

12 August 2012

BUY

TP: INR 32.00

▲ 48.5%

GMR Infrastructure

GMRI IN

Impact of DIAL tariff hike to be visible from Q2

GMRI's Q1 PAT came in lower than our estimates as the full impact of a tariff hike at Delhi Airport (DIAL) was not realised during the quarter. This shortfall (in Q1FY13) will be made up for in the next control period (FY14–FY19) and doesn't impact our valuations for GMRI. Majority of the tariff hike impact will be visible in Q2FY13 numbers, This deferral in revenue booking leads us to cut our FY13 revenue/EPS estimates zby 2%/14%. Maintain BUY with a March'13 TP of Rs 32.

- ➔ **Impact of a ~350% hike in DIAL aero tariffs to be visible from Q2:** DIAL's aero revenues/pax rose only 113% YoY since the full impact of the hike was not visible in Q1 as many tickets were booked before 15 May (when the hike was enforced). DIAL will recover the shortfall in the next control period (FY14–FY19). While this changes our FY13 revenue/EPS estimates, it doesn't impact our DCF valuation.
- ➔ **Mixed trend in airport traffic:** Traffic growth at Delhi/Hyderabad airports was weak at 3%/0.5% YoY. On the other hand, traffic growth at Sabiha Gokcen (SGIA) and Male airports was strong at 11% and 10% YoY respectively.
- ➔ **Power segment continued to witness low PLFs:** Due to low availability of gas, power segment PLFs ranged between 39–50% as against 59–88% in the base quarter. However, overall sales got a boost from Rs 1.5bn booked in Golden Energy, where GMRI holds a 30% stake.
- ➔ **Revision in estimates:** We have adjusted for the shortfall in DIAL's aero revenues in Q1, and revisions in COD dates of road projects under construction. These have led to 2%/14% revision in our FY13 sales/EPS estimates. Our March'13 TP of Rs 32 comprises airports (Rs 21.7 incl. Rs 6.6 for real estate around the Delhi Airport), power (Rs 13), roads (Rs 2.8), mining interests (Rs 2.1) and cash & equivalents, adjusted for debt and preference shares.

Financial Highlights

Y/E 31 Mar	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue (INR mln)	45,665	57,738	75,864	98,605	127,464
EBITDA (INR mln)	13,643	15,555	17,582	34,133	47,304
Adjusted net profit (INR mln)	1,584	(1,311)	(4,412)	3,780	3,888
Adjusted EPS (INR)	0.4	(0.4)	(1.2)	1.0	1.1
Adjusted EPS growth (%)	(78.3)	(182.7)	n.a.	n.a.	2.9
DPS (INR)	0.0	0.0	0.0	0.0	0.0
ROIC (%)	3.8	2.6	2.1	3.7	5.4
Adjusted ROAE (%)	2.4	(1.9)	(6.6)	5.7	5.6
Adjusted P/E (x)	144.7	(108.7)	(17.9)	20.9	20.3
EV/EBITDA (x)	28.9	24.1	23.5	13.8	10.5
P/BV (x)	3.4	2.2	1.3	1.2	1.2

Source: Company, Bloomberg, RCML Research



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PRICE CLOSE (10 Aug 12)

INR 21.55

MARKET CAP

INR 83,882 mln

USD 1,517 mln

SHARES O/S

3,892.4 mln

FREE FLOAT

28.6%

3M AVG DAILY VOLUME./VALUE

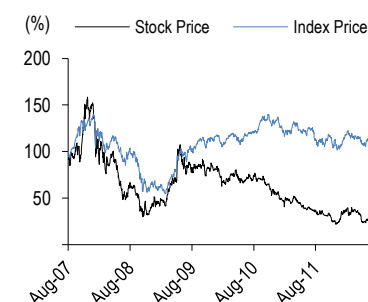
7.8 mln/ USD 3.2 mln

52 WK HIGH

INR 33.00

52 WK LOW

INR 18.00





Result highlights

A strong 24% YoY growth in revenues was driven by the tariff hike at Delhi airport (DIAL's net revenues, after revenue sharing, were up 53% YoY to Rs 2.9bn) and revenues of Rs 1.5bn from PT GEMS (where GMRI holds a 30% stake) which were not there during the base quarter. A 20% EBITDA growth was largely driven by DIAL, which saw a 153% YoY increase in the EBITDA to Rs 1.3bn. The YoY increase in interest costs partly stemmed from the debt raised for the purchase of a 30% stake in PT GEMS, and partly on account of an increase in corporate loans. The tax amount moved up significantly on a QoQ basis as GMRI had to write back Rs 260mn of tax credit claimed earlier on its Vemagiri project.

Fig 1 - Quarterly performance

(Rs mn)	Q1FY13	Q1FY12	% Chg YoY	Q4FY12	% Chg QoQ
Net sales	23,101	18,636	24.0	19,113	20.9
Expenditure	17,134	13,656	25.5	15,624	9.7
EBITDA	5,967	4,980	19.8	3,489	71.1
Other income	652	812	(19.7)	376	73.5
Interest	4,804	3,724	29.0	4,646	3.4
Depreciation	2,530	2,758	(8.3)	2,234	13.3
Exceptionals	464*	0		-2,418	
PBT	-250	-690	(63.8)	-5,434	(95.4)
Tax	-850	-655	29.8	-422	101.6
Reported PAT	-1,100	-1,345	(18.2)	-5,856	(81.2)
Less: MI, share in profit of JVs, associates	-157	-679	(76.8)	-2,195	
Adjustment	-325	-		2,418	
Adj. PAT	-1,268	-666	90.4	-1,243	2.0
EBITDA margin (%)	25.8	26.7	-90bps	18.3	757bps
FDEPS (Rs)	-0.3	-0.2	90.4	-0.3	2.0

Source: RCML Research, Company

* Forex gains

In terms of segment-wise performance, Airports saw a 21%/136% YoY rise in revenue/EBIT to Rs 12.8bn/Rs 2bn, largely driven by the DIAL aero tariff hike as traffic growth was weak at the Delhi (3%) and Hyderabad (0.5%) airports. For the Power segment, even though PLFs were lower this quarter (39–50% vs. 59–88% in Q1FY12), revenues were up 9% YoY/ 40% QoQ. The topline growth was supported by sales of Rs 1.5bn from PT GEMS. The Roads segment performed largely in line with expectations, with topline growth of 5% YoY and an EBIT growth of 4% YoY. The EPC segment also did well with revenues at Rs 4.9bn, up 134% YoY/48% YoY.

Revenue growth supported by DIAL aero tariff hike and Sinar Mas sales



Fig 2 - Segment results

(Rs mn)	Q1FY13	Q1FY12	% Chg YoY	Q4FY12	% Chg QoQ
Segment revenue					
Airports	12,843	10,615	21.0	11,547	11.2
Power	7,463	6,876	8.5	5,331	40.0
Roads	1,051	1,003	4.8	1,037	1.4
EPC	4,893	2,084	134.8	3,303	48.1
Others	1,362	1,216	12.0	1,565	(13.0)
Less: Inter Segment	(1,987)	(972)	104.4	(1,438)	38.1
Gross Revenue	25,624	20,822	23.1	21,344	20.1
Net revenue (after revenue share)	23,101	18,636	24.0	19,113	20.9
Segment EBIT					
Airports	2,048	870	135.6	(70)	(3,022.1)
Power	756	973	(22.4)	163	365.0
Roads	532	511	4.2	1,073*	(50.4)
EPC	388	124	212.2	(427)	(190.8)
Others	935	467	100.3	338	176.3
Less: Inter-segment	(386)	(336)	14.8	71	(646.0)
Net segment EBIT	4,272	2,608	63.8	1,147	272.5
EBIT margin					
Airports	16.0	8.2	775bps	(0.6)	1655bps
Power	10.1	14.2	-403bps	3.0	707bps
Roads	50.6	50.9	-31bps	103.4*	-5280bps
EPC	7.9	6.0	196bps	(12.9)	2084bps
Others	68.6	38.4	3026bps	21.6	4701bps
Less: Inter-segment	19.4	34.6	-1516bps	(4.9)	2434bps
Net segment EBIT margin	16.7	12.5	414bps	5.4	1129bps
Capital employed					
Airports	170,013	156,771	8.4	161,521	5.3
Power	230,465	108,660	112.1	204,660	12.6
Roads	61,983	50,262	23.3	58,634	5.7
EPC	2,820	1,473	91.4	2,556	10.4
Others	114,328	99,936	14.4	102,987	11.0
Less: Inter-segment	(45,567)	(57,147)	(20.3)	(45,176)	0.9
Add: unallocated assets/liabilities	(420,989)	(245,193)	71.7	(372,084)	13.1
Total capital employed	113,052	114,762	(1.5)	113,096	(0.0)

Source: RCML Research, Company * - In Q4FY12, GMRI had written back depreciation charges in the Roads segment due to a change in the depreciation policy (from traffic-based to revenue-based depreciation)

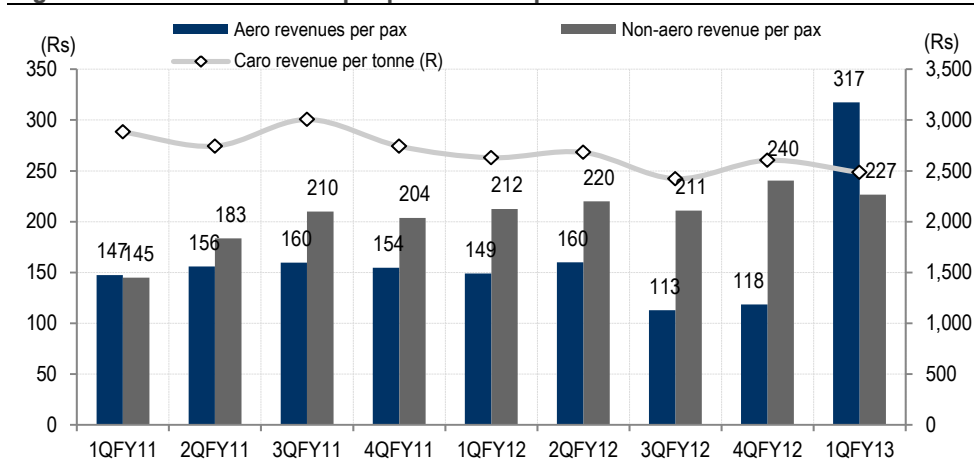


Fig 3 - Traffic growth was weak for DIAL and HIAL; SGIA and Male reported strong YoY growth

	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	% YoY	% QoQ
DIAL											
Domestic	5.3	4.6	5.2	5.6	6.5	5.8	6.9	6.2	6.6	0.8	6.5
International	2.1	2.2	2.5	2.6	2.3	2.4	3.1	3.0	2.6	9.0	(13.6)
DIAL total	7.4	6.8	7.7	8.2	8.8	8.2	10.0	9.1	9.1	2.9	0.0
HIAL											
Domestic	1.4	1.4	1.5	1.5	1.7	1.6	1.8	1.7	1.7	0.0	(0.6)
International	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	2.1	2.1
HIAL total	1.8	1.9	2.0	2.0	2.1	2.1	2.3	2.1	2.1	0.5	0.0
SGIA											
Domestic	1.9	2.2	2.0	2.0	2.4	2.6	2.1	2.1	2.6	10.9	27.5
International	0.9	1.3	1.1	0.9	1.2	1.5	1.1	0.9	1.3	12.0	44.0
SGIA total	2.8	3.5	3.0	2.8	3.6	4.1	3.2	3.0	4.0	11.3	32.6
Male											
Domestic	-	-	0.0	0.1	0.1	0.1	0.1	0.1	0.1	56.9	(15.4)
International	-	-	0.3	0.6	0.5	0.5	0.6	0.6	0.5	3.7	(15.9)
Male total	-	-	0.3	0.7	0.6	0.6	0.8	0.7	0.6	9.4	(15.8)
Overall											
Domestic	8.6	8.2	8.7	9.2	10.6	10.1	10.9	10.0	10.9	3.2	9.4
International	3.4	4.0	4.3	4.5	4.5	4.9	5.3	4.9	4.9	8.4	(1.8)
Total	12.0	12.2	13.0	13.7	15.1	15.0	16.2	14.9	15.8	4.8	5.7

Source: RCML Research, Company

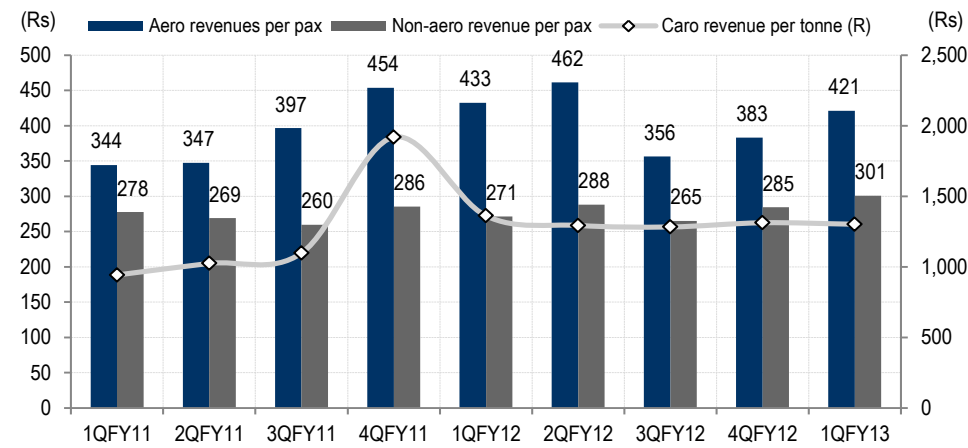
Fig 4 - DIAL - Aero revenues per pax moved up 113% YoY



Source: RCML Research, Company

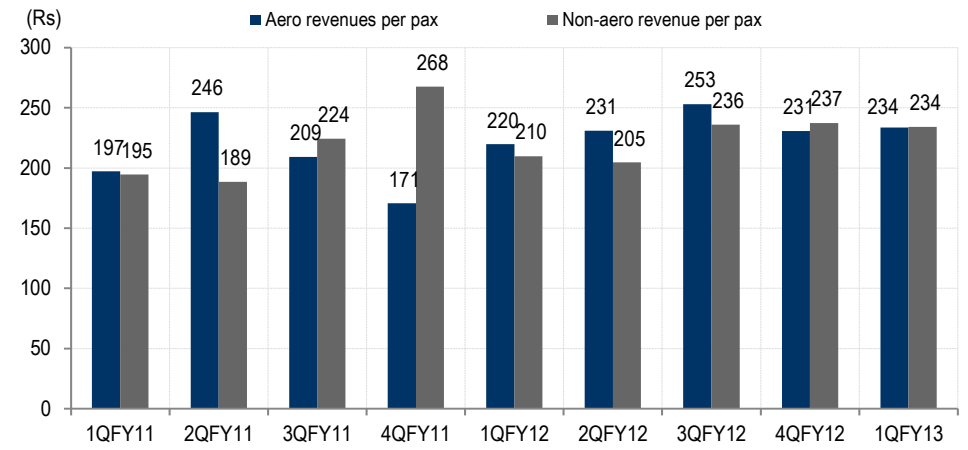


Fig 5 - HIAL – Aero revenues were largely flat YoY



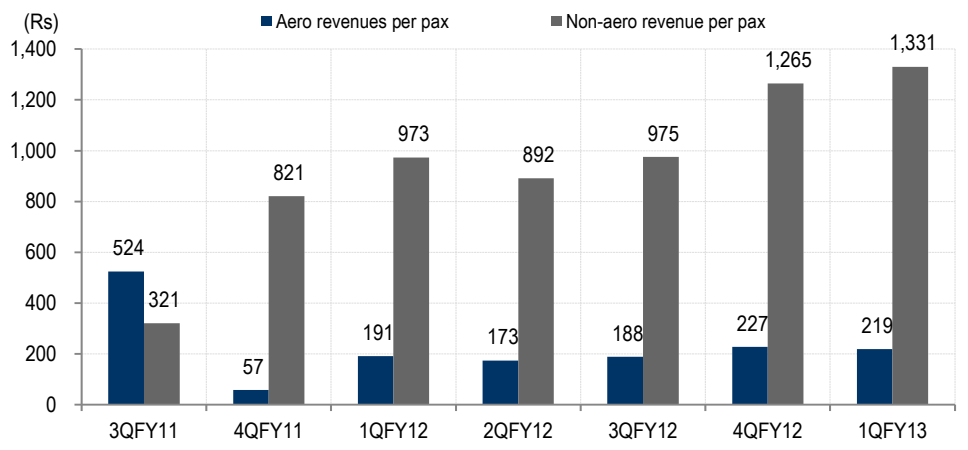
Source: RCML Research, Company

Fig 6 - SGIA – aero/non-aero revenues per pax have moved up 6%/12% YoY



Source: RCML Research, Company

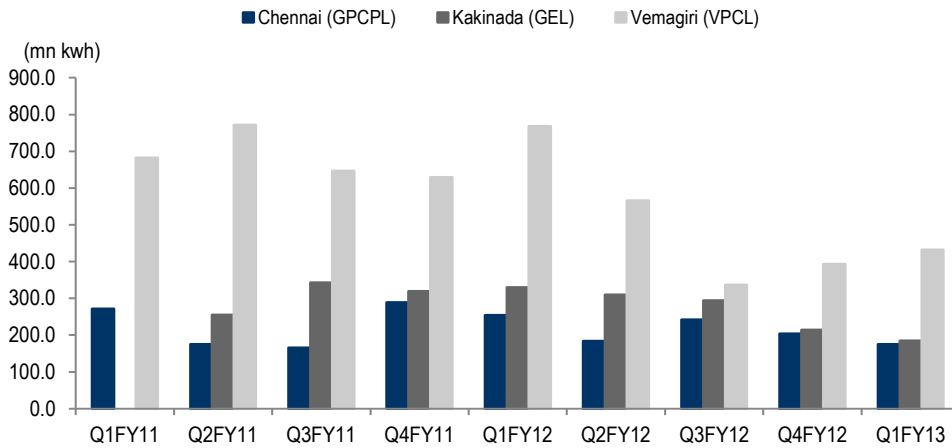
Fig 7 - Male – Non-aero revenues are showing strong traction



Source: RCML Research, Company

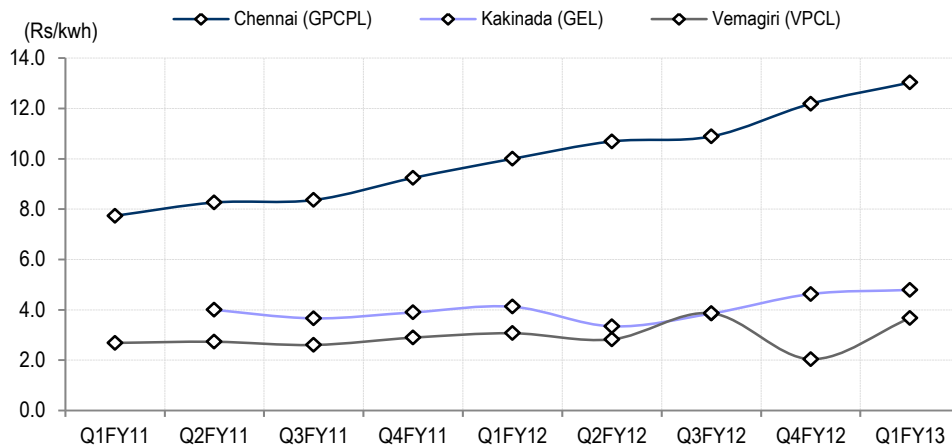


Fig 8 - PLF levels remain low and are down significantly on a YoY basis



Source: RCML Research, Company

Fig 9 - Rise in tariffs not significant enough to offset the impact of lower PLFs



Source: RCML Research, Company

Estimate revisions:

- Airports:** We have adjusted for the lower positive impact of the DIAL tariff hike in FY13. Since several air tickets for travel after 15 May'12 were booked before this date (when the hike was enforced), Q1 results did not see its full impact. For a 350% tariff hike, Q1 aero revenues per pax should have risen ~175%, but increased merely 113% YoY. This shortfall will be recovered in the next control period (FY14–FY19).
- Power:** We retain our estimates for the Power segment, but we do note that if gas availability remains low in the coming quarters, we will need to revise down our numbers.
- Roads:** We have made adjustments for small delays in the commissioning of road projects under construction. These changes have resulted in reduction of topline/EBITDA as well as interest/depreciation expenses, which are sizeable in the first 2–3 years of operation. We have not included the Kishangarh–Udaipur–Ahmedabad project into our estimates as of now.



Fig 10 - Revised estimates

Key parameters	FY13E			FY14E		
	Old	New	% Chg	Old	New	% Chg
Revenue (Rs mn)	100,476	98,605	(1.9)	128,170	127,284	(0.7)
EBITDA margin (%)	36.0	34.6	(141)	37.3	37.0	(27)
Net profit (Rs mn)	4,376	3,780	(13.6)	4,148	3,791	(8.6)
EPS (Rs)	1.2	1.0	(14.1)	1.1	1.0	(9.2)

Source: RCML Research, Company

SOTP target price at Rs 32; BUY

Our March'13 SOTP-based TP for GMRI stands at Rs 32/sh and comprises the following:

- Rs 21.5/sh for the stake in airport assets, including Rs 14/sh for the Delhi airport (Rs 7.4/sh for core business and Rs 6.6/sh for real estate)
- Rs 13.1/sh for the 4,480MW power assets, including the 3,105MW coal-based thermal power and 1,375MW gas-based thermal power projects. We have not ascribed any value to hydropower projects as these are expected to be set up over the next 5–6 years and currently have low visibility on development.
- Rs 2.7/sh for road assets. We have not included the Rs 75bn KUA project in our valuation.
- Rs 2.1/sh for the stake in mines.
- Negative Rs 2.2/sh for cash and liquid investments, after adjusting for Rs 24bn of debt in the standalone company.
- Negative Rs 9.9/sh for the value of CCPS issued by GMR Energy (power holding company) and GMR Airports (airport holding company). For valuation purposes, we have assumed that the holders of CCPS will earn returns at 16% p.a.
- We have not valued investments in SEZ projects, pending clarity on development of those assets.



Fig 11 - March '13 target price of Rs 32 includes Rs 15 for stake in Delhi airport

	Basis of valuation	Total value (Rs mn)	Stake held (%)	Value for GMR Infra (Rs mn)	Value (Rs/sh)
Airports					
DIAL - airport business	DCF based	53,318	54%	28,792	7.4
DIAL - real estate	Per acre valuation	47,429	54%	25,612	6.6
HIAL	DCF based	32,732	63%	20,621	5.3
SGIA	DCF based	21,728	40%	8,691	2.2
Male	DCF based	(134)	77%	(103)	(0.0)
Total airport assets		155,073		83,613	21.5
Power assets					
Chennai	DCF based	5,255	51%	2,680	0.7
Kakinada	DCF based	4,632	100%	4,632	1.2
Vemagiri	DCF based	3,166	100%	3,166	0.8
Vemagiri Expansion	DCF based	3,867	100%	3,867	1.0
Kamalanga	DCF based	15,787	80%	12,630	3.2
Varora (EMCO)	DCF based	10,903	100%	10,903	2.8
Raipur	DCF based	2,082	100%	2,082	0.5
Jurong Island Singapore	DCF based	15,678	70%	10,975	2.8
Total power assets		61,370		50,935	13.1
Road assets					
Tuni-Anakapalli	DCF based	340	61%	208	0.1
Tambaram-Tindivanam	DCF based	786	61%	480	0.1
Pochanpalli	DCF based	1,753	100%	1,753	0.5
Ambala-Chandigarh	DCF based	(1,677)	100%	(1,677)	(0.4)
Farukhnagar-Jadcherla	DCF based	3,235	100%	3,235	0.8
Tindivanam-Ulundurpet	DCF based	2,445	100%	2,445	0.6
Hyderabad-Vijaywada	DCF based	3,914	74%	2,896	0.7
Chennai ORR	DCF based	45	90%	41	0.0
Hungund-Hospet	DCF based	2,503	51%	1,276	0.3
Total road assets		13,345		10,657	2.7
Transmission assets					
Bikaner-Ajmer	DCF based	600	100%	600	0.2
Hindaun-Alwar	DCF based	418	100%	418	0.1
Total value of transmission assets		1,018		1,018	0.3
Mines					
Indonesian mine (Barasentosa Lestari)	P/B	4,000	100%	4,000	1.0
Stake in Golden Energy Mines	P/B	8,517	30%	2,555	0.7
Homeland Energy Group	P/B	3,044	56%	1,700	0.4
Total value of mines		15,561		8,255	2.1
Less: CCPS issued by GMR Airports				(19,885)	(5.1)
Less: CCPS issued by GMR Energy				(18,771)	(4.8)
Less: Debt on standalone company				(23,761)	(6.1)
Add: Cash, liquid inv. of standalone co., other subs				32,311	8.3
sub-total				(30,107)	(7.7)
Total value				124,371	32.0

Source: RCML Research, Company

BUY

TP: INR 32.00

▲ 48.5%

GMR Infrastructure

GMRI IN



Results Review

INDIA

INDUSTRIALS

Per Share Data

Y/E 31 Mar (INR)	FY10A	FY11A	FY12E	FY13E	FY14E
Reported EPS	0.4	(2.5)	(1.6)	1.0	1.1
Adjusted EPS	0.4	(0.4)	(1.2)	1.0	1.1
DPS	0.0	0.0	0.0	0.0	0.0
BVPS	18.2	18.0	16.5	17.4	18.4

Valuation Ratios

Y/E 31 Mar (x)	FY10A	FY11A	FY12E	FY13E	FY14E
EV/Sales	8.6	6.5	5.4	4.8	3.9
EV/EBITDA	28.9	24.1	23.5	13.8	10.5
Adjusted P/E	144.7	(108.7)	(17.9)	20.9	20.3
P/BV	3.4	2.2	1.3	1.2	1.2

Financial Ratios

Y/E 31 Mar	FY10A	FY11A	FY12E	FY13E	FY14E
Profitability & Return Ratios (%)					
EBITDA margin	29.9	26.9	23.2	34.6	37.1
EBIT margin	16.5	12.0	9.5	23.3	25.1
Adjusted profit margin	3.5	(2.3)	(5.8)	3.8	3.1
Adjusted ROAE	2.4	(1.9)	(6.6)	5.7	5.6
ROCE	3.0	2.1	1.8	3.1	4.7
YoY Growth (%)					
Revenue	13.6	26.4	31.4	30.0	29.3
EBITDA	27.9	14.0	13.0	94.1	38.6
Adjusted EPS	(78.3)	(182.7)	n.a.	n.a.	2.9
Invested capital	40.2	26.8	33.8	15.8	6.8
Working Capital & Liquidity Ratios					
Receivables (days)	61	69	64	55	47
Inventory (days)	18	16	14	14	13
Payables (days)	197	292	328	292	238
Current ratio (x)	0.6	0.7	0.7	0.7	0.7
Quick ratio (x)	0.6	0.7	0.7	0.7	0.7
Turnover & Leverage Ratios (x)					
Gross asset turnover	0.3	0.3	0.3	0.3	0.3
Total asset turnover	0.2	0.2	0.2	0.2	0.2
Net interest coverage ratio	0.9	0.6	0.4	1.2	1.1
Adjusted debt/equity	3.1	3.5	5.5	6.0	6.0

DuPont Analysis

Y/E 31 Mar (%)	FY10A	FY11A	FY12E	FY13E	FY14E
Tax burden (Net income/PBT)	82.0	58.5	64.3	55.9	59.0
Interest burden (PBT/EBIT)	25.7	(32.3)	(94.8)	29.4	20.6
EBIT margin (EBIT/Revenue)	16.5	12.0	9.5	23.3	25.1
Asset turnover (Revenue/Avg TA)	17.0	15.9	16.2	17.9	21.5
Leverage (Avg TA/Avg equities)	408.9	530.5	696.3	833.0	849.7
Adjusted ROAE	2.4	(1.9)	(6.6)	5.7	5.6

BUY

TP: INR 32.00

▲ 48.5%

GMR Infrastructure

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Results Review

INDIA

INDUSTRIALS

Income Statement

Y/E 31 Mar (INR mln)	FY10A	FY11A	FY12E	FY13E	FY14E
Total revenue	45,665	57,738	75,864	98,605	127,464
EBITDA	13,643	15,555	17,582	34,133	47,304
EBIT	7,521	6,946	7,237	22,960	32,004
Net interest income/(expenses)	(8,503)	(12,301)	(16,531)	(19,589)	(28,806)
Other income/(expenses)	2,913	3,113	2,434	3,387	3,389
Exceptional items	0	0	0	0	0
EBT	1,931	(2,242)	(6,860)	6,759	6,587
Income taxes	322	(239)	(2,107)	(2,201)	(1,341)
Extraordinary items	0	7,986	1,621	0	0
Min. int./Inc. from associates	(669)	1,170	4,555	(778)	(1,358)
Reported net profit	1,584	6,675	(2,791)	3,780	3,888
Adjustments	0	(7,986)	(1,621)	0	0
Adjusted net profit	1,584	(1,311)	(4,412)	3,780	3,888

Balance Sheet

Y/E 31 Mar (INR mln)	FY10A	FY11A	FY12E	FY13E	FY14E
Accounts payables	15,775	51,617	53,176	50,035	54,443
Other current liabilities	0	0	0	0	0
Provisions	3,878	2,281	986	1,073	1,110
Debt funds	208,374	242,296	354,922	404,546	428,382
Other liabilities	17,902	19,981	19,661	21,753	24,480
Equity capital	3,667	3,892	3,892	3,892	3,892
Reserves & surplus	63,003	66,221	60,188	63,968	67,856
Shareholders' fund	66,671	70,113	64,080	67,860	71,748
Total liabilities and equities	314,598	411,070	523,353	575,695	610,492
Cash and cash eq.	16,826	33,732	40,777	34,104	33,655
Accounts receivables	8,649	13,199	13,556	16,188	16,612
Inventories	1,159	1,846	1,964	2,246	2,642
Other current assets	14,773	26,144	21,810	23,822	25,578
Investments	46,411	29,741	35,587	35,587	35,587
Net fixed assets	125,481	212,200	201,855	320,470	337,670
CWIP	103,829	94,898	211,233	148,299	165,489
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(2,529)	(691)	(3,428)	(5,021)	(6,742)
Other assets	0	0	0	0	0
Total assets	314,598	411,070	523,353	575,695	610,492

Cash Flow Statement

Y/E 31 Mar (INR mln)	FY10A	FY11A	FY12E	FY13E	FY14E
Net income + Depreciation	7,706	15,284	7,554	14,953	19,188
Interest expenses	8,503	12,301	16,531	19,589	28,806
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(3,858)	17,637	4,124	(7,981)	1,869
Other operating cash flows	(2,976)	(20,812)	(10,231)	(2,609)	(2,031)
Cash flow from operations	9,375	24,411	17,978	23,951	47,832
Capital expenditures	(70,490)	(85,875)	(116,335)	(66,854)	(49,690)
Change in investments	(33,302)	16,669	(5,846)	0	0
Other investing cash flows	2,103	2,335	2,434	3,387	3,389
Cash flow from investing	(101,688)	(66,871)	(119,747)	(63,467)	(46,301)
Equities issued	375	12,739	0	(0)	0
Debt raised/repaid	90,136	56,704	118,372	49,524	23,736
Interest expenses	(8,503)	(12,301)	(16,531)	(19,589)	(28,806)
Dividends paid	0	0	0	0	0
Other financing cash flows	2,466	2,224	6,972	2,908	3,089
Cash flow from financing	84,474	59,367	108,813	32,843	(1,980)
Changes in cash and cash eq	(7,839)	16,906	7,045	(6,673)	(449)
Closing cash and cash eq	16,826	33,732	40,777	34,104	33,655

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