

MANAGEMENT MEET UPDATE ✓

# GVK Power (GVKPOW)

Current Price  
Rs 44

**UNRATED**

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GVK Power & Infra (GVK), India's leading diversified private sector infrastructure play, has a presence in power, aviation, transportation, mining, oil & gas and SEZ. After the initial hiccups in the power segment due to non-availability of gas, the company now has three operational gas-based power plants with an overall capacity of 901 MW in Andhra Pradesh. All plants are operating at almost full capacity. GVK has also acquired a 36.63% stake in Mumbai International Airport (MIAL). The aviation sector has experienced a turbulent patch of de-growth (-7%) in FY09. However, passenger traffic is showing signs of pick-up which should augur well for MIAL. Also the road transport segment continues to witness a robust growth in traffic on the Jaipur Expressway (JKEL). JKEL has also witnessed a growth of 8.2% YoY in overall traffic in Q1FY10 which continues to support the operating profitability of the road segment.

### Airport assets

A consortium led by GVK also won the bid for developing and managing MIAL in April 2006. MIAL is a leading international gateway to India handling close to 21.53% of the aggregate passenger air traffic of India. Mumbai airport has significant business development opportunities on its large passenger base of 23.4 million in FY09. MIAL is stated to have a peak handling capacity of 40 million passengers after the inauguration of the integrated terminal.

### Exhibit 1: Proposed up gradation of facilities and terminals at Mumbai airport

Facilities	Proposed	Existing	Proposed Terminal	Expected CoD
Parking stands for aircraft	106	84	Terminal - 1C	Jun-10
Boarding Bridges	66	18	Terminal - 2A	Dec-10
Check-in counters	339	182	Terminal - 2B	Dec-12
Car parking	12,000	3,600		

Source: Company, ICICIdirect.com Research

Besides, the company also holds the right of first refusal for the development and operation of any new airport if any such other airport is to be constructed within a 150-km radius of MIAL. If it is not a successful bidder but its bid is within 10% of the most competitive bid MIAL would get the right of first refusal to match the most competitive bid.

### Exhibit 2: Project cost of Mumbai Airport

Particulars	Incurred till date	Outstanding	Total Cost
Equity	550	650	1,200
Internal Accruals		1,500	1,500
Debt	1,750	2,480	4,230
ADF		1,543	1,543
Real estate deposit & contingent		1,327	1,327
<b>Total</b>	<b>2,300</b>	<b>7,500</b>	<b>9,800</b>

Source: Company, ICICIdirect.com Research

### Real estate

GVK is also redeveloping 276 acres of land in the airport vicinity. MIAL has entered into an agreement with HDIL for the slum rehabilitation project as part of the airport modernisation and expansion plan. MIAL is planning to develop a destination city.

Out of the total 276 acres of land MIAL will get 97 acres, HDIL will get 65 acres while the rest will be used for airport development. HDIL is required to clear 28,000 hutments in order to complete phase I. The first phase is expected to be complete by October 2010. MIAL is expected to receive the entire land for development after the completion of phase I.

## Power assets

GVK has three operational gas-based power plants in Andhra Pradesh, that is, JP-I (217 MW), JP-II (220 MW) and Gautami (464 MW). GVK commissioned the first unit JP-I in June 1997. The plant has been running on gas and alternate fuels. JP-II and Gautami were lying idle for the last three years due to non availability of gas. Both plants have commenced operations successfully in April and June 2009, respectively.

GVK Power is diversifying its generation portfolio into other sources of fuel. GVK has initiated the development of projects in hydro and coal-based fuel. At present, the two projects under construction are the Goindwal Sahib (540 MW) in Punjab and Alaknanda hydro power (330 MW).

### Exhibit 3: Description of power assets

Plants	Ownership (%)	Capacity (MW)	Project Cost (Rs Crore)	Debt : Equity	Commission Schedule	PPA Structure
<b>Plants under operation - (a)</b>		<b>901</b>	<b>3,908</b>			
JP-I	100.0	217	1,025	70 : 30	Jun-97	Regulated - ROE -16%
JP-II	100.0	220	922	89 : 11	Apr-09	Capacity Charge & 20% Merchant
Gautami	60.5	464	1,961	65 : 35	Jun-09	Capacity Charge & 20% Merchant
<b>Plants under construction - (b)</b>		<b>870</b>	<b>5,662</b>			
Alaknanda	100.0	330	2,698	80 : 20	Mar-12	Regulated - ROE -14%
Goindwal Sahib	100.0	540	2,964	80 : 20	Oct-12	Regulated - ROE -15.5%
<b>Plants at the planning stage - (c)</b>		<b>1,570</b>	<b>-</b>			
Brownfield expansion @ JP & Gautami	100.0	1,200	NA	NA	NA	NA
Goriganga Hydro	100.0	370	NA	80 : 20	2015	Merchant
<b>Total - (a+b+c)</b>		<b>3,341</b>	<b>9,570</b>			

Source: Company, ICICIdirect.com Research

After the initial hiccups due to non-availability of gas, GVK has been able to successfully complete the commissioning of two plants (JP-II and Gautami). GVK Power has interest in three operational plants with a proportionate share of 715 MW in gas-based plants located in Andhra Pradesh. Both new plants are operating at near 100% PLF since inception.

## GVK coal mines – Tokisud coal mines and Seregarha mines

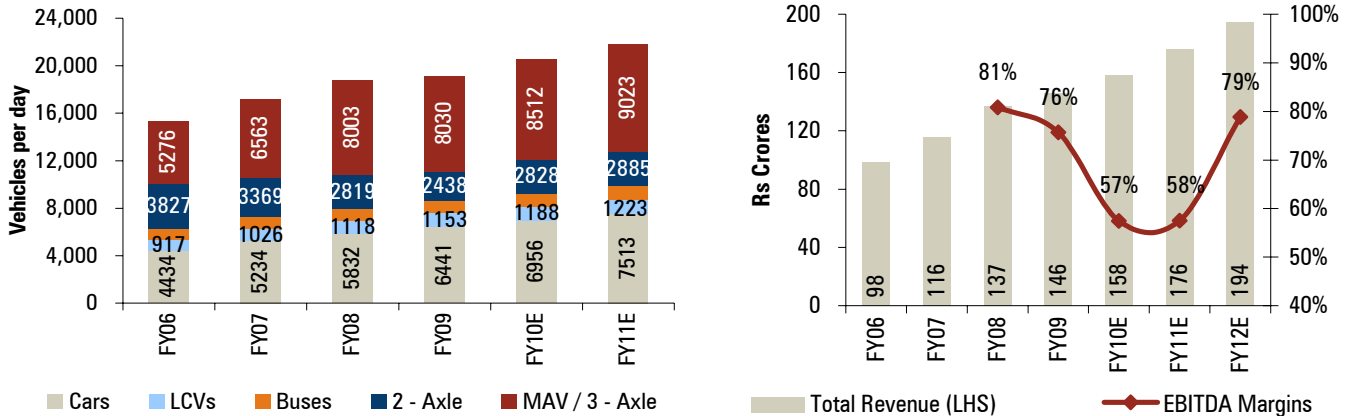
Tokisud mines are an opencast mining block located 50 km north-west of Ranchi (Jharkhand). Tokisud has a mineable reserve of 52 MT. GVK has received the environmental clearance for this mine and land acquisition is in progress. Financial closure of the mine is expected in October 2009.

Seregarha mines were allocated to GVK jointly with Arcelor-Mittal. GVK holds a 44.45% stake in the mine. Seregarha mines have a mine able reserve of 67 MT. Both mines were acquired to support the operations of Goindwal Sahib in Punjab.

## Road segment

GVK is also operating a 90.3-km stretch on the NH-8 near Jaipur Kishangarh. NHAI awarded GVK Jaipur Expressway Private Limited a concession for 20 years under a build operate and transfer (BOT) model. It is India's first six-lane BOT expressway. In FY09, the company handled ~7 million vehicles.

**Exhibit 4: Pattern of vehicle movement per day**



Source: Company, ICICIdirect.com Research

## SEZ

GVK has received the formal approval from Board of Approval (Ministry of Commerce and Industries) in February 2009 for the development of 2,604 acres of multi-product SEZ. The total cost of the project is Rs 827.4 crore and the company has already acquired the requisite land for development. The project is still in nascent stages of execution.

## Oil and gas exploration

GVK has acquired the working interest along with its consortium member BHP Billiton in seven exploratory blocks under NELP VII with a total gross area of 34,000 km. GVK has a 74% stake in the joint venture. Depending on the investments by the consortium, 25-80% of the production proceeds will be given to the government under the production sharing contracts. Over the next two years, the consortium will acquire the 2D information and plan for the next step including decision for 3D data acquisition or drilling of exploratory wells.

## Financials

### Exhibit 5: Key financials

P&L Statement	(Rs Crore)					Key ratios (Profit & Loss Account)					(%)
	FY07	FY08	FY09	FY10E	FY11E	FY07	FY08	FY09	FY10E	FY11E	
Sales	398.6	470.0	513.8	1,912.6	2,168.3	Emp Exp	3.4	3.1	3.4	2.4	2.5
Growth (%)	0.0	17.9	9.3	272.3	13.4	Admin & General exp	15.5	20.5	13.8	7.3	6.5
Op. Expenditure	197.9	284.5	337.5	1,322.5	1,395.0	Average cost of debt	0.0	0.0	0.0	0.0	0.0
EBITDA	200.7	185.5	176.3	590.1	773.3	Effective Tax rate	30.4	18.5	11.8	15.6	15.0
Growth (%)		-7.5	-5.0	234.7	31.0	<b>Profitability ratios (%)</b>					
Other Income	24.7	62.2	20.2	108.4	123.4	EBITDA Margin	50.3	39.5	34.3	30.9	35.7
Depreciation	80.6	77.6	78.0	205.1	225.7	PAT Margin	6.1	20.2	14.3	10.7	11.1
EBIT	144.8	170.1	118.5	493.5	671.0	Adj. PAT Margin	6.1	20.2	14.3	10.7	11.1
Interest	62.7	41.4	33.4	210.0	331.5	<b>Per share data (Rs)</b>					
PBT	82.1	128.7	85.1	283.5	339.5	Revenue per share	3.7	3.3	3.6	12.1	13.7
Growth (%)		56.8	-33.9	232.9	19.8	EV per share	80.7	59.7	71.7	69.6	80.8
Tax	25.0	23.9	10.0	44.1	50.9	EV per unit	NA	NA	NA	NA	NA
Extraordinary Item	0.0	0.0	1.2	0.0	0.0	Book Value	8.0	15.5	18.4	22.2	24.0
Rep. PAT before MI	57.1	104.9	73.9	239.4	288.6	Cash per share	0.6	1.2	1.1	2.2	1.4
Minority interest (MI)	32.8	10.1	0.3	34.2	48.0	EPS	0.2	0.7	0.5	1.3	1.5
Rep. PAT after MI	24.4	94.8	73.6	205.1	240.6	Cash EPS	1.0	1.2	1.1	2.6	2.9
Adjustments	0.0	0.0	0.0	0.0	0.0	DPS	0.1	0.1	0.0	0.2	0.1
Adj. Net Profit	24.4	94.8	73.6	205.1	240.6	<i>Costs as % to sales except tax rate and average cost of debt</i>					
Growth (%)		288.7	-22.4	178.8	17.3						

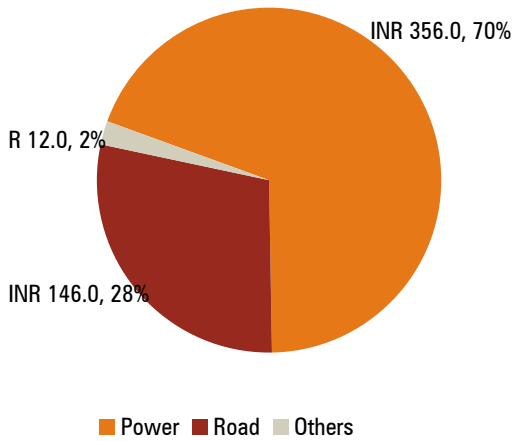
Balance Sheet	(Rs crore)					Key ratios (Balance sheet)					(%)
	FY07	FY08	FY09	FY10E	FY11E	Return ratios					
Equity Capital	108.6	140.9	140.9	158.2	158.2	RoNW	19.2	7.5	3.4	8.6	8.7
Other share application	0.0	0.0	28.7	28.7	28.7	ROCE	NA	11.2	3.8	2.2	6.1
Reserves & Surplus	487.0	2,045.7	2,153.3	3,036.3	3,259.4	<b>Financial health ratio</b>					
Shareholder's Fund	868.5	2,187.2	2,587.3	3,519.6	3,790.8	Operating CF (Rs Cr)	154.8	59.9	313.6	285.3	726.5
Minority Interest	272.9	0.6	264.4	296.4	344.4	FCF (Rs Cr)	(2,555.4)	(484.4)	(2,409.0)	(1,314.7)	(1,493.5)
Secured Loans	1544.6	1291.0	2979.8	4091.8	5730.8	Cap. Emp. (Rs Cr)	2,140.1	3,477.6	5,302.7	7,315.0	9,177.2
Deferred Income	187.6	175.8	164.1	0.0	0.0	Debt to equity (x)	2.6	0.6	1.3	1.3	1.7
Deferred Tax Liab.	89.1	88.6	88.0	88.0	88.0	Debt to cap. emp. (x)	0.6	0.3	0.5	0.5	0.6
Source of Funds	2,689.7	3,742.6	5,819.2	7,699.4	9,609.6	Interest Coverage (x)	2.3	4.1	3.6	2.3	2.0
Gross Block	1,889.0	1,904.4	2,126.9	4,126.9	4,126.9	Debt to EBITDA (x)	7.7	7.0	16.9	6.9	7.4
Less: Acc. Depr.	512.2	564.1	623.9	788.7	962.2	<b>DuPont ratio analysis</b>					
Net Block	509.5	472.7	635.3	2,483.7	2,310.1	PAT/PBT	0.7	0.8	0.9	0.8	0.9
Capital WIP	821.1	1,350.1	3,850.2	3,450.2	5,670.2	PBT/EBIT	0.7	1.2	0.9	0.7	0.6
Net Fixed Assets	1,330.7	1,822.8	4,485.5	5,933.8	7,980.2	EBIT/Net sales	0.3	0.2	0.2	0.2	0.3
Intangible asset	792.0	754.8	723.6	670.2	618.2	Net Sales/ Tot. Asset	0.3	0.1	0.1	0.3	0.3
Investments	297.4	706.8	321.4	500.0	550.0	Total Asset/ NW	24.8	25.8	33.9	45.2	54.7
Inventories	28.5	22.7	44.2	100.2	98.2						
Trade Receivables	60.0	65.2	64.3	265.7	263.1						
Cash	63.1	164.3	156.2	351.2	221.2						
Other Current assets	187.6	235.6	157.9	123.6	121.0						
Total Current Asset	339.2	487.9	422.6	840.6	703.4						
Current Liab. & Prov.	69.6	29.7	133.9	245.3	242.2						
Net Current Asset	269.6	458.2	288.7	595.3	461.2						
Misc Expenditure	-	-	-	-	-						
Application of funds	2,689.7	3,742.6	5,819.2	7,699.4	9,609.6						

Source: Company, ICICIdirect.com Research

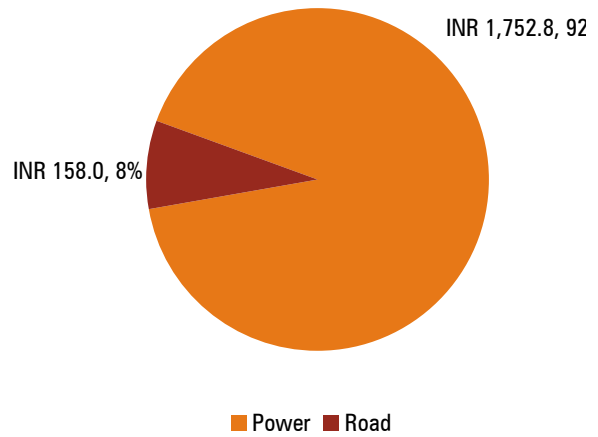
Cash Flow Statement	(Rs crore)					Working Capital Ratios					
	FY07	FY08	FY09	FY10E	FY11E	FY07	FY08	FY09	FY10E	FY11E	
<b>Net Profit before Tax</b>	82.1	128.7	86.4	283.5	339.5	<b>Working cap./Sales</b>	0.7	1.0	0.6	0.3	0.2
<b>Other Non Cash exp</b>	0.0	0.0	0.0	0.0	0.0	<b>Debtor turnover</b>	54.9	50.7	45.6	50.7	44.3
<b>Depreciation</b>	80.6	77.6	78.0	205.1	225.7	<b>Creditor turnover</b>	35.4	24.7	58.5	41.5	38.5
<b>Direct Tax Paid</b>	21.1	23.7	10.0	44.1	50.9	<b>Current Ratio</b>	4.9	16.4	3.2	3.4	2.9
<b>Interest Income</b>	3.7	11.8	20.2	51.3	54.4	<b>Quick ratio</b>	4.5	15.7	2.8	3.0	2.5
<b>CF before chg in WC</b>	137.8	170.8	134.1	393.1	459.8	<b>Cash to abs. Liab.</b>	0.9	5.5	1.2	1.4	0.9
<b>Inc./Dec. in Curr Liab</b>	63.8	(42.7)	100.6	111.4	(3.0)						
<b>Inc./Dec. in Curr Ass.</b>	276.1	47.5	(57.2)	223.1	(7.2)						
<b>CF from operations</b>	-74.5	80.7	291.9	281.4	464.0						
<b>Purchase of Fixed Ass</b>	(2710.1)	(544.3)	(2722.6)	(1600.0)	(2220.0)						
<b>(Inc./Dec. in Inv</b>	(297.4)	(409.5)	385.4	(178.6)	(50.0)						
<b>CF from Investing</b>	(2,982.8)	(891.7)	(2,317.0)	(1,685.3)	(2,146.6)						
<b>Inc./Dec. in Debt</b>	1,544.6	(253.6)	1,688.8	1,112.0	1,639.0						
<b>Inc./Dec. in NW</b>	420.6	1,191.9	-	716.9	-						
<b>CF from Financing</b>	1,965.2	938.4	1,688.8	1,828.9	1,639.0						
<b>Opening Cash bal</b>	-	63.1	164.3	156.2	351.2						
<b>Closing Cash bal</b>	63.1	164.3	156.2	351.2	221.2						

**Appendix**

**Exhibit 6: Segmental Revenue mix – FY09**



**Exhibit 7: Segmental Revenue mix – FY10E**

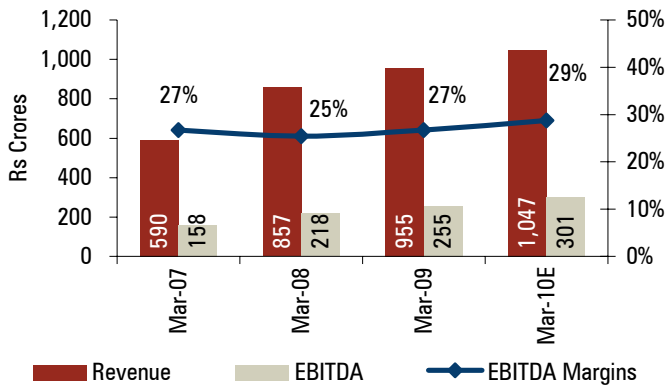


Source: Company, ICICIdirect.com Research

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Under consolidated results, the company is not reporting revenues from the airport segment. We have evaluated the performance of the segment separately.

**Exhibit 8: Performance of airport segment**



Source: Company, ICICIdirect.com Research

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**Outperformer (OP):** 20% or more;

**Performer (P):** Between 10% and 20%;

**Hold (H):**  $\pm 10\%$  return;

**Underperformer (U):** -10% or more;

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