August 11, 2010

GMR Infrastructure (GMRINF)

Rs 60

Rating matrix

Rating	:	**Add**
Target	:	Rs 63
Target Period	:	12-15 months
Potential Upside	:	7%

Key Financials

(Rs Crore)	FY09	FY10	FY11E	FY12E
Net Sales	4019.2	4566.5	5350.0	6650.5
EBITDA	1067.1	1364.3	1890.6	2767.1
Net Profit	279.4	158.0	82.3	180.9

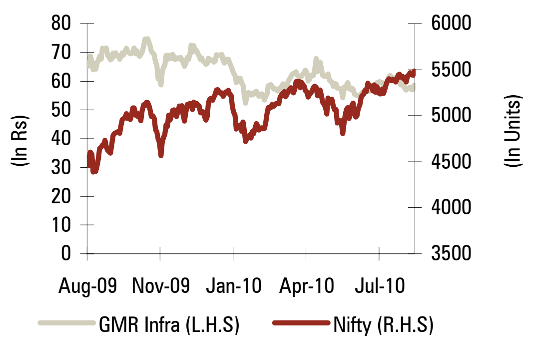
Valuation summary

	FY09	FY10	FY11E	FY12E
EPS (Rs)	0.8	0.4	0.2	0.5
PE (x)	75.2	133.9	256.9	116.9
Target PE (x)	82.1	145.8	280.6	127.7
EV/EBITDA (x)	28.7	22.5	16.2	11.1
P/BV (x)	3.3	3.1	3.1	3.1
RoNW (%)	4.3	2.3	1.2	2.6
RoCE (%)	3.2	3.4	3.3	4.4

Stock data

Market Capitalisation	Rs 23432.0 crore
Debt (FY08)	Rs 21342.8 crore
Cash (FY08)	Rs 1592.9 crore
EV	Rs 43181.8 crore
52 week H/L	Rs 77/51
Equity capital	Rs 389 crore
Face value	Rs 1
MF Holding (%)	8.3
FII Holding (%)	13.7

Price movement



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WHAT'S CHANGED...

PRICE TARGET .... Changed from Rs 61 to Rs 63
EPS (FY11E) .... Unchanged
EPS (FY12E) .... Changed from Rs 0.7 to Rs 0.5
RATING... Unchanged

Good show at topline...

GMR Infra's Q1FY11 revenues showed a healthy improvement especially in the airport division. The net profit came above our expectation mainly on account of better-than-expected other income of Rs 67.3 crore from treasury income and forex gains. Furthermore, the company commenced operation of the T3 Terminal and started selling units from the barge mounted plant at Rs 4.5-4.8 per unit. Additionally, GMR managed to refinance the InterGen debt. We have valued the stock at Rs 63 per share and maintained our ADD recommendation.

- **Q1FY11 results come above our expectation**

  GMR's revenues grew 4.6% YoY to Rs 1,231.3 crore. There have been better operating parameters in airport revenues (all three airports reported better traffic movement). At the net profit level, it came above our expectation at Rs 28.4 crore mainly due to better than expected other income from treasury income and forex gains.

- **Barge mount ~100 MW operational, to reach full capacity in Sep**

  The barge mounted plant has been shifted to Kakinada and has started generation of 100 MW from July. The management has indicated it will reach full capacity of 235 MW from September. GMR has started selling units from this plant at Rs 4.5-4.8 per unit.

- **InterGen debt refinanced**

  GMR has successfully done the refinancing of the short-term debt for InterGen. Out of the total short-term debt of US$838 million, the company arranged long-term debt of US$737 million while the remaining US$100 million has been infused by the company through equity (US$300 million till date).

Valuation

At the CMP, the stock is trading at 3.1x FY11 P/BV and 3x FY12 P/BV. We value the stock at Rs 63 per share based on SOTP valuation methodology and maintain our **ADD** recommendation. Any regulatory development on the hike in UDF on DIAL, tariff for Vemagiri power plant and stake sale in InterGen (as per media reports) would act as key triggers for the stock.

Exhibit 1: Financial Performance

(Rs Crore)	Q1FY11	Q1FY11E	Q4FY10	Q1FY10	QoQ (Chg %)	YoY (Chg %)
Net Sales	1,231.3	1,233.2	1,125.0	1,177.5	9.5	4.6
EBITDA	377.5	421.4	314.6	321.3	20.0	17.5
EBITDA Margin (%)	30.7	34.2	28.0	27.3		
Depreciation	164.8	200.0	164.2	137.3	0.4	20.1
Interest	238.3	200.0	222.7	159.8	7.0	49.2
Reported PAT	28.4	-14.6	73.1	22.5	-61.1	26.2

Source: Company, ICICIdirect.com Research

Segmental Performance

Power division

The power division's revenue declined 7.2% YoY to Rs 583.8 crore, mainly on account of the shifting of the barge mounted plant to Kakinada

- The revenues of the power division declined 7.2% YoY to Rs 583.8 crore, mainly on account of the shifting of the barge mounted plant to Kakinada. The plant has been shifted and has resumed operation generating 100 MW from July. It is expected to reach full capacity of 235 MW from September. The company has started selling units from this plant at Rs 4.5-4.8 per unit

- In terms of the Vemagiri project, GMR submitted an application to APTRANSCO based on the APERC order for recovery of additional fixed charges for the Vemagiri plant till the PPA period. The management expects to recover 40 paise per unit on the same

- In terms of InterGen, the company has successfully done the refinancing of the short-term debt. Out of the total short-term debt of US$838 million, the company has arranged long-term debt of US$737 million while the remaining US$100 million has been infused by the company through equity. With this, the company has made a total equity infusion of US$300 million in InterGen

GMR has successfully refinanced the short-term debt of InterGen with long-term debt of US$737 million and US$100 million of equity infusion

- At Homeland Energy (GMR owns mines through this subsidiary), the company increased its equity holding to 55.8% from 33.5% currently. The financials for the same are expected to be consolidated from next quarter onwards

- In terms of other power project, GMR Infra achieved financial closure in EMCO energy project at Worora, Maharashtra. The project cost for the same is Rs3,500 crore and construction work has started for this project

Exhibit 2: Power division performance

(Rs crore)	Q1FY11	Q4FY10	QoQ (%)	Q1FY10	YoY (%)
Revenues	583.8	428.8	36.2	629.3	-7.2
EBITDA	57.3	52.0	10.2	87.7	-34.7
EBITDA Margin (%)	9.8	12.1		13.9	
PAT	26.4	125.7	-79.0	23.4	12.8
PAT Margin (%)	4.5	29.3		3.7	

Source: Company, ICICIdirect.com Research

Airports division

- The revenues of the airport division declined 1.9% QoQ to Rs 425.1 crore on the back of lower non-aero revenue in DIAL due to a change in the revenue recognition model (revenue sharing JV) for cargo and duty free segments

We expect the depreciation and interest charges to increase significantly for the airport division with the commencement of T3 terminal. We expect the company to report losses in the airport division in the coming quarters

- Healthy traffic growth was seen across airports with growth of 7.4% QoQ at Delhi, 14.1% QoQ at Hyderabad and 27.7% QoQ at the Turkey airport

- With the commencement of DIAL T3 terminal from July, we expect the depreciation and interest charges to increase significantly for the airport division. We expect the company to report losses in the airport division in the coming quarters

During the quarter, GMR along with Malaysia Airports Holding consortium won the bid to expand and operate the Male International airport

- During the quarter, GMR, along with Malaysia Airports Holding consortium, won the bid to expand and operate the Male International airport on a BOOT basis for a period of 25 years extendable by another 10 years.

Exhibit 3: Airport division performance

(Rs crore)	Q1FY11	Q4FY10	QoQ (%)	Q1FY10	YoY (%)
Revenues	425.1	433.5	-1.9	321.2	32.4
EBITDA	154.2	154.4	-0.1	114.5	34.7
EBITDA Margin (%)	36.3	35.6		35.7	
PAT	-28.3	-31.3	-9.6	-34.0	-16.8
PAT Margin (%)	-6.7	-7.2		-10.6	

Source: Company, ICICIdirect.com Research

Exhibit 4: Airport traffic data

	Delhi					Hyderabad					Turkey				
	Q4FY10	Q1FY11	QoQ (%)	Q1FY10	YoY(%)	Q4FY10	Q1FY11	QoQ (%)	Q1FY10	YoY(%)	Q4FY10	Q1FY11	QoQ (%)	Q1FY10	YoY(%)
Passengers (mn)															
Domestic	4.6	5.3	15.2	4.2	24.1	1.2	1.4	16.7	1.1	24.2	1.6	1.9	18.8	1.0	91.9
International	2.3	2.0	-13.0	1.9	8.2	0.4	0.4	0.0	0.4	7.6	0.6	0.9	50.0	0.5	95.7
Total	6.8	7.3	7.4	6.1	19.2	1.6	1.8	12.5	1.5	19.8	2.2	2.8	27.3	1.5	93.8
Cargo ('000 tns)															
Export	54.3	55.3	1.8	49.6	11.4	7.8	8.6	10.3	6.3	37.1	0.4	0.4	0.0	0.7	-47.0
Import	44.6	45.8	2.7	37.2	23.0	10.1	10.5	4.0	9.1	15.0	3.4	5.2	52.9	1.6	228.7
Total	98.8	101.0	2.2	86.8	16.4	17.9	19.0	6.1	15.4	24.0	3.8	5.5	44.7	2.2	148.2
ATMs ('000)															
Domestic	41.2	43.7	6.1	40.1	9.0	16.9	16.8	-0.6	17.1	-1.5	12.8	15.4	20.3	7.8	96.9
International	16.4	17.6	7.3	15.4	14.5	3.4	3.3	-2.9	3.2	3.5	5.8	8.0	37.9	4.1	95.4
Total	57.6	61.3	6.4	55.5	10.5	20.3	20.1	-1.0	20.3	-0.7	18.6	23.4	25.8	11.9	96.4

Source: Company, ICICIdirect.com Research

Roads division

The company reported a growth of 28.7% YoY in road division revenues to Rs 98.4 crore mainly due to induction of revenue from Ulunderpet Highway Project

- In the road division, GMR reported a growth of 28.7% YoY in road division revenues to Rs 98.4 crore mainly due to induction of revenue from the Ulunderpet Highway Project
- The traffic volume grew healthily at 4.7% sequentially to 8.8 million during the quarter
- The PAT margin fell by around 7.5 percentage points YoY on account of higher interest and depreciation arising from the Ulunderpet Highway Project
- GMR completed the financial closure of the 181 km toll based Hyderabad Vijaywada project and 29 km annuity-based Chennai outer ring road project during Q1FY11. Furthermore, the company expects the financial closure of the Hospet–Hungud project in Q2FY11

Exhibit 5: Roads division performance

(Rs crore)	Q1FY11	Q4FY10	QoQ (%)	Q1FY10	YoY (%)
Revenues	98.4	90.9	8.2	76.4	28.7
EBITDA	80.8	69.8	15.8	65.4	23.5
EBITDA Margin (%)	82.1	76.8		85.6	
PAT	-13.7	-19.1	-28.3	-4.1	234.1
PAT Margin (%)	-13.9	-21.0		-5.4	

Source: Company, ICICIdirect.com Research

Valuation

We have now adjusted our earning estimates in order to reflect the flowing of higher depreciation and interest expenses in P&L on account of the commencement of operation of the T3 Terminal. Furthermore, we have also fine-tuned the higher other income reflected in Q1FY11.

Any regulatory development on the hike in UDF on DIAL, tariff for the Vemagiri power plant and stake sale in InterGen would act as key triggers for the stock

Any regulatory development on the hike in UDF on DIAL, tariff for Vemagiri power plant and stake sale in InterGen (according to media reports) would act as a key trigger for the stock.

At the CMP, the stock is trading at 3.1x FY11 P/BV and 3x FY12 P/BV. We have valued the stock at Rs 63 per share based on our SOTP valuation methodology and maintained our **ADD** recommendation.

Exhibit 6: SOTP valuation

Sector	GIL's Equity Value (in Rs.Cr)	Value Per GIL's share (Rs.)
Airports	4,261.3	12
Real Estate	5,749.6	16
Power	4,070.7	17
Mines	1,777.2	5
SEZ	2,111.2	6
Roads	954.5	3
Intergen	2,115.0	6
GIL's Cash & Cash Equivalent	1,592.9	4
GIL's Valuation	**22,632.4**	**63**

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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Strong Buy: 20% or more;
Buy: Between 10% and 20%;
Add: Up to 10%;
Reduce: Up to -10%
Sell: -10% or more;

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