



## INDIA

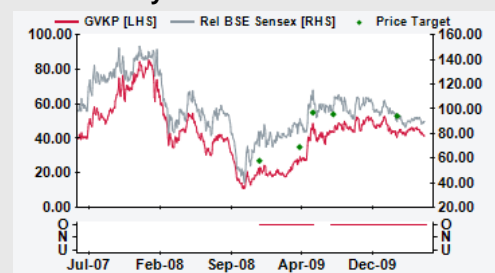
GVKP IN Outperform  
Price 21 May 10 Rs41.35

12-month target	Rs	53.00
Upside/Downside	%	28.2
Valuation	Rs	53.00
- Sum of Parts		
GICS sector		Utilities
Market cap	Rsm	65,292
30-day avg turnover	US\$m	0.8
Market cap	US\$m	1,398
Number shares on issue	m	1,579

### Investment fundamentals

Year end 31 Mar		2010A	2011E	2012E	2013E
Total revenue	m	17,866	21,960	25,483	36,682
EBIT	m	3,517	4,818	7,917	13,000
EBIT growth	%	196.7	37.0	64.3	64.2
Adjusted profit	m	1,559	2,516	4,013	6,045
EPS adj	Rs	0.99	1.59	2.54	3.83
EPS adj growth	%	30.5	61.4	59.5	50.6
PER adj	x	41.9	26.0	16.3	10.8
Total DPS	Rs	0.00	0.00	0.00	0.00
Total div yield	%	0.0	0.0	0.0	0.0
ROA	%	4.7	5.0	7.1	10.9
ROE	%	5.3	7.2	10.5	15.1
EV/EBITDA	x	21.0	15.3	10.4	6.2
Net debt/equity	%	86.2	94.7	98.0	98.0
P/BV	x	1.9	1.8	1.6	1.6

### GVKP IN rel BSE Sensex performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, May 2010  
(all figures in INR unless noted)

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25 May 2010

# GVK Power and Infra Bangalore airport visit takeaways

## Event

- We attended the Bangalore airport site and met the company's management. The valuation call on Bangalore airport is essentially a take on regulatory events. The risk of large capex in the near term is unfounded, in our view. We maintain our Outperform rating on GVK and our target price of Rs53.

## Impact

- Regulatory events to play a critical role in determining eventual value of BIAL:** The airport regulator and the ministry of civil aviation are likely to decide on a tariff model for airports, including Bangalore airport (BIAL), over the next three months.
  - ⇒ **Tariff policy key to valuations:** If the regulator approves dual till regulation (separation of aero and non-aero revenues), the BIAL acquisition would be value accretive. However, if the regulator chooses single till (merging all sources of revenues), there could be downside to the valuations.
  - ⇒ **Decision on UDF soon:** The regulator has gone on record saying that the user development fee (UDF) is to be reviewed. BIAL has demanded a 130% increase in UDF. This is likely to affect BIAL's financials.
- Concerns about large capex in near term and, hence, dilution unwarranted:** Management clarified that near-term capex to expand terminal capacity would only be about Rs6-8bn over the next two years. A new terminal would be built only in FY15 with potential capex of US\$1bn. The Street was concerned that high capex might lead to dilution by GVK.
- Real estate valuations better than our expectations; plan to start development in a year:** BIAL has around 600 acres of real estate for commercial development, with the potential for 60m sqf of development. The company is looking to start monetisation in a year.
  - ⇒ The first transaction for four acres of land with L&T-Oberoi consortium for a hotel has been done at Rs350m/acre, significantly above expectations. However, this is unlikely to be benchmarked for the entire land.

## Earnings and target price revision

- No changes.

## Price catalyst

- 12-month price target: Rs53.00 based on a Sum of Parts methodology.
- Catalyst: Regulatory clarity on BIAL.

## Action and recommendation

- Valuation remains attractive; significant triggers in next 12 months:** We reaffirm GVK as our top pick in the India infrastructure story. It is trading at an extremely attractive valuation of 1.1x ex-land FY11E book value. A resolution on merchant pricing, gas allocation for expansion projects, private equity investment in energy vertical and Mumbai real estate monetisation are among the key triggers for the stock that we think are likely to play out in the next 12 months.

## Key takeaways from the site visit

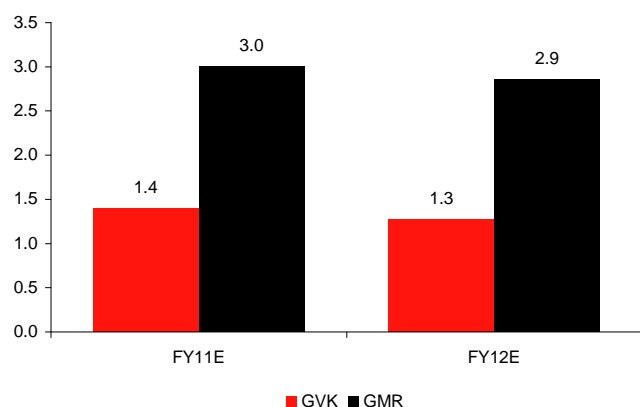
- **Capex of Rs6-8bn over next two years to increase capacity by 30%:** BIAL has witnessed significant traffic growth of ~20% over the past few years. BIAL handled 9.9m passengers in FY10 and has current capacity to handle 12-13m passengers annually. To cater to the growing demand, it intends to increase terminal capacity by 30% on either side to handle 17m passengers by FY13E. It intends to spend Rs6-8bn to accomplish this.
- **New terminal capex some time away:** In the meeting, GVK highlighted that the new terminal capex is unlikely to start before FY15. The amount to be spent would be US\$1bn and would increase the capacity of the airport by 12m passengers. It would involve construction of a new runway and would need three years for the construction.
  - ⇒ **Street concerns about high near-term capex unfounded:** Many investors have been concerned due to the likelihood of a large fund requirement for airport capex. However, as we highlighted earlier, there would likely be a limited capex requirement in the near term.
- **Non-aero revenues to double by FY17E as the new terminal gets commissioned:** Current terminal area of ~5,000sq metres is fully occupied and includes a large 1,000sq mt of arrival duty-free shopping area. Currently, non-aero revenue/pax is US\$10-12. With the expansion plan, the terminal area would double to 10,000sq metres by FY17E.
- **Real estate monetisation could begin in the next year:** Management said that BIAL has 600 acres of developable land. With 2.5x global FSI, the developable area would be ~60m sq feet. An elevated road or mass rapid transit system (MRTS) is being planned to enable high-speed access from the city.
  - ⇒ **L&T-Oberoi hotel transaction for 4-5 acres values land at Rs350m/acre:** BIAL recently leased a plot of 4-5 acres for a hotel development to the L&T-Oberoi consortium, with both deposit and revenue share (like DIAL). The transaction value of the deal values the land at Rs350m/acre. However, we believe that this rate cannot be applied to the whole land parcel of 600 acres.
  - ⇒ **Monetisation could start in the next year:** GVK said that BIAL may start monetising the real estate in BIAL in the next year. However, we believe that this could take more time.
  - ⇒ **Supply continues to be a concern:** The annual peak demand for commercial real estate in Bangalore was 10m sqf. However, demand is currently at 6m sqf. Against this demand, the supply seems to be a current concern.
- **Financial projections hinge on increase in UDF:** GVK shared its financial projections from BIAL. While the non-aero and cargo numbers are achievable, in our view, the aero revenue forecast looks aggressive. This is primarily because GVK is building-in a hike in user development fees (UDF) – unlike us, who are assuming it to be flat over the concession period.

**Fig 1 Company projections on aero revenues are higher primarily due to higher assumption of UDF**

		FY10A		FY15E		FY20E	
		Company	Company	Our estimates	Company	Our estimates	
Aero	Rsm	2,910	8,500	5,559	14,500	7,796	
Non-aero	Rsm	1,546	3,900	3,680	9,000	5,807	
Cargo	Rsm	192	500	562	950	1,000	
Pax	M	9.9	20.0	18.3	30.0	25.7	
ATM	'000	105	220	190	370	266	
Cargo	'000 tons	175	320	304	620	425	

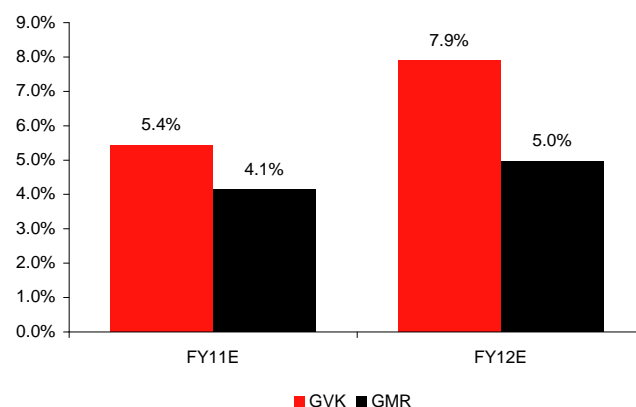
Source: Company data, Macquarie Research, May 2010

**Fig 2 GVK is trading at unjustifiable 54% discount to GMR on P/BV basis...**



Source: Macquarie Research, May 2010

**Fig 3 ...with much-superior ROEs**



Source: Macquarie Research, May 2010

**Fig 4 We maintain our target price of Rs53/share**

Asset	Value	GVK's stake (%)	GVK share	per share value
Mumbai Airport	112,898	36.6%	41,355	26
Airport operations	48,440	36.6%	17,743	11
Real estate	64,459	36.6%	23,592	15
<b>Total</b>	<b>112,898</b>		<b>41,335</b>	<b>26</b>
<b>Bangalore Airport</b>	<b>40,345</b>	<b>29.0%</b>	<b>11,700</b>	<b>7</b>
Roads				
Jaipur Kishengarh	8,766	100.0%	8,766	6
<b>Total</b>	<b>8,766</b>		<b>8,766</b>	<b>6</b>
Power				
Jegurupadu-I	3,403	100.0%	3,403	2
Jegurupadu-II	3,730	100.0%	3,730	2
Gautami	9,524	63.0%	6,000	4
Alaknanda	3,567	100.0%	3,567	2
Govindwal Sahib	7,305	100.0%	7,305	5
Tokisud coal mine	2,051	100.0%	2,051	1
<b>Total</b>	<b>29,579</b>		<b>26,055</b>	<b>16</b>
Grand total	191,589		87,857	56
Less:Debt			3,838	-2
<b>Target price</b>			<b>84,020</b>	<b>53</b>

Source: Macquarie Research, May 2010

**GVK Power and Infrastructure (GVKP IN, Outperform, Target Price: Rs53.00)**

Quarterly Results						Profit & Loss					
		4Q/10A	1Q/11E	2Q/11E	3Q/11E			2010A	2011E	2012E	2013E
Revenue	m	6,253	4,392	4,392	5,490	Revenue	m	17,866	21,960	25,483	36,682
Gross Profit	m	2,563	1,553	1,553	1,941	Gross Profit	m	7,324	7,763	10,962	17,926
Cost of Goods Sold	m	3,690	2,839	2,839	3,549	Cost of Goods Sold	m	10,542	14,196	14,521	18,756
EBITDA	m	1,984	1,281	1,281	1,681	EBITDA	m	4,889	6,723	9,831	16,695
Depreciation	m	343	476	476	476	Depreciation	m	1,371	1,904	1,913	3,695
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0	Other Amortisation	m	0	0	0	0
EBIT	m	1,641	805	805	1,205	EBIT	m	3,517	4,818	7,917	13,000
Net Interest Income	m	-521	-607	-607	-607	Net Interest Income	m	-2,085	-2,428	-3,745	-6,639
Associates	m	0	0	0	0	Associates	m	0	0	0	0
Exceptionals	m	0	0	0	0	Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	0	0	0	0	Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	0	0	0	0	Other Pre-Tax Income	m	0	0	0	0
Pre-Tax Profit	m	1,120	198	198	598	Pre-Tax Profit	m	1,433	2,390	4,172	6,361
Tax Expense	m	-70	-95	-95	-119	Tax Expense	m	-200	-475	-830	-1,265
Net Profit	m	1,050	103	103	479	Net Profit	m	1,233	1,915	3,342	5,096
Minority Interests	m	82	150	150	150	Minority Interests	m	326	601	671	949
Reported Earnings	m	1,131	254	254	629	Reported Earnings	m	1,559	2,516	4,013	6,045
Adjusted Earnings	m	1,131	254	254	629	Adjusted Earnings	m	1,559	2,516	4,013	6,045
EPS (rep)		0.72	0.16	0.16	0.40	EPS (rep)		0.99	1.59	2.54	3.83
EPS (adj)		0.72	0.16	0.16	0.40	EPS (adj)		0.99	1.59	2.54	3.83
EPS Growth yoy (adj)	%	86.4	1,242.9	1,242.9	61.4	EPS Growth (adj)	%	30.5	61.4	59.5	50.6
						PE (rep)	x	41.9	26.0	16.3	10.8
						PE (adj)	x	41.9	26.0	16.3	10.8
EBITDA Margin	%	31.7	29.2	29.2	30.6	Total DPS		0.00	0.00	0.00	0.00
EBIT Margin	%	26.2	18.3	18.3	21.9	Total Div Yield	%	0.0	0.0	0.0	0.0
Earnings Split	%	72.6	10.1	10.1	25.0	Weighted Average Shares	m	1,579	1,579	1,579	1,579
Revenue Growth	%	247.7	22.9	22.9	22.9	Period End Shares	m	1,579	1,579	1,579	1,579
EBIT Growth	%	182.5	61.6	61.6	37.0						
Profit and Loss Ratios						Cashflow Analysis					
		2010A	2011E	2012E	2013E			2010A	2011E	2012E	2013E
Revenue Growth	%	247.7	22.9	16.0	43.9	EBITDA	m	4,889	6,723	9,831	16,695
EBITDA Growth	%	148.8	37.5	46.2	69.8	Tax Paid	m	-200	-475	-830	-1,265
EBIT Growth	%	196.7	37.0	64.3	64.2	Chgs in Working Cap	m	-10,022	504	317	0
Gross Profit Margin	%	41.0	35.4	43.0	48.9	Net Interest Paid	m	-2,085	-2,428	-3,745	-6,639
EBITDA Margin	%	27.4	30.6	38.6	45.5	Other	m	0	0	0	0
EBIT Margin	%	19.7	21.9	31.1	35.4	Operating Cashflow	m	-7,418	4,323	5,572	8,791
Net Profit Margin	%	6.9	8.7	13.1	13.9	Acquisitions	m	0	0	0	0
Payout Ratio	%	0.0	0.0	0.0	0.0	Capex	m	-16,447	-11,747	-12,824	-3,695
EV/EBITDA	x	21.0	15.3	10.4	6.2	Asset Sales	m	0	0	0	0
EV/EBIT	x	29.2	21.3	13.0	7.9	Other	m	0	0	0	0
Balance Sheet Ratios						Investing Cashflow	m	-16,447	-11,747	-12,824	-3,695
ROE	%	5.3	7.2	10.5	15.1	Dividend (Ordinary)	m	0	0	0	0
ROA	%	4.7	5.0	7.1	10.9	Equity Raised	m	173	0	0	0
ROIC	%	5.4	4.8	7.0	10.3	Debt Movements	m	10,420	10,725	9,805	0
Net Debt/Equity	%	86.2	94.7	98.0	98.0	Other	m	0	0	0	0
Interest Cover	x	1.7	2.0	2.1	2.0	Financing Cashflow	m	10,593	10,725	9,805	0
Price/Book	x	1.9	1.8	1.6	1.6	Net Chg in Cash/Debt	m	-13,272	3,300	2,554	5,096
Book Value per Share		21.3	22.9	25.4	25.4	Free Cashflow	m	-23,865	-7,425	-7,252	5,096
						Balance Sheet					
							2010A	2011E	2012E	2013E	
						Cash	m	2,797	7,087	10,854	10,854
						Receivables	m	1,468	1,504	1,745	1,745
						Inventories	m	866	972	995	995
						Investments	m	13,393	13,225	13,056	13,056
						Fixed Assets	m	28,665	38,508	49,419	49,419
						Intangibles	m	0	0	0	0
						Other Assets	m	41,907	42,467	42,950	42,950
						Total Assets	m	89,097	103,765	119,019	119,019
						Payables	m	4,531	5,569	6,463	6,463
						Short Term Debt	m	0	0	0	0
						Long Term Debt	m	40,218	50,943	60,748	60,748
						Provisions	m	36	36	36	36
						Other Liabilities	m	885	885	885	885
						Total Liabilities	m	45,670	57,433	68,132	68,132
						Shareholders' Funds	m	33,597	36,113	40,126	40,126
						Minority Interests	m	9,830	10,219	10,761	10,761
						Other	m	0	0	0	0
						Total S/H Equity	m	43,427	46,332	50,887	50,887
						Total Liab & S/H Funds	m	89,097	103,765	119,019	119,019

All figures in INR unless noted.

Source: Company data, Macquarie Research, May 2010

## Important disclosures:

## Recommendation definitions

**Macquarie - Australia/New Zealand**

Outperform – return >5% in excess of benchmark return  
Neutral – return within 5% of benchmark return  
Underperform – return >5% below benchmark return

**Macquarie – Asia/Europe**

Outperform – expected return >+10%  
Neutral – expected return from -10% to +10%  
Underperform – expected return <-10%

**Macquarie First South - South Africa**

Outperform – expected return >+10%  
Neutral – expected return from -10% to +10%  
Underperform – expected return <-10%

**Macquarie - Canada**

Outperform – return >5% in excess of benchmark return  
Neutral – return within 5% of benchmark return  
Underperform – return >5% below benchmark return

**Macquarie - USA**

Outperform (Buy) – return >5% in excess of Russell 3000 index return  
Neutral (Hold) – return within 5% of Russell 3000 index return  
Underperform (Sell) – return >5% below Russell 3000 index return

**Recommendations** – 12 months

**Note:** Quant recommendations may differ from Fundamental Analyst recommendations

## Volatility index definition\*

This is calculated from the volatility of historical price movements.

**Very high-highest risk** – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

**High** – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

**Medium** – stock should be expected to move up or down at least 30–40% in a year.

**Low-medium** – stock should be expected to move up or down at least 25–30% in a year.

**Low** – stock should be expected to move up or down at least 15–25% in a year.

\* Applicable to Australian/NZ/Canada stocks only

## Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense  
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

**EPS** = adjusted net profit / epowa\*

**ROA** = adjusted ebit / average total assets

**ROA Banks/Insurance** = adjusted net profit / average total assets

**ROE** = adjusted net profit / average shareholders funds

**Gross cashflow** = adjusted net profit + depreciation

\*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

## Recommendation proportions – For quarter ending 31 March 2010

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	50.55%	62.20%	42.25%	42.39%	62.16%	46.74%	(for US coverage by MCUSA, 6.53% of stocks covered are investment banking clients)
Neutral	36.63%	19.02%	47.89%	50.35%	31.89%	34.78%	(for US coverage by MCUSA, 9.62% of stocks covered are investment banking clients)
Underperform	12.82%	18.78%	9.86%	7.27%	5.95%	18.48%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)

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