Price Objective Change

BUY

Equity | India | Engineering & Construction
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A conservative company in Indian Infrastructure, Buy

Bank of America Merrill Lynch

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Conservative business model, Buy

We rate GVK, a diversified infrastructure company as Buy due to (1) an assured ROE for 92% of FY13E power volume with recoverable fuel cost inflation; (2) profitable airport assets on strong traffic growth; (3) private equity infusion at valuation of Rs60bn for power vs current mcap implies a negligible value for other business (vs 37% for airport, 17% for roads in SOTP); (4) 57% pot'l upside at our SOTP based PO of Rs48/sh, post the stock's 21% underperformance in last 6m vs mid-cap index. Catalysts include Mumbai realty monetization, gas/FC for 1.6GW, doubling power capacity in FY13E and ST sale of power from FY12E.

Mix of regulated power story and profitable airports

Unlike peers, GVK has adopted a conservative approach in power with 92% of FY13E volume is regulated. This ensures (a) secured ROE of 14-16%, could exceed 20% through operational efficiency and (b) fuel cost fluctuation recoverable in tariff. Airports are benefiting from strong traffic growth, thus operating close to their capacity with fixed costs at 35-60% of FY11-13E sales driving profitability.

Below-consensus earnings for FY11-12E, RoE rise to 8%

We estimate a 41% CAGR in FY10-13E earnings, while transitioning the coverage, on (1) 13% power volume growth; (2) 9-18% airport passenger traffic growth in FY11-13E; (3) ST tariff at Rs4.25/unit for FY12-13E; and (4) realty monetization at Rs10,000/sf for 2.25m sf by FY13E. ROE rises from 6% in FY10 to 8% in FY13E. CFO up from Rs3.5bn in FY10 to Rs10.8bn in FY13E.

SOTP-based PO, key risks

Our SoTP based PO of Rs48 is based on a combination of DCF, exit P/BV and 10% conglomerate discount (power Rs19/sh, airport Rs18/sh). Downside risks: significant delays in execution, aggressive competitive bid in power, delay in commencement of ST sale of power and lower merchant realization, slower realty monetization at value discount to our base case (Rs10,000/sf).

Estimates (Mar)

(Rs)	2009A	2010A	2011E	2012E	2013E
Net Income (Adjusted - mn)	1,064	1,537	1,665	2,468	4,311
EPS	0.757	0.973	1.05	1.56	2.73
EPS Change (YoY)	-27.3%	28.6%	8.4%	48.2%	74.7%
Dividend / Share	0	0	0	0	0
Free Cash Flow / Share	(6.39)	(3.62)	(6.51)	(1.93)	(18.30)

Valuation (Mar)

	2009A	2010A	2011E	2012E	2013E
P/E	40.12x	31.19x	28.79x	19.42x	11.12x
Dividend Yield	0%	0%	0%	0%	0%
EV / EBITDA*	61.91x	22.71x	19.87x	30.77x	9.20x
Free Cash Flow Yield*	-18.74%	-11.94%	-21.44%	-6.35%	-60.29%

* For full definitions of *iQmethod* SM measures, see page 27.

Stock Data

Price	Rs30.35
Price Objective	Rs48.00
Date Established	2-Feb-2011
Investment Opinion	C-1-9
Volatility Risk	HIGH
52-Week Range	Rs29.50-Rs51.50
Mrkt Val / Shares Out (mn)	US$1,047 / 1,579.2
Average Daily Volume	5,402,161
BofAML Ticker / Exchange	GVPWF / NSI
Bloomberg / Reuters	GVKP IN / GVKP.NS
ROE (2011E)	4.5%
Net Dbt to Eqty (Mar-2010A)	129.0%
Est. 5-Yr EPS / DPS Growth	41.0% / NA
Free Float	45.8%

Key Changes

(Rs)	Previous	Current
Price Obj.	54.00	48.00
2011E Rev (m)	20,947.7	18,697.1
2012E Rev (m)	24,087.8	9,583.4
2013E Rev (m)	31,066.8	20,579.0
2011E EPS	1.08	1.05
2012E EPS	2.26	1.56
2013E EPS	2.12	2.73

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Refer to important disclosures on page 28 to 30. Analyst Certification on Page 25. Price Objective Basis/Risk on page 25. Link to Definitions on page 25.11016117

iQprofile℠ GVK Power & Infrastructure Ltd.

Key Income Statement Data (Mar)	2009A	2010A	2011E	2012E	2013E
(Rs Millions)					
Sales	4,938	17,740	18,697	9,583	20,579
Gross Profit	1,640	4,471	5,109	3,300	11,031
Sell General & Admin Expense	0	0	0	0	0
Operating Profit	860	3,099	3,262	2,381	7,667
Net Interest & Other Income	(9)	(1,667)	(2,089)	(848)	(3,734)
Associates	NA	NA	NA	NA	NA
Pretax Income	851	1,433	1,172	1,533	3,933
Tax (expense) / Benefit	(100)	(200)	(234)	(492)	(944)
Net Income (Adjusted)	1,064	1,537	1,665	2,468	4,311
Average Fully Diluted Shares Outstanding	1,406	1,579	1,579	1,579	1,579
Key Cash Flow Statement Data					
Net Income	1,064	1,559	1,665	2,468	4,311
Depreciation & Amortization	780	1,371	1,847	919	3,363
Change in Working Capital	(32)	(926)	(2,466)	3,085	(1,686)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(240)	1,534	2,802	1,437	4,819
Cash Flow from Operations	1,571	3,538	3,849	7,909	10,807
Capital Expenditure	(10,551)	(9,260)	(14,126)	(10,953)	(39,703)
(Acquisition) / Disposal of Investments	(1,673)	(12,421)	(754)	(1,433)	(1,772)
Other Cash Inflow / (Outflow)	2,894	551	0	0	0
Cash Flow from Investing	(9,330)	(21,129)	(14,880)	(12,385)	(41,475)
Shares Issue / (Repurchase)	275	7,047	9,360	5,620	0
Cost of Dividends Paid	0	0	0	0	0
Cash Flow from Financing	5,227	20,046	11,858	11,015	24,090
Free Cash Flow	(8,980)	(5,722)	(10,277)	(3,044)	(28,896)
Net Debt	28,236	43,947	48,232	48,453	83,549
Change in Net Debt	9,211	12,581	4,285	221	35,096
Key Balance Sheet Data					
Property, Plant & Equipment	52,091	59,438	71,717	81,750	118,090
Other Non-Current Assets	3,219	19,387	20,141	21,573	23,345
Trade Receivables	643	676	2,219	695	1,399
Cash & Equivalents	1,562	508	1,335	7,873	1,295
Other Current Assets	2,021	3,226	3,854	1,638	2,755
Total Assets	59,536	83,235	99,265	113,530	146,885
Long-Term Debt	29,798	44,455	49,566	56,326	84,844
Other Non-Current Liabilities	2,526	2,677	2,600	2,515	2,422
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	1,339	2,043	1,749	1,094	1,230
Total Liabilities	33,663	49,175	53,915	59,936	88,496
Total Equity	25,873	34,060	45,350	53,594	58,389
Total Equity & Liabilities	59,536	83,235	99,265	113,530	146,885
iQmethod*℠ - Bus Performance					
Return On Capital Employed	1.6%	3.8%	2.9%	1.5%	4.5%
Return On Equity	4.7%	5.6%	4.5%	5.3%	8.2%
Operating Margin	17.4%	17.5%	17.4%	24.8%	37.3%
EBITDA Margin	33.2%	25.2%	27.3%	34.4%	53.6%
iQmethod*℠ - Quality of Earnings					
Cash Realization Ratio	1.5x	2.3x	2.3x	3.2x	2.5x
Asset Replacement Ratio	13.5x	6.8x	7.6x	11.9x	11.8x
Tax Rate (Reported)	11.8%	14.0%	20.0%	32.1%	24.0%
Net Debt-to-Equity Ratio	109.1%	129.0%	106.4%	90.4%	143.1%
Interest Cover	2.6x	1.5x	1.3x	1.9x	1.8x
Key Metrics					

* For full definitions of *iQmethod*℠ measures, see page 27.

Company Description

GVK is one of the India's leading diversified infrastructure developer. In airports, GMR operates India's busiest airport [Mumbai (37% share)] and acquired 29% stake in Bangalore airport. In power, GVK has operating 901MW of gas based power plants. It has 870MW of power plants under construction (540MW coal, 330MW Hydro) and 2.7GW under development. Other business includes 3 road concessions (1 operating, 1 construction and 1 development), coal mines, urban infrastructure and oil & gas.

Investment Thesis

We rate GVK as Buy due to: (1) Assured ROE for 92% of power capacities with fuel cost inflation recoverable (2) profitable airport assets (3) PE infusion at valuation of Rs60bn for power vs prevaling price implies negligible value for others (vs 37% for airport, 16% for roads of SOTP) (4) offers 57% upside at our SOTP based PO of Rs48/sh. Catalyst include Mumbai realty monetization, fuel/debt tie-up for 1600MW capacity, doubling of power capacity by FY13E and ST sale from FY12E.

Stock Data

Price to Book Value	1.1x

Valuation

We rate GVK Power and Infra a Buy with a price objective of Rs48. We use sum-of-the-parts (SOTP) as our valuation methodology because GVK has interests in diverse business areas (airports, power, highways, mining, oil & gas, and urban infrastructure). Our SoTP is based on the DCF to value the infrastructure assets and book value multiple for the regulated power generation assets that provide GVK with an assured RoE. We apply a conglomerate discount of 10% given GVK's inter-company holding structure through a network of subsidiaries and associate companies.

Our SOTP approach…

Only projects meeting stringent criteria & with all clearances included

We have applied stringent criteria to include only those infrastructure assets in the SOTP where financial closure has been achieved, statutory approvals like environmental / forest clearance is obtained and fuel secured.

For instance, in the power portfolio we have valued about 1,771MW (of total capacity envisaged of 4,447MW) individually where projects have completed developmental milestones and are either operating or under construction. Of the three road projects in its portfolio, two are valued individually (one operating and other under construction) while the third is under development. Both airports are valued separately since they are operating. The realty business at the Mumbai International Airport is valued separately since most of the milestones are achieved and is awaiting final approval from MMRDA – the urban planning authority in Mumbai for roll out. We have not valued the real estate at the Bangalore airport as it is in the planning stage.

Varying costs of equity to reflect risk-return profile

We have used varying costs of equity (CoE) for each asset to reflect the inherent risk-return profiles, execution, and operating risks. For operational assets, we use a CoE of 12.5%. Likewise, for assets under construction, CoEs of 13.5-15% are used. For real estate, we use a higher CoE of 17.5%, in line with peers.

…yields a PO of Rs46

Our SoTP-based methodology yields a value of Rs46 (after conglomerate discount of 10%). Our PO is made up of the following elements:

(a) Rs19/sh (39%) for the four power generation assets and one coal mine. We value the operational assets at Rs9.5/sh using an average of DCF (CoE 12.5%) and exit P/BV of 1.5x FY12E; we value the assets under construction (two power projects aggregating 870MW) at Rs7.3/sh using an average of DCF (CoE 13.5%) and exit P/BV of 1.25x FY13E , discounted back to FY12E.

(b) Rs18/sh (37%) for the airport assets. We value Mumbai airport including the realty at Rs14.5/sh; for both airports we use DCF with a CoE of 13.5%;

(c) Rs8/sh (17%) for the two road assets using DCF; and

(d) The remaining Rs9/sh is liquid investments and the cash balance as of September 2010 at book value.

Table 1: SoTP for GVK

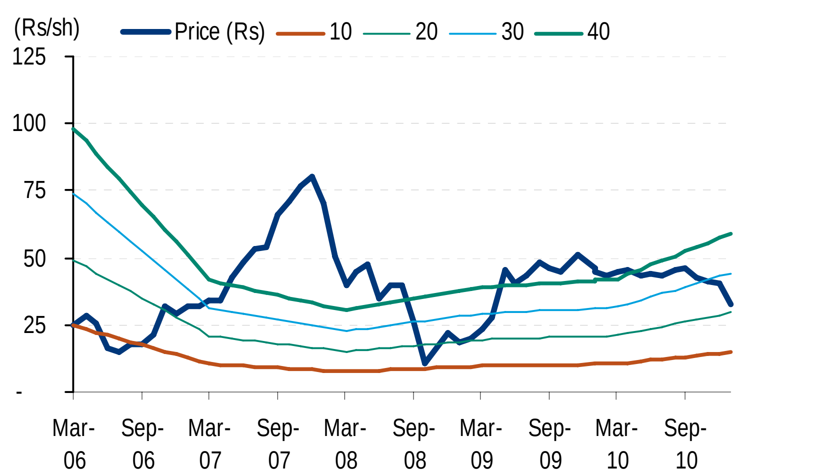
Business	Cost of Equity (%)	Total Value (Rs mn)	% Ownership	Value for GVK (Rs mn)	Value per share (Rs/sh)	Proportionate Share (%)	Methodology
Power		*44,551*		*29,891*	*19*	*39*	
437MW Jegurupadu power (Gas)	12.50%	11,772	75%	8,832	5.6	12	Avg of NPV @ CoE of 12.5% & P/BV 1.5x FY12
464MW Gautami power (Gas)	12.50%	12,946	48%	6,178	3.9	8	Avg of NPV @ CoE of 12.5% & P/BV 1.5x FY12
330MW Alaknanda power (Hydro)	14.50%	7,125	75%	5,346	3.4	7	Avg of NPV @ CoE of 14.5% & P/BV 1.25x FY13
540MW Goindwal Sahib power (Coal)	14.50%	8,211	75%	6,161	3.9	8	Avg of NPV @ CoE of 14.5% & P/BV 1.25x FY13
Tokisud coal mines	15.00%	4,498	75%	3,375	2.1	4	NPV @ CoE of 15%
Airports		*78,874*		*27,826*	*18*	*37*	
Mumbai International Airport	14.50%	40,795	37%	15,094	9.6	20	NPV @ CoE of 14.5%
Real estate at Mumbai airport	17.50%	21,118	37%	7,813	4.9	10	NPV @ CoE of 17.5%
Bangalore International Airport	13.50%	16,961	29%	4,919	3.1	6	NPV @ CoE of 13.5%
Roads		*12,501*		*12,501*	*8*	*16*	
Jaipur Kishangarh road	12.50%	10,250	100%	10,250	6.5	14	NPV @ CoE of 12.5%
Kota Deoli road	14.50%	2,251	100%	2,251	1.4	3	NPV @ CoE of 14.5%
Investments + Cash		*14,054*	*100%*	*14,054*	*9*	*19*	*At book value (incl PE infusion)*
Sub-Total				84,273	53	111	
Less: Conglomerate discount @ 10%				8,427	5.3	11	
Total				75,846	48	100	

Source: BofA Merrill Lynch Global Research

Trading band

GVK has a limited trading history since it was listed in Feb’06. Post 2008, the stock corrected quite sharply and has gradually moved towards the lower end of its trading bands. Even now it is trading in the mid-quartile of its historical P/E trading band (P/E of 19x FY12E).

Chart 1: 1-year forward P/E band

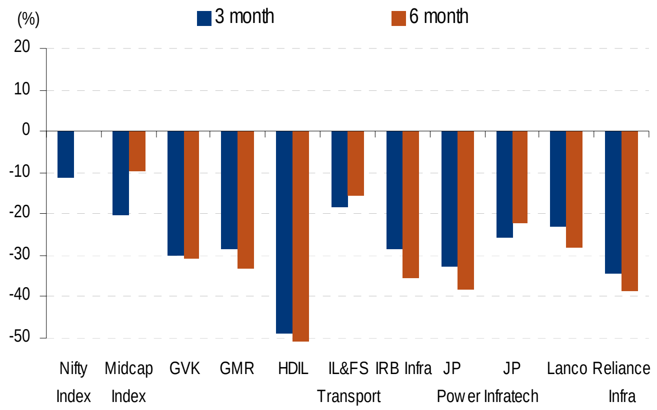


Source: BofA Merrill Lynch Global Research, Bloomberg, Company data

GVK has underperformed market / outperformed peers

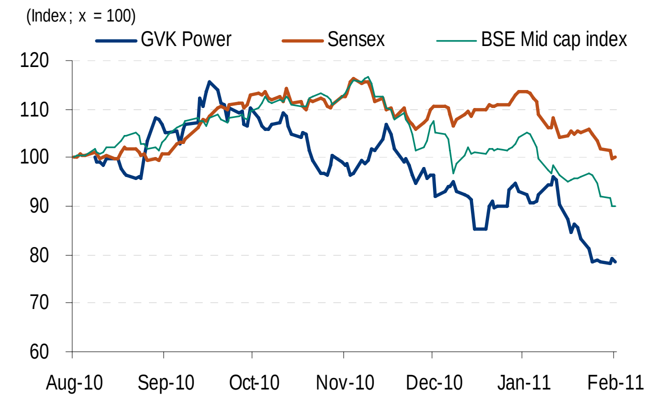
GVK has underperformed the Sensex and mid-cap index by 31% and 21%, respectively, in the past six months. However, it has significantly outperformed some of the other infrastructure companies in India.

Chart 2: GVK's stock performance vs infrastructure peers



Source: BofA Merrill Lynch Global Research, Bloomberg

Chart 3: GVK's stock performance vs market in last 6m



Source: BofA Merrill Lynch Global Research, Bloomberg

Comparative valuations

All the infrastructure firms in India have grown in their own way given their differing asset and risk profiles. Therefore they are not easily comparable. But on valuation multiples, GVK is trading at a P/E of 19x FY12E and P/BV of 0.9x FY12E – at lower prices than Indian peers.

Table 2: Comparative valuation for infrastructure peers

Company Name	BofAML Ticker	BofAML rating	Market Cap (US$ mn)	P/E (x)			EV/EBITDA (x)			P/BV (x)			RoE (%)		
				FY11	FY12E	FY13E	FY11	FY12E	FY13E	FY11	FY12E	FY13E	FY11	FY12E	FY13E
GMR Infra	GMRLF	NEUTRAL	3,253	na	64	17	24	18	12	1.6	1.6	1.4	(2)	2	9
GVK Power	GVPWF	Buy	1,047	29	19	11	20	31	9	1.1	0.9	0.9	4	5	8
Adani Enterprises	ANIEF	BUY	14,043	22	12	10	19	10	7	3.5	2.8	2.2	24	26	23
Jaiprakash Associates	JPRKF	BUY	3,766	16	15	12	11	9	7	1.8	1.7	2	12	11	13
Larsen & Toubro	LTOUF	BUY	20,898	22	17	13	16	13	10	3.9	3.3	2.7	20	21	22
Reliance Infrastructure	RCTDF	BUY	4,001	13	11	10	9	8	6	1.0	1.0	0.9	9	9	9
Average				20	23	12	16	15	9	2.2	1.9	1.6	11	12	14
Average (excl GVK)				18	24	13	15	11	9	2	2	2	12	14	15

Source: BofA Merrill Lynch Global Research

In Table 3 we provide a comparative valuation of airports that are part of BofA Merrill Lynch Global Research's global coverage universe. Most are trading in an EV/EBITDA band of 8-12x FY12E, with the average being 10x. Likewise, the P/BV largely is in a band – 1.1-1.7x FY12E – with the average at 1.4x. In India, none of the airports is listed independently and GVK manages all its airports through a network of unlisted companies. Our valuation of GVK's airport division of 7.3x EV/EBITDA FY12E is at a discount to global peers. This takes into account that its airports are still expanding and realty yet to commence.

Table 3: Comparative valuation of airports

Company Name	BofAML Ticker	BofAML rating	Market Cap (US$ mn)	P/E (x) FY11	P/E (x) FY12E	P/E (x) FY13E	EV/EBITDA (x) FY11	EV/EBITDA (x) FY12E	EV/EBITDA (x) FY13E	P/BV (x) FY11	P/BV (x) FY12E	P/BV (x) FY13E	RoE (%) FY11	RoE (%) FY12E
Asian airports														
Airports of Thailand	AIPBF	UNDERPERFORM	1,538	34	15	12	7	6	7	0.6	0.6	0.6	1.9	4.3
Beijing Cap Airport	BJCHF	BUY	2,785	37	22	16	13	12	10	1.4	1.4	1.3	3.9	6.3
Shanghai Intl Airport	XAISF	BUY	4,153	23	20	17	15	12	10	2.0	1.8	1.7	8.8	9.4
Hainan Meilan	HMCTF	BUY	660	19	17	15	12	10	9	2.1	2.0	1.9	11.4	12.1
Australian airports														
MAP Group	MGPYF	BUY	5,633	28	22	17	13	13	11	1.1	1.1	1.1	3.7	4.9
Mexican airports														
ASR	ASR	BUY	135	17	14	12	9	8	7	1.4	1.3	1.2	8.5	9.6
OMA	OMAB	UNDERPERFORM	65	36	16	12	9	7	6	1.3	1.3	1.3	3.7	8.2
PAC	PAC	NEUTRAL	184	24	20	17	11	10	9	1.0	1.0	1.0	4.5	5.1
European airports														
ADP Aeroports de Paris	AEOPF	UNDERPERFORM	8,443	21	20	19	9	9	9	1.8	1.7	1.7	8.8	8.8
Frapport	FPRUF	UNDERPERFORM	6,606	29	23	22	11	11	10	1.8	1.8	1.7	6.5	7.9
Average				27	19	16	11	10	9	1.5	1.4	1	6	8

Source: BofA Merrill Lynch Global Research

Table 4 shows a comparative valuation for power utilities that are part of BofA Merrill Lynch Global Research's Asian/Indian coverage universe. Indian utilities trade at an average P/E of 15x and P/BV of 1.9x for FY12E. This is a premium to Asian peers as Indian utilities are vertically integrated, enjoy fuel security and are beneficiary of significant demand-supply gap, thereby improving medium-term RoEs. While GVK's power business is not listed, our valuation of this business implies P/E of 15x FY13E.

Table 4: Comparative valuations of power

Company Name	BofAML Ticker	BofAML rating	Market Cap (US$ mn)	P/E (x) FY11	P/E (x) FY12E	P/E (x) FY13E	EV/EBITDA (x) FY11	EV/EBITDA (x) FY12E	EV/EBITDA (x) FY13E	P/BV (x) FY11	P/BV (x) FY12E	P/BV (x) FY13E	RoE (%) FY11	RoE (%) FY12E
Indian utilities														
Adani Power	XADPF	BUY	5,947	31	9	11	36	11	8	4.1	2.8	2.2	14.2	38.0
Gujarat Industrial Power	GUJIF	NEUTRAL	295	8	7	NA	6	5	NA	1.0	0.9	NA	13.0	13.3
Jaiprakash Power	XJSHF	BUY	1,974	69	19	23	36	14	16	2.6	2.3	2.1	3.8	12.5
Lanco	LNIFF	BUY	2,554	22	20	13	8	6	7	3.0	2.6	2.2	14.9	13.8
NTPC Ltd	NTHPF	UNDERPERFORM	32,476	16	15	13	14	12	10	2.2	2.0	1.9	14.3	14.2
Neyveli Lignite Ltd	NEYVF	NEUTRAL	3,767	14	12	12	11	8	7	1.6	1.4	1.3	11.7	12.0
Reliance Infrastructure	RCTDF	BUY	4,001	13	11	10	9	8	6	1.0	1.0	0.9	8.6	9.1
Tata Power	XTAWF	NEUTRAL	6,325	20	23	NA	12	12	NA	2.3	2.1	NA	11.8	9.4
Average - India				24	15	14	16	9	9	2.2	1.9	2	12	15
Asian utilities														
China Power	CPWIF	NEUTRAL	1,239	12	7	6	12	10	9	0.6	0.6	0.5	5.0	8.1
CR Power	CRPJF	BUY	8,479	9	5	5	9	6	5	1.3	1.1	0.9	15.4	22.4
CLP Holdings	CLPHF	UNDERPERFORM	19,872	14	13	13	10	10	9	1.9	1.8	1.7	13.6	14.0
Datang Intl	DIPGF	NEUTRAL	5,571	16	8	7	12	9	8	1.0	0.9	0.8	5.9	11.2
HKE	HGKGF	UNDERPERFORM	13,737	14	14	14	15	16	15	1.9	1.8	1.7	13.8	12.9
Huadian	HPIFF	BUY	1,674	19	8	7	14	12	10	0.7	0.7	0.6	3.9	8.4
Huaneng Power	HUNGF	BUY	9,294	17	12	11	10	9	9	1.1	1.1	1.0	6.5	9.1
Tenaga Nasional	TNABF	NEUTRAL	10,896	11	12	NA	5	5	NA	1.1	1.0	NA	9.7	8.6
EGCOMP	EYGGF	BUY	1,773	8	9	NA	14	15	NA	0.9	0.9	NA	11.9	10.5
Glow Energy	GWEYF	UNDERPERFORM	1,907	12	8	NA	13	7	NA	1.6	1.4	NA	14.0	19.1
KEPCO	KEPLF	BUY	16,457	13	7	NA	7	6	NA	0.4	0.3	NA	2.7	4.7
Average - Asia				13	10	9	11	9	9	1.1	1.0	1	9	12

Source: BofA Merrill Lynch Global Research

Sensitivity and risk analysis

While many parameters could affect the GVK's financials, we have performed the sensitivity analyses on the following key variables to gauge their impact on the firm's earnings and our price objective (Refer to Table 5).

Table 5: Sensitivity analysis - % change vs base case estimates

Parameters	FY11E		FY12E		FY13E		PO
	Sales	EPS	Sales	EPS	Sales	EPS	
Trading tariff - Higher by Rs1/unit	-	-	(3)	(17)	(1)	(10)	(2)
Trading tariff - Lower by Rs1/unit	-	-	3	17	1	10	2
Gas price - Lower by USD1/mmbtu	(11.0)	1.7	(8.4)	6.0	(3.8)	3.4	0.9
Gas price - Higher by USD1/mmbtu	11.0	(1.7)	8.4	(6.0)	3.8	(3.4)	(0.9)
Interest rates - Lower by 100 bps	-	8.7	-	4.2	(1.4)	2.9	0.9
Interest rates - Higher by 100 bps	11.0	(1.7)	8.4	(6.0)	3.8	(3.4)	(0.9)
PLF - Higher by 100 bps	2.2	9.9	1.1	5.2	0.7	3.0	1.0
PLF - Lower by 100 bps	(1.0)	(2.1)	(1.1)	(2.6)	(0.7)	(1.5)	(0.6)
Mumbai realty monetization faster by 1 mn sf in FY12-13E	-	-	-	(0.5)	-	1.5	2.0
Mumbai realty monetization slower by 1 mn sf in FY12-13E	-	-	-	0.2	-	(2.5)	(2.7)
Mumbai realty monetization at 10% higher value	-	-	-	(0.0)	-	0.2	1.6
Mumbai realty monetization at 10% lower value	-	-	-	0.0	-	(0.2)	(1.6)
Road traffic - Higher by 10%	0.6	6.3	1.3	4.0	0.7	2.6	2.8
Road traffic - Lower by 10%	(0.6)	(6.3)	(1.3)	(4.0)	(0.7)	(2.6)	(2.6)
Toll rate - Higher by 100 bps	-	0.4	0.1	0.5	0.1	0.5	2.3
Toll rate - Lower by 100 bps	-	(0.5)	(0.1)	(0.5)	(0.1)	(0.5)	(2.0)

Source: BofA Merrill Lynch Global Research

- **Trading tariffs:** If the short-term trading tariff realization is Rs1/unit lower than our base case estimates, earnings could decline 17% in FY12E and 10% in FY13E while the PO could fall 2%. However, if the realization is Rs1/unit higher, earnings could go up 17% in FY12E and PO by 2%.

- **Fuel price:** If the price of gas used in power plants is US$1/mmbtu higher than our base case, earnings/PO could fall 6% in FY12E and 1%, respectively.

- **Interest rate:** If the interest rate on loans availed by GVK increases 100bp vs our base estimates, the earnings could potentially decline 6% in FY12E and 3% in FY13E while the PO could fall 1%.

- **Plant load factor (PLF):** If the PLF of power plants rises 100bp vs our base case, earnings could be 5% higher in FY12E and the PO would rise 1%. But if the PLF falls 100bp vs our base case, earnings could decline 3% in FY12E and the PO by 1%.

- **Road traffic:** If vehicular traffic on the two road projects rises/falls by 10%, earnings/PO could rise/fall by 4% and 3% respectively in FY12E.

- **Toll rate:** If the toll rate on the two road projects falls 100bp vs our base case estimates, earnings could fall <1% in FY12-13E but PO could decline 2%.

- **Mumbai realty monetization:** If the realty monetization is faster by 1 mn sf in FY12-13E vs our base case, then earnings could rise <2% in FY13E but PO could rise roughly 2%. Likewise, if the value of realty monetization is 10% below our base-case estimates, then the earnings could decline 3% in FY13E and PO could go roughly 2% lower.

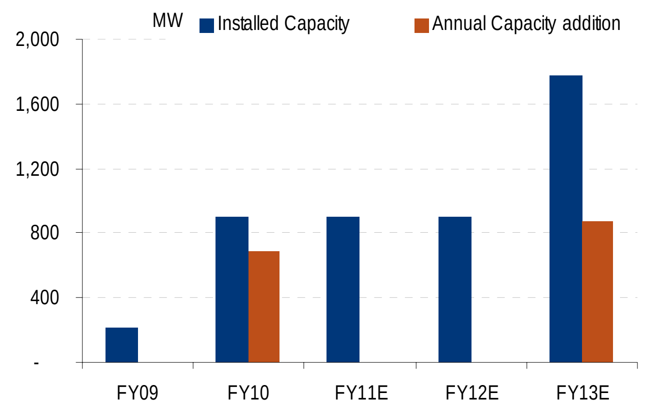
Power: A conservative story

Expansion in power generation

The existing operational capacity of GVK is 901MW comprises two gas-based plants located in Andhra Pradesh (Jegurupadu and Gautami). It also has 870MW of capacity under construction spread over two power plants (one hydro and one gas). With this, GVK would transform itself from a 100% gas-based IPP to a diversified fuel mix-based IPP (51:30:19 gas:coal:hydro) in FY13E.

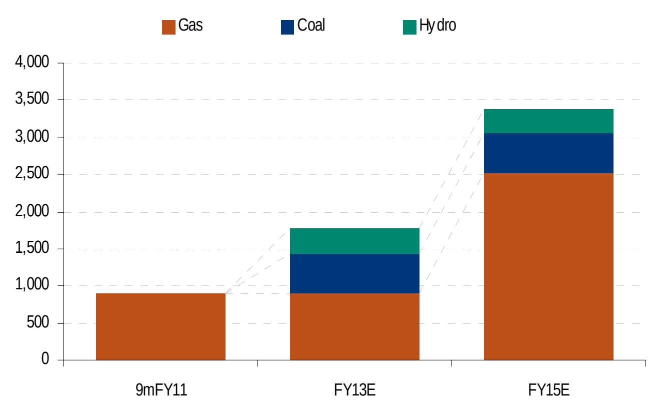
Further, it has 2,676MW of power capacity at various stages of development spread over four power plants (two hydro and two gas) expected to become operational over 4-6 years. While the diversification into other fuels is largely greenfield with greenfield captive coal mines, the gas-based capacity expansion in FY14-15 is brownfield in nature.

Chart 4: GVK's power capacity growth



Source: BofA Merrill Lynch Global Research, Company data

Chart 5: GVK's fuel mix



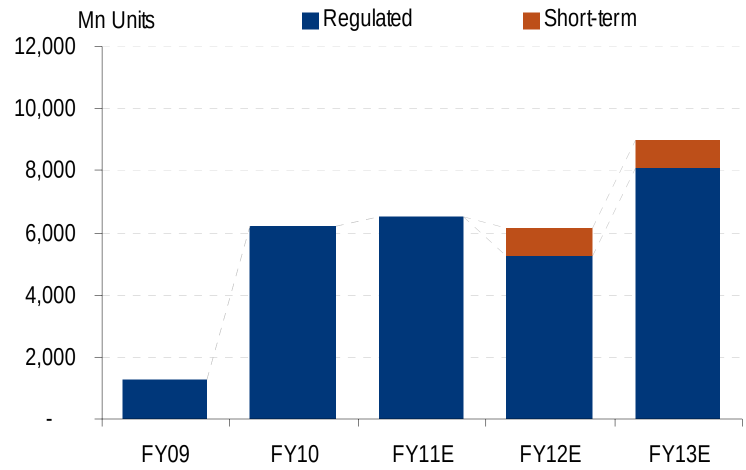
Source: BofA Merrill Lynch Global Research, Company data

Sales volume CAGR

Based on the capacity addition estimates, plant load factor (ranging from 75% to over 85%), auxiliary consumption (around 2.5% to 9%), we estimate that the sales volume would increase from 6.2bn units in FY10 to 9bn units in FY13E, implying a 13% CAGR.

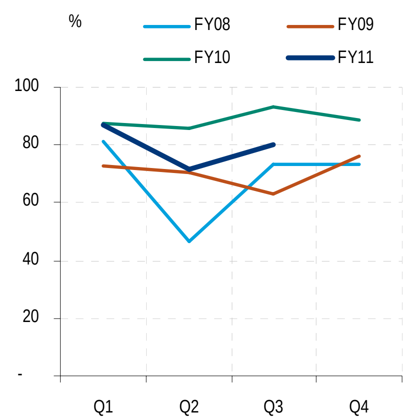
Unlike its private-sector power-sector peers, GVK would sell 92% of its power on regulated long-term contracts from FY13E. In FY11E, 100% of power is sold on long-term contracts.

Chart 6: GVK's sales volume mix



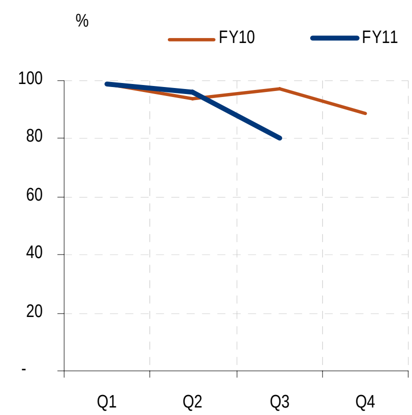
Source: BofA Merrill Lynch Global Research, Company data

Chart 7: PLF – Jegurupadu Phase I plant



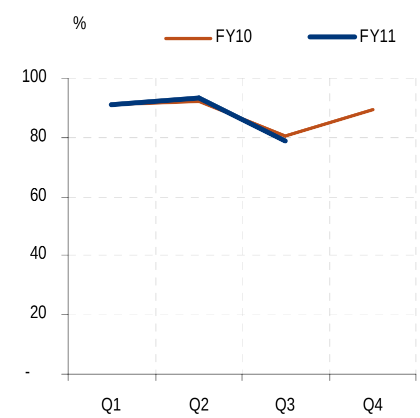
Source: BofA Merrill Lynch Global Research, Company data, Central Electricity Authority

Chart 8: PLF – Jegurupadu Phase II plant



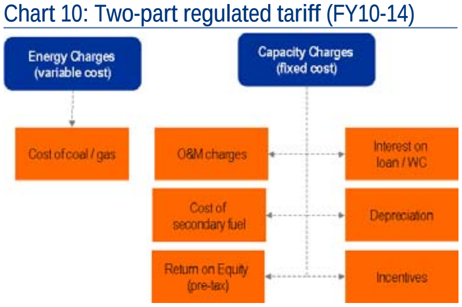
Source: BofA Merrill Lynch Global Research, Company data, Central Electricity Authority

Chart 9: PLF – Gautami plant



Source: BofA Merrill Lynch Global Research, Company data, Central Electricity Authority

Chart 10: Two-part regulated tariff (FY10-14)



Source: BofA Merrill Lynch Global Research, Central Electricity Regulatory Commission

Predominantly two-part tariff is applicable

As per the National Tariff Policy, a two-part tariff structure comprising capacity and energy charges (also referred to as cost plus approach) is to be adopted. ROE is the part of 'capacity charge'. According to the norms to determine tariff fixed by the Central Electricity Regulatory Commission (CERC), ROE is at 15.5% (after tax). But ROE could be improved to exceed 20% by operating the power plant efficiently vis-à-vis the operating norms prescribed by the CERC.

About 20% of the power from JP-II and Gautami power plant is assumed to be sold in the short-term market from FY12E. All the hearings have been completed and the final order is awaited. We assume a short-term tariff of Rs4.25/kWh in FY12/13E through PTC India, Rs3.5/kWh in FY14E, followed by 3% escalation a year with a maximum tariff of Rs6/kWh.

Key assumption for power

Table 6 gives a snapshot of the key assumptions for various power plants.

Table 6: Key assumptions for operating/under-construction power assets

	FY10	FY11E	FY12E	FY13E
JP I and JP II (437MW)				
PLF (%) - Phase I	90	80	80	80
PLF (%) - Phase II	95	88	80	80
Sales volume (Mn units)	3,343	3,136	2,986	2,986
Avg tariff (Rs/unit)	2.5	2.5	2.6	2.6
Fuel cost (Rs/unit)	1.6	1.7	1.6	1.6
Fixed cost (Rs/unit)	0.7	0.8	0.8	0.8
Gautami Power (464MW)				
PLF (%)	89	85	80	80
Sales volume (Mn units)	2,865	3,369	3,170	3,170
Avg tariff (Rs/unit)	2.7	2.8	3.0	3.0
Fuel cost (Rs/unit)	1.8	1.8	1.7	1.7
Fixed cost (Rs/unit)	0.8	0.8	0.9	0.9
Goindwal Power (540MW)				
PLF (%)				75
Sales volume (Mn units)				1,211
Avg tariff (Rs/unit)				3.9
Fuel cost (Rs/unit)				1.7
Fixed cost (Rs/unit)				2.0
Alaknanda hydro power (330MW)				
PLF (%)				71
Sales volume (Mn units)				1,559
Avg tariff (Rs/unit)				3.4
Fixed cost (Rs/unit)				2.9

Source: BofA Merrill Lynch Global Research, Company data

Summary forecast for power

Based on our assumptions, Table 7 gives a snapshot of the summary forecasts for various power plants.

Table 7: Summary forecast for operating/under-construction power assets

	FY10	FY11E	FY12E	FY13E
JP I and JP II (437MW)				
Sales	8,209	7,731	7,814	7,780
Net Income (share of GVK)	254	113	630	696
Networth	6,236	6,320	6,792	7,315
RoE	4	2	9	10
Gautami Power (464MW)				
Sales	7,810	9,559	9,476	9,527
Net Income (share of GVK)	167	405	486	547
Networth	6,869	7,202	7,711	8,284
RoE	4	9	13	14
Goindwal Power (540MW)				
Sales				4,666
Net Income (share of GVK)				284
Networth				10,712
RoE				3
Alaknanda hydro power (330MW)				
Sales				5,360
Net Income (share of GVK)				899
Networth				7,499
RoE				12

Source: BofA Merrill Lynch Global Research, Company data

Airport: Riding on strong traffic wave

GVK has two operational airports, Mumbai and Bangalore. While the Mumbai airport was won by GVK through competitive bidding, it acquired a 29% stake in the operational Bangalore airport in 2HFY10.

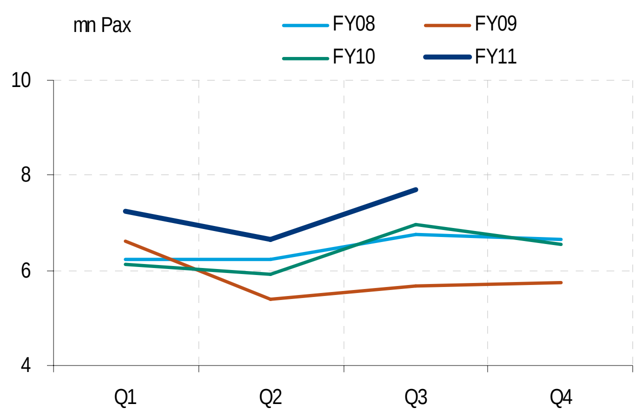
Current passenger traffic

Chart 11 and Chart 12 give the quarterly passenger traffic at the Mumbai and Bangalore airport, respectively.

At Mumbai airport, the average quarterly passenger traffic has moved upward in 9MFY11 to around 6.9mn passenger/quarter vs 6.4mn in FY10 and 5.9mn in FY09.

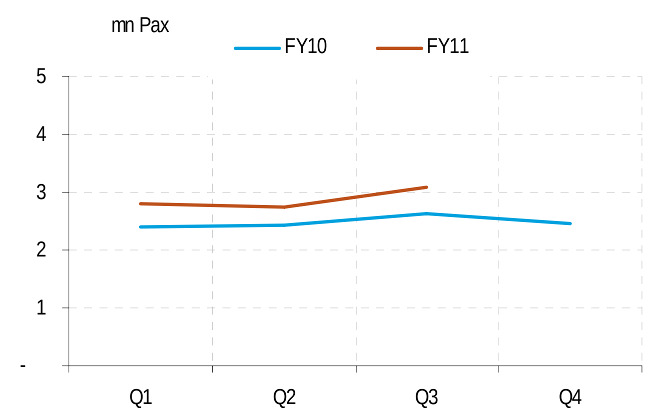
Likewise, at Bangalore airport the average quarterly passenger traffic has moved upward in 9MFY11 to around 2.8mn passenger/quarter vs 2.5mn in FY10.

Chart 11: Passenger Traffic – Mumbai airport



Source: BofA Merrill Lynch Global Research, Company data

Chart 12: Passenger Traffic – Bangalore airport

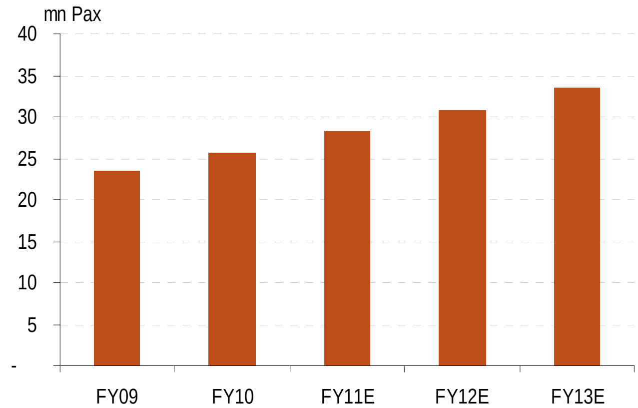


Source: BofA Merrill Lynch Global Research, Company data

Strong traffic growth to continue – 9-18% during FY11-13E

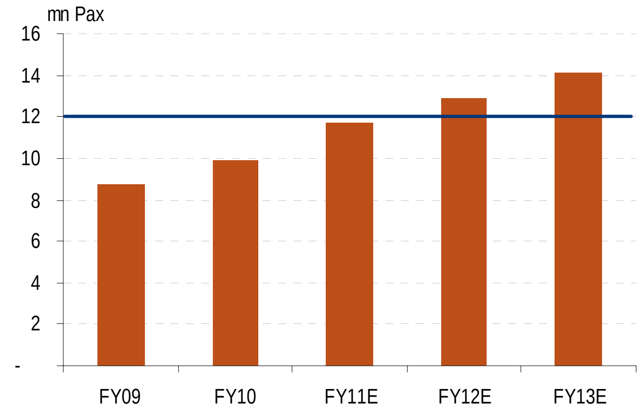
At Mumbai airport, the passenger traffic is estimated at 28mn in FY11E. We estimate 9% growth in passenger traffic at Mumbai airport during FY12-13E. Likewise, the Bangalore airport is estimated to cross 100% capacity utilization in FY12E.

Chart 13: Mumbai airport – Traffic



Source: BofA Merrill Lynch Global Research, Company data

Chart 14: Bangalore airport – Traffic and capacity

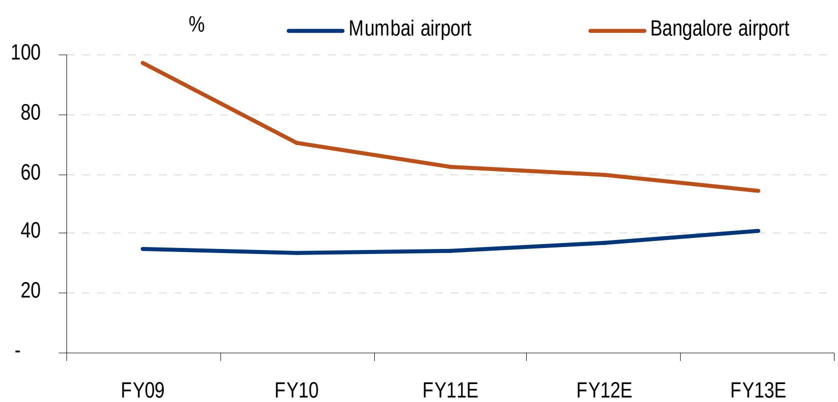


Source: BofA Merrill Lynch Global Research, Company data

Fixed costs: Flat to declining

In Mumbai airport, as the modernization cum expansion is going on, fixed costs would gradually rise to 40% of revenue by FY13E. Bangalore airport commenced operations in FY09 and thus high fixed costs (interest + depreciation) yielded loss in FY09. However, as traffic is ramping up gradually and levy of UDF, fixed costs as a percentage of sales is estimated to decline continually and fall below 55% by FY13E. The expansion of Bangalore airport is expected to be completed in 2HFY13, but high capacity utilization would partially offset the high fixed costs during FY14-16E.

Chart 15: Fixed costs as a percentage of revenues



Source: BofA Merrill Lynch Global Research, Company data

Mumbai airport: Assumptions and output

We assume that the ongoing Mumbai airport capacity expansion would be completed in early FY14. The estimated capex of Rs98bn would be capitalized partially every year to even out the impact of huge fixed-cost capitalization in FY14E. Thus, till FY13, the airport would benefit from operating leverage owing to high capacity utilization. We have not assumed that the CPI-X formula for the determination of aero tariffs would be applied during the forecast period by the airport regulator (Airports Economic Regulatory Authority or AERA). Table 8 gives a snapshot of the UDF (user development fee) / ADF (airport development fee) applicable at various airports in India as approved by the regulator.

Table 8: User development fee across various airports (Rs/departing passenger)

Airport	Domestic	International	Effective date of levy
Amritsar	150	910	15-Jun-10
Trichy	150	360	15-Jun-10
Mangalore	150	625	1-Sep-10
Udairpur	150	na	15-Jun-10
Vishakhapatnam	150	na	15-Jun-10
Jaipur	150	1000	11-Feb-10
Delhi	200	1300	1-Mar-09
Mumbai	100	600	1-Apr-09
Bangalore	260	1070	16-Jan-09
Hydreabad	375	1000	22-Sep-08
Hydreabad (revised)	430	1700	1-Nov-10

Source: Ministry of Civil Aviation, Airports Economic Regulatory Authority

We assume passenger traffic would rise steadily from around 26mn passengers to 32mn by FY13E implying a CAGR of about 8%. Net profit is estimated to remain flattish in FY11-13E. Note that the airport development fee levied on passengers is a capital receipt and does not flow through income statement but flows directly to fund capex.

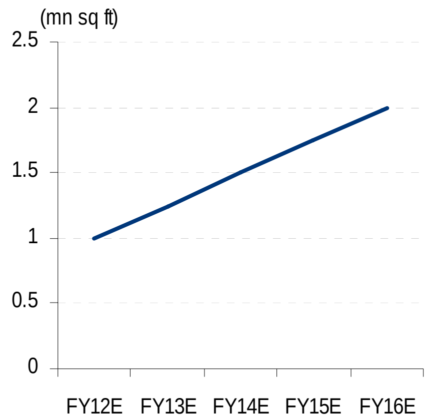
Table 9: Summary financials for Mumbai airport

Rs mn	FY10	FY11E	FY12E	FY13E
Passenger traffic (mn)	26	28	31	33
Aircraft traffic ('000 nos)	230	241	261	281
Cargo handled (mnt)	0.6	0.7	0.8	0.8
Revenue	9,897	11,650	13,306	15,219
- Aero revenue (%)	41	37	38	38
- Non-aero revenue (%)	39	37	36	34
- Cargo revenue (%)	20	26	27	27
O&M expenses	2,909	2,619	2,750	3,025
Depreciation	793	1,096	1,509	2,511
Interest	389	718	1,091	1,481
Net profit	1,328	1,831	1,898	1,570
Net profit (GVK share)	491	678	702	581
Networth	10,191	14,022	17,920	21,491
Net debt	19,511	26,352	29,078	22,604
Net fixed assets (incl CWIP)	32,465	40,310	51,388	54,063
RoE (%)	13	13	11	7
Cash flow from operations	3,808	3,682	11,819	13,925

Source: BofA Merrill Lynch Global Research, Company data

Mumbai real estate: Of the total 1,976 acres of airport land, GVK is entitled to develop upto 10%, or 197.6 acres, for commercial real estate like offices, retail, hospitality, etc. GVK awarded the contract to clear encroachments on over 276 acres of land (around 80,000 hutments) to Housing Development and Infrastructure Ltd (HDIL) in October 2007. As part of the contract, HDIL would rehabilitate the slums at its own cost. GVK would give developmental rights over 65 acres of land to HDIL on contract completion. Assuming the entire 65 acres is part of GVK's overall 197.6 acres of real estate development, GVK would have the rights to develop the balance of around 133 acres sufficient for about 20mn sq ft of total real estate to be developed over the next 10 years.

Chart 16: Phasing of Mumbai realty monetization



Source: BofA Merrill Lynch Global Research

GVK has proposed a phasewise development of real estate and is awaiting the final approval from the Mumbai Metropolitan Region Development Authority (MMRDA) for development plan. The initial phase of development of ~8.6 mn sf over the next 5-6 years is expected to commence from 2QFY12E onwards once the approval is in place.

We have assumed that the real estate would be monetized through a combination of capital (upfront refundable deposits) and revenue receipts (model similar to that adopted by GMR, another infrastructure developer operating Delhi airport) at a value of Rs10,000/sf in FY12E with 5% escalation. The upfront deposits would be deployed for part funding of the Mumbai airport capex expansion to the extent of Rs16bn and part pre-payment of the debt raised for the airport expansion to the extent of Rs27bn.

Bangalore airport: Assumptions and output

The next phase of expansion at the Bangalore airport expansion is assumed to be completed by end-FY13E. This would increase passenger capacity to 17mn at an estimated capex of Rs10bn and the impact of higher capitalization on earnings would be seen from FY14E. During FY12-13E, we estimate 10% growth in the passenger traffic on a base of 18% growth in FY11E. The prevailing UDF of Rs236 and Rs970 for the departing domestic and international passenger is assumed to be applicable till FY14E (for a period of five years).

Table 10: Summary financials for Bangalore airport

Rs mn	FY10	FY11E	FY12E	FY13E
Passenger traffic (mn)	10	12	13	14
Aircraft traffic ('000 nos)	105	111	123	135
Cargo handled (mnt)	0.2	0.2	0.2	0.3
Revenue	4,647	5,383	6,079	6,871
- Aero revenue (%)	63	62	61	60
- Non-aero revenue (%)	33	33	33	34
- Cargo revenue (%)	4	5	5	6
O&M expenses	1,451	1,658	1,863	2,094
Depreciation	1,338	1,338	1,338	1,338
Interest	1,335	1,357	1,219	1,036
Net profit	777	1,085	1,376	1,970
Net profit (GVK share)	26	315	399	571
Networth	3,057	4,142	4,268	4,987
Net debt	13,354	10,667	14,193	16,873
Net fixed assets (incl CWIP)	17,402	15,836	19,498	23,161
RoE (%)	25	26	32	39
Cash flow from operations	2,715	2,458	2,724	3,571

Source: , Company data, BofA Merrill Lynch Global Research

GVK acquired 29% stake in Bangalore airport including real estate at Rs11.7bn implying a value of Rs40.4bn for the entire airport. In our SOTP, the airport is valued using DCF at COE of 13.5% of Rs17bn. We have not included the value of real estate in our SOTP as it is in early stages of development. At the acquisition cost less value of airport, the real estate value is estimated at Rs23.4bn or Rs 45mn/acre.

Roads

Jaipur-Kishangarh road project

Table 11 gives the traffic estimates and summary financials for the only operational Jaipur Kishangarh road project. We assume a 6% increase in traffic growth in FY12-13E and a 5.5% increase in the average toll rates based on WPI estimates (based on our research).

Table 11: Summary financials for Jaipur Kishangarh road project

Rs mn	FY10	FY11E	FY12E	FY13E
Traffic (PCU/day)	62,357	61,733	65,437	69,363
Toll rate (Rs/PCU)	75	81	85	90
Revenue	1,707	1,817	2,041	2,285
Net profit	590	737	769	911

Source: BofA Merrill Lynch Global Research, Company data

Kota-Deoli road project

The Kota-Deoli road project is expected to become operational by 2QFY14E. In our SOTP, we have valued this asset on DCF at COE 14.5% giving a value of Rs2.25bn – 6% lower than initial equity investment of Rs2.4bn incurred on the project. We have assumed an initial traffic of around 27,000 PCUs/day and a base toll rate of Rs135/PCU.

Consolidated financial forecast

Based on these assumptions, we estimate GVK's consolidated net revenues would reach Rs20.6bn by FY13E, implying a CAGR of 5% in FY10-FY13E. Note that the revenues are lower both the airports and the Gautami power plant (from FY12E) are consolidated on an "associate" basis and not on a line-by-line basis. Accordingly, the consolidated balance sheet does not reflect the full consolidation of the two airports and the Gautami power plant. Had this projects being included, the consolidated revenue would have been Rs53.2bn by FY13E implying a CAGR of 16% during FY10-13. The consolidated recurring net profit after minority interest/associates would go up to Rs4.3bn by FY13E, implying a CAGR of 41% in FY10-FY13E.

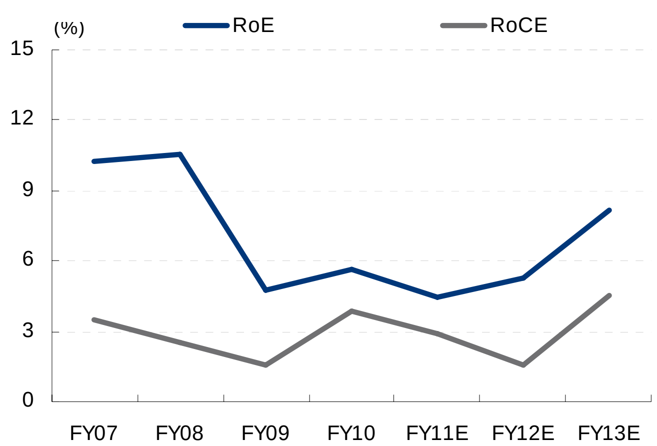
Table 12: Consolidated income statement

	FY09	FY10	FY11E	FY12E	FY13E
Income from operations	4,938	17,740	18,697	9,583	20,579
Total operating expenses	3,298	13,270	13,588	6,284	9,549
EBITDA	1,640	4,471	5,109	3,300	11,031
Depreciation	780	1,371	1,847	919	3,363
EBIT	860	3,099	3,262	2,381	7,667
Interest Expenses	334	2,085	2,537	1,280	4,335
Other Income	325	351	448	432	601
Exceptional gains / (losses)	-	67	-	-	-
Profit before tax	851	1,433	1,172	1,533	3,933
Provision for tax	100	200	234	492	944
Net income	751	1,232	938	1,041	2,989
Minority interests	3	191	265	157	484
Share of profits of Associates	316	517	992	1,583	1,806
Extraordinary items - income / (Exp)	12	-	-	-	-
Net profit after MI /associates	1,076	1,559	1,665	2,468	4,311
Adjusted PAT after MI	1,064	1,537	1,665	2,468	4,311

Source: BofA Merrill Lynch Global Research, Company data

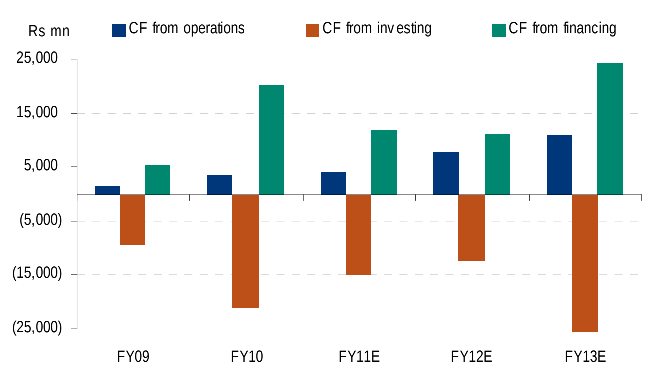
ROE would rise from 6% in FY10 to 8% in FY13E and net debt:equity would be over 1.1x by FY13E, much lower than peers as the two airports and power is consolidated on associate accounting basis.. However, RoCE would remain below 5% during the forecast period. CFO would grow from Rs3.5bn in FY10 to Rs10.8bn in FY13E, implying a CAGR of 45%.

Chart 17: ROE and RoCE



Source: BofA Merrill Lynch Global Research, Company data

Chart 18: Consolidated cash flow generation



Source: BofA Merrill Lynch Global Research, Company data

Table 13: Consolidated Balance Sheet

	FY09	FY10	FY11E	FY12E	FY13E
Equity capital	1,696	1,580	1,579	1,579	1,579
Reserves & surplus	21,533	29,980	41,005	49,093	53,403
Minority interests	2,644	2,500	2,765	2,923	3,407
Shareholders funds (incl Minority)	25,873	34,060	45,350	53,594	58,389
Secured loans	28,686	44,305	48,891	56,223	81,916
Unsecured loans	1,111	150	675	103	2,928
Borrowings	29,798	44,455	49,566	56,326	84,844
Deferred Income	1641	1787	1710	1625	1531
Deferred tax liability	885	890	890	890	890
Sources of funds	58,197	81,191	97,516	112,436	145,655
Gross block	21,269	48,411	46,524	50,590	94,442
Depreciation	7,680	8,928	10,775	11,694	15,057
Net block	13,590	39,483	35,749	38,895	79,384
Capital work in progress	38,502	19,955	35,967	42,855	38,706
Total Fixed Assets	52,091	59,438	71,717	81,750	118,090
Investments	3,214	19,382	20,136	21,568	23,340
Net current assets	2,887	2,367	5,659	9,112	4,220
Uses of funds	58,197	81,191	97,516	112,436	145,655

Source: BofA Merrill Lynch Global Research, Company data

Annexure A: GVK's portfolio of infrastructure assets

GVK is a diversified infrastructure company with businesses across airports, power, highways, oil & gas and urban infrastructure, etc. Of these businesses, airports, power and highways are the largest and discussed separately in each of the following sections.

Airports (two domestic operational and two international under development)

GVK has two operational airports: Mumbai and Bangalore. While Mumbai airport was won through the bidding process, Bangalore airport was acquired. This compares with its nearest competitor GMR, which has the three operational airports at Delhi, Hyderabad and Sabiha Gokcen in Turkey and one airport under construction in the Maldives.

The privatization process for the Mumbai and Delhi airports was carried out simultaneously and GVK and GMR, respectively, emerged as the winning bidders. Subsequently, they signed the OMDA (Operation Management and Development Agreement) along with other agreements and took over airport operations in May 2006. A brief comparative assessment of Mumbai vs Delhi airport is given below.

Table 14: Comparison between Delhi vs Mumbai airport

Parameters	Units	Delhi airport	Mumbai airport
Majority equity ownership	%	54 (GMR)	37 (GVK)
Concession period	years	30 + 30 extension	30 + 30 extension
Concession start		May'07	May'07
Revenue share	%	45.99	38.70
Total land area	acres	5,500	1,976
Property development	acres	250 acres	197.6 (20 mn sq ft)
Realty monetization		45 acres already awarded	Expected to commence in 2QFY12
Capital cost (Initial phase)	Rs bn	129	98
Phase I Capex completion by		1HFY11	Early FY14
Existing passenger capacity	mn	60	
Ultimate passenger capacity	mn	100	40
Passenger traffic			
CAGR FY04-10	%	17	12
CAGR FY07-10	%	8	5
CAGR FY10-13E	%	15	9
FY07	mn	20	22
FY10	mn	26	26
FY13E	mn	39	33.5
Revenue	Rs mn		
FY10		11,718	9,966
1HFY11		5,511	5,402
EBIDTA	Rs mn		
FY10		2,628	3,200
1HFY11		684	2,030
Net profit	Rs mn		
FY10		199	1,328
1HFY11		(699)	756
Gross block - FY10	Rs mn	30,714	18,612
CWIP - FY10	Rs mn	73,337	15,410
Networth - FY10	Rs mn	25,324	10,191

Source: BofA Merrill Lynch Global Research, GMR, GVK

GVK acquired Bangalore airport in 2HFY10 and has a 29% stake. L&T owns 40%, Zurich Airports owns 5% and the government owns 26%. Note that both Bangalore and Hyderabad airports were greenfield projects and enjoy section 80IA benefits under income tax (tax at MAT rate for the initial 10 consecutive years vs full corporate tax @ 33%). A brief assessment of Bangalore vs Hyderabad airport is indicated below.

Table 15: Comparison between Hyderabad vs Bangalore airport

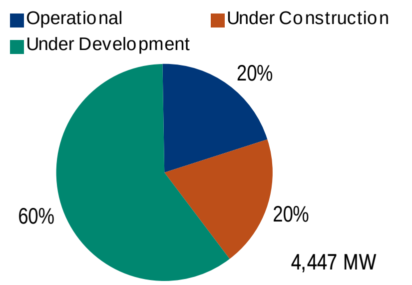
Parameters	Units	Hyderabad airport	Bangalore airport
Majority equity ownership	%	63 (GMR)	29 (GVK) acquired in 2HFY10
Concession period	years	30 + 30 extension	30 + 30 extension
Concession start		Mar'08	May'08
Revenue share	%	4	4
Total land area	acres	5,500	4,000
Property development	acres	1,000	515
Capital cost (Initial phase)	Rs bn	29	22
Phase I Capex completion by		Mar'08	May'08
Existing passenger capacity	mn	12	12
Ultimate passenger capacity	mn	40	50
Passenger traffic			
CAGR FY07-10	%	4	7
CAGR FY10-13E	%	10	10
FY07	mn	6	8
FY10	mn	6	10
FY13E	mn	9	13
Revenue	Rs mn		
FY10		4,653	4,811
1HFY11		2,329	2,726
EBIDTA	Rs mn		
FY10		2,396	3,156
1HFY11		1,327	1,841
Net profit	Rs mn		
FY10		(1,092)	777
1HFY11		(70)	497
Gross block - FY10	Rs mn	28,344	19,650
Networth - FY10	Rs mn	4,850	3,057

Source: BofA Merrill Lynch Global Research, GMR, GVK

In addition to the above, GVK has recently signed two Memorandums of Understanding (MoUs) with the Government of Indonesia (GoI) to develop green field international airports in Bali and Yogyakarta, Java. (a) The MoU for the Bali airport is signed amongst Badan Koordinasi Penanaman Modal (BKPM - a board set up by GoI to facilitate investment), PT Pembangunan Bali Mandiri (airport SPV) and GVK and (b) The MoU for the Java airport is signed amongst Angkasa Pura I (GoI's airport company), BKPM and GVK.

Power: 4,447 MW (20% operating, 20% under construction; balance under development)

Chart 19: Power portfolio



Source: BofA Merrill Lynch Global Research, Company data

Currently, GVK has an installed capacity base of 901 MW, lower than its private sector peers like Lanco Infratech (2,082 MW), JSW Energy (1,730 MW), etc. At present, GVK has two plants under operation. The power plants uses gas primarily supplied from the KG D6 fields of Reliance Industries and Niko.

Table 16: Operational power plants of GVK

Power Plant	Capacity (MW)	Location	Fuel	CoD since	Sales
Jegurupadu Phase I	217	Andhra Pradesh	Mixed fuel (natural gas and naphtha)	Jun-97	100% regulated to Andhra Pradesh SEB
Jegurupadu Phase II	220	Andhra Pradesh	Gas	Apr-09	80% regulated to Andhra Pradesh SEB; balance short-term
Gautami Power	464	Andhra Pradesh	Gas	Jun-09	80% regulated to Andhra Pradesh SEB; balance short-term
Total	901				

Source: BofA Merrill Lynch Global Research, Company data

During FY10-13E, we estimate that the installed capacity of GVK would increase by 870MW through the commissioning of two power plants. This includes: (1) GVK's first coal-fired plant of 540MW Goindwal Sahib greenfield project in 3-4QFY13E and (2) GVK's first hydro plant of 330MW Alaknanda in 1QFY13E. Both these projects would supply power on regulated business model or cost plus ROE basis.

Table 17: Power plants of GVK under construction

Power Plant	Capacity (MW)	Location	Fuel	Expected CoD	Sales	Capital cost (Rs mn)	Debt: Equity mix	Main Equipment supplier
Alaknanda hydro project	330	Uttarakhand	NA	1QFY13E	12% free power top Uttarakhand + 88% to Uttar Pradesh SEB	30,000	70 : 30	NA
Goindwal Sahib project	540	Punjab	Captive coal blocks	3Q-4QFY13E	100% to Punjab SEB	32,478	75 : 25	BHEL
Total	870					62,478		

Source: BofA Merrill Lynch Global Research, Company data

The coal based power plant is based on two captive coal blocks currently under development by GVK. The coal would be transported from these coal mines through Railways to the power plant located in Punjab over a distance of 1,500 kms. These include

- (a) Tokisud North coal block located in Jharkhand. The coal block was awarded to GVK way back in Jan'02. The estimated reserve of this coal block is 52 mnt and is being developed at capital cost of Rs3.4bn. The financial closure is achieved and would supply 2 mtpa to the power plant (vs the requirement of ~ 2.5 mtpa of coal at 85% PLF level);

- (b) Saregraha mine located in Jharkhand (owned jointly, GVK share of estimated reserves = 66.67 mnt). This block was allocated to GVK in Jan'08 and is currently under development. This block would supply coal upto 1 mtpa.

Apart from the above plants, GVK has four additional power projects aggregating 2,662MW under development. GVK has already issued "notice to proceed" (NTP) to the EPC contractor for Unit I of Jegurupadu Phase III. The company has indicated that the NTP for the Unit II of Jegurupadu Phase III would be accorded once the environment clearance is obtained and for the Unit I & II of Gautami power plant by March 31st, 2010. Key event to watch out for these gas based projectsare: gas tie-up, securing environmental clearance, achieving financial closure and awarding NTP to equipment contractors.

Table 18: Power plants of GVK under development

Power Plant	Capacity (MW)	Location	Fuel	Expected CoD
Goriganga hydro project	370	Uttarakhand	Hydro	CY2015
Rattle hydro project	690	J&K	Hydro	FY17
Jegurupadu Phase III	812	Singapore	Gas	FY14
Gautami Phase II	804	Uttarakhand	Gas	FY15
Total	2,676			

Source: BofA Merrill Lynch Global Research, Company data

GVK won the Rattle hydro project through competitive bidding wherein they would supply 16% free power to the Government of Jammu and Kashmir. Further, 45% of the power would be sold to Govt of J&K at a levelised tariff of Rs1.44/unit while the balance would be sold in short-term market. GVK is also developing two power projects aggregating 370MW in Uttarakhand (170 + 200 MW). Here, 12% of the power would be sold as free to the Government of Uttarakhand and balance would be sold in short-term market. The key event to watch out for these power plants is the completion of development milestones and achieving financial closure over the next 12 months.

Roads (three projects: one operating, one under construction, one under development)

GVK has a portfolio of three road projects aggregating 275km. For the Bagodara-Vasad road project, GVK has received Letter of Intent (LoI) from Gujarat State Road Development Corporation (GSRDC). All these projects are toll based involving revenue share and located in Western India (Rajasthan and Gujarat).

Table 19: Portfolio of road assets

Road project	Length (km)	Model	Expected CoD by	Concession ends on	Capital Cost (Rs mn)	Debt: Grant : Equity mix	Status
Jaipur-Kishangarh road	90	BOT Toll	Apr-05	Mar-23	6,231	50 : 16 : 34	Operating
Kota-Delhi road	83	BOT Toll	Q3FY11	30 years	8,234	80 : 0 : 20	Construction
Bagodara-Vasad road	102	BOT Toll	NA	27 years	12,000	NA	LoI received
Total	275				26,465		

Source: BofA Merrill Lynch Global Research, Company data,

Oil and Gas exploration (7 licenses)

GVK, in consortium with BHP Billiton, has optained seven deep-water exploratory licenses granted under NELP VII round by the Government of India. The total gross area is about 34,000 sq km and is currently undergoing technical studies.

Annexure B: 3QFY11 results review

GVK Power's consolidated net sales during the 3QFY11 were Rs4.6bn – a marginal decline of 3%yoy. But consolidated EBITDA declined 8%, to Rs1.3bn. Lower depreciation, lower tax was partially offset by lower other income, higher interest as company resorted to fresh borrowings of Rs2bn at 9% during the quarter. Accordingly, the net income before minority interest was down by 51%yoy, to Rs174mn.

Net income after minority interest / associates were at Rs0.42bn (-8%yoy) but is strictly not comparable on yoy basis as Bangalore airport was acquired during mid 3QFY10. Note that GVK consolidates the airport business on an associate accounting basis – hence share of profit from associates reflects the GVK's share of profits from the Mumbai and Bangalore airport.

Table 20: Consolidated Income statement for quarter ending Dec'10

(Rs mn)	3QFY10	3QFY11	% change YoY
Net Sales	4,735	4,596	(3)
Consumption of fuel	2,739	2,710	(1)
Employees cost	65	83	29
Other exp.	523	511	(2)
Total Expenditure	3,327	3,304	(1)
EBITDA	1,408	1,292	(8)
EBITDA margins (%)	30	28	(5)
Depreciation	530	501	(6)
EBIT	878	791	(10)
Interest	579	660	14
Other Income	109	34	(69)
EBT	407	165	(59)
Tax	54	(9)	(117)
Average tax rate (%)	13	(6)	(141)
Net Income (before Associates/MI)	353	174	(51)
Share of profits from Associates	154	307	99
Minority Interest	49	62	26
Net Income	458	419	(8)

Source: Company data, BofA Merrill Lynch Global Research

Decline in the consolidated revenues was essentially due to 4%yoy fall in the power revenues at Rs4.1bn on lower generation. The performance of roads division continues to remain robust with 10%yoy increase in revenues to Rs487mn.

Table 21: Segmental results

Rs mn	3QFY10	3QFY11	% change YoY
Revenues			
Power	4,262	4,078	(4)
Roads	442	487	10
Others	31	31	1
Net Segment Revenue	4,735	4,596	(3)
EBIT			
Power	631	493	(22)
Roads	233	269	16
Others	15	29	95
Total	878	791	(10)
Less: Interest Exp.	579	660	14
Add: Other income	109	34	(69)
PBT	407	165	(59)
EBIT as % of Revenues			
Power	15	12	(270)
Roads	53	55	267
Others	47	91	4,413
Total	19	17	(132)

Source: Company data, BofA Merrill Lynch Global Research

Power

Both the operating power plants reported 3 to 16% fall in sales volume on account of (a) 15% fall in the supply of gas and (b) slackness in demand from APSEB due to heavy monsoon. Higher major maintenance expenses in Jegurupadu phase I resulted in Jegurupadu plant reporting loss of Rs50mn (vs profit of Rs61mn in 3QFY10). About 24%yoy reduction in the interest expenses for Gautami power plant resulted in the profit for this plant going up 76%yoy, to Rs182mn.

Table 22: Performance of power plants

Rs mn	3QFY10	3QFY11	% change YoY
Jegurupadu plant			
Sales Volume (MUs)	890	752	(16)
Average tariff (INR/kWh)	2.3	2.6	27
Income	2,043	1,928	(6)
Cost of Fuel	1,341	1,354	1
O&M Expenses	245	282	15
EBITDA	458	292	(36)
Other Income	4	7	95
Interest	155	147	(5)
Depreciation	241	189	(21)
Tax	4	12	195
Net Income	61	(50)	(181)
Gautami plant			
Sales Volume (MUs)	807	780	(3)
Average tariff (INR/kWh)	2.7	2.8	1
Income	2,219	2,150	(3)
Cost of Fuel	1,399	1,356	(3)
O&M Expenses	180	149	(17)
EBITDA	651	655	1
Other Income	11	11	1
Interest	325	245	(24)
Depreciation	222	227	2
Tax	1	2	31
Net Income	103	182	76

Source: Company data, BofA Merrill Lynch Global Research, Central Electricity Authority

Airports

- **Mumbai airport:** All round jump in traffic – passenger traffic +10%yoy, cargo traffic +13%yoy and aircraft movements +4%yoy – resulted in 15%yoy increase in revenues to Rs3bn. The share of aero revenue continues to move downwards while that of non-aero revenue continues to move upwards. Though the EBITDA margins increased to 39% due to operating leverage benefits, higher fixed expenses led to 20%yoy growth in net income to Rs0.5bn.

- **Bangalore airport:** Strong passenger volume growth of 17%yoy resulted in passenger traffic at 3.1mn during 3QFY11. Strong traffic drove revenues by 22%yoy, to Rs1.39bn but the net income rose to Rs0.44bn (+135%yoy) due to cost reduction.

Table 23: Performance of Mumbai and Bangalore airports

Rs mn	3QFY10	3QFY11	% change YoY
Mumbai airport			
Passenger traffic (mn)	7.0	7.7	10
Aircraft movement (Nos./day)	638	667	4
Cargo handled (mnt)	149,648	169,093	13
Operating revenue	2,602	2,990	15
Aero (%)	41	34	(682)
Non aero (%)	38	40	224
Cargo (%)	21	25	458
EBITDA	930	1,180	27
EBITDA margins (%)	35	39	393
Interest	104	168	62
Depreciation	181	280	55
Tax	229	235	3
Net Income	416	497	20
Bangalore airport			
Passenger traffic (mn)	2.6	3.1	17
Aircraft movement (Nos./day)	291	308	6
Cargo handled (mnt)	45,318	56,496	25
Operating revenue	1,142	1,390	22
EBITDA	748	1,051	41
EBITDA margins (%)	63	72	857
Interest	224	287	28
Depreciation	339	324	(4)
Tax	(3)	-	(100)
Net Income	188	440	135
Net Income adjusted	88	431	391

Source: Company data, BofA Merrill :Lynch Global Research

Roads

The traffic volume continues to disappoint yoy though up sequentially. Despite this, the revenue increased by 10%yoy, to Rs487mn due to 10% hike in toll rates in effect from 2QFY11. The combination of lower O&M expenses, lower interest and availing MAT credit partially offset higher amortization. This led to 22%yoy increase in net profit at Rs215mn.

Table 24: Performance of Jaipur expressway

Rs mn	3QFY10	3QFY11	% change YoY
Average Traffic (PCUs/day)	63,858	63,695	(0)
Avg toll rate (Rs/PCU/km)	0.8	0.9	10
Sales	442	487	10
NHAI share	42	46	10
O&M Expenses	103	87	(15)
EBITDA	297	354	19
Other income	38	3	(93)
Interest	57	51	(11)
Depreciation	67	84	27
Tax	36	7	(81)
Net Income	176	215	22

Source: Company data, BofA Merrill :Lynch Global Research

Price objective basis & risk

GVK Power & Infrastructure Ltd. (GVPWF)

We have used sum-of-the-parts (SOTP) to arrive at the PO of Rs48/sh primarily based on DCF, exit P/BV multiple and conglomerate discount of 10%. It comprises

1) Power assets - Rs19/sh (39%) consisting of 4 power generation assets and one coal mine. The value of operational asset is Rs9.5/sh at an average of DCF at CoE 12.5% and P/B of 1.5x FY12E. The value of assets under construction (two power projects aggregating 870MW) is Rs7.3/sh using an average of DCF at 135% COE and exit P/BV of 1.25xFY13E, discounted back to FY12E.
2) Airport assets - Rs18/sh (37%). The value of the Mumbai airport including the realty is estimated at Rs14.5/sh.
3) Rs8/sh (17%) from the two road assets using DCF and
4) The remaining Rs9/sh from liquid investments and cash balance as on September 2010 at book value including the recent infusion of equity by private equity companies.

The key downside risks to our PO are lower short-term tariffs, postponement of commencement of short-term tariff and Mumbai realty monetization beyond FY12E, significant delays in execution, aggressive competitive bid in future power projects and lower realization from Mumbai realty.

Link to Definitions

Industrials

Click here for definitions of commonly used terms.

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India - Engineering/Construction/Utilities Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Adani Enterprises Ltd.	ANIEF	ADE IN	Bharat Parekh
	Adani Power Ltd.	XADPF	ADANI IN	Bharat Parekh
	Bharat Heavy	BHHEF	BHEL IN	Bharat Parekh
	Essar Shipping, Ports & Logistics Ltd.	XESSF	ESRS IN	Bharat Parekh
	Gujarat State Petronet Ltd	GJRSF	GUJS IN	Vidyadhar Ginde
	GVK Power & Infrastructure Ltd.	GVPWF	GVKP IN	Deepak Agrawala
	IRB Infrastructure Developers Ltd.	XIRBF	IRB IN	Bharat Parekh
	IVRCL Infrastruc	IIFRF	IVRC IN	Bharat Parekh
	Jaiprakash Associates Limited	JPRKF	JPA IN	Bharat Parekh
	Jaiprakash Power Ventures Ltd.	XJSHF	JPVL IN	Bharat Parekh
	Lanco Infratech Ltd.	LNIFF	LANCI IN	Deepak Agrawala
	Larsen & Toub -G	LTORF	LTOD LI	Bharat Parekh
	Larsen & Toubro	LTOUF	LT IN	Bharat Parekh
	Mundra Port SEZ	XMANF	MSEZ IN	Bharat Parekh
	Nagarjuna Const	NGRJF	NJCC IN	Bharat Parekh
	NCC-GDR	XAKUF	NJGR LX	Bharat Parekh
	Reliance Infrastructure	RCTDF	RELI IN	Bharat Parekh
NEUTRAL				
	GMR Infrastructure Ltd.	GMRLF	GMRI IN	Deepak Agrawala
	Gujarat Inds	GUJIF	GIP IN	Bharat Parekh
	Neyveli Lignite	NEYVF	NLC IN	Bharat Parekh
	Tata Pwr. Co.	XTAWF	TPWR IN	Bharat Parekh
UNDERPERFORM				
	ABB	ABVFF	ABB IN	Bharat Parekh
	Gail India	XGLAF	GAIL IN	Vidyadhar Ginde
	Gail Limited - G	GAILF	GAID LI	Vidyadhar Ginde
	NTPC Ltd	NTHPF	NATP IN	Bharat Parekh
	Suzlon Energy	XZULF	SUEL IN	Bharat Parekh

iQmethod SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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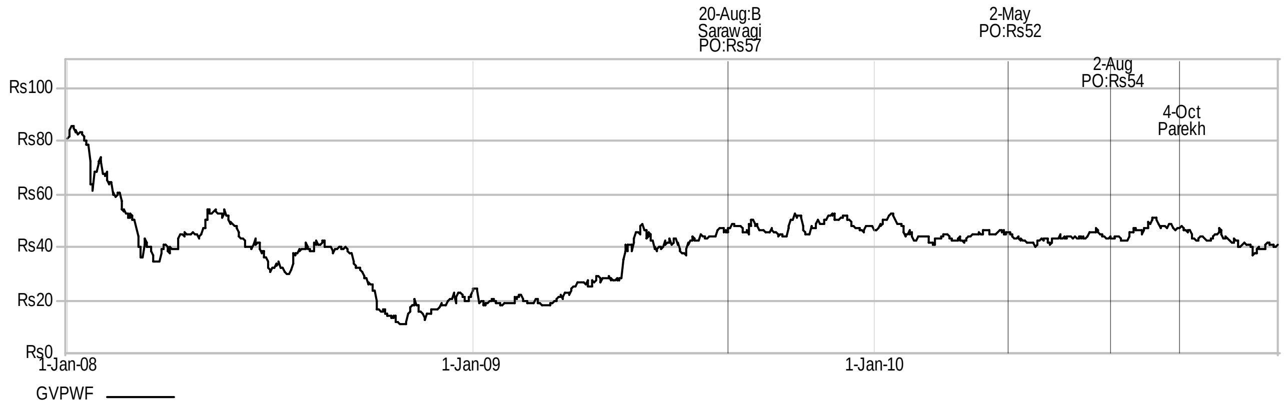
Important Disclosures

GVPWF Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid, NR: No Rating

Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of December 31, 2010 or such later date as indicated.

Investment Rating Distribution: Engineering & Construction Group (as of 01 Jan 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	35	61.40%	Buy	10	32.26%
Neutral	9	15.79%	Neutral	2	22.22%
Sell	13	22.81%	Sell	5	38.46%

Investment Rating Distribution: Global Group (as of 01 Jan 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	2011	53.86%	Buy	874	48.31%
Neutral	925	24.77%	Neutral	444	52.30%
Sell	798	21.37%	Sell	276	36.75%

* Companies in respect of which BofA Merrill Lynch or one of its affiliates has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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