

**BSE Code:** 500390    **NSE Code:** RELINFRA    **Reuters Code:** RLIN.NS    **Bloomberg Code:** RELI:IN

Reliance Infrastructure Ltd (RInfra), a part of Reliance Group is the largest private sector infrastructure company of India; with turnover of over ₹150 billion and around ₹140 billion market capitalization. It also has leadership in the utility space of the country, having wide presence across the value chain of power business i.e. Generation, Transmission, Distribution, EPC and Trading, beside developing projects in all high growth areas in infrastructure sector i.e. Roads, Highways, Metro Rails, Airports and Speciality Real Estate.

### Investor's Rationale

RInfra's EPC Division has outperformed its other business divisions with 177% growth in its turnover at ₹29.4 billion during Q3FY12. Going further, we expect turnover from the EPC segment to stay buoyant for the coming 12 months horizon, largely due to expected revenue inflows on the completion of power projects at Sasan and Samalkot.

The company is likely to merge five wholly-owned subsidiaries with itself in order to reduce the administrative costs, remove multiple-layer inefficiencies and to achieve operational as well as management efficiency. Further, the company is also mulling to raise funds worth ₹3.6 billion via non convertible debentures.

During Q3FY'12, RInfra's consolidated net profit reported 66.3% growth in its net sales to ₹61,302.5 million in Q3FY'12, driven by higher sales from its engineering and construction (EPC) business and electrical segment. We expect RInfra's revenue to grow at a CAGR of 28% between FY11-FY13E.

In the metro segment, RInfra intends to increase the frequency of trains at the Airport express metro link in Delhi and thereby increase the number of daily commuters to 50,000 passengers per day by the end of FY13E and to around 100,000 by FY15-16E. Beside, the company has also qualified for Jaipur Metro Rail project Phase-I, along with other three bidders.

RInfra is presently working in the development of five power transmission projects across the North-western part of the country. Of which, the WRSS project is likely to see completion by the end of 2012, providing higher revenue visibility for FY13. Meanwhile, the six EHV stations commissioned in Mumbai also ensure hassle free power transmission in the city.

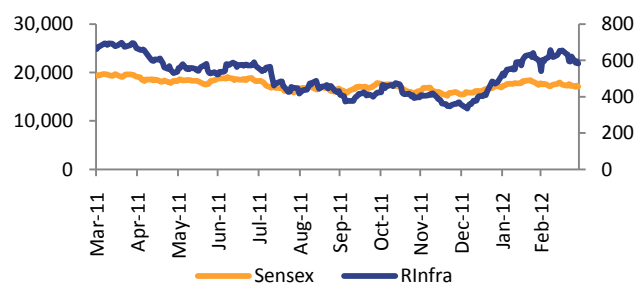
### Market Data

<b>Rating</b>	<b>BUY</b>
<b>CMP (₹)</b>	587
<b>Target (₹)</b>	<b>680</b>
<b>Potential Upside</b>	~16%
<b>Duration</b>	Long Term
52 week H/L (₹)	710/328
All time High (₹)	2,510.3
Decline from 52WH (%)	21.0
Rise from 52WL (%)	44.1
Beta	2.02
Mkt. Cap (₹ bn)	143.7
Enterprise Value (₹ bn)	275.5

### Fiscal Year Ended

	FY10A	FY11A	FY12E	FY13E
Revenue (₹bn)	146.3	151.4	218.8	247.2
Net Profit(₹bn)	15.2	15.5	18.1	21.9
Share Capital	2.4	2.7	2.7	2.7
EPS (₹)	62.0	58.0	67.6	82.0
P/E (x)	9.5	10.1	8.7	7.2
P/BV (x)	0.7	0.7	0.6	0.6
EV/EBITDA (x)	9.6	11.1	8.5	8.3
ROE (%)	7.3	6.6	7.1	7.9
ROCE (%)	6.3	5.5	7.1	7.5

### One year Price Chart



### Shareholding Pattern

	Dec'11	Sep'11	Diff.
<b>Promoters</b>	48.51	48.40	0.11
<b>FII</b>	14.48	15.03	(0.55)
<b>DII</b>	21.01	21.03	(0.02)
<b>Others</b>	16.00	15.54	0.46



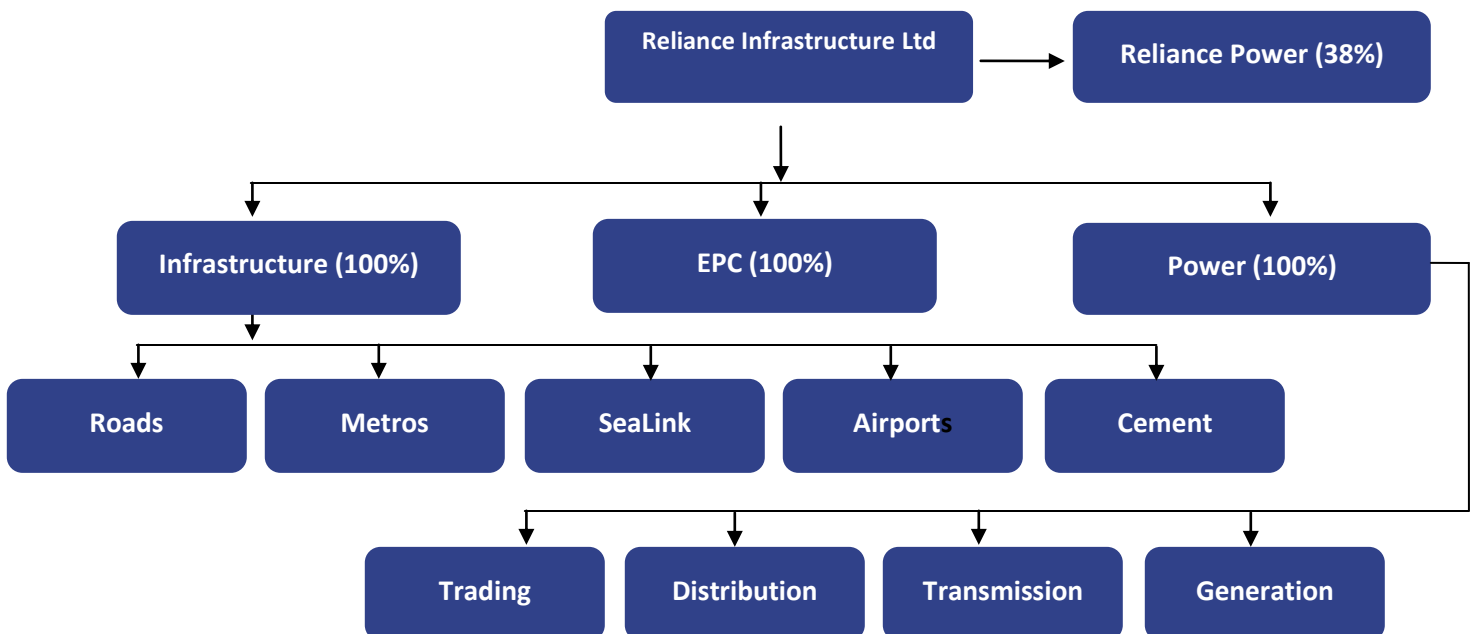
*With leadership in wide range of operations in the Infrastructure, Engineering, Procurement and Contracts (EPC) and Power sector, RInfra stands amongst top performing Indian private sector companies in the country.*

## A ~\$3 billion Company with wide presence in the Infrastructure development space

RInfra, formerly known as Reliance Energy Ltd, with a market cap of more than \$3 billion, was incorporated in 1929 and ranks amongst top performing Indian private sector companies in the country. The company operates in three business segments: Infrastructure, Engineering, Procurement and Contracts (EPC) and Power. The company is the largest private sector infrastructure developer on ownership basis and is having presence in all high growth sectors viz; Roads, Metro, Sea Link, Cement and Airports. The company is having 11 roads projects worth ₹120 billion under its portfolio. Further, it is also having 3 Metro projects worth ₹170 billion, 1 sea link project of ₹46 billion, 2 cement projects in Maharashtra and Madhya Pradesh worth ₹47 billion and 5 airports projects worth ₹5 billion. Reliance Infrastructure has also emerged as the leading player in India in the Engineering, Procurement and Construction (EPC) segment of the power sector. RInfra is having a healthy EPC order book of ₹212 billion spread across power, Roads and Transmission projects. In addition to this, RInfra has also emerged as the largest private sector player in the utility sector. Currently, it is having power generation capacity of 941 MW and 37,000 MW through Reliance Power. It is having the power distribution license in Mumbai and Delhi serving over 5.4 million customers and distributes over 5,000 MW of power. Under its Transmission segment, RInfra is having 5 projects worth ₹66 billion.

RInfra also owns 38% stake in Reliance Power (R Power) with an aggregate investment of ₹17.2 billion. R Power is likely to develop all future power generation assets in India and overseas with having 600 MW of operational capacity and over 20,000 MW under execution. Further, the company is targeting 5,000 MW of operating capacity by 2012. R Power is also having largest coal resources of ~ 4 billion tonnes.

### Business Overview





## Reported stellar performance in Q3FY'12 on strong execution

RInfra, the infrastructure development arm of the Anil Ambani-led Reliance Group reported a 66.3% growth in its net sales on consolidated basis to ₹61,302.5 million in Q3FY'12, driven by higher sales from its engineering and construction (EPC) business and electrical segment. The EPC business clocked revenue of ₹29,405.9 million, up 177.1% on YoY basis, as it largely undertakes construction of in-house projects and is benefiting from a large number of projects that are under construction. On contrary, operating profit margin (OPM) depreciated by 220bps to 13.0% on YoY basis, due to 193.6% rise in material cost & sub contract charges, which in turn capped the operating profit growth of the company to 42.5% YoY at ₹795.5 million. Owing to 109.5% rise in interest charges and 13% rise in taxation charges, the PAT before share of profit from associate and minority interest reported a decline of 8% in Q3FY'12 on YoY basis at ₹3,186.5 million as against ₹3,468.8 million in Q3FY'11. However, taking into consideration the share of profit from associate that surged by 54% to ₹893.9 million, the resultant net profit after minority interest and profit from associate settled marginally higher at ₹4,083.2 million, an increase of 0.8% on YoY basis. As a result, the NPM depreciated by 410bps YoY to 6.5%.

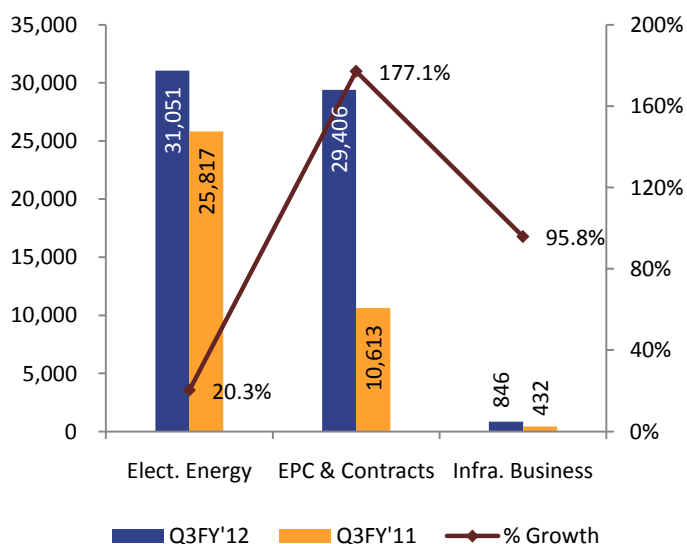
## Strong EPC drive the operational performance

RInfra's EPC business reported income of ₹29,405.9 million in Q3FY'12, up 177.1% YoY driven by better execution in RPower projects. As on December 2011, EPC segment had an order book position of ₹215,550 million. The order book comprises of 6 power projects of over 9,900 MW, one transmission project of 1,500 kms along with 6 road projects totalling 570 kms. Further, revenue from the electricity and infrastructure business grew by 20.3% and 95.8% respectively on YoY basis. The company has also added 190,000 customers in its power distribution circles in Mumbai and Delhi in 2011. The units sold in Mumbai and Delhi stood at 1,599 million (-11.2% YoY) and 3,358 million (+8.4% YoY) respectively. Besides, the company is developing 11 road projects out of which its 5 projects are already operational, while five additional would begin generating revenue in next three months. Meanwhile, the total assets under BOT basis reported a growth of 96% YoY at ₹850 million and with the induction of Mumbai metro into BOT portfolio will add value for the company.

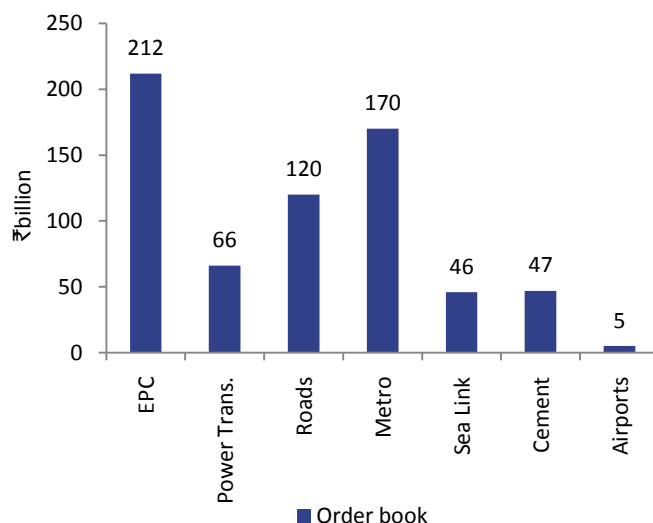
*Impressive Q3FY11 financial results with over 66% growth in revenue and 42% rise in operating profit.*

*Higher sales in the engineering and construction (EPC) business and electrical segment, drives RInfra's Q3FY12 revenues.*

Revenue trend across segments (₹mn)



Segment-wise order book till Dec'11





## Sasan and Samalkot Mega Power Project to drive EPC Division in FY13E

RInfra's EPC Division undertakes the Engineering, Procurement and Construction (EPC) turnkey contracts for power generation projects in coal based thermal and gas, transmission, distribution and road projects. During Q3FY12, the EPC segment outperformed the other business divisions of the Indian conglomerate with 177% growth in its business turnover at ₹29.4 billion against ₹10.6 billion in the same period prior year. The units operating profits also skyrocketed 212% to ₹3.50 billion, keeping margins elevated at 10% level. The division is currently working on 11 projects that comprises of 6-power projects at an aggregate of 9,900 MW, 1 transmission project of 1500 kms and 6 road projects of 570 kms. Equipped with high state-of-the-art technology in engineering, design and project management, the EPC division's order book stays elevated at ₹211.5 billion at the end of the first nine month of the fiscal. With persistent efforts to develop a strong foothold in engineering, construction and technology for the effective execution of mega and ultra mega power projects, the EPC division is well positioned for building large power projects. We expect RInfra's turnover from the segment to stay buoyant for the coming 12 months horizon, larger part of which is expected to be driven by the 6 x 660 MW Sasan Ultra Mega Power Project and 2,400 MW Samalkot Combined Cycle Power Plant.

*Q9FY12, EPC segment revenue reaches all time high of ₹69 billion with 177% revenue growth during Q3FY12 alone. We expect FY13 turnover to remain buoyant with ensured inflow from Sasan and Samalkot projects.*

*EPC order book stays elevated at ₹211.5 billion at the end of the first nine month of the fiscal.*

### EPC order book at a glance

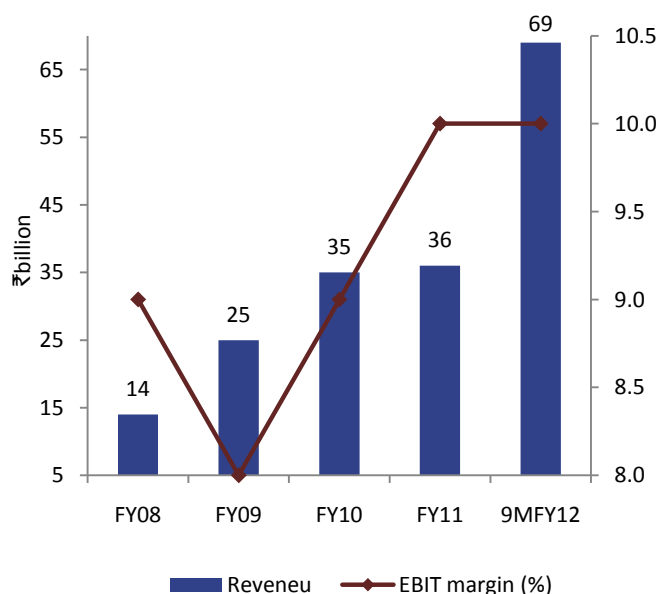
#### R Power & Internal Power projects

- 3,960 MW Sasan UMPP
- 600 MW Butibori Thermal power project (TPP)
- 2,400 MW Samalkot power project
- Western Region Strengthening project

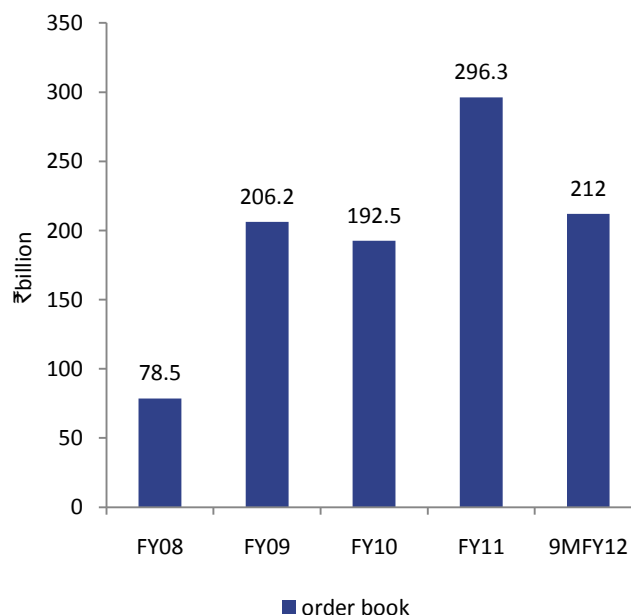
#### Road projects

- Gurgaon Faridabad Toll Road
- Jaipur Reengus Toll Road
- Pune Satara Toll Road
- Kandla Mundra Toll Road

Revenue and margin trend of EPC segment



Order book of EPC segment





## EHV stations to work in advantage of Transmission business in Mumbai

RInfra under its power transmission segment is working on the development of 5 transmission projects worth about ₹66 billion, strengthening its market position as the largest private player in the transmission sector of the country. During Q3FY12, the company commissioned three extra high voltage (EHV) GIS substation in Mumbai city, which takes the total count of EHV stations commissioned by RInfra in the city to six. All EHV stations are operating at an all time high availability of 99.82% against MERC target of 98%. Transmission business in Mumbai is landlocked and it is a challenge to bring power into the city. It is not possible to increase generation capacity within Mumbai, so any new growth has to be bought in form outside. The commissioning of the EHV stations encounters this challenge by enabling free flow of power in the city.

Additionally, under the WRSS project has completed the construction of five lines out of nine and has commissioned more than 1,500 kms of transmission lines in Maharashtra and Gujarat. This enables the leader to transmit 4,000 MW of power in western region. The company expects to finish the construction of the remaining four transmission lines in the region and thereby generate revenue from them by the end of 2012.

*Of the total transmission order book of ₹66 billion, WRSS project is likely to see completion by the end of 2012. Meanwhile, the six EHV stations commissioned in Mumbai also ensure hassle free power transmission in the city.*

### RInfra's power transmission projects-At a glance

Projects	Project Cost ( ₹billion)	Project Status
Western Region Strengthening Scheme (WRSS) SPV	13.8	<ul style="list-style-type: none"> <li>First 100% privately owned transmission line commissioned in India</li> <li>More than half of the lines commissioned in Maharashtra &amp; Gujarat</li> <li>Project to be commissioned in 2012</li> </ul>
Parbati Koldam SPV	10.7	<ul style="list-style-type: none"> <li>Signed financing agreement with PFC &amp; REC for debt amount of ₹7.7 billion</li> <li>Obtained approval from MOP for commencement of work</li> <li>Construction activities started at project site</li> </ul>
Mumbai Strengthening System	18.0	<ul style="list-style-type: none"> <li>License renewed for next 25 years i.e till 2036</li> <li>All major equipment orders such as GIS, Transformers, Cables placed</li> <li>Registered all time high availability of 99.8% v/s regulatory target of 98%</li> <li>6 EHV stations operational till date</li> </ul>
North Karanpura (UMTP) SPV	15.5	<ul style="list-style-type: none"> <li>Acquisition process completed</li> <li>Applied for force majeure</li> </ul>
Talcher II (UMTP) SPV	8.2	<ul style="list-style-type: none"> <li>Acquisition process completed</li> <li>Applied for force majeure</li> </ul>
<b>Total</b>	<b>66.2</b>	



*RInfra's metro segment provides promising outlook as number of daily commuters in the Delhi-Metro Airport Express link rise significantly*

*With growing demand for the retail space in the two stations of New Delhi and Connaught Place, the company expects to lease out 40,000 sq feet by the end of third quarter of FY13E*

## Largest private sector player in the Metro Rail sector

RInfra is the largest private player in metro rail sector of India, which has implemented three metro rail projects, two in Mumbai and one in Delhi on a build, own and transfer basis, worth around ₹170 billion.

RInfra's metro link that connects New Delhi railway station to the International Airport and with further connection to Dwarka, which was constructed at a record time of 27 months from the date of signing of Concession Agreement with Delhi Metro Rail Corporation Limited (DMRC) completed its first full year of operation.

- The link has witnessed a significant rise in the daily commuters from 4,000 in February 2011 to 20,000 by March 2012. RInfra intends to increase the ridership to 50,000 passengers per day by the end of FY13E.
- The division runs trains for 18 hours a day at a frequency of 12 mins during peak hours and 15 mins for remaining day. It intends increase the frequency of trains in the Airport express link to 10 mins and thereby enhance ridership to around 100,000 by FY15-16E.
- RInfra's metro unit has around 120,000 square feet of retail area in two stations of New Delhi and Connaught Place, out of which 30,000 has got leased out to the prime retailers like WH Smith, KFC Cafe Coffee Day, Samsonite etc. The company expects to lease the remaining space by the third quarter of FY13E.
- Beside, the advertising properties at its stations both inside and outside the train have also got huge demand and top retailers like Pepsi, Volkswagen, McDonald have all shown great interest and are taking up these properties.

RInfra, in association with Mumbai Metropolitan Region Development Authority (MMRDA) is also working to build the metro connectivity in Mumbai to give the much needed east to west connectivity to about 6 lakh commuters in the city through the implementation of Versova-Andheri-Ghatkopar (VAG) Corridor Mass Rapid Transit System (MRTS) project. With all approvals in hand, the company has completed around 90% of the civil work of the Mumbai Metro Line I and has also received a funding of ₹4 billion from MMRDA for the timely commissioning of the project, scheduled on 2012. Meanwhile, for Mumbai Metro Line II, the company has completed the Topographical Survey of the alignment. The company has also qualified for Jaipur Metro Rail project Phase-I, along with other three bidders.

## Risk Factors

- A slowdown in the overall economic growth could put pressure on the order inflows and would hurt the profitability of the company.
- Any unexpected changes in the regulatory framework pertaining regulatory issues which may impact the business.
- Delay in completion of the projects would defer the contemplated revenue flow and would increase the operational expenditure of the company in the harder interest rate environment.
- Fluctuation in foreign currency movements could impact assets & liabilities denominated in foreign currency.
- Slowdown in power demand growth could hamper earnings & breakeven for Reliance Power.
- Various other external risks such as poor geological conditions and weather, force majeure risks such as earthquake and floods also possess a major risk.

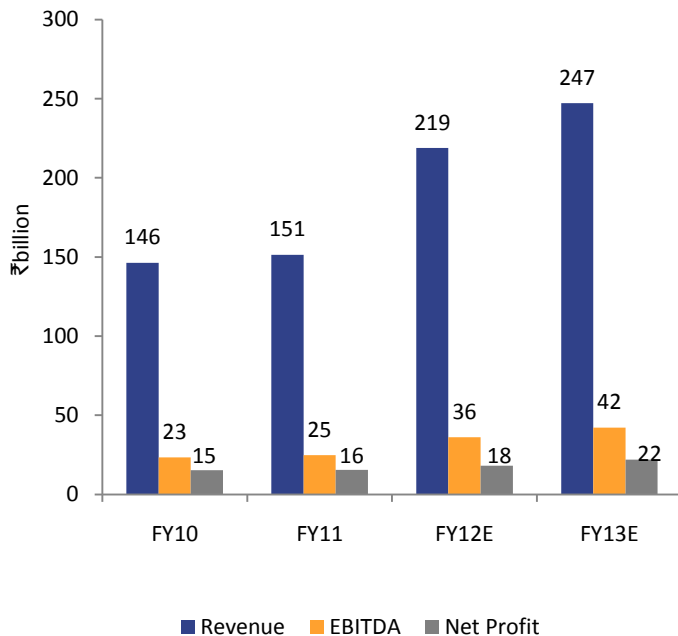


## Renewed distribution license in Mumbai to fuel up power distribution Business

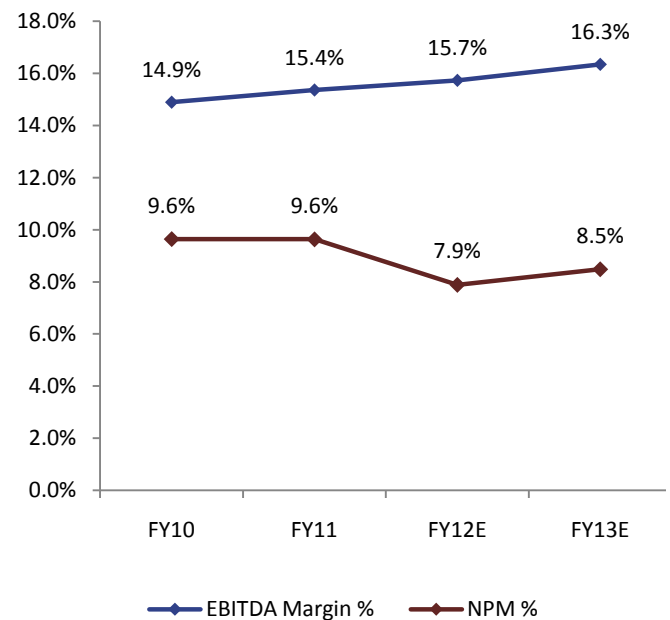
RInfra is one of the largest private sector power distributor of India and enlightens 2 out of 3 homes in Delhi and Mumbai by distributing over 7,000 MW of power to around 7.5 million customers in these cities. During Q3FY12, the company's Mumbai distribution business recorded aggregated revenue of ₹11.8 billion, lower from a turnover of ₹12.6 billion in the same period prior year due to fall in sales of electrical energy from 1,801 million units in Q3FY11 to 1,599 million units in Q3FY12. Besides, the Company has earned Cross Subsidy Surcharge of ₹290 million levied on the consumers migrated to Tata Power and has added ~17,400 consumers in Q3FY12 alone in the region. The company has submitted its business plan to recover approved Regulatory Assets of ₹23.1 billion along with carrying cost at SBI PLR to MERC and expects early approval to it. We expect the power distribution business of RInfra to spur up in the coming months, powered by its persistent efforts to maintain the growth momentum and ensured hassle free operations in Mumbai for the coming 25 years with renewed distribution license in the region. Meanwhile, RInfra's revenue from the distribution operations in Delhi mounted to ₹19 billion during the quarter compared to ₹13.9 billion in the corresponding quarter of previous year as its aggregate sales of electrical energy mounted to 3,358 million units in the region, 8% higher from the prior year sales. The company has got approval from IDBI bank for financial package of ₹51 billion, which required a total equity infusion of ₹10 billion to which the company and the Delhi Government has already contributed around ₹5 billion each. With the functioning of the 22% tariff hike programme since September 2011, regulatory approval of the fuel adjustment charge, higher customer additions and new order from appellate authorities, we expect RInfra's power distribution operations in Delhi to witness stable operational margins in FY13E.

*The power distribution business of RInfra to spur up in the coming months, powered by its persistent efforts to maintain the growth momentum and ensured hassle free operations in Mumbai for the coming 25 years with renewed distribution license in the region.*

### Future growth pegged @ 28% CAGR~ FY'11-FY'13E



### Margins Trend





## Balance Sheet (Consolidated)

(₹billion)	FY10A	FY11A	FY12E	FY13E
Share Capital	2.4	2.7	2.7	2.7
Share warrants	5.4	0.0	0.0	0.0
Reserve and surplus	199.2	233.4	251.5	273.4
<b>Net Worth</b>	<b>207.0</b>	<b>236.1</b>	<b>254.1</b>	<b>276.1</b>
Loan funds	85.8	123.1	153.8	181.5
Minority Interest	1.1	1.8764	1.9	2.1
Deferred Tax Liability	1.6	1.0	1.0	1.1
<b>Capital Employed</b>	<b>295.6</b>	<b>362.0</b>	<b>410.8</b>	<b>460.7</b>
Total Fixed assets	111.7	187.8	213.8	239.7
Investment	136.6	137.9	156.5	175.6
Net Current Assets	47.3	36.3	40.4	45.4
<b>Capital Deployed</b>	<b>295.6</b>	<b>362.0</b>	<b>410.8</b>	<b>460.7</b>

## Profit & Loss Account (Consolidated)

(₹billion)	FY10A	FY11A	FY12E	FY13E
Net Sales	146.3	151.4	218.8	247.2
Other income	11.2	9.6	10.5	11.4
Expenses	134.0	136.3	193.2	216.3
EBITDA	23.5	24.7	36.1	42.3
EBITDA Margin %	14.9	15.4	15.7	16.3
Depreciation	4.7	4.8	7.0	7.9
EBIT	18.7	19.9	29.1	34.4
Interest	5.3	6.3	9.2	10.4
Profit Before Tax	13.5	13.6	19.9	24.0
Tax	1.5	1.3	1.8	2.1
Net Profit	15.2	15.5	18.1	21.9
NPM %	9.6	9.6	7.9	8.5

## Key Ratios

	FY10A	FY11A	FY12E	FY13E
EBITDA Margin (%)	14.9	15.4	15.7	16.3
EBIT Margin (%)	11.9	12.4	12.7	13.3
NPM (%)	9.6	9.6	7.9	8.5
ROCE (%)	6.3	5.5	7.1	7.5
ROE (%)	7.3	6.6	7.1	7.9
EPS (₹)	62.0	58.0	67.6	82.0
P/E (x)	9.5	10.1	8.7	7.2
BVPS	845.3	882.7	950.2	1,032.2
P/BVPS (x)	0.7	0.7	0.6	0.6
EV/Operating Income (x)	1.5	1.8	1.4	1.4
EV/EBITDA (x)	9.6	11.1	8.5	8.3
EV/EBIT (x)	12.1	13.8	10.5	10.2

## Valuation and view

RInfra has developed a strong foothold in engineering, construction and technology for the effective execution of mega and ultra mega power projects. Further, the EPC division is well positioned for building large power projects. Going further, we expect turnover from the EPC segment to stay buoyant for the coming 12 months horizon, largely due to expected revenue inflows on the completion of power projects at Sasan and Samalkot. Further, the company's earnings would be driven by infra projects which are lined up for commissioning in next 1-2 years. We expect the company to grow at ~28% CAGR over FY2011-13E, on the back of better growth in EPC segment and better visibility in electrical energy segment. Therefore we rate the stock as 'BUY'. At the current market price of ₹587, the stock is trading at a PE of 8.7x on FY'12E EPS of ₹67.6 and 7.2x on FY'13E EPS of ₹82.0.





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