Estimate Change NEUTRAL

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3QFY11: A mixed bag, Neutral

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Reeling under high costs, Neutral

GMR Infra reported 2nd consecutive consol recurring loss of Rs223mn (-342%yoy). This was on account of higher fixed costs at Delhi/Turkey airports and toll roads, lower PLF at regulated power plants (Chennai/ Vemagiri), lower ST tariff (-10%yoy). Accordingly, we cut our EPS by 3% during FY13E but lowered losses in FY11E to factor in the deferred tax asset of Rs1.06bn at Hyderabad airport. Maintain Neutral as new asset injections (Male airport/power) and revised tariff at Delhi airport would partially offset the losses in airport/road, fully funded capex for projects coming onstream by FY13E and expensive valuation.

Airport: traffic growth continues but loss on higher costs

A buoyant passenger traffic growth of 8-44%yoy during 3QFY11 (though slower vs 13-81%yoy during 2QFY11) and inclusion of Male airport drove net revenue to Rs6.3bn (+62%yoy). While the Hyderabad airport benefited from enhanced UDF driving revenues by 21%yoy, creation of deferred tax asset of Rs1.06bn resulted in net profit of Rs740mn. Capitalization of T3 terminal at Delhi airport of Rs75bn resulted in a loss of Rs884mn. While draft tariff norm is issued by the regulator for Hyderabad airport, there is still a lack of clarity for tariff hike at Delhi airport.

Power: A mixed bag

Rec. PAT doubled to Rs400mn on full operation of 220MW Kakinada power plant on short-term. While volume of Kakinada plant up 29%qoq, the ST tariff declined 10%qoq to Rs3.66/unit. PLF of both the regulated plants (Vemagiri at 76% and Chennai plant at 38%) suffered on lower gas availability and lower demand.

SoTP based PO of Rs50/sh; key risks

Our SoTP valuation is based on DCF and 10% conglomerate discount (airport Rs23/sh, power Rs17/sh). Downside risks: delay in fixing Delhi airport tariff, low merchant tariff, aggressive competitive bid, slower realty monetization at discount to our benchmark (NPV Rs1bn/acre) and high interest rate. Upside risks: higher merchant prices, lower interest rate and faster realty monetization at premiums.

Estimates (Mar)

(Rs)	2009A	2010A	2011E	2012E	2013E
Net Income (Adjusted - mn)	2,652	557	(1,079)	2,327	8,334
EPS	0.728	0.152	(0.277)	0.598	2.14
EPS Change (YoY)	53.0%	-79.2%	NM	NM	258.1%
Dividend / Share	0	0	0	0	0
Free Cash Flow / Share	(16.03)	(15.34)	(23.99)	(26.45)	(25.50)

Valuation (Mar)

	2009A	2010A	2011E	2012E	2013E
P/E	49.56x	237.73x	NM	60.38x	16.86x
Dividend Yield	0%	0%	0%	0%	0%
EV / EBITDA*	39.21x	29.86x	23.80x	13.83x	7.89x
Free Cash Flow Yield*	-41.54%	-40.02%	-66.46%	-73.25%	-70.64%

* For full definitions of *iQmethod* SM measures, see page 14.

Stock Data

Price	Rs36.10
Price Objective	Rs50.00
Date Established	11-Jan-2011
Investment Opinion	C-2-9
Volatility Risk	HIGH
52-Week Range	Rs29.50-Rs68.70
Mrkt Val / Shares Out (mn)	US$3,090 / 3,892.5
Average Daily Volume	3,814,996
BofAML Ticker / Exchange	GMRLF / BSE
Bloomberg / Reuters	GMRI IN / GMRI.BO
ROE (2011E)	-1.3%
Net Dbt to Eqty (Mar-2010A)	221.3%
Est. 5-Yr EPS / DPS Growth	141.6% / NA
Free Float	29.4%

Key Changes

(Rs)	Previous	Current
2011E Rev (m)	50,829.3	49,630.1
2012E Rev (m)	78,706.1	78,102.0
2013E Rev (m)	130,623.2	129,071.6
2011E EPS	-0.51	-0.28
2013E EPS	2.21	2.14

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Refer to important disclosures on page 15 to 17. Analyst Certification on Page 12. Price Objective Basis/Risk on page 12. Link to Definitions on page 12.11019423

iQprofile SM GMR Infrastructure Ltd.

Key Income Statement Data (Mar)	2009A	2010A	2011E	2012E	2013E
(Rs Millions)					
Sales	40,195	45,886	49,630	78,102	129,072
Gross Profit	10,674	14,017	17,586	30,256	53,056
Sell General & Admin Expense	0	0	0	0	0
Operating Profit	6,776	7,894	9,432	20,213	37,291
Net Interest & Other Income	(3,474)	(5,963)	(16,028)	(17,615)	(24,695)
Associates	NA	NA	NA	NA	NA
Pretax Income	3,301	1,931	(6,596)	2,598	12,596
Tax (expense) / Benefit	(530)	322	1,069	(2,498)	(3,612)
Net Income (Adjusted)	2,652	557	(1,079)	2,327	8,334
Average Fully Diluted Shares Outstanding	3,641	3,667	3,892	3,892	3,892
Key Cash Flow Statement Data					
Net Income	2,794	1,584	(3,861)	2,327	8,334
Depreciation & Amortization	3,898	6,122	8,154	10,043	15,765
Change in Working Capital	(5,456)	187	236	2,866	5,149
Deferred Taxation Charge	(231)	(986)	0	0	0
Other Adjustments, Net	2,947	5,603	11,580	15,388	25,345
Cash Flow from Operations	3,953	12,511	16,109	30,623	54,593
Capital Expenditure	(62,326)	(68,753)	(109,501)	(133,560)	(153,856)
(Acquisition) / Disposal of Investments	31,817	(33,602)	11,606	0	0
Other Cash Inflow / (Outflow)	2,556	1,762	0	0	0
Cash Flow from Investing	(27,953)	(100,593)	(97,895)	(133,560)	(153,856)
Shares Issue / (Repurchase)	6,981	3,131	28,130	0	0
Cost of Dividends Paid	(3)	(5)	0	0	0
Cash Flow from Financing	39,526	81,093	122,951	95,476	102,071
Free Cash Flow	(58,373)	(56,242)	(93,392)	(102,937)	(99,263)
Net Debt	97,436	191,547	258,619	379,290	503,424
Change in Net Debt	21,218	93,721	67,071	120,671	124,135
Key Balance Sheet Data					
Property, Plant & Equipment	164,426	229,309	330,657	454,174	592,266
Other Non-Current Assets	13,109	47,221	35,609	35,609	35,609
Trade Receivables	6,609	8,649	8,158	14,978	26,522
Cash & Equivalents	24,665	16,826	57,997	50,536	53,343
Other Current Assets	14,159	15,932	17,610	20,015	24,967
Total Assets	222,968	317,937	450,031	575,312	732,706
Long-Term Debt	122,102	208,374	316,615	429,825	556,768
Other Non-Current Liabilities	3,162	3,339	3,114	2,940	2,702
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	14,932	19,653	21,076	33,167	54,811
Total Liabilities	140,195	231,365	340,805	465,932	614,281
Total Equity	82,772	86,572	109,225	109,381	118,425
Total Equity & Liabilities	222,968	317,937	450,031	575,312	732,706
iQmethod SM **- Bus Performance***					
Return On Capital Employed	3.2%	2.8%	2.2%	2.1%	4.4%
Return On Equity	4.2%	0.8%	-1.3%	2.5%	8.4%
Operating Margin	16.9%	17.4%	19.0%	25.9%	28.9%
EBITDA Margin	26.6%	30.5%	35.4%	38.7%	41.1%
iQmethod SM **- Quality of Earnings***					
Cash Realization Ratio	1.5x	22.5x	NM	13.2x	6.6x
Asset Replacement Ratio	16.0x	11.2x	13.4x	13.3x	9.8x
Tax Rate (Reported)	16.1%	NM	16.2%	96.1%	28.7%
Net Debt-to-Equity Ratio	117.7%	221.3%	236.8%	346.8%	425.1%
Interest Cover	1.8x	1.1x	0.7x	1.1x	1.5x

Key Metrics

* For full definitions of *iQmethod* SM measures, see page 14.

Company Description

GMR is a diversified infrastructure company which has largest airpoirt concessions and amongst the top 5 road concessions in India. It operates Delhi airport - India's busiest & commissioned India's first greenfield airport at Hyderabad on PPP. GMR has planned 9.3GW of power plants (9% operation,30% construction) & has 730kms of road concessions (9 projects). GMR operates airport in Turkey/Maldives and is developing 800MW power plant in Singapore. GMR also has interest in realty, EPC and mining.

Investment Thesis

We rate GMR as Neutral with PO Rs50/sh due to (a) Execution ramp up with 4x jump in power and 2x in road lane kms capacity (b) Fully funded capex for projects coming onstream by FY13E (c) Derisking/deleveraging through Intergen exit (d) Losses from airport/road offset by power/tariff hikes at Delhi airport & Male airport (e) RoE rise to 8% in FY13E, RoCE remains <5% (f) Valuations, albeit expensive, is pricing in some negatives given stock 30% underperformance vs market in last 6m.

Stock Data

Price to Book Value	1.5x

3QFY11 results review

GMR Infrastructure's consolidated net sales during the 3QFY11 were Rs13.6bn – a significant increase of 27%yoy largely driven by increased operations at airport vertical. But, higher operating expenses had resulted in a 10% increase in consolidated EBITDA of Rs3.8bn.

The company had a loss (before minority interest) of Rs519mn vs a profit of Rs312mn last year owing a substantial jump in fixed costs especially in airport vertical. The loss was curtailed down owing to the creation of deferred tax asset at the Hyderabad airport worth Rs1.1bn (GMR share Rs0.67bn) on previous years losses and unabsorbed depreciation.

Further, the minority interest reported a loss of Rs261mn due to the subsidiaries of Delhi airport, Turkey airport and road assets incurring losses. Accordingly, GMR incurred a loss of Rs223mn during 3QFY11.

Table 1: Summary Consolidated income statement

Rs mn	3QFY10	3QFY11	% Change YoY
Net Sales	10,667	13,588	27
Expenditure	7,213	9,775	36
Generation, fuel and operating expenses	5,887	7,814	33
Employees cost	581	768	32
Other exp.	745	1,194	60
EBITDA	3,454	3,813	10
EBITDA margin (%)	32	28	(432)
Depreciation	1,700	2,357	39
EBIT	1,754	1,456	(17)
Interest	1,628	2,941	81
Other Income	318	146	(54)
EBT	445	(1,339)	(401)
Tax	133	(820)	(716)
PAT (Before MI)	312	(519)	(266)
Share of profits from Associates	(124)	35	(128)
Minority Interest	96	(261)	(371)
PAT (after MI)	92	(223)	(342)

Source: Company data, BofA Merrill Lynch Global Research

The consolidated networth increased by 32% since Mar'10 to Rs115bn while debt on balance sheet stood at Rs226bn. Raising of funds through QIP / PE issue and issuance of preference shares was partially utilized to prepay debt of Rs12.2bn. Accordingly, the net debt:equity fall to 1.7x (as on Dec'10) vs 2.2x (as on Mar'10).

Table 2: Summary Consolidated Balance Sheet

Rs mn	Dec-09	Dec-10	% Change YoY	Mar-10	% Change 9m
Equity	3,667	3,892	6	3,667	6
Reserves & Surplus	62,712	76,297	22	63,003	21
Pref shares	-	16,130	nm	2,000	707
Minority Interest	19,528	18,293	(6)	17,902	2
Networth	85,907	114,612	33	86,572	32
Debt	181,472	225,580	24	208,374	8
Deferred payment /tax liability	6	3,665	60,983	2,529	45
Total	267,385	343,857	29	297,475	16
Net block	123,878	206,470	67	125,480	65
CWIP	88,194	75,388	(15)	103,829	(27)
Net block after CWIP	212,072	281,858	33	229,309	23
Investment	42,852	34,406	(20)	46,411	(26)

Table 2: Summary Consolidated Balance Sheet

Rs mn	Dec-09	Dec-10	% Change YoY	Mar-10	% Change 9m
Cash	12,626	25,722	104	16,826	53
Net current asset	(208)	85	(141)	4,929	(98)
Deferred tax asset	43	1,786	nm	-	nm
Forex translation	-	-	nm	-	nm
Total	267,385	343,857	29	297,475	16

Source: Company data, BofA Merrill Lynch Global Research

Results review for different divisions

GMR has four main lines of business – power (3 operating power projects of 808MW), airports (3 operating airports at Delhi, Hyderabad and Turkey), roads (6 operating road assets) and EPC division at the parent level.

A 27%yoy growth in the consolidated revenues was primarily driven by 62% jump in airport revenue to Rs6.3bn taking its contribution to 46% (vs 36% earlier). On the contrary, the revenue from the power and roads vertical grew by 15% and 8% respectively.

Higher capitalization at the Delhi airport due to the commencement of new T3 led to a substantial 49%yoy drop in the airport EBIT to Rs298mn. EBIT from power division increased significantly due to full operations of 220MW Kakinada plant on short-term basis though PLF declined in the regulated power plants.

Table 3: Summary Consolidated financials - Segmental

Rs mn	3QFY10	3QFY11	% Change YoY
Revenues			
Airport (net of share)	3,875	6,264	62
Power	4,419	5,066	15
Roads	913	985	8
EPC	1,080	829	(23)
Others	540	1,559	189
Total	10,827	14,703	36
Less:Intersegmental	160	1,115	597
Net Segment Revenue	10,667	13,588	27
EBIT			
Airport	602	298	(51)
Power	292	633	117
Roads	587	465	(21)
EPC	314	70	(78)
Others	304	823	170
Less:Intersegmental	26	687	2,521
Total	2,073	1,602	(23)
Less: Interest Exp.	1,628	2,940	81
PBT	445	(1,338)	(401)

Source: Company data, BofA Merrill Lynch Global Research

Airports division

- **Delhi airport:** The growth in the passenger traffic fall to 8%yoy (vs 19% and 26%yoy increase in 1Q and 2Q respectively) to 7.7mn owing to base effect. The T3 terminal at the Delhi airport was capitalized to the extent of Rs75bn during 2Q-3QFY11. This has led to a significant jump in the costs – operational as well as fixed costs. .

- **Hyderabad airport:** Increase in the UDF charges has helped increase the operating revenues to Rs1.4bn up 21%yoy. In addition, the company has created the deferred tax asset of Rs1.06bn at the Hyderabad airport on account of accumulated losses and unabsorbed depreciation. This has been recognized as management is confident of virtual certainty of future income owing to the regulatory policy assurance of reasonable yield. Accordingly, the net profit was Rs1.2bn in 3QFY11 vs loss of Rs224mn in 3QFY10.

- **Turkey airport:** The growth in the passenger traffic fell to 44%yoy (vs 93% and 81%yoy increase in 1Q and 2Q respectively) to 3mn. Further, the traffic fall 16%qoq due to seasonality. However, higher interest outgo and depreciation led to a significant jump in the losses of Rs221mn.

- **Male airport:** GMR has commenced operations at the Male airport in Nov'10 and registered a modest profit of Rs38mn during 3QFY11.

Table 4: Operating and financial performance of airports

Rs mn	3QFY10	3QFY11	% Change YoY
Delhi airport			
Passenger traffic (mn)	7	8	8
Aircraft movement ('000 Nos.)	59	70	18
Cargo handled ('000 t)	130	93	(28)
Operating revenue	2,584	3,225	25
Aero (%) #	43	38	(470)
Non aero (%) #	39	50	1,074
Cargo (%) #	18	12	(604)
EBITDA	575	354	(38)
Net Income	(27)	(1,643)	nm
Net Income (after minority interest)	(15)	(884)	nm
Hyderabad airport			
Passenger traffic (mn)	2	2	17
Aircraft movement ('000 Nos.)	21	21	3
Cargo handled ('000 t)	17	21	21
Operating revenue	1,118	1,355	21
Aero (%) #	54	59	547
Non aero (%) #	45	39	(574)
EBITDA	627	835	33
Net Income	(224)	1,185	nm
Net Income (after minority interest)	(155)	740	nm
Turkey airport			
Passenger traffic (mn)	2	3	44
Aircraft movement ('000 Nos.)	20	28	42
Cargo handled ('000 t)	3	5	48
Operating revenue	365	591	62
Aero (%) #	45	43	(257)
Non aero (%) #	42	46	404
Fuel (%) #	13	12	(148)
EBITDA	167	357	114
Net Income	(34)	(221)	nm
Male airport			
Operating revenue	na	377	na
Aero (%) #	na	40	na
Non aero (%) #	na	25	na
Fuel (%) #	na	35	na
EBITDA	na	63	na
Net Income	na	29	na

Source: Company data, BofA Merrill Lynch Global Research, # Change in bps

Power division

- Plant load factor for the 220MW Kakinada power plant was 66% on account of lower gas availability. However, the surge in the short-term volume by 243%yoy and 29%qoq has driven the overall profitability from the power vertical to Rs400mn though the short-term tariff declined yoy as well as qoq basis by 44% and 10% respectively.

- Plant load factor at both the regulated plants declined substantially on account of lower gas availability and lower demand from SEBs.

Table 5: Operating and financial performance of Power division

Rs mn	3QFY10	3QFY11	% Change YoY
GMR Energy (220MW Kakinada)			
PLF (%) #	31	66	3,500
Sales Volume (MUs) - Merchant	100	343	243
Average tariff realized (Rs/kWh)	6.6	3.7	(44)
GMR Power (200MW Chennai)			
PLF (%) #	45	38	(700)
Sales Volume (MUs) - Contracted	203	166	(18)
Average tariff realized (Rs/kWh)	8.6	8.3	(3)
Vemagiri (388MW)			
PLF (%) #	87	76	(1,100)
Sales Volume (MUs) - Contracted	747	647	(13)
Average tariff realized (Rs/kWh)	2.8	2.6	(6)
Total Power			
Revenues	4,419	4,556	3
Contracted (%) #	82	67	(1,499)
Merchant sale (%) #	15	28	1,277
Trading & others (%) #	3	5	222
Cost of Fuel	3,072	2,718	(12)
Net Income	277	500	81
Net Income (after minority interest)	194	400	106

Source: Company data, BofA Merrill Lynch Global Research, # Change in bps

Roads division

The toll revenues was up by 24%yoy driven by (a) the growth in the vehicle toll traffic stood between 7-21%yoy, (b) growth in the toll rate was 7-11%. However, flat annuity income resulted in a 8%yoy growth in consolidated road revenue to Rs983mn.

The combined losses declined sequentially to Rs126mn (-25%qoq) but increased on yoy basis by 18% due to a combination of (a) lower other income (-85%yoy, (b) higher operational expenses (9%yoy) and (c) higher interest outgo (4%yoy).

Table 6: Financial performance of Roads division

Rs mn	3QFY10	3QFY11	% Change YoY
Revenues	913	983	8
Annuity (%) #	69	64	(489)
Toll collection (%) #	31	36	489
Operating expenses	146	160	10
Net Income	(3)	(108)	3,500
Net Income (after minority interest)	(107)	(126)	18

Source: Company data, BofA Merrill Lynch Global Research, # Change in bps

EPC division

The EPC revenue declined by 23%yoy to Rs828mn owing to the construction JV revenue included in the 3QFY10 to the tune of Rs691mn vs Rs12mn in 3QFY11. Accordingly, EBITDA margin also declined to 14%.

Table 7: Financial performance of EPC division

Rs mn	3QFY10	3QFY11	% Change YoY
Revenues	1,079	828	(23)
EBITDA	319	116	(64)
EBITDA margin (%)	30	14	(1,555)
Net Income	241	84	(65)

Source: Company data, BofA Merrill Lynch Global Research

Our SOTP approach……yields a PO of Rs50/sh

Our SoTP-based methodology yields a value of Rs50/sh (after conglomerate discount of 10%). This comprises:

(a) Rs23/sh (47%) from the four airport assets, including the realty at Delhi airport. The value of Delhi airport including realty is Rs15.2/sh, while the two international airports (Male/Sabiha Gokcen) are valued at Rs4.4/sh.

(b) Rs17/sh (34%) from the three operating power plants, the three power plants under construction, mining assets and 2x book value of Singapore power assets

(c) Rs2/sh from the nine road assets.

(d) The remaining Rs13/sh from other businesses like EPC, SEZs and liquid investments and cash balance at book value.

Table 8: Sum-of-the-parts value for GMR

Business	Risk free rate (%)	Beta	Market risk (%)	Cost of Equity (%)	Equity Value (Rs mn)	% Ownership	Share of GMR (Rs mn)	Value/share (Rs/sh)	% of total value
Airports					*151,310*		*90,388*	*23*	*47*
Delhi International Airport	8.0%	0.8	5.5%	12.5%	21,286	54%	11,450	2.9	5.9
Real estate at Delhi airport	8.0%	1.7	5.5%	17.5%	88,442	54%	47,573	12.2	24.6
Hyderabad International Airport	8.0%	0.8	5.5%	12.5%	22,536	63%	14,198	3.6	7.3
Sabiha International Airport	8.5%	0.8	4.5%	12.0%	10,878		10,878	2.8	5.6
Male International Airport	8.0%	1.0	5.5%	13.5%	8,168	77%	6,289	1.6	3.3
Power					*71,138*		*65,270*	*17*	*34*
200 MW Chennai project	8.0%	0.8	5.5%	12.5%	3,914	99%	3,867	1.0	2.0
220 MW Kakinada project	8.0%	0.8	5.5%	12.5%	14,111	98%	13,816	3.5	7.1
1156 MW Vemagiri project	8.0%	1.0	5.5%	13.5%	21,268	98%	20,823	5.3	10.8
1400 MW Kamalanga project	8.0%	1.2	5.5%	14.5%	19,860	78%	15,557	4.0	8.0
600 MW Emco project	8.0%	1.2	5.5%	14.5%	2,395	98%	2,345	0.6	1.2
Island Power	At 2x investment				4,417	100%	4,417	1.1	2.3
Indonesian coal mines	At 2x investment				3,690	98%	3,617	0.9	1.9
Homeland Energy	At market price				1,484	56%	828	0.2	0.4
Roads					*8,875*		*6,997*	*2*	*4*
Tambaram - Tindivanam project	8.00%	0.7	5.50%	12.00%	1,264	60%	765	0.2	0.4
Tuni - Anakapalli project	8.00%	0.7	5.50%	12.00%	567	60%	343	0.1	0.2
Pochanpalli project	8.00%	0.7	5.50%	12.00%	650	100%	649	0.2	0.3
Amabala - Chandigarh project	8.00%	0.8	5.50%	12.50%	(1,034)	99%	(1,028)	(0.3)	(0.5)
Faruknagar - Jadcherla project	8.00%	0.8	5.50%	12.50%	4,188	100%	4,183	1.1	2.2
Tindivanam - Ulundurpet project	8.00%	0.8	5.50%	12.50%	543	100%	542	0.1	0.3
Hyderabad – Vijayawada project	8.00%	1.0	5.50%	13.50%	(567)	74%	(419)	(0.1)	(0.2)
Chennai Outer Ring Road project	8.00%	0.9	5.50%	13.00%	767	90%	689	0.2	0.4
Hungud-Hospet project	8.00%	1.0	5.50%	13.50%	2,497	51%	1,274	0.3	0.7

Table 8: Sum-of-the-parts value for GMR

Business	Risk free rate (%)	Beta	Market risk (%)	Cost of Equity (%)	Equity Value (Rs mn)	% Ownership	Share of GMR (Rs mn)	Value/share (Rs/sh)	% of total value
Others					*52,489*		*52,104*	*13*	*27*
EPC division	P/E of 12x FY12E				6,147	100%	6,147	1.6	3.2
Special Economic Zones	At FY10 book value				1,190	100%	1,190	0.3	0.6
MRO JV	At 1x investment				770	50%	385	0.1	0.2
Liquid Investments (Sep'10)					18,660	100%	18,660	4.8	9.7
Cash balance (Sep'10)					25,722	100%	25,722	6.6	13.3
Sub-Total							214,759	55	111
Conglomerate discount @ 10%							21,476	5.5	11.1
Total							*193,283*	*50*	*100*

Source: BofA Merrill Lynch Global Research

Comparative valuations

All the infrastructure firms in India have grown in there own way with differing asset and risk profiles. Hence, they are usually not easily comparable. But on valuation multiples, GMR is trading at a P/E of 21x FY13E and EV/EBITA of 13x FY13E – a significant premium to Indian peers.

Table 9: Comparative valuation for infrastructure peers

Company Name	BofAML Ticker	BofAML rating	Market Cap (US$ mn)	P/E (x)			EV/EBITDA (x)			P/BV (x)			RoE (%)		
				FY11	FY12E	FY13E	FY11	FY12E	FY13E	FY11	FY12E	FY13E	FY11	FY12E	FY13E
GMR Infra	GMRLF	NEUTRAL	3,090	(159)	74	21	24	18	13	1.8	1.8	1.7	(1)	2	8
GVK Power	GVPWF	BUY	885	24	16	9	18	28	12	0.9	0.8	0.7	4	5	8
Adani Enterprises	ANIEF	BUY	14,106	22	12	10	18	10	7	3.5	2.7	2.2	24	26	23
Jaiprakash Associates	JPRKF	BUY	3,565	15	15	11	11	9	7	1.7	1.6	1	12	11	13
Larsen & Toubro	LTOUF	BUY	19,936	21	16	13	15	12	10	3.7	3.1	2.5	20	21	22
Reliance Infrastructure	RCTDF	BUY	3,443	11	9	9	7	6	5	0.9	0.8	0.8	9	9	9
Average				(11)	24	12	16	14	9	2.1	1.8	1.5	11	12	14
Average (excl GMR)				19	14	10	14	13	8	2.2	1.8	1.5	14	14	15

Source: BofA Merrill Lynch Global Research

Sensitivity and risk analysis

While many parameters affect GMR's financials, we have performed sensitivity analyses on the following key variables to gauge their impact on the firm's earnings and our price objective.

- **Delay in tariff hike at Delhi airport:** If the hike in aero charges at the Delhi airport is delayed by a year, then the earnings would drop significantly by 80% in FY12E PO by 2%.

- **Tariff hike at Delhi airport:** If the hike in aero charges at the Delhi airport is lower by 10% in FY12/13E vs our base estimates, than the earnings could fall by 9%/7% in FY12/13E.

Table 10: Sensitivity analysis - % change vs base case estimates

Parameters	FY11E Sales (Rs mn)	FY11E EPS (Rs/sh)	FY12E Sales (Rs mn)	FY12E EPS (Rs/sh)	FY13E Sales (Rs mn)	FY13E EPS (Rs/sh)	PO (Rs/sh)
Base Case	54,201	0.3	80,439	1.2	131,211	2.8	50
Delhi airport - Tariff hike delayed to FY13E	(0.2)	1.3	(4.6)	(81.9)	(2.5)	(19.8)	(1.8)
Trading tariff - Higher by Rs1/unit	0.4	(10.8)	2.1	46.7	4.5	51.3	25.9
Trading tariff - Lower by Rs1/unit	(0.4)	12.6	(2.1)	(46.8)	(4.5)	(53.8)	(26.6)
Gas price - Lower by USD1/mmbtu	(0.4)	(3.8)	(1.1)	15.2	(1.2)	12.7	5.6
Gas price - Higher by USD1/mmbtu	0.4	3.8	1.1	(15.2)	1.2	(12.7)	(5.6)
Coal price - Lower by Rs100/t					(0.2)	2.0	2.0
Coal price - Higher by Rs100/t					0.2	(2.0)	(2.0)
Interest rates - Lower by 100 bps	0.0	(53.3)	0.0	33.9	(0.1)	13.1	3.3
Interest rates - Higher by 100 bps	(0.0)	53.1	(0.0)	(33.9)	0.2	(13.0)	(3.4)
Pax traffic - Higher by 100 bps	0.1	(3.3)	0.2	3.8	0.2	1.6	2.0
Pax traffic - Lower by 100 bps	(0.1)	3.3	(0.2)	(3.7)	(0.2)	(1.6)	(1.7)
PLF - Higher by 100 bps	0.5	(3.4)	0.4	2.8	0.5	1.7	0.7
PLF - Lower by 100 bps	(0.5)	3.4	(0.4)	(2.8)	(0.5)	(1.7)	(0.7)
Delhi realty monetization - Faster by 10 acres	(0.0)	0.0	0.2	1.8	0.4	2.1	1.9
Delhi realty monetization - Slower by 10 acres	(0.0)	0.0	(0.2)	(1.8)	(0.4)	(2.1)	(1.9)
Delhi realty monetization at 10% higher value					0.1	0.8	3.5
Delhi realty monetization at 10% lower value					(0.1)	(0.7)	(3.2)
Delhi airport - Tariff hike is 10% lower in FY12/13E	(0.2)	1.3	(0.6)	(9.0)	(1.0)	(7.3)	(0.8)
Delhi airport - Tariff hike is 10% higer in FY12/13E	(0.2)	1.3	0.2	4.2	0.8	7.1	0.6

Source: BofA Merrill Lynch Global Research

- **Trading tariffs:** If the merchant tariff realization is Rs1/unit higher vs our base case estimates, then earnings could rise 47% in FY12E, and the PO could go up by 26%. However, if the realization is Rs1/unit lower vs our base case, earnings could fall 47% in FY12E, and PO by 27%.

- **Fuel price:** If the price of the gas used in power plants falls by USD1/mmbtu vs our base case, earnings/PO could rise by 15% in FY12E. Likewise, if the cost of coal used in power plants (commencing operations from FY13E) are Rs100/t higher vs our base case, earnings/PO could fall by 2% in FY13E.

- **Interest rate:** If the interest rate on the loans availed by GMR falls by 100bps vs our base estimates, then the earnings could rise by 34% in FY12E and the PO could increase by 3%. If the interest rate on the loans availed by GMR increase by 100bps vs our base estimates, then the earnings could fall by 34% in FY12E and the PO could decline by 3%.

- **Passenger traffic:** If passenger traffic at airports owned & operated by GMR rises/falls 100bp vs our base case, earnings could rise/fall 4% in FY12E while PO could rise/fall by 2%.

- **Plant load factor (PLF):** If the PLF of power plants rises/falls by 100bp vs our base case, earnings could be 3% higher/lower in FY12E, and the PO would rise/fall 1%.

- **Delhi realty monetization:** If the realty monetization is faster by 10 acres during FY12-13E vs our base case, then the earnings could rise by 2% in FY13E but PO could go up by 2%. Likewise, if the value for Delhi realty monetization is 10% lower vs our base case, than PO could potentially fall by 2%.

Consolidated financial forecast

Based on the assumptions, we estimate that the consolidated net revenues of GMR would reach Rs129bn by FY13E – implying a CAGR of 41% during FY10-FY13E. Likewise, the consolidated recurring net profit after minority interest / associates would go upto Rs8.2bn by FY13E – implying a CAGR of 146% during FY10-FY13E.

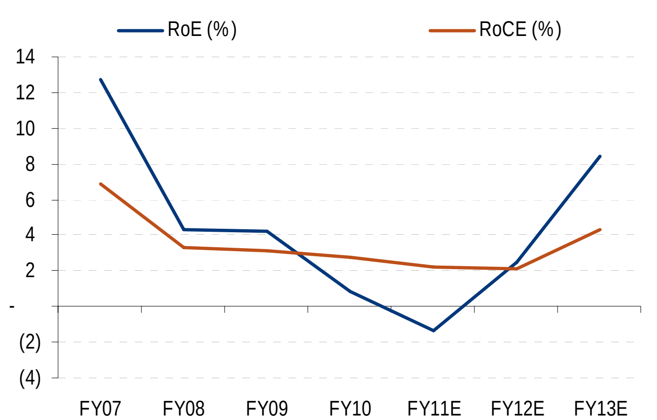
Table 11: Consolidated income statement

Rs mn	FY09	FY10	FY11E	FY12E	FY13E
Net Revenues	40,195	45,886	49,630	78,102	129,072
Operating expenses	29,522	31,869	32,044	47,846	76,016
EBITDA	10,674	14,017	17,586	30,256	53,056
Depreciation / Amortization	3,898	6,122	8,154	10,043	15,765
EBIT	6,776	7,894	9,432	20,213	37,291
Interest	3,682	7,223	13,246	17,615	24,695
Exceptional gains / (losses)	208	1,260	(2,782)	-	-
Profit before tax	3,301	1,931	(6,596)	2,598	12,596
Tax	530	(322)	(1,069)	2,498	3,612
Net Profit	2,771	2,253	(5,527)	101	8,984
EPS	*0.7*	*0.6*	*(1.4)*	*0.0*	*2.3*
Associates share / Minority interest	(23)	669	(1,666)	(2,227)	650
Net Profit after MI / Associates share	2,794	1,584	(3,861)	2,327	8,334
Net Profit after MI / Associates share - recurring	2,652	557	(1,079)	2,327	8,334
EPS - diluted after MI/ Associates share - recurring	*0.7*	*0.2*	*(0.3)*	*0.6*	*2.1*

Source: BofA Merrill Lynch Global Research, Company data

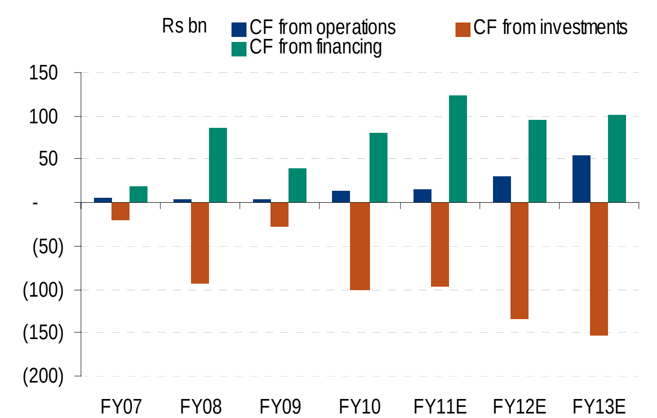
The RoE is likely to go up sharply from ~2% in FY12E to 8% in FY13E. However, RoCE would remain <5% during the forecast period. Cash flow from operations is estimated to go up by 4.3x from Rs12bn in FY10 to Rs55bn by FY13E – implying a CAGR of 63%.

Chart 1: RoE and RoCE



Source: BofA Merrill Lynch Global Research, Company data

Chart 2: Consolidated cash flow generation



Source: BofA Merrill Lynch Global Research, Company data

Table 12: Consolidated Balance Sheet

Rs mn	FY09	FY10	FY11E	FY12E	FY13E
Share capital	3,641	3,667	3,892	3,892	3,892
Reserves and surplus	61,070	63,003	72,917	75,244	83,578
Preference shares	-	2,000	16,130	16,130	16,130
Minority Interest	18,061	17,902	16,286	14,114	14,825
Networth (incl Minority)	82,772	86,572	109,225	109,381	118,425
Loan Funds	122,102	208,374	316,615	429,825	556,768
Other liabilties	3,162	3,339	3,114	2,940	2,702
Total Liabilities	208,036	298,285	428,955	542,146	677,895
Gross block	114,326	148,896	243,863	272,422	427,772
Less: Acc depreciation	17,810	23,416	31,569	41,612	57,377
Net block	96,516	125,481	212,294	230,811	370,395
CWIP including capital advances	67,909	103,829	118,363	223,364	221,871
Net fixed assets	164,426	229,309	330,657	454,174	592,266
Investments	13,109	46,411	34,804	34,804	34,804
Deferred Tax Asset (Net)	-	805	805	805	805
Current Assets	45,433	41,408	83,765	85,529	104,832
Less: Current Liabilities	14,932	19,653	21,076	33,167	54,811
Net Current Assets	30,502	21,755	62,689	52,363	50,021
Total Assets	208,036	298,285	428,955	542,146	677,895

Source: BofA Merrill Lynch Global Research, Company data

Price objective basis & risk

GMR Infrastructure Ltd. (GMRLF)

Our PO of Rs50 is based on Sum-of-the-parts valuation using DCF as the main approach with varying cost of equity. SoTP comprises:
1) Airports - Rs23 (47% of SoTP), based on DCF for the 4 airports using CoE of 12-14.5% and Delhi realty at CoE of 17.5% - in line with other realty peers. The value of Delhi airport, including realty, is Rs15.2/sh while both the international airports at Male/Sabiha Gokcen are valued at Rs4.4/sh
2) Power - Rs17 (34% of SoTP), based on DCF for 3.6GW of operating/under construction assets using CoE of 12.5 - 14.5%. Also, mining is valued at market price/2x of investments and 800MW power plant in Singapore at 2x book value
3) Roads - Rs2 (4% of SoTP), based on DCF using CoE of 12-13.5% for the 9 concession projects. Of this, the 6 operating road assets are valued at Rs1.4/sh
4) Others - Rs13 (27% share) include EPC division valued on P/E 12x FY12E - in line with other mid-cap construction peers, SEZ, investments and cash at book value.

Downside risks include delay in fixing Delhi airport tariff, low merchant tariff, aggressive competitive bids, lower interest rate and slower realty monetization at significant disocunt vs our benchmark value (NPV Rs1bn/acre). Upside risks include higher hike in Delhi airport tariffs, higher merchant prices, higher interest rate and faster realty monetization at significant premium.

Link to Definitions

Industrials

Click here for definitions of commonly used terms.

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India - Engineering/Construction/Utilities Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Adani Enterprises Ltd.	ANIEF	ADE IN	Bharat Parekh
	Adani Power Ltd.	XADPF	ADANI IN	Bharat Parekh
	Bharat Heavy	BHHEF	BHEL IN	Bharat Parekh
	Essar Shipping, Ports & Logistics Ltd.	XESSF	ESRS IN	Bharat Parekh
	Gujarat State Petronet Ltd	GJRSF	GUJS IN	Vidyadhar Ginde
	GVK Power & Infrastructure Ltd.	GVPWF	GVKP IN	Deepak Agrawala
	IRB Infrastructure Developers Ltd.	XIRBF	IRB IN	Bharat Parekh
	IVRCL Infrastruc	IIFRF	IVRC IN	Bharat Parekh
	Jaiprakash Associates Limited	JPRKF	JPA IN	Bharat Parekh
	Jaiprakash Power Ventures Ltd.	XJSHF	JPVL IN	Bharat Parekh
	Lanco Infratech Ltd.	LNIFF	LANCI IN	Deepak Agrawala
	Larsen & Toub -G	LTORF	LTOD LI	Bharat Parekh
	Larsen & Toubro	LTOUF	LT IN	Bharat Parekh
	Mundra Port SEZ	XMANF	MSEZ IN	Bharat Parekh
	Nagarjuna Const	NGRJF	NJCC IN	Bharat Parekh
	NCC-GDR	XAKUF	NJGR LX	Bharat Parekh
	Reliance Infrastructure	RCTDF	RELI IN	Bharat Parekh
	Suzlon Energy	XZULF	SUEL IN	Bharat Parekh
NEUTRAL				
	GMR Infrastructure Ltd.	GMRLF	GMRI IN	Deepak Agrawala
	Gujarat Inds	GUJIF	GIP IN	Bharat Parekh
	Neyveli Lignite	NEYVF	NLC IN	Bharat Parekh
	Tata Pwr. Co.	XTAWF	TPWR IN	Bharat Parekh
UNDERPERFORM				
	ABB	ABVFF	ABB IN	Bharat Parekh
	Gail India	XGLAF	GAIL IN	Vidyadhar Ginde
	Gail Limited - G	GAILF	GAID LI	Vidyadhar Ginde
	NTPC Ltd	NTHPF	NATP IN	Bharat Parekh

iQmethod SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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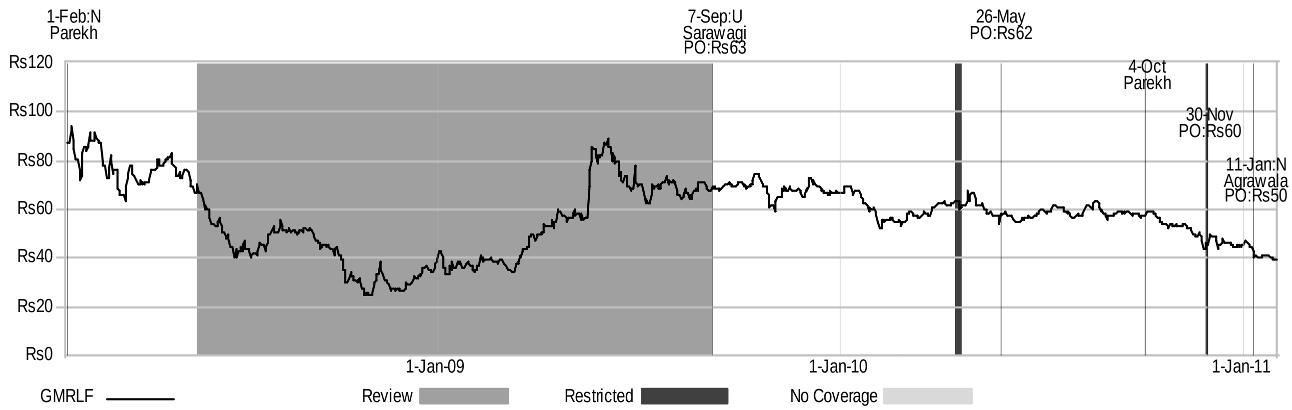
GMRLF Price Chart



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Investment Rating Distribution: Industrials/Multi-Industry Group (as of 01 Jan 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	47	58.75%	Buy	24	58.54%
Neutral	20	25.00%	Neutral	9	52.94%
Sell	13	16.25%	Sell	4	36.36%

Investment Rating Distribution: Global Group (as of 01 Jan 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	2011	53.86%	Buy	874	48.31%
Neutral	925	24.77%	Neutral	444	52.30%
Sell	798	21.37%	Sell	276	36.75%

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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