

# Gammon Infrastructure

Bloomberg: GISP IN Equity

Reuters: GAIN.BO

Recommendation: BUY

No Change



## RESULT UPDATE

## Results In Line

Gammon Infrastructure Projects (GIPL's), 1QFY11 revenue and EBIDTA was ahead of our estimate while net profit was below our expectation on account of higher interest and depreciation. We believe that time has come for the company to do value unlocking in some key assets and provide growth capital for development of the order book. We retain our **BUY** with a TP of Rs37.

**1QFY11 financial performance:** GIPL's revenue grew 1.5% YoY. Currently the segment is driven by annuity revenue from AEL and REL, MNEL and Vizag Port. MNEL is the new asset addition, clocking about Rs47mn (revenue run rate Rs1.5mn/day, 30,000 revenue PCU's) for June 2010 (only one month of operation). EBIDTA grew 37% YoY on account of lower operation and maintenance (O&M) expenses. This resulted in margin improvement of 14.9%.

Depreciation increased 73% YoY on account of O&M amortisation of Rs50mn for the first 5-year periodic maintenance expenses incurred on Andhra Expressway (AEL) and (REL) Rajahmundry Expressway (AEL and REL contributed revenue and EBIDTA of Rs840mn and Rs80mn respectively in FY10 in O&M); also, post acquisition of incremental stake in Vizag Port (VSPL) the consolidated results had a depreciation impact of Rs25mn due to VSPL becoming a subsidiary.

Interest cost increased 54% YoY again on MNEL becoming operational and on VSPL's consolidation. Net profit saw a decline of 64% YoY, impacted by increased depreciation and interest cost.

**Status of financial closure:** GIPL expects to financially close the Patna-Muzaffarpur BOT project in 2QFY11 while 100% acquisition of 250MW thermal power plant in western India is expected during Aug-10. Sikkim Hydro is expected to be financially closed during FY11e.

**Strong development order book:** GIPL has a development order book of Rs130bn, of which the operational assets would be about Rs20bn by FY11E. Annual equity requirement is about Rs3,000mn, which the company is looking to fund through a mix of Rs900mn of cash in hand and Rs400mn of expected cash generation, Rs1,000mn of debt funding in the standalone and value unlocking of Rs2,500mn in existing BOTs

## Valuation and Outlook

We retain **BUY** on the stock with a SOTP-based target price of Rs37 (valuing Road BOTs at Rs17.7/share, Power projects at Rs6.9/share, Ports at Rs8.3/share based on DCF, new projects at Rs4.1 on 0.3x P/BV). Near term trigger includes financial closure of the Patna-Muzaffarpur annuity project, and of the Sikkim Hydro Power project and Mumbai-Nashik traffic numbers.

### Exhibit 1: Key financials

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Operating income	1,594	1,905	3,278	3,216	4,481
EBITDA	1,149	1,133	1,378	1,972	2,893
Net profit	183	326	256	138	155
EPS (Rs)	0.3	0.5	0.4	0.2	0.2
RoE (%)	4.6	5.7	4.0	2.1	2.3
RoCE (%)	4.1	4.5	3.2	2.2	2.7
P/E (x)	98.7	55.5	70.7	131.0	116.7

Source: Company, Ambit Capital research

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### Recommendation

<b>CMP:</b>	Rs25
<b>Target Price:</b>	Rs37
<b>Previous TP:</b>	Rs37
<b>Upside (%):</b>	48
<b>EPS (FY11E):</b>	Rs0.2
<b>Change from previous (%):</b>	-

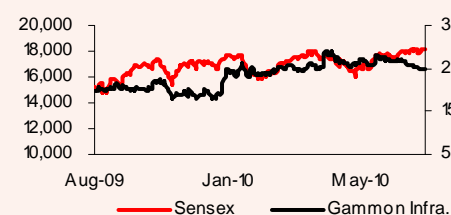
### Stock Information

<b>Mkt cap:</b>	Rs18,386mn/US\$398mn
<b>52-wk H/L:</b>	Rs30/17
<b>3M Avg. daily vol. (mn):</b>	1
<b>Beta (x):</b>	1.2
<b>BSE Sensex:</b>	18,288
<b>Nifty:</b>	5,486

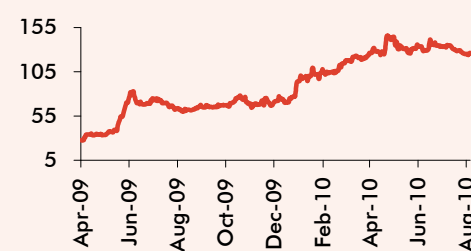
### Stock Performance (%)

	1M	3M	12M	YTD
Absolute	-5.8	-3.2	27.5	8.1
Rel. to Sensex	-8.1	-11.3	5.7	3.2

### Performance (%)



### 1-year forward P/E



Source: Bloomberg, Ambit Capital research

**Exhibit 2: Quarterly snapshot**

In Rs mn	Q1FY11	Q1FY10	YoY(%)	Q4FY10	QoQ(%)
Total Revenue	706.74	696.21	1.5	774.3	-8.7
EBIDTA	408.5	299.0	36.6	377.9	8.1
EBIDTA mgn(%)	57.8	42.9		48.8	
Depreciaton	187.4	108.3	73.1	157.1	19.3
Interest	192.8	125.3	53.9	164.5	17.2
Other income	20.9	24.9		53.1	
Tax	16.8	29.1		26.2	
Minority	11.2	5.3		14.5	
Others	0.0	2.8		-19.5	
Net Profit	21.2	58.8	- 64.0	49.2	-57.0
NPM (%)	3.0	8.5		6.4	
EPS(Rs)	0.03	0.1		0.1	

Source: Company, Ambit Capital research

## Explanation of Investment Rating

Investment Rating	Expected return (over 12-month period from date of initial rating)
Buy	> 15%
Hold	5% to 15%
Sell	<5%

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