



COMPANY UPDATE

**Reliance Infrastructure (RLIN.BO)**

Buy

**Sea link acquired; completion of Worli – Haji Ali stretch key; Buy**

**What's changed**

The consortium of Reliance Infrastructure (RELI) and Hyundai Constructions, per the Times of India, agreed to 1) buy the existing Bandra-Worli Sea Link for about Rs16.4bn and 2) and extend the sea link by 3.4km to connect to Haji Ali at the cost of Rs19.6bn. The concession agreement is expected to be signed in another two months and RELI will be eligible to collect a toll for the existing link after completion of financial closure of the project.

**Implications**

Our analysis of the project suggests that RELI's investment in the existing sea link will likely have an equity IRR of about 10%, based on the existing toll structure of Rs50 for one way, 37,500 PCUs daily (as per MSRDC Oct 2, 2009) and debt equity structure of 70:30, compared with our estimate of 15% equity IRR for RELI's Mumbai and Delhi metro projects.

We believe improvement in equity IRR for this project hinges primarily on traffic growth (we estimate that 60,000 PCUs would be required for an equity IRR of 15%) on the back of the completion of the Worli-Haji Ali stretch (expected to take about 48 months for completion), which may provide more tangible benefits to commuters in terms of time saved on using the combined stretch of Bandra-Worli-Haji Ali sea link.

**Valuation**

Though we assume the contribution from this project is not material to our SOTP value, we believe news flow on execution of road and metro projects and EPC order book will be key re-rating triggers for the stock. We reiterate our Buy rating on RELI with a 12-m SOTP-based target price of Rs1,370 which implies upside of 34%.

**Key risks**

- 1) Delays in commissioning of infrastructure projects under construction;
- 2) lower-than-expected EPC margins; 3) favorable decision of the court case between RIL-RNR.

**INVESTMENT LIST MEMBERSHIP**

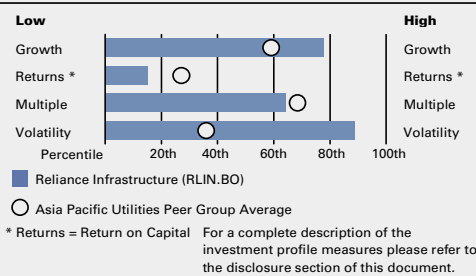
Asia Pacific Buy List

**Coverage View:** Cautious

India:  
Power

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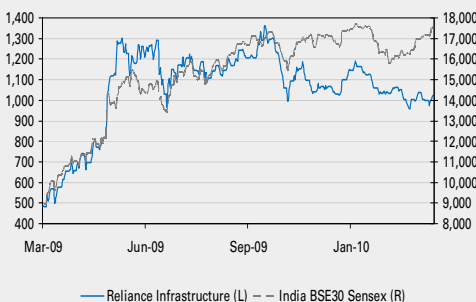
**Investment Profile**



Key data	Current
Price (Rs)	1,024.15
12 month price target (Rs)	1,370.00
Market cap (Rs mn / US\$ mn)	230,433.8 / 5,063.9
Foreign ownership (%)	19.0

	3/09	3/10E	3/11E	3/12E
EPS (Rs)	59.88	62.22	71.60	83.81
EPS growth (%)	19.7	3.9	15.1	17.0
EPS (diluted) (Rs)	59.88	62.22	71.60	83.81
EPS (basic pre-ex) (Rs)	59.88	62.22	71.60	83.81
P/E (X)	17.1	16.5	14.3	12.2
P/B (X)	1.4	1.2	1.1	1.0
EV/EBITDA (X)	33.7	19.0	14.7	11.5
Dividend yield (%)	0.8	0.8	1.0	1.1
ROE (%)	8.1	7.8	8.2	8.9

**Price performance chart**



Share price performance (%)	3 month	6 month	12 month
Absolute	(0.5)	(17.6)	111.3
Rel. to India BSE30 Sensex	(5.4)	(21.5)	8.2

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 3/19/2010 close.

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# Reliance Infrastructure: Summary financials

Profit model (Rs mn)	3/09	3/10E	3/11E	3/12E	Balance sheet (Rs mn)	3/09	3/10E	3/11E	3/12E
<b>Total revenue</b>	<b>125,780.5</b>	<b>137,554.3</b>	<b>187,096.6</b>	<b>234,868.0</b>	Cash & equivalents	4,582.7	6,971.6	9,208.7	17,694.4
Cost of goods sold	(79,264.3)	(75,040.2)	(78,225.6)	(79,551.3)	Accounts receivable	19,277.8	22,611.7	30,755.6	38,608.4
SG&A	(40,217.6)	(43,761.2)	(82,601.4)	(120,516.4)	Inventory	5,606.4	5,463.8	5,794.3	6,054.4
R&D	--	--	--	--	Other current assets	66,228.5	66,228.5	66,228.5	66,228.5
Other operating profit/(expense)	1,976.0	0.0	0.0	0.0	<b>Total current assets</b>	<b>190,943.5</b>	<b>101,275.6</b>	<b>111,987.2</b>	<b>128,585.8</b>
<b>EBITDA</b>	<b>8,274.6</b>	<b>18,752.9</b>	<b>26,269.7</b>	<b>34,800.4</b>	Net PP&E	54,694.3	84,404.5	110,424.6	158,779.5
Depreciation & amortization	(3,303.8)	(4,731.8)	(6,371.9)	(8,842.8)	Net intangibles	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>4,970.8</b>	<b>14,021.1</b>	<b>19,897.8</b>	<b>25,957.5</b>	Total investments	159,364.1	159,364.1	159,364.1	159,364.1
Interest income	12,798.0	8,572.3	8,572.3	8,572.3	Other long-term assets	35,582.3	46,809.6	58,397.7	35,050.0
Interest expense	(4,394.2)	(7,017.4)	(10,376.9)	(13,163.2)	<b>Total assets</b>	<b>345,336.1</b>	<b>391,853.9</b>	<b>440,173.6</b>	<b>481,779.3</b>
Income/(loss) from uncons. subs.	933.7	933.7	933.7	933.7	Accounts payable	59,128.5	52,760.5	56,385.3	57,912.7
Others	0.0	0.0	0.0	0.0	Short-term loans	0.0	0.0	0.0	0.0
<b>Pretax profits</b>	<b>14,308.3</b>	<b>16,509.7</b>	<b>19,026.9</b>	<b>22,300.3</b>	Other current liabilities	12,948.7	12,947.8	12,947.8	12,947.8
Income tax	(783.2)	(2,492.2)	(2,894.9)	(3,418.7)	<b>Total current liabilities</b>	<b>72,077.2</b>	<b>65,708.3</b>	<b>69,333.1</b>	<b>70,860.4</b>
Minorities	7.2	0.0	0.0	0.0	Long-term debt	101,053.5	132,859.2	163,623.3	187,396.3
<b>Net income pre-preferred</b>	<b>13,532.3</b>	<b>14,017.6</b>	<b>16,132.0</b>	<b>18,881.7</b>	Other long-term liabilities	2,113.4	2,113.4	2,113.4	2,113.4
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	103,166.9	134,972.6	165,736.7	189,509.7
<b>Net income (pre-exceptionals)</b>	<b>13,532.3</b>	<b>14,017.6</b>	<b>16,132.0</b>	<b>18,881.7</b>	<b>Total liabilities</b>	<b>175,244.1</b>	<b>200,680.9</b>	<b>235,069.8</b>	<b>260,370.1</b>
Post tax exceptionals	0.0	0.0	0.0	0.0	<b>Preferred shares</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net income</b>	<b>13,532.3</b>	<b>14,017.6</b>	<b>16,132.0</b>	<b>18,881.7</b>	<b>Total common equity</b>	<b>168,976.0</b>	<b>190,056.9</b>	<b>203,987.8</b>	<b>220,293.2</b>
EPS (basic, pre-except) (Rs)	59.88	62.22	71.60	83.81	Minority interest	1,116.0	1,116.0	1,116.0	1,116.0
EPS (basic, post-except) (Rs)	59.88	62.22	71.60	83.81	<b>Total liabilities &amp; equity</b>	<b>345,336.1</b>	<b>391,853.9</b>	<b>440,173.6</b>	<b>481,779.3</b>
EPS (diluted, post-except) (Rs)	59.88	62.22	71.60	83.81	<b>BVPS (Rs)</b>	<b>747.68</b>	<b>843.57</b>	<b>905.41</b>	<b>977.78</b>
DPS (Rs)	8.17	8.49	9.77	11.43	<b>Ratios</b>	<b>3/09</b>	<b>3/10E</b>	<b>3/11E</b>	<b>3/12E</b>
Dividend payout ratio (%)	13.6	13.6	13.6	13.6	ROE (%)	8.1	7.8	8.2	8.9
Free cash flow yield (%)	(3.5)	(15.2)	(12.1)	(7.2)	ROA (%)	4.4	3.8	3.9	4.1
<b>Growth &amp; margins (%)</b>	<b>3/09</b>	<b>3/10E</b>	<b>3/11E</b>	<b>3/12E</b>	ROACE (%)	2.3	4.4	5.2	6.1
Sales growth	50.8	9.4	36.0	25.5	Inventory days	22.3	26.9	26.3	27.2
EBITDA growth	34.5	126.6	40.1	32.5	Receivables days	51.9	55.6	52.1	53.9
EBIT growth	61.4	182.1	41.9	30.5	Payable days	207.4	272.1	254.6	262.2
Net income growth	14.9	3.6	15.1	17.0	Net debt/equity (%)	56.7	65.9	75.3	76.6
EPS growth	19.7	3.9	15.1	17.0	Interest cover - EBIT (X)	NM	NM	11.0	5.7
Gross margin	37.0	45.4	58.2	66.1	<b>Valuation</b>	<b>3/09</b>	<b>3/10E</b>	<b>3/11E</b>	<b>3/12E</b>
EBITDA margin	6.6	13.6	14.0	14.8	P/E basic (X)	17.1	16.5	14.3	12.2
EBIT margin	4.0	10.2	10.6	11.1	P/B (X)	1.4	1.2	1.1	1.0
<b>Cash flow statement (Rs mn)</b>	<b>3/09</b>	<b>3/10E</b>	<b>3/11E</b>	<b>3/12E</b>	EV/EBITDA (X)	33.7	19.0	14.7	11.5
Net income pre-preferred dividends	13,532.3	14,017.6	16,132.0	18,881.7	Dividend yield (%)	0.8	0.8	1.0	1.1
D&A add-back	3,303.8	4,731.8	6,371.9	8,842.8	<b>Additional metrics</b>	<b>3/09</b>	<b>3/10E</b>	<b>3/11E</b>	<b>3/12E</b>
Minorities interests add-back	0.0	0.0	0.0	0.0	Power generation (kWh)	5,770	5,814	5,910	6,007
Net (inc)/dec working capital	(2,530.4)	(9,559.3)	(4,849.7)	(6,585.5)	Power attributable capacity (MW)	768	768	768	768
Other operating cash flow	(2,896.9)	0.0	0.0	0.0	Wtd-avg power tariffs (Rs/kWh)	7.90	6.46	6.43	6.13
<b>Cash flow from operations</b>	<b>10,553.4</b>	<b>9,190.1</b>	<b>17,654.2</b>	<b>21,139.0</b>	Unit coal costs (Rs/kWh)	--	--	--	--
Capital expenditures	(24,947.7)	(45,669.9)	(43,980.1)	(33,850.0)	Wtd-avg tariff coal-fired (Rs/kWh)	--	--	--	--
Acquisitions	2,320.1	0.0	0.0	0.0	Utilization rate (%)	85.8	86.4	87.9	89.3
Divestitures	0.0	0.0	0.0	0.0	Reserve margin (%)	--	--	--	--
Others	0.0	0.0	0.0	0.0	Gas sales volume (gas unit)	--	--	--	--
<b>Cash flow from investments</b>	<b>(22,627.6)</b>	<b>(45,669.9)</b>	<b>(43,980.1)</b>	<b>(33,850.0)</b>	Wtd-avg gas tariffs (Rs/gas unit)	--	--	--	--
Dividends paid (common & pref)	(1,701.4)	(1,912.6)	(2,201.1)	(2,576.3)	Unit gas costs (Rs/gas unit)	--	--	--	--
Inc/(dec) in debt	24,264.1	31,805.7	30,764.1	23,773.0	Tap water tariffs (Rs/cu. mtr.)	--	--	--	--
Common stock issuance (repurchase)	(6,989.5)	8,976.0	0.0	0.0	Tap water capacity (cu. mtr.)	--	--	--	--
Other financing cash flows	(70.6)	0.0	0.0	0.0	Tap water sales volume (cu. mtr.)	--	--	--	--
<b>Cash flow from financing</b>	<b>15,502.6</b>	<b>38,869.1</b>	<b>28,563.0</b>	<b>21,196.7</b>	Sewage proc. tariffs (Rs/cu. mtr.)	--	--	--	--
<b>Total cash flow</b>	<b>3,428.4</b>	<b>2,389.3</b>	<b>2,237.1</b>	<b>8,485.7</b>	Sewage proc. capacity (cu. mtr.)	--	--	--	--
					Sewage proc. volume (cu. mtr.)	--	--	--	--

Note: Last actual year may include reported and estimated data.  
Source: Company data, Goldman Sachs Research estimates.

## Analyst Contributors

### Durga Dath

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**Exhibit 1: Summary of details of Bandra – Haji Ali sea link**

Details of the Bandra - Haji Ali sea link project	
Ownership	Reliance Infra - 90%, Hyundai -10%
Project cost	Rs 50bn for the entire project. Breakdown is as follows: Bandra - Worli sea link - Rs16.4bn, Worli - Haji Ali sea link - Rs19.6bn Grant by Maharashtra government - Rs14bn
Concession period	Likely to be 40 years
Construction period	48 months from the completion of financial closure
Toll collection	RELI eligible to start collecting toll for Bandra - Worli sea link after completion of financial closure

Source: Company data, Media reports, Goldman Sachs Research

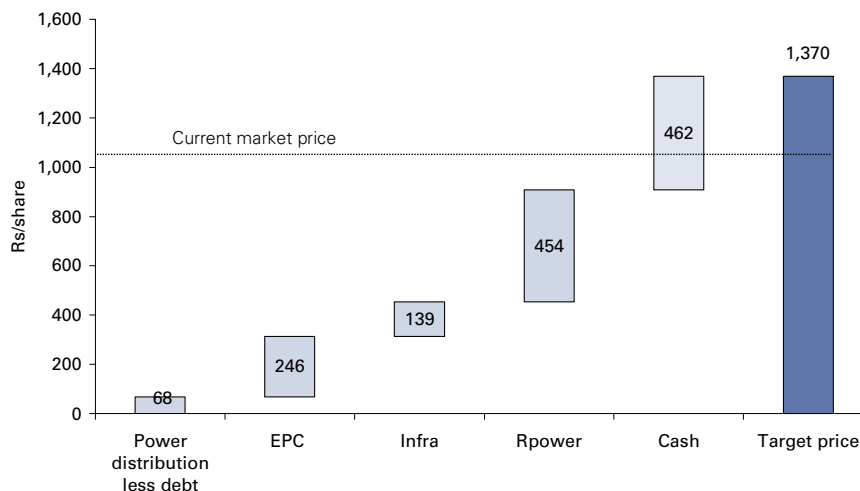
**Exhibit 2: We believe an increase in PCUs is critical for the improvement in equity IRR**  
Sensitivity of equity IRR to traffic growth of Bandra – Worli sea link project

Traffic daily - PCU's	Equity IRR	Equity value (Rs/share)
25,000	7%	-16
37,500	10%	4
50,000	13%	24
75,000	18%	64
100,000	23%	105

Assumptions: 1) EBITDA margin - 85%, 2) Interest - 10%, 3) Debt equity structure of 70:30, 4) Debt repayment - 12 years  
PCU's – passenger car units

Source: Company data, Media reports, Goldman Sachs Research

**Exhibit 3: Our 12-m SOTP-based TP for RELI implies potential upside of 34%**  
Sum-of-the-parts valuation of Reliance Infrastructure



Note: We lower our valuation for Reliance Power to Rs95/share by applying a holding company discount of 20% to its 12-m SOTP-based TP of Rs119 (please refer to *Court order likely to delay Dadri project; reiterate Sell*, dated Dec 7, 2009). Key risks to our view on Reliance Power include favorable outcome of court case with RIL, completion of project milestones ahead of timelines we expect. Current price of Reliance Power as of the market close of March 19, 2010: Rs141.9.

Source: Goldman Sachs Research estimates.

Hyundai E&C (000720.KS) closing price as of March 19, 2010: W66,900.

## Reg AC

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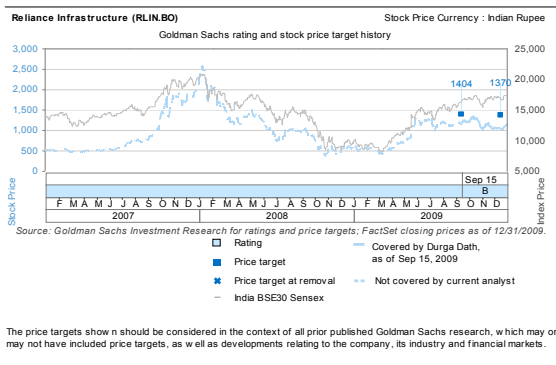
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## Price target and rating history chart(s)



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