

GMR INFRASTRUCTURE

Operational improvement brings cheer

India Equity Research | Infrastructure - Diversified

GMR Infrastructure (GMR) reported INR49mn profit for Q4FY18, aided by: (a) recognition of additional ~INR6.3bn revenue in Kamalanga and EMCO, post a favourable CERC order; and (b) higher profits at Hyderabad Airport (HIAL) and Indonesian coal mine (PT GEMS). On operational front, traffic improved 12-25% YoY on the company's three operational airports; also, the Kamalanga and EMCO plants are witnessing higher PLFs and lower interest costs. Delhi Airport (DIAL) also saw favourable regulatory actions, which are likely to significantly enhance long term value. Improvement in cash flow trajectory, finalisation of tariff orders for airports and asset monetisation will be key stock drivers, in our view. Maintain 'BUY' with SoTP-based target price of INR29.

Airport operations remain robust; power division on the mend

Passenger (pax) traffic in DIAL, HIAL and Cebu airports grew 15%, 25% and 12% YoY, respectively, in Q4FY18. Non-aero revenues for the three airports surged 18%, 14% and 33% YoY, respectively, in FY18. With Kamalanga getting coal under the SHAKTI scheme, fuel tie up has increased to ~85% of its capacity, leading to higher PLF of ~85% currently. Post refinancing of loans in Kamalanga and EMCO plants, interest costs have reduced improving cash flows.

Regulatory environment turning favourable in airports

During the quarter, the appellate tribunal (TDSAT) passed an order advising the airport regulator (AERA) to provide return on Refundable Security Deposit (RSD), which were earlier given as nil returns (on retrospective basis). Also, AERA recently issued a consultation paper proposing applicability of base airport charges (floor aero revenues) for DIAL, which will improve visibility of sustainable revenues and cash flows and bolster investor confidence in future cash flow trajectory of airports.

Outlook and valuations: Attractive assets; maintain 'BUY'

Favourable policy/regulatory actions, improving operations of power assets and financial restructuring are boosting GMR's operational cash flows. We believe GMR is the most exciting play on the fast-growing Indian airport sector ([GMR Infrastructure - Taking wings](#)) and that its airport vertical is set for significant value generation, riding greater clarity in regulatory framework. We maintain 'BUY/SO' with SoTP-based TP of INR29.

Financials (Consolidated)

Year to March	Q4FY18	Q4FY17	% Change	Q3FY18	% Change	FY18	FY19E	FY20E
Revenues	17,080	19,557	(12.7)	16,907	1.0	68,097	69,262	78,180
EBITDA	4,128	9,310	(55.7)	4,806	(14.1)	21,859	19,768	23,897
Adjusted profit	49	4,645	(99.0)	(5,784)	NA	(11,146)	(15,698)	(12,474)
Diluted EPS (INR)						(1.8)	(2.6)	(2.1)
P/BV (x)						2.6	4.5	10.1
EV/EBITDA (x)						12.5	14.0	13.6

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	High
Sector Relative to Market	Overweight

MARKET DATA (R: GMRI.BO, B: GMRI IN)

CMP	: INR 17
Target Price	: INR 29
52-week range (INR)	: 25 / 15
Share in issue (mn)	: 6,035.9
M cap (INR bn/USD mn)	: 101 / 1,625
Avg. Daily Vol.BSE/NSE('000)	: 46,770.3

SHARE HOLDING PATTERN (%)

	Current	Q3FY18	Q2FY18
Promoters *	61.7	61.7	61.7
MF's, FI's & BK's	7.9	7.9	7.4
FII's	17.8	17.8	19.4
Others	12.7	12.7	11.5
* Promoters pledged shares (% of share in issue)			79.20

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Power Index
1 month	(11.5)	(0.0)	(1.0)
3 months	(4.2)	2.3	(5.0)
12 months	20.6	11.6	2.7

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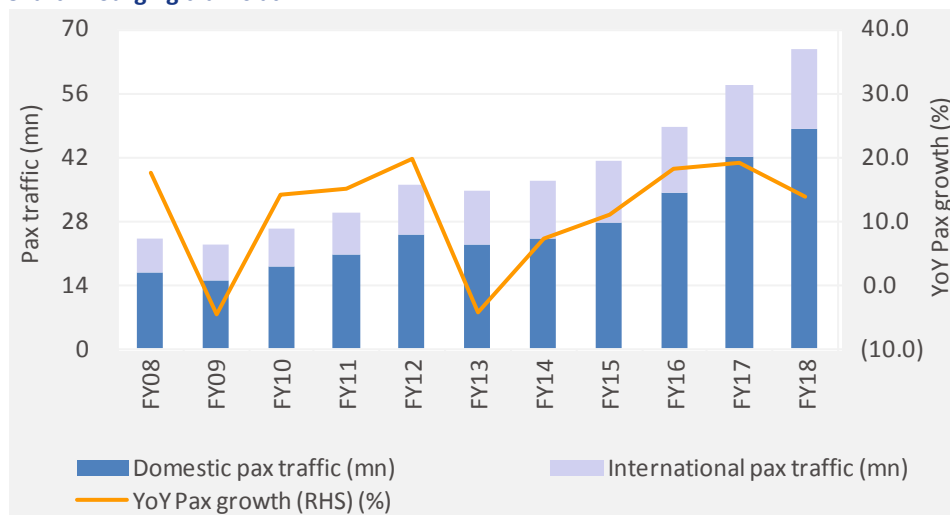
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Other highlights

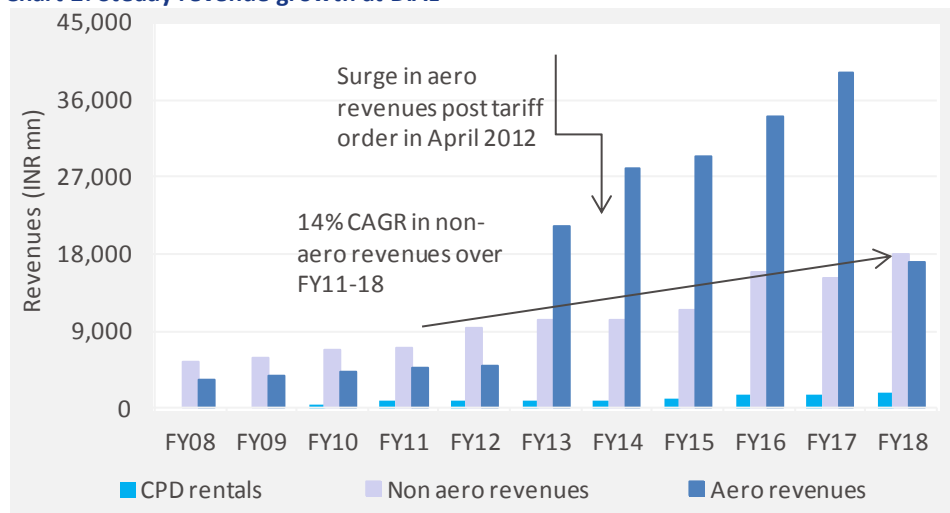
- **DIAL:** Traffic grew by 15% in Q4FY18 and 14% for FY18.

Chart 1: Surging traffic at DIAL



Source: Company, Edelweiss research

Chart 2: Steady revenue growth at DIAL



Source: Company, Edelweiss research

While aero revenues at DIAL declined due to implementation of the AERA tariff order with effect from July 2017, its non-aero revenue grew 18% YoY in FY18.

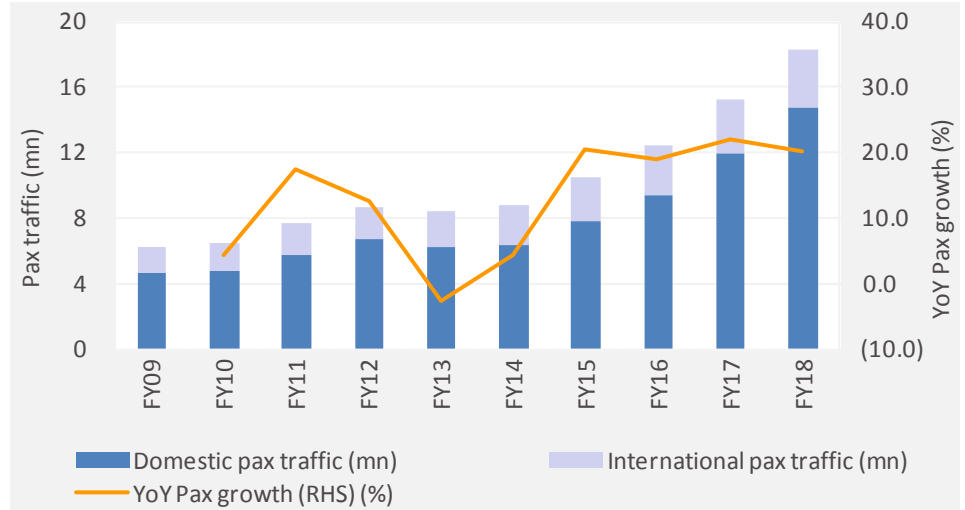
- **Regulatory relief for airports:** During the quarter, TDSAT ruled that the RSD of ~INR14.7bn cannot be treated as zero cost debt ([TDSAT ruling brings 'realty returns' cheer](#)); its cost needs to be ascertained and made available to DIAL at the time of next tariff redetermination. TDSAT has also directed the airport regulator, AERA, to calculate the RoE (currently at 16%) through a scientific and objective approach.

In addition, AERA recently issued a consultation paper proposing applicability of base airport charges (floor aero revenue); this has the potential to significantly improve visibility of sustainable revenues and cash flows.

Management expects the tariff order for the third control period in DIAL to come before FY19–end, while the ad-hoc tariffs for HIAL are expected to continue in FY19.

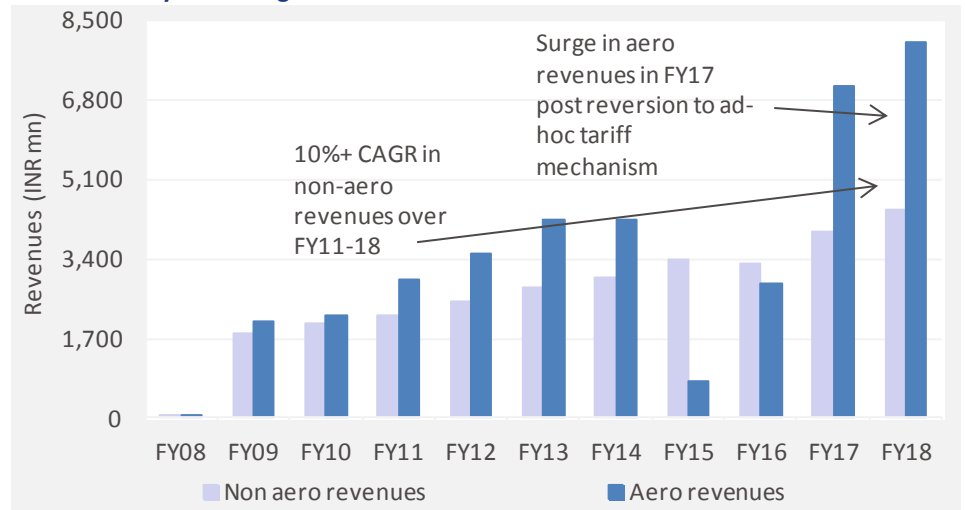
- **HIAL:** Traffic grew by 25% in Q4FY18 and 20% for FY18.

Chart 3: HIAL witnessing strong traffic growth



Source: Company, Edelweiss research

Chart 4: Steady revenue growth at HIAL

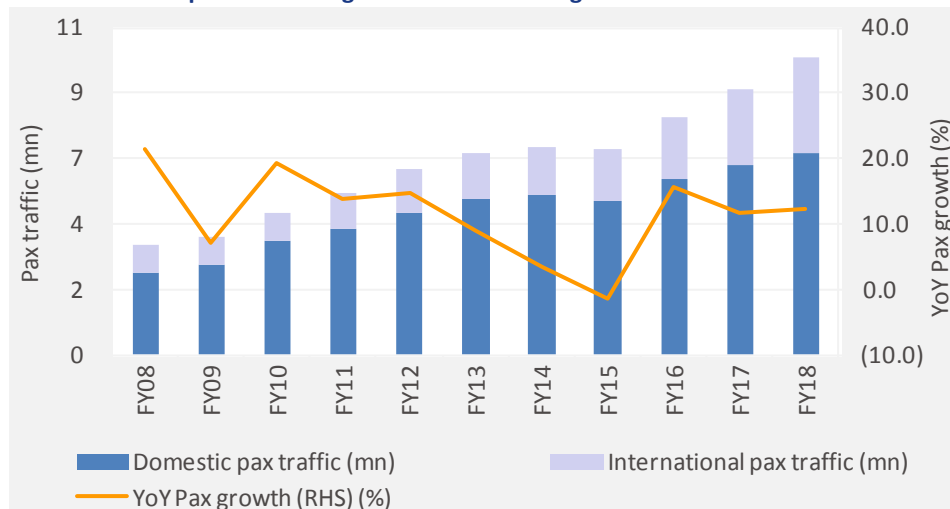


Source: Company, Edelweiss research

While HIAL’s FY18 aero revenue grew 14% YoY, non-aero revenue moved up 12% YoY.

- **Goa airport:** Construction work on the project started in Q4FY18.
- **Cebu airport:** Traffic grew by 12% in FY18, while revenue and profit grew 23% and 24%, respectively. The new terminal is expected to be inaugurated shortly.

Chart 5: Cebu airport benefiting from robust traffic growth



Source: Company, Edelweiss research

- Kamalanga:** The plant clocked PLF of 61% in FY18. It has started getting coal under the SHAKTI scheme starting March 2018, post which PLF surged to ~85%. It received favourable CERC orders for change in law and coal cost pass through, post which it recognised additional revenue of ~INR3.5bn for FY18. Its interest costs reduced by ~INR1.1bn due to pre-payment of term loans.
- EMCO:** The plant clocked PLF of 71% in FY18. It also received favourable CERC orders for change in law and coal cost pass through, owing to which it recognised additional revenue of ~INR2.8bn in FY18. Its interest costs fell by ~INR740mn following reduction in rates and debt repayment.
- PT GEMS:** Coal production surged 56% YoY in FY18, while profit catapulted 234% YoY.
- Monetisation/divestment of assets:** GMR is targeting monetisation/divestment of the following in FY18: (a) 17 acres real estate in DIAL; (b) 120 acres at HIAL for developing a logistic park; (c) two road assets; and (d) land parcels at Kakinada SEZ.
- Lenders have invited binding bids for the Chhattisgarh power project, which are expected to be finalised soon.

Table 1: SoTP

Division	Value/share (INR)
Airports	35
Power/coal mines	4
Roads	1
SEZs	2
Corporate debt	(12)
Total SOTP valuation	29

Source: Edelweiss research

Financial snapshot

(INR mn)

Year to March	Q4FY18	Q4FY17	% change	Q3FY18	% change	FY18	FY19E	FY20E
Revenues	17,080	19,557	(12.7)	16,907	1.0	68,097	69,262	78,180
Direct costs	5,853	5,022	16.5	5,304	10.3	19,185	34,646	37,998
Staff costs	1,942	1,640	18.4	1,697	14.4	6,904	7,424	8,142
Other expenses	5,158	3,585	43.9	5,100	1.1	20,150	7,424	8,142
Total expenditure	12,952	10,247	26.4	12,101	7.0	46,238	49,494	54,283
EBITDA	4,128	9,310	(55.7)	4,806	(14.1)	21,859	19,768	23,897
Depreciation	2,607	2,463	5.8	2,621	(0.5)	10,284	10,935	11,170
EBIT	1,521	6,847	(77.8)	2,185	(30.4)	11,575	8,833	12,727
Interest	5,875	5,349	9.8	6,341	(7.4)	23,163	24,651	27,377
Other income	1,255	2,154	(41.7)	2,045	(38.6)	5,530	5,126	5,216
Add: Prior period items								
Profit before tax	(3,099)	3,652	NA	(2,111)	NA	(6,058)	(10,691)	(9,434)
Provision for taxes	(383)	3,020	NA	(552)	NA	455	1,113	1,532
Minority interest	(2,765)	(4,013)	NA	4,225	NA	-	810	958
Associate profit share	-	-	-	-	-	(4,633)	(3,084)	(551)
Add: Exceptional items	-	(3,857)	NA	-	NA	-	-	-
Reported profit	49	788	(93.8)	(5,784)	NA	(11,146)	(15,698)	(12,474)
Adjusted Profit	49	4,645	(99.0)	(5,784)	NA	(11,146)	(15,698)	(12,474)
Diluted shares (mn)	6,036	6,036	-	6,036	-	6,036	6,036	6,036
Adjusted Diluted EPS	0.0	0.8	(99.0)	(1.0)	NA	(1.8)	(2.6)	(2.1)

as % of net revenues

COGS	34.3	25.7		31.4		28.2	50.0	48.6
Other expenses	30.2	18.3		30.2		29.6	10.7	10.4
Total expenses	75.8	52.4		71.6		67.9	71.5	69.4
EBITDA	24.2	47.6		28.4		32.1	28.5	30.6
Reported profit	0.3	4.0		(34.2)		(16.4)	(22.7)	(16.0)
Tax rate	12.4	82.7		26.1		NA	NA	NA

Company Description

GMR is the flagship company of the GMR Group promoted by Mr. G. M. Rao. The group was initially active in the agri business and banking sector through a controlling stake in Vysya Bank, the largest private sector bank in India, before banking sector reforms and subsequent sale to ING. GMR follows the developer model for infrastructure projects across different verticals—power, roads, airports, and urban infrastructure.

Investment Theme

GMR has completed the development of the Delhi Airport and has monetised 45 acres of land there. If GMR manages to sell the remaining 205 acres of land at a price greater than the value at which it has sold 45 acres presently, it could result in further upsides for the company. Similarly, monetization of Hyderabad airport land and SEZ land at higher than expected valuations could result in a positive surprise.

Robust power portfolio - The company has operational power portfolio of 2150 MW capacity while 2700 MW of generation units are in various stages of development. The company plans to have a reasonable blend of merchant and PPA sale for its expansion projects. Timely financial closure for the hydro projects and execution without cost overrun of projects could result in increased earnings for the company.

Increase in passenger traffic in airports and toll-based roads - If the passenger traffic picks up in airports and the toll-based road projects, the operating leverage is expected to be higher which would expand valuations.

Key Risks

1. Slowdown in passenger traffic in toll road and airports due to faltering economic growth can be a drain on the valuations.
2. Unrelated diversification
3. Fuel supply agreements and PPAs for its power projects

Financial Statements

Key assumptions				
Year to March	FY17	FY18E	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	6.6	6.5	7.1	7.6
Inflation (Avg)	4.5	3.6	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.0	6.5
INR/USD	67.1	64.5	66.0	66.0
Company				
Pax growth in DIAL (%)	19.0	13.0	11.0	10.0
Increase in non-aero rev. at DIAL (%)	(3.2)	15.8	16.6	18.8
EBITDA margins at DIAL (%)	67.8	45.2	37.0	43.6
Pax growth in HIAL (%)	22.0	17.0	15.0	13.0
Increase in non-aero rev. at HIAL (%)	20.7	7.6	9.2	11.9
EBITDA margins at HIAL (%)	75.7	77.3	77.6	79.4
EPC revenue growth (%)	118.0	162.6	40.0	35.7
Increase in debt (INR bn)	(178)	(3)	4	47

Income statement					(INR mn)
Year to March	FY17	FY18	FY19E	FY20E	
Income from operations	67,939	68,097	69,262	78,180	
Direct costs	14,077	19,185	34,646	37,998	
Employee costs	5,957	6,904	7,424	8,142	
Other Expenses	15,590	20,150	7,424	8,142	
Total operating expenses	35,624	46,238	49,494	54,283	
EBITDA	32,315	21,859	19,768	23,897	
Depreciation	10,187	10,284	10,935	11,170	
EBIT	22,128	11,575	8,833	12,727	
Less: Interest Expense	21,280	23,163	24,651	27,377	
Add: Other income	4,823	5,530	5,126	5,216	
Profit Before Tax	1,814	(6,058)	(10,691)	(9,434)	
Less: Provision for Tax	7,449	455	1,113	1,532	
Less: Minority Interest	-	-	810	958	
Add: Exceptional items	(3,857)	-	-	-	
Associate profit share	2,160	(4,633)	(3,084)	(551)	
Reported Profit	(3,475)	(11,146)	(15,698)	(12,474)	
Exceptional Items	(3,857)	-	-	-	
Adjusted Profit	382	(11,146)	(15,698)	(12,474)	
Shares o/s (mn)	6,036	6,036	6,036	6,036	
Adjusted Basic EPS	0.1	(1.8)	(2.6)	(2.1)	
Diluted shares o/s (mn)	6,036	6,036	6,036	6,036	
Adjusted Diluted EPS	0.1	(1.8)	(2.6)	(2.1)	
Adjusted Cash EPS	1.8	(0.1)	(0.8)	(0.2)	

Common size metrics				
Year to March	FY17	FY18	FY19E	FY20E
Operating expenses	52.4	67.9	71.5	69.4
EBITDA margins	47.6	32.1	28.5	30.6
Adjusted profit margins	0.6	(16.4)	(21.5)	(14.7)

Growth ratios (%)				
Year to March	FY17	FY18	FY19E	FY20E
Revenues	16.2	0.2	1.7	12.9
EBITDA	17.2	(32.4)	(9.6)	20.9
PBT	NA	NA	NA	NA
Adjusted Profit	NA	NA	NA	NA
EPS	NA	NA	NA	NA

Balance sheet		(INR mn)			
As on 31st March	FY17	FY18	FY19E	FY20E	
Share capital	6,036	6,036	6,036	6,036	
Reserves & Surplus	47,387	32,148	16,449	3,975	
Shareholders' funds	53,423	38,183	22,485	10,011	
Minority Interest	17,136	18,265	19,075	20,033	
Long term borrowings	207,601	204,917	208,622	255,132	
Short term borrowings	8,422	8,274	8,274	8,274	
Total Borrowings	216,024	213,191	216,896	263,406	
Long Term Liabilities	29,173	25,651	25,742	26,440	
Def. Tax Liability (net)	1,423	111	111	111	
Sources of funds	317,178	295,401	284,310	320,002	
Gross Block	161,200	164,115	164,115	164,115	
Net Block	101,396	94,224	83,289	72,118	
Capital work in progress	27,599	33,937	65,332	113,123	
Intangible Assets	31,132	33,988	33,988	33,988	
Total Fixed Assets	160,127	162,148	182,608	219,229	
Non current investments	94,483	88,316	88,316	88,316	
Cash and Equivalents	47,450	60,184	60,184	60,184	
Inventories	1,292	1,042	1,129	858	
Sundry Debtors	17,790	18,701	18,328	19,907	
Loans & Advances	6,077	6,271	6,378	7,200	
Other Current Assets	41,305	42,319	43,043	48,585	
Current Assets (ex cash)	66,463	68,333	68,879	76,549	
Trade payable	13,532	19,118	26,371	28,163	
Other Current Liab	37,812	64,461	89,305	96,113	
Total Current Liab	51,345	83,579	115,677	124,277	
Net Curr Assets-ex cash	15,118	(15,246)	(46,798)	(47,727)	
Uses of funds	317,178	295,401	284,310	320,002	
BVPS (INR)	8.9	6.3	3.7	1.7	

Free cash flow		(INR mn)			
Year to March	FY17	FY18	FY19E	FY20E	
Reported Profit	(3,475)	(11,146)	(15,698)	(12,474)	
Add: Depreciation	10,187	10,284	10,935	11,170	
Interest (Net of Tax)	21,280	23,163	24,651	27,377	
Others	(30,053)	(23,163)	(23,840)	(26,419)	
Less: Changes in WC	(13,059)	(29,682)	(31,643)	(1,628)	
Operating cash flow	10,997	28,820	27,690	1,282	
Less: Capex	6,177	7,571	31,396	47,791	
Free Cash Flow	4,820	21,249	(3,705)	(46,510)	

Cash flow metrics				
Year to March	FY17	FY18	FY19E	FY20E
Operating cash flow	10,997	28,820	27,690	1,282
Financing cash flow	(26,204)	(26,780)	(1,421)	41,293
Investing cash flow	17,927	(2,040)	(26,269)	(42,575)
Net cash Flow	2,720	-	-	-
Capex	(6,177)	(7,571)	(31,396)	(47,791)
Dividend paid	(6)	-	-	-

Profitability and efficiency ratios				
Year to March	FY17	FY18	FY19E	FY20E
ROACE (%)	7.2	6.2	5.3	6.5
ROAE (%)	0.6	NA	NA	NA
Inventory Days	46	22	11	10
Debtors Days	90	98	98	89
Payable Days	1,961	1,230	1,012	1,118
Cash Conversion Cycle	(1,825)	(1,110)	(903)	(1,020)
Current Ratio	2.2	1.5	1.1	1.1
Gross Debt/EBITDA	6.7	9.8	11.0	11.0
Gross Debt/Equity	3.1	3.8	5.2	8.8
Adjusted Debt/Equity	3.1	3.8	5.2	8.8
Net Debt/Equity	2.4	2.7	3.8	6.8
Interest Coverage Ratio	1.0	0.5	0.4	0.5

Operating ratios				
Year to March	FY17	FY18	FY19E	FY20E
Total Asset Turnover	0.2	0.2	0.2	0.3
Fixed Asset Turnover	0.3	0.5	0.6	0.7
Equity Turnover	2.0	2.1	2.8	4.4

Valuation parameters				
Year to March	FY17	FY18	FY19E	FY20E
Adj. Diluted EPS (INR)	0.1	(1.8)	(2.6)	(2.1)
Y-o-Y growth (%)	NA	NA	NA	NA
Adjusted Cash EPS (INR)	1.8	(0.1)	(0.8)	(0.2)
Diluted P/E (x)	264.4	NA	NA	NA
P/B (x)	1.9	2.6	4.5	10.1
EV / Sales (x)	4.2	4.0	4.0	4.1
EV / EBITDA (x)	8.9	12.5	14.0	13.6

Additional Data

Directors Data

Mr. G. M. Rao	Executive Chairman	Mr. Grandhi Kiran Kumar	Managing Director
Mr. Srinivas Bommidala	Group Director	Mr. G. B. S. Raju	Group Director
Mr. B. V. N.Rao	Group Director	Mr. S Sandilya	Independent Director
Mr. N. C. Sarabeswaran	Independent Director	Mr. R. S. S. L .N. Bhaskarudu	Independent Director
Mr. S Rajagopal	Independent Director	Mr. C. R. Muralidharan	Independent Director
Ms. Vissa Siva Kameswari	Independent Director		

Auditors - S.R. Battiboi & Associates

**as per latest annual report*

Holding – Top 10

	Perc. Holding	Perc. Holding
Dunearn Investments	3.62 LIC of India	3.26
Skyron Eco Ventures	2.15 Nomura	1.6
LTS Investment Fund	1.31 Vanguard Group	1.17
Morgan Stanley	1.01 Kotak Mahindra	0.75
Blackrock	0.67 Dimensional Fund Advisors	0.65

**as per latest available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
02 Jun 2017	Adroit Share & Stock Broker Pvt Ltd	Buy	585000	17.49

**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
GMR 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

GMR Infrastructure

Recent Research

Date	Company	Title	Price (INR)	Recos
24-Apr-18	GMR Infrastructure	TDSAT ruling brings ‘realty returns’ cheer; <i>Event Update</i>	21	Buy
06-Mar-18	GMR Infrastructure	Taking wings; <i>Initiating Coverage</i>	19	Buy

Distribution of Ratings / Market Cap

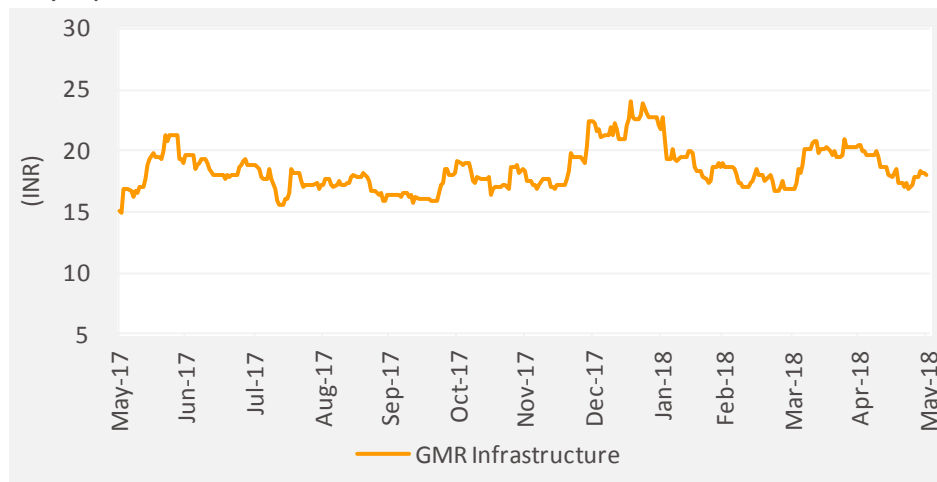
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	<10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

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

One year price chart



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