

## EARNINGS REVIEW

**GMR Infrastructure (GMRI.BO)**

Neutral

Equity Research

**Below expectations on high fuel costs and interest; retain Neutral****What surprised us**

GMR reported 3Q EBITDA of Rs4.7bn, below GSe and Bloomberg consensus estimate primarily due to higher fuel costs and other operating expenses in the power segment. Revenue was above GSe at Rs20bn on higher-than-expected EPC and power revenues (+390% and +17% yoy, respectively). Interest expense continued to rise and was up 10% qoq. The company raised its capex guidance to Rs140bn for FY13 from Rs100bn earlier. In addition, it expects to commission 3 power plants (~2400MW) and 2 road projects (~280km), contributing substantially to revenue growth for FY13-14.

**What to do with the stock**

We continue to believe that uncertainty around fuel (gas and coal) supplies for the existing and under construction power projects remains high, while the likely positive impact of the change in airport tariffs is already largely reflected in GMR's current share price. In addition, funding requirements for the Rs77bn Kishangarh-Ahmedabad highway and for other projects under development could continue to put pressure on GMR's already leveraged balance sheet – FY13E debt/equity of 3.2X. Better-than-expected resolution on these issues would be a positive for the stock, in our view.

We revise our FY12E-FY14E EPS on the back of 3Q results (higher revenue from power and airports and adjusting for higher debt to fund capex). Consequently, we fine-tune our 12-m SOTP-based TP to Rs29 (from Rs28). Key risks: Downside – Prolonged weakness in traffic, delay in power plant commissioning, inability to raise finances. Upside – Real estate monetization, favorable airport regulation.

**GMR 3QFY12 results**

in Rs mn	Q3FY12A	vs GS	vs consensus	YoY growth
Sales	19,993	16%	10%	47%
EBITDA	4,693	-3%	-8%	23%
Net Profit	-1,080	-89%	-71%	-385%

Source: Company data, Bloomberg, Goldman Sachs Research estimates.

**INVESTMENT LIST MEMBERSHIP**

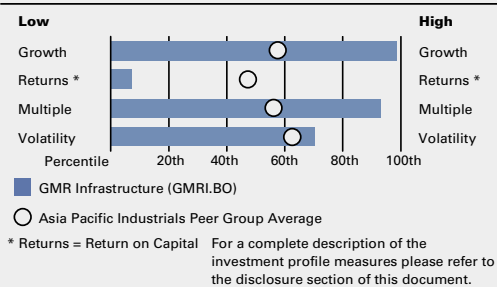
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**Coverage View: Neutral**

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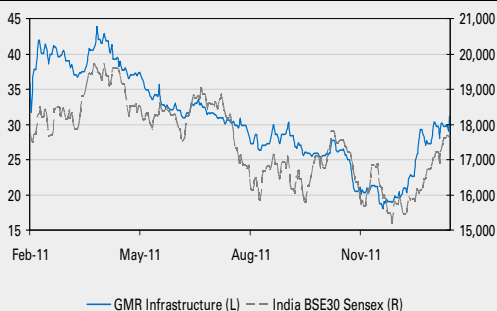
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**Investment Profile****Key data**

	Current
Price (Rs)	31.20
12 month price target (Rs)	29.00
Market cap (Rs mn / US\$ mn)	113,608.6 / 2,308.9
Foreign ownership (%)	8.3

	3/11	3/12E	3/13E	3/14E
<b>EPS (Rs) New</b>	<b>(2.40)</b>	<b>(0.68)</b>	<b>0.39</b>	<b>1.23</b>
EPS revision (%)	0.0	(12.4)	35.6	(18.4)
EPS growth (%)	(653.9)	71.5	156.9	217.1
<b>EPS (dil) (Rs) New</b>	<b>(2.40)</b>	<b>(0.68)</b>	<b>0.39</b>	<b>1.23</b>
P/E (X)	NM	NM	80.2	25.3
P/B (X)	1.3	1.3	1.3	1.2
EV/EBITDA (X)	30.5	19.8	16.0	12.7
Dividend yield (%)	--	--	0.0	0.0
ROE (%)	(11.4)	(2.8)	1.6	5.0
CROCI (%)	3.4	8.3	8.8	10.0

**Price performance chart**

Share price performance (%)	3 month	6 month	12 month
Absolute	17.7	5.9	(13.2)
Rel. to India BSE30 Sensex	16.8	1.7	(12.9)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 2/08/2012 close.

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# GMR Infrastructure: Summary Financials

Profit model (Rs mn)	3/11	3/12E	3/13E	3/14E	Balance sheet (Rs mn)	3/11	3/12E	3/13E	3/14E
<b>Total revenue</b>	<b>55,717.1</b>	<b>78,934.2</b>	<b>106,337.6</b>	<b>140,974.7</b>	Cash & equivalents	33,732.1	20,498.7	9,865.1	13,201.3
Cost of goods sold	(31,078.0)	(41,180.6)	(51,223.6)	(64,384.2)	Accounts receivable	13,199.2	18,699.3	25,191.0	33,396.5
SG&A	(19,714.1)	(28,533.1)	(37,321.4)	(49,018.3)	Inventory	1,845.8	2,445.8	3,042.3	3,823.9
R&D	--	--	--	--	Other current assets	26,144.1	26,144.1	26,144.1	26,144.1
Other operating profit/(expense)	0.0	0.0	0.0	0.0	<b>Total current assets</b>	<b>74,921.2</b>	<b>67,787.9</b>	<b>64,242.5</b>	<b>76,565.8</b>
<b>EBITDA</b>	<b>13,534.2</b>	<b>20,011.5</b>	<b>29,671.3</b>	<b>41,205.6</b>	Net PP&E	258,694.0	321,909.4	406,737.8	469,068.2
Depreciation & amortization	(8,609.2)	(10,790.9)	(11,878.7)	(13,633.3)	Net intangibles	48,403.7	36,565.2	34,256.9	31,196.7
<b>EBIT</b>	<b>4,925.0</b>	<b>9,220.6</b>	<b>17,792.6</b>	<b>27,572.3</b>	Total investments	31,329.4	31,329.4	31,329.4	31,329.4
Interest income	1,540.4	1,686.6	1,024.9	493.3	Other long-term assets	0.0	0.0	0.0	0.0
Interest expense	(12,300.6)	(16,476.1)	(18,664.5)	(22,923.2)	<b>Total assets</b>	<b>413,348.3</b>	<b>457,592.0</b>	<b>536,566.7</b>	<b>608,160.2</b>
Income/(loss) from uncons. subs.	(34.6)	0.0	0.0	0.0	Accounts payable	35,431.9	32,438.7	43,700.4	57,934.8
Others	3,593.3	2,250.0	2,362.5	2,835.0	Short-term debt	26,046.7	26,046.7	26,046.7	26,046.7
<b>Pretax profits</b>	<b>(2,276.5)</b>	<b>(3,318.9)</b>	<b>2,515.6</b>	<b>7,977.4</b>	Other current liabilities	16,185.3	15,108.9	13,336.7	11,092.0
Income tax	(239.0)	(1,750.0)	(628.9)	(1,994.3)	<b>Total current liabilities</b>	<b>77,663.9</b>	<b>73,594.4</b>	<b>83,083.8</b>	<b>95,073.5</b>
Minorities	1,204.9	3,000.0	(377.3)	(1,196.6)	Long-term debt	216,249.1	270,214.6	337,813.1	391,439.1
<b>Net income pre-preferred dividends</b>	<b>(1,310.6)</b>	<b>(2,068.9)</b>	<b>1,509.3</b>	<b>4,786.4</b>	Other long-term liabilities	4,559.1	4,559.1	4,559.1	4,559.1
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	220,808.2	274,773.7	342,372.2	395,998.2
<b>Net income (pre-exceptionals)</b>	<b>(1,310.6)</b>	<b>(2,068.9)</b>	<b>1,509.3</b>	<b>4,786.4</b>	<b>Total liabilities</b>	<b>298,472.1</b>	<b>348,368.0</b>	<b>425,456.0</b>	<b>491,071.8</b>
Post-tax exceptionals	(7,985.8)	(583.3)	0.0	0.0	<b>Preferred shares</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net income</b>	<b>(9,296.4)</b>	<b>(2,652.2)</b>	<b>1,509.3</b>	<b>4,786.4</b>	<b>Total common equity</b>	<b>94,895.2</b>	<b>92,243.0</b>	<b>93,752.3</b>	<b>98,533.4</b>
EPS (basic, pre-exception) (Rs)	(0.34)	(0.53)	0.39	1.23	Minority interest	19,981.0	16,981.0	17,358.3	18,554.9
EPS (basic, post-exception) (Rs)	(2.40)	(0.68)	0.39	1.23	<b>Total liabilities &amp; equity</b>	<b>413,348.3</b>	<b>457,592.0</b>	<b>536,566.7</b>	<b>608,160.2</b>
EPS (diluted, post-exception) (Rs)	(2.40)	(0.68)	0.39	1.23	<b>BVPS (Rs)</b>	<b>24.46</b>	<b>23.77</b>	<b>24.16</b>	<b>25.39</b>
DPS (Rs)	0.00	0.00	0.00	0.00					
Dividend payout ratio (%)	0.0	0.0	0.4	0.1					
Free cash flow yield (%)	(19.5)	(45.7)	(44.2)	(20.4)					
<b>Growth &amp; margins (%)</b>	<b>3/11</b>	<b>3/12E</b>	<b>3/13E</b>	<b>3/14E</b>	<b>Ratios</b>	<b>3/11</b>	<b>3/12E</b>	<b>3/13E</b>	<b>3/14E</b>
Sales growth	25.1	41.7	34.7	32.6	CROCI (%)	3.4	8.3	8.8	10.0
EBITDA growth	8.2	47.9	48.3	38.9	ROE (%)	(11.4)	(2.8)	1.6	5.0
EBIT growth	(22.9)	87.2	93.0	55.0	ROA (%)	(2.5)	(0.6)	0.3	0.8
Net income growth	(686.9)	71.5	156.9	217.1	ROACE (%)	1.6	2.7	3.6	4.6
EPS growth	(653.9)	71.5	156.9	217.1	Inventory days	17.6	19.0	19.6	19.5
Gross margin	44.2	47.8	51.8	54.3	Receivables days	71.6	73.8	75.3	75.8
EBITDA margin	24.3	25.4	27.9	29.2	Payable days	258.3	300.8	271.3	288.1
EBIT margin	8.8	11.7	16.7	19.6	Net debt/equity (%)	181.6	252.5	318.6	345.3
					Interest cover - EBIT (X)	0.5	0.6	1.0	1.2
<b>Cash flow statement (Rs mn)</b>	<b>3/11</b>	<b>3/12E</b>	<b>3/13E</b>	<b>3/14E</b>	<b>Valuation</b>	<b>3/11</b>	<b>3/12E</b>	<b>3/13E</b>	<b>3/14E</b>
Net income pre-preferred dividends	(1,310.6)	(2,068.9)	1,509.3	4,786.4	P/E (analyst) (X)	NM	NM	80.2	25.3
D&A add-back	8,609.2	10,790.9	11,878.7	13,633.3	P/B (X)	1.3	1.3	1.3	1.2
Minorities interests add-back	0.0	0.0	0.0	0.0	EV/EBITDA (X)	30.5	19.8	16.0	12.7
Net (inc)/dec working capital	26,318.9	(9,093.3)	4,173.4	5,247.4	EV/GCI (X)	1.2	1.0	0.9	0.9
Other operating cash flow	(3,235.2)	9,539.5	15,654.4	20,791.5	Dividend yield (%)	--	--	0.0	0.0
<b>Cash flow from operations</b>	<b>30,382.3</b>	<b>9,168.2</b>	<b>33,215.8</b>	<b>44,458.6</b>					
Capital expenditures	(74,049.6)	(72,292.9)	(94,398.8)	(72,903.5)					
Acquisitions	(8,260.2)	0.0	0.0	0.0					
Divestitures	15,291.2	10,125.0	0.0	0.0					
Others	2,619.7	1,686.6	1,024.9	493.3					
<b>Cash flow from investments</b>	<b>(64,398.9)</b>	<b>(60,481.3)</b>	<b>(93,373.8)</b>	<b>(72,410.2)</b>					
Dividends paid (common & pref)	(77.8)	0.0	0.0	(5.3)					
Inc/(dec) in debt	26,243.2	53,965.5	67,598.5	53,626.0					
Common stock issuance (repurchase)	35,950.2	0.0	0.0	0.0					
Other financing cash flows	(11,193.1)	(15,885.8)	(18,074.2)	(22,332.9)					
<b>Cash flow from financing</b>	<b>50,922.5</b>	<b>38,079.6</b>	<b>49,524.4</b>	<b>31,287.9</b>					
<b>Total cash flow</b>	<b>16,905.9</b>	<b>(13,233.4)</b>	<b>(10,633.6)</b>	<b>3,336.3</b>					

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

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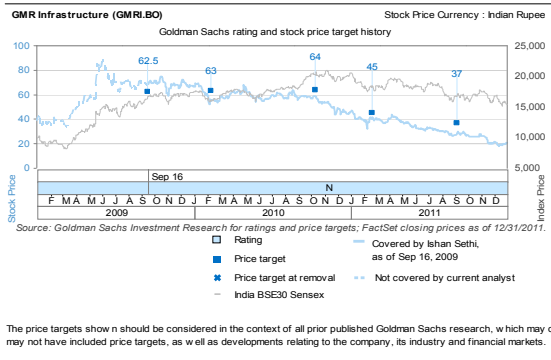
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