GVK Power & Infrastructure Ltd.

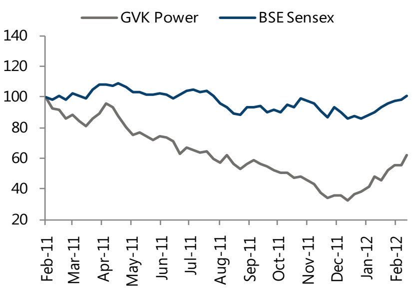
Result Update - Q3FY12

Sell

Reco	Maintained
CMP	₹ 19
Target Price	₹ 13
Downside Potential	32%

Price Performance

52 wk Hi/Lo	31/10
All time Hi/Lo	93/10
6 mnth Average Vol	11729921
Stock Beta	1.27



Valuation

	FY11	FY12P	FY13P
EV/EBIDTA (x)	16.0	19.5	17.3
P/BV (x)	0.9	0.9	0.9
RONW (%)	4.7%	2.2%	-1.5%
ROCE (%)	2.8%	1.4%	0.3%

Peer Valuation (FY12)

	GMRI	RELI
EV/EBIDTA	11.6	12.3
P/BV	1.4	0.7

Equity Data

Market Cap. (₹ bln)	30
Face value (₹)	1
No of shares o/s (mln)	1579

	Dec'10	Dec'11	%ch
Promoters	54.25	54.25	0
DFI's	8.01	4.25	-46.9
FII's	28.54	17.30	-39.4
Public	9.20	24.20	163.0

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Acquisition costs hit bottomline …

GVK Power & Infrastructure Q3FY12 result, not comparable on a YoY basis due to consolidation of MIAL, disappointed on operational as well as net profit front. On the operational front power division recorded lower PLF's due to reduced gas supply from RIL while the pax traffic growth in airports moderated to sub-8% levels. Higher fixed costs & forex losses affected operating profits for both the divisions. The net profit was lower on account of interest cost on debt used for funding the 13% stake acquisition in MIAL. The company booked an additional interest cost of ₹ 0.5bln in Q3FY12. Improvement in global sentiment, decline in risk aversion has supported the recent buoyancy in capital markets and has seen the stock price almost doubling from its recent lows. We believe the current price factors in a lot of positives, the most important being raising of capital in the airports division and consequent de-leveraging of the balance sheet supporting future cash flow and profitability. However, the run-up in stock price is not expected to be supported by any improvement on the operational front given that the gas production from RIL is expected to further decline and the COD of under construction power plants has been delayed by at least a year. Escalation in project costs and the funding of the same of an already stretched balance sheet has cast shadow on the airports division. Significant project cost escalations, possibility of further delay in execution due to shortfall in finance, lack of clarity on regulations and delay in real estate monetization undermine the company's ability to complete the projects within the stated timelines. In addition, the contingent risk of Hancock acquisition still remains. We roll over our target price to FY13 & continue to maintain Sell with a price target of ₹ 13. A significant reduction in the final cost escalation est., real estate monetization and equity infusion in airports vertical pose upside risks.

Debt funding of MIAL stake acquisition hits bottomline …

GVK increased its stake in MIAL by acquiring 13.5% stake from Bidvest. The transaction cost ₹ 11.5bln was entirely funded through debt. A part of the debt of ₹ 6.5bln was raised through securitization of Jaipur-Kishangarh expressway at an interest of 12.98% while the rest ₹ 5bln was raised as a corporate loan at 13.9% taking the total acquisition debt to ₹ 24bln for consolidation of its stake in BIAL & MIAL. This translated into an interest outgo of ₹ 820mln and a net loss for the company.

Valuation: price factoring in lot of positives, risks remain

We believe the current market price factors in a lot of positives for the company while the risks still remain. Significant cost escalations, further delay due to shortfall in financing the escalation, regulatory approvals and the contingent risk of Hancock acquisition pose significant risk. We roll over our target price to FY13 and continue to maintain Sell with a price target of ₹ 13.

Summary Financials

₹ in Mln	FY10	FY11	FY12P	FY13P
Net Sales	17866	19147	27399	33725
OPBDIT	4683	5140	7707	10884
Net Profit	1559	1549	739	-481
Adj EPS	1.0	1.0	0.5	-0.3
Networth	31560	33868	33371	32890
Debt	44455	55484	135680	170944
Fixed Assets	59384	74175	160031	206386
Net Current Assets	2420	3972	13122	10600

Exhibit 1: Q3FY12 Result Summary

Period ending (fig in ₹ mln)	Q3FY12	Q3FY11	% chg	9MFY12	9MFY11	% chg
Total Income	7445.5	4595.6	62%	18342.4	14528.5	26%
Total Expenditure	5337.9	3303.7	62%	13400.5	10519.5	27%
Raw Material/Fuel Costs	2836.2	2709.5	5%	9641.6	8664.2	11%
Construction/Variable expense	2836.2	2709.5	5%	9641.6	8664.2	11%
Personnel / Staff cost	262.5	83.2	216%	437.1	245.1	78%
Other Expenses	2239.2	511.0	338%	3321.8	1610.2	106%
EBIDTA	2107.6	1291.9	63%	4941.9	4009.0	23%
EBIDTA margin	28.3%	28.1%	1%	81.2%	82.8%	-2%
Depreciation	783.1	500.6	56%	1712.2	1424.0	20%
Interest	1435.6	659.8	118%	2886.2	1997.7	44%
Other Income	199.9	33.5	497%	539.2	139.9	285%
PBT	88.8	165.0	-46%	882.7	727.2	21%
Tax	277.4	-9.1		532.8	108.8	390%
PAT	-188.6	174.1	-208%	349.9	618.4	-43%
Share of profit from associate	255.3	306.8	-17%	898.5	755.5	19%
Minority Interest	211.7	61.8	243%	425.0	192.8	120%
Net profit after MI	-145.0	419.1	-135%	823.4	1181.1	-30%
EPS	-0.1	0.3		0.5	0.7	
No of Equity shares	1579.2	1579.2		1579.2	1579.2	
Segmental Revenue						
Power	4113.5	4077.5	1%	13875.2	13047.2	6%
Roads	587.9	486.7	21%	1652.7	1386.9	19%
Airports	2708.9	0.0	NA	2708.9	0.0	NA
Others	35.3	31.4	12%	105.7	94.4	12%
Total	**7445.6**	**4595.6**	**62%**	**18342.5**	**14528.5**	**26%**
% contribution						
Power	55%	89%		76%	90%	
Roads	8%	11%		9%	10%	
Airports	36%	0%		15%	0%	
Others	0%	1%		1%	1%	
Segmental Result (EBIT)						
Power	409.3	493.3	-17%	1794.6	1763.0	2%
Roads	346.4	269.3	29%	892.4	733.0	22%
Airports	569.8	0.0		569.8	0.0	
Others	-1.0	28.7	-103%	-27.2	89.1	-131%
Total	**1324.5**	**791.3**	**67%**	**3229.6**	**2585.1**	**25%**
% Margin						
Power	10%	12%	-18%	13%	14%	-4%
Road	59%	55%	6%	54%	53%	2%
Airports	21%	0%		21%	NA	
Others	-3%	91%	-103%	-26%	94%	-127%
% contribution						
Power	31%	62%		56%	68%	
Roads	26%	34%		28%	28%	
Airports	43%	0%		18%	0%	
Others	0%	4%		-1%	3%	

Source: Company, MSFL Research

Exhibit 2: Power segment performance

	J I			J II			Gautami		
(fig in ₹ mln)	Q3FY12	Q3FY11	Y-o-Y	Q3FY12	Q3FY11	Y-o-Y	Q3FY12	Q3FY11	Y-o-Y
PLF	75.6%	80.0%		67.6%	80.2%		69.3%	78.5%	
Revenue	969	881	10%	998	1027	(2.8%)	2147	2184	(1.7%)
EBITDA	113	(17)	(765%)	206	289	(29%)	503	679	(25.9%)
EBITDA Margin	11.7%	(1.9%)		20.6%	28.1%		23.4%	31.1%	
PAT	21	(98)	(121%)	(34)	29	(217%)	54	182	(70.3%)
PAT Margin	2.2%	(11%)	-	(3.4%)	(2.8%)				

Source: Company, MSFL Research

- Power has underperformed expectations due to lower PLF's on reduced gas supply from RIL KG Basin. On a sequential basis too the PLF's have been lower. In a repeat of Q1FY12 the company expects the regulator to allow RLNG imports in Q1FY13 to meet surge in power demand witnessed during the period of year.
- The power division booked forex losses to the tune of ₹ 90mln.
- Alaknanda Hydro project – It expects to commission 2 units in September'12 and the remaining in December'12. The project cost has escalated from ₹ 27bln to ₹ 42bln and the company is in the process of obtaining approval of the escalation from the regulator.

Exhibit 3: Airport's performance

	MIAL			BIAL		
(fig in ₹ mln)	Q3FY12	Q3FY11	Y-o-Y	Q3FY12	Q3FY11	Y-o-Y
PAX (in mln)	8.0	7.7	3.9%	3.3	3.1	6.5%
ATM (in '000s)	64.1	61.3	4.6%	30.8	28.3	8.8%
Cargo (in '000s tonnes)	160.4	169.1	-5.1%	56.6	56.5	0.2%
Revenue	3325	2990	11.2%	1538	1390	10.6%
Aero	1089	1020	6.8%	947	865	9.5%
Non Aero	1821	1028	77.1%	526	448	17.4%
Cargo	415	762	-45.5%	65	77	-15.6%
EBITDA	1219	1175	3.7%	1086	975	11.4%
EBITDA Margin	36.7%	39.3%		70.6%	70.1%	
PAT	429	498	-13.9%	563	461	22.1%
PAT Margin	12.9%	16.7%		36.6%	33.2%	

Source: Company, MSFL Research

- MIAL – While the growth of International PAX has been in line with expectations domestic PAX growth has declined and was below expectations. Same was the case with ATMs while cargo tonnage has declined both on international & domestic routes. The profitability has declined due to increase in power & other operating costs. The management has indicated an escalation in the project cost by ~₹ 25bln but is yet to firm up on sources of funding the escalation. It expects to achieve completion of International Terminal by Aug'13 and the domestic terminal by Aug'14. The company has applied to the regulator for revision in tariff.

- BIAL – As in the case of MIAL the operating parameters for BIAL have lagged expectations with PAX lagging by 4.5%, ATM's lagging by 4% and cargo lagging by 13%. The operating profit was higher due to lower other expenditure while the net profit has been lower due to higher interest cost. The interest cost is higher due to forex loss of ₹ 176mln. The SPV has achieved financial closure for its expansion project and expects equity to be funded by existing cash balance of ₹ 5bln & internal accruals.

Exhibit 4: Road (GJEPL) performance

(fig in ₹ mln)	Q3FY12	Q3FY11	Y-o-Y
Traffic	2.3	2.1	10.2%
Revenue	588	487	20.7%
EBITDA	407	354	15.0%
EBITDA Margin	69.2%	72.7%	
PAT	105	219	-52.1%
PAT Margin	17.9%	45.0%	

Source: Company, MSFL Research

- Total traffic during the quarter surpassed our expectations by 5% consequently revenue was 6% ahead of our expectations. The operating profit was lower due to increase in personnel & other expenditure. The interest cost for the SPV has jumped 4x since the company has securitized receivables to the tune of ₹ 6.5bln from this project and part funded the acquisition of 13.5% stake of MIAL. The interest cost of the debt is ~12.98%. The company is looking at raising resources through private equity route to fund the equity requirement towards Shivpuri-Dewas, Deoli-Kota and Bagodara-Vasad road projects

Exhibit 5: Change in estimates

(fig in ₹ mln)	FY12			FY13		
	Old	New	% chg	Old	New	% chg
Revenue	26995	27399	1.5%	33715	33725	0.0%
EBITDA	8082	7707	-4.6%	11229	10884	-3.1%
EBITDA Margin	29.9%	28.1%		33.3%	32.3%	
Net profit after minority & associates	1777	739	-58.4%	1291	-481	-137.3%
PAT margin	6.6%	2.7%		3.8%	-1.4%	

Source: MSFL Research

- We have factored in lower profitability of the power division along with interest cost on ₹ 11.5bln of loan taken to fund the 13.5% increase in MIAL stake. The average cost of the acquisition debt stands at 13.4% which is expected to be a drag on the company's cash flow and profitability. A takeout of this loan by equity shall enable the company to save on interest cost.

- **Maintain Sell – Equity infusion the key trigger**

The operational performance of the company has been mixed with power deteriorating due to unavailability of fuel, airports remaining stable on the back of moderate growth in passenger traffic and road outperforming due to higher traffic growth. The power division is facing multiple headwinds in the form of lower fuel availability, escalation in project costs and delay in commissioning of projects translating into subdued financial performance in FY13E. In addition, the ₹ 23.7bln acquisition debt in airports division is affecting the profitability and cash flow of the entire group. With the cash flow from the operational road project securitized for part funding of MIAL stake the funding of equity commitments for the other road projects shall be dependent on private equity infusion in this division. While fund raising at both the airports holdco level and the road holdco level shall be positive trigger for the company the extent of dilution remains a key risk. We believe the stock has risen in anticipation of capital markets turning favorable for capital raising and is factoring in takeout of the acquisition debt by equity. Delay in raising capital & lack of clarity on funding of project cost escalation and the Hancock acquisition remain key risks for the company. We roll over our target to FY13 and maintain Sell with a target price of ₹ 13

Exhibit 6: Valuation

Project	Value of the Project	GVKPIL's holding	GVKPIL's share	Value per share
MIAL				**9.7**
Core airport	1,540	51%	778	0.5
Real estate	28,702	51%	14,494	9.2
Power				**6.6**
GVK Ind (JP-I & JP- II)	2,641	75%	1,981	1.3
Gautami	7,007	48%	3,344	2.1
Alaknanda	2,248	75%	1,687	1.1
Goindwal-Sahib	3,728	75%	2,797	1.8
GVK Tokisud	790	75%	593	0.4
Road				
Jaipur express way	7,370	100%	7,370	4.7
BIAL				
Core airport	26,030	43%	11,193	7.1
Total Value	85,836		44,237	28.0
Less: Debt			23,690	15.0
Target price	85,836		20,547	13.0

Source: MSFL Research

Financial Summary

Profit & Loss

Particulars (₹ in mln)	2009	2010	2011	2012P	2013P
Sales	**5049**	**17866**	**19147**	**27399**	**33725**
Total Expenditure	3286	13183	14007	19692	22841
EBIDTA	**1763**	**4683**	**5140**	**7707**	**10884**
EBIDTA Margin (%)	35%	26%	27%	28%	32%
Depreciation	780	1371	1836	2673	3749
EBIT	983	3312	3304	5035	7135
Interest cost	334	2171	2631	4402	6449
Operating Profit	650	1141	672	633	686
Other Income	202	292	285	653	725
Extraordinary Item	0	0	0	0	0
PBT	**851**	**1433**	**957**	**1285**	**1411**
Tax	100	200	213	727	1285
PAT	**751**	**1232**	**744**	**558**	**126**
PAT Margin (%)	15%	7%	4%	2%	0%
Add: profit from associate	328	517	1109	909	550
Less: Minority interest	3	191	304	729	1158
Net profit after minority	**1076**	**1559**	**1549**	**739**	**-481**
EPS	0.8	1.0	1.0	0.5	-0.3
Sales Growth (%)	9%	254%	7%	43%	23%
EBITDA Growth (%)	-5%	166%	10%	50%	41%
PAT Growth (%)	-21%	45%	-1%	-52%	-165%

Balance Sheet

Particulars (₹ in mln)	2009	2010	2011	2012P	2013P
Sources of Funds					
Share Capital	1696	1579	1579	1579	1579
Reserves & Surplus	21533	29980	32289	31792	31311
Networth	**23229**	**31560**	**33868**	**33371**	**32890**
Secured Loans	28686	44305	53334	129692	165858
Unsecured Loans	1111	150	2150	5988	5085
Total Loans	**29798**	**44455**	**55484**	**135680**	**170944**
Deferred Tax Liability (Net)	880	890	576	0	0
Deferred income	1641	1787	1703	1703	1703
Minority interest	2644	2501	11534	25539	28445
Real estate Deposits				0	2740
Airport Development fee				6160	9916
TOTAL	**58192**	**81192**	**103164**	**202453**	**246637**
Application of Funds					
Net Fixed Assets	52091	59384	74175	160031	206386
Goodwill				7906	7906
Investment	3214	19382	25017	24260	24610
Current Assets	4225	4463	7953	25623	23397
Current Liabilities	1339	2043	3981	12501	12797
Net Current Assets	**2886**	**2420**	**3972**	**13122**	**10600**
Deferred Tax Asset (Net)				-2866	-2866
TOTAL	**58191**	**81192**	**103164**	**202453**	**246637**

Cash Flows

Particulars (₹ in mln)	2009	2010	2011	2012P	2013P
Internal accruals	1603	4464	4625	3231	3875
(Inc)/Dec in Net Current Assets	-32	-927	-538	-291	219
Cash flow from Operations	**1571**	**3538**	**4086**	**2940**	**4095**
Inc/(Dec) in Debt	4952	12954	6486	47357	35264
Inc/(Dec) in Equity	275	7050	0	0	0
Dividend & Tax	0	0	0	0	0
Cash flow from Financing	**5227**	**20046**	**13638**	**53815**	**43508**
Fixed Asset formation	-10501	-8133	-13168	-11900	-50104
Inc/(Dec) in Investment	1177	-16199	-3668	-2654	200
Cash flow from Investment	**-9324**	**-24332**	**-16836**	**-47067**	**-49904**
Net Change in Cash	**-2526**	**-748**	**889**	**9688**	**-2302**

Ratios

Valuation Ratio	2009	2010	2011	2012P	2013P
P/E	24.8	19.2	19.4	40.6	-62.3
P/BV	1.3	1.0	0.9	0.9	0.9
EV/EBIDTA	33.0	15.8	16.0	19.5	17.3
EV/Sales	11.5	4.1	4.3	5.5	5.6
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
EPS	0.8	1.0	1.0	0.5	-0.3
DPS	0.0	0.0	0.0	0.0	0.0
Book Value	14.7	20.0	21.4	21.1	21
Adj. ROE	5%	5.7%	4.7%	2.2%	-1.5%
Adj. ROCE	2%	4.1%	2.8%	1.4%	0.3%
Solvency Ratio (x)					
Debt/Equity	1.3	1.4	1.6	4.1	5.2
Debt/EBIDTA	16.9	9.5	10.8	17.6	15.7
Turnover Ratio (x)					
Asset Turnover	0.1	0.2	0.2	0.1	0.1
Fixed Asset Turnover	0.2	0.4	0.4	0.4	0.3
Current Ratio	3.2	2.2	2.0	2.0	1.8
Inventory (days)	31.9	7.2	8.2	6.4	4.7
Debtors (days)	46.5	13.8	13.2	67.9	57.7
Creditors (days)	94.2	36.9	71.2	161.4	134.3

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Key ratings:

Rating	Expected Return
Buy	> 15%
Accumulate	5 to 15%
Hold	-5 to 5%
Sell	< -5%
Not Rated	-

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