

February 15, 2012

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Rating	Accumulate
Price	Rs627
Target Price	Rs656
Implied Upside	4.6%
Sensex	18,202
Nifty	5,532

(Prices as on February 15, 2012)

Trading data

Market Cap. (Rs bn)	153.5
Shares o/s (m)	244.9
3M Avg. Daily value (Rs m)	1333

Major shareholders

Promoters	48.51%
Foreign	14.48%
Domestic Inst.	21.01%
Public & Other	16.00%

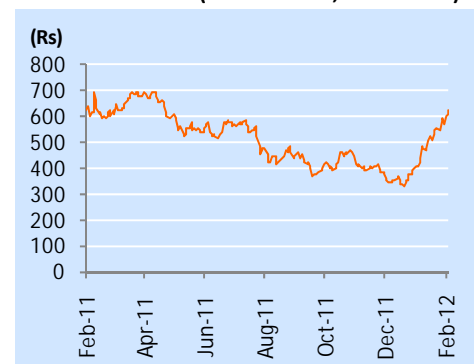
Stock Performance

(%)	1M	6M	12M
Absolute	52.5	29.7	(1.3)
Relative	39.9	21.6	(0.9)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	64.7	70.6	-8.3
2014	67.8	75.4	-10.1

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



Source: Bloomberg

■ **EPC revenues continue to remain healthy, PAT flat YoY:** Reliance Infrastructure (RInfra), in Q3FY12, has reported revenue growth of 63.7% YoY at Rs62bn. EPC division revenue is on a growth trajectory which grew by Rs19bn YoY, while the Electricity revenues were up by Rs5bn YoY. Volumes in Mumbai Distribution declined by 11% YoY. However, the company added 17,400 customers in Q3FY12. Interest increased by 100% YoY on account of capitalisation of new assets. A dose of higher other income led to a flat YoY PATAMI of Rs4bn.

■ **Performance of subsidiaries:** Delhi Distribution clocked sales of Rs1.9bn, growth of 36% YoY and number of units stood at 3.4bn units. Pax traffic at Delhi Metro increased to 20,000 from 18000 in Q2FY12. No. of units traded in the trading arm stands at 8m units.

■ **Updates:** EPC order book stands at Rs211bn, declining from Rs240bn in Q2FY12. The company has completed major work in the Samalkote project and the balance is expected to be completed by FY13E. Delhi Discom has taken a tariff hike and has also approved receivables of Rs100bn of regulated assets. However the current tariff continues to be lower than cost of power purchased by Rs2/unit. In the Mumbai Circle too, RInfra will recover Rs8bn per year for the next six years. The company has signed a PPA with *Dhariwal Industries* for 200MWs at Rs3.5/unit.

■ **Valuation:** We have increased our target price factoring in re-rating of Infrastructure business and including some new assets. At CMP, the stock trades at 0.7x P/BV FY13E. We expect commissioning of Mumbai Metro to be the game changers for the company, going ahead. However the stock has run up substantially in recently and might see some downward pressure. Hence, we maintain '**Accumulate**' on declines.

Key financials (Y/e March)	2011	2012E	2013E	2014E
Revenues (Rs m)	154,083	213,375	233,517	242,581
Growth (%)	5.3	38.5	9.4	3.9
EBITDA (Rs m)	19,168	27,467	35,656	43,396
PAT (Rs m)	14,166	14,239	17,304	18,125
EPS (Rs)	53.0	53.2	64.7	67.8
Growth (%)	(14.6)	0.5	21.5	4.7
Net DPS (Rs)	7.2	6.7	6.7	6.7

Profitability & Valuation	2011	2012E	2013E	2014E
EBITDA margin (%)	12.4	12.9	15.3	17.9
RoE (%)	6.4	6.2	7.6	7.6
RoCE (%)	4.6	4.8	5.3	5.7
EV / sales (x)	1.8	1.7	1.5	1.5
EV / EBITDA (x)	14.8	12.9	10.1	8.3
PE (x)	11.8	11.8	9.7	9.2
P / BV (x)	0.7	0.8	0.7	0.7
Net dividend yield (%)	1.1	1.1	1.1	1.1

Source: Company Data; PL Research

Exhibit 1: Q3FY12 Result Overview (Rs m)

Y/e March	Q3FY12	Q3FY11	YoY gr. (%)	Q2FY12	9MFY12	9MFY11	YoY gr. (%)
Total Income	61,287	37,440	63.7	55,487	168,685	116,104	45.3
Expenditure							
Total Expenditure	53,347	31,859	67.4	50,266	147,614	100,269	47.2
EBITDA	7,939	5,581	42.3	5,221	21,071	15,835	33.1
<i>Margin (%)</i>	<i>13.0</i>	<i>14.9</i>	<i>(195.3)</i>	<i>9.4</i>	<i>12.5</i>	<i>13.6</i>	<i>(114.7)</i>
Depreciation	1,016	1,257	(19.2)	1,009	3,050	3,710	(17.8)
EBIT	6,923	4,324	60.1	4,212	18,021	12,125	48.6
Interest	3,278	1,564	109.5	2,507	7,951	4,457	78.4
Other Income	1,614	1,277	26.4	3,067	5,964	3,035	96.5
PBT	5,259	4,037	30.3	4,772	16,034	10,703	49.8
Tax	2,073	568	265.2	1,833	6,618	1,846	258.5
<i>Tax Rate (%)</i>	<i>39.4</i>	<i>14.1</i>		<i>38.4</i>	<i>41.3</i>	<i>17.3</i>	
Recurring Pat	3,187	3,469	(8.1)	2,939	9,416	8,857	6.3
Minority Interests	897	(584)		677	2,348	(2,551)	
PAT	4,083	4,053	0.8	3,616	11,763	11,407	3.1
Adjusted PAT	3,979	4,053	(1.8)	3,616	10,559	11,407	(7.4)

Source: Company Data, PL Research

Exhibit 2: Segmental Break-up (Rs m)

Y/e March	Q3FY12	Q3FY11	YoY gr. (%)	Q2FY12	9MFY12	9MFY11	YoY gr. (%)
Revenue							
Electrical Energy	31,051	25,817	20.3	34,393	98,699	91,215	8.2
<i>% in Total</i>	<i>50.7</i>	<i>70.0</i>		<i>66.3</i>		<i>79.8</i>	
EPC	29,406	10,613	177.1	22,123	69,070	22,171	211.5
<i>% in Total</i>	<i>48.0</i>	<i>28.8</i>		<i>42.6</i>		<i>19.4</i>	
Infrastructure Business	846	432	95.8	772	2,735	685	299.0
<i>% in Total</i>	<i>1.4</i>	<i>1.2</i>		<i>1.5</i>		<i>0.8</i>	
Net sales	61,303	36,862	66.3	51,912	170,503	114,071	49.5
EBIT							
Electrical Energy	4,472	3,326	34.5	4,269	13,975	9,985	40.0
<i>Margin (%)</i>	<i>14.4</i>	<i>12.9</i>		<i>12.4</i>		<i>10.1</i>	
EPC	3,149	1,010	211.6	2,302	6,857	2,216	209.5
<i>Margin (%)</i>	<i>10.7</i>	<i>9.5</i>		<i>10.4</i>		<i>8.1</i>	
Infrastructure Business	(212)	79	(368.0)	(76)	114	169	(32.4)
<i>Margin (%)</i>	<i>(2.9)</i>	<i>1.8</i>		<i>(1.2)</i>		<i>1.2</i>	
Total	7,409	4,415	67.8	6,495	20,946	12,370	69.3
<i>Margin (%)</i>	<i>12.1</i>	<i>12.0</i>		<i>12.5</i>		<i>9.7</i>	
Less: Interest & Others	(2,149)	(379)	467.0	(1,724)	(4,912)	(1,667)	194.6
PBT	5,260	4,036	30.3	4,772	16,034	10,703	49.8
<i>Margin (%)</i>	<i>8.6</i>	<i>10.9</i>		<i>9.2</i>		<i>8.7</i>	

Source: Company Data, PL Research

Exhibit 3: SOTP

Entity	Methodology of Valuation	Equity Value (Rs m)	Value (Rs/Share)
Energy Business	DCF and LTSSG(P/BVx1.5-2.2x)	69,643	281
Reliance Power Transmission	DCF and LTSSG(P/BVx1.5-2.2x)	1,964	8
Reliance InfraVentures		19,607	90
Roads	DCFE COE 12-14%	19,095	78
Metro	DCFE COE 12-14%	4,254	17
Reliance InfraProjects (EPC)	EV/EBITDA (80% discount to L&T)	18,309	62
RPower	50% Holdco discount to RPower valuation	47,966	90
Future projects	P/BV to Projected Equity Contribution	32,301	121
Total INR (m)		161,230	656

Source: PL Research

Income Statement (Rs m)

Y/e March	2011	2012E	2013E	2014E
Net Revenue	154,083	213,375	233,517	242,581
Raw Material Expenses	122,550	167,894	177,746	179,070
Gross Profit	31,533	45,481	55,771	63,511
Employee Cost	—	—	—	—
Other Expenses	12,365	18,014	20,115	20,115
EBITDA	19,168	27,467	35,656	43,396
Depr. & Amortization	4,825	5,949	8,030	10,623
Net Interest	6,350	11,170	15,871	17,874
Other Income	5,565	7,330	7,330	6,330
Profit before Tax	13,559	17,678	19,085	21,229
Total Tax	1,268	6,272	6,775	7,525
Profit after Tax	12,290	11,406	12,310	13,704
Ex-Od items / Min. Int.	(4,576)	(2,833)	(4,994)	(4,421)
Adj. PAT	14,166	14,239	17,304	18,125
Avg. Shares O/S (m)	267.4	267.4	267.4	267.4
EPS (Rs.)	53.0	53.2	64.7	67.8

Cash Flow Abstract (Rs m)

Y/e March	2011	2012E	2013E	2014E
C/F from Operations	32,042	(9,777)	45,013	47,695
C/F from Investing	(29,746)	(76,900)	(35,366)	(69,301)
C/F from Financing	(432)	89,655	2,024	20,479
Inc. / Dec. in Cash	1,863	2,977	11,671	(1,127)
Opening Cash	4,494	6,358	9,335	21,006
Closing Cash	6,358	9,335	21,006	19,879
FCFF	2,982	(110,219)	(6,588)	(32,234)
FCFE	40,193	(37,520)	10,740	(32,781)

Key Financial Metrics

Y/e March	2011	2012E	2013E	2014E
Growth				
Revenue (%)	5.3	38.5	9.4	3.9
EBITDA (%)	56.3	43.3	29.8	21.7
PAT (%)	(6.8)	0.5	21.5	4.7
EPS (%)	(14.6)	0.5	21.5	4.7
Profitability				
EBITDA Margin (%)	12.4	12.9	15.3	17.9
PAT Margin (%)	9.2	6.7	7.4	7.5
RoCE (%)	4.6	4.8	5.3	5.7
RoE (%)	6.4	6.2	7.6	7.6
Balance Sheet				
Net Debt : Equity	0.5	0.8	0.8	0.8
Net Wrkng Cap. (days)	—	—	—	—
Valuation				
PER (x)	11.8	11.8	9.7	9.2
P / B (x)	0.7	0.8	0.7	0.7
EV / EBITDA (x)	14.8	12.9	10.1	8.3
EV / Sales (x)	1.8	1.7	1.5	1.5
Earnings Quality				
Eff. Tax Rate	9.4	35.5	35.5	35.4
Other Inc / PBT	41.0	41.5	38.4	29.8
Eff. Depr. Rate (%)	3.3	2.5	2.9	3.0
FCFE / PAT	283.7	(263.5)	62.1	(180.9)

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2011	2012E	2013E	2014E
Shareholder's Funds	236,076	221,374	232,969	245,385
Total Debt	123,050	195,748	213,076	212,529
Other Liabilities	2,864	6,135	7,256	7,257
Total Liabilities	361,990	423,257	453,301	465,171
Net Fixed Assets	187,761	220,200	257,376	278,689
Goodwill	—	—	—	—
Investments	137,939	124,110	116,431	116,432
Net Current Assets	36,292	78,947	79,495	70,050
<i>Cash & Equivalents</i>	<i>6,358</i>	<i>9,335</i>	<i>21,006</i>	<i>19,879</i>
<i>Other Current Assets</i>	<i>175,792</i>	<i>209,598</i>	<i>211,271</i>	<i>219,272</i>
<i>Current Liabilities</i>	<i>145,857</i>	<i>139,986</i>	<i>152,782</i>	<i>169,101</i>
Other Assets	—	—	—	—
Total Assets	361,992	423,257	453,302	465,171

Quarterly Financials (Rs m)

Y/e March	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Net Revenue	37,979	51,912	55,487	61,287
EBITDA	3,333	7,910	5,221	7,939
<i>% of revenue</i>	<i>8.8</i>	<i>15.2</i>	<i>9.4</i>	<i>13.0</i>
Depr. & Amortization	1,115	1,024	1,009	1,016
Net Interest	1,893	2,166	2,507	3,278
Other Income	2,530	1,283	3,067	1,614
Profit before Tax	2,856	6,003	4,772	5,259
Total Tax	(578)	2,713	1,833	2,073
Profit after Tax	4,109	4,064	3,616	4,083
Adj. PAT	2,759	2,964	3,616	4,083

Key Operating Metrics

Y/e March	2011	2012E	2013E	2014E
Electricity (Rs m)	79.8	48.0	47.8	52.9
EPC (Rs m)	19.4	51.5	51.7	47.1
Others (Rs m)	0.8	0.5	0.5	—
Capex (Rs bn)	28.4	90.7	43.0	69.3
Order Book (Rs bn)	296.0	732.4	796.4	722.0
Interest Rate (%)	4.9	5.7	7.4	8.4

Source: Company Data, PL Research.

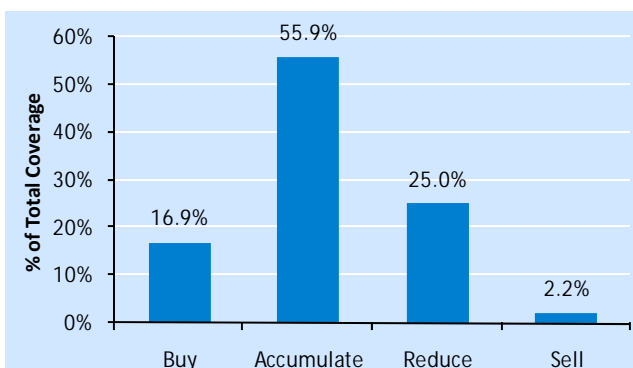


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Rating Distribution of Research Coverage



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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