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GVK Power & Infrastructure - Buy

GVK Power & Infrastructure (GVKPIL) was established in 1994. GVK is a diversified business entity with a predominant focus on Infrastructure and Urban Infrastructure projects. It also has a significant presence in the Hospitality, Services and Manufacturing sector.

GVK is amongst India's largest infrastructure developers with experience and expertise spanning areas including hospitality, manufacturing, power, roads, airports and urban infrastructure. The company has a total of 12 subsidiaries and 2 associate companies.

Management

The management of the company is led by G V Krishna Reddy - Chairman and Managing Director. Other directors of the company include A Issac George, G Indira Krishna Reddy, G V Sanjay Reddy, A Ramakrishna, K N Shenoy, P Abraham, Sanjay Narayan, Pradip Baijal and G Krishna Murthy.

Business Overview

GVK is having a diversified portfolio of business spanning from power, roads airports to urban infrastructure. In January 2007 the company consolidated all its infrastructure assets under one company making it an integrated infrastructure player. As part of the consolidation, all the infrastructure assets in Power, Airport, Road, and Mining come under one umbrella of GVK Power & Infrastructure Limited (GVKPIL).

Power- GVK Power and Infrastructure (GVKPIL) has initiated power projects that will cross over 2000 MW capacity once operational. While Jegurupadu Combined Cycle Power Plant is operational, several ambitious power projects are under development.

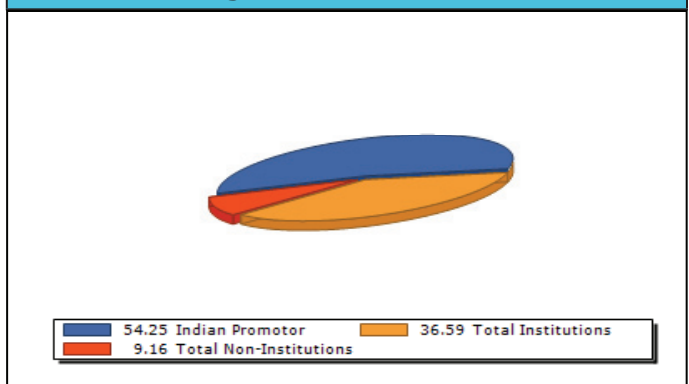
GVK is developing power projects that are based on coal, gas and hydel resources. The projects are being developed across several States in the country including Andhra Pradesh, Punjab and Uttarakhand.

Airport- In January 2006, the consortium led by GVK Group and comprising Airports Company South Africa and Bidvest was awarded the mandate to modernize India's busiest airport, the Chhatrapati Shivaji International Airport (CSIA) at Mumbai. Mumbai International Airport Pvt. Ltd. (MIAL), a joint venture company owned by the GVK led consortium (74%) and Airports Authority of India (26%) was formed in March 2006 to manage and develop CSIA. MIAL, in co-ordination with the local authorities in Mumbai, is planning to improve the access to CSIA. A dedicated 6 lane elevated road connecting the new terminal at Sahar with the main arterial Western Express Highway has been proposed. A link is also being planned between the closest stations of the proposed metro project directly into the new terminal. Access roads into the domestic terminal at Santa Cruz are also being upgraded.

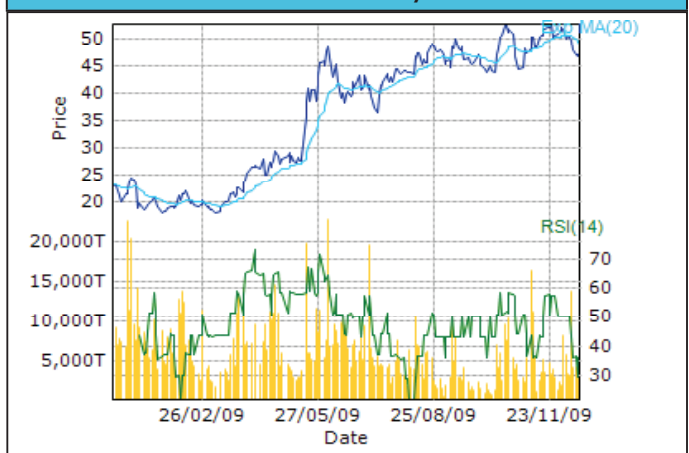
Roads- The company has received Jaipur-Kishangarh BOT project with a value of Rs 7,060 million (\$157 million).

Stock Data		18/12/09
Current Mkt Price (Rs)		46.00
52 Week High		53.75
52 Week Low		17.00
Mkt Cap (Rs. in Million)		72643.68
Return in last one Month (%)		-11.03

Share Holding



Performance in last one year



Y-o-Y Performance

Particulars	(Rs. in Million)		
	Mar 2009	Mar 2008	Change(%)
Net Sales	278.95	269.71	3.43
Other Income	163.34	919.07	-82.23
Total Expenditure	195.30	147.35	32.54
Operating Profit	246.99	1041.43	-76.28
Interest	2.25	64.94	-96.54
Profits After Tax	209.96	908.54	-76.89
Reserve & Surplus	15.99	15.78	1.33
Reported EPS(Rs)	0.15	0.65	-76.89
Core EBITDA Margin (%)	29.99	45.37	-33.90



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The Jaipur-Kishangarh BOT project is a segment of the Golden Quadrilateral National Highways Development Project of the Government of India. In addition to Roads, GVK is also expanding into other areas of transportation such as Airports, Mass Rapid Transit System (MRTS), Ports, etc. It has been shortlisted for the Hyderabad MRTS Project.

Urban Infrastructure- Under this the company is engaged in developing commercial complexes, villas and golf courses. The company has developed 'GVK One', which is a business complex as well as a retail complex located at Hyderabad. GVK plans to focus on the immense opportunities in the areas of real estate, construction, housing, townships, villas, and leisure options. Harnessing decades of experience in breathtaking constructions, property development, and matured project management practices, engineering expertise - GVK promises to change the meanings of terms like comfortable living and quality housing.

SEZ- GVK has entered into a joint collaboration with Tamil Nadu Industrial Development Corporation Limited (TIDCO), an undertaking of the Government of Tamil Nadu to develop a multi-product Special Economic Zone (SEZ) in Perambalur district.

The SEZ will spread over an area of 3,000 acres and will cater to industries such as Textiles / Garments, Leather, Engineering goods, Pharmaceuticals, Power, IT / ITES, Iron & Steel, Fertilizers, Chemicals, Petrochemicals, Floriculture, Horticulture, Electronics & Communication etc. It is being implemented through a Special Purpose Vehicle (SPV) company, GVK Infratech, a wholly owned subsidiary of GVKPIL

Latest result analysis

- For the quarter ended September 30,2009 the company has reported a sales growth of 67% to Rs 11.41 crore from the corresponding previous quarter of Rs 6.81 crore.
- The profit after tax of the company grew by 76.68% to Rs 8.41 crore from Rs 4.76 crore in the same period last year.
- The other income constituents of the company increased by huge 84.44% to Rs 6.40 crore from Rs 3.47 crore.
- PBT has gone up to Rs 10.28 crore in the quarter from Rs 5.49 crore registering a growth of 87.25% over corresponding quarter of previous year.
- The total income of the company increased by 73.25% to Rs 17.81 crore compared to Rs 10.28 crore in the corresponding previous quarter.
- Net profit margin of current quarter increased to 92.29 from 69.90 of September 2008 quarter.

Industry Scenario

As per the Ministry of Power, the total installed power capacity in India is 1,48,265 MW. Out of this, coal based

Q-o-Q Performance			
(Rs. in Million)			
Particulars	Sep 2009	Sep 2008	Change(%)
Net Sales	114.10	68.10	67.55
Expenditure	72.80	47.80	52.30
Other Income	64.00	34.70	84.44
EBITDA	105.30	55.00	91.45
Interest	2.40	0.00	0.00
Net Profit	84.10	47.60	76.68
EBITDA Margin (%)	0.92	0.81	14.27
NPM (%)	0.74	0.70	5.45
EPS	0.05	0.03	66.67

Profit & Loss			
(Rs. in Million)			
Particulars	Mar 2009	Mar 2008	Change(%)
Net Sales	278.95	269.71	3.43
Total Income	442.29	1188.78	-62.79
Total Expenditure	195.30	147.35	32.54
Operating Profit	246.99	1041.43	-76.28
Profits After Tax	209.96	908.54	-76.89

Balance Sheet			
(Rs. in Million)			
Particulars	Mar 2009	Mar 2008	Change(%)
Share Capital	1405.85	1405.85	0.00
Reserve & Surplus	15986.36	15776.40	1.33
Total Liabilities	17392.21	17182.25	1.22
Investments	9518.01	11699.87	-18.65
Current Liabilities	25.24	12.51	101.73
Net Current Assets	7865.77	5474.28	43.69
Total Assests	17392.21	17182.25	1.22

Key Ratios		
(Rs. in Million)		
Particulars	Mar 2009	Mar 2008
Reported EPS (Rs)	0.15	0.65
Core EBITDA Margin (%)	29.99	45.37
EBIT Margin (%)	88.42	386.10
ROA (%)	1.21	7.30
ROE (%)	1.21	8.78
ROCE (%)	1.43	8.36
Price/Book (x)	1.89	3.28
Net Sales Growth (%)	3.43	141.82
EBIT Growth (%)	-76.31	190.91
PAT Growth (%)	-76.89	512.00
Total Debt/Mcap (%)	0.00	0.00



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thermal power plants accounted for 77,948 MW, gas fired plants for 14,876 MW and oil based plants for 1,199 MW. The total capacity of these thermal power plants was 64.6% of the country's installed capacity. Hydro-electric power plants had 36,878 MW which was 24.7% of the installed capacity. Nuclear power and renewable energy sources accounted for the balance 17,362 MW of installed capacity.

In FY 2009, there was a 2.71% growth in electricity generation and 723.556 BU were added. This was 93.44% of the targeted 774.09 BU. Overall the PLF of power plants was 77.19% and plants from the private sector achieved a PLF of 91.01%. However, the gap between demand and supply still remains large, and there is a shortage of 13,124 MW during peak hours. With demand expected to grow for several years to come, the power shortage scenario in the country is unlikely to improve unless power generation picks up.

To facilitate capacity additions, issues relating to sourcing of equipment, project financing, land acquisition and fuel linkages are needed to be addressed on priority. Government of India alive to the situation has reiterated its intention to streamline timelines for setting up power plants and so it is reasonable to expect that the situation will improve.

The government's ambitious 'Power-For-All by 2012' plan requires that India's installed generation capacity reaches at least 200,000 MW by 2012 from the present level of 1,48,265 MW. Consequently, power supply must grow 12% annually to keep pace with the average GDP growth rate of about 8% per annum. The target for the 11th Five Year Plan (2007-12) has been set at 69,000 MW. Central Government has introduced different schemes like Accelerated Power Development and Reform Program (APDRP) for improving the transmission and distribution network across the states, without which additions to generation capacities alone will not be of much use.

Power sector has been an underperformer in terms of capacity addition over last few years. Compared with an average growth of GDP by over 9% in last four years, electricity generation has increased by 4% only. However, in order to maintain a healthy growth rate of economy, the pace of power generation will have to be increased in the country.

Latest developments

GVK Airport Developers, part of the Hyderabad-based GVK Power and Infrastructure (GVKPIL), has picked up the 17% stake held by L&T Infrastructure Development

Projects in the Bengaluru International Airport (BIAL). The stake buy was valued at Rs 686 crore. Following the development, GVKPIL's stake in BIAL has gone up to 29%.

GVK Power & Infrastructure is buying a 12% stake in airport operator Bangalore International Airport for Rs 484.5 crore. GVK, which is also upgrading the Mumbai airport, will buy the 4.61 crore shares being offloaded by Zurich Airport - the original co-promoter of the new Bengaluru International Airport. GVK and Zurich Airport have also entered into an alliance to bid for airport development projects in the sub-continent.

Recommendation Factors

GVK Power supplies about ten percent of total power Hyderabad uses and is pursuing inorganic growth opportunities for power generation assets.

GVK Power and Infrastructure's has picked up the 17% stake held by L&T Infrastructure Bengaluru International Airport (Bial). The intent behind GVKPIL's plan to buy out Larsen and Toubro stake is to gain a controlling stake in the airport management which will ultimately add to the profitability of the company in the coming days.

There is a buzz that the company is looking to increasing its stake from the present 37% in Mumbai International Airport. South African company Bidvest Group holds 27% of Mial. Passenger traffic at airport is likely to pick up by 6% in FY10 and 12% in FY11.

The company recently came up with a QIP of Rs720 crore, that will takes care of its funding needs for the coming one year. So the near-term funding needs of the company are already fulfilled and will also be sufficient for any infrastructure opportunity that may arise.

GVK is also looking at acquiring a 1,200 MW coal-based power plant in the development stage in Chhattisgarh.

In view of huge power demand and supply gap the power profitability is likely to drive strong earnings growth of the company, also the air traffic in the second quarter of fiscal 2010 rose 3% over the year-ago period, with passenger traffic rising by 10%.It gives an indication that the slow down in the sector is bottoming out and it may witness a rapid growth in coming days. The scrip is currently trading at Rs 46 and at a P/E multiple of 415.11, we would recommend a BUY with a price target of Rs 60 in the stock as the EBIDTA of the company is likely to grow by more than 10 times over FY09-11 keeping in view the rise in air passenger traffic and the availability of gas from the KG basin for its power plants

Peer group comparison							
Company	Year End	Net Sales	PBDIT	PAT	NPM	EPS	P/E
GVK Power	200903	278.95	83.65	209.96	94.45	0.15	415.1
NTPC	200903	419752	99827	82013	18.59	9.95	19.6
Power Grid Corp	200903	65830.2	59786.8	16906.1	25.32	4.02	22.05
NHPC	200903	27378.3	17317.9	10965.3	--	--	--



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