



GVK Power and Infrastructure

BSE SENSEX 18,022	S&P CNX 5,417	Rs30	Buy									
Bloomberg Equity Shares (m)	GVKP IN 1,579.2	YEAR	NET SALES*	PAT*	EPS	EPS	P/E	P/BY	ROE	ROCE	EV/	EV/
52-Week Range (Rs)	51/30	END	(RS M)	(RS M)	(RS)	GR. (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	-14/-31/-45	3/10A	17,866	1,559	1.0	34.1	29.3	1.5	4.9	4.3	2.7	10.6
M.Cap. (Rs b)	47.4	3/11E	20,265	1,799	1.1	11.1	26.3	1.4	5.4	3.9	3.1	11.3
M.Cap. (US\$ b)	1.0	3/12E	21,792	2,801	1.8	55.7	16.9	1.3	7.9	5.1	3.3	10.1
		3/13E	27,685	4,111	2.6	46.8	11.5	1.2	10.6	7.7	2.7	6.5

* Consolidated

- 3QFY11 performance impacted by power division:** GVKPIL reported consolidated PAT of Rs419m, down 8.4% YoY (after minority interest and share of associate, Mumbai Airport) largely due to poor performance of power division (PAT of Rs66m in 3QFY11 v/s Rs127m in 3QFY10). Reported profit was lower on account of higher interest cost on corporate borrowings, while other income was lower at Rs34m (Rs109m in 3QFY10) due to higher investible surplus last year on account of QIP issue. GVKPIL has availed MAT credit for operational projects, which has led to net tax credit in P&L v/s Tax/PBT ratio of 22% in 2QFY11 and 18.3% in 1QFY11.
- Power business performance impacted due to maintenance, PE funding soon:** During 3QFY11, the power business (GVK's proportionate share in Gautami at 64%) reported revenue of Rs3.3b (down 5% YoY), EBITDA of Rs702m (down 19% YoY) and PAT of Rs66m (v/s Rs127m in 3QFY10). Operational performance of JP-1 project was specifically impacted, as maintenance shutdown resulted in disturbed operations, while operational parameters in general were impacted for all power projects owing to: (1) lower demand from AP DISCOMs (due to lower demand from agriculture) and higher hydropower generation improving availability, and (2) ~10% lower gas supply from KG-D6 in the interim period (October 2010) due to technical glitch.
- Regulatory uncertainty for BIAI/MIAL, RE monetization now likely in 2QFY12:** Recent AERA ruling specified "Single Till" structure for Bangalore/Hyderabad airport and has indirectly put even the Mumbai/Delhi airport under the lens. GVKPIL is, however, contemplating its right to appeal against the order. The uncertainty on returns for BIAL/MIAL would, therefore, continue. RE monetization at MIAL is further delayed to 2QFY12 (v/s FY11-end) due to delays in obtaining approval from MMRDA.
- Valuation and view:** We expect GVKPIL to report consolidated net profit of Rs1.8b in FY11 (up 11%), Rs2.8b in FY12 (up 56%) and Rs4.1b in FY13 (up 47%). The stock trades at a PER of 26.3x FY11E, 16.9x FY12E and 11.5x FY13E. Maintain **Buy**.

QUARTERLY PERFORMANCE

Y/E MARCH	(Rs Million)								FY10	FY11E
	FY10				FY11					
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales	3,322	4,923	4,735	4,886	4,899	5,034	4,596	5,737	17,866	20,265
<i>Change (%)</i>	<i>149.8</i>	<i>349.6</i>	<i>353.8</i>	<i>192.7</i>	<i>47.5</i>	<i>2.3</i>	<i>-2.9</i>	<i>17.4</i>	<i>247.7</i>	<i>13.4</i>
EBITDA	944	1,508	1,408	737	1,263	1,455	1,292	1,662	4,597	5,671
<i>Change (%)</i>	<i>87.8</i>	<i>222.3</i>	<i>225.9</i>	<i>104.5</i>	<i>33.8</i>	<i>-3.5</i>	<i>-8.2</i>	<i>125.5</i>	<i>160.7</i>	<i>23.4</i>
<i>As of % Sales</i>	<i>28.4</i>	<i>30.6</i>	<i>29.7</i>	<i>15.1</i>	<i>25.8</i>	<i>28.9</i>	<i>28.1</i>	<i>29.0</i>	<i>25.7</i>	<i>28.0</i>
Depreciation	358	532	530	-48	462	462	501	543	1,371	1,967
Interest	307	565	579	633	682	656	660	654	2,085	2,652
Other Income	38	80	109	66	76	31	34	18	292	158
PBT	317	490	407	218	194	368	165	484	1,433	1,211
Tax	80	120	54	-55	36	82	-9	46	200	155
<i>Effective Tax Rate (%)</i>	<i>25.4</i>	<i>24.6</i>	<i>13.3</i>	<i>-25.2</i>	<i>18.3</i>	<i>22.4</i>	<i>-5.5</i>	<i>9.5</i>	<i>14.0</i>	<i>12.8</i>
Reported PAT	236	370	353	273	159	286	174	438	1,233	1,056
Adj PAT (before minority interest)	236	370	353	273	159	286	174	438	1,233	1,056
<i>Change (%)</i>	<i>-16.8</i>	<i>68.0</i>	<i>116.8</i>	<i>183.6</i>	<i>-32.8</i>	<i>-22.8</i>	<i>-50.7</i>	<i>60.1</i>	<i>61.5</i>	<i>-14.3</i>
Minority Interest	22	62	49	58	53	78	62	75	191	268
Share of profit from Assoc	113	134	154	116	229	220	307	255	517	1,011
Adj PAT (after minority interest)	348	462	458	392	334	428	419	618	1,620	1,799

E: MOSL Estimates

3QFY11 results impacted by power business

- GVK Power & Infrastructure reported 3QFY11 consolidated net revenues of Rs4.6b (down 3% YoY), EBIDTA Rs1.3b (down 8% YoY) and PAT of Rs419m, down 8.4% YoY (after minority interest and share of associate, Mumbai Airport).
- Reported profit is lower on account of higher interest cost on corporate borrowing (including Bangalore Acquisition debt of Rs7b) raised in the interim period to meet shortfall in funding equity requirement towards power (to issue limited notice to period for Gas based projects before PE investment) and roads project SPVs (new projects).
- Other income for the 3QFY11 stood at Rs34m, vs Rs109m in 3QFY10, largely owing to higher investible surplus in the past year on account of money raised through QIPs. However, GVKPIL has availed MAT credit for operational project (JP-I, Gautami, and JKEL) which has led to net tax credit in P&L, vs tax/PBT ratio of 22% in 2QFY11 and 18.3% in 1QFY11.

Power business performance impacted on account of maintenance, lower operating rates

- During 3QFY11, Power business (GVK's proportionate share in Gautami at 64%) reported revenues of Rs3.3b (down 5% YoY), EBIDTA of Rs702m (down 19% YoY) and PAT of Rs66m (vs Rs127m in 3QFY10).
- PLFs for JPI and JP II stood at 80% each; while Gautami power project PLF stood at 79%. Performance of JP-1 project was impacted as maintenance shutdown resulted in disturbed operations, while operational parameters in general were impacted for all power projects owing to: 1) lower demand from AP DISCOMs (owing to lower demand from agricultural sector) and higher hydro power generation improving availability and 2) ~10% lower gas supply from KG-D6 in the interim period (October 2010) due to technical glitch. Lower operating rates led to higher heat rate, impacting incentives on the thermal efficiency.
- Management informed that initial contribution received from PE investors has been Rs9.8b, while balance Rs5.4 (total Rs15b) would be invested over a period of one year, as and when required.
- Notice to proceed (NTPC) issued for 400MW of gas project: GVKPIL has given NTP, a key milestone in equipment contract for 1st unit of 400MW at JP-III, as the forest clearance has been attained. Management indicated that the forest clearance modalities are being fulfilled for 2nd unit (400MW), as well as Gautami project expansion (800MW). It plans to issue NTP for entire 1,600MW of capacity by FY11E end.
- On the Gas supply issue, management indicated that both these project are part of the shortlisted projects (total 15 projects, of which 4 are to be commissioned in 11th plan) by EGoM and are identified for commissioning in 12th plan. Management is hopeful of securing gas supply for the projects.
- No respite on merchant sales: GVKPIL is still awaiting final order by the Andhra Pradesh High Court (APHC) in its case against Andhra Pradesh Electricity Regulatory Commission (APEREC) on sale of power on merchant basis, since last 6 months.
- Earlier, GVK (along with other developer) was given three options by APERC viz. 1) Rs0.24/unit increase in tariff to compensate for higher fixed cost, 2) higher tariff on 20% of capacity only till the recovery of higher cost, initial losses or 3) 20% capacity on merchant mechanism only to the extent of making initial losses good. GVKPIL had filed an appeal in High Court to allow it to sell power on merchant basis. In the interim, GVK is selling its entire capacity to SEB at PPA determined tariff.

Power Division: Financial summary (Rs m)

	3QFY11	3QFY10	Chg (%)*
Revenues	3,309	3,465	-4.5
EBITDA	702	865	-18.9
EBITDA Margin (%)	21.2	25.0	
PAT	66	127	-48.3
PAT argin (%)	2.0	3.7	

* On comparable basis, assuming 63.6% stake of GVK in Gautami

Source: Company/MOSL

PLF for power projects (%)

	3QFY11	2QFY11	1QFY11	4QFY10	3QFY10	2QFY10	1QFY10
JP-I	80.0	71.4	87.1	89.1	93.0	86.0	88.3
JP-II	80.0	96.1	98.7	88.3	97.2	95.2	99.3
Gautami	79.0	93.5	90.9	89.0	81.4	92.1	91.1

Source: Company/MOSL

Mumbai Airport - Growth in earnings driven by higher operating factor/cost efficiencies

- During 3QFY11, Mumbai airport (MIAL) reported revenues of Rs3b (up 15% YoY), EBITDA of Rs1.2b (up 29% YoY) and PAT of Rs498m (up 20% YoY). Passenger traffic for the quarter grew by 10.4% YoY to 7.7m (vs 7m in 3QFY10).
- Strong earnings growth at MIAL is led by cost efficiency measures, savings in staff cost and operating leverage. Also, the growth in cargo revenues (up 40% YoY) contributed meaningfully to the earnings growth.
- Revenue/passenger increased marginally to Rs388/psgr (vs Rs373/psgr) given relatively lower non-aero revenues. Non-aero revenues at MIAL was impacted due to lower Advertisement, Duty Free and F&B revenues. EBITDA stood at Rs153/psgr (vs Rs131/psgr in 3QFY10).

RE monetization at MIAL delayed, management now guides for monetisation in 2QFY12E

- Management informed that the final design and layout for the proposed integrated development at the Mumbai airport is yet to receive approval from Mumbai Metropolitan Region Development Authority (MMRDA). Also, the shifting of rehabilitated families at the airport has not yet started. Earlier, the target was to rehabilitate ~20,000 families by June-10, which is yet not achieved.
- Management is now hopeful of getting final approval from MMRDA by end FY11/1QFY12E and plans to launch initial RE monetisation by 2QFY12E.

Regulatory uncertainty remains, right to appeal against AERA order

- Recent AERA ruling specified "Single Till" (regulation of both Aero and Non-Aero revenues for the airport) structure for Bangalore/ Hyderabad airport and have indirectly put even Mumbai/Delhi airport under the lens.
- Management informed that it still has right to appeal against the order and did not elaborate much on possible impact of the same on Bangalore or Mumbai airport.
- However, management agreed that the PE transaction in Airport vertical would have happened much earlier, but for the lack of clarity on the outcome of AERA report. Management is hopeful that with some clarity on the framework now, possibility of the PE in airport vertical can be worked on, though did not share any specific timeline for the same.

Mumbai Airport: Financial performance (Rs m)

	3QFY11	3QFY10	Chg (%)
Passenger Traffic (m)	7.7	7.0	10.4
Gross Revenues	2,990	2,603	14.9
EBITDA	1,175	912	28.9
EBITDA Margin (%)	39.3	35.0	
PAT	498	417	19.5
PAT Margin (%)	16.6	16.0	
Summary (Rs/psgr)			
Gross Revenues	388	373	
EBITDA	153	131	
PAT	65	60	

Source: Company/MOSL

Mumbai Airport: Composition of Revenues (Rs m)

	3QFY11	3QFY10	Chg (%)
Aero	1,020	1,065	(4.2)
Non-Aero	1,208	993	21.7
Cargo	762	544	40.1
Interest and Dividend	-	-	-
Total	2,789	2,446	14.0
Common-size			
Aero	37	44	
Non-Aero	43	41	
Cargo	27	22	
Interest and Dividend	-	-	

Source: Company/MOSL

Bangalore airport (29% stake): present contribution healthy, uncertainty on future returns

- Bangalore International airport (BIAL) continued to report impressive performance for 3QFY11 and reported revenues of Rs1.4b (up 15% YoY), EBITDA of Rs975m (up 38% YoY) and PAT of Rs431m (up 133% YoY).
- GVKPIL has refinanced the debt Rs7b taken for the acquisition of Bangalore airport for one more year (repayment was due by Dec-10) at a cost of 10%.
- Though the current financial performance of the Bangalore airport is healthy, the overall return might get capped (as total equity investment in project is Rs3.9b), if the new regulation were to become effective (as current "Single Till" structure specifies on "Fair Rate of Return" on equity investment). Given the right of appeal available to GVKPIL, there still remains lack of clarity on the future earnings profile of the asset.

Bangalore Airport: Financial performance (Rs m)

	3QFY11	3QFY10	Chg (%)
Passenger Traffic (m)	3.1	2.6	16.8
Gross Revenues	1,390	1,214	14.5
EBITDA	975	705	38.3
EBITDA Margin (%)	70.1	58.0	
PAT*	431	185	132.7
PAT Margin (%)	31.0	15.3	
Summary (Rs/psgr)			
Gross Revenues	452	462	
EBITDA	317	268	
PAT	140	70	

Source: Company/MOSL

Roads Business: Lower traffic volume given monsoon season

- During 3QFY11, Jaipur-Kishangarh project reported revenues increase of 10.2% YoY to Rs487m, largely owing to increase in toll rates w.e.f. July 2011 (~8%), while traffic growth was muted at ~2%. Management indicated that the traffic on the road was impacted due to higher monsoon and shift in volumes from Multi Axle Vehicles to Trucks, etc.

Roads Division: Financial summary (Rs m)

	3QFY11	3QFY10	Chg (%)
Revenues	487	442	10.2
EBITDA	354	297	19.2
EBITDA Margin (%)	72.7	67.2	
PAT	215	176	22.3
PAT Margin (%)	44.1	39.7	

Source: Company/MOSL

Cutting estimates, maintain Buy

- We downgrade our estimates by 7% and 1% for FY11/12E for GVKPIL to factor in the lower operating rates for power project, no benefit from merchant sales and delays in monetisation of RE at Mumbai, etc.
- We now expect GVKPIL to report consolidated net profit of Rs1.8b in FY11E (up 11% YoY), Rs2.8b in FY12E (up 56% YoY) and Rs4.1b in FY13E (up 47% YoY).
- At the CMP of Rs30, The stock trades at a PER of 26.3x FY11E, 16.9x FY12E and 11.5x FY13E. Maintain **Buy**.

N O T E S



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GVK Power and Infrastructure

1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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