

April 19, 2011

Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs128	Rs157
EPS change FY11E/12E (%)	3 / -29
Target Price change (%)	NA
Nifty	5,729
Sensex	19,091

Price Performance

(%)	1M	3M	6M	12M
Absolute	5	(13)	(21)	(19)
Rel. to Nifty	(2)	(15)	(17)	(25)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Power
Bloomberg	RPWR@IN
Equity Capital (Rs mn)	28051
Face Value(Rs)	10
No of shares o/s (mn)	2805
52 Week H/L	191/106
Market Cap (Rs bn/USD mn)	357/8,038
Daily Avg Volume (No of sh)	4763269
Daily Avg Turnover (US\$m)	13.2

Shareholding Pattern (%)

	D'10	S'10	J'10
Promoters	80.4	84.8	84.8
FII/NRI	5.0	3.9	3.9
Institutions	1.8	1.9	1.8
Private Corp	1.7	1.6	1.8
Public	11.1	7.9	7.7

Source: Capitaline

Amit Golchha

amit.golchha@emkayglobal.com
+91 22 6624 2408

Nihag Shah, CFA

nihag.shah@emkayglobal.com
+91 22 6624 2486

- Sasan coal mine to start prod. by June 2012, ahead of COD of 1st unit in Dec. 2012. Further, it expects to ramp up coal prod. to peak 25mn MT by FY15E - in line with COD of Sasan II & Chitrangi in Sep. 2013 - Mar. 2015
- Talaiya coal mine is expected to start prod. by Sep. 2013 (ahead of Talaiya's commissioning in FY16E) and ramp up to peak prod. of 40mn MT by FY17E
- Captive coal mines (prod. capacity of 65mn MT) allotted with UMPPs has high quality cheap coal, which co. also plans to use at Chitrangi/Sasan-II (60% of NPV) projects to take advantage of low cost of generation
- RPL has one of the most sustainable pvt utility business model (fuel cost /unit - less than Rs0.42/unit) & also a coal play. Valuations imply Rs2.8/unit (relatively lower) tariffs. Relatively prefer RPL & Lanco in our private utility coverage

Sasan coal mine to start production by June 2012 and Talaiya by September 2013

Reliance Power has large pit head captive mines (Sasan - 25mn MT p.a. and Talaiya - 40mn MT p.a.) under its belt. For Sasan mines (Moher and Moher Amlohri and Chhatrasal) all the clearances are done with. Mining equipments have been ordered to Bucyrus of US. The management expects coal production starting June 2012 and reach to peak production of 25mn MT by FY15E - in line with scheduled commissioning of Sasan I (December 2012- March2014), Sasan II and Chitrangi (September 2013 - March 2015). The quality of the coal from these mines is expected to be 4600Kcal and the cash cost of production is expected to be around Rs300/MT (we have taken Rs400/MT) and consequently fuel cost per unit of around Rs0.35/unit.

The coal mine with Talaiya (Kerandari B&C) is likely to start production by September 2013 (ahead of Talaiya's scheduled commissioning in FY16E) and ramp up to peak production of 40mn MT by 2016. The quality of the coal from these mines is expected to be 4250Kcal and the cash cost of production is expected to be around Rs400/MT (we have taken Rs600/MT) and consequently fuel cost per unit of around Rs0.42/unit.

Financial Closure of Chitrangi and Sasan II expected shortly

Financial closure of Chitrangi and Sasan II would be completed once the Sasan's domestic debt is released by debt from US Exim (expected cost without hedging - 3.3%), Chinese debt (expected cost without hedging - 7%) on BTG supplies and IIFCL UK (LIBOR + 300bps).

Financial Snapshot

YE- Mar	Rs Mn									
	Net Sales	EBITDA (Core)	EBITDA (%)	PAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
FY10	207	-1,073	-518.4	6,840	2.9	179.8	4.8	44.9	-231.8	2.1
FY11E	14,931	5,658	37.9	6,144	2.2	-23.0	4.0	58.3	66.2	2.2
FY12E	28,274	11,048	39.1	6,176	2.2	0.5	3.7	58.0	49.7	2.1
FY13E	101,544	49,056	48.3	21,384	7.4	235.8	11.3	17.3	15.4	1.8

Source: Company, Emkay Research

Infra facilities key for Indonesian coal mines acquired for Krishnapatnam

Though the coal mines (Indonesian) are ready for production with all the clearances in place, the actual production and supplies can only start after constructing a railway line and port (investment needed approx USD 600-700mn). The company is exploring the option of either constructing them on its own or BOT award for these infrastructure.

Most of the capacities to bunch up during FY13E-FY14E

From current capacity of 600 MW, RPL is likely to increase its capacity to 10,420MW by FY14E and 21,090MW by FY16E. As per our assessment of its cash flows and management guidance, the current funds in hand and internal accruals would be sufficient till FY13E. Thereafter in FY14E, we foresee an equity funding gap of around Rs15-40bn (depending upon the merchant price assumption, at Rs15bn the assumption is Rs4.5-FY12E, Rs4.0/FY13E and Rs3.6/Unit - thereafter). In this we have not assumed (1) Tilaiya II in our numbers, (2) Infrastructure facilities for Indonesian coal mines on BOT and not by company itself and (3) capacity additions/coal production as per management guidance.

Project Commissioning Schedule

Schedule (MW)	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E
Rosa II	600	600	600	600	600	600
Butibori	0	600	600	600	600	600
Samalkot Exp	0	2400	2400	2400	2400	2400
Sasan	0	660	3300	3960	3960	3960
Sasan II and Chitrangi	0	0	1320	5280	5940	5940
Tilaiya	0	0	0	0	2640	3960
Krishnapatnam	0	0	1600	4000	4000	4000

Source: Company, Emkay Research

Driven by changes in few assumptions; we have revised our FY12E/FY13E earnings

We have changed plant commissioning schedule for Butibori (postponed by 3months), Samalkot II (postponed by 1month). Also we have now taken Samalkot II plant's tariff at Rs3.15/unit versus earlier Rs3.6/unit assuming RPL to sell this capacity on PPA basis. Further, we have incorporated UPPCL bid win in our numbers. Though there is no change to our NPV but our earnings stands revised by +3%/-29% for FY12E/FY13E.

Changes in earning estimates

(Rs mn)	FY12E			FY13E		
	New	Old	%chg	New	Old	%chg
Revenues	28,274	34,707	-19%	101,544	115,423	-12%
EBITDA	11,048	15,727	-30%	49,056	61,105	-20%
PAT	6,176	5,998	3%	21,384	30,004	-29%

Source: Company, Emkay Research

With huge pit head coal reserves and aggressive production plans, Reliance power is most sustainable private power play and could emerge as a coal play

Reliance power with one of the highest pit head and relatively high quality coal reserves (2bn MT), is likely to be one of the most sustainable private utility business model (fuel cost per unit of less than Rs0.45/unit for 14000MW at least). The recent competitive bid win from UPPCL (2470MW at Rs3.7/unit) strengthens its position.

Also, with the domestic coal shortage, international coal prices inching higher and utilities scouting for coal supplies, RPL might emerge as a coal play. At CMP of Rs128/Share, RPL is trading at 1.8x FY13E Book value with long term ROE of 18%+. The current valuations

imply (1) Rs2.8/unit Levellized tariffs (relatively lower) for the open capacity (mainly for Chitrangi and Sasan II), (2) EVM of Rs30mn/MW, 8% discount to average universe.

Given (1) most sustainable business model, (2) higher margin of safety, we relatively prefer Reliance power along with Lanco in our private utility coverage. We maintain Accumulate with price target of Rs157/Share.

Company wide coal requirement and availability

(MTPA)	FY10	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E
Fuel Requirement								
Imported Coal	0.0	0.0	0.0	0.0	2.2	11.6	16.6	16.6
Domestic Coal	0.1	1.7	3.0	7.7	16.1	33.7	49.7	60.0
Total Requirement	1.7	3.0	7.7	18.3	45.3	66.3	76.6	1.7
Fuel Availability								
Imported Coal	0	0	0	0	2.2	11.6	16.6	16.6
Domestic Coal*	0.1	1.7	3.0	6.7	14.9	33.7	49.7	60.0
Total Availability	0.1	1.7	3.0	6.7	17.1	45.3	66.3	76.6
Net Shortfall	0.0	0.0	0.0	1.0	1.2	0.0	0.0	0.0
% Shortfall	0%	0%	0%	13%	7%	0%	0%	0%

Source: Company, Emkay Research * we have assumed linkage coal as available

Company wide gas requirement and availability

(mmcmd)	FY10	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E
Total Requirement	0.0	1.2	2.3	10.0	11.0	11.0	11.0	11.0
Total Availability	0.0	1.2	1.8	1.8	1.8	1.8	1.8	1.8
Net Shortfall	0.00	0.00	0.52	8.21	9.18	9.19	9.20	9.22
% Shortfall	0%	0%	22%	82%	84%	84%	84%	84%

Source: Company, Emkay Research

Key Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
Net Sales	207	14,931	28,274	101,544
Growth (%)		7,112.8	89.4	259.1
Expenditure	1,280	9,273	17,226	52,489
Fuel Cost	221	8,392	15,752	47,079
O&M Cost	1,059	881	1,474	5,410
SG&A Expenses	0	0	0	0
Other Expenses	0	0	0	0
EBITDA	-1,073	5,658	11,048	49,056
Growth (%)			95.3	344.0
EBITDA margin (%)	-518.4	37.9	39.1	48.3
Depreciation	57	1,771	2,641	9,668
EBIT	-1,130	3,886	8,408	39,388
EBIT margin (%)	-545.9	26.0	29.7	38.8
Other Income	8,227	7,179	3,016	852
Interest expenses	70	2,129	3,176	13,360
PBT	7,027	8,936	8,248	26,879
Tax	187	2,792	2,072	5,495
Effective tax rate (%)	2.7	31.2	25.1	20.4
Adjusted PAT	6,840	6,144	6,176	21,384
Growth (%)	179.8	-10.2	0.5	246.3
Net Margin (%)	3304.3	41.1	21.8	21.1
E/O items	0	0	0	0
Reported PAT	6,840	6,144	6,176	21,384
(Profit)/loss from JV's/Ass/MI	0	0	0	0
PAT after MI	6,840	6,144	6,176	21,384
Growth (%)	179.8	-10.2	0.5	246.3

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
PBT (Ex-Other income)	-1,200	1,757	5,231	26,027
Depreciation	57	1,771	2,641	9,668
Interest Provided	70	2,129	3,176	13,360
Other Non-Cash items	0	0	0	0
Chg in working cap	2,787	-8,270	-2,476	-13,231
Tax paid	-13	-3,220	-2,072	-5,495
Operating Cashflow	1,701	-5,833	6,501	30,330
Capital expenditure	-41,833	-87,850	-180,386	-227,890
Free Cash Flow	-40,132	-93,683	-173,885	-197,560
Other income	8,227	17,179	3,016	852
Investments	0	0	0	0
Investing Cashflow	-33,606	-70,671	-177,370	-227,038
Equity Capital Raised	-1	4,000	0	13,716
Loans Taken / (Repaid)	9,081	57,246	134,039	174,271
Interest Paid	-70	-2,129	-3,176	-13,360
Dividend paid (incl tax)	0	0	0	0
Income from investments				
Others	0	-10	0	240
Financing Cashflow	9,010	59,107	130,862	174,868
Net chg in cash	-22,895	-17,396	-40,006	-21,841
Opening cash position	103,388	80,490	63,094	23,088
Closing cash position	80,493	63,094	23,088	1,247

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
Equity share capital	23,968	27,968	27,968	28,842
Reserves & surplus	120,660	136,792	142,968	177,435
Net worth	144,628	164,760	170,936	206,276
Secured Loans	22,406	79,652	213,691	387,963
Unsecured Loans	0	0	0	0
Loan Funds	22,406	79,652	213,691	387,963
Net deferred tax liability	0	0	0	0
Total Liabilities	167,034	244,413	384,627	594,239
Gross Block	23,571	54,521	101,396	236,854
Less: Depreciation	-164	-1,935	-4,576	-14,244
Net block	23,407	52,586	96,820	222,610
Capital work in progress	68,028	124,928	258,439	350,871
Investment	0	0	0	0
Current Assets	82,528	74,501	37,575	31,535
Inventories	486	1,494	2,399	6,255
Sundry debtors	288	2,650	4,823	16,769
Cash & bank balance	80,490	63,094	23,088	1,247
Loans & advances	1,232	7,232	7,232	7,232
Other current assets	32	32	32	32
Current lia & Prov	6,929	7,600	8,204	10,775
Current liabilities	6,501	7,600	8,204	10,775
Provisions	428	0	0	0
Net current assets	75,599	66,901	29,370	20,760
Misc. exp	0	0	0	0
Total Assets	167,034	244,413	384,627	594,239

Key Ratios

Y/E, Mar	FY10	FY11E	FY12E	FY13E
Profitability (%)				
EBITDA Margin	-518.4	37.9	39.1	48.3
Net Margin	3304.3	41.1	21.8	21.1
ROCE	-0.7	1.9	2.7	8.0
ROE	4.8	4.0	3.7	11.3
RoIC	-1.6	2.0	2.3	6.6
Per Share Data (Rs)				
EPS	2.9	2.2	2.2	7.4
CEPS	2.9	2.8	3.2	10.8
BVPS	60.3	58.9	61.1	71.5
DPS				
Valuations (x)				
PER	44.9	58.3	58.0	17.3
P/CEPS	44.5	45.2	40.6	11.9
P/BV	2.1	2.2	2.1	1.8
EV / Sales	1,201.5	25.1	19.4	7.4
EV / EBITDA	-231.8	66.2	49.7	15.4
Dividend Yield (%)	0.0	0.0	0.0	0.0
Gearing Ratio (x)				
Net Debt/ Equity	0.1	0.1	1.1	1.9
Net Debt/EBITDA	-19.6	2.9	17.3	7.9
Working Cap Cycle (days)	-120	49	23	51

Recommendation History: Reliance Power – RPWR IN

Date	Reports			
16/02/2011	Reliance Power Q3FY11 Result Update	Accumulate	122	157
25/01/2011	Power Sector Report; Too many ends to tie			

Recent Research Reports

Date	Reports	Reco	CMP	Target
28/02/2011	Power Sector Event Update			
17/02/2011	Jaiprakash Power Ventures Event Update	Hold	42	49
16/02/2011	KSK Energy Q3FY11 Result Update	Hold	112	110
16/02/2011	GIPCL Q3FY11 Result Update	Hold	95	101

Emkay Global Financial Services Ltd.

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Global Financial Services Ltd. is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Global Financial Services Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Global Financial Services Ltd.'s prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.