

GMR Infrastructure Ltd.

Nifty	10,505
Sensex	33,970

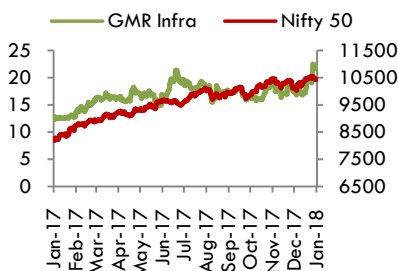
Key Stock Data

Reuters Code	GMRI.BO
Bloomberg Code	GMRI IN
Market Cap (₹Cr.)	12766.0
52W High/Low	23.6/12.22
30 dayAvg Volume (mn)	44.5

Shareholding Pattern

Promoters	61.7%
FIs & DIs	26.9%
Public & Others	11.4%

Comparison Chart



Summary Financials (₹ mn)

	FY 16	FY 17	FY18E	FY19E
Revenues	82,610	97,686	83,815	83,871
PAT	-27,124	-5,746	-10,218	-2,788
EPS	-4.5	-1.0	-1.7	-0.5
P/E	NA	NA	NA	NA
EV/EBITDA	16.9	9.0	11.1	9.3
D/E	6.3	2.9	2.4	2.1
RoCE	3.4%	7.5%	4.8%	5.7%
RoE	-43.4%	-7.8%	-12.9%	-3.3%

Company Background

GMR Infrastructure Limited (GIL) interest varies across infrastructure assets such as airports, power, highways and urban infrastructure.

Investment Rationale

- **Focus on growing 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 p.a. With a healthy balance sheet, both the airports are self-sufficient in funding the next leg of expansion. Aided by expansion of airports and monetization of real estate assets, we believe that Airport business will continue to remain a significant contributor to the overall growth of the company.
- **Consolidated debt reduced significantly during FY17** – The Company's debt has reduced from ₹394bn in FY16 to ₹228bn in H1FY18. Debt reduction exercise was undertaken during FY17 through a series of stake sales & pending wins in arbitration cases. The company received ₹20bn on sale of 30% stake in GMR energy to Tenaga and ₹20bn was won in an arbitration case resolution with reference to the Maldives airport. The company further disinvested and garnered ₹5bn during the year. 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.
- **Energy vertical: from problem to solution** – 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).
- **Asset Divestment: Plenty to come** – 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.

Key Risks

- 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.

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Outlook & Valuation

In the coming years, GMR Infra will gradually transform from an infrastructure conglomerate to a focused airport-centric company, supported by next leg of capex at Delhi (~₹70-80 bn) & Hyderabad (₹24bn) and operationalization of Goa airport (₹19bn) & Crete airport in Greece. Having gone through deep debt restructuring in the past two years, the consolidated debt now looks sustainable and the corporate debt is serviceable through divestment of non-core assets. We assess the company on the basis of its asset play, business potential, airport franchise and clearance of regulatory hurdles as P&L will take a while to mend. **At CMP of ₹21.15, the stock is trading at FY19E EV/EBITDA of 9.3x. Hence, we recommend investors to ACCUMULATE the stock with long term view.**

Investment Rationale

Focus is on growing airport assets

Company's airport segment is engaged in the development and operation of airports. Currently, the company operates three airports – Delhi Airport, Hyderabad Airport and Mactan Cebu Airport (in Philippines). Combined passenger handled in all the three airports stands at 81.8 mn in FY17. Apart from this, two airports are under development – Goa Airport and Crete Airport (in Greece).

Recently, GMR in consortium with Megawide (50:50 JV) has been awarded EPC contract for developing a new terminal building at Clark Airport, Philippines with a capacity of 8 mn passengers p.a. The contract is to be executed in 30 months. The contract is part of the hybrid PPP model followed by Philippines Govt wherein EPC and O&M tenders are issued separately.

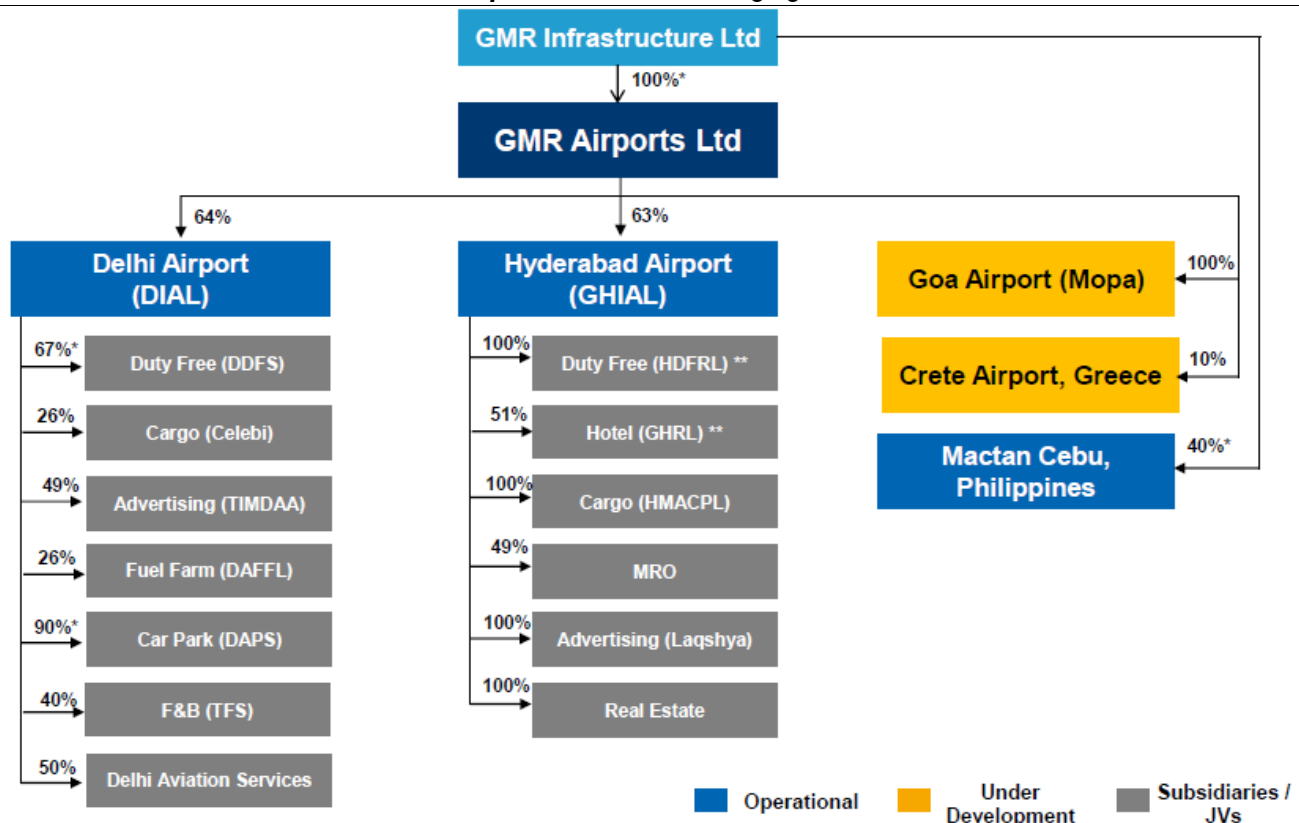
Amidst all the challenges in power and road sector, GMR has not held back investments in airport business and in fact has grown from two assets to five assets. The company continues to evaluate opportunity outside India as well. This clearly shows that GMR's strategy is to grow airport vertical as it's a high margin, high RoCE business with positive cash flows once the operations stabilizes.

Real Estate monetization opportunity (Delhi 230 acres, Hyderabad 1500 acres, Goa 232 acres) adds to the overall returns and makes airport assets even more lucrative to own.

Scope for increasing non-aero revenues (non-regulated) has made JVs and subsidiaries extremely valuable. For instance, while Delhi airport reported ₹572 cr EBITDA in H1FY18, its share of EBITDA from JVs has now grown to ₹144 cr, thus contributing 20% to the overall EBITDA. Not to forget, that non-aero revenues still forms only 38%/36% of revenues in H1FY18 at Delhi/Hyderabad airport as against ~70% in developed airports.

Passengers (mn)	FY17
Delhi	57.7
Hyderabad	15.2
Mactan Cebu	8.9
Total	81.8

GMR Airports : Focus on emerging markets



Source: Company, Way2Wealth Research

Airport Assets: India

Project	Delhi International Airport (DIAL)	Hyderabad International Airport (GHIAL)	Goa International Airport (GGIAL)
Status	Operational	Operational	Greenfield Development
Shareholding	GMR – 64% Fraport – 10% AAI – 26%	GMR – 63% MAHB – 11% GoAP – 13% AAI – 11%	GMR – 100%
Annual Passenger Capacity	62 mn	12 mn	7.7 mn**
Concession Terms	<ul style="list-style-type: none"> 30 + 30 years (starting Apr'06) 46% revenue share 	<ul style="list-style-type: none"> 30 + 30 years (starting Mar'08) 4% revenue share 	<ul style="list-style-type: none"> 40 + 20 years (starting Nov'16) 37% revenue share
Revenue Structure	<ul style="list-style-type: none"> Aero Revenues – Return on Capital Non-Aero Revenues – Duty Free, Retail, F&B, Advertising, Car Park, etc. Commercial Property Development(CPD) 		
Commercial Property Development	230 acres <ul style="list-style-type: none"> 1st Phase -45 acres completed 2nd Phase -23 acres awarded to Bharti Realty 	1,500acres <ul style="list-style-type: none"> ~90 acres already monetized 	232 Acres
Traffic – FY17	57.7 mnpax (▲19%)	15.2 mn pax (▲22%)	N.A.
Traffic – H1FY18	31.2mnpax (▲13%)	8.5mnpax (▲18%)	N.A.

** Post completion of Phase 1

Source: Company, Way2Wealth Research

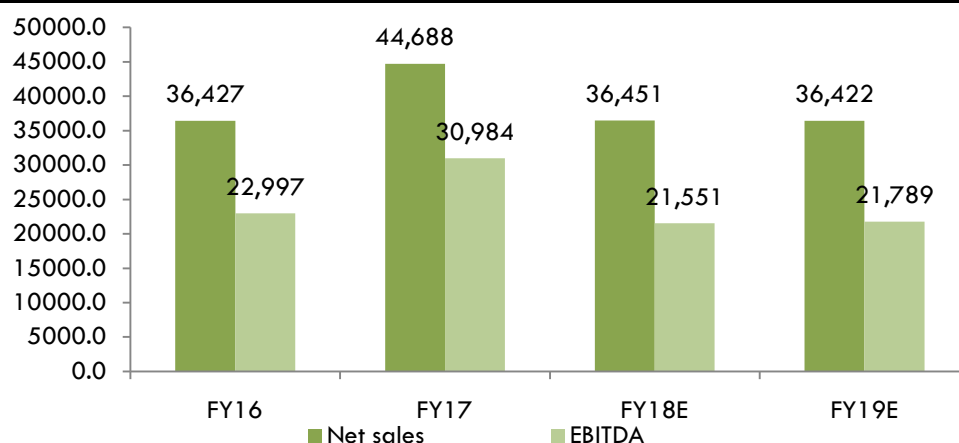
Airport Assets – Outside India

Project	Mactan - Cebu International Airport, Philippines	Crete International Airport, Greece
Status	Brownfield Development	Greenfield Development
Shareholding	GMR – 40% Megawide – 60%	GMR – 10% TERNA S.A. – 44% Govt. of Greece – 46%
Annual Passenger Capacity	16 mn** (Existing : 5 mn)	15 mn**
Concession Terms	<ul style="list-style-type: none"> 25 years (from O&M start date) Project cost of USD 750mn incl. upfront fees of \$ 320 mn + VAT 	<ul style="list-style-type: none"> 35 years (incl construction period of 5 years) Project cost of Euro 530mn GMR would be the Airport Operator
Revenue Structure	<ul style="list-style-type: none"> Aero revenue based on pre-determined Passenger Service Fee Non-Aero revenue from allied activities 	<ul style="list-style-type: none"> Aero revenue determined based on Dual Till methodology Inflationary increase post 3 years
Traffic – FY17	8.9 mnpax (▲12%)	6.9 mnpax(▲13%)
Traffic – H1FY18	5.1 mnpax (▲14%)	N.A.

** Post completion of Phase 1

Source: Company, Way2Wealth Research

FY 19E Airport EBITDA to stood at ₹21,789mn



Growth in Hyderabad airport to offset decline in Delhi Airport business in FY19E

Source: Company, Way2Wealth Research

A. Delhi Airport

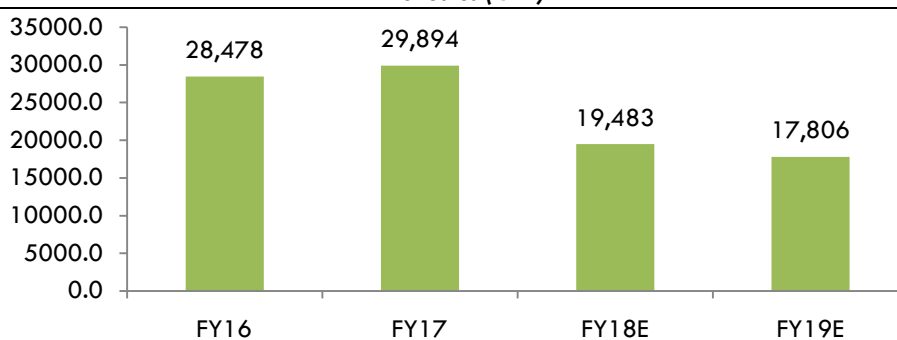
Delhi International Airport (P) Limited (DIAL) is a joint venture, formed as a consortium between GMR Group (64%), Airports Authority of India (26%), and Fraport AG (10%). GMR is the lead member of the consortium, Fraport AG is the airport operator and Eraman Malaysia is the retail advisor. The concession to operate, manage and develop the IGI Airport was awarded to the consortium in January 2006, following an International competitive bidding process. DIAL entered into Operations, Management and Development Agreement (OMDA) on April 4, 2006 with the AAI. The initial term of the concession is for 30 years extendable for another 30 years.

In FY17, DIAL reported gross revenues of ₹5624 cr, accounting for nearly 80% of the airport revenues. Post 46% revenue sharing, net revenues stood at ₹2989 cr and EBITDA of ₹2025 cr, implying margin of 68%

Expansion – In the 2nd phase, DIAL will expand capacity from 62 mn to ~80mn passengers initially at a capex of ₹7000-8000cr over 3 years.

Delhi Airport business

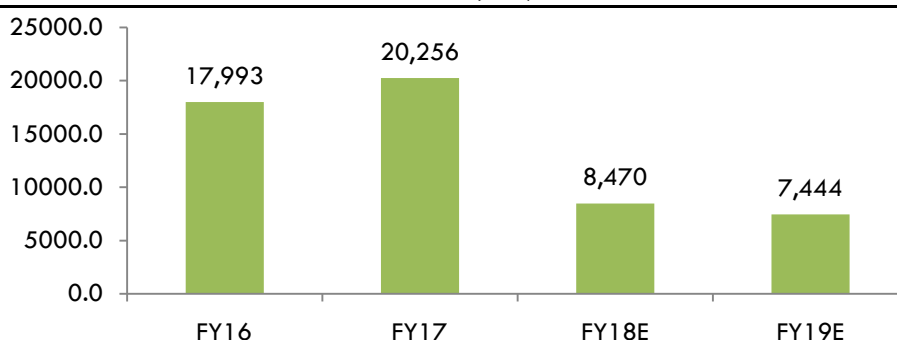
Net Sales (₹mn)



Net sales to drop from ₹29,894mn in FY17 to ₹17,806mn in FY19E due to ~89% fall in tariffs as advised by AERA off-setted to some extent by growth in non-aero revenues

Source: Company, Way2Wealth Research

EBITDA (₹mn)



FY19E EBITDA/passenger to fall to ₹108 from ₹351 in FY17 in line with fall in revenues

Source: Company, Way2Wealth Research

DIAL tariff fixation issue

A major bone of contention as far as Delhi airport is concerned is with respect to tariff fixation for determining aero charges, predominantly being User Development Fee (UDF). In India, airport tariffs are determined for a 5-year control period with the first control period for DIAL being 2009-2014, second being 2014-2019 and so on.

During the first control period, tariffs were determined in the 4th year, i.e. 2012 and therefore to make up for the shortfall of the previous 3 years, tariffs were raised sharply by 346%, so that over a 5-year period, DIAL was able to justify its returns. However, in the current 2nd control period, because the tariffs have still not been fixed, GMR continues to levy high UDF charges of the 1st control period and as a result in the current 3 years of the 2nd control period, it has over-collected to the tune of ~₹30bn+.

Tariff fixation for Delhi Airport is a key overhang on the stock

Now, AERA has suggested 89% fall in tariffs for the current control period, which got implemented from 7th July 2017 (reflected in sharp fall in FY18E turnover in the above chart). If the same continues for the rest of the financial year, then DIAL will post losses at net level but will make significant cash profit.

On the other hand, DIAL has filed various tariff appeals with Appellate tribunal with respect to matters such as higher return on equity, value of hypothetical RAB, treatment of CPI in revenue calculation, treatment of taxes in aero revenue calculation and various other 10-12 items. However, the biggest of them is the return on security deposits of ₹1470 cr, which they have realized by monetizing 45 acres land and the proceeds have been used to fund airport capex. DIAL is not allowed to earn any returns on this since 2009.

To the extent of the above tariff appeals admitted by the Appellate tribunal, the over-recovery amount would come down and tariff would undergo an upward revision from the one suggested by the tribunal.

Current status: Hearings on tariff appeals have been concluded by the tribunal and resolution is expected sooner than later.

Liberalized land usage rule:

GMR's Delhi airport is one of the beneficiary of a SC's ruling in August 2017 which allowed existing PPP airports (Delhi, Mumbai) to commercially utilize airport land for non-aero purposes such as hospitality, shopping centres, amusement parks, commercial buildings and so on. This directive by SC brings existing PPP airports at par with AAI airports. With no restriction on end use, the move will help in generating additional revenues for the company.

DIAL CPD – A promising opportunity

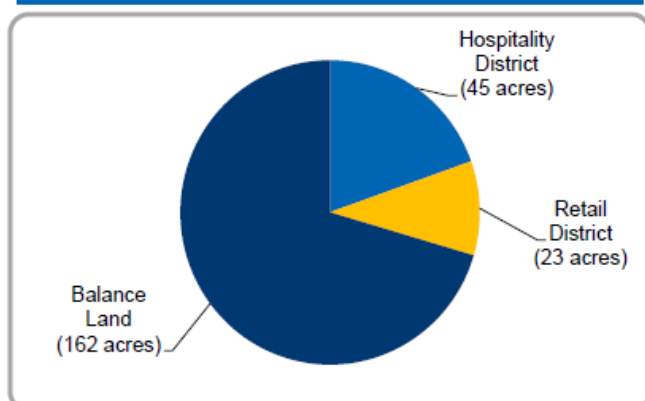
230 acres of Aerotropolis Development

- Commercial development at airport envisages an alternate commercial hub in NCR (as BKC in Mumbai)
- Prime and centrally located in the capital of India
- Strong preference amongst corporates to have "Delhi" address
- Multi modal connectivity including metro rail

Aerotropolis Phase - I : 45 Acres of Hospitality District

- Competitive bidding - Participation from marquee international / domestic players viz. Accor Group, Bird group, Marriot Hotels, Bharti Realty, etc.
 - Developable area of ~6 msf
- Operations commenced for JW Marriott, Lemon Tree, Red Fox, Holiday Inn, Ibis Hotel, Novotel, Pullman, etc.
 - ~3,000 rooms are operational with an occupancy of ~70%

Total Land Parcel – 230 acres



Aerotropolis Phase - II : 23 Acres of Retail District

- Awarded development rights for ~23 acres to Bharti Realty Holdings Ltd
 - Bharti to develop an 'Integrated Retail Development Project'
 - Developable area of ~2.1 msf
 - Upfront payment of INR 3,150 mn (including RSD, ADC, Bid Processing Fee)
 - Will receive License Fee equivalent to 20% of Revenues with Minimum Guaranteed Payments

Source: Company, Way2Wealth Research

B. Hyderabad Airport

Promoted by GMR group (63% stake) in joint venture with Airport Authority of India (13%), Govt of Telangana (13%) and Malaysia Airports Holdings Berhad (11%), GMR Hyderabad International Airport Ltd (GHIAL) has the mandate to build, operate and maintain Greenfield airport development in Hyderabad for 60 years starting from March, 2008. The airport is consistently running at over its rated capacity of 12 mn passengers p.a. and has seen traffic growing at 12% CAGR during FY12-17.

In FY17, GHIAL reported gross revenues of ₹1105 cr, accounting for nearly 16% of the airport revenues. Post 4% revenue sharing, net revenues stood at ₹1059cr and EBITDA of ₹802cr, implying margin of 76%.

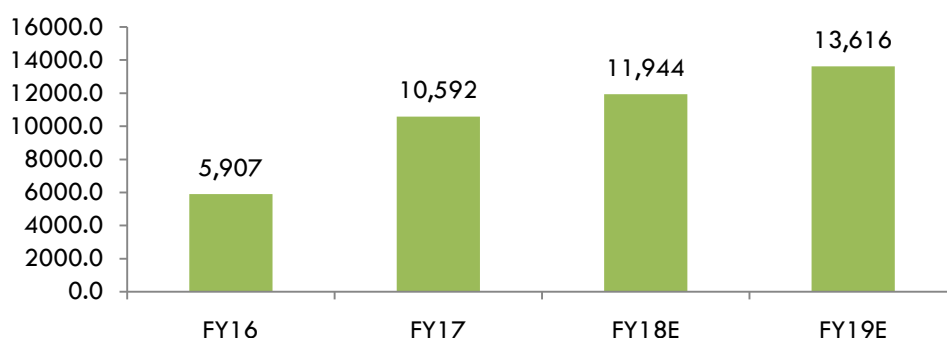
Revenue maximization – There lies huge scope for increasing non-aero revenues, particularly duty-free which stands at 16% of retail revenues in H1 (at Delhi, it is 75%). Also, company has access to ~1500 acres of land in Hyderabad, of which only 90 acres has been monetized.

Recently, GHIAL successfully refinanced its term loans with a \$350 mn 4.25% fixed rate dollar offering in the international bond market, which underscores the strong operational track record.

Expansion – In the second phase, GHIAL will expand its capacity from 12 mn to 20 mn passengers at a cost of ₹2000-2500 cr. Surplus liquidity in the balance sheet as well as the above bond offering will help in financing the same.

Hyderabad Airport business

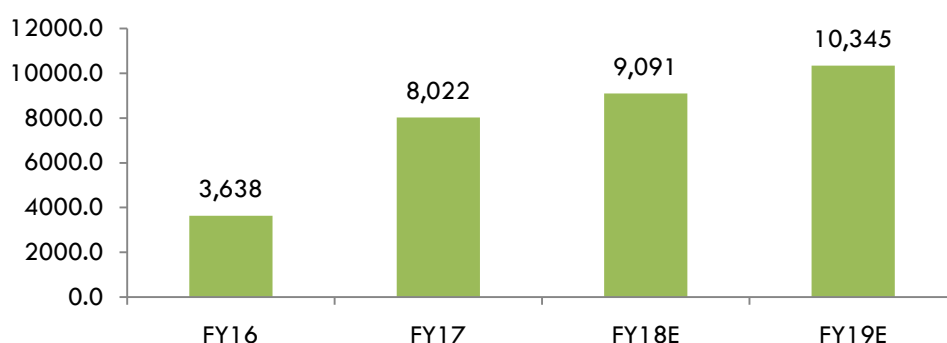
Net Sales (₹mn)



**FY19E net revenues to stand at ₹13,616 mn (+14% y/y).
Net revenues per passenger to stand at ₹700(+4% y/y).**

Source: Company, Way2Wealth Research

EBITDA (₹mn)



EBITDA Margin to remain around 76% on account of high operational efficiency

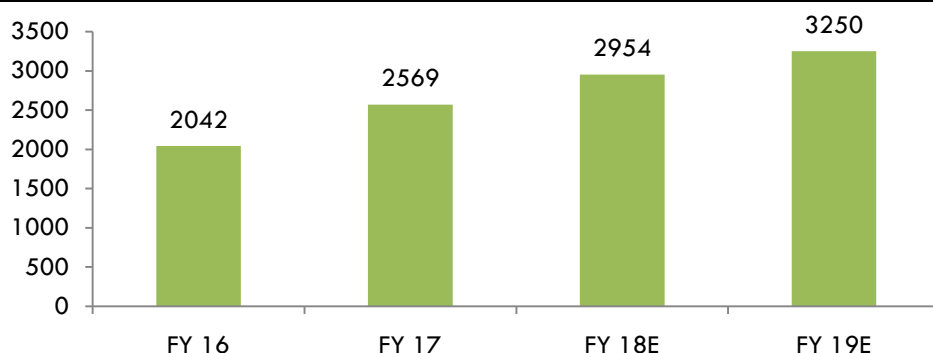
Source: Company, Way2Wealth Research

C. Mactan-Cebu Airport (Philippines)

GMR (40% stake) in JV with Megawide (60% stake) has received a mandate to expand the Mactan-Cebu Airport in Philippines. The airport's rated capacity is 5 mn passengers, whereas it has received a traffic of 8.9/5.1mn passengers in FY17/H1FY18. The concession is for 25 years and the capacity would be increased to 16 mn passengers p.a. Construction of new terminal is on-stream and is expected to commence by mid-2018.

Mactan-Cebu Airport

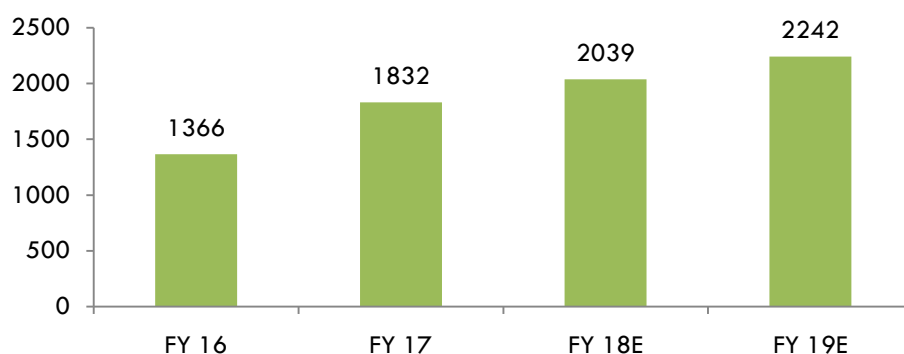
Net Sales (₹mn)



Net sales to grow at a CAGR of ~17 % (FY16-FY19E). Passenger revenue to grow at a CAGR of ~10% (FY 16-19E)

Source: Company, Way2Wealth Research

EBITDA (₹mn)



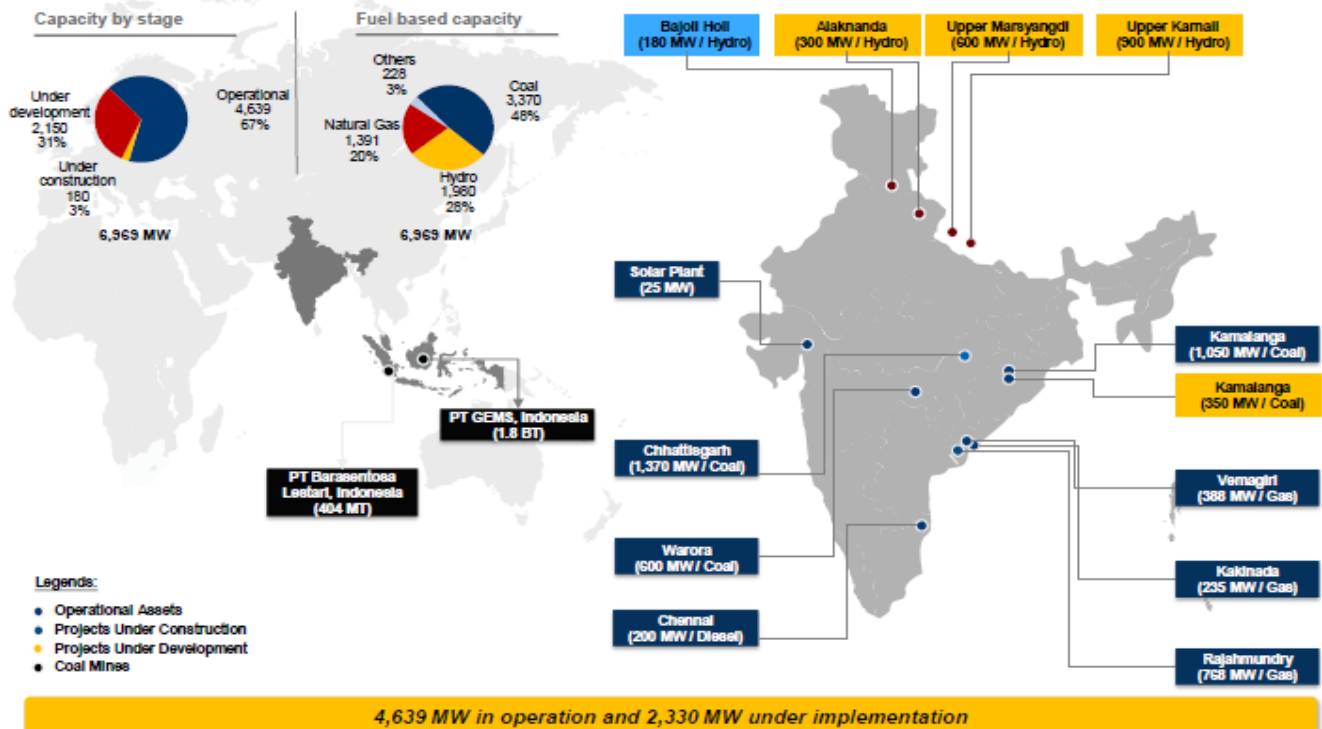
FY 19E EBITDA Margin to stand at ~69% on account of non aero revenue mainly.

Source: Company, Way2Wealth Research

(Note: Mactan-Cebu Airport is not consolidated as per Ind-AS)

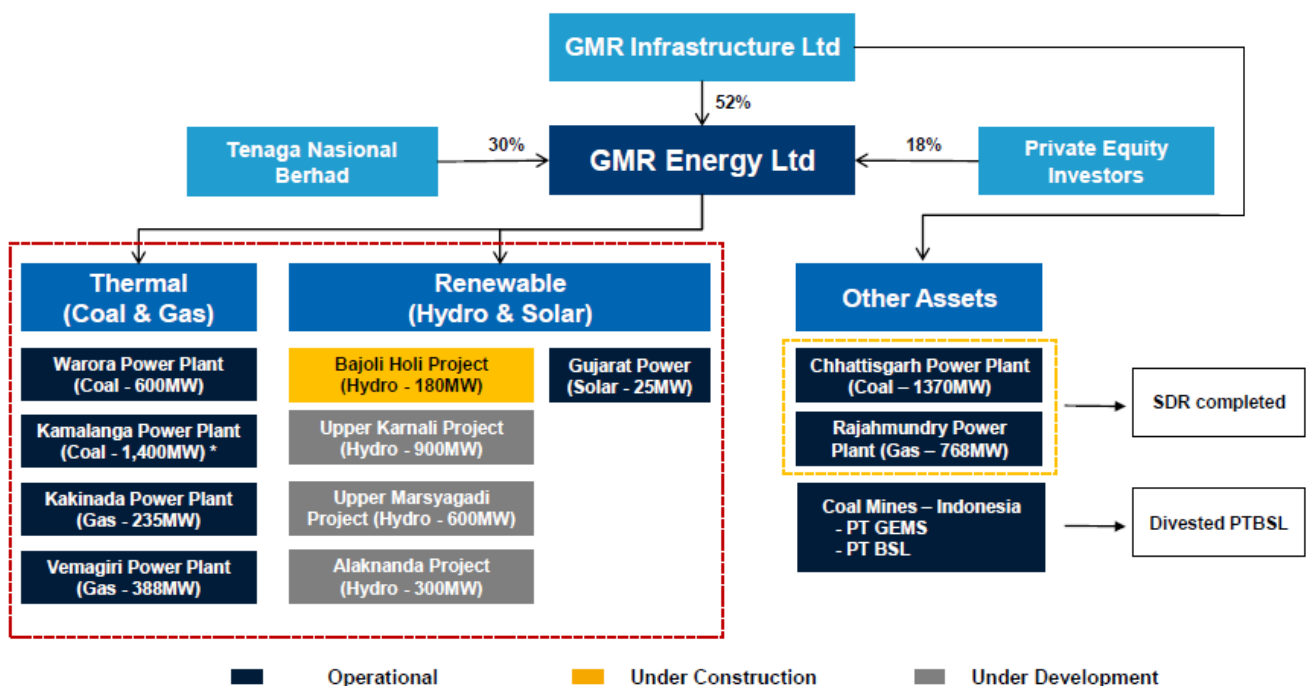
Energy vertical: from problem to solution

Unlike other conglomerates, GMR group has come a long way in resolving its stressed power assets. 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).



Source: Company, Way2Wealth Research

Strategic partnership with Tenaga Nasional Berhad:- Tenaga has ascribed an Equity valuation of \$1 bn (~₹67 bn) to GMR Energy



Source: Company, Way2Wealth Research

Status of power projects

Project	Warora (Maharashtra)	Kamalanga(Orissa)	Vemagiri (Andhra Pradesh)	Kakinada-Barge Plant, Andhra Pradesh
Fuel	Coal	Coal	Gas	Gas
Ownership	100%	86%	100%	100%
Capacity	600 MW	1050 MW	388 MW	235 MW
Project cost	₹40 bn	₹65 bn	₹11.5 bn	₹6 bn
CoD	Sep-13	Mar-14	Jan-08	Jan-10
PPA status	Fully contracted long term PPA	85% of long term PPA,		
Fuel linkage	Coal India Ltd	Coal India Ltd	Not getting gas since 2012-13	Not getting gas since 2012-13
PLF	FY 17 PLF-70%	FY 17 PLF-65%	FY 17 PLF-9%	Not operational
Recent updates	Refinancing of project completed, Interest rate reduced by 110 bps, moratorium of 18 months and 15 years repayment period	Refinancing of the project loan completed, Interest rate reduced by 100 bps , moratorium of 30 months with 16.5 yrs repayment period	Debt-free plant	Debt-free plant

Source: Company, Way2Wealth Research

Project	BajoliHoli, Himachal Pradesh	Alaknanda, Uttaranchal	Upper Karnali, Nepal	Upper Marsyangdi, Nepal
Ownership	100%	100%	73%	82%
Capacity	180 MW	300 MW	900 MW	600 MW
Expected CoD	FY 19	N.A	FY 21	FY 20
Current status	Financial closure achieved in April 2013, ~ 43% of project completed	Environmental clearance obtained, Land fully acquired	received consent letter from MEA for import of power from Nepal	PDA under negotiation with govt of Nepal
Overview	Under construction , R-o-R facility	Under construction , R-o-R facility	Under construction , R-o-R facility	Under construction , R-o-R facility

Source: Company, Way2Wealth Research

Project	Rajkheda, Chattisgarh	Rajahmundry, Andhra pradesh
Fuel	Coal	Gas
Ownership	48%	45%
Capacity	1370	768
Project cost	₹124 bn	₹49.4 bn
CoD	November 2015(Unit-1), March 2016 (Unit-2)	Oct-15
Power Off-take	Long term PPA with Chattisgarh Transco	Signed short term PPA based on supply of gas through the RLNG scheme
Fuel Linkage	Won Talabira and Ganeshpur coal mine, Coal mining at Talabira started from Aug 15	Secured gas supply under e-RLNG scheme from Oct 15 to Sept 16

Note: SDR has been undertaken for both the above projects. Source: Company, Way2Wealth Research

Coal Mines

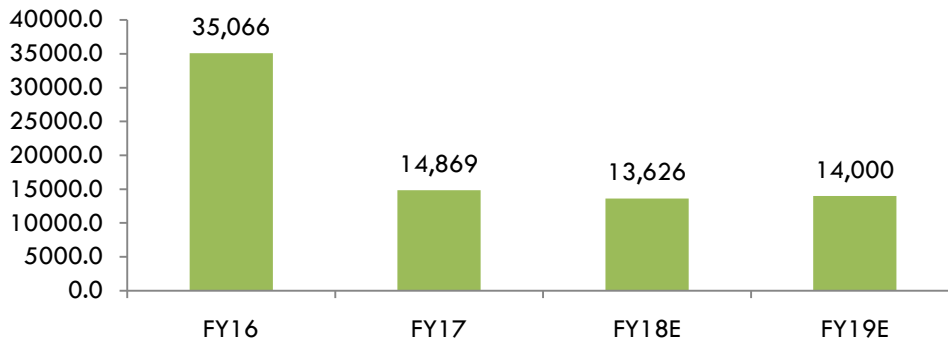
Project	Talabira mine	Ganeshpur mine
Mine location	Sambalpur, Odisha	Latehar, Jharkhand
Prior Allotte	Hindalco Industries	Tata steel &Adhunik group
Upfront payment	₹540 mn	₹1090 mn
Geological reserve		138 mn tons
Extractable Reserve	9 mn tons	92 mn tons
Mining plan	3 mntn/yr	4 mntn/yr
Bid price	₹478/tn	₹704/tn
Coal quality	Grade F (3,600 Kcal)	Grade G (4,200 Kcal)
Strip ratio	1.02x	1.39x
Distance from plant	296 Kms	740 Kms
Current status	Operational mine, mining commenced from Aug 15	Under development stage

Source: Company, Way2Wealth Research

Project	GEMS	PTBSL*
Mine location	Indonesia	Indonesia
Ownership	30%	100%
Resources	1.77 bntns	404 mntns
Reserves	640 mntn	142 mntn

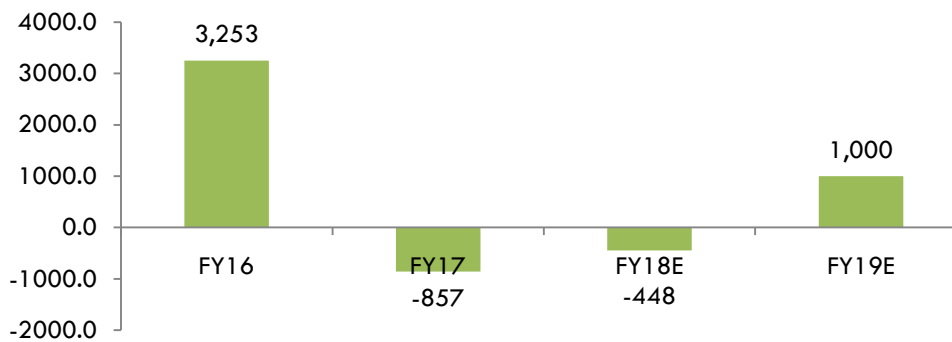
*Divested

Source: Company, Way2Wealth Research

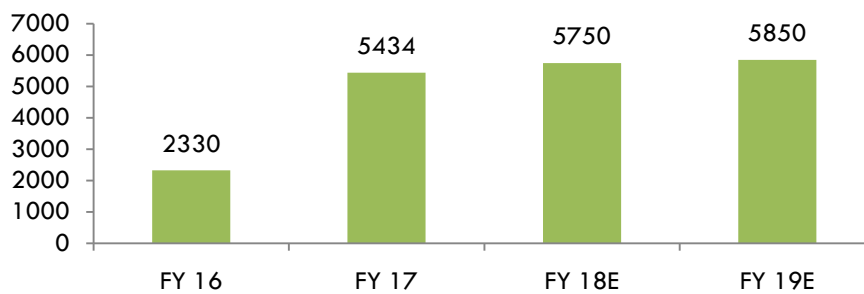
Energy Business
Net Sales (₹mn)


De-consolidation to lead to lower sales

Source: Company, Way2Wealth Research

EBITDA (₹mn)


Source: Company, Way2Wealth Research

Coal Business
EBITDA (₹mn)


FY 19E EBITDA/tn to stand at ₹500

Source: Company, Way2Wealth Research

Note: Coal business is carried out by the Indonesian JV (PT GEMS), wherein GMR has 30% stake, so it does not get consolidated.

Consolidated debt reduced significantly during FY17

The Company's gross debt has reduced from ₹394bn in FY16 to ₹228bn as at H1FY18. Debt reduction exercise was undertaken during FY 17 through a series of stake sales & pending wins in arbitration cases, also helped by accounting standards (due to deconsolidation of SDR assets under IndAS). The company received ₹20bn on 30% stake sale in GMR energy to Tenaga and ₹20bn was won in an arbitration case resolution with reference to the Maldives airport. The company further disinvested and garnered ₹5bn during the year. The company entered debt restructuring agreement through SDR schemes which helped in bringing down leverage further.

Debt break-up as at H1FY18 (₹cr)

Gross Debt	22750.0
(Less) Cash	6510.0
Net debt	16240.0
- Airport	3870.0
- Energy	2870.0
- Highways	3010.0
- Corporate	6350.0
- Others	140.0

How debt was reduced?

1. Raised >₹120bn through divestment of 9 projects

- 1 Airport: Sabiha Gokcen International Airport (SGIA), Turkey
- 1 power project: Island power project, Singapore
- 1 Coal Mine: Eloff & Kendall Mines (Homeland Energy Group)
- 3 Road projects: Jadcherla Expressway, Ulunderpet Expressway & Hungund Hospet Expressway
- 2 Transmission assets: Maru and Aravali for an equity consideration of ₹1 bn
- PT BSL coal mine in Indonesia for an equity consideration of ~USD 66 mn

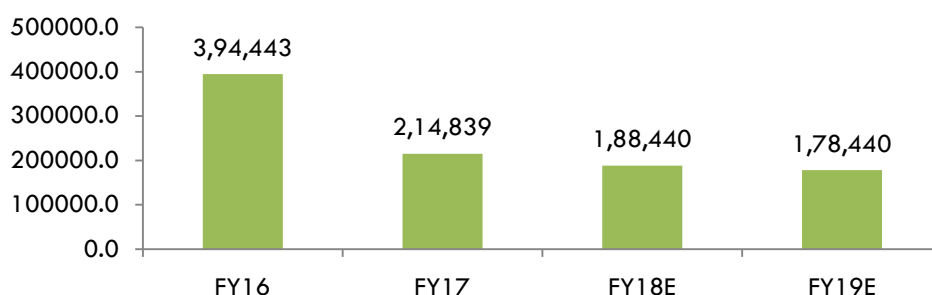
2. Capital raised during last 3 years

- Raised ₹70 bn through Equity & Equity-linked capital
- Raised ₹48.8 bn through capital markets (QIP: ₹14.8 bn, Rights issue: ₹14 bn, FCCB: ₹20 bn)
- Induction of Tenaga Nasional Berhad (Malaysia) in GMR Energy – received \$300 mn for 30% stake sale
- Bond issuance for Delhi Airport of \$289 mn (Jan 2015) and \$523 mn (Oct 2016) at a coupon rate of 6.125% for 7 years/10 years respectively
- Bond issuance for Hyderabad airport of \$350 mn at 4.25% for 10 years in Oct 2017

3. Others

- Won international arbitration with respect to Maldives airport and received a compensation of \$271 mn.
- SDR of Chhattisgarh & Rajahmundry power project resulted in ₹30 bn/₹14 bn debt converted into equity and remaining debt of ₹58 bn/₹24 bn not getting consolidated as the two entities have been classified as an “associate company”

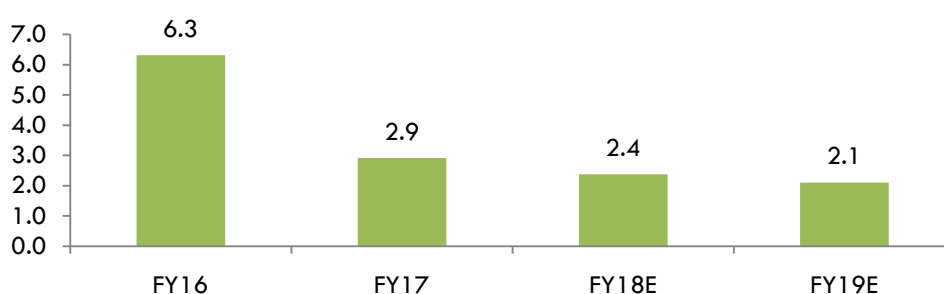
Debt



Debt reduction is contingent upon asset divestment

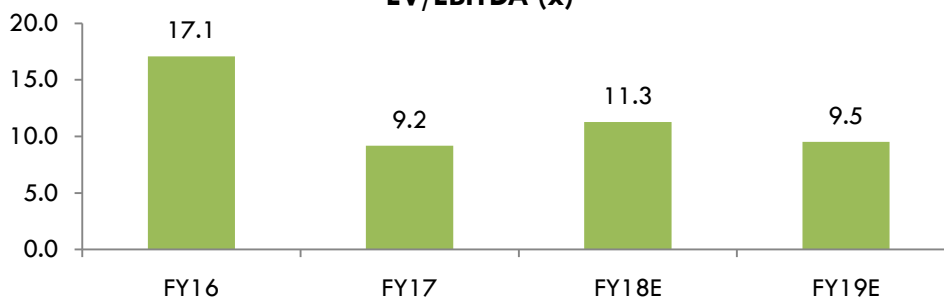
Source: Company, Way2Wealth Research

Debt/Equity (x)



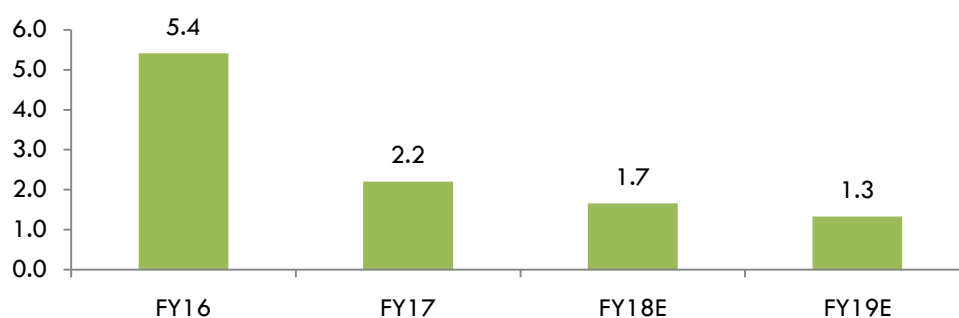
Source: Company, Way2Wealth Research

EV/EBITDA (x)



Source: Company, Way2Wealth Research

Net debt/equity (x)



Source: Company, Way2Wealth Research

Asset Divestment – Plenty to come:

Over last 3 years, GMR has successfully divested assets worth ₹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 & Krishnagiri SIR.

A. Indonesian Coal mines:

1. **PT BSL (100% stake)** – This mine with resources of 404 mn tonnes and reserves of 142 mn tonnes has already been divested. GMR has signed share purchase agreement with Indonesia's PT GEMS. GMR is expected to receive net inflow of ~₹4bn from this.
2. **PT GEMS (30% stake)** – PT GEMS is a listed company in Indonesia with a market cap of \$1 bn. It has an operational mine with a production of 9.5/3.4 mn tonnes in FY17/Q1FY18. Its R&R stands at 2.4 bn tonnes. With increase in international coal prices, the prospects of the company have also improved. For FY17, it has clocked revenues/EBITDA/PAT of ₹26bn/₹5.43 bn/₹2.37 bn.

B. Road assets:

GMR Highway projects

Project Name	Annuity Based Road Projects (285 kms)				Toll Based Road Projects (315 kms)		
	GTAEPL	TTTEPL	GPEPL	GCORRPL	GACEPL	GHVEPL	GOHHPL*
Location	Tuni-Anakapalli	Tambaram-Tindivanam	Pochampalli	Chennai ORR	Ambala-Chandigarh	Hyderabad-Vijayawada	Hungund-Hospet
Shareholding	100%	100%	100%	90%	100%	90%	36%
Road Length (kms)	59	93	103	30	35	181	99
CoD	Dec-04	Oct-04	Mar-09	Jun-13	Nov-08	Dec-12	Nov-12/ May-14
Concession Period	17.5 yrs from May -02	17.5 yrs from May -02	20 yrs from Sep -06	20 yrs from Jun -10	20 yrs from May -06	25 yrs from Apr -10	19 yrs from Sep -10

*Of GMR's 51% stake, 15% has been transferred and the balance will be transferred post receiving all approvals

Source: Company, Way2Wealth Research

GMR has six operational highway projects – 4 annuity based of 285 kms and 2 toll based of 216 kms. With roads being identified as non-core assets, GMR has shown willingness to divest all the assets. Equity investment of GMR in these assets stands at ₹11 bn and corresponding debt is ~₹30bn (which is 21% of total net debt). It is pertinent to note here that GMR has already sold two assets in FY17 (GMR Jadcherla and GMR Ulundurpet) and another one (Hungund Hospet project) is awaiting approvals for transferring balance 36% stake.

However, we believe that selling these assets will take place sooner or later in the current economic scenario when many operators have lined up road assets for sale and therefore we may see a positive outcome in FY19 only.

C. Land monetization at Krishnagiri and Kakinada:

1. **Krishnagiri SIR (3300 acres)** – At the current ruling rate of ₹0.5 cr/acre, market value of the entire land parcel is ₹16bn. SIPCOT has shown interest in buying ~800 acres for their phase III and IV industrial park.
2. **Kakinada SIR (10500 acres)** – GMR has signed MoU with GAIL for 2000 acres land wherein GAIL, HPCL and AP Govt will set up a cracker unit at a cost of ₹400 bn. Another 700 acres will be taken up by the ancillary units. Current land rates are between ₹0.5-0.6 cr per acre.

Hence, in the next 12-18 months, we are potentially looking at divestment worth in excess of ₹70bn. Even if things move at a slow pace and timelines get extended, divestment worth ₹30-40bn is very much possible.

All the above divestments are very crucial for GMR to remove a key overhang of its corporate debt of ₹44bn+ (nearly 30% of the total net debt). Any failure to do so will mean continuance of cash flow mismatch at the holding company level.

Cash flow mismatch at holding company level is the next big overhang

Potential asset monetization	(₹cr)
- PT GEMS (at current market price)	2000
- Highway projects	4000
- Land parcels at Krishnagiri / Kakinada SIR	1400
Total	7400

Source: Company, Way2Wealth Research

Outlook & Valuation

In the coming years, GMR Infra will gradually transform from an infrastructure conglomerate to a focused airport-centric company, supported by next leg of capex at Delhi (~₹70-80 bn)& Hyderabad (₹24bn) and operationalization of Goa airport (₹19bn)& Crete airport in Greece. Having gone through deep debt restructuring in the past two years, the consolidated debt now looks sustainable and the corporate debt is serviceable through divestment of non-core assets. We assess the company on the basis of its asset play, business potential, airport franchise and clearance of regulatory hurdles as P&L will take a while to mend. **At CMP of ₹21.15, the stock is trading at FY 19E EV/EBITDA of 9.3x. Hence, we recommend investors to ACCUMULATE the stock with long term view.**

Industry Overview

India's civil aviation industry is on a high-growth trajectory and aims to become the third-largest aviation market by 2020. Helped by factors such as rising per capita income, low cost carriers, better regional connectivity and liberalized foreign investment rules, passenger traffic stood at 265 mn in FY17, growing at a 11-year CAGR of 12.4%.

During FY06-17, passenger traffic grew at a CAGR of 12.4%

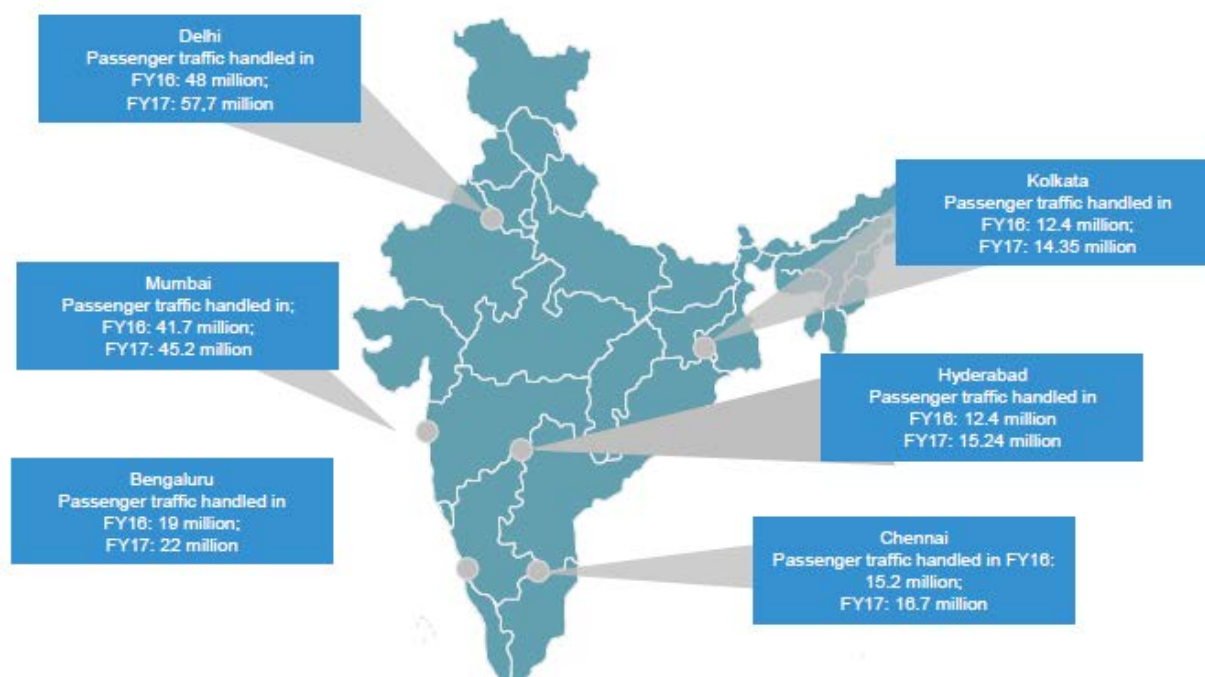
Evolution of the Indian Aviation Sector

- 9th largest civil aviation market in the world
- Domestic passenger traffic has grown at 13.5% CAGR during FY06-17 and currently stands at 206 mn
- During the same time period, international traffic grew at 9.3% CAGR to 59 mn
- India's civil aviation market is set to become world'd 3rd largest by 2020 and expected to be largest by 2030.
- Investments worth US\$ 12 bn are to be made during 12th Five Year Plan, with private sector investment at \$9.3 bn

Scheduled airlines: distance flown (mn km)	199	1,700	(FY17)
Non-Scheduled airlines: in operation	39	112	(FY17)
Number of aircrafts	225	1,657	(FY16)
Cargo handled	703,000	2,930,000	(FY17)
Number of airports	50	125	(FY17)

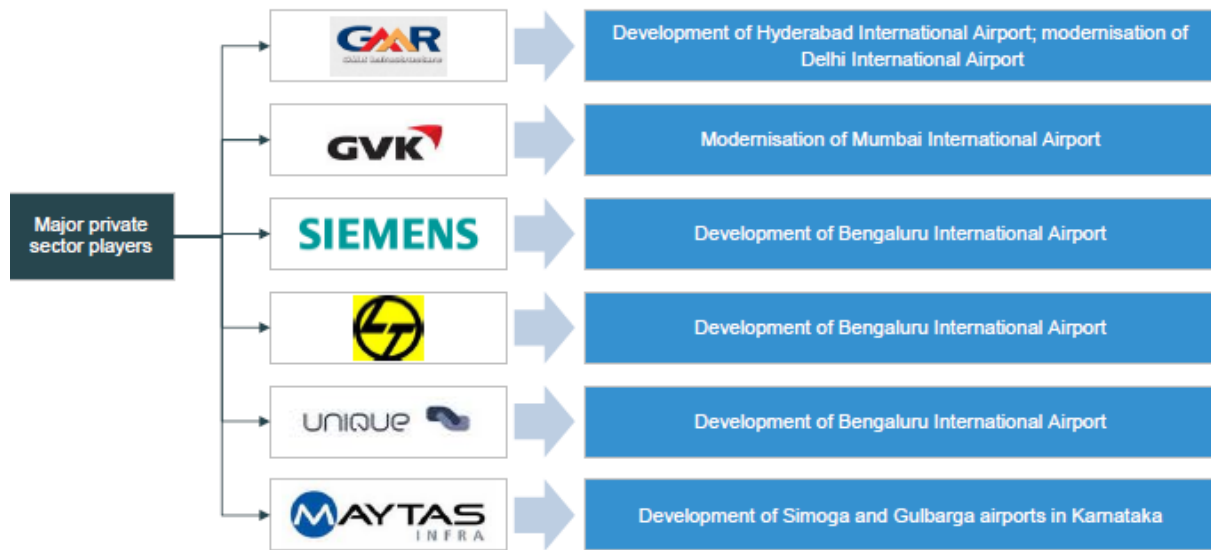
Source: IBEF, Way2Wealth Research

The six major airports in the country



Source: IBEF, Way2Wealth Research

- Until 2013, AAI was the only major player involved in developing and upgrading airports in India
- Post liberalisation, private sector participation in the sector has been increasing
- Private sector investment increased to US\$9.3 billion during the 12th Five Year Plan from US\$ 5.5 billion in the previous plan



Notes: AAI – Airports Authority of India

Source: IBEF, Way2Wealth Research

Financials

(₹ mn)

Income Statement	FY 16	FY 17	FY 18E	FY 19E
Net Sales	82,610	97,686	83,815	83,871
Other Income				
Total Revenues	82,610	97,686	83,815	83,871
% increase		18%	-14%	0%
Revenue share	24,123	27,629	18,758	16,909
RM Cost	9,977	14,545	15,479	16,100
Gross profit	48,511	55,512	49,578	50,862
Gross Margin%	58.7%	56.8%	59.2%	60.6%
% increase		14%	-11%	3%
Personnel Expenses	5,064	5,449	6,250	6,000
% of revenues	6.1%	5.6%	7.5%	7.2%
Other expenses	15,869	17,864	19,928	19,000
% of revenues	19.2%	18.3%	23.8%	22.7%
Total Expenses	55,033	65,487	60,415	58,009
EBITDA	27,577	32,199	23,400	25,862
EBITDA Margin %	33.4%	33.0%	27.9%	30.8%
% increase		17%	-27%	11%
Depreciation	11,967	10,599	10,448	10,800
Earnings / (loss) before Interest & Taxes (PBIT)	15,611	21,600	12,952	15,062
Margin %	18.9%	22.1%	15.5%	18.0%
% increase		38%	-40%	16%
Other Income	4,165	4,654	4,460	4,800
Net Interest expense / (Income)	21,965	21,285	21,894	20,500
Other Adjustments	-642	-3,857		
Earnings (loss) before taxes (PBT)	-2,830	1,112	-4,482	-638
Minority Interest / Share of profits from JV/Associates	530	-2,787	-4,503	-1,100
Provision for Income Tax	1,815	7,370	1,863	1,050
Net Earnings (Loss) After Provision for Losses/write offs/ Tax (PAT)	-4,115	-9,045	-10,218	-2,788
Share of Profit/(Loss) from discontinued ops	-23,009	3,299		
Total Income	-27,124	-5,746	-10,218	-2,788

(₹ mn)

Balance Sheet	FY 16	FY 17	FY 18E	FY 19E
Inventories	2,244	1,292	2,000	1,800
Debtors	15,306	17,367	12,842	13,489
Cash and cash equivalents	55,944	52,455	57,133	65,342
Other current assets	66,124	17,027	19,955	23,015
Short term loans and Advances	3,113	1,555	1,000	500
Total current assets	142,731	89,696	92,930	104,146
Non-current financial assets	33,366	22,412	25,000	22,000
Loans & Advances	1,356	4,521	5,329	5,598
Fixed Assets	308,091	128,995	81,324	71,324
Intangible assets incld. Goodwill	58,591	34,184	34,184	34,184
Investments	47,634	94,483	110,000	105,000
Total LTA	414,316	257,662	225,508	210,508
Total Assets	591,769	374,291	348,767	342,252
Current Liabilities	101,843	51,322	45,000	43,000
Provisions	1,477	1,207	3,134	3,850
Unsecured Loans	67,904	25,242	7,238	7,238
Deferred tax liability	338	4,138	5,125	5,125
Total Current liabilities	171,562	81,909	60,497	59,213
Secured Loans	326,539	189,597	181,202	171,202
Other non-current liabilities	31,162	29,173	28,000	27,000
Minority Interest	12,595	17,136	17,500	18,000
Equity Share Capital	6,036	6,036	6,036	6,036
Reserve & Surplus	43,873	50,439	55,532	60,801
Total Shareholder funds	62,505	73,611	79,068	84,837
Total Liabilities and Shareholder funds	591,769	374,291	348,767	342,252

(₹ mn)

Cash Flow Statement	FY 16	FY 17	FY 18E	FY 19E
Net Profit / (Loss) Before Tax	-25,609	3,794	-4,482	-638
Depreciation	16,447	14,238	10,448	10,800
Net Interest	36,041	34,657	32,390	28,500
Other Adjustments	2,550	-17,590	-10,210	-11,210
Operating Profit before Working Capital Changes	29,429	35,099	28,146	27,452
Working Capital Adjustments	7,739	13,059	9,950	10,500
Cash Generated from Operations	37,168	48,158	38,096	37,952
Less Taxes paid	2,190	2,504	1,863	1,050
Net Cash Flow from Operating Activities	34,978	45,654	36,233	36,902
Purchase/ Adj. of fixed assets	-24,368	-6,199	10,000	10,000
Acquisition of stake in subsidiary/JV	-7,324			
Net investment	-4,681	-13,153		
Proceeds from Maldives claim resolution		16,309		
Redemption of bank deposits	14,558	15,632		
Interest received	5,140	5,339	4,500	5,000
Net Cash Flow from Investing Activities	-16,676	17,927	14,500	15,000
Share issue expenses /issue of share capital	4,934			
Proceeds/(repayment) of borrowings	13,145	-21,566	-10,000	-10,000
Interest paid	-38,229	-36,217	-33,890	-30,500
Dividend on Equity paid	-30	-6		
Net Cash Flow from Financing Activities	-20,180	-57,789	-43,890	-40,500
Net Change in Cash	-1,878	5,792	6,843	11,402

Summary Financials(`mn)	FY 16	FY 17	FY 18E	FY 19E
Total Revenues	82,610	97,686	83,815	83,871
Gross profit	48,511	55,512	49,578	50,862
EBITDA	27,577	32,199	23,400	25,862
PAT	-27,124	-5,746	-10,218	-2,788
Total Cash	55,944	52,455	57,133	65,342
Total Debt	394,443	214,839	188,440	178,440

Valuation	FY 16	FY 17	FY 18E	FY 19E
Shares o/s	6,036	6,036	6,036	6,036
Price (in ₹)	21.15	21.15	21.15	21.15
Equity Market Cap	127,661	127,661	127,661	127,661
EV	466,160	290,045	258,968	240,759
EV/ Sales	5.6	3.0	3.1	2.9
EV/ EBITDA	16.9	9.0	11.1	9.3
EPS	-4.5	-1.0	-1.7	-0.5
P/E	NA	NA	NA	NA
RoE	-43.4%	-7.8%	-12.9%	-3.3%
RoCE	3.4%	7.5%	4.8%	5.7%

Growth	FY 17	FY 18E	FY 19E
Total Revenues	18.2%	-14.2%	0.1%
Gross profit	14.4%	-10.7%	2.6%
EBITDA	16.8%	-27.3%	10.5%

Profitability	FY 16	FY 17	FY 18E	FY 19E
Gross Margin	58.7%	56.8%	59.2%	60.6%
EBITDA Margin	33.4%	33.0%	27.9%	30.8%

Stability	FY 16	FY 17	FY 18E	FY 19E
Debt / Equity Ratio	6.3	2.9	2.4	2.1
Interest Coverage Ratio	0.7	1.0	0.6	0.7
Net debt/equity	5.4	2.2	1.7	1.3

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Name of the Security	GMR Infrastructure Ltd.
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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