

# GVK POWER AND INFRA

## Airports, road assets show recovery signs

India Equity Research | Infrastructure - Diversified

GVK Power and Infrastructure's (GVK) Q1FY14 adjusted loss of INR230mn, was much below our ~INR1bn loss estimate due to strong operational performance of the airport (both Mumbai and Bengaluru) and roads division. The power division continued to be in red due to gas shortage. Under development power projects have seen time/cost overruns and could delay the likely recovery in operating cash flows. We have reduced our loss estimate in the light of improving operating metrics. Maintain 'HOLD' with a SOTP-based TP of INR10/share.

### Robust performance by airport, road division

Tariff hike in Mumbai Airport (MIAL) along with a 4% YoY increase in pax led to PAT growing threefold to INR936mn. Bengaluru Airport (BIAL) witnessed a similar profit growth due to 4% pax growth and better cost management. GVK reported a profit of INR120mn in the Bali airport. Traffic in the Jaipur – Kishangarh road project grew 4% YoY resulting in a 9% revenue growth and a PAT of INR120mn during the quarter. The company has kick started the process of real estate monetisation at MIAL, the proceeds of which will be initially used for funding the project capex.

### Power division plagued by fuel issues

Shortage of gas meant that JP-2 and Gautami power project did not operate at all during Q1FY14; JP-1 reported a PAF of 70% during the quarter (99% in Q1FY13). The power division reported an overall loss of INR554mn in the quarter.

### Outlook and Valuations: Mounting debt, a concern; Maintain 'Hold'

Improvements in operating performance of airport and road assets are positives; however, the deterioration in economic indicators raises doubts whether the same can be sustained. Incremental funding needs to finance cost overruns will add to near term cash flow pressures. The mounting debt burden and the need to retire acquisition debt is another concern. Maintain 'HOLD/SU' recommendation on the stock with a SOTP based TP of INR10/share.

EDELWEISS 4D RATINGS	
Absolute Rating	HOLD
Rating Relative to Sector	Underperformer
Risk Rating Relative to Sector	High
Sector Relative to Market	Equalweight

#### MARKET DATA (R: GVKP.BO, B: GVKP.IN)

CMP	: INR 8
Target Price	: INR 10
52-week range (INR)	: 16 / 6
Share in issue (mn)	: 1,579.2
M cap (INR bn/USD mn)	: 12/ 187
Avg. Daily Vol.BSE/NSE('000)	: 8,768.6

#### SHARE HOLDING PATTERN (%)

	Current	Q4FY13	Q3FY13
Promoters *	54.3	54.3	54.3
MF's, FI's & BK's	3.3	3.3	3.6
FII's	14.4	15.0	17.0
Others	28.0	27.4	25.2
* Promoters pledged shares (% of share in issue)			3.9

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Power Index
1 month	6.9	(5.2)	(1.0)
3 months	(17.2)	(4.7)	(5.0)
12 months	(39.6)	6.6	2.7

#### Financials (Consolidated)

(INR mn)

Year to March	Q1FY14	Q1FY13	% Change	Q4FY13	% Change	FY13	FY14E	FY15E
Revenues	4,915	6,915	(28.9)	3,128	57.1	20,407	19,828	38,128
EBITDA	2,700	1,901	42.1	(229)	(1,279.5)	6,833	10,898	24,238
Adj. net profit	(230)	(582)	NA	(1,710)	NA	(3,360)	(2,097)	(326)
EBITDA margins (%)	54.9	27.5		(7.3)		33.5	55.0	63.6
NPM (%)	(4.7)	(8.4)		(54.7)		(16.5)	(10.6)	(0.9)
Diluted EPS (INR)						(2.1)	(1.3)	(0.2)
Diluted P/E (x)						NA	NA	NA
ROAE (%)						NA	NA	NA

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### Other highlights

- The company has indicated that the process to assess the damage to Alaknanda hydel plant due to the recent floods in Uttaranchal will be over in the next two weeks. In case there is not much damage, the plant may be commissioned by May 2014.
- The Goindwal thermal power plant has been delayed and is now likely to be commissioned by December 2013. Production in the captive coal mine for the project is likely to start from April 2014.
- The project cost for the Goindwal project has now been revised upwards to INR40.1bn (earlier cost estimate was INR32bn to be funded in 4:1 debt/equity structure). GVK expects to fund the incremental cost of INR8.1bn in a 70:30 debt/equity ratio and is in consultation with the regulator/lenders for the same.
- The likely completion date for the Deoli Kota road project, is February 2014 and that for the Bagodara Vasad road project, is November 2014. The incremental equity needed for the two projects is INR2.2bn of which INR1.3-1.4bn is needed in FY14 and the balance in FY15.
- For MIAL, phase I, is likely to be completed in Q3CY13 while phase II will be completed a year later.
- GVK is looking to monetise four land parcels at MIAL (8.75 acres with a total built up area of 1.8mnsqft). The company has already invited request for Prequalification for the same and expects to complete the process by CY13 end.

## Financial snapshot

(INR mn)

Year to March	Q1FY14	Q1FY13	% change	Q4FY13	% change	FY13	FY14E	FY15E
Net revenues	4,915	6,915	(28.9)	3,128	57.1	20,407	19,828	38,128
Cost of goods sold	651	3,117	(79.1)	1,207	(46.1)	7,198	1,487	3,943
Fuel cost	651	3,117	(79.1)	1,207	(46.1)	7,198	1,487	3,943
Gross profit	4,265	3,799	12.3	1,921	122.0	13,209	18,342	34,185
Salaries, wages, other payments	395	337	17.0	388	1.8	1,356	1,370	1,383
Other expenses	1,565	1,898	(17.6)	2,150	(27.2)	6,377	7,444	9,947
Total expenditure	2,215	5,015	(55.8)	3,357	(34.0)	13,575	8,931	13,890
EBITDA	2,700	1,901	42.1	(229)	(1,279.5)	6,833	10,898	24,238
Other income	259	365	(29.1)	350	(26.0)	1,361	1,040	1,664
PBDIT	2,959	2,266	30.6	121	2,345.3	8,194	11,938	25,902
Depreciation	904	841	7.5	911	(0.8)	3,512	4,984	10,039
Interest	1,884	1,801	4.7	1,651	14.1	7,461	6,609	15,150
Profit before tax	170	(376)	NA	(2,442)	NA	(2,779)	344	714
Tax	597	266	124.9	409	46.1	1,287	1,570	1,196
Minority interest	158	94	68.7	(887)	(117.8)	(197)	1,084	(154)
Share in profit from associates	279	92	203.3	253	10.5	509	213	2
Reported net profit	(306)	(643)	NA	(1,710)	NA	(3,360)	(2,097)	(326)
Depreciation write back								
Extraordinary items	76	61	24.6	-	NA			
Adjusted net profit	(230)	(582)	NA	(1,710)	NA	(3,360)	(2,097)	(326)
Diluted shares (mn)	1,579	1,579		1,579		1,579	1,579	1,579
Diluted EPS (INR)	(0.2)	(0.4)	NA	(1.1)	NA	(2.1)	(1.3)	(0.2)

## As % of net revenues

COGS	13.2	45.1		38.6		35.3	7.5	10.3
Gross profit	86.8	54.9		61.4		64.7	92.5	89.7
Other expenses	31.8	27.4		68.7		31.2	37.5	26.1
Total expenses	45.1	72.5		107.3		66.5	45.0	36.4
EBITDA	54.9	27.5		(7.3)		33.5	55.0	63.6
Adjusted net profit	(4.7)	(8.4)		(54.7)		(16.5)	(10.6)	(0.9)

## Change in Estimates

	FY14E			FY15E			Comments
	New	Old	% change	New	Old	% change	
Net Revenue	19,828	15,749	25.9	38,128	33,811	12.8	Improved performance of airports and road assets
EBITDA	10,898	6,583	65.5	24,238	20,360	19.1	Operating leverage
EBITDA Margin	55.0	41.8		63.6	60.2		
PAT	(2,097)	(4,354)	NA	(326)	(969)	NA	
PAT Margin	(10.6)	(27.6)		(0.9)	(2.9)		

### Company Description

GVK was promoted by Mr. GV Krishna Reddy, and is a part of the GVK Group that has interests in infrastructure, bioscience, and hospitality. The company is the flagship of the group and holds its infrastructure assets under it. GVK entered the infrastructure segment by building the 216MW Jegurupadu phase I power project in Andhra Pradesh. The company has since then expanded across different infrastructure verticals with presence in airports, power, roads, and urban infrastructure. Winning the bid for developing the Mumbai Airport has been a major milestone for the company. It is also bidding for deep sea gas blocks under the National Exploration Licensing Plan (NELP –VII) in partnership with BHP Billiton

### Investment Theme

#### Redeveloping India's largest and busiest airport

GVK, together with Airports Company South Africa (ACSA), bagged the project for modernisation of the Mumbai International Airport (MIAL). The renovation project, though highly prestigious and visible, is one of the most complicated projects in terms of scope and size. It involves renovation and modernisation of the exiting domestic terminals 1A and 1B, followed by modernisation of international terminals 2A and 2B.

#### Gas from Reliance fields could enhance power portfolio

GVK had an early start as a power developer with the commercialisation of its Jegurupadu (phase I) gas-fired project in 1997. After a couple of years' delay, the next two projects (Jegurupadu phase II and Gautami power projects) commenced operations post commissioning of RIL's KG basin. However, the same has been allocated for only five years.

#### Real estate from MIAL and ROFR for Navi Mumbai Airport could provide upsides

MIAL's Operating and Management Agreement (OMDA), allows GVK to commercially exploit ~10% (197 acres) of the total airport land. However, a substantial portion of this land is encroached by slum dwellers. Given the land's prime location, even a modest success in clearing the encroachments could provide significant upside to the company.

### Key Risks

#### Natural gas security for existing power plants

GVK's current power plants are running short of gas. Currently, the gas supply agreement with RIL is valid for 5 years and even this is contingent on the legal dispute between RIL and RNRL would be favourably settled. Since the company has given up the dual fuel (naphtha) option for its Jegurupadu II and Gautami projects, timely availability of gas is crucial for the company.

#### MIAL: Securing land from encroachments

A part of the mandatory projects that GVK has to execute under the terms of agreement depends on the land that will be acquired by clearing sum encroachments on it. Some part of the commercial real estate development from the project also depends on clearing of the encroached land.

## Financial Statements

### Key Assumptions

Year to March	FY12	FY13	FY14E	FY15E
<b>Macro</b>				
GDP(Y-o-Y %)	6.2	5.0	5.6	6.5
Inflation (Avg)	8.9	7.4	5.2	6.0
Repo rate (exit rate)	8.5	7.5	6.8	6.0
USD/INR (Avg)	48.0	54.5	58.0	56.0
<b>Sector</b>				
Merchant prices (INR/kWh)	4.0	4.0	4.0	4.0
<b>Company</b>				
Pax growth in MIAL (%)	4.0	(2.0)	5.0	8.0
Increase in non-aero revenues at MIAL (%)	16.0	12.9	29.6	17.9
Increase in non-aero yield at MIAL (%)	9.7	7.3	8.2	12.6
EBITDA margins at MIAL (%)	59.2	49.7	60.2	53.3
Pax growth in BIAL (%)	9.3	(5.7)	5.0	5.0
Increase in aero revenues at BIAL (%)	10.8	(2.7)	10.0	10.0
Increase in non-aero revenues at BIAL (%)	16.0	10.0	10.0	10.0
EBITDA margins at BIAL (%)	69.0	57.5	60.0	60.0
Avg. depreciation rate at BIAL (%)	6.1	6.1	6.1	6.1
Hydel power capacity addition (MW)	-	-	-	330.0
Operational hydel power capacity (MW)	-	-	-	330.0
Operational gas based power capacity (MW)	901.0	901.0	901.0	901.0
Blended PLF for gas based power plants (%)	73.0	33.7	20.0	20.0
Blended tariff for gas based power plants	3.0	3.4	3.4	3.4
Coal based power capacity addition (MW)	-	-	540	-
Operational coal based power capacity (MW)	-	-	540.0	540.0
Blended PLF for coal based power plants (%)	-	-	-	60.0
Blended tariff for coal based power plants	-	-	2.3	2.3
Toll road length added (km)	-	-	83.0	101.9
Operational toll road (km)	90.3	90.3	173.3	275.0
Blended interest rate (%)	4.7	4.2	3.5	4.5
Capex (INR mn)	42,913	33,162	53,607	97,073
Incremental debt (INR mn)	87,091	43,066	49,595	88,793

### Income statement

(INR mn)

Year to March	FY12	FY13	FY14E	FY15E
Income from operations	22,603	20,407	19,828	38,128
Direct costs	11,848	7,198	1,487	3,943
Employee costs	807	1,356	1,370	1,383
Other Expenses	3,007	5,020	6,074	8,563
Total operating expenses	15,663	13,575	8,931	13,890
EBITDA	6,941	6,833	10,898	24,238
Depreciation & Amortization	2,489	3,512	4,984	10,039
EBIT	4,452	3,321	5,914	14,199
Other income	889	1,361	1,040	1,664
Interest expenses	4,673	7,461	6,609	15,150
Profit before tax	668	(2,779)	344	714
Provision for tax	678	1,287	1,570	1,196
Net profit	(11)	(4,066)	(1,225)	(482)
Profit After Tax	(11)	(4,066)	(1,225)	(482)
Minority interest	439	(197)	1,084	(154)
Share in profit of associates	1,064	509	213	2
Profit after minority interest	615	(3,360)	(2,097)	(326)
Basic EPS (INR)	0.4	(2.1)	(1.3)	(0.2)
Shares outstanding (mn)	1,579	1,579	1,579	1,579
Diluted EPS (INR)	0.4	(2.1)	(1.3)	(0.2)

### Common size metrics

Year to March	FY12	FY13	FY14E	FY15E
Operating expenses	69.3	66.5	45.0	36.4
EBITDA margins	30.7	33.5	55.0	63.6
Net profit margins	2.7	(16.5)	(10.6)	(0.9)

### Growth ratios (%)

Year to March	FY12	FY13	FY14E	FY15E
Revenues	18.1	(9.7)	(2.8)	92.3
EBITDA	35.0	(1.6)	59.5	122.4
EPS	(60.3)	NA	NA	NA

## Infrastructure - Diversified

Balance sheet		(INR mn)			
As on 31st March	FY12	FY13	FY14E	FY15E	
Equity capital	1,579	1,579	1,579	1,579	
Reserves & surplus	33,235	29,874	27,777	27,451	
Shareholders' funds	34,814	31,453	29,356	29,030	
Minority interest (BS)	31,168	33,188	34,273	34,119	
Short term debt	27,901	20,616	63,230	146,487	
Long term debt	111,155	165,024	172,006	177,542	
Borrowings	139,056	185,640	235,236	324,029	
Deferred tax liability	3,008	3,307	3,307	3,307	
Deferred revenue	1,643	1,573	1,573	1,573	
<b>Sources of funds</b>	<b>209,688</b>	<b>255,161</b>	<b>303,744</b>	<b>392,057</b>	
Tangible assets	49,428	52,281	47,297	123,358	
Intangible assets	21,319	20,870	20,870	20,870	
CWIP (incl. intangible)	96,334	137,239	190,846	201,819	
Total net fixed assets	167,081	210,389	259,012	346,047	
Non current investments	18,979	19,488	19,488	19,488	
Current Investments	2,341	3,056	3,056	3,056	
Cash and equivalents	17,263	20,802	20,802	20,802	
Inventories	754	976	948	1,824	
Sundry debtors	4,539	4,233	4,113	7,909	
Loans and advances	15,487	16,658	16,185	31,123	
Other current assets	2,295	3,259	3,166	6,089	
Total current assets (ex cash)	25,415	28,182	27,470	50,001	
Trade payable	2,840	5,260	5,260	5,260	
Others current liabilities	16,211	18,440	17,768	39,020	
Total current liabilities &	19,050	23,700	23,028	44,280	
Net current assets (ex cash)	6,365	4,482	4,442	5,721	
<b>Uses of funds</b>	<b>209,688</b>	<b>255,161</b>	<b>303,744</b>	<b>392,057</b>	
Book value per share (INR)	22.0	19.9	18.6	18.4	

Free cash flow		(INR mn)			
Year to March	FY12	FY13	FY14E	FY15E	
Net profit	615	(3,360)	(2,097)	(326)	
Depreciation	2,489	3,512	4,984	10,039	
Deferred tax	2,438	299	-	-	
Others	(22,151)	(2,399)	1,084	(154)	
Gross cash flow	(16,609)	(1,948)	3,971	9,559	
Less: Changes in WC	(19,548)	(5,422)	(40)	1,279	
Operating cash flow	2,939	3,474	4,012	8,280	
Less: Capex	42,913	33,162	53,607	97,073	
<b>Free cash flow</b>	<b>(39,974)</b>	<b>(29,688)</b>	<b>(49,595)</b>	<b>(88,793)</b>	

### Peer comparison valuation

Name	Market cap (USD mn)	EV/EBITDA (X)		Price/BV (X)		ROAE (%)	
		FY14E	FY15E	FY14E	FY15E	FY14E	FY15E
GVK Power and Infra	146	21.9	13.5	0.4	0.4	NA	NA
GMR Infrastructure	737	15.0	12.6	0.5	0.5	NA	NA
Median	-	18.5	13.0	0.4	0.4	NA	NA
AVERAGE	-	18.5	13.0	0.4	0.4	NA	NA

Source: Edelweiss research

Cash flow metrics		FY12	FY13	FY14E	FY15E
Year to March					
Operating cash flow		2,939	3,474	4,012	8,280
Investing cash flow		(51,606)	(30,569)	(53,607)	(97,073)
Financing cash flow		53,431	33,417	49,595	88,793
Net cash flow		4,765	6,322	-	-
Capex		(42,913)	(33,162)	(53,607)	(97,073)

### Profitability & efficiency ratios

Year to March	FY12	FY13	FY14E	FY15E
ROAE (%)	1.1	NA	NA	NA
ROACE (%)	3.4	1.6	2.3	4.4
Debtors days	42	78	77	58
Current ratio	2.2	2.1	2.1	1.6
Debt/EBITDA	20.0	27.2	21.6	13.4
Average working capital turnover	2.5	3.8	4.4	7.5
Average capital employed	0.1	0.1	0.1	0.1
Debt/Equity	4.0	5.9	8.0	11.2
Adjusted debt/equity	4.0	5.9	8.0	11.2

### Operating ratios

Year to March	FY12	FY13	FY14E	FY15E
Total asset turnover	0.1	0.1	0.1	0.1
Fixed asset turnover	0.4	0.3	0.3	0.4
Equity turnover	0.4	0.3	0.3	0.6

### Valuation parameters

Year to March	FY12	FY13	FY14E	FY15E
Diluted EPS (INR)	0.4	(2.1)	(1.3)	(0.2)
Y-o-Y growth (%)	(60.3)	NA	NA	NA
CEPS (INR)	0.4	(0.1)	1.8	6.2
Diluted P/E (x)	19.8	NA	NA	NA
Price/BV (x)	0.3	0.4	0.4	0.4
EV/Sales (x)	6.4	9.2	12.0	8.6
EV/EBITDA (x)	21.2	27.5	21.9	13.5

## Additional Data

### Directors Data

Dr. G V Krishna Reddy	Chairman & Managing Director	G Indira Krishna Reddy	Non-Executive Promoter Director
Mr. G V Sanjay Reddy	Vice Chairman	Mr. Krishna Ram Bhupal	Non-Executive Promoter Director
Mr. A Ramakrishna	Non-Executive Independent Director	Mr. K N Shenoy	Non-Executive Independent Director
Mr. P Abraham	Non-Executive Independent Director	Ms. Ranjana Kumar	Non-Executive Independent Director
Ch G Krishna Murthy	Non-Executive Independent Director	Mr. S Balasubramanian	Non-Executive Independent Director
Mr. A Issac George	Non-Independent Director		

Auditors - M/s. S R Batliboi & Associates

*\*as per last annual report*

### Holding – Top 6

	Perc. Holding		Perc. Holding
HSBC Global Inv Mauritius	7.99	HDFC Asset Management	1.9
Copthall Mauritius	1.47	HSBC Bank Mauritius Ltd	1.24
VAN ECK Associates	0.23	Vanguard Group	0.22

*\*as per latest available data*

### Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
25 Oct 2012	Sunteck Wealthmax Capital Pvt Ltd	Buy	1046138	13.11
30 Nov 2012	Sunteck Wealthmax Capital Pvt Ltd	Buy	712766	13.87
09 Jan 2013	Sunteck Wealthmax Capital Pvt Ltd	Buy	185358	15.31

*\*in last one year*

### Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

*\*in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Adani Enterprises	BUY	SP	M	GMR Infrastructure	BUY	SO	H
GVK Power and Infrastructure	HOLD	SU	H	Jaiprakash Associates	BUY	SO	M
Reliance Infrastructure	BUY	SO	M				

### ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

### RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

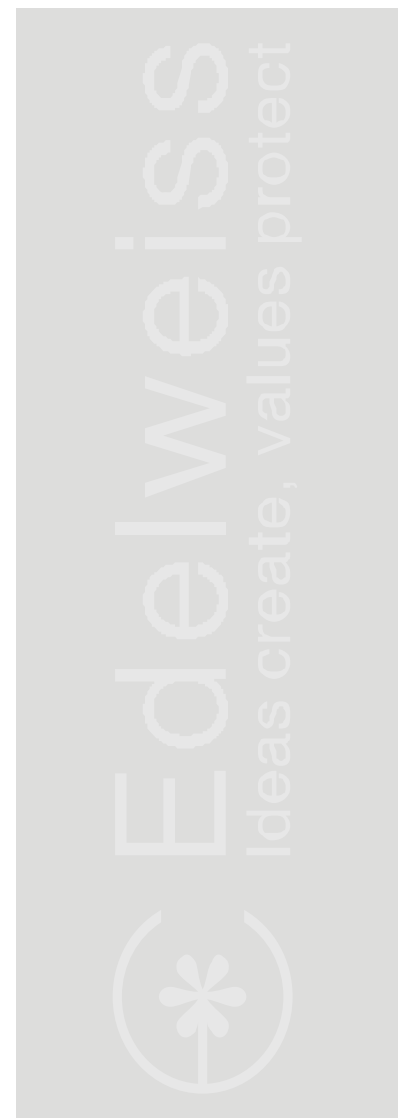
### RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

### SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return



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### Coverage group(s) of stocks by primary analyst(s): Infrastructure - Diversified

Adani Enterprises, GMR Infrastructure, GVK Power and Infrastructure, Jaiprakash Associates, Reliance Infrastructure

#### Recent Research

Date	Company	Title	Price (INR)	Recos
08-Aug-13	<b>Adani Enterprises</b>	Forex dents earnings; <i>Result Update</i>	166	Buy
31-Jul-13	<b>Reliance Infrs.</b>	Other income boosts profitability; <i>Result Update</i>	337	Buy
30-Jul-13	<b>Jaiprakash Associates</b>	Financials in-line, real estate operations weak; <i>Result Update</i>	38	Buy

#### Distribution of Ratings / Market Cap

##### Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	127	44	8	180
* 1 stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	112	54	14	

#### Rating Interpretation

Rating	Expected to
<b>Buy</b>	appreciate more than 15% over a 12-month period
<b>Hold</b>	appreciate up to 15% over a 12-month period
<b>Reduce</b>	depreciate more than 5% over a 12-month period

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