

Reliance Infrastructure Ltd

May 20, 2008

CMP:Rs 1,392

Target Price:Rs. 2,144

Recommendation: BUY

BSE Code	500390
NSE Symbol	RELINFRA
Bloomberg code	RELE IN
Reuters code	RLEN.BO
ISIN	INE036A01016

Reliance Infrastructure Ltd is India's largest private sector enterprise in power utility. It is also the largest private sector player among many other infrastructure sectors of India. In the power sector, the company is involved in the generation, transmission, distribution and trading of electricity and construction of power plants as EPC partners. In the infrastructure space, the company focuses on roads and urban infrastructure, including MRTS, sea links and airports, specialty real estate which includes business districts, trade towers, convention centres and SEZ which includes IT & ITES SEZ, non-IT SEZ and free trade zones.

Company Report
Key Data

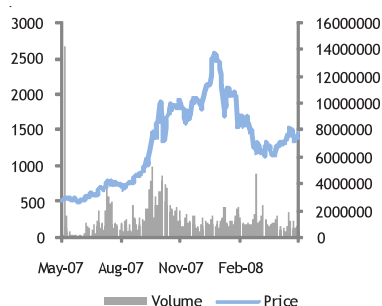
Sensex	16,921
52 week H/L	2,641/504
Outstanding Shares (mln)	236.53
Avg Wkly Volumes (shrs)	657,873
Market Cap (Rs mln)	329,250
Face value (Rs)	10

Source: Capitaline

Share Holding Pattern (%)

Promoters	35.95
Institutions	23.21
FII's/NRI's	21.73
Non Promoter Corp. Hold	6.62
Public & Others	12.46

Source: Company

Price Volume Analysis


Source: Capitaline

Investment Rationale

Focus on EPC of Power Plants: Reliance Energy Ltd has changed its name to Reliance Infrastructure Ltd effective April 28, 2008. This company will focus on infrastructure involving roads, urban infrastructure, real estate, SEZs etc. The bigger contributor towards revenues in the short term will be from the EPC works of the power plants mainly awarded by its associate, Reliance Power Ltd.

Buyback of Shares: The Board of directors of the company has approved a buyback of equity shares of the company up to an aggregate amount of Rs 8,000 million (Phase 1). In the second phase, the company will buy back shares worth Rs 12,000 million. The buyback would be made at a maximum price of Rs 1,600 a share and will continue till March 4, 2009. As of May 12, 2008, the company has bought back shares worth Rs 3,669 million.

SOTP valuation to measure fair price of equity: We measure Reliance Infrastructure Ltd at Rs 2,144 per share using the sum of parts methodology. We measure the EPC business at Rs 215.8 per share, power generation business at Rs 424.9 per share, 45% ownership in Reliance Power Ltd at Rs 1,101.4 per share and cash and cash equivalents at Rs 401.6 per share.

Business	Value/Share	Methodology
EPC Business	216	Price to Sales ratio of 1x. Price to discount FY 2010E Sales 1x EV/EBIDTA ratio will be at an industry average of ~9.5 times.
Power Generation Business	425	DCF methodology; WACC 12.37%;
45% stake in Reliance Power Ltd	1,101	40% holding company discount
Cash and Cash equivalents	402	Cash and cash equivalents of Rs 95,000 million
SOTP price	2,144	

(Source: ULJK Research)

Financial Summary

(Rs in Million)

Year	Net Sales	EBIDTA	PBDT	PAT	EPS	EPS growth	P/E
2008	63,936.7	16,834.0	13,746.4	10,846.3	46.9	25.90%	29.71
2009E	91,777.3	21,701.6	18,489.4	13,295.4	56.2	19.98%	24.76
2010E	111,053.7	24,106.0	24,106.0	14,372.1	60.8	8.10%	22.91

Source: ULJK Research

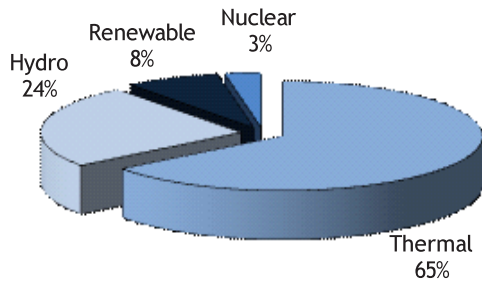
ULJK Research

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Industry Scenario

Power Generation: India has a huge scope for large scale hydro-power generation and development. According to an estimate of the Central Electricity Authority & National Electricity Plan (April, 2007), the total economic potential of the river systems in India to generate power is 84,000 MW at 60% load factor across six major basins. Hydropower accounts for 25.2% in the total power generating capacity.

Contribution From Various Sources

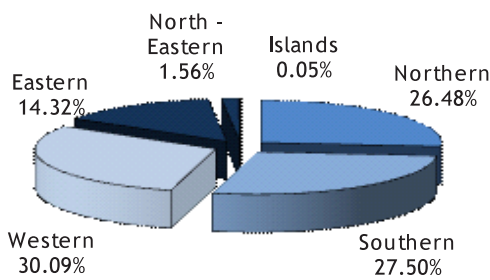


(Source: ULJK Research, Ministry of Power)

Thermal power forms a dominant part of the total power generated. Thermal power accounts for 64.2% of the total generation capacity in India. Thermal power generated by coal accounts for 82.8% of the total power generated as thermal energy.

Nuclear power plays an increasingly critical role in electricity generation and in providing energy security while ensuring sustainable development. India has vast thorium resources, which are used as a raw material in nuclear power plants. Nuclear power is eco-friendly and there is no cost incurred in raw materials; the only cost of running is the maintenance cost of the power plant. At present, the installed capacity of India's nuclear energy is 3,900 MW, which works out to 3.1% of its total generation capacity. The Eleventh Plan proposes an increase in nuclear power generation capacity by 3,380 MW during 2007-12, taking up the total installed capacity to 7,280 MW.

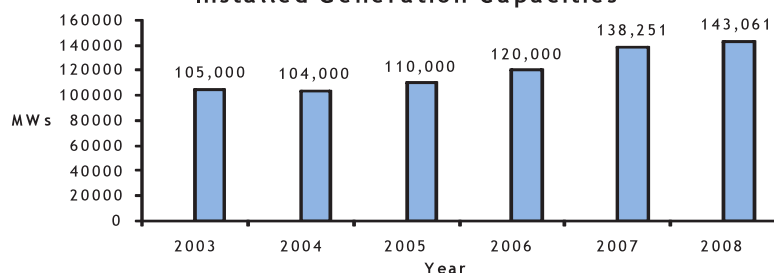
All India Region Wise Installed Capacities (in MW)



(Source: ULJK Research, Ministry of Power)

“Power to All” by 2012 to Demand a Huge Investment: As per the data provided by the Power ministry, the installed capacity as on March 31, 2007 was ~1,30,000 MW. The government of India's ambitious target to provide “Power to All” will demand an additional power generation capacity of ~119,000 MW by 2012. This target is set to be achieved by public-private partnerships since an investment of around Rs 10,600 billion is required for power generation, transmission, other related turnkey activities and the industries on which the power sector depends. Approximately Rs 5,000 billion of investment is required in the power generation segment in the Eleventh Plan period. An additional Rs 3,000 billion worth investment is demanded in the power transmission and distribution segment. Additionally, investments will be required to upgrade the available infrastructure.

Installed Generation Capacities



(Source: ULJK Research, Ministry of Power)

Investment Rationale:

Infrastructure Investments on the Anvil: The government of India's Eleventh Five-Year Plan envisages investment in infrastructure (electricity, railways, roads, ports, airports, irrigation, urban and rural water supply and sanitation) to increase from ~5% of the GDP in 2006-07 to 9% of the GDP by the end of the plan period (2011-12), if the targeted growth rate of 9% for the plan period (2007-12) is to be achieved. Totally, Rs 20,202 billion will be invested in infrastructure during the Eleventh Plan period.

EPC division:

Soaring Order Book Position of the EPC Division: The current order book position of the EPC division stands at Rs 90,500 million. The company added Rs 50,000 million to the order book in FY 2007-08. All the orders in the book are external orders. Over the last couple of years, the company's order book has grown at a CAGR of ~50%. In the first scenario, we assume the order book to be internal and that 100 % of Reliance Power Ltd's EPC works are awarded to Reliance Infrastructure Ltd. Then, the company has a potential to grow its order book to ~Rs 140,712 million, Rs 201,465 million and ~Rs 301,100 million by the end of FY 2010E, 2011E and 2012E respectively. Thus, internal orders will grow at a CAGR of 77.1% from FY 2009E to FY 2012E after considering the 7 power projects under development by Reliance Power Ltd and that all EPC contracts are awarded to Reliance Infrastructure Ltd.

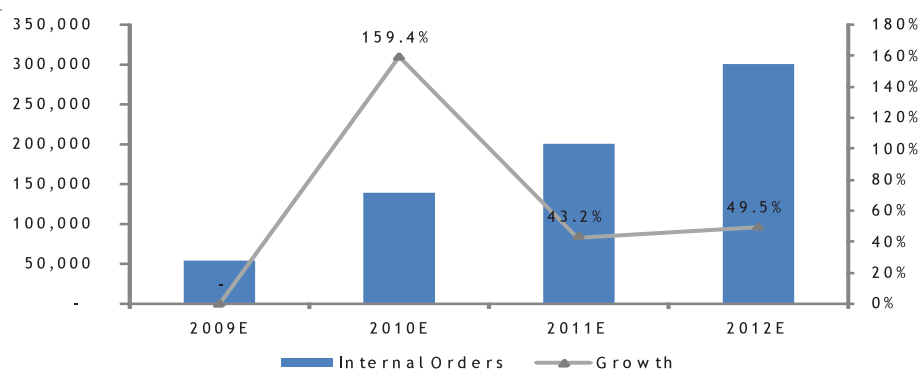
In the second scenario, we have assumed external orders to grow 10% annually and that ~60% of Reliance Power Ltd's power projects EPC work is awarded to Reliance Infrastructure Ltd. This will place Reliance Infrastructure Ltd's order book at Rs 170,777 million, Rs 215,864 million and Rs 285,144 million by the end of FY 2010E, FY 2011E and FY 2012E respectively. The table depicted below explains the relationship.

Potential Order Book Position (Rs mn)

Year	CASE 1		CASE 2		Total
	Potential Internal Orders	Internal orders (60% of potential order)	External Orders	Total	
2009E	54,243	32,546	78,500	111,046	
2010E	140,712	84,427	86,350	170,777	
2011E	201,465	120,879	94,985	215,864	
2012E	301,100	180,660	104,484	285,144	

(Source: ULJK Research, Reliance Power Ltd, Company)

We have not considered that any EPC-related contracts of the Rosa (Phase 1 - 300 MW) project will be awarded to Reliance Infrastructure in both the cases. The contract has been awarded to Shanghai Electric Corporation. We have accordingly excluded the project in estimating the projected order book of Reliance Infrastructure Ltd. To calculate the internal orders from Reliance Power Ltd's projects, we have assumed a gestation period of three years (36 months). Thus, EPC work will take ~36 months for completion and accordingly, the contracts will be awarded.



(Source: ULJK Research, Reliance Power Ltd, Company)

Project	Capacity (MW)	Estimated Cost	2008	2009E	2010E	2011E	2012 & later
Rosa, Phase 1	300	27,020	5,457	8,229	13,334	-	-
Rosa Phase 2	300	24,600	2,340	4,517	8,098	9,645	-
Butibori	300	14,050	1,690	2,850	7,620	1,890	-
Sasan	3,960	183,420	10,383	27,607	30,550	72,180	42,700
Shahapur, Coal	1,200	48,000	4,033	567	8,800	15,800	18,800
Urthing Sobla	400	20,800	106	150	1,644	3,700	15,200
Total (Rs mn)		317,890	24,009	43,920	70,046	103,215	76,700
Total (Rs mn) - excluding Rosa 1		290,870	18,552	35,691	56,712	103,215	76,700

(Source: ULJK Research, Reliance Power Ltd, Company)

EPC Benefit From 7 Other Projects: The EPC Division of Reliance Infrastructure Ltd will also benefit from seven projects of Reliance Power Ltd. Siyom, Tato 2, and Kalai 2 in Arunachal Pradesh are hydro-power projects with an estimated EPC cost per mega watt of Rs 58.5 million. The total power generation capacity of these three plants is ~2,900 MW. The EPC work for the earlier two projects is expected to be awarded in March 2011 and the later project is expected to be awarded by March 2013. The estimated EPC contract for these projects is expected to be approximately Rs 171,200 million.

Project Name	Type	Capacity (MW)	EPC (Rs mn)	Completion	EPC opportunity
Shahapur Gas, MP	Gas	2,800	84,000	March, 2013	March, 2010
Dadri, UP	Gas	7,480	224,400	March, 2015	March, 2012
Siyom, Arunachal Pradesh	Hydro	1,000	57,800	March, 2014	March, 2011
Tato 2, Arunachal Pradesh	Hydro	700	40,450	March, 2014	March, 2011
MP Power, MP	Coal, supercritical	3,960	158,420	July, 2014	July, 2011
Kalai 2, Arunachal Pradesh	Hydro	1,200	72,950	March, 2016	March, 2013
Krishnapatnam, Andhra Pradesh	Coal, supercritical	4,000	165,376	September, 2013	September, 2010
TOTAL (Rs mn)		21,140	803,396		

(Source: ULJK Research, Reliance Power Ltd, Company)

Other projects adding to the potential order book: Other projects like Shahapur (Gas) and Dadri will require EPC work of Rs 84,000 million and Rs 224,000 million respectively. The EPC work for these projects is expected to be awarded by March 2010 and March 2012 respectively. The two supercritical power projects in Madhya Pradesh and Krishnapatnam, Andhra Pradesh of 3,960 MW and 4,000 MW will demand EPC work of Rs 158,420 million and Rs 165,376 million respectively. The coal-based supercritical power station in Madhya Pradesh is expected to award its EPC contract by July 2011 and Krishnapatnam by September 2010. The EPC contract cost will be ~40.5 million per mega watt.

EPC Division's Potential: The Rosa Phase 1 project which has been awarded to Shanghai Electric Company is excluded while calculating the potential order flows to Reliance Infrastructure Ltd. Excluding this project, the potential internal orders will be ~ Rs 290,870 million by FY 2012E.

Reliance Infrastructure Ltd also has an opportunity to benefit from the other 7 power projects proposed by Reliance Power Ltd. The EPC opportunity from these projects is estimated at Rs 803,396 million. Thus, internal orders have potential to grow at a CAGR of 77.1% from FY 2009E to FY 2012E after considering the 7 power projects under development by Reliance Power Ltd. If the entire EPC work of Reliance Power Ltd is routed through Reliance Infrastructure Ltd (including Shahapur Gas, Dadri, Siyom, Tato 2, MP Power and Krishnapatnam), then it will underline an opportunity of Rs 10,94,266 million for Reliance Infrastructure Ltd by 2012E. Assuming only 60% of Reliance Power Ltd's EPC works flow into Reliance Infrastructure Ltd will enable this order book to read at Rs 547,133 million by FY 2012E. In this analysis, we also assume that the gestation period for EPC of power projects is ~ 3 years and that Reliance Power Ltd's power production plans are as scheduled.

Valuation of the EPC business: We have measured the EPC and contracts business of Reliance Infrastructure Ltd to be at Rs 216 per share. The methodology used is the price to sales ratio, where price of this business will discount the FY 2010E sales revenue 1 time. At this price, the EV/EBIDTA ratio will be equivalent to the company's peers' average of ~9.5 times in FY 2010E.

Methodology	Multiple	2009E	2010E	2011E
P/Sales	1x Sales Revenue	150.89	215.79	392.73
EV/EBIDTA	~9.5x EBIDTA	143.35	205.00	373.10

(Source: ULJK Research)

Power Generation Business:

Reliance Infrastructure Ltd has 5 power-generation plants. The new projects in the power generation domain will be with the subsidiary Reliance Power Ltd.

Total Power Generation facilities

Plant	Capacity MW	PLF
Dahanu Thermal Power Station	500 MW	102%
Samalkot Power Station	220 MW	51%
Goa Power Station	48 MW	94%
Kochi Power Station	165 MW	14%
Wind Farm project, Chitradurga	7.6 MW	35%
TOTAL	940.6 MW	

(Source: ULJK Research, Company)

Discounted Cash Flow Analysis of Power Generation Business						
Year	2008E	2009E	2010E	2011E	2012E	2013E
Free Cash Flows	3,020	4,851	6,072	7,943	8,769	9,477
Terminal Value						128,943
	3,020	4,851	6,072	7,943	8,769	138,420
Discount factor (WACC) 12.37%	1.00	0.89	0.79	0.70	0.63	0.56
Discounted Cash Flows	3,019.92	4,316.90	4,808.39	5,598.05	5,499.72	77,258.58
Value of Firm	100,501.57					
Shares issued	236.53					
Fair Value per share	425					

(Source: ULJK Research, Reliance Power Ltd, Company)

Reliance Infrastructure Ltd has 5 power generation plants. The Dahanu Thermal Power station recorded a PLF of 101.5% vis-à-vis 101.8% recorded in the previous year and generated 4,459 million units of power. This power plant emerged as the country's best thermal plant on the basis of several parameters like PLF and heat rate. Other than this, the company has 4 more power stations located in Andhra Pradesh, Goa, Kochi and Chitradurg.

Valuation of the Power Generation business: We estimate that the power generation business will grow at a CAGR of 7.96% (FY 2008E to FY 2013E). This will be driven by growth in the customer base and increasing consumption. We calculate the fair price of power generation business at **Rs 425 per share**. In our DCF analysis we have calculated WACC at 12.37%, by considering a weighted average cost of equity at 9.97% and a weighted average cost of debt at 2.35%.

45% stake in Reliance Power Ltd

45% holding in Reliance Power Ltd: Reliance Power Ltd plans to develop 13 medium and large sized power projects with a combined planned installed capacity of 28,200 MW. This will make RPL one of the largest portfolios of power generation assets under development in India. We have given a 40% holding company discount to the enterprise value of Reliance Power Ltd. Thus, in our SOTP based valuation we have measured 45% of Reliance Power Ltd at Rs 1,101.4 per share.

Cash and Equivalents

The company is holding Rs 95,000 million in the form of cash and cash equivalents. We measure it at Rs 401.6 per share.

Other Key Positives

Delhi Airport metro express line in consortium with Spain: Reliance Energy Limited in consortium with CAF of Spain has been awarded the Airport Metro Express Line (AMEL) project on BOOT basis. The concession period is 30 years. The proposed 22.7 km of high speed metro rail project will connect New Delhi railway station and the New Delhi international airport through Connaught Place. The cost for this project is Rs 25,000 million and the project is scheduled to be operational by July 2010.

Updates on Mumbai Metro project: The company also has a mandate to develop Andheri - Ghatkopar Mumbai metro rail project at an estimated cost of Rs 23,560 million. The company has appointed Parsons Brinkerhoff, USA and Systra SA, France as project consultants for the project.

Warrants issued to M/s AAA projects Ventures Ltd: M/s AAA Project Ventures Ltd, a promoter company has subscribed to 43 million warrants entitling the promoters to subscribe to 43 million equity shares for an aggregate value of Rs 78,350 million (Rs 1,822 per share). The company has paid 10% upfront towards the price of these warrants.

Developing 5 Road BOT, Toll-based projects: The company is developing 5 road projects in Tamil Nadu with an investment of Rs 31,500 million with a concession period ranging from 20-30 years. Financial closure of all the projects is done.

Buyback of Shares: The Board of Directors of the company has approved a buyback of equity shares of the company up to an aggregate amount of Rs 8,000 million in the first phase. In the second phase, the company will buyback shares worth Rs 12,000 million. The buyback would be made at a maximum price of Rs 1,600 a share and will continue till March 4, 2009. As of May 12, 2008 the company has bought back shares worth Rs 3,669 mn.

Sum of Parts Explained

We measure Reliance Infrastructure Ltd at **Rs 2,109 per share** using the sum of parts methodology. We measure the EPC business at Rs 215.8 per share, power generation business at Rs 424.9 per share and 45% ownership in Reliance Power Ltd at Rs 1,468.5 per share. The terminology is explained in the table shown below

Business	Value/Share	Methodology
EPC Business	215.8	Price to Sales ratio of 1x. Price to discount FY 2010E Sales 1x EV/EBIDTA ratio will be at an industry average of ~9.5 times.
Power Generation Business	424.9	DCF methodology; WACC 12.37%;
45% stake in Reliance Power Ltd	1,101.4	40% holding company discount
Cash and Cash equivalents	401.6	Cash and cash equivalents of Rs 95,000 million
SOTP price	2,143.7	

(Source: ULJK Research)

Valuation of the Power Generation Business: We analyze the power generation business to grow at a CAGR of 7.96% (FY 2008E to FY 2013E). This will be driven by growth in the customer base and increasing consumption. We calculate the fair price of power generation business at **Rs 425 per share**. In our DCF analysis we have calculated WACC at 12.37%, by considering weighted average cost of equity at 9.97% and the weighted average cost of debt at 2.35%.

Valuation of the EPC Business: We have measured the EPC and the contracts business of Reliance Infrastructure Ltd at **Rs 216 per share**. Methodology used is the price to sales ratio, where price of this business will discount the FY 2010E Sales Revenue 1 time. At this price the EV/EBIDTA ratio will be equivalent to the company's peers average of ~9.5 times in FY 2010E.

45% holding in Reliance Power Ltd: Reliance Power Ltd plans to develop 13 medium and large sized power projects with a combined planned installed capacity of 28,200 MW. This will make RPL one of the largest portfolios of power generation assets under development in India. We have given a 40% holding company discount to the enterprise value of Reliance Power Ltd due to long gestation period for execution of power projects, execution risks and market volatility. Thus, in our SOTP based valuation we have measured 45% of Reliance Power Ltd at Rs 1,101.4 per share.

Cash and Equivalents: The company is holding Rs 95,000 million in form of cash and cash equivalents. We measure it at Rs 401.6 per share.

Financials:

Earnings Statement - Standalone				Balance Sheet - Standalone			
Rs million				Rs million			
Particulars	FY 2008	FY 2009E	FY 2010E		FY 2008E	FY 2009E	FY 2010E
Net Sales	63,936.7	91,777.3	111,053.7	Sources of Funds			
Other Income	11,880.3	10,000.0	10,000.0	Share Capital	2,356.2	2,405.3	2,405.3
Total Income	75,817.0	101,777.3	121,053.7	Reserves & Surplus	106,241.6	130,231.0	140,779.7
Total Expenditure	47,102.7	70,075.7	86,947.7	Shareholders Equity	108,597.8	132,636.3	143,185.0
EBIDTA	16,834.0	21,701.6	24,106.0	Loan funds	66,304.1	66,304.1	66,304.1
Interest	3,087.6	3,212.2	3,886.9	Deffered Tax Liability	2,510.7	-	-
PBDT	13,746.4	18,489.4	20,219.1	Total Liabilities	177,413	198,940	209,489
Depreciation	2,229.4	2,661.5	3,109.5	Application of Funds			
PBT	11,517.0	15,827.9	17,109.6	Gross Block	76,558.0	79,620.3	83,209.3
Tax	670.7	2,532.5	2,737.5	Depreciation	36,850.0	37,587.0	38,413.9
PAT	10,846.3	13,295.4	14,372.1	Net Block	39,708.0	42,033.3	44,795.4
EPS (diluted)	45.86	56.21	60.76	Capital Work in Progress	4,093.1	4,100.0	4,200.0
Margins (%)	FY 2008E	FY 2009E	FY 2010E	Investments	52,221.9	52,221.9	52,221.9
EBIDTA	22.2%	21.3%	19.9%	Current Assets	115,753.9	140,103.7	154,114.0
PBDT	18.1%	18.2%	16.7%	Current Liabilities	34,364.4	39,519.1	45,842.1
PBT	15.2%	15.6%	14.1%	Net Current Assets	81,389.5	100,584.6	108,271.9
PAT	14.3%	13.1%	11.9%	Total Assets	177,412.5	198,939.8	209,489.3
Key Valuation Ratios (x)	FY 2008E	FY 2009E	FY 2010E	Growth metrix	FY 2008E	FY 2009E	FY 2010E
P/E	29.71	24.76	22.91	Net Sales	10.90%	43.54%	21.00%
P/BV	3.03	2.48	2.30	EBIDTA	23.50%	28.92%	11.08%
EV/EBIDTA	23.50	18.23	16.41	PBDT	23.60%	34.50%	9.36%
Mcap/Sales	5.15	3.59	2.96	PAT	35.30%	22.58%	8.10%
Key ratios	FY 2008E	FY 2009E	FY 2010E				
ROCE	11.33%	11.23%	11.59%				
ROE	9.99%	10.02%	10.04%				
Debt/Equity	61.05%	49.99%	46.31%				

(Source: Company, Capitaline, ULJK Research)



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