

Equities

15 February 2012 | 11 pages

Reliance Infrastructure (RLIN.BO)

Buy: Target Price Increased to Rs722

- Company Update
- Rating Change
- Target Price Change
- Estimate Change

- **Raising target price** — Our 19% TP increase to Rs722 factors in (1) EPS increases of 54% & 19% in FY12E & FY13E, (2) increase in parent target EV/EBITDA to 7x (from 6x) on better op performance, (3) R-Power at 20% discount to mkt price of Rs110 (from Rs85). R-Infra's 3Q12 cons BVPS was Rs945. Even if we knock off investments in pref shares/ICDs and regulatory assets in Delhi/Mumbai and add back recoveries, the adjusted cons BVPS is Rs703. This provides valuation support. We remove the High Risk rating as regulatory overhang in Mumbai and Delhi distribution now eliminated.
- **Parent PAT +151% YoY, Cons PAT +4% YoY** — Parent 3Q12 PAT at Rs4.2bn was up 151% YoY led by 181% YoY growth in EPC sales, and higher margins in power and EPC. 9M12 parent recurring PAT at Rs11.6bn is +99% YoY. Cons PAT at Rs4.1bn grew at slower rate of +4% YoY on elimination of internal EPC sales/profits and losses in infra projects at PBIT level. 9M12 Recurring PAT at Rs10.2bn is down 8% YoY. The company has bought back 4.43mn shares for Rs2.34bn thru 14-Feb-2012.
- **Update on regulatory assets** — In Mumbai, distribution R-Infra has accrued regulatory assets of Rs22bn. According to mgmt, MERC has approved recovery of Rs48bn over six years; NPV works out to Rs35bn. In Delhi, distribution R-Infra has accrued regulatory assets of Rs82bn and has made claims for recovery of Rs144bn. The company has also infused Rs5.2bn in Delhi and currently has a stake of 51%.
- **Improvement in Mumbai/Delhi** — Renewal of distribution license for 25 years has removed uncertainty. Regulations are clear that distribution licensee (except Tata Power) use its network on commercial terms. With decline in load from 1.3GW to 1GW, power purchase costs have come down and regulator has approved levy of cross-subsidy charge on customers migrating to Tata Power. In Delhi, R-Infra has infused Rs5.2bn and Delhi Government has infused Rs5.0bn. A package of Rs51bn has been approved by IDBI Bank and tariff has been hiked 22%.

Buy		1
<i>from Buy/High Risk</i>		
Price (15 Feb 12)		Rs626.70
Target price		Rs722.00
<i>from Rs605.00</i>		
Expected share price return		15.2%
Expected dividend yield		1.5%
Expected total return		16.7%
Market Cap		Rs164,988M
		US\$3,334M

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



Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2010A	10,537	43.03	-8.8	14.6	1.0	8.1	1.1
2011A	8,338	31.18	-27.5	20.1	1.0	5.2	1.3
2012E	15,268	58.05	86.2	10.8	0.9	8.6	1.5
2013E	14,275	54.27	-6.5	11.5	0.8	7.5	1.6
2014E	13,436	51.08	-5.9	12.3	0.8	6.7	1.8

Source: Powered by dataCentral

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Reliance Infrastructure (RLIN.BO)

15 February 2012

RLIN.BO: Fiscal year end 31-Mar						Price: Rs626.70; TP: Rs722.00; Market Cap: Rs164,988m; Recomm: Buy					
Profit & Loss (Rsm)						Valuation ratios					
	2010	2011	2012E	2013E	2014E	2010	2011	2012E	2013E	2014E	
Sales revenue	98,897	94,148	155,512	150,283	136,304	PE (x)	14.6	20.1	10.8	11.5	12.3
Cost of sales	-52,717	-47,891	-43,478	-44,351	-45,157	PB (x)	1.0	1.0	0.9	0.8	0.8
Gross profit	46,180	46,258	112,034	105,932	91,147	EV/EBITDA (x)	13.2	12.0	5.0	6.2	6.2
Gross Margin (%)	46.7	49.1	72.0	70.5	66.9	FCF yield (%)	-6.6	7.7	-28.6	12.3	14.7
EBITDA	8,906	8,393	22,160	20,393	17,215	Dividend yield (%)	1.1	1.3	1.5	1.6	1.8
EBITDA Margin (%)	9.0	8.9	14.2	13.6	12.6	Payout ratio (%)	17	26	16	19	22
Depreciation	-3,198	-3,134	-2,842	-2,981	-3,119	ROE (%)	8.9	6.8	8.6	7.5	6.7
Amortisation	0	0	0	0	0	Cashflow (Rsm)	2010	2011	2012E	2013E	2014E
EBIT	5,708	5,259	19,317	17,412	14,096	EBITDA	8,906	8,393	22,160	20,393	17,215
EBIT Margin (%)	5.8	5.6	12.4	11.6	10.3	Working capital	-18,931	30,985	-59,317	7,950	12,725
Net interest	-2,922	-2,425	-3,895	-4,138	-2,827	Other	5,447	4,964	-2,016	-3,137	-660
Associates	0	0	0	0	0	Operating cashflow	-4,578	44,342	-39,173	25,206	29,280
Non-op/Except	10,184	8,517	7,017	7,719	8,491	Capex	-5,486	-31,432	-7,994	-5,000	-5,000
Pre-tax profit	12,969	11,351	22,440	20,993	19,759	Net acq/disposals	21,275	-25,645	30,707	-5,200	0
Tax	-2,433	-3,013	-7,171	-6,718	-6,323	Other	0	0	0	0	0
Extraord./Min.Int./Pref.div.	980	2,471	0	0	0	Investing cashflow	15,789	-57,077	22,713	-10,200	-5,000
Reported net profit	11,517	10,809	15,268	14,275	13,436	Dividends paid	-1,836	-2,223	-2,791	-3,098	-3,404
Net Margin (%)	11.6	11.5	9.8	9.5	9.9	Financing cashflow	-10,703	13,428	18,732	-19,098	-21,450
Core NPAT	10,537	8,338	15,268	14,275	13,436	Net change in cash	508	693	2,273	-4,092	2,829
Per share data	2010	2011	2012E	2013E	2014E	Free cashflow to s/holders	-10,064	12,910	-47,167	20,206	24,280
Reported EPS (Rs)	47.03	40.42	58.05	54.27	51.08						
Core EPS (Rs)	43.03	31.18	58.05	54.27	51.08						
DPS (Rs)	7.10	8.10	9.10	10.10	11.10						
CFPS (Rs)	-18.70	165.80	-148.93	95.83	111.32						
FCFPS (Rs)	-41.10	48.27	-179.32	76.82	92.31						
BVPS (Rs)	596.88	642.59	698.82	741.31	779.45						
Wtd avg ord shares (m)	245	267	263	263	263						
Wtd avg diluted shares (m)	245	267	263	263	263						
Growth rates	2010	2011	2012E	2013E	2014E						
Sales revenue (%)	2.0	-4.8	65.2	-3.4	-9.3						
EBIT (%)	32.2	-7.9	267.3	-9.9	-19.0						
Core NPAT (%)	-1.2	-20.9	83.1	-6.5	-5.9						
Core EPS (%)	-8.8	-27.5	86.2	-6.5	-5.9						
Balance Sheet (Rsm)	2010	2011	2012E	2013E	2014E						
Cash & cash equiv.	3,018	3,711	5,983	1,892	4,721						
Accounts receivables	33,457	48,579	74,603	72,095	65,388						
Inventory	2,692	2,903	2,130	2,172	2,172						
Net fixed & other tangibles	35,436	63,733	68,885	70,905	72,786						
Goodwill & intangibles	0	0	0	0	0						
Financial & other assets	180,574	231,588	233,604	241,239	243,917						
Total assets	255,177	350,514	385,205	388,302	388,984						
Accounts payable	19,229	43,695	42,963	43,716	44,484						
Short-term debt	0	0	0	0	0						
Long-term debt	41,149	39,693	61,739	45,739	27,693						
Provisions & other liab	48,635	95,270	96,693	103,859	111,787						
Total liabilities	109,013	178,658	201,395	193,313	183,964						
Shareholders' equity	146,164	171,856	183,811	194,989	205,021						
Minority interests	0	0	0	0	0						
Total equity	146,164	171,856	183,811	194,989	205,021						
Net debt	38,131	35,982	55,756	43,847	22,972						
Net debt to equity (%)	26.1	20.9	30.3	22.5	11.2						

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Figure 1. R-Infra – 3Q12 Standalone Results Review

Year End Mar31 (Rsmn)	1QFY11	1QFY12	% Chg	2QFY11	2QFY12	% Chg	3QFY11	3QFY12	% Chg
EPC Order Backlog	185,300	280,000		240,000	243,250		235,000	211,550	
Execution Rate	2.9%	6.4%		4.4%	8.7%		4.4%	12.3%	
Net Sales-Sale of Electrical Energy	15,782	14,860	-6%	15,572	13,404	-14%	14,238	14,959	5%
Income from EPC	5,571	18,849	238%	8,072	24,309	201%	10,621	29,801	181%
Total Income	21,354	33,709	58%	23,643	37,713	60%	24,859	44,760	80%
EBITDA	1,608	4,063	153%	3,415	5,104	49%	1,152	6,500	464%
% margin	7.5%	12.1%		14.4%	13.5%		4.6%	14.5%	
Interest	(613)	(570)		(600)	(833)		(582)	(1,231)	
Depreciation	(769)	(689)		(825)	(838)		(817)	(615)	
Other Income	1,804	1,093	-39%	(508)	1,126	-322%	1,021	1,468	44%
Other Operational Income	927	627		748	1,793		1,318	17	
PBT	2,957	4,523	53%	2,229	6,352	185%	2,092	6,139	193%
Total Tax	(495)	(1,659)		(524)	(1,794)		(435)	(1,982)	
Tax Rate (%)	17%	37%		24%	28%		21%	32%	
Recurring PAT	2,463	2,865	16%	1,705	4,557	167%	1,657	4,157	151%
Prior period depreciation		2,272						-	
Tax adjustment on exceptional items		(831)						-	
Reported PAT	2,463	4,305	75%	1,705	4,557	167%	1,657	4,157	151%

Source: Company and Citi Investment Research and Analysis

Figure 2. R-Infra – 3Q12 Standalone Segmental Results Review

Year End Mar31 (Rsmn)	1QFY11	1QFY12	% Chg	2QFY11	2QFY12	% Chg	3QFY11	3QFY12	% Chg
Sales									
Electrical energy	16,266	17,719	8.9%	16,067	15,185	-5.5%	14,737	14,982	1.7%
EPC and Contracts	6,014	18,888	214.0%	8,324	24,320	192.2%	11,440	29,815	160.6%
Net Turnover	22,280	36,607		24,391	39,505		26,176	44,797	71.1%
PBIT									
Electrical energy	1,010	3,826	279.0%	2,760	2,795	1.3%	759	2,804	269.2%
EPC and Contracts	839	2,558	204.9%	648	4,128	536.9%	986	3,553	260.5%
Total	1,848	6,384	245.4%	3,408	6,923	103.1%	1,745	6,357	264.3%
PBIT Margins									
Electrical energy	6.2%	21.6%		17.2%	18.4%		5.2%	18.7%	
EPC and Contracts	13.9%	13.5%		7.8%	17.0%		8.6%	11.9%	
Total	8.3%	17.4%		14.0%	17.5%		6.7%	14.2%	

Source: Company and Citi Investment Research and Analysis

Figure 3. R-Infra – 3Q12 Consolidated Results Review

Year End Mar31 (Rsmn)	1QFY11R	1QFY12	Change	2QFY11	2QFY12	Change	3QFY11	3QFY12	Change
Electrical energy	32,953	30,988	-6.0%	33,182	34,393	3.7%	26,394	31,051	17.6%
EPC and Contracts	4,440	17,541	295.1%	7,117	22,123	210.8%	10,613	29,406	177.1%
Roads	126	1,117	nm	125	772	518.9%	419	846	101.6%
Net Turnover	37,518	49,646	32.3%	40,427	57,289	41.7%	37,440	61,303	63.7%
EBITDA	4,080	5,644	38.4%	6,174	7,023	13.8%	5,479	7,955	45.2%
% margin	10.9%	11.4%		15.3%	12.3%		14.6%	13.0%	
PBIT									
Electrical energy	2,365	2,978	25.9%	4,295	4,269	-0.6%	3,326	4,472	34.5%
Margin %	7.2%	9.6%		12.9%	12.4%		12.6%	14.4%	
EPC and Contracts	549	1,409	156.6%	657	2,302	250.7%	1,010	3,149	211.6%
Margin %	12.4%	8.0%		9.2%	10.4%		9.5%	10.7%	
Infrastructure	53	402	661.9%	37	(75)	-301.1%	79	(212)	-368.3%
Margin %	42.0%	36.0%		29.9%	-9.7%		18.9%	-25.1%	
Total	2,967	4,788	61.4%	4,989	6,496	30.2%	4,416	7,408	67.8%
Interest and Finance Expense	(1,372)	(2,166)		(1,520)	(2,507)		(1,564)	(3,278)	
Interest Income	1,312	458		284	1,281		828	1,407	
Other unallocable income	625	659		(617)	499		358	(278)	
PBT	3,531	3,740		3,136	4,771		4,037	5,259	
Total Tax	(845)	(1,882)		(615)	(1,938)		(568)	(2,073)	
Tax Rate (%)	24%	50%		20%	41%		15%	39%	
Minority Interest	(0)	(13)		(0)	(7)		(2)	3	
Associates	886	777		1,081	684		582	894	
Recurring PAT	3,572	2,619	-26.7%	3,602	3,511	-2.5%	3,917	4,083	4.3%

Source: Company and Citi Investment Research and Analysis

Figure 4. R-Infra – Sum-of-the-Parts Valuation

Part	Old Methodology	New Methodology	Value	Old	New
Parent Power + EPC Business EV	6x Mar13E EV/EBITDA	7x Mar13E EV/EBITDA	91,400	288	342
Net Cash/(Debt)	Mar13E End	Mar13E End	(43,847)	(179)	(164)
RELE Parent			47,553	109	178
Infra + Delhi distribution	Book Value	Book Value	50,676	222	189
Reliance Power (38.41% Stake)	20% discount to CMP = Rs85	20% discount to CMP = Rs110	94,816	274	355
Target Price			193,044	605	722

Source: Citi Investment Research and Analysis estimates

Figure 5. R-Infra – Consolidated Adjusted Book Value/ Share of Rs703

	FY10	FY11	3Q12
Networth	207,041	236,076	248,680
Book Value Per Share	845	883	945
- Less Preference Shares	(35,143)	(27,004)	(27,004)
- Less ICDs	(27,696)	(7,975)	(7,975)
- Accrued Mumbai Regulated Assets (100% stake)	(16,028)	(20,648)	(22,000)
- Recovery Approved Rs48bn over 6 year - NPV (100% stake)			35,000
- Accrued Delhi Regulatory Assets (49% stake -> 51%)	(9,369)	(26,109)	(82,000)
- Stake	49%	49%	51%
- Delhi Regulatory Assets R-Infra Stake	(4,591)	(12,793)	(41,820)
- Recovery Claim Rs144bn (Not Factored In)			
Adjusted Networth	123,583	167,656	184,881
Adjusted Book Value Per Share	505	627	703
Shares	245	267	263

Source: Citi Investment Research and Analysis estimates

Raising estimates following results; 9mFY12 numbers are well ahead of expectations on strong execution.

Figure 6. R-Infra – Standalone EPS Revision Table

Year End Ma31 (Rsmn)	FY12E	FY13E	FY14E
Sales			
Old	105,567	119,357	128,416
New	155,512	150,283	136,304
Chg	47.3%	25.9%	6.1%
EBITDA			
Old	10,505	12,854	14,562
New	22,160	20,393	17,215
Chg	110.9%	58.6%	18.2%
Recurring PAT			
Old	10,094	12,220	13,777
New	15,268	14,275	13,436
Chg	51.3%	16.8%	-2.5%
EPS (Rs)			
Old	37.74	45.69	51.51
New	58.05	54.27	51.08
Chg	53.8%	18.8%	-0.8%

Source: Citi Investment Research and Analysis estimates

Figure 7. R-Infra – Standalone EPS – Consensus vs. CIRA

Year End Ma31	FY12E	FY13E	FY14E
PAT (Rsmn)			
CIRA	15,268	14,275	13,436
Consensus	12,361	12,352	12,493
Change %	23.5%	15.6%	7.6%
EPS (Rs)			
CIRA	58.05	54.27	51.08
Consensus	50.23	55.55	48.31
Change %	15.6%	-2.3%	5.7%

Source: Bloomberg and Citi Investment Research and Analysis estimates

Reliance Infrastructure

Company description

Reliance Energy (RELE) has become Reliance Infrastructure (R-Infra) as it has forayed aggressively into the infrastructure business over the past three years: Projects include: (1) EPC order backlog of Rs280bn order book; (2) Five power transmission projects with an outlay of Rs66bn; (3) Three metro projects with an outlay of Rs160bn; (4) 970km of 10 road projects with an outlay of Rs120bn; (5) One sea link project with an outlay of Rs51bn; (6) Five non metro airports; (7) Cement business with a plan to develop of 25mn tons of capacity; and (8) Specialty real estate where R-Infra is constructing a 100-storey corporate park in Hyderabad with plans to set up an SEZ in Mumbai.

Investment strategy

We rate R-Infra shares as Buy (1) given: 1) The Mumbai distribution business with a regulatory equity of Rs18.4bn, and the 49% stake in the Delhi distribution business with a regulatory equity of Rs11bn, are set to grow at a steady clip of 4%-5%; 2) The company has a 38.41% stake in R-Power which is developing 35GW of generation capacity with no further capital infusion from R-Infra; 3) It is developing five transmission BOT projects with total outlay of Rs66bn; 4) It is developing 11 road projects, three metro projects, one sea link project, and five non-metro airports totalling to Rs280bn+; 5) The EPC business, with a healthy order backlog of Rs212bn, is set to grow over the next three years.

Valuation

Our Rs722 12-month sum-of-the-parts (SOTP) target price for R-Infra shares is composed of: 1) EPC + Power business using an EV/EBITDA multiple of 7x Mar13E; 2) We value infra assets, Delhi distribution and other subs on book value; and 3) We value the stake in R-Power at 20% discount to its recent market price of Rs110. R-Infra's 3Q12 cons BVPS was Rs945. Even if we knock off investments in preference shares/ICDs and regulated assets in Delhi/ Mumbai and add back recovery in Mumbai from the same adjusted consolidated BVPS is still Rs703. This provides valuation support.

Risks

Key downside risks that could impede the shares from reaching our target price include: 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

Analyst Certification

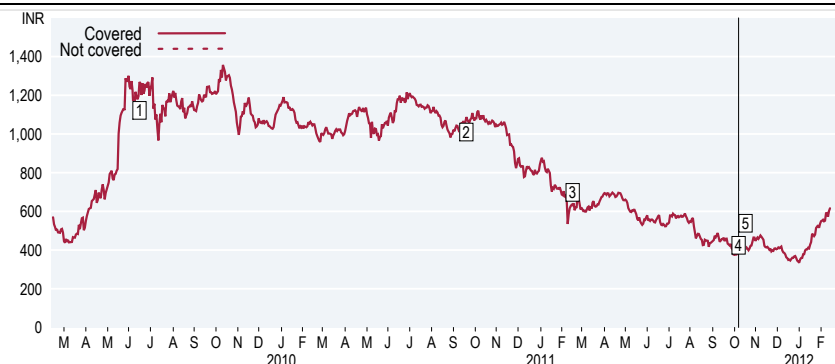
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Reliance Infrastructure (RLIN.BO)

Ratings and Target Price History Fundamental Research

Analyst: Venkatesh Balasubramaniam



	Date	Rating	Target Price	Closing Price
1	16-Jun-09	1M	*1,535.00	1,268.55
2	20-Sep-10	1M	*1,367.00	1,087.35

	Date	Rating	Target Price	Closing Price
3	16-Feb-11	*1H	*902.00	631.45
4	7-Oct-11	Stock rating system changed		

	Date	Rating	Target Price	Closing Price
5	18-Oct-11	1H	*605.00	406.75

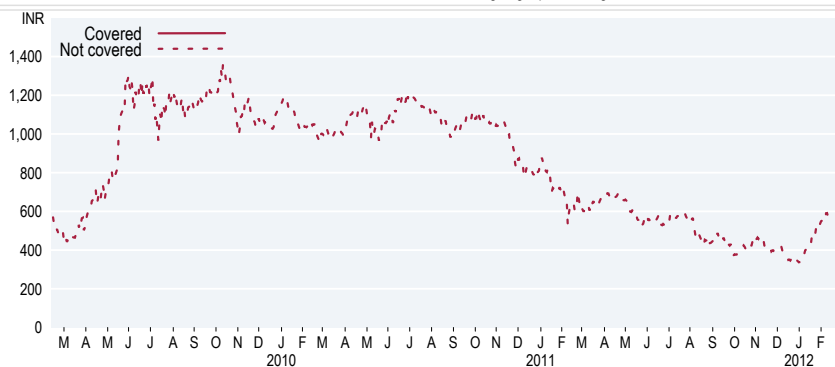
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Reliance Infrastructure (RLIN.BO)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Venkatesh Balasubramaniam



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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