

GVK POWER AND INFRA

O&M expenses dent earnings

Reported profits lower than expectations

GVK Power & Infrastructure's (GVK) FY10 earnings of INR 1.56 bn (our estimates: INR 1.98 bn) was lower due to higher operating & maintenance expenses in road & power projects. Change in depreciation method in its road business led to INR 580 mn write back, minimizing the impact on PAT.

Sharp hike in road revenues; airport traffic picks up

While road traffic increased 12.5% in the Jaipur – Kishengarh road project, revenues were higher 17% due to greater proportion of multi axle vehicles. Mumbai International Airport (MIAL) witnessed growth of 9% in pax and 10% in cargo in FY10 against de-growth in FY09. This, along with higher operating leverage, aided 55% jump in airport earnings.

Mumbai land deal expected in FY11

Regarding land development in MIAL, GVK anticipates government approval in the next 3-4 months. Post this, it will start the process of monetising the land. GVK expects to build a convention centre and hospitality facilities first.

Scaling up project pipeline

Besides expecting a road project award in Rajasthan, GVK plans to expand its existing gas plants in Andhra Pradesh (by 1,600 MW) and a hydro project in J&K. Construction work on Tokisud coal mine and Goindwal Sahib power project are being sped up to meet 36 months deadline.

FY11 equity capex of INR 5.4 bn; fund raising likely

The capex guidance for FY11 is INR 5.4 bn across various verticals, including oil & gas. GVK intends to raise equity at both parent and SPV levels to encash the growth opportunities. The management also intends to raise its stake in MIAL to 51% from 37% currently. While most of the verticals can fund the routine capex, the nominal INR 1.5 bn cash reserves warrant further fund raising.

Outlook and valuations: Land deal, fin. closure key; maintain 'HOLD'

Our SOTP value now stands at INR 43/share and comprises existing and financially closed pipeline projects. We believe there are upside risks to our target price based on the monetisation of the MIAL land parcel and Bangalore Airport valuation. We, however, maintain 'HOLD' on GVK, as we await greater clarity on its pipeline deals. On relative basis, we rate it 'Sector Outperformer'.

Financials (Consolidated)

Year to March	Q410	Q409	% Change	Q310	% Change	FY10	FY11E
Revenues (INR mn)	4,886	1,670	192.6	4,735	3.2	17,866	20,307
EBITDA (INR mn)	737	361	104.4	1,408	(47.6)	4,597	7,226
Net profit (INR mn)	431	142	203.3	458	(5.8)	1,559	3,270
EBITDA margins (%)	15.1	21.6		29.7		25.7	35.6
NPM (%)	8.8	8.5		9.7		8.7	16.1
Diluted EPS (INR)						1.0	2.1
Diluted P/E (x)						45.8	21.9
ROAE (%)						4.7	7.1

April 30, 2010

Reuters: GVKP.BO Bloomberg: GVKP IN

EDELWEISS 4D RATINGS

Absolute Rating	HOLD
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	High
Sector Relative to Market	Underweight

Note:

Please refer last page of the report for rating explanation

MARKET DATA

CMP	:	INR 45
52-week range (INR)	:	54 / 25
Share in issue (mn)	:	1,405.8
M cap (INR bn/USD mn)	:	71 / 1,607
Avg. Daily Vol. BSE/NSE ('000):	:	16,806.1

SHARE HOLDING PATTERN (%)

Promoters*	:	54.3
MFs, FIs & Banks	:	6.2
FIIIs	:	30.6
Others	:	8.9
* Promoters pledged shares (% of share in issue)	:	3.9

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Power Index
1 month	2.5	(0.9)	2.2
3 months	0.1	7.6	1.1
12 months	60.9	51.2	18.9

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Financial snapshot: Consolidated

(INR mn)

Year to March	Q410	Q409	% Change	Q310	% Change	FY10	FY11E	FY12E
Total operating income	4,886	1,670	192.6	4,735	3.2	17,866	20,307	27,735
Net sales	4,886	1,670	192.6	4,735	3.2	17,866	19,644	27,735
Other operating income	0	0	0.0	0	0.0	0	663	0
Total expenses	4,149	1,309	217.0	3,327	24.7	13,270	13,081	15,633
Cost of goods sold	2,860	1,035	176.3	2,739	4.4	10,542	11,235	12,301
Fuel cost	2,860	1,035	176.3	2,739	4.4	10,542	11,235	12,301
Gross profit	2,026	635	219.2	1,996	1.5	7,324	9,072	15,434
Other expenses	1,289	274	370.3	588	119.3	2,727	1,846	3,332
Salaries,wages, other payments	59	56	5.0	65	(9.3)	240	0	0
Other expenses	1,289	274	370.3	588	119.3	2,727	1,846	3,332
EBITDA	737	361	104.4	1,408	(47.6)	4,597	7,226	12,102
Other income	66	21	210.4	109	(39.4)	292	0	0
PBDIT	803	382	110.2	1,516	(47.0)	4,889	7,226	12,102
Depreciation	(48)	193	(125.2)	530	(109.2)	1,371	2,507	4,397
Interest	633	94	570.1	579	9.3	2,085	1,812	4,113
PBT	218	95	129.9	407	(46.4)	1,433	2,907	3,593
Tax(including deferred tax)	(55)	11	(623.8)	54	(201.3)	200	588	727
Share of profits of associates	116	47	148.4	154	(25.0)	517	0	0
Minority interest	58	1	6,322.2	49	18.2	191	(951)	(1,526)
PAT(Reported)	331	142	132.8	458	(27.7)	1,559	3,270	4,392
Adjustments								
Dep write back	(580)	0	0.0	0	0.0	0	0	0
Road capex	680	0	0.0	0	0.0	0	0	0
Adj PAT	431	142	203.3	458	(5.8)	1,559	3,270	4,392
Number of shares (mn)	1,579	1,405		1,579		1,579	1,579	1,579
EPS(INR)	0.2	0.1		0.3		1.0	2.1	2.8
P/E(x)	54	112		39		46	22	16

as % of net revenues

COGS	58.5	62.0		57.9		59.0	55.3	44.4
Other expenses	26.4	16.4		12.4		15.3	9.1	12.0
Total expenses	84.9	78.4		70.3		74.3	64.4	56.4
Gross profit	41.5	38.0		42.1		41.0	44.7	55.6
EBITDA	15.1	21.6		29.7		25.7	35.6	43.6
Net profit	8.8	8.5		9.7		8.7	16.1	15.8
Tax rate	(25.2)	11.1		13.3		14.0	20.2	20.2

Sum of the parts valuations

Projects/ Divisions	Methodology	Valuation	GVK's stake	Value	Value/share
Power					
Jegurupadu phase 1	DCF	2,163	100	2,163	1.4
Jegurupadu phase 2	DCF	4,747	100	4,747	3.0
Gautami Power	DCF	7,730	61	4,677	3.0
Road - Jaipur-Kishengarh	DCF	7,293	100	7,293	4.6
Airport- Mumbai International	DCF	33,945	37	12,560	8.0
Value of operational business				31,439	19.9
Mumbai International Airport - Property Development	NAV	53,277	37	19,712	12.5
Projects currently not operational/ in pipeline					
Alaknanda	DCF	3,602	100	3,602	2.3
Goindwal Sahib	DCF	5,738	100	5,738	3.6
Perambalur SEZ	Land value	1,020	100	1,020	0.6
Cash (including investment in BIAL)				6,500	4.1
Total				68,011	43

- **Company Description**

GVK was promoted by Mr. GV Krishna Reddy, and is a part of the GVK Group that has interests in infrastructure, bioscience, and hospitality. The company is the flagship of the group and holds its infrastructure assets under it. GVK entered the infrastructure segment by building the 216MW Jegurupadu phase I power project in Andhra Pradesh. The company has since then expanded across different infrastructure verticals with presence in airports, power, roads, and urban infrastructure. Winning the bid for developing the Mumbai Airport has been a major milestone for the company. It is also bidding for deep sea gas blocks under the National Exploration Licensing Plan (NELP – VII) in partnership with BHP Billiton.

- **Investment Theme**

Redeveloping India's largest and busiest airport

GVK, together with Airports Company South Africa (ACSA), bagged the project for modernisation of the Mumbai International Airport (MIAL). The renovation project, though highly prestigious and visible, is one of the most complicated projects in terms of scope and size. It involves renovation and modernisation of the existing domestic terminals 1A and 1B, followed by modernisation of international terminals 2A and 2B.

Gas from Reliance fields could rejuvenate stranded power projects

GVK had an early start as a power developer with the commercialisation of its Jegurupadu (phase I) gas-fired project in 1997. The company's next two projects (Jegurupadu phase II and Gautami power projects) have, however, failed to commence operations, despite completion, on account of failure to secure gas. Moreover, the operation of Jegurupadu phase I has been erratic due to irregular gas supply from Gas Authority of India (GAIL).

Real estate from MIAL and ROFR for Navi Mumbai Airport could provide upsides

MIAL's Operating and Management Agreement (OMDA), allows GVK to commercially exploit ~10% (197 acres) of the total airport land. However, a substantial portion of this land is encroached by slum dwellers. Given the land's prime location, even a modest success in clearing the encroachments could provide significant upside to the company.

- **Key Risks**

Natural gas security for existing power plants

GVK's current power plants are running short of gas. Currently, the gas supply agreement with RIL is valid for 5 years and even this is contingent on the legal dispute between RIL and RNRL would be favourably settled. Since the company has given up the dual fuel (naphtha) option for its Jegurupadu II and Gautami projects, timely availability of gas is crucial for the company.

MIAL: Securing land from encroachments

A part of the mandatory projects that GVK has to execute under the terms of agreement depends on the land that will be acquired by clearing sum encroachments on it. Some part of the commercial real estate development from the project also depends on clearing of the encroached land.

Competition from second airport in Mumbai

The central government has already approved the plan to construct the second airport in Navi Mumbai, and the government of Maharashtra is trying to acquire land for it. The airport bidding offers an opportunity to GVK on account of the ROFR clause. However, if GVK loses the bid, the new airport could compete with the existing airport, hampering the latter's profitability.

Financial Statements

Income statement					(INR mn)
Year to March	FY08	FY09	FY10E	FY11E	FY12E
Income from operations	4,700	5,138	19,642	19,644	27,735
Direct costs	1,736	2,494	11,748	11,235	12,301
Employee costs	146	173	-	-	-
Other Expenses	957	708	1,490	1,846	3,332
Total operating expenses	2,839	3,375	13,238	13,081	15,633
EBITDA	1,861	1,763	6,404	6,563	12,102
Depreciation & Amortization	776	780	2,507	2,507	4,397
EBIT	1,085	983	3,897	4,056	7,705
Other income	622	202	338	663	-
Interest expenses	414	334	1,748	1,812	4,113
Profit before tax	1,293	851	2,486	2,907	3,593
Provision for tax	239	100	757	588	727
Core profit	1,055	751	1,729	2,319	2,866
Extraordinary income/ (loss)	-	(12)	-	-	-
Profit after tax	1,055	739	1,729	2,319	2,866
Minority interest	101	3	336	239	244
Share in profit of associates	407	316	566	1,190	1,770
Profit after minority interest	1,361	1,076	1,960	3,270	4,392
Basic shares outstanding (mn)	1,405	1,405	1,579	1,579	1,579
Basic EPS (INR)	1.0	0.8	1.2	2.1	2.8
Diluted equity shares (mn)	1,405	1,405	1,579	1,579	1,579
Diluted EPS (INR)	1.0	0.7	1.2	2.1	2.8

Common size metrics					
Year to March	FY08	FY09	FY10E	FY11E	FY12E
Operating expenses	60.4	65.7	67.4	66.6	56.4
Depreciation	16.5	15.2	12.8	12.8	15.9
Interest expenditure	8.8	6.5	8.9	9.2	14.8
EBITDA margins	39.6	34.3	32.6	33.4	43.6
Net profit margins	22.4	14.6	8.8	11.8	10.3

Growth ratios (%)					
Year to March	FY08	FY09	FY10E	FY11E	FY12E
Revenues	23.5	9.3	282.3	-	41.2
EBITDA	1.5	(5.3)	263.2	2.5	84.4
PBT	0.9	(0.3)	192.0	16.9	23.6
Net profit	143.6	(28.8)	130.2	34.1	23.6
EPS	129.3	(21.8)	64.0	66.9	34.3

Balance sheet					(INR mn)
As on 31 st March	FY08	FY09	FY10E	FY11E	FY12E
Equity capital	1,406	1,406	1,579	1,579	1,579
Reserves & surplus	20,460	21,823	30,770	34,040	39,094
Shareholders funds	21,866	23,229	32,349	35,619	40,673
Minority interest (BS)	6	2,644	2,980	3,219	3,463
Secured loans	12,639	28,686	-	-	-
Unsecured loans	271	1,111	-	-	-
Borrowings	12,910	29,798	39,616	54,330	66,365
Deferred revenue	1,758	1,641	1,641	1,641	1,641
Sources of funds	36,540	57,312	76,585	94,808	112,142
Gross block	19,044	21,269	21,269	21,269	21,269
Depreciation	6,769	7,680	10,187	12,694	17,091
Net block	12,275	13,590	11,082	8,575	4,178
Capital work in progress	13,501	38,502	50,746	68,761	92,213
Total fixed assets	25,776	52,091	61,828	77,336	96,391
Investments	7,068	3,214	4,846	7,565	10,829
Inventories	227	442	442	442	442
Sundry debtors	652	643	643	643	643
Cash and equivalents	1,643	1,562	9,467	9,462	4,478
Loans and advances	2,356	1,579	1,579	1,579	1,579
Total current assets	4,879	4,226	12,130	12,125	7,141
Sundry creditors and others	269	1,303	1,303	1,303	1,303
Provisions	28	36	36	36	36
Total current liabilities & provisions	297	1,339	1,339	1,339	1,339
Net current assets	4,582	2,887	10,791	10,787	5,802
Net deferred tax	(886)	(880)	(880)	(880)	(880)
Uses of funds	36,540	57,312	76,585	94,808	112,142
Book value per share (INR)	15.6	16.5	20.5	22.6	25.8

Free cash flow					(INR mn)
Year to March	FY08	FY09	FY10E	FY11E	FY12E
Net profit	1,361	1,076	1,960	3,270	4,392
Depreciation	776	780	2,507	2,507	4,397
Deferred tax	4	6	-	-	-
Others	(1,189)	(3,238)	(2,789)	(18,695)	(18,017)
Gross cash flow	952	(1,376)	1,678	(12,917)	(9,229)
Less: Changes in WC	(699)	(4,901)	(3,124)	(18,933)	(18,924)
Operating cash flow	1,650	3,525	4,803	6,016	9,695
Less: Capex	16,101	28,346	30,259	41,467	23,452
Free cash flow	(14,451)	(24,821)	(25,457)	(35,451)	(13,757)

Cash flow metrics					
Year to March	FY08	FY09	FY10E	FY11E	FY12E
Operating cash flow	1,650	3,525	4,803	6,016	9,695
Investing cash flow	-	(8,051)	(13,876)	(20,735)	(26,715)
Financing cash flow	723	3,153	16,978	14,714	12,036
Net cash flow	2,373	(1,372)	7,905	(5)	(4,984)
Capex	(16,101)	(28,346)	(30,259)	(41,467)	(23,452)
Share issuance/(buyback)	-	-	7,160	-	-

Profitability & efficiency ratios

Year to March	FY08	FY09	FY10E	FY11E	FY12E
ROAE (%)	9.8	4.7	7.1	9.6	11.5
ROACE (%)	4.1	2.4	6.2	5.1	8.2
Debtors days	57	46	12	12	8
Current ratio	16.4	3.2	9.1	9.1	5.3
Debt/EBITDA	6.9	16.9	6.2	8.3	5.5
Average working capital turnover	1.9	2.4	14.8	14.8	20.9
Average capital employed turnover (x)	0.2	0.1	0.3	0.2	0.3
Debt/Equity	0.6	1.3	1.2	1.5	1.6
Adjusted debt/equity	0.6	1.3	1.2	1.5	1.6

Operating ratios

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Total asset turnover	0.2	0.1	0.3	0.2	0.3
Fixed asset turnover	0.4	0.4	1.6	2.0	4.3
Equity turnover	0.3	0.2	0.7	0.6	0.7

Du pont analysis

Year to March	FY08	FY09	FY10E	FY11E	FY12E
NP margin (%)	28.9	20.7	10.0	16.6	15.8
Total assets turnover	0.2	0.1	0.3	0.2	0.3
Leverage multiplier	2.2	2.1	2.4	2.5	2.7
ROAE (%)	9.8	4.7	7.1	9.6	11.5

Valuation parameters

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Diluted EPS (INR)	1.0	0.7	1.2	2.1	2.8
Y-o-Y growth (%)	129.8	(22.7)	65.8	66.9	34.3
CEPS (INR)	1.5	1.3	2.8	3.7	5.6
Diluted PE (x)	46.6	60.3	36.4	21.8	16.2
Price/BV (x)	2.9	2.7	2.2	2.0	1.8
EV/Sales (x)	14.3	17.7	5.1	5.7	4.5
EV/EBITDA (x)	36.3	51.7	15.5	17.0	10.4



Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
CESC	BUY	SO	H	GMR Infrastructure	HOLD	SP	H
GVK Power and Infra	HOLD	SO	H	Lanco Infratech	HOLD	SO	H
NTPC	HOLD	SP	L	Power Grid Corp of India	REDUCE	SU	L
Reliance Infrastructure	BUY	SO	M	Tata Power Co	BUY	SO	M

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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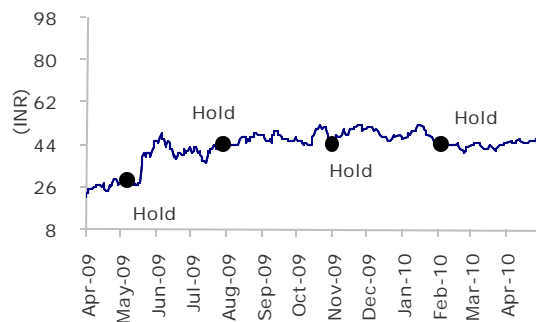
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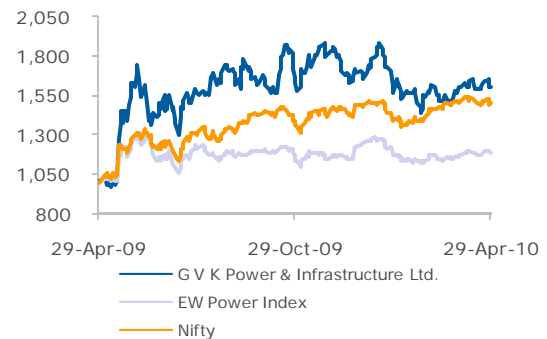
Coverage group(s) of stocks by primary analyst(s): Power

CESC, GMR Infrastructure, GVK Power and Infra, Lanco Infratech, NTPC, Power Grid Corp of India, Reliance Infrastructure, Tata Power Co

GVK Power and Infra



EW Indices



Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	101	56	9	169
* 3 stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	103	53	13	

Recent Research

Date	Company	Title	Price (INR)	Recos
29-Apr-10	CESC	In line performance; <i>Result Update</i>	392	Buy
28-Apr-10	SJVN	Annuity play; <i>IPO Note</i>		Subs
02-Feb-10	GVK Power & Infra.	Fund raising on the cards; <i>Result Update</i>	45	Hold

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