

RELIANCE INFRASTRUCTURE

Delhi Airport Metro operations terminated

India Equity Research | Power

Reliance Infrastructure (RELI) has served a termination notice to Delhi Metro Rail Corporation (DMRC) for the Airport Express Metro, citing material breach of the concession agreement. The legal complexities involved in the case have led us to eliminate the project (valued at INR72/share) from our valuations. Maintain 'BUY' with a revised target price of INR511/share (INR583 earlier) on inherent asset value.

Delhi Airport Metro operations terminated

Operations of the Airport Express, starting today, have been taken over by DMRC from RELI. The metro rail runs between New Delhi and Dwarka stations via the Delhi Airport.

Project was mired in litigations

The 23-km Airport Express line was commissioned in 2011. Of the overall project cost of INR58.0bn, ~INR29.15bn was provided by the government as a grant; RELI had funded the balance INR28.8bn cost (70: 30 debt / equity). Last year, issues with respect to civil infrastructure cropped up, due to which the line had to be closed for around seven months to carry out major repairs. Early this year the operations were restarted, but the speed continued to be less than optimal. The traffic, which had reached ~25,000/day, is currently at ~10,500/day. Due to various litigations, the project was already under arbitration. RELI had raised a claim of ~INR8bn due to loss of revenue and reputation, agent fees and loss of profit due to the stoppage of work during the seven months of repair.

Outlook and valuations: Substantial asset value; maintain 'BUY'

As per the concession agreement terms, if RELI is found to be at fault, the government will take over the project by paying RELI 80% of the debt. On the other hand, if DMRC is proved guilty, RELI will receive ~INR31bn (100% of debt and 130% of equity). Since the project had a sizeable real estate parcel, we had assigned ~INR72/share value to it (metro + real estate). Considering the complexities involved in settling the case, we currently reduce the value of Delhi Metro to zero. However, considering the sharp correction in the stock price amidst significant cash + investment book and steady power distribution operations, there is inherent asset value in the stock. Hence, maintain 'BUY/Sector Outperformer' with revised target price of INR511/share.

Financials

Year to March	FY12	FY13	FY14E	FY15E
Revenue (INR mn)	179,067	143,220	135,397	116,739
Rev. growth (%)	87.3	(20.0)	(5.5)	(13.8)
EBITDA (INR mn)	26,250	19,158	15,675	9,877
Net profit (INR mn)	20,003	15,812	11,177	10,820
Shares outstanding (mn)	263	263	263	263
EPS (INR)	58.8	51.6	42.5	41.1
P/E (x)	5.9	6.8	8.2	8.5
ROAE (%)	11.9	8.6	5.7	5.3

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Equalweight

MARKET DATA (R: RLIN.BO, B: RELI IN)

CMP	: INR 349
Target Price	: INR 511
52-week range (INR)	: 579 / 315
Share in issue (mn)	: 263.0
M cap (INR bn/USD mn)	: 92 / 1,540
Avg. Daily Vol.BSE/NSE('000)	: 2,800.2

SHARE HOLDING PATTERN (%)

	Current	Q3FY13	Q2FY13
Promoters *	48.5	48.5	48.5
MF's, FI's & BK's	20.2	20.5	21.1
FII's	15.0	16.1	15.5
Others	16.2	14.9	14.9
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Power Index
1 month	(10.4)	(4.4)	(1.0)
3 months	7.6	2.8	(5.0)
12 months	(34.8)	13.5	2.7

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Company Description

Reliance Infrastructure (RELI) is an Anil Dhirubhai Ambani Group company, involved in infrastructure projects, power EPC projects, and generation, transmission and distribution of electricity. In the infrastructure space, it has a portfolio of 11 road projects on a build-operate-transfer (BOT) basis. This division is involved in the development of metro rail projects in Mumbai and Delhi. The EPC division presently has an order book of over INR 102 bn, comprising EPC and balance of plant (BoP) power projects. In the utility space, it distributes more than 28 bn units of electricity to cover 25 mn consumers across different parts of the country, including Mumbai and Delhi, in an area that spans over 1,24,300 sq km. It generates 941 MW of electricity through its power stations located in Maharashtra, Andhra Pradesh, Kerala, Karnataka and Goa. The company holds 36.5% in Reliance Power that plans to have a portfolio of 32 GW of generating asset.

Investment theme

- We believe the company will emerge as a major power EPC player in the next few years, benefiting from the large addressable market to be created by the addition of ~100,000 MW in the 12th Plan. Further, it holds a stake in Reliance Power and thus has the opportunity to invest in the entire power space, ranging from generating asset development to building transmission assets and power EPC.
- RELI is developing various road and metro projects besides bidding for various infrastructure projects. This space too, like power, is expanding in a big way with a potential market size of USD 494 bn. The company, being a part of ADAG, plans to be a major player in the infrastructure segment by owning assets on a BOT basis and leveraging its financial and technical strengths.

Key risks

- There have been changes in margins from the EPC business in the past one year due to the volatility in commodity prices and high interest rates. While we understand that RELI has entered into back-to-back contracts to minimize the margin erosion, the scale and timing of projects could expose the company to execution risks.
- The road traffic growth has been dented due to the depressed industrial growth and weak macro environment. This, in addition to any delay in execution of infrastructure projects, could impact valuations.
- The company has parked a sizeable part of its investments in group entities and yield bearing instruments. Since other income contributes significantly to the total earnings of the company, any diminution in the value of the same could impact valuations.

Financial Statements

Key Assumptions

Year to March	FY12	FY13	FY14E	FY15E
Macro				
GDP(Y-o-Y %)	6.2	5.0	6.0	7.0
Inflation (Avg)	8.9	7.4	5.2	6.0
Repo rate (exit rate)	8.5	7.5	6.8	6.0
USD/INR (Avg)	48.0	54.5	58.0	56.0
Company				
Order intake (INR bn)	-	-	60	100
Y-o-Y growth (%) (assumption)	-	-	-	66.7
Book-to-bill ratio (x)	1.5	1.2	1.3	2.8
Order backlog (INR bn)	173	102	90	140
Order backlog growth (%)	(41.6)	(41.0)	(11.8)	55.6
EPC revenue growth (%)	225.6	(32.1)	(9.1)	(30.6)
Raw material & sub-contracting costs (as % of	83.4	84.3	86.0	86.0
Electricity revenue growth (%)	(4.4)	10.5	3.2	5.4
Fuel cost (as % of electricity sales)	27.3	25.2	23.9	23.3
Cost of power purchased (as % of electricity	43.3	39.4	42.9	50.3
Dividend per share	7.3	7.4	7.4	7.4
Employee cost as % of sales	4.1	6.0	5.1	5.0
Average Interest rate (%)	6.2	8.5	2.8	2.5
Average Depreciation rate (%)	3.8	5.9	6.1	6.2
Tax rate (%)	19.9	8.3	20.0	20.0
Increase in investments (INR mn)	2,010	5,164	2,500	-
Capex (INR mn)	9,107	(123)	5,000	-
Debtor days	93	83	83	103
Inventory days	28	33	33	33
Other current assets days	112	158	158	188
Payable days	732	443	443	173
Other creditors days	884	852	848	758
Provisions days	55	62	62	42
Loans and advances as % of net revenues (%)	65.9	95.2	95.2	122.6
Incremental debt (INR mn)	67,838	11,406	3,366	-

Income statement

(INR mn)

Year to March	FY12	FY13	FY14E	FY15E
Income from operations	179,067	143,220	135,397	116,739
Direct costs	137,455	107,261	104,653	92,421
Employee costs	7,405	8,561	6,905	5,837
Other Expenses	7,957	8,240	8,164	8,603
Total operating expenses	152,817	124,063	119,722	106,861
EBITDA	26,250	19,158	15,675	9,877
Depreciation and amortisation	2,678	3,921	4,137	4,251
EBIT	23,572	15,237	11,539	5,626
Other income	7,087	10,806	5,433	10,557
Interest expenses	5,681	8,794	3,000	2,658
Profit before tax	24,978	17,249	13,972	13,525
Provision for tax	4,975	1,437	2,794	2,705
Net profit	20,003	15,812	11,177	10,820
Extraordinary income/ (loss)	(4,541)	(2,252)	-	-
Profit After Tax	15,462	13,560	11,177	10,820
Profit after minority interest	15,462	13,560	11,177	10,820
Basic EPS (INR)	58.8	51.6	42.5	41.1
Shares outstanding (mn)	263	263	263	263
Diluted EPS (INR)	58.8	51.6	42.5	41.1
Dividend per share (INR)	7.3	7.4	7.4	7.4
Dividend payout (%)	12.4	14.4	17.4	18.0

Common size metrics

Year to March	FY12	FY13	FY14E	FY15E
Operating expenses	85.3	86.6	88.4	91.5
Depreciation	1.5	2.7	3.1	3.6
Interest expenditure	3.2	6.1	2.2	2.3
EBITDA margins	14.7	13.4	11.6	8.5
Net profit margins	8.6	9.5	8.3	9.3

Growth ratios (%)

Year to March	FY12	FY13	FY14E	FY15E
Revenues	87.3	(20.0)	(5.5)	(13.8)
EBITDA	150.5	(27.0)	(18.2)	(37.0)
PBT	120.1	(30.9)	(19.0)	(3.2)
Net profit	37.4	(12.3)	(17.6)	(3.2)
EPS	39.7	(12.3)	(17.6)	(3.2)

Balance sheet		(INR mn)			
As on 31st March	FY12	FY13	FY14E	FY15E	
Equity capital	2,630	2,630	2,630	2,630	
Reserves & surplus	182,779	199,726	208,634	217,192	
Shareholders' funds	185,409	202,357	211,264	219,822	
Short term debt	45,484	64,073	68,399	68,399	
Long term debt	45,994	38,810	37,850	37,850	
Borrowings	91,477	102,883	106,249	106,249	
Deferred tax liability	4,495	5,545	5,545	5,545	
Sources of funds	281,381	310,785	323,059	331,617	
Tangible assets	46,460	42,416	43,279	44,028	
Intangible assets	24,260	24,260	24,260	24,260	
CWIP (incl. intangible)	6,819	6,819	6,819	6,819	
Total net fixed assets	77,539	73,495	74,359	75,108	
Non current investments	98,593	104,966	107,466	107,466	
Current Investments	29,258	28,049	28,049	28,049	
Cash and equivalents	6,861	1,167	27,006	1,717	
Inventories	3,094	3,673	3,878	4,485	
Sundry debtors	45,656	32,493	30,718	32,881	
Loans and advances	117,972	136,313	128,867	143,092	
Other current assets	54,824	61,941	58,557	60,083	
Total current assets (ex cash)	250,803	262,468	250,069	271,788	
Trade payable	38,246	37,840	38,793	39,767	
Others current liabilities	114,168	93,470	97,047	81,496	
Total current liabilities &	152,415	131,310	135,840	121,263	
Net current assets (ex cash)	98,389	131,158	114,229	150,525	
Uses of funds	281,381	310,785	323,059	331,617	
Book value per share (INR)	704.9	769.3	803.2	835.7	

Free cash flow		(INR mn)			
Year to March	FY12	FY13	FY14E	FY15E	
Net profit	15,462	13,560	11,177	10,820	
Depreciation	2,678	3,921	4,137	4,251	
Deferred tax	4,784	-	-	-	
Others	(543)	1,928	(323)	(316)	
Gross cash flow	22,380	19,409	14,991	14,755	
Less: Changes in WC	50,173	33,978	(16,929)	36,296	
Operating cash flow	(27,794)	(14,569)	31,920	(21,540)	
Less: Capex	9,107	(123)	5,000	-	
Free cash flow	(36,900)	(14,446)	26,920	(21,540)	

Cash flow metrics					
Year to March	FY12	FY13	FY14E	FY15E	
Operating cash flow	(27,794)	(14,569)	31,920	(21,540)	
Investing cash flow	(4,030)	5,765	(2,067)	5,557	
Financing cash flow	40,841	(1,346)	(4,013)	(12,503)	
Net cash flow	9,018	(10,150)	25,839	(28,487)	
Capex	(9,107)	123	(5,000)	-	
Dividends paid	(2,239)	(2,269)	(2,269)	(2,262)	

Profitability & efficiency ratios					
Year to March	FY12	FY13	FY14E	FY15E	
ROAE (%)	11.9	8.6	5.7	5.3	
ROACE (%)	20.6	9.2	6.3	2.9	
Debtors days	75	100	85	104	
Current ratio	1.7	2.0	2.0	2.2	
Debt/EBITDA	3.5	5.4	6.8	10.8	
Fixed asset turnover (x)	2.7	2.1	2.0	1.7	
Average working capital turnover	2.4	1.2	1.0	0.8	
Average capital employed	0.7	0.5	0.4	0.4	
Debt/Equity	0.5	0.5	0.5	0.5	

Operating ratios					
Year to March	FY12	FY13	FY14E	FY15E	
Total asset turnover	0.7	0.5	0.4	0.4	
Fixed asset turnover	2.5	1.9	1.8	1.6	
Equity turnover	1.0	0.7	0.7	0.5	

Valuation parameters					
Year to March	FY12	FY13	FY14E	FY15E	
Diluted EPS (INR)	58.8	51.6	42.5	41.1	
Y-o-Y growth (%)	39.7	(12.3)	(17.6)	(3.2)	
CEPS (INR)	104.4	75.0	58.2	57.3	
Diluted P/E (x)	5.9	6.8	8.2	8.5	
Price/BV (x)	0.5	0.5	0.4	0.4	
EV/Sales (x)	0.3	0.4	0.3	0.5	
EV/EBITDA (x)	5.6	8.6	9.1	17.4	
Dividend yield (%)	2.1	2.1	2.1	2.1	
Basic EPS	58.8	51.6	42.5	41.1	
Basic P/E (x)	5.9	6.8	8.2	8.5	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		Price/BV (X)		ROAE (%)	
		FY14E	FY15E	FY14E	FY15E	FY14E	FY15E
Reliance Infrastructure	1,540	8.2	8.5	0.4	0.4	5.7	5.3
Adani Power	1,996	(101.4)	18.4	2.4	2.1	(2.3)	12.1
JSW Energy	1,196	6.9	6.9	1.0	0.9	15.9	14.4
Lanco Infratech	277	(1.4)	(2.3)	0.7	0.9	(38.9)	(33.0)
Median	-	2.7	7.7	0.9	0.9	1.7	8.7
AVERAGE	-	(21.9)	7.9	1.1	1.1	(4.9)	(0.3)

Source: Edelweiss research

Additional Data

Directors Data

Shri Anil D Ambani	Chairman	Shri Sateesh Seth	Vice Chairman
Shri R R Rai	Independent director	Shri S S Kohli	Independent director
Shri C P Jain	Independent director	Dr V K Chaturvedi	Independent director

Auditors - M/s. Haribhakti & Co, M/s. Pathak H D & Associates

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
Life Insurance Corp	10.01	New India Assurance	1.63
Oriental Insurance Co.	1.31	Brandes Investment	1.24
Vanguard Group Inc	1.14	General Insurance Co	1.10
Blackrock	0.53	Bank of NY Mellon	0.30
SEB Fondforvaltning	0.28	DSP Blackrock	0.22

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Adani Enterprises	BUY	SP	M	Adani Ports and Special Economic Zone	BUY	SO	M
Adani Power	REDUCE	SU	M	CESC	HOLD	SU	H
Essar Ports	BUY	None	None	GMR Infrastructure	BUY	SO	H
Gujarat Pipavav Port	HOLD	None	None	GVK Power and Infra	HOLD	SU	H
JSW Energy	HOLD	SP	H	Lanco Infratech	BUY	SU	H
Marg	BUY	None	None	Navabharat Ventures	BUY	None	None
NTPC	BUY	SP	L	Power Grid Corp of India	BUY	SO	L
PTC India	BUY	None	None	Reliance Infrastructure	BUY	SO	M
Tata Power Co	BUY	SO	L				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return



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Coverage group(s) of stocks by primary analyst(s): Power

Adani Power, Adani Enterprises, Adani Ports and Special Economic Zone, CESC, Essar Ports, GMR Infrastructure, Gujarat Pipavav Port, GVK Power and Infra, JSW Energy, Lanco Infratech, Marg, Navabharat Ventures, NTPC, PTC India, Power Grid Corp of India, Reliance Infrastructure, Tata Power Co

Recent Research

Date	Company	Title	Price (INR)	Recos
21-Jun-13	Power	CCEA clears imported coal pass through; <i>EdelFlash</i>		
01-Jun-13	Essar Ports	Vizag project win value accretive; <i>Event Update</i>	78	Buy
31-May-13	GMR Infra.	Asset monetization boosts earnings; <i>Result Update</i>	21	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	120	49	17	186
* - stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	118	56	12	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

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