Q4FY12 Result Update

May 31, 2012

Reliance Infrastructure Ltd (RInfra) is present across the entire power chain - generation, transmission and distribution. Further, it also has a presence in EPC (engineering, procurement and construction) projects for the power sector and in Infrastructure projects (Metros, Roads and Real Estate).

In Q4FY12, RInfra reported consolidated revenues of Rs 7,135.3 cr, up 89.9% y-o-y driven mainly by the EPC segment. Operating margins stood at 6.9% compared to 5.6% in Q4FY11. Interest costs were higher at Rs 419.3 cr (Rs 199.3 cr in Q4FY12). PAT for the quarter stood at Rs 411.5 cr, almost flat y-o-y. Infrastructure segment continued to contribute negative EBIT to the consolidated results. Incremental earnings were largely contributed by the Delhi distribution business, five operational road projects and Delhi Metro project.

Key Highlights of Results (Consolidated)

Consolidated (Rs. cr)	Q4FY12	Q4FY11	% chg	Q3FY12	% chg	FY12	FY11	% chg
Sale of electrical energy	**2774.2**	**2848.9**	-2.6%	**3127.3**	-11.3%	**12239.5**	**12020.5**	1.8%
Income from EPC	**4134.8**	**775.5**	433.2%	**2939.9**	40.6%	**11036.0**	**2990.5**	269.0%
Income from Infrastructure Business	**91.4**	**49.9**	83.1%	**84.9**	7.7%	**365.2**	**116.9**	212.4%
Other Operating income	134.9	83.5	61.5%	7.6	1684.4%	631.1	92.3	583.5%
Net Income	**7135.3**	**3757.9**	89.9%	**6159.6**	15.8%	**24271.8**	**15220.2**	59.5%
Other Income	225.0	389.2	-42.2%	184.2	22.1%	761.1	692.7	9.9%
Total Income	7360.3	4147.1	77.5%	6343.8	16.0%	25032.9	15912.9	57.3%
Total Expenditure	6641.6	3545.6	87.3%	5364.1	23.8%	21489.3	13424.5	60.1%
EBIDTA	**718.7**	**601.5**	19.5%	**979.7**	-26.6%	**3543.6**	**2488.4**	42.4%
Depreciation	98.4	116.1	-15.3%	101.6	-3.2%	403.3	487.1	-17.2%
EBIT	620.3	485.4	27.8%	878.1	-29.4%	3140.3	2001.3	56.9%
Interest	419.3	199.8	109.9%	352.2	19.1%	1335.9	645.5	107.0%
PBT	201.0	285.6	-29.6%	525.9	-61.8%	1804.3	1355.8	33.1%
Tax	-117.7	-57.8	103.6%	207.3	-156.8%	544.2	126.8	329.0%
PAT	**318.7**	**343.4**	-7.2%	**318.7**	0.0%	**1260.2**	**1229.0**	2.5%
Share of profit in associate (net)	96.6	68.0	41.9%	89.4	8.0%	332.0	322.9	2.8%
Minority interest	3.8	0.5	656.0%	-0.3	NC	5.5	0.3	1563.6%
Consolidated PAT	**411.5**	**410.9**	0.1%	**408.3**	0.8%	**1586.7**	**1551.6**	2.3%
Current equity	**263.0**	**267.5**		**263.1**		**263.0**	**267.5**	
EPS	**15.6**	**15.4**		**15.5**		**60.3**	**58.0**	
Face Value	**10**	**10**		**10**		**10**	**10**	
OPM	**6.9%**	**5.6%**		**12.9%**		**11.5%**	**11.8%**	
NPM	**5.8%**	**10.9%**		**6.6%**		**6.5%**	**10.2%**	
Tax	**-58.5%**	**-20.2%**		**39.4%**		**30.2%**	**9.4%**	

(Source: Company, HDFC Sec)

- RInfra reported a Total Net Sales of Rs 7,135.3 cr in Q4FY12, up 89.9% y-o-y and 15.8% q-o-q driven mainly by EPC business. Income from EPC business has gone up from Rs 775.5 cr in Q4FY11 to Rs 4,134.8 cr during the quarter. Infrastructure business has grown 83.1% y-o-y to Rs 91.4 cr.

- Other income during Q4FY12 stood at Rs 225 cr, up 22.1% q-o-q but lower by 42.2% y-o-y.

- Operating margins have improved to 6.9% y-o-y from 5.6% but has come down from 13% q-o-q. The improvement over corresponding quarter last year was mainly on account of lower cost of electricity, fuel costs, lower employee costs and lower other expenditure as percentage cost to sales. Sequentially, higher EPC costs have put pressure on margins.

Cost as a % of net sales	Q4FY12	Q4FY11	Q3FY12	FY12	FY11
Cost of electricity	24.8%	45.8%	30.0%	32.2%	49.0%
Cost of fuel	5.7%	12.0%	6.0%	6.6%	9.8%
Tax on sale of electricity	0.0%	0.0%	0.0%	0.0%	0.0%
EPC costs	54.7%	17.6%	40.4%	40.0%	15.6%
Employee cost	3.0%	7.0%	4.4%	4.2%	6.6%
Other expenditure	4.9%	12.0%	6.2%	5.5%	7.2%

(Source: Company, HDFC Sec)

- Interest costs stood at Rs 419.3 cr, almost double from Rs 199.8 in Q4FY11 while sequentially up 19.1% q-o-q. Pursuant to the policy change in depreciation for the electricity business in Q1FY12, RInfra has reported lower depreciation costs at Rs 98.4 cr, down 15.3% y-o-y and down 3.2% q-o-q.

- Share of profit from associates have gone up 41.9% y-o-y and 8% q-o-q to Rs 96.6 cr. The main associate company is Reliance Power where RInfra has a 38% stake. Profits before tax were down 29.6% y-o-y and 61.8% q-o-q to Rs 201 cr. Tax was negative at Rs 117.7 cr in Q4FY12 on account of deferred tax assets created and inclusion of previous year taxes. Profits after tax (after minority interest & associate share) were down 7.2% y-o-y and almost flattish q-o-q at Rs 318.7 cr. PAT margins were lower at 5.8% compared to 10.9% in Q4FY11 and 6.7% in Q3FY12.

- For FY12, RInfra reported 59.5% increase in Total Net Sales to Rs 24,271.8 cr driven mainly by EPC business. Operating margins are slightly lower at 11.5% (11.8% in FY11). Interest costs have more than doubled to Rs 1,335.9 cr from Rs 645.5 cr. Depreciation costs are lower by 17.2% to Rs 403.3 cr on account of change in depreciation policy done in electricity business in Q1FY12. PBT rose 33.1% y-o-y to Rs 1,355.8 cr. Higher tax rates of 30.2% compared to 9.4% last year has led to lower PAT growth at 2.3%. PAT stood at Rs 1,586.7 cr for FY12

- Consolidated debt stands at about Rs 181 bn (up from Rs.9.86 bn) with a debt:equity ratio of 0.74.

- Dividend of Rs 7.3 per share for FY12 has been declared (Rs 7.2 per share in FY11).

- Pursuant to the Scheme of Arrangement with appointed date as February 2012, Reliance Energy Limited (REL), Reliance Energy Generation Limited (REGL), Reliance Goa and Samalkot Power Limited (RGSPL), Reliance Infraventures Limited (RIVL) and Reliance Property Developers Limited (RPDPL), wholly owned subsidiaries of the Parent Company, amalgamated with the Parent Company; and Reliance Infrastructure Engineers Private Limited (RIEPL), a wholly owned subsidiary of the Parent Company, demerged its container business into the Parent Company. There is no impact on consolidated financial statements on account of the said merger as the transaction gets eliminated on consolidation being a transaction between parent and subsidiary except for increase in capital reserve of Rs. 1,212.60 cr (Net) and reduction in General Reserve by Rs. 987 cr.

Segmental Split

Particulars (Rs. cr)	Q4FY12	Q4FY11	% chg	Q3FY12	% chg	FY12	FY11	% chg
Segment revenue	**7135.3**	**3757.9**	89.9%	**6159.6**	**15.8%**	**24271.7**	**15220.2**	**-59.7%**
Electrical energy	2902.0	2931.0	**-1.0%**	3134.1	-7.4%	12858	12109.3	-74.4%
EPC and contracts	4140.8	777.0	433.0%	2940.6	**40.8%**	11047.8	2994.0	**-1.8%**
Infrastructure	92.5	49.9	85.4%	84.6	9.4%	365.9	116.8	213.1%
PBIT	**457.2**	**258.5**	**76.9%**	**740.8**	**-38.3%**	**2551.8**	**1494.5**	**70.7%**
Electrical energy	253.5	237.7	6.6%	447.2	-43.3%	1650.9	1235.2	33.7%
EPC and contracts	231.1	19.7	**1074.7%**	314.9	**-26.6%**	916.79	241.3	**280.0%**
Infrastructure	-27.3	1.1	NC	-21.2	28.6%	-15.85	18.0	-188.0%
PBIT %	6.4%	6.9%		12.1%		10.5%	9.8%	
Electrical energy	8.7%	8.1%		14.4%		12.8%	10.2%	
EPC and contracts	5.6%	2.5%		10.7%		8.3%	8.1%	
Infrastructure	-29.5%	2.2%		-25.1%		-4.3%	15.4%	
Capital Employed								
Electrical energy	9389.9	7771.3	20.8%	8600.8	**9.2%**	9388.9	7771.3	10.7%
EPC and contracts	2816.4	509.6	452.7%	3511.4	-19.8%	2816.4	509.5	589.2%
Infrastructure	4362.8	4164.7	4.8%	4236.8	**3.0%**	4362.8	4164.7	1.7%
Unallocated corporate assets	7666.6	1162.1		8518.6		7666.6	1162.1	

(Source: Company, HDFC Sec)

- **Electrical energy segment**
  The electrical energy segment reported almost flat revenues at Rs 2,902 cr y-o-y and down 6.5% q-o-q in Q4FY12. For FY12, the segment reported a 59.5% increase in revenues to Rs 12,858 cr. In the Mumbai distribution business, RInfra reported revenues of Rs 1100 cr up 4% y-o-y and down 7% q-o-q on sales of 1,354 MU (down 16% y-o-y and 15% q-o-q). Despite volume decline revenues increased mainly on account of higher wheeling charges and levy of cross subsidy surcharge of Rs 29 cr on customers who have migrated to Tata Power's network. For FY12, it has collected cross subsidy surcharge of Rs 50 cr. It has also submitted to MERC its plan to recover ~Rs 4800 cr of regulatory assets over six years.

  The Delhi distribution business reported power sales of 2,582 MUs (down 12% y-o-y and 23% q-o-q) with revenues of Rs 400 cr, up 27% y-o-y and down 79% q-o-q with an average realization of Rs 1.6/kwh. During the quarter DERC approved fuel adjustment surcharge of 6% and 7% for BRPL and BYPL respectively. The company is expecting DERC to announce tariff hikes by mid-June.

- **EPC Business**
  EPC business did very well with revenues of Rs 4,140.8 cr, up from Rs 777 cr in Q4FY11 and Rs 2,940 cr in Q3FY12. For FY12, revenues for the segment was up from Rs 2,994 cr to Rs 11,047.8 cr. Revenues were mainly driven by pick up in execution for

Sasan and Samalkot projects of Reliance Power. RInfra's order book stood at Rs 173 bn as on March 2012 and includes six power projects (9,900 MW), one transmission project (1,500 km) and six road projects (570 km).

- **Infrastructure**
  The Infrastructure segment posted a growth of 85.4% y-o-y and 9.4% q-o-q to Rs 92.5 cr. For FY12, it posted a top-line of Rs 365.9 cr up from Rs 116.9 in FY11. Commencement of operations of Delhi Metro and three additional road projects contributed to the increase compared to the same period last year. However EBIT in Q4FY12 was negative at Rs 27.3 cr likely on account of losses at Delhi Metro.

Other Developments / Updates

- **Buyback –** On February 14, 2011, company had approved a buy-back for an aggregate amount of up to Rs. 1,000 cr (US$222 million) at a price not exceeding Rs 725 per equity share. Pursuant to this, company has brought back 44.3 lac shares of Rs 234 cr in FY12 including 45,262 shares bought in March quarter. Promoter's stake at the end of March 2012 stands at 48.53% up from 48.51% as on December 2011.

  RInfra has announced two buybacks in the past. The first one, in which the company bought back 87.6 lakh shares for Rs 796 cr, opened in March 2008 and was closed in Feb 2009. In the second one the company said it would buy back shares worth Rs 700 cr from the open market at a maximum price of Rs 700 a share in Feb 2009. The second buyback was closed in April 2009 after RInfra bought back 25,00,000 Equity Shares of the Company, being the minimum offer size, for an aggregate amount of Rs.127.4 cr.

- In respect of claim by Tata Power Company of Rs 323.9 cr along with the interest based on orders passed by MERC/ATE towards difference in energy charge and minimum offtake charges, the final hearing is pending.

- **Reliance Power** - Reliance Power (an associate company - 38% stake) reported Net Sales of Rs 532.6 cr (up 7.5% y-o-y) and Rs 120.2 cr of other income in Q4FY12. Operating margins stood at 33.5% compared to 31.2% in Q4FY12. PAT was up 23.9% at Rs 231.3 cr. Rosa power plant continued to report stable operations with PLF of 86% in Q4FY12. Coal extraction at Sasan is likely to begin in Q2FY13 and the first 660 MW unit at this plant should be commissioned in December 2012. It added 640 MW in FY12 to raise total capacity to 1240 MW. The company expects to reach a capacity of 5000 MW by March 2013.

- **Metro Rail –** RInfra is the largest private player in metro rail sector in the Country and is operating / developing 3 metro rail projects in Mumbai and Delhi worth around Rs 17,000 cr.

  Reliance Metro Airport Link in Delhi started commercial operations in Q4FY11 – First PPP metro project to become operational in India. Daily commuters have increased to 20,000 passengers within first year of operations. Retail deals closed ~60,000 sqft with key players at New Delhi Railway Station and Shivaji stadium station. Advertisement deals executed with some unique campaigns like full train internal branding by Air India and campaigns by Gujarat tourism.

  Reliance Metro Line I in Mumbai construction is in full swing for major structures including Western Express Highway Bridge, Railway Line Bridge, etc. Three trains of four coaches have been received. Viability Gap Funding of Rs 402 crore has been received from MMRDA. Around 90% of the civil work is completed and the project is scheduled to be commissioned within FY13.

- **Roads –** RInfra is operating / developing 11 road projects of ~1,000 kms worth Rs 12,000 crore. Of which, 5 projects are already operational and additional 3 road projects would start generating revenue within next 3 months. Trichy Dindigul (TD) four laning project in Tamilnadu became operational in January 11, 2012.

- **Mumbai Sealink –** RInfra has signed a concession agreement for the Western Freeway Sea Link having a project outlay of Rs. 4,550 cr with MSRDC for 40 years of concession period. The project has already achieved financial closure.

- **Cement** - Reliance Cement Company Pvt Ltd is developing two cement plants of 5 million ton each in Maharashtra and Madhya Pradesh. The construction of the first cement plant of 5mtpa has started in MP and is expected to be completed by FY13. Grinding and Blending Unit at Butibori (Maharashtra) is nearing completion and is likely to be commissioned by Q2FY13.

- **Transmission –** RInfra is developing 5 transmission projects including 2 Ultra Mega Transmission Projects (UMTP's) i.e. North Karanpura and Talcher – II, with total project outlay of Rs 6,600 cr. Under Mumbai Strengthening project, 4 Extra High Voltage (EHV) stations were charged in FY12. This is enabling free flow of power in Mumbai. All EHV stations registered an all time high availability of 99.7% against MERC target of 98%. Under WRSS project, more than half of 1,500 kms transmission line (i.e. 5 lines out of 9 lines) in Maharashtra and Gujarat are commissioned and revenue generating. This project will enable transmit 4,000 MW of power in western region. More than 90% of tower foundation work and 50% of stringing work is completed. Project is expected to be fully operational within 2012.

Concerns

- The company has a large number of projects under development, exposing it to execution and funding risk. Delays in project execution, resulting from the shortage of equipment or labor problems etc, can lead to delay revenue recognition. Further, cost over runs could delay the breakeven period for the various BOT projects. Projects in the real estate segment could face delays due

to the current market conditions. Other risks in this segment include failure to financially close incremental infrastructure projects and higher interest rates and market risk premium leading to lower valuations for various infrastructure projects.

- 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 sizeable part of its investments in group entities and yield bearing instruments. Any diminution in the value of the same could impact valuations since other income forms a large part of PAT.
- Slowdown in demand growth for power could impact earnings & breakeven for Reliance Power.
- The Supreme Court verdict rests the right of gas allocation and price determination with the Government. This creates further uncertainty for fuel supply & pricing thereof for Reliance Power.
- Fluctuation in foreign currency movements could impact assets & liabilities denominated in foreign currency.
- Power projects are capital intensive, and as such run the risk of longer development period than planned due to delay in statutory clearances, financial and infrastructural bottlenecks, execution delay, performance risk, and cost over-run. While, the experience of RInfra in implementing projects without significant time and cost overruns provides confidence about the timely completion of the power projects, uncertainty with respect to some of Reliance Power's projects cannot be ruled out. Other risks include Right of Way and clearance risks and Hydrology-related risks for the hydel power projects.
- Other areas of concern include disallowance of distribution capex in Delhi by the regulator, litigation with Tata Power and unrelated diversifications into areas like cement.
- Presence in so many varied businesses makes valuation exercise more difficult apart from the negative impact of avoidable diversification.
- Inquiries by regulators (TRAI, SEBI, ICAI) against RInfra/group could impact the credibility of the management and thus affect the valuations that the group companies get on the bourses. Better disclosure practices, transparency, corporate governance practices & consistent accounting practices could improve the credibility of the management.
- Gross debt levels continue to rise and could impact the financial leverage parameters of the company.

Conclusion

RInfra's performance in FY12 has largely been driven by the EPC segment. Net Sales stood at Rs 24,271.8 cr, up 59.5% y-o-y. Operating margins remained under pressure at 11.5%. Reported PAT was up 2.3% at Rs 1586.7 cr even as PBT growth was much better at 33.1% on account of higher tax rate.

During FY12, positive slew of announcements were made in the power distribution business viz Equity infusion of Rs 1,020 cr by promoters (Rs 520 cr by Rinfra and Rs 500 cr by Delhi Government) and Financial package of Rs 5,100 cr by IDBI Bank in the Delhi Distribution business laid to rest some uncertainty over the distribution business. This is in further to updates made of :

- Recover Regulatory Assets of Rs 2,316 cr along-with carrying cost at SBI PLR submitted to MERC,
- Cross Subsidy Surcharge (CSS) levied on migrating consumers.
- Implemented Tariff hike of 22% wef September 01, 2011,
- Fuel Price Adjustment Surcharge approved by DERC (Recovery started from February 2012)
- Extension of its license for 25 years

For RInfra, Mumbai distribution is its cash flow engine, and accounts for ~ 60% of its total EBIT so these developments instill positivity into the stock. In the recent past, Tata Power has been successful in weaning away customers from RInfra. But now with the cross subsidy RInfra can charge higher tariffs to affluent customers so as to subsidize its poorer customers which reduce the differential between the two.

Delhi distribution business is expected to improve resulting in better financials in the coming quarters. Also, the increased cost of fuel will be recovered as FAC surcharge would be reviewed on a quarter to quarter basis. RInfra also expects to become more competitive in its Mumbai distribution business with its medium term power supply agreements in place and finalization of long term bids in the coming few months.

Going ahead, EPC execution remains key. Besides this, key concerns are in relation to low profitability of EPC business, delays in execution of power and infra projects and deployment of RInfra's cash in unrelated/low return ventures.

RInfra has a 38% stake in Reliance Power and through the associate company route will continue to participate in the Indian power story. It added 640 MW in FY12 to raise total capacity to 1240 MW. It plans to raise capacity to 5000 MW by December 2012 and has

an ambitious target of 25,000 MW by 2015 but how this pans out is a question mark given the delays witnessed in the power sector. Reliance Power has shown good progress in execution in FY12 which along with the recent initiatives of the Govt to resolve the issues facing the power sector has got reflected in the share price of Reliance Power.

We are maintaining our FY13 estimates. The existing power business is likely to provide steady cash flows while EPC business growth could be moderately slower on a high FY12 base. Bottomline could be driven by commissioning of its three transmission projects, and R-Power projects (Rosa Phase II, Butibori and Samalkot) in FY13-14. The company is unlikely to make profits in infra segment (roads and metro) in the initial 2-3 years given the high capital costs. FY12 has factored in positives such as: 1) extension of its distribution licence in Mumbai, 2) price hike approved by regulator in its Delhi, 3) pick up in traffic in its Delhi metro business and 4) pick up in execution in its EPC business after flat FY11 with progress at its associate RPower projects (Sasan and Samalkot) as well as its own road projects.

However concerns remain about 1) deployment of cash into inter-corporate deposits (ICDs), preference shares with no clarity 2) lack of progress of R-Power power projects at Krishnapatnam, Chitrangi and Tilaiya which also impacts its EPC business and 3) lack of gas availability at RPower's Samalkot power project.

Any action on the part of promoters to restructure the business by hiving /sale of certain divisions and/or announcement by it that it will no longer look to invest in new areas but consolidate its businesses could lead to rerating of the stock. Further any action to bring down the gross debt levels could also be welcomed by investors.

In our Q3FY12 Result Update dated February 25, 2012 we had stated that "RInfra to trade in the range of Rs 424 -Rs 671 (6x – 9.5x FY13E EPS". Thereafter, the stock made a low of Rs. 423.1 on 18th May 2012 and a high of Rs. 679.7 on 6th March 2012.

We expect RInfra to trade in the range of Rs 389 –Rs 566 (5.5x – 8x FY13E EPS) for the next quarter

Financial Performance

Consolidated (Rs. cr)	FY09	FY10	FY11	FY12 (E)	FY12 (A)	FY13(E)
Net Income	12844.7	14864.8	15408.3	22475.3	24271.8	26183.8
Other Income	697.8	824.9	556.5	564.6	761.1	505.0
Total Income	13542.5	15689.7	15964.8	23039.9	25032.9	26688.8
EBIDTA	2107.2	2345.2	2473.3	3626.5	3543.6	3961.3
PAT	1353.2	1519.4	1229	1582.5	1586.7	1860.2
EPS	50.6	56.8	58	60.2	60.3	70.7
OPM	11.0%	10.2%	12.4%	13.6%	11.5%	13.2%
PATM	10.0%	9.7%	7.7%	6.9%	6.5%	7.0%
P/E	9.0	8.0	7.8	7.6	7.5	6.4

(RE-Revised Estimates; E-Estimates; Source: Company, HDFC Sec Estimates)

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