

Transforming as Infra developer v/s power utility

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Having met with management today at our India Investor Conference 2012 in Mumbai, these are some of our takeaways...

Power Discoms: Positive regulatory to solidify business

- **Mumabai Licence Area:** a) License renewed for next 25 years; b) MERC approved recovery of Rs23.2bn Regulatory Assets and levy of Cross Subsidy Charge on all migrated consumers from the date of migration.
- **Delhi Discoms:** a) Infused Rs5bn equity in Delhi distribution JVs to support liquidity; b) DERC approved ~22% tariff hike and introduced qtrly fuel price adjustment surcharge.

Infrastructure Projects: Execution remain track

Roads (Rs120bn):

- RELI has 11 road projects of 4640 lane kms of which 5 roads project 1940 lane kms are operational and 5 project to start in 4QFY12E.

Metro Rails (Rs170bn):

- **Delhi Airport Metro line (23kms):** The Daily passengers crossed 18k since its operation in Feb'11. Closed retail deals of ~30,000 sqft with key players like W H Smith, Cafe Coffee Day, VIP, Dabur etc. at Delhi metro stations. As per mgt. project to achieve cash BEP in 1QFY13.
- **Mumbai Metro - I (11kms):** The project is likely to start in CY13.
- **Mumbai Metro-II (32kms):** The execution at project with attached 1.2mn sqft realty likely to start by CY12.

Power Transmission (Rs66bn):

- **WRSS:** Started 5 out of 9 lines of Solapur Karad, Parli Solapur, Lonikhand Kalwa lines in Maharashtra and Limdi Vadavi & Vadavi Kansari line in Gujarat. The project likely to be completed in CY12.
- **Mumbai Transmission:** Awarded 25 years license for the project. Three new receiving stations charged in FY11.
- **Parbati Koldam:** Signed financing agreement of Rs7.7bn debt with PFC & REC. Construction activity started at project site.
- **North Karanpura & Talcher II:** Completed acquisition process. Transmission license received and started project execution. Applied for Force Majeure.

Cement (Rs46bn):

- Developing cement plant of 5mtpa each at Maharashtra & Madhya Pradesh

E&C; Scale-up linked to Reliance Power & Roads projects

- Strong order book of Rs243bn from power & road projects to be executed over 2-5 years.
- Revenue grew 3x YoY in 1HFY12. Expected to achieve 2x YoY growth in 2H.

Stock Data

Price	Rs592.85
Price Objective	Rs1,080
Date Established	10-Nov-2011
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	Rs328.30-Rs710.90
Mrkt Val / Shares Out (mn)	US\$3,177 / 263.4
Market Value (mn)	Rs156,180
Average Daily Volume	3,094,643
BofAML Ticker / Exchange	RCTDF / BSE
Bloomberg / Reuters	RELI IN / RLIN.BO
ROE (2012E)	7.2%
Net Dbt to Eqty (Mar-2010A)	-14.8%
Est. 5-Yr EPS / DPS Growth	18.0% / 18.0%
Free Float	52.4%

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Price objective basis & risk

Reliance Infrastructure (RCTDF)

Our PO of Rs1080 is based on SOTP valuation. The parent business is valued at Rs293/share based on DCF. We value the stake of 29-51pct in power projects of Reliance Power at Rs472/share at 15% discount to DCF valuation, while we value the stake of 49pct in Delhi Power distribution business at Rs62/share at 15% discount to DCF. Its 74-100pct stake in Power Transmission business is valued at Rs22/share at 1.3x book value and stakes of 69pct in the Mumbai Metro project, 95pct in Delhi Metro Airport Express line and 100pct in road projects are valued based on 15% discount to DCF at Rs124/share. A stake of 66pct in real estate business is valued at Rs21/share on 15% discount to DCF. Other investments are valued at Rs88/per share at 15% discount to book value. Based on this, we arrive at an SOTP value of Rs1082/share, which we round to Rs1080. Our PO translates into 1.6x FY12E P/BV (Parent), which is below the utility sector leaders such as NTPC 2x.

Risks to our PO are: ability to source quality power, viable gas supply, discontinuity/delay of power sector reforms, delay in project execution, non-availability of fuel, currency and freight risks, potential matching of demand-supply of power in India leading fall in power rates.

Link to Definitions

Energy

Click [here](#) for definitions of commonly used terms.

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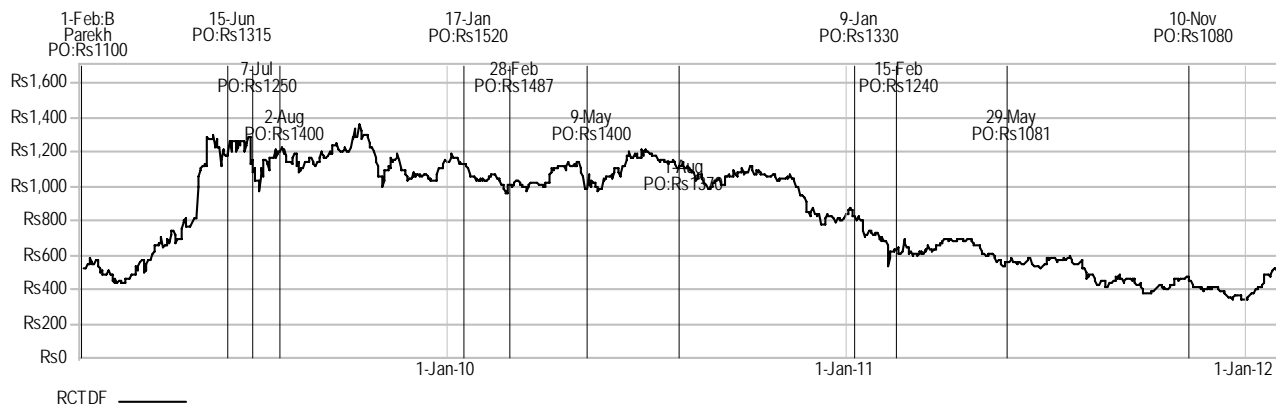
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RCTDF Price Chart



B : Buy, N : Neutral, U : Underperform, PO : Price objective, NA : No longer valid, NR: No Rating

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Investment Rating Distribution: Utilities Group (as of 01 Jan 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	79	42.47%	Buy	51	71.83%
Neutral	50	26.88%	Neutral	35	76.09%
Sell	57	30.65%	Sell	28	56.00%

Investment Rating Distribution: Global Group (as of 01 Jan 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	2029	52.00%	Buy	1337	72.11%
Neutral	1009	25.86%	Neutral	657	71.34%
Sell	864	22.14%	Sell	487	60.20%

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