Update

SECTOR: INFRASTRUCTURE

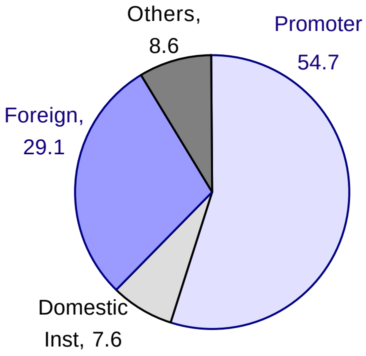
GVK Power and Infrastructure

BSE SENSEX	S&P CNX
18,212	5,459

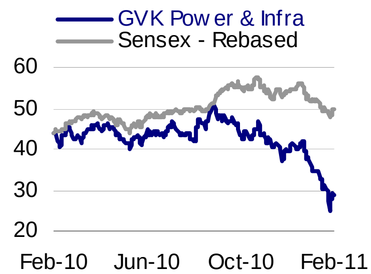
Bloomberg	GVKP IN
Equity Shares (m)	1,579.2
52-Week Range (Rs)	51/24
1,6,12 Rel. Perf. (%)	-17/-36/-49
M.Cap. (Rs b)	44.2
M.Cap. (US$ b)	1.0

Y/E March	2011E	2012E	2013E
Sales (Rs b)	20.3	21.4	26.5
EBITDA (Rs b)	5.7	6.8	10.7
NP (Rs b)	1.7	2.4	2.9
EPS (Rs)	1.1	1.5	1.9
EPS Gr. (%)	6.5	38.8	22.3
BV/Share (Rs)	20.9	22.2	23.7
P/E (x)	26.6	19.1	15.6
P/BV (x)	1.4	1.3	1.2
EV/EBITDA (x)	11.4	10.5	7.2
EV/ Sales (x)	3.2	3.4	2.9
RoE (%)	5.2	6.8	7.8
RoCE (%)	3.9	4.7	7.0

Shareholding pattern % (Dec-10)



Stock performance (1 year)



Rs28 Buy

Regulatory uncertainties abound, valuations attractive

Curent valuations ignore airport business valuation

GVK's stock price has underperformed the BSE Sensex by ~36% over the past six months, given strong headwinds in terms of increased interest rates, tight liquidity, slowdown in economic activity impacting revenues for infrastructure projects, regulatory uncertainties largely pertaining to Airport business, etc. While these constraints will impact GVK on the operational front, we believe that the current stock price provides comfort for long-term investing. The stock trades at 15.6x FY13E EPS. Buy with a target price of Rs41.

- **Valuations provide comfort, earnings growth robust:** We believe GVK's current valuations provide strong comfort. Its market cap factors in the value of the Power (Rs33b) and Roads (Rs11b) businesses, but completely ignores any value from Airports (Rs20b). While regulatory uncertainties have led to impairment in valuations, we believe that even a bear case value for the Airport business stands at Rs6b-12b (P/BV of 2-3x). Our base case valuation of Rs20b for the Airport business already factors in Rs8b haircut for the Bangalore airport from the acquisition cost for GVK, given the Airport Economic Regulatory Authority of India (AERA) order.
- **Regulatory conundrums have impacted profitability, valuations:** Over the past 12 months, there have been strong regulatory headwinds, impacting GVK's profitability and valuations. (1) Recent AERA order prescribing "single till" structure for Bangalore airport (BIAL) and possibility of regulating returns at Mumbai airport. (2) Delays in approval of master plan for real estate (RE) development at Mumbai airport by Mumbai Metropolitan Region Development Authority (MMRDA) have led to delays in RE monetization. (3) Continued lack of clarity on merchant power sales (~20% of capacity) from gas projects in Andhra Pradesh has impacted earnings/cash flows.
- **Fund raising is a challenge, but surmountable:** GVK's outstanding equity commitment stands at Rs35b for projects under construction/development and in the pipeline. A sizeable part of this will be financed through Rs15b of PE transaction in the Power business, of which Rs10b has already been received. Delays in real estate monetization at Mumbai airport, AERA order for Bangalore airport, decision on merchant power sales, etc have impacted operating cash flows. Thus, GVK will need incremental equity funding, largely in its Airport (Rs9b) and Roads (Rs6b) verticals over the next 18 months. For the Mumbai airport, any increase in project capex (Rs99b) or shortfalls in internal accruals / RE deposits (Rs29b) will need to be funded through equity.
- **Growth trajectory - several new projects / development plans initiated over ~12 months:** Over the past 12-15 months, several new projects have been added to the portfolio and several development plans have been initiated: (1) acquisition of 29% stake in Bangalore airport, (2) capacity expansion at gas-based power projects (1.6GW at JP II and 800MW at Gautami), (3) 690MW hydroelectric plant (HEP) in J&K awarded through CBT mechanism, (4) road projects (Kota-Deoli, Rajasthan, cost Rs8.5b and L1 in Baroda-Wasad), and (5) planned expansion at Goindwal Sahib (540MW) by another 660MW. It has recently signed an MoU with the Government of Indonesia to develop two airports in Bali and Java, and is also on the lookout for acquisition of coal mines abroad/thermal projects in India.

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Regulatory conundrums have impacted profitability, valuations

Over the past 12 months, there have been strong regulatory headwinds, impacting GVK's profitability and valuations. (1) The recent order by Airport Economic Regulatory Authority of India (AERA) prescribing "single till" structure for Bangalore airport (BIAL) and possibility of regulating returns at Mumbai airport (though with reference to current OMDA agreement) has created uncertainty over the profitability of its Airport business. (2) Delays in approval of master plan for real estate (RE) development at Mumbai airport by Mumbai Metropolitan Region Development Authority (MMRDA) have led to delays in RE monetization. (3) Continued lack of clarity on merchant power sales (~20% of capacity) from gas-based projects in Andhra Pradesh has impacted earnings and cash flows.

A] Airports: "single till" structure has led to increased uncertainty

New regulatory regime has led to uncertainity in earnings of airports

The recent AERA order prescribing "single till" structure for Bangalore airport (BIAL) and possibility of regulating returns at Mumbai airport (though with reference to current OMDA agreement) has created uncertainty over the profitability of GVK's Airport business. We await further clarity on various aspects, including RE as part of regulated revenues, incentives, etc. An appeal against the AERA order can be made in front of the Appellate Tribunal, and we understand that various airport developers are already contemplating such action. This continued uncertainty will possibly lead to delays in equity fund raising (PE transaction), impact capex at BIAL and also limit incentives on the part of the airport developer to progress with RE monetization / enhance non-aero revenues.

Highlights of AERA order [January 2011]

AERA order states that OMDA is not a concession offered by the central government and is an agreement between the private operator and Airport Authority of India

1. Adopts "single till" regulatory regime for all major airports in India (except Mumbai and Delhi) including Bangalore and Hyderabad. Adopts price cap regulation, which is also termed as incentive-based regulation.
2. In the case of Mumbai and Delhi airports, the OMDA states that aero charges shall be determined as per the provisions of respective state support agreements. However, the AERA order states that OMDA is not a concession offered by the central government and is an agreement between the private operator and Airport Authority of India. Hence, AERA will separately determine the extent to which the covenants as per the state support agreements would impact the adoption of "single till" method.
3. "Fair rate of return" would be provided on regulatory asset base (RAB), with explicit estimate of post-tax cost of capital and debt based on weighted average gearing for a control tariff period (first cycle for five years). Work in progress will not be considered for computation of RAB. For inclusion in initial RAB, evidence is required for competitive procurement for major capital investments with value of over 5% of the opening RAB and the investment should be in accordance with Government of India approved master plan / capital investment plan.
4. "Traffic forecast" would be made for a tariff control period and any variation above/ below a specified band, would be shared equally by the airport operator and the users.
5. "Operation and maintenance" cost to be largely linked to normative specified or on actual basis.
6. Returns from the airport project will be subject to overall "quality of services" and underperformance / outperformance would decrease / increase returns.

7. Non-aero revenues will be forecasted by AERA based on various parameters and the airport operator will be allowed to retain any upside in revenues from such services.
8. "Truing" up of required revenues (yield per passenger, based on traffic forecast v/s actual) to be carried out on an annual basis within a tariff control period of five years.

Implications for GVK

The AERA order can be appealed in front of the Appellate Tribunal, and we understand that various airport developers are already contemplating an appeal.

This continued uncertainty will lead to delays in equity fund raising (PE transaction), impact capex at BIAL and also limit incentives for the airport developer to go ahead with RE monetization / enhance non-aero revenues.

We await further clarity on various issues, including the following:

Many questions remain to be answered on "exact" framework of regulations

- Will real estate monetization be a part of the price cap regulation? Real estate monetization is an important component of both profitability and valuation of airport assets.
- To what extent are the proposed regulations applicable on Mumbai and Delhi airports?
- How will the fair rate of return and possible incentives be calculated? Further, will an airport operator be penalized if the actual traffic is short of the predetermined band? Also, how will AERA compute the non-aero revenues and the possible incentives/ disincentives?
- How will RAB and the quantum of disallowances (in terms of capital investments) be calculated?
- Will there be a tariff shock to consumers or will the regulations prefer creation of regulatory assets on the books of airport developers?
- Given that most airport developers may appeal against the order, what will be the status of the capex programs in the interim period?

GVK's investment value to be impacted meaningfully

- The AERA order will impact returns on the Bangalore airport. GVK had acquired 29% stake in BIAL in November/December 2009 for Rs11.7b, implying an equity value of Rs40b. Post this order, valuations excluding RE development could decline to 2-3x BV. This could entail a haircut of Rs7b-8b on the Rs11.7b investment by GVK.
- Mumbai airport contributes 35% to GVK's SOTP valuation. Post the AERA order, regulatory uncertainty on revenues has increased.

GVK acquired 29% stake in BIAL at Rs40b, a year ago, while we value BIAL at Rs12.7b, a discount of 69% to acquisition value. Net contribution to SOTP valuation negative at Rs3.2b, v/s equity investment of Rs4.8b

BIAL: Current Valuations at ~70% Discount to Acquisition Value

Acquisition Details	Period	Stake acquired (%)	Value (Rs m)	Equity Value (Rs m)	Financed as
Unique Zurich Airport	Nov-09	12	4,800	40,000	Cash
Larsen & Toubro	Dec-09	17	6,860	40,353	ST Debt
Total		**29**	**11,660**	**40,207**	
Current Valuation in SOTP					
Core Airport Business				10,164	12x FY12E EPS
Real Estate				2,575	At Rs0.5m/acre
Total				**12,739**	
Discount to Acquisition Price (%)				**68.3**	
GVK's Share		29		3,694	
Less: Acquisition Debt				(6,860)	
Contribution to SOTP Valuation				**(3,166)**	

Source: Company/MOSL

B] Mumbai airport: Slum rehabilitation and RE monetization delayed meaningfully

Delays in approval of master plan for real estate (RE) development at Mumbai airport by Mumbai Metropolitan Region Development Authority (MMRDA) have led to delays in RE monetization. Now, the first phase of monetization of ~1msf is expected in 2HFY12, ~18 months later than the original target. Also, progress on slum rehabilitation is limited, but we understand that this will not meaningfully impact airport expansion (integrated terminal building) and RE development.

HDIL has commenced work on 33,000 apartments (out of a total of 85,000 hutments) and ~25,000 apartments are 75%+ completed. Relocation has, however, not commenced

Status of Slum Rehabilitation as at September 2010; Construction On, but Relocation Yet to Commence

	Premiere (I & II)	Kurla	Bhandup	Bombay Oxygen	Popular Car Bazaar	Mahul
No of Families	22,000	2,000	2,500	3,000	2,500	1,000
Rehab Area (msf)	8.0	0.5	0.7	1.2	1.0	0.5
Project Start Date	May-08	May-08	Sep-09	Oct-10	Nov-10	Nov-10
Work Completed (%)	>75	>75	>25	-	-	-

Source: HDIL/MOSL

Earlier, slum rehabilitation was expected to be completed by October 2011. Current project progress is far behind the stated timeline, unlikely to impact RE monetization

Slum Rehabilitation Delayed...

Particulars	Area (acres)
Total Area	276
Estimated hutments	85,000
Inhabitants	1,000,000
Development Rights to HDIL (acres)	**65**
Agreement signed in	Oct-07
Expected completion (48 months)	Oct-11

Source: Company/MOSL

RE monetization at MIAL is now expected to commence in 2HFY12 v/s FY11 earlier

... As Also RE Monetization at MIAL

	Earlier	Now
No objection letter from AAI	Mar-09	Mar-09
Final MMRDA approval	Dec-09	Sep-11
RE monetization	Apr-10 onwards	2HFY12 onwards

Source: Company/MOSL

MIAL slum rehabilitation development plan

Source: Company/MOSL

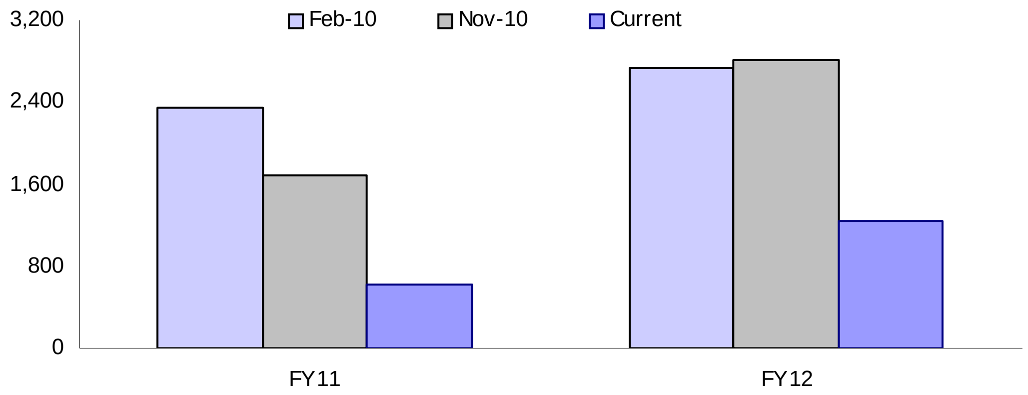
C] Power business: Continued lack of clarity on merchant sales

The High Court verdict towards compensation against significant under-recoveries towards stranded gas-based capacities has been delayed for a long time now. The case has been pending since April 2009, for almost two years now. This has ruled out any possibility of merchant power sales for FY11.

Earlier, GVK (along with other companies impacted) was given three options: (1) Rs0.24/unit increase in tariff to compensate for higher fixed cost, (2) higher tariff on 20% of capacity through PPA route, only till the recovery of higher cost, initial losses, or (3) sale of 20% capacity on merchant basis, again till the time initial losses are made good. Lack of clarity on the same has impacted GVK's earnings. Our estimates factor in increased tariff of Rs0.24/unit from 2HFY12, till under-recoveries pertaining to higher cost, etc.

Consolidated profitability for FY11/12 has been impacted largely given issues around merchant capacity in power business

Earnings Estimates for Power Division have witnessed Meaningful Downgrades (Rs m)



Source: Company/MOSL

Growth trajectory - several new projects / development plans initiated over ~12 months

Over the past 12-15 months, several new projects have been added to the portfolio and several development plans have been initiated: (1) acquisition of 29% stake in Bangalore airport, (2) capacity expansion at gas-based power projects (1.6GW at JP II and 800MW at Gautami), (3) 690MW hydroelectric plant (HEP) in J&K awarded through CBT mechanism, (4) road projects (Kota-Deoli, Rajasthan, cost Rs8.5b and L1 in Baroda-Wasad), and (5) planned expansion at Goindwal Sahib (540MW) by another 660MW. GVKPIL has recently signed an MoU with the Government of Indonesia to develop two airports in Bali and Java, and is also on the lookout for coal mine acquisitions abroad. The company is also looking to acquire thermal power projects in India that are in nascent stages of development.

GVKPIL has made sizable addition to its project portfolio over the last one year. The profitability/ progress on the same remains to be seen

Details of GVK's New Project Portfolio

Project	Unit	Cost (Rs b)	Remarks
Bangalore Airport	12m pa	11.7	Acquisition of 29% stake at Rs11.7b (EV of Rs40b) AERA ruling on airport unfavorable to earnings, valuations Valued at negative Rs3.5b in SOTP valuations
Gas-based Project	1,600MW	64	Equipment orders placed to L&T/Mitsubishi and Alstom NTP issued for only one unit, awaiting gas linkages Target CoD by FY14E
Rattle HEP, J&K (Hydro Power)	690MW	50	First project to be awarded through CBT mechanism LoA received in May, 2010, concession period of 30 years Target CoD by FY17/18E
Kota Deoli Project (Road)	83km	8.5	FC done in Jan-11, DER of 80:20 26 years concession period (30 months for construction) Target CoD by 1QFY14E
Baroda Wasand (Road)	102km	-	L1, concession not yet awarded
Indonesia Airports	-	-	Signed MoU to develop two airports - Bali and Java

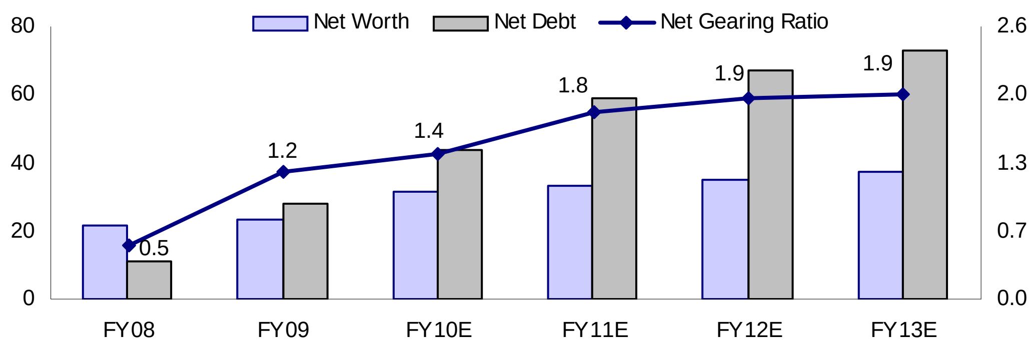
Source: Company/MOSL

Fund raising is a challenge, but surmountable

GVK's outstanding equity commitment stands at Rs35b for projects under construction/ development and in the pipeline. A sizeable part of this will be financed through Rs15b of PE transaction in the Power business, of which Rs10b has already been received. Consolidated debt-equity stands at 1.5x and we expect this to reach 1.8x by the end of FY11. Delays in real estate monetization at Mumbai airport, AERA order for Bangalore airport, decision on merchant power sales, etc have impacted operating cash flows. Thus, GVK will need incremental equity funding over the next 18 months for some of these investments. Given the current tight liquidity and market conditions, fund raising could be a challenge.

Consolidated DER to peak out by FY12/13E

Trend in Consolidated Debt (Rs b) and DER (%)



Source: Company/MOSL

Power business funding: comfortably positioned

- Outstanding equity commitment stands at Rs27.2b, of which Rs13.5b pertains to GVK Energy (where PE investors recently acquired 25% stake) and Rs13.7b is in the books of GVK (Goriganga HEP 371MW and Rattle HEP 690MW).
- GVK Energy is comfortably funded given cash inflows of Rs15b from PE transaction, plus continued cash flows from operational 911MW capacity. Also, for GVK Energy, of the total equity funding requirement of Rs13.5b, Rs9b pertains to 2.4GW gas-based capacities, which are in initial stages, given delays in terms of gas availability.
- For equity commitment of Rs13.7b in GVK's books, both the hydropower projects are in initial stages of development; equity commitments over the next 18 months will not be substantial.

Equity Funding Requirement for Power Projects (Rs b)

	Stake (%)	Equity committment			Possible ramp-up		
		Total	Invested	Outstanding	FY12E	FY13E	FY14E and beyond
A] GVK Energy	**75.03**						
Alaknanda Power Plant	100	4.1	3.9	0.3	0.3	-	-
Goindwal Sahib Plant	100	5.9	2.8	3.1	1.6	0.9	0.6
Gas based projects (1.6GW)	100	11.2	2.2	9.0	3.6	2.7	2.7
Coal Mining							
Tokisud	74	0.5	0.4	0.1	-	-	-
Saregraha	45	1.0	-	1.0	0.2	0.3	0.5
Total [A]		**22.7**	**9.3**	**13.5**	**5.7**	**3.9**	**3.8**
B] Projects in books of GVK							
Goriganga Power Plant	100	4.6	0.4	4.1	0.6	1.7	1.8
Rattle HEP (690MW)	100	10.0	0.4	9.6	1.0	1.9	6.4
Total [B]		**14.6**	**0.8**	**13.7**	**1.6**	**3.6**	**8.2**
Total (A+B)		**37.3**	**10.1**	**27.2**	**7.3**	**7.5**	**14.0**

Source: Company/MOSL

PE Deal in GVK Energy

- **November 2010:** 3i invested Rs8b for 14% stake, valuing GVK Energy at Rs56.9b; of this, Rs5b was the initial contribution and balance Rs3b was to be invested by March 2011.
- **December 2010:** Actis and Government of Singapore Investment Corporation would invest Rs3.5b each in GVK Energy; of this, Rs2.2b each will be invested in the first tranche for an equity stake of 10.97%.
- Post this, total PE fund infusion in GVK Energy stands at Rs15b (3i: Rs8b, and Actis/GIC: Rs7b), leading to a dilution of 24.97%. This combined deal values GVK Energy at Rs60b.
- GVK Energy includes all the power assets of the GVK Group, except Goriganga (371MW) and Rattle (670MW) hydropower projects, which continue to be part of GVK Power.
- The second PE investment in GVK Energy is at ~11% premium to the first PE investment made by 3i in November 2010. Actis and GIC have been offered ~10.97% stake for Rs7b, translating into a valuation of Rs63.6b (11% premium).

Airport business funding: gap remains

MAIL project funding assumes Rs8-10b to be funded from real estate deposits/grants, Rs20b from internal accruals

- Equity commitment towards Airport business stands at Rs9b - Rs1.5b for Mumbai airport and Rs7.5b towards the acquisition of BIAL's debt.
- Total project cost of Mumbai airport stands at Rs98.6b, and includes Rs8-10b to be funded from real estate deposits/grants, Rs20b from internal accruals, etc. There have been delays in real estate monetization, given regulatory issues and lower internal accruals; there could be an interim gap, which will need to be bridged.
- Further, in the case of Delhi airport, there has been a cost overrun of 23% to Rs110b; any possible cost overrun in Mumbai airport will again have to be possibly funded largely through equity.

MIAL Project Cost and Spend till December 2010 (Rs m)

	Funding pattern	Actual Spent	% Spent/invested
Equity	12,000	8,000	66.7
Internal Accruals	20,236	6,500	32.1
Debt	42,310	25,600	60.5
ADF	15,430	5,200	33.7
RE Deposit	8,391		
Balance	209		
Total	**98,576**	**45,300**	**46.0**

Source: Company/MOSL

- BIAL acquisition has been partly funded through debt of Rs6.86b, which has been recently refinanced after a year. The refinancing is for Rs7.5b, and entails higher interest cost at 10%. We understand that the tenure is one year, and the debt will need to refinanced/repaid.
- GVK has recently signed an MoU with the Government of Indonesia and has exclusive rights to study the feasibility towards development/modernization of airports at Bali and Java. Also, GVKPIL has first right of refusal for the proposed Navi Mumbai airport in case its bid is within a 10% range of the lowest bidder. These projects do not require any meaningful equity contribution over the next two years.

GVK is contemplating PE transaction in the airport business, and that has been delayed given the continued regulatory uncertainty

We estimate the funding requirement for the Airport business at ~Rs9b over the next two years (including BIAL debt repayment of Rs7.5b). Further, any shortfall in terms of internal accruals, RE monetization or increased project costs have be met through incremental equity contribution. GVK is contemplating PE transaction in the airport business as well, and that has been delayed given the continued regulatory uncertainty.

Equity Funding Requirement towards Ongoing/New Airport Projects (Rs b)

	Stake	Equity committment			Possible ramp-up	
	(%)	Total	Invested	Outstanding	FY12E	FY13E
Mumbai airport	37	4.4	3.0	1.5	1.0	0.5
Bangalore airport	29	11.7	4.8	*6.9	6.9	-
Total		**16.1**	**7.8**	**8.4**	**7.9**	**0.5**

*Now refinanced with Rs7.5b loan

Source: Company/MOSL

Road business: outstanding equity funding of Rs5.6b

Cashflows of JKEL project could partially meet funding requirement of new road projects

- GVKPIL has recently added two road projects to its portfolio, viz. Kota-Deoli (project cost of Rs8.5b) and Baroda-Wasand (Rs10b). It has already signed concession agreement for Kota Deoli project and financial closure for the same is achieved.
- It has emerged as L1 for Baroda-Wasand project, but is not awarded the LoA. Cumulative equity funding requirement for both the projects stands at Rs5.6b, which can be funded through partial cash flows from JKEL Expressway project (Rs1b+ per year) and equity infusion by GVKPIL would be limited at Rs2b-3b.

Equity Funding Requirement towards ongoing/new Road Projects (Rs b)

	Stake	Equity committment			Possible ramp-up		
	(%)	Total	Invested	Outstanding	FY12E	FY13E	FY14E
Kota Deoli	100	2.6	0.0	2.6	0.8	1.3	0.5
Baroda Wasand	100	3.0	0.0	3.0	0.9	1.5	0.6
Total		**5.6**	**0.0**	**5.6**	**1.7**	**2.8**	**1.1**

Source: Company/MOSL

Valuations provide comfort, earnings growth robust

GVK's current valuations provide strong comfort for long-term investing. Its current market cap of Rs43b largely factors in the value of the Power (Rs33b) and Roads (Rs11b) businesses, and completely ignores any value from Airports (Rs20b). While regulatory uncertainties have led to impairment in valuations, we believe that even a bear case value for the Airport business stands at Rs6b-12b (P/BV of 2-3x). The bear case valuation will provide limited incentives to maximize non-aero revenues/RE monetization and impact cash flows to fund ongoing investment plans, and should not be the regulatory intent. Our base case valuation of Rs20b for the Airport business already factors in Rs8b haircut from the acquisition cost for GVK. At the CMP of Rs28, the stock quotes at 19x FY12E and 16x FY13E earnings.

Our SOTP-based target price is Rs41, comprising of Airport business (including negative contribution for Bangalore airport) at Rs12/share, Roads at Rs7/share, Power portfolio at Rs19/share (post-money after PE transaction), and investment in other projects, cash at Rs2/share.

Recent AERA order on airports is negative with respect to earlier expectation, but ensures "fair rate of return" and thus, the valuations in a bear case scenario would still be linked to invested equity

Current Valuation Ignores any Business Value from Airport Business

Particulars	Rs m
Current Market Cap	45,797
Less:	
Power Business	34,151
Roads Business	10,577
Cash/Investments	3,659
Implied Valuation Airport Business	**(2,928)**

GVK has Invested Rs6.5b in Airport as Equity (Rs m)

Airport	Equity Inv Dec-10	Stake (%)	GVK's Share
Mumbai	14,460	37.0	5,350
Bangalore	3,850	29.0	1,117
Total	**18,310**		**6,467**

Source: Company/MOSL

- We value the Road business, largely comprising of the Jaipur-Kishangarh Expressway, at Rs10.6b (P/BV of 3.6x). In FY11, the business is expected to report a net profit of Rs792m; and the concession period extends till April 2023. We have not factored in any value for the new project wins, as they continue to be in initial stages of development.

we value GVK Energy at Rs44b, 59% discount to PE pre-money transaction value of Rs60b

- GVK's 75% stake in GVK Energy is valued at Rs32.7b; we value GVK Energy at Rs44b (59% discount to PE pre-money transaction value of Rs60b). We value operational 911MW power portfolio at Rs13.2b, and these projects are expected to report net profit of Rs620m in FY11. Projects under construction of 870MW are valued at Rs13b and equity invested till date stands at Rs6.7b - these projects will earn regulated CERC returns.

GVK has invested Rs5.4b as equity (including internal accruals) and we value that at Rs23b (P/BV of 4.4x)

- **Airports:** In Mumbai airport, GVK has invested Rs5.4b as equity (including internal accruals) and we value that at Rs23b (P/BV of 4.4x). Net of acquisition debt of Rs7.5b, we value BIAL at a negative Rs3.8b; thus, on the original investment of Rs11.7b, we factor in a haircut of Rs8b.
- While the AERA order has led to uncertainties, we believe that the regulatory regime will provide incentives and cash flows for continued investments. Hence, in a bear case scenario, the airports can be valued at 2-3x BV - a valuation range of Rs6b-12b (Rs3.5-7.7/share), net of acquisition debt. This compares with our current base case valuation of Rs19.5b for the airport business (Rs12/share).

We have not factored in delayed commissioning and earnings from Alaknanda and Goindwal Sahib projects in FY13

SPV-wise Contribution to Consolidated Profit (Rs m)

	FY10	FY11E	FY12E	FY13E	CAGR (%) FY10-13E
Mumbai International Airport Limited	541	674	749	271	-20.6
Bangalore Airport	56	327	278	299	74.3
Jaipur Kishangarh Expressway	591	792	951	1,091	22.7
Jegurupadu Phase I	145	(21)	311	280	24.6
Jegurupadu Phase II	263	164	367	609	32.3
Alaknanda Hydro Project	-	-	-	604	-
Gautami Power Project	232	476	554	855	54.4
Goindwal Sahib project	-	-	-	-	-
Interest on corporate debt	(154)	(750)	(875)	(1,250)	100.8
Other Business (Mining, O&M)	(54)	62	59	169	-
Calculated PAT	**1,621**	**1,724**	**2,394**	**2,927**	**21.8**
Reported PAT	**1,559**	**1,725**	**2,394**	**2,927**	**23.4**

Source: Company/MOSL

Current Valuations Provide Downside Comfort, Buy

Project	% Holding	Basis	WACC (%)	Equity Value	In %	Rs/sh	Book value	P/BV (x)
Mumbai Airport				**23,352**	**34**	**15**	**5,350**	**4.4**
Core Business Operations	37.0	DCF	10.1	16,194	24	10		
Real Estate	37.0	DCF, At 50% disc to NAV	17.0	7,158	10	5		
Bangalore Airport				**-3,166**	**-5**	**-2**	**4,897**	**N.A.**
Core Business Operations		12x FY12E PER		2,948	4	2		
Real Estate		NPV of Rs5m/acre		747	1	0		
Less: Acquisition Debt				-6,860	-10	-4		
Roads				**10,577**	**15**	**7**	**2,958**	**3.6**
Jaipur Kishangarh Exp Ltd	100.0	DCF	10.2	10,577	15	7		
Power	**75.0**			**34,560**	**51**	**20**	**21,016**	**1.6**
Jegurupadu Phase I	100.0	DCF	10.4	3,249	5	2	1,862	4.1
Jegurupadu Phase II	100.0	DCF	9.6	4,356	6	3		
Alakananda Hydro Project	100.0	DCF	10.0	7,765	11	5	3,870	2.0
Gautami Power Project	64.0	DCF	9.7	6,623	10	4	3,657	1.8
Goindwal Sahib Project	100.0	DCF	10.7	7,210	11	5	2,800	2.6
Coal Mining	74.0	DCF	10.1	1,778	3	1	415	4.3
Goriganga Hydro Power Project		BV of investment		418	1	0	418	1.0
PE Transaction in GVK Energy				15,000	22	9	15,000	1.0
Others								
Oil & Gas Exploration		BV of investment		1,079	2	1	1,079	1.0
O&M Business	100.0	DCF	10.5	1,099	2	1	0	-
Investment in SEZ		Book Value		1,080	2	1	1,086	1.0
Cash / (Debt)		FY10 Book		892	1	1	892	1.0
Grand Total				**68,272**	**100**	**41**	**36,886**	**1.9**

Source: Company/MOSL

Financials and Valuation

INCOME STATEMENT					(Rs Million)
Y/E MARCH	**2009**	**2010**	**2011E**	**2012E**	**2013E**
Net Sales	**5,138**	**17,866**	**20,265**	**21,397**	**26,505**
Change (%)	*9.3*	*247.7*	*13.4*	*5.6*	*23.9*
Operating Expenses	3,375	13,270	14,594	14,573	15,775
EBITDA	**1,763**	**4,597**	**5,671**	**6,824**	**10,730**
% of Net Sales	*34.3*	*25.7*	*28.0*	*31.9*	*40.5*
Depreciation	780	1,371	1,967	2,004	2,804
Interest	334	2,085	2,716	2,849	4,418
Other Income	214	292	158	344	316
PBT	**864**	**1,433**	**1,147**	**2,314**	**3,823**
Tax	100	200	155	635	996
Rate (%)	*11.6*	*14.0*	*13.5*	*27.5*	*26.0*
PAT before Min. Int.	**763**	**1,233**	**992**	**1,679**	**2,828**
Minority Interest	3	191	268	312	471
Share of Associate Profit	316	517	1,001	1,027	570
Reported PAT	**1,076**	**1,559**	**1,725**	**2,394**	**2,927**
Change (%)	*-20.9*	*44.9*	*10.7*	*38.8*	*22.3*
Adjusted PAT	**1,076**	**1,620**	**1,725**	**2,394**	**2,927**
Change (%)	*-20.9*	*50.6*	*6.5*	*38.8*	*22.3*

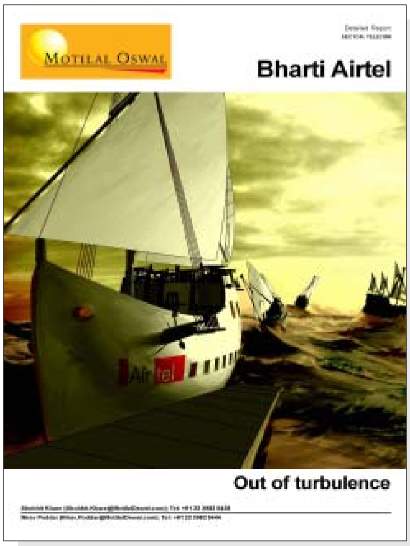
BALANCE SHEET					(Rs Million)
Y/E MARCH	**2009**	**2010**	**2011E**	**2012E**	**2013E**
Share Capital	1,406	1,579	1,579	1,579	1,579
Share application money	290	1	0	0	0
Reserves	21,533	29,980	31,414	33,404	35,837
Net Worth	**23,229**	**31,560**	**32,993**	**34,983**	**37,416**
Minority Interest	2,644	2,500	2,768	3,080	3,551
Loans	29,798	44,455	60,609	68,396	74,890
Deffered Tax Liability	885	890	890	890	890
Deffered Income	1,641	1,787	1,787	1,787	1,787
Capital Employed	**58,197**	**81,191**	**99,047**	**109,136**	**118,534**
Gross Fixed Assets	**21,269**	**48,411**	**42,218**	**42,218**	**102,263**
Less: Acc Dep	7,680	8,928	6,956	8,960	11,764
Net Fixed Assets	**13,590**	**39,483**	**35,262**	**33,257**	**90,498**
Capital WIP	**38,502**	**19,955**	**45,651**	**56,982**	**7,109**
Investments	3,214	19,382	15,527	15,457	16,197
Net Curr. Assets	**2,887**	**2,367**	**2,608**	**3,439**	**4,729**
Misc. Expenses	5	5	0	0	0
Application of Funds	**58,197**	**81,191**	**99,047**	**109,136**	**118,534**

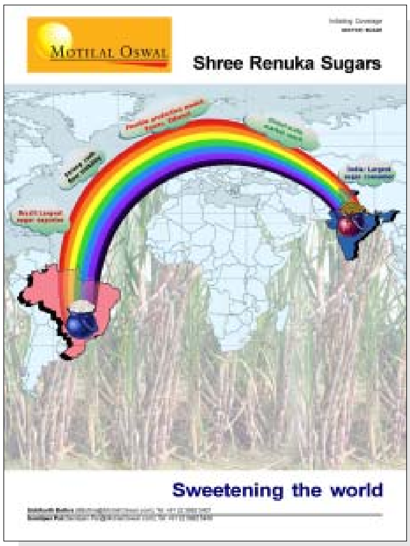
E: MOSL Estimates

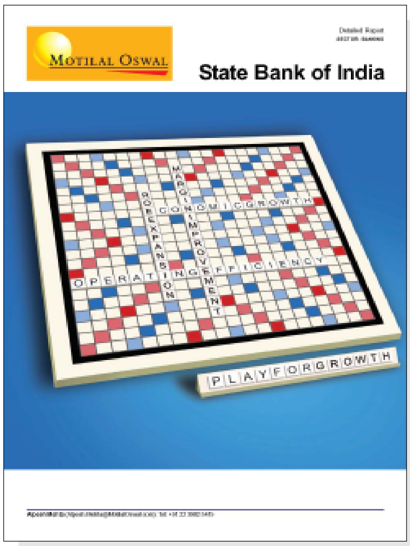
RATIOS					
Y/E MARCH	**2009**	**2010**	**2011E**	**2012E**	**2013E**
Basic (Rs)					
Adjusted EPS	**0.8**	**1.0**	**1.1**	**1.5**	**1.9**
Growth (%)	*-20.9*	*34.1*	*6.5*	*38.8*	*22.3*
Cash EPS	2.6	3.7	4.7	5.6	7.3
Book Value	16.3	20.0	20.9	22.2	23.7
DPS	0.0	0.3	0.3	0.5	0.6
Payout (incl. Div. Tax.)	0.0	15.0	15.0	15.0	15.0
Valuation (x)					
P/E	37.9	28.3	26.6	19.1	15.6
Cash P/E	11.0	7.8	6.2	5.2	4.0
EV/EBITDA	18.3	10.6	11.4	10.5	7.2
EV/Sales	6.3	2.7	3.2	3.4	2.9
Price/Book Value	1.8	1.5	1.4	1.3	1.2
Dividend Yield (%)	0.0	1.0	1.1	1.6	1.9
Profitability Ratios (%)					
RoE	4.7	4.9	5.2	6.8	7.8
RoCE	2.1	4.3	3.9	4.7	7.0
Leverage Ratio					
Debt/Equity (x)	1.3	1.4	1.8	2.0	2.0

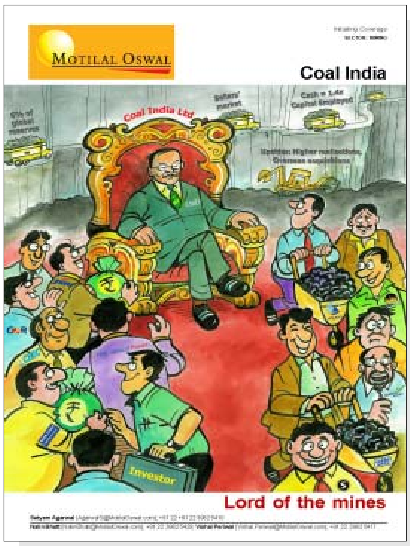
CASH FLOW STATEMENT					(Rs Million)
Y/E MARCH	**2009**	**2010**	**2011E**	**2012E**	**2013E**
PBT bef. Extraord. Items	**864**	**1,433**	**1,147**	**2,314**	**3,823**
Add : Depreciation	780	1,371	1,967	2,004	2,804
Interest	334	2,085	2,716	2,849	4,418
Less : Direct Taxes Paid	100	200	155	635	996
(Inc)/Dec in WC	1,614	-534	-250	-118	-531
CF from Operations	**3,491**	**4,155**	**5,425**	**6,415**	**9,519**
(Inc)/Dec in FA	-27,095	-8,718	-23,442	-11,331	-10,172
(Pur)/Sale of Investments	3,854	-16,168	3,855	70	-740
CF from Investments	**-23,241**	**-24,886**	**-19,586**	**-11,262**	**-10,912**
(Inc)/Dec in Networth	0	7,325	0	0	0
(Inc)/Dec in Pref. Capital	287	-290	-1	0	0
(Inc)/Dec in Debt	19,839	14,839	17,155	8,813	7,064
(Inc)/Dec in Diff. Tax Liab	-6	5	0	0	0
Less : Interest Paid	334	2,085	2,716	2,849	4,418
Dividend Paid	0	263	291	404	494
CF from Fin. Activity	**19,786**	**19,532**	**14,153**	**5,560**	**2,152**
Inc/Dec of Cash	**-81**	**-1,199**	**-8**	**713**	**759**
Add: Beginning Balance	1,643	1,562	508	500	1,213
Closing Balance	**1,562**	**508**	**500**	**1,213**	**1,972**

Motilal Oswal Company Gallery









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Disclosure of Interest Statement	GVK Power and Infrastructure
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No