Indian Infrastructure

A Cinderella story

- **A Cinderella asset class; markets are ignoring potential transformation:** Complexity of business structures, regulatory uncertainties and heavy capex phase without cash inflows have combined to cause significant value erosion in this space. Over the next 12 months, we see a turnaround in stock performance, led by: a) turnaround / cash flow generation by key projects (e.g. Delhi, Hyderabad airports); b) independent listing of key verticals for easier value discovery; c) clarity on regulations and policy decisions – e.g. airport charges, electricity distribution license, Mumbai airport real estate monetization, and d) sizeable contribution of power segments.
- **We upgrade GMR Infrastructure (GMRI) to OW**, as it will likely top the list of positive catalysts listed above, with asset turnaround / de-merger and regulatory clarity on airport charges. **GVK Power & Infrastructure (GVK) – We stay OW**, as we believe there is deep value and the stock has corrected disproportionately to real estate monetization delay. GVK seems to have higher absolute upside, but we believe GMRI could see shorter-term triggers.
- **We downgrade Reliance Infrastructure (RELI) to Neutral**, as we think it will continue to suffer from a lack of big-bang catalysts and regulatory uncertainty on electricity distribution licenses. **We keep our Neutral rating on Adani Enterprises (ADE)**, which has outperformed peers following the strong performance of power / port subsidiaries and value unlocking, but recent coal mine acquisitions and MDO business are likely to take a while to play out in SOP. **We recommend switching from RELI and ADE (on upticks) to GMRI / GVK and buying Mundra Port and SEZ (MPSEZ, Neutral), on declines**.

India
Infrastructure

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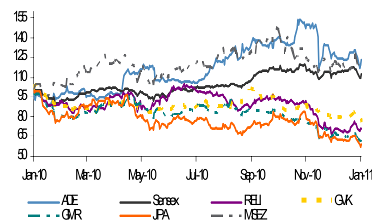
Weak performance of infra conglomerates in 2010 (rebased to 100 at start date)



Source: Bloomberg.

Table 1: Indian infrastructure asset owners: Valuation comparison

Year-end March

Company	BBG Code	JPM Rating	CMP (Rs)	PT (Rs)	Mkt cap (US$ B)	P/E (x) FY12E	P/E (x) FY13E	EV/EBITDA (x) FY12E	EV/EBITDA (x) FY13E	P/BV (x) FY12E	P/BV (x) FY13E
GMR	GMRI IN	OW	41	50	$3.4	83.2	19.0	15.7	8.9	1.9	0.9
Ex real estate			32	40	$2.7	65.8	15.0	14.1	8.1	1.5	0.7
GVK	GVKP IN	OW	38	53	$1.3	21.0	20.8	16.3	9.0	1.6	1.5
Ex Real estate			28	39	$1.7	15.6	15.4	14.1	7.7	1.2	1.1
Reliance Infra	RELI IN	N	810	950	$4.7	15.3	9.9	11.6	9.0	0.9	0.8
Adani Enterprises	ADE IN	N	644	665	$15.2	19.3	12.8	14.3	8.3	3.9	3.0
Mundra Port	MSEZ IN	N	141	161	$6.1	21.9	14.2	17.3	11.8	5.5	4.2
Jaiprakash Associates	JPA IN	NR	96	NA	$4.5	19.2	14.1	10.9	9.0	1.9	1.6
IRB Infrastructure	IRB IN	NR	216	NA	$1.5	13.1	11.9	6.9	5.7	2.3	1.9

Source: Bloomberg, J.P. Morgan estimates. Price as on 13 Jan 2011. Bloomberg consensus estimates for JPA and IRB which are not covered by J.P. Morgan. In order derive a valuation for GMR and GVK ex real estate CMP, Mkt Cap, PT and Multiples are adjusted for the proportion of real estate in our SOTP.

See page 79 for analyst certification and important disclosures, including non-US analyst disclosures.

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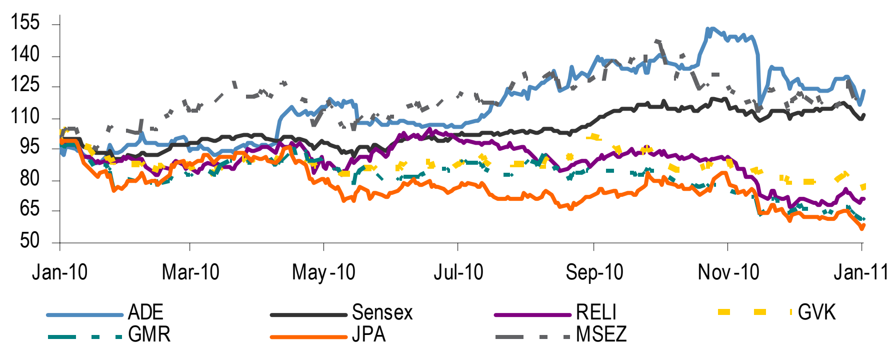
Nothing (almost) went right for the sector

The past decade signifies the first meaningful privatization of infrastructure ownership in India, but several things went awry. It was a phase of massive asset creation and balance sheet expansion, which was not matched by returns and cash flows. It took longer than expected to implement an independent regulatory framework and the government ended up making most of the decisions. Enterprising companies pioneered infrastructure asset ownership, but stock market performance – especially in the past two years – reflected all these unmet expectations.

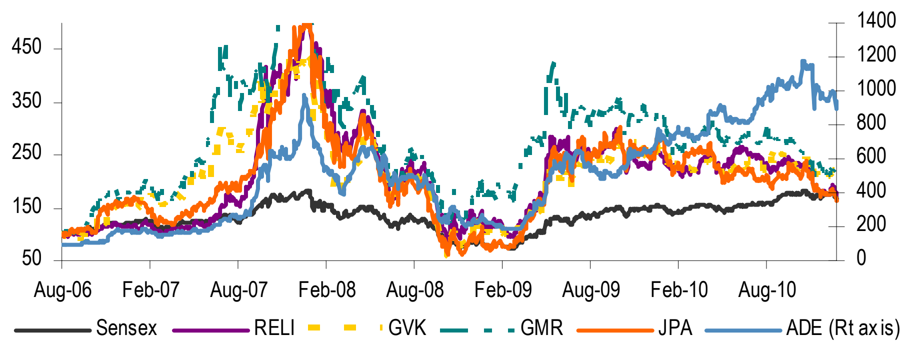
GMRI, GVKP, RELI and JPA have generated negative returns in a rising market. The two clear outperformers were a) **MPSEZ**: strong execution, investor preference for pure plays; and b) **ADE**, mainly during the time of listing of Adani Power and merger of Mundra Ports, facilitating easy value discovery for the parent company.

Figure 1: Weak performance of infra conglomerates in 2010 (rebased to 100 at start date)



Source: Bloomberg.

Figure 2: Performance of infra conglomerates over the past five years (rebased to 100 at start date)



Source: Bloomberg.

Stock performance drivers: what markets loved and hated

A study of a longer history of stock performance in this space provides strong evidence that infrastructure stocks perform well when managements de-mystify the structure for investors, hive off businesses or list them. See instances of these in

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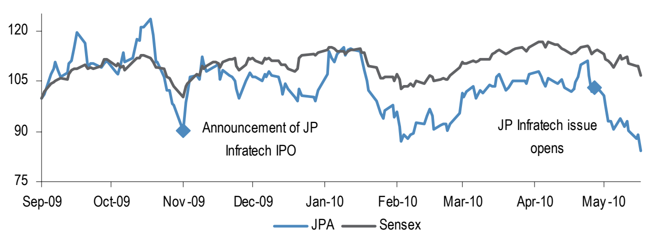
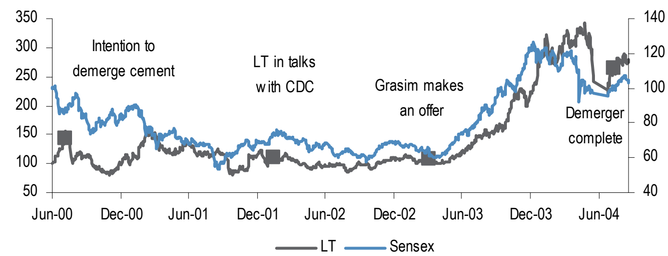
Figures 3-8. Global pure-play peers did well too, in the same period. On the other hand, stocks performed badly when companies are on an asset expansion spree (as were GMRI, GVK, RELI and JPA during most of the last three years). Although the conclusion is somewhat counter-intuitive for a sector that is mandated to win more

Figure 3: JPA saw decent performance during the announcement of the proposed listing of Jaypee Infratech (subsequently underperformed)



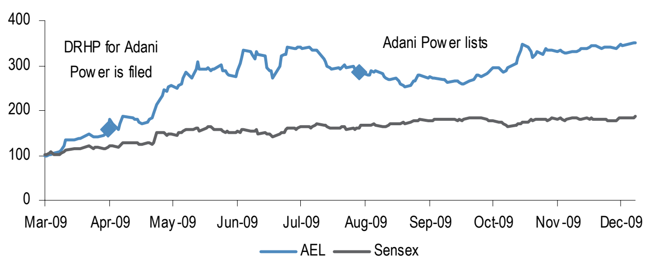
Source: Bloomberg and J.P.Morgan.

Figure 4: L&T saw strong performance after demerger of its cement business



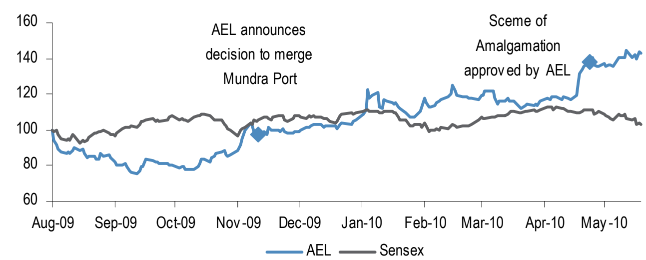
Source: Bloomberg and J.P.Morgan.

Figure 5: AEL stock performance on Adani Power listing



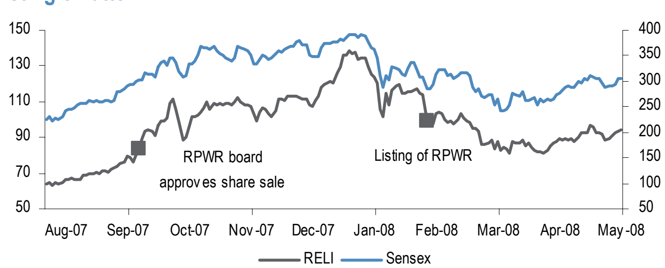
Source: Bloomberg and J.P.Morgan.

Figure 6: AEL stock performance on announcement of Mundra Port acquisition



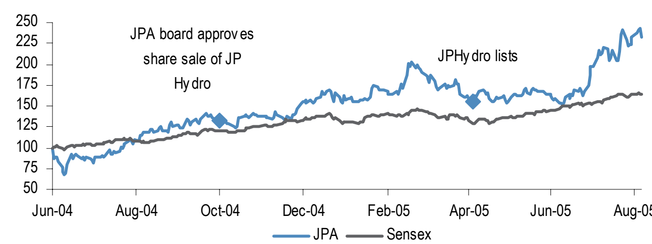
Source: Bloomberg and J.P.Morgan.

Figure 7: RELI (holdco for RPWR) saw substantial appreciation prior to listing of latter



Source: Bloomberg and J.P.Morgan.

Figure 8: JPA saw decent performance during proposed listing of JPVL



Source: Bloomberg and J.P.Morgan.

projects, the stock market underperformance was influenced by a) perception that companies' balance sheets are stretched and will require more equity funds to grow, b) high risks in the absence of a regulatory framework, and c) stiff competition at the time of bidding, implying returns may be low.

We expect a significant turnaround in underperformance-causing events over the next 12 months

Underperformance reason # 1: high investment phase without commensurate cash flows / returns. How is this changing? Key assets will turnaround / generate cash

As a corollary, balance sheets are going to look better with less need for equity dilution, at least in the next 12 months.

Table 2: Free cash flows for key assets (inflection points are shaded)

Rs in millions, year-end March

	2009	2010E	2011E	2012E	2013E	2014E
GMRI						
Delhi Airport	(38,532)	(38,482)	(17,706)	3,275	3,963	4,533
Hyderabad Airport	(808)	1,244	2,337	2,410	2,943	4,158
Sabiha airport	(4,881)	(9,930)	1,980	273	1,777	3,726
Power vertical	(34)	(8,892)	(30,343)	(39,463)	(22,042)	19,529
Road vertical	0	0	(11,901)	(18,609)	(7,437)	8,437
GVK Power						
Mumbai airport	(7,144)	(12,984)	(26,705)	(29,828)	4,937	6,825
Bangalore airport	(7,144)	(12,984)	(26,705)	(29,828)	4,937	6,825
Power vertical	(5,523)	(6,096)	15,180	5,340	19,200	19,200
Reliance Infra						
Electricity distribution business	3,155	3,250	3,347	3,448	3,551	3,657
Reliance Power - associate contribution	934	3,215	1,951	2,989	7,964	19,134
Infraventures	(5,626)	(20,436)	(64,366)	(27,281)	(1,750)	16,288
Adani Enterprises						
Adani Power	(1,087)	3,562	6,463	28,062	60,073	82,901
Mundra Ports	0	0	9,191	14,847	20,421	26,780
MDO	0	(94)	(36)	710	2,131	6,386

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

Underperformance reason # 2: regulatory and political issues. How is this changing? Some clarity expected on issues such as airport charges

Regulatory and policy decision-making uncertainties have also uniformly plagued the sector. GMRI and GVK face uncertainty on adequacy of airport charges for generating expected returns on their airport assets. RELI, until recently, invited regulatory disapproval of raising electricity tariffs to meet its targeted returns in Mumbai. The status of its distribution license in Mumbai is uncertain, with the impending expiry of the same (on 15 August 2011) and other players bidding for it. The delay in Mumbai airport real estate monetization, due to delay in approval of the masterplan by MMRDA, has been a key cause for underperformance of GVK. Both GMRI and GVK faced disapproval of merchant power from AP state power regulator, from their gas-based power plants.

MPSEZ, after a strong performance during the better part of the year, has seen slight underperformance since the Ministry of Environment & Forest (MoEF) issued a show-cause notice to the company on 15 December for the alleged violation of Coastal Regulation Zone (CRZ) notifications.

Table 3: Regulatory uncertainties for infrastructure plays and impact of clarity

	Subject	Brief description	What are we estimating?	Earnings / SOP sensitivity
RELI	**Electricity tariff**	Stay on tariffs between Jul '09 and Sep '10, resulted in accumulation of Rs20B of receivables.	We are assuming recovery of Rs2-3B per annum starting FY12.	RELI expects to realize these receivables over the next 2-3 years. The NPV of ~Rs18B received over three years (12% WACC), upside of Rs67/share (or ~8% of CMP).
	Electricity distribution license	Their license expires in August 2011, and 8 players have bid for this license including Tata Power and MSEDCL have submitted an EoI to MERC. RELI has sought an extension of the license period	The near term risks casts doubt on sustainability of free cashflow (~Rs3.1B) and future growth. Accordingly we assume no terminal growth in our DCF valuation for Mumbai License area.	Book value of RELI's investment is safe, but our premium to book value (~0.3x BV or Rs21/share) goes.
GMRI	**Airport charges**	Regulator to announce a) allowable capex for Delhi airport, b) approach - single / dual / hybrid til and c) aero charges schedule based on these principles	We assume a) incurred capex of Rs127B is fully allowed and b) hybrid til, where 30% of non-aero revenues are used to subsidise aero revenues, and c) Delhi airport makes target 11.6% return over a 10-year period rather than the promised 5-year period, entailing lower increases in aero charges in initial years (conservative assumption).	a) If incurred capex not approved, GMR would have to fund the gap of Rs16.5B with deposits from real estate which would impact our SOTP. b) ~60:40 non-aero to aero mix for DIAL in Fy10. A single til model would be an absurd proposition implying passengers / airlines would be flying for free and not paying any airport charges.
	Merchant sale of power	Merchant sales up to 24% of output from Vemagiri (389MW) stalled. Power currently being sold as per PPA rates.	We assume: 1) No sales at merchant rates thru FY12 2) Merchant sales to commence in FY13	Overall SOTP impact in negligible as the difference between merchant and PPA tariffs narrows in latter years.
GVK	**Airport charges**	Regulator to announce approach - single / dual / hybrid til and aero charges schedule based on these principles. As Mumbai airport is under-construction, view on capex is not expected from the regulator.	We assume a) capex of Rs98B, in line with mgt est, b) hybrid til, where 30% of non-aero revenues are used to subsidize aero revenues, and c) Approval of additional UDF at BIAL	~60:40 non-aero to aero mix for DIAL in FY10. A single til model would be an absurd proposition implying passengers / airlines would be flying for free and not paying any airport charges. Impact to SOTP improbable.
	Merchant sale of power	Merchant sales up to 20% of output from JII (220MW) and Gautami (464MW) stalled.	We assume 1) GVK to sell at a fixed rate of Rs4.12/unit to PTC thru FY12 2) Merchant sales to commence in FY13	No downside to estimates in FY12 since contractual rate for PTC is in line with JPM merchant price est. If no merchant sales allowed, SOTP impact is <1%.
	Real estate monetisation	198 acres of monetisable real estate, of which 65 acres is stated to be encroached and 52 acres occupied by AAI staff. The master plan for the monetization awaits MMRDA approval	We value 12.6mn sft at Rs3,990psf, resulting in Rs50.3B, Rs12/shr of GVK. Additionally, we estimate 2.4mn sft of FY12 lease-out, to result in Rs8.3B of upfront deposit, used to fund the airport	Delay in MMRDA approval does not impact SOP as long as real estate prices appreciate. However, airport completion may be delayed if 2.4M sft not leased out in FY12
MPSEZ	**MoEF show cause notice**	On 15 Dec '10 a show cause notice was issued for the violation of Coastal Regulation Zone (CRZ) notifications.	MSEZ has submitted a reply to MoEF and is confident of a favorable outcome. We are not reducing traffic estimates as of now, as the notice does not require suspension of development activities at the port.	A negative outcome could impact LT capacity development. We est. 380MT of traffic in the terminal year. Environmental restrictions may potentially delay development. With terminal year traffic of 240MT, PT reduces by Rs17/share (10.5%).

Source: Companies, J.P. Morgan.

See Appendix 1 for a primer on a) airport related regulatory issues and b) merchant power related regulatory issues and c) electricity distribution regulatory issues

Underperformance reason # 3: Complexity of business structure. How is this changing? Verticalisation, independent listing

Complexity of business structure and difficulty in comprehending valuations arising from several revenue streams is a strong common theme for less investor preference for the sector. Conglomerates like Adani Enterprises and RELI have already listed their key verticals, while GMRI and GVK are in the process of creating independent verticals with a view to eventually hiving them off.

Table 4: Proposals for demerger/value unlocking

	Vertical / asset	Status	Company
GMRI	Power	Structured PE investment at GMR Energy by Temasek and IDFC, totaling US$300M. Convertible Pref shares to be converted into equity at the time of IPO of GMR Energy, slated in 36 months, at the lower end of IPO price band.	Listing imminent; valuation upside will depend upon market conditions then and progress on projects
	Airport	Macquarie SBI Infra fund was planning to invest $100-200M in GMR Airports via convertible preference shares which may be converted to equity at a later date. (Source: ET, Business Standard)	Deal has not been concluded. Implied valuation for the vertical will depend upon % stake dilution once deal is finalized.
GVK	Power	Two tranches of PE investment totaling US$330M, entailing 25% stake at GVK Energy	Listing in 5-6 years. Stock has not reacted to these investments (in fact reaction has been -ve) even though the valuation implies much higher than what markets are currently expecting
	Airport	Standard Chartered, Morgan Stanley and TPG Capital were in talks with GVK to raise $250-300M for a 30% stake (Source: Reuters).	Deal has not been concluded. Implied valuation for the vertical will depend upon % stake dilution once deal is finalized.
ADE	Power	Adani Power already listed	Period between Apr-Aug '09 since IPO was announced and stock listed AEL outperformed the Sensex by >100%.
	Ports	Mundra Ports already listed	Period between Nov'09-Apr '10 since the amalgamation of MSEZ was announced and completed AEL outperformed the Sensex.
RELI		Verticalization proposal with different businesses divided into independent entities, awaiting court approval. The objective was to keep the EPC+investments in the standalone entity and restructure all other businesses as wholly owned subsidiaries.	Listing of subsidiaries/ PE infusion (e.g. in roads portfolio) over the medium to LT, as businesses achieve scale or need funds for growth; valuation upside will depend upon market conditions.

Source: Company data, J.P. Morgan, Economic Times, The Times of India, Mint, Business Standard.

Underperformance reason # 4: balance sheet dilutive acquisitions / investments. How is this changing? Sale of these assets

The recent transaction of GMRI selling its stake in Intergen was an isolated one and we do not see complete asset sell-offs in future, as the sector is on an asset creation spree. However, we do see demerger and partial sale to PE and listing as value creators.

Table 5: Investments which have created an overhang on stock price

	Investments that were not well received by market	Contentious issue	Current status and way forward
GMRI	Intergen - 50% stake	Global IPP portfolio which was not related to GMRI's positioning as an Indian infrastructure asset owner. Consolidation would have led to leverage spiraling up to 2.25x from 1.86x as of 1HFY11.	Recently sold with book loss of US$172M
GVK Power	Bangalore - 29% stake	Related to core airport portfolio but valuation, at 20x original book value (FY09) and 50x 1yr fwd P/E (FY10A), was perceived expensive.	Potential increase in stake by buying out Siemens' 14% of the total 40% share, which comes out of lock-in this May. Past valuation benchmark suggests further investment of Rs5.6B by GVK, although it is not known if GVK will exercise its right of first refusal at this price, which is already perceived to be too high
RELI	Intercorporate deposits	The end borrower is not known. RELI had Rs49B ICDs at peak, which it brought down to Rs16B in FY09, but has once again increased to Rs27.7B as of FY10.	Although mgmt had been guiding to the contrary ICDs inched up indicating further upside risk. Also yields on ICDs have declined. We apply a 60% haircut to ICDs in our SOP.

Source: J.P. Morgan.

Stock preferences in the light of above themes

In our view, **GMRI** is exposed to the maximum number of potential catalysts we see within the space. Uncertainties on regulations and heavy investment phase had impacted GMRI the most, thus it is also the highest-beta play on resolution of these problems. **We upgrade to OW. Our new Mar-12 PT of Rs50**, although lower than our earlier Mar-11 PT of Rs75, stems from a more conservative view on aero charge increases and long-term non-aero upsides, which now makes the airport asset valuation comparable to global peers. Delay in resolution of regulatory issues and power plant commissioning delays are downside risks to our PT.

We retain our OW rating on GVK, with a downward revision to our PT to Rs53. The steep correction in the stock makes it a deep value play and we believe the correction is disproportionate to the delay in monetization of real estate, which has caused investor concern. Thus, any lease-out of real estate would be the primary catalyst for GVK. Our downard revision in PT arises from a more conservative valuation for airport assets benchmarked to global pure plays.

GMRI vs. GVKP – which one?

GVK is not carrying the burden of loss-making assets, and is still in a high investment phase. Power listing is 4-5 years away. Barring news flow of Mumbai real estate monetization, the swing factor seems to be weaker for GVK, although absolute upside is higher. On the other hand, GMRI's Delhi airport is making loss / negative cash flow and is poised for a turnaround, in our view, if things go well. Thus near-term triggers seem to be higher for GMRI.

We downgrade RELI to Neutral. Our PT of Rs950 is lower than before, as we have factored in a haircut on inter-corporate deposits that have surfaced in the balance sheet and assumed no terminal growth in Mumbai distribution. Although the stock has done badly and the downgrade appears delayed, **we are recommending a switch to stocks that have seen similar declines (e.g. GMRI, GVKP) but may have stronger catalysts**. Associate company Reliance Power accounts for 49% of value. Regulatory overhang on electricity distribution in Mumbai may remain. Upside risks stem from reduction in ICD investments, and a pick-up in execution of the EPC order book and infrastructure projects.

We keep our Neutral rating on ADE; with a new PT of Rs665 (up from Rs640). This stock has outperformed peers in the past year, following strong performance of power / port subsidiaries and value unlocking. However, recent coal mine acquisitions and MDO business will take a while to play out in SOP. We suggest switching from ADE (on upticks) to pure-play MPSEZ on declines, and also to GMRI / GVK.

We maintain Neutral rating on MPSEZ, with a PT of Rs161, which implies 16% upside from the current level. After outperforming the markets earlier in the year, MPSEZ has underperformed the Sensex by ~17% over the past three months on account of rich valuations accompanied by absence of catalysts. Fruition of new investment avenues (concessions to develop green field ports in India, visibility on capex and development timeline for overseas coal terminals) for deploying healthy

FCF the business is expected to generate is likely to be SOP-accretive, as their execution capabilities are among the best in the private sector. A 10% correction from existing levels would provide an attractive entry opportunity, in our view.

Valuation analysis and global comparables

We use the Sum-of-Parts (SOP) method to value stocks, using long-term DCF to value individual SPVs. Our SOP values are summarized below.

Table 6: Valuation components for infrastructure conglomerates

	GMR Infra		GVK Power & Infra		Reliance Infra		Adani Enterprises		Mundra Port &SEZ	
	Rs/shr	%	Rs/shr	%	Rs/shr	%	Rs/shr	%	Rs/shr	%
Airports	16.3	32.4	17.2	32.6	-	-	-	-	-	-
Real estate	10.5	20.9	13.7	26.0		-	54.4	8.2	17.9	11.1
Power generation	18.5	36.8	20.3	38.6	468.3	49.3	237.9	35.8	-	-
Ports	-	-	-	-	-	-	202.0	30.4	137.9	85.7
Electricity distribution	-	-	-	-	127.8	13.4	-	-	-	-
Roads / metros etc	4.6	9.1	3.6	6.9	201.0	21.1	-	-	-	-
Mines and MDO	1.0	2.0	0.4	0.8	-	-	84.3	12.7	-	-
EPC	-	-	-	-	64.6	6.8	-	-	-	-
Net cash / debt	(0.6)	(1.2)	(2.6)	(4.9)	75.2	7.9	-	-	-	-
Others and misc	-	-	-	-	13.7	1.4	86.4	13.0	5.2	3.2
Total	**50.3**	**100.0**	**52.6**	**100.0**	**950.7**	**100.0**	**665.1**	**100.0**	**161.0**	**100.0**

Source: J.P. Morgan estimates. Note: (1) For Mundra Port and Adani Enterprises we include the value for Mundra Port's SEZ in real estate. (2) For RELI, Value for Metros (Rs84/share) includes value for real estate as well.

A common investor concern is that DCF places too much value on long-term upside potential that is not clearly visible. To allay this concern, we show how our target values for individual verticals stack up against their Indian / global pure-play comps.

Airport valuation

In our view, our target valuation for the airport verticals of GMRI and GVKP, excluding real estate, should be benchmarked on an EV/EBITDA basis to their global peers. As Indian airports are barely coming out of the loss-making phase, P/E comparison does not providemeaningful numbers. P/BV, too, appears high vs. peers as these are at the initial investment phase, where (equity + accumulated reserves) is low and debt is high. The implied EV/EBITDA multiples, on the other hand, are comparable to Macquarie airports as well as to Beijing Capital. The premium to European airports is warranted, in our view, due to higher traffic growth potential and non-aeronautical revenue growth possibilities at Indian airports.

Table 7: Comparing airport vertical valuations

	BBG Code	JPM Rating	Currency	JPM PT (LC)	CMP (LC)	Eq Val/Mkt Cap US$B	P/E (x) FY12E	P/E (x) FY13E	EV/EBITDA (x) FY12E	EV/EBITDA (x) FY13E	P/BV (x) FY12E	P/BV (x) FY13E
Indian Airports												
GMR Airports			INR	NA	NA	$ 4.3	NM	310.2	22.3	14.8	18.5	16.0
ex real estate						$ 2.7	NM	195.1	16.7	10.7	11.6	10.1
GVK Airports			INR	NA	NA	$ 3.1	47.2	NM	22.2	19.5	5.7	6.1
ex real estate						$ 1.8	26.9	NM	15.8	13.8	3.2	3.5
Asian Airports												
Beijing Capital	694 HK	OW	HKD	$ 5.6	$ 4.4	$1.1	27.6	21.4	12.3	11.1	1.2	1.2
HMA	357 HK	NR	HKD	NA	$ 10.0	$5.6	17.0	15.1	9.6	8.5	1.8	1.6
MAHB	MAHB MK	OW	MYR	$ 6.2	$ 6.1	$0.9	15.4	14.5	8.0	7.4	1.8	1.7
AOT	AOT TB	NR	THB	NA	$ 37.5	$1.4	14.5	12.6	6.1	6.0	0.7	0.7
Australian Airports												
Australian Infra Fund	AIX AU	OW	AUD	$ 2.0	$1.9	$1.2	18.2	17.4	10.4	9.8	NA	NA
MAP Airports (1)	MAP AU	OW	AUD	$ 3.4	$ 3.0	$5.5	13.5	13.0	12.7	12.0	NA	NA
Auckland Airport	AIA AU	UW	NZD	$ 1.4	$1.7	$1.7	18.1	16.6	11.0	10.4	NA	NA
International Airports												
Vienna	FLU AV	NR	EUR		$49.7	$1.4	12.8	15.1	8.9	8.4	1.2	1.2
Copenhagen	KBHL DC	NR	DKK		$ 1,576.0	$2.2	15.8	15.1	8.7	8.4	3.7	3.7
Fraport	FRA GR	NR	EUR		$49.0	$5.90	22.6	21.2	9.2	8.3	1.7	1.6
Venice	SAVE IM	NR	EUR		$7.5	$0.5	17.4	15.1	6.9	6.3	1.5	1.5
Paris	ADP FP	NR	EUR		$ 59.5	$ 7.7	18.9	17.3	8.6	8.0	1.7	1.6
Zurich	FHZN SW	NR	CHF		$ 394.5	$2.5	16.0	14.3	7.6	7.2	1.3	1.3

Source: Bloomberg, J.P. Morgan estimates. Prices as on 13 Jan 2011. For NR stocks we use Bloomberg consensus estimates.

Power valuation

Markets tend to use both earnings-based and asset-based multiples to compare power valuations. Indian power IPPs trade at a mean P/E of 11-12x FY13E earnings. EV/EBITDA for FY13 is generally around 7-7.5x. On both these parameters, the implied valuation for GVK's power vertical appears higher. This is due to 26% of the power valuation coming from gas-based project expansion that will be commissioned around early FY15, and contribute significantly to earnings (19% of FY15 power segment EBITDA).

RPWR is expensive, justifying our 20% holdco discount approach to value RELI's stake in RPWR, in our view. Adani Power appears cheap, justifying our lower holdco discount of 10% to value ADE’s stake, in our view. We believe our valuation of GMRI's power assets is reasonable.

P/B for the sector is close to 2x. GMRI / GVKP power valuations based on P/B appears cheap: infusion of equity funds and independent listing would facilitate better value discovery, in our view.

Table 8: Comparing power vertical valuations

	JPM Rating	PT (Rs)	CMP (Rs)	Mkt Cap/JPM Eq val (US$B)	P/E (x) FY12E	P/E (x) FY13E	EV/EBITDA (x) FY12E	EV/EBITDA (x) FY13E	P/BV (x) FY12E	P/BV (x) FY13E	P/MW FY12E	P/MW FY13E	EV/MW FY12E	EV/MW FY13E
Pure plays														
NTPC	N	225	189	$33.4	14.4	12.4	11.4	10.0	2.0	1.8	37.4	30.3	54.0	46.5
Adani	OW	153	124	$5.8	14.1	8.5	17.3	7.3	3.2	2.3	106.5	44.9	211.4	92.6
RPWR	UW	145	149	$9.0	53.5	20.1	59.1	18.0	2.4	2.1	525.3	101.3	627.6	169.4
Lanco Infra	OW	85	58	$3.0	14.9	10.8	8.3	7.1	2.7	2.2	25.7	20.1	84.8	73.2
JSW Energy	N	116	93	$3.3	8.2	9.8	6.1	6.6	2.1	1.8	51.3	47.6	73.6	66.4
Conglomerates														
TPWR	N	1,425	1,347	$6.9	16.1	12.0	10.7	7.6	2.1	1.8	24.5	14.0	72.3	42.6
GMRI	OW	NA	NA	$2.0	29.5	12.1	24.0	7.3	1.6	1.3	112.1	40.3	170.8	67.2
GVK	OW	NA	NA	$1.3	30.5	13.8	19.5	12.6	1.2	0.9	55.1	40.3	120.8	105.3

Source: Bloomberg, J.P. Morgan estimates. Price as on 13 Jan 2011. Note: Equity values for GMR and GVK's power verticals used based on price target for both. Adani Power and Reliance Power are listed subsidiaries/associates of Adani Enterprises and Reliance Power respectively.

Roads valuation

On a P/BV basis, GMR and RELI's road projects trade on par with Indian and regional road companies.

Table 9: Comparing road vertical valuations

	BBG Code	JPM Rating	Currency	JPM PT (LC)	CMP (LC)	Mkt Cap/JPM Eq Val US$B	P/E (x) FY12E	P/E (x) FY13E	EV/EBITDA (x) FY12E	EV/EBITDA (x) FY13E	P/BV (x) FY12E	P/BV (x) FY13E
Indian Roads												
GMR (9 projects)		NR	INR	NA	NA	$0.5	NM	NM	22.2	12.6	1.7	1.6
GVK (1 project)		NR	INR	NA	NA	$0.2	7.8	6.9	5.5	4.9	3.7	3.4
RELI (9 projects)		NR	INR	NA	NA	$0.6	NM	NM	24.4	18.7	2.1	1.6
IRB	IRB IN	NR	INR	NA	216.5	$1.6	13.1	11.9	6.9	5.7	2.3	1.9
IL&FS Transport	ILFT IN	NR	INR	NA	267.3	$1.2	9.9	7.9	7.0	5.5	2.0	1.7
Asian Roads												
Anhui Expressway	995 HK	OW	HKD	10.7	6.6	$1.5	10.4	9.3	7.6	6.9	1.5	1.4
Zhejiang Expressway	576 HK	OW	HKD	9.1	7.4	$4.1	13.0	11.5	6.3	5.9	1.7	1.7
Jiangsu Expressway	177 HK	OW	HKD	10.3	8.8	$5.1	13.9	12.5	8.8	8.3	2.3	2.2
Shenzen Expressway	548 HK	OW	HKD	8.7	4.9	$1.6	10.8	8.9	10.1	9.1	1.0	1.0
Hopewell Highway	737 HK	N	HKD	5.9	6.2	$2.4	16.7	NA	10.2	NA	2.2	NA
Sichuan	107 HK	NR	HKD	NA	5.3	$2.8	10.4	9.8	8.1	7.4	1.5	1.4
Jasa Marga	JSMR IJ	UW	IDR	2,900.0	3,275.0	$2.5	16.6	13.7	9.3	7.9	2.4	2.2
Plus Expressway	PLUS MK	N	MYR	4.6	4.5	7.3	11.8	11.4	8.4	8.2	2.5	2.3

Source: Bloomberg. J.P.Morgan estimates. Price as on 13 Jan 2011. Note: Equity values for GMR, RELI and GVK's power verticals used based on price target for both. Estimates for IRB and IL&FS are based on Bloomberg consensus.

Ports valuation

Prima-facie MPSEZ appears to be the most expensive stock in the listed port universe (see valuation comps in Table 10). The stock trades at 15.6x FY12E EV/EBITDA vs. the global average of 11-12x.

The premium is justified, in our view, as MP is one of the fastest growing port businesses with an FY10-14E EBITDA and earnings CAGR of 36% and 37.5% respectively. Also the scalability potential of the port asset is high, to which the markets seem to be attributing value (we estimate ~380MT traffic in FY31, the terminal year of the MP concession, from ~40MTPA at end of FY10).

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We expect MP to be the largest port in India, surpassing Kandla port (which handles ~79MT in FY10) by FY14. MP has the largest contiguous SEZ with a notified area of 15,995 acres.

Table 10: Global port terminal businesses: Valuation comparison

Name	Ticker	JPM rating	Last price LC	Mkt cap US$MM	P/E (x)		P/BV (x)		EV/EBITDA (x)	
					CY10E	CY11E	CY10E	CY11E	CY10E	CY11E
HK-listed port operators:										
COSCO Pacific	1199 HK	OW	14.76	5,131	14.2x	15.5x	1.4x	1.4x	13.7x	11.7x
China Merchants	144 HK	N	33.60	10,588	20.9x	21.7x	2.3x	2.2x	17.8x	17.8x
Dalian Port	2880 HK	N	3.43	2,469	12.6x	12.7x	1.3x	1.1x	16.5x	15.1x
Xiamen Int'l Port	3378 HK	NR	1.64	573	14.5x	12.0x	0.9x	0.9x	7.3x	6.6x
Tianjin Port Dvlp	3382 HK	NR	2.00	1,579	22.2x	17.5x	1.1x	1.1x	11.5x	9.8x
Average					**16.9x**	**15.9x**	**1.4x**	**1.3x**	**13.4x**	**12.2x**
China-listed port operators:										
Ningbo Port Co. Ltd	601018	NR	3.09	5,991	NA	NA	NA	NA	NA	NA
Tianjin Port-A	600717 CH	NR	8.50	2,156	17.2x	14.8x	1.4x	1.4x	10.1x	8.9x
Shenzhen Chiwan Wharf	000022 CH	NR	14.42	1,337	16.0x	14.5x	32.8x	2.5x	9.7x	8.9x
Shenzhen Yantian Port	000088 CH	NR	6.23	1,175	17.0x	16.1x	1.8x	1.7x	24.9x	24.2x
SIPG	600018 CH	NR	4.01	12,749	15.8x	14.9x	2.1x	2.0x	8.8x	7.9x
Rizhao Port	600017 CH	NR	4.07	1,396	20.2x	17.0x	2.0x	1.8x	10.7x	9.3x
Average					**17.3x**	**15.4x**	**8.0x**	**1.9x**	**12.8x**	**11.8x**
Overseas port operators:										
HHUL	HHFA GR	NR	34.99	3,341	38.0x	29.9x	3.7x	3.9x	10.3x	9.0x
Forth Ports	FPT LN	NR	1,377.00	991	24.3x	22.1x	2.6x	2.4x	14.0x	13.2x
Port of Tauranga	POT NZ	NR	7.51	769	19.4x	18.0x	NA	1.5x	12.8x	12.1x
Piraeus Port authority	PPA GA	NR	11.27	370	42.2x	75.1x	1.7x	1.4x	16.6x	17.7x
Mundra Port and SEZ Ltd	**MSEZ IN**	**N**	**140.90**	**6,250**	**31.7x**	**21.3x**	**6.7x**	**5.4x**	**21.2x**	**15.6x**
DP WORLD LTD	DPW DU	NR	0.67	11,039	33.3x	26.6x	1.4x	1.4x	14.5x	12.8x
Salalah Port Svc	SPSI OM	NR	0.48	225	NA	NA	NA	NA	NA	NA
Port Svc Corp	PSCS OM	NR	0.61	150	NA	NA	NA	NA	NA	NA
INTL Container Svc	ICT PM	OW	43.50	1,907	21.3x	18.1x	3.7x	3.2x	8.0x	8.5x
NCB Holdings	NCB MK	NR	3.78	582	11.1x	11.1x	0.9x	0.9x	2.6x	2.4x
Bintulu Port	BPH MK	NR	6.78	888	18.4x	17.7x	3.1x	3.0x	10.8x	10.0x
Average					**26.6x**	**26.7x**	**3.0x**	**2.6x**	**12.3x**	**11.3x**

Source: Bloomberg estimates for all other companies, J.P.Morgan estimates for MPSEZ (MSEZ IN), DP (2880 HK), CP (1199 HK) and CMHI (144 HK). Prices and valuations are as of 1/13/2011.
Note: CY10 is FY11 (Year-end March) for MPSEZ.

Valuation for airport real estate

DIAL has set a precedent for valuation of its land bank when it bid out the 45 acres of the hospitality district in two phases between Mar-09 and Dec-09. The NPV of upfront deposit and net-present value of annuities worked out to ~Rs5355/sq.ft. The bids were awarded to Accor, InterGlobe Hotels, Lemon Tree, DB Hospitality, and a few others. We have conservatively valued the remaining DIAL real estate (130 acres, assuming 75 acres is used to fund early repayment of debt) at a 50% discount to the valuation precedent set for the 45 acres.

At MIAL, we value 12.6mn sq ft at an implied value of Rs3,990/sq ft (the first tranche at DIAL had been bid out at this rate).

At Hyderabad, given the sheer volume of the land bank (1,000 acres), we value it at a modest Rs26MM/acre based on a DCF approach. Management has made plans for the first 275acres but is unlikely to see any sales in the next 12 months due to the Telangana issue. Similarly due to the lack of clarity on timing, we estimate a modest Rs20MM/acre valuation for Bangalore real estate.

Table 11: Valuation of real estate attached to Indian airports

	Equity Value (Rs B)	No of acres	Mn Sq ft	Rs.mn / acre	Rs./sq ft	Status of development
Delhi	45.5	130	16.6	350	2,746	45 acres already monetized @ Rs727M/acre.
Mumbai	50.3	100	12.6	503	3,990	Still awaiting MMRDA clearance, plans to sell 3 acres in 1HCY11.
Hyderabad	25.7	1,000	132.0	26	194	Plans for Phase 1 of 275 acres finalized.
Bangalore	10.3	515	56.7	20	182	Plans still under development, no revenue recognition before FY12.

Source: J.P. Morgan estimates.

Consolidated valuation

Valuations for GMRI and GVK should be viewed ex-real estate, in our view, as the latter is valued at NAV and does not contribute significantly to earnings. Valuations have begun to look reasonable on P/E, P/B and EV/EBITDA if adjusted for real estate.

Table 12: Indian Infrastructure: Comparative valuations

Year-end March

Company	BBG Code	JPM Rating	CMP (Rs)	PT (Rs)	Mkt cap (US$ B)	P/E (x) FY12E	P/E (x) FY13E	EV/EBITDA (x) FY12E	EV/EBITDA (x) FY13E	P/BV (x) FY12E	P/BV (x) FY13E
GMR	GMRI IN	OW	41	50	$3.4	83.2	19.0	15.7	8.9	1.9	0.9
GMR ex real estate			32	40	$2.7	65.8	15.0	14.1	8.1	1.5	0.7
GVK	GVKP IN	OW	38	53	$1.3	21.0	20.8	16.3	9.0	1.6	1.5
GVK ex Real estate			28	39	$1.7	15.6	15.4	14.1	7.7	1.2	1.1
Reliance Infra	RELI IN	N	810	950	$4.7	15.3	9.9	11.6	9.0	0.9	0.8
Adani Enterprises	ADE IN	N	644	665	$15.2	19.3	12.8	14.3	8.3	3.9	3.0
Mundra Port	MSEZ IN	N	141	161	$6.1	21.9	14.2	17.3	11.8	5.5	4.2
Jaiprakash Associates	JPA IN	NR	96	NA	$4.5	19.2	14.1	10.9	9.0	1.9	1.6
IRB Infrastructure	IRB IN	NR	216	NA	$1.5	13.1	11.9	6.9	5.7	2.3	1.9

Source: Bloomberg, J.P. Morgan estimates. Price as on 13Jan 2011. Bloomberg consensus estimates used for JPA and IRB which are not covered. In order derive valuation for GMR and GVK ex real estate CMP, Mkt Cap, PT and Multiples are adjusted for the proportion of real estate in our SOTP.

Appendix I: Some basics on regulatory issues

Airports – Issue of user charges

User charges for new airports (Bangalore, Hyderabad) and expansions (Mumbai, Delhi) are guided by principles laid down in the State Support Agreement (SSA) and Operation, Maintenance and Development Agreement (OMDA): these agreements formed the basis of private investment. The airport regulator, constituted in Jun-2009, is mandated to announce user charges on the basis of these principles. The key consideration, as with any other infrastructure asset class, is balancing developers' return aspirations (considering the risk they have taken) with user ability / willingness to pay. The key issues are summarized below.

Table 13: Improved clarity on airport regulatory issues

Regulatory issue	Status so far	Our view	Impact
Higher UDF at Hyderabad airport	In Oct '10 GHIAL received approval from AERA to increase UDF for each domestic outbound PAX to Rs430 from Rs375 and for each international outbound PAX to Rs1,700 from Rs1,000 previously.	NA	Positive to earnings and valuation.
DIAL project cost	For DIAL's project cost overrun of Rs29B, GMR management has sought additional UDF of Rs16.5B to bridge the funding gap. The current ADF stands at Rs200/Domestic PAX and Rs1,300/Internail PAX thru FY12.	The audit of DIAL's project cost submitted by GMR was also complete and results would be made public shortly.	Clarity on DIAL project cost will remove overhang. If additional ADF is approved it will be value accretive since we are currently assuming funding via real estate sales.
Aero charges	In 2006 the Govt. had agreed to a 10% hike in aero charge for MIAL and DIAL in 2010. GMR and GVK are chasing this hike now which has not been implemented with the regulatory mantle being shifted to AERA in 2009. The AAI had permitted a 10% hike in aero charges in Feb '09.	We believe that regulations for determination of aero charges at MIAL and DIAL will be finalized within a couple of months. The process of consultation on regulatory philosophy, and analysis of stakeholder feedback is complete.	An increase in aero charges is a Positive event.
Hybrid/single til model for DIAL and MIAL	AERA had recently shown preference of the single til model (100% subsidization via non aero charges) which was not in conformity with the OMDA. Application of the single til model to DIAL and MIAL would be value destructive for shareholders.	In our view, the final regulation would most likely maintain revenue neutrality with the State Support Agreement (SSA) or OMDA, as the case may be. For DIAL and MIAL, AERA may adopt a hybrid till model, where 30% of non-aero revenues subsidize the target aero revenues.	The outcome appears positive in our view as it boosts confidence in sanctity of contracts entered in the past and dispels fears of a worst case scenario where the regulator could have pushed a single til model
Switch to the CPI-X model for calculating aero charges	The move towards a regulated regime as per the CPI-X formula has been delayed, since AERA charges was formally set up only in Jun-09.	We use 11.6% guaranteed return in arriving at target aero revenues, although we understand this rate is not cast in stone	Increase in hurdle will be a positive for returns. Finalization of policy will provide clarify on inflation factor for aero charges which will remove regulatory overhang.

Source: J.P. Morgan. Note: SSA: The SSA is an agreement between GoI and MIAL/DIAL, prescribed the principles of tariff fixation when the concessions were awarded around 2006. CPI-X formula: Aero revenues = 11.6% (WACC) return on regulated asset base (Net fixed aero assets less Upfront Fee less ADF) + Depreciation + Operation & Maintenance expenses + Taxes on aero income - 30% of estimated non-aero revenues.

Merchant power sale

GVK's J-2 (220MW) and Gautami (464MW); and GMRI's Vemagiri (389MW) had suffered due to unavailability of gas and inability to burn an alternate fuel, while the state government too had refused to reimburse these plants for fixed costs. Subsequently, the government offered, by way of compensation, the facility to sell 20% of the power on merchant basis to third party customers, and reduce the PPA by that quantum, subject to regulatory approval. APERC, in Dec-09, stated that merchant sales would be allowed only for a finite period to recover the cost overruns incurred by idle plants.

Electricity business and license

In Jul-09 MERC had put a stay on steep electricity tariff increases after public protest supported by the government, given it was an election year in Maharashtra. This ban was lifted in Sep-10, but the interim stay has resulted in accumulation of ~Rs20B of receivables which RELI expects to realize over the next 2-3 years. We note that in 2H FY11, given the lift of stay, there would be no further creation of regulatory assets.

Moreover RELI's license to distribute power in Mumbai expires in Aug 2011 and eight other firms have bid for the same (MSEDCL, Torrent Power, DPSC Ltd, Lanco Infrastructure, GMR Energy, Indiabulls Power, TPC and Enzen Global Solutions). RELI's contention is that the regulator must extend its license to 2028 i.e. 25 years as per Electricity Act, 2003. However MERC remains concerned about RELI's strategy to procure power and the cost of the same.

Real estate monetization (for GVK)

Of the total available area of 1,976 acres, MIAL is allowed to commercially develop 10%, or 198 acres of real estate around the airport. To handle the politically sensitive issue of slum encroachment, MIAL engaged HDIL, a slum rehabilitation specialist. In exchange HDIL will get 65 acres of airport land for its own development, in addition to the extra FSI that slum rehabilitation projects are entitled to.

Also an additional 52 acres is occupied by AAI for its staff quarters and offices. If MIAL gets to develop 100 acres, mgt. is confident that it can build 15-20 mn sqft (implying 3.5-4.5x FSI). The entire development is expected to pan out over 15 years.

Management has been awaiting MMRDA approval to commence its development plans for over a year now.

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Asia Pacific Equity Research
16 January 2011

GMR Infrastructure Ltd

It's a carriage, not a pumpkin. Upgrade to OW

▲ **Overweight**
Previous: Neutral

GMRI.BO, GMRI IN

Price: Rs40.40

▼ **Price Target: Rs50.00**
Previous: Rs75.00

India
Infrastructure

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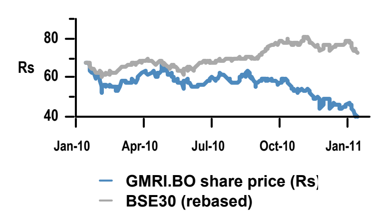
Price Performance



	YTD	1m	3m	12m
Abs	-12.0%	-15.0%	-29.9%	-40.3%
Rel	-4.0%	-10.3%	-21.9%	-47.6%

Clarity on airport charges, turnaround of key assets, balance sheet de-leveraging, commissioning of power projects and potential spin-off / independent listing of subsidiaries are the likely catalysts. We upgrade GMRI to OW. Our new Mar-12 PT is Rs.50.

- **Heavy capex phase in airport vertical drawing to an end, time to reap the returns**: Completion of the Delhi airport well ahead of the Commonwealth games provides more evidence of GMRI's above-average execution, in our view. We believe the airport will begin generating FCF in FY12, and could also make a net profit if mgt executes its game plan to pay off debt with further real estate lease-outs. Hyderabad airport has begun generating FCF in FY11, and we expect sharp profit growth in FY12 led by higher capacity utilization.
- **New airport regulator (AERA) likely to announce principles for airport charges by 1QFY12.** In our view, this would remove uncertainties on a) acceptability of cost overruns at Delhi Airport and b) returns on aero assets and extent of non-aero cross subsidies.
- **Other positives:** (1) 50% stake sale in Intergen for US$1.23B reduces consolidated debt levels (2) Potential demerger and individual listing of airport and power verticals would be a stock catalyst, in our view, as it would simplify the structures and facilitate independent value discovery.
- **Power to provide the next growth leg:** GMRI has 823MW of operating power assets, and an under-construction portfolio of 2.4GW. Recent PE investment of ~US$300M in the power vertical would fund growth through FY13, around which time management has stated that it would IPO this vertical and seek more funds.
- **The stock is trading at 19x FY13 P/E and 8.9x EV/EBITDA.** As 21% of the value arises from un-monetised real estate which is not contributing towards earnings, the P/E and EV/EBITDA adjusted for real estate is 15x and 8.1x, respectively. In our view, the valuation is reasonable given potential growth in earnings beyond FY13 from the power vertical.

GMR Infrastructure Ltd (Reuters: GMRI.BO, Bloomberg: GMRI IN)

Rs in mn, year-end Mar	FY09A	FY10A	FY11E	FY12E	FY13E
Revenue	40,192	45,665	51,079	66,963	110,139
Adjusted Profit	2,795	1,584	-307	1,918	8,403
EPS (Rs)	1.53	0.43	(0.08)	0.49	2.16
Revenue growth (%)	75.1%	13.6%	11.9%	31.1%	64.5%
Adjusted profit growth (%) (Rs)	33%	(43%)	(119%)	(724%)	338%
ROCE	4.1%	3.2%	4.0%	4.0%	7.9%
ROE	4.4%	2.4%	-0.4%	2.0%	5.9%
P/E (x)	26.3	93.5	-511.5	82.0	18.7
P/BV (x)	1.1	1.1	0.8	0.8	0.4
EV/EBITDA (x)	24.1	25.8	17.5	15.7	8.9

Shares O/S (mn)	3,892
Market cap (Rs mn)	157,254
Market cap ($ mn)	3,476
Price (Rs)	40.40
Date Of Price	14 Jan 11
Free float (%)	29.9%
3mth Avg daily volume (mn)	4.47
3M - Average daily Value (Rs mn)	221.07
Average 3m Daily Turnover ($ mn)	4.89
BSE30	18,860
Exchange Rate	45.24
Fiscal Year End	Mar

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

See page 79 for analyst certification and important disclosures, including non-US analyst disclosures.

Company Description

GMR Infra owns and manages 3 airports - Delhi, Hyderabad and Sabiha (Turkey) and recently acquired the Male airport as well. It also has 6 operational and 3 under construction road projects with a project cost of Rs30B. GMRI has 823MW of operating power assets, and an under-construction portfolio of 2.4GW.

P&L sensitivity metrics

	EBITDA impact (%)	EPS impact (%)
Traffic growth assumption (DIAL)		
Impact of 5% increase in FY11 est.	0.40%	2.50%
Traffic growth assumption (GHIAL)		
Impact of 5% increase in FY11 est.	0.60%	3.90%

Source: J.P. Morgan estimates.

Price target and valuation analysis

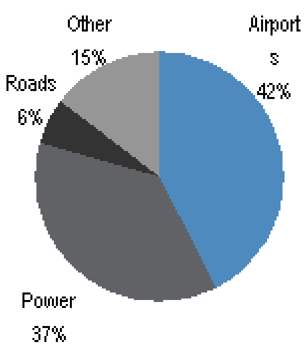
We roll forward and reduce our SOTP based Mar-12 PT to Rs50, factoring in Rs27/shr from airports and associated real estate, Rs19/shr from power generation and Rs4.6/shr from roads. We use a more conservative view on aero and non aero revenues and reduce the value for real estate as well.

	RsB	Rs/share
Airports	63.5	16.3
Airport real estate	40.8	10.5
Power	72.0	18.5
Roads	17.8	4.6
Coal Mine investments	3.8	1.0
Net Cash	(2.4)	(0.6)
Overall	**195.6**	**50.3**

Source: J.P.Morgan estimates

Clarity on airport charges, turnaround of key assets, balance sheet de-leveraging, commissioning of power projects and potential spin-off / independent listing of subsidiaries are the likely catalysts. We upgrade to OW. Key downside risks are no increase in aero charges, and slow execution of power projects.

Revenue composition (FY12E)



Source: J.P.Morgan estimates

EPS: J.P. Morgan vs consensus

	J. P. Morgan	Consensus
FY11E	(0.08)	0.42
FY12E	0.49	0.98
FY13E	2.16	2.85

Source: Bloomberg, J.P. Morgan estimates.

Valuation and stock view

Our SOTP based Mar-12 PT of Rs50/share (see Table 1 below) derives 53% of its value from airports and associated real estate, 37% from power (assuming a 15% equity stake owned by PE investors) and 9% from roads. We continue to use DCF to value each SPV.

Key changes vs. our previous PT of Rs75 include a) **Airports:** A more conservative view of aero charge increases as well as long-term non-aero revenues resulting in lower value for airport assets, b) **Real estate:** Reduced value for DIAL real estate assuming 75 acres used for airport funding and a reduced value for Hyderabad real estate at Rs26M/acre vs. Rs30M/acre previously. c) **SEZs:** Knocked off value for SEZs which are yet to take off d) **Power:** Inclusion of EMCO (600MW), incorporating PE investment of Rs14.6B while adjusting for an assumed 15% dilution on account of the same and e) Increased share count.

A common investor concern regarding valuation of infrastructure conglomerates (especially GMRI) is the excessive value coming from long-term cash flows – we believe our new valuation addresses this concern by adopting a more conservative approach and sanity-checking the implied multiples with other publicly listed pure-plays.

Table 14: GMRI: SOTP valuation

	Total asset value		GMR's stake	Value of GMR's stake			
	(Rs bn)	(US$ mn)	(%)	(Rs bn)	(US$ mn)	(Rs/share)	(% Contribution)
Airports	**191.8**	**4,263**		**104.3**	**2,317**	**26.8**	**53.3**
Delhi Airport	**98.2**	**2,183**	**54.1**	**53.1**	**1,181**	**13.7**	**27.2**
Core	52.7	1,171		28.5	634	7.3	14.6
Real estate	45.5	1,012		24.6	548	6.3	12.6
Hyderabad Airport	**47.6**	**1,058**	**63.0**	**30.0**	**667**	**7.7**	**15.3**
Core	21.9	488		13.8	307	3.6	7.1
Real estate	25.7	570		16.2	359	4.2	8.3
Sabiha, Turkey	**38.6**	**857**	**40.0**	**15.4**	**343**	**4.0**	**7.9**
Male, Maldives	**7.4**	**165**	**77.0**	**5.7**	**127**	**1.5**	**2.9**
Roads	**23.0**	**511**	**77.5**	**17.8**	**396**	**4.6**	**9.1**
Power	**92.2**	**2,050**		**72.0**	**1,600**	**18.5**	**36.8**
Cash from PE Deal	14.7	326	85.0	12.5	277	3.2	6.4
Vemagiri	9.0	201	83.2	7.5	167	1.9	3.8
Mangalore	12.7	283	83.2	10.6	235	2.7	5.4
Basin Bridge	5.3	117	42.4	2.2	50	0.6	1.1
Orissa	19.0	423	68.0	12.9	287	3.3	6.6
Vemagiri-Extension	20.6	457	83.2	17.1	380	4.4	8.7
Emco	11.0	245	83.2	9.2	204	2.4	4.7
Coal mine investments	**4.5**	**100**		**3.8**	**85**	**1.0**	**2.0**
PT Barasentosa Lestari, Indonesia	3.0	67	100.0	3.0	67	0.8	1.5
Homeland Energy Group, Canada	1.5	33	54.0	0.8	18	0.2	0.4
Net cash/ (debt) at parent level	**(2.4)**	**(52)**	**100.0**	**(2.4)**	**(52)**	**(0.6)**	**(1.2)**
Grand total	**309**	**6,872**		**196**	**4,346**	**50**	**100.0**

Source: Company, J.P. Morgan estimates. Note: We assume that the PE investment of Rs14.65B resulted in a 15% dilution of GMR's sake in the power vertical. Hence valuation is port money.

Ex- real estate, valuation looks more reasonable

GMR is trading at 19x FY13 P/E and 8.9x EV/EBITDA. As 21% of the value arises from un-monetised real estate which is not contributing towards earnings, the P/E and EV/EBITDA adjusted for real estate is 15x and 8.1x, respectively. In our view, the valuation is reasonable given potential growth in earnings beyond FY13 from the power vertical.

Table 15: Indian infrastructure: Comparable valuation

year end March

Company	BBG Code	JPM Rating	CMP (Rs)	PT (Rs)	Mkt cap (US$ bn)	P/E FY12E	P/E FY13E	EV/EBITDA FY12E	EV/EBITDA FY13E	P/B FY12E	P/B FY13E
GMR	**GMRI IN**	**OW**	**41**	**50**	**$3.5**	**83.2**	**19.0**	**15.7**	**8.9**	**1.9**	**0.9**
Ex real estate			**32**	**40**	**$2.8**	**65.8**	**15.0**	**14.1**	**8.1**	**1.5**	**0.7**
GVK	GVKP IN	OW	38	53	$1.3	21.0	20.8	16.3	9.0	1.6	1.5
Ex real estate			28	39	$1.8	15.6	15.4	14.1	7.7	1.2	1.1
Reliance Infra	RELI IN	N	810	950	$4.8	15.3	9.9	11.6	9.0	0.9	0.8
Adani Enterprises	ADE IN	N	644	665	$15.6	19.3	12.8	14.3	8.3	3.9	3.0
Mundra Port	MSEZ IN	N	141	161	$6.3	21.9	14.2	17.3	11.8	5.5	4.2
Jaiprakash Associate	JPA IN	NR	96	NA	$4.5	19.2	14.1	10.9	9.0	1.9	1.6
IRB Infrastructure	IRB IN	NR	216	NA	$1.6	13.1	11.9	6.9	5.7	2.3	1.9

Source: J.P. Morgan estimates, Company data. Price as on 13 Jan 2011. We use Bloomberg consensus estimates for JPA and IRB. In order derive valuation for GMR and GVK ex real estate CMP, Mkt Cap, PT and Multiples are adjusted for the proportion of real estate in our SOTP.

Upgrade to OW driven by visible catalysts

Clarity on airport charges, turnaround of key assets, balance sheet de-leveraging, commissioning of power projects and potential spin-off / independent listing of subsidiaries are the likely catalysts. Demerger of subsidiaries would simplify the structures and facilitate independent value discovery, in our view. Other conglomerates like Adani Enterprises, JPA, Reliance Infrastructure and L&T saw strong stock performance ahead of potential value unlocking.

GMRI has received $300M PE investment in its power vertical, and has said it plans to launch this business via IPO before FY14 as an exit route to investors.

The company is now looking at PE infusion in its airport vertical, with news reports suggesting that the Macquarie SBI Infra fund was planning to invest $100-200M in GMR Airports via convertible preference shares which may be converted to equity at a later date.

Better visibility on profitability path and cash flows for airport assets

We estimate DIAL, GHIAL and Sabiha to be FCFF positive in FY12

Male to complete expansion in FY14

The heavy capex phase in the airport vertical is drawing to an end with the completion of Delhi International Airport. We believe the airport will begin generating FCFF in FY12, and could also make a net profit if mgt executes its game plan to pay-off debt with further real estate lease-outs. On the other hand the Hyderabad airport has begun generating FCFF in FY11 itself, and we expect a sharp profit growth in FY12 led by higher capacity utilization. With the capex phase for Sabiha also complete we expect a positive FCFF this year onwards. Whereas we expect the currently operational Male airport will see an influx in cash flow FY14 onwards when its planned expansion is complete and with ADC (Airport Development Charges) kicking in 2012.

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Table 16: Capex phase coming to an end for GMRI's airport assets

Rs. in million, year-end March

	FY09	FY10	FY11E	FY12E	FY13E	FY14E	FY15E
DIAL	37,643	40,473	19,951	331	382	428	15,490
GHIAL	1,750	88	102	113	133	155	5,594
Turkey	5,106	11,608	282	351	424	510	598
Male	-	-	5,124	4,150	6,321	5,646	1,780
Total	**44,499**	**52,169**	**25,459**	**4,945**	**7,260**	**6,740**	**23,462**

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

Delhi airport – debt repayment and airport regulator decision will be key determinants of profitability

Earnings outlook

We currently model DIAL to turn around only in FY14 as capital costs depress the bottom line in the medium term. The company's strategy to repay debt via real estate deposits could however fast track this turnaround. We currently model ~Rs55B of proceeds from monetization of 75 acres of real estate over 3 years to go towards reducing the current debt balance (~Rs74B). We expect a 12.3% CAGR in traffic and 16.3% CAGR during FY10-14 and sustainable ROE of 25-30% thru FY30 post the turnaround in FY14.

Cash flow outlook

On a cash flow basis we expect a positive FCFF FY12 onwards as the capex phase for Terminal 3 gets completed in FY11. The project cost of DIAL increased from Rs98B to Rs106B (which was approved by AERA) and further to Rs127B. DIAL has appealed to AERA for funding the Rs16.5B gap with increased ADF, although we have modeled the gap to be debt funded. Approval of additional ADF and repayment of debt faster than expected with real estate proceeds would be accretive to FCFE.

Table 17: DIAL: Summary P&L and cash flow outlook

Rs. in million, year end March

	FY10	FY11E	FY12E	FY13E	FY14E	FY15E
PAX Traffic (mn)	**26.1**	**30.7**	**35.0**	**38.5**	**42.4**	**46.6**
Domestic (mn)	17.8	21.4	24.8	27.3	30.0	33.0
International (mn)	8.3	9.3	10.2	11.2	12.4	13.6
% International	32%	30%	29%	29%	29%	29%
yoy growth/CAGR over the past 5 yrs (%)		17.5%	14.2%	10.0%	10.0%	12.3%
Net Revenues (Rs M)	**6,140**	**7,034**	**8,873**	**10,269**	**11,467**	**13,056**
Gross Aero Rev (Rs m)	4,218	5,524	7,151	7,795	8,497	9,435
Gross Non Aero Rev (Rs M)	7,311	7,872	9,418	11,283	12,900	15,079
Non Aero as % of Aero	63%	59%	57%	59%	60%	62%
Aero revenue/ PAX (Rs)	162	180	204	202	201	202
Non aero revenue/ PAX (Rs)	280	257	269	293	304	324
EBITDA (Rs M)	**2,442**	**2,453**	**3,914**	**5,071**	**6,044**	**7,423**
EBITDA mgn	39.8%	34.9%	44.1%	49.4%	52.7%	56.9%
PAT (Rs M)	**436**	**(1,783)**	**(4,348)**	**(1,685)**	**486**	**1,708**
ROE (%)	3.3%	-14.1%	-45.3%	-25.6%	8.1%	25.0%
ROCE (%)	1.5%	0.1%	-0.7%	0.7%	1.9%	2.7%
Cash flows						
EBIT	1,276	577	841	2,066	3,104	4,546
EBIT (1-tax rate)	836	378	551	1,353	2,033	2,978
Add: Depreciation	1,166	1,876	3,074	3,005	2,940	2,877
Operating cash flow	**2,002**	**2,254**	**3,624**	**4,358**	**4,973**	**5,855**
Less: working cap changes	(11)	(9)	(18)	(14)	(12)	(16)
Capex	(40,473)	(19,951)	(331)	(382)	(428)	(15,490)
Free cash flow to firm	**(38,482)**	**(17,706)**	**3,275**	**3,963**	**4,533**	**(9,651)**

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

Hyderabad airport – higher capacity utilization the likely profit driver

Earnings outlook

The Hyderabad airport reported a tiny profit in 2QFY11, and we believe this trend would continue through the remaining quarters of FY11. Based on the current run rate of PAX traffic at 7.3M, the airport is currently operating at a 61% capacity utilization rate (54% in FY10) given 12M PAX handing capacity. We expect peak capacity to be achieved in FY16 implying traffic CAGR of 10.7% in FY10-16. Post recent UDF increase, we estimate PAT to grow at a CAGR of 65% FY12-16.

Cash flow outlook

Having completed its capex in Mar-08, GHIAL has already begun generating FCFF. We expect an inflection point in FY11 itself, based on an improved operating cash flow and reduced working capital requirements. We estimate the second phase of expansion to increase capacity to 40M PAX to commence in FY15.

Table 18: GHIAL: Summary P&L and cash flow outlook

Rs. in million, year end March

	FY10	FY11E	FY12E	FY13E	FY14E	FY15E
PAX Traffic (mn)	**6.5**	**7.2**	**7.6**	**8.5**	**9.6**	**10.8**
Domestic (mn)	4.8	5.3	5.8	6.6	7.3	8.2
International (mn)	1.7	1.9	1.7	2.0	2.3	2.6
% International	26%	26%	23%	23%	24%	24%
yoy growth/CAGR over the past 5 yrs (%)		11.3%	4.7%	12.7%	12.7%	10.8%
Net Revenues (Rs M)	**4,212**	**4,893**	**5,433**	**6,369**	**7,458**	**8,595**
Gross Aero Rev (Rs m)	2,199	2,463	2,498	2,842	3,217	3,643
Gross Non Aero Rev (Rs M)	2,191	2,646	3,164	3,794	4,555	5,314
Non Aero as % of Aero	50%	52%	56%	57%	59%	59%
Aero revenue/ PAX (Rs)	339	341	330	334	335	337
Non aero revenue/ PAX (Rs)	338	366	418	445	474	491
EBITDA (Rs M)	**2,288**	**2,783**	**3,085**	**3,748**	**4,503**	**5,312**
EBITDA mgn	54.3%	56.9%	56.8%	58.8%	60.4%	61.8%
PAT (Rs M)	**(1,103)**	**6**	**227**	**959**	**1,802**	**2,761**
ROE (%)	NM	0.7%	22.5%	64.2%	71.9%	66.7%
ROCE (%)	4,212	7.2	7.6	8.5	9.6	10.8
Cash flows						
EBIT	918	1,697	2,043	2,747	3,541	4,264
EBIT (1-tax rate)	812	1,502	1,808	2,431	3,133	3,773
Add: Depreciation	1,370	1,086	1,042	1,001	962	1,048
Operating cash flow	**2,182**	**2,588**	**2,850**	**3,432**	**4,096**	**4,822**
Less: working cap changes	(851)	(149)	(327)	(356)	218	(202)
Capex	(88)	(102)	(113)	(133)	(155)	(5,594)
Free cash flow to firm	**1,244**	**2,337**	**2,410**	**2,943**	**4,158**	**(975)**

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

Sabiha Airport – commencement of concession fee will depress earnings for 2-3 years, but higher capacity utilization should mitigate the impact

Earnings Outlook

At the current run rate of 12.2mn PAX/annum, the airport is operating at 50% utilization rate. Traffic grew by 67.5% yoy in FY10 and by 80.5% yoy in 1HFY11. We estimate a 23% CAGR in PAX traffic thru FY15 and EBITDA growth of 49% during the same period. However, near term profits will be depressed on account of higher capital costs as well as payment of concession fees ($2.7B to be paid over 17 years) commencing in FY12 (JPM est. Rs3.6B/annum). We expect turnaround in FY14.

Cash flow outlook

With the capex phase for Sabiha also complete we expect positive FCFF from this year onwards.

Table 19: Sabiha airport: Summary P&L and cash flow outlook

Rs. in million, year end March

	FY10	FY11E	FY12E	FY13E	FY14E	FY15E
PAX Traffic (mn)	**7.9**	**10.6**	**13.3**	**15.9**	**19.1**	**22.0**
Domestic (mn)	5.4	6.8	8.5	10.2	12.2	12.9
International (mn)	2.6	3.9	4.8	5.8	6.9	9.1
% International	33%	36%	36%	36%	36%	41%
yoy growth/CAGR over the past 5 yrs (%)		35.0%	25.0%	20.0%	20.0%	22.8%
Net Revenues (Rs M)	**9,378**	**14,076**	**17,537**	**21,203**	**25,525**	**29,918**
Gross Aero Rev (Rs m)	1,518	1,930	2,412	2,895	3,474	4,282
Gross Non Aero Rev (Rs M)	7,860	12,146	15,125	18,309	22,051	25,636
Non Aero as % of Aero	84%	86%	86%	86%	86%	86%
Aero revenue/ PAX (Rs)	193	182	182	182	182	195
Non aero revenue/ PAX (Rs)	999	1,143	1,139	1,149	1,153	1,166
EBITDA (Rs M)	**1,613**	**2,578**	**4,173**	**6,160**	**8,722**	**11,745**
EBITDA mgn	17.2%	18.3%	23.8%	29.1%	34.2%	39.3%
PAT (Rs M)	**(1,455)**	**(456)**	**(2,537)**	**(617)**	**1,610**	**4,173**
Cash flows						
EBIT	(465)	1,345	(649)	1,385	3,987	7,042
EBIT (1-tax rate)	(372)	1,076	(519)	1,108	3,190	5,634
Add: Depreciation	2,078	1,232	1,178	1,130	1,090	1,058
Operating cash flow	**1,706**	**2,309**	**658**	**2,238**	**4,280**	**6,692**
Less: working cap changes	(27)	(47)	(35)	(37)	(43)	(44)
Capex	(11,608)	(282)	(351)	(424)	(510)	(598)
Free cash flow to firm	**(9,930)**	**1,980**	**273**	**1,777**	**3,726**	**6,050**

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

Male airport – Commencement of user charges to drive growth

GMR acquired a 77% stake in the Male airport in FY10 with the 25 year concession (+ 10 year extension on mutual consent) commencing from Jan 2011. With a project cost of $511M ($78M paid upfront as concession fees) GMR plans to increase capacity from 2.6M PAX currently to 5.2M by 2014.

Earnings and cash flow outlook

We expect an increase in operating cash in FY12, with commencement of US$25 levy per departing International PAX. FCF would however be negative thru FY14 with the airport being in investment phase.

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Table 20: Male airport: Summary P&L and Cash Flow

Rs. in million, year end December

Male	2010E	2011E	2012E	2013E	2014E	2015E
PAX Traffic (mn)	**1.9**	**1.9**	**2.0**	**2.1**	**2.2**	**2.3**
International (mn)	1.9	1.9	2.0	2.1	2.2	2.3
yoy growth/CAGR over the past 5 yrs (%)		4.0%	4.3%	4.3%	4.3%	4.2%
Net Revenues (Rs M)	**6,373**	**6,779**	**8,303**	**8,812**	**9,355**	**10,090**
Non fuel revenues	2,089	2,281	2,491	2,720	2,971	3,398
Fuel Revenues	4,284	4,498	4,723	4,959	5,207	5,467
ADC	-	-	1,089	1,133	1,178	1,225
Non aero revenue/ PAX (Rs)	1,122	1,178	1,234	1,293	1,354	1,486
EBITDA (Rs M)	**1,181**	**1,249**	**2,410**	**2,530**	**2,657**	**2,806**
EBITDA mgn	18.5%	18.4%	29.0%	28.7%	28.4%	27.8%
PAT (Rs M)	**735**	**849**	**1,910**	**2,118**	**820**	**1,676**
ROE (%)	18.7%	14.2%	20.9%	18.7%	6.7%	12.1%
Cash flows						
EBIT (1-tax rate)	735	793	1,780	1,882	457	1,545
Add: Depreciation	316	316	316	316	2,119	988
Operating cash flow	**1,052**	**1,109**	**2,096**	**2,198**	**2,576**	**2,533**
Less: working cap changes	(319)	(69)	457	(76)	(361)	159
Capex	(4,256)	(3,474)	(6,176)	(6,755)	(2,316)	(170)
Free cash flow to firm	**(3,523)**	**(2,434)**	**(3,623)**	**(4,633)**	**(101)**	**2,523**

Source: J.P. Morgan estimates.

Clarity on airport charges expected soon

With respect to DIAL and GHIAL there has been regulatory uncertainty on various counts including: (1) Approval of higher UDF at GHIAL (2) Approval of increased project cost at DIAL and the proposed increase in ADF funding (3) Increase in aero charges for DIAL (4) Application of a hybrid/single till model for DIAL and (5) Commencement of CPI-X based regulated aero revenues. **The Airport Economic Regulatory Authority (AERA) was set up in** Jun-09 with a primary mandate to regulate and determine charges for aeronautical services and User development fee (UDF). Our views on key issues are summarized in Table 8 below.

Table 21: Improved clarity on airport regulatory issues

Regulatory issue	Status so far	Our view	Impact
Higher UDF at Hyderabad airport	In Oct '10 GHIAL received approval from AERA to increase UDF for each domestic outbound PAX to Rs430 from Rs375 and for each international outbound PAX to Rs1,700 from Rs1,000 previously.	NA	Positive to earnings and valuation.
DIAL project cost	For DIAL's project cost overrun of Rs29B, GMR management has sought additional UDF of Rs16B to bridge the funding gap. The current ADF stands at Rs200/Domestic PAX and Rs1,300/Internal PAX thru FY12.	The audit of DIAL's project cost submitted by GMR was also complete and results would be made public shortly.	Clarity on DIAL project cost will remove overhang. If additional ADF is approved it will be value accretive since we are currently assuming funding via real estate sales.
Aero charges	In 2006 the Govt. had agreed to a 10% hike in aero charge for MIAL and DIAL in 2010. GMR and GVK are chasing this hike now which has not been implemented with the regulatory mantle being shifted to AERA in 2009. The AAI had permitted a 10% hike in aero charges in Feb '09.	We believe that regulations for determination of aero charges at MIAL and DIAL will be finalized within a couple of months. The process of consultation on regulatory philosophy, and analysis of stakeholder feedback is complete.	An increase in aero charges is a Positive event.
Hybrid/single till model for DIAL	AERA had recently shown preference for the single till model (100% subsidization via non aero charges) which was not in conformity with the OMDA. Application of the single till model to DIAL would be value destructive for DIAL shareholders.	In our view, the final regulation would most likely maintain revenue neutrality with the State Support Agreement (SSA) or OMDA, as the case may be. For DIAL, AERA may adopt a hybrid till model, where 30% of non-aero revenues subsidize the target aero revenues.	This outcome would be positive in our view as it would boost confidence in sanctity of contracts entered in the past and dispel fears of a worst case scenario where the regulator could have pushed a single till model
Switch to the CPI-X model for calculating aero charges	The move towards a regulated regime as per the CPI-X formula has been delayed, since AERA charges was formally set up only in Jun-09.	We use 11.6% guaranteed return in arriving at target aero revenues, although we understand this rate is not cast in stone	Increase in hurdle would be a positive for returns. Finalization of policy would provide clarify on inflation factor for aero charges which would remove regulatory overhang.

Source: J.P. Morgan. Note: SSA: The SSA is an agreement between GoI and MIAL/DIAL, prescribed the principles of tariff fixation when the concessions were awarded around 2006. CPI-X formula: Aero revenues = 11.6% (WACC) return on regulated asset base (Net fixed aero assets less Upfront Fee less ADF) + Depreciation + Operation & Maintenance expenses + Taxes on aero income - 30% of estimated non-aero revenues.

Power to provide the next growth leg

GMRI has 823MW of operating power assets, and an under-construction portfolio of 2.4GW. The recent PE investment of US$300M in the power vertical and QIP of $315M will fund growth through FY13, around which time the management has stated that it would IPO this vertical and seek more funds. **We estimate 2.4GW of capacity addition thru FY14 and a CAGR of 66% and 40% in EBITDA and PAT respectively. In our view the contribution from power segment earnings will increase to 52% of EBITDA by FY14 from 27% currently.**

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Table 22: GMR Energy: Summary P&L

Rs. in million, year end March

	FY09	FY10	FY11E	FY12E	FY13E	FY14E
Average MW	**824**	**824**	**824**	**824**	**2,292**	**3,242**
PPA	497	497	497	497	1,060	1,791
Merchant	327	327	327	327	1,232	1,451
MUs (net)	**4,503**	**4,669**	**4,349**	**5,618**	**15,879**	**22,745**
PPA	3,165	3,986	4,154	3,493	7,133	12,203
Merchant	1,338	684	195	2,125	8,746	10,541
Avg prices (Rs/Kwh)	**3.43**	**4.49**	**4.50**	**4.41**	**3.52**	**3.20**
PPA	3.62	4.38	4.50	5.41	3.58	3.07
Merchant	2.98	5.13	4.47	2.75	3.47	3.35
Revenue	**15,466**	**20,954**	**19,558**	**24,750**	**55,902**	**72,809**
PPA	11,471	17,445	18,685	18,895	25,562	37,496
Merchant	3,995	3,509	873	5,855	30,340	35,313
Fuel cost	**13,450**	**13,832**	**14,255**	**17,078**	**31,266**	**36,801**
Implied fuel cost/KWH	2.99	2.96	3.28	3.04	1.97	1.62
Other O&M cost	2,737	3,534	1,667	1,799	3,632	4,229
O&M cost/MW	3.32	4.29	2.02	2.18	1.58	1.30
EBITDA	**5,340**	**4,156**	**3,636**	**5,873**	**21,004**	**31,779**
Other income	114	684	10	72	161	250
Interest	955	711	1,294	1,079	6,099	8,377
Depreciation	1,172	1,095	1,107	1,092	4,868	6,653
PBT	3,327	3,034	1,245	3,774	10,198	16,999
Tax	283	(453)	587	637	2,545	2,893
Minority interest	(310)	(575)	(263)	(681)	(1,407)	(2,849)
PAT	**2,734**	**2,912**	**395**	**2,455**	**6,246**	**11,257**

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

Recent capital infusion = $615 = $315M QIP + $200 Temasek PE + $100M IDFC PE

Equity Requirement thru FY13 = $570M

Conclusion, IPO imminent post FY13

PE deals to fund equity requirement thru FY13, GMR Energy IPO imminent

GMR completed a $315M QIP in Apr'10. In addition Temasek concluded a $200M structured investment in GMR Energy followed by a similar $100M investment by IDFC. The convertible preference shares are to be converted into equity at the time of IPO of GMR Energy, slated in 36 months, at the lower end of IPO price band. However, management has said it expects to complete IPO within 24 months. In our view GMR requires ~Rs25.5B ($570M) equity for its under-construction projects thru FY13 and therefore an IPO is imminent to fund its development pipeline. The valuation upside will depend upon market conditions and progress on projects.

Current operations still facing some hiccups

GMRI currently has 823MW of operational gas based capacity including: (1) Vemagiri (389MW) (2) Basin Bridge (200MW) and (3) the barge mounted Mangalore plant (235MW). The fully merchant Mangalore plant was relocated to Kakinada in April 2010 and since then has been out of production. While mgt. was expecting to recommence production in July '10, this has been delayed and we now expect some production in 4QFY11. While the Vemagiri plant has been restricted to sell on a merchant basis currently, we model no merchant sales in the latter quarters of FY11 or FY12.

Significant pipeline under construction and planning stages

GMRI has 5.5GW of additional thermal capacity planned of which 2.4GW is currently under construction and also 2.14GW of hydro capacity under planning stages. Management expects to add 4.1GW of capacity by FY15 compared to our conservative estimate of 2.4GW.

For the 2.2GW of planned hydro capacity, land has not been acquired yet and only DPRs have been submitted for most. Given the frequency of slippages in hydro

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projects, the back ended profile of GMR's portfolio and little progress made on the same, we don't assign value to these projects.

Table 23: Details of GMRI's thermal projects

Plant	Size (MW)	GMRI's stake	Project Cost (Rs. B)	Mgt est. of CoD	Offtake arrangement	Fuel
Kamalanga	1,050	80%	45,500	Unit 1: Mar-12 Unit 2: Jun- 12 Unit 3: Sep-12 Unit 4: Dec-12	25% to be sold at variable cost with an additional 7% at variable rates to Orissa. Case 1 bid signed for 300MW with Haryana. Target to maintain max. 15% (210MW) at merchant rates. Balance yet to be tied up.	Allotted the Rampia Dip captive coal block which is est. to start production by Mar-12. The project also has a tapering linkage for 1,050MW over 3.5 years in case production doesn't commence.
Kamalanga 2	350	80%	14,900			
EMCO	600	100%	34,800	Unit 1: Aug-12 Unit 2: Nov-12	Tied up 200MW with the Mahararshtra Govt. at a levelized tariff of Rs2.88/unit. 200MW yet to be tied and balance to be on merchant basis.	Signed L0A for with Coal India.
Vemagiri 2	768	100%	32,900	Single cycle: Dec-11 Combined cycle: Mar-12	PPA not yet signed. Mgt. expects to take benefit of merchant rates in the near term. We model a 40:60 PPA: merchant split in the long term.	Applied for KG-D6 gas allocation. Mgt. expects to top the EGoM's priority list given progress made on the project.
Chhattisgarh	1,370	100%	82,900	FY14	Mgt. plans to keep ~30% of capacity open while balance to be tied up on regulated/PPA basis.	Applied for linkage coal. Plan to fuel ~30% from e-auction and/or imported coal.
Shahdol	1,370	70%	82,900	FY15	Mgt. targeting a 40:60 PPA: merchant split. No PPA has been signed yet.	Plant to be fueled based on a mix of linkage and imported coal.

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

Earnings Outlook

As the barge mounted plant resumes full scale operations in FY12 we expect revenues to grow by 26% yoy. However we estimate the significant boost to earnings will come through in FY13 onwards as under construction projects get commissioned. We model a 3-4 month delay in commissioning compared to guidance. In our view the contribution power segment earnings will increase to 52% of EBITDA by FY14 from 27% currently.

Intergen sale announced; averts steep increase in leverage

In late Nov' 10, GMR announced that it will sell its 50% stake in Intergen to China Huaneng Group at an equity value of US$1.23B vs. its 2008 purchase price of US$1.135B, making a relatively small book loss of $172M. GMR had de-rated post this acquisition and without the risk of leverage escalation we are more positive on the stock. Consolidation of the acquisition debt would have led to a deterioration of GMRI's leverage ratios, which this sale has averted. GMRI's current consolidated DER stands at 1.86x, and we estimate a potential consolidation of Intergen would have resulted in this ratio worsening to 2.25x.

Highways: Portfolio of 9 projects totaling Rs50B

GMR currently has 6 operational road projects in its portfolio of which 3 are annuity based and the other 3 are toll based. In addition the company has 3 projects under

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construction which have achieved financial closure. We value the segment at Rs23B and GMRI's equity share at Rs4.6/share, with the inclusion of the three new projects. Our valuation implies an FY12 P/B of 1.7x at a discount to IRB and ITNL trading at 2.3x and 2.0x consensus estimate respectively.

In FY10 the segment posted a loss of Rs654M vs. a profit of Rs104M in FY09 on account of higher capital costs with the commissioning of three projects towards the end of FY09 and in FY10. The segment generated revenues of Rs3.4B up 128% yoy with an EBITDA margin of 80%. With the addition of these three projects in GMRI's road portfolio, we expect the segment to turn profitable in FY17.

Table 24: GMRI's Road Portfolio

	GTTEPL	GTAEPL	GPEPL	GACEPL	GJEPL	GUEPL	GHEVPL	GCORRPL	HH
Equity stake (%)	61	61	61	100	100	100	74	74	51
Length (km)	93	59	107	35	58	73	164	103	99
Project cost (Rs B)	**3.6**	**3.0**	**7.0**	**6.2**	**5.2**	**10.2**	**21.9**	**11.7**	**17.0**
Debt (Rs B)	4.9	3.8	5.5	2.8	3.5	6.0	16.9	7.2	11.9
Grant (Rs B)	0.0	0.0	0.0	1.2	0.0	1.3	0.0	3.0	0.0
Equity (Rs B)	0.6	0.4	1.9	2.2	2.0	3.0	5.0	1.5	5.1
Debt:Equity	8.6	8.5	2.9	1.3	1.8	2.0	3.4	4.8	2.3
Premium sharing (Rs B)	0.0	0.0	0.0	0.0	0.0	0	32.6	0	0
Expected CoD	May-04	Dec-04	Mar-09	Nov-08	Feb-09	Jul-09	Jul-12	Jun-12	Dec-12
Start date of concession	May-02	Jun-02	Sep-06	May-06	Aug-06	Oct-06	Apr-10	Dec-12	Sep-10
Concession period (yrs)	17.5	17.5	20	20	20	20	25	20	19
End of concession	**FY20**	**FY20**	**FY27**	**FY27**	**FY27**	**FY27**	**FY35**	**FY31**	**FY30**
Annuity (Rs. Mn)	837.1	589.6	1083.6	NA	NA	NA	NA	1242.6	NA
Daily traffic (PCU's)	NA	NA	NA	17,972	10,843	13,647	49,193	NA	20,000
Average toll rate/pcu/day	NA	NA	NA	28	88	100	202	NA	100
Escalation factor (%)	NA	NA	NA	5.0	5.0	5.0	5.5	NA	5.0
Interest rate (%)	8.3	8.3	9.0	10.0	10.5	10.5	10.75	10.8	10.75

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

Table 25: GMRI's Road Segment: Summary P&L

Rs. in million, year-end March

	FY10	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E	FY25E
Revenue	**3,461**	**3,727**	**3,865**	**7,670**	**10,178**	**10,876**	**11,629**	**12,462**	**13,326**	**14,264**	**14,819**	**20,748**
GTTEPL	837	837	837	837	837	837	837	837	837	837	558	0
GTAEPL	608	590	590	590	590	590	590	590	590	590	393	0
GPEPL	1,096	1,084	1,084	1,084	1,084	1,084	1,084	1,084	1,084	1,084	1,084	1,084
GACEPL	185	217	242	269	299	333	367	405	446	492	543	884
GJEPL	419	412	459	510	568	632	697	768	847	934	1,030	1,677
GUEPL	316	588	654	728	810	902	994	1,096	1,209	1,332	1,469	2,393
GHEVPL				2,720	4,018	4,451	4,930	5,461	5,992	6,575	7,214	11,471
GCORRPL				932	1,243	1,243	1,243	1,243	1,243	1,243	1,243	1,243
HH					730	805	887	978	1,079	1,178	1,286	1,997
EBITDA mgn (%)	**80**	**80**	**80**	**80**	**80**	**80**	**80**	**80**	**80**	**80**	**80**	**80**
EBITDA	2,782	2,996	3,106	6,165	8,181	8,742	9,348	10,017	10,712	11,466	11,912	16,678
Other income	275											
Interest cost	1,981	2,338	2,238	3,944	5,830	5,573	5,251	4,882	4,498	4,079	3,524	809
Depreciation	1,447	1,961	1,961	2,983	4,317	4,317	4,317	4,317	4,317	4,317	4,166	3,863
PBT	**(371)**	**(1,303)**	**(1,092)**	**(762)**	**(1,965)**	**(1,148)**	**(220)**	**819**	**1,897**	**3,070**	**4,221**	**12,006**
Tax rate@ 20%	105	(261)	(218)	(152)	(393)	(230)	(44)	164	379	614	844	2,401
PAT	**(476)**	**(1,042)**	**(874)**	**(610)**	**(1,572)**	**(918)**	**(176)**	**655**	**1,518**	**2,456**	**3,377**	**9,604**
Minority Interest	178	178	178	98	25	346	362	380	399	419	441	587
PATAMI	**(654)**	**(1,220)**	**(1,052)**	**(708)**	**(1,598)**	**(1,264)**	**(538)**	**275**	**1,119**	**2,037**	**2,936**	**9,018**

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

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Detailed notes on individual asset valuation

Delhi airport

We adopt a more conservative view of aero charge increases as well as long-term non-aero revenues resulting in lower value for DIAL. Based on Mar-12 DCF with a Ke of 13.5% we value DIAL at Rs52.7B compared to Rs93B earlier. Our valuation implies an FY12 and FY13 EV/EBITDA of 26x and 14.6x respectively, compared to 18.5x and 16.1x for GVK's Mumbai International Airport valued at Rs48B.

Delhi airport real estate

Delhi airport has already monetized 45acres of the hospitality district at a gross NPV of Rs830mn/acre (Rs3,504/sq ft) and a Net NPV of ~Rs727mn/ or Rs5,355/sq ft post revenue share and tax on annual license fees (see table 13 below). The upfront security deposit amount of Rs14.7B from the same will go towards directly funding the airport.

Table 26: DIAL: Hospitality district transaction

Rs. in million

	Acres	GBA - mn sqft	Rs mn	Rs mn/acre	Rs psf
Infra deposit	45.1	6.12	6,732	149	1,100
Security deposit	45.1	6.12	14,715	326	2,404
Total upfront money	**45.1**	**6.12**	**21,447**	**476**	**3,504**
Annual rent receipt (gross of revenue share, year-1)	45.1	6.12	247	5	40
NPV of annuities (gross of rev share)	45.1	6.12	16,177	359	2,643
NPV of annuities + license fees (gross of rev share)	45.1	6.12	31,087	690	5,080
Total gross NPV (annuities+upfront deposit)			**37,819**	**839**	**6,180**
NPV of annuities (net of rev share, tax)	45.1	6.12	11,324	251	1,850
Total net NPV (annuities+upfront deposit)			**32,771**	**727**	**5,355**

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

We assume another 75 acres to be monetized by FY14 and expect the proceeds to go towards reducing the debt at DIAL. Hence of the 250 acres we value 130 acres in our SOTP at Rs45.5B implying a valuation of Rs350M/acre or Rs2,746/sq ft using a 50% illiquidity discount.

Hyderabad airport

Using a Mar-12 DCF with a Ke of 14% we value the core airport operations at Rs21.9B. Our valuation implies a 13.1x FY12 and 10.4x FY13 EV/EBITDA multiple compared to 11.9x and 10.8x respectively for Bangalore airport which is comparable.

Hyderabad airport real estate

We currently value 1,000 acres of real estate surrounding the airport at Rs25.7B (Vs Rs30B previously) implying a valuation of Rs26M/acre based on 7 year DCF with a WACC of 17%. Mgt. has defined the plan for leasing out ~275 acres which includes a health port, commercial district, funport and eduport. Over the next 12 months, it is doubtful if development of land parcels can commence, given uncertainty around separation of Telangana state from Andhra Pradesh.

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Sabiha airport

Based on a DCF with a Ke of 14% we value the Turkey airport with a peak capacity of 25mn PAX at Rs38.3B. GMRI's 40% stake in the airport is valued at Rs3.9/share or 7.8% of overall SOTP. Our valuation implies an EV/EBITDA multiple of 14.7x and 10.0x for FY12 and FY13.

Male airport

Based on a DCF thru FY36 with a Ke of 16% we value the newly acquired Male airport with a peak capacity of 5.2mn PAX at Rs7.4B. Our valuation implies an EV/EBITDA multiple of 5.8x and 4.8x for FY12 and FY13 respectively. GMRI's 77% stake in the airport is valued at Rs1.5/share or 2.9% of overall SOTP.

Table 27: Valuation of individual airport assets benchmarked to pure plays

	BBG Code	JPM Rating	Currency	Mkt Cap US$B	P/E FY12E	P/E FY13E	EV/EBITDA FY12E	EV/EBITDA FY12E	P/B FY12E	P/B FY13E
GMR Airports			**INR**	**$ 4.3**	**NM**	**310.2**	**22.3**	**14.8**	**18.5**	**16.0**
ex real estate				**$ 2.7**	**NM**	**195.1**	**16.7**	**10.7**	**11.6**	**10.1**
DIAL				$ 2.2	NM	(58.3)	36.5	22.8	13.2	17.1
ex real estate				$ 1.2	NM	(31.3)	26.0	14.6	7.1	9.2
GHIAL				$ 1.1	210.0	49.7	21.4	17.3	42.4	25.6
ex real estate				$ 0.5	96.7	22.9	13.1	10.4	19.5	11.8
Turkey				$ 0.8	NM	(62.5)	14.7	10.0	NM	NM
Male				$ 0.2	6.7	3.8	5.8	4.8	1.2	0.8
GVK Airports			**INR**	**$ 3.1**	**47.2**	**NM**	**22.2**	**19.5**	**5.7**	**6.1**
ex real estate				**$ 1.8**	**26.9**	**NM**	**15.8**	**13.8**	**3.2**	**3.5**
MIAL				$ 2.2	53.9	NM	27.6	24.3	5.0	5.8
ex real estate				$ 1.1	26.3	NM	18.5	16.1	2.4	2.8
BIAL				$ 1.0	36.7	31.3	14.5	13.1	8.4	6.7
ex real estate				$ 0.7	27.9	23.8	11.9	10.8	6.4	5.1
Asian Airports										
Beijing Capital Int'l	694 HK	OW	HKD	$ 1.1	27.7	21.5	12.3	11.1	1.2	1.2
HMA	357 HK	NR	HKD	$ 5.6	17.0	15.1	9.6	8.5	1.8	1.6
MAHB	MAHB MK	OW	MYR	$ 1.0	15.4	14.6	8.0	7.4	1.8	1.7
AOT	AOT TB	NR	THB	$ 1.4	14.4	12.5	6.1	6.0	0.7	0.7
Australian Airports										
Australian Infra Fund	AIX AU	OW	AUD	$ 1.2	18.2	17.4	10.4	9.8		
MAP Airports (1)	MAP AU	OW	AUD	$ 5.5	13.5	13.0	12.7	12.0		
Auckland Airport	AIA AU	UW	NZD	$ 1.7	18.1	16.6	11.0	10.4		
International Airports										
Vienna	FLU AV	NR	EUR	$ 1.4	12.8	15.1	8.9	8.4	1.2	1.2
Copenhagen	KBHL DC	NR	DKK	$ 2.2	15.8	15.1	8.7	8.4	3.7	3.7
Fraport	FRA GR	NR	EUR	$ 5.9	22.6	21.2	9.2	8.3	1.7	1.6
Venice Airport	SAVE IM	NR	EUR	$ 0.5	17.4	15.1	6.9	6.3	1.5	1.5
Aeroports de Paris	ADP FP	NR	EUR	$ 7.7	18.9	17.3	8.6	8.0	1.7	1.6
Zurich Airport	FHZN SW	NR	CHF	$ 2.5	16.0	14.3	7.6	7.2	1.3	1.3

Source: Bloomberg estimates for all other companies, J.P.Morgan estimates for MPSEZ (MSEZ IN), DP (2880 HK), CP (1199 HK) and CMHI (144 HK). Prices and valuations are as of 1/13/2011.
Note: CY10 is FY11 (Year-end March) for MPSEZ.

Power projects

We assign value only to projects which have crossed certain pre-commissioning hurdles i.e. 1) Financial closure or 2) Land acquisition. As a result we assign value to EMCO, Maharashtra (600MW), Kamalanga, Orissa (1GW, excluding the 350MW planned expansion) and Vemagiri Expansion, Andhra Pradesh (768MW). Our WACC ranges from 10-12% for operating projects, 14.5% for Kamalanga, 15% for Emco and 13% for Vemagiri-2.

We currently don't include the Chhattisgarh project on account of lack of clarity on fuel supply. Addition of this project would imply 10% (Rs5.4/share) upside to our PT assuming a 70:30 PPA:merchant mix and WACC of 16%.

Table 28: Decision making on whether a project merits inclusion in our SOTP, based on our evaluation of important milestones

Plant	Size (MW)	Location	Land	Clearances	Fuel	Funding	PPA	Decision = IN / OUT
Kamalanga	1,050	Orissa	√	√	@	√	@	IN
Kamalanga 2	350	Orissa	√	@	X	X	X	OUT
EMCO	600	Manarashtra	√	√	√	√	@	IN
Vemagiri 2	768	Andhra Pradesh	√	√	X	√	X	IN
Chhattisgarh	1,370	Chhattisgarh	√	@	X	√	X	OUT
Shahdol	1,370	Madhya Pradesh	@	X	X	X	X	OUT
Badrinath	300	Uttaranchal	@	√	Hydro	X	X	OUT
Talong	160	Arunachal Pradesh	X	@	Hydro	X	X	OUT
Holi Bajoli	180	Himachal Pradesh	X	@	Hydro	X	X	OUT
Upper Karnali,	900	Nepal	X	X	Hydro	X	X	OUT
Upper Marsyangdi	600	Nepal	X	X	Hydro	X	X	OUT

Source: company data, J.P. Morgan.

Our implied valuation for GMR Energy equates to 29.5x FY12 P/E and 24x FY12 EV/EBITDA. Valuations begin to look more attractive FY13 onwards as under construction capacities are commissioned. The valuation is post money incorporating Rs14.65B of PE investments and a 15% dilution in GMR's stake in the vertical.

Table 29: GMR Energy: Implied valuation

year end March

	FY10	FY11E	FY12E	FY13E	FY14E
P/E	26.5	140.3	29.5	12.1	6.5
EV/EBITDA	24.7	30.1	24.0	7.3	4.2
P/B	4.2	2.0	1.6	1.3	1.1
P/MW	112.1	112.1	112.1	40.3	28.5
EV/MW	124.4	132.8	170.8	67.3	41.5
EBITDA/MW	5.0	4.4	7.1	9.2	9.8

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

Financial Analysis

We expect GMRI to post a net loss in FY11. This is mainly attributable to a) on-time completion of Delhi airport, causing a steep increase in operating expenses, interest and depreciation – aero charges however did not increase in time to cushion these higher costs and b) shift of barge-mounted plant at Mangalore to Kakinada entailed idle time of more than a year, causing a steep profit decline. On the balance sheet front, equity raising of Rs14B combined with PE infusion of Rs14.65B and user fees at Delhi airport (treated as capital receipt) proved saviors.

We expect a turnaround of this situation in FY12. Delhi airport would still make a loss, as our aero charge increase estimates are conservative. However, recommencement of barge-mounted power plant, higher cap-utilization of Hyderabad airport and commencement of Male airport result in 21.6% EBITDA growth. This increase would be sufficient, in our view, to absorb high fixed costs. We expect net leverage to remain stable at below 1.6x (apart from 2012) and free cash flows to be positive FY14 onwards.

We expect further improvement in numbers in FY13, as Vemagiri-2, Kamalanga and Emco power projects begin operations. Simultaneously, we expect Delhi airport-real estate monetization to result in debt repayment, thus bringing down interest cost substantially. Around this time, we believe the energy vertical would need more funds to grow and the company has publicly stated its IPO plans.

Table 30: GMRI: Consolidated P&L

Rs. in million, year-end March

	FY10	FY11E	FY12E	FY13E	FY14E	FY15E
Revenues						
Airports	**14,886**	**17,557**	**28,480**	**33,549**	**38,082**	**43,157**
Delhi	6,140	7,034	8,873	10,269	11,467	13,056
Hyderabad	4,212	4,893	5,433	6,369	7,458	8,595
Sabiha (40%)	3,751	5,630	7,015	8,481	10,210	11,967
Male			7,160	8,430	8,948	9,539
Other	783					
Power	**20,395**	**19,558**	**24,750**	**55,902**	**72,809**	**73,576**
Vemagiri	7,646	8,233	8,249	8,265	8,281	8,298
Mangalore	3,509	873	5,855	6,329	6,014	6,014
Basin Bridge	8,671	10,452	10,646	11,036	11,154	11,584
Other	568					
Orissa	-	-	-	6,096	12,929	13,554
Vemagiri 2	-	-	-	20,657	20,778	21,208
Emco	-	-	-	3,519	13,651	12,917
Roads	**3,461**	**3,727**	**3,865**	**7,670**	**10,178**	**10,876**
Annuity roads	2,541	2,510	2,510	3,442	3,753	3,753
Toll roads	920	1,217	1,354	4,228	6,425	7,123
Real estate	**427**	**465**	**506**	**551**	**599**	**652**
EPC and others	**6,496**	**9,772**	**9,362**	**12,467**	**13,369**	**14,355**
Total revenues	**45,665**	**51,079**	**66,963**	**110,139**	**135,038**	**142,616**
EBITDA						
Airports	**5,375**	**6,267**	**10,208**	**13,723**	**16,598**	**20,128**
Delhi	2,442	2,453	3,914	5,071	6,044	7,423
Hyderabad	2,288	2,783	3,085	3,748	4,503	5,312
Sabiha (40%)	645	1,031	1,669	2,464	3,489	4,698
Male			1,539	2,440	2,562	2,694
Power	**4,156**	**3,636**	**5,873**	**21,004**	**31,779**	**31,284**
Vemagiri	2,347	2,868	2,846	2,822	2,796	2,770
Mangalore	207	(10)	2,264	2,473	2,081	2,002
Basin Bridge	1,394	777	763	757	465	466
Orissa	-	-	-	4,236	8,939	9,282
Vemagiri 2	-	-	-	8,771	7,993	8,116
Emco	-	-	-	1,945	9,505	8,647
Roads	**2,782**	**2,996**	**3,106**	**6,165**	**8,181**	**8,742**
Real estate	**427**	**465**	**506**	**551**	**599**	**652**
EPC and others	**903**	**4,852**	**2,452**	**3,128**	**3,367**	**3,626**
Total EBITDA	**13,643**	**18,217**	**22,146**	**44,571**	**60,524**	**64,431**
Depreciation	(6,122)	(6,841)	(9,396)	(14,183)	(17,213)	(17,247)
EBIT	**7,521**	**11,376**	**12,750**	**30,388**	**43,311**	**47,184**
Financial income	1,634	1,628	2,774	1,651	150	551
Interest cost	(7,223)	(12,980)	(13,330)	(18,722)	(21,586)	(20,436)
EBT	**1,932**	**24**	**2,195**	**13,317**	**21,875**	**27,299**
Tax	322	(709)	(1,077)	(3,378)	(4,017)	(5,117)
PAT BMI	**2,254**	**(685)**	**1,117**	**9,939**	**17,858**	**22,182**
Associate Income	(216)	-	-	-	-	-
Minority interest	(454)	377	801	(1,536)	(4,177)	(5,334)
PAT AMI	**1,584**	**(307)**	**1,918**	**8,403**	**13,681**	**16,848**

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

A net loss in FY11 due to a steep increase in operating expenses, interest and depreciation at DIAL

Modeling equity issuance Rs80B to bridge funding gap

Table 31: GMRI: Summary Balance Sheet

Rs. in million, year-end March

	2010	2011E	2012E	2013E	2014E	2015E
Equity share capital	3,667	3,892	3,892	3,892	3,892	3,892
Reserves & surplus	63,003	76,471	78,389	166,792	180,473	197,321
Preference Shares	2,000	16,130	16,130	16,130	16,130	16,130
Shareholders funds	**68,671**	**96,493**	**98,411**	**186,814**	**200,495**	**217,343**
Minority Interest	17,902	17,524	16,723	18,260	22,437	27,770
Deferred tax liability	(805)	(805)	(805)	(805)	(805)	(805)
Grant	3,339	1,070	1,070	1,070	1,070	1,070
Loan funds	**208,374**	**200,726**	**236,517**	**250,562**	**240,119**	**236,718**
Interest free deposit	**0**	**0**	**34,837**	**49,117**	**62,465**	**69,036**
Total liabilities	**297,480**	**315,008**	**386,754**	**505,018**	**525,781**	**551,133**
Gross block	148,896	166,505	166,896	314,230	331,775	366,897
Acc. depreciation	(23,416)	(30,256)	(39,652)	(53,835)	(71,048)	(88,295)
Net block	**125,481**	**136,249**	**127,244**	**260,395**	**260,727**	**278,602**
CWIP	103,829	108,042	199,163	214,829	237,251	239,011
Investments	46,411	25,000	5,000	5,000	5,000	5,000
Cash balances	16,826	42,402	49,488	15,577	12,332	17,832
Net current assets excluding cash	4,934	3,315	5,860	9,217	10,470	10,687
Ratios						
Debt-equity (X)	3.0	2.1	2.4	1.3	1.2	1.1
Net debt-equity (X)	2.8	1.6	1.9	1.3	1.1	1.0
ROE (%)	2.4	(0.4)	2.0	5.9	7.1	8.1
ROCE (%)	4.2	4.0	2.3	5.4	6.9	7.2
BVPS (Rs)	37.4	49.6	50.6	96.0	103.0	111.7

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

Table 32: GMRI: Summary cash flow statement

Rs. in million, year-end March

	2010	2011E	2012E	2013E	2014E	2015E
EBIT	9,155	13,004	15,524	32,039	43,461	47,736
Add: Depreciation	6,122	6,841	9,396	14,183	17,213	17,247
Tax paid	322	(709)	(1,077)	(3,378)	(4,023)	(5,124)
Operating profit before w.cap changes	**15,599**	**19,136**	**23,843**	**42,844**	**56,651**	**59,859**
Change in working capital	902	1,619	(2,544)	(3,357)	(1,254)	(217)
Associate income	(216)	-	-	-	-	-
Operating cash flow	**16,285**	**20,755**	**21,298**	**39,487**	**55,397**	**59,642**
Fixed Assets	(70,490)	(21,822)	(91,512)	(163,001)	(39,967)	(36,882)
Investing cash flow	**(70,490)**	**(21,822)**	**(91,512)**	**(163,001)**	**(39,967)**	**(36,882)**
Free cash flow	**(54,204)**	**(1,067)**	**(70,213)**	**(123,514)**	**15,431**	**22,760**
Issue of share capital	2,026	14,355	-	-	-	-
Issue of grant	437	(2,269)	-	-	-	-
Reserves	349	13,775	(0)	80,000	-	-
Borrowings	85,207	(7,648)	35,791	14,045	(10,443)	(3,401)
Net-interest paid	(7,223)	(12,980)	(13,330)	(18,722)	(21,586)	(20,436)
Interest free deposit	-	-	34,837	14,280	13,348	6,571
Adjustment	(1,129)					
Financing cash flow	**79,667**	**5,232**	**57,299**	**89,603**	**(18,681)**	**(17,267)**
Change in investments	(33,302)	21,411	20,000	-	-	-
Change in cash	25,463	4,166	(12,914)	(33,911)	(3,250)	5,494
Net cash at beginning of year	24,665	16,826	42,402	49,488	15,577	12,326
Net cash at the end of year	**16,827**	**42,402**	**49,488**	**15,577**	**12,326**	**17,820**

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

GVK Power & Infrastructure

A princess in a stepdaughter's shoes; maintain OW

Overweight

GVKP.BO, GVKP IN

Price: Rs36.65

▼ **Price Target: Rs53.00**
Previous: Rs57.00

- **GVK has seen a sharp underperformance in the past two quarters, on the back of:** a) continued suspense in Mumbai real estate monetization, as the master plan for this has not yet been approved by MMRDA; b) the perceived high price paid for Bangalore airport; and c) regulatory uncertainty on airport charges. Markets have also ignored the higher-than-expected P/E deal valuation for its power vertical.
- **Stock price already seems to be factoring in zero value for Mumbai airport land** (22% of our SOP value), and a significant discount to our estimated value for Bangalore airport (15% of SOP). Any news flow on Mumbai real estate would be a strong stock catalyst, in our view. Clarity on airport charges (expected around 2Q CY11) too should drive sentiment for GVKP, although we expect this event would be more significant for GMRI (OW), whose Delhi airport is complete and is facing losses on account of high opex, interest and depreciation.
- **Power PE deal (~US$330MM) implies a higher value for power verticals** (US$1.3B) than the street was expecting, as it likely gives credibility to gas project expansions totaling 1.6GW. We include these in our valuation (Rs3/share, 5.4% of SOP) albeit with a 50% discount given the uncertainty around gas allocation. GVK has an operating capacity of 901GW and under-construction capacity of 870MW, which should drive growth through 2014.
- **We maintain OW, with a revised Mar-12 SOTP-based price target of Rs53:** Continued real estate monetization delay is the key risk to our price target, in our view.

India
Infrastructure

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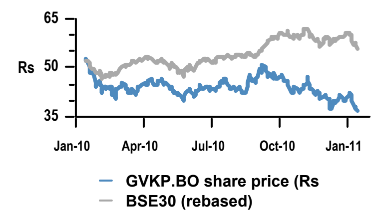
Price Performance



	YTD	1m	3m	12m
Abs	-9.6%	-8.5%	-17.8%	-29.7%
Rel	-1.6%	-3.8%	-9.8%	-37.0%

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)	57,878
EPS (Rs)	0.77	0.99	1.17	1.79	1.81	Market cap ($ mn)	1,279
Revenue growth (%)	9.3%	247.7%	6.5%	2.4%	38.8%	Price (Rs)	36.65
Adjusted profit growth (%) (Rs)	-40.8%	44.9%	18.5%	53.4%	0.9%	Date Of Price	14 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)	5.76
P/E (x)	47.9	37.1	31.3	20.4	20.2	3M - Average daily Value (Rs mn)	242.26
P/BV (x)	2.2	1.8	1.7	1.6	1.5	Average 3m Daily Turnover ($ mn)	5.35
EV/EBITDA (x)	49.8	22.5	15.9	16.3	9.0	BSE30	18,860
						Exchange Rate	45.24
						Fiscal Year End	Mar

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

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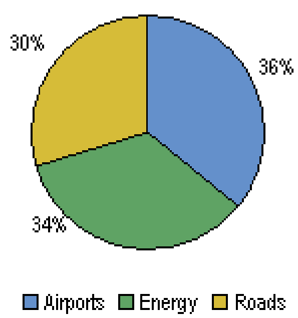
Company Description

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 40MM 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.

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

We roll forward our PT to Mar-12 and reduce it to Rs53 from Rs57, with Rs23 coming from MIAL, Rs8 from BIAL, Rs21 from power, and Rs4 from roads. We continue to use DCF to value each SPV. **Key changes:** a) **Airports:** A more conservative view of aero charge increases as well as long-term non-aero revenues; b) **Real estate:** We maintain our valuation here; and c) **Power:** Post money valuation after PE investment, inclusion of 1.6GW of gas-based projects at a 50% discount 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	**49.6**	**20.7**
Net Cash	**(4.1)**	**(2.6)**
Overall	**192**	**52.6**

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 low risks. Maintain OW. Consistent delays in the monetization of Mumbai real estate is a key risk to our PT.

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Maintain OW based on visible intrinsic value

GVK Power has seen a sharp underperformance in the past two quarters on regulatory concerns and mainly delays in monetization on Mumbai real estate. However our new Mar-12 SOTP-based PT of Rs53 (see Table 1 below), valuing only visible assets, implies 42% upside from the current level. Our PT derives 59% of its value from airports and associated real estate, 39% from power, and 7% from roads. We continue to use DCF to value each SPV.

Announcement of gas allocation, clarity on aero charges and MMRDA approval to monetize Mumbai real estate are the key potential upside catalysts, in our view

The stock price already seems to be factoring in zero value for Mumbai airport land (22% of our SOP value), and a significant discount to our estimated value for Bangalore airport (15% of SOP). Ex-MIAL real estate, we value GVK at Rs41/share, implying 10% upside to the current share price. Delay in MMRDA approval does not impact our SOP as long as real estate prices appreciate. However, airport completion may be delayed if 2.4M sft not leased out in FY12.

The stock has not reacted positively to the conclusion of Rs15B of PE deals for a 25% stake in the power vertical, which implies a valuation of ~Rs60B or Rs38/share; thus the entire market cap of the stock seems to be equal to the PE deal-implied valuation of the power vertical alone. Post money, we value the power vertical at Rs50B. Even if no value is given to 1.6GW of brownfield gas-based projects (Rs3/share) which are yet to receive fuel allocation, our SOTP value decreases to Rs50/share, implying upside of ~35% from the current share price.

Table 33: GVK: SOTP valuation

	Total asset value		GVK's stake	Value of GVK's stake			
	(Rs B)	(US$ MM)	(%)	(Rs B)	(US$ MM)	(Rs/share)	(% Contribution)
Airports	**140.9**	**2,936**		**48.7**	**1,015**	**30.8**	**58.6**
Mumbai Airport	**98.0**	**2,043**	**37.0**	**36.3**	**756**	**23.0**	**43.6**
Core	47.8	995	37.0	17.7	368	11.2	21.3
Real estate	50.3	1,047	37.0	18.6	387.6	11.8	22.4
Bangalore Airport	**42.9**	**893**	**29.0**	**12.4**	**259**	**7.9**	**15.0**
Core	32.6	679	29.0	9.4	196.9	6.0	11.4
Real estate	10.3	215	29.0	3.0	62.2	1.9	3.6
Roads	**5.7**	**120**		**5.7**	**120**	**3.6**	**6.9**
GJEPL	5.7	120	100.0	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	75.0	4.8	99.5	3.0	5.7
Jegurupadu-II	5.2	109	75.0	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	0	75.0	0.0	0.0	0.0	0.0
Alaknanda Hydro	2.1	44	75.0	1.6	33.3	1.0	1.9
Gautami II	3.7	76	47.7	1.7	36.3	1.1	2.1
Jegurupadu-III	3.7	76	75.0	2.7	57.1	1.7	3.3
Tokisud	0.8	18	75.0	0.6	13.3	0.4	0.8
Cash from PE deal	15.0	312.1	75.0	11.2	234.2	7.1	13.5
Net-cash at parent level	**(4.1)**	**(85)**	**100.0**	**(4.1)**	**(85)**	**(2.6)**	**(4.9)**
Grand total	**192**	**4,005**		**83**	**1,966**	**52.6**	**100.0**

Source: J.P. Morgan estimates.

We roll forward our PT to Mar-12 and reduce it to Rs53 from Rs57. Key changes include: a) **Airports:** A more conservative view of aero charge increases as well as long-term non-aero revenues resulting in lower value for airport assets, we perform a sanity check our valuations with implied valuations for publicly listed pure plays; b) **Real estate**: Maintaining our valuation here; and c) **Power:** Inclusion of brownfield gas-based projects (1.6GW) given management and PE investor confidence on fuel allocation. However we conservatively apply a 50% discount to our valuation given the uncertainty/ potential delay in fuel supply. Our Rs50B valuation is post money compared to the implied valuation of Rs60B from recently concluded PE deals; we adjust for a 25% dilution of GVK's stake in the power vertical accordingly.

GVK stock is trading at 21x FY13E P/E, 9x EV/EBITDA, and 1.5x P/BV. Valuation prima facie appears expensive given the high proportion of unmonetized real estate value in the SOP. Excluding the real estate valuation, GVK trades at 15.4x and 7.7x FY13E P/E and EV/EBITDA respectively.

Table 34: Indian infrastructure: Comparable valuations

Year end March

Company	BBG Code	JPM Rating	CMP (Rs)	PT (Rs)	Mkt cap (US$ B)	P/E (x) FY12E	P/E (x) FY13E	EV/EBITDA (x) FY12E	EV/EBITDA (x) FY13E	P/BV (x) FY12E	P/BV (x) FY13E
GMR	GMRI IN	OW	41	50	$3.5	83.2	19.0	15.7	8.9	1.9	0.9
Ex real estate			32	40	$2.8	65.8	15.0	14.1	8.1	1.5	0.7
GVK	**GVKP IN**	**OW**	**38**	**53**	**$1.3**	**21.0**	**20.8**	**16.3**	**9.0**	**1.6**	**1.5**
Ex real estate			**28**	**39**	**$1.8**	**15.6**	**15.4**	**14.1**	**7.7**	**1.2**	**1.1**
Reliance Infra	RELI IN	N	810	950	$4.8	15.3	9.9	11.6	9.0	0.9	0.8
Adani Enterprises	ADE IN	N	644	665	$15.6	19.3	12.8	14.3	8.3	3.9	3.0
Mundra Port	MSEZ IN	N	141	161	$6.3	21.9	14.2	17.3	11.8	5.5	4.2
Jaiprakash Associate	JPA IN	NR	96	NA	$4.5	19.2	14.1	10.9	9.0	1.9	1.6
IRB Infrastructure	IRB IN	NR	216	NA	$1.6	13.1	11.9	6.9	5.7	2.3	1.9

Source: Bloomberg, J.P. Morgan estimates. Price as on 13 January 2011. We use Bloomberg consensus estimates for JPA and IRB. In order derive valuation for GMR and GVK ex real estate CMP, Mkt Cap, PT and Multiples are adjusted for the proportion of real estate in our SOTP.

Mumbai airport real estate

Management is currently awaiting MMRDA approval to commence its development plans and is expecting an outcome in the next two quarters: this implies a delay of over a year. There is a risk of this being delayed further, in our view. Non-monetization of this real estate implies a valuation risk of 22% to our SOTP. **We value 12.6mn sq ft to be monetized at Rs3,990/sq ft.**

Table 35: MIAL - land equation

	Acres	Acres
Total land		1976
10% for dvlpmt		**197.6**
Apportioned to HDIL		-65
Area with MIAL		**132.6**
AAI land	-52	
Freed up due to redvlpmt	20	
Net AAI area		**-32**
Target dvlpmt.		**100.6**

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

Of the total available area of 1,976 acres, MIAL is allowed to commercially develop 10%, or 198 acres of real estate around the airport. To handle the politically sensitive issue of slum encroachment, MIAL engaged HDIL, a slum rehabilitation specialist. In exchange HDIL will get 65 acres of airport land for its own development, in addition to the extra FSI that slum rehabilitation projects are entitled to. Also an additional 52 acres is occupied by AAI for its staff quarters and offices. If MIAL gets to develop 100 acres, management is confident that it can build 15-20 mn sqft (implying 3.5-4.5x FSI).

MIAL: FCF positive in FY13E

Earnings and cash flow outlook

We model MIAL to continue its profitable run through FY12 and then report losses as capital costs begin to flow via the P&L upon project completion. We expect a 6.6% CAGR in traffic (vs 12.3% for DIAL) and 10% for FY14-FY20 as the PAX handling capacity expands. We expect EBITDA to grow at a 27.7% CAGR during FY10-14.

On a cash flow basis we expect a positive FCFF FY13 onwards as the capex phase gets completed in FY12. We currently do not model any cost overruns to the scheduled project cost of Rs98B.

MIAL becomes FCF positive in FY13 as the capex cycle comes to an end

Table 36: MIAL: Summary P&L and cash flow

Rs in millions, year-end March

	FY10	FY11E	FY12E	FY13E	FY14E	FY15E
PAX Traffic (mn)	**25.6**	**27.9**	**29.5**	**31.2**	**33.1**	**35.1**
Domestic (mn)	17.4	19.1	20.3	21.5	22.8	24.1
International (mn)	8.2	8.8	9.2	9.8	10.3	11.0
% International	32%	31%	31%	31%	31%	31%
yoy growth/CAGR over the past 5 yrs (%)	9.3%	8.9%	5.7%	6.0%	6.0%	6.5%
Net Revenues (Rs M)	**6,040**	**7,054**	**8,587**	**10,072**	**12,939**	**14,051**
Gross Aero Rev (Rs m)	4,033	5,013	6,155	6,533	7,048	7,458
Gross Non Aero Rev (Rs M)	5,876	6,553	7,864	9,927	14,238	15,944
Non Aero as % of Aero	59%	57%	56%	60%	67%	68%
Aero revenue/ PAX (Rs)	157	180	209	209	213	213
Non aero revenue/ PAX (Rs)	229	235	267	318	430	454
EBITDA (Rs M)	**3,131**	**4,368**	**5,570**	**6,132**	**8,339**	**9,278**
EBITDA mgn	51.8%	61.9%	64.9%	60.9%	64.4%	66.0%
PAT (Rs M)	**1,328**	**1,651**	**1,820**	**(2,862)**	**(1,641)**	**281**
ROE (%)	15.6%	11.8%	9.7%	-15.7%	-10.3%	1.8%
ROCE (%)	6.3%	4.6%	3.3%	0.8%	1.9%	4.0%
Cash flows						
EBIT	2,338	3,125	3,890	2,503	3,117	4,332
EBIT (1-tax rate)	1,531	2,062	2,567	1,652	2,057	2,859
Add: Depreciation	793	1,243	1,681	3,629	5,222	4,946
Operating cash flow	**2,324**	**3,305**	**4,248**	**5,281**	**7,279**	**7,805**
Less: working cap changes	(925)	(10)	(15)	(15)	(29)	(11)
Capex	(14,383)	(30,000)	(34,060)	(329)	(426)	(468)
Free cash flow to firm	**(12,984)**	**(26,705)**	**(29,828)**	**4,937**	**6,825**	**7,326**

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

Valuation

We value MIAL's core airport operations at Rs.48B (Mar-12 DCF) vs. Rs65B (Mar-11 DCF) previously based on a more conservative view on non aero revenues, inflation in regulated aero charges offsetting the benefit of a roll forward to FY12.

Our valuation implies an 18.5x FY12E EV/EBITDA at a discount to DIAL's 26x. In FY13E MIAL is at a premium at 16.1x, with DIAL at 14.6x, with opex beginning to stabilize at DIAL and assuming some debt repayment from real estate sale.

The implied EV/EBITDA multiples are more comparable to Macquarie airports as well as to Beijing Capital. The premium to European airports is warranted, in our view, due to higher traffic growth potential and non-aeronautical revenue growth possibilities at Indian airports (see Table 6 on page 7 below for valuation of GVK's airport assets compared to GMR and other international airports).

Bangalore airport – what's the fair value?

GVK purchased its 29% stake in BIAL in two tranches: 17% from L&T for Rs6.8B and 12% from Zurich Airport for Rs4.8B, implying a valuation of Rs40B. L&T and Zurich made >500% return on their investment in BIAL. Given our Rs43B valuation for core airport and real estate, GVK's acquisition was fully priced limiting upside to

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SOTP. However, in our view the stock price is factoring in a steep discount to our valuation.

Potential increase in stake by buying out Siemens' 14% of the total 40% share, which comes out of lock-in this May. Past valuation benchmark suggests further investment of Rs5.6B by GVK, although it is not known if GVK will exercise its right of first refusal at this price, which is already perceived to be too high.

Earnings and cash flow outlook

Compared to other Indian airports BIAL is a profitable one; we expect a 10.2% CAGR in traffic through FY15 (10.8% for Hyderabad) and 21.3% growth in PAT (360% for Hyderabad). We expect a sustainable ROE of 20-24%. While we expect a steady growth in OCF, the airport should be FCF positive in FY15 as the airport expands its capacity to 17MM PAX, while GMRI's Hyderabad airport is already in the black.

Table 37: BIAL: Summary P&L and cash flow

Rs in millions, year-end March

	FY10	FY11E	FY12E	FY13E	FY14E	FY15E
PAX Traffic (mn)	**9.9**	**11.0**	**12.1**	**13.3**	**14.7**	**16.1**
Domestic (mn)	8.0	8.9	9.7	10.7	11.7	12.8
International (mn)	1.9	2.1	2.4	2.7	3.0	3.3
% International	20%	20%	20%	20%	20%	21%
yoy growth/CAGR over the past 5 yrs (%)		11.0%	10.0%	10.0%	10.0%	10.2%
Net Revenues (Rs M)	**4,647**	**5,293**	**6,113**	**7,060**	**8,155**	**9,419**
Revenue/ PAX (Rs)	468	481	505	530	556	584
EBITDA (Rs M)	**2,992**	**3,387**	**3,912**	**4,536**	**5,260**	**6,099**
EBITDA mgn	64.4%	64.0%	64.0%	64.3%	64.5%	64.8%
PAT (Rs M)	**777**	**1,137**	**1,169**	**1,369**	**1,644**	**2,044**
ROE (%)	28.0%	29.1%	23.0%	21.2%	20.3%	20.2%
ROCE (%)	11.7%	14.0%	13.4%	13.0%	13.6%	14.4%
Cash flows						
EBIT	1,655	2,179	2,572	2,984	3,508	4,159
EBIT (1-tax rate)	1,646	1,743	2,057	2,387	2,807	3,327
Add: Depreciation	1,338	1,208	1,341	1,552	1,752	1,939
Operating cash flow	**2,984**	**2,951**	**3,398**	**3,939**	**4,558**	**5,267**
Less: working cap changes	13,780	(14,620)	(283)	(422)	219	(218)
Capex	6,660	(3,500)	(3,500)	(5,000)	(5,000)	(5,000)
Free cash flow to firm	**23,424**	**(15,169)**	**(385)**	**(1,482)**	**(223)**	**49**

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

Valuation

Based on a DCF approach we value the core airport operations at Rs32.6B (Rs6/share for GVK's 29% stake or 15% of SOTP) vs. Rs50B previously. Our valuation implies an 11.9x and 10.8x FY12E and FY13E EV/EBITDA respectively compared to 13.1x and 10.4x for Hyderabad airport.

We continue to value the 515 acres of leasable area at Rs20MM/acre, implying a valuation of Rs10.3B or Rs2/share for GVK's stake. Given that the development of the land parcels is still in the planning stage, we have made our valuation conservative.

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Table 38: Valuation of individual airport assets benchmarked to pure plays

	BBG Code	JPM Rating	Currency	Mkt Cap US$B	P/E (x) FY12E	P/E (x) FY13E	EV/EBITDA (x) FY12E	EV/EBITDA (x) FY12E	P/BV (x) FY12E	P/BV (x) FY13E
GMR Airports			**INR**	**$ 4.3**	**NM**	**310.2**	**22.3**	**14.8**	**18.5**	**16.0**
ex real estate				**$ 2.7**	**NM**	**195.1**	**16.7**	**10.7**	**11.6**	**10.1**
DIAL				$ 2.2	NM	(58.3)	36.5	22.8	13.2	17.1
ex real estate				$ 1.2	NM	(31.3)	26.0	14.6	7.1	9.2
GHIAL				$ 1.1	210.0	49.7	21.4	17.3	42.4	25.6
ex real estate				$ 0.5	96.7	22.9	13.1	10.4	19.5	11.8
Turkey				$ 0.8	NM	(62.5)	14.7	10.0	NM	NM
Male				$ 0.2	6.7	3.8	5.8	4.8	1.2	0.8
GVK Airports			**INR**	**$ 3.1**	**47.2**	**NM**	**22.2**	**19.5**	**5.7**	**6.1**
ex real estate				**$ 1.8**	**26.9**	**NM**	**15.8**	**13.8**	**3.2**	**3.5**
MIAL				$ 2.2	53.9	NM	27.6	24.3	5.0	5.8
ex real estate				$ 1.1	26.3	NM	18.5	16.1	2.4	2.8
BIAL				$ 1.0	36.7	31.3	14.5	13.1	8.4	6.7
ex real estate				$ 0.7	27.9	23.8	11.9	10.8	6.4	5.1
Asian Airports										
Beijing Capital Int'l	694 HK	OW	HKD	$ 1.1	27.7	21.5	12.3	11.1	1.2	1.2
HMA	357 HK	NR	HKD	$ 5.6	17.0	15.1	9.6	8.5	1.8	1.6
MAHB	MAHB MK	OW	MYR	$ 1.0	15.4	14.6	8.0	7.4	1.8	1.7
AOT	AOT TB	NR	THB	$ 1.4	14.4	12.5	6.1	6.0	0.7	0.7
Australian Airports										
Australian Infra Fund	AIX AU	OW	AUD	$ 1.2	18.2	17.4	10.4	9.8		
MAP Airports (1)	MAP AU	OW	AUD	$ 5.5	13.5	13.0	12.7	12.0		
Auckland Airport	AIA AU	UW	NZD	$ 1.7	18.1	16.6	11.0	10.4		
International Airports										
Vienna	FLU AV	NR	EUR	$ 1.4	12.8	15.1	8.9	8.4	1.2	1.2
Copenhagen	KBHL DC	NR	DKK	$ 2.2	15.8	15.1	8.7	8.4	3.7	3.7
Fraport	FRA GR	NR	EUR	$ 5.9	22.6	21.2	9.2	8.3	1.7	1.6
Venice Airport	SAVE IM	NR	EUR	$ 0.5	17.4	15.1	6.9	6.3	1.5	1.5
Aeroports de Paris	ADP FP	NR	EUR	$ 7.7	18.9	17.3	8.6	8.0	1.7	1.6
Zurich Airport	FHZN SW	NR	CHF	$ 2.5	16.0	14.3	7.6	7.2	1.3	1.3

Source: J.P.Morgan estimates for MPSEZ (MSEZ IN), DP (2880 HK), CP (1199 HK) and CMHI (144 HK). Bloomberg estimates for all other companies, Prices and valuations are as of 1/13/2011.
Note: CY10 is FY11 (Year-end March) for MPSEZ.

Power: More positive on gas

GVK has 901MW of operating power assets, and an under-construction portfolio of 870MW including the 330MW Alaknanda hydro project and 540MW coal based Goindwal Sahib. In addition the company has 1.1GW of hydro projects in the pipeline which we don't include in SOTP given their nascent progress and risks in execution.

In 2010, GVK announced 1.6GW of brownfield expansion projects for its gas-based projects. Management seems confident of getting gas since it has land in hand, water allocation and environmental clearance for half the capacity. A positive outcome on gas allocation (expected to be a 2011event) is another potential upside catalyst.

The recent PE investment of Rs15B in the power vertical should partly fund equity growth through FY15. In our view, GVK requires Rs32B of equity for 2.5GW of incremental capacity in SOTP. Management is targeting an IPO for this vertical 4-5 years from now.

Earnings outlook

We estimate 670MW of capacity addition through FY14 and a CAGR of 38% and 94% in EBITDA and PAT respectively. In our view the contribution power segment

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earnings will increase to 77% in FY14 from 30% in FY10**.** We model no merchant sales in 2H FY11 and FY12 pending APDICOM's resolution of the matter.

Table 39: GVK Power: Summary P&L

Rs in millions, year-end March

	FY10	FY11E	FY12E	FY13E	FY14E	FY15E
Average MW	**901**	**901**	**901**	**1,231**	**1,569**	**1,969**
Regulated	901	901	901	764	1,102	1,102
PPA	0	0	0	330	330	730
Merchant	0	0	0	137	137	137
MUs (net)	**6,244**	**5,840**	**5,932**	**8,113**	**10,463**	**13,352**
Regulated	6,244	5,840	5,932	5,692	8,042	8,042
PPA	0	0	0	1,392	1,392	4,281
Merchant	0	0	0	1,029	1,029	1,029
Avg prices (Rs/KWH)	**2.57**	**2.94**	**2.96**	**3.02**	**3.18**	**3.29**
Regulated	2.57	2.94	2.96	2.88	3.16	3.26
PPA				3.03	3.01	3.31
Merchant				3.80	3.61	3.43
Revenue	**16,032**	**17,176**	**17,559**	**24,541**	**33,283**	**43,928**
Regulated	16,032	17,176	17,559	16,415	25,372	26,214
PPA	0	0	0	4,216	4,195	14,185
Merchant	0	0	0	3,911	3,715	3,529
Fuel cost	**10,542**	**10,784**	**10,638**	**12,373**	**16,082**	**21,797**
Implied fuel cost/KWH	1.69	1.85	1.79	1.53	1.54	1.63
Other O&M cost	1,446	1,807	1,328	1,860	2,784	3,351
Implied O&M cost/MW	1.61	2.01	1.47	1.51	1.77	1.70
EBITDA	**4,043**	**4,585**	**5,592**	**10,308**	**14,417**	**18,781**
Other income	85	44	51	104	201	311
Interest	1,702	1,897	1,658	3,418	4,703	6,732
Depreciation	1,687	1,947	1,947	2,622	3,369	5,343
PBT	**740**	**784**	**2,038**	**4,372**	**6,546**	**7,018**
Tax	89	154	408	778	1,204	1,298
PAT	**651**	**631**	**1,630**	**3,594**	**5,342**	**5,720**
Minority interest	191	327	657	1,313	1,794	2,033
PATAMI	**460**	**304**	**973**	**2,281**	**3,548**	**3,686**

Source: Company reports and J.P. Morgan estimates. Note: In FY11 and FY12 we model no merchant sales from JII and Gautami and assume 20% of the output is sold at a minimum Rs4.12/unit guaranteed with PTC.

Valuation

GVK's power vertical appears higher than peers at 19.5x FY12E EV/EBITDA compared to Adani Power at 15x, which has a larger pipeline and more merchant exposure as well as NTPC and TPWR at 11x. This is due to 15% of the power valuation coming from gas-based project expansion (valued at a 15% discount) that will be commissioned around early FY15, and contribute significantly to earnings (19% of FY15 power segment EBITDA).

Table 40: GVK Power: Implied valuation

Year end March

	FY10	FY11E	FY12E	FY13E	FY14E	FY15E
P/E	76.3	78.7	30.5	13.8	9.3	8.7
EV/EBITDA	21.0	20.0	19.5	12.6	9.8	7.7
P/B	3.0	2.5	1.2	0.9	0.7	0.6
P/MW	55.1	55.1	55.1	40.3	31.7	25.2
EV/MW	94.2	101.9	120.8	105.3	90.0	73.0
EBITDA/MW	4.5	5.1	6.2	8.4	9.2	9.5

Source: J.P. Morgan estimates.

See Table 8 on page 10 of our report *Indian Infrastructure: A Cindarella sto*ry for a valuation of GVK's power assets compared to GMR and IPPs.

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Financial Analysis

We expect GVK to report a PAT of Rs1.8B in FY11, up 18.5% yoy (Rs762MM in 1H FY11) with no new assets being commissioned in the year.

FY12 marks an inflection point in terms of profitability with Rs2.8B of PAT given the completion of the planned maintenance in road and airport assets having a positive impact on EBITDA. We model GVK to sell its apportioned merchant capacity according to a fixed price of ~Rs4/unit to PTC as per the agreement; the APDISCOM resolution to sell at merchant rates is still pending.

We expect modest improvement in numbers in FY13, expecting the commissioning of Alaknanda and improved PLF at Gautami. However this is slightly offset by our expecation of MIAL reporting a loss post the completion of its expansion project with higher operating expenses and capital costs flowing through the P&L.

We estimate that GVK will turn FCF positive in FY13 as the majority of the capex for its two under-construction power plants nears completion. The capex cycle should once again pick up in FY14 in the power vertical. As MIAL turns around in FY14E and more power capacity is commissioned, we expect numbers to continue to improve. However, on the balance sheet front there is likely to be some capital infusion as capex for the 1.6GW of gas based projects commences.

Top line increases beyond FY12 as more power projects get commissioned

FY12 marks an inflection point in terms of profitability with Rs2.8B of PAT given the completion of the planned maintenance in road and airport assets having a positive impact on EBITDA

Table 41: GVK: Summary P&L

Rs in millions, year-end March

	FY10	FY11E	FY12E	FY13E	FY14E	FY15E
GVK JKEL II	1,708	1,852	1,927	2,007	2,105	2,210
JI	3,234	3,581	3,792	4,433	4,463	4,522
JII	4,974	4,839	4,899	4,928	4,972	5,018
Gautami	7,824	8,756	8,868	10,964	11,022	11,087
Goindwal				0	8,630	9,116
Alaknanda			0	4,216	4,195	4,073
Tokisud				500	526	553
Gautami II				0	0	5,056
JIII				0	0	5,056
Total Gross revenues	**17,866**	**19,028**	**19,486**	**27,048**	**35,914**	**46,691**
Cost of fuel	(10,542)	(10,784)	(10,638)	(12,373)	(16,082)	(21,797)
O&M & Admin expenses	(2,727)	(2,436)	(1,777)	(2,403)	(3,348)	(3,933)
EBITDA	**4,597**	**5,808**	**7,071**	**12,273**	**16,484**	**20,961**
Depreciation & amortization	(1,371)	(2,328)	(2,328)	(3,077)	(3,899)	(5,873)
EBIT	**3,226**	**3,480**	**4,743**	**9,195**	**12,585**	**15,088**
Interest (expense)	(2,085)	(2,081)	(1,818)	(3,552)	(4,928)	(6,928)
Other income/(expense)	292	94	110	173	282	374
Pre-tax profit	**1,433**	**1,493**	**3,035**	**5,817**	**7,939**	**8,534**
Income tax	(200)	(260)	(557)	(982)	(1,406)	(1,518)
Minority interest	(191)	(327)	(657)	(1,313)	(1,794)	(2,033)
Share of Associates	517	941	1,012	(662)	(130)	697
Net profit	**1,559**	**1,847**	**2,834**	**2,860**	**4,608**	**5,680**
EPS (Rs)	0.99	1.2	1.8	1.8	2.9	3.6
Share outstanding (m)	1,579	1,579	1,579	1,579	1,579	1,579
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.

We model some capital infusion in FY14 as capex for the 1.6GW of gas-based projects commences

Despite expansion plans, leverage remains in check aided by capital infusion in FY11E (PE) and FY14E

Table 42: GVK: Summary balance sheet

Rs in millions, year-end March

	FY10	FY11E	FY12E	FY13E	FY14E	FY15E
Gross Block	48,411	48,411	75,391	78,391	108,271	141,534
Less: Accumulated D&A	8,928	11,256	13,584	16,661	20,560	26,433
Fixed assets - net	**39,483**	**37,155**	**61,808**	**61,730**	**87,711**	**115,101**
Capital WIP	15,892	29,497	28,374	26,892	82,652	59,692
Construction stores and advance	4,063	4,063	4,063	4,063	4,063	4,063
Investments	**19,382**	**13,641**	**14,653**	**13,991**	**13,860**	**14,557**
Cash & bank balances	508	18,545	13,452	39,678	1,127	3,527
Net current assets ex-cash	1,858	2,164	3,854	5,101	5,794	7,992
Net current assets	2,367	20,709	17,306	44,779	6,921	11,519
Total Assets	**81,186**	**105,065**	**126,203**	**151,455**	**195,208**	**204,932**
Total debt	44,455	51,480	69,128	90,207	101,552	103,564
Paid-up common stock	1,579	1,579	1,579	1,579	1,579	1,579
Reserves and surplus	29,981	31,827	34,661	37,521	68,134	73,813
Shareholders' funds	**31,560**	**33,406**	**36,240**	**39,100**	**69,713**	**75,392**
Def. tax liability	2,672	2,672	2,672	2,672	2,672	2,672
Minority interest	2,500	17,507	18,164	19,477	21,271	23,304
Total Liabilities	**81,186**	**105,065**	**126,203**	**151,455**	**195,208**	**204,932**
Ratios (%)						
Net debt/ equity (x)	1.18	0.57	0.95	0.80	1.06	0.97
ROCE	5.0%	3.8%	4.2%	6.7%	7.4%	7.7%
Return on equity	5.7%	5.7%	8.1%	7.6%	8.5%	7.8%
Book value per share (Rs)	20.0	21.2	22.9	24.8	44.1	47.7

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

We expect GVK to turn FCF positive in FY13 as the majority of the capex for its two under-construction power plants nears completion; the capex cycle should once again pick up in FY14 in the power vertical

OCF picks up after FY12E as power projects get commissioned

Table 43: GVK: Summary cash flow statement

Rs in millions, year-end March

	FY10	FY11E	FY12E	FY13E	FY14E	FY15E
EBIT	3,226	3,480	4,743	9,195	12,585	15,088
D&A	1,371	2,328	2,328	3,077	3,899	5,873
Tax	(200)	(260)	(557)	(982)	(1,406)	(1,518)
Other income	809	1,034	1,122	(489)	152	1,071
Decrease in WC	(534)	(306)	(1,690)	(1,248)	(693)	(2,198)
Operating CF	**4,671**	**6,277**	**5,946**	**9,554**	**14,537**	**18,317**
Capex	(8,595)	(13,606)	(25,857)	(1,518)	(85,640)	(10,303)
Change in investments	(16,168)	5,741	(1,012)	662	130	(697)
Investing CF	**(24,763)**	**(7,864)**	**(26,869)**	**(856)**	**(85,510)**	**(11,000)**
FCF	**(20,092)**	**(1,587)**	**(20,923)**	**8,698**	**(70,973)**	**7,317**
Change in equity	7,169	0	0	0	0	0
Change in debt	14,657	7,025	17,648	21,079	11,346	2,012
Net interest paid	(2,085)	(2,081)	(1,818)	(3,552)	(4,928)	(6,928)
Adjustments	(703)	14,680	0	0	26,005	0
Financing CF	**19,038**	**19,624**	**15,830**	**17,527**	**32,423**	**(4,917)**
Change in cash	(1,054)	18,037	(5,092)	26,225	(38,550)	2,400
Opening Cash	1,562	508	18,545	13,452	39,678	1,127
Closing Cash	**508**	**18,545**	**13,452**	**39,678**	**1,127**	**3,527**

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

GVK Power & Infrastructure: Summary of Financials

Income Statement Rs in millions, year end Mar	FY10	FY11E	FY12E	FY13E	FY14E
Revenues	17,866	19,028	19,486	27,048	35,914
% change Y/Y	247.7%	6.5%	2.4%	38.8%	32.8%
EBITDA	4,597	5,808	7,071	12,273	16,484
% change Y/Y	160.7%	26.4%	21.7%	73.6%	34.3%
EBITDA Margin	25.7%	30.5%	36.3%	45.4%	45.9%
EBIT	3,226	3,480	4,743	9,195	12,585
% change Y/Y	228.0%	7.9%	36.3%	93.9%	36.9%
EBIT Margin	18.1%	18.3%	24.3%	34.0%	35.0%
Other income	809	1,034	1,122	-489	152
Net Interest	-2,085	-2,081	-1,818	-3,552	-4,928
Earnings before tax	1,433	1,493	3,035	5,817	7,939
% change Y/Y	68.2%	4.2%	103.3%	91.6%	36.5%
Tax	-200	-260	-557	-982	-1,406
as % of EBT	14.0%	17.4%	18.4%	16.9%	17.7%
Net income	1,559	1,847	2,834	2,860	4,608
% change Y/Y	44.9%	18.5%	53.4%	0.9%	61.1%
Adjusted profit	1,559	1,847	2,834	2,860	4,608
% 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%

Cash flow statement Rs in millions, year end Mar	FY10	FY11E	FY12E	FY13E	FY14E
EBIT	3,226	3,480	4,743	9,195	12,585
Depreciation & Amortization	1,371	2,328	2,328	3,077	3,899
Tax	-200	-260	-557	-982	-1406
Other income	-	-	-	-	-
Decrease in WC	-534	-306	-1,690	-1,248	-693
Operating CF	4,671	6,277	5,946	9,554	14,537
Capex	-8,595	-13,606	-25,857	-1,518	-85,640
Change in investments	-16,168	5,741	-1,012	662	130
Investing CF	-24,763	-7,864	-26,869	-856	-85,510
Free cash flow	-3,924	-7,328	-19,911	8,036	-71,103
Change in equity	6,466	14,680	0	0	26,005
Change in debt	14,657	7,025	17,648	21,079	11,346
Other financing activities	-	-	-	-	-
Financing CF	19,038	19,624	15,830	17,527	32,423
Change in cash	-1,054	18,037	-5,092	26,225	-38,550
Opening cash	1,562	508	18,545	13,452	39,678
Closing cash	508	18,545	13,452	39,678	1,127

Balance sheet Rs in millions, year end Mar	FY10	FY11E	FY12E	FY13E	FY14E
Net fixed assets	39,483	37,155	61,808	61,730	87,711
CWIP	15,892	29,497	28,374	26,892	82,652
Investments	19,382	13,641	14,653	13,991	13,860
Cash and bank balances	508	18,545	13,452	39,678	1,127
Net current assets ex-cash	1,858	2,164	3,854	5,101	5,794
Miscellaneous	-	-	-	-	-
Total Assets	81,186	105,065	126,203	151,455	195,208
Total Debt	44,455	51,480	69,128	90,207	101,552
Paid-up common stock	1,579	1,579	1,579	1,579	1,579
Reserves and surplus	29,981	31,827	34,661	37,521	68,134
Shareholders' fund	31,560	33,406	36,240	39,100	69,713
Deferred tax liability	2,672	2,672	2,672	2,672	2,672
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

Ratio Analysis Rs in millions, year end Mar	FY10	FY11E	FY12E	FY13E	FY14E
Revenue growth	247.7%	6.5%	2.4%	38.8%	32.8%
EBITDA growth	160.7%	26.4%	21.7%	73.6%	34.3%
PAT growth	44.9%	18.5%	53.4%	0.9%	61.1%
EPS growth	29.0%	18.5%	53.4%	0.9%	61.1%
EBITDA margin	25.7%	30.5%	36.3%	45.4%	45.9%
Dividend payout ratio	-	-	-	-	-
Sales/GFA (x)	0.26	0.20	0.17	0.19	0.21
GFA/Equity (x)	2.36	2.65	3.48	3.87	2.80
Debt/Equity (x)	1.41	1.54	1.91	2.31	1.46
Net debt/Equity (x)	1.39	0.99	1.54	1.29	1.44
ROE (%)	5.7%	5.7%	8.1%	7.6%	8.5%
ROCE (%)	5.0%	4.3%	5.0%	7.8%	8.4%

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

J.P.Morgan

Asia Pacific Equity Research
16 January 2011

Reliance Infrastructure Ltd

The glass shoe slipped; downgrade to Neutral

Neutral
Previous: Overweight

RLIN.BO, RELI IN

Price: Rs808.20

Price Target: Rs950.00
Previous: Rs1,360.00

India
Electric Utilities

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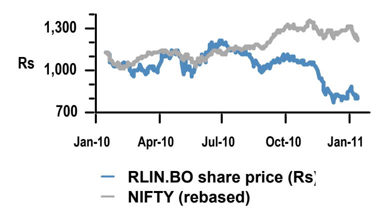
J.P. Morgan India Private Limited

Price Performance



	YTD	1m	3m	12m
Abs	-5.3%	-4.1%	-25.8%	-29.1%
Rel	2.9%	0.8%	-17.3%	-36.6%

- **Lacking valuation triggers:** Like its infrastructure conglomerate peers, RELI has seen steep value erosion. However, revival catalysts do not appear as strong as those of its peers. We downgrade to Neutral, with a new Mar-12 SOTP PT of Rs950, and recommend a switch to GMRI / GVK.
- **Company's investment practices have come under regulatory scrutiny:** SEBI has indicted RELI for misusing ECB funds towards associate company shares and misrepresenting yield management certificates in the annual report. RELI is barred from equity market investments through Dec-2012 – while this implies that balance sheet cash would not be misdirected until then, the finding does not speak well of the company's investment practices. RELI had Rs27.7B inter-corporate deposits in its last balance sheet.
- **Emerging concerns in key businesses: a)** Expiry of RELI's Mumbai **distribution** license in Aug-11 and competing bids invited by the regulator cast doubt on the sustainability of cash flows and future growth. RELI has sought an extension of the license period. B) **Infrastructure** portfolio will likely generate moderate returns – our NPV is lower than project equity investments in some cases. Mumbai, Delhi metros have seen delays, and losses are likely in the initial years. C) **EPC** - equipment-procurement-related risks (e.g. currency, input costs) untested; our sustainable EBIT margin estimate of 5% remains well below management guidance of ~9%.
- **Our revised PT of Rs950 (down from Rs1360 earlier): RPWR** main contributor to SOP (~49%); reduced stake in RPWR (38.5%) post RNRL merger into the latter has contributed Rs170 to the reduction in our PT. **(2) Distribution:** 13.4% of SOP, regulatory uncertainty in this cash-generating business has contributed ~Rs95 to the reduction in SOP. (3) **Cash:** We take 60% haircut on RELI's ICD / preference share portfolio in light of recent developments and value the net resultant cash (after subtracting debt) at 0.5x book, considering the risk of its deployment into new projects that may not add value immediately. Upside risks to our PT include the removal of regulatory overhang on distribution, reduction in ICD investment and a pick-up in execution of EPC order book and infrastructure projects.

Reliance Infrastructure (Reuters: RLIN.BO; Bloomberg: RELI IN)

Rs in millions, year-end March

	FY08	FY09	FY10	FY11E	FY12E		
Sales	83,462	125,013	144,960	141,303	185,593	52-week range (Rs)	751.25-1225
Net profit	11,780	13,531	15,194	13,244	14,161	Market cap (Rs B)	218.0
EPS (Rs)	50.0	59.9	62.0	49.5	52.9	Market cap (US$ B)	4.8
Net profit growth (%)	41.2	14.9	12.3	(12.8)	6.9	Shrs o/s (MM)	**267.5**
EPS growth (%)	36.9	19.7	3.6	(20.2)	6.9	Free float (%)	57.3
P/E (x)	16.6	13.9	13.4	16.8	15.7	Avg. daily value (Rs MM)	928.2
EV/EBITDA (x)	34.1	20.4	19.8	14.5	10.4	Avg. daily value (US$ MM)	20.6
P/BV (x)	1.2	1.1	1.0	0.9	0.9	Avg. dly volume (MM shs)	1.02

Source: Company data, J.P. Morgan estimates. Note: Share price as of market close on 13 January 2011.

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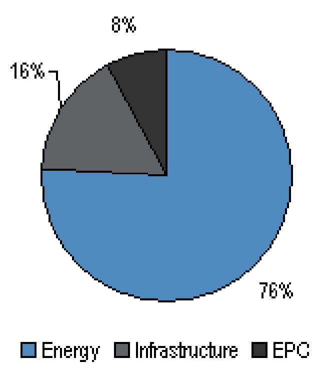
Company Description

Reliance Infrastructure is a diversified conglomerate with exposure to power generation (500MW at Dahanu and 45% stake in RPWR) and stable regulated distribution business (Mumbai and Delhi), roads (nine projects, two of which are operational), transmission (five projects), metros (two projects under construction in Mumbai and Delhi) and EPC businesses. RELI has the largest pipeline of non-power infra BOT projects in the country.

EBITDA composition (FY11E)



Source: J.P. Morgan estimates.

EPS: J.P. Morgan vs consensus

	J. P. Morgan	Consensus
FY11E	49.5	61.7
FY12E	53.7	70.6
FY13E	83.9	83.5

Source: Bloomberg, J.P. Morgan.

P&L sensitivity metrics

	EBITDA impact (%)	EPS impact (%)
EPC segment margins		
Higher by 100bps in FY12	3.50%	4.30%
Delhi metro real estate rental		
Higher by Rs50/sq.ft. (i.e. Rs225/sq.ft.)	0.85%	1.40%

Source: J.P. Morgan estimates.

Price target and valuation analysis

We reduce our SOP-based Mar-12 PT to Rs950 from Rs1,360. Our FY11 and FY12 estimates are down 15% and ~24%, respectively, mainly on account of lower other income, a higher tax rate, and a cut in RPWR's contribution to earnings. Key revisions in SOP: a) RPWR-main contributor of SOP (~49%), valued at 20% hold co. discount to our fair value estimate which factors in decent execution scenario; b) Distribution - 13.4% of SOP, regulatory uncertainty in cash generating business has contributed ~Rs95 to reduction in SOP. c) Net-Cash (8%): valued at 0.5x book, contribution down Rs170.

	(Rs B)	(Rs/share)
Regulated business	**34.2**	**128**
Reliance Power	**125.3**	**468**
Reliance Infra projects (EPC)	**17.3**	**65**
Infrastructure	**65.6**	**245**
Transmission	3.7	14
Roads (including sea link)	32.0	108
Metros	29.9	112
Net Cash	**20.1**	**75**
Overall	**262**	**981**

Source: J.P. Morgan estimates.

We downgrade the stock to N, and recommend a switch to GVK/GMR. Upside (and downside) risks to our rating and PT include the removal of regulatory overhang on distribution, reduction in ICD investment and pick-up in execution of EPC order book and infrastructure projects.

Deep value but few catalysts

Like its infrastructure conglomerate peers, RELI has seen steep value erosion and has underperformed the Sensex by 40% over the past 12 months.

Despite the weak run, revival catalysts do not appear as strong as those of its peers. We downgrade RELI to Neutral, with a new Mar-12 SOTP PT of Rs950, down from our Mar-11 PT of Rs1360 (see our revised SOP in table below), and recommend a switch to GMRI / GVK.

Table 44: Reliance Infrastructure: Revised SOTP valuation

	Equity value		RELI's stake	Value for RELI			% of value
	Rs B	US$B		Rs B	US$B	Rs/share	
Regulated business	**45.9**	**1.0**		**34.2**	**0.7**	**127.8**	**13.4**
Mumbai license area	23.0	0.5	100%	23.0	0.5	86.0	9.0
New Delhi - BSES Yamuna	7.1	0.2	49%	3.5	0.1	13.1	1.4
New Delhi - BSES Rajdhani	15.7	0.3	49%	7.7	0.2	28.8	3.0
Reliance Power	**325.4**	**7.0**	38.5%	**125.3**	**2.7**	**468.3**	**49.3**
EPC	**17.3**	**0.4**		**17.3**	**0.4**	**64.6**	**6.8**
Infrastructure projects	**58.8**	**1.3**		**57.4**	**1.2**	**214.7**	**22.6**
Transmission business	**3.3**	**0.1**		**3.7**	**0.1**	**13.7**	**1.4**
Koldam	(1.5)	(0.0)	74%	(1.1)	(0.0)	(4.1)	(0.4)
WRSS	3.7	0.1	100%	3.7	0.1	13.9	1.5
MSS	1.1	0.0	100%	1.1	0.0	3.9	0.4
Roads	**28.6**	**0.6**		**28.6**	**0.6**	**106.8**	**11.2**
BWSL	3.1	0.1	100%	3.1	0.1	11.5	1.2
Metro rail	**23.8**	**0.5**		**22.1**	**0.5**	**82.7**	**8.7**
Delhi Airport Express Link	21.8	0.5	95%	20.7	0.4	77.5	8.2
MRTS- Mumbai Line I	2.0	0.0	69%	1.4	0.0	5.2	0.5
Net cash on balance sheet@ 0.5x BV	**20.1**	**0.5**	**100%**	**20.1**	**0.5**	**75.2**	**7.9**
Total	**467.4**			**254.3**	**5.5**	**951**	**100.0**

Source: J.P. Morgan estimates.

Table 45: Reliance Infrastructure: Implied valuations

Rs in billions, year-end March

	EBITDA	PAT	Net Debt	EV (x)	BV (x)	P/E (x)	EV/EBITDA (x)	P/BV (x)
Mumbai license area (FY11)	7.6	3.8	7.7	30.7	17.4	6.1	4.0	1.3
Reliance Power (FY11)	5.3	4.7	52.5	377.9	149.4	68.7	71.6	2.2
EPC (FY11)	2.9	1.9	0.0	17.3	-	8.9	5.9	-
Parbati Koldam transmission project (FY13)	1.6	0.5	6.7	5.3	3.2	(3.1)	3.3	(0.5)
WRSS transmission project (FY12)	2.3	1.2	9.8	13.5	4.2	3.0	6.0	0.9
MSS transmission (FY11)	1.0	0.2	3.2	4.3	1.9	4.6	4.4	0.6
Road portfolio (FY12)	2.9	(0.7)	41.6	70.2	13.5	(43.2)	24.4	2.1
Delhi Airport Express Link (FY12)	1.3	(1.8)	21.2	43.0	9.1	(12.2)	32.5	2.4
MRTS- Mumbai Line I (FY12)	1.0	(0.1)	12.6	14.6	5.4	(25.2)	14.7	0.4

Source: J.P. Morgan estimates. Note: Financials and valuations for year mentioned.

We discuss our revised view on each of the businesses and contribution of cash to valuations followed by summary of model revisions which have resulted in the downgrade to N from OW.

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Regulatory uncertainties in electricity distribution business

Although the tariff related issues were largely resolved in Sep-10, the status of RELI's distribution license remains uncertain. The distribution license expires on 15 August 2011. In Oct-10, MERC had invited EoI from prospective applicants to indicate their interest in undertaking distribution of electricity in RELI's area and to seek grant of distribution license. Eight firms, including Tata Power and MSEDCL, submitted EoIs in Nov-10. RELI sought an extension of license period. Given regulatory uncertainty, we attribute 0% terminal growth to MLA, and higher WACC of 15% vs. 12% earlier (see Table 3 for summary valuations of the distribution businesses in Mumbai and Delhi).

Table 46: RELI's Mumbai license area business and Delhi distribution business

Rs in millions, FY09-10

	REL-G	REL-T	REL-D	BYPL	BRPL
Regulated capital base at beginning of FY	**5,176**	**1,464**	**10,749**		
Regulated RoE (%)	18	14	16		
Equity portion of capex approved	**12**	**86**	**588**		
Regulated RoE (%)	9	7	8		
PAT	**933**	**211**	**1,767**	**1,439**	**2,684**
FCF calculation					
PAT	933	211	1,767	1,439	2,684
Non tariff income			884	468	514
Add: Interest	202	32	1,356	103	150
Add: Depreciation	142	82	762	1,011	1,239
Add: Income tax	98	68	347	20	50
Less: Capex	(39)	(286)	(1,960)	(2,000)	(2,500)
FCF	**1,336**	**107**	**3,155**	**1,041**	**2,136**
Discount rate (%)	15	15	15	12	12
Terminal growth rate (%)	0	0	0	4	4
EV	8,904	716	21,033	13,013	26,701
Less: Debt	1,669	564	7,933	5,882	10,974
Add: Cash at parent level			2,510		
Equity value	**7,236**	**152**	**15,611**	**7,131**	**15,727**
RELI's equity stake (%)	100	100	100	49	49
Per share of RELI (Rs.)	**30**	**1**	**64**	**14**	**31**

Source: J.P. Morgan estimates, MERC, DERC.

Infrastructure – Large portfolio, but modest returns

Our estimated NPV for RELI's portfolio of metro (ex-real estate upside), transmission and sea-link projects is less than the project equity investment (see Table 2)

Execution of Delhi Airport Express-line has been delayed by few months and we expect the project to commence operations in FY12. We take a more conservative view on real estate development associated with the project. We factor rentals of Rs175/sq.ft/month vs. Rs225/sq.ft/month; the bulk of the land available for development is in Dwarka (New Delhi).

The Mumbai metro project is expected to be operational in 2H FY12. Both metro projects are likely to be loss-making for the first couple of years of operation, in our view.

Our revised DCF based value for the roads portfolio implies 2.1x FY12E book. This makes roads the most attractive asset class in RELI's infrastructure portfolio.

See our estimates of road, metro, transmission and sea-link revenue and EBITDA in table 7.

More conservative on cash contribution to SOP

75% yoy spike in ICDs to Rs27.7B was a significant disappointment in the FY10 annual report published in end-Nov-10, since management had been guiding to the contrary. We factor in a 60% haircut on ICD and preference share investments that have surfaced in accounts. We view deployment of net-cash as equity in pipeline metro and transmission projects as value-erosive (our NPV of under construction metro and transmission projects is less than project equity) and accordingly factor 0.5x net-cash into our SOP.

Table 47: Calculation of net-cash

	Rs B	% haircut	Factored into val (Rs B)
ICDs	27.7	60.0	11.1
Liquid MFs	11.3		11.3
Pref shares to group	35.1	60.0	14.1
CD's from Banks	19.4		19.4
Cash from warrant conversion	21.0	-	21.0
Total gross cash	**114.5**		**76.8**
Gross debt	85.8		85.8
Already allocated to projects/license area	**45.0**		**45.0**
Regulated business debt	23.2		
Transmission BOT debt	2.9		
Road BOT debt	10.3		
Metro BOT debt	8.5		
Unallocable debt	**40.9**		**40.9**
Net cash	73.6		35.9
Cash from transfer of 433MW to RELI	4.4		4.4
Total net cash	**77.9**		**40.2**

Source: J.P. Morgan estimates.

EPC business: Execution slippages

1H standalone EPC revenue of Rs14.3B (down 6.8% YoY) is lagging behind management guidance of Rs45B for FY11 (reiterated in Sep-q). The implied pick-up in growth in 2H FY11 is quite sharp at ~55%, and would require substantial progress on large projects like Sasan (Rs120B EPC order), in our view. EPC segment margins of 10% in 1H are tracking higher (vs. est. of <7% for FY11), but are expected to come down if substantial revenue is booked on RPWR projects (e.g. Sasan) in 2H. During Sep-q, RELI added four road projects to EPC OB which now stands at Rs240B (vs. Rs185B at end of Jun-q).

We expect the EPC order backlog to grow further due to inclusion of RPWR pipeline projects; Krishnapatnam UMPP (4GW) EPC contract is likely over the near term, in our view.

In our view, equipment procurement related risks (e.g.: currency, input costs) are yet untested and hence our sustainable EBIT margin estimate of 5% is well below management guidance of ~9%.

See our EPC revenue and EBITDA (same as EBIT, assuming no capex) estimates in Table 7.

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Key SOP revisions

See summary of SOP revisions in Table 5 below-

Table 48: Summary of SOP revisions

	Earlier	Revised	Δ (Rs)	What has changed?	Implied multiple
Regulated business	**223.1**	**127.8**	**(95.3)**		
Mumbai license area	177.3	86.0	(91.4)	The distribution license expires on 15th Aug 2011. In Oct-10, MERC had invited EoI from prospective applicants to indicate their interest in undertaking distribution of electricity in RELI's area and to seek grant of distribution license. 8 players including Tata Power and MSEDCL submitted EoI's in Nov-10. RELI sought an extension of license period. Given regulatory uncertainty, we attribute 0% terminal growth to MLA, and higher WACC of 15% vs. 12% earlier	1.3x FY10 regulated capital base. RELI owns the T&D assets in MLA and Dahanu (500MW) TPS
New Delhi - BSES Yamuna	14.3	13.1	(1.2)	No change, except RELI's share count has increased	5.0x P/E est.
New Delhi - BSES Rajdhani	31.5	28.8	(2.7)	No change, except RELI's share count has increased	5.9x P/E est.
Reliance Power	**638.6**	**468.3**	**(170.3)**	We remain UW on RPWR. We have valued RELI's reduced stake in RPWR (38.5% vs. 45% earlier, post RNRL merger), at 20% holding company discount to our price target for the latter. We use a higher hold co. discount for RPWR as compared to 10% for ADE's subsidiaries, given earnings trajectory is more back ended in case of the former	2.2x FY11E BV of RPWR
Reliance Infraprojects	**80.8**	**64.6**	**(16.2)**		
EPC	80.8	64.6	(16.2)	Our EPC EBITDA est. have come down by 14-16%, owing to weak execution track record YTD. We est. 19% EBITDA growth CAGR over FY10-14E.	Implied multiple of 5.9x FY11 EV/EBITDA unchanged
Reliance Infraventures	**173.6**	**214.7**	**41.1**		
Transmission business	**16.1**	**13.7**	**(2.4)**		
Koldam	(4.5)	(4.1)	0.4	No change, except RELI's share count has increased	(0.5)x project equity
WRSS	16.3	13.9	(2.4)	Delay in commissioning of asset to FY12, besides change in RELI's share count	0.9x project equity
MSS	4.3	3.9	(0.4)	No change, except RELI's share count has increased	0.6x project equity
Roads	**29.8**	**106.8**	**77.0**	Rollover to Dec-11, significant capex incurred in FY11 excluded from ∑EV in DCF	2.0x FY12 BV; 1.6x ∑(project equity)
BWSL		**11.5**	**11.5**	New addition to SOP valuation	0.4x project equity
Metro rail	**127.7**	**82.7**	**(45.0)**		
Delhi Airport Express Link	112.9	77.5	(35.4)	Factoring in slight execution delays; conservative view on rentals from real estate development @ Rs175/sq.ft/month vs. Rs225/sq.ft/month, bulk of land available for development is in Dwarka (New Delhi)	2.4x project equity (including real estate upside);
MRTS- Mumbai Line I	14.8	5.2	(9.7)	Execution delays factored in, revised CoD post 1HFY12	0.4x project equity
Net cash on balance sheet	**244.4**	**75.2**	**(169.2)**	Post cash-inflow from warrant conversion (Rs21B), we est. total net-cash at Rs40B (after taking 60% haircut on ~Rs63B of ICD's and preference shares in FY10 balance sheet). However, we note that RELI's projects in transmission, roads and metros (ex-real estate) yield an NPV at discount to project equity. Projects in pipeline not included in SOP include more metro and transmission projects and Greenfield cement capacity development. We take a view that deployment of cash to these businesses may be valued at a discount	0.5x net-cash
Total	**1,360**	**950.7**	**(409.8)**		

Source: J.P. Morgan estimates.

Our revised Mar-12 PT of Rs950 (down from our Mar-11 PT of Rs1360) includes the following. (1) RPWR- main contributor of SOP (~49%), valued at 20% hold co. at a discount to our fair value estimate which factors in decent execution scenario; upside appears unlikely. Reduced stake in RPWR (38.5%) post RNRL merger into the latter has contributed Rs170 to the reduction in our PT. (2) Distribution- 13.4% of SOP, regulatory uncertainty in cash generating business has contributed ~Rs95 to reduction in SOP. (3) Infrastructure- 22.6% of SOP, more favorable view of roads portfolio added Rs40 to SOP. (4) Net cash (8%): valued at 0.5x book, contribution down Rs170. (5) EPC (7%).

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Key upside (and downside) risks to our rating and PT incude the removal of regulatory overhang on distribution, reduction in ICD investment and pick-up in execution of EPC order book and infrastructure projects.

Key estimate revisions and financials

Our FY11 and FY12 estimates are down 15% and ~24%, respectively, mainly on account of lower other income, a higher tax rate, and a cut in RPWR's contribution to earnings in FY12.

The reduction in FY12E PAT is despite the fact that our EBITDA estimate is up ~1% due to consolidation of operational Bandra Worli Sea Link.

Table 49: Consolidated P&L

Rs in millions, year-end March

	FY09	FY10	FY11E	FY12E	FY13E	FY14E	FY15E
Income from Mumbai	65,420	56,930	60,972	65,301	66,607	67,939	69,298
Income fom IPPs	12,520	10,908	2,800	69	69	69	69
Income from Delhi	22,436	26,186	30,365	31,884	33,478	35,152	36,909
Income from Transmission	0.0	281	1,084.7	4,459.2	7,689.1	7,510.5	7,332.1
Income from Roads		253	941	3,386	4,816	8,357	9,240
Income from MRTS		0	(194)	2,878	5,514	7,403	7,761
Income from sea-link				772	872	984	1,111
Income from energy business	**100,376**	**94,023**	**94,137**	**97,253**	**100,153**	**103,160**	**106,276**
Income from Infrastructure		**535**	**1,832**	**11,495**	**18,890**	**24,254**	**25,444**
Income from EPC	**25,404**	**35,219**	**45,334**	**76,845**	**91,907**	**99,211**	**107,103**
Total Revenues	**125,013**	**144,960**	**141,303**	**185,593**	**210,950**	**226,625**	**238,823**
	7,356	6,790	12,140	16,273	22,032	26,281	28,217
EBITDA	**10,660**	**11,515**	**17,717**	**25,550**	**32,620**	**38,075**	**39,797**
In US$ MM	**240**	**259**	**398**	**574**	**733**	**856**	**894**
EBITDA margin (%)	**8.5**	**7.9**	**12.5**	**13.8**	**15.5**	**16.8**	**16.7**
Mumbai EBITDA	6,430	3,846	7,622	7,836	7,993	8,153	8,316
Delhi EBITDA	465	2,265	3,037	3,188	3,348	3,515	3,691
IPPs EBITDA	1,909	2,766	2,766	59	59	59	59
EPC EBITDA	1,855	2,410	2,910	4,437	4,482	4,841	5,228
Road EBITDA		228	800	2,878	4,093	7,103	7,854
Transmission EBITDA	-	253	977	4,136	7,097	6,904	6,711
MRTS EBITDA		-	(394)	2,320	4,764	6,615	6,938
Sea-link EBITDA				695	785	886	1,000
Energy business EBITDA	**8,805**	**8,877**	**13,424**	**11,084**	**11,400**	**11,727**	**12,066**
EPC EBITDA	**1,855**	**2,410**	**2,910**	**4,437**	**4,482**	**4,841**	**5,228**
Infrastructure EBITDA	**-**	**481**	**1,383**	**10,029**	**16,738**	**21,508**	**22,503**
Other income	10,412	11,937	6,565	6,565	6,326	6,326	6,326
Interest	4,394	5,251	5,551	9,673	12,209	14,448	13,647
Depreciation	3,304	4,724	5,577	9,277	10,588	11,795	11,579
PBT	**13,374**	**13,476**	**13,154**	**13,165**	**16,150**	**18,159**	**20,897**
Tax	(783)	(1,498)	(1,842)	(1,843)	(2,261)	(2,542)	(2,926)
Tax rate	6%	11%	14%	14%	14%	14%	14%
PAT	**12,591**	**11,977**	**11,312**	**11,322**	**13,889**	**15,617**	**17,971**
Less: Minority interest	(7)	(2)	20	150	(96)	(305)	(394)
Add: Income from associates (RPWR)	**934**	**3,215**	**1,951**	**2,989**	**7,964**	**19,134**	**36,944**
PAT after MI & Associate adjustments	**13,531**	**15,194**	**13,244**	**14,161**	**21,949**	**35,056**	**55,309**
Shares outstanding (mn)	**226**	**245**	**268**	**268**	**268**	**268**	**268**
EPS	**59.9**	**62.0**	**49.5**	**52.9**	**82.0**	**131.0**	**206.8**

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

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We note that in the infrastructure conglomerate space RELI has maximum scope to lever up the balance sheet and take on new projects. As we have not factored in pipeline projects (UMTPs, Mumbai Metro-II, Greenfield cement plans) in our capex estimates, it appears that the company will start generating FCF in FY13 (see Table 8).

Table 50: Consolidated balance sheet

Rs in millions, year-end March

	FY09	FY10	FY11E	FY12E	FY13E	FY14E	FY15E
Equity share capital	2,261	2,449	2,675	2,675	2,675	2,675	2,675
Reserves & Surplus	166,715	204,591	236,442	248,440	268,226	301,119	354,265
Shareholder's Capital	**168,976**	**207,041**	**239,117**	**251,115**	**270,901**	**303,794**	**356,940**
Minority interest	1,116	1,147	1,147	1,147	1,147	1,147	1,147
Debt	**101,054**	**85,839**	**126,677**	**163,414**	**174,243**	**170,911**	**164,443**
Deferred tax	2,113	1,569	1,569	1,569	1,569	1,569	1,569
Grants	0		6,500	6,500	6,500	6,500	6,500
Sources	**273,259**	**295,596**	**375,010**	**423,745**	**454,360**	**483,921**	**530,600**
Gross block	**101,074**	**117,482**	**171,204**	**248,066**	**262,538**	**299,542**	**301,150**
Accumulated depreciation	(46,380)	(51,683)	(57,260)	(66,537)	(77,125)	(88,920)	(100,499)
Net block	**54,694**	**65,799**	**113,943**	**181,529**	**185,413**	**210,622**	**200,651**
Capital WIP	35,582	46,387	54,003	35,037	44,229	9,178	9,544
Gross block incl CWIP	**136,656**	**163,869**	**225,207**	**283,103**	**306,767**	**308,719**	**310,694**
Net current assets ex-cash	19,036	42,325	21,173	23,570	20,904	18,641	17,340
Investments	**159,364**	**136,591**	**137,091**	**137,591**	**138,091**	**138,591**	**139,091**
Govt securities	473	416	416	416	416	416	416
In Associates	61,923	65,238	65,738	66,238	66,738	67,238	67,738
Others	96,968	70,938	70,938	70,938	70,938	70,938	70,938
Cash & bank balance	4,583	4,494	48,798	46,017	65,722	106,889	163,973
Applications	**273,259**	**295,596**	**375,010**	**423,745**	**454,360**	**483,921**	**530,600**
Net Debt	**(970)**	**9,991**	**39,662**	**79,856**	**76,878**	**49,655**	**21,278**
ROE	8.1	8.1	5.9	5.8	8.4	12.2	16.7
ROCE	6.8	6.1	5.0	5.3	5.9	6.4	6.2
ROIC	19.6	18.9	13.9	12.3	12.7	13.8	14.1
Net Debt/EBITDA (x)	(0.1)	0.9	2.2	3.1	2.4	1.3	0.5
D/E (x)	0.60	0.41	0.53	0.65	0.64	0.56	0.46
Net-debt/Equity (x)	(0.01)	0.05	0.17	0.32	0.28	0.16	0.06

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

Table 51: Reliance Infrastructure: Cash flow statement

Rs in millions, year-end March

	FY09	FY10	FY11E	FY12E	FY13E	FY14E	FY15E
EBITDA	10,660	11,515	17,717	25,550	32,620	38,075	39,797
Net tax paid	(783)	(1,498)	(1,842)	(1,843)	(2,261)	(2,542)	(2,926)
Operating profit after tax	9,876	10,016	15,875	23,707	30,359	35,533	36,871
Change in working capital	4,430	(11,428)	(6,545)	(2,397)	2,666	2,263	1,301
Operating cash flow	**14,306**	**(1,412)**	**9,331**	**21,310**	**33,025**	**37,796**	**38,172**
Capital expenditure	(47,470)	(27,212)	(61,339)	(57,896)	(23,664)	(1,952)	(1,974)
Strategic Investments	(866)	(3,315)	(500)	(500)	(500)	(500)	(500)
Investing cash flows	**(48,336)**	**(30,527)**	**(61,839)**	**(58,396)**	**(24,164)**	**(2,452)**	**(2,474)**
FCF	**(34,030)**	**(31,938)**	**(52,508)**	**(37,086)**	**8,861**	**35,344**	**35,697**
Increase/ (Decrease) in share capital/share warrants	(96)	18,888	226	0	0	0	0
Increase/ (Decrease) in share premium a/c	0	17,586	0	0	0	0	0
Proceeds of share capital from Minority shareholders	603	31	0	0	0	0	0
Buy-back of equity shares	(7,497)	0	0	0	0	0	0
Interest expense	(4,394)	(5,251)	(5,551)	(9,673)	(12,209)	(14,448)	(13,647)
Interest income	10,412	11,937	6,565	6,565	6,326	6,326	6,326
Increase/(Decrease) in borrowings	42,017	(15,215)	40,838	36,737	10,829	(3,332)	(6,468)
Adjustments: Deferred tax & grants	(564)	(544)	6,500	0	0	0	0
Financing cash flows	**40,481**	**27,432**	**48,578**	**33,629**	**4,946**	**(11,453)**	**(13,788)**
Net increase/(decrease) in cash	**6,451**	**(4,506)**	**(3,930)**	**(3,457)**	**13,807**	**23,891**	**21,909**
Opening cash balance	89,000	95,451	90,945	87,014	83,557	97,365	121,256
Closing cash balance	**95,451**	**90,945**	**87,014**	**83,557**	**97,365**	**121,256**	**143,165**

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

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Reliance Infrastructure: Summary of Financials

Profit and Loss statement

Rs in millions, year-end Mar	FY09	FY10	FY11E	FY12E
Revenues	125,013	144,960	141,303	185,593
% change Y/Y	50%	16%	-3%	31%
EBITDA	10,660	11,515	17,717	25,550
% change Y/Y	101%	8%	54%	44%
EBITDA Margin (%)	8.5%	7.9%	12.5%	13.8%
Depreciation	3,304	4,724	5,577	9,277
EBIT	7,356	6,790	12,140	16,273
% change Y/Y	228%	-8%	79%	34%
EBIT Margin (%)	5.9%	4.7%	8.6%	8.8%
Other income	10,412	11,937	6,565	6,565
Interest	4,394	5,251	5,551	9,673
Earnings before tax	13,374	13,476	13,154	13,165
% change Y/Y	8%	1%	-2%	0%
Tax	(783)	(1,498)	(1,842)	(1,843)
PATAMI & Associate adj.	13,531	15,194	13,244	14,161
% change Y/Y	15%	12%	-13%	7%
Shares Outstanding	226.1	244.9	267.5	267.5
EPS (adjusted)	59.9	62.0	49.5	52.9
% change Y/Y	20%	4%	-20%	7%

Cash flow statement

Rs in millions, year-end Mar	FY09	FY10	FY11E	FY12E
EBITDA	10,660	11,515	17,717	25,550
Net tax paid	(783)	(1,498)	(1,842)	(1,843)
Operating profit after tax	9,876	10,016	15,875	23,707
Change in working capital	4,430	(11,428)	(6,545)	(2,397)
Operating cash flow	14,306	(1,412)	9,331	21,310
Capital expenditure	(47,470)	(27,212)	(61,339)	(57,896)
Strategic investments	(866)	(3,315)	(500)	(500)
Investing cash flows	(48,336)	(30,527)	(61,839)	(58,396)
Financing cash flows	40,481	27,432	48,578	33,629
Net increase/(decrease) in cash	6,451	(4,506)	(3,930)	(3,457)
Opening C&CE balance	89,000	95,451	90,945	87,014
Closing C&CE balance	95,451	90,945	87,014	83,557

Balance sheet

Rs in millions, year-end Mar	FY09	FY10	FY11E	FY12E
Equity share capital	2,261	2,449	2,675	2,675
Shareholder's equity	168,976	207,041	239,117	251,115
Minority Interest	1,116	1,147	1,147	1,147
Debt	101,054	85,839	126,677	163,414
Other liabilities	2,113	1,569	8,069	8,069
Total Liabilities	273,259	295,596	375,010	423,745
Net block	54,694	65,799	113,943	181,529
Capital work-in progress	35,582	46,387	54,003	35,037
Net current assets (ex-cash)	19,036	42,325	21,173	23,570
Investments	159,364	136,591	137,091	137,591
Cash & cash balance	4,583	4,494	48,798	46,017
Total Assets	273,259	295,596	375,010	423,745
Net-debt	(970)	9,991	39,662	79,856
BVPS	747	845	894	939

Ratio Analysis

%, year-end Mar	FY09	FY10	FY11E	FY12E
EBITDA Margin	8.5%	7.9%	12.5%	13.8%
Net profit margin	10.8%	10.5%	9.4%	7.6%
Energy cost/sales	63%	59%	47%	39%
Sales growth	50%	16%	-3%	31%
Net profit growth	15%	12%	-13%	7%
EPS growth	20%	4%	-20%	7%
Debt to equity	0.6	0.4	0.5	0.7
Net debt to equity	0.0	0.0	0.2	0.3
Sales/assets	0.5	0.5	0.4	0.4
Assets/equity	1.6	1.4	1.6	1.7
ROE	8.1%	8.1%	5.9%	5.8%
ROCE	6.8%	6.1%	5.0%	5.3%

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

Adani Enterprises Ltd

All dressed up, but the ball is still a while away. Maintain N.

Neutral

ADEL.BO, ADE IN

Price: Rs641.90

▲ **Price Target: Rs665.00**
Previous: Rs640.00

India

Infrastructure

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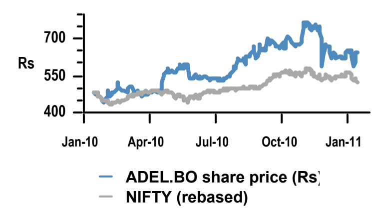
J.P. Morgan India Private Limited

Price Performance



	YTD	1m	3m	12m
Abs	-1.2%	1.0%	-6.9%	33.0%
Rel	7.0%	5.9%	1.6%	25.5%

- **Outperforms the pack, given fewer regulatory hiccups and value unlocking:** While infra asset owners had a bad run in 2010, ADE outperformed the market and peers on account of: (1) **Value unlocking at two key verticals** (70% of SOTP, Adani Power listing in 2H09 and amalgamation of MP in 1H10) (2) **simplified business model** into three key verticals: power, ports, and mining. (3) More visible earnings streams and better execution in ports and power (4) **A change in earnings and return profile** as ADE transformed into an asset owner from a trader (est earnings CAGR of 70% thru FY14E and ROE of 29% vs. 20% in FY10).
- **Coal mining the next kicker, but still two years out, in our view:** We foresee the next leg up to come via value unlocking in the coal mining business, which is still two years away. According to management, peak production of 110mtpa from current MDO contracts should be achieved by FY18 with ADE's target to ramp up to 200mtpa by 2020, competition still being limited. While we expect continuous capex to develop mines, we see an inflection in OCF in FY13. Meanwhile, the bread and butter coal trading business continues to be a key contributor to earnings.
- **Value accretion from overseas assets will take a while to play out:** Coal production from Galilee (Aust) is still at least five years away, in our view, with evacuation infrastructure being a bottleneck. However, in the long term the asset is a good synergistic fit with the power and trading businesses. Similarly, the agreement with Bukit Asam, Indonesia to develop a railway line in exchange for coal will take ~4 years execution.
- **Increase PT to Rs665, maintain Neutral:** In our view, with ~70% of value already being discovered, we'd rather play the individual stocks for any upsides there. We recommend switching to Mundra Port (N, PT Rs161), given the recent correction post the recent MoEF show cause notice. Our SOTP includes 36% for power, 34% for ports, 13% for coal mining, 21% for coal trading, the balance coming from smaller businesses along with a 10% conglomerate discount.

Adani Enterprises Ltd (Reuters: ADEL.BO, Bloomberg: ADE IN)

Rs in mn, year-end Mar	FY09A	FY10A	FY11E	FY12E	FY13E		
Revenue	262,583	258,896	264,832	363,859	510,608	Shares O/S (mn)	1,100
Net Profit	5,046.5	9,189.8	21,323.4	36,718.0	55,397.4	Market cap (Rs mn)	705,968
EPS (Rs)	20.46	18.45	19.39	33.39	50.37	Market cap ($ mn)	15,605
DPS (Rs)	1.00	1.00	0.97	1.67	2.52	Price (Rs)	641.90
Revenue growth (%)	33.9%	-1.4%	2.3%	37.4%	40.3%	Date Of Price	14 Jan 11
EPS growth (%)	36.5%	-9.8%	5.1%	72.2%	50.9%	Free float (%)	16.5%
ROCE	7.9%	8.0%	10.8%	13.1%	18.3%	3mth Avg daily volume	981,087.00
ROE	19.6%	20.3%	20.7%	22.6%	26.9%	3M - Average daily Value (Rs mn)	645.19
P/E (x)	31.4	34.8	33.1	19.2	12.7	Average 3m Daily Turnover ($ mn)	14.26
P/BV (x)	5.2	5.3	4.9	3.9	3.0	NIFTY	5,655
EV/EBITDA (x)	40.2	27.0	14.0	8.8	5.2	Exchange Rate	45.24
Dividend Yield	0.2%	0.2%	0.2%	0.3%	0.4%	Fiscal Year End	Mar

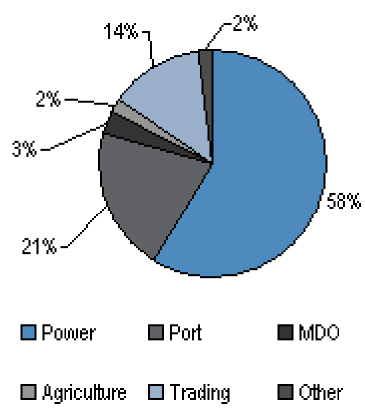
Source: Company data, Bloomberg, J.P. Morgan estimates.

See page 79 for analyst certification and important disclosures, including non-US analyst disclosures.

Company Description

Adani Enterprises is the flagship company of the Adani Group and has a variety of businesses in its portfolio. The company began as a trading house and is now expanding into power (9.2GW under development at Adani Power), ports (currently operating Mundra port with 55MTPA capacity), coal mining (3 mines in India and the captive Bunyu mine) in addition to city gas distribution, edible oils, agri logistics and oil and gas exploration.

EBITDA composition (FY13E)



Source: Company reports.

EPS: J.P. Morgan vs. consensus

	J. P. Morgan	Consensus
FY11E	19.4	20.7
FY12E	33.4	41.1
FY13E	50.4	58.9

Source: Bloomberg, J.P. Morgan estimates.

P&L sensitivity metrics

	SOP impact (%)	FY12 EPS impact (%)
25% higher coal cost for Adani Power	(8.1)	(8.8)
20% CAGR in traffic growth at Mundra Port vs 29% est.	(8.0)	(4.1)
Merchant prices lower by 20p	(2.0)	(2.9)
20% higher mining cost	(4.8)	(1.0)
10% lower production at coal mines	(2.3)	(0.3)

Source: J.P. Morgan estimates.

Price target and valuation analysis

Our Mar-12 SOTP price target of Rs665/share includes Rs238 for Adani Power (OW) based on our PT of Rs153, Rs227 for Mundra Port (N) based on our PT of Rs161, Rs84 for coal mining based on our DCF valuation, Rs.144 for trading based on 12x FY12E earnings and Rs29 for real estate. We increase our PT from Rs640 previously based on our increased PT for Adani Power, Mundra Port and higher margins for coal trading.

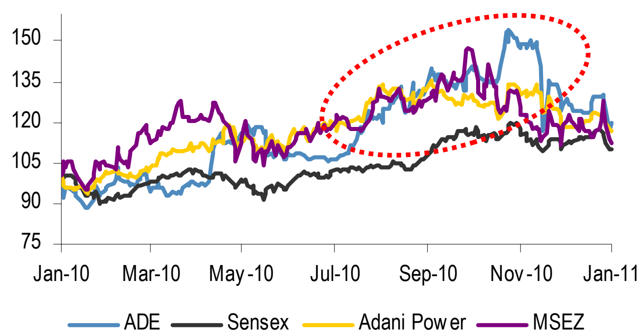
	Value of AEL's stake (Rs B)	In Rs/share
Adani Power	261.6	237.9
Mundra Port and SEZ	250.0	227.3
MDO	92.7	84.3
Trading	158.2	143.8
Agriculture	6.3	5.7
Real Estate	32.1	29.2
City Gas Distribution	10.1	9.2
Others	1.7	1.5
Conglomerate discount	(81.3)	(73.9)
Grand Total	**731**	**665**

AEL trades at 14.3x FY12E EV/EBITDA, in the middle of the pack compared to other conglomerates like RELI at 11.5x, GMR at 14.4x, and GVK at 16.0x. Our price target implies a 14.7x FY12E EV/EBITDA. We maintain our Neutral rating and expect the next leg up once the MDO vertical reaches a mature stage for potential listing. Key upside risks: increase in merchant prices, increase in port traffic, Key downside risks: slower-than-expected development of MDO business and cost overruns at Galilee/Bukit Asam.

Outperformed the pack with fewer regulatory hiccups and value unlocking

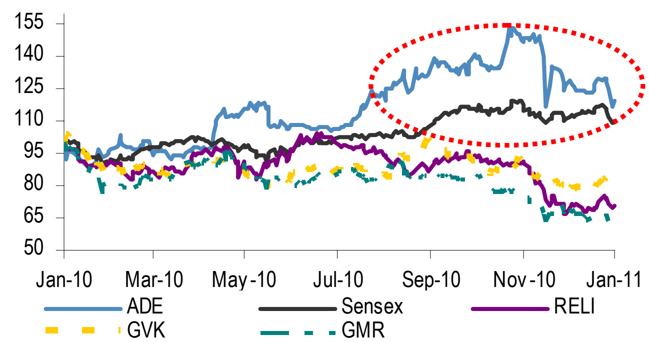
While infra conglomerates had a bad run in 2010, ADE outperformed the market and its peers on account of: (1) **Listing of its two key verticals** (70% of SOTP, Adani Power listing in 2H09 and amalgamation of MP in 1H10) has aided value discovery. (2) With value being less opaque, **the business model has also been simplified** into three key verticals: power, ports and mining. (3) **Fewer regulatory hurdles** in ports and power as opposed to the airports and more certainty of execution than real estate, which are large contributors for its peers. (4) **A change in earnings and return profile** beginning to come through as it transforms into an asset owner from a trader (JPMe earnings CAGR of 165% thru FY14E and ROE of 29% vs. 20% in FY10).

Figure 9: ADE 1 year stock performance vs. subsidiaries



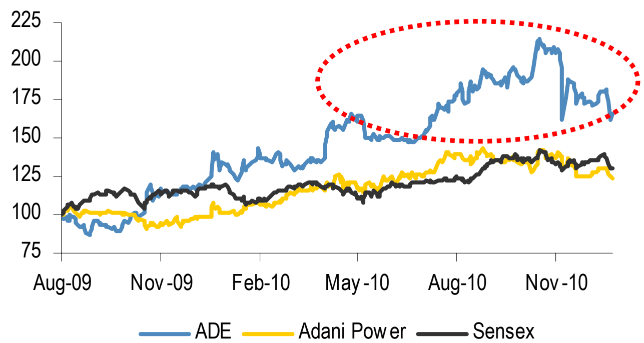
Source: Bloomberg.

Figure 10: ADE 1 year stock performance vs. peers



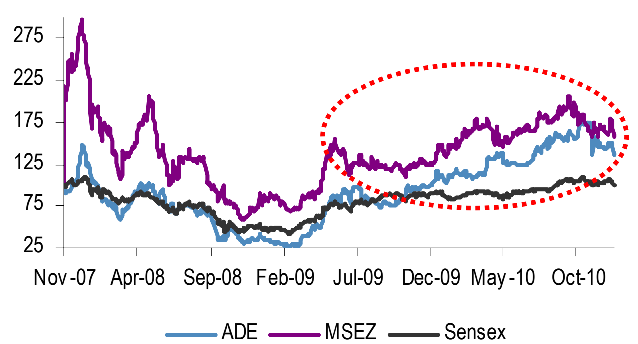
Source: Bloomberg.

Figure 11: ADE stock performance vs. Adani Power (since listing)



Source: Bloomberg.

Figure 12: ADE stock performance vs. Mundra Port (since listing)



Source: Bloomberg.

In our view with ~70% of value already being discovered, we'd rather play the individual stocks for any upsides there. We maintain our Neutral rating and recommend switching to Mundra Port (N, PT Rs161), given the recent correction post the recent MoEF show cause notice.

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Coal mining to give the next boost, but value unlocking still two years out, in our view

We foresee the next leg up for ADE to come via value unlocking in the coal mining business, which we think is still two years away. The three coal blocks with 1.8B tons of reserves contribute Rs84.3B to value or Rs12.6/share to our SOTP value of Rs668/share. We currently do not include the recent 1.6B tonne Chendipada coal block, given the pending financial closure, land acquisition, and procurement of clearances.

Current mines: Peak production of 110mtpa by FY18, target: 200mtpa by 2020

Management expects the Parsa Kente block to be the first to commence production in June 2011, followed by Machhakatta in FY13, Parsa and Chendipada by FY14. We model peak production of 70mtpa in FY18 i.e., excluding Chendipada. While we expect continuous capex investments to develop mines, we see an inflection in OCF in FY13. ADE has already bid for the Mahanadi block in Chhatisgarh (next to Machhakatta) with a peak production capacity of ~30mtpa.

Table 52: Adani Enterprises: Summary P&L MDO business

Rs. in million, year-end March

	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E
Volume (MMT)	**4.0**	**7.6**	**17.5**	**24.9**	**38.8**	**49.0**	**55.4**	**62.6**
% change yoy	*486%*	*89%*	*131%*	*42%*	*56%*	*26%*	*13%*	*13%*
Revenue	**6,480**	**11,206**	**23,652**	**34,036**	**51,938**	**65,780**	**77,045**	**92,543**
Operating cost	5,818	9,899	19,493	24,418	33,131	40,128	45,308	51,334
OP cost per ton US$/ton)	**32.3**	**29.1**	**24.8**	**21.8**	**19.0**	**18.2**	**18.2**	**18.2**
% change yoy	*1%*	*-10%*	*-15%*	*-12%*	*-13%*	*-4%*	*0%*	*0%*
EBITDA	**662**	**1,307**	**4,160**	**9,618**	**18,807**	**25,652**	**31,737**	**41,209**
Amortization	169	337	792	964	1,278	1,491	1,565	1,623
Interest	385	804	1,832	2,901	3,640	3,818	3,681	3,410
PBT	**109**	**166**	**1,536**	**5,753**	**13,890**	**20,344**	**26,491**	**36,176**
Tax	36	55	507	1,899	4,584	6,713	8,742	11,938
PAT	**73**	**112**	**1,029**	**3,855**	**9,306**	**13,630**	**17,749**	**24,238**
EBITDA Margin	**10%**	**12%**	**18%**	**28%**	**36%**	**39%**	**41%**	**45%**

Source: J.P. Morgan estimates.

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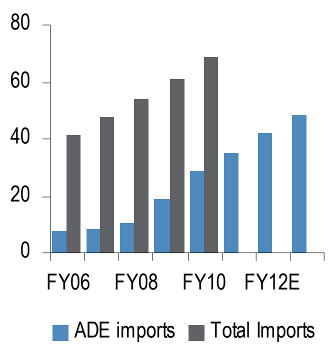
Table 53: Adani Enterprises: Profile of mines under development

	Machhakatta	Parsa Kente	Parsa	Chendipada
AEL's Stake (%)	100%	74%	100%	89%
Location	Orissa	Chattisgarh	Chattisgarh	Orissa
Mineable Reserves (MMT)	1,170	452	174	1,600
Contract period (years)	25	30	30	30
Strip Ratio	2.5	5.2	6.3	NA
Project Cost (Rs B)	50	30	11	NA
Maintenance Capex (Rs B)	122	52	19	NA
Year of CoD	FY13	FY12	FY14	FY14
Peak production year	FY18	FY17	FY17	FY18
Peak Production (MTPA)	50	15	5	30
Realization / ton (Peak Production- US$/ton)	32.5	26.4	24.8	NA
Operating Cost/ ton (Peak Production- US$/ton)	14.7	16.0	14.6	NA
EBITDA Margin (%)	54.6	39.3	40.9	NA
NPV (Rs. Mn)	76,694	9,265	7,038	NA
NPV/share	69.7	8.4	6.4	NA
NPV/MT	65.6	20.5	40.4	NA
JPM Comment	Approval of mine plan, block exploration and financial closure complete. Land acquisition process has started and is to be completed in three phases.	Completed exploration, secured environmental clearance and mine plan approval. Land acquisition yet to be complete, yet to secure forest clearance.	Important clearances and land acquisition are yet to be completed and ADE is yet to explore the block.	Important clearances and land acquisition are yet to be completed and ADE is yet to explore the block.

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

Coal trading: A bread and butter business but a large contributor to value

Table 54: Adani Enterprises: Coal import volume



Source: Company reports, Ministry of Coal.

ADE is India's largest coal trader; with 28.8MMT of volumes in FY10 (CAGR of ~40% over the past four years), the company had a **42% market share of India's total coal imports.** Management guides to 35MMT of volume (up 21% yoy) in FY11, which is in line with our estimate. We expect EBITDA to grow at a CAGR of 19% thru FY14. **Based on 12x FY12 P/E, we value the ICM business at Rs146B (Rs133/share, 20% of total value) compared to Rs81B (14.5x FY11 P/E) previously.**

Management expects to earn sustainable margins of ~$8-9/ton driven by purchase efficiencies, recovery of handling charges and sales strategy. Usually arrangements with clients and suppliers are on a back-to-back basis for -6 months with ~15-20% of volume coming through stock and sale arrangements with IPPs, thus mitigating any price risk. **We increase our sustainable EBITDA margin estimate by 150bps to 8%,** resulting in an improved value for the ICM business.

We expect EBITDA to grow at a CAGR of 19% thru FY14 and volumes to grow 16.4%

Margins have consistently improved over the past two years from 7.3% in FY09 to 9.0% in FY10 and 9.6% in 1HFY11

We model a sustainable EBITDA margin of 8%

Table 55: Adani Enterprises: Summary P&L for ICM

Rs. in millions, year-end March

	FY09	FY10	FY11E	FY12E	FY13E	FY14E
Volume (MMT)	**18.7**	**29.0**	**35.1**	**42.1**	**48.4**	**53.3**
% growth		55%	21%	20%	15%	10%
Per ton (Rs/MT)	**5,043**	**3,798**	**3,987**	**4,187**	**4,396**	**4,616**
% growth		-25%	5%	5%	5%	5%
Revenue (Rs M)	**94,154**	**110,130**	**139,920**	**176,299**	**212,882**	**245,878**
% growth	*249%*	*17%*	*27%*	*26%*	*21%*	*16%*
EBITDA margin	**7.30%**	**9.0%**	**8.5%**	**8.0%**	**8.0%**	**8.0%**
EBITDA (Rs M)	**6,873**	**9,890**	**11,893**	**14,104**	**17,031**	**19,670**
Interest	1,295	1,582	1,219	114	-	-
PBT	**5,578**	**8,308**	**10,674**	**13,990**	**17,031**	**19,670**
Tax @ 13%	725	582	1,388	1,819	2,214	2,557
PAT (Rs M)	**4,853**	**7,726**	**9,287**	**12,171**	**14,817**	**17,113**

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

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Overseas assets: very long-term value drivers but possible drain on near-term cash flows

With the lack of complete clarity and pending financial closure of the Galilee and Bukit Asam projects, we do not yet include them in our SOTP valuation for Adani Enterprises. However, the ultimate use of coal from both will be used to ensure fuel supply for Adani Power's potential generation capacity of 20GW by 2020 in the absence of domestic linkage coal. Also, it could alternatively be used for trading as a part of the ICM (coal trading) business with possibly improved margins, given the control on cost. That said, these projects run the risk of cost operating overruns, delayed execution, and inflated capex.

What is the Galilee project going to cost Adani Enterprises? … A look at some other projects in the Galilee Basin

The Galilee Basin in Central Queensland is expected to have coal reserves of ~100B tones. However, currently the basin has very limited rail connectivity to the nearby ports of Abbot Point, Hay Point and/or Dudgeon Point. COALRail is forecasting an eventual 100-130MTPA demand from mines in this region based on the current announced projects.

ADE could incur $3.0-6.8B of capex for Phase I of 30MTPA, in our view

Given the capex outlay planned by other players in the region (see Table 5 below), **ADE could incur $3.0-6.8B of cpaex for Phase I of 30MTPA, in our view.** This includes its own railway line ($1.5-2.0B), proposed 30-60MPTA ($1.0-2.5B) of port facilities at Dudgeon point and mine development capex ($2.0-2.3B for Phase I of 30MTPA). The Hancock rail network will have spare capacity for third-party users; ADE is exploring using this as an option as opposed to setting up its own railway line.

According to management, they are likely to incur capex to the tune of $1.5B for the railway and mine to establish a production capacity of 14MPTA initially (by FY17 in our est.).

Table 56: Major coal mining projects in the Galilee Basin

Company	Hancock Coal	Waratah Coal	AMCI and Alpha Coal
Project Name	Alpha project and Kevins Corner	Galilee Coal project	South Galilee Coal Project
Reserves (billion tones)	7.9	4.3	1.0
Peak Production	60	25	15-20
CoD	2014	2012	2015
Total Project Cost (US$B)	**6.4**	**4.8**	**1.4**
Mine Capex (US$B)	**2.3**	**1.6**	**1.4**
Length of Railway Line (kms)	495	495	0
Rail capacity (MTPA)	80	50	0
Capex for Railway (US$B)	**1.8**	**1.8**	0
Port Capacity (MTPA)	60	50	0
Capex for Port (US$B)	**2.3**	**1.4**	0

Source: Company reports, Queensland coal projects Note: Kevins corner will utilize the port and rail infrastructure developed by Alpha Coal since the mines are adjacent to each other.

According to management, the total project cost is to the tune of $1.65B. The project is expected to commence construction in the next six months and operations are likely to begin in FY14

Coal purchase agreement with Bukit Asam

ADE has entered into a binding agreement with the governments of South Sumatra and PT Bukit Asam, a 65% government-owned coal mining company (PTBA IJ) to own, construct and operate a 250km rail line capable of transporting 35MMTPA of coal (expandable to 60MMTPA) from the mining area of Tanjung Enim to Tanjung Carat. ADE will have the right to purchase 60% of the coal transported at a govt. denominated price and freight revenue on the balance 40% (currently ~$11/ton) over the 30-year concession Period. See our recent Note 'Another Move to Secure Long Term Fuel Requirements' for additional details.

Improved balance sheet health

String of corporate actions to reduce leverage

As of FY10, ADE's net debt-to-equity was relatively high at 2.4x, which we expect to reduce to 1.7x in FY11 on account of the corporate actions listed below. Hence, in our view, risk of excessive leverage is mitigated for ADE. Also, we do not foresee any capital infusion in the near term. We model the company to incur capex to the tune of ~Rs400B over the next five years and leverage to reduce further as cash flows from the ports and power businesses accelerate.

1. Rs40B raised through the recent QIP @ Rs536/share.
2. Rs15B raised through a rights issue @ Rs475/share.
3. Conversion of Rs9.8B of FCCBs at the hold co level to result in the issuuance of 31M shares.
4. According to management, holding company debt of Rs34B outstanding as of FY10 reduced to Rs3.5B via proceeds from a right issue and conversion of outstanding FCCBs.
5. Amalgamation of Mundra Port to result in the issue of 465M shares in a share swap agreement. However, MPSEZ had a much lower gearing of 0.78x consolidated net debt-to-equity as of FY10, which has a positive impact on ADE's balance sheet upon consolidation.

Table 57: Adani Enterprises: Changes in the balance sheet structure

Rs. in million, year-end March

Shareholders Equity		Total Debt	
As of FY10	**60,377**	**As of FY10**	**174,389**
+ Retained Earnings	20,076	- FCCB Conversion	9,758
+ Rights Issue	14,785	- Other hold co debt repayment	20,742
+ QIP proceeds	40,000	+ Adani Power debt	82,122
+ FCCB conversion	9,758	+ MPSEZ debt consolidation	36,629
+ MPSEZ consolidation	465	+ Other debt	22,534
FY11E	**145,461**	**FY11E**	**278,021**

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

We do not foresee equity infusion, given positive cash balances. However, capex does not include investments for Galilee and Bukit Asam

FY11 leverage reduced on account of BS restructuring

Returns improve as contribution of trading business reduces

Table 58: Adani Enterprises: Summary balance sheet

Rs. in million, year-end March

	FY10	FY11E	FY12E	FY13E	FY14E	FY15E
Shareholder's Equity	**60,377**	**145,461**	**180,031**	**232,188**	**304,513**	**394,726**
Secured Loans	119,012					
Unsecured Loans	55,377					
Total Debt	**174,389**	**278,021**	**369,482**	**414,638**	**429,792**	**410,276**
Minority Interest	18,518	23,201	31,826	48,284	71,419	100,277
Net Deferred Tax Liability	699	200	200	200	200	200
Total Liabilities	**253,983**	**446,884**	**581,540**	**695,310**	**805,925**	**905,480**
Gross Block	49,603	126,612	242,464	428,284	604,793	628,905
Less : Depreciation	3,831	8,314	16,916	34,054	57,596	85,577
Net block	**45,773**	**118,298**	**225,548**	**394,230**	**547,197**	**543,327**
Capital Work-in-Progress	133,366	253,988	258,609	155,413	38,898	29,098
Investments	6,990	6,990	6,990	6,990	6,990	6,990
Cash & Bank Balances	29,188	29,869	39,291	71,212	130,921	234,522
Misc Expenses	132	132	132	132	132	132
Net current Assets ex cash	38,535	37,607	50,970	67,333	81,787	91,411
Total Assets	**253,983**	**446,884**	**581,540**	**695,310**	**805,925**	**905,480**
Shares Outstanding (mn)	498	1,100	1,100	1,100	1,100	1,100
BVPS	**121.2**	**132.3**	**163.7**	**211.1**	**276.9**	**358.9**
Debt to Equity	**2.89**	**1.91**	**2.05**	**1.79**	**1.41**	**1.04**
Net Debt to Equity	**2.40**	**1.71**	**1.83**	**1.48**	**0.98**	**0.45**
ROE	**20.3%**	**20.7%**	**22.6%**	**26.9%**	**28.6%**	**27.4%**
ROCE	**4.8%**	**6.5%**	**7.5%**	**9.3%**	**11.1%**	**12.4%**

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

Power and Ports to be key contributors, MDO to pick up beyond FY13

We forecast PAT CAGR of 70% through FY14, with Adani Power (174% CAGR, 41% of FY14 PAT), Mundra Port (41% CAGR FY11-FY14, 25% of FY13 PAT) being the key growth drivers. Beyond FY13, we also see a marked pick-up in the other two important businesses of AEL – MDO and real estate. Through FY13, we believe these businesses would be in investment/development phase.

Coal to be the key driver of trading revenues going forward, while other commodities (e.g., agri) phased out this year

Table 59: Adani Enterprises: Summary P&L

Rs. in millions, year-end March

	FY10	FY11E	FY12E	FY13E	FY14E	FY15E
Sales	**258,896**	**264,832**	**363,859**	**510,608**	**623,818**	**732,386**
Adani Power	4,349	20,588	57,859	127,270	168,008	196,735
Mundra Port		18,204	25,948	38,070	47,147	54,492
MDO	1,105	6,480	11,206	23,652	34,036	51,938
Real Estate	-	-	62	589	9,181	14,819
Agriculture	47,220	46,967	56,926	69,305	75,993	83,216
Trading	193,610	155,289	191,791	228,131	261,890	300,802
City Gas Distribution	3,664	5,809	7,422	9,681	12,263	13,554
Bunkering	10,450	11,495	12,645	13,909	15,300	16,830
Total Expenses	242,008	224,832	291,335	383,956	450,850	521,718
EBITDA	**16,887**	**40,000**	**72,524**	**126,652**	**172,967**	**210,668**
Depreciation	1,515	4,483	8,603	17,137	23,543	27,981
EBIT	**15,373**	**35,517**	**63,922**	**109,515**	**149,425**	**182,687**
Other income	335	907	1,149	2,469	4,799	7,698
Interest	5,079	7,340	11,840	26,459	33,086	36,759
Misc Expenses w. off	-	-	-	-	-	-
PBT (before exceptionals)	**10,629**	**29,084**	**53,231**	**85,524**	**121,138**	**153,626**
Less: Prior Period Adj	11	-	-	-	-	-
Exceptionals	54	-	-	-	-	-
PBT	**10,672**	**29,084**	**53,231**	**85,524**	**121,138**	**153,626**
Tax	945	3,985	7,888	13,669	21,184	28,951
PAT	**9,727**	**25,099**	**45,343**	**71,855**	**99,954**	**124,675**
Minority Interest	537	3,775	8,625	16,457	23,136	28,858
Share of profit from associate		-	-	-	-	-
PATAMI	**9,190**	**21,323**	**36,718**	**55,397**	**76,819**	**95,817**
Less: Dividend	499	1,066	1,836	2,770	3,841	4,791
Less: Tax on Dividend	83	181	312	470	652	814
Retained Earnings	**8,608**	**20,076**	**34,570**	**52,157**	**72,325**	**90,213**

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

FCF positive in FY13

In our view, ADE will become FCF positive in FY13 as operating cash flows from power and ports accelerate. We also see MDO and real estate businesses starting to make modest contributions. Capex for Adani Power begins to decelerate in FY13, while we expect steady investments in ports and power to continue.

Table 60: Adani Enterprises: Subsidiary wise OCF and FCF

Rs. millions, year-end March

	FY10	FY11E	FY12E	FY13E	FY14E	FY15E
Operating Cash flow						
Adani Power	3,562	6,463	28,062	60,073	82,901	106,056
MPSEZ		9,192	14,849	20,423	26,780	31,393
MDO	(94)	(36)	710	2,131	6,386	12,017
Real Estate	(375)	(773)	(1,267)	997	7,905	9,133
City Gas	1,148	756	1,090	1,391	1,708	2,024
Others	10,446	22,247	8,979	14,076	16,450	19,170
Total	**14,686**	**37,849**	**52,422**	**99,088**	**142,129**	**179,792**
Free Cash Flow						
Adani Power	(70,050)	(104,941)	(70,876)	443	52,701	106,056
MPSEZ		488	5,860	11,648	10,776	27,668
MDO	(6,629)	(25,011)	14,085	(7,789)	(5,755)	4,549
Real estate	0	(773)	(1,267)	997	7,905	9,133
City Gas	1,148	(766)	(650)	677	1,020	824
Others	(4,269)	(28,777)	(15,202)	10,492	15,488	17,251
Total	**(79,801)**	**(159,781)**	**(68,052)**	**16,465**	**82,134**	**165,480**

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

Table 61: Adani Enterprises: Summary cash flow statement

Rs. millions, year-end March

	FY10	FY11E	FY12E	FY13E	FY14E	FY15E
EBIT	15,373	35,517	63,922	109,515	149,425	182,687
D&A	1,515	4,483	8,603	17,137	23,543	27,981
Tax	(945)	(3,985)	(7,888)	(13,669)	(21,184)	(28,951)
Other income	335	907	1,149	2,469	4,799	7,698
Exceptionals	43	-	-	-	-	-
Change in NWC	(1,634)	928	(13,363)	(16,363)	(14,454)	(9,623)
Operating CF	**14,686**	**37,849**	**52,422**	**99,088**	**142,129**	**179,792**
Capex	(92,144)	(197,630)	(120,474)	(82,623)	(59,994)	(14,312)
investments	(2,343)	-	-	-	-	-
Investing CF	**(94,487)**	**(197,630)**	**(120,474)**	**(82,623)**	**(59,994)**	**(14,312)**
FCF	**(79,801)**	**(159,781)**	**(68,052)**	**16,465**	**82,134**	**165,480**
Change in equity	34,986	65,916	(0)	-	-	-
Change in debt	53,546	103,633	91,461	45,155	15,154	(19,516)
Net interest paid	(5,079)	(7,340)	(11,840)	(26,459)	(33,086)	(36,759)
Dividend and Dividend Tax	(581)	(1,247)	(2,148)	(3,240)	(4,493)	(5,605)
Other	284	(499)				
Financing CF	**83,156**	**160,462**	**77,474**	**15,456**	**(22,425)**	**(61,879)**
Change in cash	**3,355**	**681**	**9,422**	**31,921**	**59,709**	**103,601**
Opening cash	25,832	29,187	29,869	39,291	71,211	130,921
Closing cash	**29,187**	**29,869**	**39,291**	**71,211**	**130,921**	**234,522**

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

Valuation and price target

We roll forward our SOTP-based price target to Mar-12 and increase it to Rs665 vs. Rs640 earlier. Our PT incorporates the increased values for Adani Power (OW, PT Rs153) and Mundra Ports (N, PT Rs161) based on our published PTs for these covered stocks which, in turn, are based on DCF of individual assets.

Our SOTP includes 36% for power, 34% for ports, 13% for coal mining, 20% for coal trading, the balance coming from smaller businesses. We have taken a holdco discount of 10% vs. 5% previously.

Table 62: Adani Enterprises: SOTP Valuation

	Total asset value		AEL's	Value of AEL's stake				
	(Rs bn)	(US$ mn)	stake (%)	(Rs bn)	(US$ mn)	(Rs/share)	(% Contribution)	Methodology
Mundra Port and SEZ	322.6	7,168	77.5	250.0	5,555	227.3	34.2	We use our DCF based SOTP Pt of Rs161 to value AEL's stake in Mundra Port. ~77% of the value comes from the Port business, 11% from the SEZ and balance from other businesses. MSEZ trades at 16x FY12 EV/EBITDA, our PT implies 18x.
Adani Power	372.2	8,277	70.3	261.6	5,814	237.9	35.8	We use our DCF based SOTP PT of Rs153 to value AEL's 70% stake in Adani Power. Our valuation implies a FY12 P/E of 17x. Adani Power currently trades at 15x FY12 EPS, compared to 7-12x for other IPPs.
MDO	92.9	2,065		92.7	2,060	84.3	12.7	We use DCF to value AEL's three coal blocks in India with a WACC of 13-14%. We don't assign value to Bunyu since its captive and Chendipada coal block which is pending financial closure.
Real estate	40.8	907		32.1	713	29.2	4.4	Our DCF for AEL's properties uses a WACC of 12%. Our valuation implies a EV/sq ft of Rs514 for Shantigram, Rs10,093 for BKC and Rs2,249 for Khatau.
Agriculture	9.2	204		6.3	140	5.7	0.9	We use a multiple of 8-12x FY12 earnings for AEL's various agri businesses. Ruchi Soya trades at 11x, Noble Group at 15x.
Trading	158.2	3,515		158.2	3,515	143.8	21.7	20x FY12 P/E for power trading, PTC at 15x. 12x FY12 P/E for coal trading, Olam International at 18x P/E.
City Gas Distribution	10.1	225	100.0	10.1	225	9.2	1.4	DCF, WACC of 11%, Implied FY12 EV/EBITDA of 9.6x in line with Gujarat Gas at 10x
Bunkering (JV with Chemoil)	3.4	75	50.0	1.7	38	1.5	0.2	10x FY12 P/E
Sub-Total	**1,010**	**22,436**		**813**	**18,060**	**739**		
Less: Congl. Disc.	(101)	(2,244)		(81)	(1,806)	(74)		
Grand total	**909**	**20,193**		**731**	**16,254**	**665**		

Source: J.P. Morgan. Bloomberg for consensus estimates for Ruchi Soya, Noble Group, PTC, Olam International and Gujarat Gas.

AEL trades at 14.3x FY12 EV/EBITDA, in the middle of the pack compared to other conglomerates like RELI at 11.5x, GMR at 14.4x, and GVK at 16.0x. Our price target implies a 14.7x FY12 EV/EBITDA. We maintain our Neutral rating and expect the next leg up once the MDO vertical reaches a mature stage for potential listing. Key upside risks: Increase in merchant prices, increase in port traffic, Key downside risks: Slower-than-expected development of MDO business and cost overruns at Galilee/Bukit Asam.

Table 63: Indian Infrastructure: Comparable valuation

Company	BBG	JPM	CMP	PT	Mkt cap		P/E		EV/EBITDA		P/B	
	Code	Rating	(Rs)	(Rs)	(US$ bn)		FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
GMR	GMRI IN	OW	41	50	$	3.4	83.2	19.0	15.7	8.9	1.9	0.9
Ex real estate			32	40	$	2.7	65.8	15.0	14.1	8.1	1.5	0.7
GVK	GVKP IN	OW	38	53	$	1.3	21.0	20.8	16.3	9.0	1.6	1.5
Ex real estate			28	39	$	1.7	15.6	15.4	14.1	7.7	1.2	1.1
Reliance Infra	RELI IN	N	810	950	$	4.7	15.3	9.9	11.6	9.0	0.9	0.8
Adani Enterprises	**ADE IN**	N	644	665	$	15.2	19.3	12.8	14.3	8.3	3.9	3.0
Mundra Port	MSEZ IN	N	141	161	$	6.1	21.9	14.2	17.3	11.8	5.5	4.2
Jaiprakash Associate	JPA IN	NR	96	NA	$	4.5	19.2	14.1	10.9	9.0	1.9	1.6
IRB Infrastructure	IRB IN	NR	216	NA	$	1.5	13.1	11.9	6.9	5.7	2.3	1.9

Source: J.P. Morgan estimates, Company data. Bloomberg estimates used for not rated (NR) companies. Pricing info as of Jan 13, 2011.

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Adani Enterprises Ltd: Summary of Financials

Income Statement					
Rs in millions, year end Mar	FY09	FY10	FY11E	FY12E	FY13E
Revenues	262,583	258,896	264,832	363,859	510,608
% change Y/Y	33.9%	(1.4%)	2.3%	37.4%	40.3%
EBITDA	10,096	16,887	40,000	72,524	126,652
% change Y/Y	41.0%	67.3%	136.9%	81.3%	74.6%
EBIT	9,274	15,373	35,517	63,922	109,515
% change Y/Y	38.1%	65.8%	131.0%	80.0%	71.3%
EBIT Margin	3.5%	5.9%	13.4%	17.6%	21.4%
Net Interest	-3,488	-5,079	-7,340	-11,840	-26,459
Earnings before tax	5,839	10,672	29,084	53,231	85,524
% change Y/Y	34.8%	82.8%	172.5%	83.0%	60.7%
Tax	-785	-945	-3,985	-7,888	-13,669
as % of EBT	13.4%	8.9%	13.7%	14.8%	16.0%
Net income (reported)	5,047	9,190	21,323	36,718	55,397
% change Y/Y	36.5%	82.1%	132.0%	72.2%	50.9%
Shares outstanding	247	498	1,100	1,100	1,100
EPS (reported)	20.46	18.45	19.39	33.39	50.37
% change Y/Y	36.5%	(9.8%)	5.1%	72.2%	50.9%

Cash flow statement					
Rs in millions, year end Mar	FY09	FY10	FY11E	FY12E	FY13E
EBIT	9,274	15,373	35,517	63,922	109,515
Depr. & amortization	822	1,515	4,483	8,603	17,137
Other income	146	335	907	1,149	2,469
Change in working capital	-8,399	-1,634	928	-13,363	-16,363
Taxes	-785	-945	-3985	-7888	-13669
Cash flow from operations	965	14,686	37,849	52,422	99,088
Capex	-51,707	-92,144	-197,630	-120,474	-82,623
Net Interest	-3,488	-5,079	-7,340	-11,840	-26,459
Other	2,980	-2,343	0	0	0
Free cash flow	-50,742	-77,458	-159,781	-68,052	16,465
Equity raised/(repaid)	1,223	34,986	65,916	-0	0
Debt raised/(repaid)	59,801	53,546	103,633	91,461	45,155
Other	-3,488	-5,079	-7,340	-11,840	-26,459
Dividends paid	-289	-581	-1,247	-2,148	-3,240
Beginning cash	16,346	25,832	29,187	29,869	39,291
Ending cash	25,832	29,187	29,869	39,291	71,211
DPS	1.00	1.00	0.97	1.67	2.52

Balance sheet					
Rs in millions, year end Mar	FY09	FY10	FY11E	FY12E	FY13E
Cash and cash equivalents	25,832	29,188	29,869	39,291	71,212
Net current assets ex-cash	37,140	38,667	37,739	51,102	67,465
LT investments	4,647	6,990	6,990	6,990	6,990
Net fixed assets	88,704	179,139	372,286	484,157	549,643
Total Assets	156,323	253,983	446,884	581,540	695,310
Liabilities					
Short-term loans	0	0	0	0	0
Paid-up common stock	249	498	1,100	1,100	1,100
Reserves and surplus	29,940	59,879	144,361	178,931	231,088
Minorities	4,769	18,518	23,201	31,826	48,284
Long-term debt	120,842	174,388	278,021	369,482	414,638
Other liabilities	-	-	-	-	-
Total Liabilities	121,365	175,088	278,221	369,683	414,838
Shareholders' equity	30,189	60,377	145,461	180,031	232,188
BVPS	122.42	121.23	132.26	163.69	211.12

Ratio Analysis					
Rs in millions, year end Mar	FY09	FY10	FY11E	FY12E	FY13E
EBITDA margin	3.8%	6.5%	15.1%	19.9%	24.8%
Operating margin	-	-	-	-	-
Net margin	1.9%	3.5%	8.1%	10.1%	10.8%
Sales per share growth	33.9%	(51.2%)	(53.7%)	37.4%	40.3%
Sales growth	33.9%	(1.4%)	2.3%	37.4%	40.3%
Net profit growth	36.5%	82.1%	132.0%	72.2%	50.9%
EPS growth	36.5%	(9.8%)	5.1%	72.2%	50.9%
Interest coverage (x)	2.89	3.33	5.45	6.13	4.79
Net debt to equity	314.7%	240.5%	170.6%	183.4%	147.9%
Sales/assets	2.17	1.26	0.76	0.71	0.80
Assets/equity	5.18	4.21	3.07	3.23	2.99
ROE	19.6%	20.3%	20.7%	22.6%	26.9%
ROCE	7.9%	8.0%	10.8%	13.1%	18.3%

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

J.P.Morgan

Asia Pacific Equity Research
16 January 2011

Mundra Port and SEZ Ltd

Will the fairy godmother return soon? Maintain N

Neutral

MPSE.BO, MSEZ IN

Price: Rs139.20

▼ **Price Target: Rs161.00**
Previous: Rs162.00

India
Infrastructure

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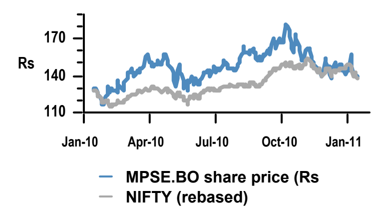
J.P. Morgan India Private Limited

- **On the lookout for 'growth' catalysts**. MPSEZ has underperformed the Sensex by 10% over the last three months due to rich valuations, accompanied by the absence of catalysts. We are all ears for new investment proposals to deploy healthy FCF which existing portfolios are expected to generate. **(a)** Announcement of new profitable port projects in India-company is in talks with Kerala, TN, Andhra Pradesh and Orissa Govts for new opportunities, as per DN&A; a 50MTPA capacity port can potentially add ~Rs10B to EBITDA or ~Rs5 to SOP, **(b)** visibility on favorable conclusion of ongoing feasibility studies for ~80-90MTPA coal export terminals in Australia and Indonesia, still two quarter away, in our view. Our PT of Rs161 implies ~16% upside potential. **We maintain our Neutral rating, and believe a 10% correction from existing levels may provide an attractive entry opportunity.**
- **Execution skills among best in sector.** Trial runs commenced at the 60MPTA coal terminal at Mundra Port (MP) in Dec-10, CoD is expected to be announced by end-Jan. MP with 140MTPA capacity (including 25MPTA SPM capacity) is now the largest port by capacity in India. Among under construction projects, MPSEZ's solid cargo port terminal at Dahej is expected to achieve 20MPTA capacity by Mar-11.
- **Pace of SEZ development slow:** Only 18 acres developed thru 9MFY11. According to management, ~3000 acres is the development target over the next five years. We reduce our FY11 development estimate to 250 acres in FY11 (vs. 400 earlier) and reduce FY12-17E to 3100 acres (vs. 3500 acres) earlier. Our FY11 12 estimates are down 2-2.8%.
- **Dec-q growth healthy.** Our PAT estimate of Rs2.23B (up ~37% YoY). We estimate 27% YoY traffic growth at MP to 12.5MT in 3Q.
- **Dec-11 PT of Rs161.** 77% value sits in MP, 11% in SEZ, 4% each in Dahej and Hazira, and balance 4% mainly in logistics business. **Key risks**: MoEF show cause notice on MPSEZ in Dec-10; potential downside risk if outcome is unfavorable. Implied SEZ valuation@Rs2.2mn/acre of notified area (15,995 acre) is conservative, a large transaction at high valuations is a key upside risk.

Price Performance



	YTD	1m	3m	12m
Abs	-3.4%	-8.1%	-16.6%	8.9%
Rel	4.8%	-3.2%	-8.1%	1.4%

Mundra Port and SEZ Ltd (Reuters: MPSE.BO, Bloomberg: MSEZ IN)

Rs in mn, year-end Mar	FY09A	FY10A	FY11E	FY12E	FY13E
Revenue	11,880	13,821	17,174	24,336	35,839
Adjusted Profit	4,325	6,760	8,869	12,938	19,909
EPS (Rs)	2.16	3.37	4.43	6.46	9.94
Revenue growth (%)	44.7%	25.2%	21.7%	42.5%	46.7%
Adjusted profit growth (%) (Rs)	110.4%	56.3%	31.2%	45.9%	53.9%
ROCE	11.2%	11.7%	13.9%	18.4%	22.9%
ROE	15.6%	21.1%	23.4%	27.9%	33.8%
P/E (x)	64.5	41.4	31.4	21.6	14.0
P/BV (x)	9.5	8.1	6.7	5.4	4.2
EV/EBITDA (x)	40.2	32.4	25.0	17.1	11.6

Shares O/S (mn)	2,003
Market cap (Rs mn)	278,873
Market cap ($ mn)	6,164
Price (Rs)	139.20
Date Of Price	14 Jan 11
Free float (%)	19.8%
3mth Avg daily volume (mn)	1.50
3M - Average daily Value (Rs mn)	229.07
Average 3m Daily Turnover ($ mn)	5.06
NIFTY	5,655
Exchange Rate	45.24
Fiscal Year End	Mar

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

See page 79 for analyst certification and important disclosures, including non-US analyst disclosures.

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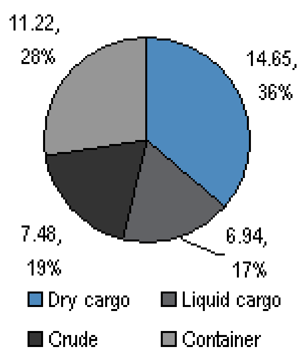
Company Description

MPSEZ, a flagship company of the Adani Group, is the developer and operator of India's largest and fastest-growing private sector port (eighth-largest in India in terms of FY10 cargo volumes). It is also developing the largest port linked SEZ contiguous to Mundra Port, with a notified area of ~15,995acres. The company is actively bidding and developing ports/terminals on the west coast. MPSEZ is an emerging multi modal logistics provider-container rail operations and ICDs would synergize cargo growth at ports, in our view.

Cargo mix at Mundra Port (FY10)



Source: Company reports.

EPS: J.P. Morgan vs. consensus

Consol est.	J.P. Morgan	Consensus
FY11E	4.4	4.5
FY12E	6.5	7.0
FY13E	9.9	9.3

Source: Bloomberg, J.P. Morgan estimates.

P&L sensitivity metrics

	EBITDA impact (%)	EPS impact (%)
Lower traffic growth at MP		
FY10-14 CAGR of 20% vs. 29% earlier	-12.7%	-14.1%
Lower tariff realizations at MP		
Reduce realization/MT assumption by 10%	-7.6%	-8.4%
Higher pace of SEZ development in FY12 1200 acres developed/year vs. 700 acres modeled	10.0%	13.0%

Source: J.P. Morgan estimates.

Price target and valuation analysis

Our Dec-11 PT of Rs161 is SOP based. MP (77%) and SEZ (11%) comprise 88% value, 4% each from Dahej and Hazira, and logistics bulk of the remainder (3.1%). We value the port and SEZ businesses using DCF over the concession period (thru FY31). The cash flows are expected to grow at a stable rate, in line with cargo traffic assumptions. Annual run-rate of leasing out SEZ notified area, and upfront payment/lease rentals are the key drivers for SEZ's valuation.

	(Rs/share)	(% Contribution)
Mundra Port (DCF)	124	76.7
Mundra SEZ (DCF)	18	11.1
Dahej Port (solid cargo port terminal) (DCF)	7	4.1
Mormugao Port (2x P/B)	1	0.7
Adani Logistics (2x P/B)	5	3.1
KRCL (1x P/B)	0	0.1
Hazira (DCF)	7	4.1
Mundra Port & SEZ SOTP (Dec-2011)	**161**	**100.0**

Maintain Neutral. Our PT implies ~16% upside potential, fruition of catalysts/stock price correction may provide buying opportunities. We are on the lookout for domestic growth opportunities (new port project announcements on the east/west coast), and/or progress on development of overseas coal export terminals.

On the lookout for 'growth' catalysts

MPSEZ has underperformed the Sensex by 10% over the last three months on account of rich valuations, accompanied by the absence of catalysts. We are all ears for developments on new 'growth' opportunities. This could either come from (a) new port project announcements on both east and west coast making MPSEZ a pan-India player or/and (b) visibility on favorable conclusion of ongoing feasibility studies for ~80-90MTPA coal export terminals at Dudgeon Point (Queensland, Australia) and South Sumatra (Indonesia); concrete capex plans/ progress on pre-construction milestones required before attributing value. We estimate ~Rs89B of FCF generation over FY12-16 by MPSEZ- which could be deployed for growth (see consolidated cash flow statement in table 1 below)-

Table 64: MPSEZ: Consolidated cash flow statement

Rs. in millions, year-end March

	FY09	FY10	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E
EBIT	5,872	7,575	10,364	15,533	23,270	28,858	33,353	37,427
D&A	1,468	1,868	2,024	2,528	2,763	3,258	3,797	3,878
Tax	(533)	(601)	(566)	(1,290)	(2,388)	(2,970)	(3,495)	(4,019)
Other income	446	321	311	311	311	311	311	311
Exceptionals	0	24	0	94	(108)	(176)	(203)	(231)
Decrease in NWC	342	(3,328)	(2,942)	(2,328)	(3,426)	(2,502)	(2,369)	(1,886)
Operating CF	**7,594**	**5,860**	**9,191**	**14,847**	**20,421**	**26,780**	**31,393**	**35,480**
Capex	(16,909)	(17,759)	(8,704)	(8,989)	(8,775)	(16,004)	(3,725)	(2,371)
Change in investments	6,814	(177)	0	0	0	0	0	0
Investing CF	**(10,094)**	**(17,935)**	**(8,704)**	**(8,989)**	**(8,775)**	**(16,004)**	**(3,725)**	**(2,371)**
FCF	**(2,500)**	**(12,075)**	**487**	**5,858**	**11,646**	**10,776**	**27,668**	**33,109**
Change in equity	0	0	0	0	0	0	0	0
Change in debt	8,277	8,105	(434)	3,402	5,440	2,954	11,163	333
Net interest paid	(1,459)	(559)	(1,240)	(1,710)	(1,176)	(1,796)	(1,766)	(1,587)
Other adjustments	807	3,178	(1,444)	141	604	714	284	(3,648)
Dividend	(1,202)	(1,603)	(2,040)	(3,037)	(4,505)	(5,499)	(6,330)	(7,064)
Financing CF	**6,422**	**9,121**	**(5,157)**	**(1,204)**	**363**	**(3,627)**	**3,350**	**(11,966)**
Change in cash	**3,922**	**(2,955)**	**(4,670)**	**4,654**	**12,010**	**7,149**	**31,018**	**21,143**
Opening cash	9,029	12,951	9,997	5,326	9,981	21,990	29,139	60,158
Closing cash	**12,951**	**9,997**	**5,326**	**9,980**	**21,990**	**29,139**	**60,158**	**81,301**

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

Traction on greenfield port opportunities in India

DN&A quoted Mr. Gautam Adani, Chairman, on 11 January, saying that the company is in talks with the Kerala, Tamil Nadu, Andhra Pradesh and Orissa state governments for the new port opportunities.

MPSEZ had submitted its plan to develop the Kalinga Port to the Orissa state government in early 2010 and is still awaiting its approval. The port is at a distance of 3kms from the proposed Posco India Port. According to media reports (DN&A), the capex outlay for the port would amount to ~Rs100B for 100MTPA of cargo handling capacity across 16 berths. The company plans to develop the port in two phases with 12 of the 16 berths to be setup in FY16. Besides this in Orissa, MPSEZ is also in touch with the govt. over brownfield expansion opportunities at **Paradip port.**

MPSEZ is one of the 14 bidders for Vizhinjam BOT port project in Kerala. 10 Jan was the last day for submitting RFQ. Parties besides MPSEZ which have participated include GVK, GMR, Reliance Infrastructure, Gammon Infrastructure Projects, Essar, Global Yatirim Holding and STFA consortium (Turkey); Jaiprakash Associates; Patel Engineering and Limak (UK) Consortium, Sterlite Industries, Consortium of SCI, SKIL, HCCL, Consortium of Welspun Infratech and Leighton Contractors; Nagarjuna Construction Company and Condor Brookfield Consortium. The names of the qualified parties will be announced on Jan 19.

Dudgeon Point coal terminal: progress on feasibility, other pre-construction milestones are key

According to MPSEZ, geotechnical studies at Dudgeon Point are underway and financial and operating feasibility study is expected to be complete before Dec-2011.

If found feasible, the preferred proponents have the option to go ahead with the planning process and they would be required to fund their own construction and operations with the Queensland state government retaining ownership of the underlying land. The master plan will assist in the potential allocation of land to each of the preferred proponents for the construction of coal export infrastructure with the balance of land retained by NQBP for future development.

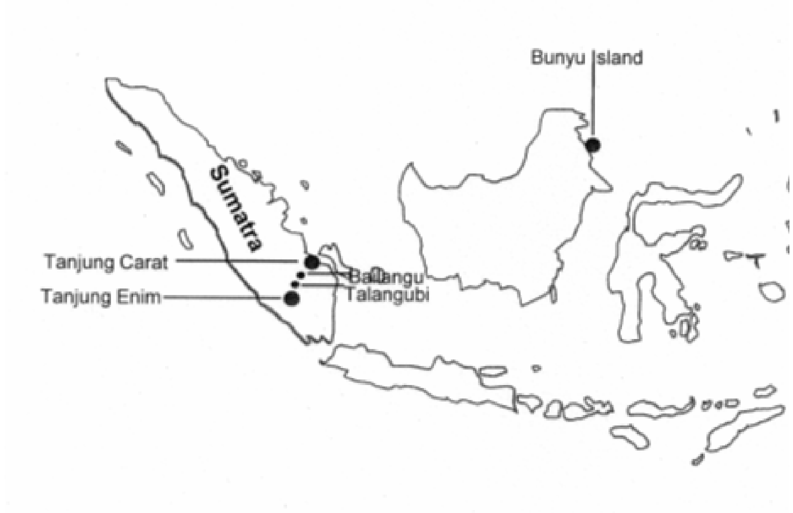
At the current stage where the feasibility study is under progress, attributing value to preferred proponent status is premature

We see a LT growth opportunity if Dudgeon coal terminal plans are finalized and clear capex and commissioning timeline is laid out. At the current stage where the feasibility study is under progress, attributing value to preferred proponent status is early.

Port development plans in South Sumatra: receipt of clearances, outline of capex needs key

In late Aug-10, Adani Enterprises (parent company of MPSEZ) entered into a tripartite agreement for setting up a dedicated 'rail and port project' with the government of South Sumatra (Indonesia) and PT Bukit Asam, a govt. of Indonesia coal mining company. The project envisages the ownership, construction and operation by Adani of 250km rail line capable of transporting a minimum 35MMTPA of coal. The rail line will connect Tanjung Enim, a mining area to Tanjung Carat (see map below), where MPSEZ will build a port with matching capacity to evacuate the coal.

Figure 13: Location of Tanjung Enim (mining area) and Tanjung Carat (port)



Source: Company presentation.

As per company, total capex of US$1.65B for rail+port would be incurred over a construction period of ~4 years. According to management, the govt. of South Sumatra has undertaken to provide and facilitate all permits, approvals, and land requirements for rail and port construction. The rail line will pass through swamps, which could delay execution, in our view.

Like Dudgeon Point, this is also a LT growth opportunity, but pending clearances, and concrete capex plan for the proposed port, we do not attribute value at this stage. The delays in ramp up of the coal mine may also impact the pace of development of the port.

Execution skills among best in sector

Trial runs commenced at the 60MPTA coal terminal at Mundra Port (MP) in Dec-10, CoD of the coal terminal is expected to be announced by end-Jan and will impact depreciation of 4Q.

MP with 140MTPA capacity (including 25MPTA SPM capacity) is now the largest port by capacity in India. According to management plans are to further increase capacity of coal terminal from 60MTPA to 100TMPA, with investment of Rs1.25B (for addition of 4th berth and additional equipment). We est. ~49MTPA coal cargo in our FY14 traffic est. of 111MTPA at MP. Excess capacity and demand-supply mismatch for coal could aid imports beyond our estimate (see Table 2 for base-case traffic estimates at Mundra Port).

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Table 65: Mundra Port: Traffic estimates thru FY14

In MTPA, year-end March

	FY08	FY09	FY10	FY11E	FY12E	FY13E	FY14E
Segmentwise Cargo break-up (MMT)	*28.8*	*35.7*	*40.3*	*51.8*	*64.6*	*91.3*	*111.0*
Dry Cargo	**11.3**	**14.5**	**14.7**	**21.9**	**29.4**	**49.4**	**61.4**
Coal	4.2	7.4	8.5	14.0	20.3	38.9	49.2
Adani Mundra (Adani Power)			*0.7*	*4.4*	*9.1*	*18.6*	*19.3*
Mundra UMPP (TPWR)					*0.5*	*6.8*	*10.9*
Steel	2.5	2.8	1.9	2.7	2.8	3.0	3.1
Fertilizer	1.9	2.7	2.1	2.7	3.2	3.9	4.7
Minerals & others	1.1	1.1	2.1	2.5	3.0	3.6	4.4
Food grains	1.7	0.6					
Liquid	**2.1**	**4.8**	**6.9**	**8.0**	**9.2**	**10.6**	**12.1**
Crude	**7.0**	**6.8**	**7.5**	**9.0**	**11.2**	**13.5**	**16.2**
Container	**8.5**	**9.7**	**11.2**	12.9	14.8	17.8	21.4

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

Among under construction projects, MPSEZ's solid cargo port terminal at Dahej is expected to achieve 20MPTA capacity by Mar-11.

Pace of SEZ development slow in FY11 so far

So far in FY11, the only SEZ transaction happened in 3Q for 18 acres. According to mgmt, ~3000acres is the development target over next five years. We reduce FY11 development est. to 250acres in FY11 (vs. 400 earlier) and reduce FY12-17 to 3100acres (vs. 3500acres) earlier. Our FY11 12 estimates are down 2-2.8%.

Table 66: MPSEZ: Key model revisions

Rs. in millions, year-end March

	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E
Standalone model revisions							
Mundra Port- Cargo (MMT)-Old	40.3	51.8	64.6	91.3	111.0	122.2	134.4
Mundra Port- Cargo (MMT)-Now	40.3	51.8	64.6	91.3	111.0	122.2	134.4
% Change	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
% Growth YoY							
MSEZ- Revenue-Old	1,017	2,250	3,889	4,175	4,475	4,788	5,117
MSEZ- Revenue-Now	1,017	1,533	3,362	3,607	3,865	4,135	4,972
% Change	**0.0**	**(31.9)**	**(13.6)**	**(13.6)**	**(13.6)**	**(13.7)**	**(2.8)**
% Growth YoY							
Consol model revisions							
PAT-Old	6,760	9,055	13,309	20,244	24,515	29,288	32,870
PAT-New	6,760	8,869	12,938	19,909	24,228	28,199	31,901
% Change	**0.0**	**(2.1)**	**(2.8)**	**(1.7)**	**(1.2)**	**(3.7)**	**(2.9)**
% Growth YoY							
Capex-Old	17,759	8,704	8,989	8,775	16,121	3,846	2,371
Capex-New	17,759	8,704	8,989	8,775	16,004	3,725	2,371
% Change	**0.0**	**0.0**	**0.0**	**0.0**	**(0.7)**	**(3.1)**	**0.0**
% Growth YoY							
RoE (%)-Old	21.2	23.8	28.6	34.0	31.9	30.0	26.9
RoE (%)-New	21.2	23.4	27.9	33.8	31.9	29.3	26.7
bps change	**0**	**(45)**	**(63)**	**(27)**	**(7)**	**(72)**	**(29)**

Source: J.P. Morgan estimates.

The asking rate for 4Q is high, according to management negotiations are on with the cement manufacturers who want to set up green-field capacity in the SEZ. Our expectation would be met if land parcel is awarded for LNG Terminal (~450acre+)

or for Adani's 3.3GW Bhadreshwar project/ or partly if Bharat Forge expands capacity in Mundra SEZ.

Our revised assumptions on SEZ are in Table 4 below.

Table 67: Mundra SEZ: Key assumptions and valuations

Rs. in millions, year-end March

	FY09	FY10	FY11E	FY12E	FY13E	FY14E	FY15E	FY20E	FY25E	FY29E	FY31E
Land developed	**155**	**156**	**250**	**600**	**600**	**600**	**600**	**750**	**750**	**750**	
Cumulative land developed	1,325	1,481	1,731	2,331	2,931	3,531	4,131	7,831	11,581	14,581	14,581
Land developed (mn sq. m.)	0.6	0.6	1.0	2.4	2.4	2.4	2.4	3.0	3.0	3.0	
Cumulative land developed (mn sq. m.)	5.4	6.0	7.0	9.4	11.9	14.3	16.7	31.7	46.9	59.0	59.0
Upfront payment (Rs/sq m.)	1,061	1,093	1,126	1,159	1,194	1,230	1,267	1,469	1,702	1,916	2,033
% escalation	3	3	3	3	3	3	3	3	3	3	3
Lease payment (Rs/sq m/year)	53	55	56	58	60	61	63	73	85	96	102
% escalation	3	3	3	3	3	3	3	3	3	3	3
Land development cost (Rs/sq m)	250	258	265	273	281	290	299	346	401	452	479
% escalation		3	3	3	3	3	3	3	3	3	3
Upfront payment	665	690	1,139	2,815	2,899	2,986	3,076	4,457	5,167	5,816	0
Lease payment	284	327	394	547	708	879	1,059	2,327	3,989	5,653	5,997
Total revenue	**950**	**1,017**	**1,533**	**3,362**	**3,607**	**3,865**	**4,135**	**6,784**	**9,156**	**11,469**	**5,997**
EBITDA margin (%)	90	90	90	90	90	90	90	90	90	90	90
EBITDA	855	916	1,380	3,025	3,247	3,478	3,721	6,106	8,241	10,322	5,398
Less: Capex (equity funded)	157	163	268	663	683	704	725	1,050	1,218	1,370	0
FCFE	698	753	1,111	2,362	2,563	2,775	2,996	5,055	7,023	8,951	5,398
Discount factor (x)			1.00	1.00	0.89	0.80	0.71	0.40	0.23	0.15	0.12
Discount rate (%)	12										
NPV (Rs MM)	**35,859**										

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

Revised Dec-11 PT of Rs161, 16% upside potential from CMP

Dec-11 SOTP-based PT of Rs161 is broadly unchanged (vs. previous Sep-11 PT of Rs162). See Table 5 for SOTP: 77% value sits in MP, 11% in SEZ, 4% each in Dahej and Hazira, and balance 4% mainly in logistics business.

Table 68: MPSEZ: SOTP Valuation

	Total asset value		Stake	Value of stake				
	(Rs bn)	(US$ mn)	(%)	(Rs bn)	(US$ mn)	(Rs/share)	(% Contribution)	Methodology
Mundra Port	247.5	5,462	100.0	247.5	5,462	123.6	76.7	DCF
Mundra SEZ	35.9	791	100.0	35.9	791	17.9	11.1	DCF
Dahej Port (solid cargo port terminal)	17.7	390	74.0	13.1	289	6.5	4.1	DCF
Mormugao Port	2.4	53	100.0	2.4	53	1.2	0.7	2x P/B
Adani Logistics	10.0	221	100.0	10.0	221	5.0	3.1	2x P/B
KRCL	0.4	9	100.0	0.4	9	0.2	0.1	1x P/B
Hazira	13.3	293	100.0	13.3	293	6.6	4.1	DCF
Mundra Port & SEZ SOTP (Dec-2011)	**327**	**7,219**		**323**	**7,117**	**161**	100.0	

Source: J.P. Morgan.

PT implies ~16% upside potential. We maintain N, we think further correction/fruition of catalysts to provide buying opportunity.

Prima-facie MPSEZ appears to be the most expensive stock in the listed port universe (see valuation comps in table below. The stock trades at 15.6x FY12E EV/EBITDA vs. a global average of 11-12x. We believe the premium is justified as MP is among the fastest-growing port businesses with FY10-14 EBITDA and earnings CAGR of 36% and 37.5%, respectively. Also the scalability potential of the port asset is high, which the markets seems to be attributing value (we estimate ~380MT traffic in FY31, the terminal year of the MP concession, from ~40MTPA at end of FY10). We expect Mundra Port to be the largest port in India, surpassing Kandla port (which handles ~79MT in FY10) by FY14E. MP has the largest contiguous SEZ with a notified area of 15,995acres.

Table 69: Global Port Terminal business: Valuation comps

Name	Ticker	JPM rating	Last price LC	Mkt cap US$MM	P/E		P/B		EV/EBITDA	
					CY10E	CY11E	CY10E	CY11E	CY10E	CY11E
HK-listed port operators:										
COSCO Pacific	1199 HK	OW	14.76	5,131	14.2x	15.5x	1.4x	1.4x	13.7x	11.7x
China Merchants	144 HK	N	33.60	10,588	20.9x	21.7x	2.3x	2.2x	17.8x	17.8x
Dalian Port	2880 HK	N	3.43	2,469	12.6x	12.7x	1.3x	1.1x	16.5x	15.1x
Xiamen Int'l Port	3378 HK	NR	1.64	573	14.5x	12.0x	0.9x	0.9x	7.3x	6.6x
Tianjin Port Dvlp	3382 HK	NR	2.00	1,579	22.2x	17.5x	1.1x	1.1x	11.5x	9.8x
Average					**16.9x**	**15.9x**	**1.4x**	**1.3x**	**13.4x**	**12.2x**
China-listed port operators:										
Ningbo Port Co. Ltd	601018	NR	3.09	5,991	NA	NA	NA	NA	NA	NA
Tianjin Port-A	600717 CH	NR	8.50	2,156	17.2x	14.8x	1.4x	1.4x	10.1x	8.9x
Shenzhen Chiwan Wharf	000022 CH	NR	14.42	1,337	16.0x	14.5x	32.8x	2.5x	9.7x	8.9x
Shenzhen Yantian Port	000088 CH	NR	6.23	1,175	17.0x	16.1x	1.8x	1.7x	24.9x	24.2x
SIPG	600018 CH	NR	4.01	12,749	15.8x	14.9x	2.1x	2.0x	8.8x	7.9x
Rizhao Port	600017 CH	NR	4.07	1,396	20.2x	17.0x	2.0x	1.8x	10.7x	9.3x
Average					**17.3x**	**15.4x**	**8.0x**	**1.9x**	**12.8x**	**11.8x**
Overseas port operators:										
HHUL	HHFA GR	NR	34.99	3,341	38.0x	29.9x	3.7x	3.9x	10.3x	9.0x
Forth Ports	FPT LN	NR	1,377.00	991	24.3x	22.1x	2.6x	2.4x	14.0x	13.2x
Port of Tauranga	POT NZ	NR	7.51	769	19.4x	18.0x	NA	1.5x	12.8x	12.1x
Piraeus Port authority	PPA GA	NR	11.27	370	42.2x	75.1x	1.7x	1.4x	16.6x	17.7x
Mundra Port and SEZ Ltd	**MSEZ IN**	**N**	**140.90**	**6,250**	**31.7x**	**21.3x**	**6.7x**	**5.4x**	**21.2x**	**15.6x**
DP WORLD LTD	DPW DU	NR	0.67	11,039	33.3x	26.6x	1.4x	1.4x	14.5x	12.8x
Salalah Port Svc	SPSI OM	NR	0.48	225	NA	NA	NA	NA	NA	NA
Port Svc Corp	PSCS OM	NR	0.61	150	NA	NA	NA	NA	NA	NA
INTL Container Svc	ICT PM	OW	43.50	1,907	21.3x	18.1x	3.7x	3.2x	8.0x	8.5x
NCB Holdings	NCB MK	NR	3.78	582	11.1x	11.1x	0.9x	0.9x	2.6x	2.4x
Bintulu Port	BPH MK	NR	6.78	888	18.4x	17.7x	3.1x	3.0x	10.8x	10.0x
Average					**26.6x**	**26.7x**	**3.0x**	**2.6x**	**12.3x**	**11.3x**

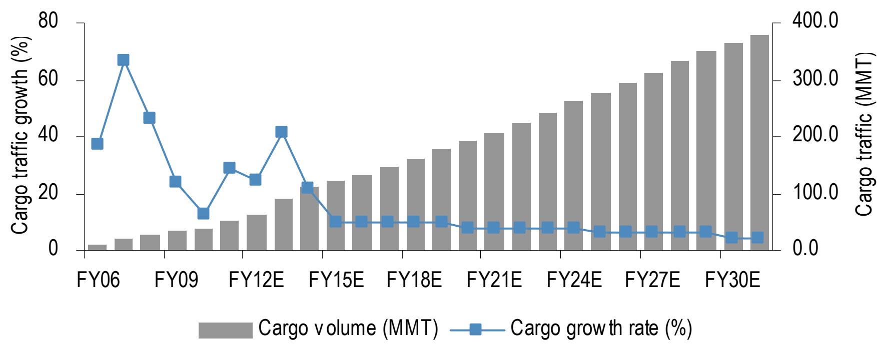
Source: Bloomberg estimates for all other companies, J.P. Morgan estimates for MPSEZ (MSEZ IN), DP (2880 HK), CP (1199 HK) and CMHI (144 HK). Prices and valuations are as of 1/13/2011. Note: CY10 is FY11 (Year-end March) for MPSEZ.

Key risks: MoEF show cause notice on MPSEZ in Dec-10; potential downside risk if outcome is unfavorable (see our Alert dated 20 Dec on the subject). A negative outcome could impact LT capacity development at MP. We estimate 380MT of traffic in the terminal year of the concession (FY31). Environmental restrictions may potentially delay/suspend development. If we assume the growth till FY19 (~178MT) is intact (current capacity is already 140MT), and thereafter taper growth to 3% p.a., the terminal year traffic number reduces to 240MT and PT reduces to Rs144, down Rs17/share.

Since the MoEF show-cause notice was issued (15 Dec, 2010), the stock has given absolute return of -4.65% and has underperformed the Sensex by 2.4%. So the stock reaction has not been distinctly adverse, post this event.

Figure 14: Cargo traffic growth at Mundra Port

Year-end March



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

Implied SEZ valuation@Rs2.2mn/acre of notified area (15,995 acre) is conservative, a large transaction at high valuations is a key upside risk. In 3Qa transaction for 18 acres of land (for developing educational institution, entertainment and social infrastructure) has happened at valuation of ~Rs10mn/acre, as per management.

Consolidated P&L and balance sheet statement

We expect 37.6% EPS CAGR thru FY14. Net-D/E is estimated to reduce further to 0.23x over this time frame. We have not factored in capex, earnings, or value for proposed coal export terminals in Australia and Indonesia, as of now. See our consolidated P&L and BS in tables below.

Table 70: Consolidated P&L

Rs. in millions, year-end March

	FY09	FY10	FY11E	FY12E	FY13E	FY14E	FY10-14 CAGR
MPSEZ- Standalone			17,174	23,024	31,869	38,329	
Dahej				1,313	3,090	3,581	
Mormugao (net of revenue share of MPT)				0	880	1,154	
Hazira						1,401	
Net sales	**11,880**	**13,821**	**17,174**	**24,336**	**35,839**	**44,464**	**33.9**
Other operating income	69	1,134	1,030	1,612	2,231	2,683	
Total sales	**11,949**	**14,955**	**18,204**	**25,948**	**38,070**	**47,147**	**33.2**
EBITDA break-up							
MPSEZ- Standalone			12,388	17,274	23,739	28,551	
Dahej			0	788	1,854	2,148	
Mormugao			0	0	440	577	
Hazira			0	0	0	840	
EBITDA	**7,340**	**9,443**	**12,388**	**18,061**	**26,033**	**32,117**	**35.8**
Depreciation/amortization	1,468	1,868	2,024	2,528	2,763	3,258	
EBIT	**5,872**	**7,575**	**10,364**	**15,533**	**23,270**	**28,858**	**39.7**
Other income	446	321	311	311	311	311	
Finance cost (net)	1,459	559	1,240	1,710	1,176	1,796	
PBT	**4,859**	**7,337**	**9,435**	**14,135**	**22,406**	**27,373**	**39.0**
Tax	533	601	566	1,290	2,388	2,970	
PAT	**4,325**	**6,736**	**8,869**	**12,845**	**20,018**	**24,404**	**38.0**
Share of minority	0	8	0	94	(108)	(176)	
Adjusted PAT	**4,325**	**6,760**	**8,869**	**12,938**	**19,909**	**24,228**	**37.6**
YE Shares o/s (mn)	2,003	2,003	2,003	2,003	2,003	2,003	
Adjusted EPS	**2.2**	**3.4**	**4.4**	**6.5**	**9.9**	**12.1**	**37.6**
EPS growth (%)		56	31	46	54	22	

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

Table 71: Consolidated Balance sheet

Rs. in millions, year-end March

	FY09	FY10	FY11E	FY12E	FY13E	FY14E
Share Capital	4,035	4,035	4,035	4,035	4,035	4,035
Reserves & Surplus	25,271	30,504	37,333	47,234	62,638	81,367
Shareholder's equity	**29,306**	**34,539**	**41,368**	**51,269**	**66,673**	**85,402**
Loan funds	**28,957**	**37,062**	**36,629**	**40,030**	**45,471**	**48,424**
Amt rcvd/receivable under LT lease/infra usage agreement	6,505	6,291	6,291	6,291	6,291	6,291
Deferred tax liabilities	2,296	2,915	2,915	2,915	2,915	2,915
Minority interest	93	822	822	729	837	1,013
Total liabilities	**67,156**	**81,629**	**88,025**	**101,234**	**122,186**	**144,045**
Gross Block	**41,043**	**55,814**	**64,086**	**78,544**	**85,319**	**99,522**
Less: Accumulated depreciation	5,446	7,314	9,842	12,604	15,863	19,660
Net block	35,597	48,500	54,244	65,939	69,456	79,863
CWIP incl capital advances	16,195	19,183	19,615	14,146	16,146	17,946
Investments	2,072	2,249	2,249	2,249	2,249	2,249
Current Assets, Loans and advances	**17,211**	**17,191**	**11,917**	**18,900**	**34,335**	**43,987**
Net current assets ex-cash	321	3,649	6,590	8,919	12,345	14,848
Misc exp	20	0	0	0	0	0
Total assets	**67,156**	**81,629**	**88,025**	**101,234**	**122,186**	**144,045**
Miscellaneous BS Stats						
Book value (Rs.)	15	17	21	26	33	43
D/E (x)	**0.99**	**1.07**	**0.89**	**0.78**	**0.68**	**0.57**
Net-debt/Equity (x)	0.55	0.78	0.76	0.59	0.35	0.23
Debt/Capital (x)	0.43	0.45	0.42	0.40	0.37	0.34
Average RoE (%)	**15.6**	**21.2**	**23.4**	**27.9**	**33.8**	**31.9**
RoIC (%)	11.3	10.6	12.9	17.5	23.8	25.6
RoCE (%)	9.6	10.2	12.2	16.4	20.8	21.7

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

Mundra Port and SEZ Ltd: Summary of Financials

Income Statement					
Rs in millions, year end Mar	FY09	FY10	FY11E	FY12E	FY13E
Revenues	11,880	13,821	17,174	24,336	35,839
% change Y/Y	44.7%	25.2%	21.7%	42.5%	46.7%
EBITDA	7,340	9,443	12,388	18,061	26,033
% change Y/Y	35.5%	28.7%	31.2%	45.8%	44.1%
EBITDA Margin	61.4%	63.1%	68.1%	69.6%	68.4%
EBIT	5,872	7,575	10,364	15,533	23,270
% change Y/Y	33.1%	29.0%	36.8%	49.9%	49.8%
EBIT Margin	49.1%	50.7%	56.9%	59.9%	61.1%
Other income	446	321	311	311	311
Net Interest	-1,459	-559	-1,240	-1,710	-1,176
Earnings before tax	4,859	7,337	9,435	14,135	22,406
% change Y/Y	33.9%	51.0%	28.6%	49.8%	58.5%
Tax	-533	-601	-566	-1,290	-2,388
as % of EBT	11.0%	8.2%	6.0%	9.1%	10.7%
Net income	4,325	6,744	8,869	12,938	19,909
% change Y/Y	102.8%	55.9%	31.5%	45.9%	53.9%
Adjusted profit	4,325	6,760	8,869	12,938	19,909
% change Y/Y	110.4%	56.3%	31.2%	45.9%	53.9%
Shares outstanding	2,003	2,003	2,003	2,003	2,003
EPS	2.16	3.37	4.43	6.46	9.94
% change Y/Y	102.8%	55.9%	31.5%	45.9%	53.9%
Adjusted EPS	2.16	3.37	4.43	6.46	9.94
% change Y/Y	110.4%	56.3%	31.2%	45.9%	53.9%

Cash flow statement					
Rs in millions, year end Mar	FY09	FY10	FY11E	FY12E	FY13E
EBIT	5,872	7,575	10,364	15,533	23,270
Depreciation & Amortization	1,468	1,868	2,024	2,528	2,763
Tax	-533	-601	-566	-1290	-2388
Other income	446	321	311	311	311
Decrease in WC	342	-3,328	-2,942	-2,328	-3,426
Operating CF	7,594	5,860	9,191	14,847	20,421
Capex	-16,909	-17,759	-8,704	-8,989	-8,775
Change in investments	6,814	-177	0	0	0
Investing CF	-10,094	-17,935	-8,704	-8,989	-8,775
Free cash flow	-9,314	-11,899	487	5,858	11,646
Change in equity	0	0	0	0	0
Change in debt	8,277	8,105	-434	3,402	5,440
Other financing activities	-653	2,618	-2,684	-1,569	-572
Financing CF	6,422	9,121	-5,157	-1,204	363
Change in cash	3,922	-2,955	-4,670	4,654	12,010
Opening cash	9,029	12,951	9,997	5,326	9,981
Closing cash	12,951	9,997	5,326	9,980	21,990

Balance sheet					
Rs in millions, year end Mar	FY09	FY10	FY11E	FY12E	FY13E
Net fixed assets	35,597	48,500	54,244	65,939	69,456
CWIP	16,195	19,183	19,615	14,146	16,146
Investments	2,072	2,249	2,249	2,249	2,249
Cash and bank balances	12,951	9,997	5,326	9,981	21,990
Net current assets ex-cash	321	3,649	6,590	8,919	12,345
Total Assets	67,156	81,629	88,025	101,234	122,186
Total Debt	28,957	37,062	36,629	40,030	45,471
Paid-up common stock	4,035	4,035	4,035	4,035	4,035
Reserves and surplus	25,271	30,504	37,333	47,234	62,638
Shareholders' fund	29,306	34,539	41,368	51,269	66,673
Deferred tax liability	2,296	2,915	2,915	2,915	2,915
Minority interests	93	822	822	729	837
Total Liabilities	37,758	46,268	45,835	49,236	54,676
BVPS (Rs)	14.63	17.24	20.65	25.59	33.28

Ratio Analysis					
Rs in millions, year end Mar	FY09	FY10	FY11E	FY12E	FY13E
Revenue growth	44.7%	25.2%	21.7%	42.5%	46.7%
EBITDA growth	35.5%	28.7%	31.2%	45.8%	44.1%
PAT growth	102.8%	55.9%	31.5%	45.9%	53.9%
EPS growth	102.8%	55.9%	31.5%	45.9%	53.9%
EBITDA margin	61.4%	63.1%	68.1%	69.6%	68.4%
Dividend payout ratio	27.8%	23.8%	23.0%	23.5%	22.6%
Sales/GFA (x)	0.20	0.20	0.21	0.27	0.34
GFA/Equity (x)	2.29	2.36	2.13	1.97	1.83
Debt/Equity (x)	0.99	1.07	0.89	0.78	0.68
Net debt/Equity (x)	54.6%	78.4%	75.7%	58.6%	35.2%
ROE (%)	15.6%	21.1%	23.4%	27.9%	33.8%
ROCE (%)	11.2%	11.7%	13.9%	18.4%	22.9%

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

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Companies Recommended in This Report (all prices in this report as of market close on 14 January 2011)
Adani Power (ADAN.BO/Rs122.35/Neutral), GMR Infrastructure Ltd (GMRI.BO/Rs40.40/Overweight), GVK Power & Infrastructure (GVKP.BO/Rs36.65/Overweight), Mundra Port and SEZ Ltd (MPSE.BO/Rs139.20/Neutral), Reliance Infrastructure Ltd (RLIN.BO/Rs798.15/Neutral)

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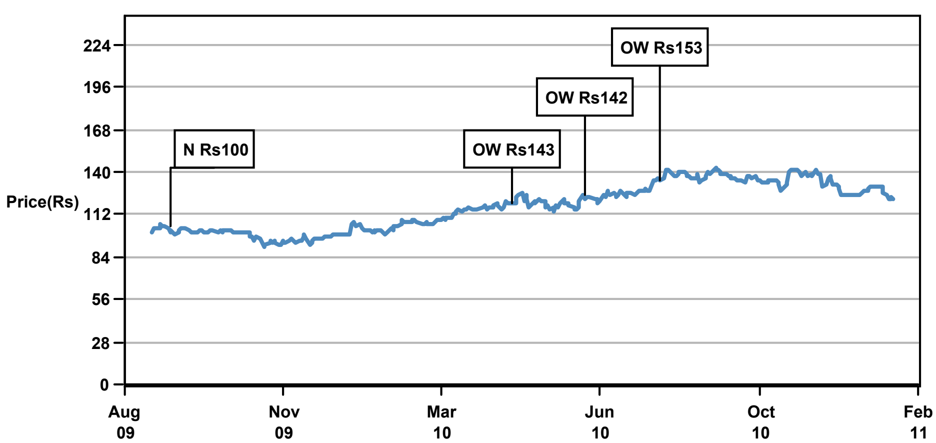
- **Investment Banking (past 12 months):** J.P. Morgan received, in the past 12 months, compensation for investment banking services from GVK Power & Infrastructure.
- **Investment Banking (next 3 months):** J.P. Morgan expects to receive, or intends to seek, compensation for investment banking services in the next three months from GVK Power & Infrastructure.
- **Non-Investment Banking Compensation:** JPMS has received compensation in the past 12 months for products or services other than investment banking from GMR Infrastructure Ltd, Reliance Infrastructure Ltd.

Adani Power (ADAN.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
31-Aug-09	N	104.15	100.00
26-Apr-10	OW	119.85	143.00
15-Jun-10	OW	124.45	142.00
06-Aug-10	OW	134.80	153.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Aug 31, 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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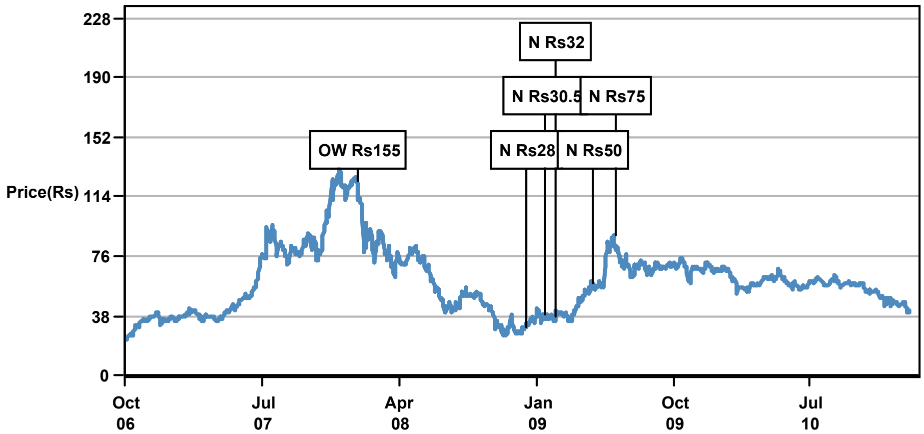
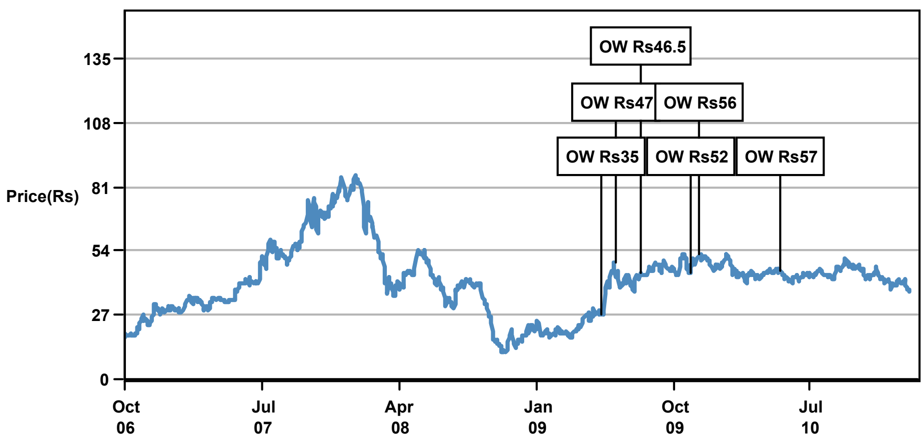
GMR Infrastructure Ltd (GMRI.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
08-Jan-08	OW	124.42	155.00
09-Dec-08	N	30.15	28.00
19-Jan-09	N	38.18	30.50
09-Feb-09	N	37.10	32.00
22-Apr-09	N	58.80	50.00
05-Jun-09	N	88.75	75.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
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.

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	44.50	46.50
03-Nov-09	OW	44.40	52.00
22-Nov-09	OW	52.35	56.00
02-May-10	OW	45.30	57.00

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.
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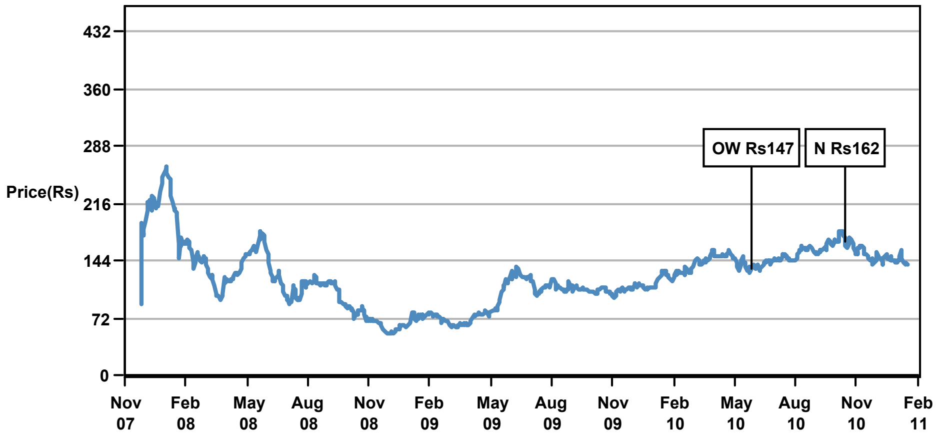
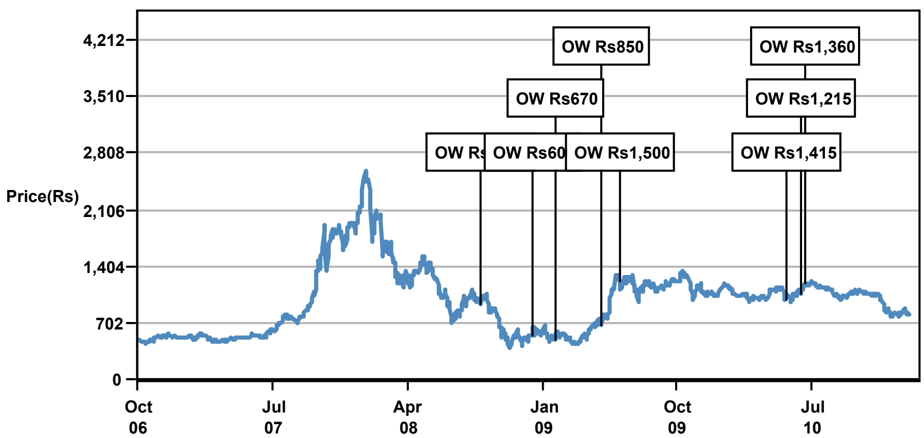
Mundra Port and SEZ Ltd (MPSE.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
26-May-10	OW	134.65	147.00
15-Oct-10	N	166.90	162.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage May 26, 2010. 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.

Reliance Infrastructure Ltd (RLIN.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
28-Aug-08	OW	935.30	1200.00
09-Dec-08	OW	553.85	600.00
26-Jan-09	OW	485.50	670.00
28-Apr-09	OW	662.15	850.00
05-Jun-09	OW	1226.80	1500.00
08-May-10	OW	978.45	1415.00
09-Jun-10	OW	1068.75	1215.00
16-Jun-10	OW	1177.55	1360.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Break in coverage Mar 07, 2004 - Aug 30, 2004. 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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Coverage Universe: **Shilpa Krishnan:** Adani Enterprises Ltd (ADEL.BO), Adani Power (ADAN.BO), Bharat Heavy Electricals (BHEL) (BHEL.BO), GMR Infrastructure Ltd (GMRI.BO), GVK Power & Infrastructure (GVKP.BO), JSW

Energy Ltd. (JSWE.BO), Lanco Infratech (LAIN.BO), Larsen & Toubro (LART.BO), NTPC (NTPC.BO), Reliance Infrastructure Ltd (RLIN.BO), Reliance Power (RPOL.BO), Suzlon Energy Ltd (SUZL.BO), Tata Power (TTPW.BO)

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	Overweight (buy)	**Neutral** (hold)	**Underweight** (sell)
J.P. Morgan Global Equity Research Coverage	46%	42%	12%
IB clients*	53%	50%	38%
JPMS Equity Research Coverage	43%	49%	8%
IB clients*	71%	63%	59%

*Percentage of investment banking clients in each rating category.
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