

## AERA takes a harsh stand on tariffs of Delhi Airport

January 6, 2012

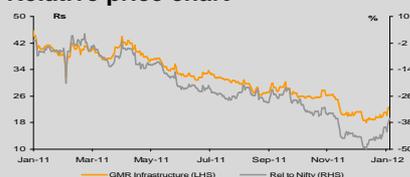
<b>Reco</b>	<b>Previous Reco</b>
Under Review	Buy
<b>CMP</b>	<b>Target Price</b>
Rs23	Under Review
EPS Chg FY12E/FY13E (%)	NA
Target Price change(%)	NA
Nifty	4,750
Sensex	15,857

### Price Performance

(%)	1M	3M	6M	12M
Absolute	8	(12)	(31)	(51)
Rel. to Nifty	18	(10)	(14)	(35)

Source: Bloomberg

### Relative price chart



Source: Bloomberg

### Stock Details

<b>Sector</b>	Construction
<b>Bloomberg</b>	GMRI IB
<b>Equity Capital (Rs mn)</b>	3,892
<b>Face Value(Rs)</b>	1
<b>No of shares o/s (mn)</b>	3,892
<b>52 Week H/L</b>	48/ 18
<b>Market Cap (Rs bn/USD mn)</b>	89/ 1,682
<b>Daily Avg Volume (No of sh)</b>	5,489,721
<b>Daily Avg Turnover (US\$m)</b>	2.3

### Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	71.4	71.4	71.2
FII/NRI	12.4	12.6	12.8
Institutions	8.1	8.1	8.2
Private Corp	1.2	1.2	1.2
Public	6.9	6.8	6.7

Source: Bloomberg

- **Prima facie terms included in consultation paper (CP) are negative for DIAL. CP terms disallows returns on real estate (RE) deposits collected by DIAL, thus capping RE upsides**
- **WACC at 10.3%v/sexp. 12%, Non approval returns on RE deposits will hurt profitability. Near term Rev. likely to be higher than our exp. due to reimbursement of accum. losses (Apr09-Mar12) driving 280% increase over FY13&FY14**
- **DIAL RE comprised 24% of TP, Regulator has cornered DIAL by offering no return on erstwhile RE deposits & we caution about prospective returns that DIAL can generate from RE**
- **Ratings & TP are kept under review for GMR till tariff mechanism is finalized. By Feb-12 the final tariff order is expected to take the final shape & clarity to emerge**

### Our take on AERA's consultation paper

Based on the terms of the consultation paper Aero revenues for DIAL are expected to receive a 280% increase in Aero revenues over the next two years till FY14E. DIAL was seeking a 8 fold increase in tariff mechanism, however the harsh stand of the Airport economic regulatory authority on the Tariff mechanism will mean DIAL will have to settle with 280% hike. Although operating profitability in the near term will receive a significant boost in FY13 & FY14 mainly owing to reimbursements of the losses incurred by DIAL over (Apr09-Mar-12), longer term profitability would languish significantly lower than the profitability of these 2 years for DIAL.

In the near term revenues and profitability will outperform our expectation, however the stance contemplated by the regulator in the consultation paper are negative (please refer the important clauses mentioned below). The initial fillip in revenues would be driven by the accumulation effect, as regulatory period considered by AERA has only 2 years of implementation left. Regulatory period as considered by AERA will begin from Apr09 - Mar 14 v/s Apr12-Mar17 considered in our calculations. Delays in implementation of Tariff mechanism means GMR will recover benefits for the losses that it has incurred over Apr09-Mar12.

These temporary benefits would extinguish over the coming 2 years till FY14E and revenues would dip again in the next regulatory period. A crude calculation signifies that if the revenue expectation as suggested by the regulator is implemented the Aero revenues for DIAL in FY15 would fall ~35% eroding near term sparks in the financial performance.

### GMR Infrastructure Target Price & Rating kept under review

Since the regulator is inviting comments on DIAL tariff mechanism and 24% of value assigned to RE component becomes questionable, we are putting the stock under review category and will revise our target price after the final order for DIAL is through.

### Financial Snapshot (Consolidated)

(Rsmn)

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
Mar										
FY10	45,665	13,643	29.9	1,581	0.4	-41.5	2.4	53.4	20.2	1.2
FY11A	57,738	15,555	26.9	-9,297	-2.4	NA	-13.0	-9.6	19.2	0.9
FY12E	82,906	21,538	26.0	(631)	-0.2	NA	-0.8	-141.8	17.7	0.9
FY13E	117,609	36,557	31.1	4,437	1.1	NA	5.5	20.2	13.0	0.9

### Highlights of important clauses from the consultation paper:

- Regulatory asset base (RAB) is allowed as per the earlier regulatory order - **Neutral** for DIAL
- Regulatory period is considered from April 09- Mar 14 which gives a significant fillip to the near term Aero revenues (280% over FY13 & FY14) – **Positive** for DIAL
- DIAL is expected to receive a cost of equity of 16% v/s 24% sought by DIAL. (16% is still a indicative rate and the regulator is seeking further time to decide on the final rate of return) - **Negative** large spread between AERA's indicative rate & DIAL expectation
- Overall WACC calculation appears significantly lower than what was expected earlier. AERA has approved a final WACC of 10.33% v/s our expectation of 12%. - Will finally depend on the Cost of equity, however the provision of including interest free deposit at 0% for the WACC purpose dragging the overall WACC – **Negative** for DIAL
- Major disappointment comes on the treatment of Real estate deposit component in the overall WACC. GMR was seeking 24% return on this component, however AERA has not considered the request and is not willing to give any return on this component. DIAL has Rs 14.7bn of real estate deposits. If this provision goes through without any amendment, it would mean that GMR will try and use the proceeds of the monetisation in ventures other than DIAL. Such a stance although logical is not expected to find comfort with AERA. Through out the globe any such proceeds are allowed to be utilised only for the purpose of Airport development.
- Non approval of return on the interest free real estate deposit would have a much bigger bearing on the overall valuations of GMR infra. Almost 24% of the value is coming from the Delhi real estate and if the regulator does not allow him to divert the funds to other investment avenue, it would mean that he will have to redeploy the entire cash flows from the further real estate monetisation again in the business without any return. This arrangement would erode the principal of assigning GMR a separate value to the real estate parcel and will be significantly negative. We still seek further clarity on the utilisation of this source of cash in other ventures. – **Negative** on DIAL
- Operating expenditure is taken as per forecast made by DIAL subject to truing up the variance with the Actual expenditure. Eventually regulator is also considering a mechanism to incentivise airport developers if they manage O&M efficiently but the standards are not fixed yet.
- Interest on DF loans - Loans which were securitised against the ADF collection are allowed as an opex for the period of Mar 09 - Nov 11 which implies that future component of the interest on DF loans will not be considered in calculation of the target revenue which will hurt the profitability further. – **Negative** on DIAL
- Inclusion of Tax liability of the aero segment in calculating the overall target revenue is one of the biggest positive which was not being considered in our earlier assessment. At this point the regulator has allowed him only MAT rate tax expense as DIAL has carry forward losses, however it might start grossing up at the actual tax rate once the carry forward losses extinguish.
- Certain items which were initially classified by DIAL as Non aero revenues like CUTE counter charges will be reclassified as Aero charges which will reduce the contribution coming in the Non aero segment - – **Negative** on DIAL
- Certain items like turnover of Car parking, Entry ticket, Advt revenue Lounge, Duty free and duty paid revenue, Forex concessionaire etc., which were operating under the JV route in which DIAL was holding equity would be projected based on 2008-09 figures as the JV mechanism was not in place during that time.
- Revenue from Non transfer asset as well will be included for the purpose of cross subsidisation. - – **Negative** on DIAL for DIAL
- Revenue from Cargo, Ground Handling & Fuel throughput considered as Non Aero.
- AERA has noted that collection of PSF & UDF will be considered at the final determination stage of tariff. – **Positive** for DIAL

We believe the overall tariff order will mean that the regulator is moving in a direction, however such a stance would hamper the monetization plan and the airport developers will have to rethink on the structure in which they will be able to utilize the proceeds from the real estate monetization. Valuation

**Turning caution especially on the RE component (DIAL-Rs9 & GHIAL-Rs 2)**

We believe if the consultation paper goes through as it is without any alteration ~30% of our target value which is assigned to the real estate land parcels will turn extremely risky. We await the clarity on the regulatory front and emergence of final order will help us in assessing the financial performance of GMR.

Currently, we are not revising the financials based on consultation paper will wait for the emergence of final order in finalizing the projection.

## Key Financials (Consolidated)

## Income statement

Y/E Mar (Rsmn)	FY10A	FY11A	FY12E	FY13E
<b>Net Sales</b>	<b>45,665</b>	<b>57,738</b>	<b>82,906</b>	<b>117,609</b>
Growth (%)	14%	26%	44%	42%
<b>Total Expenditure</b>	<b>32,022</b>	<b>42,183</b>	<b>61,368</b>	<b>81,052</b>
Raw material & operating	11,897	21,237	30,941	44,593
Administration & other				4,014
Power & Fuel cost	13,869	12,837	14,325	17,657
Selling and Admin	3,128	4,055	4,748	5,636
Others	3,128	4,055	11,354	13,167
<b>EBIDTA</b>	<b>13,643</b>	<b>15,555</b>	<b>21,538</b>	<b>36,557</b>
Growth (%)	28%	14%	38%	70%
<b>EBIDTA %</b>	<b>29.9%</b>	<b>26.9%</b>	<b>26.0%</b>	<b>31.1%</b>
Depreciation	6,122	8,609	9,957	12,696
<b>EBIT</b>	<b>7,521</b>	<b>6,946</b>	<b>11,581</b>	<b>23,860</b>
<b>EBIT Margin (%)</b>	<b>13.4%</b>	<b>14.9%</b>	<b>12.0%</b>	<b>10.8%</b>
Other income	2,913	(4,873)	2,825	2,700
Interest	8,503	12,301	15,735	19,539
<b>PBT</b>	<b>1,931</b>	<b>(10,228)</b>	<b>(1,330)</b>	<b>7,021</b>
Tax	-319	239	2,110	3,846
<b>Effective tax rate (%)</b>	<b>-16.5%</b>	<b>-2.3%</b>	<b>-158.6%</b>	<b>54.8%</b>
<b>Adjusted PAT</b>	<b>2,250</b>	<b>(10,467)</b>	<b>(3,440)</b>	<b>3,175</b>
Growth (%)	-19%	-565%	-67%	-192%
<b>Net Margin (%)</b>	<b>4.9%</b>	<b>-18.1%</b>	<b>-4.1%</b>	<b>2.7%</b>
(Profit)/loss from JV's/Ass/MI	669.4	-1170.3	-2808.3	-1262.6
<b>Adjusted PAT After</b>	<b>1,581</b>	<b>(9,297)</b>	<b>(631)</b>	<b>4,437</b>
E/O items	0	0	0	0
<b>Reported PAT</b>	<b>1,581</b>	<b>(9,297)</b>	<b>(631)</b>	<b>4,437</b>
Growth (%)	489%	-688%	-93%	-803%

## Cash Flow

Y/E Mar (Rsmn)	FY10A	FY11A	FY12E	FY13E
<b>PBT (Ex-Other income)</b>	<b>1,931</b>	<b>(10,228)</b>	<b>(1,330)</b>	<b>7,021</b>
Depreciation	6,122	8,609	9,957	12,696
Interest Provided	5,697	12,321	15,735	19,539
Other Non-Cash items	-916	4,390		
Chg in working cap	187	17,724	-12,946	-10,243
Tax paid	-511	-2,434	-1,523	-2,763
<b>Operating Cashflow</b>	<b>12,511</b>	<b>30,382</b>	<b>9,893</b>	<b>26,251</b>
Capital expenditure	-68,725	-74,050	-78,090	-101,670
<b>Free Cash Flow</b>	<b>-56,214</b>	<b>-43,667</b>	<b>-68,197</b>	<b>-75,419</b>
Other income				
Investments	-31,868	9,660	0	0
<b>Investing Cashflow</b>	<b>-101,443</b>	<b>-64,390</b>	<b>-78,090</b>	<b>-101,670</b>
Equity Capital Raised	3,839	15,907	0	0
Loans Taken / (Repaid)	97,293	23,542	84,760	76,396
Interest Paid	-7,615	-11,783	-15,735	-19,539
Dividend paid (incl tax)	-5	-87		
Income from investments	0			
Others	-708	23,029		
<b>Financing Cashflow</b>	<b>81,093</b>	<b>50,608</b>	<b>69,025</b>	<b>56,857</b>
<b>Net chg in cash</b>	<b>-7,839</b>	<b>16,906</b>	<b>828</b>	<b>-18,562</b>
Opening cash position	24,665	16,826	33,732	34,560
<b>Closing cash position</b>	<b>16,826</b>	<b>33,732</b>	<b>34,560</b>	<b>15,999</b>

## Balance Sheet

Y/E Mar (Rsmn)	FY10A	FY11A	FY12E	FY13E
Equity share capital	3,667	3,892	3,892	3,892
Reserves & surplus	63,003	72,854	74,405	79,405
<b>Shareholders Funds</b>	<b>66,671</b>	<b>76,746</b>	<b>78,297</b>	<b>83,297</b>
<b>Minority Interest</b>	<b>17901.5</b>	<b>19981</b>	<b>17172.7</b>	<b>15910.1</b>
Preference share	2,000	18,149	18,149	18,149
Secured Loans	162,294	189,107	273,867	350,263
Unsecured Loans	46,080	53,189	53,189	53,189
<b>Loan Funds</b>	<b>208,374</b>	<b>242,296</b>	<b>327,056</b>	<b>403,452</b>
Net Deferred Taxes	2,535	764	1,351	2,434
<b>Total Liabilities</b>	<b>297,480</b>	<b>357,936</b>	<b>442,026</b>	<b>523,242</b>
Gross Block	148,896	243,702	256,796	380,987
Less: Acc Depreciation	23,416	31,503	41,460	54,156
<b>Net block</b>	<b>125,481</b>	<b>212,200</b>	<b>215,336</b>	<b>326,831</b>
Capital WIP	103,829	94,898	159,894	137,373
<b>Investment</b>	<b>46,411</b>	<b>29,741</b>	<b>29,741</b>	<b>29,741</b>
<b>Current Assets</b>	<b>41,408</b>	<b>74,921</b>	<b>86,341</b>	<b>70,103</b>
Inventories	1,159	1,846	1,626	1,637
Sundry Debtors	8,649	13,199	18,446	23,066
Cash and Bank	16,826	33,732	34,560	15,999
Loans and Advances	13,156	18,516	23,788	21,782
Other current assets	1616.5	7627.8	7,920	7,620
<b>Current Liab &amp; Prov</b>	<b>19,653</b>	<b>53,898</b>	<b>49,361</b>	<b>40,880</b>
Current liabilities	15,775	51,617	49,361	40,880
Provisions	3,878	2,281	0	0
<b>Net current assets</b>	<b>21,755</b>	<b>21,024</b>	<b>36,979</b>	<b>29,223</b>
Miscellaneous Exps	5	74	74	74
<b>Total Assets</b>	<b>297,480</b>	<b>357,936</b>	<b>442,025</b>	<b>523,242</b>

## Key Ratios

Y/E Mar	FY10A	FY11A	FY12E	FY13E
<b>Profitability (%)</b>				
EBITDA Margin	29.9	26.9	26.0	31.1
Net Margin	3.5	-16.1	-0.8	3.8
ROCE	3.0	2.1	2.9	4.9
ROE	2.4	-13.0	-0.8	5.5
RoIC	4.3	3.0	4.7	6.5
<b>Per Share Data (Rs)</b>				
EPS	0.4	-2.4	-0.2	1.1
CEPS	2.1	-0.2	2.4	4.4
BVPS	18.7	24.4	24.8	26.1
DPS	0.0	1.0	0.0	0.0
<b>Valuations (x)</b>				
PER	53.4	-9.6	-141.8	20.2
P/CEPS	10.9	-130.2	9.6	5.2
P/BV	1.2	0.9	0.9	0.9
EV / Sales	6.0	5.2	4.6	4.1
EV / EBITDA	20.2	19.2	17.7	13.0
Dividend Yield (%)	0.0	1.0	2.0	3.0
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	2.2	1.8	2.6	3.3
Net Debt/EBIDTA	14.0	13.4	13.6	10.6
Working Cap Cycle (days)	39.4	-80.3	10.7	41.0

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