Prabhudas Lilladher

Reliance Infrastructure

Results – A mixed bag

Q3FY11 Result Update

February 14, 2011

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Rating	**Accumulate**
Price	Rs626
Target Price	Rs737
Implied Upside	17.7%
Sensex	18,202

(Prices as on February 14, 2011)

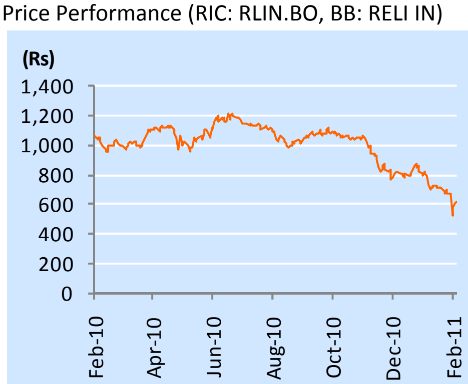
Trading data	
Market Cap. (Rs bn)	153.3
Shares o/s (m)	244.9
3M Avg. Daily value (Rs m)	1689.9

Major shareholders	
Promoters	42.91%
Foreign	16.57%
Domestic Inst.	24.31%
Public & Other	16.21%

Stock Performance

(%)	1M	6M	12M
Absolute	(21.6)	(42.2)	(41.1)
Relative	(18.1)	(42.4)	(53.8)

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



Source: Bloomberg

- **Standalone analysis:** Reliance Infrastructure (RInfra) has reported revenue growth of 14.4% YoY at Rs26bn for Q3FY11 (on account of higher EPC sales). EPC division recorded 147bps YoY improvement in EBIT margins and Mumbai Distribution Business recorded a 49bps YoY dip on account of lower sales of units. Volumes in Mumbai Distribution declined by 13% YoY and the power purchased from third parties also came down by 18% YoY (on account of lower demand). Other income was down 52.7% YoY during the quarter and thus, the standalone PAT de-grew by 40% YoY and Flat QoQ to Rs1.7bn.

- **Consolidated analysis:** Delhi Distribution clocked sales of Rs14bn up 7% YoY and number of units also increased by 4.6% YoY. PLFs at Goa and Samalkot Gas based plants have been in the range of 75% plus. Thus, total revenues stood at Rs37bn, growing by 13.9% YoY and PATAMI stood at Rs4.1bn, posting a growth of 10.2% YoY.

- **Updates:** EPC order book stands at Rs235bn, down 2% QoQ. The company is developing 25 projects with an asset capitalisation of Rs400bn. During the quarter, the company has started collecting toll for Pune Satara Road BOT project. Delhi Metro has received safety clearances and has achieved financial closure of Mumbai metro line 2. The company has announced a buy back of shares aggregating to Rs10bn with a upper limit of Rs725 per share.

- **Valuation:** The stock of the company has taken a hit in last 2 months on account of various news. However with new assets getting into operations in next 12 months the earnings on consolidated basis will be benefited. At CMP the stock trades at 0.8x P/BV FY12E. Our SOTP target price comes to Rs737 and we maintain **'Accumulate'** on the stock.

Key financials (Y/e March)	2010	2011E	2012E	2013E
Revenues (Rs m)	146,286	151,440	194,630	231,776
Growth (%)	*16.3*	*3.5*	*28.5*	*19.1*
EBITDA (Rs m)	12,263	20,985	25,427	33,262
PAT (Rs m)	15,194	15,492	18,953	19,486
EPS (Rs)	62.0	57.6	70.5	72.4
Growth (%)	*3.6*	*(7.2)*	*22.3*	*2.8*
Net DPS (Rs)	6.4	6.5	6.7	6.7

Source: Company Data; PL Research

Profitability & Valuation	2010	2011E	2012E	2013E
EBITDA margin (%)	*8.4*	*13.9*	*13.1*	*14.4*
RoE (%)	*8.1*	*7.5*	*8.9*	*8.6*
RoCE (%)	*5.5*	*5.1*	*6.0*	*5.2*
EV / sales (x)	1.6	2.0	1.8	1.6
EV / EBITDA (x)	19.1	14.4	13.7	10.8
PE (x)	10.1	10.9	8.9	8.6
P / BV (x)	0.7	0.8	0.8	0.7
Net dividend yield (%)	*1.0*	*1.0*	*1.1*	*1.1*

Source: Company Data; PL Research

Q3FY11 Result Overview - Consolidated (Rs m)

Y/e March	Q3FY11	Q3FY10	*YoY gr. (%)*	Q2FY11	9MFY11	9MFY10	*YoY gr. (%)*
Total Income	**37,440**	**32,866**	***13.9***	**40,427**	**116,104**	**109,316**	***6.2***
Expenditure							
Total Expenditure	31,859	28,697	*11.0*	34,253	100,269	98,508	*1.8*
EBITDA	**5,581**	**4,169**	***33.9***	**6,174**	**15,835**	**10,809**	***46.5***
Margin (%)	*14.9*	*12.7*	*222.1*	*17.1*	*13.6*	*9.9*	*375.1*
Depreciation	1,257	1,315	*(4.4)*	1,257	3,710	3,523	*5.3*
EBIT	**4,324**	**2,854**	***51.5***	**4,917**	**12,125**	**7,286**	***66.4***
Interest	1,564	1,282	*22.0*	1,520	4,457	4,162	*7.1*
Other Income	1,277	1,949	*(34.5)*	(261)	3,035	5,963	*(49.1)*
PBT	**4,037**	**3,521**	***14.6***	**3,136**	**10,703**	**9,087**	***17.8***
Tax	568	459	*23.8*	615	1,846	1,395	*32.3*
Tax Rate (%)	*14.1*	*13.0*		*23.5*	*17.3*	*15.4*	
Recurring Pat	**3,469**	**3,063**	***13.3***	**2,521**	**8,857**	**7,692**	***15.1***
Minority Interests	(584)	(616)		(1,081)	(2,551)	(2,790)	
PAT	**4,053**	**3,679**	***10.2***	**3,602**	**11,407**	**10,482**	***8.8***

Source: Company Data, PL Research

Q3FY11 Result Overview - Standalone (Rs m)

Y/e March	Q3FY11	Q3FY10	YoY gr. (%)	Q2FY11	9MFY11	9MFY10	YoY gr. (%)
Net Sales from Electrical Energy	14,238	16,003	*(11.0)*	15,572	45,592	50,994	*(10.6)*
Income from EPC Contracts	10,621	6,348	*67.3*	8,072	24,264	21,301	*13.9*
Other Operating Income	1,318	524	*151.7*	748	2,992	1,539	*94.4*
Total Income	**26,176**	**22,875**	***14.4***	**24,391**	**72,848**	**73,834**	***(1.3)***
Expenditure							
Cost of Electricity Purchased	7,224	8,910	*(18.9)*	6,293	22,116	27,569	*(19.8)*
% of Net Sales	*50.7*	*55.7*		*40.4*	*48.5*	*54.1*	
Cost of fuel	3,008	2,705.1	*11.2*	3,199	9,438	8,995	*4.9*
% of Net Sales	*21.1*	*16.9*		*20.5*	*20.7*	*17.6*	
Tax On Electricity	326	387	*(15.6)*	339	1,056	1,208	*(12.6)*
% of Net Sales	*2.3*	*2.4*		*2.2*	*2.3*	*2.4*	
Cost of Mat. & Sub-Cont.	9,295	5,014	*85.4*	6,857	20,467	17,537	*16.7*
% of Net Sales	*65.3*	*31.3*		*44.0*	*44.9*	*34.4*	
Employee Cost	2,031	1,722	*17.9*	1,915	5,747	4,881	*17.7*
% of Net Sales	*14.3*	*10.8*		*12.3*	*12.6*	*9.6*	
Other Expenditure	1,822.2	1,784.0	*2.1*	1,624.9	4,857	5,164.9	*(6.0)*
% of Net Sales	*12.8*	*11.1*		*10.4*	*10.7*	*10.1*	
Total Expenditure	23,706	20,521	*15.5*	20,229	63,681	65,356	*(2.6)*
EBITDA	**2,470**	**2,354**	***4.9***	**4,162**	**9,167**	**8,478**	***8.1***
Margin (%)	*9.4*	*10.3*	*(85.3)*	*17.1*	*12.6*	*11.5*	*110.1*
Depreciation	817	830	*(1.6)*	825	2,411	2,292	*5.2*
EBIT	**1,654**	**1,524**	***8.5***	**3,337**	**6,756**	**6,186**	***9.2***
Interest	582	565	*3.0*	600	1,796	2,342	*(23.3)*
Other Income	1,021	2,156	*(52.7)*	(508)	2,317	6,230	*(62.8)*
PBT	**2,092**	**3,114**	***(32.8)***	**2,229**	**7,278**	**10,075**	***(27.8)***
Tax	436	343	*27.2*	524	1,453	1,069	*36.0*
Tax Rate (%)	*20.8*	*11.0*		*23.5*	*20.0*	*10.6*	
Recurring Pat	**1,656**	**2,771**	***(40.2)***	**1,705**	**5,825**	**9,006**	***(35.3)***

Source: Company Data, PL Research

Segmental Breakup (Rs m)

Y/e March	Q3FY11	Q3FY10	YoY gr. (%)	Q2FY11	QoQ gr. (%)
Revenue					
Electrical Energy	14,737	18,237	*(19.2)*	16,067	*13.5*
% in Total	*56.3*	*79.7*		*65.9*	
EPC	11,440	6,638	*72.4*	8,324	*(20.3)*
% in Total	*43.7*	*29.0*		*34.1*	
Net sales	**26,176**	**22,875**	***14.4***	**24,391**	***(6.2)***
EBIT					
Electrical Energy	759	1,492	*(49.1)*	2,770	*(46.1)*
Margin	*5.2*	*8.2*		*17.2*	
EPC	986	398	*147.8*	648	*(38.6)*
Margin	*8.6*	*6.0*		*7.8*	
Total	**1,745**	**1,890**	***(7.7)***	**3,418**	***(44.7)***
Margin	*6.7*	*8.3*	*(159.6)*	*14.0*	*(575.2)*
Less: Interest & Others	347	1,224	*(71.6)*	(1,179)	*(203.8)*
PBT	2,092	3,114	*(32.8)*	2,239	*39.1*
Margin	*8.0*	*13.6*		*9.2*	

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2010	2011E	2012E	2013E
Net Revenue	**146,286**	**151,440**	**194,630**	**231,776**
Raw Material Expenses	118,901	113,932	151,189	178,399
Gross Profit	27,385	37,508	43,441	53,377
Employee Cost	—	—	—	—
Other Expenses	15,122	16,523	18,014	20,115
EBITDA	**12,263**	**20,985**	**25,427**	**33,262**
Depr. & Amortization	4,724	5,433	8,949	12,030
Net Interest	5,251	6,060	13,670	17,871
Other Income	11,188	5,360	13,130	9,830
Profit before Tax	**13,476**	**14,852**	**15,938**	**13,191**
Total Tax	1,498	2,410	2,085	2,695
Profit after Tax	**11,977**	**12,442**	**13,853**	**10,496**
Ex-Od items / Min. Int.	(3,216)	(3,050)	(5,100)	(8,990)
Adj. PAT	**15,194**	**15,492**	**18,953**	**19,486**
Avg. Shares O/S (m)	**244.9**	**269.0**	**269.0**	**269.0**
EPS (Rs.)	**62.0**	**57.6**	**70.5**	**72.4**

Balance Sheet Abstract (Rs m)

Y/e March	2010	2011E	2012E	2013E
Shareholder's Funds	207,041	206,780	220,049	233,826
Total Debt	85,839	147,692	195,748	215,748
Other Liabilities	2,716	4,699	5,999	6,000
Total Liabilities	**295,596**	**359,171**	**421,796**	**455,574**
Net Fixed Assets	112,185	166,792	216,586	248,560
Goodwill	—	—	—	—
Investments	136,591	124,312	125,510	122,329
Net Current Assets	46,819	68,068	79,700	84,686
Cash & Equivalents	*4,494*	*13,618*	*14,663*	*24,453*
Other Current Assets	*127,905*	*155,480*	*187,023*	*203,015*
Current Liabilities	*85,580*	*101,030*	*121,986*	*142,782*
Other Assets	—	—	—	—
Total Assets	**295,596**	**359,172**	**421,796**	**455,575**

Cash Flow Abstract (Rs m)

Y/e March	2010	2011E	2012E	2013E
C/F from Operations	(3,591)	10,569	16,385	32,720
C/F from Investing	6,365	(23,105)	(84,942)	(39,864)
C/F from Financing	(2,863)	21,659	69,602	18,734
Inc. / Dec. in Cash	(88)	9,124	1,045	11,590
Opening Cash	4,583	4,494	13,618	14,663
Closing Cash	4,494	13,618	14,663	24,453
FCFF	(19,779)	(26,585)	(66,429)	(6,725)
FCFE	(34,993)	35,268	(18,373)	13,275

Quarterly Financials (Rs m)

Y/e March	Q4FY10	Q1FY11	Q2FY11	Q3FY11
Net Revenue	**26,439**	**22,280**	**24,391**	**26,176**
EBITDA	**2,714**	**2,534**	**4,162**	**2,470**
% of revenue	*10.3*	*11.4*	*17.1*	*9.4*
Depr. & Amortization	907	769	825	817
Net Interest	581	613	600	582
Other Income	1,668	1,804	(508)	1,021
Profit before Tax	**2,895**	**2,956**	**2,229**	**2,092**
Total Tax	384	495	524	436
Profit after Tax	**2,511**	**2,461**	**1,705**	**1,656**
Adj. PAT	**2,511**	**2,461**	**1,705**	**1,656**

Source: Company Data, PL Research.

Key Financial Metrics

Y/e March	2010	2011E	2012E	2013E
Growth				
Revenue (%)	16.3	3.5	28.5	19.1
EBITDA (%)	94.7	71.1	21.2	30.8
PAT (%)	12.3	2.0	22.3	2.8
EPS (%)	3.6	(7.2)	22.3	2.8
Profitability				
EBITDA Margin (%)	8.4	13.9	13.1	14.4
PAT Margin (%)	10.4	10.2	9.7	8.4
RoCE (%)	5.5	5.1	6.0	5.2
RoE (%)	8.1	7.5	8.9	8.6
Balance Sheet				
Net Debt : Equity	0.4	0.6	0.8	0.8
Net Wrkng Cap. (days)	—	—	—	—
Valuation				
PER (x)	10.1	10.9	8.9	8.6
P / B (x)	0.7	0.8	0.8	0.7
EV / EBITDA (x)	19.1	14.4	13.7	10.8
EV / Sales (x)	1.6	2.0	1.8	1.6
Earnings Quality				
Eff. Tax Rate	11.1	16.2	13.1	20.4
Other Inc / PBT	83.0	36.1	82.4	74.5
Eff. Depr. Rate (%)	4.0	3.6	3.8	4.3
FCFE / PAT	(230.3)	227.7	(96.9)	68.1

Source: Company Data, PL Research.

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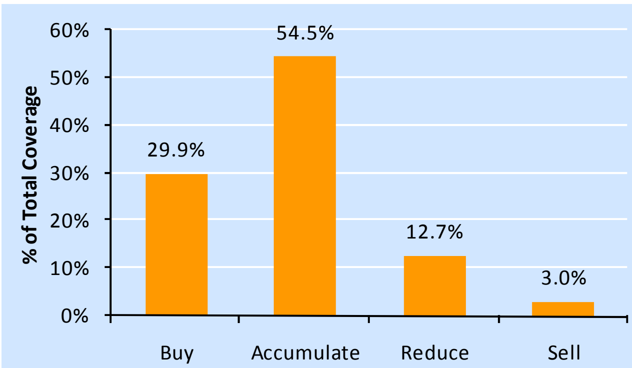

PL's Recommendation Nomenclature

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
Trading Buy	:	Over 10% absolute upside in 1-month	**Trading Sell**	:	Over 10% absolute decline in 1-month
Not Rated (NR)	:	No specific call on the stock	**Under Review (UR)**	:	Rating likely to change shortly

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