

Reliance Infrastructure Ltd

HOLD

CMP: Rs.1075.00

Date: 10th February, 2010

Target Price: Rs.1300.00

Market Cap.:Rs.242208.25 mn.

Key Ratios:

Particulars	FY09A	FY10E	FY11E
OPM (%)	17.92	20.20	20.30
NPM (%)	11.54	12.49	13.11
ROE (%)	10.81	10.40	11.15
ROCE (%)	8.53	8.31	8.55
P/BV(x)	1.08	2.06	1.83
P/E(x)	9.99	19.82	16.42
EV/EBDITA(x)	6.42	13.90	13.81
Debt-Equity(x)	0.70	0.69	0.67

Key Data:

Sector	Infrastructure
Face Value	Rs.10.00
52 wk. High/Low	Rs.1404.45/428.30
Volume (2 wk. Avg.)	2.73(lakh)
BSE Code	500390

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SYNOPSIS

- Reliance Infrastructure Ltd is a part of the Reliance-Anil Dhirubhai Ambani Group (ADAG). It is not only India's largest private sector enterprise in power utility but also the largest private sector player in many other infrastructure sectors of India.
- The company's current EPC order book stands at Rs.190bn. And it is in a good liquidity position, with cash & cash equivalent of more than Rs.78bn.
- The company continues to bag further projects in the infrastructure space with road (9 projects) and metro (3 projects) being the leading sectors. The company is also the lead bidder for the Mumbai sea link project.
- Reliance Infra led consortium has signed a concession agreement with the govt of Maharashtra for the second line of Mumbai Metro Rail Project on BOT basis.
- The top line and bottom line of the company are expected to grow at a CAGR of 21.25% and 10.79% over FY08 to FY11E.

Share Holding Pattern:

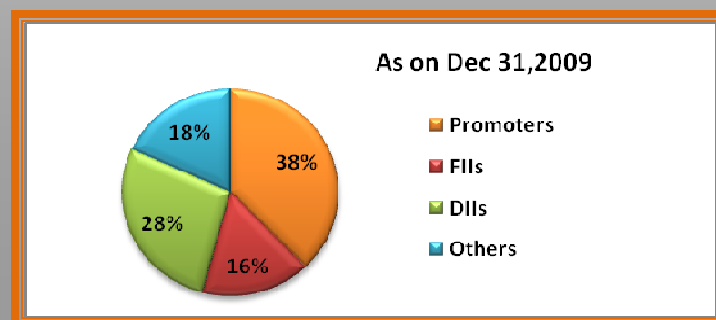


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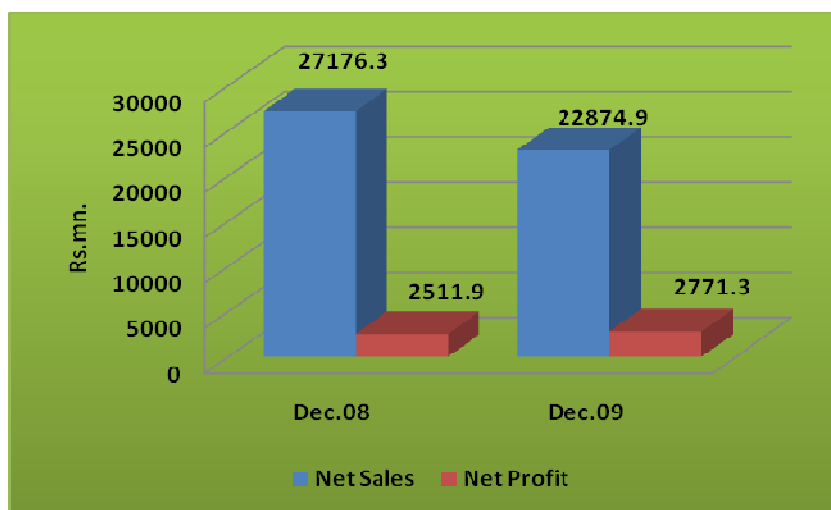
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Investment Highlights

- Results Update (Q3 FY10)

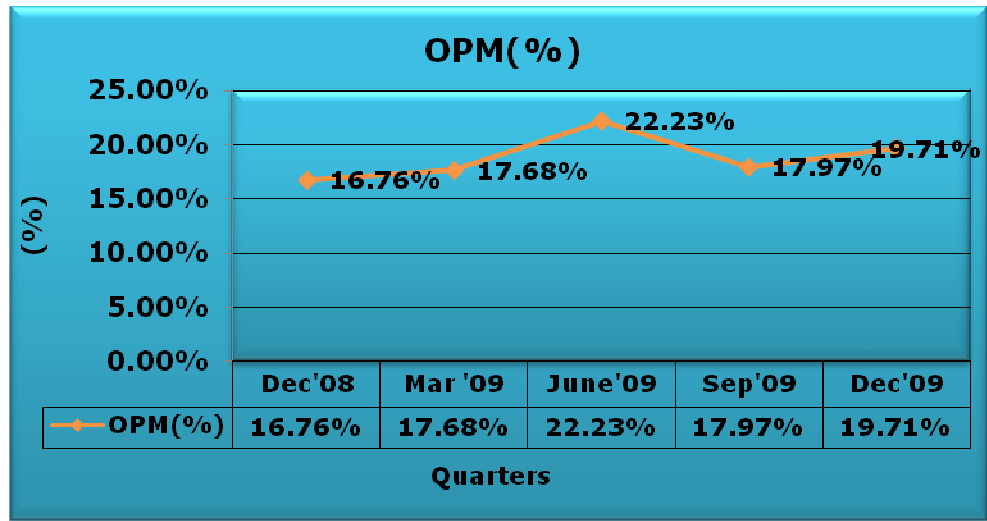
For the quarter ended on December 31, 2009 (Standalone) the company has registered a 15.83 % (YOY) degrowth in the net sales and stood at Rs.22874.90 mn from Rs.27176.30 mn of the corresponding period of the previous year. EBIDTA for the quarter stood at Rs.4509.50 mn compared to Rs.4555.80 mn, decrease of 1.02%. The company reported good operating profit margin of 19.71% compared to 16.76% of corresponding period of previous quarter. The company reported net profit of Rs.2771.30 mn. EPS for the quarter stood at Rs.12.29 per equity share of Rs.10.00.

Quarterly Results – Standalone (Rs in mn)			
As at	Q3FY09	Q3FY10	%Change
Net Sales	27176.30	22874.90	-15.83%
Net Profit	2511.90	2771.30	10.33%
Basic EPS(Rs)	11.02	12.29	11.52%

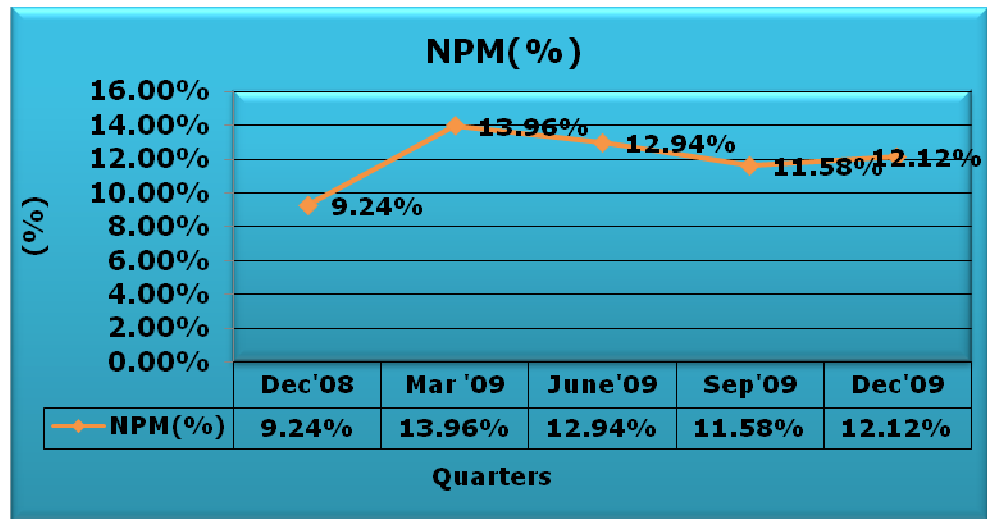


- Margins (%):

Operating Profit Margins (OPM %)



Net Profit Margins (NPM %)



- **Order Book**

The EPC division's current order book stands at Rs.190 bn. The Company to amass huge EPC projects from the assets under development and those in the pipeline. Reliance Infrastructure (RInfra) is in the prequalification and bidding stage for projects worth Rs1trn. Mammoth portfolio of six projects covering 450kms on BOT basis is likely to provide steady cash flows, going forward. The company intends to own a total road project portfolio of over Rs200bn by 2012-13. Rel Infra has received approval from the MERC to procure 1,000MW power on a medium term basis and 1,500MW on a long term basis, in order to meet the demand of the Mumbai circle. The company has already initiated the process of such procurement and expects to finalise the same shortly. The company now has 9 road projects in its hand, 2operational, 3 under construction, and 4 new additions.

- **Concession pact with Govt of Maharashtra**

The Reliance Infrastructure (R Infra) led consortium has signed a concession agreement with the government of Maharashtra for the second line of Mumbai Metro Rail Project on build-operate-transfer (BOT) basis, for a concession period of 35 years with an extension clause of another ten years. The project has been awarded to the consortium, which also includes Reliance Communication and SNC Lavalin of Canada, based on international competitive bidding under the public-private partnership (PPP) framework. The total estimated cost of the project is Rs 11,000 crore, out of which Rs 2298 crore will be provided by the government as grant.

The 32 km CBM corridor project will provide a vital link between Navi Mumbai and the western suburbs, connecting Charkop in the north to Bandra and then to Mankhurd in the east. It will be a fully elevated metro project with 27 stations along the route. With this investment, R Infra would be committing more than Rs 13,500 crore for the Mumbai metro rail sector.

- **The company has bagged the Rs1000 crore Kandla-Mundra Road Project**

The company has bagged the Rs1000 crore Kandla-Mundra Road Project spanning 71 kilometres, in Gujarat from National Highways Authority of India (NHAI). Reliance Infrastructure has quoted the maximum premium amount (negative viability gap funding) worth Rs 42 crore among the five other contestants. The GVK-led consortium, coming second, had quoted a premium of Rs 30.6 crore.

- **The company has bagged a highway project in Maharashtra**

The company has bagged a highway project in Maharashtra from the National Highway Authority of India (NHAI). The project is six-laning of the Pune-Satara highway and is valued at Rs 1,725 crore.

- **The company won Jaipur-Reengus Road Project from NHAI**

The company has won the Jaipur - Reengus road project in Rajasthan from National Highway Authority of India (NHAI) on a BOT (toll) basis, for concession period of 18 years - including the construction period.

- **R-Infra unveils Rs 7.6 bn road projects in TN**

The company has opened two road projects worth Rs.7.6 bn in Tamil Nadu, the first infrastructure projects to become operational from its stable. Both the projects were awarded to R-Infra by NHAI in January 2006 with a concession period for 20 years.

- **Pre-qualified for about Rs. 500 bn worth of projects**

RELI have pre-qualified for about Rs. 500 bn worth of projects and are the preferred bidder for some projects like the Western Sea Link. According to company sources, the Company will tap opportunities in sectors like ports and airports, railway stations and freight corridors, besides real estate projects like the Business District in Hyderabad.

- **Cash generating projects**

Reliance Infra has three assets under the operational stage in both Mumbai and Delhi power generation and distribution space, with a regulated equity base close to Rs30bn. Major value unlocking is expected to unbundle with the commissioning of transportation and transmission projects, totaling close to 500kms each which are presently under construction.

- **RPower's faster capacity addition to provide R Infra's EPC revenues**

RPower is expected to add 20GW by FY20E which would contribute approximately 15% to the total capacity addition. With cash and cash equivalents amounting close to Rs80bn, RPower is better placed with respect to funding vis-à-vis other private sector players. RPower also has secured coal blocks to the tune of 1.7bn tonnes in India and 2bn tonnes in Indonesia and coal linkages with Central Coal Fields (CCL) and Western Coal Fields (WCL) in India which are sufficient to cater to UMPP's and other cost plus projects. However, gas supply from KG basin in terms of allocation and pricing has an overhang. On the offtake side, the company has a well diversified mix of annuity and merchant power sales.

- **Increased equity investments in project SPVs:**

During FY09, RELI has invested Rs12b, taking total investment in infrastructure project SPVs (roads, metros, power transmission) at Rs13.4b (vs Rs1.3b in FY08). This represents ~46% of the equity commitments towards infrastructure SPVs under implementation. Besides, RELI has invested Rs1.6b in CBD tower project (Hyderabad) in FY09 mainly representing cost of land acquisition.

- **Some of the major projects :**

1. 2X600 MW of power project in Hisar, Haryana
2. 6X600 MW Sasan UMPP by Reliance Power
3. 2X600 MW Purulia project, Damodar Valley Corporation, West Bengal
4. 2X250 MW Parichha Thermal Power Station, Uttar Pradesh - BOP
5. 1X300 MW Butibori Thermal plant by Reliance Power
6. Electrification of 6,715 villages under Uttar Pradesh rural electrification scheme
7. Western Region System Strengthening (WRSS) transmission project

- **Power distribution in UP, Bihar**

The company feels that its experience in reducing power theft in parts of Delhi may come handy in reducing the aggregate technical and commercial (AT&C) losses in these circles. Currently, the company is distributing power to 6.5 million customers in Delhi and Mumbai. According to the company, Bihar and Uttar Pradesh recently invited bids for franchise power distributors in a number of circles. Maharashtra is also expected to open five circles for retail power distribution. While Uttar Pradesh has offered Meerut, Varanasi, Allahabad, Aligarh, Gorakhpur, Moradabad and Bareilly on the block, Bihar opened Patna, Bhagalpur, and Muzaffarpur and Gaya circles.

The franchise operator will be responsible for customer care, metering, network maintenance billing, revenue collection and associate responsibilities including reduction of AT&C losses. The franchise will work under the direct monitoring and guidance of the state power distribution companies. The latter would also be responsible for sourcing the power for distribution through the franchise distributors.

- **Invest Rs 13.25 bn in Delhi power distribution companies**

The company has infused capital expenditure (capex) of Rs 37.90 billion in both the Delhi-based electricity distribution companies - BRPL and BYPL over the last seven years. The investment target for 2009-10 and 2010-11 has been fixed at Rs 7.75 billion and Rs 5.50 billion respectively. Out of the proposed Rs 13.25 billion investments, BSES Rajdhani Power (BRPL) would incur Rs 4.75 billion expenditure in the financial year 2009-10 and Rs 3.50 billion in 2010-11, while Rs 3 billion and Rs 2 billion will be spent in the two financial years in BSES Yamuna Power (BYPL). BRPL and BYPL are the joint ventures between Reliance Infrastructure and the Government of Delhi. These two entities distribute electricity to 22.6 lakh customers in Delhi.

- **Dividend declared**

For the the financial year 2008-09 the company has declared a dividend of Rs 7 per share (70%) on fully paid up equity shares of Rs 10 each.

- **Power transmission agreement**

Reliance Power Transmission (RPTL), a wholly owned subsidiary company of Reliance Infrastructure, through its two SPVs, has signed power transmission agreements (PTA) with eight

beneficiaries from the Western Region for two inter-state power transmission projects, viz. project B & C, under the Western Region System Strengthening Scheme II (WRSSS II).

On the directive of Central Electricity Regulatory Commission (CERC), the Power Grid Corporation of India (PGCIL), as the bid process coordinator, had invited tariff based competitive bids way back in year 2005 for establishing 400kV double circuit transmission lines of around 1500 Kms under WRSSS II, in the Western Region, prominently in the states of Maharashtra (1000 Kms.) and Gujarat (500 Kms.), where the renowned players like Tata Power, Lanco, GMR, L&T, etc. had also participated in the bid.

- **Reliance Infra wins Rs 110000-mn Mumbai Metro-II project**

The company has been awarded the Mumbai Metro-II project on BOT basis for a concession period of 35 years with an extension clause of another 10 years. The project has been awarded by the Mumbai Metropolitan Region Development Authority (MMRDA) through an international competitive bidding process. The estimated project cost is about Rs 110000mn and is scheduled to be operational by 2015.

- **Reliance Infra to raise Rs 43000 mn**

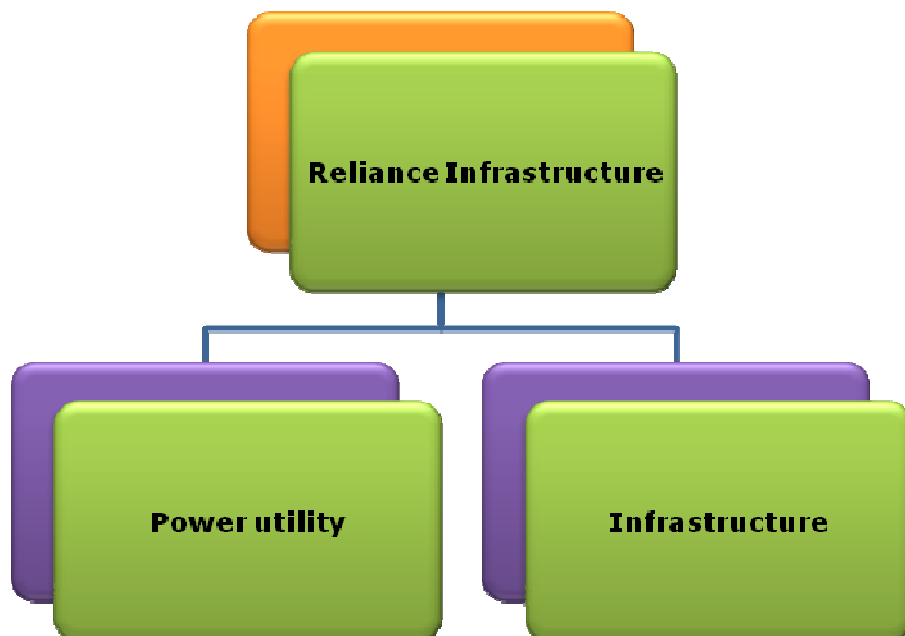
Reliance Infrastructure will raise up to Rs 43000 mn through issuance of 42.9mn equity shares to its promoters (Anil Ambani Group), a move that would increase its promoters' holding in the company to 48 per cent. The board of directors at its meeting have approved the issuance of 42.9 mn shares to the promoters at a price of Rs 1,000 per share.

Company Profile

Reliance Infrastructure Limited is a part of the Reliance Anil Dhirubhai Ambani Group (ADAG). It is India's largest private sector enterprise in power utility. It is also the largest private sector player among many other infrastructure sectors of India. In the power sector, the company is involved in the generation, transmission, and distribution and trading of electricity and construction of power plants as EPC partners. In the infrastructure space, the company focuses on roads and urban infrastructure, including MRTS, sea links and airports, specialty real estate which includes business districts, trade towers, convention centers and SEZ which includes IT & ITES SEZ, non- IT SEZ and free trade zones.

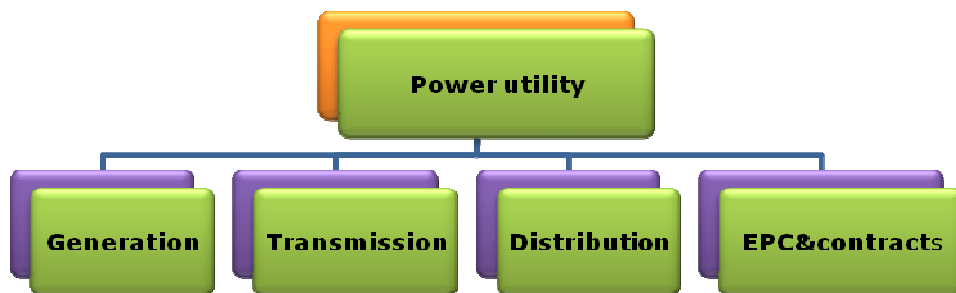
Business Areas

Its business is divided into two segments:



1. Power Utility

Reliance Infrastructure distributes more than 28 billion units of electricity to cover 25 million consumers across different parts of the country including Mumbai and Delhi in an area that spans over 1, 24,300 sq. kms. It is also generate 941 MW of electricity, from their power stations located in Maharastra, Andhra Pradesh, Kerala, Karnataka and Goa. They are also emerging as one of the leading players in India in the Engineering, Procurement and Construction (EPC) segment of the power sector with an order book of Rs 83000mn, having executed projects worth Rs 100000 mn in the past 4 years.It is also executing the first 100% private sector power transmission project for western grid with an investment worth Rs 225000 mnIts are also ranked among top 5 players in power trading in the country with 1,050 MU's traded in FY2007 .All this makes us a fully integrated player in the power sector.



a) Generation

As the integrated power utility it has setup; a full fledged, Generation division having proven expertise in designing, engineering, erection, installation, commissioning, operations and maintenance of power projects.

The division implements project plans for in house power projects and supports ventures undertaken by other affiliate companies. The division is fully integrated and has in house capabilities to address every aspect of power projects including:

- Mechanical
- Civil
- Electrical
- Instrumentation
- Environmental

The division also provides engineering consultancy to external agencies and projects.

The 941 MW Generation capacity of the Division comes from five projects:

- Dahanu TPS - the 2x250 MW multi fuel based thermal power station at Dahanu near Mumbai.
- 8 MW Wind Farm Project at Jogimatti in the district of Chitradurga in Karnataka.
- BSES Kerala Limited: The 165 MW combined cycle power station at Kochi, Kerala.
- BSES Andhra Power Limited: The 220 MW combined cycle power plant at Samalkot in Andhra Pradesh.
- Goa Power Station : The 48 MW naptha based combined cycle power plant at Goa.
- BSES Andhra Power

b) Transmission

The Transmission Department is an intermediary between Generation & Distribution and is responsible for transmission of power at 220 kV from DTPS to the Company's area of supply in Mumbai Suburbs. It is operating three modern 220/33 kV receiving stations at Versova, Aarey and Ghodbunder. There are two 220kV Lines also connected to Tata Borivili at Aarey R/S from where extra power flows as and when required.

c) Distribution

Distribution is the key to efficient and reliable power supply. Seven decades of experience and continuous investment in modernizing its distribution infrastructure have helped the company achieve the enviable distinction of operating its network with 99.93% reliability. The efforts made towards achieving higher levels of efficiency have reduced distribution losses to 12.01% - The lowest in the country.

Today the company caters to 5 million satisfied customers! Reliance infra's Mumbai operations cover a population of 9.0 million within an area of about 384 sq. kilometers. The Distribution network handled and sold 6881 MUs in the year 2005-2006. Reliance infra continually upgrades its distribution network. This is accomplished through a process of decentralized operation in supply management to maintain very high on-line reliability.

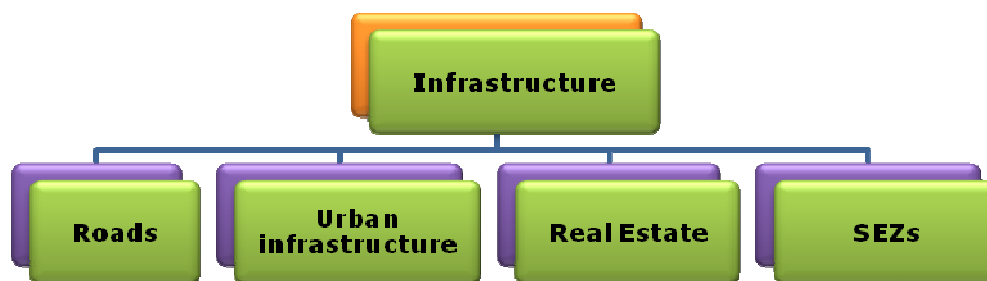
d) EPC

Reliance infra has significant presence in the field of execution of the Power projects on EPC basis with a strong track record of the execution and commissioning of projects on time. It has received wide acclaim for the initiatives in corporate governance. These awards and recognition's greatly motivates and encourage the its team to set fresh benchmarks in corporate governance, particularly in the Indian Power Sector. Reliance infra with its affiliates and sister companies in the Reliance group, own and operate over 2,000 MW of Generating capacity in the country. These comprise conventional thermal plants, gas turbine based combined cycle power plants, Cogeneration plants and wind electric generators. Most of its Projects have been executed by Reliance Energy through its EPC division.

The EPC division of reliance was set up in 1966 and was undertaking engineering, procurement and construction contracts on a turnkey basis and other value added services for major public and private sector projects both in India and Abroad. The Division has 10 regional offices in major cities of India and Overseas offices in Dubai, Nepal and Bhutan. The Division has to-date undertaken the total engineering, supply of electrical and mechanical equipment, installation and commissioning services and civil works for the following range of projects:

- Thermal, hydro, Co-generation and gas based power generating stations;
- 400/132 KV transmission lines and switch yards;
- overhead and underground electrical networks;
- industrial electrification works for petrochemicals, fertilizers, steel, cement plants, refineries, ports and hotels;
- indoor and outdoor illumination works;
- pre-moulded accessories for extra high voltage electrical cables;
- Renovation and Modernization of Delhi distribution network; and
- Other civil works

2. Infrastructure



Reliance Infrastructure is well-positioned to become the largest private sector player in India's infrastructure industry. It plans to invest about Rs. 250 bn in the next 5 years on various road projects in Tamil Nadu, Metro projects in Delhi and Mumbai, and other real estate projects. All the five road projects in Tamil Nadu are expected to be commissioned by FY11. Besides, the Company would also be developing the 100-storey trade tower and commercial business district in Hyderabad. The Company has sufficient amounts of liquid funds in its balance sheet, which would be deployed in these infrastructure projects in the near term. However, due to lack of earnings visibility from these projects, we have excluded the same from our valuation and have taken the cash & cash equivalents of the Company at book value.

a) Roads

It is the largest developer of road and highway projects for the National Highways Authority of India under the build, own, transfer (BOT) scheme. With an investment involving Rs 31500mn, the company is developing 5 major road projects in Tamil Nadu totaling over 400 kms of length. Financial closure of all the projects is done and the projects are currently under construction.

The Company is developing 5 road projects worth ~Rs 31,500 million. Two of this projects Namakkal- Karur and Dingigul Samyanallore (both toll projects) are expected to start commercial operations in current quarter (Q1 2010). Other projects are expected to be completed in Q2 2011. During the year company was awarded with road connectivity between Gurgaon and Faridabad. The length of the road is 66 kms and concession period is 17 years. The company expects financial closure to be achieved by Q2FY2010.

b) Urban Infrastructure

Reliance infra is the country's first and only private sector builder and operator for Metro Systems. We are already into construction of the first line of Mumbai's Metro system stretching 12 kms from Versova to Ghatkopar. Besides we have also won the Delhi Metro's airport express link stretching a length of 22.5 kms. The total investment for these two projects is Rs 49000mn.

c) Real estate

It is the country's first and only private sector builder to build India's first 100 storeyed building, a trade tower and business district in 80 acres of land in Hyderabad, The total investment for this project is Rs 65000mn.

d) SEZs

It is developing over 180 mn sq ft of SEZ for IT/ITES, retail hospitality in Mumbai and Noida with an investment worth Rs 310000 mn

Subsidiary & Associate Companies

1. BSES Kerala Power Ltd.
2. BSES Rajdhani Power Ltd.
3. BSES Yamuna Power Ltd.
4. Reliance Energy Trading Ltd.
5. Reliance Energy Transmission Ltd.
6. Utility Powertech Ltd.
7. Reliance power Ltd
8. North Eastern electricity Supply Company of Orissa Ltd.(NESCO)

9. Western Electricity Supply Company of Orissa Ltd. (WESCO)
10. Southern Electricity Supply Company of Orissa Ltd. (SOUTHCO)

1. BSES Kerala Power Limited (BKPL)

BSES Kerala Power Limited (BKPL), is co-promoted by Reliance Infra and Kerala State Industrial Development Corporation Limited (KSIDC). In the equity share capital of Rs. 1277.6 mn of BKPL, REL and its group/associates companies holds 86.32% while the KSIDC holds the remaining 13.68%.BKPL owns a 165 MW naphtha fired Combined Cycle Power plant at Kochi, Kerala. BKPL has entered into a Power Purchase Agreement (PPA) with Kerala State Electricity Board (KSEB) for the Combined Cycle operation.The nominal capacity of the plant is 165 MW in the Combined Cycle Mode of Operation and the contracted capacity is net export of 157MW (net of auxiliary power) at interconnection point.

2. BSES Rajdhani Power Ltd

BRPL distributes power to an area spread over 750 km with a population density of 1360 per sq km. Its' over 10.27 lakh customers are spread 19 districts across South and West areas including Alaknanda, Khanpur, Vasant Kunj, Saket, Nehru Place, Nizamuddin, Sarita Vihar, Hauz Khas, R K Puram, Janakpuri, Najafgargh, Nangloi, Mundka, Punjabi Bagh, Tagore Garden, Vikas Puri, Palam and Dwarka.

3. BSES Yamuna Power Ltd

BYPL distributes power to an area spread over 160 sq kms with a population density of 4203 per sq km. It's 8.52 lakh customers are spread over 14 districts across Central and East areas including Chandni Chowk, Daryaganj, Paharganj, Shankar Road, Patel Nagar, G T Road, Karkardooma, Krishna Nagar, Laxmi Nagar, Mayur Vihar, Yamuna Vihar, Nand Nagri and Karawal Nagar.

4. Reliance Energy Trading Ltd.

In view of the liberalization of the trading in electricity provided by the Electricity Act, Reliance Infra had formed a new Company in the name of "Reliance Energy Trading Private Limited", for the purpose of trading of electricity. It had been incorporated with effect from July 17, 2003. The company was reconstituted from Private Limited company to a Public Limited company with effect from July 6, 2004.

5. Reliance Energy Transmission Ltd

The objective of the newly incorporated company is to focus in the transmission business. The company will not only establish the requisite transmission links for the capacity addition program of Reliance Energy Ltd., but also contribute towards the huge network expansion program envisaged in the National Plan.

6. Utility Powertech Limited

Utility Powertech Limited, a joint venture between Reliance Energy Limited (formerly known as BSES Limited) and NTPC Limited (formerly known as National Thermal Power Corporation Limited), is engaged in undertaking construction, erection, renovation and modernization and other project management activities in the power sector. Both the promoter companies have been providing the required impetus to the company in its endeavor to be a total power station solution company.

7. Reliance power

Reliance power is a subsidiary of the company which is been listed mainly with the intention of generation of power. The company through its various subsidiaries is developing various generation projects with an aggregate capacity of ~ 28,000 MW on completion of which the company will be the largest private generating company.

Peer Group Comparison

Name of the company	CMP(R.s) (As on Feb 10.2010)	Market Cap. (Rs. Mn.)	EPS (Rs.)	P/E (x)	P/BV (x)	Dividend (%)
Reliance Infra Ltd	1075.00	242208.25	53.27	20.18	2.30	70.00
Lanco Infratech Ltd	48.00	115574.60	2.03	23.65	6.14	0.00
GVK Power & Infra Ltd	43.75	69090.50	0.13	336.54	3.93	0.00
GMR Infra Ltd	55.10	202071.20	0.07	787.14	3.54	0.00

Key Concerns

- Global economic slowdown
- Slow execution of orders
- Slow down in the infrastructure sector
- More number of players and tough competition

Financials

Results updates

12 months ended Profit&loss Account (Standalone)

Value(Rs. in million)	FY08A	FY09A	FY10E	FY11E
Description	12m	12m	12m	12m
Net Sales	63131.70	98686.10	97852.45	112530.31
Other Income	11880.30	7378.80	8817.16	10580.59
Total Income	75012.00	106064.90	106669.61	123110.90
Expenditure	-58178.00	-88376.80	-86900.42	-100264.51
Operating Profit	16834.00	17688.10	19769.18	22846.40
Interest	-3087.60	-3305.00	-2832.86	-2512.32
Gross profit	13746.40	14383.10	16936.32	20334.08
Deprecation	-2229.40	-2448.80	-3288.04	-3945.65
Profit Before Tax	11517.00	11934.30	13648.28	16388.43
Tax	-670.70	-545.50	-1426.24	-1638.84
Profit After Tax	10846.30	11388.80	12222.04	14749.59
Net Profit	10846.30	11388.80	12222.04	14749.59
Equity capital	2356.20	2260.60	2253.10	2253.10
Reserves	100241.60	103081.40	115303.44	130053.03
Face value(Rs)	10.00	10.00	10.00	10.00
Total No. of Shares (mn)	235.62	226.06	225.31	225.31
EPS(Rs)	46.03	50.30	54.25	65.46

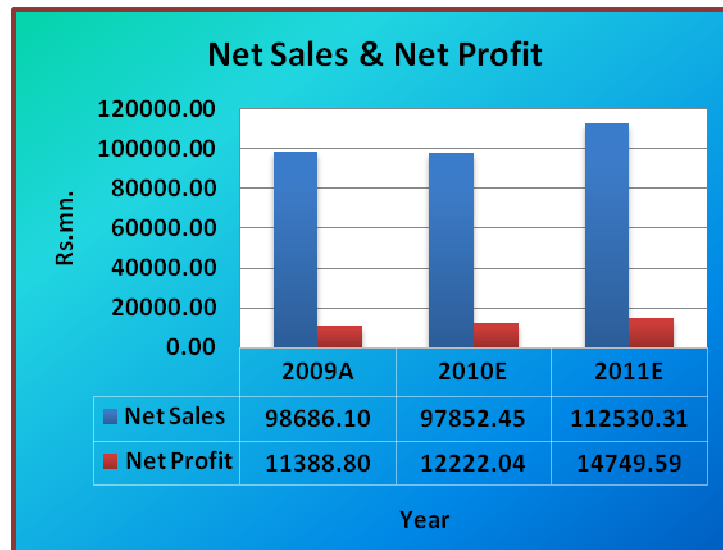
Quarterly ended Profit & Loss Account (Standalone)

Value(Rs. in million)	30-Jun-09	30-Sep-09	31-Dec-09	31-Mar-10E
Description	3m	3m	3 m	3 m
Net sales	24463.30	26495.60	22874.90	24018.65
Other income	2441.80	1632.60	2155.80	2586.96
Total Income	26905.10	28128.20	25030.70	26605.61
Expenditure	-21468.10	-23366.40	-20521.20	-21544.72
Operating profit	5437.00	4761.80	4509.50	5060.88
Interest	-1036.70	-739.60	-565.30	-491.26
Gross profit	4400.30	4022.20	3944.20	4569.62
Deprecation	-722.00	-739.60	-830.20	-996.24
Profit Before Tax	3678.30	3282.60	3114.00	3573.38
Tax	-512.60	-213.60	-342.70	-357.34
Profit After Tax	3165.70	3069.00	2771.30	3216.04
Net Profit	3165.70	3069.00	2771.30	3216.04
Equity capital	2253.10	2253.10	2253.10	2253.10
Face value(Rs.)	10.00	10.00	10.00	10.00
EPS(Rs.)	14.05	13.62	12.30	14.27
Total No. of Shares (mn)	225.31	225.31	225.31	225.31

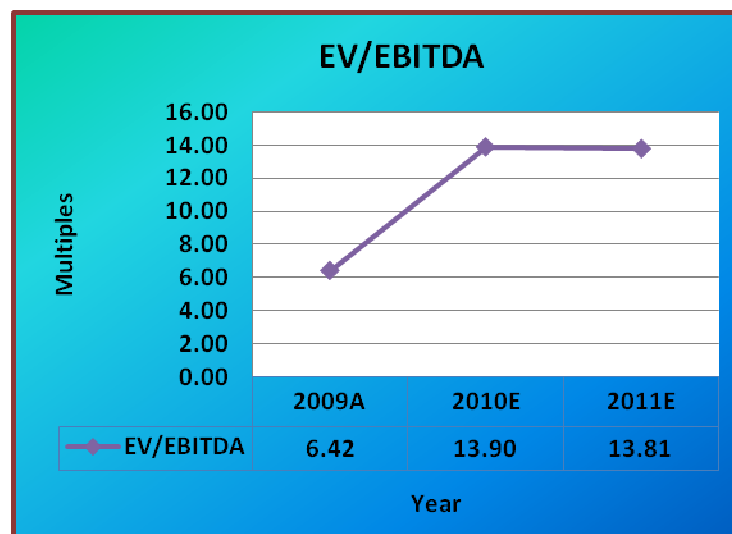
A=Actual, E=Estimated

Charts

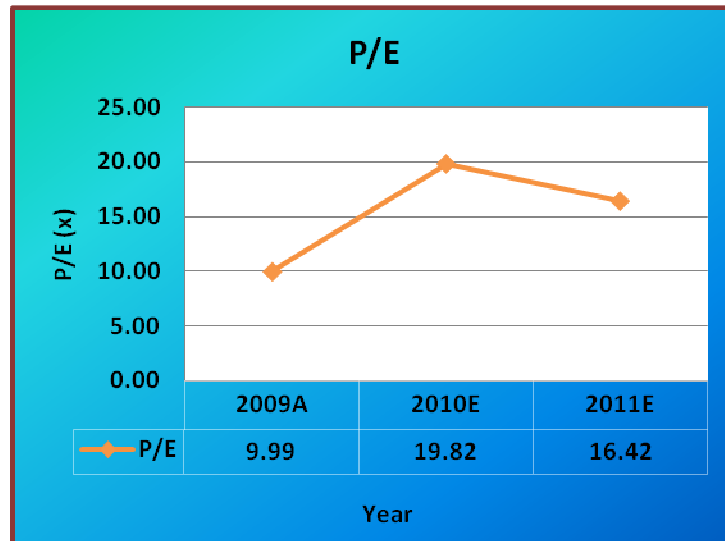
A) Net sales & Net Profit Chart



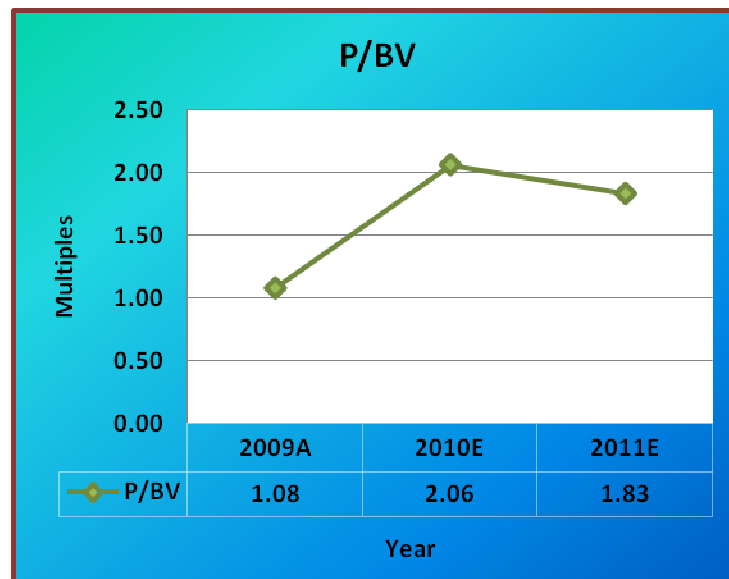
B) EV/EBITDA(x) chart



C) P/E(X) Chart



D) P/BV(X) chart



1 Year Comparative Graph



Outlook and Conclusion

- At the current market price of the stock Rs.1075, the stock trades at a P/E of 19.82 x and 16.42 x for FY10E and FY11E respectively.
- The EPS of the stock is expected to be at Rs.54.25 and Rs.65.46 for the earnings of FY10E and FY11E respectively.
- The top line and bottom-line of the company are expected to growth a CAGR of 21.25 % and 10.79% respectively over FY08 to FY11E.
- On the basis of EV/EBDITA, the stock trades at 13.90 x and 13.81 x for FY10E and FY11E respectively.
- Price to Book Value of the stock is expected to be at 2.06 x for FY10E and 1.83 x for FY11E.
- The company's current EPC order book stands at Rs.190bn.

- The company expects revenue from EPC to increase substantially over the next two years. The future opportunities in this segment remain strong with 14 projects of Reliance power with a capacity of 32,200mw in the pipeline to be executed over the long-term.
- On back of diversified business model, strong execution capabilities of the management, huge infrastructure development in India, intact order book position, rich cash reserves, the company seems well situated in the current turbulent times.
- The company led consortium has signed a concession agreement with the government of Maharashtra for the second line of Mumbai Metro Rail Project on build-operate-transfer (BOT) basis.
- The Company has over Rs78 bn of cash & cash equivalents.
- The company continues to bag further projects in the infrastructure space with road (9 projects) and metro (3 projects) being the leading sectors. The company is also the lead bidder for the Mumbai sea link project.
- We recommend '**HOLD**' this stock with a target price of **Rs.1300.00** for medium to long term perspective.

Industry Overview

Infrastructure Industry Structure and Development

The existence and development of adequate infrastructure is an essential requirement for sustaining the growth momentum and to ensure required growth rate. With the rapid growth of the economy in recent years, the importance and urgency of removing infrastructure constraints have increased. Traditionally, power, roads, railways, ports, airports and telecommunications were the exclusive domain of the government.

Infrastructure investment requires huge initial capital outlay, which was considered to be a big hurdle in the past due to prohibition or lesser private participation on infrastructure projects. Even in the present situation it is not possible on the part of the Government to provide the infrastructure on its own and is under the pressure of rising gaps between demand and supply of infrastructure. Consequently, the government is encouraging more private sector participation through Public Private Partnership (PPPs) concept, which is fast evolving in all the aspects of infrastructure development.

Involvement of private investments not only suffice funding requirement of the projects but it has also other advantages like improvement in competitiveness of the projects, more efficient execution, better offerings, etc. Out of the total outlay on infrastructure sector during 11th five year plan, government expects 29.7% of total outlay to come from private participation and balance (79.1%) through public funding.

The government has shown greater commitment to accelerate the infrastructure development as indicated by its plans to raise infrastructure spending during 11th five year plan. According to 11th five year plan, investment in infrastructure sector is likely to increase to around 8% of GDP compared to 4.6% in 10th plan period. It is estimated that infrastructure spending of around Rs

23,850 billion is planned during the 11th Plan period. The total spending on infrastructure during 11th five year plan is almost 2.7 times bigger than anticipated spending on infrastructures during 10th five year plan. This spending is planned across the segments, with power likely to see the maximum spending of 30.4% of total outlay during 11th five year plan. Other sectors to see major outlay of total infrastructure spending are roads, railways and telecom with total infrastructure outlay of 15.4%, 12.7%, 13.2% respectively.

Power

The Indian power sector has grown manifold in size and capacity since independence. The per capita power consumption has increased to approximately 612 kWh (as per Key world energy statistics 2007) vs 1,802 kWh in China, 2,980 kWh in Middle East countries and 8,365 kWh in OECD countries. The growth in generation capacity has been witnessed across the regions and has been made possible by tapping into several energy sources. While new capacity has been added, demand has far outstripped the supply leading to a widening gap. The access to electricity has improved tremendously with electrification of almost 87% villages and energisation of 65% pump sets. The capacity of transmission and distribution lines has also increased but lot more need to be done. The Ministry of Power has set a vision of "providing reliable, affordable and quality power for all by 2012".

From the facts above, it is clear that this provides a tremendous investment opportunity in the Indian power sector for both the public and the private players. It is clear that the biggest fundamental issue hampering the viability of the Indian Power Sector is the sheer volume or level of Transmission and Distribution (T&D) losses that amount to over 30%, a very high level by any standard. To make the matters worse, indirect calculations show T&D losses to be much higher in the range of 40-50%. In addition, the distribution system in India is often characterized by inefficiency, low productivity, frequent interruption in supply and poor voltage.

The surge in interest in adding new power capacity has been driven by rising power shortages, electricity reforms initiated in 2003, deregulation of electricity sector and potential for higher returns, gradual improvement in financial situation of some state utilities, allocation of captive blocks to private and government companies, and initiatives like UMPP at central and state levels.

Over the past few years, the government has taken a number of steps beginning with the Electricity Act 2003 and securitization of State Electricity Board dues to reform the private sector and attract more private investments. Distribution reforms were brought under focus and power theft was made a punishable offence, Accelerated Power Development and Reform programme (APDRP) was launched to improve T&D infrastructure in the country and electricity regulatory commission has been set up at the state level to delineate tariff setting from politics.

Roads

Indian road network, forms 15% of India's Infrastructure investment in the 11th plan and is also one of the busiest road networks in the world. While India has one of the longest road system in the world, only a very small fraction of this is comparable to world standard in terms of width and quality. About 65% of freight and 87% of passenger traffic is carried by roads in India. Traffic on Indian roads has been increasing by 7-10% per annum which has led to about 25-30% of national and state highways being heavily congested with truck speeds of around 25-40 km/hr. India's road network has witnessed rapid traffic growth, which has far outstripped the capacity increase of the road network.

The government has successfully experimented participation of private sector in road development and expects the share of private investments to go up from 5% in 10th plan to 36% in 11th plan. Driven by the initiatives of National Highways Authority of India (NHAI) as well as the state bodies, the 11th plan is expected to generate investments of Rs 3,14,200 crore into the roads

sector, representing an increase of more than 110% over the corresponding investment in the 10th plan. The 11th plan focuses on harnessing investments from the private sector, with such investments set to increase by more than 14% over the corresponding 10th plan investments. Currently, 60 NHAI road projects are under implementation by private developers. On the other hand, contribution from the Central and State sectors is expected to grow by just over 50%.

Railways

Indian Railways has been the prime mover of the nation and has the distinction of being the largest railway system in Asia and the second largest railway system in the world under single management. Recognizing the need for substantial financial and managerial capital, the Railways have been actively seeking and encouraging increased private sector participation. Railways are targeting Rs 1,20,000 crore of public-private partnership (PPP) investment and will be focused on the modernization of metro rail stations, logistics, parks and container depots, the establishment of manufacturing facilities for modern rolling stock and dedicated freight and high-speed passenger corridors.

Real estate

The Indian real estate sector plays a significant role in the country's economy. Almost 5% of the country's GDP is contributed to by the housing sector. In the next five years, this contribution to the GDP is expected to rise to 6%. According to industry players, housing accounts for 4.5% of gross domestic product (GDP) with urban housing accounting for 3.13%. It has also been suggested that India's property sector could begin to improve from late 2009 and may attract up to US\$ 12.11 billion in real estate investment over a five-year period. The Indian real estate market is worth around US\$ 40-45 billion and can be segregated into residential, commercial and the retail and hospitality segments. The residential sector forms 90-95% of the Indian reality space, while

commercial segment forms 4-5% and organised retail around 1 %. The IT and ITES sector alone is estimated to require 150 million sq ft of office space across urban India by 2010. The organised retail industry is likely to require an additional 220 million sq ft by 2010. Moreover, growth is not restricted to a few towns and cities but is pan-India, covering nearly all tier-I and tier-II cities. Investments in commercial real estate are likely to increase three-fold in five years over the previous five years.

According to the Tenth Five-Year-Plan, there is a shortage of 22.4 million dwelling units. Thus, over the next 10 to 15 years, 80 to 90 million housing dwelling units will have to be constructed with a majority of them catering to middle and lower-income groups. Urban housing is expected to grow at a CAGR of 14% and is expected to reach US\$ 97.5 billion by 2010.

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