13 February 2011

BSE Sensex: 17729

INSTITUTIONAL SECURITIES

IDFC India Research

Rs38

GMR

OUTPERFORMER

RESULT NOTE

Mkt Cap: Rs147bn; US$3.2bn

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Comment: **Sharply below estimates due to lower tariffs & higher capacity charges for DIAL; estimate net loss of Rs1.7bn in FY12**

Last report: **29 November 2010 (Rs44; Recommendation: Outperformer)**

Key valuation metrics

Year to March (Rs mn)	Sales	yoy chg (%)	Net Profit	EPS (Rs)	yoy chg (%)	PER (x)
FY2008	22,948	35.2	1,943	0.5	1.3	72.2
FY2009	40,192	75.1	2,794	0.8	43.8	50.2
FY2010	45,495	13.2	1,481	0.4	(47.4)	95.3
FY2011E	53,327	17.2	(533)	(0.1)	NC	NC
FY2012E	63,430	18.9	(1,679)	(0.4)	(215.4)	NC

NC – not comparable

Highlights of Q3FY11 results

- GMR reported an adjusted net loss of Rs223mn for Q3FY11 (estimates of net loss of Rs102mn), led by lower than estimated profitability of the power division as also higher than expected depreciation and interest costs.
- Q3FY11 revenues increased by 27% yoy to Rs13.6bn (sharply higher than estimates), led by strong growth in the airports segment (+62% yoy) as also higher than expected income from investments earned by the company (investment income treated as part of revenues in the GMR parent company). Growth in the airports division was led by strong passenger traffic (7.7mn at Delhi and 2mn at Hyderabad – the highest ever) and an increase in user development fees (UDF) at Hyderabad airport during the quarter. Revenues of the power division (excluding revenues from Homeland Energy which has been consolidated starting Q3FY11) grew by just 2.9% yoy to Rs4.5bn, while revenues from roads increased by 8% yoy to Rs985mn.
- EBITDA increased at a slower pace relative to sales (+10% yoy to Rs3.8bn), due to sharply lower than expected profitability of the power division. EBITDA margins of the power division (excluding Homeland Energy) at 22% trailed estimates mainly due to lower merchant realisations at the company's barge mounted merchant power plant as also higher operating costs at the Vemagiri plant. Further, margins have also been impacted due to consolidation of Homeland Energy starting this quarter which reported EBIDTA loss of Rs190m during the quarter. On the other hand, the profitability of the operating airports improved ahead of estimates on the back of the better passenger traffic, hike in UDF at Hyderabad airport and increased non-aero revenues on commissioning of T3 at Delhi airport. Overall EBITDA margins declined by 430bps yoy to 28.1% during the quarter.
- Interest (+39% yoy to Rs3.2bn) and depreciation (+39% yoy to Rs2.4bn) increased on account of commissioning of the Delhi international airport and the Kakinada barge mounted power plant.

- The high fixed capacity charges led to a PBT level loss of Rs1.34bn during the quarter, as compared to estimates of a loss of Rs366mn. GMR paid current tax of Rs227mn during the quarter and created a deferred tax asset of Rs1.05bn. The deferred tax asset (credit in P&L) was created to give effect to the timing differences arising from accumulated losses (Rs7.7bn) in Hyderabad airport, since the SPV turned to a profit for the first time. These accumulated losses would be utilised by GMR against tax liabilities that would arise in HIAL in the future.
- The deferred tax asset reduced Pat-level losses for the quarter to Rs519mn. After adjusting for minority interests and share of profits from associates, GMR reported net loss of Rs223 on consolidated basis during Q3FY11.
- GMR has entered into an agreement to sell its 50% stake in Intergen to China's Huanerng Group for total consideration of USD1.232bn. The transaction value implies a loss of USD182m on GMR's carrying value of its investment of USD407m in Intergen after adjusting for external borrowings of USD1007m. Further, the implied loss would continue to increase at ~USD5m/month till the culmination of the deal (likely by April-11) due to interest payments on the external borrowings.

Key segment highlights

❑ Airports (46% of total revenues)

- Net revenues at DIAL increased by 26% yoy, as ATMs grew faster than passengers, at 18% yoy, driving a 11% yoy increase in aero revenues. Non-aero revenues increased by 13% yoy, led by commencement of new concessions at T3. EBITDA however declined sharply, by 38% yoy to Rs354mn, as overheads increased without a commensurate increase in revenues on commissioning of T3 (pending final tariff order from AERA). With high interest and depreciation (Rs2.1bn in aggregate), DIAL reported a net loss of Rs1.6bn during Q3FY11, as compared to a net loss of Rs27mn in Q3FY10.
- Revenues at HIAL were up 14% yoy, driven mainly by a hike in UDF charges during the quarter, which drove a 14% yoy growth in aero revenues to Rs397/pax. Traffic increased by a strong 17%, led mainly by a 19% growth in domestic passengers. Non-aero revenues declined by 6% yoy to Rs550mn, due to the demerger of the airport hotel into a subsidiary. EBITDA increased by 29% yoy to Rs835mn on the back of a steady increase in traffic as well as demerger of the relatively lower margin hotel business. Consequently, HIAL reported a PBT of Rs117mn during Q3FY11, as compared to a loss of Rs246mn in Q3FY10. However, after creating a deferred tax asset of Rs1.1bn, HIAL reported a PAT of Rs1.2bn during the quarter.
- SGIA continued to see robust traffic growth, although the pace of growth softened marginally due to a higher base. Total passenger traffic increased by 44% yoy to 3mn, driven mainly by a 66% jump in international traffic to 1.1mn. Resultant, revenues increased by 39% yoy to Rs1.52bn (including fuel trading revenues of Rs999m) while EBIDTA more than doubled to Rs357mn. However, high fixed interest and depreciation charges, coupled with amortisation of licence fees led to a PBT level loss of Rs220mn and a net loss of Rs221mn.

Exhibit 1: Airports – key financials

In Rsm	DIAL			HIAL			SGIA		
	Q3FY11	Q3FY10	% yoy	Q3FY11	Q3FY10	% yoy	Q3FY11	Q3FY10	% yoy
Total pax (m)	7.70	7.10	8.5	2.03	1.74	16.7	3.01	2.20	36.8
Revenues	1,837	1,461	25.7	1,355	1,190	13.9	1,521	1,129	34.7
EBITDA	354	575	(38.4)	835	650	28.5	357	122	192.6
PAT	(1,643)	(27)	(5985.2)	1,185	(246)	NC	(221)	(620)	64.3
OPM	19.3	39.4	(2,009 bps)	61.6	54.6	700 bps	23.5	10.8	1,267 bps
Revenues / pax (Rs)	239	206	15.9	667	684	(2.4)	505	513	(1.5)
EBITDA / pax (Rs)	46	81	(43.2)	411	374	10.1	119	55	113.9

Source: Company; NC - Not comparable

❑ Power (37% of total revenues)

- Revenues of the power division (excluding revenues from Homeland Energy which has been consolidated starting Q3FY11) grew by just 2.9% yoy to Rs4.5bn impacted by lower merchant realizations and lower generation in its Chennai liquid fuel plant which offset the impact of commencement of operations at the Kakinada barge mounted power plant, which, after relocation from the Karnataka coast, commenced combined cycle operations from August 2010. GMR operates the Kakinada plant as a merchant plant and sold power at an average of Rs3.66/unit during the quarter. Overall Power division revenues increased by 15% yoy to Rs5.1bn during the quarter driven by revenues of Rs510m from Homeland Energy which has been consolidated starting Q3FY11.

- EBITDA (excluding Homeland Energy) increased by 84.4% yoy to Rs1bn, due to the commencement of the barge mounted power plant and better profitability of the same on stabilisation of operations. Homeland Energy reported EBIDTA loss of Rs190m during the quarter.

Exhibit 2: Power segment highlights (excluding Homeland Energy)

Rs mn	3Q11	3Q10	Yoy change (%)
Net Revenue	4,547	4,419	2.9
EBITDA	999	542	84.4
EBIT	823	292	181.9
PAT	**499**	**276**	**80.9**
EBITDA margin (%)	22.0	12.3	971 bps
EBIT margin (%)	18.1	6.6	1,150 bps

Source: Company

Homeland Energy

Rsm	3Q11
Revenues	510
EBITDA	(190)
PAT	(207)
PAT after minority	(113)

Source: Company

❑ Roads (7% of total revenues)

- Revenues increased by 8% yoy to Rs985mn, led by traffic growth of 7-21% across the 3 operating toll road projects. Resultant EBITDA also increased by 7.3% yoy to Rs823mn.
- Led by high fixed interest and depreciation charges, the segment reported a net loss of Rs108mn during the quarter.

Exhibit 3: Road segment highlights

Rs mn	3Q11	3Q10	Yoy change (%)
Net Revenue	985	913	7.8
EBITDA	823	767	7.3
EBIT	465	586	(20.6)
PAT	(108)	(3)	3,500.0
EBITDA margin (%)	83.6	84.0	-42 bps
EBIT margin (%)	47.2	64.2	-1,696 bps

Source: Company

❑ Valuations and view

We have adjusted our earnings estimates for GMR for (1) continued delay in revision of tariff at Vemagiri power plant, (2) lower than estimated merchant tariffs at the Kakinada gas-based power plant, (3) lower PLFs for gas based plants – Kakinada and Vemagiri due to shortfall in gas supplies, (4) higher than estimated increase in overheads and capacity charges at DIAL and (5) operating losses for Homeland Energy. Resultant, there has been a very sharp downgrade in our earnings estimates for FY11 and FY12 and we now estimate net loss of Rs533m in FY11 (against earlier estimate of PAT Rs2.2bn) and net loss of Rs1.7bn (against earlier estimate of PAT of Rs4.4bn). In terms of cash profits, we expect cash profit of Rs4.7bn in FY11 and Rs6.7bn in FY12. Incrementally, we expect GMR to report better q-o-q operating performance, led mainly by increase in UDF at Hyderabad airport and benefits of operating leverage post commencement of domestic operations at Delhi airport's T3 even as higher capacity charges would keep earnings muted. GMR has reported continued traction in execution of its under construction power projects – Kamalanga, EMCO, Chattisgarh and Vemagiri extension thus imparting visibility to strong cash flow generation from these projects. We maintain our Outperformer rating on the stock, with a target price of Rs49/share.

Quarterly results

Rs mn	3Q10	4Q10	FY10	1Q11	2Q11	3Q11	FY11E
Net Revenues (after rev share)	10,667	10,985	45,495	12,313	12,217	13,588	53,327
Total Expenses	**7,213**	**8,104**	**32,022**	**8,539**	**8,656**	**9,775**	**37,965**
EBITDA	**3,454**	**2,881**	**13,473**	**3,775**	**3,561**	**3,813**	**15,362**
OPM (%)	32.4	26.2	29.6	30.7	29.1	28.1	28.8
Other Income	997	1,448	3,325	981	579	416	2,459
Depreciation	1,700	1,642	6,217	1,648	1,993	2,357	8,631
EBIT	2,751	2,688	10,581	3,108	2,148	1,871	9,190
Interest	2,306	2,605	8,884	2,692	2,929	3,210	12,241
PBT	**445**	**83**	**1,697**	**416**	**(781)**	**(1,339)**	**(3,051)**
Current Tax	203	(12)	(322)	70	197	227	(304)
Fringe Benefit tax							
Deferred Tax	(70)	(749)	-	29		(1,046)	(1,068)
Tax Rate (%)	29.9	(14.3)	(19.0)	23.6	(25.2)	61.2	45.0
PAT	**312**	**844**	**2,019**	**318**	**(978)**	**(519)**	**(1,679)**
Minority Interest	96	168	322	23	(260)	(261)	(1,046)
Share of Profits Associates	(124)	(79)	(216)	(10)	26	35	100
PAT post Minorities	**92**	**598**	**1,481**	**284**	**(692)**	**(223)**	**(533)**
Extra ordinary items		132	103		1,403	-	1,403
Reported Profit After Tax	92	731	1,584	284	711	(223)	871
Growth (yoy, %)							
Net Sales	**11.2**	**(17.3)**	**27.1**	**4.6**	**1.2**	**27.4**	**17.2**
EBITDA	**18.6**	**0.7**	**26.3**	**17.5**	**(9.3)**	**10.4**	**14.0**
Other Income	130.9	266.7	1,455.9	139.8	23.2	(58.3)	(26.1)
Interest	56.1	67.6	141.3	42.7	40.3	39.2	37.8
Depreciation	48.7	48.6	59.5	20.1	32.6	38.7	38.8
PBT	**(38.4)**	**(86.1)**	**(48.6)**	**14.7**	**(197.0)**	**(400.7)**	**(279.8)**
PAT (pre-minority)	(42.3)	105.1	(27.1)	32.4	(257.2)	(266.1)	(183.1)
PAT (post-minority)	(85.0)	12.3	(47.0)	26.2	(222.3)	(341.8)	(136.0)
Reported PAT	**(85.0)**	**37.2**	**(43.3)**	**26.2**	**32.7**	**(341.8)**	**(45.0)**

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Explanation of Ratings:

1. Outperformer: More than 5% to Index
2. Neutral: Within 0-5% to Index (upside or downside)
3. Underperformer: Less than 5% to Index

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