ICICI direct.com
On-line Share Trading

Initiating coverage

GVK Power & Infra (GVKPOW)

Current Price	Target Price
Rs 44	Rs 54
Potential upside	**Time Frame**
23 %	12-15 months

OUTPERFORMER

All set for takeoff…

GVK Power & Infra (GVK PIL), India's leading private sector diversified infrastructure play, has a presence in power, aviation, transportation, mining, oil & gas and SEZ. After initial hiccups in the power segment due to non-availability of gas, GVK PIL has now commissioned three gas-based power plants with an overall capacity of 901 MW in Andhra Pradesh. The new plants are operating at almost full capacity. In aviation also, Mumbai Airport (MIAL) went through a turbulent patch of passenger traffic de-growth of 9% in FY09. Passenger traffic is now showing signs of pick up. We expect growth to return from Q2FY10 onwards. Also, road traffic at Jaipur Expressway (JKEL) continues to see robust growth, which will support operating profitability of the road segment. JKEL has witnessed growth of 8.2% YoY in traffic in Q1FY10. We are initiating coverage on the stock with an OUTPERFORMER rating.

- **Mumbai Airport along with real estate – A valuable asset**

  GVK is the developer and operator of the busiest airport in India and handles ~23 million passengers, commanding ~21.5% market share of the overall Indian aviation in passenger traffic. After the lean patch of passenger de-growth in FY09 passenger traffic is showing signs of revival. GVK is in the process of finalising the master plan for development and monetisation of 276 acres of land. The master plan is expected to be public by December 2009.

- **Four fold growth in capacity, merchant play to offer upside**

  GVK has commissioned the operations at JP-II and Gautami power plants scaling the overall generating capacity to 901 MW. Revenues of the power segment are expected to witness a near five fold jump to Rs 1,750 crore in FY10E. GVK is expected to get the requisite approval for sale of 138 MW of power through merchant route by December 2009.

- **Valuations**

  At the current market price of Rs 44, the stock is trading at P/BV of 2.2x in FY10E and 2.0x in FY11E. We have adopted an SOTP based methodology by valuing each segment distinctly. Improving visibility of growth for their projects and allaying balance sheet concerns will help them scout for growth opportunities further. We are initiating coverage on the stock with an **OUTPERFORMER** rating.

Exhibit 1: Key Financials (Rs Crore)

	FY07	FY08	FY09	FY10E	FY11E
Net Sales*	614.7	783.8	863.6	2,296.1	2,589.7
EBITDA*	258.5	265.3	269.8	700.5	907.3
Net Profit	58.0	135.5	107.6	205.1	240.6
EPS (Rs)	0.2	0.7	0.5	1.3	1.5
EPS Growth (%)	0.0	199.6	(19.8)	140.3	17.3
EBITDA margin (%)	42.1	33.8	31.2	30.5	35.0
PER (x)	195.9	65.4	81.5	33.9	28.9
P/BV (x)	NA	2.8	2.7	2.2	2.0
Price/sales (x)	NA	7.9	7.2	3.0	2.7
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	11.2	3.8	2.2	6.1	6.6
RoNW(%)	19.2	7.5	3.4	8.6	8.7

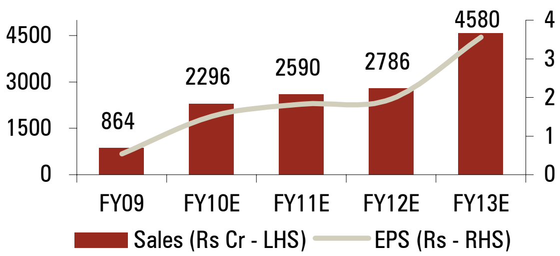
Source: Company, ICICIdirect.com Research

** Net Sales and EBITDA number adjusted for proportionate share of the Airport segment*

Analysts' Name

Jitesh Bhanot
jitesh.bhanot@icicisecurities.com

Sales & EPS trend



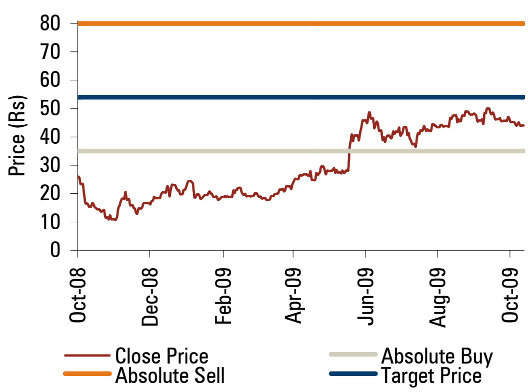
Stock Metrics

Bloomberg Code	GVKP.IN
Reuters Code	GVKP.BO
Face value (Rs)	1
Promoters Holding	61%
Market Cap (Rs cr)	6,960.8
52 week H/L	51.1 / 10.3
Sensex	16,642
Average volumes	4,860,336

Comparative return metrics

Stock return (%)	3M	6M	12M
GVK Power	11.4	57.9	185.1
GMR Infrastructure	4.1	24.9	134.7
Tata Power	22.9	44.8	69.3
Lanco Infra	37.3	106.2	201.0

Price Trend



Company Background

GVK PIL is the holding entity with a presence in three major verticals — energy, transportation and urban infrastructure. The company operates three gas-based plants and has two hydroelectric plants & one coal-based plant under development. GVK PIL has a 36.63% stake in Chhatrapati Shivaji International Airport at Mumbai and operates a toll-based road project on the Delhi Mumbai Highway (NH-8).

GVK PIL has three operational gas-based power plants in Andhra Pradesh i.e. JP-I (217MW), JP-II (220 MW) and Gautami (464 MW). It commissioned the first unit JP-I in June 1997. The plant has been running on gas and alternate fuels. JP-II and Gautami were lying idle for the last three years due to non-availability of gas. Both plants commenced operations successfully in April and June 2009, respectively.

A consortium led by GVK PIL also won the bid for developing and managing MIAL in April 2006. MIAL is a leading international gateway to India handling close to 21.53% of aggregate passenger air traffic of India. Mumbai Airport has significant business development opportunities on its large passenger base of ~23 million in FY09.

GVK PIL is also operating a 90.3-km stretch on NH-8 near Jaipur Kishangarh. GVK Jaipur Expressway Pvt Ltd was awarded a concession by NHAI for 20 years under a build operate and transfer (BOT) model. It is India's first six-lane BOT expressway. In FY09, the company handled ~7 million passengers.

GVK PIL has also received seven deepwater blocks under NELP–VII covering an area of 34,000 km on the western coast of India. The company has entered into a JV with BHP Billiton for exploring the seven blocks. GVK PIL is at present trying to study the seismic data.

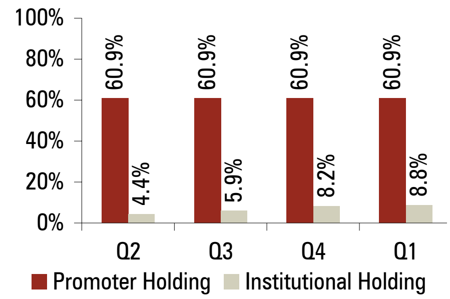
GVK PIL is also developing a 2,604 acre multiproduct SEZ in Tamil Nadu nearly 75 km from Trichy in Perambalur district. The SEZ will cater to the needs of industries including textiles, leather, engineering, pharma, power, iron & steel, fertilisers, chemicals and other industries.

Shareholding pattern (Q1FY10)

Shareholder	% holding
Promoters	60.9
Institutional investors	8.8
Other investors	22.6
General public	7.7

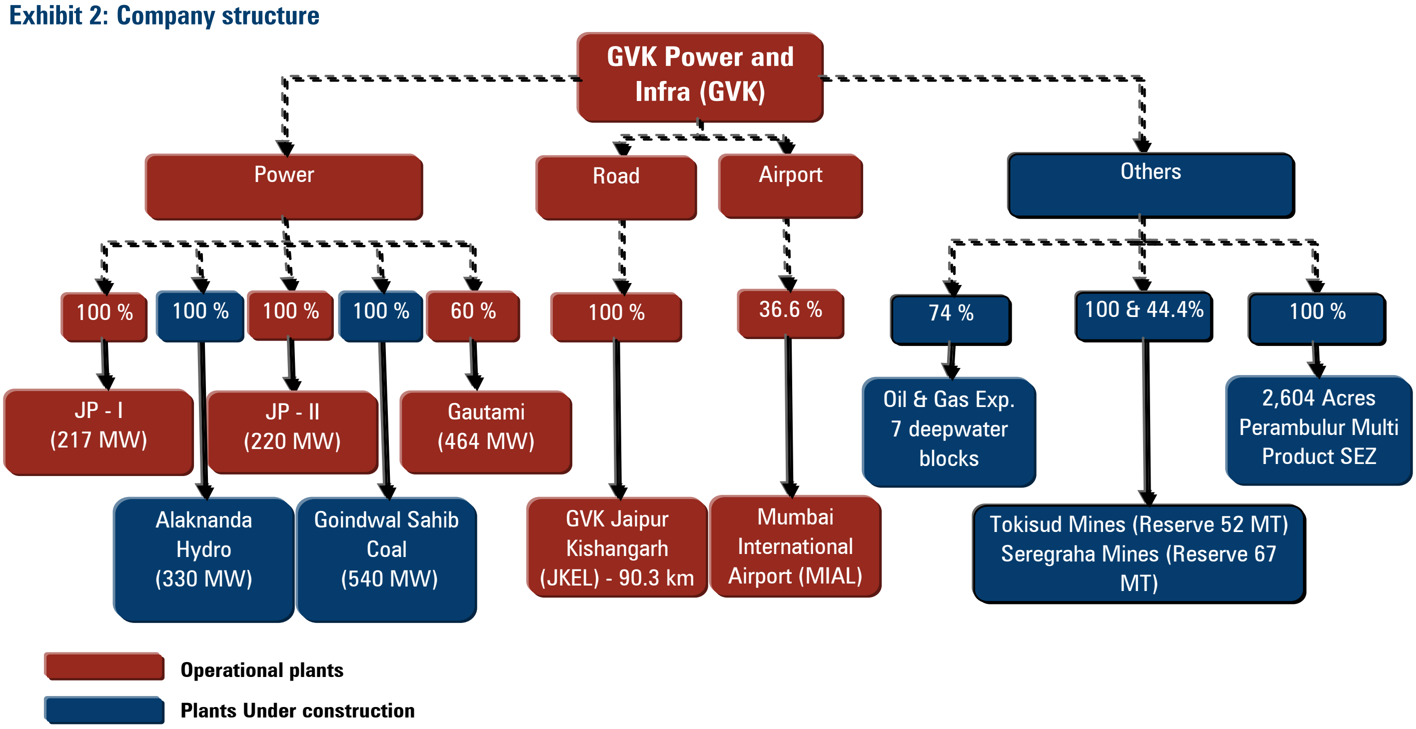
* Data as on June 30, 2009

Promoter & Institutional holding trend (%)



* Data as on June 30, 2009

Exhibit 2: Company structure



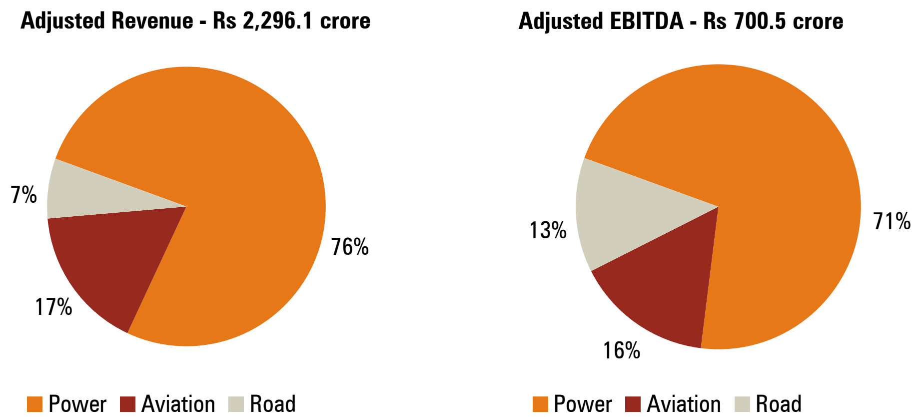
Source: Company, ICICIdirect.com Research

Investment Rationale

- **Segment wise mix of revenue, EBITDA skewed in favour of power**

With 901 MW of capacity under operation in the power segment and the aviation sector at the nascent stage, the revenue and EBITDA numbers look skewed in favour of the power segment. Revenues and EBITDA are adjusted for the airport segment on a proportionate basis.

Exhibit 3: Segment wise revenue, EBITDA contribution for FY10E

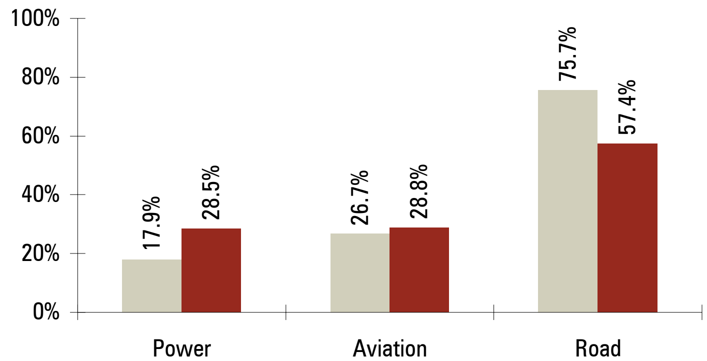


Source: Company, ICICIdirect.com Research

- **Road segment the star performer in margins**

The road segment is the star when it comes to EBITDA margins. In FY10E, we expect the road segment to be the leader when it comes to EBITDA margin. This is even after a significant reduction from the previous year mainly led by a one-time major maintenance expense being incurred at the JKEL.

Exhibit 4: Segment wise EBITDA margin in FY10E



Source: Company, ICICIdirect.com Research

Airport segment

- **Summary outlook**

GVK is having exposure to Indian Aviation sector through ~37% stake in MIAL. MIAL is a promising asset to own in the Indian aviation story. Taking into account the overall growth prospects of the sector and the strategic importance of MIAL, we have projected the revenue CAGR at 11% over FY09-12E. As per the present accounting policy of GVK, they are not consolidating the operations of the Airport segment in the consolidated financials.

GVK's 36.6% stake is valued at ~Rs 1,290 crore or Rs 8.1 per share forming nearly 15.1% of the overall value. Overall valuation of MIAL (excluding the value of real estate) is pegged at ~ Rs 3,500 crore.

Valuation of MIAL

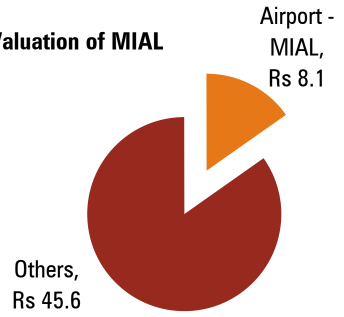
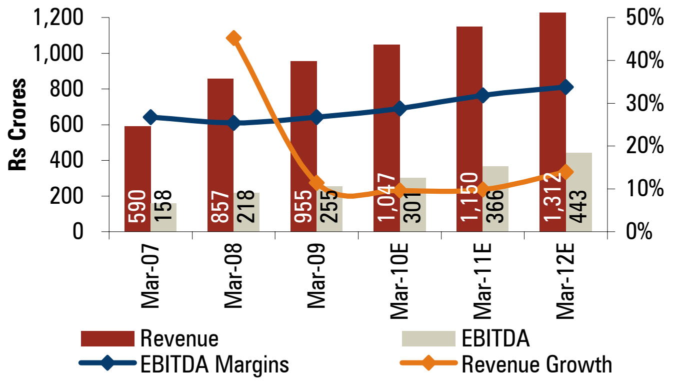


Exhibit 5: Projection of revenue & EBITDA for MIAL



Source: Company, ICICIdirect.com Research

- **Airports to offer a significant opportunity**

The Indian aviation sector is emulating the growth story of the Chinese aviation sector. The Chinese aviation sector started growing in the early part of the last decade and has revamped infrastructure supporting the aviation sector. The aviation sector infrastructure is all set for a revamp with major airports under development based on the public private partnership model. Although de-growth of overall passengers has raised several questions on the outlook of the entire aviation sector, we believe the concerns are being overplayed and the sector is expected to be back on the growth trajectory in the years to come.

The growth in the aviation sector is skewed in favour of the Asian region in the last decade. We believe India and China will dominate the growth over the next decade as well

Key drivers that lead us to believe in the overall growth story are

(i) the development of regulatory framework,

(ii) infrastructural changes at major airports,

(iii) declining ATF prices compared to last year will improve the operating profile of the airline carriers and reduce the cost of travel for passengers

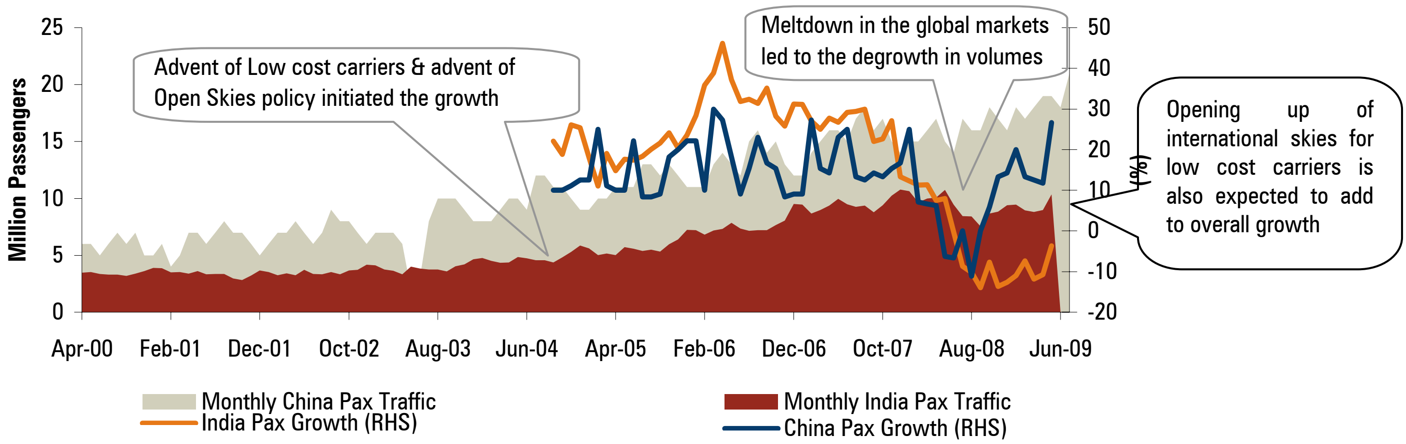
(iv) Allaying funding concerns after improvement in the credit markets and capital markets

(v) Levy of development fees by major airports will help fund the infrastructure capex partly

The major difference between the Indian and Chinese aviation sector is that the growth in the Chinese aviation sector started trending upwards four years prior to the uptrend in the Indian aviation sector. The first bout of correction in the Chinese aviation sector was witnessed in 2003. This lasted for approximately eight months. Subsequent to the correction, the Chinese aviation sector again picked up sharply and witnessed a CAGR of 15% from FY03-09. It has achieved a monthly passenger (pax) traffic volume of 21 million in July 2009.

The Indian aviation sector started witnessing growth in the high double digits since 2002. However, it still has a significant way to go before it can catch up with volumes in the Chinese market. After witnessing a CAGR of 16% for passenger traffic from FY03-09, India, as of May 2009, boasts of an overall monthly passenger base of ~10.3 million. With signs of revival in economic growth we expect the overall passenger (pax) traffic to also start picking up again.

Exhibit 6: Comparison between passenger traffic growth in China and India



Source: CMIE, Bloomberg, ICICIdirect.com Research

- **Apprehensions overplayed**

The Indian air transport sector has been one of the fastest growing markets in the world with passenger traffic growth of 19.5% CAGR from FY02-FY08. It witnessed de-growth of 6.9% in FY09. Even after witnessing a purple patch for seven years in the past decade, air commutation continues to suffer from under penetration.

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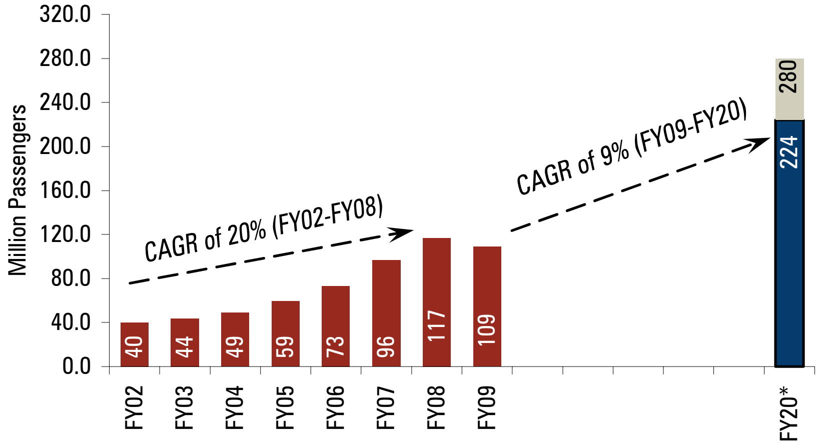
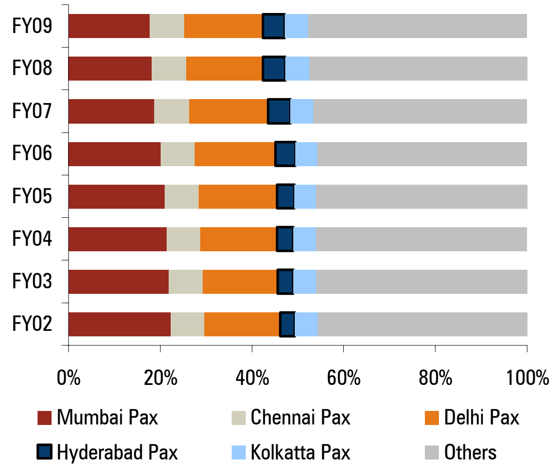
Indian airports handled total traffic of 108 million passengers and 1.69 million tonnes of cargo in FY09 registering de-growth of 6.9% and 1% in passenger traffic and cargo handled, respectively.

We believe the concerns of slowdown in the sector are being overplayed by market participants. With an improvement in overall sentiments in the economy the sector is again showing signs of revival. We expect the overall compounded growth in passenger traffic to be around 9% till 2020. The Ministry of Civil Aviation has also envisaged a vision to create infrastructure for handling 280 million passengers by 2020. (Please refer Exhibit 7)

Exhibit 7: Passenger growth & percentage of traffic handled by top 5 airports





Source: CMIE, ICICIdirect.com Research

** Ministry of Civil aviation has envisaged a capacity of 280 million passengers by 2020. We expect the airports to operate at 80% utilization.*

The consumer market in India is a multi-layered pyramid. In FY08, the apex strata (sheer rich and super rich) consisted of 0.25 million households, which has witnessed a CAGR of 26% from FY96 to FY08. The middle class (seekers, strivers, near rich and clear rich) stood at 24.3 millions, 98x the size of the apex strata and has already witnessed a CAGR of 15% from FY96 to FY08. This will lead to an aggregate addressable base of ~24.6 million. In FY08, the overall passenger traffic base was 117 million. This seems to signify an average number of trips per household to be around 2.4 per household per year. Even if we estimate a conservative CAGR of 5% for the addressable base over the next 12 years, then India should be able to achieve a 224 million passenger base by 2020.

- **Huge opportunity on the anvil in the Airport segment**

Ministry of Civil Aviation has envisaged an overall opportunity of US$110 billion (Rs 5,500 billion). Out of this, US$80 billion is for new aircraft while US$30 billion (Rs 1,500 billion) is for development of new airports by 2020. With a burgeoning need for funds in infrastructure projects, companies are increasingly turning towards domestic banks.

Huge opportunity on the anvil for the aviation sector with new airports coming up for bidding in the aviation space

Some of the major initiatives under way are:

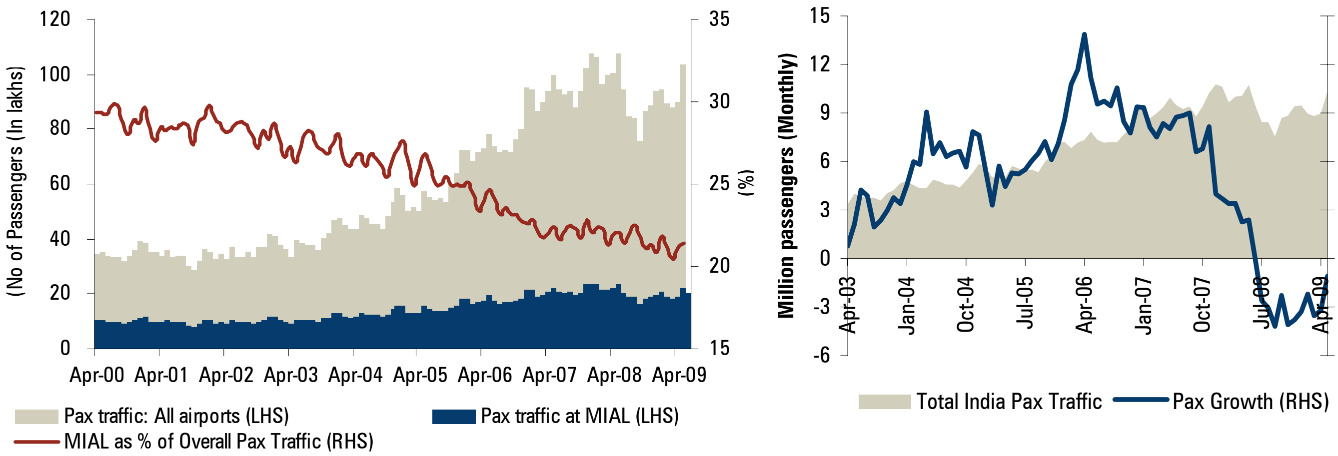
1. Airports Authority of India's measure of upgrading and modernising 35 non-metro airports in the country in a time bound manner
2. Development of airports in the north-eastern region is being taken up on a priority basis
3. Request for qualification (RFQ) for Amritsar and Udaipur has already been issued
4. Development works at additional 13 non-metro airports are being undertaken. These airports are Akola, Belgaum, Calicut, Cooch Behar, Dibrugarh (Mohanbari), Gondia, Hubli, Kullu (Bhuntar), Mysore, Rajahmundry, Surat, Srinagar and Vijaywada.

Listed players like GVK will have tremendous opportunity to expand the scope of operations in the aviation sector.

- **Declining market share — Still MIAL to continue to dominate sector**

  Mumbai airport (MIAL) is one of the busiest airports in India handling more than 21.5% of the overall passenger traffic in FY09. Mumbai also benefits from large population catchments, a strong regional economy and substantial business traffic. Infrastructure constraints continue to hamper the growth of air traffic and are also leading to losses for several airline carriers.

Exhibit 8: Monthly passengers traffic has started showing signs of revival

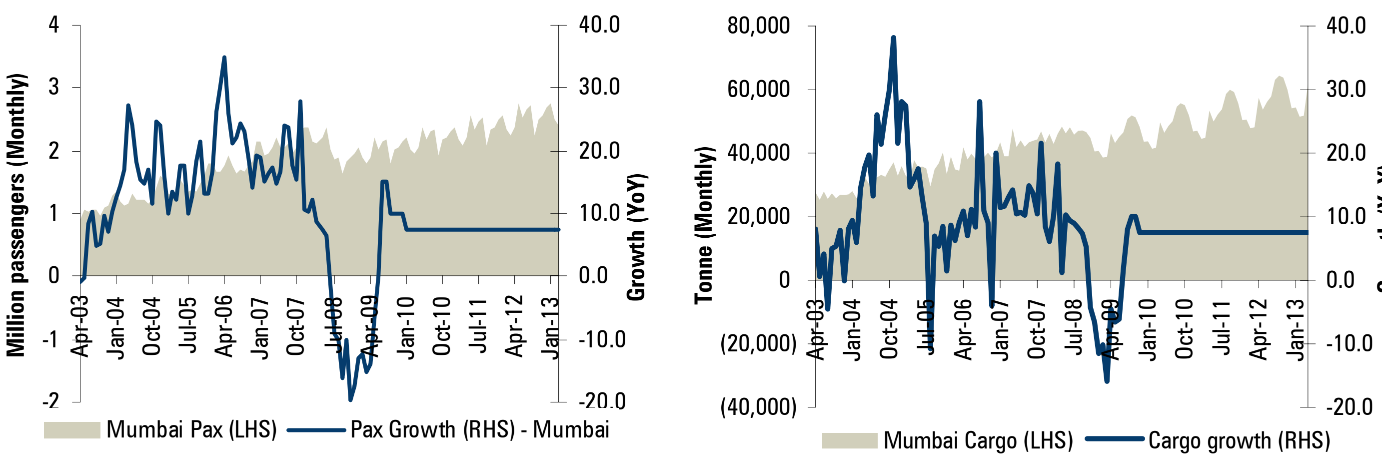


Source: Company, CMIE, ICICIdirect.com Research

In Q1FY10, MIAL witnessed a 7% YoY fall in traffic. However, we expect the decline in passengers to stem from Q2 onwards. Currently, MIAL is facing infrastructural constraints with regards to flights, passenger, cargo and inefficient utilisation of resources. A consortium led by GVK PIL has undertaken the development, management, operation and maintenance of MIAL in 2006. Several initiatives for removing infrastructural bottlenecks are under way.

We expect the growth in passenger and cargo traffic for MIAL to be slightly subdued compared to the overall industry growth rate. We have forecast passenger and cargo growth at 7.5% CAGR over the next five years.

Exhibit 9: Growth pattern for passenger and cargo traffic at MIAL



Source: Company, CMIE, ICICIdirect.com Research

- **Several restructuring opportunities to lead to improving operations**

MIAL should start delivering growth in topline from Q2 onwards led by a pick-up in passenger traffic. MIAL is constructing a domestic terminal, extending the international terminal and realigning the existing taxiway. Under the present revamping exercise, MIAL is proposing to build the following facilities at the existing airport.

Exhibit 10: Proposed facilities at MIAL

Facilities	Proposed	Existing
Parking stands for aircraft	106	84
Boarding Bridges	66	18
Check-in counters	339	182
Car parking	12,000	3,600

Proposed Terminal	Expected CoD
Terminal - 1C	Jun-10
Termianl - 2A	Dec-10
Terminal - 2B	Dec-12

Source: Company, ICICIdirect.com Research

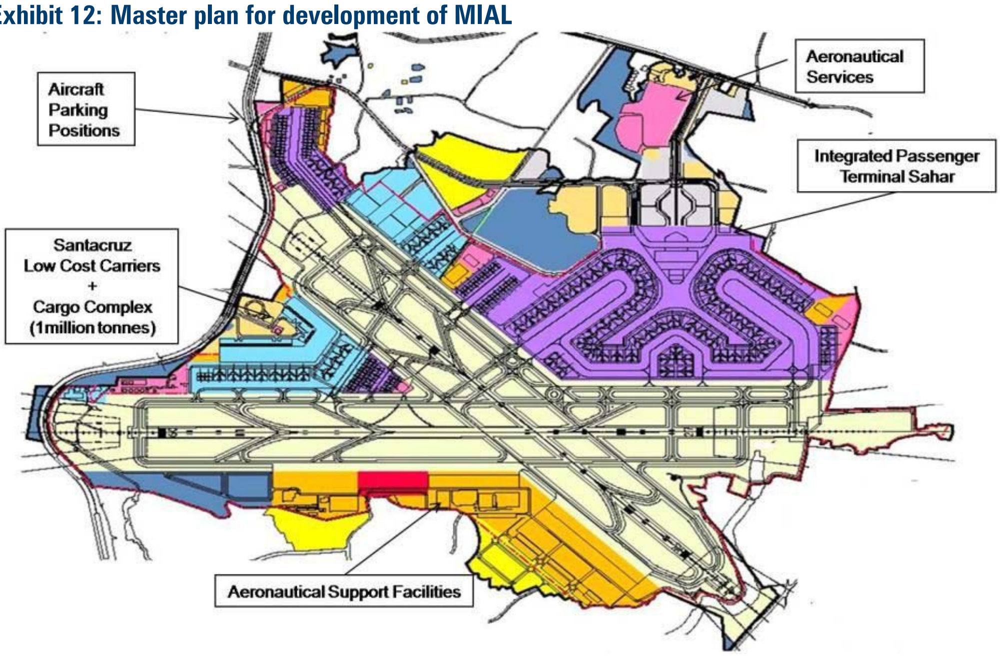
MIAL has proposed a brand new integrated terminal equipped with the latest technology to be built at Sahar. The EPC contract has been awarded to L&T for an estimated contract value of Rs 6,000 crore to be executed by December 2012. A six-lane elevated road will be built in coordination with MMRDA, providing direct connectivity from Western express highway for quick access. In order to address the growth in cargo traffic, a new integrated cargo complex has been proposed to handle one million metric tonnes of cargo per year. A new integrated terminal will be built for catering to a traffic size of 40 million passengers per year.

Exhibit 11: Project cost of MIAL — **Rs Crore**

Particulars	Incurred till date	Outstanding	Total Cost
Equity	550	650	1,200
Internal Accruals		1,500	1,500
Debt	1,750	2,480	4,230
Airport Development Fees - ADF		1,543	1,543
Real estate deposit & contingent		1,327	1,327
Total	**2,300**	**7,500**	**9,800**

Source: Company, ICICIdirect.com Research

Exhibit 12: Master plan for development of MIAL



Source: Company, ICICIdirect.com Research

Exhibit 13: Financial projection for MIAL

Financial Year	Mar-07	Mar-08	Mar-09	Mar-10E	Mar-11E	Mar-12E	Mar-13E
Aero Revenue	288.1	362.3	371.5	416.0	457.6	503.4	553.8
Non Aero Revenue	172.1	317.5	390.9	429.9	472.9	567.5	681.0
Cargo	124.5	173.0	181.5	189.6	208.6	229.4	252.4
Other Income	5.2	4.0	11.3	11.3	11.3	11.3	11.3
Total Revenue	**589.9**	**856.8**	**955.1**	**1,046.9**	**1,150.5**	**1,311.7**	**1,498.5**
Revenue Share of AAI @ 38.7%	228.3	331.6	369.6	405.2	445.2	507.6	579.9
Employee expenses	7.8	35.4	55.1	93.7	100.7	108.3	116.4
Operation support cost	77.9	85.5	96.9	56.4	47.4	47.4	47.4
Power and Fuel	33.8	55.1	65.5	66.4	61.0	65.6	70.5
Other operation and admin exp	84.2	131.3	112.7	124.0	130.2	140.0	150.5
EBITDA	**157.8**	**217.9**	**255.3**	**301.3**	**365.9**	**442.9**	**533.8**
Depreciation and Amortization	11.7	25.4	40.0	64.0	90.0	120.0	140.0
Interest and finance charges	7.8	19.7	27.3	52.0	75.0	100.0	150.0
Profit before exceptional items	138.3	172.8	188.0	185.3	200.9	222.9	243.8
Exceptional Items			54.0				
PBT	**138.3**	**172.8**	**134.0**	**185.3**	**200.9**	**222.9**	**243.8**
Current Tax	33.8	46.5	19.5	27.8	30.1	33.4	36.6
Deferred Tax	13.5	16.4	29.3	18.5	20.1	22.3	24.4
PAT	**90.9**	**109.9**	**85.2**	**139.0**	**150.7**	**167.2**	**182.9**

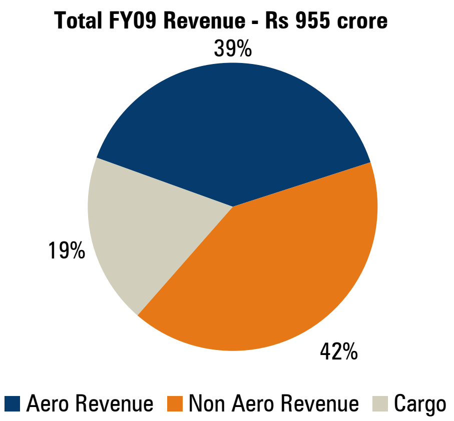
Services of AAI employees terminated from May 2, 2009. MIAL is expected to pay a retirement compensation of Rs 237 crore. We have amortised the retirement expense over the next five years

Annual savings of Rs 24 crore is expected on the power bill once the company is able to switch the connection from Reliance Energy to Tata Power. We believe the new contract will start from Q4FY10

Source: Company, ICICIdirect.com Research

** We have modelled the revenues of the airport segment excluding the implementation of WACC based formula for calculating the revenues of the Aero segment*

Exhibit 14: Revenue contribution from several segments in MIAL and composition of several segments



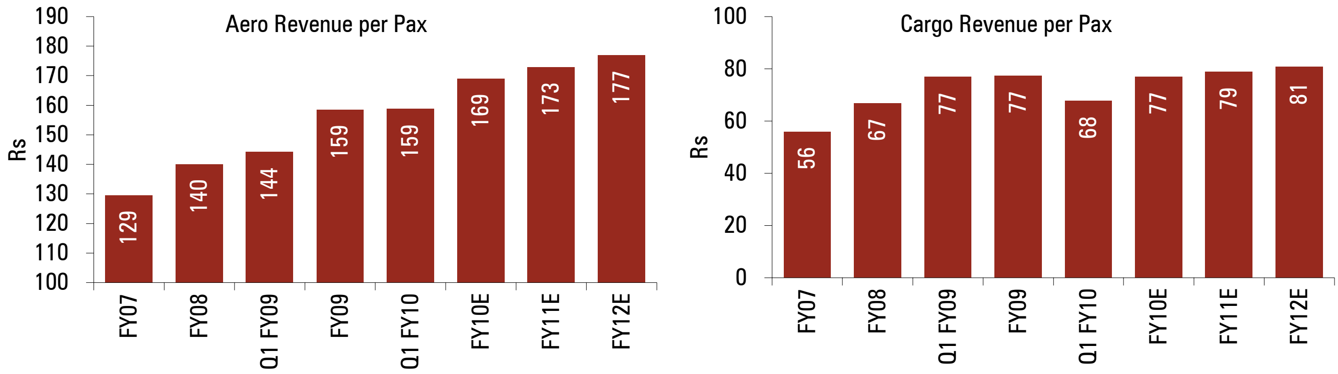
Aero Revenue	Cargo Charges	Non Aero Revenue
Passenger Service Fees	Cargo Revenue	Duty Free Rentals
Landing Revenue	Cargo Office Space Consession Fee	Airport Village
Parking Revenue	Cargo Ware House Consession Fee	Fuel Farm Rentals
Other Traffic operations	In Flight Kitchen	Advertising Revenue
(Passenger related charges)		Car Parking
		Public Admission Fees
		Car Rental/Taxi Stand/ Other
		Ground Handling Rentals
		Other Concessionaires

Source: Company, ICICIdirect.com Research

Aero revenues include traditional core airport usage charges. User charges for aeronautical revenues are regulatory in nature and the regulator will ensure minimum hike in realisation. Profitability of the aero segment will be dependent on regulations after the incorporation of the regulatory framework. However, revenues from other segment are not regulated. These are likely to ensure high returns, going forward. The regulator has prescribed a return based on WACC based model promising an 11.6% return under the aero segment.

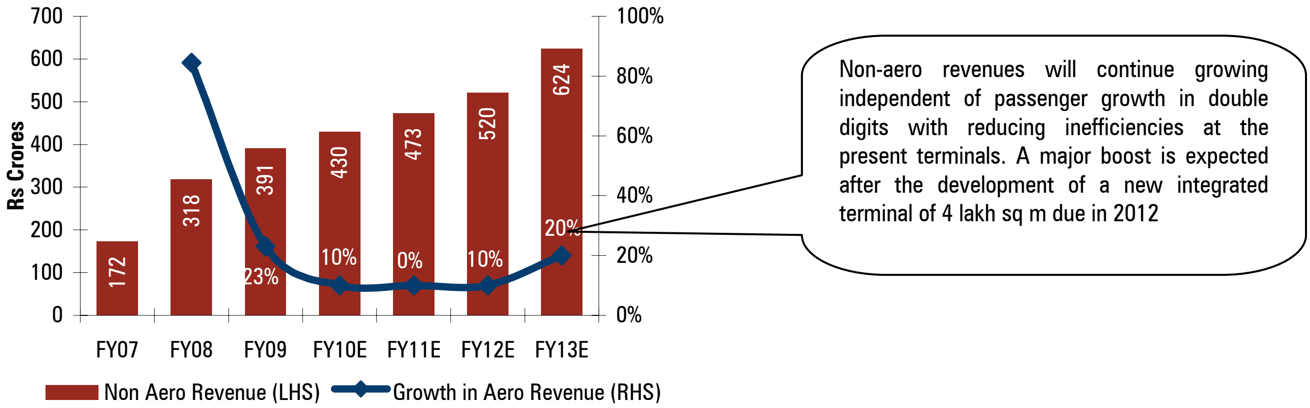
MIAL has obtained a 10% hike in aero charges from January 2009, thus leading to a jump in aero revenues per passenger compared to the previous year.

Exhibit 15: Pattern of aero and cargo revenue per passenger



Source: Company, ICICIdirect.com Research

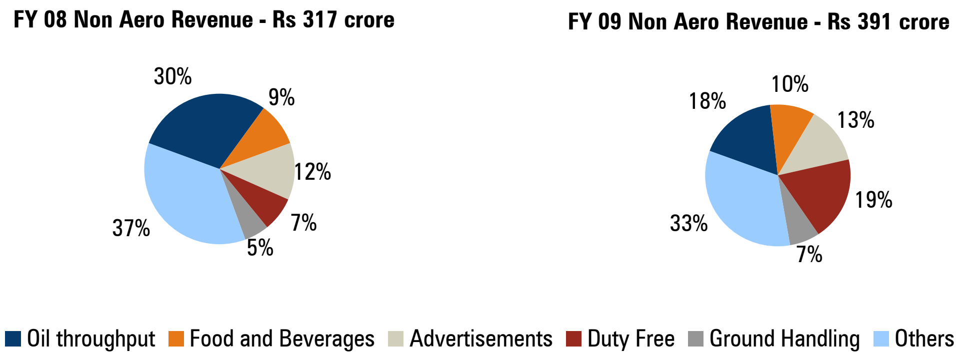
Exhibit 16: Non-aero revenues expected to grow independent of passenger growth



Source: Company, ICICIdirect.com Research

Mix of non-aero revenues will continue to witness changes, going forward. Apart from this there is the expected commissioning of new terminals revamping infrastructural issues at the present terminals.

Exhibit 17: Changing mix of non-aero revenue with continued infrastructure developments



Source: Company, ICICIdirect.com Research

- **Monetisation of real estate to pick up subsequent to elections**

GVK is also redeveloping 276 acres of land in the airport vicinity. MIAL has entered into an agreement with HDIL for the slum rehabilitation project as part of the airport modernisation and expansion plan. On the lines of development at major international airports, MIAL is also planning to develop a destination city hosting a vast experience of retail, commercial and hospitality services. The real estate forms nearly 16% of the overall value for GVK.

Out of the total 276 acres of land MIAL will get 97 acres, HDIL will get 65 acres while the rest will be used for airport development. HDIL is required to clear 28,000 hutments in order to complete phase I. The first phase is expected to be complete by October 2010. MIAL is expected to receive the entire land for development after the completion of phase I.

We expect the progress in the near term to witness delays as a result of elections due in Maharashtra. The master plan for the project is likely to be made public in December 2009.

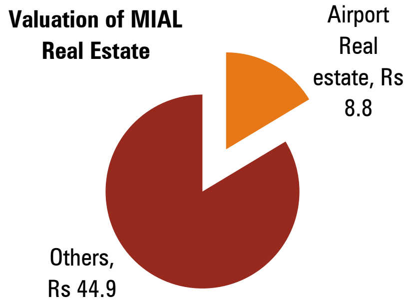
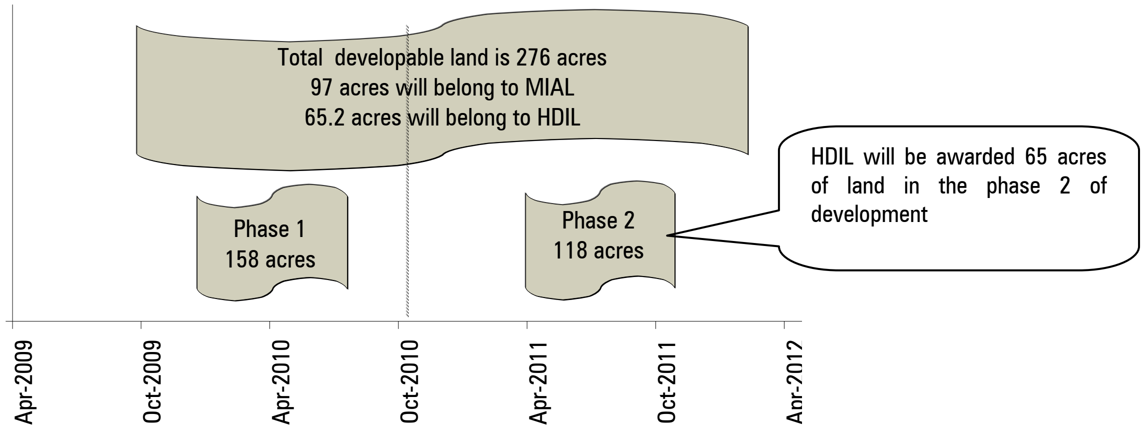


Exhibit 18: Phases for acquisition of land around MIAL



Source: Company, ICICIdirect.com Research

Real estate commands an 16% share in the overall valuation of GVK. It is valued at Rs 9 per share valuing the overall real estate opportunity at Rs 3,796 crore. We have assumed that the company will be able to recover and develop 90% of the overall 97 acres of land over the next six years starting FY11. We have assumed that the company will be able to garner around Rs 50 crore per acre as deposit and earn a lease rental of Rs 4 crore per acre with an escalation of 5% per annum.

Exhibit 19: Sensitivity analysis based on different proportion of recovery of land till FY15

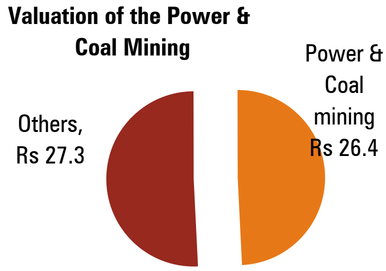
	Recovery Rate	Overall value - Rs Cr	GVK Share - Rs Cr	Per share valuation
Case 1	100%	4,149	1,520	9.60
Case 2	90%	3,796	1,391	8.78
Case 3	80%	3,443	1,261	7.97
Case 4	70%	3,083	1,129	7.13
Case 5	60%	2,704	991	6.26

Source: Company, ICICIdirect.com Research

Power & mining segments

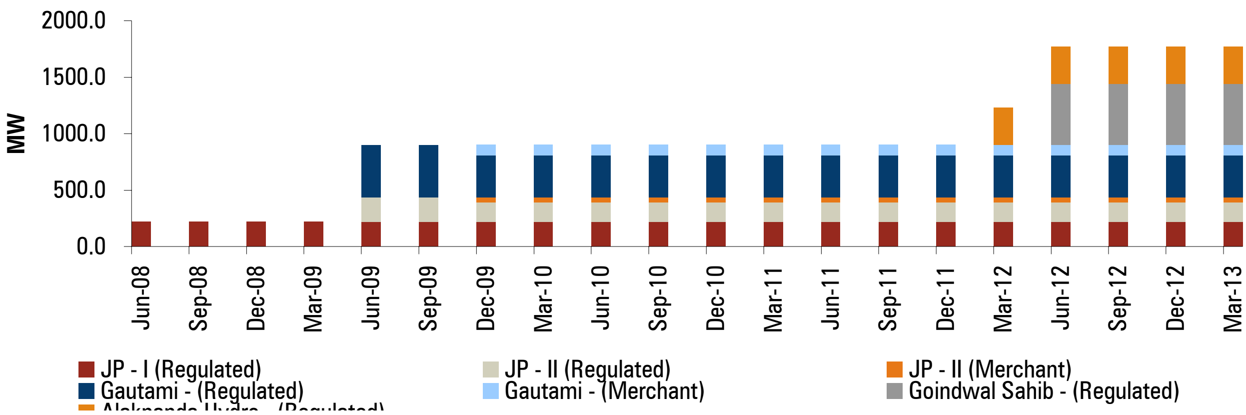
▪ Growth in operational capacity & merchant power to lead to upside

GVK has commissioned operations at JP-II and Gautami power plants scaling the overall generating capacity to 901 MW. The installed capacity will continue to grow in FY12 with the 330 MW hydro project already on schedule and the coal-based 540 MW project likely to achieve financial closure in October 2009. Revenues of the power segment are expected to witness a near five fold jump to Rs 1,750 crore in FY10E. Power and Mining segment to command nearly 49% of the overall valuation for GVK.



GVK is expected to get the requisite approval for sale of 138 MW of power through the merchant route by December 2009.

Exhibit 20: Growth in installed capacity and merchant capacity

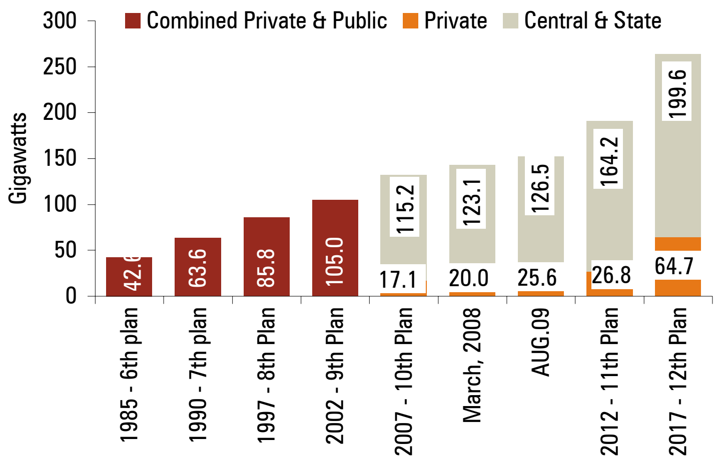


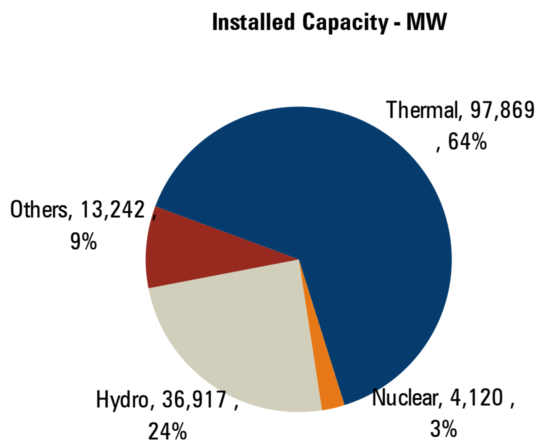
Source: Company, ICICIdirect.com Research

▪ Power sector landscape in India

Energy sector reforms have evolved over time and created an environment for private players to capture significant value from the huge demand of power in India. As on August 31 2009, India has an installed capacity of 1,52,148 MW. The focus over the coming five years has been tilting towards private sector players. At present, ~16.8% of the installed capacity is with the private sector. This is expected to rise to 24.5% by 2017.

Exhibit 21: Pattern of installed capacity at the end of Five Year Plans



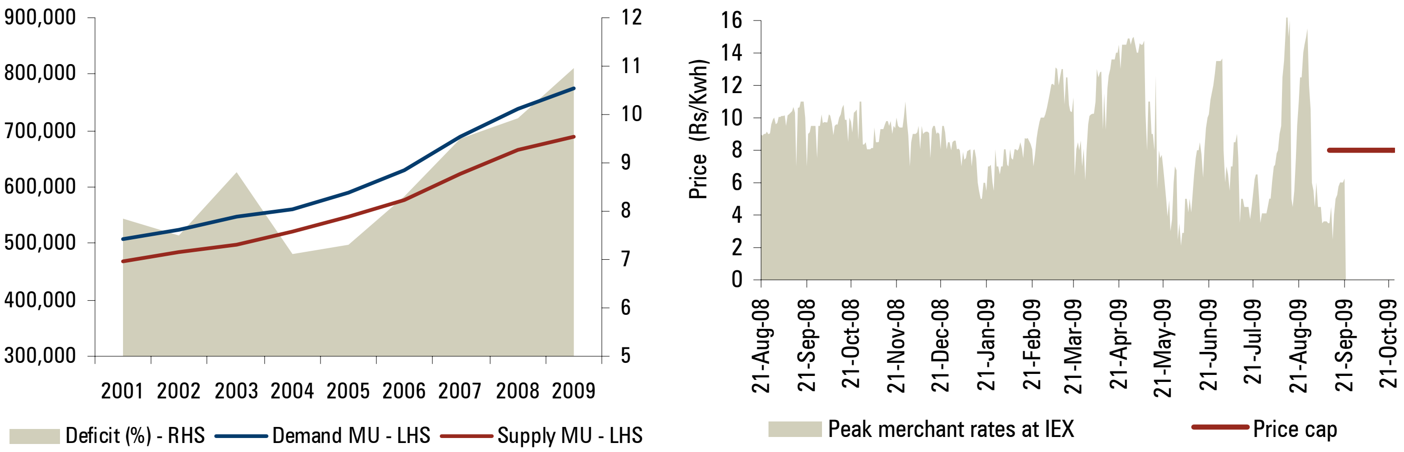


Source: CEA, ICICIdirect.com Research

- **Growth in deficit to support merchant market rates**

A continuous increase in mismatch of demand-supply in gas is rendering support to the merchant power market. Erratic rainfall in several parts of the country is also supporting favourable merchant rates in the near term. The merchant market is still in a nascent stage in India and is likely to behave in a volatile matter in the initial stages. With a view to curb volatility in the short-term market, CERC has capped the rates at Rs 8 for the next 45 days. Following this a final decision will be taken by the regulator. We expect the short-term merchant markets to stabilise at Rs 4. Even then players are expected to enjoy a premium to players operating under the regulated regime.

Exhibit 22: Rising spreads between demand and supply resulting in increased allocation in successive five year plans



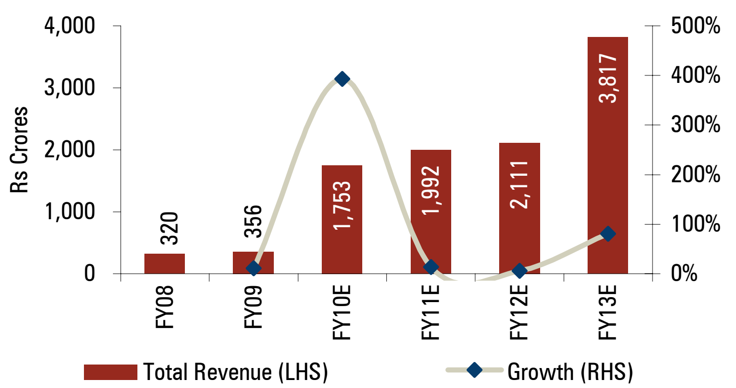
Source: Company, ICICIdirect.com Research

- **Powerful growth in the power segment on the horizon**

After the initial hiccups due to non-availability of gas, GVK has been able to successfully complete the commissioning of two plants (JP-II & Gautami). GVK Power has interest in three operational plants with a proportionate share of 715 MW gas-based plants located in Andhra Pradesh. GVK has commissioned two plants with a proportionate share of 501 MW in the last two quarters. Both new plants are operating at near 100% PLF. This will lead to substantial improvement in return ratios and would ensure a near five fold growth in revenues from the segment during FY10E.

Revenues of the power segment are expected to witness over five fold jump to Rs 1,753 crore in FY10E

Exhibit 23: Explosive growth in revenues expected in the power segment

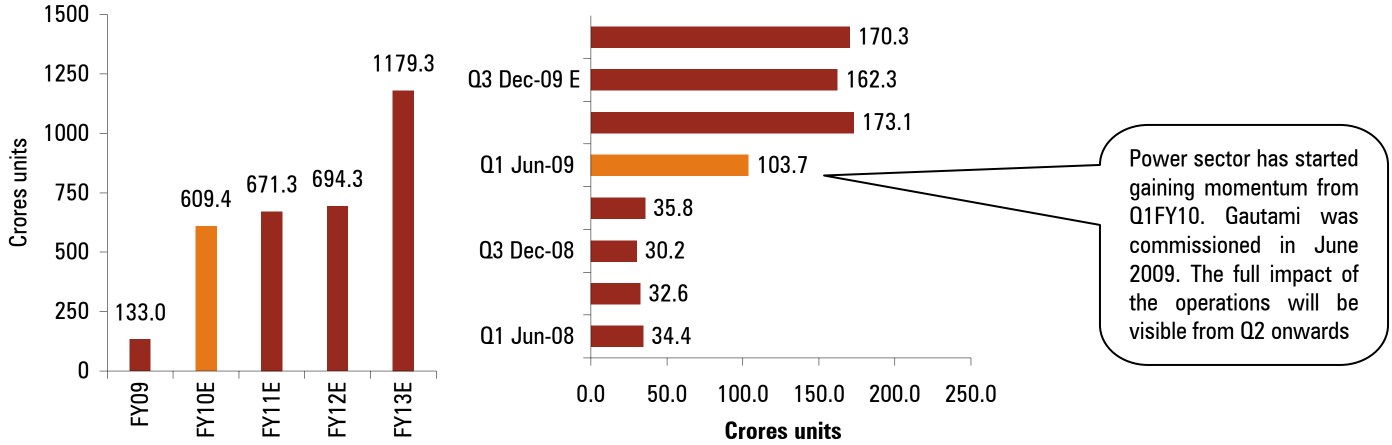


Source: Company, ICICIdirect.com Research

- **Awaiting approval for routing 138 MW through merchant market**

Power purchase agreements (PPA) of both new plants (JP-II & Gautami) were negotiated by GVK Power in such a manner that provides an opportunity to trade nearly 20% of their generation capacity under the merchant route (138 MW). We expect the company to obtain the requisite approval in the third quarter of FY10E for commencement of sale of power through the merchant route. This will result in a significant improvement in the operating margin for the power segment.

Exhibit 24: Growth in units generated led by a visible pipeline in generation portfolio



Source: Company, ICICIdirect.com Research

- **Expansion plans to nearly double the installed capacity by 2013**

GVK Power is diversifying its generation portfolio into other sources of fuel. GVK has initiated the development of projects in hydro and coal based fuel. At present, the two projects under construction are the Goindwal Sahib (540 MW) in Punjab and Alaknanda hydro power (330 MW).

Exhibit 25: Projects under development

Project under Construction	Funding details	Current Status	Other specifications
Goindwal Sahib Project 540MW - Coal based project Expected Commissioning - **FY13**	Cost - Rs 2,970 Crores Debt:Equity - 80:20	- Financial closure expected in **October 09** - Land acquired - EPC contract with BHEL signed - Balance of Payment contract with Punj Lloyd - Coal transport agreement signed with Indian Railways	-Tariff under the new CERC norms -ROE of 15.5% plus incentive -PPA signed with PSEB -Captive Mines - Tokisud and Seregraha
Alaknanda Hydro Project 330MW - Run of the river project Expected Commissioning - **FY12**	Cost - Rs 2,700 Crores Debt:Equity - 80:20	- Financial Closure achieved on August 3, 2007 - Construction on schedule - EPC contract with BHEL signed - Civil work & crushing work with NCC-GVK JV	-ROE of 14% plus incentive -PPA signed with UPPCL -Free allocation of power -12%

Source: Company, ICICIdirect.com Research

- **1,500 MW plans at the drawing board stage to ensure decent pipeline**

GVK Power has ~1,500 MW of projects at the drawing board stage. Out of this, 1,200 MW is the expansion planned at the Jegurupadu and Gautami facility. We feel that once the availability of fuel is assured it will require only three years to expand capacities at the existing plants as land availability will not be a concern. This will lead to a ramping up of capacities in a shorter time frame.

Brownfield gas-based expansion projects will have lower gestation period of around three years. This may pose an upside risk to our valuation case

GVK has also won the mandate to construct a 370 MW hydropower plant on the river Goriganga in Pithorgarh district, Uttarakhand. The company plans to route the power generation from the Goriganga project through the merchant route.

- **Scouting for inorganic opportunities**

GVK Power has expressed its intention of actively looking for stakes in power plants that are complete or near completion. GVK has recently acquired nearly 10% in the Gautami power plant increasing its stake from ~51% to nearly 60.5%. With the improved balance sheet after the placement of the recent QIP, the company has increased the probability of searching for quality assets within the power sector.

- **GVK coal mines – Tokisud coal mines and Seregarha mines**

Tokisud mines are an opencast mining block located 50 km north-west of Ranchi (Jharkhand). Tokisud has a mineable reserve of 52 MT. GVK has received the environmental clearance for this mine and land acquisition is in progress. Financial closure of the mine is expected in October 2009.

Seregarha mines were allocated to GVK jointly with Arcelor-Mittal. GVK holds a 44.45% stake in the mine. Seregarha mines have a mine able reserve of 67 MT. Both mines were acquired to support the operations of Goindwal Sahib in Punjab.

Road segment

India has the second largest road network stretching 3.3 million km spread under several categories. However, the effectiveness is weighed down due to several deficiencies. Roads continue to form the most common mode of transportation carrying nearly 65% of the freight and 80% of the passenger traffic.

Exhibit 26: Profile of Indian road sector

Indian Road Network	Existing Kms
Expressways	200
National Highways	66,590
State Highways	128,000
Major District Highways	470,000
Rural and other roads	2,650,000
Total Length	**3,340,000**

Source: NHAI, ICICIdirect.com Research

The national highway, which accounts for only 2% of the total road network in India, carries nearly 40% of the road traffic. The first and the foremost task mandated to NHAI is the implementation of NHDP — comprising the Golden Quadrilateral and North-South and East-West Corridors. NHDP involves a total of seven phases entailing development and upgradation of approximately 48,000 km. This is expected to offer immense opportunities to private players.

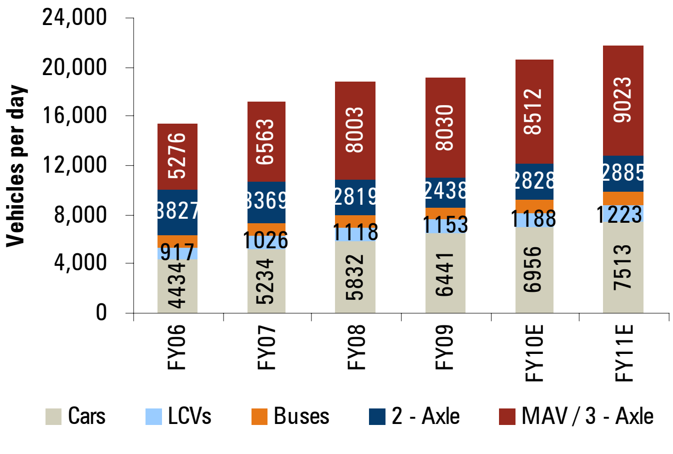
- **Stellar show of traffic growth continues**

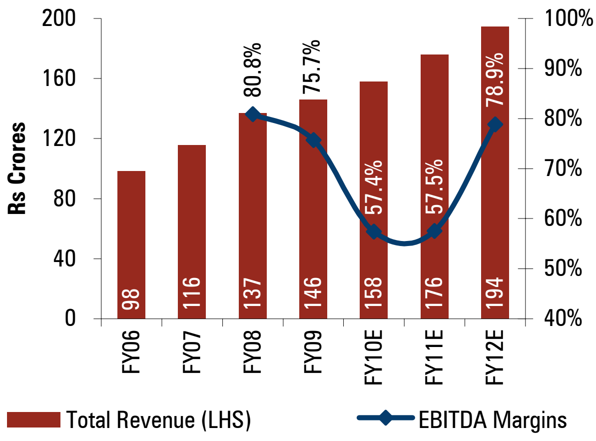
GVK won the project for building the Jaipur Kishangarh patch on NH-8 in 2003 and completed the project in 2005. The project cost was Rs 623 crore and NHAI provided a grant of Rs 211 crore. A total of 70% of the remaining project cost was funded by debt while the other 30% was by equity.

GVK Jaipur expressway has delivered a stellar performance and has handled over 19,000 vehicles per day on average with a daily toll collection of Rs 40 lakh in FY09. GVK has been unable to raise the toll for this year as inflation for March was close to sub-zero levels. The company has been able to receive the highest ever toll collection in excess of Rs 50 lakh on July 20 2009. The company has witnessed growth in the overall realisation led by significant traffic growth for Jaipur expressway.

EBITDA margin for JKEL is expected to be subdued for FY10E and FY11E due to major maintenance being taken up by GVK. However, the SPV is still expected to generate a free cash flow of ~Rs 85 crore In FY10E

Exhibit 27: Trends of vehicle movement and operating performance of the road segment



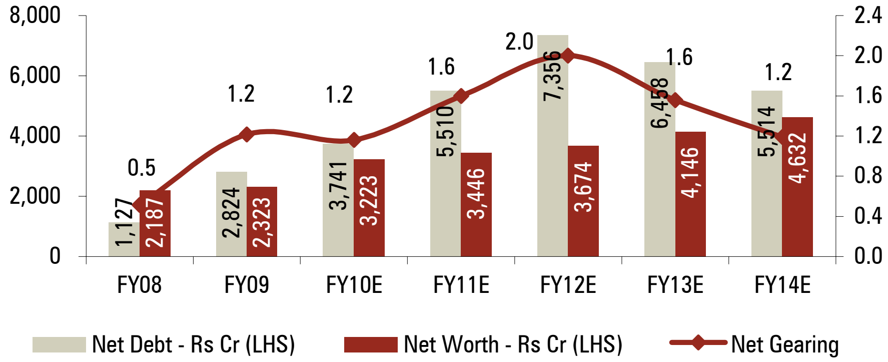


Source: Company, ICICIdirect.com Research

- **Expansion of capital base to allay balance sheet concerns**

GVK has raised Rs 716 crore after accessing the capital markets through the QIP route in 2009. This provides fresh opportunities for the company to pursue organic and inorganic growth with vigour. In comparison to peers, GVK Power is in a better position to bid for fresh opportunities available within the infrastructure space. The company enjoys a debt equity ratio of 1.2 in FY10E. This makes the company fairly well placed in the sector.

Exhibit 28: Comfortable debt gearing ratio to ease funding concerns



Source: Company, ICICIdirect.com Research

- **Oil and gas exploration**

GVK has acquired the working interest along with its consortium member BHP Billiton in seven exploratory blocks under NELP VII with a total gross area of 34,000 km. GVK has a 74% stake in the joint venture. Depending on investments by the consortium, 25-80% of the production proceeds will be given to the government under the production sharing contracts. Over the next two years, the consortium will acquire the 2D information and plan for the next step including decision for 3D data acquisition or drilling of exploratory wells.

The oil & gas segment is at nascent stages of operation. In our valuation, we have considered the investment in the sector as sunk cost. Any meaningful find in the oil and gas blocks will pose an upside risk to our valuation

- **Perambalur multiproduct SEZ**

GVK has received formal approval from the Board of Approval (Ministry of Commerce and Industries) in February 2009 for development of 2604 acres of multiproduct SEZ. The total cost of the project is Rs 827.4 crore. The company has already acquired the requisite land for development. The project is still in nascent stages of execution.

Risks & concerns

Adverse regulatory developments could impact operations

GVK has an interest in several business sectors that are regulated in nature. Any disappointing amendment of the regulatory framework may impact the operating performance of the company. The regulations of the aviation sector are at the formulation stage. The delay in implementation of the new regulation may be unfavourable for the company.

Operation and expansion of power project linked to fuel availability

The commencement of gas from Reliance KG-D6 block has assured regular supply of fuel for existing plants. Any disruption could result in the operating performance getting impacted. GVK has carved out an expansion of present facilities at JP-I and JP-II for 1,200 MW, which may be delayed due to non-availability of assured supply.

Another round of dilution cannot be ruled out

GVK is still in the expansion phase and will continue to explore fresh opportunities offered by several sectors. The company is expected to generate a sizeable free cash flow only from FY13 onwards. This makes the company dependent on outside capital for tapping new opportunities.

Delay in implementation of order for selling 20% of merchant capacity

Delay in implementation of the order for selling around 138 MW of capacity on a merchant basis is pending with the regulator. The delay in implementation will result in losing out on opportunities to capitalise on the high merchant power tariff.

Delay in the implementation of the order to sell power in the merchant market will lead to losing out an opportunity to take advantage of the high merchant tariffs in the near term.

Clearing encroachment at MIAL real estate a sensitive issue

The company has been awarded 276 acres of land along with Mumbai international Airport. The removal of encroachment is a sensitive issue as it involves rehabilitation of nearly 3,00,000 inhabitants and 65,000 hutments, which may witness delays.

Opening up of new airport in Navi Mumbai

Although there is no visibility to the new airport in Navi Mumbai, we feel the right of first refusal is a significant defence as an when the bidding for the new airport comes up. GVK has the right of first refusal if the bid is within 10% of the winning bid and will be given an option to match the most competitive bid.

Reliance on JV partners for new business segments

GVK does not have any track record or experience in the field of oil and gas exploration. The company is completely relying on BHP Billiton for the execution of the oil and gas segment.

Implementation of direct tax code without any alteration will be negative

GVK Power enjoys tax benefits under major segments. After implementation of the direct tax code, GVK's liability is expected to rise as the government in the draft copy has proposed a rise in the MAT rate to 15%. It will not be entitled to take credits in future years also.

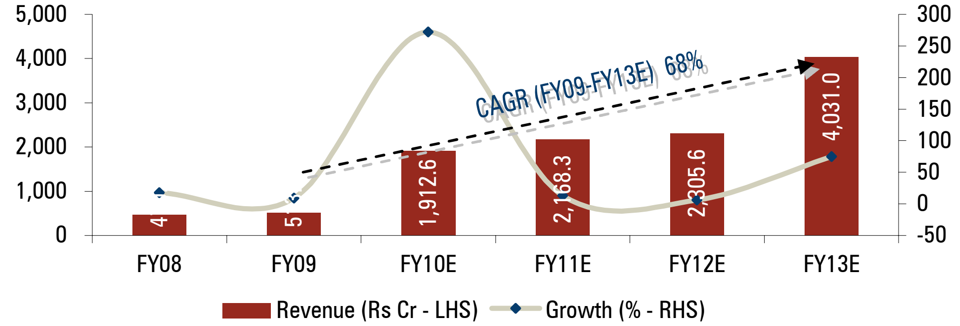
Financials

CAGR growth of 68% in topline over next four years

After the commencement of operations at two major power plants in the last two quarters revenues are expected to grow at a CAGR of 68% over the next four years till FY13E. In our calculations, we have not accounted for the revenue from the airport segment. However, with the implementation of the IFRS, the company may start clubbing the operations from the airport segment as well.

With operations commencing at the three gas-based plants growth is looking rosy for GVK Power in the years to come

Exhibit 29: Revenue growth pegged at 68% CAGR till FY13E

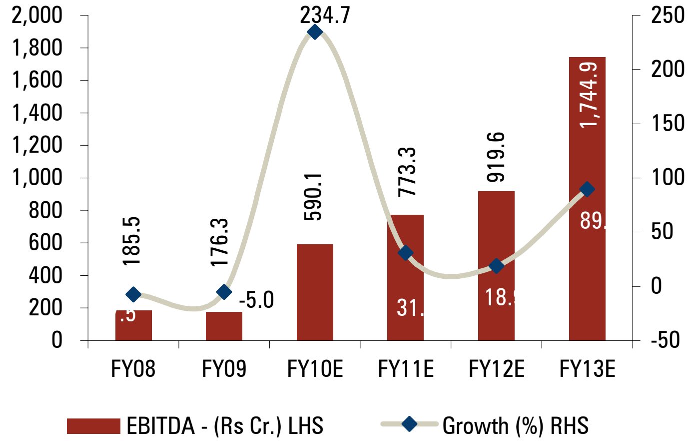


Source: Company, ICICIdirect.com Research

Robust growth expected for EBITDA

After witnessing de-growth in EBITDA in the last year, we expect EBITDA to grow over three folds in FY10E. Again, for the next two years EBITDA will continue to maintain significant momentum lead from the opening up of merchant capacities and operations for the two power plants throughout the financial year.

Exhibit 30: EBITDA growth — a stellar performance to come

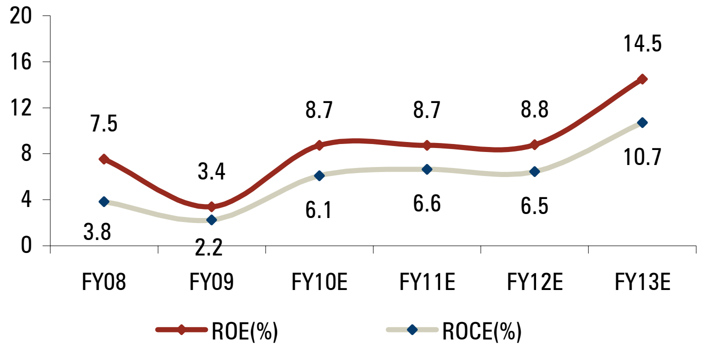


Source: Company, ICICIdirect.com Research

Return ratios to improve gradually to high teen levels

Return ratios will also improve significantly from the present levels. The company will start earning returns on the capital employed in the two power plants, which were not operational due to non-availability of gas. After the release of blocked capital, return ratios are expected to improve significantly.

Exhibit 31: Low RoE & RoCE

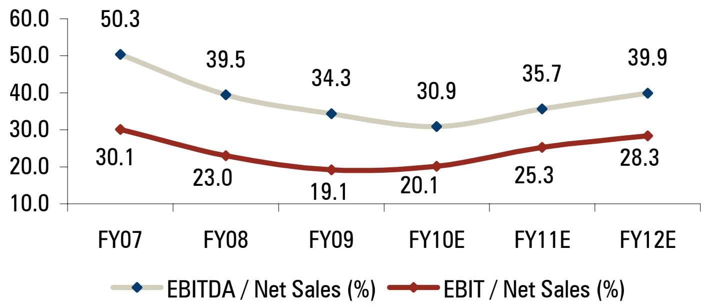


Source: Company, ICICIdirect.com Research

Margin expansion to follow after release of merchant capacity

GVK will be able to improve the margin of the power and road segment from FY11 onwards. The company is expected to incur major maintenance in the road segment in FY10E and FY11E, which will lead to reduction in the margin for the road segment. Similarly, in the power segment, the opening up of merchant capacity in Q3FY10 will also lead to expansion in the operating profitability for the company.

Exhibit 32: Analysis of margin



Source: Company, ICICIdirect.com Research

Valuations

GVK Power is a leading infrastructure play with operations primarily dependent on the domestic economy. The opportunities in the private sector infrastructure segment are continuously on the rise. Having exposure to several strategic segments in the Indian economy that are expected to scale to significant heights once projects are ready, makes the company an interesting bet within the infratructure space.

The power segment is expected to start providing significant cash flows after the commissionning of operations at two plants in Andhra Pradesh. Growth in the power segment is assured due to visibility in execution of plans under pipeline (Goindwal Sahib and Alaknanda). We have valued the power & coal segment on DCF, which offers a value of Rs 26 per share. In our base case, we have excluded the other projects under the drawing stage. Further upside can be expected to our valuation case, after clarity starts to emerge on these projects. We believe their power segment can witness new heights as scalability will not be an issue for brownfield gas-based plants under consideration (Expansion at JP and Gautami).

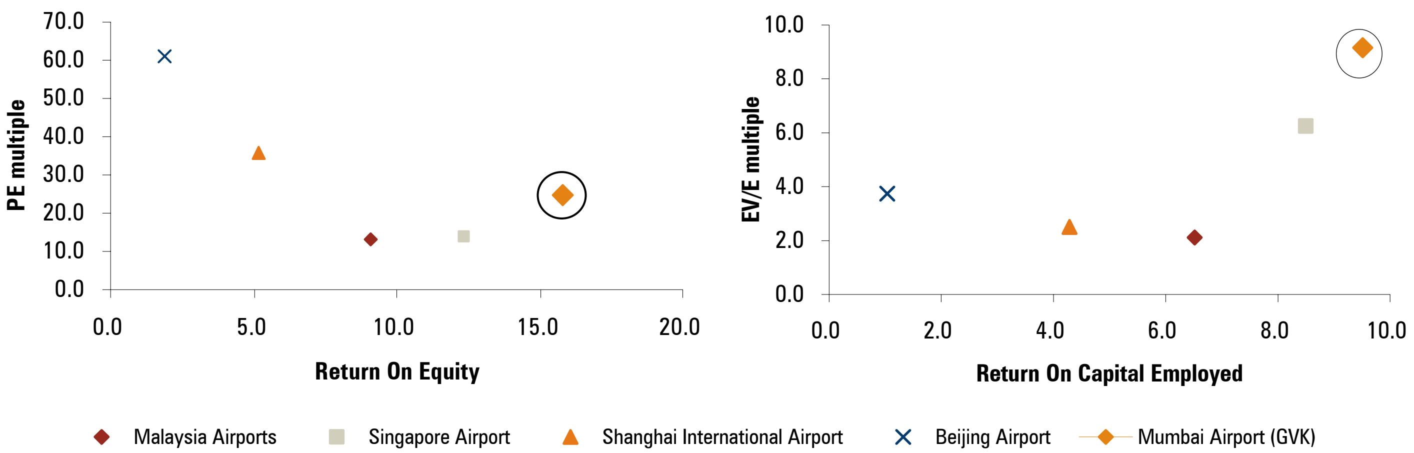
GVK Power has already received financial closure for Alaknanda hydropower plant and is expected to financially close Goindwal Sahib Project in ***October 2009****. Work has already commenced at both project sites.*

Mumbai airport is a strategic asset in the Indian aviation sector, which still has a long way to travel. We believe the aviation sector will continue to remain in a budding phase and historical operating numbers may not justify the opportunity. If we go by companies operating in the Chinese aviation infrastructure space, we feel scalability of operations for the sector should not be a significant threat. We also feel the apprehension of slowdown are overplayed in the sector. The overall sector is likely to again return to growth phase in the near future. We have valued the 36.6% stake in MIAL at Rs 8.1 per share assigning the overall value of ~Rs 3,500 crore to MIAL.

Strategic asset in a promising space with monopolistic characteristic makes it cheap. Post the completion of project and the commencement of new integrated terminal the operating profile will change substantially.

Based on the comparison with international airports within the Asian region, we believe our aggressive target earnings multiple of 25x on FY10 earnings and an EV/EBITDA multiple of 9.1x is justified as the asset is commanding the best return ratios. An aggressive multiple is also justified as the company will be able to enjoy an assured WACC of 11.6% after the implementation of regulatory framework, which will guarantee significant growth in earnings.

Exhibit 33: Comparision of MIAL target multiple with other asian airports



Source: Company, Reuters consensus, ICICIdirect.com Research

Real estate commands an 16% share in the overall valuation of GVK. It is valued at Rs 9 per share valuing the overall real estate opportunity at Rs 3,796 crore. We have assumed that the company will be able to recover and develop 90% of the overall 97 acres of land over the next six years starting FY11. We have assumed that the company will be able to garner around Rs 50 crore per acre as deposit and earn a lease rental of Rs 4 crore per acre with an escalation of 5% per annum.

The road segment is also located on the north western part of India and on NH-8 between Delhi and Mumbai. The traffic has been growing steadily on the project and we have assigned an overall value of Rs 928 crore rendering a per share value of Rs 6 per share to the road project based on the NPV methodology.

We have not taken the valuation of the oil and gas segment. Any positive discovery may pose an upside risk to our valuation case.

At the current market price of Rs 44, the stock is trading at P/BV of 2.2x in FY10E and 2.0x in FY11E. We have adopted an SOTP-based methodolgy for valuing each segment distinctly. With improving visibility of growth for their projects and allaying balance sheet concerns, we are initiating coverage on the stock with an **OUTPERFORMER** rating.

Exhibit 34: Valuation under SOTP-based model

Particulars	Rs Cr	Per Share
Road Segment	928	6
Power & Coal segment	4,180	26
Airport - MIAL	1,289	8
Airport Real estate	1,391	9
SEZ	106	1
Cash & Cash equivalents	608	4
Total Value	**8,501**	**54**

Source: Company, ICICIdirect.com Research

Key financials

P&L Statement					(Rs Crore)
	FY07	FY08	FY09	FY10E	FY11E
Sales	398.6	470.0	513.8	1,912.6	2,168.3
Growth (%)	0.0	17.9	9.3	272.3	13.4
Op. Expenditure	197.9	284.5	337.5	1,322.5	1,395.0
EBITDA	200.7	185.5	176.3	590.1	773.3
Growth (%)		-7.5	-5.0	234.7	31.0
Other Income	24.7	62.2	20.2	108.4	123.4
Depreciation	80.6	77.6	78.0	205.1	225.7
EBIT	144.8	170.1	118.5	493.5	671.0
Interest	62.7	41.4	33.4	210.0	331.5
PBT	82.1	128.7	85.1	283.5	339.5
Growth (%)		56.8	-33.9	232.9	19.8
Tax	25.0	23.9	10.0	44.1	50.9
Extraordinary Item	0.0	0.0	1.2	0.0	0.0
Rep. PAT before MI	57.1	104.9	73.9	239.4	288.6
Minority interest (MI)	32.8	10.1	0.3	34.2	48.0
Rep. PAT after MI	24.4	94.8	73.6	205.1	240.6
Adjustments	0.0	0.0	0.0	0.0	0.0
Adj. Net Profit	24.4	94.8	73.6	205.1	240.6
Growth (%)		288.7	-22.4	178.8	17.3

Key ratios (Profit & Loss Account)					(%)
	FY07	FY08	FY09	FY10E	FY11E
Emp Exp	3.4	3.1	3.4	2.4	2.5
Admin & General exp	15.5	20.5	13.8	7.3	6.5
Average cost of debt	0.0	0.0	0.0	0.0	0.0
Effective Tax rate	30.4	18.5	11.8	15.6	15.0
Profitability ratios (%)					
EBITDA Margin	50.3	39.5	34.3	30.9	35.7
PAT Margin	6.1	20.2	14.3	10.7	11.1
Adj. PAT Margin	6.1	20.2	14.3	10.7	11.1
Per share data (Rs)					
Revenue per share	3.7	3.3	3.6	12.1	13.7
EV per share	77.8	57.4	69.5	67.6	78.8
EV per unit	NA	NA	NA	NA	NA
Book Value	8.0	15.5	18.4	22.2	24.0
Cash per share	0.6	1.2	1.1	2.3	1.5
EPS	0.2	0.7	0.5	1.3	1.5
Cash EPS	1.0	1.2	1.1	2.6	2.9
DPS	0.1	0.1	0.0	0.2	0.1

Costs as % to sales except tax rate and average cost of debt

Balance Sheet					(Rs crore)
	FY07	FY08	FY09	FY10E	FY11E
Equity Capital	108.6	140.9	140.9	158.2	158.2
Other share applicatior	0.0	0.0	28.7	28.7	28.7
Reserves & Surplus	487.0	2,045.7	2,153.3	3,036.3	3,259.4
Shareholder's Fund	868.5	2,187.2	2,587.3	3,519.6	3,790.8
Minority Interest	272.9	0.6	264.4	296.4	344.4
Secured Loans	1544.6	1291.0	2979.8	4091.8	5730.8
Deferred Income	187.6	175.8	164.1	0.0	0.0
Deferred Tax Liab.	89.1	88.6	88.0	88.0	88.0
Source of Funds	2,689.7	3,742.6	5,819.2	7,699.4	9,609.6
Gross Block	1,889.0	1,904.4	2,126.9	4,126.9	4,126.9
Less: Acc. Depr.	512.2	564.1	623.9	788.7	962.2
Net Block	509.5	472.7	635.3	2,483.7	2,310.1
Capital WIP	821.1	1,350.1	3,850.2	3,450.2	5,670.2
Net Fixed Assets	1,330.7	1,822.8	4,485.5	5,933.8	7,980.2
Intangible asset	792.0	754.8	723.6	670.2	618.2
Investments	297.4	706.8	321.4	500.0	550.0
Inventories	28.5	22.7	44.2	100.2	98.2
Trade Receivables	60.0	65.2	64.3	253.9	251.4
Cash	63.1	164.3	156.2	363.0	232.9
Other Current assets	187.6	235.6	157.9	123.6	121.0
Total Current Asset	339.2	487.9	422.6	840.6	703.4
Current Liab. & Prov.	69.6	29.7	133.9	245.3	242.2
Net Current Asset	269.6	458.2	288.7	595.3	461.2
Misc Expenditure	-	-	-	-	-
Application of funds	2,689.7	3,742.6	5,819.2	7,699.4	9,609.6

Key ratios (Balance sheet)					(%)
Return ratios	FY07	FY08	FY09	FY10E	FY11E
RoNW	19.2	7.5	3.4	8.6	8.7
ROCE	NA	11.2	3.8	2.2	6.1
Financial health ratio					
Operating CF (Rs Cr)	154.8	59.9	313.6	297.1	726.4
FCF (Rs Cr)	(2,555.4)	(484.4)	(2,409.0)	(1,302.9)	(1,493.6)
Cap. Emp. (Rs Cr)	2,140.1	3,477.6	5,302.7	7,315.0	9,177.2
Debt to equity (x)	2.6	0.6	1.3	1.3	1.7
Debt to cap. emp. (x)	0.6	0.3	0.5	0.5	0.6
Interest Coverage (x)	2.3	4.1	3.6	2.3	2.0
Debt to EBITDA (x)	7.7	7.0	16.9	6.9	7.4
DuPont ratio analysis					
PAT/PBT	0.7	0.8	0.9	0.8	0.9
PBT/EBIT	0.7	1.2	0.9	0.7	0.6
EBIT/Net sales	0.3	0.2	0.2	0.2	0.3
Net Sales/ Tot. Asset	0.3	0.1	0.1	0.3	0.3
Total Asset/ NW	24.8	25.8	33.9	45.2	54.7

Contd...

Cash Flow Statement (Rs crore)

	FY07	FY08	FY09	FY10E	FY11E
Net Profit before Tax	82.1	128.7	86.4	283.5	339.5
Other Non Cash exp	0.0	0.0	0.0	0.0	0.0
Depreciation	80.6	77.6	78.0	205.1	225.7
Diect Tax Paid	21.1	23.7	10.0	44.1	50.9
Interest Income	3.7	11.8	20.2	51.3	54.4
CF before chg in WC	137.8	170.8	134.1	393.1	459.8
Inc./(Dec.) in Curr Liab	63.8	(42.7)	100.6	111.4	(3.0)
Inc./(Dec.) in Curr Ass.	276.1	47.5	(57.2)	211.3	(7.1)
CF from operations	-74.5	80.7	291.9	293.2	463.9
Purchase of Fixed Ass	(2710.1)	(544.3)	(2722.6)	(1600.0)	(2220.0)
(Inc.)/Dec. in Inv	(297.4)	(409.5)	385.4	(178.6)	(50.0)
CF from Investing	(2,982.8)	(891.7)	(2,317.0)	(1,685.3)	(2,146.6)
Inc./(Dec.) in Debt	1,544.6	(253.6)	1,688.8	1,112.0	1,639.0
Inc./(Dec.) in NW	420.6	1,191.9	-	716.9	-
CF from Financing	1,965.2	938.4	1,688.8	1,828.9	1,639.0
Opening Cash bal	-	63.1	164.3	156.2	363.0
Closing Cash bal	63.1	164.3	156.2	363.0	232.9

Working Capital Ratios

	FY07	FY08	FY09	FY10E	FY11E
Working cap./Sales	0.7	1.0	0.6	0.3	0.2
Debtor turnover	54.9	50.7	45.6	48.5	42.3
Creditor turnover	35.4	24.7	58.5	41.5	38.5
Current Ratio	4.9	16.4	3.2	3.4	2.9
Quick ratio	4.5	15.7	2.8	3.0	2.5
Cash to abs. Liab.	0.9	5.5	1.2	1.5	1.0

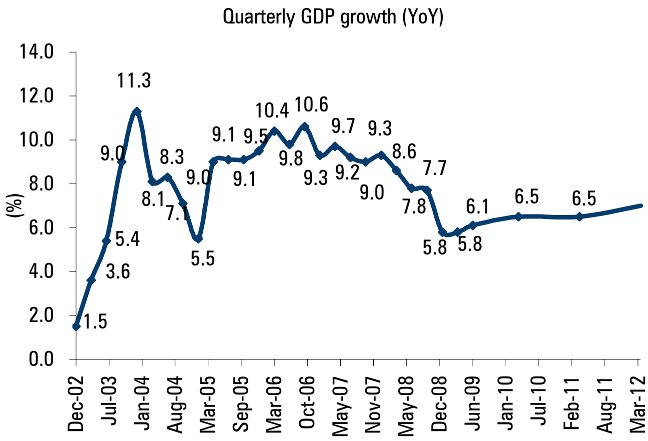
Appendix

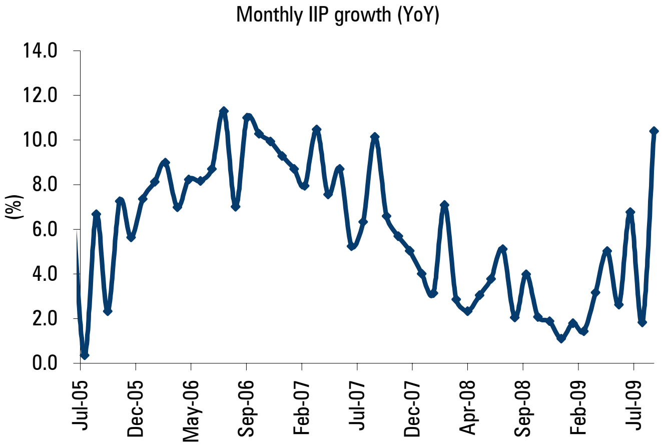
Macro outlook

▪ Indian economy showing signs of bottoming out

The Indian economy has registered a robust CAGR of ~8.8% from FY03 to FY08. The reverberation of meltdown in the global economy brought the pace of growth rate to 6.7% in FY09. Recent quarterly GDP data points have again started stabilising and IIP data is also giving early indication of scaling back.

Exhibit 35: Signs of recovery in GDP growth and monthly IIP also starting to look up





Source: Bloomberg, ICICIdirect.com Research

▪ Focus areas of infrastructure spending

Total investment in infrastructure is pegged at US$514 billion (Rs 20,56,100 crore) in the Eleventh Five Year Plan. Although the direction of economic reforms in India is irreversible, the pace tends to slow down from time to time. The major sectors that will be the beneficiary of the boom in infrastructure spends are power, airport, road and ports.

Exhibit 36: Focus segment of the planning commission

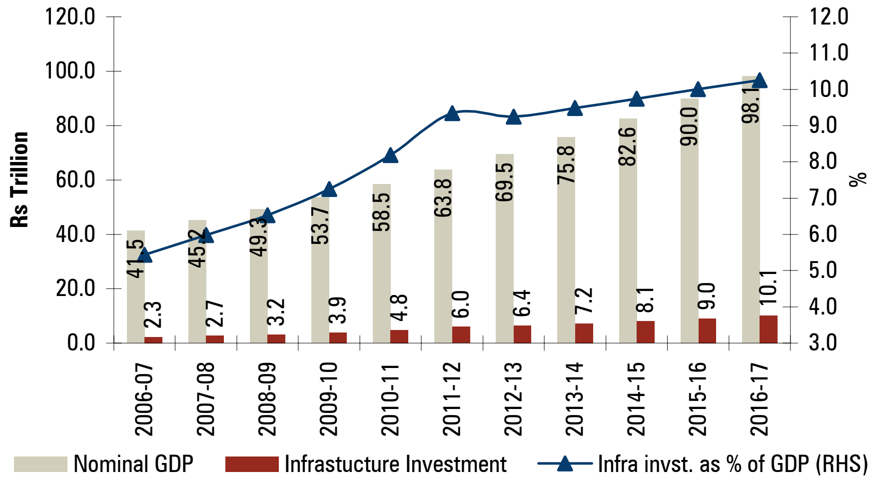
Sector	Xth plan	XIth plan
Power	291,850	666,525
Airport	6,771	30,968
Road	144,892	314,152
Port	14,071	87,995
Total	**457,584**	**1,099,640**

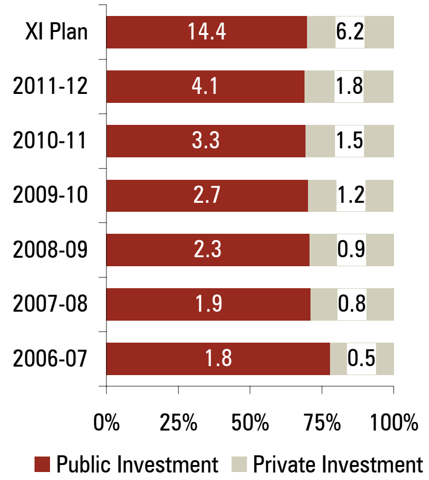
Source: Planning Commission, ICICIdirect.com Research

- **Slippages possible in five year plan but commitment intact**

Infrastructure spends in the planned target under the Eleventh Plan have been projected to rise from 5.4% of GDP in 2006-07 to 9.3% of GDP by 2011-12. There may be a slippage owing to rising fiscal stress. However, acknowledging the importance of infrastructure spending for taking the economy again to a higher growth trajectory, the government has signified its commitment to the infrastructure segment time and again. The Finance Minister in the Budget speech has also indicated the infrastructure spend will increase to 9% of GDP by 2014. Nearly 30% of the Eleventh Plan is to be executed by the private sector.

Exhibit 37: Infrastructure spending as percentage of GDP expected to pick up



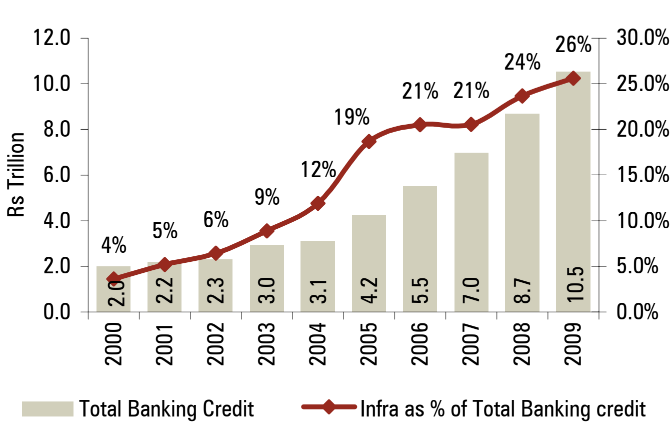


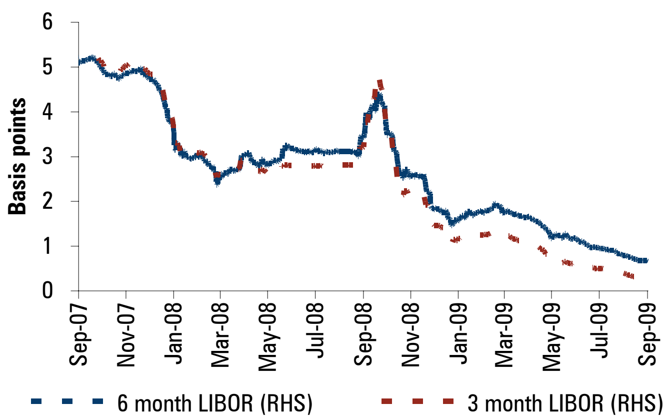
Source: Planning commission, ICICIdirect.com Research

- **Funding for infrastructure sector in India**

Infrastructure has been able to gain continuous share of funding from the domestic banking system. It has grown multifold to achieve 26% of the total banking credit. The international credit markets have also eased out. Libors are prevailing at unprecedented levels and default spreads of major banking players in India have fallen sharply compared to last year.

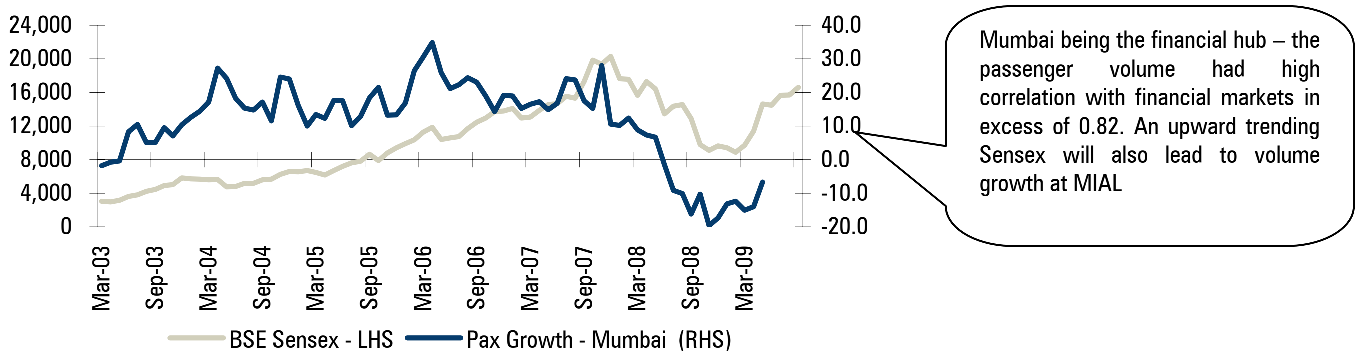
Exhibit 38: Domestic banks increasing allocations for infrastructure funding; international credit markets have eased





Source: RBI, ICICIdirect.com Research

Exhibit 39: Another major reason for upgrading short-term outlook for passenger growth is high correlation with financial market



Source: Bloomberg, CMIE, ICICIdirect.com Research

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Pankaj Pandey **Head – Research** **pankaj.pandey@icicisecurities.com**

ICICIdirect.com Research Desk,
ICICI Securities Limited,
7th Floor, Akruti Centre Point,
MIDC Main Road, Marol Naka
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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