

Equities

11 January 2012 | 7 pages

Reliance Infrastructure (RLIN.BO)

Alert: Takeaways from India Infrastructure Conference: Reliance Infrastructure - Overcoming Many Challenges

Company Update

| | |
|------------------------------|--------------------------|
| Buy/High Risk | 1H |
| Price (11 Jan 12) | Rs404.20 |
| Target price | Rs605.00 |
| Expected share price return | 49.7% |
| Expected dividend yield | 2.0% |
| Expected total return | 51.7% |
| Market Cap | Rs106,426M US\$2,063M |

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



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- Significant improvement in Mumbai distribution business** — Renewal of distribution license for 25 more years has removed uncertainty. Now regulations are clear that distribution license and distribution assets are different and R-Infra can decide to let any other distribution license holder (except Tata Power) use its network without regulatory interference on mutually agreed commercial terms at its own discretion. Regulatory assets (including carrying costs) are now Rs35bn and have been approved by regulator. R-Infra has proposed to the regulator to recover these assets over six years. If allowed, it will result in total additional cash flows of Rs44bn (including additional carrying costs) over the next six years. With decline in load from 1300MW to 1000MW, power purchase costs have come down and regulator has approved levy of cross-subsidy charge on customers migrating to Tata Power. As a result, migration of customers to Tata Power has almost come to standstill. Regulatory equity at Rs22bn.
- Delhi distribution financial health affected delay in tariff hikes** — Before the last tariff hike of 22% in September 2011, there were no tariff hikes for six years. As a result regulatory assets end FY11 were to the tune of Rs100bn (Rs70bn till FY09 approved by regulator). Debt on books of distribution companies is ~Rs65bn. Now IDBI bank has given a package of Rs50bn to be funded in debt equity ratio of 80:20. Rs30bn will be used to pay generators and Rs20bn for operations. Regulatory equity (R-Infra's share) is Rs24bn. R-Infra has communicated to the government that it is prepared to infuse its share of equity as soon as Delhi government puts its share
- Other projects** — Mumbai Metro 1 is likely to be operational by December 2012. Due to delay, costs have increased and concession period has been extended by 1 yr. R-Infra has started collecting toll on Trichy - Dindugal road from today and now 5 roads (out of 11) are operational. Company expects to have 10 operational roads by FY12 end.
- Maintain Buy - Adj cons BV of Rs627 provides valuation support** — R-Infra's FY11 consolidated BV was Rs883/ share. Even if we knock off investments in preference shares/ ICDs and regulated assets in Delhi/ Mumbai from the same adjusted consolidated BV is still Rs627/ share.

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

Reliance Infrastructure

Valuation

Our Rs605 12-month SOTP target price for R-Infra is composed of: 1) EPC + Power business using an EV/EBITDA multiple of 6x Mar13E; 2) We value infra assets, Delhi distribution and other subs on FY13E book value; and 3) We value the stake in R-Power at 20% discount to its current market price. R-Infra's FY11 consolidated BV was Rs883/ share. Even if we knock off investments in preference shares/ ICDs and regulated assets in Delhi/ Mumbai from the same, adjusted consolidated BV is still Rs627/ share.

Risks

We rate R-Infra High Risk on account of the conglomerate nature of the company with multiple moving parts and the recent SEBI consent order. Key downside risks to our target price are: 1) Execution risks on its infrastructure projects leading to delayed commissioning; 2) Failure to secure fuel supply for incremental power projects; 3) Failure to financially close incremental infrastructure projects; 4) Higher interest rates and market risk premium leading to lower valuations for various infrastructure projects; 5) Right of way and clearance risks; 6) Change in regulatory mechanism; and 7) Hydrology-related risks for the hydel power projects.

Appendix A-1

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Reliance Infrastructure (RLIN.BO)

Ratings and Target Price History Fundamental Research

Analyst: Venkatesh Balasubramaniam



| Date | Rating | Target Price | Closing Price |
|-------------|--------|--------------|---------------|
| 1 16-Jun-09 | 1M | *1,535.00 | 1,268.55 |
| 2 20-Sep-10 | 1M | *1,367.00 | 1,087.35 |

| Date | Rating | Target Price | Closing Price |
|-------------|-----------------------------|--------------|---------------|
| 3 16-Feb-11 | *1H | *902.00 | 631.45 |
| 4 7-Oct-11 | Stock rating system changed | | |

| Date | Rating | Target Price | Closing Price |
|-------------|--------|--------------|---------------|
| 5 18-Oct-11 | 1H | *605.00 | 406.75 |

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

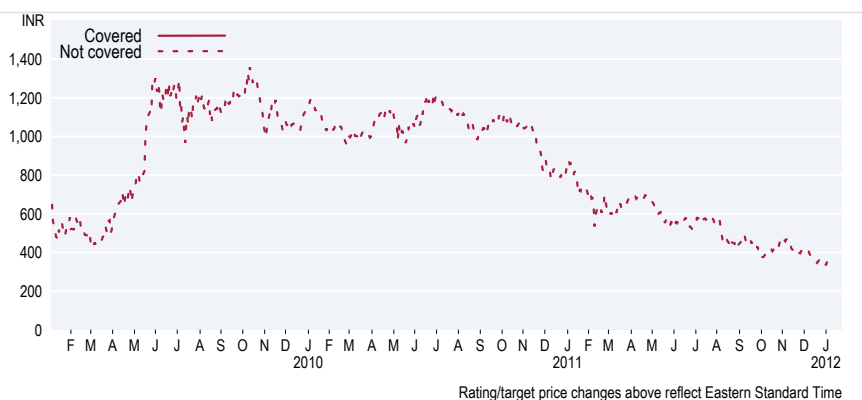
Reliance Infrastructure (RLIN.BO)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Venkatesh Balasubramaniam



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|--|-----------------|------|------|-----------------|------|------|
| | Buy | Hold | Sell | Buy | Hold | Sell |
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