Company Focus

16 June 2009 | 23 pages

Reliance Infrastructure (RLIN.BO)

Target price change ☑
Estimate change ☑

Buy: Fired By Gas – Increase Target Price to Rs1,535

- **Bombay High Court order —** The judgment on the RIL-RNRL dispute on KG gas implies RIL has to supply 28 mmscmd to RNRL for 17 years at US$2.34/mmbtu. The ruling is a boost for RNRL/R-Power/R-Infra. There is a possibility of RIL filing an appeal in the Supreme Court. Our estimates suggest 28 mmscmd would bring 6,200MW of gas assets into play in R-Power.
- **Gas boost and lower cost of equity increases R-Power fair value** — We earlier had a value of Rs121/share for R-Power (Rs567/share of R-Infra) in our R-Infra target price for 14,620MW of coal assets (excluding Tilaiya UMPP). Post the addition of 6200MW gas assets and the lowering of our cost of equity, to factor in a lower interest rate environment, we get a value of Rs183/share for R-Power (Rs873/share of R-Infra). We apply a 20% discount to this fair value as the Bombay High Court order could potentially get contested in the Supreme Court.
- **Capital infusion by promoters** — The promoters will be infusing Rs43bn into the company through preferential warrants convertible into 42.9mn shares at Rs1000/share. LIC and other insurance companies will be allowed to participate on the same terms and conditions. This equity infusion would enhance the ability to leverage debt to be invested into infrastructure projects.
- **Target price hiked to Rs1,535** — We raise our target price to Rs1,535 (from Rs1,170 earlier) to factor in: (1) Lower parent EPS of 2-6% for FY10E-12E, (2) Parent EV/EBITDA multiples of 10x Sept-2010E (from 8x Dec-2009E), (3) Lower cost of equity of 13% for roads, transmission, metro and power projects in R-Power, and (4) Latest share count post buyback. R-Infra is one of our top picks in the infrastructure (E&C and Utilities) rated universe. Retain Buy (1M).

Buy/Medium Risk	**1M**
Price (15 Jun 09)	Rs1,195.15
Target price	Rs1,535.00
from Rs1,170.00	
Expected share price return	28.4%
Expected dividend yield	0.6%
Expected total return	**29.0%**
Market Cap	Rs269,232M
	US$5,655M

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

Figure 1. Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	#Adj P/E	P/B	Adj P/B	ROE	Yield
31-Mar	(RsM)	(Rs)	(%)	(x)	(x)	(x)	(x)	(%)	(%)
2007A	7,503	31.84	3%	37.5	10.5	3.2	0.9	9.5%	0.4%
2008A	9,913	42.07	32%	28.4	8.0	2.5	0.7	10.1%	0.5%
2009E	10,665	47.10	12%	25.4	7.1	2.4	0.7	9.5%	0.6%
2010E	12,558	55.46	18%	21.6	6.1	2.2	0.6	10.6%	0.7%
2011E	14,739	65.09	17%	18.4	5.2	2.0	0.6	11.4%	0.8%
2012E	17,867	78.90	21%	15.1	4.3	1.8	0.5	12.4%	0.8%

Source: Company Reports, Citi Investment Research and Analysis Estimates
#Adjusted for non parent value of Rs859/share

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See Appendix A-1 for Analyst Certification and important disclosures.

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Fiscal year end 31-Mar	2007	2008	2009E	2010E	2011E
Valuation Ratios					
P/E adjusted (x)	37.5	28.4	25.4	21.6	18.4
EV/EBITDA adjusted (x)	54.1	49.2	30.6	21.8	19.1
P/BV (x)	3.2	2.5	2.4	2.2	2.0
Dividend yield (%)	0.4	0.5	0.6	0.7	0.8
Per Share Data (Rs)					
EPS adjusted	31.84	42.07	47.10	55.46	65.09
EPS reported	34.01	46.03	50.29	55.46	65.09
BVPS	378.06	468.69	499.81	545.90	600.46
DPS	5.30	6.30	7.00	8.00	9.00
Profit & Loss (RsM)					
Net sales	57,100	63,643	96,749	128,322	151,160
Operating expenses	-54,526	-60,407	-91,376	-120,494	-142,396
EBIT	**2,574**	**3,235**	**5,373**	**7,828**	**8,764**
Net interest expense	-2,503	-3,088	-3,305	-4,766	-4,766
Non-operating/exceptionals	8,653	11,370	9,866	11,540	13,140
Pre-tax profit	**8,724**	**11,517**	**11,934**	**14,602**	**17,138**
Tax	-1,221	-1,604	-1,269	-2,044	-2,399
Extraord./Min.Int./Pref.div.	511	933	723	0	0
Reported net income	**8,015**	**10,846**	**11,389**	**12,558**	**14,739**
Adjusted earnings	7,503	9,913	10,665	12,558	14,739
Adjusted EBITDA	4,975	5,465	7,822	10,411	11,471
Growth Rates (%)					
Sales	41.6	11.5	52.0	32.6	17.8
EBIT adjusted	-35.5	25.7	66.1	45.7	12.0
EBITDA adjusted	-33.5	9.8	43.1	33.1	10.2
EPS adjusted	2.7	32.1	11.9	17.7	17.4
Cash Flow (RsM)					
Operating cash flow	**-39,441**	**34,301**	**30,308**	**11,513**	**17,078**
Depreciation/amortization	2,401	2,229	2,449	2,583	2,707
Net working capital	-50,129	21,053	16,471	-3,628	-368
Investing cash flow	**-18,441**	**-59,618**	**-35,677**	**-3,000**	**-3,000**
Capital expenditure	-5,249	-8,093	-3,500	-3,000	-3,000
Acquisitions/disposals	-13,191	-51,525	-32,177	0	0
Financing cash flow	**23,112**	**4,434**	**14,811**	**-2,097**	**-2,360**
Borrowings	15,914	-8,694	23,431	0	0
Dividends paid	-1,417	-1,728	-1,855	-2,120	-2,385
Change in cash	**-34,770**	**-20,883**	**9,442**	**6,416**	**11,718**
Balance Sheet (RsM)					
Total assets	**177,327**	**196,786**	**227,889**	**238,675**	**252,177**
Cash & cash equivalent	21,759	876	10,318	16,734	28,451
Accounts receivable	10,564	13,514	30,884	32,418	32,097
Net fixed assets	24,064	29,928	30,979	31,396	31,689
Total liabilities	**90,914**	**86,353**	**114,708**	**115,055**	**116,204**
Accounts payable	11,607	11,069	17,127	15,553	15,158
Total Debt	58,583	49,889	73,320	73,320	73,320
Shareholders' funds	**86,413**	**110,433**	**113,181**	**123,619**	**135,974**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	8.7	8.6	8.1	8.1	7.6
ROE adjusted	9.5	10.1	9.5	10.6	11.4
ROIC adjusted	1.7	1.6	4.8	7.4	7.8
Net debt to equity	42.6	44.4	55.7	45.8	33.0
Total debt to capital	40.4	31.1	39.3	37.2	35.0

For further data queries on Citi's full coverage universe please contact CIR Data Services Asia Pacific at CIRDataServicesAsiaPacific@citi.com or +852-2501-2791

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Contents

Maintain Buy/Medium Risk (1M), target price hiked to Rs1,535

We increase our target price to Rs1,535 (from Rs1,170) earlier to factor in:

- Increase in EV/EBITDA multiple for parent power + EPC business to 10x (from 8x earlier) in line with the re-rating of other E&C and power peers. We roll forward our target multiple to Sept-2010E from Dec-2009E earlier.
- We lower our cost of equity assumptions to 13% for all road, transmission, metro and power projects in R-Power, to factor in the lower interest rate environment.
- We change our share count post the latest buyback details available (as of March 2009).

Figure 2. Reliance Infrastructure – Sum Of The Parts

Part	Old Methodology	New Methodology	Old Value (Rs/Share)	Value	New Value (Rs/Share)
Parent Power + EPC EV	**8.0x December 2009E EV/EBITDA**	**10x September 2010E EV/EBITDA**	**306**	**109,414**	**483**
- Less Gross Debt	FY09E	FY10E	(217)	(73,320)	(324)
- Cash & Cash Equivalents	FY09E	FY10E	406	116,947	516
Net Cash	**FY09E**	**FY09E**	**189**	**43,627**	**193**
RELE Parent			**495**	**153,041**	**676**
Roads - 401km	DCF at CoE = 14%	DCF at CoE = 13% as of Mar-10	36	13,907	61
Mumbai and Delhi Metro	DCF at CoE = 15%	DCF at CoE = 13% as of Mar-10	4	10,617	47
Transmission Projects	DCF at CoE = 14%	DCF at CoE = 13% as of Mar-10	4	3,213	14
Reliance Infra Ventures			**68**	**27,737**	**122**
BSES Yamuna	P/Equity Base of 2.0x (26% stake)	P/Equity Base of 2.0x (49% stake)	10	2,198	10
BSES Rajdhani	P/Equity Base of 2.0x (26% stake)	P/Equity Base of 2.0x (49% stake)	30	6,597	29
Delhi Distribution Business			**40**	**8,795**	**39**
Reliance Power (45% Stake)	**DCF of projects (No discount)**	**DCF of projects (20% discount)**	**567**	**158,085**	**698**
Target Price			**1,170**	**347,657**	**1,535**

Source: Citi Investment Research and Analysis Estimates

Earnings marginally revised

We revise down our R-Infra EPS estimates by 2-6% over FY10E-12E to factor in the following:

- R-Infra almost meeting its FY09 EPC sales guidance makes us increase our EPC revenues by 9% for FY10E-12E. We also adjust our EPC margins marginally down as guided by the company.
- Our revenues for the power business are higher on account of the increase in cost of power purchased.
- Overall we cut our Recurring PAT estimates by 4-7% to factor in higher interest costs on higher than expected FY09E end debt.
- We change our share count to factor in the buyback.

Figure 3. Reliance Infra – Earning Revision Table

	FY10E	FY11E	FY12E
EPC Revenues			
RI - Guidance	67,540	92,750	126,530
Old	55,000	77,000	100,100
New	60,000	84,000	109,200
Chg	9.1%	9.1%	9.1%
Power Revenues			
Old	59,103	64,271	69,902
New	67,731	66,529	72,361
Chg	14.6%	3.5%	3.5%
Sales			
Old	114,393	141,602	170,372
New	128,322	151,160	182,232
Chg	12.2%	6.8%	7.0%
EBITDA			
Old	9,675	12,353	14,944
New	10,411	11,471	13,987
Chg	7.6%	-7.1%	-6.4%
Other Income			
Old	11,638	12,471	13,630
New	11,540	13,140	14,384
Chg	-0.8%	5.4%	5.5%
Recurring PAT			
Old	13,084	15,967	19,052
New	12,558	14,739	17,867
Chg	-4.0%	-7.7%	-6.2%
Gross Cash + Cash Equivalents			
Old	97,545	105,167	115,472
New	111,088	122,805	132,259
Chg	13.9%	16.8%	14.5%
Gross Debt			
Old	50,000	50,000	50,000
New	73,320	73,320	73,320
Chg	46.6%	46.6%	46.6%
FD Shares			
Old	231	231	231
New	226	226	226
Chg	-1.8%	-1.8%	-1.8%
FD EPS			
Old	56.75	69.25	82.63
New	55.46	65.09	78.90
Chg	-2.3%	-6.0%	-4.5%

Source: Citi Investment Research and Analysis estimates

R–Power Business Update

Bombay High Court order – Boost for R-Power

- The Bombay High Court yesterday gave its judgment on the RIL-RNRL dispute on KG gas and directed RIL to supply 28mmscmd to RNRL for 17 years at a price of US$2.34/mmbtu. The current ruling is a boost for RNRL, R-Power and R-Infra. There could be the possibility of protracted litigation if RIL files an appeal in the Supreme Court.

What has R-Power mentioned about its 7480MW Dadri gas project and 2800MW Shahapur gas project in the past?

- According to R-Power, gas turbines can now be procured within 12 months as against 24-30 months previously. Gas can be transported from the KG basin through the GAIL pipeline (enough capacity is available).
- Whatever the gas settlement price (2.34 or 4.2 US$/mmbtu) the landed cost will be higher by 1.5 US$/mmbtu on account of transportation cost and service taxes.
- The Dadri (7480MW) project hopes to sell 40% of power to UP on competitive tariffs and the remaining should be sold on a merchant basis.
- According to Reliance Power the expected gas turbine heat rate is 1630kcal/Kwh and the calorific value of RIL gas should be 8900kcal/unit.
- The Shahapur (2800MW) project is 55kms from the East-West pipeline, hence it is easy to transport gas from the KG basin.

How much capacity can be set up with 28mmscmd of gas?

- If we use R-Power's assumptions for heat rate and calorific value of gas then 7494MW of capacity can be set up using 28mmscmd of gas. However, our assumptions for calorific value and heat rate are more conservative and we believe 6158MW of capacity can be set up.

Figure 4. How much capacity is possible with 28mmscmd of gas?

		CIRA	R-Power
Daily Gas	mmscmd	28	28
Yearly Gas	mn SCM	10220	10220
Heat Rate	kcal/kwh	1850	1630
Calorific value	kcal/SCM	8300	8900
Generation Possible	mn kwh	45852	55802
PLF Generated at		85%	85%
Generation at 100% utilization	mn kwh	53943	65650
Capacity Possible	MW	6158	7494

Source: Company Information, Citi Investment Research and Analysis estimates

Sensitivity of 6200MW project value to tariffs

- According to R-Power the Dadri (7480MW) project would sell 40% of power to UP on competitive tariffs and the remaining should be sold on a merchant basis.
- We work out various scenarios for the potential fair value for the 6200W gas project and the overall R-Power fair value is based on different blended realizations for this particular project. We use realizations of Rs3.00/kwh for valuation purposes.
- It is pertinent to note that we are using a D/E split of 70:30 for the 6200MW power plant and we value only 14,620MW of coal assets (not valued Tilaiya UMPP) and 6200MW of gas assets.

Figure 5. Sensitivity To Blended Tariff Realizations

Blended Tariff Rs/kwh	6200MW Value RsM	Equity IRR %	6200MW Per R-Power Share	Other Projects Per R-Power Share	Overall R-Power Per R-Power Share
2.50	10,591	16%	4.42	140	144
2.75	57,532	27%	24.00	140	164
3.00	**104,474**	**39%**	**43.59**	**140**	**183**
3.25	151,415	50%	63.17	140	203
3.50	198,357	60%	82.76	140	222

Source: Citi Investment Research and Analysis estimates

Rosa Phase1: (2X300MW) – PPA based

- Construction work is progressing well and Unit 1 should get commissioned by March 2010 and Unit 2 should get commissioned by June 2010. Hydro test has been done post drum lifting and the company is continuously monitoring the evacuation facilities.
- O&M team is on site and the company is looking at roping in technical consultants for best O&M practices. Further, the company has put in place a mechanism for online data monitoring at Mumbai.
- The returns on this plant will be in line with new CERC regulations and the UPERC has approved the regulated RoE of 15.5% + 0.5%.
- EPC – R – Infra and BTG – Shanghai Electric.

Rosa Phase 2: (2X300MW)

- The project has been awarded coal linkage and financial closure will be done in May 2009 (IDBI is the lead banker).
- UPPCL will buy 300MW through a PPA (15.5% +0.5% regulated RoE) and the remaining 300MW will be sold to Reliance Energy Trading. The company is putting up a 78km transmission line to connect to the nearest PGCIL substation to facilitate the same.
- EPC – R – Infra and BTG – Shanghai Electric.

Butibori: (1X300MW)

- Site work with the leveling done and the foundation work is getting completed. All clearances are in place and the coal linkage has been obtained from Western Coalfields.
- Has signed power sales for 130MW to industrial consumers @ 20-25 paise discount to the industrial power rate in Maharashtra (currently ~ Rs4.5/kWh).
- 50% of required debt is closed (Axis Bank is the lead banker).
- EPC – R – Infra and BTG – Shanghai Electric.
- The Maharashtra Government has asked the company to enhance the project size to 600MW from the current 300MW, and the company is applying for a coal linkage for the same.

Sasan UMPP: (6X660MW)

- Commissioning schedule of Sasan has been advanced by three years from 2016 to 2013 and supplementary PPA has been signed in this regard with the procurers. First two units will come up in XIth plan itself. The total project cost is Rs194bn (Including mining capex = Rs20-25bn) and this will be funded at D/E mix of 75:25.
- Sasan is financially closed with a total project cost Rs194bn, with 75% debt tied up at a 12-12.5% interest rate for a 15-year loan. The interest rate is linked to the bank PLR and will come down gradually with the PLR. The company can look to refinance the loan later by issuing ECBs at lower rates.
- The main plant requires 2000 acres of land out of which 770 acres are forest land for which permissions have been obtained, 300 acres is government land which is under possession, and 930 acres are being acquired from private people for which cheques are being distributed. The company currently has 1900 acres in its name and is very close to getting the remaining 100 acres. The site leveling work has already started.
- Zero date for ordering BTG from Shanghai Electric was July 2008 and currently the first consignment is ready for dispatch from China.
- EPC – R – Infra (Zero date for EPC is 1st July 2008) and BTG – Shanghai Electric.
- On the coal mining side the mine plan for all three coal blocks have been approved. Environmental clearance is also available for the same, while FAC clearance is awaited. For Moher and Moher Amroli the mining plan approved is for 12 MMTPA and Chhatrasal will produce 5 MMTPA. Total peak coal production from all three mines will be 20 MMTPA. The coal mine strip ratio is 1: 4. Of the total 750 mn tons of reserves in Sasan mines, 90-92% can be mined.
- Mining equipment order has not been made yet as the company is waiting to take advantage of a weak market environment and will likely place order in 1Q or 2QFY10. The company will do the mining on its own in Moher and Moher Amroli and for Chhatrasal will invite an external operator to do it. The Chhatrasal coal will be used for the Chitrangi project.

- Tata Power's case against the use of coal from Sasan in Chitarangi was rejected because: (1) The High Court (HC) said it had no locus standi as it had withdrawn from the bidding, (2) The Government had informed all bidders that it reserved the right to allocate surplus coal, and 3) Tata Power was too late in filing the case.

Chitrangi Project: (6X660MW)

- Have applied for 2500 acres of land (2/3rd is Government land and will get the same post elections and the remaining 1/3rd is private land which has to be acquired) and received in principle approval from the MP government for water supply.

- The company has pre-sold 1241 MW to MP for Rs2.45/kWh. The coal mines are equidistant from Sasan and Chitarangi. The company has submitted bids for the sale of 100MW to Gujarat.

Krishnapatnam UMPP: 4000MW

- Land for the project has been fully acquired and the engineering studies have been completed. Land filling and piling has to done.

- EPC – Reliance Infra. BTG has got offers from several vendors for BTG in different configurations (660/ 800/1000MW) as there is no constraint on configuration and the company will decide on the BTG order in 1QFY10.

- The coal reserves study has been done and the coal has been tested at various labs in India. It has calorific value of 4200 kcal/kg with moisture content of 25-30% and low ash/sulphur content.

- The inland transportation study has been done. The two options for transportation (150 km from the coast) are: (1) Road and barge, and (2) Rail link (to be developed by third parties). In initial stages the company will use the road and barge option. For shipping the coal to India the company has valid offers.

- The company is also looking at supply of coal from other sources as it wants to use a combination of coal from own mines and external coal.

- The Indonesian coal mines are owned by Reliance Coal Resources (100% subsidiary of Reliance Power) and there was no cash payment for mines as payment is production linked.

- IDBI (has approved Rs15bn of loans already) and PFC are lead lenders for the project and ADB is also evaluating it. The company expects to commission the first unit by March 2013.

Tilaiya UMPP: 4000MW

- The strip ratio of captive coal mine is better than that of Sasan at 1:2 and in the initial years it will be 1:1. Coal calorific value is slightly inferior to Sasan and mines are farther from power plant compared to Sasan, but the coal cost would be lower than Sasan because of the strip ratio.

- The Kerandari B and C coal mines have 1000mn tonne of reserves. This is much more than what is required and the company indicated that EGoMs decision allowing use of excess coal from Sasan is a generic decision which applies to all UMPPs and should be applicable to Tilaiya also.

- The capex costs would be similar to Sasan with levellized tariff of Rs1.77/kWh. Since Tilaiya is only 400kms from Sasan, there will be some synergies with Sasan in terms of common O&M and spares. Management does not believe law and order in this region will pose any problem to project execution.

Siyom: 1000MW

- Was taken over from NHPC. DPR is ready and have submitted hydrology report to CEA. Will have regulated RoEs decided by CERC.

Tato 2: 700MW

- DPR has been submitted to CEA. Now going to the market with the construction contracts. Will have regulated RoEs decided by CERC.

Shahpur Coal: 1200MW

- Environmental clearance has been received and land has to be acquired for the project.

R-Infra Business Update

Demerger of divisions approved

- Shareholders have approved the scheme of arrangement for the demerger of the following company divisions – (1) Dahanu thermal power station, (2) Goa and Samalkot power stations, (3) Power transmission, (4) Power distribution, (5) Toll roads, and (6) Real estate.

- Reasons for the demerger – (1) Simplified/transparent structure and alignment of interests, (2) Attribution of appropriate risk and valuation to different businesses based on their respective risk-return profile and cash flows, (3) More focused management, (4) Optimal financing structure for individual businesses, (5) Greater visibility on the performance of individual businesses, (6) Possibility of investments by strategic players in different businesses, and (7) Tax efficiency for individual businesses.

Update on the buyback program/ outstanding promoter warrants

- The shareholders of the company had approved a buyback of Rs20bn. To date the company has bought back 11.26mn shares at an average price of ~ Rs823 (totaling Rs9.27bn).

Figure 6. Share Buy Back Details

	FY09	Overall
Amount (Rsmn)	7590	9270
Shares (mn)	9.56	11.26
Price	794	823

Source: Company Information, and Citi Investment Research and Analysis

- The promoters earlier had 43mn of warrants outstanding convertible to shares at a price of Rs1,822 and had paid up 10% of the upfront money. These warrants have been cancelled. However, the promoters want to infuse Rs43bn into the company through new preferential warrants convertible into 42.9mn shares at Rs1000/share. LIC and other insurances companies will be allowed to participate on the same terms and conditions.

4QFY09 PAT up 11% YoY and FY09 PAT up 5% YoY

- R-Infra's 4QFY09 PAT at Rs3.5bn was up 11% YoY and FY09 PAT at Rs11.4bn was up 5% YoY. FY09 PAT growth was muted on account of: (1) Rs1.7bn of losses on revaluation of forex derivative instruments, and (2) Rs3.2bn of contingencies provisions in the power business, clearly visible from the 4QFY09 power EBIT margins of 2.3% (down 776bps YoY).

- The company ended FY09 with an EPC backlog of Rs206bn (up 163% YoY). Although EPC EBIT margins have fluctuated over different quarters, the full year EBIT margin at 8.2% is in-line with management guidance of 8-10%.

Figure 7. Reliance Infrastructure – FY09 Results Review

Mar31 (RsM)	1QFY08	1QFY09	% Chg	2QFY08	2QFY09	% Chg	3QFY08	3QFY09	% Chg	4QFY08	4QFY09	% Chg	FY08	FY09	% Chg
EPC Backlog	50,350	210,440		47,180	207,900		83,000	215,100		78,500	206,250		78,500	206,250	
Execution Rate	6.4%	5.5%		5.6%	2.1%		5.9%	3.3%		6.0%	4.1%				
Sale of Power	12,854	17,637	37%	12,595	20,009	59%	12,294	19,655	60%	11,456	14,530	27%	49,199	71,831	46.0%
EPC Income	3,386	4,344	28%	2,823	4,339	54%	2,761	6,817	147%	4,963	8,867	79%	13,933	24,368	74.9%
Total Income	**16,240**	**21,981**	**35%**	**15,417**	**24,348**	**58%**	**15,055**	**26,473**	**76%**	**16,419**	**23,397**	**42%**	**63,132**	**96,199**	**52.4%**
Power Purchase	6,711	10,823	61%	6,492	12,177	88%	6,482	12,339	90%	5,192	7,201	39%	24,877	42,540	71.0%
% of power sales	52.2%	61.4%		51.5%	60.9%		52.7%	62.8%		45.3%	49.6%		50.6%	59.2%	
Cost of Fuel	2,722	2,968	9%	1,991	3,074	54%	2,499	2,582	3%	2,943	3,044	3%	10,155	11,668	14.9%
% of power sales	21.2%	16.8%		15.8%	15.4%		20.3%	13.1%		25.7%	20.9%		20.6%	16.2%	
EPC expenses	2,917	3,571	22%	2,222	3,314	49%	2,331	5,877	152%	4,469	6,903	54%	11,938	19,665	64.7%
% of EPC Income	86.1%	82.2%		78.7%	76.4%		84.4%	86.2%		90.0%	77.8%		85.7%	80.7%	
Surcharge	353	370	5%	337	416	23%	331	388	17%	295	355	20%	1,316	1,530	16.2%
% of power sales	2.7%	2.1%		2.7%	2.1%		2.7%	2.0%		2.6%	2.4%		2.7%	2.1%	
Staff Cost	996	1,245	25%	1,044	1,372	31%	937	1,436	53%	995	1,313	32%	3,972	5,366	35.1%
% of total sales	6.1%	5.7%		6.8%	5.6%		6.2%	5.4%		6.1%	5.6%		6.3%	5.6%	
Other Expenses	1,100	1,067	-3%	1,220	1,607	32%	1,171	1,435	23%	1,107	3,499	216%	4,598	7,608	65.5%
% of total sales	6.8%	4.9%		7.9%	6.6%		7.8%	5.4%		6.7%	15.0%		7.3%	7.9%	
Total Expenditure	**14,799**	**20,045**	**35%**	**13,306**	**21,960**	**65%**	**13,751**	**24,056**	**75%**	**15,001**	**22,316**	**49%**	**56,857**	**88,377**	**55.4%**
EBITDA	**1,441**	**1,937**	**34%**	**2,112**	**2,388**	**13%**	**1,304**	**2,416**	**85%**	**1,419**	**1,081**	**-24%**	**6,275**	**7,822**	**24.6%**
% margin	**8.9%**	**8.8%**		**13.7%**	**9.8%**		**8.7%**	**9.1%**		**8.6%**	**4.6%**		**9.9%**	**8.1%**	
Interest	(693)	(774)		(854)	(653)		(854)	(865)		(686)	(1,013)		(3,088)	(3,305)	
Depreciation	(581)	(612)		(556)	(620)		(566)	(589)		(526)	(627)		(2,229)	(2,449)	
Other Income	2,391	1,869		2,070	2,038		2,656	2,966		2,089	2,208		9,206	9,081	
Derivatives Loss	-	(766)		-	(22)		-	(1,531)		-	616		-	(1,702)	
Operational	144	922		214	384		260	704		735	478		1,353	2,488	
PBT	**2,701**	**2,575**	**-5%**	**2,985**	**3,515**	**18%**	**2,800**	**3,101**	**11%**	**3,031**	**2,743**	**-10%**	**11,517**	**11,934**	**3.6%**
Current Tax	(303)	(300)		(337)	(431)		(415)	(390)		(317)	(637)		(1,372)	(1,758)	
Deferred Tax	(169)	(25)		(170)	(180)		(248)	(150)		414	901		(172)	546	
FBT	(14)	(15)		(15)	(15)		(17)	(15)		(15)	(12)		(60)	(57)	
Total Tax	**(485)**	**(340)**		**(522)**	**(626)**		**(679)**	**(555)**	**-18%**	**83**	**252**	**204%**	**(1,604)**	**(1,269)**	**-20.9%**
Tax Rate (%)	18%	13%		17%	18%		24%	18%		-3%	-9%		13.9%	10.6%	
Recurring PAT	**2,216**	**2,235**	**1%**	**2,463**	**2,890**	**17%**	**2,121**	**2,546**	**20%**	**3,114**	**2,995**	**-4%**	**9,913**	**10,665**	**7.6%**
Exceptional Tax	-	291		38	-		895	(34)		-	467		933	723	
Reported PAT	**2,216**	**2,526**	**14%**	**2,501**	**2,890**	**16%**	**3,016**	**2,512**	**-17%**	**3,114**	**3,461**	**11%**	**10,846**	**11,389**	**5.0%**

Source: Company Reports, Citi Investment Research and Analysis

Figure 8. Reliance Infrastructure – FY09 Segmental Results Review

Mar31 (RsM)	1QFY08	1QFY09	% Chg	2QFY08	2QFY09	% Chg	3QFY08	3QFY09	% Chg	4QFY08	4QFY09	% Chg	FY08	FY09
Sales														
Electrical Energy	12,986	18,464	42%	12,760	20,294	59%	12,510	20,312	62%	11,785	14,626	24%	50,040	73,696
EPC/Contracts	3,398	4,439	31%	2,871	4,438	55%	2,805	6,864	145%	5,370	9,249	72%	14,444	24,990
Net Turnover	**16,384**	**22,903**	**40%**	**15,631**	**24,732**	**58%**	**15,315**	**27,176**	**77%**	**17,155**	**23,875**	**39%**	**64,484**	**98,686**
PBIT														
Electrical Energy	889	1,874	111%	1,517	1,805	19%	973	2,230	129%	1,183	333	-72%	4,562	6,242
EPC/Contracts	172	474	175%	335	353	5%	254	398	57%	550	818	49%	1,311	2,042
Others	(1)	(0)		(0)	(0)		(0)	(0)		1	0		-	-
Total	**1,061**	**2,348**	**121%**	**1,852**	**2,158**	**17%**	**1,227**	**2,628**	**114%**	**1,734**	**1,151**	**-34%**	**5,873**	**8,285**
Interest Costs	(693)	(774)		(854)	(653)		(854)	(865)		(686)	(1,013)		(3,088)	(3,305)
Interest Income	1,426	1,191		1,249	866		1,348	599		1,136	732		5,158	3,388
Unallocables	908	(190)		739	1,144		1,080	739		847	1,873		3,574	3,566
PBT	**2,701**	**2,575**	**-5%**	**2,985**	**3,515**	**18%**	**2,800**	**3,101**	**11%**	**3,031**	**2,743**	**-9%**	**11,517**	**11,934**
PBIT Margins														
Electrical Energy	6.8%	10.1%	330	11.9%	8.9%	-299	7.8%	11.0%	320	10.0%	2.3%	-776	9.1%	8.5%
EPC/Contracts	5.1%	10.7%	560	11.7%	7.9%	-371	9.0%	5.8%	-325	10.2%	8.8%	-139	9.1%	8.2%
Total	**6.5%**	**10.3%**	**378**	**11.8%**	**8.7%**	**-312**	**8.0%**	**9.7%**	**166**	**10.1%**	**4.8%**	**-528**	**9.1%**	**8.4%**

Source: Company Reports, Citi Investment Research and Analysis

Rs10.34bn of regulatory assets in power business a cause of concern

- The company has created regulatory assets of Rs3.56bn in FY09 to account for the revenue gap between what the regulator has provided for in the tariff and what is the annual revenue requirement (ARR) for proper cost pass through. This is to be recovered in two equal parts over FY10E and FY11E and is being carried forward as a regulatory asset in the balance sheet.
- The company also has Rs6.78bn of fuel adjustment charges (FAC) which have not been recovered in FY09, but is recoverable through future tariff determination, which has been carried forward as regulatory assets.

Rs100bn of cash and cash equivalents and Rs73bn of debt

- R-Infra had Rs100bn of gross cash and cash equivalent at the end of 4QFY09 (Rs99bn at the end of 3QFY09). Out of this Rs54bn (Rs50bn at the end of 3QFY09) is in cash and debt mutual funds without any exposure to equity markets. The company expects a substantial amount of ICDs and redeemable preference shares to mature over the next 2-3 quarters and post that they will be parked as cash or in debt mutual funds. The company ended FY09 with gross debt of Rs73.32bn (vs. Rs50bn at end 3QFY09).
- Out of the end-March 2008 gross cash and cash equivalent level of Rs96.5bn, only Rs18.6bn was in cash and mutual funds. The remainder was parked in ICDs/preference shares of group companies.

Figure 9. R-Infra — Gross Cash Calculations

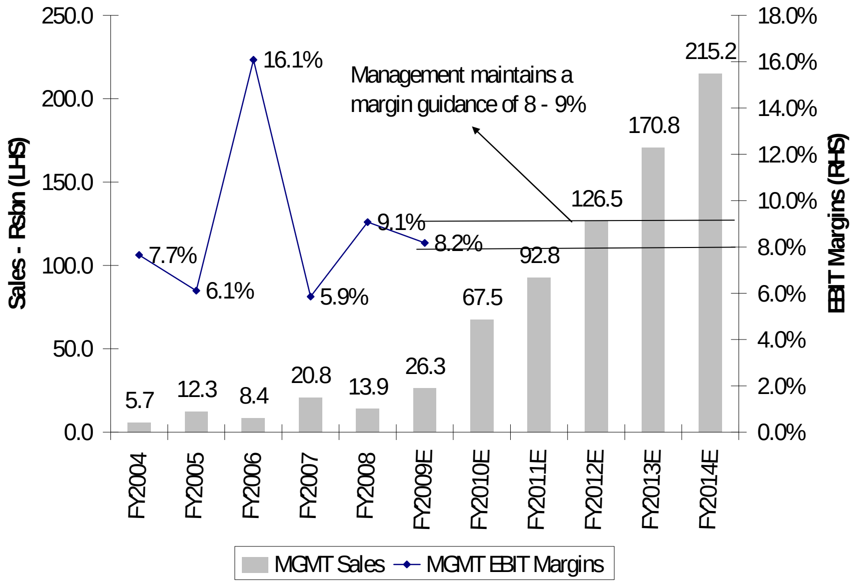
Year End Mar31 (RsM)	FY2007	FY2008
Cash Balance	21,759	876
Mutual Funds/Yield Management	20,180	17,754
ICD to Group Companies	77,403	50,630
Gross Cash Ex Redeemable Preference Shares	**119,342**	**69,261**
- Powersurfer Interactive (India) Pvt Ltd	74	74
- Reliance Energy Global Pvt Ltd	74	74
- Reliance Energy Management Pvt Ltd	74	74
- Sonata Investments	230	230
2% Redeemable Cumulative Preference Shares	**451**	**451**
- Reliance Projects Finance Pvt Ltd	0	1,200
- Sonata Investments	0	5,500
10% Non Convertible Non Cumulative Redeemable Preference Shares	**0**	**6,700**
- Reliance Infra Projects International Ltd	0	20,123
8% Cumulative Non Convertible Redeemable Preference Shares	**0**	**20,123**
Gross Cash Including Redeemable Preference Share	**119,792**	**96,534**
Debt (ex FCCB)	50,581	49,889
Net Cash	**69,211**	**46,645**

Source: Company Annual Report, Citi Investment Research and Analysis

Achieves FY09 EPC sales and margins guidance

- At the end of FY08 the company gave sales/EBITDA margin guidance for FY09E-FY14E and it has successfully managed to more or less meet the same in FY09 with EPC sales of Rs24bn and EBIT margins of 8.2%.

Figure 10. Reliance Infra Projects – Sales and Margin Guidance



Source: Company Information, Citi Investment Research and Analysis

The division had an order backlog of Rs206bn at end-FY09, comprising of 7,200 MW of power projects. The division has manpower strength of 1530 people.

- Electrification of 6,715 villages under UPREC scheme – *Almost completed*
- 2X600 MW of power project in Hisar, Haryana
- 2X250 MW Parichha Thermal Power Station, UP - BOP
- 2X600 MW Raghunathpur project, Damodar Valley Corp
- 1X300 MW Butibori project, Reliance Power – *Awarded this quarter*
- Western Region System Strengthening (WRSS) transmission project
- 6 X 660 MW Sasan UMPP, Reliance Power

Transmission Business

- **Western Region Strengthening Scheme (WRSS) –** Project on BOO basis, involves construction, maintenance and Operation of nine Transmission Lines with length of 3,285 ckms for 25 years of license period. The total project cost is Rs14bn. Transmission licenses have already been granted by CERC and all power transmission agreements signed with beneficiaries. Approval under section 68 of Electricity Act 2003 obtained from MoP and other clearances are under process. Financial closure is expected to be achieved by Q1FY10 and the project is expected to be completed by Q3FY11. EPC contract of WRSS has already been awarded to EPC division of R-Infra.

- **Parbati Koldam Transmission lines in HP (JV with PGCIL):** Project on BOO basis, involves construction, maintenance and Operation of 400KV transmission lines from 800 MW Parbati-II HEP (being constructed by NHPC) and 800MW Koldam HEP (being constructed by NTPC) hydro projects in Himachal Pradesh. The total project cost is Rs10.7bn. Transmission licenses have already been granted by CERC and the financial closure is expected to be achieved by Q1FY10. Out of 13 beneficiaries, 12 have signed BPTA. Stage I forest clearance and aviation clearance from defense has been received. Company will shortly commence construction of the project. The project is expected to be completed by Q4 FY13.

- **Mumbai Strengthening:** To serve the consumers of Mumbai with improved reliability and match the load requirements, nine schemes for strengthening of the Mumbai Transmission System are being executed with an approved cost of Rs18bn. Received all regulatory approvals and the projects are under implementation. The process of land acquisition is underway at different locations for these projects and is expected to be completed by Q4 FY12.

- **Other:** In addition to the above projects, the company is participating in the bidding of various other transmission projects worth Rs90bn.

Figure 11. R-Infra — Transmission Projects

	km	ckm	Rsbn	D:E	Returns	(Years)	Old CoD	New CoD
Parbati Koldam - 74% Stake	1,500	na	10.7	70:30	15% RoE		31-Dec-10	Q4FY13
WRSS - 100%	300	3,285	14.0	80:20				
- WRSS B	na	2,317	9.2	80:20	Bid of Rs660K/ckm/year	22.0	31-Dec-09	Q3FY11
- WRSS B	na	967	4.8	80:20	Bid of Rs820K/ckm/year	22.0	31-Dec-09	Q3FY11
Strengthen Mumbai Tx - 100%	na		18	na				Q4FY13
Total	**1,800**		**39.5**					

Source: Company Information, Citi Investment Research and Analysis

Roads Business

- Among these, two projects NK and DS are expected to start commercial operation in the next quarter Q1FY10. Other three projects (TK Toll, TD Toll and SU Toll) are scheduled to be completed in Q2 FY11.

Figure 12. R-Infra —Road Projects

Roads	kms	Cost (Rsbn)	Debt (Rsbn)	Equity (Rsbn)	Construction Grant (Rsbn)	Operations Grant (Rsbn)	Concession (Years)	Earlier CoD	New CoD	Latest CoD	Delay (mths)
Namakkal - Karur (NK)	44	3.45	2.76	0.45	0.24	0	20	October-08	Jan-09	Q1FY10	3
Dindigul Samyanallore (DS)	53	4.15	3.32	0.52	0.31	0	20	October-08	Jan-09	Q1FY10	3
Trichy Karur (TK)	80	7.32	4.30	1.46	1.46	0.02	30	March-10	Jul-10	Q2FY11	4
Trichy Dindigul (TD)	88	5.37	3.22	1.07	1.07	1.19	30	March-10	Jul-10	Q2FY11	4
Salem Ulundurpet (SU)	136	10.83	6.37	2.12	2.12	1.54	25	March-10	Jul-10	Q2FY11	4
Total	**401**	**31.12**	**19.97**	**5.62**	**5.20**	**2.75**					

Source: Company Information, Citi Investment Research and Analysis

- During FY09 the company was awarded a road for connectivity between Gurgaon and Faridabad in the state of Haryana, with length of 66kms to be developed on a BOT basis with concession period for 17 years. The scope includes four laning of 24km and crusher zone road of 3.1km. The project also includes improvement/ reconstruction of Ballabgarh-Sohna link road, again one of the important roads in the vicinity. The concession agreement was signed on 31 January 2009 and financial closure is expected to be achieved in Q2FY10.

- During the year, the company submitted bids for three more projects and all materialized (Figure 13).

Figure 13. R-Infra — New Road Projects

Project	Length (Kms)	Concession period (Yr)	Status
Western Freeway Sea Link - Development of 8 lane sea bridge, 4 Km long, connecting Worli and Haji Ali and operation & maintenance of 6 Km Bandra Worli Sea Link (BWSL)	11	40	Emerged L1 bidder
Eastern Peripheral Expressway	135	20	Emerged sole bidder
Krishna-Walajpet project in south India	150	30	Emerged L1 bidder

Source: Company Information, Citi Investment Research and Analysis

Metro Business

- **Mumbai Metro:** Financial closure for complete debt of Rs12bn was achieved in October 2008. IDBI Bank is the lead arranger for the loan. The company successfully raised debt amid a tight global liquidity position. All the critical and major contracts have been awarded and project implementation is continuing in full swing. Foundation works for both viaduct and station works is on-gong in a full fledged manner. Foundation works for Western Express Highway Special Bridge and the Mithi River Special Bridge also commenced. The project is expected to be commissioned two years before the contractual commissioning date.

- **Delhi Metro:** Financial closure for complete debt of Rs20bn was achieved in February 2009. Axis Bank is the lead arranger for the loan. Major contracts like rolling stock, signalling, traction and power supply awarded. All preliminary design and engineering work has been completed and the civil structures for the project are provided by DMRC and construction has commenced.

- **Other:** In addition to the above, the company is also participating in the Mumbai Metro - 2 project. It will be constructed along the Charkop-Bandra-Mankhurd corridor. The line is 32kms long and will consist of 27 stations en-route. The company is already technically qualified for the project.

Figure 14. R-Infra – Metro Projects

Project	Cost (Rsbn)	Equity (Rsbn)	Debt (Rsbn)	VGF (Rsbn)	kms	Corridor	(Yrs)	CoD
Mumbai Metro 1	24.0	5.12	12.4	6.50	12	Versova - Andheri - Ghatkopar	35	Sep , 2010
Delhi Airport Metro	25.0	7.50	17.5	0.0	23	New Delhi Railway Station - IGI Airport - Dwarka	30	July , 2010
Total	**49.0**	**12.6**	**29.9**	**6.5**				

Source: Company Information, Citi Investment Research and Analysis

Real Estate Business

Developing a trade tower of 100 storeys and the commercial business district (CBD) in Hyderabad under an SPV named “CBD Tower Pvt. Ltd.”, with equity participation from Reliance Infrastructure Ltd & associates (89%) and APIIC (11%). The following are project highlights:

- 100 floors, totaling around 7 mn sqft office space along with an additional 18 mn sqft in the commercial business district (CBD) around it.

- Initiated discussions with the leading banks for financial arrangements.

- Detailed master planning, architecture and landscaping exercise has been initiated and construction is expected to start in next financial year.

- Located 6kms from Hyderabad Airport on the proposed outer ring road.

Developing IT/ITES SEZ at Dhirubhai Ambani Knowledge City (DAKC), Navi Mumbai over 45 acres of land with a saleable area of 4 mn sqft. The project will have a high tech office space along with a 4-star lakeside hotel and support retail facilities. The following are some of the project highlights:

- Notification process has been initiated and expected by the end of FY10E.

- Land is already in possession as it is owned by a group company but the development and operations would be done under a separate SPV.
- Detailed market study for determining the best use development mix has already been completed. The master planning, architecture and landscaping exercise is being initiated.
- Company expects to finalize the EPC contractors and start construction in the next financial year and complete the first phase in next two years.

Reliance Infrastructure

Company description

Reliance Energy (RELE) became Reliance Infrastructure (R-Infra) as it has forayed aggressively into the infrastructure business over the past 2.5 years: Projects include: 1) EPC player with Rs90.5bn order book; 2) Power transmission infrastructure developer including the Western Region Strengthening System (WRSS), the only 100%-owned power transmission project developed by a private player; 3) Metro rail project developer with 12km VAG corridor in Mumbai and 22.7 km airport link in Delhi; 4) 562km of highway projects; 5) L1 bidder to construct the 25-km-long bridge over sea link (MTHL) in Mumbai. RI is also constructing a 100-storey corporate park in Hyderabad with plans to set up SEZs in Noida and Mumbai and is in advanced stages of bidding for several metro, airports, highway and energy distribution projects. Further it has re-structured into six verticals: to provide clarity about the holding structure and to facilitate fundraising below the holding company level, either through private equity placement or an initial public offering (IPO).

Investment strategy

We rate R-Infra Buy/Medium Risk (1M) with a target price of Rs1,535. Our assumptions about sales growth in the EPC business, equity IRRs in the road projects, equity IRRs in transmission projects, and equity IRRs in the metro projects are conservative vis-à-vis management expectations. We believe our assumptions adequately factor in: 1) executions risks, 2) capital risks, 3) interest-rate risks, and 4) de-rating of sectors in which RI operates given market conditions. Recently, the company: 1) successfully IPOed Reliance Power; 2) initiated a share buy back programme; and 3) re-named and restructured RELE as R-Infra. In addition, recent disclosures and seriousness evident in the recent analyst meeting for R-Infra/R-Power has forced a re-examination. Interaction with senior/middle/junior management has given us confidence to undertake a detailed valuation exercise of each of its entities. We see Reliance Infrastructure as "An Infrastructure Goliath in the Making".

Valuation

Our 12-month SOTP target price for R-Infra of Rs1,535 is composed of: 1) EPC + Power business using an EV/EBITDA multiple of 10x Sept-2010E; 2) We value the projects in Reliance Infra Ventures using a discounted cash flow (DCF) methodology; 3) We value the Delhi distribution business at a P/Equity Base of 2.0x; and 4) We value the projects in Reliance Power at a 20% discount to discounted cash flow (DCF) value, reflecting the chance of further litigation.

Risks

We rate R-Infra Medium Risk, which is different from the High Risk rating that our quantitative risk-rating system accords. Our risk rating is higher than that of peers like NTPC, Tata Power and CESC. 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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Each research analyst(s) principally responsible for the preparation and content of all or any identified portion of this research report hereby certifies that, with respect to each issuer or security or any identified portion of the report with respect to an issuer or security that the research analyst covers in this research report, all of the views expressed in this research report accurately reflect their personal views about those issuer(s) or securities. Each research analyst(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this research report.

IMPORTANT DISCLOSURES

Reliance Infrastructure (RLIN.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Venkatesh Balasubramaniam

	Date	Rating	Target Price	Closing Price
1	16-May-07	*3L	*510.00	505.95
2	12-May-08	*1L	*1,675.00	1,357.05
3	21-Jul-08	*1M	*1,170.00	860.50

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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% of companies in each rating category that are investment banking clients	47%	43%	36%

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Risk stocks, 10%-20% for Medium-Risk stocks, 15%-30% for High-Risk stocks, and 20%-40% for Speculative stocks); and Sell (3) (5% or less for Low-Risk stocks, 10% or less for Medium-Risk stocks, 15% or less for High-Risk stocks, and 20% or less for Speculative stocks).

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