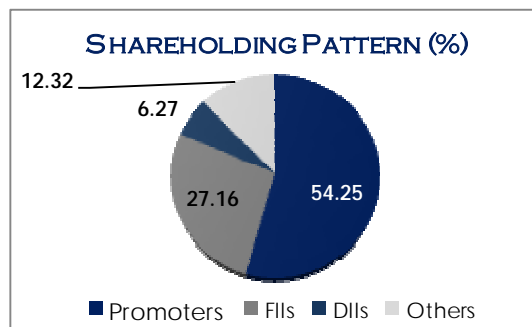




**INVESTOR'S DELIGHT - GVK POWER AND INFRASTRUCTURE LTD.**

Date	19 <sup>th</sup> July, 2011
NSE Code	GVKPIL
BSE Code	532708
FV	Re.1
Equity Capital (Rs in mn)	1,579.2
Market Capitalization (Rs in mn)	31,268
<b>CMP</b>	<b>Rs. 19.55</b>
<b>Target Price</b>	<b>Rs. 24</b>
<b>Upside</b>	<b>23%</b>



**FINANCIAL SUMMARY**

**INCOME STATEMENT (Rs. in mn.)**

Particulars	FY09	FY10	FY11E	FY12E*
Net sales	5,138	17,866	19,147	31,720
EBITDA	1,763	4,683	5,053	10,563
<b>EBITDA (%)</b>	<b>34</b>	<b>26</b>	<b>26.4</b>	<b>33.3</b>
PAT	1,064	1,559	1,549	1,609
<b>PAT (%)</b>	<b>21</b>	<b>8.7</b>	<b>8</b>	<b>5</b>
EPS	0.8	1	1	1.4
P/E(x)	25	20	20	14
ROE(%)	4.7	5.7	4.8	4.6
ROIC(%)	2.2	5	3.7	4.2

Source: Company, Ajcon Research, \* street estimates

**ABOUT THE COMPANY**

**Background**

GVK Power & Infrastructure is the holding company of the GVK group's infrastructure business and operates infrastructure assets across the energy, transportation and urban infrastructure (development of SEZ) verticals.

**In the energy space**, the company is engaged in power generation, coal mining and oil & gas exploration. Its portfolio in the energy sector currently features six power projects which are being developed across several states in the country. Currently power projects are present in the

states of Andhra Pradesh, Jammu Kashmir, Punjab and Uttarakhand. Together, these power projects are set to exceed over 5,000 MW capacities.

**In transportation**, it undertakes airport management & development and operations of roads & expressways. In airports space, it has a portfolio of two airport projects out of four private sector-managed airports in the country. The first is Mumbai International Airport, where the company holds a 50.5% stake and the second is Bangalore International Airport, where the company holds 29%.

### **Mumbai Airport Project**

GVK and its consortium partners (private companies) hold a 74% stake in MIAL, which has concession rights to modernise and operate the Mumbai airport for a period of 30 years, with a provision for a further 30-year extension. The Airports Authority of India (AAI) holds the remaining 26% stake in the company. In a recent transaction, GVK bought a 13.5% stake from Bid Services Division (Mauritius), turning MIAL into a subsidiary. The revenue stream of the airport is divided into three main segments: aero, non-aero and cargo revenues. As per the concession agreement, MIAL shares 37% of revenues with the AAI. Aero and cargo revenue growth are driven primarily by traffic growth. On the other hand, non-aero income will also include revenue generation from real estate sales/leasing.

### **Bangalore Airport Project**

In FY10, GVK bought a 29% stake in BIAL from L&T Infra and Flughafen Zuerich AG for a total consideration of Rs 11.7bn. The company has concession rights to modernise and operate the airport for a period of 30 years, with a provision for a further 30-year extension. The state government (Karnataka) and the AAI hold 13% stake each in BIAL.

As with MIAL, the revenue stream of the Bangalore airport is divided into aero, non aero and cargo revenues, with a 4% share accruing to AAI as per the concession agreement. Recently, the Airports Economic Regulatory Authority (AERA), which regulates the airport sector in India, ruled that BIAL be operated on a single-till model, which implies that the revenue streams from all segments (aero, non-aero and cargo) be used to determine the overall return on investment. This differs from the dual-till model (applicable to MIAL), wherein airport tariffs are determined based on investment in airport infrastructure, without accounting for any cash flows or value generation from real estate development. AERA's decision erodes BIAL's valuation significantly.

GVK has a portfolio of two road projects in the state of Rajasthan, which consists of the operational Jaipur-Kishangarh expressway and the under-construction Deoli-Kota expressway. In addition, the company has been awarded the Bagodara-Wataman-Tarapur- Vasad road works (six-laning) in the state of Gujarat on a BOT basis, with a concession period of 27 years including a 30-month construction timeline.

## **INVESTMENT RATIONALE**

**Six operational assets, five under development and four in planning stage:** GVK has one road project, three power plants and two airports (Bengaluru and Mumbai) in operation. These projects generate Rs 37bn in annual revenues (pre-revenue sharing).

GVK is currently developing two power plants (870MW), two roads and one SEZ. Further, four power projects (2,660MW) are in the planning stage. In addition, GVK will also monetise/develop real estate around the airports (not factored in estimates).

**Australian assets and Navi Mumbai International Airport – Value accretive in long term:** Media indicated that GVKP is planning to buy coal reserves of over 8 bn tones from Hancock

Prospecting in Australia for US\$3.4 bn. The valuation appears in line with the recent acquisition of Linc Energy's assets by Adani Enterprises. The coal blocks in question are Hancock Prospecting's Alpha and Kevin's corner blocks, which are located ~460km from Abbot Point, the nearest big port. The mines will be developed over the course of CY12-CY14 and will be ramped up over CY14-CY19. ***At their peak, these assets will produce ~58mt of coal per annum. The quality of coal is good with a GCV of 5,500-6,000 kcal/kg.*** GVKP will also need to develop rail infrastructure to transport the coal to Abbot Point port, which is located at a distance of ~460km. There is another option of transporting the coal to a nearby rail head (140km away) and then moving it to the port via the existing rail line.

On the domestic front, Gol is planning to invite the Request for Qualification (RFQ) for the US\$ 2bn Navi Mumbai International Airport (NMIA) within a month. Given GVKP's current balance sheet size (net worth of ~Rs 34bn, leverage of 1.6x), we believe it will participate in these two assets with support from private equity investors/joint venture partners.

**Strong power portfolio; gas availability a concern:** GVK has a power project portfolio totaling 1,771MW which includes operational assets of 901MW and a further 870MW under development. Commissioned projects comprise Jegurupadu phase I & II (217MW & 220MW) and Gautami (464MW). The company's power portfolio is diversified in terms of location, fuel type and fuel source. Spread across three states, the portfolio includes three natural gas-based plants (901MW), a coal-based unit (540MW Goindwal Sahib Power), and a hydroelectric plant (540MW Alaknanda Hydropower). Most of GVK's power assets are held through a ~75% subsidiary, GVK Energy, with the remaining ~25% held by private equity investors. Only two of the power projects, Goriganga and Ratle Hydropower, will be developed by wholly-owned subsidiaries. A key constraint faced by the company is the gas supply shortage, which hinders operations of gas-based power plants. Recently, however, the government of India has directed RelianceIndustries (RIL) to supply gas to fertiliser and power plants on a priority basis, in order to ensure availability of these resources at an economical rate.

#### **Well placed to fund expansion plans**

GVK recently raised Rs 14.98bn by diluting a 24.97% equity stake in GVK Energy—implying a valuation of ~Rs 60bn for the power subsidiary. The dilution occurred in two tranches to 3i India Infrastructure Fund, Actis Infrastructure India PCC and Government of Singapore Investment Corporation (GIC). The company has received Rs 9.4bn in the first tranche and the balance will follow as per the project investment schedule. These funds would be utilized primarily for projects under development, though the deal does not include the proposed 370MW Goriganga and 690MW Ratle hydel power plants. GVK has a total equity investment commitment of Rs 20bn (excluding Goriganga and Ratle) over the next three years. Of this, Rs 15bn will be met from the above private equity deal and the balance through internal accruals.

**Street expecting revenue/earnings CAGR of 43%/20% over FY11-FY13:** Revenue growth will rise sharply as Mumbai airport financials are consolidated (triggered by a rise in equity share to 50.5%) and the 330MW Alaknanda hydropower project commissioned. However, a rise in interest cost and depreciation will limit the earnings CAGR to 20% through FY13.

## **OUTLOOK**

**With due consideration to key triggers like, a)** monetization of Mumbai airport real estate, **b)** clarity on gas availability for power projects, **c)** street estimates of revenue /PAT CAGR of 43%/20% over FY11-FY13E, we recommend **'BUY'** with a target price of Rs.24 (80% of estimated SOTP value arrived by the street) for investors for three months horizon.



## Disclaimer

This document has been prepared by Ajcon Global Services Ltd. and is meant for the recipient for use as intended and not for circulation. This document should not be reported or copied or made available to others. The information contained herein is from the public domain or sources believed to be reliable. While reasonable care has been taken to ensure that information given is at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the very nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as decision such.

Ajcon Global, its directors and employees, will not in any way be responsible for the contents of this report. This is not an offer to sell or a solicitation to buy any securities. The securities discussed in this report may not be suitable for all investors. Investors must make their own investment based on their own investment objectives, goals and financial position and based on their own analysis.