

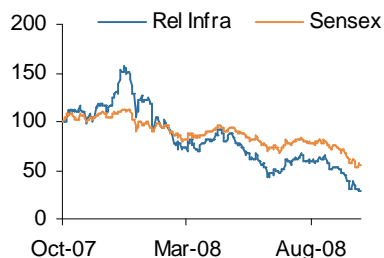
## Reliance Infrastructure Ltd (Q2 FY09)

**October 23, 2008**
**Stock data**

Sensex:	10,170
CMP (Rs):	473
52 Week h/l (Rs):	2,632/470
Market cap (Rs cr)	10,983
6m Avg vol BSE&NSE ('000 nos):	4,223
No of o/s shares (mn):	232
FV (Rs):	10
Bloomberg code:	RELI IN
Reuters code:	RLIN.BO
BSE code:	500390
NSE code:	RELINFRA

**Shareholding pattern**

<b>September 2008</b>	<b>(%)</b>
Promoters	36.8
Foreign and institutions	45.2
Non promoter corp hold	4.6
Public & others	13.4

**Share price trend**

**India Infoline Research Team**

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- Reliance Infrastructure (Rel Infra) reported revenue growth of 58.2% yoy driven by higher realization in generation segment and robust growth in EPC segment
- Higher cost of electrical energy purchased pulls down operating margin by 370 bps yoy to 11.2%
- Net profit growth at 15.6% yoy impacted by marginal decline in other income despite lower interest expense

**Result table**

Period to	Q2 FY09	Q2 FY08	yoy growth	Q1 FY09	qoq growth
(Rs mn)	(3)	(3)	(%)	(3)	(%)
Net Sales	24,732	15,631	58.2	21,981	12.5
<i>Electrical Energy</i>	<i>20,294</i>	<i>12,760</i>	<i>59.0</i>	<i>17,640</i>	<i>15.0</i>
<i>EPC &amp; Contracts</i>	<i>4,438</i>	<i>2,871</i>	<i>54.6</i>	<i>4,341</i>	<i>2.3</i>
Expenditure	(21,960)	(13,306)	65.0	(22,223)	(1.2)
Operating Profit	2,772	2,324	19.3	(242)	-
Depreciation	(620)	(556)	11.5	(612)	1.3
Interest	(653)	(854)	(23.6)	(774)	(15.7)
Other Income	2,016	2,070	(2.6)	4,203	(52.0)
PBT	3,516	2,984	17.8	2,575	36.6
Tax	(626)	(484)	29.3	(49)	1,171.7
PAT	2,890	2,500	15.6	2,525	14.4
OPM (%)	11.2	14.9	-	(1.1)	-
NPM (%)	11.7	16.0	-	11.5	-
No of shares (mn)	230.9	228.6	-	231.5	-
EPS (Annualised) (Rs)	50.1	43.7	-	43.6	-

Source: Company, India Infoline Research

**Revenue growth of 58.2% yoy driven by higher realization in generation segment and robust growth in EPC segment**

Revenue from sale of electrical energy grew 58.9% yoy driven by 56.2% yoy increase in average realization per unit (from Rs5.3 to Rs8.3). Higher realizations were on account of rise in cost of energy purchased, which is a pass-through for the company. The volume growth in the segment was just 1.7% yoy (from 2,371 MUs to 2,411 MUs). Revenue from EPC & Contracts division increased 53.7% yoy. The segmental order book grew 340% yoy to Rs207.9bn at end of Q2FY09.

**Higher cost of electrical energy purchased pulls down operating margin**

Rel Infra witnessed a 370 bps decline yoy in OPM due to higher cost of electrical energy purchased. This is attributed to 80% yoy increase in cost per unit to Rs9.2 and 4% yoy increase in units purchased to 1,327 MUs. The company depends on Tata Power for its power requirements beyond the generation from its 500 MW Dahanu plant. Reduction in supply from Tata Power of late has increased Rel Infra's dependence on short term or spot purchases, which are very costly, in the range of Rs7.5-13 per unit. To combat this problem, the company is inviting bids for long term power supply contracts from other generation utilities. Further erosion in margins was restricted due to decrease in employee and other costs. EBIT margin for electrical energy business declined by 300 bps to 8.9%; while EPC business margin declined by 370 bps to 7.9% in Q2FY08.

**Cost Analysis**

Period to	Q2 FY09	Q2 FY08	Inc/(Dec)	Q1 FY09	Inc/(Dec)
<b>As a % of net sales</b>	<b>(3)</b>	<b>(3)</b>	<b>yoy</b>	<b>(3)</b>	<b>qoq</b>
Cost of Electrical Energy Purchased	49.2	41.5	7.7	49.2	(0.0)
Cost of Fuel	12.4	12.7	(0.3)	13.5	(1.1)
Tax on Electricity	1.7	2.2	(0.5)	1.7	(0.0)
Cost of Materials & Subcontract Charges (EPC & Contracts)	13.4	14.2	(0.8)	16.2	(2.8)
Staff Cost	5.5	6.7	(1.1)	5.7	(0.1)
Other Expenses & Provisions	6.5	7.8	(1.3)	14.8	(8.3)
Total Expenditure	88.8	85.1	3.7	101.1	(12.3)

Source: Company, India Infoline Research

**Net profit growth impacted by marginal decline in other income despite lower interest expense**

The company has made a loss on foreign exchange derivatives to the extent of Rs2.16bn resulting in 2.6% yoy and 52% qoq decline in other income. This has resulted in 15.5% yoy growth in net profit despite higher growth in operating profit and lower interest expense. The effective tax rate stood at 17.8% in Q2FY09 as against 16.2% in Q2FY08. Rel Infra has cash balances of Rs101.6bn (92.5% of its market cap).

**Business Update**

- **Power generation:** Rel Infra currently has a power generating capacity of 941 MW, future expansion to be undertaken through Reliance Power
- **EPC business:** Currently implementing 6,860 MW of power projects and UP rural electrification
- **Power transmission:** Won Western Region Strengthening Scheme (WRSS) and Parbati & Koldam projects on competitive bidding basis, expected to be completed over next three years
- **Power trading:** Commenced trading through the First Energy Exchange of India (IEX); 80 MUs traded in Q2FY09
- **Roads:** Five road projects being implemented in Tamil Nadu on Build Operate Transfer (BOT) basis, making the company the largest concessionaire of road projects for NHAI
- **Metro:** Mumbai metro project has achieved financial closure, Delhi metro also progressing well
- **Real Estate:** Construction work of trade tower and business district in Hyderabad as well as SEZ at DAKC in Navi Mumbai to commence in FY10

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