

1QFY13 earnings marginally below forecast

Quick Note

1QFY13 normalized EBITDA, PAT a tad below our forecast

At Rs2.27bn, Reliance Power's (RPWR's) 1QFY13 normalized net profit was ~3% below our forecast (marginally above consensus); reported PAT was higher at Rs2.4bn on the back of prior period adjustments. RPWR's top line surprised on the back of third-party power purchases and sale (to meet PPA supply commitment from its Butibori facility), but normalized EBITDA (at Rs3.5bn) was 3% below our/consensus forecast despite sharply lower 'other opex'. Treasury gains surprised yet again (Rs1.16bn vs our forecast of Rs0.7bn), but were offset by higher-than-expected depreciation and interest outgo.

Rosa: RoE remains healthy at 30.7%, albeit down 150bp QoQ

In the first quarter where the entire 1200MW capacity was in commercial operation, the drop in Plant Availability (PAF) from ~92% to 81% led to a 150bp drop in RoE (normalized for prior period revenue) to 30.7%. As per the management, [1] coal mix during the quarter was 51% linkage, 39% imports and 10% domestic market-procured; [2] the receivables cycle remains in check; a combined escrow facility of Rs3.5bn for the entire 1200MW capacity (Phase-I,II) is in the works.

Projects: Sasan start-up by Dec, Chhatrasal awaits formal FC

[1] Coal production from Sasan-linked coal mines is expected to begin shortly; commissioning of Unit-1 (800MW) at Sasan is scheduled in Dec-2012. [2] Formal grant of Forest Clearance (Stage-I) for the Chhatrasal coal block, which would enable RPWR to commence construction of its Chitrangi facility, is awaited. [3] Tato-II (700MW) hydropower project has secured key clearances (TEC, FC) enabling start-up of construction activities. [4] On coal production in Indonesia. RPWR is in the process of awarding contracts for each component of the evacuation chain.

Big-ticket projects still subject to policy diktats; maintain REDUCE

Valuation remains expensive (22.4x FY14F P/E and 1.3x FY14F P/B) and one-half of the FCFE-based fair value remains concentrated in projects (Chitrangi, Sasan-II, Samalkot) wherein operational timelines and profitability remain subject to regulatory diktats and fuel supply risk.

Fig. 1: RPWR – 1QFY13 Actual vs Estimates

Normalized EBITDA, net profit marginally below our forecast; non-operating income surprises again

RPWR - 1QFY13 Results (INR m)	Actual	Nomura Estimate	Actual vs. Est.	Cons. Estimate	Actual vs. Cons.
Sales	11,238	10,173	10.5%	10,050	11.8%
EBITDA	3,527	3,652	-3.4%	3,641	-3.1%
Non-operating income	1,159	704	64.7%		
Net Profit	2,275	2,335	-2.6%	2,238	1.7%
Reported PAT	2,395	2,335	2.6%	2,238	7.0%

Note: Sales, EBITDA, Net Profit normalized for Rs120mn prior period revenue; Consensus = Bloomberg mean estimates
Source: Company data, Bloomberg, Nomura estimates

August 15, 2012

Rating Remains	Reduce
Target price Remains	INR 94
Closing price August 14, 2012	INR 93

Research analysts

India Power & Utilities

Anirudh Gangahar - NFASL
anirudh.gangahar@nomura.com
+91 22 4037 4516

Kashish Tandon, CFA - NFASL
kashish.tandon@nomura.com
+91 22 403 74008

Ivan Lee, CFA - NIHK
ivan.lee@nomura.com
+852 2252 6213

See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

Butibori: Linkage coal supply & offtake tie-ups take center-stage

RPWR expects to fully commission its 600MW facility at Butibori within CY12 (300MW IPP unit by end-August, 300MW CPP unit by November). Management expects the government to expand the eligibility criteria for securing linkage coal via FSAs with Coal India (COAL IN) by including capacity tied up in short-term bid-based PPAs; thereafter, it expects to sign-up the FSAs for Butibori. In the interim, third-party procurement of power to meet supply commitment under its 2-yr PPA with Reliance Infrastructure (Not Rated) is underway: RPWR posted a gain of Rs180mn (~15% margin) from this activity in 1QFY13. The management expects to tie-up the bulk of the off-take from the CPP unit with industrial consumers over the next two months.

Fig. 2: RPWR – 4QFY12 Consolidated Earnings Summary

Sharp divergence in unit fuel cost (3.5% lower QoQ) and realization (4.7% higher QoQ) is surprising, enabled higher-than-expected RoE for Rosa-I

Qtrly Snapshot	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	YoY	QoQ	1QFY13F	Actual
	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	(%)	(%)	Jun-12	vs Est
Operational Metrics									
Effective Capacity (MW)	600	600	600	646	1,240	106.7%	91.9%	1,200	3.3%
PLF	90.6%	76.5%	75.1%	78.2%	76.1%	-15.9%	-2.6%	78.0%	-2.3%
Generation (mn kWh)	1,190	1,005	987	1,106	2,068	73.8%	86.9%	2,049	0.9%
Auxiliary	9.0%	9.7%	9.0%	9.5%	9.0%	0.0%	-5.3%	9.0%	0.0%
Sales (mn kWh)	1,083	908	898	1,001	1,883	73.9%	88.1%	1,865	1.0%
Realization (Rs/kWh)	4.89	5.22	4.91	5.14	5.22	6.8%	1.6%	5.24	-0.4%
Fuel Cost (Rs/kWh)	2.84	3.19	2.86	2.75	3.32	17.1%	20.5%	3.01	10.1%
Key Financials (INR m)									
Revenues	5,418	4,875	4,573	5,326	11,238	107.4%	111.0%	10,173	10.5%
Power Generation	5,294	4,739	4,407	5,144	10,000	88.9%	94.4%	9,996	0.0%
RNRL	124	137	166	182	5	-96.0%	-97.3%	176	-97.2%
Power Trading (Sales)	-	-	-	-	1,233	-	-	-	-
Opex	(3,569)	(3,675)	(3,172)	(3,537)	(7,710)	116.0%	118.0%	(6,521)	18.2%
Power Trading (Purchases)	-	-	-	-	(1,053)	-	-	-	-
Fuel cost	(3,070)	(2,894)	(2,564)	(2,757)	(6,206)	102.1%	125.1%	(5,618)	10.5%
O&M expenses	(499)	(782)	(607)	(780)	(452)	-9.4%	-42.1%	(903)	-50.0%
EBITDA	1,849	1,200	1,401	1,788	3,527	90.8%	97.2%	3,652	-3.4%
Margin	34.1%	24.6%	30.6%	33.6%	31.4%	-8.0%	-6.5%	35.9%	-12.6%
Depreciation	(286)	(293)	(323)	(313)	(686)	140.1%	119.3%	(601)	14.1%
EBIT	1,563	908	1,078	1,476	2,841	81.7%	92.5%	3,051	-6.9%
Interest expense	(761)	(753)	(720)	(742)	(1,289)	69.3%	73.6%	(1,008)	27.8%
Non operating income	1,474	1,860	2,168	1,202	1,159	-21.4%	-3.5%	704	64.7%
PBT	2,277	2,015	2,526	1,935	2,712	19.1%	40.2%	2,747	-1.3%
Tax	(316)	(277)	(488)	(206)	(437)	n/m	111.7%	(412)	6.1%
Normalized PAT	1,961	1,738	2,039	1,729	2,275	16.0%	31.6%	2,335	-2.6%
Extraordinary Items	-	(617)	-	(585)	(120)	n/a	n/a	-	n/a
Reported PAT	1,961	2,355	2,039	2,313	2,395	22.1%	3.5%	2,335	2.6%

Note: Extraordinary item for 4QFY12 relates to tax write-back. In our view, this is extraordinary for the quarter, but not for the full year.

Note: Extraordinary item for 1QFY13 relates prior period revenue (on account of petition for triuing up FY12 financials)

Note: For 1QFY13, per unit realization and fuel cost is based on units sold (ex-renewables)

Source: Company data, Nomura research

Fig. 3: RPWR – Rosa (1200MW) key financials

RoE remains above 30%, albeit lower QoQ due to dip in PAF

Rosa [1200MW] (INR m)	1QFY12 Jun-11	2QFY12 Sep-11	3QFY12 Dec-11	4QFY12 Mar-12	1QFY13 Jun-12	QoQ (%)	YoY (%)
Effective Capacity (MW)	600	600	600	646	1,200	85.7%	100.0%
PAF	94.0%	81.0%	79.0%	91.7%	81.0%	-11.7%	-13.8%
PLF	91.0%	76.5%	75.1%	78.2%	78.2%	0.0%	-14.1%
Generation (MUs)	1,190	1,005	987	1,106	2,055	85.8%	72.7%
Sales (MUs)	1,083	908	898	1,001	1,870	86.8%	72.7%
Revenue	5,290	4,740	4,407	5,144	9,760	89.7%	84.5%
Fuel Cost	3,070	2,894	2,564	2,757	6,206	125.1%	102.1%
Other Opex	140	216	213	197	194	-1.4%	38.7%
EBITDA	2,080	1,630	1,630	2,190	3,360	53.4%	61.5%
Margin	39.3%	34.4%	37.0%	42.6%	34.4%		
Net Profit	1,090	750	750	795	1,240	56.0%	13.8%
RoE	46.7%	32.1%	32.1%	32.2%	30.7%		
Equity	9,338	9,338	9,338	12,748	16,158		

Source: Company data, Nomura research

Fig. 4: RPWR – Update on Generation/Coal Projects

Formal award of FC (Stage-I) still awaited for Chhatrasal coal block; amendment in FSA eligibility critical for linkage coal availability for Butibori

Project	Capacity (MW)	Update
Butibori	600 (2X300)	Unit-1 (IPP) to be commissioned within a fortnight, Unit 2 (CPP) to be commissioned in November FSAs to be signed post eligibility-related policy clarifications are in place (expected in 2 months) Interim supply under PPA with R-Infra (w ef April) underway via third-party procurement
Sasan	3960 (6X660)	Unit-1 on track to be commissioned by Dec-12 Coal production to commence in the current quarter (2QFY13), as scheduled
Chitrangi	3960 (6X660)	GoM on Coal has given a 'go ahead' on issuing FC (Stage-I) clearance for Chhatrasal coal block However, formal MoEF approval is awaited
Krishnapatnam	3960 (6X660)	Status quo - project remains on hold, RPWR has filed for arbitration on the PPA
INA Coal		In process of finalizing & awarding contracts for each piece of evacuation chain
Tilaiya	3960 (6X660)	Coal block: Section-4 land notification still under approval, R&R activities underway
Samalkot	2400	Completion of Combined Cycle setup (Module #1) to be completed by end FY13
Tato-II	700 (4X175)	TEC, FC received, cost-plus model; Offtake = 60% to Delhi discoms, 40% sought with R-Infra

Note: TEC = Techno-Economic Clearance; FC = Forest Clearance

Source: Company data, Nomura research

Appendix A-1

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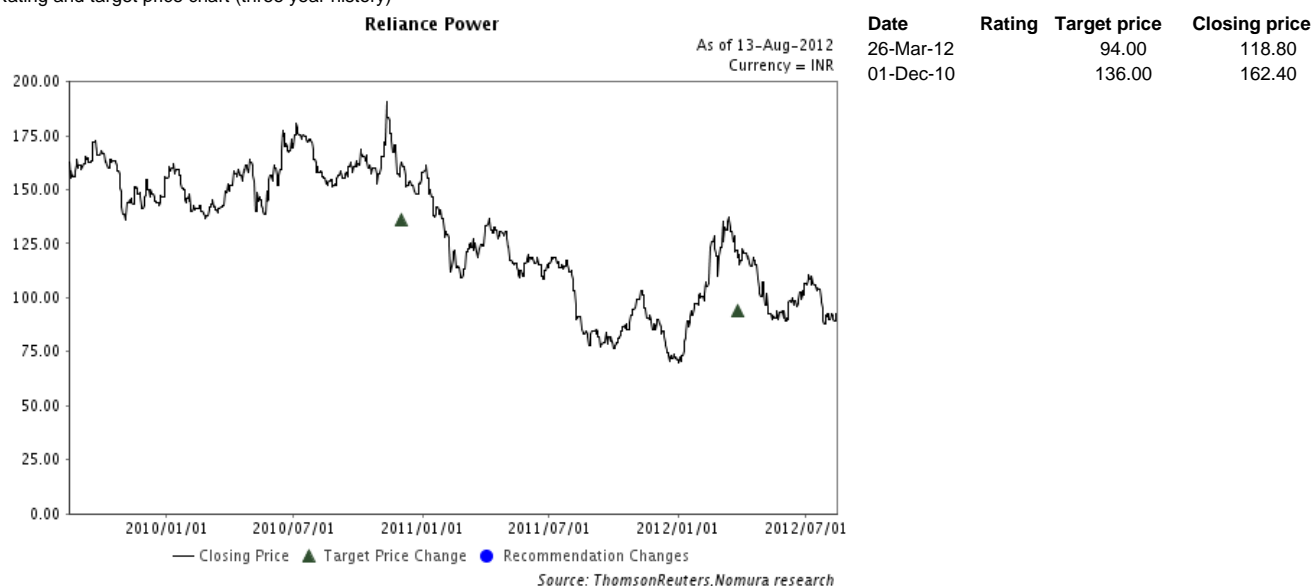
Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Reliance Power	RPWR IN	INR 93	14-Aug-2012	Reduce	Not rated	

Previous Rating

Issuer name	Previous Rating	Date of change
Reliance Power	Not Rated	24-Mar-2009

Reliance Power (RPWR IN) INR 93 (14-Aug-2012) Reduce (Sector rating: Not rated)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our 12-month TP of INR94 is an aggregate of: 1) the milestone risk-adjusted FCFE-based value (based on a 15.5% cost of equity) of RPWR's 25.7GW feasible generation capacity at INR81/share; 2) the milestone risk-adjusted FCF value of its 7.5mtpa coal mining business in Indonesia (7.5mtpa Phase #1) at INR2/share; and 3) FY13F consolidated cash-on-hand of INR11/share.

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