

## ACTION

## Removed from Asia Pacific Conviction Sell List Reliance Power (RPOL.BO)

### Some progress made, but key risks still exist; off Conv list, still Sell

#### What happened

We remove Reliance Power (RPWR) from our Conviction Sell list and raise our TP to Rs128 (from Rs105) primarily to reflect financial closures of Rosa, Sasan & Butibori over last 3 months. Though we believe financial risk has been mitigated to some extent, we think risks relating to fuel, land and off-take of output still exist for several RPWR key projects. Retain Sell with 22% potential downside, as valuations do not reflect risks for its key projects, in our view. The stock is up 26% since we added it to Conv list on May 13, 2009 vs. 35% for Sensex; the stock rose after the election outcome in May. Last 12 months: -3% vs. Sensex +16%.

#### Current view

While the execution of the Sasan, Butibori and Rosa projects has improved, uncertainty related to fuel, land and off-take of output for RPWR key projects such as Krishnapatnam, Chitrangi, Dadri and Shahapur remains. **Krishnapatnam (4GW)**: No visibility on time frame and pricing of coal supplies from its mines in Indonesia. **Chitrangi (3.9GW)**: The acquisition of land is still not complete and the off-take is not tied up. **Dadri and Shahapur (10.3GW)**: Progress on these projects hinges on the resolution of the court dispute between RIL and RNRL.

Based on our scenario analysis of the RIL-RNRL court case, we see 48% potential downside to RPWR's share price in the event it does not receive gas supplies. (For details see our Sept 16 Reliance Infrastructure note, *Balance sheet leverage to drive future growth; initiate with a Buy.*)

We derive our new NAV-based 12-m TP for RPWR after quantifying the risk associated with the projects by assigning a 10% discount for six individual milestones yet to be achieved. With just 3.1% ROE for FY11E, the stock is trading at 2.7X FY11E P/B, vs. peers' 2.5X but average ROE of 13%. Note that we lower FY10E-12E EPS by 1%-6% on higher minimum alternate tax of 16% vs. 11% previously. **Key risks**: 1) Resolution of court case in favor of RPWR; 2) completion of project milestones ahead of our estimated timelines.

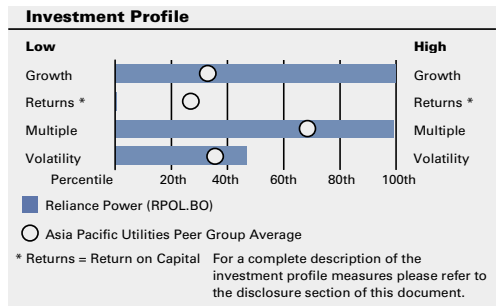
#### INVESTMENT LIST MEMBERSHIP

Asia Pacific Sell List

#### Coverage View: Cautious

India:  
Power

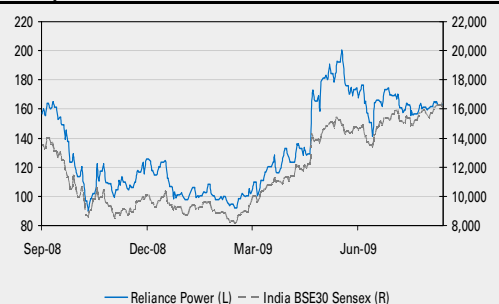
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Key data	Current
Price (Rs)	163.55
12 month price target (Rs)	128.00
Market cap (Rs mn / US\$ mn)	391,989.0 / 8,043.3
Foreign ownership (%)	4.8

	3/09	3/10E	3/11E	3/12E
EPS (Rs) New	1.02	0.82	1.84	6.35
EPS revision (%)	(4.7)	(1.3)	(3.4)	(5.9)
EPS growth (%)	168.2	(19.8)	125.2	244.6
EPS (dil) (Rs) New	1.02	0.82	1.84	6.35
P/E (X)	160.3	NM	88.7	25.7
P/B (X)	2.8	2.8	2.7	2.5
EV/EBITDA (X)	NM	NM	108.2	21.1
Dividend yield (%)	--	--	--	0.5
ROE (%)	1.8	1.4	3.1	10.1

#### Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(18.4)	66.4	4.5
Rel. to India BSE30 Sensex	(26.3)	(11.5)	(14.1)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 9/15/2009 close.

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# Reliance Power: Summary financials

Profit model (Rs mn)	3/09	3/10E	3/11E	3/12E	Balance sheet (Rs mn)	3/09	3/10E	3/11E	3/12E
<b>Total revenue</b>	--	<b>808.6</b>	<b>11,754.1</b>	<b>85,009.2</b>	Cash & equivalents	103,388.6	85,094.2	70,022.5	43,619.5
Cost of goods sold	0.0	(354.3)	(5,082.1)	(39,548.1)	Accounts receivable	0.0	410.6	2,575.5	13,615.3
SG&A	(1,031.3)	(445.3)	(814.3)	(6,751.4)	Inventory	0.0	50.8	736.9	2,124.3
R&D	--	--	--	--	Other current assets	1,995.8	1,136.5	953.5	802.8
Other operating profit/(expense)	0.0	0.0	0.0	0.0	<b>Total current assets</b>	<b>105,384.5</b>	<b>86,692.1</b>	<b>74,288.4</b>	<b>60,161.9</b>
<b>EBITDA</b>	<b>(1,031.3)</b>	<b>9.0</b>	<b>5,857.7</b>	<b>38,709.7</b>	Net PP&E	49,658.8	277,653.8	383,606.8	569,730.4
Depreciation & amortization	(2.2)	(67.2)	(1,027.3)	(10,127.0)	Net intangibles	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>(1,033.5)</b>	<b>(58.1)</b>	<b>4,830.4</b>	<b>28,582.7</b>	Total investments	0.0	0.0	0.0	0.0
Interest income	3,603.8	2,584.7	2,467.7	2,030.7	Other long-term assets	0.0	0.0	0.0	0.0
Interest expense	--	(151.1)	(2,430.2)	(13,322.8)	<b>Total assets</b>	<b>155,043.3</b>	<b>364,345.9</b>	<b>457,895.2</b>	<b>629,892.3</b>
Income/(loss) from uncons. subs.	0.0	0.0	0.0	0.0	Accounts payable	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	Short-term loans	0.0	0.0	0.0	0.0
<b>Pretax profits</b>	<b>2,570.3</b>	<b>2,375.5</b>	<b>4,868.0</b>	<b>17,290.5</b>	Other current liabilities	3,927.0	319.8	1,179.3	4,630.0
Income tax	(125.3)	(413.6)	(388.9)	(1,683.2)	<b>Total current liabilities</b>	<b>3,927.0</b>	<b>319.8</b>	<b>1,179.3</b>	<b>4,630.0</b>
Minorities	0.0	0.0	(60.0)	(378.2)	Long-term debt	13,324.9	224,285.0	311,700.7	466,956.2
<b>Net income pre-preferred</b>	<b>2,445.0</b>	<b>1,962.0</b>	<b>4,419.1</b>	<b>15,229.1</b>	Other long-term liabilities	0.0	0.0	0.0	0.0
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	13,324.9	224,285.0	311,700.7	466,956.2
<b>Net income (pre-exceptionals)</b>	<b>2,445.0</b>	<b>1,962.0</b>	<b>4,419.1</b>	<b>15,229.1</b>	<b>Total liabilities</b>	<b>17,251.9</b>	<b>224,604.8</b>	<b>312,880.0</b>	<b>471,586.1</b>
Post tax exceptionals	0.0	0.0	0.0	0.0	<b>Preferred shares</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net income</b>	<b>2,445.0</b>	<b>1,962.0</b>	<b>4,419.1</b>	<b>15,229.1</b>	<b>Total common equity</b>	<b>137,791.0</b>	<b>139,741.1</b>	<b>144,160.2</b>	<b>157,072.9</b>
EPS (basic, pre-exception) (Rs)	1.02	0.82	1.84	6.35	Minority interest	0.0	0.0	855.0	1,233.2
EPS (basic, post-exception) (Rs)	1.02	0.82	1.84	6.35	<b>Total liabilities &amp; equity</b>	<b>155,042.9</b>	<b>364,345.9</b>	<b>457,895.2</b>	<b>629,892.3</b>
EPS (diluted, post-exception) (Rs)	1.02	0.82	1.84	6.35	<b>BVPS (Rs)</b>	<b>57.49</b>	<b>58.30</b>	<b>60.15</b>	<b>65.54</b>
DPS (Rs)	0.00	0.00	0.00	0.83	<b>Ratios</b>	<b>3/09</b>	<b>3/10E</b>	<b>3/11E</b>	<b>3/12E</b>
Dividend payout ratio (%)	0.0	0.0	0.0	13.0	ROE (%)	1.8	1.4	3.1	10.1
Free cash flow yield (%)	(10.5)	(58.0)	(26.3)	(48.4)	ROA (%)	1.6	0.8	1.1	2.8
<b>Growth &amp; margins (%)</b>	<b>3/09</b>	<b>3/10E</b>	<b>3/11E</b>	<b>3/12E</b>	ROACE (%)	(3.8)	0.0	1.3	5.3
Sales growth	--	--	NM	623.2	Inventory days	--	26.2	28.3	13.2
EBITDA growth	(153.1)	100.9	64,716.3	560.8	Receivables days	--	92.7	46.4	34.8
EBIT growth	(153.6)	94.4	NM	491.7	Payable days	NM	NM	NM	NM
Net income growth	186.4	(19.8)	125.2	244.6	Net debt/equity (%)	(65.4)	99.6	166.7	267.4
EPS growth	170.0	(19.8)	125.2	244.6	Interest cover - EBIT (X)	0.3	0.0	NM	2.5
Gross margin	--	56.2	56.8	53.5	<b>Valuation</b>	<b>3/09</b>	<b>3/10E</b>	<b>3/11E</b>	<b>3/12E</b>
EBITDA margin	NM	1.1	49.8	45.5	P/E basic (X)	160.3	NM	88.7	25.7
EBIT margin	NM	(7.2)	41.1	33.6	P/B (X)	2.8	2.8	2.7	2.5
<b>Cash flow statement (Rs mn)</b>	<b>3/09</b>	<b>3/10E</b>	<b>3/11E</b>	<b>3/12E</b>	EV/EBITDA (X)	NM	NM	108.2	21.1
Net income pre-preferred dividends	2,445.0	1,962.0	4,419.1	15,229.1	Dividend yield (%)	--	--	--	0.5
D&A add-back	2.2	67.2	1,027.3	10,127.0	<b>Additional metrics</b>	<b>3/09</b>	<b>3/10E</b>	<b>3/11E</b>	<b>3/12E</b>
Minorities interests add-back	0.0	0.0	60.0	378.2	Power generation (kWh)	0	355	4,925	38,735
Net (inc)/dec working capital	(4,065.1)	(3,209.3)	(1,808.5)	(8,825.8)	Power attributable capacity (MW)	0	300	1,200	10,400
Other operating cash flow	0.0	0.0	0.0	0.0	Wtd-avg power tariffs (Rs/kWh)	0.00	2.46	2.58	2.32
<b>Cash flow from operations</b>	<b>(1,617.9)</b>	<b>(1,180.2)</b>	<b>3,697.9</b>	<b>16,908.4</b>	Unit coal costs (Rs/kWh)	--	--	--	--
Capital expenditures	(39,351.4)	(228,062.1)	(106,980.2)	(196,250.6)	Wtd-avg tariff coal-fired (Rs/kWh)	--	--	--	--
Acquisitions	0.0	0.0	0.0	0.0	Utilization rate (%)	0.0	85.0	83.9	81.1
Divestitures	0.0	0.0	0.0	0.0	Reserve margin (%)	--	--	--	--
Others	0.0	0.0	0.0	0.0	Gas sales volume (gas unit)	--	--	--	--
<b>Cash flow from investments</b>	<b>(39,351.4)</b>	<b>(228,062.1)</b>	<b>(106,980.2)</b>	<b>(196,250.6)</b>	Wtd-avg gas tariffs (Rs/gas unit)	--	--	--	--
Dividends paid (common & pref)	0.0	0.0	0.0	(2,316.3)	Unit gas costs (Rs/gas unit)	--	--	--	--
Inc/(dec) in debt	8,842.2	210,960.1	87,415.7	155,255.5	Tap water tariffs (Rs/cu. mtr.)	--	--	--	--
Common stock issuance (repurchase)	0.0	0.0	0.0	0.0	Tap water capacity (cu. mtr.)	--	--	--	--
Other financing cash flows	0.0	0.0	795.0	0.0	Tap water sales volume (cu. mtr.)	--	--	--	--
<b>Cash flow from financing</b>	<b>8,842.2</b>	<b>210,960.1</b>	<b>88,210.7</b>	<b>152,939.1</b>	Sewage proc. tariffs (Rs/cu. mtr.)	--	--	--	--
<b>Total cash flow</b>	<b>(32,127.1)</b>	<b>(18,282.2)</b>	<b>(15,071.6)</b>	<b>(26,403.0)</b>	Sewage proc. capacity (cu. mtr.)	--	--	--	--
					Sewage proc. volume (cu. mtr.)	--	--	--	--

Note: Last actual year may include reported and estimated data.  
Source: Company data, Goldman Sachs Research estimates.

## Analyst Contributors

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## Some progress made, but key risks still exist; off Conv list, still Sell

**Exhibit 1: Reliance Power has yet to achieve project milestones for most of its projects**  
Summary of six milestone categories for RPWR's upcoming projects

Project	Capacity MW	Environment Clearance	Land Possession	Financial Closure	EPC Award	Fuel Security	>50% capacity Offtake Agreement
Rosa - I	600	Yes	Yes	Yes	Yes	Yes	Yes
Rosa - II	600	Yes	Yes	Yes	Yes	Yes	Yes
Sasan	3,960	Yes	Yes	Yes	Yes	Yes	Yes
Butibori	300	Yes	Yes	Yes	Yes	Yes	Yes
Krishnapatnam	4,000	Yes	Yes	No	No	Yes	Yes
Shahapur Coal	1,200	Yes	Yes	No	No	No	Yes
Chitrangi	3,960	Yes	No	No	No	Yes	No
Dadri Gas	7,480	Yes	Yes	No	No	No	No
Shahapur Gas	2,800	Yes	Yes	No	No	No	No
Urthing Sobla	400	Yes	No	No	No	NA	No
Siyom	1,000	No	No	No	No	NA	No
Tato II	700	No	No	No	No	NA	No
Kalai II	1,200	No	No	No	No	NA	No

Source: Company data, Goldman Sachs Research estimates.

**Exhibit 2: Our DCF-based 12-month TP of Rs128 implies potential downside of 22%**  
RPWR DCF valuation summary

Project	Fuel	Capacity (MW)	COD Unit I	RPWR Stake	Equity Investment (Rs mn)	P/BV FY2011E	DCF value (Rs mn)	Milestone Discount	RPWR Post-disc. (Rs mn)
Rosa - I	Coal	600	Jan-10	100%	5,404	3.2	17,196	0%	17,196
Rosa - II	Coal	600	Feb-11	100%	5,412	2.3	12,323	0%	12,323
Sasan	Coal - Pit head	3,960	Mar-11	100%	46,500	0.0	501	NA	501
Butibori	Coal	300	Feb-11	74%	3,058	1.6	4,841	0%	4,841
Krishnapatnam	Coal - Imported	4,000	Sep-13	100%	41,344	0.4	17,152	20%	13,721
Shahapur	Coal - Imported	1,200	Dec-12	100%	10,800	1.7	17,986	30%	12,591
Chitrangi	Coal	3,960	Sep-13	100%	23,235	4.6	106,942	40%	64,165
Dadri Gas	Gas	7,480	Jun-11	100%	49,368	2.0	100,700	40%	60,420
Shahapur Gas	Gas	2,800	Sep-11	100%	18,480	3.7	67,527	40%	40,516
Urthing Sobla	Hydro	400	Sep-14	80%	4,576	0.9	4,185	50%	2,093
Siyom	Hydro	1,000	Jun-15	89%	12,138	0.5	6,487	60%	2,595
Tato II	Hydro	700	Mar-15	89%	8,495	0.7	6,069	60%	2,428
Kalai II	Hydro	1,200	Jun-16	75%	14,590	0.3	4,903	60%	1,961
<b>Total value (US\$ mn)</b>					<b>5,409</b>		<b>8,151</b>		<b>5,230</b>
<b>Cost of Equity</b>		<b>13.0%</b>							
<b>Value per share (Rs)</b>							<b>153</b>		<b>98</b>
FY11E Cash on hand (Rs/share)							<b>29</b>		<b>29</b>
<b>Valuation (Rs/share)</b>							<b>182</b>		<b>128</b>

Note: 10% discount applied for each separate milestone as shown in Exhibit 1.

Source: Company data, Goldman Sachs Research estimates.

**Exhibit 3: We believe that RELI has an asymmetric risk to the upside on the resolution of the court dispute**

Scenario analysis of the outcome of the RIL-RNRL court case and impact on Reliance power and RELI

Scenarios	Reliance Power		Reliance Infrastructure	
	Valuation	Upside/downside to the current market price	Valuation	Upside/downside to the current market price
Target price	Rs 128	-21%	Rs 1404	20%
Scenario 1: RNRL loses the court case and gets no gas supplies	Rs 85	-48%	Rs 1199	2%
Scenario 2: RNRL loses the court case but signs gas sales agreement with RIL at US\$4.2/mmBtu	Rs 156	-4%	Rs 1538	31%
Scenario 3: Out of court settlement at mid point gas price of US\$3.2/mmBtu	Rs 189	16%	Rs 1696	45%
Scenario 4: RNRL wins the court case	Rs 218	34%	Rs 1835	57%

Assumptions: 1) Shahapur plant will use cheaper gas first (if RNRL wins the case) and the remaining will be used for Dadri; 2) both the plants will commence operations in FY12E; 3) merchant power rates for uncontracted output are as follow: Rs3.5/unit till FY17E, Rs3.0/unit for FY18-20E, Rs2.5/unit thereafter.

Source: Goldman Sachs Research estimates.

**Exhibit 4: Share price performance versus peers**

Prices as of September 14, 2009

Company	Ticker	Primary analyst	Price currency	Price as of 09/14/09	Price performance since 05/13/09	3 month price performance	6 month price performance	12 month price performance
<b>Asia Pacific Utilities Peer Group</b>								
<b>Reliance Power</b>	<b>RPOL.BO</b>	<b>Durga Dath</b>	<b>Rs</b>	<b>162.70</b>	<b>25.5%</b>	<b>-15.3%</b>	<b>65.5%</b>	<b>-3.0%</b>
Beijing Capital	600008.SS	Franklin Chow, CFA	Rmb	6.47	-5.5%	1.6%	11.2%	34.5%
China Power International	2380.HK	Franklin Chow, CFA	HK\$	2.23	22.5%	-13.6%	49.7%	1.4%
China Resources Power	0836.HK	Franklin Chow, CFA	HK\$	18.42	17.7%	5.4%	27.9%	-2.6%
China Yangtze Power	600900.SS	Franklin Chow, CFA	Rmb	13.73	-6.3%	1.3%	-6.3%	-6.3%
CLP Holdings	0002.HK	Franklin Chow, CFA	HK\$	52.40	2.1%	1.3%	-3.3%	-19.0%
Datang International Power Generation	0991.HK	Franklin Chow, CFA	HK\$	4.25	16.4%	-8.0%	25.4%	-18.7%
Datang International Power Generation	601991.SS	Franklin Chow, CFA	Rmb	9.85	31.3%	29.1%	44.2%	38.3%
GD Power Development	600795.SS	Franklin Chow, CFA	Rmb	7.07	7.9%	7.8%	14.8%	29.0%
Guangdong Electric Power Developme	000539.SZ	Franklin Chow, CFA	Rmb	8.16	12.7%	17.6%	28.5%	55.4%
Guangdong Investment	0270.HK	Franklin Chow, CFA	HK\$	3.81	18.0%	-2.8%	21.0%	69.3%
Hong Kong & China Gas	0003.HK	Franklin Chow, CFA	HK\$	19.00	21.8%	20.1%	67.3%	3.9%
Hong Kong Electric Holdings	0006.HK	Franklin Chow, CFA	HK\$	42.65	1.5%	1.2%	-8.3%	-14.0%
Huadian Power International (A)	600027.SS	Franklin Chow, CFA	Rmb	5.30	6.2%	11.6%	6.4%	48.0%
Huadian Power International (H)	1071.HK	Franklin Chow, CFA	HK\$	2.60	35.4%	9.7%	48.6%	15.0%
Huaneng Power International (A)	600011.SS	Franklin Chow, CFA	Rmb	7.78	0.4%	4.3%	-1.4%	19.0%
Huaneng Power International (ADR)	HNP	Franklin Chow, CFA	\$	28.70	14.5%	0.5%	4.4%	-6.2%
Huaneng Power International (H)	0902.HK	Franklin Chow, CFA	HK\$	5.51	10.0%	1.1%	4.0%	-6.6%
Shanghai Chengtuo Holding	600649.SS	Franklin Chow, CFA	Rmb	12.35	-8.5%	-0.4%	19.3%	72.5%
Shenergy	600642.SS	Franklin Chow, CFA	Rmb	11.83	20.2%	24.3%	63.6%	79.5%
Tata Power Company	TTPW.BO	Durga Dath	Rs	1,273.65	42.8%	8.5%	92.1%	27.0%
Tianjin Capital Environmental Protectic	600874.SS	Franklin Chow, CFA	Rmb	6.14	-4.1%	-3.6%	0.8%	38.9%
Tianjin Capital Environmental Protectic	1065.HK	Franklin Chow, CFA	HK\$	2.06	16.4%	-5.1%	57.3%	64.8%
Power Grid	PGRD.BO	Durga Dath	Rs	108.15	9.0%	-10.8%	14.0%	13.1%
<b>India BSE30 Sensex</b>				<b>16,214</b>	<b>34.9%</b>	<b>6.4%</b>	<b>85.2%</b>	<b>15.8%</b>

Note: Prices as of most recent available close, which could vary from the price date indicated above. This table shows movement in absolute share price and not total shareholder return. Results presented should not and cannot be viewed as an indicator of future performance.

Source: FactSet, Quantum database.

## Reg AC

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The precise calculation of each metric may vary depending on the fiscal year, industry and region but the standard approach is as follows:

**Growth** is a composite of next year's estimate over current year's estimate, e.g. EPS, EBITDA, Revenue. **Return** is a year one prospective aggregate of various return on capital measures, e.g. CROCI, ROACE, and ROE. **Multiple** is a composite of one-year forward valuation ratios, e.g. P/E, dividend yield, EV/FCF, EV/EBITDA, EV/DACF, Price/Book. **Volatility** is measured as trailing twelve-month volatility adjusted for dividends.

## Quantum

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Durga Dath: Asia Pacific Chemicals, Asia Pacific Utilities.

Asia Pacific Chemicals: Chambal Fertilisers and Chemicals, Rashtriya Chemicals & Fertilisers, Tata Chemicals, United Phosphorus.

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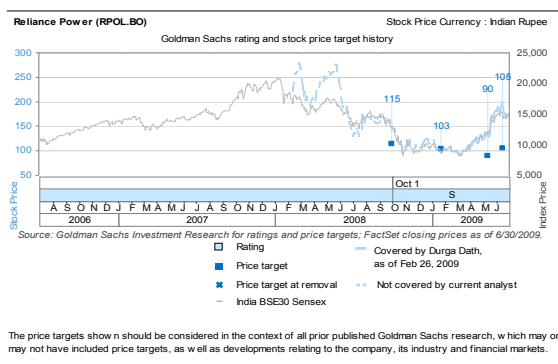
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Goldman Sachs Investment Research global coverage universe

	Rating Distribution			Investment Banking Relationships		
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## Price target and rating history chart(s)



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