



Reliance Infrastructure

BSE SENSEX 18,202	S&P CNX 5,456	Rs627	Buy
Bloomberg Equity Shares (m)	RELI IN 268.2		
52-Week Range (Rs)	1,225/493		
1,6,12 Rel. Perf. (%)	-18/-42/-54		
M.Cap. (Rs b)	168.4		
M.Cap. (US\$ b)	3.7		

YEAR	NET SALES	PAT	EPS*	EPS	P/E*	P/BV	ROE	ROCE	EY/	EY/
END	(RS M)	(RS M)	(RS)	GR. (%)	RATIO	(X)	(%)	(%)	SALES	EBITDA
3/10A	100,273	10,617	39.6	16.9	15.8	1.1	8.2	8.2	0.9	8.8
3/11E	103,732	9,338	34.8	-12.0	18.0	1.0	5.6	6.9	1.2	9.6
3/12E	140,777	14,440	53.8	54.6	11.7	0.9	8.2	9.4	0.9	7.1
3/13E	161,036	16,295	60.8	12.8	10.3	0.9	8.6	9.7	0.7	5.9

- Operational performance in line:** During 3QFY11, Reliance Infra reported standalone revenue of Rs26.4b (up 15% YoY), EBITDA of Rs2.7b (up 13% YoY) and net profit of Rs1.9b (down 33% YoY). Reported EBITDA was in line with our estimate at Rs2.8b. Reported net profit was lower than our estimate of Rs3.2b due to lower other income at Rs1b v/s our estimate of Rs2.8b. We were expecting higher other income because 2QFY11 other income was negative at Rs508m (nil post forex loss), given that dividends on FMPs are recorded on receipt basis. We had expected these incomes to be accounted in 3QFY11. Net cash stood at Rs30b, v/s Rs47b as at March 2010, given increased investments in infrastructure project SPVs and creation of regulatory assets in Mumbai business in 1HFY11
- Mumbai business does not witness creation of regulatory assets:** Given the tariff hike approval in Mumbai distribution business with effect from October 2010, there has been no accretion to the regulatory assets in 3QFY11. As at end 2QFY11, regulatory assets stood at Rs20b and will be recovered in future tariffs. Also, the management stated that Reliance Infra will continue to remain the distribution licensee in Mumbai for 25 years beginning 2003; while parallel distribution can be permitted by MERC.
- Infrastructure business to witness meaningful traction:** Reliance Infra's project portfolio comprises of 25 infrastructure projects aggregating around Rs400b, in segments like Roads (11 projects with 970km, cost Rs120b), Metro Rail (3 projects, cost Rs160b), Transmission (5 projects, cost Rs66.4b), Sea Link (1 project, cost Rs51b) and Airports (5 regional brownfield airports in Maharashtra). Financial closure has already been achieved for projects worth Rs305b. 12 projects will start generating revenues in FY12 (project cost of Rs174b), including six-laning of NHAI projects under Phase-V, which entails toll collection even during the construction phase.
- Cutting estimates, maintain Buy:** We have downgraded our earnings estimates and now expect net profit of Rs9.3b in FY11 (down 12%), Rs14.4b in FY12 (up 55%) and Rs16.3b in FY13 (up 13%). At CMP of Rs627, the stock quotes at 18x FY11E, 12x FY12E and 10x FY13E EPS. Maintain **Buy** with SOTP based target price of Rs1,057.

QUARTERLY PERFORMANCE (STANDALONE)										(Rs Million)	
Y/E MARCH	FY10				FY11E				FY10	FY11E	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			
Sales	24,463	26,496	22,875	26,439	22,280	24,391	26,376	30,685	100,273	103,732	
Change (%)	6.8	7.1	-15.8	10.7	-8.9	-7.9	15.3	16.1	1.6	3.5	
EBITDA	2,995	3,129	2,354	2,614	2,534	4,162	2,670	3,531	10,282	12,898	
Change (%)	4.8	12.9	-24.6	67.6	-15.4	33.0	13.4	35.1	-0.3	25.4	
As of % Sales	12.2	11.8	10.3	9.9	11.4	17.1	10.1	11.5	10.3	12.4	
Depreciation	722	740	830	807	769	825	817	860	3,188	3,270	
Interest	1,037	740	565	581	613	600	582	615	2,922	2,410	
Other Income	2,442	1,633	2,156	1,668	1,804	-508	1,021	1,591	7,898	3,908	
PBT	3,678	3,283	3,114	2,895	2,957	2,229	2,292	3,648	12,070	11,126	
Tax (incl contingencies)	513	214	333	384	494	524	436	771	1,453	2,225	
Effective Tax Rate (%)	13.9	6.5	10.7	13.3	16.7	23.5	19.0	21.1	12.0	20.0	
Reported PAT	3,166	3,069	2,781	2,511	2,463	1,705	1,856	2,877	10,617	8,901	
PAT (Pre Exceptionals)	3,166	3,069	2,781	2,511	2,463	2,205	1,856	2,877	10,617	9,338	
Change (%)	26.5	44.6	-1.5	-33.0	-22.2	-28.2	-33.3	14.6	2.0	-12.0	

E: MOSL Estimates; Quarterly nos. are on standalone basis

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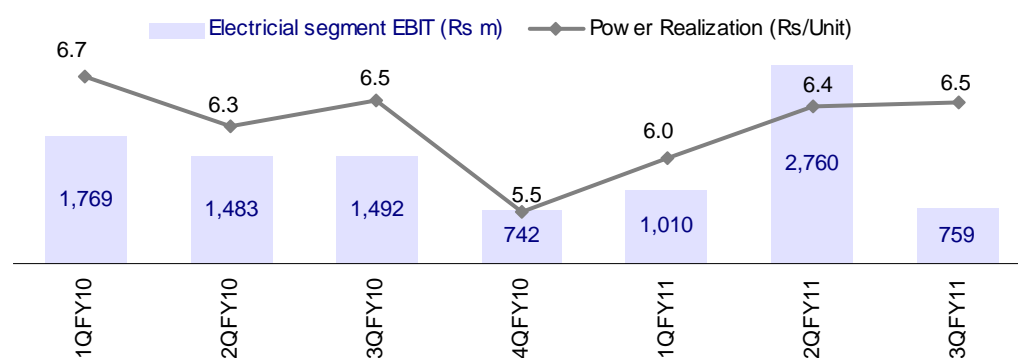
3QFY11 operational performance in-line; lower other income impacts earnings; cutting estimates, maintain Buy

- During 3QFY11, Reliance Infra reported standalone revenue of Rs26.4b (up 15% YoY), EBITDA of Rs2.7b (up 13% YoY) and net profit of Rs1.9b (down 33% YoY).
- Reported EBITDA was in line with our estimate at Rs2.8b. Reported net profit was lower than our estimate of Rs3.2b, given lower other income at Rs1b v/s our estimate of Rs2.8b. We were expecting higher other income because 2QFY11 other income was negative at Rs508m (nil post forex loss) given that dividends on FMPs are recorded on receipt basis. We had expected these incomes to be accounted in 3QFY11. Net cash stood at Rs30b v/s Rs47b in March 2010 given increased investments in infrastructure project SPVs and creation of regulatory assets in Mumbai business.
- Given the tariff hike approval in Mumbai distribution business with effect from October 2010, there has been no accretion to the regulatory assets in 3QFY11. As at end 2QFY11, regulatory assets stood at Rs20b and will be recovered in future tariffs. Also, the management stated that Reliance Infra will continue to remain the distribution licensee in Mumbai for 25 years beginning 2003; while parallel distribution can be permitted by MERC.
- In January 2011, promoters converted Rs22.6b warrants into equity shares at Rs929/share, which increased promoter holding to ~48%. Reliance Infra board has approved share buy-back of up to Rs10b at a price ceiling of Rs725/share.

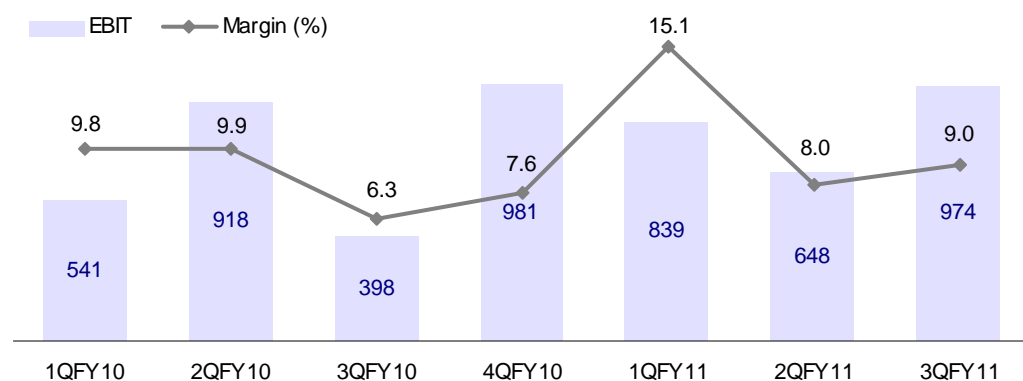
Segmental performance

- During 3QFY11, Power business reported revenue of Rs14.7b (down 10% YoY), while EBIT stood at Rs759m (down 49% YoY).
- EPC division reported revenue of Rs10.8b, up 70% YoY; EBITDA was Rs1.5b, up 14% YoY. EBITDA margin was 15.3% v/s 21% in 3QFY10 and 15% in 2QFY11. EPC margins have been volatile given the project nature of the business.
- EPC order book now stands at Rs235b (v/s Rs190b in 3QFY10) and 7x TTM EPC revenue of Rs33b. Management has guided revenue booking of Rs45b in FY11, up 33%, v/s 9MFY11 EPC revenue of Rs24.4b (residual revenue growth of 60%+). Increase in execution/revenue booking is likely to be driven by Sasan UMPP and other infrastructure projects, where revenue recognition has crossed 10% threshold.
- Capital employed in EPC division increased by 74% YoY to Rs6.2b in 3QFY11, up from Rs3.4b in 2QFY11, indicating higher investments.

Power Division: Realization and EBIT



Source: Company/MOSL

EPC Division: EBIT (Rs m) and margin (%)

Source: Company/MOSL

Consolidated net profit at Rs4b (up 5% YoY)

- In 3QFY11, consolidated revenue was Rs37.4b (up 14% YoY), EBITDA was Rs5.6b (up 35% YoY), and consolidated net profit after minority interest was Rs4b (up 5% YoY).
- Consolidated 3QFY11 numbers include financial performance of two road projects (Namakkal Karur and Dindigul Samyanallore) and toll collection from Pune-Satara project (commenced from October 2010).

Consolidated Performance (Rs m)

	3QFY11	3QFY10	% Chg
Revenues	37,440	32,866	14
Electricity	26,394	27,168	-3
EPC	10,613	5,584	90
Roads	419	114	269
Others	12	0	N.A.
EBIT	4,416	3,096	43
Electricity	3,326	2,725	22
EPC	1,010	407	148
Roads	78	-27	LP
Others	1	-9	-108
PAT*	4,052	3,879	5

* incl Associates and post minority

Source: Company/MOSL

Infrastructure business to witness meaningful traction, given 12 projects expected to be under revenue generation stage in FY12 (up from 2 projects in FY11)

- Reliance Infra's project portfolio comprises of 25 infrastructure projects, aggregating ~Rs400b in segments like Roads (11 projects with 970km, cost Rs120b), Metro Rail (3 projects, cost Rs160b), Transmission (5 projects, cost Rs66.4b), Sea Link (1 project, cost Rs51b) and Airports (5 regional brownfield airports in Maharashtra). Financial closure has already been achieved for projects worth Rs305b.
- Solapur-Karad transmission line under WRSS scheme has commenced commercial operations from February 2011. Commercial operation of Delhi Metro is expected shortly. Also, Mumbai Metro is expected to be commissioned by December 2011.

- 12 projects will start generating revenues in FY12 (project cost of Rs174b), including six-laning of NHAI projects under Phase-V, which entails toll collection even during the construction phase. Of the total 12 road projects, three projects are operational and five will enter the revenue generation phase in FY12.

Valuation and view

- We have downgraded our earnings estimates to factor in lower other income. We expect Reliance Infra to report net profit of Rs9.3b in FY11 (down 12%), Rs14.4b in FY12 (up 55%) and Rs16.3b in FY13 (up 13%).
- At CMP of Rs627, the stock quotes at 18x FY11E, 12x FY12E and 10x FY13E EPS. Maintain **Buy** with SOTP based target price of Rs1,057.

Reliance Infrastructure: an investment profile

Company description

Reliance Infrastructure (formerly BSES) is one of the two leading private sector companies in the Indian power segment. Its generation capacity, stands at 500MW. It has a distribution license in Mumbai and acquired stakes in Delhi and Orissa discoms during privatization by the state governments. Total energy input in distribution business (including Orissa) stands at 30BU. Cash in hand and liquid investments stand at Rs86b (March 2010). The company has announced several growth initiatives across the Infrastructure sector.

Key investment arguments

- Existing business, especially the Mumbai business, earns returns @ 14% per year, assuring a stable earnings stream.
- EPC order book position at Rs235b (~7x FY10 book to bill ratio) provides strong visibility on revenues. Also, the strong project pipeline for Reliance Power offers significant opportunity for Reliance Infrastructure.
- Reliance Infrastructure has an asset portfolio of 25 projects with total cost of Rs400b, of which 12 projects would be in revenue recognition stage in FY12 (project cost of Rs213b).

Key investment risks

- Successful project implementation and execution.
- Macro risks pertaining to the viability of the overall Indian power sector.

Recent developments

- Promoters converted Rs22.6b warrants into equity shares at Rs929/share, which increased promoter holding to ~48%. Reliance Infra board has approved share buy-back of up to Rs10b at a price ceiling of Rs725/share.
- Out of Rs400b of Infra projects with Rinfrac, Financial closure has been achieved for projects worth Rs305b.

Valuations and view

- We have downgraded our earnings estimate by 5-10% to factor in lower other income. We expect RELI to report net profit of Rs9.3b in FY11E (down 12% YoY), Rs14.4b in FY12E (up 55% YoY) and Rs16.3b in FY13E (up 13% YoY).
- At CMP of Rs627/sh, the stock quotes at PER of 18x FY11E and 12x FY12E. SOTP based target price of Rs1,057/sh, **Buy**.

Sector view

- The Indian power sector offers significant growth potential. Incumbents enjoy growth optionality, which could be in multiples of the current size. Private companies and CPSUs have announced significant expansion projects.

EPS: MOSL forecast v/s Consensus (Rs)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY11	34.8	58.9	-40.9
FY12	53.8	67.6	-20.3

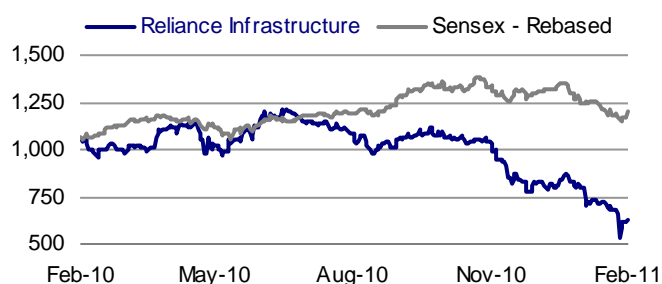
Shareholding Pattern (%)

	Dec-10	Sep-10	Dec-09
Promoter	42.9	42.8	37.8
Domestic Inst	24.3	25.7	27.6
Foreign	17.6	16.5	17.7
Others	15.2	15.1	17.0

Target Price and Recommendation

Current Price (Rs)	Target Price (Rs)	Upside (%)	Reco.
627	1,057	68.3	Buy

Stock performance (1 year)



Financials and Valuation

INCOME STATEMENT						RATIOS					
(RS MILLION)											
Y/E MARCH	2009	2010	2011E	2012E	2013E	Y/E MARCH	2009	2010	2011E	2012E	2013E
Sales	71,831	63,678	66,345	71,727	77,986	Basic (Rs)					
Other Operating Income	25,134	36,595	37,388	69,050	83,050	EPS	40.2	43.3	34.8	53.8	60.8
Total Revenues	96,965	100,273	103,732	140,777	161,036	EPS (Fully Diluted)	40.2	43.3	34.8	53.8	60.8
Change (%)	52.4	3.4	3.5	35.7	14.4	CEPS (Rs)	51.0	56.4	47.0	66.9	74.8
Cost of Electricity	42,540	34,761	33,319	36,868	40,705	Book Value	500.6	596.8	632.1	679.2	733.2
Cost of fuel	13,402	12,198	13,253	14,103	15,037	DPS	6.9	6.0	6.0	6.0	6.0
Other Mfg Exp.	2,142	6,768	3,077	3,247	3,456	Payout (incl. Div. Tax.)	20.1	15.6	19.4	12.5	11.1
Employee Expenses	3,676	4,383	4,602	4,832	5,074	Valuation (x)					
SG&A Expenses	6,953	-744	3,044	3,322	3,628	P/E	15.6	14.5	18.0	11.7	10.3
Cost of Contracts	19,665	32,625	33,539	61,029	74,222	EV/EBITDA	12.1	8.8	9.6	7.1	5.9
EBITDA	8,588	10,282	12,898	17,376	18,913	EV/Sales	1.1	0.9	1.2	0.9	0.7
% of Total Revenues	8.9	10.3	12.4	12.3	11.7	Price/Book Value	1.3	1.1	1.0	0.9	0.9
Depreciation	2,449	3,188	3,270	3,503	3,779	Dividend Yield (%)	1.1	1.0	1.0	1.0	1.0
Interest	3,305	2,922	2,410	3,347	3,789	Profitability Ratios (%)					
Other Income	7,379	7,898	3,908	6,871	8,288	RoE	10.2	8.2	5.6	8.2	8.6
PBT	10,213	12,070	11,126	17,398	19,632	RoCE	9.0	8.2	6.9	9.4	9.7
Tax	546	1,453	2,225	2,958	3,337	Turnover Ratios					
Rate (%)	5.3	12.0	20.0	17.0	17.0	Debtors (Days)	57	63	63	48	43
Provisions for Cont	0	0	0	0	0	Inventory (Days)	17	10	10	7	6
Reported PAT	9,668	10,617	8,901	14,440	16,295	Asset Turnover (x)	0.5	0.5	0.5	0.6	0.6
Change (%)	-10.9	9.8	-16.2	62.2	12.8	Leverage Ratio					
Adj. PAT	9,081	10,617	9,338	14,440	16,295	Debt/Equity (x)	0.5	0.6	0.3	0.3	0.3
Change (%)	22.0	16.9	-12.0	54.6	12.8						
BALANCE SHEET						CASH FLOW STATEMENT					
(RS MILLION)						(RS MILLION)					
Y/E MARCH	2009	2010	2011E	2012E	2013E	2009	2010	2011E	2012E	2013E	
Share Capital	2,261	2,449	2,682	2,682	2,682	PBT before EO Items	11,934	12,070	11,126	17,398	19,632
Reserves	110,916	143,714	166,859	179,489	193,973	Add : Depreciation	2,449	3,188	3,270	3,503	3,779
Net Worth	113,177	146,164	169,542	182,171	196,656	Less : Direct Taxes Ptd	1,034	1,453	1,775	2,508	2,887
Loans	73,322	41,149	46,017	51,792	55,642	(Inc)/Dec in WIC	40,445	8,716	25,397	5,670	4,968
Deferred Tax Liability	1,940	1,577	2,027	2,477	2,927	CF from Operations	53,794	22,522	38,018	24,063	25,492
Capital Employed	188,438	188,890	217,540	236,350	255,090	(Inc)/Dec in FA	-5,760	-5,974	-7,872	-8,250	-3,356
Gross Fixed Assets	69,227	74,283	82,533	90,783	96,283	(Pur)/Sale of Investments	-61,373	-6,089	-8,999	-7,153	-356
Less: Dep and Reval. Res.	-41,723	-44,869	-48,139	-51,642	-55,421	Others	2,400	0	0	0	0
Net Fixed Assets	27,504	29,414	34,393	39,140	40,861	CF from Investments	-64,734	-12,062	-16,870	-15,403	-3,712
Capital WIP	5,644	6,023	5,644	5,644	3,500	(Inc)/Dec in Share Capital an	-9,183	17,636	16,288	0	0
Investments	121,754	100,196	109,194	116,348	116,704	(Inc)/Dec in Debt	23,433	-24,080	-3,225	5,775	3,850
Curr. Assets	88,036	119,545	126,984	148,446	172,957	(Inc)/Dec in Customer Secur	-202	0	-45	-45	-45
Inventory	4,407	2,691	2,700	2,700	2,700	Dividend Paid	-1,826	-1,653	-1,810	-1,810	-1,810
Debtors	15,233	17,429	17,952	18,491	19,045	CF from Fin. Activity	12,222	-8,097	11,208	3,920	1,995
Cash & Bank Balance	2,510	3,018	36,945	49,525	73,300	Inc/Dec of Cash	1,282	2,363	32,355	12,579	23,775
Loans & Advances	55,766	82,194	58,468	57,546	53,630	Add: Beginning Balance	877	2,510	3,018	36,945	49,525
Other Current Assets	10,121	14,213	10,919	20,185	24,282	Closing Balance	2,510	9,403	35,373	49,525	73,300
Current Liab. & Prov.	54,218	66,287	65,196	79,749	85,453						
Other Liabilities	46,555	56,467	55,572	70,318	76,211						
Provisions	7,663	9,820	9,624	9,431	9,242						
Net Current Assets	33,819	53,258	61,788	68,697	87,504						
Application of Funds	188,723	188,891	211,021	229,832	248,572						

E: MOSL Estimates

N O T E S



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1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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