INDIA RESEARCH

GMR Infrastructure Ltd (GMR)

Rs142
OUTPERFORMER

RESULT NOTE

Mkt Cap: Rs258bn; US$5.4bn

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Result: **Q1FY10**
Comment: **Sharply below estimates as interest and depreciation rise**
Last report: **5 June 2009 (Price Rs171; Recommendation: Outperformer)**

Key valuation metrics (Consolidated)

Year to March (Rs mn)	Sales	yoy chg (%)	Net Profit	EPS (Rs)	yoy chg (%)	PER (x)
FY2007	16,967	-	1,744	1.1	-	126.1
FY2008	22,948	35.2	1,744	1.0	(9.1)	138.7
FY2009P	44,762	95.1	1,943	1.1	11.4	124.5
FY2010E	53,823	20.2	2,794	1.5	43.8	86.6
FY2011E	64,141	19.2	3,330	1.8	19.2	72.7

Highlights of Q1FY10 Results

- GMR reported Q1FY10 net revenues at Rs11.8bn (+33% yoy) led by commissioning of new road assets and income from the company's JV in Turkey for construction of the Sabiha Gokcen airport.
- Operating margins at 27.3% (+30bps yoy), were below estimates of 30.7%, mainly due to lower profitability of the power division. The EBITDA margin of the power division fell by 700bps yoy to 15.1%, as GMR was precluded by the Karnataka government from selling merchant power from the Tanir Bavi plant and the realizations on the power sales to the state government barely covered cost of generation.
- Other income jumped by 146.1% yoy to Rs409mn, led by cash and cash equivalents of ~Rs25bn on books as on June 30, 2009.
- The gross interest expenses increased sharply, by 140.8% yoy to Rs1.9bn in Q1FY10, led by the commissioning of new road assets, capitalization of the 3rd runway and a new terminal at the Delhi airport and a 200bps increase in the average interest cost of HIAL, due to periodic reset.
- The commissioning of new road projects and additional capitalization at Delhi airport, depreciation also increased sharply, by 71.9% to Rs1.37bn during the quarter.
- The lower margins, coupled with the sharply higher interest and depreciation charges led to a steep decline of 69.9% in PAT (post-minorities) to Rs225mn, sharply below estimates of Rs744mn.

DIVISION WISE PERFORMANCE

❑ Airports (27% of Q1FY10 consolidated revenues)

- Net airport revenues in Q1FY10 increased by 16% yoy to Rs3.2bn, as traffic growth remained muted at both the Delhi and Hyderabad airports.
- Revenues of the Delhi airport increased by 12.9% yoy to Rs2.6bn (36% aero, 64% non-aero), driven by a 19.8% increase in non-aero revenues. Aero revenues increased by just 2.3% yoy to Rs919mn, as total passenger traffic declined by 2% to 6.1mn.
- HIAL reported net revenues of Rs1.13bn (+32.9% yoy) in Q1FY10, led by a gradual scale up in operations (Q1FY09 was the 1st quarter post commissioning) and due to revenues from UDF collection (not present in Q1FY10).
- EBITDA margins of the airports segment jumped to 36.6% in Q1FY10, from 19.1% in Q1FY09, on the back of the growth in revenues as also the rising proportion of relatively higher margin non-aero revenues.
- Interest and depreciation expenses jumped sharply for the airports division, led by capitalization of the 3rd runway and new domestic terminal building at the Delhi airport and upwards reset of interest rates on HIAL's debt. Consequently, despite a 137% increase in EBITDA to Rs1.17bn, the airports division reported a net loss of Rs311mn in Q1FY10.

Airport segment performance

Rs m	1Q10	1Q09	Yoy change (%)
Net Revenue	3,212	2,769	16.0
EBITDA	1,174	495	137.2
EBIT	442	153	188.6
PAT	**(311)**	**(185)**	**68.1**
EBITDA margin (%)	36.6	17.9	1,868 bps
EBIT margin (%)	13.7	5.5	823 bps

❑ Power (53% of Q1FY10 consolidated revenues)

- Revenues grew by 24.1% yoy to Rs6.3bn during the quarter, led by a quantum jump in PLF of the Vemagiri power plant to 80%, post-availability of gas from Reliance Industries' KG-D6 basin. Revenues could have been higher, but for restricted merchant sales from the Tanir Bavi plant, effected by a state government order.
- The EBITDA margins of the power division dropped by 700bps to 15.1% in Q1FY10, as GMR sold power (for 2 April and May 2009) from Tanir Bavi to the Karnataka state government at tariffs that barely covered operating costs. With merchant sales having recommenced from June 2009, profitability of the power division going forward is expected to improve.
- Overall, led by the sharp drop in EBITDA, PAT of the power division decreased by 43.3% yoy to Rs306mn.

Power segment performance

Rs mn	1Q10	1Q09	Yoy change (%)
Net Revenue	6,293	5,071	24.1
EBITDA	949	1,120	(15.3)
EBIT	608	699	(13.0)
PAT	**306**	**540**	**(43.3)**
EBITDA margin (%)	15.1	22.1	(701) bps
EBIT margin (%)	9.7	13.8	(412) bps

❑ Roads (14% of Q1FY10 consolidated revenues)

- Revenues from the road segment in Q1FY10 more than doubled to Rs1.6bn (+134.6% yoy), led by commissioning of three new projects over the last 6 months.
- While EBITDA margins improved by 272bps yoy to 85.4%, EBIT margins dropped by 553bps yoy to 46.1%, led by higher depreciation charges on the new projects commissioned.
- Higher depreciation and interest expenses, without commensurate revenues on the new road projects led to a net loss of Rs41mn in the roads division, as compared to a profit of Rs100mn in Q1FY09.

Road segment performance

Rs mn	1Q10	1Q09	Yoy change (%)
Net Revenue	764	347	120.3
EBITDA	653	287	127.5
EBIT	353	179	96.7
PAT	**(41)**	**100**	**(141.0)**
EBITDA margin (%)	85.4	82.7	272 bps
EBIT margin (%)	46.1	51.7	(553) bps

❑ Other highlights

- GMR has received approval to increase aero charges at Hyderabad airport by 10% with effect from July 1, 2009. The company has also made a representation for increasing UDF charges.
- At Delhi airport, two additional land parcels (~1.8mn sq. ft.) are being leased out and assuming similar terms as the earlier transactions, we believe the deal would have yielded upfront deposits of ~Rs4.9bn.
- GMR has acquired a 100% stake in Emco Energy, a company in the process of setting up a 600MW (2x300MW) thermal power plant in Maharashtra. The power plant has received all necessary approvals and clearances for up to 300MW and GMR is expected to step up on financial closure and equipment ordering over the next few months. The company has however, not disclosed the consideration paid for the buyout.

❑ FY10 earnings downgraded by 29.8%

We believe that in the medium term, revenues on traffic-dependent projects (airport and roads) would remain under pressure, and as a result, the higher fixed costs (interest and depreciation) on such capital intensive projects will continue to impact profitability. Moreover, starting January 2009, GMR plans to commence the process of relocating the Tanir Bavi plant from the Mangalore coast to the Andhra Pradesh coast, a result of which, we have reduced our revenue and earnings estimate for the power division for FY10 and part of FY11. Consequently, we are downgrading our FY10 and FY11 earnings estimates for GMR by 29.8% to Rs1.8/share and by 7.2% to Rs3.6/share respectively.

❑ Maintain Outperformer

We continue to believe that GMR, with a strong balance sheet, demonstrated execution capabilities and a portfolio of value accretive and diversified assets, is well poised to leverage on the huge opportunities in infrastructure development in India over the next 3-4 years. With a likely pick up in traffic on road and airport projects (led by an improving economy and a lower base), as also commissioning of the Delhi and Sabiha Gokcen airports over the next 8-9 months, we expect cash flows and earnings to gradually improve going forward. We reiterate our Outperformer rating on GMR, with a conservative case fair value of Rs124/share (revised from Rs128/share due to the impact of a higher MAT rate).

The improving macroeconomic environment, we believe, could provide upsides to our fair value estimate of GMR on account of the following: i) significantly lower equity discount rates resulting from a softening interest rate regime; ii) tightening demand-supply of power, and the potential to earn higher merchant tariffs; and iii) improving sentiment in the real estate market could fetch higher land values at Delhi and Hyderabad airports and Krishnagiri SEZs. Further, improving visibility on the political and macroeconomic fronts could trigger a possible shift to FY11 cash flows for the purpose of valuation. Consequently, 2% lower discounting rates, Re1/unit higher long term merchant rates, a 30% yoy increase in property prices and a shift to FY11 cash flows, yields a fair value of Rs202/share for GMR.

Consolidated quarterly results

Rs mn	1Q09	2Q09	3Q09	4Q09	FY09	1Q10	FY10E
Net Revenues	**8,855**	**8,468**	**9,592**	**13,278**	**40,356**	**11,775**	**48,286**
Total Expenses	**6,467**	**5,997**	**6,714**	**10,416**	**29,686**	**8,563**	**31,280**
EBITDA	2,388	2,471	2,878	2,862	10,670	3,213	17,006
Other Income	166	211	425	395	1,178	409	1,286
Interest	783	849	1,477	1,555	4,649	1,886	6,520
Depreciation	799	855	1,146	1,105	3,898	1,373	6,169
PBT	**972**	**978**	**680**	**598**	**3,301**	**363**	**5,603**
Current Tax	102	60	159	382	530	191	1,461
Fringe Benefit tax	12		20	15			
Deferred Tax	(12)		3	(211)	-	(69)	-
Tax Rate (%)	10.5	6.2	26.8	31.1	16.1	33.8	26.1
PAT	**870**	**918**	**498**	**412**	**2,771**	**240**	**4,142**
Minority Interest	121	(138)	(163)	(121)	(23)	15	812
Share of Profits Associates							
PAT post Minorities	**749**	**1,055**	**661**	**532**	**2,794**	**225**	**3,330**
Extra ordinary items	-	(589)	(252)	-	-	-	-
Reported Profit After Tax	**749**	**466**	**408**	**532**	**2,794**	**225**	**3,330**
Growth (yoy, %)							
Net Sales	**85.8**	**114.2**	**79.3**	**50.0**	**113.3**	**33.0**	**19.7**
EBITDA	**72.3**	**58.7**	**92.0**	**88.7**	**78.3**	**34.5**	**59.4**
Other Income	(18.2)	25.1	2.0	58.5	118.3	146.1	9.2
Interest	51.8	72.9	211.1	113.4	175.5	140.8	40.3
Depreciation	96.5	94.7	213.5	92.6	118.4	71.9	58.2
PBT	**45.9**	**23.0**	**(36.8)**	**28.8**	**8.2**	**(62.7)**	**69.7**
PAT (pre-minority)	**53.8**	**43.7**	**(37.8)**	**(0.3)**	**12.2**	**(72.4)**	**49.5**
PAT (post-minority)	**123.7**	**153.8**	**3.1**	**6.4**	**43.8**	**(69.9)**	**19.2**
Reported PAT	**61.4**	**(6.1)**	**(36.3)**	**18.6**	**33.0**	**(69.9)**	**19.2**
Margins (%)							
OPM	27.0	29.2	30.0	21.6	26.4	27.3	35.2
NPM	9.8	10.8	5.2	3.1	6.9	2.0	8.6

GMR conservative case SOTP

Asset (Rs mn)	Description	Method	Eq. rate	Stake	Equity value	GMR value
Power						
Operational						
Mangalore (Tanir Bavi)	220MW - Naphtha	DCF	15	100	5,165	5,165
Chennai	200MW - Liquid fuel	DCF	14	51	5,862	2,990
Vemagiri	389MW - Gas	DCF	14	100	8,203	8,203
InterGen	6,254MW total	DCF	15	50	11,335	11,335
Under construction						
Kamalanga	1,050MW - Coal	DCF	16	80	18,149	14,519
Alaknanda	300MW - Hydel	DCF	18	100	6,121	6,121
Chhattisgarh	1,200MW - Coal	DCF	18	100	9,782	9,782
Under development						
Vemagiri Extn	800MW - Gas	DCF	17	100	4,573	4,573
Bajoli Holi	180MW Hydel	DCF	20	100	764	764
Talong	160MW Hydel	DCF	20	88	906	797
Upper Karnali	300MW Hydel	DCF	20	51	3,752	1,895
Upper Marsyangdi	250MW Hydel	DCF	20	95	6,906	6,561
Indonesian coal mines	100mn ton reserves	1.5x P/BV	NA	100	5,760	5,760
Homeland Energy	S.A coal mine holdco	1.5x P/BV	NA	33.5	2,412	2,412
Under planning						
Gujarat Coastal	1320MW imported coal	DCF	20	100	2,326	2,326
AP Coastal	700MW imported coal	DCF	20	100	1,020	1,020
					93,035	**84,222**
Airports (incl real estate)						
Delhi			16	50	78,420	39,288
Hyderabad			15- 17	63	85,097	53,611
Sabiha Gokcen			18	40	3,925	1,570
					167,442	**94,470**
Roads						
Tuni (GTAE)	Annuity road	DCF	9	49	622	305
Tambavaram (GTTE)	Annuity road	DCF	9	49	525	257
Pochanpalli (GPEL)	Annuity road	DCF	12	100	1,083	1,083
Ambala-Chandigarh (GACEL)	Toll road	DCF	14	100	2,323	2,323
Jadcherla (GJEL)	Toll road	DCF	14	100	2,747	2,747
Ulunderpet (GUEL)	Toll road	DCF	14	100	5,689	5,689
					12,990	**12,405**
Others						
Krishnagiri SEZ			18	98	10,470	10,261
Net holdco cash / Investments			NA	100	23,603	23,603
					34,073	**33,864**
Total					**307,540**	**224,960**
Shares O/S						**1,821**
Value (Rs / share)						**124**

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Explanation of Ratings:

1. Outperformer: More than 10% to Index
2. Neutral: Within 0-10% to Index
3. Underperformer: Less than 10% to Index

Disclosure of interest:

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