

Reliance Power Ltd.

Price Band	: Rs405 - 450 per share	January 15, 2007
Issue open during	: January 15 - 18, 2007	
Recommendation	: Subscribe with a long term view	
Book Running Lead Managers	: Kotak, UBS, Enam, I-Sec and others	
To List on	: NSE and BSE	
Market Cap post-listing	: Rs1017Bn \$25.7Bn (based on the cap price)	

IPO of 260mn equity shares of Rs10 each, aggregating to Rs117Bn or \$2.962Bn (at the cap price), comprising of public issue of 228mn shares and promoters' contribution of 32mn shares

Shareholding Pattern

Shareholder Categories	Pre-issue		Post-issue	
	No. of shares	% Holding	No. of shares	% Holding
Promoters and Promoter Group	2,000,000,000	100.0%	2,032,000,000	89.9%
QIBs excluding Mutual Funds	-	0.0%	129,960,000	5.8%
Mutual Funds	-	0.0%	6,840,000	0.3%
Non Institutional Investors	-	0.0%	22,800,000	1.0%
Public	-	0.0%	68,400,000	3.0%
Total	2,000,000,000	100.0%	2,260,000,000	100.0%

Recommendation - Subscribe with a long term view

- Reliance Power Limited (Reliance Power), part of RADAG has been set up to develop, construct and operate power projects domestically and internationally. It aims to develop 13 power projects with an aggregated generation capacity of 28,200 MW.
- Reliance Power will have a diversified project portfolio in terms of geography, fuel mix and technology (see page 2 for details of projects).
- Nine of the proposed thirteen projects are coal-fired or gas-based and two of those have fuel security; the rest are yet to be finalised. In our view, for such huge capacity, fuel linkage is of paramount importance (see status of projects on page 3).
- Long term PPAs for 8,560MW have been signed, constituting just 32% of the aggregated generating capacity. Of these, Sasan project (based on domestically procured coal) and Krishnapatnam project (based on imported coal) have been signed at a tariff of Rs1.19kw/h and 2.33kw/h per unit respectively, the differential attributable to the high cost of imported coal. A large number of PPAs are yet to be signed, reflecting some ambiguity on profitability.
- We believe equipment sourcing will be critical for Reliance Power being able to commission projects on schedule. Other key factors, apart from capital costs, are timely deliveries of equipment and maintenance costs.
- We believe the Group can draw synergies from the expertise of Reliance Energy in EPC in executing projects of Reliance Power.
- Our concerns include lack of fuel linkages except for 2 projects, coal prices and gas and equipment availability. Also in view of the gap between the aggregate project outlay of Rs1,12,129Cr and post-IPO net worth of 13,707Cr, we believe Reliance Power may have to opt for further equity dilution going forward, in order to maintain a manageable debt-equity ratio going forward.

- While the high promoter holding of around 90% post-listing is a positive, it may be viewed negatively from the point of view of minority shareholders, since the latter will enter the company @ Rs450 per share vis-à-vis promoters' average cost of Rs16.92 per share.
- Given the long gestation period of projects, which are likely to get commissioned from FY10 onwards, we have considered non-earnings related valuation parameters. The valuation of the IPO in terms of price/book (7.4x FY08E) appears expensive vis-à-vis NTPC (2.8x) and Tata Power (4.5x) (see chart Price/Book Value on page 6).
- The issue appears expensive, also on the basis of asset valuation (estimated valuation of generating capacity) in FY13. It is only on the basis of FY17 estimates, that the issue looks attractive (see Valuation tables on page 6).
- However, we believe the aggression and track record of the promoter group in shareholder wealth creation in all its businesses including telecommunications, power distribution, financial services and entertainment is likely to have a positive rub-off effect on this IPO as well. We therefore recommend investors to subscribe to the IPO from a long-term point of view.

Company and Promoter Background

Reliance Power is part of the Reliance Anil Dhirubhai Ambani Group (RADAG) and has been established to develop, construct and operate power projects domestically and internationally. Reliance Power was originally incorporated as Bawana Power Private Limited.

Mr. Anil Dhirubhai Ambani is the non executive Chairman of RPOL. Mr. Ambani is also the Chairman of Reliance Communications Limited, Reliance Capital Limited and Reliance Energy Limited

Detail of the Proposed Projects to be part funded through IPO

Proposed Projects	Exp. Dt. of Completion	GW	Est. costs (RsCr)	Technology
Rosa Phase I	Mar-10	0.60	2,702	Subcritical
Butibori	Jun-10	0.30	1,405	Subcritical
Rosa Phase II	Sep-10	0.60	2,460	Subcritical
Shahapur Gas	Mar-11	2.80	8,400	CCGT
Shahapur Coal	Dec-11	1.20	4,800	Supercritical
Dadri	Mar-13	7.48	22,440	CCGT
Tato II	Mar-14	0.70	4,045	Run-of-the-river
Urthing Sobla	Mar-14	0.40	2,080	Run-of-the-river
MP Power	Jul-14	3.96	15,842	Supercritical
Siyom	Mar-15	1.00	5,780	Run-of-the-river
Krishnapatnam	Oct-15	4.00	16,538	Supercritical
Kalai II	Mar-16	1.20	7,295	Run-of-the-river
Sasan	Apr-16	3.96	18,342	Supercritical
Total Funding requirement		28.20	1,12,129	

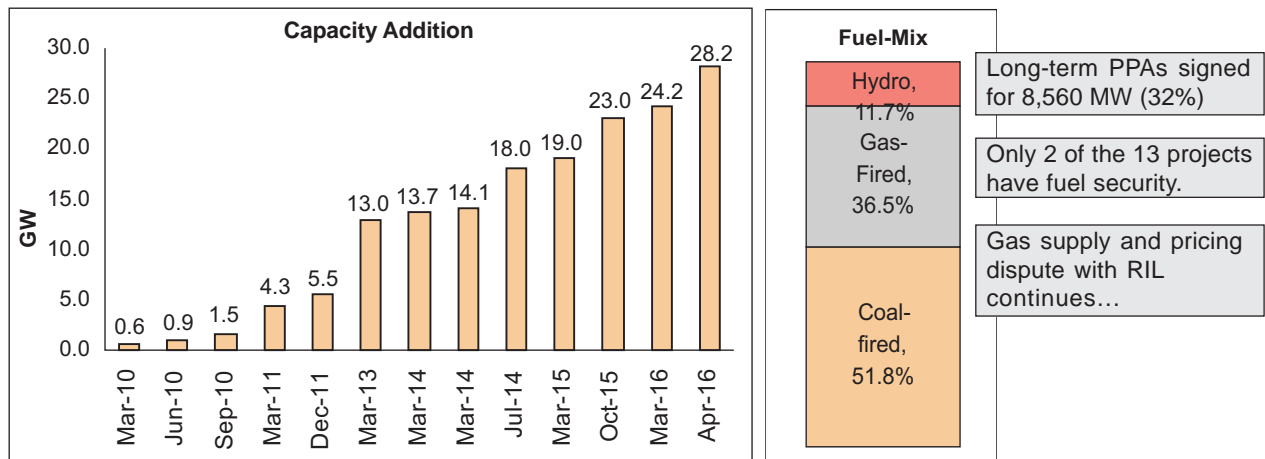
Status of project implementation

Projects	Fuel	EPC	Land	PPA	Fuel
Rosa Phase I	Coal-fired	✓	✓	✓	✓
Butibori	Coal-fired	✗	✗	✗	✗
Rosa Phase II	Coal-fired	✓	✓	✗	✗
Shahapur Gas	Gas-Fired	✗	↗	✗	↗
Shahapur Coal	Coal-fired	↗	↗	✗	▲
Dadri	Gas-Fired	✗	✓	✗	↗
Tato II	Hydro	*	NA	✗	✗
Urthing Sobla	Hydro	*	✗	✗	✗
MP Power	Coal-fired	✗	✗	✗	✗
Siyom	Hydro	*	NA	✗	✗
Krishnapatnam	Coal-fired	✗	✗	✓	▲
Kalai II	Hydro	NA	NA	✗	✗
Sasan	Coal-fired	✗	✗	✓	✓

Legend

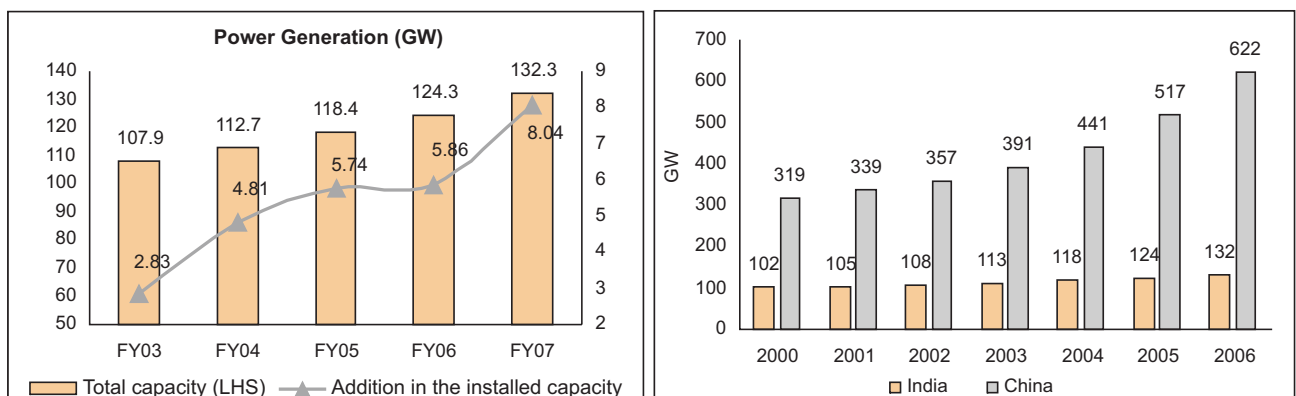
- ✓ Completed
- ✗ Work not yet commenced
- ↗ Partially Done
- ▲ Bids invited to import coal
- * DPR to be completed

Reliance Power's plans seem ambitious ...



...we however feel they are feasible

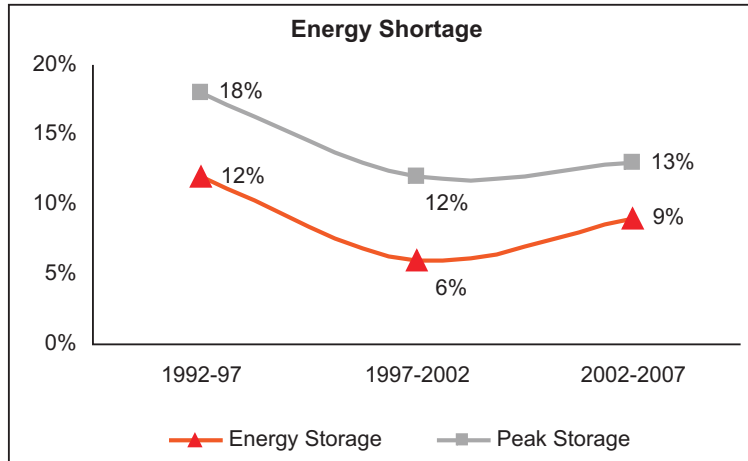
China added 265GW of generating capacity during the last five years (2002-06), while India added 27.28 GW during FY03-07. In this backdrop, Reliance Power's plans to add around 27GW of generating capacity, that too over the next 10 years, appear feasible and achievable.



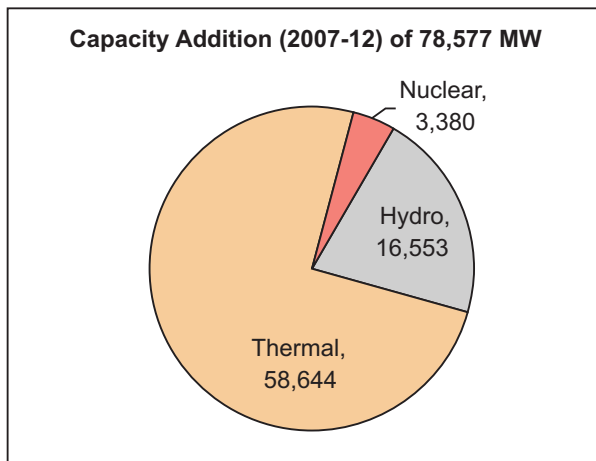
Power sector to surge ahead...

We believe the power sector in India has tremendous growth prospects, given the current base demand deficit of 9.6% and peak load deficit of 12.3%, GDP growth of 8% and low penetration levels .

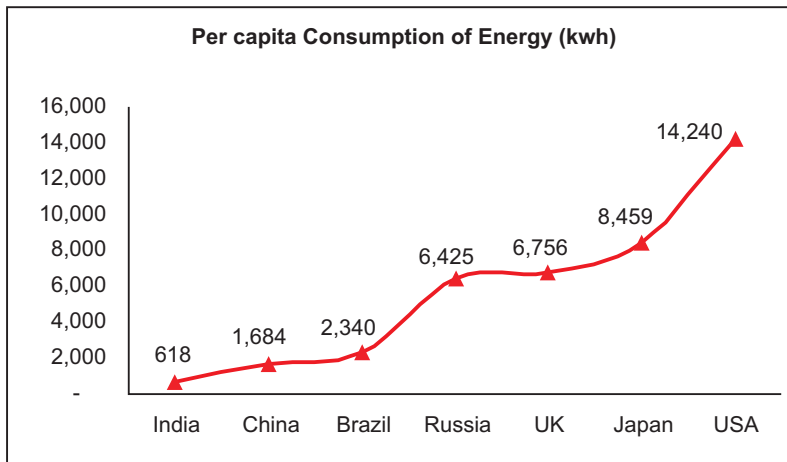
Shortage of power continues...



Huge investments likely in the power generation segment



Per capita consumption set to catch up and reach the 1000kwh target by 2012



Factors that may impact profitability of Reliance Power going forward

Fuel Linkages

Fuel supply has been finalised only for the Rosa Phase I and Sasan projects and not for other projects. This may lead to delays in commissioning the other projects.

International coal prices and shipping rates

Reliance Power shall use imported coal as fuel for the Shahapur and Krishnapatnam projects. The estimated coal requirement for Shahapur and Krishnapatnam projects is 4.5 mtpa and 14 mtpa respectively. Hence any increase in coal prices or shipping rates may adversely impact profitability.

Availability and pricing of Gas

Of the proposed 28.2 GW projects, gas-based projects are 10.28 GW, for which Reliance Power has tied up with RNRL. The outcome of the dispute with Reliance Industries Ltd. with regard to the pricing of gas may impact Reliance Power's profitability.

Equipment availability and quality

Power equipment manufacturer BHEL is expanding capacities to 15000MW by Dec 09. We believe BHEL may not be in a position to meet the requirements of Reliance Power, which may have to rely on imports. This may lead to risks of higher capital costs and / or operating and maintenance costs, as also delays in project implementation.

Diversity in projects

Reliance Power has planned projects that are diverse in geographic location, fuel type, fuel source and off-take. They include six coal-fired projects (10,620 MW) employing supercritical (9,120 MW) and subcritical (1,500 MW) PCC technology, two gas-fired projects (10,280 MW) employing CCGT technology and four run-of-the-river hydroelectric projects (3,300 MW).

Riding on the competency of other businesses

RADAG's telecommunications, financial services, entertainment and power distribution businesses have been successful. Reliance Power will attempt to replicate the group's aggressive ramp-up in the electricity generation business.

Objects of the IPO

Funding of projects

Sr. No.	Name of project	Capacity (MW)	Outlay (RsCr)
1.	Sasan	3,960	5,461.35
2.	Shahapur Coal	1,200	1,145.80
3.	MW Urthing Sobla	400	615.76
4.	MW Rosa Phase II	600	614.95
5.	MW Butibori	300	411.42
6.	MW Rosa Phase I	600	393.15
	Total		8642.43

Means of Finance

The proposed capex on various projects is to be financed entirely through the proceeds of the IPO.

We however believe Reliance Power will have to opt for debt in view of the total project outlay of Rs1,12,129Cr.

Valuation

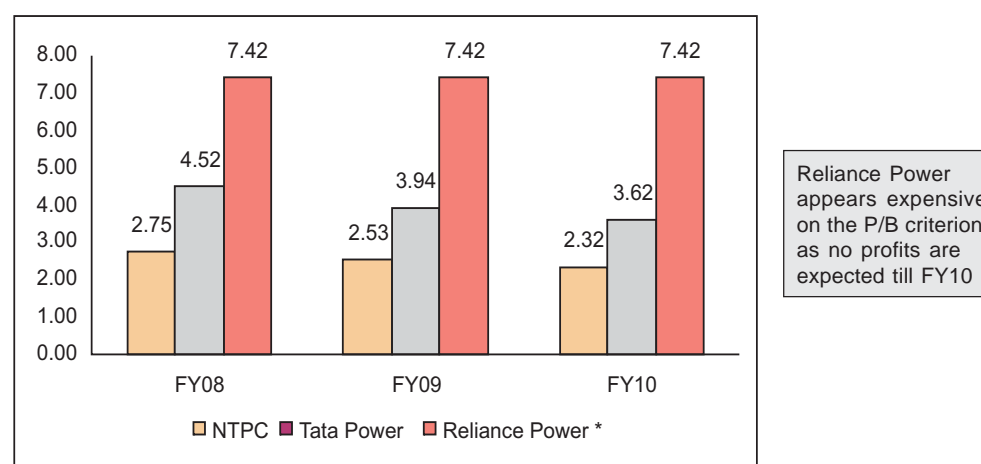
Based on FY13 estimates (Figures in RsCr unless otherwise stated)

Parameters	NTPC	Reliance Power	Tata Power
Existing Capacity	26,850	0	2,300
Expanded Capacity (MW)	50,000	12,980	10,100
Estimated Capex per MegaWatt	5.1	5.1	5.1
Estimated Valuation of Generating Capacity	2,55,000	66,198	51,510
Market Cap	2,18,711	1,01,700	34,073
MCap/Est. Value of Generating Capacity (x)	0.86	1.54	0.66
Debt	57,568	36,344	8,200
Cash	12,315	10,000	3,800
Value to Equity Shareholders	2,09,747	39,854	47,110
MCap/MW	4.4	7.8	3.4
MCap/Value to Equity Shareholders (x)	1.0	2.6	0.7
EV/ MW	4.2	3.1	4.7

Based on FY17 estimates (Figures in RsCr unless otherwise stated)

Parameters	NTPC	Reliance Power	Tata Power
Existing Capacity	26,850	0	2,300
Expanded Capacity (MW)	75,000	28,200	15,150
Estimated Capex per MegaWatt	6.2	6.2	6.2
Estimated Valuation of Generating Capacity	4,65,000	1,74,840	93,930
Market Cap	2,18,711	1,01,700	34,073
MCap/Est. Value of Generating Capacity (x)	0.47	0.58	0.36
Debt	75,000	46,000	10,500
Cash	17,000	15,000	7,200
Value to Equity Shareholders	4,07,000	1,43,840	90,630
MCap/MW	2.9	3.6	2.2
MCap/Value to Equity Shareholders (x)	0.5	0.7	0.4
EV/ MW	5.4	5.1	6.0

Price/Book Value



* Assuming zero addition to reserves due to (i) lack of profits and (ii) no fresh equity dilution

Probable triggers going forward

- Sale/utilization of fly ash
- De-merger of Hydropower division
- Entry into nuclear power generation

Investment Concerns

- Project implementation risks
- Availability and pricing of equipment
- Projects have a long gestation period and require significant capital expenditure which may restrict any pay back to shareholders
- Any change in the rate of tariffs (to the extent of return on equity of 14% and incentives) may impact profitability
- Uncertainty on availability of gas due to ongoing legal dispute between RIL and RNRL.

High promoter holding

We believe the high promoter stake of around 90% may be viewed negatively from the point of view of minority shareholders. Average cost of promoters' stake is Rs16.92 per share, while that of minority shareholders will be Rs450, assuming the IPO gets priced at the cap price.

We believe QIBs may have a limited role to play in the company's management and operation by virtue of their very small stake.

While peer NTPC too has high stake of promoters (Government of India), of around 89.5%, this is easily explained as NTPC is a government corporation.

Profit & Loss Statements

(RsCr)

For period ending	31.3.06	31.3.07	30.09.07
Income			
Income from Contractual Services	0	2.25	0
Profit on redemption of Mutual Fund	0	0	3.21
Miscellaneous Income	0	0	0.02
Total Income	0	2.25	3.23
Expenditure			
Employees Cost	0	0.25	0
Administrative & General expenses	0.11	0.64	1.45
Bank / Corporate Guarantee charges	0	0.82	-
Depreciation	0	0	0
Total Expenditure	0.11	1.71	1.45
Profit / (Loss) Before Tax	-0.11	0.54	1.78
Provision for Tax	0	0	0
Current Tax (including Fringe Benefit Tax)	0.02	0.38	0.6
Deferred Tax	0	0	0
Profit / (Loss) After Taxation	-0.13	0.16	1.18

Balance Sheets

(RsCr)

As at,	31.3.06	31.3.07	30.09.07
Sources of Funds			
Paid-up Equity Capital	0.05	200.04	2000.00
Reserves & Surplus	-0.15	1.12	6.91
Share Application Money	102.36	0.00	0.00
Total Shareholders Funds	102.26	201.16	2006.91
Secured Loans	0.00	0.00	0.00
Unsecured Loans	0.00	0.00	0.00
Total Debt	0.00	0.00	0.00
Total Liabilities	102.26	201.16	2006.91
Applications of Funds			
Gross Block	66.77	67.27	67.29
Less: Accumulated Depreciation	0.76	1.00	1.04
Net Fixed Assets	66.01	66.27	66.25
Capital work in progress	28.21	35.97	36.92
Exp. pending Allocation	7.79	16.96	20.83
Investments	0.01	41.28	1772.77
Current Assets, Loans & Advances			
Cash & Bank Balances	0.59	0.78	0.52
Sundry Debtors	0.00	2.25	0.00
Loans & Advances	0.35	42.02	110.26
Total Current Assets	0.94	45.05	110.78
Current Liabilities and Provisions	0.70	4.37	0.64
Net Current Assets	0.24	40.68	110.14
Total Assets	102.26	201.16	2006.91

Keynote Capitals Ltd.

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Registered Office

4th Floor, Balmer Lawrie Building,
5, J. N. Heredia Marg,
Ballard Estate, Mumbai 400 001.
Tel Nos. 022-22694322-25

Ratings structure

Subscribe & Hold	:	subscribe for listing gains, hold for further appreciation
Subscribe for listing gains	:	expect decent appreciation on listing
Subscribe with a medium term view	:	stock can deliver only over 6-8 months after listing
Subscribe with a long term view	:	value can only be realised over 12-18 months
Await listing	:	good fundamentals; consider valuations on listing

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