

Reliance Infrastructure Ltd

Considering buy back post sharp fall

Background: SEBI had initiated probe on Reliance Infra after they received information that the ECB funds were used for investment in the secondary market. SEBI (in its original show cause notice issued in June 2010) had alleged that there was misrepresentation of accounts by Reliance Infra over FY08-FY10. In Sep 2010, Reliance Infra and other parties proposed to settle the issue via a consent order without agreeing or denying the allegations. In Jan 2011, SEBI agreed to settle the issue via the consent order.

Latest development: As per CNBC flash yesterday, based on SEBI's notice which alleged misrepresentation of accounts, ICAI sought clarification from the auditors of Reliance Infra. Later, ICAI president confirmed on TV that they had asked for such clarification from the auditors. The stock reacted sharply to this news, and had negative impact on other Reliance ADAG companies as well.

Reliance Infra promoters will consider buy back of shares: Post this sharp fall, Reliance Infra promoters have indicated that they will consider buy back of shares in upcoming board meeting on Feb 14, 2011 (when they plan to announce Q3 results as well). Most likely, they will announce buy back through exchange route, where promoters will not be allowed to participate.

Cash levels in the company are robust: The cash in the company is Rs51bn or Rs192/sh. So if the buyback is at say Rs700/sh (given that there may not be any restriction on pricing if the company buys on the exchange), the company can buy back upto 28% of the company. It is also important to note that the promoters converted warrants in Jan'11 at Rs930/sh (75% of money was paid at the time of conversion).

Our view: While we see value in the stock, the concerns on lack of clarity on related party transactions and allegations of misrepresentation of accounts have kept investors away from the stock. Our SOTP price target of ~Rs 1315 includes Rs 450 for stake held in R-Power (based on current market cap without any hold co disc). In addition, there are Mumbai, Delhi electricity distribution businesses, EPC segment, infrastructure assets (11 roads, 3 metro, 3 transmission projects) in the company.

With the buy back offer likely to be announced, the free fall seen in share price should stop, and is likely to see a positive impact on the stock.

In the interest of timeliness this report has not been edited.

Financial highlights

(Rs mn)	FY10	FY11E	FY12E	FY13E
Revenue	148,648	159,234	195,795	222,384
Growth (%)	15.9	7.1	23.0	13.6
Adj net income	15,194	16,239	17,651	25,027
Growth (%)	24.3	6.9	8.7	41.8
FDEPS (Rs)	56.7	60.6	65.8	93.3
Growth (%)	4.8	6.9	8.7	41.8

Profitability and return ratios

(%)	FY10	FY11E	FY12E	FY13E
EBITDA margin	10.2	10.7	13.0	15.7
EBIT margin	7.0	6.9	8.9	11.1
Adj PAT margin	10.2	10.2	9.0	11.3
ROE	8.3	7.5	7.3	9.6
ROIC	7.3	5.1	5.9	7.4
ROCE	7.0	6.9	6.9	8.4





Valuation

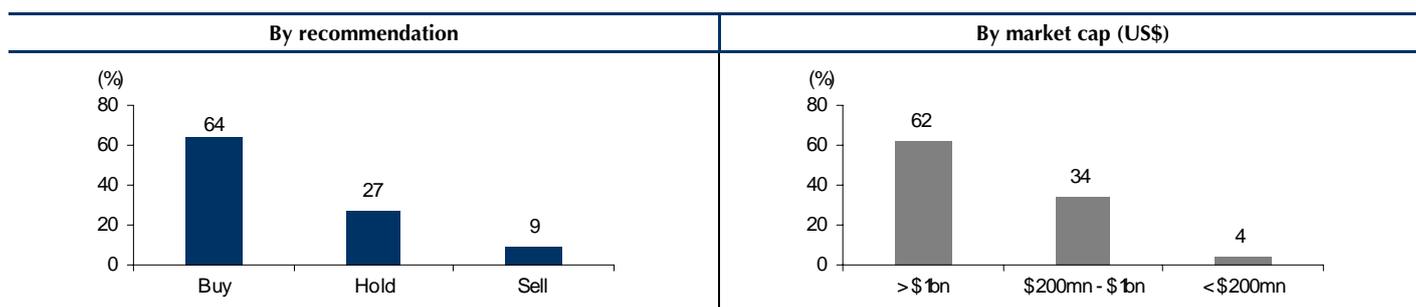
Fig 1 - SOTP based March '11 target price

(Rs/sh)	Post warrant conversion*	As a % of total	Remarks
EPC business	116	8	EV/E of 5x on FY12 EBITDA, at 9% EBITDA margin (EPC business is debt free)
Mumbai distribution	154	11	2.0x P/B on FY12 book
Delhi distribution	34	2	2.0x P/B on FY12 book
Infrastructure assets	184	13	DCF based March '11 value, adjusted for 20% hold co. disc
- roads projects	39		
- metro projects	109		
- transmission projects	36		
R-Power stake	450	37	Based on CMP of Rs 113/sh, without any holding company discount
Gross cash	192	14	Cash and equivalents
Investment in group companies	191	14	Value of ICDs and preference equity in group companies
Total	1,325	100	
O/s shares (mn)	268		

Source: RCML Research Note – We have not included cement business, real estate business, two UMTPs and Haji Ali sea link projects in our valuation, financials.



Coverage Profile



Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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