

RESULTS REVIEW

Share Data

Market Cap	Rs. 235.7 bn
Price	Rs. 1,015.85
BSE Sensex	14,483.83
Reuters	RLIN.BO
Bloomberg	RELI IN
Avg. Volume (52 Week)	1.3 mn
52-Week High/Low	Rs. 2,631.7 / 660.05
Shares Outstanding	232 mn

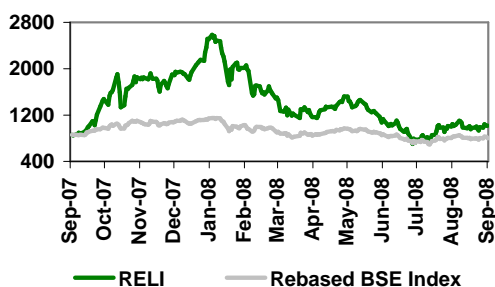
Valuation Ratios (Consolidated)

Year to 31 March	2009E	2010E
EPS (Rs.)	66.4	80.8
+/- (%)	33.9%	21.6%
PER (x)	15.3x	12.6x
EV/ Sales (x)	3.1x	2.6x

Shareholding Pattern (%)

Promoters	37
FII's	17
Institutions	24
Public & Others	22

Relative Performance



Reliance Infrastructure Limited

Hold

EPC business holds the fort

Reliance Infrastructure Limited (RELI) reported a 35.4% yoy increase in the sales for the quarter ended Q1'09. Both businesses—energy and EPC—contributed to this growth and accounted for 80% and 20% of the total sales, respectively. However, higher operating costs dented the profitability and resulted in a negative EBITDA of Rs. 242.3 mn. Nevertheless, a favourable other income enabled the Company to report a net profit of Rs. 2.2 bn (up 0.9% yoy). For the near-term outlook, we believe that:

Improved realisations and PLF will drive the energy business: Since RELI does not have any plans to increase its power generation assets, improved realisations and PLF are expected to drive the core energy business. Though RELI generated a lower number of units due to reduced PLFs during Q1'09, we expect higher efficiency in the coming quarters as the Company's power plants are using highly efficient equipments and processes.

EPC business is gaining momentum: With a 28.3% yoy growth in sales and almost double operating profit, the EPC business is gaining momentum. Management expects this segment to earn revenue of Rs. 30 bn by 2010 from Rs. 14 bn in FY08. This target seems possible as the Company has an order book of Rs. 210.4 bn, which is 14.8x FY08 EPC revenues. Moreover, RELI is bidding for overseas contracts as well, which should enhance its order book substantially.

Infrastructure projects are on track: NK and DS toll road projects have achieved a physical progress of 60% and are likely to be completed in Q3'09. The Mumbai metro project and Delhi metro project are going as

Key Figures (Standalone)

Quarterly data	Q4'07	Q4'08	Q1'09	YoY%	QoQ%
(Figures in Rs. mn, except per share data)					
Net Sales	16,240	16,420	21,981	35.4%	33.9%
EBITDA	376	898	(242)	nm	nm
Net Profit	2,216	3,380	2,235	0.9%	(33.9)%

Margins(%)

EBITDA	5.5%	5.5%	-1.1%
NPM	20.6%	20.6%	10.2%

Per Share Data (Rs.)

EPS	9.4	15.6	10.3	9.7%	(33.9)%
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per schedule. Moreover, the designs for the other three road BOT projects have also been prepared.

Valuation: RELI's stock price has seen appreciation in excess of 30% over the last two months, and as per our valuation, the stock is currently fairly priced. Hence, we downgrade our rating to Hold.

Result Highlights

For Q1'09, RELI's revenues surged 35.4% to Rs. 22 bn on account of a 37.2% yoy jump in the power business revenues and a 28.3% increase in the EPC segment revenues. However, the Company incurred an operating loss of Rs. 854.4 mn due to the combined impact of higher cost of electricity purchased and increased other expenditure.

Net profit inched up 0.9% to Rs. 2.2 bn mainly because of the increase in other income, which increased 16.8% yoy to Rs. 4.2 bn.

Energy business

The sales of the energy business grew 37.2% yoy, backed by a higher realisation rate. The operational performance was not satisfactory as the Company's power generation decreased 5.4% yoy due to lower PLFs in comparison to the same period last year. To fulfil the power demand of the enhanced Mumbai customer base, RELI purchased 8.4% yoy more units from Tata Power at a 48.8% yoy higher cost per unit. As a result, electricity sales volume went up 2% yoy to 2,539 mn units.

EBIT margin for the segment improved 282 bps yoy to reach 9.7% in Q1'09. With MERC approving RELI's proposal on June 4, 2008, to increase tariffs by 10%, we expect margins to stay healthy.

EPC business

Net sales of the EPC segment grew 28.3% yoy to Rs. 4.3 bn due to a faster order execution. The order book increased by 318% yoy to Rs. 210.4 bn, which is 14.8x FY08 EPC revenues, reflecting good revenue visibility.

EBIT margin for the segment went up 560 bps yoy to 10.7% in Q1'09, indicating that several projects were completed during the quarter.

Profits fell due to higher other expenses

Unsatisfactory operational performance in the energy business

EPC's EBIT margin improved by 560 bps yoy

Key Events

RELI to tie up with a Chinese Company

RELI plans to enter into a 50:50 JV company with Shanghai Electric Corporation to set up a Rs. 120 bn power equipment plant. The plant should commence operations by 2010 with an initial capacity of 10,000 MW.

RELI is close to signing a Terai highway deal in Nepal

Nepal's Physical Planning and Works Ministry said that it had short listed RELI and South Korea's Landmark Worldwide Company for a massive highway project that, according to initial estimates, will cost about Nepali Rs. 50 - 67 bn.

Outlook

Well-diversified business

Reliance Infrastructure is emerging as a diversified player in the infrastructure space with a strong EPC business and attractive BOT assets across road, metro rail, real estate, and power transmission segments. The Company has a strong business model—it is employing the backward integration technique in its distribution business by setting up generating capacities for various fuels such as gas, coal, and hydel. With R-Power fully funded and more than Rs. 40 bn of net cash on its own books, the Company is well placed to fund all current projects and to accelerate growth in the increasingly competitive infrastructure development space.

Valuation

At the current market price, the stock is trading at a P/E of 15.3x and 12.6x for FY09E and FY10E, respectively. In our valuation, we have not yet factored the three BOT projects that are expected to be complete by 2010 and the metro rail projects of the Company due to lack of data availability.

RELI's stock price has appreciated by 30% over the last two months. Based on our SOTP valuation, we believe that the stock is fairly priced. Hence, we downgrade our rating to Hold.

Key Figures (Consolidated)

Year to March	FY06	FY07	FY08	FY09E	FY10E	CAGR(%)
(Figures in Rs. mn, except per share data)						(FY08-10E)
Net Sales	40,323	68,478	82,948	95,775	111,351	15.9%
Adj. EBITDA	7,465	5,497	4,804	7,087	8,536	33.3%
Adj. Net Profit	6,425	8,254	11,782	15,382	18,703	26.0%
Margins(%)						
Adj. EBITDA	18.5%	8.0%	5.8%	7.4%	7.7%	
Adj. NPM	15.9%	12.1%	14.2%	16.1%	16.8%	
Per Share Data (Rs.)						
Adj. EPS	31.1	37.3	49.6	66.4	80.8	27.6%
PER (x)	14.2x	16.4x	20.5x	15.3x	12.6x	

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