12 July 2010

GMR Infrastructure

Largest asset gets commissioned

Buy

Target price
Rs78.40

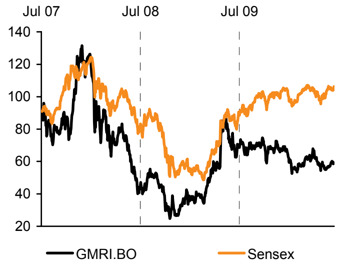
Price
Rs58.95

Short term (0-60 days)
n/a

Market view
Underweight

Price performance

	(1M)	(3M)	(12M)
Price (Rs)	54.90	61.75	64.60
Absolute (%)	7.4	-4.5	-8.7
Rel market (%)	0.3	-4.0	-29.6
Rel sector (%)	2.5	-2.4	-13.0



Market capitalisation
Rs229.46bn (US$4.90bn)

Average (12M) daily turnover
Rs417.10m (US$9.00m)

Sector: BBG AP Electricity
RIC: GMRI.BO, GMRI IN
Priced Rs58.95 at close 9 Jul 2010.
Source: Bloomberg

Our visit to GMR's new terminal at Delhi airport highlighted its project execution capability in building the world's sixth largest terminal in 37 months. With this Rs80bn commissioning, we expect GMR's airport sales to jump sharply. Supported by sufficient cash for ongoing projects, we reiterate Buy.

Key forecasts

	FY08A	FY09A	FY10F	FY11F	FY12F
Revenue (Rsm)	21,850	38,436	45,665	71,189	84,680
EBITDA (Rsm)	4,894	8,915	13,643	28,620	35,490
Reported net profit (Rsm)	2,101	2,795	1,584	3,839	6,181
Normalised net profit (Rsm)[1]	1,688	2,744	1,336	3,839	6,181
Normalised EPS (Rs)	0.43	0.70	0.34	0.99	1.59
Dividend per share (Rs)	n/a	n/a	n/a	n/a	n/a
Dividend yield (%)	n/a	n/a	n/a	n/a	n/a
Normalised PE (x)	136.0	83.60	171.8	59.80	37.10
EV/EBITDA (x)	61.40	36.50	28.40	12.10	11.10
Price/book value (x)	3.75	3.54	3.44	1.66	1.42
ROIC (%)	4.16	2.31	2.78	4.96	5.65

1. Post-goodwill amortisation and pre-exceptional items
Accounting standard: Local GAAP
Source: Company data, RBS forecasts

year to Mar, fully diluted

World's sixth largest airport terminal commissioned in a record 37 months

Our visit to GMR's new Terminal 3 (T3) at Delhi airport, which opens to traffic in the coming week, impressed us on the company's large project execution capability (Rs80bn of Delhi airport's Rs124bn project cost). Covering 80 acres and consuming 0.57m tonnes of cement and 0.14m tonnes of steel, the terminal was completed in around 60% of the time of similar-sized terminals elsewhere. Delhi terminal capacity now exceeds demand (34m passengers vs 26m) for the first time, and management is aiming to make best use of the 5.5m sq ft inside the airport to raise non-aeronautical revenue from the 43% of gross sales in FY09.

Strong traffic growth in existing projects and new opportunity in the Maldives

We believe FY11 has started well for GMR's airport division, with management disclosing yoy passenger traffic growth in April-May 2010 ahead of our expectations: 20-22% at Delhi and 16-24% at Hyderabad vs RBS estimates of 15% for each. We view GMR's successful US$380m bid to construct a new terminal and expand the runway at Malé (Maldives) as an attractive opportunity as GMR will hold 77% in this profitable airport in a popular tourist destination and it won the bid with a 7% premium over the next closest bid. We await traffic details and financial closure information before incorporating this project's valuation.

Reiterate Buy rating, with 33% upside potential as large asset commissioned

With the commissioning of this large Delhi airport asset and traffic growth ytd ahead of our forecasts, we forecast that GMR will grow its airport division gross sales 85% yoy to Rs38.2bn in FY11, with Delhi contributing 63% vs 50% in FY10F. With the T3 project demonstrating GMR's physical execution skills, supported by its successful US$510m equity raising, we believe the company is set to build a world-scale infrastructure in airports and power generation and thus create shareholder value. We reiterate our Buy rating, with an SOTP-based target price of Rs78.40, as we expect ROE to improve from its low in FY10.

Researched by

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Important disclosures can be found in the Disclosures Appendix.

Delhi airport visit confirms GMR's strengths

Our visit to GMR's new Delhi terminal and talks with key airport division staff showed us how it had overcome bureaucratic hurdles to complete a world-scale project in record time We reiterate our Buy as we believe this asset is set to deliver returns.

Significance of Delhi airport to GMR financials

The Rs127.2bn Delhi airport project (comprising Phases 1A and 1B) is currently the largest in GMR's books, which has Rs457.7bn worth of projects either under execution or commissioned. Around 63% of capex under this project (Rs80bn) relates to T3, with the remainder relating to a new runway (the longest in Asia at 4.4km) and a new domestic departure terminal (T1D). For FY10, Delhi International Airport Limited (DIAL) accounted for around 65% of the 40.4m annual passenger traffic handled by the company's airport division, with the remainder relating to Sabiha Gokcen International Airport in Istanbul (SGIA) and Hyderabad International Airport Limited (HIAL).

Table 1 : Airport division traffic scenario

Passenger traffic (m)	FY09	FY10	FY11F	FY12F	FY13F	CAGR
SGIA	6.6	7.8	12.1	12.8	13.6	20%
HIAL	6.2	6.5	7.8	9.0	10.3	13%
DIAL	22.8	26.1	30.2	34.7	39.9	15%
Total	35.7	40.4	50.0	56.4	63.8	16%

Source: Company data, RBS forecasts

Management told analysts participating in the site visit that it is now optimistic that the Airport Economic Regulatory Authority (AERA) will approve the full Rs127bn capex for the Delhi project in the coming months for its regulated revenue calculation vs our current assumption of Rs107bn.

Table 2 : DIAL – funding of capex

Source of funding	Rsm
Debt (as at 31 Mar 2010)	52,660
Equity	12,500
Share application funds	12,500
Airport development fees	34,810
Real estate and others (balancing figure)	14,710
Total	**127,180**

Source: Company data

Table 3 : DIAL phase 1 – key milestones

Task	Status
Phase 1A	
Upgrade of the international terminal	Completed Jun-08
Building a new Code F-compliant runway	Completed Aug-08
Expansion of the domestic arrival terminal	Completed Nov-08
New domestic departure terminal	Completed Apr-09
Phase 1B	
Construction of a new passenger terminal including 78 aerobridges	Inaugurated on 3 Jul-10

Source: Company data

Delhi airport T3 visit highlights

The Terminal 3 site visit organised by GMR provided an opportunity to understand the cost structure of building one of the largest recent infrastructure facilities in India and the execution challenges faced by the company.

Figure 1 : Aerial view of Delhi airport

Source: skyscraper.com

Cost structure and facility

At the site visit, management indicated that around 60% of the Rs80bn capex on T3, which will handle both domestic and international passenger traffic, has been on equipment and around 40% on structure costs including materials.

Major equipment installed in the terminal building to meet the exacting standards set by the Airports Authority of India (AAI) at the time of bidding includes the following:

- 78 aerobridges, each costing Rs50m
- 14 sophisticated baggage handling systems (each with five-level screening), each costing Rs3.5bn.
- 92 walklators and 31 escalators. The walklators together cover 16km, including Asia's longest walklators (118m)
- 168 check-in counters
- Metro train connectivity to the city centre: GMR spent Rs4bn on building airport stations, while the metro infrastructure is owned by Reliance Infrastructure.

A further Rs21bn will be invested by joint ventures to operate retailing and hotels in the terminal.

Table 4 : Service quality requirements demanded by AAI

Performance area	Performance measure	Target	Target to be achieved from the effective date of OMDA
Airport service quality (ASQ)	ASQ score	ASQ score to be maintained at or above 3.50	Annual appraisal (2009 score at 4.16 for DIAL)
Transfer process	Minimum connect times	Domestic/International: 60 minutes	3 years
		International/International: 45 minutes	
Check in	Maximum queuing time	5 minutes for business class	2 years
		20 minutes for economy	
Security check	Waiting time in queue	95% of passengers wait less than 10 minutes	2 years
CIQ	Checking time in queue	95% of passengers wait less than 20 minutes	2 years
		95% of passengers wait less than 10 minutes	5 years
Baggage delivery	Time for bag delivery from aircraft arrival	Domestic - First bag 10 minutes, last bag 30 minutes from on blocks time	5 years
		International - First bag 15 minutes, last bag 40 minutes from on blocks time.	3 years
Passenger boarding bridges	% passengers served by boarding bridges	International - 90% of annual passengers	5 years
		Domestic - 90% of annual passengers travelling on A/C B737/A320 or larger unless not required by airlines	

Source: DIAL OMDA

Consumption of key raw materials in T3 construction

- 574,000 tonnes of cement
- 143,000 tonnes of steel
- 110,000 tonnes of granite imported from Bahrain
- 169,000 sq m of glass imported from China and fitted by 700 Chinese workers
- Eight 2,500-tonne chillers each imported from the US
- 37,000 workers per day were employed at the peak of construction

Dimensions of T3

- Terminal main building built on 20 acres
- Piers spread like wings, thereby covering a total area of 80 acres
- Area inside terminal is 5.5m sq ft

Figure 2 : Terminal 3 layout

Source: Company data

Malé international airport win looks an attractive opportunity

GMR Infrastructure has been gradually building its international airport portfolio since its first success in Turkey. It recently won, in consortium with Malaysia Airports Holdings (23%), a bid to expand and operate Malé International Airport (MIA) in the Maldives, which is currently the country's largest with passenger traffic of around 2.5m pa. The consortium is scheduled to build a new terminal by 2014 with additional passenger handling capacity of 5m pa, taking the total airport passenger handling capacity to 7.5m pa. It will also be building a seaplane port and 12 aircraft bays. The following are the highlights of the successful bid:

- Total capex requirement for the project will be US$380m and will be funded by a 75:25 debt/equity ratio. It is looking at an ECB option for debt financing.
- GMR will hold a 77% stake in the consortium and plans to use the in-house construction capability of its EPS division.
- The concession period for the project will be 25 years starting from March 2011.
- GMR won the bid with an NPV of US$525m, 7% higher than the next closest bid.
- The consortium will take over operations of the existing terminal in March 2011 and will pay 1% of sales to the Maldives government until 2014.
- After 2014, the profit-sharing payment to the government will increase to 10%.
- MIA yoy passenger traffic growth was 26% in CY09 and 10-30% in January-April 2010.
- MIA is a profitable company with US$71m EBITDA on net sales of US$170m in CY09.

Major potential revenue driver, Delhi Terminal 3, comes live at end-July, Buy

Management said that Terminal 3 at Delhi, which we expect to be GMR's major revenue driver in FY11, to be fully functional by the end of July. It clarified that it will be shifting all international airlines operations from T2 to T3, while for domestic operations it will shift full carriers to T3 and low-cost carriers will continue to operate from T1D for some time. The plan is to demolish the existing T2 to construct a new T4 in the coming years, while T1D may be put to use for commercial operations such as conference halls, as permitted under the operational maintenance and development agreement.

We believe the major upside from the T3 operation will come from advertisement, duty free and rental income, thereby doubling GMR's gross revenue from Delhi to Rs23.7bn in FY11F vs FY10. However, due to the anticipated high depreciation and interest cost impact, we expect no traction in profitability until FY13F and onwards.

Table 5 : Revenue drivers (Rsm)

Divisions	FY09	FY10	FY11F	FY12F	FY13F	Key inflexion point
Power	21527	21522	29986	31870	77765	FY13E
Real estate	0	0	1673	2515	3508	
Airports	16729	20559	38171	41899	45497	FY11E
Mining	0	0	0	4742	9769	FY12E
Roads	1523	3461	4661	4941	8490	
Others	4981	5692	11400	14820	17784	FY11E
Gross revenues	44762	51234	85891	100787	162814	
Key sector / projects			Airports (DIAL T3), GMR Bangalore power plant, EPC business	Sumatra mines	Power - Vemagiri expansion and Kamalanga	

Source: Company data, RBS forecasts

Income statement

Rsm	FY08A	FY09A	FY10F	FY11F	FY12F
Revenue	21850	38436	45665	71189	84680
Cost of sales	-16956	-29522	-32022	-42570	-49190
Operating costs	n/a	n/a	n/a	n/a	n/a
EBITDA	**4894**	**8915**	**13643**	**28620**	**35490**
DDA & Impairment (ex gw)	-1785	-3898	-6122	-10353	-12446
EBITA	**3109**	**5016**	**7521**	**18267**	**23043**
Goodwill (amort/impaired)	n/a	n/a	n/a	n/a	n/a
EBIT	**3109**	**5016**	**7521**	**18267**	**23043**
Net interest	-1494	-3070	-7223	-11775	-12398
Associates (pre-tax)	0.00	0.00	0.00	69.1	95.0
Forex gain / (loss)	n/a	n/a	n/a	n/a	n/a
Exceptionals (pre-tax)	n/a	n/a	n/a	n/a	n/a
Other pre-tax items	1183	1304	1386	900.0	900.0
Reported PTP	**2797**	**3251**	**1683**	**7461**	**11640**
Taxation	-583.8	-530.2	322.1	-2985	-4052
Minority interests	-525.7	23.4	-453.6	-637.3	-1407
Exceptionals (post-tax)	413.1	50.7	248.1	0.00	0.00
Other post-tax items	0.00	0.00	-215.8	0.00	0.00
Reported net profit	**2101**	**2795**	**1584**	**3839**	**6181**
Normalised Items Excl. GW	413.1	50.7	248.1	0.00	0.00
Normalised net profit	**1688**	**2744**	**1336**	**3839**	**6181**

Source: Company data, RBS forecasts — year to Mar

Balance sheet

Rsm	FY08A	FY09A	FY10F	FY11F	FY12F
Cash & market secs (1)	8945	24665	48339	69619	69548
Other current assets	-3375	1071	726.0	5421	6967
Tangible fixed assets	89495	151155	229277	264528	336534
Intang assets (incl gw)	n/a	n/a	n/a	n/a	n/a
Oth non-curr assets	57428	26379	14411	712.6	712.6
Total assets	**152492**	**203271**	**292753**	**340280**	**413762**
Short term debt (2)	n/a	n/a	n/a	n/a	n/a
Trade & oth current liab	0.00	0.00	0.00	0.00	0.00
Long term debt (3)	79769	120238	206991	185422	232508
Oth non-current liab	425.0	191.5	n/m	245.2	245.2
Total liabilities	**80194**	**120429**	**206181**	**185667**	**232754**
Total equity (incl min)	72298	82841	86572	154613	181009
Total liab & sh equity	**152492**	**203271**	**292753**	**340280**	**413762**
Net debt	70824	95573	158652	115803	162960

Source: Company data, RBS forecasts — year ended Mar

Cash flow statement

Rsm	FY08A	FY09A	FY10F	FY11F	FY12F
EBITDA	4894	8915	13643	28620	35490
Change in working capital	2076	-4446	344.8	-4695	-1547
Net interest (pd) / rec	-311.4	-1766	-5675	-10875	-11498
Taxes paid	-583.8	-530.2	-577.0	-2985	-4052
Other oper cash items	693.5	-180.5	-949.7	69.1	95.0
Cash flow from ops (1)	**6768**	**1992**	**6786**	**10135**	**18489**
Capex (2)	-51652	-70397	-70974	-45604	-84453
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	-46372	35887	-353.0	13698	0.00
Cash flow from invest (3)	**-98024**	**-34510**	**-71327**	**-31906**	**-84453**
Incr / (decr) in equity	-1770	-2795	-1558	-3614	-6181
Incr / (decr) in debt	42713	40469	86753	-21569	47086
Ordinary dividend paid	0.00	0.00	0.00	0.00	0.00
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	46258	10564	3020	68234	24988
Cash flow from fin (5)	**87200**	**48238**	**88215**	**43051**	**65893**
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Inc/(decr) cash (1+3+5+6)	**-4056**	**15720**	**23674**	**21280**	**-71.2**
Equity FCF (1+2+4)	-44884	-68405	-64188	-35469	-65964

Lines in bold can be derived from the immediately preceding lines. — year to Mar
Source: Company data, RBS forecasts

Standard ratios

Performance	GMR Infra FY08A	FY09A	FY10F	FY11F	FY12F	Beijing Cap Intl Airport FY10F	FY11F	FY12F	NTPC FY10F	FY11F	FY12F
Sales growth (%)	30.3	75.9	18.8	55.9	18.9	13.2	11.6	8.99	17.7	16.5	16.1
EBITDA growth (%)	-6.49	82.2	53.0	109.8	24.0	24.8	19.6	14.1	30.4	17.1	21.1
EBIT growth (%)	-20.0	61.4	49.9	142.9	26.2	71.9	40.0	25.9	29.2	15.7	20.5
Normalised EPS growth (%)	-0.95	62.6	-51.3	187.4	61.0	35.8	104.8	43.7	5.87	11.2	13.7
EBITDA margin (%)	22.4	23.2	29.9	40.2	41.9	51.5	55.2	57.8	26.4	26.6	27.7
EBIT margin (%)	14.2	13.1	16.5	25.7	27.2	22.8	28.7	33.1	19.9	19.8	20.6
Net profit margin (%)	7.72	7.14	2.93	5.39	7.30	7.06	13.0	17.1	18.0	17.2	16.8
Return on avg assets (%)	2.98	2.67	2.65	3.88	4.20	2.50	3.54	4.48	8.95	8.96	9.06
Return on avg equity (%)	4.16	4.36	2.03	3.75	4.13	3.02	6.05	8.37	14.7	14.9	15.3
ROIC (%)	4.16	2.31	2.78	4.96	5.65	2.72	3.93	5.20	8.55	8.61	8.70
ROIC - WACC (%)	0.00	0.00	0.00	0.00	0.00	-5.59	-4.38	-3.11	1.22	1.27	1.37
					year to Mar			year to Dec			year to Mar
Valuation											
EV/sales (x)	13.7	8.46	8.50	4.85	4.63	6.78	5.74	4.94	3.84	3.49	3.23
EV/EBITDA (x)	61.4	36.5	28.4	12.1	11.1	13.2	10.4	8.55	14.5	13.1	11.7
EV/EBITDA @ tgt price (x)	76.8	45.0	34.0	14.7	13.2	12.5	9.81	8.03	17.0	15.2	13.4
EV/EBIT (x)	96.6	64.8	51.6	18.9	17.0	29.7	20.0	14.9	19.3	17.6	15.7
EV/invested capital (x)	2.09	1.82	1.59	1.28	1.14	1.11	1.10	1.09	2.14	1.90	1.68
Price/book value (x)	3.75	3.54	3.44	1.66	1.42	1.29	1.25	1.19	2.61	2.37	2.13
Equity FCF yield (%)	-19.6	-29.8	-28.0	-15.5	-28.7	8.36	13.8	15.8	-5.16	-6.58	-9.13
Normalised PE (x)	136.0	83.6	171.8	59.8	37.1	42.9	20.9	14.6	18.6	16.7	14.7
Norm PE @tgt price (x)	180.8	111.2	228.4	79.5	49.4	37.7	18.4	12.8	22.2	20.0	17.6
Dividend yield (%)	n/a	n/a	n/a	n/a	n/a	1.23	2.45	3.50	1.82	1.82	1.82
					year to Mar			year to Dec			year to Mar

Per share data	FY08A	FY09A	FY10F	FY11F	FY12F
Tot adj dil sh, ave (m)	3892	3892	3892	3892	3892
Reported EPS (INR)	0.54	0.72	0.41	0.99	1.59
Normalised EPS (INR)	0.43	0.70	0.34	0.99	1.59
Dividend per share (INR)	n/a	n/a	n/a	n/a	n/a
Equity FCF per share (INR)	-11.5	-17.6	-16.5	-9.11	-16.9
Book value per sh (INR)	15.7	16.6	17.1	35.5	41.5
					year to Mar

Solvency	FY08A	FY09A	FY10F	FY11F	FY12F
Net debt to equity (%)	98.0	115.4	183.3	74.9	90.0
Net debt to tot ass (%)	46.4	47.0	54.2	34.0	39.4
Net debt to EBITDA	14.5	10.7	11.6	4.05	4.59
Current ratio (x)	0.00	0.00	0.00	0.00	0.00
Operating CF int cov (x)	24.6	2.43	2.30	2.21	2.96
Dividend cover (x)	0.00	0.00	0.00	0.00	0.00
					year to Mar

Priced as follows: GMRI.BO - Rs58.95; 0694.HK - HK$4.32; NTPC.BO - Rs198.20
Source: Company data, RBS forecasts

SOTP valuation

Rsm	Holding	Project Cost	Cost of Equity	Total SPV equity Value	GMR stake value	Per share (Rs)	Proportion of SOTP
Airport		**163,548**		**121,312**	**81,028**	**20.82**	**26.6%**
-DIAL	54%	107,348	11.6%	28,552	15,418	4.0	5.1%
-HIAL	63%	29,200	11.6%	73,379	46,229	11.9	15.1%
-ISGIA	40%	27,000	13.0%	19,381	19,381	5.0	6.4%
Real Estate				**93,294**	**52,918**	**13.6**	**17.3%**
-DIAL	54%		16.0%	65,074	35,140	9.0	11.5%
-HIAL	63%		16.0%	28,220	17,779	4.6	5.8%
Power		**215,969**		**127,230**	**117,230**	**32.0**	**40.9%**
GMR Energy Limited	100%	4,700	13.0%	15,062	15,062	3.8	4.8%
GMR Power Corporation	51%	8,700	13.0%	5,427	2,768	0.7	0.9%
Vemagiri Power Generation Ltd.	100%	17,483	13.0%	12,917	12,917	3.3	4.2%
Vemagiri Power Generation Ltd. - II	100%	28,000	14.0%	11,527	11,527	2.9	3.6%
GMR Kamlanga Energy	80%	45,400	14.0%	36,701	29,361	7.5	9.6%
GMR Chhattisgarh Energy	100%	52,586	14.0%	28,121	28,121	7.2	9.2%
EMCO Energy	100%	33,600	14.0%	12,191	12,191	3.1	4.0%
GMR (Badrinath) Hydro Power	100%	25,500	14.0%	5,283	5,283	1.3	1.7%
Intergen					8,451	2.2	2.8%
Roads		**67,253**		**22,842**	**20,819**	**5.3**	**6.8%**
Mining		**8,977**			**9,677**	**2.5**	**3.2%**
SEZ	**100%**	**2,000**		**16,110**	**10,789**	**2.8**	**3.5%**
EPC Business	**100%**			**5210**	**5,210**	**1.3**	**1.7%**
Total		**457,747**				**78.4**	

Source: Company data, RBS forecasts

Company description Buy

GMR Infrastructure, the flagship company of the GMR group, is one of India's leading infrastructure developers with a presence in the airports, energy, highways and urban infrastructure (real estate, SEZ) segments. Its interest in airports comprises the Delhi (54% stake), Hyderabad (63%) and Istanbul Sabiha Gokcen (40%) airports. At the Delhi and Hyderabad airports, it owns 1,750 acres of land, which it plans to lease or develop commercially. GMR also owns more than 700km of roads, which provide a mix of annuity and toll-based revenue streams. In the power sector, it has a domestic operational capacity of 824MW, with an additional 7,000MW of capacity in various stages of development. It also holds a 50% stake in Intergen N.V., which has 7,658MW of operational capacity outside India. GMR also owns interests in coal mines in Indonesia and South Africa.

Price relative to country

Strategic analysis Average SWOT company score: 3

Strengths 4

Controlling stake in most projects, impressive project-execution record of completing projects ahead of schedule, wide management bandwidth.

Weaknesses 2

Multi-layer holding structure for its projects, government-imposed limitations on use of project cash flows, coupled with tax disadvantages on cash distribution.

Opportunities 5

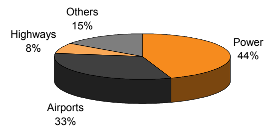
Major opportunity in Indian infrastructure space for private players, as GOI estimates 30% of the required US$500bn comes from these players. GMR's first-mover advantage in the infrastructure developer space will be beneficial.

Threats 2

Indian airport regulatory norms are at a nascent stage. Any move towards a single-till model could affect projects. Few of the large states have yet signed state support agreement with NHAI, which could hamper road projects. A steady increase in the MAT rate is eroding project IRRs.

Scoring range is 1-5 (high score is good)

Sales mix, FY10F



Source: RBS forecasts

Market data

Headquarters
Skip House, 25/1 Museum Road, Bangalore 560025, India

Website
www.gmrgroup.co.in

Shares in issue
3892.4m

Freefloat
25%

Majority shareholders
LIC (3%), SBI (1%)

Country view: India

The Indian market underperformed over 1Q10 in local currency terms and we suspect this trend will continue. However, currency strength saw the market outperform in USD. We believe the announced budget represented an opportunity missed for implementation of crucial structural reforms while leaving the central bank even more behind the curve as far as monetary policy is concerned. Thus, the inter-meeting hike was neither a surprise nor a one-off event, in our view. Liquidity conditions therefore, while reasonably benign today (although already past their peak), are likely to tighten going forward. That will matter for a market where an ambitious forward earnings yield ranks much below the prevailing bond yields.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.

Country rel to Asia Pacific

Competitive position Average competitive score: 3-

Supplier power 3+

Given that only a few quality construction companies serve the rapidly growing infrastructure space, supplier power is strong. Complexity of projects increases supplier power.

Barriers to entry 4-

High entry barriers in infrastructure developer space in terms of tight prequalification norms for net worth, execution track record, etc. But relatively low in low-value projects.

Customer power 2-

Relatively low, as user charges for infrastructure projects are increasingly acceptable, given the shortage of infrastructure in the country.

Substitute products 2+

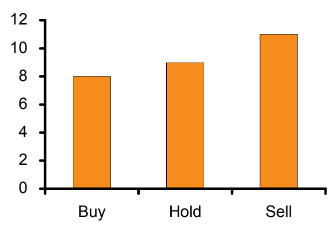
Very few substitute projects in Indian infrastructure space at this stage, given the major shortage of infrastructure. However, in roads, non-toll roads act as substitutes to tolled stretches.

Rivalry 2-

High rivalry among peers despite many growth options available in the infrastructure space, as the tendering process is centred on lowest bidder wins.

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse

Broker recommendations



Source: Bloomberg

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