

RESULT UPDATE

LARGE CAP

Share Data

Reuters code	BSES.BO
Bloomberg code	RELI IN
Market cap. (US\$ mn)	5,039
6M avg. daily turnover (US\$ mn)	58.1
Issued shares (mn)	225
Target price (Rs)	1,212

Performance (%) 1M 3M 12M

Absolute	(9)	(7)	86
Relative	(3)	(8)	5

Valuation ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs)	48.4	49.5
+/- (%)	2.5	2.3
PER (x)	21.4	20.9
PBV (x)	1.8	1.6
Dividend/Yield (%)	0.7	0.7
EV/Sales (x)	2.4	1.9
EV/EBITDA (x)	35.2	29.7

Major shareholders (%)

Promoters	38
FII's	16
MF's	7
BFSI's	21
Public & Others	18

Financial highlights

(Rs mn)	3QFY10	3QFY09	YoY (%)	FY09	FY10E	YoY (%)	FY11E	YoY (%)
Net Sales	22,875	27,176	(15.8)	96,965	116,353.6	20.0	147,947	27.2
EBITDA	2,354	3,119	(24.5)	5,066	8,077	59.4	9,371	16.0
EBITDA Margin (%)	10	11	-	5	7	-	6	-
Other Income	2,156	1,436	50.1	12,623	9,896	(21.6)	9,160	(7.4)
Interest	(565)	(865)	(34.7)	(3,305)	(3,493)	5.7	(3,483)	(0.3)
Depreciation	(830)	(589)	40.9	(2,449)	(2,374)	(3.0)	(2,384)	0.4
PBT	3,114	3,100	0.4	11,934	12,105	1.4	12,664	4.6
Tax	(343)	(589)	(41.8)	(544)	(1,211)	122.5	(1,520)	25.5
Reported PAT	2,771	2,511	10.4	11,390	10,895	(4.4)	11,145	2.3
Extraordinary items	330	301	-	(723)	-	-	-	-
Adjusted PAT (After extraordinary)	3,101	2,812	10.3	10,667	10,895	2.1	11,145	2.3

Reliance Infrastructure Maintain Outperformer

Price: Rs 1,034

BSE Index: 16,358

30 January 2010

3QFY10 Result – Earnings stagnant, infrastructure projects expected from FY11

- PAT growth is 10% adjusted for forex gains and extra ordinaries. This includes adjustment for loss of revenue of Rs 580 mn due to stay on tariff increase by MERC. Since the tariff hike had already been passed we expect the stay to be lifted soon. Revenues were down by 15.8% this quarter due to lower Fuel Adjustment Charges driven by lower costs of power purchased.
- EPC revenues and profits were at par with last year, with stagnant margins of 6%. The EPC division having a sizeable order book of Rs 190 bn (executable over three-four years), will have back ended profit booking as projects near completion.
- The company is yet to share details of its revenues and profitability from the two functioning road projects, the segment wise details are expected only from FY11. The company has bagged three more road projects, along with the Mumbai Metro Phase II

B&K's view

Reliance Infrastructure continues to bag further projects in the infrastructure space with road (9 projects) and metro (3 projects) being the leading sectors. The company is also the lead bidder for the Mumbai sea link project. However, as most of these projects are still under constriction with long gestation periods, we expect little addition to earning in the immediate future. Three road projects and two Metro projects are expected to commission by 4QFY11 which will add to revenues.

We expect overall revenue growth to be robust over FY10-12, driven by higher EPC order execution and commissioning of more roads and the metro projects. However, profit growth will be muted (over FY11 and FY12) due to initial losses from these projects.

Due to greater clarity on retail potential of the Delhi Metro we have increased the SOTP value of this project which now stands at Rs 110/share. Our revised SOTP is Rs 1,212 (valuing Reliance Power at Rs 308 bn). We maintain Outperformer on the stock with a long-term perspective.

Other updates

- RELI currently holds Rs 78 bn in cash and liquid assets while the debt on book is Rs 44 bn.
- The gross sales of electrical energy increased by 2% to 2,459 MUs from 2,407 MUs last year. The Mumbai distribution business aggregate sales of electrical energy declined by 0.5% to 2,080 MUs from 2,090 MUs last year.
- The Energy trading business increased by 24% from 627 MUs to 777 MUs this quarter.
- EPC order book position stood at Rs 189.7 bn.
- The company now has 9 road projects in its kitty, 2 operational, 3 under construction and 4 new additions (Jaipur Ringus, Pune Satara and Gandhidham Mundra). However, schedule of execution and details of toll volume, etc, are not yet available for the new projects. We currently factor the value of the initial 5 projects for our valuations.

Delhi Airport Metro Express Line (DAMEL)

We recently visited the sites of the Delhi Airport Metro Express Line being executed by Reliance Infrastructure. We now have some more clarity as to the retail potential of the project. The details are as below:

- The project is being developed by DMRC and DAMEL (Delhi Airport Metro Express Line) where RELI has 95% stake and CAF of Spain has 5% stake for a concession period of 30 years (till 2038) after which assets would be handed over to DMRC. The metro line is being developed primarily to create a faster mode of transport from the Delhi airport to Connaught Place (CP) in New Delhi. The highlight of the project will be the baggage check-in facility available at New Delhi station (near CP) for airline passengers, similar to the facility available in Hong Kong.
- Project cost:
 - o Rs 30 bn for DMRC which will construct all civil structure including tunnels, station structures, viaducts.
 - o Rs 29 bn for DAMEL which is responsible for setting up the railway infrastructure and electrical infrastructure required for running of trains. This will include: baggage handling and check-in, station finishing, lifts, etc., platform screen doors, signaling telecom, tracks, power supply, etc.
- Status of the Project:
 - o Financial closure was achieved in March 2009.
 - o About 75% of project (DMRC+RELI) has been completed, out of which RELI has completed 65-70%. Full project completion is expected by 2QFY11. Delays by DMRC are of the order of four to five months with the track work being just commenced.
 - o Trains are expected to be tested on trial runs by April 2010. The line is of 23 kms with the operating speed of the train at 120 km/hr and design speed is 135 km/hr. About 15 km of the line is underground and 7 km is elevated.
 - o The three airport terminals are at New Delhi, Shivaji stadium and Dhaula Kuan.
 - o Air traffic expected to grow from 5 mn in FY11 to 60 mn by FY20 and reach 100 mn by FY40.

- o Revenue sharing: RELI is liable to pay DMRC Rs 510 mn as annual concession fee from FY11, along with revenue sharing of
 - 1% for first 5 years
 - 2% for 5-10 years
 - 3% for 10-015 years and
 - 5% thereafter.
 - RELI had bid for the fee.
- **Ticket revenues:** Gross revenue would be sum of retail and ticketing. Ticket price from New Delhi St to the Airport is Rs 150 and from Airport to Dwarka is Rs 30 (total Rs 180 from New Delhi to Dwarka). Revision in fare after every two years, will be based on WPI.
- **Retail potential:** The civil structure for retail space available at the stations is being done by DMRC while finishing will be done by RELI. The total retail space available (including FSI) is 132,000 sq mt consisting of – Dwarka 120,000 sq mt, Shivaji stadium station 6,000 sq mt and New Delhi station 6,000 sq mt.
- While rentals at Shivaji Stadium and New Delhi are expected to commence from 4QFY11 (along with commissioning of the Metro), Dwarka will take two-three years since only open land is available there.
- Our assumptions of rentals are:
 - o Rs 600/sq ft per month at New Delhi Station
 - o Rs 200/sq ft per month at Shivaji stadium and
 - o Rs 125/sq ft per month at Dwarka.

We have now added the expected NPV of the retail rentals to the value of the Delhi Metro for our SOTP which now stands at Rs 110/ share.

Outlook

Reliance Infrastructure continues to bag further projects in the infrastructure space with road (9 projects) and metro (3 projects) being the leading sectors. The company is also the lead bidder for the Mumbai sea link project. However as most of these projects are still under constriction with long gestation periods we expect little addition to earning in the immediate future. Three road projects and two Metro projects are expected to commission by 4Q FY11 which will add to revenues.

We expect over all revenue growth to be robust over FY10-12, driven by higher EPC order execution and commissioning of more roads and the metro projects. However, profit growth will be muted (over FY11 and FY12) due to initial losses from these projects.

Due to greater clarity on retail potential of the Delhi Metro we have increased the SOTP value of this project which now stands at Rs 110/share. Our revised SOTP is Rs 1,212 (valuing Reliance Power at Rs 308 bn). We maintain Outperformer on the stock with a long-term perspective.

SOTP

Business segment	Value (Rs/ share)	Assumptions	Valuation method
Power generation (940MW) & distribution (Mumbai & Delhi)	215	16% RoE, 6-8% annual growth in volumes	DCF (WACC of 11.4%)
EPC	178	Revenue booking of Rs 49bn in FY10 & Rs 60bn in FY11, operating margins at 8-10%	12x FY10 EPS
Roads	13	Traffic volumes at 10% discount to company data, Expected average equity IRR 18%	DCF (WACC of 11.4%)
Metro	179	Traffic volumes as per company data, Expected average equity IRR 19%	DCF (WACC of 11.4%)
Power Transmission	14	15-16% RoEs	DCF (WACC of 11.4%)
Liquid Assets (net of debt)	120	-	At par
Reliance Power	493		NPV value of projects
Total Value per share (Rs)	1,212		

Income Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Net sales	63,643	96,965	116,354	147,947
<i>Growth (%)</i>	<i>11.5</i>	<i>52.4</i>	<i>20.0</i>	<i>27.2</i>
Operating expenses	(58,178)	(91,900)	(108,277)	(138,576)
Operating profit	5,464	5,066	8,077	9,371
EBITDA	5,464	5,066	8,077	9,371
<i>Growth (%)</i>	<i>9.8</i>	<i>(7.3)</i>	<i>59.4</i>	<i>16.0</i>
Depreciation	(2,229)	(2,449)	(2,374)	(2,384)
Other income	11,370	12,623	9,896	9,160
EBIT	14,605	15,239	15,598	16,147
Interest paid	(3,088)	(3,305)	(3,493)	(3,483)
Pre-tax profit	11,517	11,934	12,105	12,664
Tax (current + deferred)	(671)	(544)	(1,211)	(1,520)
Net profit	10,846	11,390	10,895	11,145
Adjusted net profit	8,329	10,665	10,895	11,145
(after pror period adj)				
<i>Growth (%)</i>	<i>17.5</i>	<i>28.1</i>	<i>2.1</i>	<i>2.3</i>
Prior period adjustments	(2,517)	(723)	0	0
Net income	8,329	10,665	10,895	11,145

Balance Sheet

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Current assets	90,215	88,036	97,731	110,922
Investments	76,644	121,471	94,471	94,471
Net fixed assets	36,365	39,046	36,731	34,406
Total assets	203,223	248,553	228,933	239,799
Current liabilities	33,778	54,218	51,816	53,179
Total debt	49,889	73,322	43,140	43,452
Other non-current liabilities	2,687	1,940	1,940	1,940
Total liabilities	86,354	129,479	96,896	98,570
Share capital	2,356	2,261	2,253	2,253
Reserves & surplus	114,513	116,814	129,784	138,976
Shareholders' funds	116,870	119,074	132,037	141,229
Total equity & liab.	203,223	248,553	228,933	239,799

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Pre-tax profit	11,517	11,934	12,105	12,664
Depreciation	2,461	2,540	2,374	2,384
Chg in working capital	21,009	24,050	(12,332)	(5,721)
Total tax paid	(499)	(1,090)	(1,211)	(1,520)
Cash flow from oper. (a)	34,488	37,434	937	7,807
Capital expenditure	(7,782)	(5,220)	(59)	(59)
Chg in investments	(51,525)	(44,827)	27,000	0
Cash flow from inv. (b)	(59,307)	(50,048)	26,941	(59)
Free cash flow (a+b)	(24,819)	(12,614)	27,878	7,748
Equity raised/(repaid)	6,829	(7,593)	11,812	0
Debt raised/(repaid)	(8,694)	23,433	(30,182)	312
Dividend (incl. tax)	(1,728)	(1,996)	(1,909)	(1,953)
Other financing activities	7,531	0	(3,850)	(3,985)
Cash flow from fin. (c)	3,937	13,844	(24,129)	(5,626)
Net chg in cash (a+b+c)	(20,883)	1,230	3,750	2,122

Key Ratios

Yr end 31 Mar (%)	FY08	FY09	FY10E	FY11E
EPS (Rs)	35.4	47.2	48.4	49.5
EPS growth	14.0	33.5	2.5	2.3
EBITDA margin	8.6	5.2	6.9	6.3
EBIT margin	22.9	15.7	13.4	10.9
RoCE	9.0	8.4	8.4	8.9
Net debt/Equity	41.9	59.5	30.9	24.8

Valuations

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
PER	29.3	21.9	21.4	20.9
PCE	23.1	17.8	17.6	17.2
Price/Book	2.1	2.0	1.8	1.6
Yield (%)	0.3	0.6	0.7	0.7
EV/Net sales	4.6	3.2	2.4	1.9
EV/EBITDA	53.6	62.1	35.2	29.7

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
Net margin (%)	13.1	11.0	9.4	7.5
Asset turnover	0.3	0.4	0.5	0.6
Leverage factor	1.9	1.9	1.9	1.7
Return on equity (%)	9.9	10.0	9.2	9.0

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 4. **SELL:** Potential downside of < -25% (absolute returns)
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