

Reliance Infrastructure

7 November 2012

Reuters: RELIN.BO; Bloomberg: RELI IN

Project Execution On Track

Reliance Infrastructure reported revenue decline of 3.7% YoY at Rs55.1bn for 2QFY13 (7% above our estimate and broadly in line with Bloomberg estimate), primarily due to subdued project execution in the EPC segment. EBITDA fell 5% YoY to Rs6.7bn, but was 12%/15% above our/Bloomberg consensus estimates, respectively, primarily led by higher contribution of high-margin segments in total operating income and lower costs Net profit at Rs3.8bn was 19%/3% above our/Bloomberg consensus estimates, respectively, driven by better operating performance and higher other income. However, higher other income (up 123% YoY), led by treasury income, was partially offset by higher depreciation (up 24.7% YoY) and interest costs (up 61.3% YoY) due to capitalisation of road assets. We have revised our earnings estimates by 16%/13% for FY13E and FY14E respectively to factor in higher other income than our estimate in 1HFY13. We have retained our Buy rating on the stock with a target price of Rs652.

EPC revenue growth moderates: For 2QFY13, EPC revenue declined 19% to Rs18bn YoY due to subdued project execution run-rate following completion of some of active projects. EBIT margin of the EPC segment stood at 9.4%, down 100bps YoY and 50bps QoQ. The order book currently stands at Rs139.1bn (1.26x FY12 EPC revenue) comprising power, transmission and road projects.

Power distribution segment revenue edges higher on tariff hike: Power distribution revenue improved 10% YoY at Rs35.8bn, driven by higher realisation on account of 21% tariff hike in the Delhi region coupled with a 7% volume growth at 4.6bu (billion units). Energy sales in the Mumbai region fell 2.5% to Rs1.6bu YoY, which was made good by higher wheeling unit sales (up 17% YoY), thereby leading to improvement in total electricity sales by 4% YoY. Tariff revision process for the Mumbai power distribution company is underway and is likely to be approved by the regulator shortly.

Ramp-up in infrastructure revenue to be key trigger: Revenue from infrastructure business improved 44% YoY and 13% QoQ at Rs1.1bn, driven by commencement of operations at eight road projects. EBIT of the infrastructure segment improved by 54% to 561mn QoQ (versus loss of Rs75mn in 2QFY12). Currently, eight road projects are revenue operational and we expect two more road projects to be commissioned in FY13E. Post completion of road projects, the company expects toll revenue of ~Rs15bn with EBITDA margin at 90%. As much as 99% of civil works of Mumbai metro rail project has been completed, which is likely to be operational by the end of FY13. Six out of nine power transmission lines of the WRSS project are generating revenue and the company expects them to be fully operational by the end of FY13.

We have retained Buy rating on the stock: We have revised our earnings estimates by 16%/13% for FY13E/FY14E, respectively to factor in higher other income compared to our estimate in 1HFY13. However, as our target price is based on SOTP valuation, we have retained our target price of Rs652 with a Buy rating. We believe the completion of infrastructure projects, leading to a rise in infrastructure revenue, and recovery of regulatory assets next year are key triggers for the stock to outperform in the next 12 months.

BUY

Sector: Infrastructure

CMP: Rs479

Target Price: Rs652

Upside: 36%

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Key Data	
Current Shares O/S (mn)	263
Mkt Cap (Rsbn/US\$bn)	126/2.3
52 Wk H / L (Rs)	679/328
Daily Vol. (3M NSE Avg.)	2531557

Price Performance (%)

	1 M	6 M	1 Yr
Reliance Infra	(11.6)	(3.1)	4.9
Nifty Index	(0.3)	12.6	8.4

Source: Bloomberg

Y/E March (Rsmn)	2QFY12	1QFY13	2QFY13	Chg (%) YoY	Chg (%) QoQ	1HFY12	1HFY13	Chg (%) YoY
Net sales	57,289	53,831	55,153	(3.7)	2.5	109,048	108,984	(0.1)
Total expenses	50,266	47,113	48,451	(3.6)	2.8	94,546	95,564	1.1
EBITDA	7,024	6,718	6,702	(4.6)	(0.2)	14,501	13,419	(7.5)
EBITDA margin (%)	12.3	12.5	12.2	-	-	13.3	12.3	-
Depreciation	1,009	1,255	1,258	24.7	0.3	2,034	2,513	23.6
Interest costs	2,507	3,614	4,043	61.3	11.9	4,697	7,657	63.0
Other income	1,264	2,589	2,823	123.3	9.1	3,004	5,412	80.2
PBT	4,772	4,438	4,224	(11.5)	(4.8)	10,775	8,661	(19.6)
Tax expenses	1,833	1,003	1,087	(40.7)	8.3	4,546	2,089	(54.0)
PAT	2,939	3,435	3,137	6.7	(8.7)	6,229	6,572	5.5
PAT (Adj. for profits of associates & MI)	3,616	4,120	3,818	5.6	(7.3)	7,670	7,938	3.5

Source: Company, Nirmal Bang Institutional Equities Research



Exhibit 1: Financial summary

Y/E March (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
Net sales	146,286	151,278	242,718	206,220	222,381
YoY (%)	16.3	3.4	60.4	(15.0)	7.8
EBITDA	12,264	14,981	27,825	28,405	34,608
EBITDA margin (%)	8.4	9.9	11.5	13.8	15.6
Net profit (post MI)	15,194	15,516	15,867	16,172	17,328
YoY (%)	12.3	2.1	2.3	1.9	7.1
Adj. EPS	57.8	59.0	60.3	61.5	65.9
PER (X)	9.3	9.1	8.9	8.8	8.2
P/BV (x)	0.7	0.6	0.6	0.6	0.5
RoCE (%)	2.3	2.5	3.9	3.7	4.6
RoE (%)	7.3	6.6	6.6	6.3	6.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Change in our earnings estimates

		FY13E			FY14E	
Y/E March (Rsmn)	Old	New	Variation (%)	Old	New	Variation (%)
Net sales	206,220	206,220	-	222,381	222,381	-
EBITDA	28,405	28,405	-	34,608	34,608	-
PAT (post profit from associate)	13,933	16,172	16.1	15,290	17,328	13.3

Source: Company, Nirmal Bang Institutional Equities Research

Conference call highlights

- The company is in discussions with Reliance Power to get EPC work for projects like Tilaya (3,960 MW), Chitrangi (3,960MW) and expansion at Sasan power plant. This will boost its EPC order book.
- The company is awaiting re-certification by appropriate authorities for Delhi metro rail to commence operations, as DMRC has completed the inspection and rectification work.
- Revenue loss currently due to shutdown of Delhi metro rail is not significant, although the company did not reveal the loss suffered.
- The company has infused equity worth Rs50bn and incurred cumulative capex amounting to Rs113.7bn in the infrastructure business.
- Post completion of all road projects, the company expects toll revenue from road assets at ~Rs14bn-Rs15bn by FY15E and EBITDA margin at 90%.
- The company is looking to acquire projects in the primary as well as secondary markets and will also bid for EPC projects (4,000-4,500km) lined up in FY13.
- The company has commissioned the grinding unit for branding purpose,, but the integrated cement plant in Madhya Pradesh is expected to be operational in 2HFY14E, which entails a capex of Rs28 bn.



Standalone performance

Net sales on standalone basis declined 11.4% to Rs35bn, primarily due to lower EPC revenue and other operating income. EPC revenue fell 21.1% to Rs19.1bn YoY due to lower project execution rate following the completion of some active projects. Other operating income declined 93% to Rs122mn. Subsequently, EBITDA witnessed a 36.1% YoY decline at Rs4.5bn and EBITDA margin contracted 500bps to 13.0%. However, net profit was 80%/40% above our/Bloomberg consensus estimates, respectively, at Rs4.1bn, led by higher other income and lower tax provision. Other income rose 206% YoY at Rs3.5bn led by higher treasury income.

Exhibit 3: Quarterly Profit & Loss account (standalone)

Y/E March (Rsmn)	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	YoY (%)	QoQ (%)
Net sales of electrical energy	13,404	14,960	12,917	16,383	15,696	17.1	(4.2)
Income from EPC, contracts business	24,309	29,801	43,823	17,749	19,184	(21.1)	8.1
Other operating Income	1,793	17	576	576	122	(93.2)	(64.0)
Total net sales	39,505	44,777	57,316	34,472	35,002	(11.4)	1.5
Total expenditure	32,409	38,459	51,143	29,875	30,467	(6.0)	2.0
EBITDA	7,096	6,318	6,173	4,598	4,535	(36.1)	(1.4)
EBITDA margin (%)	18.0	14.1	10.8	13.3	13.0	-	-
Depreciation	638	415	736	1,130	922	44.4	(18.4)
EBIT	6,458	5,903	5,438	3,468	3,613	(44.1)	4.2
Interest expenses	833	1,231	1,832	1,901	1,980	137.8	4.1
Other income	1,126	1,469	1,685	2,586	3,457	206.9	33.7
PBT	6,752	6,141	5,290	4,152	5,090	(24.6)	22.6
Tax expenses	1,794	1,982	(1,292)	882	947	(47.1)	7.5
Net profit	4,957	4,158	6,582	3,270	4,141	(16.5)	26.6

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Segment-wise revenue (standalone)

(Rsmn)	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13
Electricity energy	15,185	14,962	13,450	16,573	15,797
EPC and contract business	24,320	29,815	43,865	17,900	19,205
Total	39,505	44,777	57,316	34,473	35,002
Segment-wise EBIT					
Electricity energy	2,795	2,804	1,208	1,797	2,099
EPC and contract business	4,128	3,553	4,569	1,851	1,837
Total	6,923	6,357	5,777	3,648	3,936
EBIT margin (%)					
Electricity energy	18.4	18.7	9.0	10.8	13.3
EPC and contract business	17.0	11.9	10.4	10.3	9.6

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Consolidated segment revenue

(Rsmn)	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13
Electricity energy	34,393	31,051	29,020	35,184	36,018
EPC and contract business	22,123	29,406	41,408	17,662	18,026
Infrastructure business	772	846	925	984	1,109
Total	57,289	61,303	71,353	53,830	55,153
EBIT					
Electricity energy	4,259	4,472	2,535	3,527	3,489
EPC and contract business	2,302	3,149	2,311	1,751	1,698
Infrastructure business	(75)	(212.2)	(273)	363	561
EBIT margin (%)					
Electricity energy	12.4	14.4	8.7	10.0	9.7
EPC and contract business	10.4	10.7	5.6	9.9	9.4
Infrastructure business	NA	NA	NA	37.0	50.6

Source: Company, Nirmal Bang Institutional Equities Research



Ratings track

Date	Rating	Market price (Rs)	Target price (Rs)
26 September 2011	Buy	434	724
9 November 2011	Buy	469	724
18 November 2011	Buy	408	724
12 January 2012	Buy	408	724
15 February 2012	Buy	615	753
10 April 2012	Buy	570	755
28 May 2012	Buy	463	682
17 July 2012	Buy	535	682
16 August 2012	Buy	528	652
4 October 2012	Buy	549	652



Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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