

Reliance Infrastructure

29 January 2013

Reuters: RELIN.BO; Bloomberg: RELI IN

Improving operating performance

Reliance Infrastructure's revenue declined 13.6% to Rs52.9 bn YoY (2.4% above our estimate but 2.4% below Bloomberg estimate) as revenue from the EPC segment edged lower. EBITDA fell 2.5% YoY to Rs7.75bn, but was 23%/20% above our/Bloomberg consensus estimates, respectively, as revenue contribution from the high-margin segments like road, power transmission projects surged coupled with decline in other expenditure. RPAT grew 78% to Rs7.27bn YoY, which includes an exceptional gain of Rs3.79bn on account of profit on sale of the shares of an associate company (Reliance Power). Robust operating performance led to adjusted net profit of Rs4.29bn (~25% above our and Bloomberg estimates). We have upgraded our earnings estimate by 3% and 4% for FY13E and FY14E, respectively, to factor in the traction in infrastructure business earnings. We have retained our Buy rating on the stock with a revised target price of Rs665 from Rs652 earlier.

EPC revenue growth declines: For 3QFY13, EPC revenue declined 37% to Rs18.4bn YoY (in line with estimates) due to subdued project execution run-rate following the completion of some active projects and lower order book position. EBIT margin of the EPC segment stood at 9.7%, down 100bps YoY and up 30bps QoQ. The order book currently stands at Rs121.4bn (1.1x FY12 EPC revenue) comprising power generation, power transmission and road projects.

Power distribution revenue edges higher on tariff hike: Power distribution revenue grew 6% YoY to Rs32.8bn driven by higher realisation on account of a 21% tariff hike in the Delhi region, but volume remained muted due to the lean season. Energy sales in the Mumbai region declined 5% to 1.5bn units YoY, while electricity volume in the Delhi region was flat at 3.37bn units YoY. Tariff revision process of the Mumbai power distribution company is underway and it is likely to be approved by the regulator shortly.

Rise in revenue contribution from infrastructure projects - the trend likely to continue: Revenue from infrastructure business improved 80% YoY and 38% QoQ to Rs1.52bn, driven by commencement of incremental road projects. EBIT of the infrastructure segment improved 40% to Rs786mn QoQ (versus a loss of Rs212mn in 3QFY12). Currently, eight road projects are revenue operational and we expect two more road projects to be commissioned in FY13E. The company has resumed operations of Delhi Airport Metro Expressway after obtaining necessary clearances. As much as 99% of the civil works of Mumbai metro rail project has been completed, which is likely to be operational by 1QFY14. Six out of nine power transmission lines of the WRSS project are generating revenue and the company expects them to be fully operational by the end of FY13.

Retain Buy rating on the stock: We have revised our earnings estimates by 3%/4% for FY13E/FY14E, respectively, to factor in higher income from infrastructure business compared to our estimates. We have retained our Buy rating on the stock with a revised target price of Rs665 from Rs652 earlier. We believe the completion of infrastructure projects leading to a rise in infrastructure revenue, and recovery of regulatory assets next year are key triggers for the stock's outperformance likely in the next 12 months.

BUY

Sector: Infrastructure

CMP: Rs521

Target Price: Rs665

Upside: 24%

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Key Data

Current Shares O/S (mn)	263.0
Mkt Cap (Rsbn/US\$bn)	136.9/2.5
52 Wk H / L (Rs)	680/416
Daily Vol. (3M NSE Avg.)	2,050,747

Price Performance (%)

	1 M	6 M	1 Yr
Reliance Infra	0.7	9.8	(1.7)
Nifty Index	2.5	18.8	16.4

Source: Bloomberg

Y/E March (Rsmn)	3QFY12	2QFY13	3QFY13	Chg (%) YoY	Chg (%) QoQ	9MFY12	9MFY13	Chg (%) YoY
Net sales	61,303	55,153	52,958	(13.6)	(4.0)	170,350	161,942	(4.9)
Total expenses	53,347	48,451	45,206	(15.3)	(6.7)	147,894	140,770	(4.8)
EBITDA	7,955	6,702	7,752	(2.5)	15.7	22,457	21,172	(5.7)
EBITDA margin (%)	13.0	12.2	14.6	-	-	13.2	13.1	-
Depreciation	1,016	1,258	1,359	33.7	8.0	3,050	3,872	27.0
Interest costs	3,278	4,043	4,163	27.0	3.0	7,975	11,821	48.2
Other income	1,598	2,823	2,490	55.8	(11.8)	4,602	7,902	71.7
PBT	5,259	4,224	4,719	(10.3)	11.7	16,034	13,380	(16.5)
Tax expenses	2,073	1,087	2,048	(1.2)	88.4	6,618	4,137	(37.5)
PAT(post profits of associates & MI)	4,083	3,818	7,279	78.3	90.6	11,753	15,217	29.5
Adjusted profit	4,083	3,818	4,290	5.1	12.4	11,753	12,228	4.0

Source: Company, Nirmal Bang Institutional Equities Research

Please refer to the disclaimer towards the end of the document.

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
Net sales	146,286	151,278	242,718	211,674	228,468
YoY (%)	16.3	3.4	60.4	(12.8)	7.9
EBITDA	12,264	14,981	27,825	29,257	35,241
EBITDA margin (%)	8.4	9.9	11.5	13.8	15.4
Adj. net profit (post MI)	15,194	15,516	15,867	16,644	18,004
YoY (%)	12.3	2.1	2.3	4.9	8.2
Adj. EPS	57.8	59.0	60.3	63.3	68.4
PER (X)	9.2	9.0	8.8	8.4	7.7
P/BV (x)	0.7	0.6	0.6	0.5	0.5
RoCE (%)	2.3	2.5	3.9	3.7	4.5
RoE (%)	7.3	6.6	6.6	6.4	6.5

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Change in our earnings estimates

Y/E March (Rsmn)	FY13E			FY14E		
	Old	New	Variation (%)	Old	New	Variation (%)
Net sales	206,220	211,674	2.6	222,381	228,468	2.7
EBITDA	28,405	29,257	3.0	34,608	35,241	1.8
PAT (post profit from associate)	16,172	16,644	2.9	17,328	18,004	3.9

Source: Company, Nirmal Bang Institutional Equities Research

Conference call highlights

- The company expects tariff hike in Mumbai power distribution business by March 2013. Regulatory assets of Rs17.9bn (including carrying costs amounting to Rs36bn) have been approved by the power regulator, which will be recovered amounting ~Rs7bn/year. The company has proposed the regulator to recover regulatory assets by levying a surcharge (same is being done in Delhi distribution business) on the prevailing tariff.
- Regulatory assets in Delhi distribution business amounted to Rs50bn as of end-FY11 and filing has been done to get approval of worth Rs40bn regulatory assets for FY12/FY13. The recent increase surcharge of 8% will help the company to recover regulatory assets worth Rs3.5bn in nine months. The company has proposed to the power regulator a surcharge of 15%.
- Delhi power Distribution Company is witnessing Rs10bn of under-recovery, which would be covered up in the next tariff hike.
- The company is facing hurdles in the WRSS transmission project related to Right of Way(Row) on the remaining three transmission lines but expects them to start operations in FY13 itself. Also, it expects the Parbati-Koldam transmission project to get commissioned by 2QFY14.
- The company has resumed operations of Delhi Airport Metro Expressway after obtaining necessary clearances. However, it did not quantify the loss suffered due to shutdown since the last seven months as the matter is currently under arbitration. The company expects to commission the Mumbai metro rail 1 project by 1QFY14.
- The company expects its infrastructure segment's revenue to grow 50% for the next eight quarters and garner Rs10bn revenue in FY15E.
- The company did not provide visibility on the upcoming EPC projects (especially external projects) and expects to clock EPC revenue of Rs65bn-Rs70bn in FY13E/FY14E, respectively.
- The company has announced a strategic long-term partnership with the Wanda Group of China for real estate development in Hyderabad where it owns 80 acres of land.

Standalone performance

Net sales on standalone basis declined 22.8% to Rs34.5bn YoY, primarily due to lower EPC revenue and subdued power distribution revenue. EPC revenue fell 35.4% to Rs19.2bn YoY due to lower project execution rate following the completion of some active projects. EBITDA witnessed a 22.5% YoY decline at Rs4.89bn, but EBITDA margin marginally inched up to 14.2% level. Net profit declined (due to lower revenue and EBITDA) by 21.9% to Rs3.2bn. Reported net profit rose 58.6% to Rs6.6bn, led by exceptional income of Rs4.18bn on account of profit on the sale of shares of an associate company (Reliance Power).

Exhibit 3: Quarterly Profit & Loss account (standalone)

Y/E March (Rsmn)	3QFY12	4QFY12	1QFY13	2QFY13	3QFY13	YoY (%)	QoQ (%)
Net sales of electrical energy	14,960	12,917	16,383	15,696	15,163	1.4	(3.4)
Income from EPC, contracts business	29,801	43,823	17,749	19,184	19,260	(35.4)	0.4
Other operating Income	17	576	576	122	129	677.1	5.4
Total net sales	44,777	57,316	34,472	35,002	34,552	(22.8)	(1.3)
Total expenditure	38,459	51,143	29,875	30,467	29,654	(22.9)	(2.7)
EBITDA	6,318	6,173	4,598	4,535	4,898	(22.5)	8.0
EBITDA margin (%)	14.1	10.8	13.3	13.0	14.2	-	-
Depreciation	415	736	1,130	922	979.9	136.2	6.3
EBIT	5,903	5,438	3,468	3,613	3,918	(33.6)	8.4
Interest expenses	1,231	1,832	1,901	1,980	2,054.7	66.9	3.8
Other income	1,469	1,685	2,586	3,457	2,433.3	65.7	(29.6)
PBT	6,141	5,290	4,152	5,090	4,297	(30.0)	(15.6)
Tax expenses	1,982	(1,292)	882	947	1,886.6	(4.8)	98.9
Net profit	4,158	6,582	3,270	4,141	6,594	58.6	59.2
Adjusted net profit	4,158	6,582	3,270	4,141	3,246	(21.9)	(21.6)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Segment-wise revenue (standalone)

(Rsmn)	3QFY12	4QFY12	1QFY13	2QFY13	3QFY13
Electricity energy	14,962	13,450	16,573	15,797	15,286
EPC and contract business	29,815	43,865	17,900	19,205	19,266
Total	44,777	57,316	34,473	35,002	34,552
Segment-wise EBIT					
Electricity energy	2,804	1,208	1,797	2,099	2,335
EPC and contract business	3,553	4,569	1,851	1,837	2,115
Total	6,357	5,777	3,648	3,936	4,451
EBIT margin (%)					
Electricity energy	18.7	9.0	10.8	13.3	15.3
EPC and contract business	11.9	10.4	10.3	9.6	11

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Consolidated segment revenue

(Rsmn)	3QFY12	4QFY12	1QFY13	2QFY13	3QFY13
Electricity energy	31,051	29,020	35,184	36,018	33,016
EPC and contract business	29,406	41,408	17,662	18,026	18,410
Infrastructure business	846	925	984	1,109	1,532
Total	61,303	71,353	53,830	55,153	52,958
EBIT					
Electricity energy	4,472	2,535	3,527	3,489	4,350
EPC and contract business	3,149	2,311	1,751	1,698	1,790
Infrastructure business	(212.2)	(273)	363	561	786
EBIT margin (%)					
Electricity energy	14.4	8.7	10.0	9.7	13.2
EPC and contract business	10.7	5.6	9.9	9.4	9.7
Infrastructure business	NA	NA	37.0	50.6	51.3

Source: Company, Nirmal Bang Institutional Equities Research

Ratings track

Date	Rating	Market price (Rs)	Target price (Rs)
26 September 2011	Buy	434	724
9 November 2011	Buy	469	724
18 November 2011	Buy	408	724
12 January 2012	Buy	408	724
15 February 2012	Buy	615	753
10 April 2012	Buy	570	755
28 May 2012	Buy	463	682
17 July 2012	Buy	535	682
16 August 2012	Buy	528	652
4 October 2012	Buy	549	652
7 November 2013	Buy	479	652
7 January 2013	Buy	547	652

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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