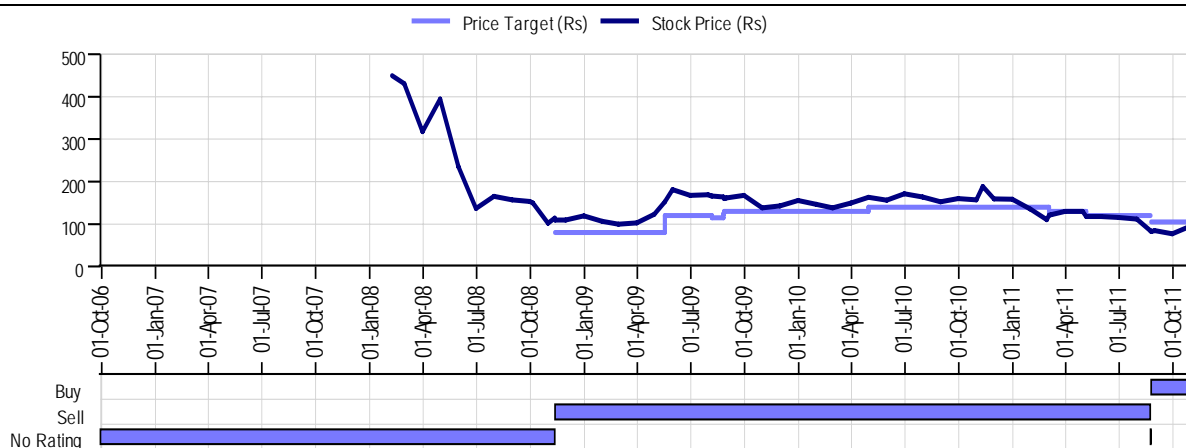
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Reliance Power	RPOL.BO	Buy	N/A	Rs102.75	09 Nov 2011

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

**Reliance Power (Rs)**



Source: UBS; as of 09 Nov 2011





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