

GVK Power & Infrastructure

Foray into Indonesian airports: continuous capex pursuits may further damage sentiment

- **GVK is exploring a potential investment in 2 greenfield airports in Indonesia** – one at North Bali and the other at Yogyakarta, Java. The company has signed an MoU with the Indonesian government at the time of the President's recent India visit.
- **Management's rationale, takeaway from our chat:** 1) South Bali airport has reached peak capacity of 8m pax. 2) Expertise in constructing / managing airports in India (Eg: Mumbai, Bangalore). Management clarified that investment figures have not been frozen yet, denying a Bloomberg report of US\$4B investment. They said it is just a MoU and any capex commitment will be preceded by a detailed feasibility study.
- **Indonesia fundamentals for airport investment fairly supportive:** Based on inputs from Aditya Srinath and team, North Bali is endowed with land resources, and could support an airport. The local government is tourism friendly, which might expedite clearances. International tourist arrival at Bali has risen at c.10% last year.
- **Our views on GVK's strategy and cash flows:** In our view, the stock has a better chance to perform if markets see better cash flows from existing airport assets, rather than new forays. We currently estimate that the company will generate FCF in FY13. If GVK decides to pursue these projects, investment time-frame would be 7-8 years in our view. Going by thumbrules, our capex estimate would be roughly US\$0.8-1B per airport with terminal capacity of 10M pax and one runway.
- **Any clarity on monetization of Mumbai real estate is the key stock catalyst**, while continued suspense on the same is a risk to our PT. Our SOP-based Mar12 PT of Rs53 includes 21% each from Mumbai airport and real estate, 15% from Bangalore airport and 39% from power. We maintain that GVK is a deep value buy, but believe sustained capex pursuits would continue to hamper near-term stock performance.

Overweight

GVKP.BO, GVKP IN

Price: Rs34.55

Price Target: Rs53.00

India Infrastructure

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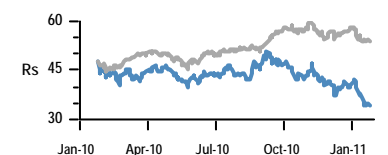
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Price Performance



	YTD	1m	3m	12m
Abs	-16.6%	-15.6%	-20.7%	-27.6%
Rel	-8.9%	-10.1%	-14.1%	-40.6%

GVK Power & Infrastructure (Reuters: GVKP.BO, Bloomberg: GVKP IN)

Rs in mn, year-end Mar	FY09A	FY10A	FY11E	FY12E	FY13E		
Revenue	5,138	17,866	19,028	19,486	27,048	Shares O/S (mn)	1,579
Adjusted Profit	1,076	1,559	1,847	2,834	2,860	Market cap (Rs mn)	54,562
EPS (Rs)	0.77	0.99	1.17	1.79	1.81	Market cap (\$ mn)	1,194
Revenue growth (%)	9.3%	247.7%	6.5%	2.4%	38.8%	Price (Rs)	34.55
Adjusted profit growth (%) (Rs)	-40.8%	44.9%	18.5%	53.4%	0.9%	Date Of Price	25 Jan 11
ROCE	2.2%	5.0%	4.3%	5.0%	7.8%	Free float (%)	39.1%
ROE	4.8%	5.7%	5.7%	8.1%	7.6%	3mth Avg daily volume (mn)	5.47
P/E (x)	45.2	35.0	29.5	19.3	19.1	3M - Average daily Value (Rs mn)	223.29
P/BV (x)	2.1	1.7	1.6	1.5	1.4	Average 3m Daily Turnover (\$ mn)	4.89
EV/EBITDA (x)	49.8	22.5	15.9	16.3	9.0	BSE30	18,969
						Exchange Rate	45.71
						Fiscal Year End	Mar

Source: Company data, Bloomberg, J.P. Morgan estimates.

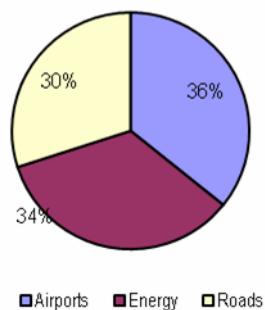
See page 7 for analyst certification and important disclosures, including non-US analyst disclosures.

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Company Description

GVKPIL is an integrated infrastructure player with assets in power, airport, road, and mining. The company is the developer and operator of the Mumbai International Airport slated to have a peak capacity of handling 40mn passengers per annum. The company has 881MW of operational generation capacity & 870MW capacity under construction. The company also operates & maintains the Jaipur Kishengarh expressway.

PAT composition (FY12E)



Source: Company reports.

EPS: J.P. Morgan vs consensus

	J. P. Morgan	Consensus
FY11E	1.17	1.32
FY12E	1.79	2.09
FY13E	1.81	3.13

Source: Bloomberg, J.P. Morgan estimates.

P&L sensitivity metrics	EBITDA impact (%)	EPS impact (%)
Traffic growth assumption (Road)		
Impact of 5% increase in FY11	0.70%	4.90%
Traffic growth assumption (Airport)		
Impact of 5% increase in FY11	[a]	1.81%

Source: J.P. Morgan estimates. [a] MIAL, the airport SPV is an associate.

Price target and valuation analysis

Our PT of Rs.53 includes Rs23 from MIAL, Rs. 8 from BIAL, Rs.21 from power and Rs.4 from roads. We continue to use DCF to value each SPV. For power, the post money valuation after PE investment, includes 1.6GW of future gas based projects at 50% haircut given uncertainty on gas supply

	(Rs B)	GVK's stake (Rs/ahre)
Mumbai Airport	98.0	23.0
Core	47.8	11.2
Real estate	50.3	11.8
Bangalore Airport	42.9	7.9
Core	32.6	6.0
Real estate	10.3	1.9
Jaipur-Kishengarh E'way	5.7	3.6
Power assets	49.8	20.8
Net Cash	(4.1)	(2.6)
Overall	192	52.7

Source: J.P.Morgan estimates.

As most of this value comes from operating projects, we view GVK as a good steady-return play with relatively lower risks. Maintain OW. Consistent delay in monetization of Mumbai real estate is the key risk to our PT.

Valuation and financials

Table 1: GVK - SOP valuation

	Total asset value		GVK's stake (%)	Value of GVK's stake			
	(Rs bn)	(US\$ mn)		(Rs bn)	(US\$ mn)	(Rs/share)	(% Contribution)
Airports	140.9	2,936		48.7	1,015	30.8	58.6
Mumbai Airport	98	2,043	37	36.3	756	23	43.6
Core	47.8	995	37	17.7	368	11.2	21.3
Real estate	50.3	1,047	37	18.6	387.6	11.8	22.4
Bangalore Airport	42.9	893	29	12.4	259	7.9	15
Core	32.6	679	29	9.4	196.9	6	11.4
Real estate	10.3	215	29	3	62.2	1.9	3.6
Roads	5.7	120		5.7	120	3.6	6.9
GJEPL	5.7	120	100	5.7	119.7	3.6	6.9
Power	49.6	1,034		32.8	682.4	20.7	39.4
Jegurupadu-I	6.4	133	75	4.8	99.5	3	5.7
Jegurupadu-II	5.2	109	75	3.9	81.7	2.5	4.7
Gautami	12.8	266	47.7	6.1	127.1	3.9	7.3
Goindwal Sahib	0	0	75	0	0	0	0
Alaknanda Hydro	2.1	44	75	1.6	33.3	1	1.9
Gautami II	3.7	76	47.7	1.7	36.3	1.1	2.1
Jegurupadu-III	3.7	76	75	2.7	57.1	1.7	3.3
Tokisud	0.8	18	75	0.6	13.3	0.4	0.8
Cash from PE deal	15	312.1	75	11.2	234.2	7.1	13.5
Net-cash at parent level	-4.1	-85	100	-4.1	-85	-2.6	-4.9
Grand total	192	4,005		83	1,966	52.6	100

Source: J.P. Morgan estimates.

Table 2: GVK - summary income statement

Rs in M, y/e Mar

	FY10	FY11E	FY12E	FY13E	FY14E	FY15E
Total Gross revenues	17.87	19.03	19.49	27.05	35.91	46.69
Power	16.03	17.18	17.56	25.04	33.81	44.48
Roads	1.71	1.85	1.93	2.01	2.11	2.21
EBITDA	4.60	5.81	7.07	12.27	16.48	20.96
Power	4.04	4.59	5.59	10.31	14.42	18.78
Roads	0.55	1.22	1.48	1.97	2.07	2.18
Depreciation & amortization	(1.37)	(2.33)	(2.33)	(3.08)	(3.90)	(5.87)
EBIT	3.23	3.48	4.74	9.20	12.59	15.09
Interest (expense)	(2.09)	(2.08)	(1.82)	(3.55)	(4.93)	(6.93)
Other income/(expense)	0.29	0.09	0.11	0.17	0.28	0.37
Pre-tax profit	1.43	1.49	3.04	5.82	7.94	8.53
Income tax	(0.20)	(0.26)	(0.56)	(0.98)	(1.41)	(1.52)
Minority interest	(0.19)	(0.33)	(0.66)	(1.31)	(1.79)	(2.03)
Share of Associates	0.52	0.94	1.01	(0.66)	(0.13)	0.70
Net profit	1.56	1.85	2.83	2.86	4.61	5.68
EPS (Rs)	0.99	1.20	1.80	1.80	2.90	3.60
Ratios (%)						
Revenue growth	247.7	6.5	2.4	38.8	32.8	30.0
EBITDA margin	25.7	30.5	36.3	45.4	45.9	44.9
EBITDA growth	160.7	26.4	21.7	73.6	34.3	27.2
EPS growth	29.0	18.5	53.4	0.9	61.1	23.3

Source: Company reports and J.P. Morgan estimates.

Table 3: GVK - summary balance sheet

Rs in M, y/e Mar

	FY10	FY11E	FY12E	FY13E	FY14E	FY15E
Gross Block	48	48	75	78	108	142
Less: Accumulated D&A	89	11	14	17	21	26
Fixed assets - net	39	37	62	62	88	115
Capital WIP	16	29	28	27	83	60
Construction stores and advance	4	4	4	4	4	4
Investments	19	14	15	14	14	15
Cash & bank balances	5.08	19	13	40	1	4
Net current assets ex-cash	19	2	4	5	6	8
Net current assets	24	21	17	45	7	12
Total Assets	81	105	126	151	195	205
Total debt	44	51	69	90	102	104
Paid-up common stock	16	2	2	2	2	2
Reserves and surplus	30	32	35	38	68	74
Shareholders' funds	32	33	36	39	70	75
Total Liabilities	81	105	126	151	195	205
Ratios (%)						
Net debt/ equity (x)	1.18	0.57	0.95	0.8	1.06	0.97
ROCE	5.00%	3.80%	4.20%	6.70%	7.40%	7.70%
Return on equity	5.70%	5.70%	8.10%	7.60%	8.50%	7.80%
Book value per share (Rs)	20	21.2	22.9	24.8	44.1	47.7

Source: Company reports and J.P. Morgan estimates.

JPM Q-Profile

GVK Power & Infrastructure Ltd. (INDIA / Utilities)

As Of: 21-Jan-2011

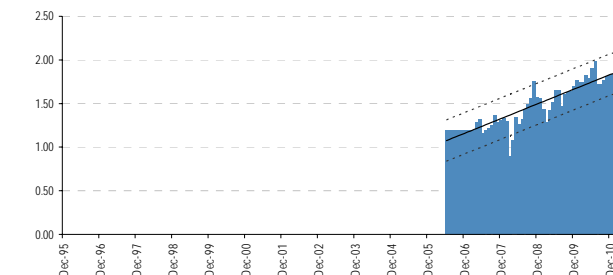
Global Equity Quantitative Analysis

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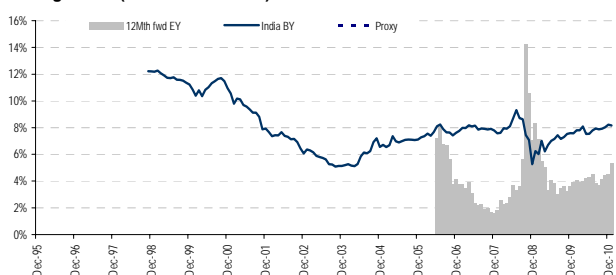
Local Share Price Current: **34.45**



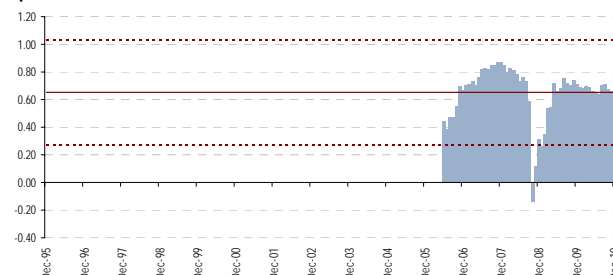
12 Mth Forward EPS Current: **1.84**



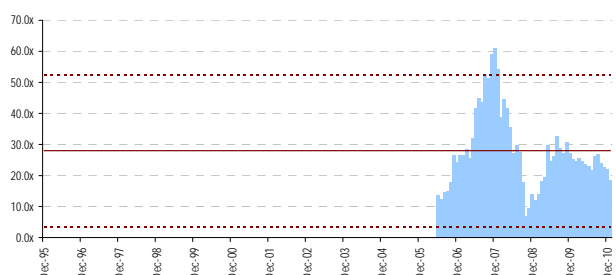
Earnings Yield (& local bond Yield) Current: **5%**



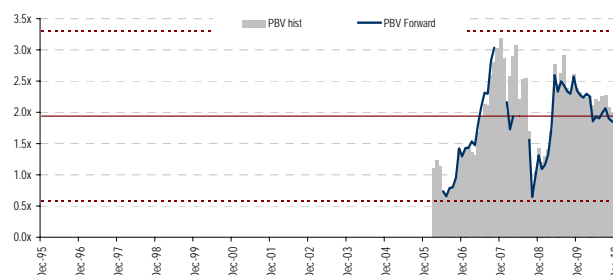
Implied Value Of Growth* Current: **59.33%**



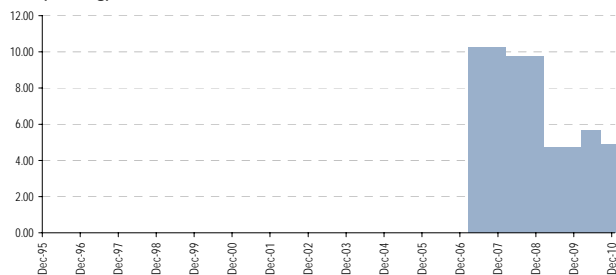
PE (1Yr Forward) Current: **18.7x**



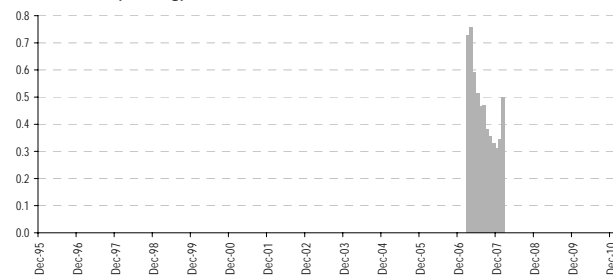
Price/Book Value Current: **1.7x**



ROE (Trailing) Current: **4.92**



Dividend Yield (Trailing) Current: **0.00**



Summary

GVK Power & Infrastructure Ltd.		SEDOL		BOXXJX1		As Of:		21-Jan-11			
INDIA						Local Price:		34.45			
Utilities						EPS:		1.84			
	Latest	Min	Max	Median	Average	2 S.D. +	2 S.D. -	% to Min	% to Max	% to Med	% to Avg
12mth Forward PE	18.69x	7.03	61.16	26.20	28.00	52.48	3.51	-62%	227%	40%	50%
P/BV (Trailing)	1.68x	0.65	3.18	2.12	1.94	3.30	0.58	-61%	89%	26%	15%
Dividend Yield (Trailing)	0.00	0.00	0.76	0.00	0.10	0.51	-0.31				
ROE (Trailing)	4.92	4.72	10.28	9.74	7.56	12.66	2.47	-4%	109%	98%	54%
Implied Value of Growth	59.33%	-0.14	0.87	0.70	0.65	1.03	0.27	-124%	47%	18%	10%

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, J.P. Morgan Calcs

* Implied Value Of Growth = (1 - EY/Cost of equity) where cost of equity = Bond Yield + 5.0% (ERP)

GVK Power & Infrastructure: Summary of Financials

Income Statement						Cash flow statement					
Rs in millions, year end Mar	FY10	FY11E	FY12E	FY13E	FY14E	Rs in millions, year end Mar	FY10	FY11E	FY12E	FY13E	FY14E
Revenues	17,866	19,028	19,486	27,048	35,914	EBIT	3,226	3,480	4,743	9,195	12,585
% change Y/Y	247.7%	6.5%	2.4%	38.8%	32.8%	Depreciation & Amortization	1,371	2,328	2,328	3,077	3,899
EBITDA	4,597	5,808	7,071	12,273	16,484	Tax	-200	-260	-557	-982	-1,406
% change Y/Y	160.7%	26.4%	21.7%	73.6%	34.3%	Other income	-	-	-	-	-
EBITDA Margin	25.7%	30.5%	36.3%	45.4%	45.9%	Decrease in WC	-534	-306	-1,690	-1,248	-693
EBIT	3,226	3,480	4,743	9,195	12,585	Operating CF	4,671	6,277	5,946	9,554	14,537
% change Y/Y	228.0%	7.9%	36.3%	93.9%	36.9%	Capex	-8,595	-13,606	-25,857	-1,518	-85,640
EBIT Margin	18.1%	18.3%	24.3%	34.0%	35.0%	Change in investments	-16,168	5,741	-1,012	662	130
Other income	809	1,034	1,122	-489	152	Investing CF	-24,763	-7,864	-26,869	-856	-85,510
Net Interest	-2,085	-2,081	-1,818	-3,552	-4,928	Free cash flow	-3,924	-7,328	-19,911	8,036	-71,103
Earnings before tax	1,433	1,493	3,035	5,817	7,939	Change in equity	6,466	14,680	0	0	26,005
% change Y/Y	68.2%	4.2%	103.3%	91.6%	36.5%	Change in debt	14,657	7,025	17,648	21,079	11,346
Tax	-200	-260	-557	-982	-1,406	Other financing activities	-	-	-	-	-
as % of EBT	14.0%	17.4%	18.4%	16.9%	17.7%	Financing CF	19,038	19,624	15,830	17,527	32,423
Net income	1,559	1,847	2,834	2,860	4,608	Change in cash	-1,054	18,037	-5,092	26,225	-38,550
% change Y/Y	44.9%	18.5%	53.4%	0.9%	61.1%	Opening cash	1,562	508	18,545	13,452	39,678
Adjusted profit	1,559	1,847	2,834	2,860	4,608	Closing cash	508	18,545	13,452	39,678	1,127
% change Y/Y	44.9%	18.5%	53.4%	0.9%	61.1%						
Shares outstanding	1,579	1,579	1,579	1,579	1,579						
EPS	0.99	1.17	1.79	1.81	2.92						
% change Y/Y	29.0%	18.5%	53.4%	0.9%	61.1%						
Adjusted EPS	0.99	1.17	1.79	1.81	2.92						
% change Y/Y	29.0%	18.5%	53.4%	0.9%	61.1%						

Balance sheet						Ratio Analysis					
Rs in millions, year end Mar	FY10	FY11E	FY12E	FY13E	FY14E	Rs in millions, year end Mar	FY10	FY11E	FY12E	FY13E	FY14E
Net fixed assets	39,483	37,155	61,808	61,730	87,711	Revenue growth	247.7%	6.5%	2.4%	38.8%	32.8%
CWIP	15,892	29,497	28,374	26,892	82,652	EBITDA growth	160.7%	26.4%	21.7%	73.6%	34.3%
Investments	19,382	13,641	14,653	13,991	13,860	PAT growth	44.9%	18.5%	53.4%	0.9%	61.1%
Cash and bank balances	508	18,545	13,452	39,678	1,127	EPS growth	29.0%	18.5%	53.4%	0.9%	61.1%
Net current assets ex-cash	1,858	2,164	3,854	5,101	5,794	EBITDA margin	25.7%	30.5%	36.3%	45.4%	45.9%
Miscellaneous	-	-	-	-	-	Dividend payout ratio	-	-	-	-	-
Total Assets	81,186	105,065	126,203	151,455	195,208	Sales/GFA (x)	0.26	0.20	0.17	0.19	0.21
Total Debt	44,455	51,480	69,128	90,207	101,552	GFA/Equity (x)	2.36	2.65	3.48	3.87	2.80
Paid-up common stock	1,579	1,579	1,579	1,579	1,579	Debt/Equity (x)	1.41	1.54	1.91	2.31	1.46
Reserves and surplus	29,981	31,827	34,661	37,521	68,134	Net debt/Equity (x)	1.39	0.99	1.54	1.29	1.44
Shareholders' fund	31,560	33,406	36,240	39,100	69,713	ROE (%)	5.7%	5.7%	8.1%	7.6%	8.5%
Deferred tax liability	2,672	2,672	2,672	2,672	2,672	ROCE (%)	5.0%	4.3%	5.0%	7.8%	8.4%
Minority interests	2,500	17,507	18,164	19,477	21,271						
Total Liabilities	47,126	54,151	71,799	92,878	104,224						
BVPS (Rs)	19.98	21.15	22.95	24.76	44.14						

Source: Company reports and J.P. Morgan estimates.

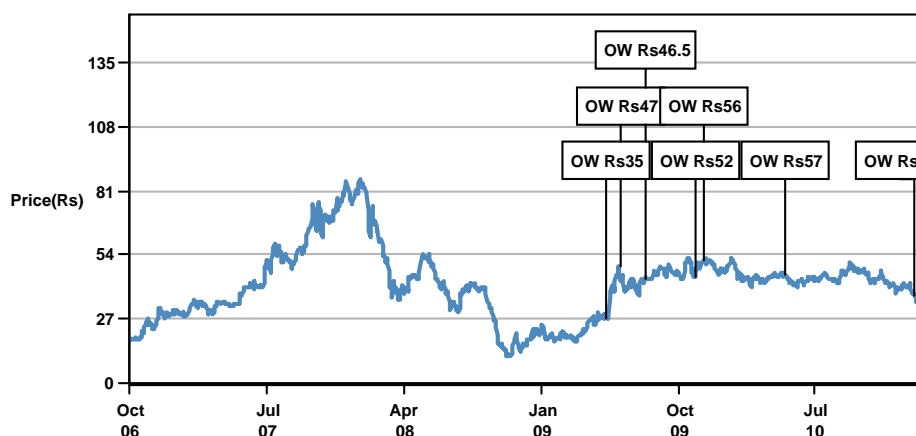
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GVK Power & Infrastructure (GVKP.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
10-May-09	OW	27.15	35.00
05-Jun-09	OW	48.70	47.00
29-Jul-09	OW	43.95	46.50
03-Nov-09	OW	44.80	52.00
22-Nov-09	OW	51.95	56.00
02-May-10	OW	45.15	57.00
16-Jan-11	OW	36.65	53.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 Initiated coverage May 10, 2009. This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
 J.P. Morgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

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J.P. Morgan uses the following rating system: **Overweight** [Over the next six to twelve months, we expect this stock will outperform the average total return of the stocks in the analyst’s (or the analyst’s team’s) coverage universe.] **Neutral** [Over the next six to twelve months, we expect this stock will perform in line with the average total return of the stocks in the analyst’s (or the analyst’s team’s) coverage universe.] **Underweight** [Over the next six to twelve months, we expect this stock will underperform the average total return of the stocks in the analyst’s (or the analyst’s team’s) coverage universe.] J.P. Morgan Cazenove’s UK Small/Mid-Cap dedicated research analysts use the same rating categories; however, each stock’s expected total return is compared to the expected total return of the FTSE All Share Index, not to those analysts’ coverage universe. A list of these analysts is available on request. The analyst or analyst’s team’s coverage universe is the sector and/or country shown on the cover of each publication. See below for the specific stocks in the certifying analyst(s) coverage universe.

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	Overweight (buy)	Neutral (hold)	Underweight (sell)
J.P. Morgan Global Equity Research Coverage	46%	42%	12%
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