

November 15, 2010

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	<b>Accumulate</b>
Rating	
Price	Rs1,049
Target Price	Rs1,161
Implied Upside	10.7%
Sensex	20,157

*(Prices as on November 13, 2010)*

#### Trading data

Market Cap. (Rs bn)	257.0
Shares o/s (m)	244.9
3M Avg. Daily value (Rs m)	1235.9

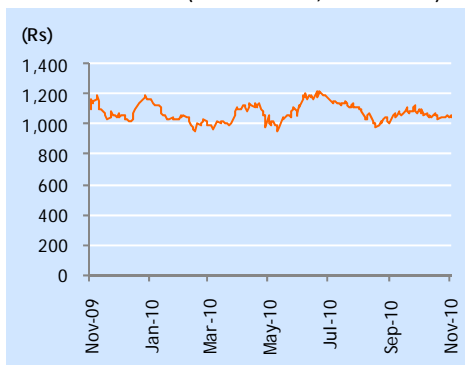
#### Major shareholders

Promoters	42.73%
Foreign	15.50%
Domestic Inst.	25.73%
Public & Other	16.04%

#### Stock Performance

(%)	1M	6M	12M
Absolute	(2.6)	5.2	(8.1)
Relative	20.7	(2.4)	(15.6)

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



Source: Bloomberg

## Reliance Infrastructure

### Negative other income - A surprise

- Standalone analysis:** Reliance Infrastructure (RIInfra) has reported revenue de-growth of 7.9% YoY at Rs24bn for Q2FY11 (on account of lower sales volumes and lower cost of power purchased, along with lower EPC sales) as against our estimates of Rs25bn. EPC division recorded 164bps YoY dip in EBIT margins and Mumbai Distribution Business recorded a 840bps YoY spurt on account of Rs2.5bn additional sales on tariff recovery allowed by MERC. Volumes in Mumbai Distribution declined by 9% YoY and the power purchased from third parties also came down by 25% YoY. Other income was negative during the quarter on account of a mark-to-market loss in forex transactions, lower treasury income, and thus, the standalone PAT de-grew by 44.5% YoY to Rs1.7bn.
- Consolidated analysis:** Delhi Distribution clocked sales of Rs18bn up 7% YoY and number of units also increased by 6% YoY. PLFs at Goa and Samalkot Gas based plants have been in the range of 75% plus. Thus, total revenues stood at Rs41bn, growing by 2% YoY and PATAMI stood at Rs3.6bn, posting a growth of 11% YoY.
- Updates:** EPC order book stands at Rs240bn, up 30% QoQ. The company is developing 25 projects with an asset capitalisation of Rs400bn. Delhi Metro has not achieved the COD in Q2FY11 while Pune Satara Road BOT project has achieved COD during the same period. The company's L&A have increased substantially to Rs132bn mainly on account of higher advances to EPC division and subscription to share application money of SPVs. The company is also expected to commence revenue collection from the Sea link project in FY11. The total cash and equivalents for the quarter stands at Rs70bn.
- Valuation:** At CMP the stock trades at 1.2x FY12E. Our SOTP target price comes to Rs1,161 and we maintain 'Accumulate' on the stock.

Key financials (Y/e March)	2009	2010	2011E	2012E
Revenues (Rs m)	125,780	148,648	160,767	208,143
Growth (%)	50.8	18.2	8.2	29.5
EBITDA (Rs m)	6,298	15,203	20,030	28,079
PAT (Rs m)	13,531	15,194	15,970	16,747
EPS (Rs)	59.9	62.0	59.4	62.3
Growth (%)	19.8	3.6	(4.3)	4.9
Net DPS (Rs)	6.9	6.4	6.5	6.7

Source: Company Data; PL Research

Profitability & Valuation	2009	2010	2011E	2012E
EBITDA margin (%)	5.0	10.2	12.5	13.5
RoE (%)	8.1	7.9	7.2	7.2
RoCE (%)	6.3	5.0	5.3	6.1
EV / sales (x)	2.7	2.2	2.4	1.9
EV / EBITDA (x)	53.0	21.9	19.0	14.0
PE (x)	17.5	16.9	17.7	16.9
P / BV (x)	1.4	1.2	1.2	1.2
Net dividend yield (%)	0.7	0.6	0.6	0.6

Source: Company Data; PL Research

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**Q2FY11 Result Overview (Rs m)**

<b>Y/e March</b>	<b>Q2FY11</b>	<b>Q2FY10</b>	<b>YoY gr. (%)</b>	<b>Q1FY11</b>	<b>H1FY11</b>	<b>H1FY10</b>	<b>YoY gr. (%)</b>
Net Sales from Electrical Energy	15,572	16,438	(5.3)	15,782	31,354	34,991	(10.4)
Income from EPC Contracts	8,072	9,281	(13.0)	5,571	13,643	14,800	(7.8)
Other Operating Income	748	777	(3.7)	927	1,674	1,168	43.4
<b>Total Income</b>	<b>24,391</b>	<b>26,496</b>	<b>(7.9)</b>	<b>22,280</b>	<b>46,671</b>	<b>50,959</b>	<b>(8.4)</b>
<b>Expenditure</b>							
Cost of Electricity Purchased	6,293	8,811	(28.6)	8,599	14,892	18,659	(20.2)
<i>% of Net Sales</i>	<i>40.4</i>	<i>53.6</i>		<i>54.5</i>	<i>47.5</i>	<i>53.3</i>	
Cost of fuel	3,199	3,055.9	4.7	3,231	6,430	6,290	2.2
<i>% of Net Sales</i>	<i>20.5</i>	<i>18.6</i>		<i>20.5</i>	<i>20.5</i>	<i>18.0</i>	
Tax On Electricity	339	399	(15.0)	390	730	822	(11.2)
<i>% of Net Sales</i>	<i>2.2</i>	<i>2.4</i>		<i>2.5</i>	<i>2.3</i>	<i>2.3</i>	
Cost of Mat. & Sub-Cont.	6,857	8,116	(15.5)	4,315	11,172	12,523	(10.8)
<i>% of Net Sales</i>	<i>44.0</i>	<i>49.4</i>		<i>27.3</i>	<i>35.6</i>	<i>35.8</i>	
Employee Cost	1,915	1,610	18.9	1,801	3,716	3,160	17.6
<i>% of Net Sales</i>	<i>12.3</i>	<i>9.8</i>		<i>11.4</i>	<i>11.9</i>	<i>9.0</i>	
Other Expenditure	1,624.9	1,374.6	18.2	1,409.8	3,035	3,380.9	(10.2)
<i>% of Net Sales</i>	<i>10.4</i>	<i>8.4</i>		<i>8.9</i>	<i>9.7</i>	<i>9.7</i>	
Total Expenditure	20,229	23,366	(13.4)	19,746	39,975	44,835	(10.8)
<b>EBITDA</b>	<b>4,162</b>	<b>3,129</b>	<b>33.0</b>	<b>2,534</b>	<b>6,697</b>	<b>6,124</b>	<b>9.3</b>
<i>Margin (%)</i>	<i>17.1</i>	<i>11.8</i>	<i>525.5</i>	<i>11.4</i>	<i>14.3</i>	<i>12.0</i>	<i>233.0</i>
Depreciation	825	740	11.6	769	1,594	1,462	9.1
<b>EBIT</b>	<b>3,337</b>	<b>2,390</b>	<b>39.6</b>	<b>1,766</b>	<b>5,103</b>	<b>4,663</b>	<b>9.4</b>
Interest	600	740	(18.8)	613	1,214	1,776	(31.7)
Other Income	(508)	1,633	NA	1,804	1,296	4,074	(68.2)
<b>PBT</b>	<b>2,229</b>	<b>3,283</b>	<b>(32.1)</b>	<b>2,957</b>	<b>5,186</b>	<b>6,961</b>	<b>(25.5)</b>
Tax	524	214	145.2	495	1,018	726	40.2
<i>Tax Rate (%)</i>	<i>23.5</i>	<i>6.5</i>		<i>16.7</i>	<i>19.6</i>	<i>10.4</i>	
<b>Recurring Pat</b>	<b>1,705</b>	<b>3,069</b>	<b>(44.5)</b>	<b>2,463</b>	<b>4,167</b>	<b>6,235</b>	<b>(33.2)</b>

Source: Company Data, PL Research

**Segmental Breakup (Rs m)**

	Q2FY11	Q2FY10	YoY gr. (%)	Q1FY11	QoQ gr. (%)
<b>Revenues</b>					
Electrical Energy	16,067	16,754	(4.1)	16,266	3.0
<i>% in Total</i>	<i>65.9</i>	<i>63.2</i>		<i>73.0</i>	
EPC	8,324	9,742	(14.6)	6,014	62.0
<i>% in Total</i>	<i>34.1</i>	<i>36.8</i>		<i>27.0</i>	
<b>Net sales</b>	<b>24,391</b>	<b>26,496</b>	<b>(7.9)</b>	<b>22,280</b>	<b>18.9</b>
<b>EBIT</b>					
Electrical Energy	2,770	1,483	86.8	1,010	46.8
<i>Margin (%)</i>	<i>17.2</i>	<i>8.8</i>		<i>6.2</i>	
EPC	648	918	(29.4)	839	9.5
<i>Margin (%)</i>	<i>7.8</i>	<i>9.4</i>		<i>13.9</i>	
<b>Total</b>	<b>3,418</b>	<b>2,401</b>	<b>42.4</b>	<b>1,848</b>	<b>29.9</b>
<i>Margin (%)</i>	<i>14.0</i>	<i>9.1</i>	<i>495.3</i>	<i>8.3</i>	<i>76.5</i>
Less: Interest & Others	(1,179)	882	(233.7)	1,109	(20.4)
<b>PBT</b>	<b>2,239</b>	<b>3,283</b>	<b>(31.8)</b>	<b>2,957</b>	<b>11.0</b>
<i>Margin (%)</i>	<i>9.2</i>	<i>12.4</i>		<i>13.3</i>	

Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2009	2010	2011E	2012E
<b>Net Revenue</b>	<b>125,780</b>	<b>148,648</b>	<b>160,767</b>	<b>208,143</b>
Raw Material Expenses	104,669	115,061	122,063	153,300
Gross Profit	21,110	33,587	38,704	54,843
Employee Cost	4,005	9,465	6,427	8,750
Other Expenses	10,808	8,919	12,247	18,014
<b>EBITDA</b>	<b>6,298</b>	<b>15,203</b>	<b>20,030</b>	<b>28,079</b>
Depr. & Amortization	3,304	4,724	5,938	9,949
Net Interest	4,394	5,251	7,360	13,670
Other Income	14,774	8,249	9,960	13,130
<b>Profit before Tax</b>	<b>13,374</b>	<b>13,476</b>	<b>16,692</b>	<b>17,590</b>
Total Tax	783	1,498	1,760	2,085
<b>Profit after Tax</b>	<b>12,590</b>	<b>11,978</b>	<b>14,932</b>	<b>15,505</b>
Ex-Od items / Min. Int.	(941)	(3,216)	(1,038)	(1,242)
<b>Adj. PAT</b>	<b>13,531</b>	<b>15,194</b>	<b>15,970</b>	<b>16,747</b>
<b>Avg. Shares O/S (m)</b>	<b>226.1</b>	<b>244.9</b>	<b>269.0</b>	<b>269.0</b>
<b>EPS (Rs.)</b>	<b>59.9</b>	<b>62.0</b>	<b>59.4</b>	<b>62.3</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2009	2010	2011E	2012E
C/F from Operations	54,605	22,379	17,279	7,778
C/F from Investing	61,997	18,863	18,929	34,900
C/F from Financing	(113,173)	9,737	(23,442)	(45,242)
Inc. / Dec. in Cash	3,429	50,978	12,766	(2,564)
Opening Cash	1,154	4,583	55,561	68,327
Closing Cash	4,583	55,561	68,327	65,763
FCFF	35,917	6,733	(14,613)	(35,880)
FCFE	77,934	36,827	20,287	(26,180)

**Key Financial Metrics**

Y/e March	2009	2010	2011E	2012E
<b>Growth</b>				
Revenue (%)	50.8	18.2	8.2	29.5
EBITDA (%)	15.2	141.4	31.7	40.2
PAT (%)	14.9	12.3	5.1	4.9
EPS (%)	19.8	3.6	(4.3)	4.9
<b>Profitability</b>				
EBITDA Margin (%)	5.0	10.2	12.5	13.5
PAT Margin (%)	10.8	10.2	9.9	8.0
RoCE (%)	6.3	5.0	5.3	6.1
RoE (%)	8.1	7.9	7.2	7.2
<b>Balance Sheet</b>				
Net Debt : Equity	0.6	0.3	0.4	0.5
Net Wrkng Cap. (days)	—	—	—	—
<b>Valuation</b>				
PER (x)	17.5	16.9	17.7	16.9
P / B (x)	1.4	1.2	1.2	1.2
EV / EBITDA (x)	53.0	21.9	19.0	14.0
EV / Sales (x)	2.7	2.2	2.4	1.9
<b>Earnings Quality</b>				
Eff. Tax Rate	5.9	11.1	10.5	11.9
Other Inc / PBT	110.5	61.2	59.7	74.6
Eff. Depr. Rate (%)	3.3	3.9	3.9	5.0
FCFE / PAT	576.0	242.4	127.0	(156.3)

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e March	2009	2010	2011E	2012E
Shareholders Funds	168,976	217,311	227,686	238,748
Total Debt	101,054	131,148	166,048	175,748
Other Liabilities	3,229	3,701	4,699	5,999
<b>Total Liabilities</b>	<b>273,259</b>	<b>352,160</b>	<b>398,433</b>	<b>420,495</b>
Net Fixed Assets	90,277	123,875	167,792	184,742
Goodwill	—	—	—	—
Investments	159,364	159,365	145,364	135,364
Net Current Assets	23,618	68,920	85,277	100,389
<i>Cash &amp; Equivalents</i>	<i>4,583</i>	<i>55,561</i>	<i>68,327</i>	<i>65,763</i>
<i>Other Current Assets</i>	<i>91,113</i>	<i>97,930</i>	<i>117,980</i>	<i>156,612</i>
<i>Current Liabilities</i>	<i>72,077</i>	<i>84,571</i>	<i>101,030</i>	<i>121,986</i>
Other Assets	—	—	—	—
<b>Total Assets</b>	<b>273,259</b>	<b>352,160</b>	<b>398,433</b>	<b>420,495</b>

**Quarterly Financials (Rs m)**

Y/e March	Q3FY10	Q4FY10	Q1FY11	Q2FY11
<b>Net Revenue</b>	<b>22,875</b>	<b>26,439</b>	<b>22,280</b>	<b>24,391</b>
<b>EBITDA</b>	<b>2,354</b>	<b>2,714</b>	<b>2,534</b>	<b>4,162</b>
<i>% of revenue</i>	<i>10.3</i>	<i>10.3</i>	<i>11.4</i>	<i>17.1</i>
Depr. & Amortization	830	907	769	825
Net Interest	565	581	613	600
Other Income	2,156	1,668	1,804	(508)
<b>Profit before Tax</b>	<b>3,114</b>	<b>2,895</b>	<b>2,956</b>	<b>2,229</b>
Total Tax	343	384	495	524
<b>Profit after Tax</b>	<b>2,771</b>	<b>2,511</b>	<b>2,461</b>	<b>1,705</b>
<b>Adj. PAT</b>	<b>2,771</b>	<b>2,511</b>	<b>2,461</b>	<b>1,705</b>

**Key Operating Metrics (%)**

Y/e March	2009	2010	2011E	2012E
Electricity	74.7	64.9	60.0	49.0
EPC	25.3	35.1	38.6	50.5
Others	—	—	1.4	0.5

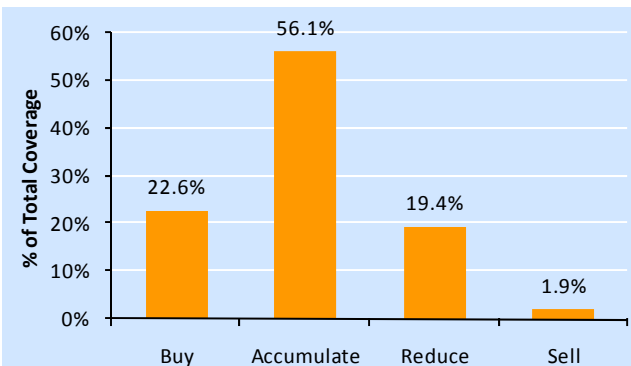
Source: Company Data, PL Research.

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<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months	<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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