

## GMR Infrastructure (GMRINF)

₹ 26

### WHAT'S CHANGED...

PRICE TARGET .....	Unchanged
EPS (FY13E) .....	Unchanged
EPS (FY14E) .....	Unchanged
RATING .....	Changed from Buy to Hold

### Analyst meet update...

GMR Infrastructure (GMR) held an analyst meet to give updates across various verticals and its approach, going ahead. In terms of the airport division, the company has appealed to the Appellate Tribunal for considering 0% cost of funds for real estate deposit while calculating recent aero hike. Hence, Phase II DIAL RE monetisation hinges on the appellate outcome. Additionally, the company is looking to focus on de-leveraging its balance sheet, going ahead. However, we have assigned a HOLD rating to the stock given the headwinds in the power vertical and till the time clarity emerges on DIAL real estate monetisation.

#### ■ Airport – Phase II RE monetisation hinges on appellate process

DIAL got 352% AERA hike (vs. its demand of 774%) from mid-May, 2012 for aero charges. Consequently, it expects to break even in FY13 at the PAT level. However, after the hike, it has seen a slowdown in traffic to single digit. Currently, it has appealed to the Appellate Tribunal particularly for considering 0% cost of funds for real estate deposit while calculating aero charges. Given the appellate process, GMR is currently awaiting clarity on monetisation of real estate phase II (64 acres).

#### ■ Power - Fuel availability still remains the risk

The management expect Kamalanga and EMCO to get commissioned in Q2FY13E. In terms of fuel supply, GMR has an LoA aggregating 4.5 MTPA for Kamalanga project (50% firm and 50% tapering off and 2.64 MTPA for the EMCO project. For the Vemagiri expansion, the management continues to await clarity on gas allocation. With regard to the GCRPL conditional share purchase agreement, the management indicated that it was done in order to access cheaper funds and for better valuation.

#### ■ Asset light and asset right strategy

Going ahead, the management is looking to follow an asset light and asset right strategy i.e. new projects would be done in JV unless asset is self funded and would be focusing on de-leveraging the balance sheet.

### Valuation

Though DIAL is expected to break even in FY13E, due to management's focus on de-leveraging its balance sheet and attractive valuation, we have assigned a HOLD rating to the stock given the headwinds in the power vertical and till the time clarity emerges on DIAL real estate monetisation.

#### Exhibit 1: Financial Performance

(₹ Crore)	FY10	FY11	FY12	FY13E	FY14E
Net Sales	4,566.5	5,814.0	7,642.1	9,837.9	15,509.6
EBITDA	1,364.3	1,555.5	1,758.2	3,271.0	6,101.0
EBITDA Margin (%)	29.9	26.8	23.0	33.2	39.3
Depreciation	612.2	860.9	1,034.5	1,159.8	1,725.0
Interest	850.3	1,230.1	1,653.1	1,787.7	2,983.2
Adjusted PAT	158.4	-131.1	-441.2	109.1	408.9

Source: Company, ICICIdirect.com Research

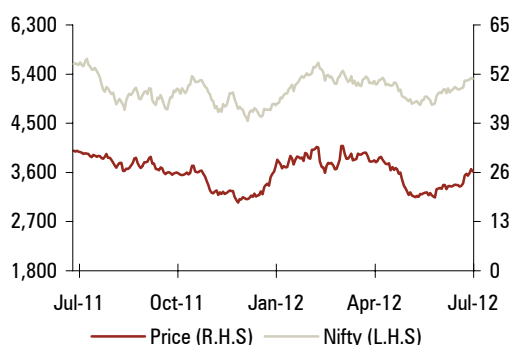
Rating matrix	
Rating	: Hold
Target	: ₹ 23.4
Target Period	: 12 months
Potential Upside	: -10%

Key Financials				
(₹ Crore)	FY11	FY12	FY13E	FY14E
Net Sales	5814.0	7642.1	9837.9	15509.6
EBITDA	1555.5	1758.2	3271.0	6101.0
Adj Net Profit	-131.1	-441.2	109.1	408.9

Valuation summary				
	FY11E	FY12	FY13E	FY14E
EPS (₹)	(0.3)	(1.1)	0.3	1.1
PE (x)	NA	NA	93.8	25.0
Target PE (x)	NA	NA	82.8	22.1
EV/EBITDA (x)	23.3	25.5	15.9	9.1
P/BV (x)	0.9	0.9	0.9	0.8
RoNW (%)	-1.4	-4.6	1.1	4.1
RoCE (%)	2.8	2.2	4.5	8.2

Stock data	
Market Capitalisation	₹ 10,236 crore
Debt	₹ 32,682 crore
Cash	₹ 4,159 crore
EV	₹ 38,759 crore
52 week H/L	₹ 35/18
Equity capital	₹ 389 crore
Face value	₹ 1
DII Holding (%)	8.1
FII Holding (%)	11.8

#### Price movement



#### Analyst's name

Deepak Purswani, CFA  
deepak.purswani@icicisecurities.com  
Bhupendra Tiwary  
bhupendra.tiwary@icicisecurities.com

## Segmental Update

### Power division

- GMR Coal Resources Pte Ltd (GCPRL) - the Singapore subsidiary that holds 30% stake in PT Golden Mines (GEMS) and DSS (70% stake holder) have entered into a conditional share purchase agreement (SPA) with United Fiber System Ltd (UFS), a company listed on Singapore Stock Exchange. Under this SPA, UFS will acquire the shares held by GCRPL and DSS in GEMS in exchange for allotment and issuance of fully paid shares of UFS to both GCRPL and DSS on completion. As per the company, UFS being listed on Singapore Stock exchange would provide significant benefits to GMR Energy Ltd by way of better investor appetite and higher liquidity. It would also serve as a long term and global platform for GCPRL and DSS to expand the coal mining business
- In terms of operational gas based project at Vemagiri and barge mounted plant, the PLF stands at ~35-40% due to restricted gas supply. Given the lower gas production estimates, the management has indicated that it could fall further
- Post the synchronisation of the 768 MW Rajahmundry project in Q3FY12, GMR expects the commissioning of the same only post clarity on gas availability where uncertainty persists currently
- The Kamalanga (1050 MW) and EMCO project (600 MW) are on schedule for COD of unit 1 (350 MW and 300 MW, respectively) in October, 2012. In terms of PPA for these projects, GMR has tied up 200 MW with Haryana government, 25% sales to the Odisha government and 250 MW with the Bihar Government for Kamalanga projects. For EMCO, GMR has tied up 200 MW with the Maharashtra government
- In terms of fuel supply, GMR has LoA aggregating 4.5 MTPA for Kamalanga project (50% firm and 50% tapering off and 2.64 MTPA for the EMCO project. For the remaining requirement, the company expects to source it through e-auction and import

### Roads division

- The company has also indicated that financial closure for the Ahmedabad Kishangarh project has been achieved and is expected to commence from September 2012 post environmental clearance
- Assuming traffic growth of 10% for the first five years and 7.5% thereafter, GMR expects equity IRR of 24% from the Ahmedabad Kishangarh project

### Airports division

- AERA has suggested a five year regulatory period from April 1, 2009 to March 31, 2014. Accordingly, the tariff increase is effective from place on May 15, 2012 and April 1, 2013. The cost of equity has been suggested at 16% vs. 24% claimed by DIAL and WACC of 10.33% vs. DIAL's claim of 11.6%. Interest-free security deposit (RSD) is taken as zero vs. DIAL demand for return of 24% on the same
- Consequently, there was an upfront increase in aero charges of ~352% from May 15, 2012 vs. DIAL's demand of ~774.3%. However, post the tariff hike, the traffic has also slowed down to single digit growth for the last two month
- GMR has appealed to the appellate authority for a higher hike in aero charges. It is dissenting on certain principles with regard to 0% cost of funds for real estate deposits and 16% cost of equity. Given the appellate process, the company is currently awaiting clarity on monetisation of real estate phase II (64 acres). A favourable outcome on the same could lead to a further hike in aero charges, though the

possibility appears to be remote considering strong resistance from various stakeholders

- In terms of Hyderabad Airport (GHIAL), the company has indicated that given the setting up of principle for DIAL, clarity would emerge on the appellate process for single till method in the next couple of quarters
- The management has also indicated that the turnaround for Istanbul Airport (SGIA) is around the corner and is expected to break even in the next six to eight quarters
- For the Male Airport, the ADC not collected has now been netted off against the revenue share payable to the government. Consequently, the company would pay a lower share to the government post adjustment for ADF, which has been stopped.

## Valuation

At the CMP, the stock is trading at 0.9x FY13 P/BV. Though DIAL is expected to turn break even in FY13E, due to the management's focus on de-leveraging its balance sheet and attractive valuation, we have assigned a **HOLD** rating to the stock with a price target of ₹ 23 based on our SOTP based valuation methodology, given the headwinds in the power vertical and till the time clarity emerges on DIAL real estate monetisation.

### Exhibit 2: SOTP valuation

Sector	GIL's Equity Value (in ₹ crore)	Value Per share (₹)
Airports	1,794.1	5
Real Estate	3,535.9	9
Roads	1,601.3	4
Power	3,128.4	8
Mines	601.0	2
SEZ	345.5	1
EPC	364.0	1
GIL's Net Cash	-2,245.9	-6
GIL's Valuation	9,124.3	23.4

Source: Company, ICICIdirect.com Research

We have valued the stock at ₹ 23 per share based on our SOTP valuation methodology with a **HOLD** recommendation

## Financial summary

### Profit and loss statement

(₹ Crore)	FY11	FY12	FY13E	FY14E
Net Sales	5,814.0	7,642.1	9,837.9	15,509.6
Growth (%)	27.3	31.4	28.7	57.7
Op. Expenditure	4,258.5	5,883.8	6,566.9	9,408.6
EBITDA	1,555.5	1,758.2	3,271.0	6,101.0
Growth (%)	14.0	13.0	86.0	86.5
Other Income	311.3	243.4	206.7	163.1
Depreciation	860.9	1,034.5	1,159.8	1,725.0
EBIT	1,005.9	967.1	2,317.9	4,539.1
Interest	1,230.1	1,653.1	1,787.7	2,983.2
Extraordinary Item	-798.6	-162.1	0.0	1.0
PBT	-1,022.8	-848.1	530.2	1,556.9
Tax	23.9	210.7	391.2	953.7
Rep. PAT before MI	-1,046.7	-1,058.8	139.0	603.3
Minority interest (MI)	-117.0	-455.5	29.9	194.4
Rep. PAT after MI	-929.6	-603.3	109.1	408.9
Adjustments	-798.6	-162.1	0.0	0.0
Adj. Net Profit	-131.1	-441.2	109.1	408.9
Growth (%)	-182.7	236.7	-124.7	274.6
EPS	-0.3	-1.1	0.3	1.1

Source: Company, ICICIdirect.com Research

### Balance Sheet

(₹ Crore)	FY11	FY12P	FY13E	FY14E
<b>Liabilities</b>				
Equity Capital	389.2	389.2	389.2	389.2
Pref shares	1,814.9	1,980.1	1,980.1	1,980.1
Reserves & Surplus	7,278.0	7,148.5	7,257.7	7,666.6
Shareholders Funds	9,482.1	9,517.9	9,627.1	10,035.9
Minority Interest	1,998.1	1,791.7	1,821.6	2,016.0
Secured Loans	18,910.7	27,363.4	34,348.9	37,859.5
Unsecured loan	5,318.9	5,318.9	5,318.9	5,318.9
Deferred Tax Liab.	76.4	233.1	233.1	233.1
Source of Funds	35,786.3	44,225.0	51,349.5	55,463.4
<b>Assets</b>				
Gross Block	24,370.2	27,044.5	34,798.7	41,894.6
Less: Acc. Depr.	3,150.3	4,184.8	5,344.6	7,069.6
Net Block	21,220.0	22,859.7	29,454.1	34,825.0
Capital WIP	8,552.5	15,989.4	17,037.3	17,379.4
Net Fixed Assets	29,772.4	38,849.2	46,491.4	52,204.4
Goodwill on consolidation	937.3	3,174.5	3,174.5	3,174.5
Investments	2,974.1	721.6	721.6	721.6
Inventories	184.6	259.5	295.1	465.3
Trade Receivables	1,319.9	1,837.4	2,262.7	3,567.2
Cash	3,373.2	5,464.8	2,831.2	2,309.7
Loans & Advances	2,614.4	5,773.8	4,427.1	6,979.3
Total Current Asset	7,492.1	13,335.4	9,816.2	13,321.5
Current Liab. & Prov.	5,389.8	11,855.7	8,854.2	13,958.6
Net Current Asset	2,102.4	1,479.7	962.0	-637.1
Misc Expenditure	0.0	0.0	0.0	0.0
Application of funds	35,786.3	44,225.0	51,349.5	55,463.4

Source: Company, ICICIdirect.com Research

### Cash flow statement

(₹ Crore)	FY11	FY12P	FY13E	FY14E
Net Profit before Tax	-1,022.8	-848.1	530.2	1,556.9
Others	439.0	0.0	0.0	0.0
Depreciation	860.9	1,034.5	1,159.8	1,725.0
Direct Tax Paid	243.4	54.1	391.2	953.7
Int. & Finance charges	1,232.1	1,653.1	1,787.7	2,983.2
CF before chg in WC	1,265.8	1,785.4	3,086.5	5,311.4
Inc./Dec. in Curr Liab.	3,100.4	6,465.9	-3,001.5	5,104.5
Inc./Dec. in Curr Ass.	1,328.0	3,751.7	-885.6	4,026.9
CF from operations	3,038.2	4,499.7	970.6	6,389.0
Purchase of Fixed Ass.	-7,325.4	-12,348.4	-8,802.1	-7,438.0
(Inc./Dec. in Investment	886.4	2,252.5	0.0	0.0
CF from Investing	-6,439.0	-10,095.9	-8,802.1	-7,438.0
Inc./Dec. in Debt	2,624.3	8,452.7	6,985.6	3,510.6
Interest paid	-1,178.3	-1,653.1	-1,787.7	-2,983.2
Others	3,645.4	888.2	0.0	0.0
CF from Financing	5,091.4	7,687.8	5,197.9	527.4
Net Cash Flow	1,690.6	2,091.6	-2,633.6	-521.5
Opening Cash	1,682.6	3,373.2	5,464.8	2,831.2
Closing Cash	3,373.2	5,464.8	2,831.2	2,309.7

Source: Company, ICICIdirect.com Research

### Key ratios

	FY11	FY12P	FY13E	FY14E
<b>Per share data (₹)</b>				
EPS	-0.3	-1.1	0.3	1.1
Cash EPS	-0.2	1.1	3.3	5.5
BV	29.5	29.1	29.4	31.0
DPS	0.0	0.0	0.0	1.0
<b>Operating Ratios (%)</b>				
EBITDA Margin	26.8	23.0	33.2	39.3
PBT Margin	-13.7	-2.1	0.0	0.0
PAT Margin	-2.3	-5.8	1.1	2.6
Inventory days	9	11	10	9
Debtors days	69	75	76	69
Creditors days	231	412	384	268
<b>Return Ratios (%)</b>				
RoE	-1.4	-4.6	1.1	4.1
RoCE	2.8	2.2	4.5	8.2
RoIC	3.1	2.5	4.8	8.6
<b>Valuation Ratios (x)</b>				
P/E	NA	NA	93.8	25.0
Net Sales/Total Asset	0.2	0.2	0.2	0.3
EV / EBITDA	23.3	25.5	15.9	9.1
EV / Net Sales	6.2	5.9	5.3	3.6
Price to Book Value	0.9	0.9	0.9	0.8
<b>Solvency Ratios</b>				
Debt/EBITDA	13.4	15.5	11.3	6.7
Debt / Equity	2.2	2.9	3.8	4.1
Current Ratio	1.4	1.1	1.1	1.0

Source: Company, ICICIdirect.com Research

### ICICIdirect.com coverage universe (Infrastructure)

JP Associates				Sales (₹ Crore)	EPS (₹)	PE (x)	P/BV(x)	RoNW (%)	RoCE (%)	
Idirect Code	JAIASS	CMP	77	FY11	12,965.0	3.6	20.9	1.7	8.5	8.2
Mcap (₹ crore)	16426	Target	75	FY12	12,742.9	4.8	15.4	1.3	9.5	9.1
		% Upside	-3%	FY13E	14,024.4	3.7	20.2	1.2	6.2	8.2
				FY14E	15,289.3	4.8	15.4	1.1	7.6	9.3
GMR Infra										
Idirect Code	GMRINF	CMP	26	FY11	5,814.0	-0.3	NA	0.9	-9.8	3.1
Mcap (₹ crore)	10236	Target	23	FY12	7,642.1	-1.1	NA	0.9	-6.3	2.4
		% Upside	-13%	FY13E	9,837.9	0.3	93.8	0.9	1.1	4.9
				FY14E	15,509.6	1.1	25.0	0.8	4.1	8.7
GVK Power										
Idirect Code	GVKPOW	CMP	16	FY11	1,914.7	1.0	12.1	0.6	4.6	3.3
Mcap (₹ crore)	2519	Target	18	FY12	2,491.8	0.4	30.6	0.5	1.8	2.1
		% Upside	13%	FY13E	3,769.0	0.5	24.7	0.5	2.2	4.3
				FY14E	5,650.2	1.0	12.4	0.5	4.1	7.1
IRB Infrastructure										
Idirect Code	IRBINF	CMP	137	FY11	2,438.1	13.6	8.9	1.7	18.6	12.2
Mcap (₹ crore)	4562	Target	UR	FY12	3,130.8	14.9	8.1	1.4	17.3	11.1
		% Upside		FY13E	3,825.2	14.3	8.5	1.2	14.4	9.8
				FY14E	4,303.3	14.9	8.1	1.1	13.3	10.7
Sadbhav Engineering										
Idirect Code	SADENG	CMP	141	FY11	2,336.2	6.2	19.6	2.1	10.6	8.6
Mcap (₹ crore)	2113	Target	153	FY12	2,866.3	8.2	14.8	1.7	11.2	6.8
		% Upside	9%	FY13E	3,030.2	7.0	17.2	1.5	8.5	6.1
				FY14E	3,684.9	5.7	21.4	1.4	6.4	7.7

Source: Company, ICICIdirect.com Research

#### Exhibit 3: Recommendation History



Source: Reuters, ICICIdirect.com Research

#### Exhibit 4: Recent Releases

Date	Event	CMP	Target Price	Rating
2-Jun-11	Q4FY11 Result Update	33	36	Hold
11-Aug-11	Q1FY12 Result Update	30	35	Hold
27-Sep-11	Event Update	27	35	Buy
14-Nov-11	Q2FY12 Result Update	24	32	Buy
8-Feb-12	Q3FY12 Result Update	31	32	Hold
1-Jun-12	Q4FY12 Result Update	20	23	Buy

Source: Company, ICICIdirect.com Research

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Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICIdirect.com Research Desk,  
ICICI Securities Limited,  
1<sup>st</sup> Floor, Akruiti Trade Centre,  
Road No. 7, MIDC,  
Andheri (East)  
Mumbai – 400 093**

**research@icicidirect.com**

## ANALYST CERTIFICATION

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