

Business: R POWER.

The company claims that it will be developing power generation projects of 28200 MW over the next decade.

According to the IPO RHP, some of the projects that it will be developing are:

Rosa-I (to be commissioned in March 2010) - 600 MW - Coal based
Butibori (to be commissioned in June 2010) - 300 MW - Coal based
Rosa-II (to be commissioned in September 2010) - 600 MW - Coal based
Shahpur Gas (to be commissioned in March 2011) - 2800 MW - Gas based
Shahpur Coal (to be commissioned in December 2011) - 1200 MW - Coal based
Dadri (to be commissioned in March 2013) - 7480 MW - Gas based
Krishnapatnam (to be commissioned in September 2013) - 4000 MW - Coal based
Urthing Sobla (to be commissioned in March 2014) - 400 MW - Hydropower based
Tato II (to be commissioned in March 2014) - 700 MW - Hydropower based
MP Power (to be commissioned in July 2014) - 3960 MW - Coal based
Siyom (to be commissioned in March 2015) - 1000 MW - Hydropower based
Kalai II (to be commissioned in March 2016) - 1200 MW - Hydropower based
Sasan (to be commissioned in April 2016) - 3960 MW - Coal based

If

everything goes as planned, capacity of Reliance Power at end of each year till 2016 will be:

2008: 0 MW.
2009: 0 MW.
2010: 1500 MW.
2011: 5500 MW.
2012: 5500 MW.
2013: 16980 MW.
2014: 22040 MW.
2015: 23040 MW.
2016: 28200 MW.

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Other Similar Companies:

I can think of two companies in the power generation sector that Reliance Power can be compared with:

NTPC and Tata Power.

NTPC has current capacity of 28000 MW and has target to achieve 66000 MW by 2017. ([See this thread on NTPC](#)).

Around 2012 - 2013, both Tata Power is expected to have similar capacity as Reliance Power.

The interesting thing is at current price of Rs 1457, Tata Power is valued at just Rs 30000 crore. Remove Rs 10000 crore of investments and you can have it only for Rs 20000 crore.

At Rs 900, Reliance Power will have market value of 200000 crores....6.67 times that of Tata Power. .

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Financials:

With 2300 MW capacity, Tata Power made standalone profit of Rs 700 crore in FY 2007.

With 28000 MW capacities, NTPC made standalone profit of Rs 6900 crore in FY 2007.

Lets assume Reliance Power turns out to be much more efficient than these two companies. Add to that increased power rates.

With 28200 capacity, assume Reliance Power makes Rs 15000 crore of net profit in 2016-2017. Power companies are considered as utilities and worldwide trade at 10-15 times their earnings.

Lets assume 15 times ratio for Reliance Power in 2016.

What will be its market value?

$15000 \times 15 = \text{Rs } 225000 \text{ crore or Rs } 995 \text{ per share.}$

This is an optimistic view:

- there will be no further equity dilution till 2016.
- assuming nearly twice as much efficiency as NTPC.
- that all projects will be completed before 2016 end.
- the company would have paid back all debt by then and interest costs would be in similar range as NTPC.

(NTPC already has established 28000 MW capacity and comparatively much lesser interest costs. (NTPC's P&L account states Rs 1800 interest cost for FY 2007).

So what about the debt?

The RHP mentions estimated cost of six projects Rosa I, Rosa II, Butibori, Sasan, Shahpur Coal, Urthing Sobla as Rs 30000 crore+.

Analysts estimate that Reliance Power will need Rs 70000 crore of debt to finance its projects

which are estimated to cost 100000 crore+.

Rs 70000 crore of debt is not going to come at 2% interest rate. Even a 6% interest would mean **an annual interest cost of Rs 4200 crore**. Only in 2013, the company's capacity will cross 10000 MW. Thus, I do not expect any major debt repayment before 2014. If things don't go as planned, the debt burden will make a mockery of the balance sheet.

With Rs 12000 crore raised in equity and Rs 70000 crore of debt, these whole business will become a high-risk venture.

Any unforeseen delay/derailment of plans may create major problems for this company.

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Reliance Power - The Overlooked Fact:

What does Anil Ambani's AAA Project or REL lose?

Both of them had got their 45% (post-IPO) stake for Rs 1000 crore each. Plus they will each subscribe to 1.6 crore shares each at Rs 450 in the IPO.....which works out to be Rs 720 crore.

Thus, AAA Project will be getting 101.6 crore shares of Reliance Power for Rs 1720 crore and REL will be getting 101.6 crore shares of Reliance Power for Rs 1720 crore.

Little less than Rs 17 per share.

This is what both the promoters are risking in this project....**Rs 17 per share** ; while investors will be risking **Rs 450 per share**.

This is exactly the reason why Reliance Power was created.

First, by contributing just Rs 1720 crore each to Reliance Power, the promoters have shifted all risk to investors.

Second, by getting 45% stake (in REL's projects) to AAA Project for a mere Rs 1000 crore, AAA Projects (and Anil Ambani) have created wealth out of thin air.

Anil Ambani's Rs 1000 crore investment will be worth Rs 100000 crore when Reliance Power lists at Rs 900.

If the gamble works, the promoters (holding 90% stake in Reliance Power) will be worth billions of dollars.

If the gamble doesn't work, the promoters will lose Rs 1720 crore each and investors will lose Rs 10000+ crore which they will be paying for a mere 10% stake in Reliance Power.

What a way to create wealth...!!!.....I don't have words to describe the brilliance of Anil Ambani's plans... .

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First, other companies are much cheaper.

Why should I keep a company valued at **Rs 200000 crore** -

when another company (with similar capacity by 2013) is available at **Rs 30000 crore** with **much smaller debt burden** and **Rs 10000 crore worth of investments**.....referring to Tata Power.

If Reliance Power (at Rs 900) is available for Rs 200000 crore, **why not buy NTPC for a similar price**Rs 225000 crore. NTPC plans to have a capacity of 66000 MW in 2017, while Reliance Power will have 28200 MW capacity in 2016.

Second, the risk is higher than other existing companies.

With marginally cash flows for next 5 years and Rs 70000+ crore of debt, the **risk for Reliance Power is high. Tata Power and NTPC have existing cash flows to handle expansions....Reliance Power does not.**

Third and the biggest factor is....the valuation of the company doesn't make much sense.

Why should Reliance Power be valued at Rs 200000 crore, when in **highly optimistic scenario, it will not make more than Rs 15000 crore of profit in 2016?** Even if it touches that figure of Rs 15000 crore, its market value in 2016 will not be much more than 225000-300000 crore. (if given a 15-20 times multiple).

A fixed deposit will make more money than that in 8 years.....and that too without any risk.

Also, the optimistic Rs 15000 crore figure is got by assuming two times margins as NTPC.

The fact is..... at least till 2014, Reliance Power will still be carrying most of its Rs 70000 crore debt and its interest costs will squeeze margins to a large extent.