GMR Infrastructure

13 August 2012

Reuters: GMRI.BO; Bloomberg: GMRI IN

1QFY13 Result Update

Sequential improvement in operating performance

GMR Infrastructure's (GIL) operating performance improved in 1QFY13, driven by increased tariff rates at Delhi airport. Net sales increased 24% to Rs23.1bn (12% higher than our estimate) driven by higher aero revenue at Delhi airport and also rise in EPC revenue. EBITDA increased 19.8% to Rs5.96bn, primarily driven by revised aero tariff. However, the company reported a net loss of Rs943mn (above our estimate of a loss of Rs583mn) due to higher tax provision. We believe the full benefits of revised tariff rates at Delhi airport, expected from 3QFY13, would improve its financial performance. We retain our Buy rating on the stock with a target price of Rs30 based on SOTP valuation.

Robust revenue growth: The company posted revenue growth of 24% at Rs23.1bn driven by the following: 1) Rise in airport revenue by 22.4% following revised aero tariff at Delhi airport (ramp-up in 2QFY13 and full benefits expected from 3QFY13), 2) Rise in power segment revenue by 8.6% driven by the use of re-gasified LNG which increased PLF (plant load factor) by 8% at Vemagiri plant, and 3) Rise in EPC revenue by 135% to Rs4.89 bn YoY.

Sequential improvement in operating performance: EBITDA increased 121.7% QoQ to Rs5.96bn and EBITDA margin improved 1,200bps QoQ to 25.8%, primarily driven by improvement in EBITDA margin at Delhi airport to 45% (which is expected to further rise to 55% in the coming quarters) and better-than-expected revenue growth in the power segment.

Reducing net losses: For the quarter, the company reported adjusted net loss of Rs940mn primarily due to sustained losses at Delhi airport following higher capitalisation charges and one-time reversal of tax assets at Vemagiri plant. Interest costs rose 29% YoY to Rs4.8bn due to increased debt. Going ahead, we expect improvement in profitability of the airport segment to turn around the company into profit.

We retain Buy rating: We believe the airport segment would continue to report improvement in financial performance led by full benefits of tariff revision from 3QFY13. Regulatory problems related to fuel availability easing, commissioning of two major power projects and beginning of toll collection at three new road projects would keep the growth momentum intact. Hence, we retain our Buy rating on the stock with a target price of Rs30.

BUY

Sector: Infrastructure

CMP: Rs21

Target Price: Rs30

Upside: 43%

Amit Srivastava
amit.srivastava@nirmalbang.com
+91-22-3926 8116

Nitin Arora
nitin.arora@nirmalbang.com
+91-22-3926 8169

Key Data

Current Shares O/S (mn)	3,892.4
Mkt Cap (Rsbn/US$bn)	83.9/1.5
52 Wk H / L (Rs)	35/18
Daily Vol. (3M NSE Avg.)	8,056,754

Price Performance (%)

	1 M	6 M	1 Yr
GMR	(12.0)	(27.6)	(27.8)
Nifty Index	1.8	(1.3)	4.9

Source: Bloomberg

Y/E March (Rsmn)	1QFY12	4QFY12	1QFY13	YoY (%)	QoQ (%)	FY11	FY12	YoY (%)
Net sales	18,636	19,483	23,101	*24.0*	*18.6*	57,738	76,421	*32.4*
Total expenses	13,656	16,791	17,134	*25.5*	*2.0*	42,185	58,838	*39.5*
EBITDA	4,980	2,691	5,967	*19.8*	*121.7*	15,553	17,582	*13.0*
EBITDAM (%)	*26.7*	*13.8*	*25.8*	-	-	*26.9*	*23.0*	-
Other income	812	376	652	*(19.7)*	*73.5*	1,573	2,434	*54.8*
Depreciation	2,758	2,234	2,530	*(8.3)*	*13.3*	8,609	10,345	*20.2*
Interest costs	3,724	4,646	4,804	*29.0*	*3.4*	12,301	16,531	*34.4*
Exceptional item	-	(1,621)	464	-	-	(6,445)	(1,621)	-
PBT	(691)	(5,434)	(250)	-	-	(10,230)	(8,481)	-
Tax	655	422	850	-	-	239	2,107	-
RPAT	(1,346)	(5,856)	(1,101)	-	-	(10,469)	(10,588)	-
PAT (Post MI)	(667)	(3,662)	(943)	-	-	(9,298)	(6,033)	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
Net sales	45,665	57,738	76,421	1,02,134	1,32,237
YoY (%)	*13.6*	*26.4*	*32.4*	*33.6*	*29.5*
EBITDA	13,643	15,553	17,582	33,898	53,168
EBITDAM (%)	*29.9*	*26.9*	*23.0*	*33.2*	*40.2*
Adj. net profit (excl. E.O items)	1,581	(1,313)	(4,412)	1,717	6,124
Adj. EPS	0.41	(0.34)	(1.13)	0.44	1.57
P/BV (x)	1.13	0.82	0.82	0.80	0.76
PER (X)	49	(59)	(18)	45	13
EV/EBITDA	16.3	16.5	20.2	11.1	7.1
RoE (%)	*2.4*	*(12.0)*	*(8.0)*	*2.2*	*7.4*
RoCE (%)	*4.6*	*4.3*	*4.0*	*7.5*	*11.7*

Source: Company, Nirmal Bang Institutional Equities Research

Conference call highlights

- The company made equity commitment of Rs24bn for FY13 of which it has invested ~Rs9bn during 1QFY13 and the remaining Rs15bn will be invested in the next nine months - directed towards the energy segment (Rs14bn) and road segment (Rs1bn).
- The benefits of tariff hike at DIAL (Delhi International Airport) will ramp up in 2QFY13 and full benefits to be reaped from 3QFY13, as the company was not able to levy the extra charge on passengers whose tickets were issued before 15th May 2012 (effective revised tariff date). However, shortfall in revenue due to this would be recovered in the next controlling period. The company expects to clock EBITDA margin of 55% till the next tariff period kicks in.
- The company has achieved financial closure for Kishangarh-Udaipur-Ahmedabad road project during May 2012 and the construction is expected to start by October 2013.
- The company is looking at divesting stake in road projects which is in initial stage of development (in order to bring down debt). Gross debt has increased by Rs46bn in 1QFY13 (diverted towards energy and road projects which are under construction) to RsRs392bn.

Segment-wise performance

Airport segment

- In 1QFY13, DIAL reported net revenue growth of 53% YoY and 45% QoQ, with the loss narrowing to Rs691mn versus Rs1bn in 1QFY12 following the rise in aero revenue by 119% YoY due to revised tariff effective from 15 May 2012 . However, subdued traffic growth in the passenger segment (up 1% YoY, flat sequentially) as well as cargo segment (down 9% YoY, up 3% QoQ) capped revenue upside.
- Hyderabad airport reported muted sales growth of 3% YoY following flat passenger traffic growth and decline in volume in the cargo segment (down 2.9% YoY, up 4.7% QoQ). EBITDA margin improved 180bps YoY to 68.8% due to reduction in expenses like business promotion, share service expenses and consultancy charges.
- Turkey airport reported significant improvement in passenger traffic growth by 11% YoY and 32.6% QoQ (traffic was disrupted due to cold weather in 4QFY12) while fuel sales declined 43% YoY and 13% QoQ.
- Male airport reported non-aero revenue growth of 50% at Rs815mn and passenger traffic growth of 7%. However, there was a decline in fuel sales by 14.4% YoY due to lower fuel prices at Dubai and Sri Lanka airports (airlines normally stock fuel in advance from these airports).

Exhibit 2: Airport segment's performance

(Rsmn)	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	*YoY (%)*	*QoQ (%)*
Net revenue	8,429	8,357	8,945	9,685	10,320	*22.4*	*6.6*
EBITDA	2,476	2,319	2,504	2,170	3,470	*40.1*	*59.9*
EBITDA margin (%)	*23.6*	*29.4*	*27.7*	*28.0*	33.6	-	-
PAT (before minority interest)	(1,697)	(2,433)	(2,041)	(4,379)	(899)	-	-
PAT (after minority interest)	(924)	(1,416)	(1,152)	(2,416)	(533)	-	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Airport segment-operational performance

Operating metrics	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	YoY (%)	QoQ (%)
Passnger Traffic (mn)	15.07	14.96	16.19	14.94	15.79	*4.8*	*5.7*
Cargo Traffic('000 tn)	160.84	146.67	142.44	141.95	146.32	*(9.0)*	*3.1*

Source: Company, Nirmal Bang Institutional Equities Research

Power segment: Lower PLF due to shortage of gas supply

- The power segment continued to report losses at Rs460mn, though it narrowed down sequentially on account of factors like: a) Higher merchant power realisation of Rs4.69/unit (up 19.6% YoY, 13.8% QoQ), b) Forex gain of Rs214mn in Homeland Energy on account of restatement of foreign currency loans as against a forex loss of Rs800mn in 4QFY12, c) Reduction in loss at PT GEMs (Sinar Mas) to Rs141mn in 1QFY13 from Rs257mn in 4QFY12. The major reason that led to the loss was reversal of deferred tax provision amounting to Rs260mn at Vemagiri power plant.
- The PLF improved for Vemagiri power plant to 50% in 1QFY13 versus 45% in 4QFY12 led by usage of regasified LNG fuel, which accounts for 8% of PLF. The company has finalised an agreement with APPCC (Andhra Pradesh Power Co-ordination Committee) for 90MW power supply to GEL (barge-mounted plant in Kakinada) till May 2013.
- Current receivables from the power segment amount to Rs9.4bn, 83% of which (Rs7.8bn in 1QFY13 versus Rs6.9bn in 4QFY12) pertains to Tamil Nadu Electricity Board (TNEB).

Exhibit 4: Power segment's performance

Rsmn	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	YoY (%)	QoQ (%)
Gross revenue	6,875	5,432	5,925	5,330	7,463	*8.6*	*40.0*
EBITDA	1,327	905	508	(329)	1,070	*(19.4)*	*425.2*
EBITDA margin (%)	*19.3*	*16.7*	*8.6*	*(6.2)*	14.3	-	-
PAT	483	75	(844)	(1,278)	(269)	-	-
PAT after minority interest	404	(93)	(886)	(1,014)	(460)	-	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Power-segment operational performance

PLF (%)	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13
GPCPL (Chennai) – Tamil Nadu	59.0	42.0	55.0	47.0	40.0
VPGL (Vemagiri) – Andhra Pradesh	88.0	64.0	39.0	45.0	50.0
GEL (barge- mounted) – Andhra Pradesh	66.0	61.0	58.0	43.0	39.0
Gujarat Solar - Gujarat	-	-	-	14.0	20.0
Merchant rate*(Rs/kwh)	4.1	3.3	3.9	3.9	4.7

Source: Company, Nirmal Bang Institutional Equities Research

Road, EPC and other segments

The revenue from road segment grew 4.8% YoY on account of 12.2% revenue growth in BOT (toll) projects. EBITDA margin stood at 82% (down 310bps YoY, 400bps QoQ) due to higher operating costs of Ambala-Chandigarh road project (rectification works of around Rs11.3mn). The revenue from EPC division grew 135% to Rs4.89bn YoY, primarily driven by execution of three active road projects (worth Rs3.3bn) and two power projects (worth Rs880mn). The total order book of the company stood at Rs34bn (2.75x FY12 EPC revenue).

Exhibit 6: Road segment's performance

(Rsmn)	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	YoY (%)	QoQ (%)
Gross revenue	1,003	1,002	1,015	1,036	1,051	*4.8*	*1.4*
EBITDA	854	868	879	891	862	*0.9*	*(3.3)*
EBITDA margin (%)	*85.1*	*86.6*	*86.6*	*86.0*	82.0	-	-
PAT	(25)	11	(12)	546	(49)	-	-
PAT (post MI)	(51)	(13)	(42)	437	(83)	-	-

Source: Company, Nirmal Bang Institutional Equities Research

Ratings track

Date	Rating	Market price (Rs)	Target price (Rs)
26 September 2011	Buy	28	39
29 September 2011	Buy	27	39
11 November 2011	Buy	26	39
11 November 2011	Buy	23	39
18 November 2011	Buy	21	39
6 January 2012	Buy	23	39
12 January 2012	Buy	28	39
9 February 2012	Buy	31	39
10 April 2012	Buy	29	39
1 June 2012	Buy	21	30
17 July 2012	Buy	24	30

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

This report is published by Nirmal Bang's Institutional Equities Research desk. Nirmal Bang has other business units with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets. This report is for the personal information of the authorised recipient and is not for public distribution. This should not be reproduced or redistributed to any other person or in any form. This report is for the general information for the clients of Nirmal Bang Equities Pvt. Ltd., a division of Nirmal Bang, and should not be construed as an offer or solicitation of an offer to buy/sell any securities.

We have exercised due diligence in checking the correctness and authenticity of the information contained herein, so far as it relates to current and historical information, but do not guarantee its accuracy or completeness. The opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time without notice.

Nirmal Bang or any persons connected with it do not accept any liability arising from the use of this document or the information contained therein. The recipients of this material should rely on their own judgment and take their own professional advice before acting on this information. Nirmal Bang or any of its connected persons including its directors or subsidiaries or associates or employees or agents shall not be in any way responsible for any loss or damage that may arise to any person/s from any inadvertent error in the information contained, views and opinions expressed in this publication.

'Access our reports on Bloomberg Type NBIE <GO>'

Team Details:

Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	+91 22 3926 8098 / 99
Hemindra Hazari	Head of Research	hemindra.hazari@nirmalbang.com	+91 22 3926 8017 / 18
Sales and Dealing:			
Neha Grover	AVP Sales	neha.grover@nirmalbang.com	+91 22 3926 8093
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 3926 8230, +91 22 6636 8833
Sudhindar Rao	Dealing Desk	sudhindar.rao@nirmalbang.com	+91 22 3926 8229, +91 22 6636 8832
Pradeep Kasat	Dealing Desk	pradeep.kasat@nirmalbang.com	+91 22 3926 8100/8101, +91 22 6636 8831
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 3926 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address
B-2, 301/302, Marathon Innova,
Nr. Peninsula Corporate Park
Lower Parel (W), Mumbai-400013.
Board No. : 91 22 3926 8000/1
Fax. : 022 3926 8010