

## GVK Power & Infrastructure

BIAL visit takeaways: Impressive operations + growth potential

*We recently visited the greenfield Bangalore International Airport (BIAL) located 40km from the city, with GVK management.*

- **An efficient airport on a growth path:** BIAL has a variety of unique features compared to other Indian airports and efficient operations. Moreover, the airport is on its way to expand its terminal capacity by ~17mn PAX and *double the retail space at the airport to 10,000sqft*. According to management, the expansion would require an outlay of Rs6-Rs8B thru FY12. Post FY15, a second terminal with a capacity of ~30mn PAX and a second runway is on the anvil. The current runway can support peak load of 36ATMs/hour compared to peak utilization of 26ATMs/hour. Management indicated this expansion would cost ~\$1B.
- **Non aero revenues to grow but will BIAL get full benefit?** Mgt. expects aero and non aero revenues to grow at a CAGR of 24% and 18%, respectively, thru FY15. As per the master plan, the total airport space will expand to 3,50,000 sqft, providing more retail space. BIAL currently operates on a dual till model, wherein it gets the full benefit of non aero revenues (49% of FY10 revenue). We think at best BIAL would subsidize its aero charges by 30%. This downside is more or less built into our model, given our conservative growth expectations compared to management guidance (10% CAGR in PAX traffic thru FY15 vs. mgt expectation of 15%).
- **Still finalizing real estate plans:** Of the allotted ~4,000acres BIAL has been sanctioned the right to develop ~515 acres of real estate, with a blanket FSI on 2.5 implying 56mn sq ft of leasable area. There are no restrictions on the usage of the space with exception of residential development. 515 acres includes: (1) ~60 acres of airside property (2) 30 acres right in front of the terminal (4 acres sold to L&T/Oberoi hotels at Rs360M/acre) (4) 170 acres around the airport and (5) ~260 odd acres far east of the airport. *However, the company's plans are still under development and we do not expect any revenue recognition before FY12.*
- **Our SOTP price target of Rs57 includes Rs11 for GVK's 29% stake in BIAL:** We value BIAL at Rs61B, including Rs50B for the airport (18x FY12 EV/EBITDA; Hyderabad at 15x) and Rs10B for its land bank at Rs20M/acre. Faster-than-expected real estate monetization, higher PAX growth, and increased UDF provide upside risks to our estimates.

## Overweight

GVKP.BO, GVKP IN

Price: Rs41.00

Price Target: Rs57.00

### India Infrastructure

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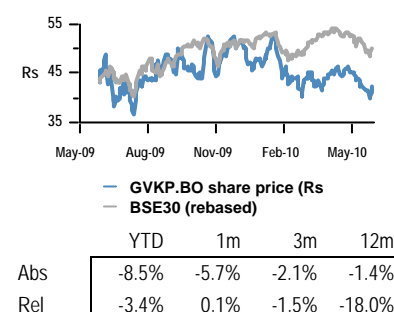
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### Price Performance



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

Rs. in millions, year-end March

	FY08	FY09	FY10	FY11E	FY12E		
Sales	4,700	5,138	17,866	21,645	26,179	52-week range (Rs)	34.5-54.25
Net profit	1,355	1,076	1,559	2,610	4,663	Market cap (Rs B)	67.3
EPS (Rs)	1.04	0.77	0.99	1.65	2.95	Market cap (US\$ M)	1445.2
ROE (%)	9.7	4.8	5.6	7.8	12.6	Shares o/s (MM)	1579.2
ROCE (%)	5.3	2.5	5.3	6.2	8.9	Free float (%)	39.1
BVPS (Rs)	15.6	16.5	20.2	21.9	24.8	Avg daily value (Rs MM)	305.7
P/E (x)	40.9	55.5	43.1	25.7	14.8	Avg daily value (US\$ MM)	6.6
P/BV (x)	2.7	2.6	2.1	1.9	1.7	Avg daily volume (MM shs)	6.93
EV/EBITDA (x)	42.2	54.1	20.8	14.8	10.4	Exchange rate (Rs/US\$)	46.6

Source: Company data, J.P. Morgan estimates. Price updated on market close of 28 May 2010.

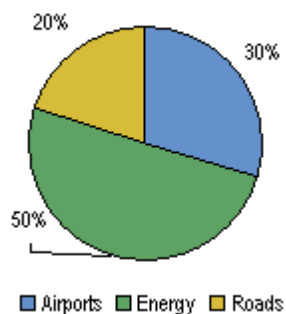
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## Company Description

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

## Revenue composition (FY09)



Source: Company reports.

## EPS: J.P. Morgan vs. consensus

	J. P. Morgan	Consensus
FY11E	1.65	1.63
FY12E	2.95	2.40
FY13E	3.13	4.15

Source: Bloomberg, J.P. Morgan estimates.

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

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

## Price target and valuation analysis

Our Mar-11 SOP-based price target of Rs57 factors in Rs28/shr from MIAL, Rs11 from BIAL, Rs6 from power segment assets and Rs-5 from roads. As most of this value comes from operating projects, we view GVK as a good steady-return play with relatively lower risks. Plans to monetize 200 acres of real estate is a near-term catalyst.

	(Rs/share)	COE (%)
Mumbai Airport	27.6	15.5
Core	15.3	
Real estate	12.3	
Jaipur-Kishengarh E'way	5.1	12.0
Power assets	16.4	13.0-13.5
Bangalore Airport	11.1	
Cash raised	(2.9)	
<b>Overall</b>	<b>57</b>	

We maintain our OW rating. Mumbai Airport is a potential stock catalyst. Sharp merchant price decline is a key risk to our estimates and PT.

## An efficient airport

- BIAL has a variety of unique features compared to other Indian airports including the flexible use of its infrastructure – use of conveyor belts/check in terminals across airlines ensuring optimum utilization, swing terminal space between domestic and international.
- The airport has a central control room housing all stakeholders - ground handling staff, airline operators, airport operators etc to ensure max efficiency and 85% departure punctuality.
- BIAL selects at least two concessionaires per category via an international bidding process to ensure competition. In addition does not enter in JVs with concessionaires to ensure efficient pricing and if one of the few airports in the country to do so.

## Growth outlook

- BIAL is currently expanding Terminal 1 to enhance PAX capacity to ~17mn from ~12mn currently and would double the retail space at the airport to 10,000sq ft. According to management, the expansion would require an outlay of Rs6-8B and would be complete within two years at best.
- On a longer-term horizon, the construction of a second terminal is on the anvil with a capacity of 30mn PAX as well as an additional 4km long parallel runway to support >25mn passenger traffic by FY16. The current runway and facilities can support peak load of 36ATMs/hour compared to peak utilization of 26ATMs/hour. Management indicated this expansion would cost \$1B.

Table 1: BIAL: Growth outlook as per management guidance

	FY10	FY15	FY20	FY30
Aero (Rs. mn)	2,930	8,500	14,500	33,000
Non aero (Rs mn)	1,710	3,900	9,000	17,500
Cargo (Rs mn)	190	500	960	2,500
<b>Total Revenue (Rs mn)</b>	<b>4,830</b>	<b>12,900</b>	<b>24,460</b>	<b>53,000</b>
PAX traffic (mn)	10	20	30	50
Rev/PAX	488	645	815	1,060
ATMs	104,653	220,000	320,000	540,000
Cargo ('000 MT)	174	375	625	1,112

Source: Company reports.

Table 2: J.P. Morgan estimates vs. management expectations

Rs. in million, year-end March

	FY10	FY15	FY20	FY30	FY10-15 CAGR
<b>Management guidance</b>					
Total Revenue (Rs mn)	4,830	12,900	24,460	53,000	21.7%
PAX traffic (mn)	10	20	30	50	15.1%
Rev/PAX (Rs)	488	645	815	1,060	
<b>JPMorgan estimates</b>					
Total Revenue (Rs mn)	4,830	8,831	14,981	30,605	12.8%
PAX traffic (mn)	10	16	24	37	10.1%
Rev/PAX (Rs)	488	552	614	818	

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

## Real estate to provide the upside

- Allotted ~4,000 acres, this greenfield airport has been sanctioned the right to develop and monetize ~515 acres of real estate surrounding the airport, with a blanket FSI on 2.5 implying 56mn sq ft of area for lease. Moreover, BIAL has no restrictions on the usage of the space with the exception of residential development.
- The 515 acres includes: (1) ~60 acres of airside property, (2) 30 acres right in front of the terminal, of which 4 acres have been sold to Oberoi hotels at Rs360M/acre, (4) 170 acres of prime real estate around the airport, and (5) ~260 odd acres far east of the airport. However, the company's plans are still under development and we do not expect any revenue recognition before FY12.

## Did GVK pay too much?

- 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.
- Our SOTP price target of Rs57 includes Rs11 for GVK's 29% stake in BIAL. We value BIAL at Rs60.6B, including Rs50.3B for the airport which equates to a FY12E EV/EBITDA of 18x compared to 15x for Hyderabad airport (equity value of Rs78B). We think the premium to Hyderabad airport is justified on account of superior growth prospects.
- We value the 515 acres of leasable area at Rs20M/acre, implying a valuation of Rs10.3B or Rs2/share. Given that the development of the land parcels is still in the planning stage, our valuation is conservative. Faster-than-expected developments on this front provide upside risks to our estimates and PT.

Table 3: GVK Power and Infrastructure: SOTP Valuation

	Total asset value		GVK's stake (%)	Value of GVK's stake			
	(Rs bn)	(US\$ mn)		(Rs bn)	(US\$ mn)	(Rs/share)	(% Contribution)
<b>Mumbai Airport</b>	117.7	2,451	37.0	43.5	907	27.6	48.0
Core	65.3	1,360	37.0	24.2	503	15.3	26.6
Real estate	52.4	1,091	37.0	19.4	403.6	12.3	21.4
<b>Roads</b>	8.0	167		8.0	167	5.1	8.9
GJEPL	8.0	167	100.0	8.0	167.4	5.1	8.9
<b>Power</b>	31.5	656		26.1	544.1	16.5	28.8
Jegurupadu-I	7.6	157	100.0	7.6	157.5	4.8	8.3
Jegurupadu-II	5.8	121	100.0	5.8	120.7	3.7	6.4
Gautami	14.8	308	63.6	9.4	196.1	6.0	10.4
Goindwal Sahib	0.9	19	100.0	0.9	18.7	0.6	1.0
Alaknanda Hydro	1.9	39	100.0	1.9	39.2	1.2	2.1
Tolkisud	0.6	12	100.0	0.6	11.9	0.4	0.6
<b>Bangalore Airport</b>	60.6	1,263	29.0	17.6	366	11.1	19.4
Core	50.3	1,048	29.0	14.6	304	9.2	16.1
Real Estate	10.3	215	29.0	3.0	62	1.9	3.3
<b>Net-cash at parent level</b>	(4.6)	(95)	100.0	(4.6)	(95)	(2.9)	(5.0)
<b>Grand total</b>	213	4,443		91	1,890	57.4	100

Source: J.P. Morgan estimates.

Table 4: BIAL: Key operational data and Summary P&L

Rs. in million, year-end March

	4Q10	4Q09	% YoY	3Q10	% QoQ	FY10	FY09	% YoY
PAX (number in millions)	2.6	0.6	365	2.6	(3)	9.9	7.2	37
Cargo ('000 tonnes)	49.0	8.2	502	45.3	8	174.6	130.3	34
ATM (number in '000s)	27.4	25.8	6	26.3	4	104.7	88.8	18
<b>Summary P&amp;L</b>								
Net revenue	1,326	1,189	12	1,095	21	4,647	3,095	50
Opex	495	986	(50)	390	27	1,655	1,994	(17)
<b>EBITDA</b>	<b>831</b>	<b>202</b>	<b>311</b>	<b>705</b>	<b>18</b>	<b>2,992</b>	<b>1,101</b>	<b>172</b>
EBITDA Margin	62.7	17.0		64.4		64.4	35.6	
Other income	348	119		44		462	128	
Interest	628	(99)	(738)	224	180	1,335	1,063	26
Depreciation	336	(321)	(204)	339	(1)	1,338	1,129	19
<b>PBT</b>	<b>215</b>	<b>741</b>	<b>(71)</b>	<b>185</b>	<b>16</b>	<b>781</b>	<b>(962)</b>	<b>(181)</b>
Tax	2	(4)		-		4	8	
<b>PAT</b>	<b>212</b>	<b>745</b>	<b>(71)</b>	<b>185</b>	<b>15</b>	<b>777</b>	<b>(970)</b>	<b>(180)</b>

Source: Company reports.

## GVK Power and Infrastructure: Summary of Financials

Profit and Loss statement					Cash flow statement				
Rs in millions, year-end Mar	FY09	FY10	FY11E	FY12E	Rs in millions, year-end Mar	FY09	FY10	FY11E	FY12E
Revenues	5,138	17,866	21,645	26,179	EBIT	984	3,226	4,904	8,486
% change Y/Y	9.3	247.7	21.2	20.9	Depreciation & Amortization	780	1,371	2,405	3,079
EBITDA Margin (%)	34.3	25.7	33.8	44.2	Tax	(100)	(200)	(497)	(848)
Adjusted EBITDA	2,515	4,770	6,908	11,472	Other income	202	292	159	187
% change Y/Y	(11.0)	89.6	44.8	66.1	Exceptionals	0	0	0	0
Adjusted EBITDA Margin (%)	49.0	26.7	31.9	43.8	Decrease in WC	1,614	28	(375)	(1,829)
EBIT inc OI	1,185	3,517	5,063	8,673	Operating CF	3,479	4,716	6,596	9,075
% change Y/Y	(25.1)	196.7	44.0	71.3	Capex	(27,226)	(7,030)	(13,878)	(16,601)
EBIT Margin (%)	23.1	19.7	23.4	33.1	Change in investments	3,854	(3,336)	(3,413)	(351)
Net Interest	(334)	(2,085)	(2,085)	(3,131)	Investing CF	(23,372)	(10,365)	(17,290)	(16,952)
Earnings before tax	852	1,433	2,978	5,542	Change in debt	16,888	6,559	12,262	11,241
% change Y/Y	(33.9)	68.2	107.9	86.1	Other financing activities	(334)	5,417	(1,868)	(2,927)
Tax	(100)	(200)	(497)	(848)	Financing CF	16,554	11,976	10,394	8,313
as % of EBT	11.8	14.0	16.7	15.3	Change in cash	(3,339)	6,327	(300)	437
Net Income	1,076	1,559	2,610	4,663	Opening Cash	1,643	1,562	7,889	7,589
% change Y/Y	(20.6)	44.9	67.5	78.6	Closing Cash	1,562	7,889	7,589	8,025
Shares Outstanding	1,406	1,579	1,579	1,579					
EPS	0.77	0.99	1.65	2.95					
% change Y/Y	(26.3)	29.0	67.5	78.6					
Balance sheet					Ratio Analysis				
Rs in millions, year-end Mar	FY09	FY10	FY11E	FY12E	%, year-end Mar	FY09	FY10	FY11E	FY12E
Net fixed assets	13,590	26,825	51,561	48,981	Revenue growth	9.3	247.7	21.2	20.9
CWIP & Construction stores	38,502	31,113	18,348	34,948	EBITDA growth	(5.0)	160.7	59.0	58.2
Investments	3,214	6,550	9,962	10,314	Adjusted EBITDA growth	(11.0)	89.6	44.8	66.1
Cash & bank balances	1,562	7,889	7,589	8,025	PAT growth	(20.6)	44.9	67.5	78.6
Net current assets ex-cash	1,325	1,297	1,673	3,501	EPS growth	(26.3)	29.0	67.5	78.6
Total Assets	58,192	73,673	89,133	105,769	EBITDA margin	34.3	25.7	33.8	44.2
Total debt	29,798	36,357	48,620	59,860	Dividend payout ratio	0.0	0.0	0.0	0.0
Paid-up common stock	1,406	1,579	1,579	1,579	Sales/assets (x)	0.1	0.3	0.3	0.3
Reserves and surplus	21,823	30,377	32,987	37,650	Assets/equity (x)	2.4	2.0	2.3	2.4
Shareholders' funds	23,229	31,956	34,566	39,229	Debt/equity (x)	1.2	1.0	1.3	1.4
Deferred tax liability	2,521	2,521	2,521	2,521	Net debt/ equity (x)	1.1	0.8	1.1	1.2
Minority interest	2,644	2,839	3,426	4,159	ROCE (%)	2.5	5.3	6.2	8.9
Total Liabilities	58,192	73,673	89,133	105,769	RoE (%)	4.8	5.6	7.8	12.6
BVPS	16.5	20.2	21.9	24.8					

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

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### GVK Power & Infrastructure (GVKP.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
10-May-09	OW	27.15	35.00
05-Jun-09	OW	48.70	47.00
29-Jul-09	OW	44.50	46.50
03-Nov-09	OW	44.80	52.00
22-Nov-09	OW	51.95	56.00
02-May-10	OW	45.15	57.00

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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IB clients*	48%	46%	32%
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IB clients*	70%	58%	48%

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