

November 09, 2011

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	Accumulate
Rating	
Price	Rs467
Target Price	Rs498
Implied Upside	6.6%
Sensex	17,362

(Prices as on November 09, 2011)

Trading data

Market Cap. (Rs bn)	114.5
Shares o/s (m)	244.9
3M Avg. Daily value (Rs m)	851.3

Major shareholders

Promoters	48.40%
Foreign	15.03%
Domestic Inst.	21.03%
Public & Other	15.54%

Stock Performance

(%)	1M	6M	12M
Absolute	19.7	(21.9)	(55.3)
Relative	12.7	(15.6)	(38.3)

Price Performance (RIC: RLIN.BO, BB: RELI IN)



Source: Bloomberg

Reliance Infrastructure

Pick-up in Infra business crucial

- EPC revenues throw a positive surprise, PAT flat YoY:** Reliance Infrastructure (RInfra), in Q2FY12, has reported revenue growth of 33.9% YoY at Rs56bn. EPC division revenue is on a growth trajectory which grew by Rs15bn YoY, while the Electricity revenues were almost flat YoY. Volumes in Mumbai Distribution declined by 14.9% YoY. Overall volumes also came down by 14.6% YoY. However, the company added 19,837 customers in Q2FY12. The company had higher other income in Q2FY12 of Rs3.1bn which has led to a flat YoY PATAMI of Rs3.6bn.
- Performance of subsidiaries:** Delhi Distribution clocked sales of Rs2.1bn, growth of 20% YoY and number of units stood at 4.3bn units. Pax traffic at Delhi Metro increased to 18,000 from 12000 in Q1FY12 but has incurred a loss at EBITDA level for the quarter. No. of units traded in the trading arm stands at 1bn units, down by 33% YoY.
- Updates:** EPC order book stands at Rs240bn, declining from Rs280bn in Q2FY12. The company has completed major work in the WRSS project and the balance is expected to be completed by FY13E. Delhi Discom has been given an approval for a tariff hike to the extent of 22% and has also approved receivables of Rs67bn of regulated assets.
- Valuation:** With new assets getting operational in the next 12-15 months, the revenues on a consolidated basis are likely to be benefited. We have, however, downgraded our FY13E PAT on account of lower Infrastructure business growth and higher tax rate. At CMP, the stock trades at 0.6x P/BV FY13E on account of non-operational reasons. We expect commissioning of *Butibori Power Plant* of RPower and Mumbai Metro to be the game changers for the company, going ahead. Hence, we maintain '**Accumulate**' on the stock.

Key financials (Y/e March)	2010	2011	2012E	2013E
Revenues (Rs m)	146,286	154,083	190,042	222,898
Growth (%)	16.3	5.3	23.3	17.3
EBITDA (Rs m)	12,263	19,168	24,476	25,364
PAT (Rs m)	15,194	14,166	16,035	13,835
EPS (Rs)	62.0	53.0	60.0	51.7
Growth (%)	3.6	(14.6)	13.2	(13.7)
Net DPS (Rs)	6.4	7.2	6.7	6.7

Source: Company Data; PL Research

Profitability & Valuation	2010	2011	2012E	2013E
EBITDA margin (%)	8.4	12.4	12.9	11.4
RoE (%)	8.1	6.4	7.0	6.1
RoCE (%)	5.5	4.6	4.9	4.2
EV / sales (x)	1.3	1.6	1.6	1.4
EV / EBITDA (x)	16.0	12.6	12.7	12.6
PE (x)	7.5	8.8	7.8	9.0
P / BV (x)	0.6	0.5	0.6	0.5
Net dividend yield (%)	1.4	1.5	1.4	1.4

Source: Company Data; PL Research

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Exhibit 1: Q2FY12 Result Overview - Consolidated (Rs m)

Y/e March	Q2FY12	Q2FY11	YoY gr. (%)	Q1FY12	H1FY12	H1FY11	YoY gr. (%)
Total Income	55,487	39,675	39.9	51,912	107,398	77,159	39.2
Expenditure							
Total Expenditure	50,266	33,517	50.0	44,002	94,267	66,956	40.8
EBITDA	5,221	6,158	(15.2)	7,910	13,131	10,203	28.7
<i>Margin (%)</i>	<i>9.4</i>	<i>15.5</i>		<i>15.2</i>	<i>12.2</i>	<i>13.2</i>	
Depreciation	1,009	1,257	(19.7)	1,024	2,034	2,463	(17.4)
EBIT	4,212	4,901	(14.1)	6,886	11,098	7,741	43.4
Interest	2,507	1,520	64.9	2,166	4,673	2,893	61.6
Other Income	3,067	(245)	NA	1,283	4,350	1,818	139.2
PBT	4,772	3,136	52.2	6,003	10,775	6,666	61.6
Tax	1,833	615	198.0	2,713	4,546	1,279	255.5
<i>Tax Rate (%)</i>	<i>38.4</i>	<i>19.6</i>		<i>45.2</i>	<i>42.2</i>	<i>9.4</i>	
Recurring Pat	2,939	2,521	16.6	3,290	6,229	5,388	15.6
Minority Interests	677	1,081		774	1,451	1,967	
PAT	3,616	3,602	0.4	4,064	7,680	7,355	4.4
Adjusted PAT	3,616	3,602	0.4	2,964	6,580	7,350	(10.5)

Source: Company Data, PL Research

Exhibit 2: Segmental Breakup (Rs m)

Y/e March	Q2FY12	Q2FY11	YoY gr. (%)	Q1FY12	H1FY12	H1FY11	YoY gr. (%)
Electrical Energy	34,393	32,445	6.0	33,254	67,648	65,398	3.4
<i>% in Total</i>	<i>66.3</i>	<i>84.2</i>		<i>64.1</i>		<i>79.8</i>	
EPC	22,123	7,117	210.8	17,541	39,664	11,557	243.2
<i>% in Total</i>	<i>42.6</i>	<i>18.5</i>		<i>33.8</i>		<i>19.4</i>	
Infrastructure Business	772	128	503.9	1,120	1,892	254	646.4
<i>% in Total</i>	<i>1.5</i>	<i>0.3</i>		<i>2.2</i>		<i>0.8</i>	
Net sales	51,912	38,518	34.8	51,912	103,824	77,037	34.8
EBIT							
Electrical Energy	4,269	4,295	(0.6)	5,244	9,513	6,660	42.8
<i>Margin (%)</i>	<i>12.4</i>	<i>13.2</i>		<i>15.8</i>		<i>10.1</i>	
EPC	2,302	657	250.7	1,407	3,709	1,206	207.6
<i>Margin (%)</i>	<i>10.4</i>	<i>9.2</i>		<i>8.0</i>		<i>8.1</i>	
Infrastructure Business	(76)	37	(303.8)	402	326	90	261.7
<i>Margin (%)</i>	<i>(1.2)</i>	<i>0.7</i>		<i>5.7</i>		<i>1.2</i>	
Total	6,495	4,988	30.2	7,052	13,547	7,955	70.3
<i>Margin (%)</i>	<i>12.5</i>	<i>13.0</i>		<i>13.6</i>		<i>9.7</i>	
Less: Interest & Others	(1,724)	(1,853)	(7.0)	1,049	(675)	(2,417)	(72.1)
PBT	4,772	3,136	52.2	6,003	10,775	6,667	61.6
<i>Margin (%)</i>	<i>9.2</i>	<i>8.1</i>		<i>11.6</i>		<i>8.7</i>	

Source: Company Data, PL Research

Other Highlights

We have downgraded our FY13E estimates on the back of lower Infrastructure business revenues as Mumbai Metro is expected to get delayed. Hence, there will be an impact on the margins. We have also incorporated increase in the below EBITDA line items, especially tax. For FY12E, we have upgraded our estimates on the PAT front on account of higher-than-expected other income.

Exhibit 3: Change in Estimates

	FY12E			FY13E		
	Earlier	Post Revision	% change	Earlier	Post Revision	% change
Revenues (Rs m)	194,630	190,042	(2.4)	231,776	222,898	(3.8)
PAT (Rs m)	13,987	16,035	14.6	15,989	13,835	(13.5)
EPS (Rs)	52.3	60.0	14.6	59.8	51.7	(13.5)

Source: PL Research

We have marginally reduced our SOTP factoring in a slowdown in future EPC and Infrastructure business.

Exhibit 4: SOTP

Entity	Methodology of Valuation	Equity Value (Rs m)	Value (Rs/Share)
Energy Business	DCF and LTSSG(P/BVx1.5-2.2x)	57,276	230
Reliance Power Transmission	DCF and LTSSG(P/BVx1.5-2.2x)	681	3
Reliance InfraVentures		19,607	90
Roads	DCF COE 12-14%	16,001	75
Metro	DCF COE 12-14%	3,607	15
Reliance InfraProjects (EPC)	EV/EBITDA of 3.2x (75% discount to L&T)	21,684	73
RPower	50% Holdco discount to RPower valuation	54,361	102
Total INR (m)		153,608	498

Source: PL Research

Key Highlights of the Conference Call

The operational performance of Delhi Discom has been satisfactory and with an approval of tariff hike and recovery of regulatory assets (Rs67bn), the financials will start showing a better picture. Also, the increased cost of fuel will be recovered as FAC surcharge would be reviewed on a quarterly basis. However, the company will take 5-7 years to recover the under-recoveries.

The company expects the traffic in Delhi Metro to touch 30000 from the present 18000 by end of FY12E. Also, the real estate deals would be fully closed by Q2FY13E. Currently, the company has inked deals for store space with *W H Smith*, *Café Coffee Day*, *Samsonite*, *VIP*, *Dabur*, *Café Oz* etc. Advertisement deals have also been signed with vendors like *Lufthansa*, *Pepsi*, *Lipton* and *Reebok*.

The construction of the first cement plant of 5mtpa has started in MP and is expected to be completed by FY13E.

Rlnfra believes that with its medium-term power supply agreements in place and finalizing of long-term bids in the coming 2-3 months, it would be more competitive in Mumbai Discom from FY13E onwards. The company also believes that levy of cross-subsidy charge on other players will increase the cost of power for them.


Income Statement (Rs m)

Y/e March	2010	2011	2012E	2013E
Net Revenue	146,286	154,083	190,042	222,898
Raw Material Expenses	118,901	122,550	147,552	177,419
Gross Profit	27,385	31,533	42,490	45,479
Employee Cost	—	—	—	—
Other Expenses	15,122	12,365	18,014	20,115
EBITDA	12,263	19,168	24,476	25,364
Depr. & Amortization	4,724	4,825	5,949	8,030
Net Interest	5,251	6,350	11,670	15,871
Other Income	11,188	5,565	7,330	7,330
Profit before Tax	13,476	13,559	14,187	8,793
Total Tax	1,498	1,268	2,685	951
Profit after Tax	11,977	12,290	11,502	7,842
Ex-Od items / Min. Int.	(3,216)	(4,576)	(4,533)	(5,993)
Adj. PAT	15,194	14,166	16,035	13,835
Avg. Shares O/S (m)	244.9	267.4	267.4	267.4
EPS (Rs.)	62.0	53.0	60.0	51.7

Cash Flow Abstract (Rs m)

Y/e March	2010	2011	2012E	2013E
C/F from Operations	(3,591)	32,042	(16,856)	28,897
C/F from Investing	6,365	(29,746)	(76,900)	(35,366)
C/F from Financing	(2,863)	(432)	98,530	17,343
Inc. / Dec. in Cash	(88)	1,863	4,774	10,874
Opening Cash	4,583	4,494	6,358	11,131
Closing Cash	4,494	6,358	11,131	22,005
FCFF	(19,779)	2,982	(108,423)	(10,057)
FCFE	(34,993)	40,193	(35,724)	9,943

Key Financial Metrics

Y/e March	2010	2011	2012E	2013E
Growth				
Revenue (%)	16.3	5.3	23.3	17.3
EBITDA (%)	94.7	56.3	27.7	3.6
PAT (%)	12.3	(6.8)	13.2	(13.7)
EPS (%)	3.6	(14.6)	13.2	(13.7)
Profitability				
EBITDA Margin (%)	8.4	12.4	12.9	11.4
PAT Margin (%)	10.4	9.2	8.4	6.2
RoCE (%)	5.5	4.6	4.9	4.2
RoE (%)	8.1	6.4	7.0	6.1
Balance Sheet				
Net Debt : Equity	0.4	0.5	0.8	0.8
Net Wrkng Cap. (days)	—	—	—	—
Valuation				
PER (x)	7.5	8.8	7.8	9.0
P / B (x)	0.6	0.5	0.6	0.5
EV / EBITDA (x)	16.0	12.6	12.7	12.6
EV / Sales (x)	1.3	1.6	1.6	1.4
Earnings Quality				
Eff. Tax Rate	11.1	9.4	18.9	10.8
Other Inc / PBT	83.0	41.0	51.7	83.4
Eff. Depr. Rate (%)	4.0	3.3	2.5	2.9
FCFE / PAT	(230.3)	283.7	(222.8)	71.9

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2010	2011	2012E	2013E
Shareholder's Funds	207,041	236,076	223,170	231,296
Total Debt	85,839	123,050	195,748	215,748
Other Liabilities	2,716	2,864	6,135	7,256
Total Liabilities	295,596	361,990	425,053	454,300
Net Fixed Assets	112,185	187,761	220,200	257,376
Goodwill	—	—	—	—
Investments	136,591	137,939	124,110	116,431
Net Current Assets	46,819	36,292	80,743	80,494
<i>Cash & Equivalents</i>	<i>4,494</i>	<i>6,358</i>	<i>11,131</i>	<i>22,005</i>
<i>Other Current Assets</i>	<i>127,905</i>	<i>175,792</i>	<i>209,598</i>	<i>211,271</i>
<i>Current Liabilities</i>	<i>85,580</i>	<i>145,857</i>	<i>139,986</i>	<i>152,782</i>
Other Assets	—	—	—	—
Total Assets	295,596	361,992	425,053	454,301

Quarterly Financials (Rs m)

Y/e March	Q3FY11	Q4FY11	Q1FY12	Q2FY12
Net Revenue	37,440	37,979	51,912	55,487
EBITDA	5,581	3,333	7,910	5,221
<i>% of revenue</i>	<i>14.9</i>	<i>8.8</i>	<i>15.2</i>	<i>9.4</i>
Depr. & Amortization	1,257	1,115	1,024	1,009
Net Interest	1,584	1,893	2,166	2,507
Other Income	1,277	2,530	1,283	3,067
Profit before Tax	4,017	2,856	6,003	4,772
Total Tax	568	(578)	2,713	1,833
Profit after Tax	4,033	4,109	4,064	3,616
Adj. PAT	4,033	4,109	2,964	3,616

Key Operating Metrics

Y/e March	2010	2011	2012E	2013E
Electricity (Rs m)	64.9	79.8	49.1	45.2
EPC (Rs m)	35.1	19.4	50.4	54.2
Others (Rs m)	—	0.8	0.6	0.6
Capex (Rs bn)	16.4	28.4	90.7	43.0
Order Book (Rs bn)	332.6	296.0	740.5	804.5
Interest Rate (%)	5.8	4.9	6.0	7.4

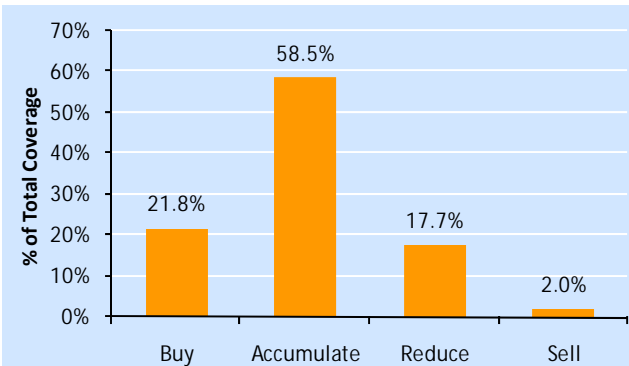
Source: Company Data, PL Research.

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BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
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