

GMR Infrastructure Limited

(NSE: GMRINFRA) (BSE: 532754)

CMP: Rs. 18.60

TARGET: Rs. 40.00

BUY

Nifty	10,245
Sensex	33,371
Nifty PE	25.43
Sensex PE	23.04

Stock Data

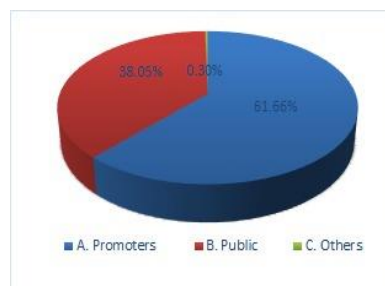
Sector	Infrastructure
BSE Code	532754
NSE Code	GMRINFRA
FV	1.00
Market Cap (INR cr)	11,196
Market Cap (US\$ mn)	172.23
Equity Share Cap.	603.59 Cr.

Stock Performance (%)

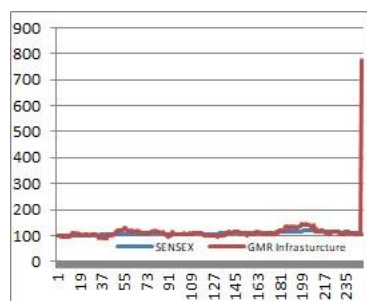
52-week high/low Rs. 25 / 14.20

	1M	6M	12M
Absolute (%)	0.27	12.77	13.42

Shareholding Pattern (%)



Sensex & Stock Movement



- **GMR Infrastructure Ltd (GIL)** was incorporated on May 10, 1996, in name & style of Varalakshmi Vasavi Power Projects Limited in Hyderabad, Andhra Pradesh, by Mr. G.M.Rao. On July, 2000, the name it was changed to GMR Infrastructure Ltd.
- **GMR** is an infrastructure holding company formed to fund the capital requirements of the **GMR Group's** Initiatives in the infrastructure sector. **GIL** is engaged in development of various infrastructure projects in Power, Road and Airport Business.
- **Amidst** all the challenges in power and road sector, **GMR** has grown its airport assets from two to five (3 operational, 2 under development) which demonstrates company's ability to grow a high margin and positive cash flow business. Airport assets accounted for 53% of the revenues and 82% of EBITDA. Passenger traffic has grown at a 5-year CAGR of 10% and 12% at its two marquee assets – Delhi and Hyderabad respectively and combined they handle 73 mn passengers per annum.
- The Company's debt has reduced from 394bn in FY16 to 228bn in HIFY18. The company entered debt restructuring agreement through SDR schemes which helped bring down leverage further. Consequently, Net Debt to EBITDA has improved from 12.3x to 6.3x.
- Unlike other conglomerates, **GMR** group seems to be out of the problem as far as energy vertical is concerned. By undertaking SDR for two power projects (Chhattisgarh & Rajahmundry), selling transmission assets (Maru & Aravalli) and inducting Tenaga as a strategic partner in **GMR Energy** with 30% stake, **GMR** is now left with those assets which are on the verge of turnaround due to tariff increase and backed by long term PPAs & confirmed linkages (Warora & Kamalanga) or those plants which are debt free (Vemagiri & Kakinada). As a result, energy vertical's debt has come down from 240bn to less than 30bn (due to de-consolidation and SDR).
- Over last 3 years, **GMR** has successfully divested assets worth more than 120bn across airport, power, transmission, coal mines and road sector. We believe that we have not seen last of such divestments as **GMR** has identified further assets which are non-core or non-strategic up for sale. This includes – Indonesian coal mines, road assets and monetization of land parcels at Kakinada and Krishnagiri SIR.

Financials:

(Source: Published Result, BSE)

INR cr	Q3FY18	Q2FY18	QoQ(%)	Q3FY17	FY17	FY16	YoY(%)
Total Income	2072.29	1865.95	11.06%	2512.955	7,005	5,849	-17.5%
EBITDA	480.61	440.97	8.99%	677.48	3,220	2,758	-29.06
PBT	-192.07	-304.89	37%	-36.48	111	-1775	-426.5
PAT	-143.46	-232.99	38.48%	-214.62	-240	-400	33.16
EPS	-1.06	-0.67	%	-1.09	-0.4	-0.7	-

5 Year Financials:

INR CR	FY17	FY16	FY15	FY14	FY13
Total Income	10,234	13,812	11,415	10,969	10,252
EBITDA	3,685	4,699	2,882	2,881	2,754
PBT	111	(1,775)	(2,806)	275	393
PAT	(626)	(1,998)	(2,959)	113	152
EPS	(1)	(4)	(6)	(4)	(2)

Equity Capital (FV - Rs.l)	604	604	1,573	1,526	389
Reserves	5,044	4,357	4,306	6,095	6,889
Networth	5,647	4,960	6,020	7,621	7,278

Ratios

EBITDA Margins %	61.96%	75.49%	72.21%	33.78%	27.17%
PAT Margins %	-	-	-	21.09%	3.73%
ROA(%)	-27.04%	-9.6%	-2.32%	1.15%	0.43%
ROE(%)	-56.52%	-16.12%	-4.16%	2.28%	0.74%
Debt/Equity	0.80	0.58	0.42	0.55	0.52
Enterprise Value (Cr.)	14,817	12,160	11,490	13,670	11,949
EV/Revenue (X)	12.56	15.22	17.68	17.39	8.34
EV/EBITDA (X)	20.27	20.16	24.49	51.46	30.69
MCap/Revenue (X)	8.19	8.83	11.14	10.87	5.85
P/BV (X)	1.48	0.75	0.86	1.18	1.17
P/Revenue (X)	8.19	8.83	11.14	10.87	5.85

Group Restructuring:

Chart 1: 74% of the valuation is from Airports. Note, this is out of 46% of the assets. With higher exposure to this high RoCE segment, the days are brighter ahead.

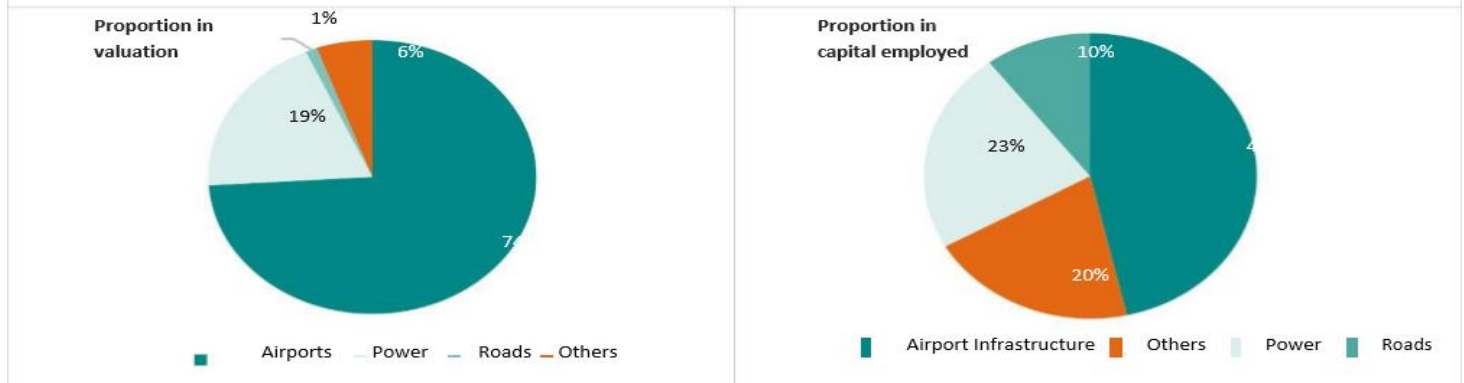
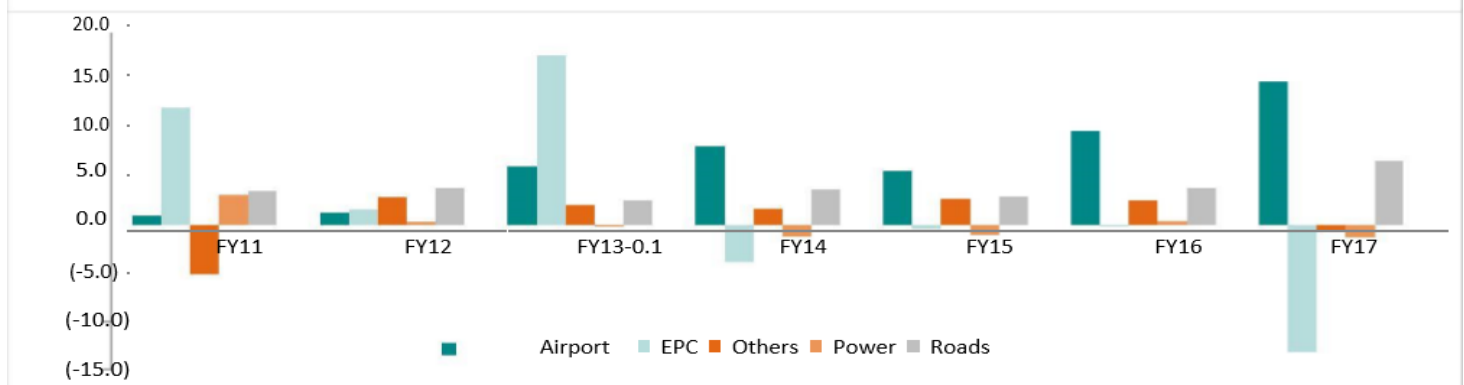


Chart 2: If Operating profit/Capital employed is any metric to go by, poor performance of power and other cash guzzlers have dragged the overall performance.



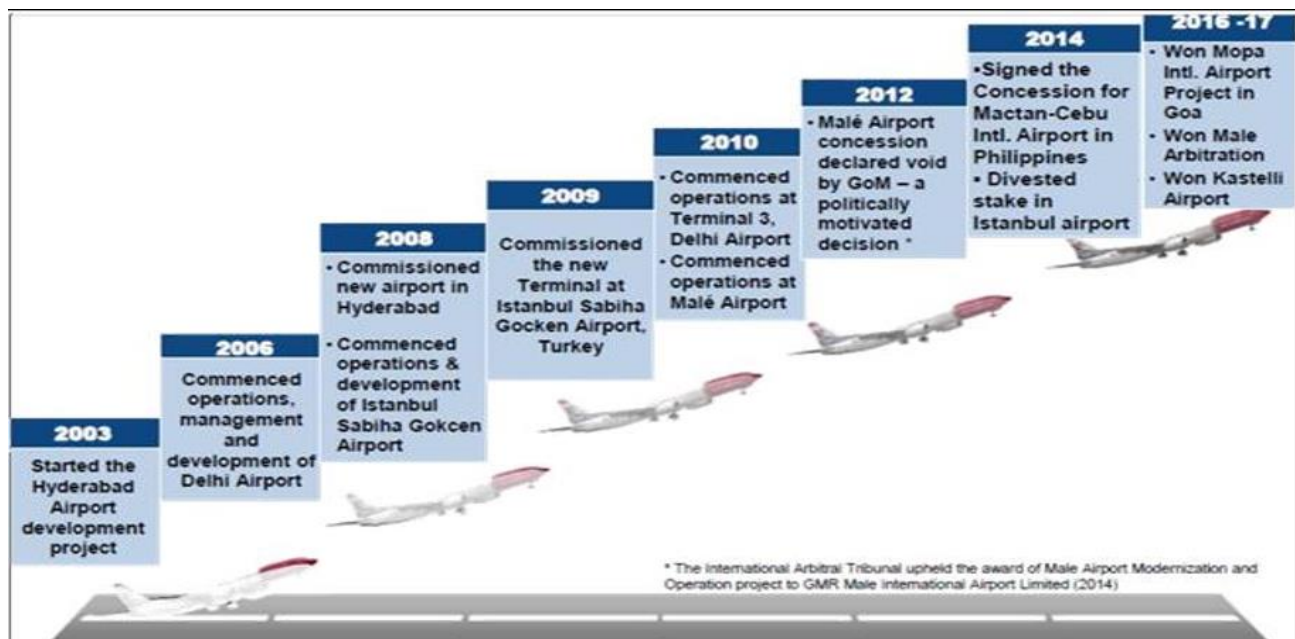
- 74% of the GMR INFRA valuation is from Airports only. That sums upto 46% of the assets.
- The high exposure to Higher Return on capital employed show the stock will bounce back from the losses caused by power sector
- The current restructuring of assets opens up multiple possibilities

Phase life cycle:

	Growth Phase	Managing Turbulence	Consolidation	Cash Flow Stabilisation	
	<ul style="list-style-type: none"> Focus on attaining scale and rapid growth Bidding for new projects and commencing construction 	<ul style="list-style-type: none"> Raising of equity capital Focus on execution 	<ul style="list-style-type: none"> Operationalise under construction projects Focus on operational efficiency & cash flows Recycling of capital through divestments 	<ul style="list-style-type: none"> All projects in fully operational No major investments required Assets stabilization would lead to positive cash flows 	
	1996 - 97	2006 - 08	2009 - 11	2012 - 14	
	> 2015				
Group		<ul style="list-style-type: none"> IPO successfully completed Raised ~USD 1 bn via QIP 	<ul style="list-style-type: none"> Raised ~USD 315 mn via QIP 	<ul style="list-style-type: none"> Raised INR 14.8bn via QIP, INR 14.0bn via Rights Issue & INR 20bn via FCCB from KIA 	
Airports	<ul style="list-style-type: none"> Forayed into airports with award of Hyderabad airport 	<ul style="list-style-type: none"> Started operations of Hyderabad airport Awarded for Delhi Airport 	<ul style="list-style-type: none"> Raised USD 330mn in GMR Airports from PE Investors Completed Terminal 3 of DIAL in record 37 months Sabiha Gokcen (Istanbul airport) inaugurated 	<ul style="list-style-type: none"> Divested stake in Island Power, Istanbul Airport, Jadhcherla & Ulundurpet road projects Won concession for Cebu Airport in Philippines 	<ul style="list-style-type: none"> Raised international bonds - DIAL (USD 289mn and USD 523mn) and GHIAL (USD 350mn) Received compensation of USD 271mn for Male Airport Won new Airports – Mopa Airport, Goa in Aug'16 and Crete Airport, Greece in Jun'17
Energy	<ul style="list-style-type: none"> Started operations of Chennai power plant 	<ul style="list-style-type: none"> Acquired 50% stake in InterGen Power 	<ul style="list-style-type: none"> Raised USD 300mn in GMR Energy from PE Investors Divested stake in InterGen Power for USD 1.2 bn Acquired coal mines in Indonesia Operationalised 5 power plants 	<ul style="list-style-type: none"> Divested stake in Island Power, GMR Jadhcherla and GMR Ulundurpet Commenced operations of Warora & Kamalanga power projects 	<ul style="list-style-type: none"> Raised USD 300mn from Tenaga for a 30% stake in GMR Energy Divested 2 Transmission assets and PT BSL coal mine (Indonesia) Adopted SDR for Rajahmundry (768MW) & Chhattisgarh (1,370MW) power plants
Urban Infra & Highways	<ul style="list-style-type: none"> Started operations of two highways 	<ul style="list-style-type: none"> Started operations of Ambala Chandigarh road 	<ul style="list-style-type: none"> Operationalised 3 road projects 	<ul style="list-style-type: none"> Commenced operations of Hyderabad Vijayawada, Hungund Hospet & Chennai ORR 	<ul style="list-style-type: none"> Divested 3 Highway projects Won EPC project of INR 51bn on eastern DFCC

- GMR raised international bonds worth \$1.2bn for Delhi and Hyderabad airports and won new airports of Mopa and Goa post 2015.
- Similarly in Energy sector, raised \$300mn from Tenaga for a 30% stake in GMR energy
- Reckless squandering was a thing of past; the future is bright

Timeline History:



Industry Overview and Opportunities:

- Infrastructure related activities witnessed strong growth between April-September 2016.
- The activities that registered the highest growth include export cargo (10 per cent), highway construction/widening (9.8 per cent), power generation (6.6 per cent), import cargo (5.8 per cent) and cargo at major ports (5.3 per cent).
- **Market size:** Foreign Direct Investment (FDI) received in Construction Development sector (townships, housing, built up infrastructure and construction development projects) from April 2000 to December 2017 stood at US\$ 24.67 billion, according to the Department of Industrial Policy and Promotion (DIPP). The logistics sector in India is expected to increase at a Compound Annual Growth Rate (CAGR) of 10.5 per cent, from US\$ 160 billion in 2017 to US\$ 215 billion by 2020.
- **Investments:** India has a requirement of investment worth Rs 50 trillion (US\$ 777.73 billion) in infrastructure by 2022 to have sustainable development in the country. India is witnessing significant interest from international investors in the infrastructure space. Some key investments in the sector are listed below.
- In February 2018, the Government of India signed a loan agreement worth US\$ 345 million with the New Development Bank (NDB) for the Rajasthan Water Sector Restructuring Project for desert areas.
- In January 2018, the National Investment and Infrastructure Fund (NIIF) partnered with UAE-based DP World to create a platform that will mobilise investments worth US\$ 3 billion into ports, terminals, transportation, and logistics businesses in India.
- **Government Initiatives:** The Government of India is expected to invest highly in the infrastructure sector, mainly highways, renewable energy and urban transport, prior to the general elections in 2019.

The Government of India is taking every possible initiative to boost the infrastructure sector. Some of the steps taken in the recent past are being discussed hereafter.

- Announcements in Union Budget 2018-19:
 - Massive push to the infrastructure sector by allocating Rs 5.97 lakh crore (US\$ 92.22 billion) for the sector.
 - Railways received the highest ever budgetary allocation of Rs 1.48 trillion (US\$ 22.86 billion).
 - Rs 16,000 crore (US\$2.47 billion) towards Sahaj Biji Har Ghar Yojana (Saubhagya) scheme. The scheme aims to achieve universal household electrification in the country.
 - Rs 4,200 crore (US\$ 648.75 billion) to increase capacity of Green Energy Corridor Project along with other wind and solar power projects.
 - Allocation of Rs 10,000 crore (US\$ 1.55 billion) to boost telecom infrastructure.
- The 90 smart cities shortlisted by the Government of India have proposed projects with investments of Rs 191,155 crore (US\$ 30.02 billion) which include Projects Focusing on Revamping an Identified Area (Area Based Projects) with investment of Rs 152,500 crore (US\$ 23.95 billion).
- **Road Ahead:** India's national highway network is expected to cover 50,000 kilometres by 2019, with around 20,000 km of works scheduled for completion in the next couple of years, according to the Ministry of Road Transport and Highways. The Government of India is devising a plan to provide wifi facility to 550,000 villages by March 2019 for an estimated cost of Rs 3,700 crore (US\$ 577.88 million), as per the Department of Telecommunications, Government of India. India and Japan have joined hands for infrastructure development in India's north-eastern states and are also setting up an India-Japan Coordination Forum for Development of North East to undertake strategic infrastructure projects in the northeast.

Risks and Concerns:

- Any delay in debt reduction
- Any further reduction of Airport tariff
- Any delay in monetization of real estate projects
- Invocation of bank guarantee for Rajahmundry power project (which is under SDR)
- We see short term challenges in terms of cash flow mismatch at Hold Co level and therefore asset monetization assumes imperative importance. Ability of the company to do so in the coming year will be crucial.

Valuations:

- AT **CMP of Rs. 18.60**, the stock is trading at **P/B of 1.52x** on its **Book value per share(BVPS) of Rs. 12.20 per share**. The stock is available at a discount if we compare it with **Industry PE (PE 23.24x)**, **S&P BSE SmallCap (PE 87.1)** and **Nifty SmallCap 250 (PE 88.4x)**.
- **GMRINFRA is undergoing a Restructuring and Cash Flow Stabilisation phase** and coming up towards profitability. The company has **very positive Price-to-Book ratio**, and it is available at a discount as compared to its peers.
- Considering the above, we recommend a strong **BUY** to our investors for **Multi-bagger returns** with **long term target of Rs. 40** in 12-18 months.

Disclosure:

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