

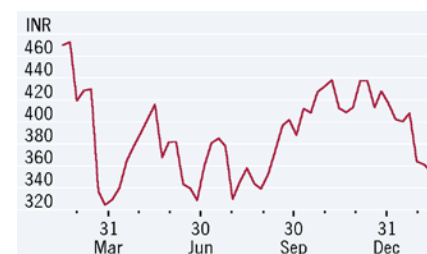
Reliance Infrastructure (RLIN.BO)

Alert: Takeaways from Citi India Investor Conference

- **Takeaways** – Reliance Infrastructure presented at the Citi India Investor Conference. Below are key takeaways:
- **Long-standing regulatory assets issue of Delhi DISCOM likely to be resolved soon** – given that the case is now being heard by The Supreme Court of India. NTPC had given R-Infra a deadline of 12 Feb 2014 to pay up its dues. R-Infra DISCOMS have not been able to pay dues due to pile up in regulatory assets to Rs170bn at FY13E (of which ~Rs90bn is approved by regulator). The Supreme Court has ordered NTPC to supply power to R-Infra DISCOMs until 26 March 2014 and the company is hopeful of an early resolution. The total regulatory asset in Delhi distribution is expected to be ~Rs220bn in FY14E.
- **Cancelling license of Delhi DISCOM is extremely difficult** – As it would require that a “prolonged” event of default of duties be proven against Delhi DISCOMs. Since DISCOMs are owed Rs90bn even as per the regulator, proving default on part of DISCOMs will be extremely difficult. Further suspending the license and appointing an administrator would require that the new administrator (either government or a private company) immediately pays all past dues amounting to ~Rs170bn-220bn – another extremely difficult proposition.
- **Mumbai Distribution Update** – The regulator in September 2013 approved Rs28bn as the quantum of regulatory assets recoverable by R-Infra. This will be recovered along with the carrying cost at SBI PLR at Rs9.65bn/year for the next 6 years. Rs2.3bn has been recovered in 3QFY14. The company has also received a cross subsidy surcharge of Rs1.4bn in 3QFY14.
- **Mumbai Metro to start soon** – The project is complete and is currently in the testing stage and is waiting for final technical clearances. Management hopes to commission the project by 4QFY14E/1QFY15E. Total project cost has increased from the original Rs25bn to Rs38-42bn now. This increased project cost is yet to be approved by MMRDA. Due to delays in the project and cost overruns, the concession period of 35 years has been extended by 540 days. The company has also filed for tariff revision with the MMRDA, but this is unlikely to come through before the general elections.
- **EPC** – The current order book is at Rs75bn and management expects EBITDA margins to be maintained in the 8-10% range.
- **Roads** – 9 out of 11 roads are operational currently. Traffic growth in all roads except Pune - Satara and Gurgaon – Faridabad is healthy. Management expects revenue of Rs7.5-9bn in FY15E from road assets.

Buy	1
Price (14 Feb 14)	Rs358.45
Target price	Rs591.00
Expected share price return	64.9%
Expected dividend yield	2.3%
Expected total return	67.2%
Market Cap	Rs94,269M
	US\$1,510M

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



Venkatesh Balasubramaniam
+91-22-6175-9864
venkatesh.balasubramaniam@citi.com

Atul Tiwari, CFA
+91-22-6175-9866
atul.tiwari@citi.com

Vaishnavi G
+91-22-6175-9872
vaishnavi.g@citi.com

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Reliance Infrastructure

Valuation

Our Rs591 twelve-month sum-of-the-parts (SOTP) target price for R-Infra shares comprises: 1) EPC + Power business using a conservative EV/EBITDA multiple of 7x Mar15E (within the sector trading band of 6-10x); 2) We value infra assets at book value; and 3) We value the stake in R-Power at a 10% discount to its market price.

Risks

Key downside risks that could impede the shares from reaching our target price are: 1) Execution risks on its infrastructure projects leading to delayed commissioning; 2) Failure to secure fuel supply for incremental power projects; 3) Failure to financially close incremental infrastructure projects; 4) Higher interest rates and market risk premium leading to lower valuations for various infrastructure projects; 5) Right-of-way and clearance risks; 6) Change in regulatory mechanism; and 7) Hydrology-related risks for the hydel power projects.

Appendix A-1

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Reliance Infrastructure (RLIN.BO)

Ratings and Target Price History Fundamental Research

Analyst: Venkatesh Balasubramaniam



	Date	Rating	Target Price	Closing Price
1	16-Feb-11	*1H	*902.00	631.45
2	7-Oct-11	Stock rating system changed		
3	18-Oct-11	1H	*605.00	406.75

* Indicates change

	Date	Rating	Target Price	Closing Price
4	15-Feb-12	*1	*722.00	625.85
5	16-Aug-12	1	*620.00	528.20
6	29-Jan-13	1	*646.00	519.35

	Date	Rating	Target Price	Closing Price
7	13-Dec-13	1	*591.00	420.00

Rating/target price changes above reflect Eastern Standard Time

Reliance Infrastructure (RLIN.BO)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Venkatesh Balasubramaniam



Date	Rating	Target Price	Closing Price
[1] 24-Feb-12	*ADD MP	-	583.95

* Indicates change

Date	Rating	Target Price	Closing Price
[2] 10-Jul-12	*REM MP	-	569.35

Rating/target price changes above reflect Eastern Standard Time

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Data current as of 31 Dec 2013

Citi Research Global Fundamental Coverage

% of companies in each rating category that are investment banking clients

12 Month Rating			Relative Rating		
Buy	Hold	Sell	Buy	Hold	Sell
49%	40%	12%	6%	88%	6%
55%	52%	44%	62%	52%	49%

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