



Reliance Infrastructure Ltd.

Buy

CMP: Rs.1140

Target Price: Rs 1486

Industry: Infrastructure

Stock Info		BSE Group		Shareholding Pattern (31st Mar.'10)	
Market Capital	Rs.27918 cr	BSE Code	500390	Promoters	42.7%
Free float	Rs.17730 cr	NSE Symbol	RELINFRA	Domestic Institutions	32.3%
Equity Capital	Rs.244.8 cr	Bloomberg	RELI IN	Foreign Institutions	14.3%
Avg Trading Vol.	15,79,693(Qtly)	Reuters	RLIN BO	Non Promoters Corp.	3.5%
52 WK High/Low	1404.5/951.3	BSE Sensex	18077	Public & Others	7.5%
Face Value	Rs. 10	NSE Nifty	5420		

Reliance Infrastructure's (Rel Infra) rapid transformation into an infrastructure developer would lead to sustained long term cash flow generation, while offering strong near term growth potential from robust traffic growth and commissioning of 2 new road projects with expected completion of both metro rail project would act as upside trigger for the stock. Meanwhile the distribution business, with its assured returns, continues to generate stable cash flows at the parent level. A strong balance sheet not only provides comfort on funding needs but also likely ensures eligibility for mega infrastructure projects, which potentially offer higher IRRs by restricting competition. We maintain our Outperformer rating with an **SOTP-based price target of Rs1,486**.

Foraying itself into infrastructure developer with strong near term growth potential

Rel Infra is rapidly transforming itself from being a power distribution utility with regulated returns into an infrastructure conglomerate with asset ownership across key verticals – roads, power generation, power transmission, metro rail and real estate. With Rs1.6trillion of assets under development Rel Infra is likely to emerge as one of the largest infrastructure companies in India. These assets offer potential for strong growth in the near term and steady cashflow generation in the long term.

Adequate funds to benefit from growth opportunities

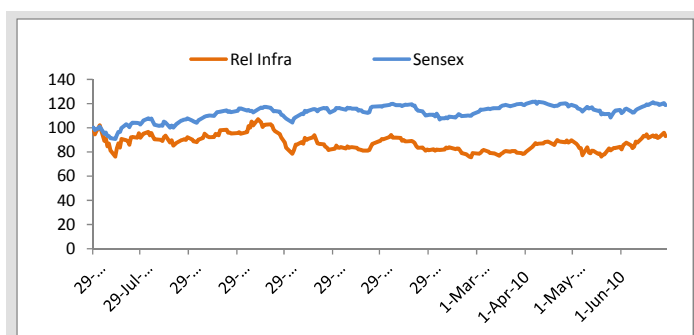
Rel Infra, with a net worth of Rs15,176 cr, is among the leading infrastructure developers in the country in terms of size. This, along with its experience of executing large infrastructure projects, makes it a serious contender for the government's proposed large infrastructure projects in the roads and the transmission segments. These projects are likely to have stringent qualification criteria, which could restrict competition and thus potentially offer higher IRRs.

Distribution business to provide steady cash flow

We expect Rel Infra regulated return-based power distribution businesses in Mumbai (guaranteed 16% post-tax RoE) and Delhi (ROCE-based tariff computation with guaranteed 14% post-tax RoE) to continue generating steady cash flows. The Mumbai distribution area had an approved equity base of Rs1,200cr as of FY10 while for Delhi we estimate the same at Rs1,800cr. Based on this, we estimate annual assured ROE from Rel Infra's distribution business at Rs420 cr at the present level of investment. In the Delhi distribution circle, reduction in AT&C losses is likely to provide significant upside to earnings with the company earning an incentive of Rs140cr in FY10 for exceeding its loss reduction target.

Valuation

We value Rel Infra on a sum-of-parts basis, valuing each separate business on the basis of the nature of revenues and earnings. We value the EPC business on an EV/EBITDA basis and the infrastructure development businesses, including power distribution and generation (Rel Power), on a discounted cash flow to equity basis. Accordingly, we have an **SOTP based price target of Rs1,486 for Rel Infra**.



Particulars (Rs. in cr)	FY10	FY11E	FY12E
Net Revenue	9807.1	11290.2	13938.7
Growth %	1.2	15.1	23.1
Net Profit	1152.1	2825.4	2872.2
Growth %	1.1	145.1	16.6
EPS (Rs)	51.1	115.4	117.3
P/E	22.4	9.9	9.7
P/BV	1.8	1.6	1.5

Infrastructure business – Improving portfolio

Road

Rel Infra is one of the largest private sector road developers in the country with a portfolio of eleven BOT projects totalling 970km with a total project cost of Rs11880cr. Two of these projects recently commenced operations and 2 more are likely to be operational by Q3FY11. The company has also achieved financial closure for the Jaipur- Reengus road project, which is scheduled to complete by Q4FY12. All the project routes are part of important inter-state and intra-state national highways.

Projects	Cost (cr)	Funding (Debt:Grant:Equity)	Length (km)	Concession period (yr)	COD
Namakkal- Karur	350	80:07:13	44	20	Operational
Dindigul- Samyanallore	420	80:07:13	53	20	Operational
Trichy -Karur	730	60:20:20	80	30	Q1FY12
Trichy- Dindigul	540	61:20:20	88	30	Q3FY11
Salem- Ulenderpet	1060	62:20:20	136	25	Q3FY11
Gurgaon- faridabad	780	75:00:25	66	17	Q1FY12
Jaipur- Reengus	530	70:20:10	52	18	Q4FY12
Pune -Satara	2000	70:00:30	140	24	Q3FY13
Kandla- Mundra	1540	70:00:30	71	25	Q4FY13
Hosur - Krishnagir	930	-	60	24	-
Delhi -Agra	2960	-	180	26	-
Total	11880		970		

Metro

Rel Infra is developing two metro rail projects in Mumbai and one in Delhi – India’s two largest cities – at a total project cost of Rs 16200cr. Two of these projects, the Mumbai Metro I and the Delhi Airport Metro Express, are scheduled to be operational over the next 6 months and recently the company also signed the concession agreement for the 32km Mumbai Metro line 2, in which it has a 48% stake. Rel Infra has also been shortlisted for the Rs5800 cr Bangalore Metro rail project.

Project	Cost (Cr)	Funding (Debt:Grant:Equity)	Length (km)	Concession period(yr)	COD
Mumbai Metro - I	2500	51:27:22	11	35	Q4FY11
Delhi Airport link	2450	70:00:30	23	30	Q2FY11
Mumbai Metro - II	11000	-	32	35	-

Cement

Rel Infra plans to invest Rs10,000 cr over the next five years to set up a cement manufacturing capacity of 25MT per annum. As a part of this plan, it is setting up a 5MT integrated cement plant in Yavatmal with a grinding unit in Butibori at an investment of Rs2250 cr. Rel Infra also plans to set up a 5MT integrated cement plant in the Satna district in Madhya Pradesh. The key rationale for the company’s venture into the cement business is to leverage its control on the three key ingredients for manufacturing cement – coal, fly ash and power. As the company is still in the early stages of planning this venture.

Airports & Real Estate

Reliance Infra has acquired, on a 95-year lease basis, the development and operating rights for five regional brownfield airports in Maharashtra located at Nanded, Latur, Yavatmal, Baramati and Osmanabad

Rel Infra currently has two real estate projects under development – an IT SEZ in Navi Mumbai and a mixed-use property in Hyderabad. The company has acquired a clear title and possession of the lands, with the land in Hyderabad acquired from and being developed in a JV with the Andhra Pradesh Industrial Investment Corporation (APIIC) and the Navi Mumbai land acquired on lease from Reliance Communications, a group company. We believe the location of the projects and the development mix will drive realizations and earnings for Rel Infra’s real estate business.

Power business – steady cash flow

Power Generation

Rel Power (45%-owned by Rel Infra) is building a diversified portfolio of power projects with an aggregate capacity of 35,000MW, making it the largest private sector power generation company in India. The company has captive coal blocks in India, with estimated reserves of 1.8bn tonnes and domestic fuel linkages allocated by the government as well as its own coal mines in Indonesia (~2bn tonne reserves). These not only secure fuel supply but also give the company control over mining. Rel Power's cash balance of Rs8851 cr (March 2010) provides comfort on the company's ability to meet its near-term funding needs.

Power Transmission

Rel Infra is developing 3 large transmission projects, the Western Region Strengthening Scheme (WRSS), Parbati Koldam Transmission project and Mumbai strengthening at a total cost of Rs4250 cr. Construction of the WRSS project is currently underway and the project is likely to be commissioned by Q3FY11. Parbati Koldam is scheduled to commence operations by Q1FY13. Mumbai strengthening has acquired all technical and commercial clearances and expected to be operational by FY12. Besides this, the company has recently emerged as the winner for 2 Ultra Mega Power transmission projects, North Karanpura (Rs1550cr) and Talcher II (Rs820cr) from Rural Electrification Corporation (REC), which have to be completed in 30-42 months. As per company expectations total Rs 55600 cr of future opportunity in pipeline. With a strong portfolio of five transmission projects worth Rs6600cr, Rel Infra is the largest private sector transmission developer in the country.

Power Distribution

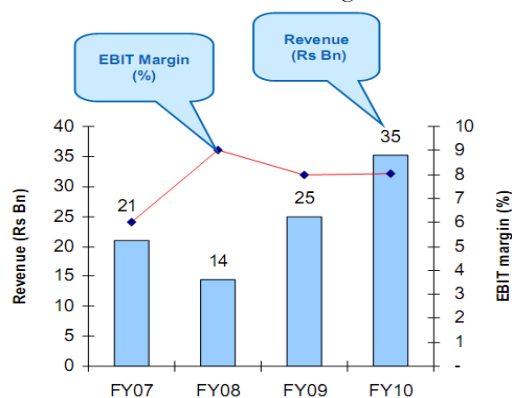
Rel Infra supplies power to its Mumbai distribution circle to over 2.7 mn customer (peak demand of 1,520MW) by procuring 500MW power from its Dahanu plant, another 500MW from Tata Power Company (TPC) and the balance from the open market. But Rel Infra is looking to tie up power on a contractual basis to bridge the gap. It has received approval from MERC for procuring 1,200MW power on a medium-term basis (up to March 2014) and 1,500MW power on a long-term basis (25 years from April 2014). Rel Infra is currently evaluating the bids that it has received for supplying power on a medium-term basis. This would considerably lower Rel Infra's dependence on open market purchases and in turn stabilize its cost base.

The DERC has approved a multi-year tariff order for BSES Rajdhani Power Limited (BRPL) for FY08-11, setting a target to reduce AT&C losses to 17% by FY11. BRPL reduced its losses from 51% in FY09 to 19% in FY10 (Earned the incentive of Rs 140 cr.). While BRPL earns revenues on an ROCE basis (with post-tax ROE fixed at 14%). At BSES Yamuna Power Limited (BYPL), Rel Infra reduced AT&C losses to 63% in FY09 to 23% in FY10. The DERC has set an FY11 target of 22% by FY11. Like BRPL, BYPL also has an ROCE-based tariff structure (with post-tax ROE fixed at 14%), though lower AT&C losses are expected to drive growth in earnings.

Rel Infra has regulated equity base of Rs2300cr as of March 2009, it translates into guaranteed post-tax earnings of ~Rs350 cr. Further upside from incentives for beating loss reduction targets and Assured return model to ensure current earnings base is sustained.

EPC – Strong order book

Rel Infra has rapidly scaled up its EPC business and the order backlog stood at Rs19200cr. Of this, orders worth Rs15600cr are captive orders (power generation, transmission and road projects) while the balance Rs3600cr have been awarded by external entities. Recently, the EPC division was awarded the construction order for the Gurgaon-Faridabad toll road project, which is being developed by Rel Infra. The current order backlog represents a book-to-bill ratio of 5.7x FY10E revenues, which lends significant visibility to future earnings.



In the near future, we expect Rel Infra to be awarded the EPC contract for Rel Power's Krishnapatnam UMPP and Chitrangi power project, as these projects are likely to achieve financial closure in the near term.

Execution Risk

Rel Infra is relatively a new player in the infrastructure segments and the pioneer one to undertake development of metro projects in the private sector. Inexperience in executing such projects can lead to delay in commissioning of the projects thereby impacting our forecasted revenue stream and cash flows. However, since the company has partnered with qualified foreign players in executing these projects the risk is minimized.

Financial outlook & Valuation

We expect a growth of 17% CAGR in topline for Rel Infra's standalone business over FY10-13. Company's Strong scale-up in the EPC business and cash flow from Road & metro projects will be the key driver. Rel Infra (standalone financials) as on March 31, 2010 had surplus cash and cash equivalents of Rs8850 cr with gross debt at Rs4100 cr. (implying a debt/equity of 0.27x on a net worth of Rs15176cr). It continues to be well funded for an equity commitment of ~Rs2800 cr over FY10-12 towards its under-development road, metro rail and transmission assets.

Over the next two years, we forecast that the top line and the bottom line will grow at a CAGR of 17% . The ROCE for CFY11E and FY12E are expected to be 17.3 and 17.0%, while the ROE for FY11E and FY12E should be 16.4% and 14.9% respectively.

At CMP of Rs 1140, the stock is trading at 9.9x and 9.7x its estimated PE for FY11E & FY12E. We recommend a **BUY** on the stock with a Price Objective (PO) of Rs. 1486.0 (intrinsic value) representing a potential upside of ~30% over a period of 6 months.

Profit & loss account (standalone)

Y/E March (Rs. in cr)	FY09	FY10	FY11	FY12E
Net Sales	9869	9807	11291	13939
YoY%	55	1	15	23
Operating Exp	9310	8908	9315	11106
EBITDA	430	900	1975	2833
YoY%	25	94	120	43
Other income	1338	1009	1848	1268
Interest	331	292	392	392
depreciation	245	320	221	445
PBT	1193	1297	3211	3264
Deferred tax	55	15	15	15
Current tax	0	130	370	377
PAT	1139	1152	2825	2872
YoY%	15	1	145	17

Key ratio

Y/E March (Rs. in cr)	FY09	FY10E	FY11E	FY12E
Performance Ratios				
EBIDTA %	4.4	9.2	17.5	20.3
EBIT %	14.8	16.5	30.4	26.6
Net Profit %	11.7	11.7	25.0	20.6
ROE %	9.6	7.6	16.4	14.9
ROCE %	9.2	9.9	17.3	17.0
Valuation Ratios				
EPS	50.4	51.0	115.4	117.3
Book value	461.6	619.2	703.1	784.5
P/E	12.9	22.4	9.9	9.7
P/BV	1.6	1.8	1.6	1.5
EV/EBIDTA	7.8	12.1	6.1	5.6

Balance Sheet (Standalone)

Y/E Mar. (Rs. in cr)	FY09	FY10E	FY11E	FY12E
Sources of Funds:				
Equity Capital (FV-5)	226	245	245	245
Share Warrants	783	765	765	765
Reserves	10898	14167	16207	18204
Shareholder's Equity	11907	15177	17216	19214
Total Debt	7332	4100	4900	4900
Deferred Tax Liability	0	0	0	0
Total Liabilities	19434	19277	22117	24114
Application of Funds:				
Net Block	3340	3719	2782	3229
Investment	12147	13432	13432	13432
current asset	9253	8029	12516	15331
current Liabilities	5871	5903	6613	7878
Net current asset	3382	2126	5903	7452
Total Assets	19434	19277	22117	24114
Book Value	462	619	703	785

Cash Flow Statement

Y/E March (Rs.in cr)	FY09	FY10E	FY11E	FY12E
Profit Before Tax	1193	1297	3211	3264
Adjustment	-9	1036	1677	1322
Changes In working Capital	-111	1256	-3777	-1550
Total tax paid	-182	-145	-385	-392
Operating cash flow	893	3445	725	2644
Cash flow From Investing	-992	-3521	492	-1000
Cash flow from Financing	263	403	-286	-286
Net cash inflow	163	327	932	1359
Opening cash	88	251	578	1510
Closing Cash	251	578	1510	2868

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Stock Rating Scale

	Absolute Return
BUY	: >20%
ACCUMULATE	: 12-20%
HOLD	: 5-12%
REDUCE	: <5%

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