BUY

GMR Power & Urban Infra

Power play; optionalities galore

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Construction & Infrastructure ▸ Initiating Coverage ▸ **September 24, 2024**

TARGET PRICE (Rs): 180

We initiate coverage on GMR Power & Urban Infra (GPUIL) with BUY and SOTP-based Sep-25E TP of Rs180/sh, presenting ~20% upside along with numerous optionalities that prop up our bull case TP to Rs205/sh. GPUIL's core thermal assets (1,650MW) are nearing optimal performance on coal tie-ups, PPAs to the tune of ~90% capacity, and improving debt metrics. The company's 180MW Bajoli Holi hydro-power asset has largely stabilized, while its ~7.5mn smart meter installation contract opens up a lucrative asset-light business opportunity with Bosch, for vertical integration & unleashing its execution capabilities. The management has a clear focus on deleveraging on the back of strong operating cash flows, supported by conversion of FCCBs into equity and handover of the Hyderabad-Vijayawada road project. Incremental smart meter contracts, monetization, and settlement of disputes provide sizable optional value.

GMR Power & Urban Infra: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	55,157	44,890	54,027	54,445	53,345
EBITDA	4,564	10,834	24,315	23,898	21,993
Adj. PAT	1,696	(3,605)	7,903	10,325	10,211
Adj. EPS (Rs)	2.8	(6.0)	11.1	14.4	14.3
EBITDA margin (%)	8.3	24.1	45.0	43.9	41.2
EBITDA growth (%)	(12.0)	137.4	124.4	(1.7)	(8.0)
Adj. EPS growth (%)	0.0	(312.6)	0.0	30.6	(1.1)
RoE (%)	(7.1)	13.0	(112.5)	50.5	32.9
RoIC (%)	56.4	29.9	(14.2)	20.9	19.2
P/E (x)	52.9	(24.9)	13.4	10.3	10.4
EV/EBITDA (x)	35.2	20.5	8.1	7.9	8.3
P/B (x)	(3.4)	(3.1)	7.0	4.1	2.9
FCFF yield (%)	8.1	7.4	0.9	9.7	9.4

Source: Company, Emkay Research

Healthy earnings visibility led by strong core generating assets; to support deleveraging efforts

GPUIL's thermal assets are operating at >80% PLFs on the back of domestic coal tie-ups, ~90% supply through PPAs at reasonable tariff and peak power demand. Company has consolidated its stake in these assets by acquiring ~41% stake in GMR Energy (GEL – thermal asset holdco) during Nov-23 to Feb-24. We estimate Warora and Kamalanga to clock combined earnings of ~Rs7bn in FY26E and generate FCF of ~Rs6bn, after factoring in its annual debt obligations of ~Rs5bn. Consequently, net debt of these two thermal SPVs could decline to ~Rs37bn by FY26E, from ~Rs59bn in FY24. Management indicated that thermal capacity expansion potential of 350MW at Kamalanga may be undertaken in the future, subject to >60% PPA visibility. Bajoli Holi's utilization levels are stabilizing at ~53% with steady profitability, while the 12-year moratorium on providing free power to HP government is likely to support medium-term cash flows.

Conscious shift to asset-light business models amid improving balance sheet

The company has forayed into the smart metering business and won orders for installation of 7.5mn smart meters in UP, besides potential for ~10.5mn meter-wins through upcoming bids for ~70mn meters in key states like Tamil Nadu, Madhya Pradesh, Kerala, etc. We believe GPUIL's execution capabilities combined with technology support from Bosch are likely to support execution. The value of existing contract works out to Rs13/sh building-in NPV of ~Rs1,330/meter and not factoring-in incremental wins. Mgmt is also exploring business models in the EV charging eco-system, to unlock group-level synergies. GPUIL's consol. net debt is expected to drop by ~Rs40bn to ~Rs90bn in FY25E, supported by conversion of FCCBs and debt repayment, besides networth turning positive as net debt-to-EBITDA improves to 3.7x in FY25E, from ~12x YoY.

Attractive valuation, supported by ample optionalities

We value GPUIL's core power generating assets at 10-12x Sep-25E EV/EBITDA, smart meter project using DCF method, and the standalone EPC business at 1.0x Sep-25E book value, while optionalities (refer to Exhibit 8) could add Rs25/sh to our bull case TP. ***Key risks:*** *project execution, policy/regulatory, resource availability, credit, etc.*

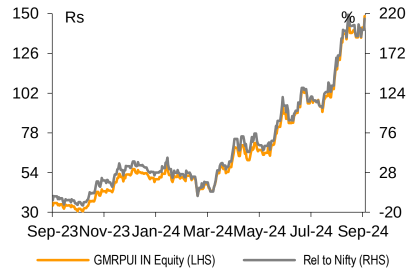
Target Price – 12M	Sep-25
Change in TP (%)	**NA**
Current Reco.	BUY
Previous Reco.	NR
Upside/(Downside) (%)	21.4
CMP (23-Sep-24) (Rs)	148.6

Stock Data	Ticker
52-week High (Rs)	155
52-week Low (Rs)	30
Shares outstanding (mn)	714.8
Market-cap (Rs bn)	106
Market-cap (USD mn)	1,271
Net-debt, FY25E (Rs mn)	91,628
ADTV-3M (mn shares)	6
ADTV-3M (Rs mn)	700.5
ADTV-3M (USD mn)	8.4
Free float (%)	49.0
Nifty-50	25,939
INR/USD	83.6
Shareholding, Jul-24	
Promoters (%)	50.5
FPIs/MFs (%)	1.3/2.3

Price Performance

(%)	1M	3M	12M
Absolute	21.8	65.7	274.3
Rel. to Nifty	16.5	50.2	183.9

1-Year share price trend (Rs)



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GPUIL's outlook and valuation – A tactical play

Strategic transformation underway with a clear focus on deleveraging and foraying into asset-light business models

GPUIL's core thermal assets (1,650MW capacity) are operating at strong PLFs of >80% supported by almost 100% coal linkages and coupled with Power Purchase Agreements (PPAs) for ~90% capacity. This robust financial performance is expected to continue in the medium term given the healthy power demand in India, and would support annual debt repayments of Rs5bnpa to steadily trim its related debt burden of >Rs50bn. The company's hydropower asset viz. Bajoli Holi (180MW) is now operating at near-optimal levels, while its proposed JV asset 'Upper Karnali' could add to its portfolio in the long term.

The company has turned its focus toward asset-light business models in the power sector and has ventured into Advanced Metering Infrastructure (AMI) projects in collaboration with technology partner Bosch Global Software Technologies (holds 10% stake in the SPV). The company has recently won a tender to supply and maintain 7.58mn smart meters for two Uttar Pradesh DISCOMS, under the DBFOOT model. We note that the current smart meter installations in India are ~14mn vs target of 250mn. The management intends to bid for more AMI projects and targets to win projects in Tamil Nadu and a few other states. GPUIL also plans to foray into electric vehicle charging and is exploring synergies with the group's airports business.

Exhibit 1: GPUIL's business transformation since FY23

Business	Prior to FY23	FY23 onwards
Corporate	- Demerger of airports business - Rise in debt levels due to capital requirements in the core assets on account of weak financials due to COVID and other factors	- Focus on deleveraging through sale of non-core business like 30% stake in PT GEMS (coal business) - Conversion of FCCBs into equity resulting in improvement of networth with ~15.5% dilution.
Warora - 600MW Thermal Asset	- Muted PLFs in the range of 65-75% - Shortage of linkage coal on expiry of DNH PPA - Average debt levels of >Rs33bn - Debt restructuring undertaken with lenders	- Better PLFs at >80% on coal availability as well as higher demand - Higher coal availability from western coalfields and GUVNL PPA - Current debt of ~Rs26bn (FY24) - Haryana PPA for 5 years at tariff of Rs5.05/kwh
Kamalanga – 1,050MW Thermal Asset	- Sub-optimal PLFs in the range of 60-75% - Shortage of linkage coal on expiry of DNH PPA - Average debt levels of >Rs43bn	- Improved PLFs at >75% on coal availability as well as higher demand - High merchant rates and TANGEDCO PPA-supported profitability, and cash flows from FY23 - Current debt of ~Rs34bn
Bajoli Holi - 180MW Hydro Power Asset	Under construction phase with cost overrun of Rs10-12bn due to time overrun	Operational from FY23 onwards with ramp up in FY24
Highways/Road assets	- Loss of revenue in Hyderabad-Vijayawada project due to bifurcation of the highway stretch between Telangana and AP - Traffic was impacted on Ambala-Chandigarh highway due to farmer agitations as well as alternate roads	- Settlement with NHAI relating to dispute in Hyderabad-Vijayawada project for Rs13.9bn resulting in repayment of project debt and corporate debt reduction of Rs8-9bn. - Chennai ORR claim has been settled by TN government and amount has been received - Improvement in traffic on Ambala-Chandigarh highway
Smart Metering Infrastructure	NA	Won contracts to implement a total of 7.58mn prepaid smart meters in UP for a 10-year duration with total contract value of Rs75.9bn (incl. GST)

Source: Company, Emkay Research

Consolidation of stake in GEL, complete divestment from the coal business

GPUIL has acquired a 40.8% stake in GMR Energy Limited (GEL), now a wholly-owned subsidiary, from Power and Energy International (Mauritius) — a subsidiary of Tenaga Nasional Berhad, and Claymore Investments (Mauritius) during Nov-23 and Feb-24, respectively, as outlined below. This would help GPUIL to consolidate its stake in the key operational assets of GEL viz. Warora, Kamalanga, and Bajoli Holi, while benefitting from improved operational and financial performance.

Exhibit 2: GPUIL's stake acquisition in GEL

Particulars	Nov-23	Feb-24
Seller	Power and Energy International (Mauritius), a subsidiary of Tenaga Nasional Berhad	Claymore Investments (Mauritius) Pte
Stake in GEL	29.14%	11.66%
No. of shares (mn)	1,051	420
Consideration (Rs mn)	2,366	4,420
Implied 100% Equity Value of GEL	8,118	37,907

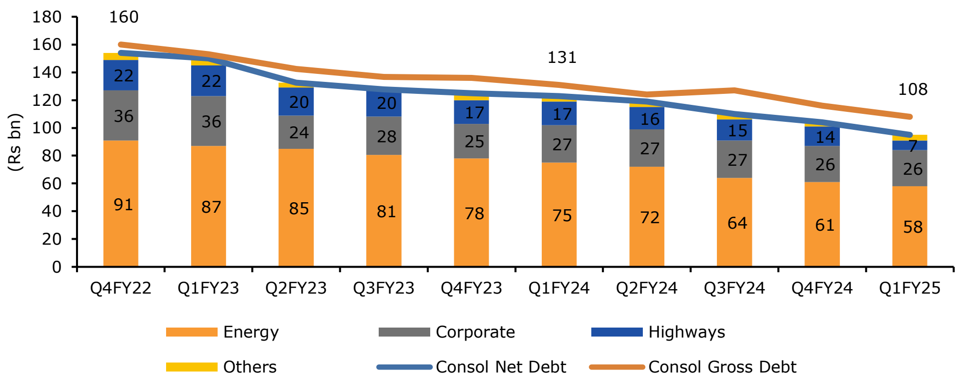
Source: Company, Emkay Research

The company has also sold its 30% stake in PTGEMS (Indonesia) for USD420mn and reduced its debt levels, while exiting the non-core coal mining business. This clearly indicates the management's focus is toward the core power business as well as the foray into power-ancillaries like smart metering projects.

Clear focus on deleveraging

The consolidated gross debt of GPUIL has declined ~Rs45bn over the last 2 years to Rs108bn as on Jun-24 end, supported by healthy operating cash flows and monetization of 30% stake in PTGEMS, thereby resulting in sizable reduction in net debt of the Energy business to Rs58bn as on Jun-24 end, from ~Rs90bn as of Mar-22.

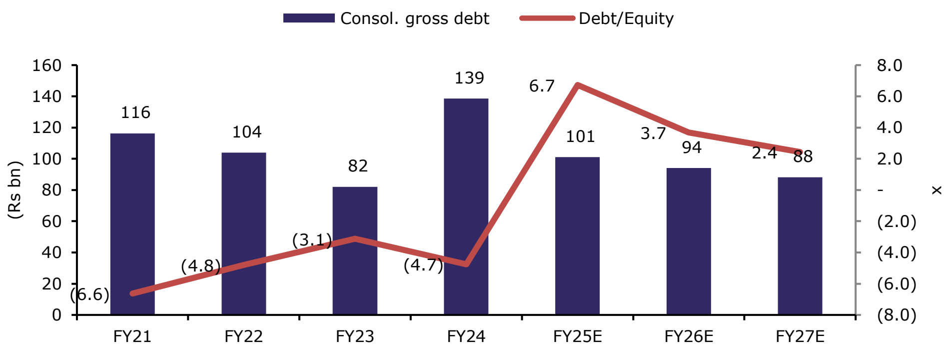
Exhibit 3: Quarterly consolidated gross debt and net debt trends



Source: Company presentations, Emkay Research

The consolidated gross debt, based on reported financials, has jumped to Rs138bn by FY24-end from Rs82bn YoY due to accounting of GEL as a subsidiary (vs. associate company in FY23). We expect consolidated gross debt of GPUIL to drop to Rs101bn by FY25E-end, led by conversion of FCCBs into equity, scheduled repayments by Warora and Kamalanga, and reduction in debt pertaining to the road assets on handover of Hyderabad-Vijaywada project to NHAI, besides the reduction in corporate debt. We have not considered the debt of Bajoli Holi hydro power asset despite holding an 80% stake, since it treated as a joint venture as the control rests with Delhi Intl Airports Ltd (DIAL), which offtake 66% of its generation.

Exhibit 4: Company's debt/equity to improve to sub-3x by FY27E



Source: Company, Emkay Research

Re-alignment of capital structure led by conversion of FCCBs to equity

GMR Airports Infrastructure Limited (erstwhile GMR Infrastructure Limited or 'GIL') had issued 7.5% Foreign Currency Convertible Bonds (FCCBs) aggregating to USD300mn (FCCBs) due in 2075 to the Kuwait Investment Authority (KIA) on 10-Dec-15. In accordance with the scheme of demerger of the group and based on the requirements of Section 2(19AA) of the Income Tax Act, 1961, part of liability viz. USD275mn pertaining to the outstanding FCCBs of GIL were transferred to the company/GPUIL. The tenure of FCCBs is 60 years and if converted, it would translate to a pre-determined 111.24mn equity shares of GPUIL.

KIA has sold and transferred these FCCBs to two investors i.e. Synergy Industrials, Metals and Power Holdings ('Synergy') (USD154mn) and GRAM ('GRAM') (USD121mn) in Q1FY25. Subsequently, Synergy and GRAM have exercised their conversion rights to a cumulative of 111.24mn equity shares with face value of Rs5/sh on 10-Jul-24, based on the agreed commercial and contractual terms and waiver of outstanding interest on the FCCBs. After conversion of the aforementioned FCCBs, Synergy/GRAM hold 8.71%/6.85% stake in GPUIL.

Exhibit 5: Details on sale of FCCBs by KIA and conversion to equity

Sale of FCCBs	USD275mn	
Seller	Kuwait Investment Authority	
Conversion to equity shares (mn)	111	
Existing shares (mn)	604	
Revised shares (mn)	715	
Buyers	Synergy Industrials, Metals and Power Holdings	GRAM
Stake held in GPUIL after conversion	8.71%	6.85%
FCCBs (USD mn)	154	121

Source: Company, Emkay Research

We note that the aforementioned conversion of FCCBs implies a value of Rs165/sh of GPUIL assuming cost of acquisition of FCCBs by Synergy and GRAM aggregate to ~USD220mn. However, the negotiated transaction price for the FCCBs between KIA and Synergy+GRAM could be lower than USD200mn given the current market price of the company. The consolidated debt levels of the company are expected to reduce by ~Rs22.5bn on account of this conversion, while equity share capital of the company will increase to Rs3.57bn comprising of 715mn equity shares with a face value of Rs5/sh. This would help to improve its networth by FY25-end.

Valuation

We value GPUIL using sum of the parts (SOTP) method with its power generation assets valued based on EV/EBITDA methodology. We believe GPUIL is a long-term turnaround story in the Indian power sector, on the back of steady core generating assets and new forays into smart metering and EV charging. We have compared GPUIL to domestic listed peers, but a like-to-like comparison is not possible given the relatively lower scale of operations at the company. We have assigned a 10x Sep-26E EBITDA to coal power assets, and a higher 12x Sep-26E EBITDA to Bajoli Holi given that it has recently commissioned and gets categorized as an RE asset. We have also considered the stake-adjusted net debt of Bajoli Holi to calculate the equity value of the generating energy assets. The smart meter contract has been valued using DCF methodology, given that it is a limited-life contract and potential contract wins have not been factored in our base case. We have assigned nil value to the road assets since they are close to their respective concession periods and cash flow generation would be largely utilized to repay its net debt. We thus arrive at a Sep-25E TP of Rs180/sh, which offers ~20% upside and initiate coverage on GPUIL with a BUY recommendation.

Exhibit 6: SOTP-based valuation

Particulars (Rs mn)	Metric	Multiple	EV	Stake	Stake-adj Value	Value/sh
Energy Business	Sep-26E EBITDA					
GMR Energy - Warora	5,778	10	57,777	92%	53,155	
GMR Energy - Kamalanga	8,960	10	89,596	98%	87,445	
GMR Energy - Bajoli Holi	3,502	12	42,030	80%	33,582	
Total Energy Business			**188,232**		**174,182**	
Net Debt as on Sep-25E					60,964	
Equity Value - Energy Business					**113,219**	**158**
Smart Meter	**DCF**		**10,008**	**90%**	**9,007**	**13**
	Sep-25E BV					
Standalone Business	**6,693**	**1.0**	**6,693**	**100%**	**6,693**	**9**
Roads/Highways			**-**		**-**	**-**
Total Equity Value					**128,919**	**180**
No of shares (mn)						715
MCAP/CMP					106,232	149
Upside					*21%*	*21%*

Source: Company, Emkay Research

Optionalities can add Rs25/sh to the SOTP, resulting in a bull case TP of Rs205/sh

Land/SEZ business: The Company owns ~770acres in the Krishnagiri Special Investment Region of Tamil Nadu and based on discussions with the management of the company, this land parcel could yield a value of ~Rs4mn per acre. We have added the value of this land parcel adjusted for net debt of Rs2bn in the list of optionalities, thereby indicating an upside of Rs2/sh.

Incremental smart metering contracts: The management plans to bid for upcoming smart meter installation contracts; however, we have not assigned any value to future wins in our SOTP. It is pertinent to note that DISCOMs of the key states mentioned below could issue AMI tenders over the next 2 years for a cumulative of ~70mn smart meters. We hypothetically assign a win rate of 15% and arrive at ~10.5mn smart meters for GMR. Assuming a similar bid value and profitability per meter, these additional smart meters could yield upside of Rs9/sh to the SOTP, after assigning 50% probability and assuming Bosch to be the 10% partner in future contracts as well.

Exhibit 7: Sizable AMI tenders expected from the following states

State	Sanctioned	Awarded	Installed
Tamil Nadu	30,140,849	140,849	129,641
Madhya Pradesh	13,444,401	4,884,284	1,169,039
Kerala	13,290,166	805	805
Rajasthan	14,900,527	625,571	614,307
West Bengal	21,208,759	3,724,273	101,207
Goa	741,160	-	-

Source: NSGM, Emkay Research

Upper Karnali hydro-power project: The Company has recently signed an MOU for development of the Upper Karnali Hydro Electric Project (900MW) through a JV company in Nepal, wherein SJVN and GMR will hold 34% each, 5% stake for IREDA, and the rest with the Nepal Electricity Authority. The estimated project cost is Rs91bn with 70:30 Debt-Equity ratio. GPUIL has invested Rs2.4bn in this project till date through its WOS 'GMR Upper Karnali Hydro Power Limited' and assigned a 1.5x multiple to the invested capital; we arrive at a potential upside of Rs5/sh to GPUIL's TP.

Rajahmundry gas power plant: The company also owns a ~37% stake in 768MW Rajahmundry gas power asset and is also evaluating a one-time settlement with lenders. Based on replacement-cost analysis, the cost of setting up gas power plant (excluding land) is Rs35-40mn/MW. Since Rajahmundry asset began operations in 2015, and based on recent technology, the management expects that sale of such equipment could yield ~Rs35mn. We assign a 50% probability to this estimate and factor in a net debt of Rs10.7bn to arrive at upside potential of Rs4/sh to the SOTP.

Vemagiri gas power plant: GPUIL holds 100% stake in 388MW gas power asset Vemagiri, which is non-operational due to lack of natural gas at economical prices. However, the company expects a claim of Rs6bn from this asset (legal case is being pursued for allowing deep-water gas under the existing PPA), and we have assigned a 50% probability to the same. Hence, this claim from Vemagiri asset offers a potential upside of Rs4/sh.

Solar power capacity: GPUIL also houses an operational solar power capacity of 25MW in Patan district of Gujarat and has a 25MW PPA with GUVNL, besides 1MW in Rajam, Odisha. We have assumed a replacement value of Rs40mn/MW, resulting in incremental upside potential to GPUIL's TP by ~Rs1/sh.

Exhibit 8: Optionalities could add up to Rs25/sh to GPUIL's SOTP valuation

Optionalities	Metric	Multiple/Probability		Stake	Stake-adj Value	Value/sh
Krishnagiri SEZ Equity Value			1,080	100%	1,080	2
Smart Meter Projects	10.5	50%	7,005	90%	6,305	9
GMR Energy - Upper Karnali	2,400	1.5	3,480	100%	3,480	5
JV - Rajahmundry	16,180	50%	8,090	37%	2,985	4
GMR Energy - Vemagiri	6,000	50%	3,000	100%	3,000	4
GMR Energy - Solar			1,040	100%	1,040	1
Total Optional Value					**17,890**	**25**

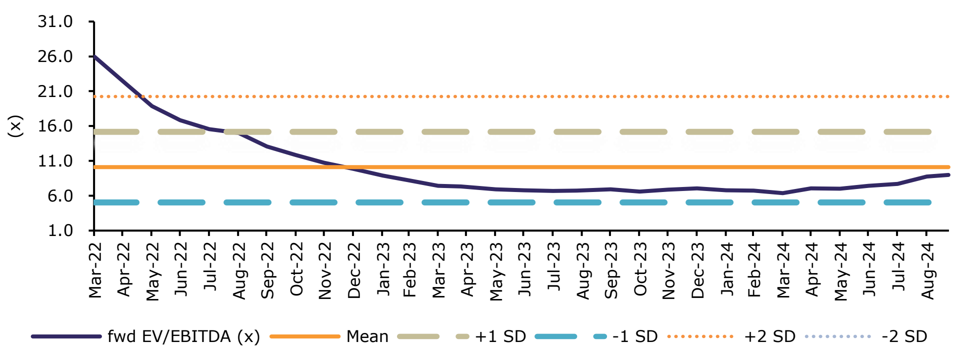
Source: Company, Emkay Research

Exhibit 9: Relative valuation

Company	P/E			PB			EV/EBITDA			RoE			Net Debt/EBITDA		
	FY25	FY26	FY27	FY25	FY26	FY27	FY25	FY26	FY27	FY25	FY26	FY27	FY25	FY26	FY27
GPUIL*	13.4	10.3	10.4	7.0	4.1	2.9	8.0	7.9	8.2	142%	40%	28%	3.7	3.4	3.3
NTPC	18.5	16.6	16.2	2.4	2.2	2.1	11.2	10.2	9.5	13%	14%	13%	0.4	0.4	0.4
Tata Power	34.0	29.2	25.1	4.1	3.6	3.2	15.5	13.3	11.8	13%	13%	13%	4.2	4.1	4.0
Torrent Power	34.6	33.5	31.0	6.4	5.7	5.0	17.4	16.2	13.4	19%	18%	17%	2.0	2.5	2.9
SJVN	40.7	29.5	24.5	3.5	3.3	3.2	18.7	11.9	7.6	8%	11%	13%	7.1	NM	NM
NHPC	23.4	18.8	16.3	2.3	2.4	2.0	20.5	15.2	10.8	10%	11%	11%	5.3	4.5	3.4
JSW Energy	46.6	38.3	35.5	5.0	4.5	4.1	20.7	17.2	14.0	11%	12%	12%	4.0	3.6	2.8
CESC	16.4	14.9	13.0	2.1	1.9	1.7	10.2	9.6	9.1	13%	13%	14%	3.2	3.0	2.8
NLC India	19.1	15.2	NM	2.2	1.9	1.6	16.7	13.4	8.8	11%	12%	10%	6.4	6.0	NM

*Source: Bloomberg, Emkay Research; *based on Emkay estimates*

Exhibit 10: GPUIL's 1-year forward EV/EBITDA band



Source: Bloomberg, Emkay Research

Coal power assets – Core of GPUIL; steady earnings profile amid sectoral focus

Coal power — Critical piece of the puzzle to manage peak power demand

Thermal power capacity in India

India operates ~243GW of thermal power capacity, contributing ~55% to total power plant capacity in India. However, thermal power generation forms ~75% of the total generation mix, led by higher PLFs for thermal power as compared to renewable energy.

We estimate thermal power capacity in India to clock ~3% CAGR over FY24-31E supported by Govt of India's (GoI) plan to increase thermal power capacity by 80GW by FY32 to meet the rising power demand in the country. This is largely in line with the projections of the National Electricity Plan for 2022-32, which pegs the required coal and lignite power capacity at 283GW by 2032 from ~214GW currently.

Exhibit 11: India's power demand-supply estimates

Particulars	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E
Power Capacity (GW)										
Thermal	236	237	243	251	258	266	274	282	290	299
Large Hydro	47	47	47	50	54	58	63	67	72	78
RE	110	125	144	165	190	218	251	289	332	382
Nuclear	7	7	8	9	10	11	12	13	14	16
Total	**399**	**416**	**442**	**475**	**512**	**553**	**600**	**651**	**710**	**775**
PLF										
Thermal	54%	58%	62%	62%	62%	62%	62%	62%	62%	62%
Large Hydro	37%	39%	33%	38%	38%	38%	38%	38%	38%	38%
RE	15%	16%	16%	17%	18%	19%	19%	20%	20%	20%
Nuclear	79%	77%	67%	75%	75%	75%	75%	75%	75%	75%
Blended	**42%**	**44%**	**44%**	**44%**	**43%**	**43%**	**42%**	**41%**	**40%**	**39%**
Generation (BU)										
Thermal	1,115	1,206	1,326	1,361	1,401	1,443	1,487	1,531	1,577	1,625
Large Hydro	152	162	134	166	181	194	209	224	241	259
RE	143	178	197	239	291	358	423	499	582	669
Nuclear	47	46	48	59	65	72	79	87	95	105
Total	**1,457**	**1,592**	**1,705**	**1,824**	**1,938**	**2,067**	**2,197**	**2,341**	**2,496**	**2,658**
Supply (BU)	1,374	1,503	1,630	1,733	1,845	1,968	2,091	2,228	2,376	2,530
Demand (BU)	1,380	1,510	1,634	1,741	1,854	1,974	2,103	2,239	2,385	2,540
Deficit	6	7	4	8	9	7	11	11	9	9
Deficit rate	*0.4%*	*0.5%*	*0.3%*	*0.4%*	*0.5%*	*0.3%*	*0.5%*	*0.5%*	*0.4%*	*0.4%*

Source: CEA, CEIC, Industry, Emkay Research

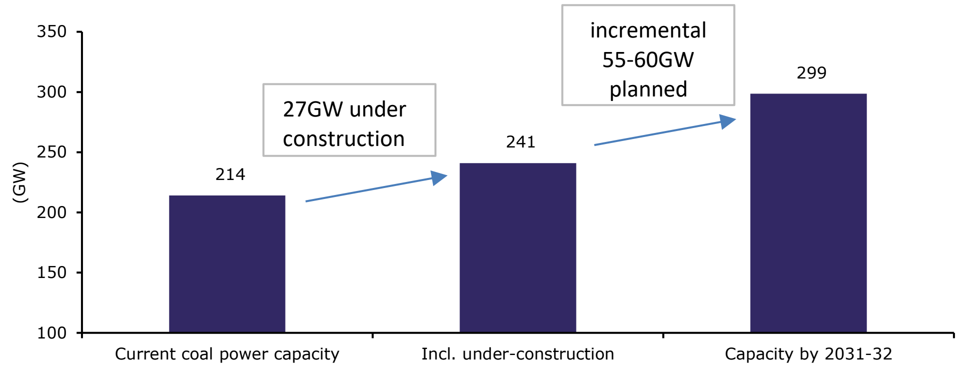
In Nov-23, Power Minister R.K. Singh held an interaction with stakeholders to assess the thermal power capacity addition plan in the country. He said that:

"India needs 24x7 availability of power for its economic growth and we are not going to compromise on availability of power for our growth. This power cannot be achieved by renewable energy sources alone. Since nuclear capacity cannot be added at a rapid pace, we have to add coal-based thermal capacity for meeting our energy needs. We have 27GW under construction, and we had thought that we will add another 25GW. But, we have decided that we will start work on at least 55GW – 60GW of thermal capacity. As demand keeps accelerating, we will keep adding this capacity.

Given the power needs, the industry will keep getting orders for thermal capacity addition for the next 5–7 years. Thermal energy was written off a few years ago, which was premature. Thermal cannot be written off until energy storage becomes viable. So, thermal is going to stay until energy storage becomes cost-effective for Round-the-Clock supply through Renewable Energy. Hence, industry needs to ramp up thermal capacity."

Similarly, Power Secretary Pankaj Agarwal also stated that thermal energy is going to stay very relevant even in the year 2047, based on National Electricity Plan projections and other analysis done by the power ministry.

Exhibit 12: Coal power capacity addition plan in India

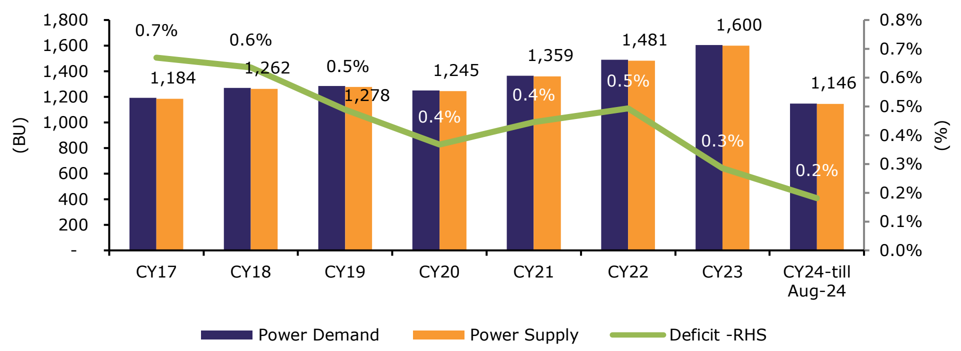


Source: Industry, Emkay Research

Peak power demand-supply dynamics

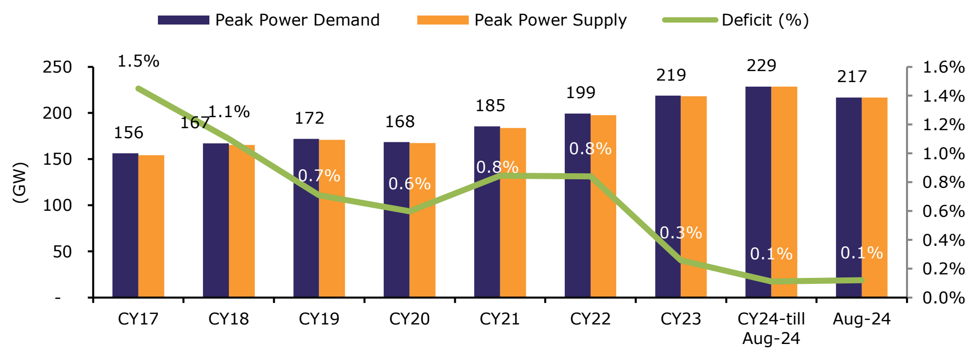
Power deficit has narrowed to 0.3% in CY23 from 0.7% in CY17, on the back of steady rise in generation capacities. Peak power demand in India has clocked 6.8% CAGR over FY18-24. The industry has indicated occurrence of peak demand during Apr-Jul in the post-pandemic era owing to heatwaves, compared to the monsoon months of Aug-Sep in pre-pandemic times due to elevated humidity levels. Peak power demand has touched 250GW recently, up by >45GW over the last 2 years. An accelerated adoption of RE could pose certain challenges in catering to peak demand in the evenings, when solar generation is almost zero. Hence, thermal power is likely to be the key to mitigate the mismatch during peak times, while power storage system of 15-30GW based on RE power can partly meet the deficit in the long-term as cost and technological hurdles are surpassed.

Exhibit 13: Historical power demand-supply trends



Source: CEA, CEIC, Emkay Research

Exhibit 14: Historical peak power demand-supply trends



Source: CEA, CEIC, Emkay Research

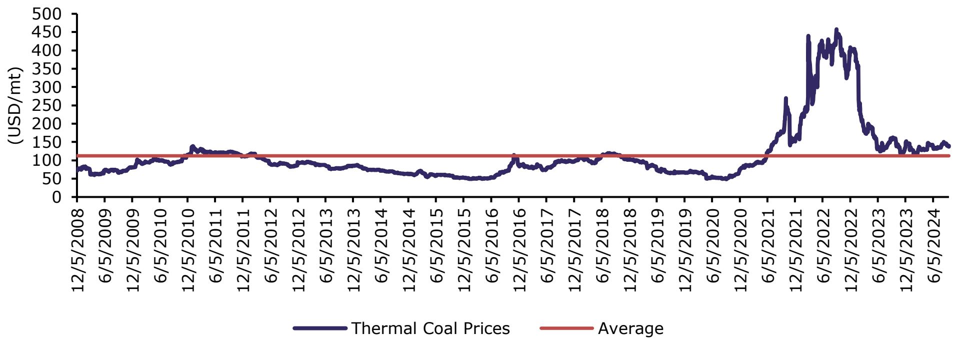
Coal demand and pricing

About 70% of India's power generation is met through fossil fuels, and 90% of the total coal production is supplied to the power sector. The aggregate coal dispatches to the power sector amounted to 786MT in FY23. India consumes about 1BT of coal produced domestically. In addition, India imports about 170MT of thermal coal and 70MT of coking coal from the global seaborne coal market.

Our metals team suggests that if coal dispatches grow by a similar magnitude of 6% growth in generation capacity, it would amount to approximately 1.2BT of coal demand by FY30E. Add to it the demand from steel, cement, and other industries and it could rise to 1.3BT. In addition, India imports about 240MT of thermal and coking coal from the seaborne market. All of these combined would potentially take the total coal demand to 1.5BT by the end of this decade. Broadly, 1.5BT could be the approximate level where coal demand might peak. The timing of the peak is difficult to assess as several things have to go right on adoption, ramp-up, and economics of renewables. Hence, it could be imprudent to phase down the use of coal during the 2030s. We would caveat this analysis by saying that it is at a broad level and it is difficult to ascertain the timing of peak coal demand. However, it does give us confidence that coal is here to stay for longer than many estimates.

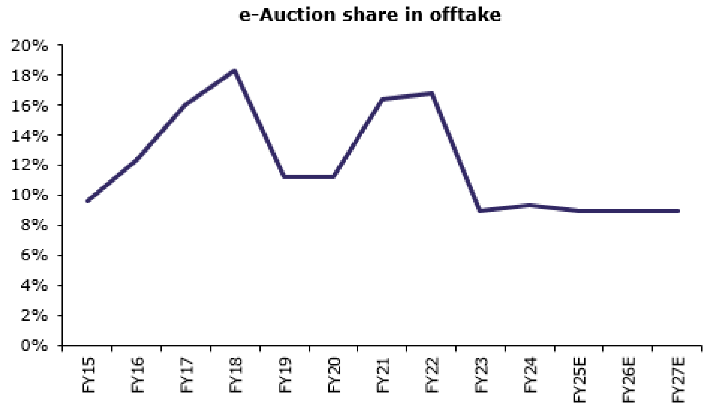
Coal India sells a portion of its volumes through e-Auctions, where it generates a premium relative to its FSA price. The premiums tend to be dynamic to reflect the supply/demand of coal, global benchmark coal price trends, substitution effect of import vs buying domestically, inventory levels, and seasonal factors. Historically, it has sold about 13% of volumes on average through e-Auctions. However, as the company grows production, we believe more volumes would be absorbed through FSA contracts (given it is cheaper for buyers) and the share of e-Auctions would soften. This appears to be already reflected in the past few quarters, with the share of e-Auction volumes below 10% for the past six quarters. Looking ahead, we estimate e-Auction volumes to be at 10% of group offtake. The volumes, in absolute terms, are likely to grow from 70MT in FY24 to 100MT by FY27E. We believe there would be periods of high/low demand for e-Auction volumes, which would be influenced by supply/demand balances, inventory cycles, and global price fluctuations.

Exhibit 15: Thermal Coal prices have softened from recent highs



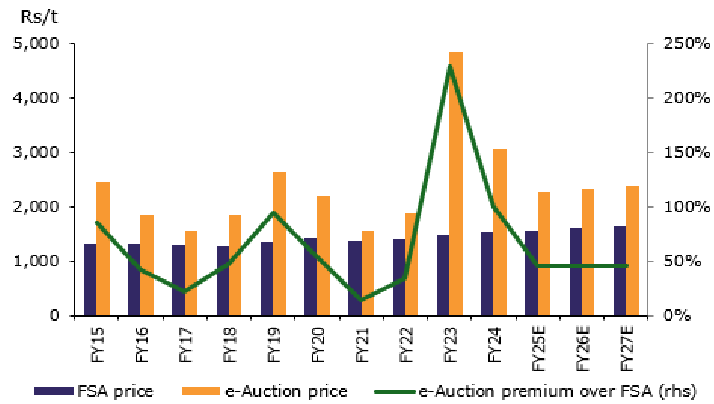
Source: Bloomberg, Emkay Research

Exhibit 16: Share of e-Auction in offtake could stabilize around 10%



Source: Coal India, Emkay Research

Exhibit 17: e-Auction prices relative to FSA could normalize around 50% premiums



Source: Coal India, Emkay Research

GEL's thermal assets nearing optimal profitability; sizable FCF generation in sight

The PLFs of both Warora and Kamalanga are strong at >80% currently, on the back of domestic coal tie-ups, ~90% supply through PPAs at reasonable tariffs, and peak power demand in the country. We estimate Warora and Kamalanga to clock combined earnings of >Rs6.5bn in FY26E from ~Rs5bn in FY24, and generate FCF of ~Rs6bn in FY26E after factoring in its annual debt obligations of ~Rs5bn. Consequently, net debt of these two thermal SPVs could decline to ~Rs37bn by FY26E from ~Rs59bn in FY24.

Warora Thermal Power Plant (600MW)

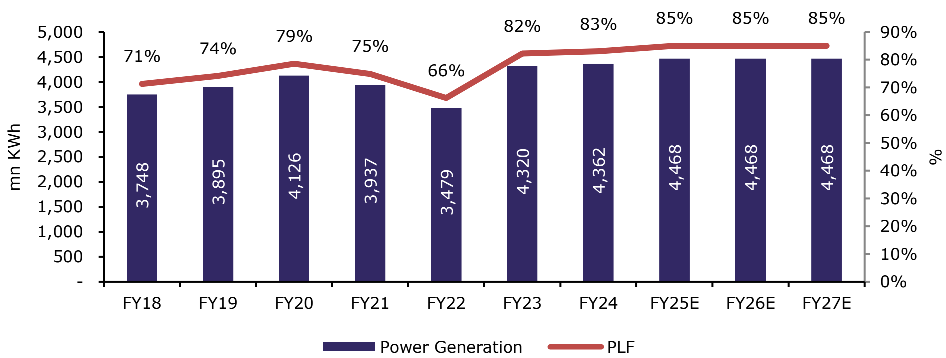
The Warora thermal power plant commenced production in 2013 (unit 1 in Mar-13 and unit 2 in Sep-13) at a total project cost of Rs32.5bn, in Chandrapur, Maharashtra. This coal-fired plant has 2 units of 300MW each. This plant incurred net losses till FY16 on account of the plant not operating at full capacity due to lower PPAs, while full coal requirement was also not tied up. However in Oct-15, the company's entire capacity was tied up through PPAs.

By the end of FY20, the company was impacted by COVID resulting in lower offtake from DISCOMs, lower merchant rates, delay in collections and overhead cost pressures besides expiry of PPA with Dadra & Nagar Haveli in Jun-20, and lower contracted coal quantity. During Oct-21, the company entered into a 23-month PPA with GUVNL for supply of 150MW power and a 1.06mmtpa coal supply agreement was entered into with Western Coalfields.

Warora's board approved a debt resolution plan in Jun-22 to bifurcate the debt into sustainable debt (reduction in interest rate and elongation of repayment schedule) and unsustainable debt (conversion to NCDs/OCDs and equity shares). The company entered into a 5-year PPA with Haryana DISCOM starting Apr-24 at a tariff of Rs5.05/kwh.

The company has coal supply agreements with South-Eastern Coalfields and Western Coalfields for supply of coal of 1.3mmtpa and 2mmtpa, respectively, which can cumulatively fulfil 90% of the requirement at 85% PLF. GMR Energy Limited (GEL), a wholly-owned subsidiary of GPUIL, holds a 92% stake in Warora, while the balance equity is held by banks.

Exhibit 18: Warora's PLFs are expected to be strong, supporting stable generation



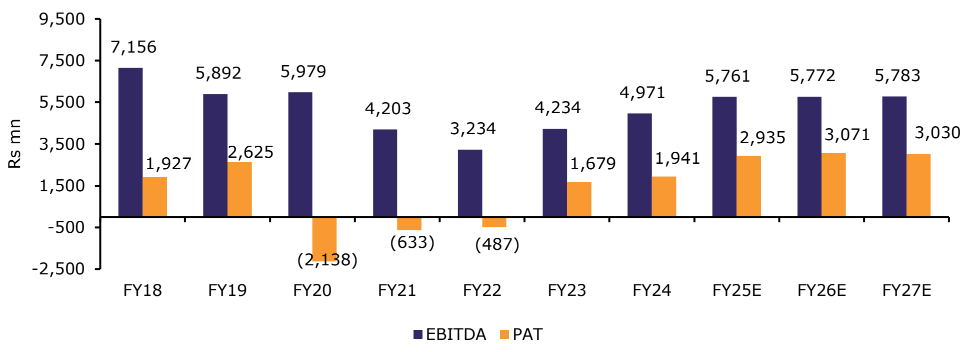
Source: Company, Emkay Research

Exhibit 19: Summary of Warora's PPAs

PPA	MW	PPA Tenure	Tariff
Haryana	150	5	5.1
MSEDCL	200	25	3.8
TANGEDCO	150	5	4.4
Merchant	50		6.3

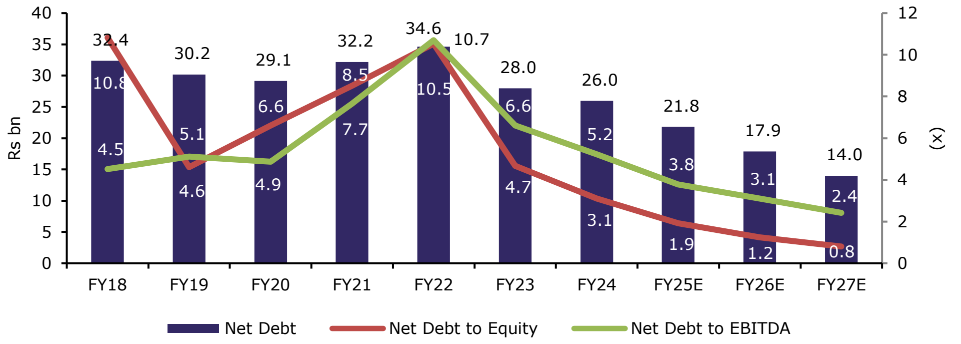
Source: Company, Emkay Research

Exhibit 20: Warora's steady earnings profile



Source: Company, Emkay Research; Standalone

Exhibit 21: Warora's net debt profile and leverage ratios are expected to improve gradually



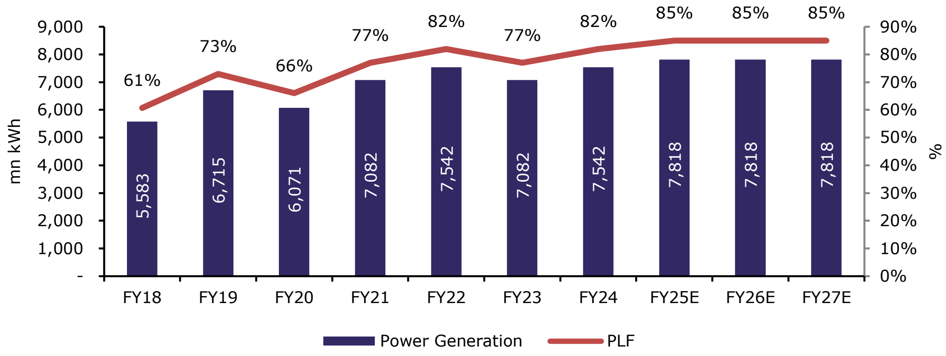
Source: Company, Emkay Research; Standalone

Kamalanga Thermal Power Plant (1,050MW)

Kamalanga power plant started commercial production in Apr-13 with unit 1, and unit 2 and 3 in Nov-13 and Mar-14, respectively, in Odisha. This coal-fired plant has 3 units of 350MW each, although the initial plan was to have 4 such units resulting in cumulative potential capacity of 1,400MW. The initial project cost was estimated at Rs45bn; however, subsequently there was a cost overrun of Rs20bn, resulting in total project cost of Rs65bn funded through debt of Rs43bn and equity of Rs23bn. The company has coal supply agreement with Mahanadi Coalfields for 4.3mmtpa, which can fulfil ~80% requirement at 85% PLF. GMR Energy (GEL), a wholly-owned subsidiary of GPUIL, holds 98% stake in Kamalanga power plant, while the balance 2% equity is held by IDFC First Bank Ltd.

Kamalanga faced losses prior to FY18 since the plant was operating at sub-optimal utilization levels coupled with high gearing levels. Besides this, regulatory receivables also bloated due to dispute relating to change in law events (domestic coal shortfall, change in tax regime, etc) and dispute related to capacity charges (with GRIDCO). The strong operating and financial performance in FY23 and FY24 on the back of higher merchant rates and supply to TANGEDCO, has resulted in gross debt reducing to Rs34.5bn as on Mar-24 end, from Rs41.3bn as on Mar-22 end.

Exhibit 22: Kamalanga's PLFs to remain robust at 85%



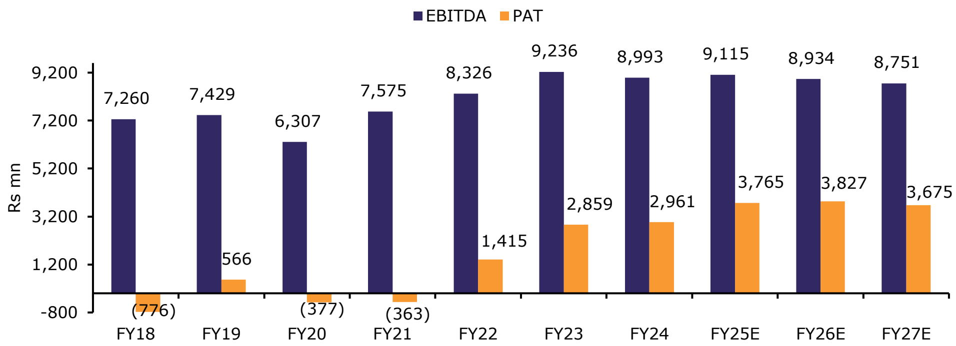
Source: Company, Emkay Research

Exhibit 23: Summary of Kamalanga's PPAs

PPA	MW	PPA Tenure
Haryana via PTC India	300	25
Bihar State Power Holding Company	260	25
GRIDCO	242	25
Tamil Nadu via PTC India	104	5
Merchant	50	

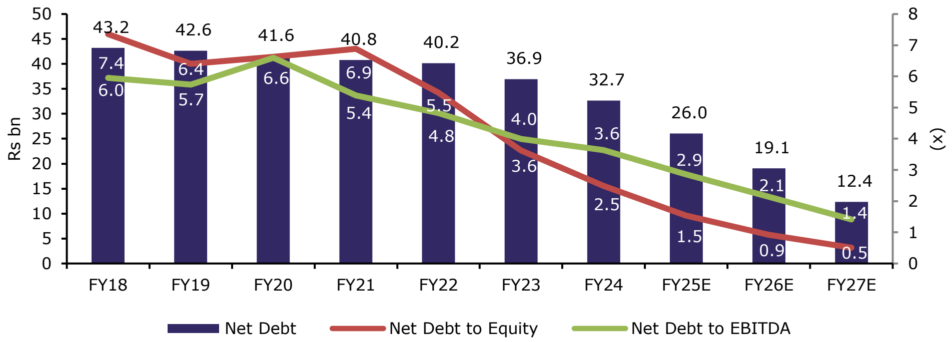
Source: Company, Emkay Research

Exhibit 24: Kamalanga's PAT is set to improve, bolstered by decreasing finance cost



Source: Company, Emkay Research; Standalone

Exhibit 25: Kamalanga's net debt is expected to decline sizably, led by deleveraging efforts



Source: Company, Emkay Research; Standalone

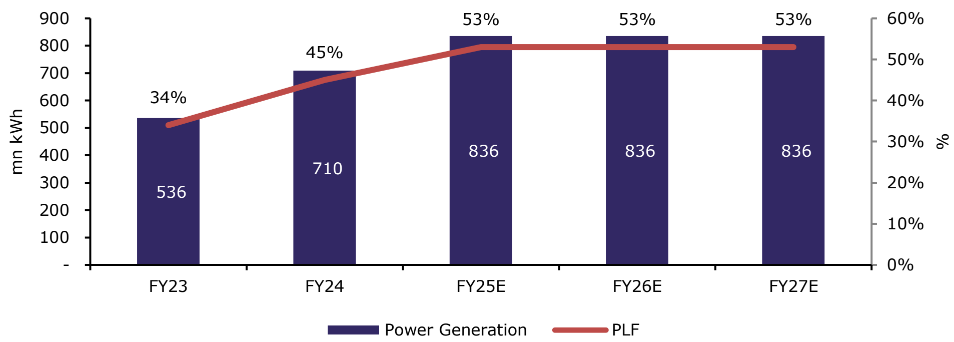
Bajoli Holi hydro-power asset ramping up

Bajoli Holi hydro-power plant is a JV between GEL and Delhi Intl Airport Limited (DIAL) under the group captive structure with GEL and DIAL's holding at 79.9% and 20.1%, respectively. This asset is a 180MW (3x60MW) hydro power plant (run-of-river) in the upper reaches of the Ravi River on the Indus River system in Chamba, Himachal Pradesh. The project was allotted to GEL by Government of Himachal Pradesh (Govt of HP) in Jul-07 on build, own, operate, and transfer basis for a concession period of 40 years following the commercial operations date (achieved on 28-Mar-22).

The company has tied up 120MW capacity with DIAL for 18 years at a tariff of Rs6.74/kWh with escalation clause, and 60MW capacity with UPPCL for 25 years, where power would be delivered from May-October every year.

Under the implementation agreement between Bajoli Holi and Govt of HP, the company had to provide free power or money equivalent thereof, equivalent to 12% free power for the first 12 years and 18% free power from 13-30 years. Bajoli Holi requested Govt of HP to defer the free power share offtake of 12% in the initial years. Accordingly, Govt of HP has agreed to defer its 12% payment share for free power in the initial 12 years. From 13-20 years, deferred power payment will be recovered in seven equal instalments with an additional 5.14% free power. The deferred royalty is expected to provide surplus liquidity till 12th year of operation for Bajoli Holi.

Exhibit 26: Bajoli Holi's PLFs expected to stabilize



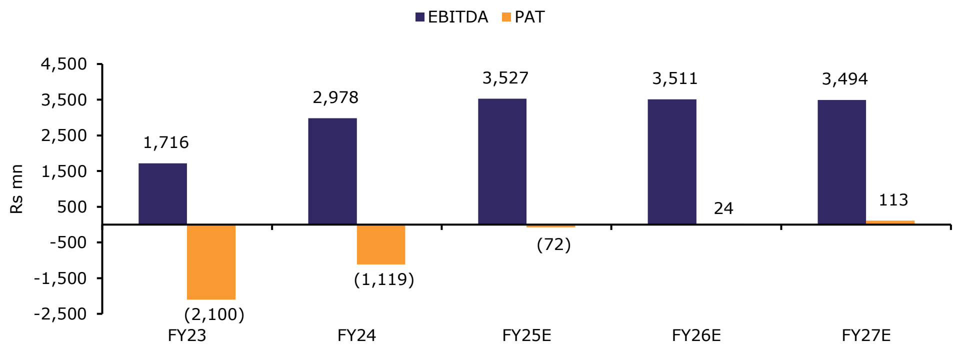
Source: Company, Emkay Research

Exhibit 27: Summary of Bajoli Holi's PPAs

PPA	MW	Tariff
DIAL	100	6.7
UPPCL	80	4.7
Total	**180**	**5.8**

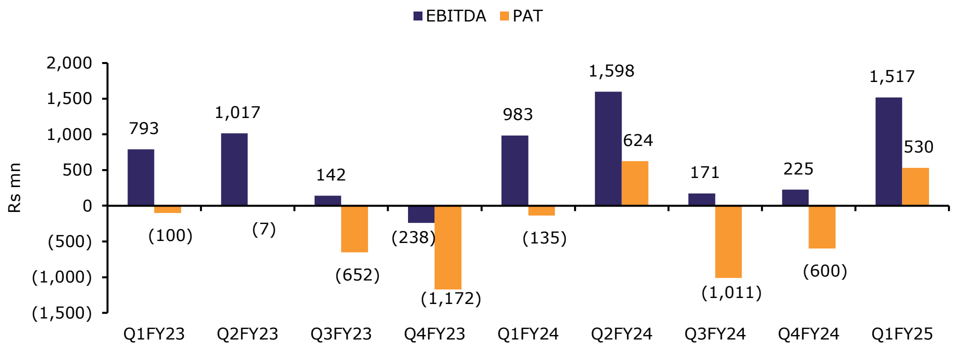
Source: Company, Emkay Research

Exhibit 28: Bajoli Holi's earnings profile



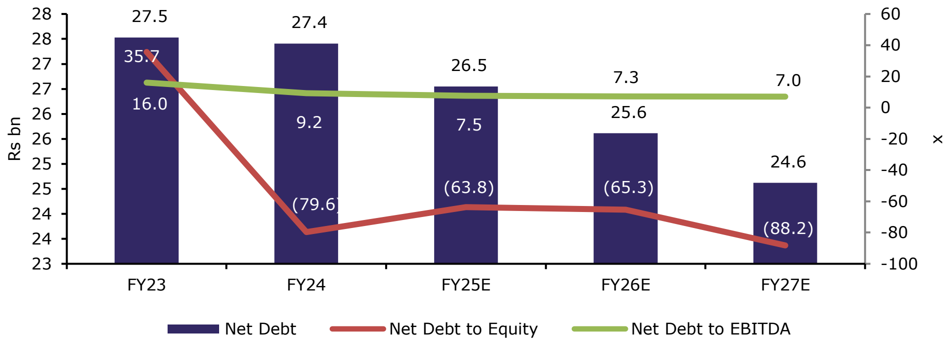
Source: Company, Emkay Research; Standalone

Exhibit 29: Bajoli Holi's quarterly earnings profile



Source: Company, Emkay Research; Standalone

Exhibit 30: Bajoli Holi's net debt profile and leverage ratios



Source: Company, Emkay Research; Standalone

Smart metering – The next growth frontier for GPUIL

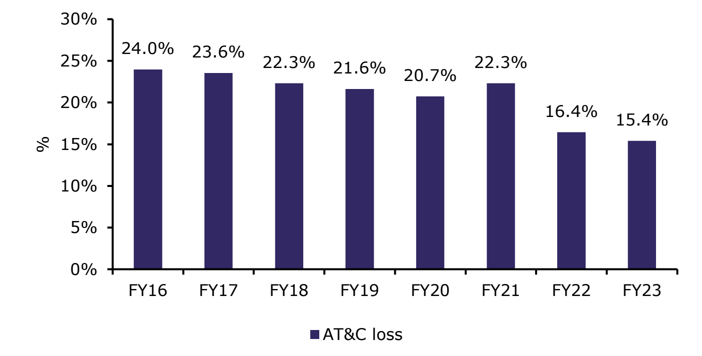
Financial health of DISCOMs expected to improve

The government had launched 'Revamped Distribution Sector Scheme' (RDSS) in Jul-21 to improve the quality and reliability of power supply to consumers through a financially sustainable and operationally efficient distribution sector. It aims to:

- Reduce average technical & commercial (AT&C) losses to pan-India levels of 12-15%.
- Reduce the gap between the Average Cost of Supply (ACS) and the Average Revenue Realized (ARR) to nil by 2024-25.
- Improve quality, reliability, and affordability of power supply to consumers through a financially sustainable and operationally efficient distribution sector.

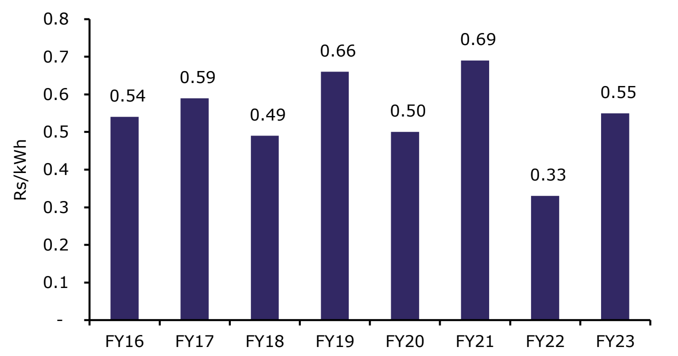
The sizable AT&C losses of DISCOMs is impacting their financials and necessitating large subsidies from the government. Empirical trends indicate that AT&C losses have fallen from 21.6% in FY19 to 15.4% in FY23, led by improvement in collection efficiency, whereas billing efficiency also saw marginal improvement. The industry continues to optimize such losses going ahead, supported by the RDSS scheme.

Exhibit 31: AT&C losses have shrunk from FY16-23



Source: Ministry of Power, CEA, Emkay Research

Exhibit 32: The ACS-ARR gap is expected to decrease by FY25



Source: National Smart Grid Mission (NSGM), Emkay Research

Exhibit 33: Bucketing of state utilities based on operational performance and states' fiscal position in FY23

Bucketing of state utilities

	State	AT&C loss (%)	ACS-ARR gap (₹/kWh)	Fiscal deficit (% of GSDP)
Strong	Gujarat	9.66%	0.02	1.51%
	Andhra Pradesh	8.48%	0.01	3.60%
	Haryana	11.74%	-0.04	3.30%
Moderate	Karnataka	13.76%	0.61	2.84%
	Punjab	11.30%	0.18	5.20%
	Tamil Nadu	10.30%	0.96	3.00%
	Rajasthan	15.60%	0.15	4.30%
	Chhattisgarh	16.10%	0.11	3.20%
	Maharashtra	19.00%	1.56	2.79%
	Telangana	19.69%	1.11	3.20%
	Madhya Pradesh	20.97%	-0.46	3.60%
Weak	Uttar Pradesh	20.81%	1.64	4.00%
	Jharkhand	30.30%	2.47	2.30%
	Bihar	24.59%	0.18	8.80%

AT&C loss (%)
- Less than 15%
- Between 15% and 21%
- Above 21%

ACS-ARR gap (₹/kWh)
- Less than ₹ 0.05/kWh
- Between ₹ 0.05 and ₹ 0.35/kWh
- Above ₹ 0.35/kWh

Fiscal deficit (% of GSDP)
- Less than 3%
- Between 3% and 4.5%
- Above 4.5%

Source: PFC, CRISIL MI&A-Consulting, Emkay Research

The smart metering projects under the RDSS scheme are expected to reduce AT&C losses and improve the operational efficiency of DISCOMs and their financial sustainability by providing results-linked financial assistance.

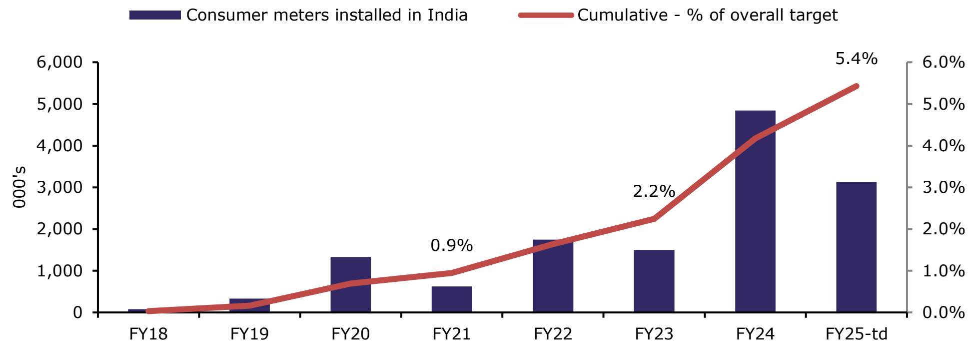
The RDSS scheme has an outlay of Rs3trn and an estimated gross budgetary support of Rs976bn from the GoI. Out of the total outlay under the RDSS scheme, a sum of Rs1.5trn and budgetary support of Rs230bn for installation of 250mn smart meters has been allocated under the Total Expenditure (TOTEX) model, with an additional 40mn meters designated for implementation by Central Public Sector Enterprises (CPSEs) by FY25.

Exhibit 34: Key statistics relating to smart meters in India

000's – Sep-24	Target	Sanctioned	Sanctioned %	Awarded	Awarded %	Installed	Installation %
Consumer	250,000	222,451	89%	117,681	52.9%	13,570	11.5%
DT*		5,265		4,090	77.7%	113	2.8%
Feeder		183		130	71.0%	48	36.5%

*Source: NSGM, Emkay Research; Note: * distribution transformer meter*

Exhibit 35: Annual smart meter installation trends in India



Source: NSGM, Ministry of Power, Emkay Research

As of Sep-24, 222/5.26/0.18 million consumer/distribution transformers (DT)/feeder meters have been sanctioned across India with actual awarding of 117/4.09/0.13mn meters. This indicates that ~53%/78%/71% of the total sanctioned meters have been awarded to contractors, whereas ~13.6/0.11/0.05mn meters have been installed till date as per the NSGM dashboard. We note that the pace of installation has accelerated over the last 2 years and would continue to be strong as initial implementation-related hurdles are largely overcome.

Exhibit 36: State-wise physical progress of smart metering work

State	Sanctioned			Awarded			Installed		
	Smart	DT	Feeder	Smart	DT	Feeder	Smart	DT	Feeder
Andaman and Nicobar	158,773	1,148	114	75,200	-	-	75,200	-	-
Andhra Pradesh	5,610,846	293,140	17,358	5,610,846	293,140	17,358	154,911	-	406
Arunachal Pradesh	287,446	10,116	688	286,940	10,116	688	-	-	-
Assam	6,921,329	94,547	2,782	7,016,629	111,907	3,441	2,615,465	40,870	1,760
Bihar	17,208,939	250,726	6,427	13,698,600	242,534	5,776	4,264,526	8,767	3,879
Chandigarh	29,433	-	-	29,433	-	-	24,214	-	-
Chhattisgarh	5,962,115	210,644	6,720	7,070,288	267,000	8,315	80,267	16,125	5,192
Delhi	260,000	766	2,755	260,000	-	-	260,000	-	-
Goa	741,160	8,369	827	-	-	-	-	-	-
Gujarat	16,510,860	300,487	-	10,794,960	300,487	-	105,887	21,619	-
Haryana	1,000,000	-	-	1,000,000	-	-	847,467	-	-
Himachal Pradesh	2,952,685	39,012	1,951	1,070,832	14,190	1,127	151,740	-	-
Jammu and Kashmir	2,134,095	108,831	2,608	2,072,762	102,990	2,608	599,470	6,535	-
Jharkhand	1,341,306	19,512	1,226	1,041,772	19,512	1,226	-	-	-
Kerala	13,290,166	87,615	6,025	805	-	-	805	-	-
Ladakh	58,930	1,931	54	58,930	1,931	54	55,580	653	79
Madhya Pradesh	13,444,401	411,963	8,411	4,884,284	411,963	8,411	1,169,039	5,230	540
Maharashtra	23,564,747	410,905	29,214	23,564,747	410,905	29,214	275,194	9,635	20,991
Manipur	154,400	11,451	357	154,400	11,451	357	-	-	-
Meghalaya	460,000	11,419	1,324	-	-	-	-	-	-
Mizoram	290,039	2,300	398	656	-	-	656	-	-
Nagaland	317,210	6,276	392	317,210	6,276	392	-	-	-
Odisha	4,500	-	-	4,500	-	-	4,500	-	-
Puducherry	403,767	3,105	180	-	-	-	-	-	-
Punjab	9,830,007	184,044	12,563	1,045,200	-	-	802,826	-	-
Rajasthan	14,900,527	434,608	27,128	625,571	-	15,788	614,307	-	10,084
Sikkim	144,680	3,229	633	144,680	3,229	633	-	-	-
Tamil Nadu	30,140,849	473,720	18,274	140,849	1,220	-	129,641	1,220	-
Telangana	8,882	-	-	8,882	-	-	8,882	-	-
Tripura	547,489	14,908	473	415,647	10,893	473	-	-	-
Uttar Pradesh	30,978,280	1,526,801	20,874	30,978,280	1,526,801	20,874	1,228,438	2,577	4,585
Uttarakhand	1,584,205	38,016	1,686	1,584,205	38,016	1,686	-	-	-
West Bengal	21,208,759	305,419	11,874	3,724,273	305,419	11,874	101,207	-	-
Total	**222,450,825**	**5,265,008**	**183,316**	**117,681,381**	**4,089,980**	**130,295**	**13,570,222**	**113,231**	**47,516**

Source: NSGM, Emkay Research

GPUIL has won contracts for installation of ~7.5mn smart meters in 22 districts of UP for a total contract value of Rs75.9bn (including GST) for a period of 10 years.

Exhibit 37: GPUIL's smart meter contract details

Details	LOA from PuVVNL	LOA from DVNNL
Smart meters to install, integrate and maintain	5.02mn smart meters	2.56mn smart meters
Areas covered	Purvanchal (Varanasi, Azamgarh zone and Prayagraj, Mirzapur zone) area of UP	Dakshinanchal (Agra, and Aligarh zone) area of UP
Total Contract Value	• Varanasi & Azamgarh Zone is ~ INR 27.4bn • Prayagraj & Mirzapur Zone is ~ INR 23.9bn	Agra & Aligarh Zone is ~ INR 24.7bn
Expected Implementation tenure	27 months from the date of execution of the contract and an operating period of 93 months	

Source: Company

The management plans to bid for upcoming smart meter installation contracts; however, we have not assigned any value to future wins in our SOTP. It is pertinent to note that DISCOMs of the key states mentioned below could issue AMI tenders over the next 2 years for a cumulative of ~70mn smart meters. We hypothetically assign a win rate of 15% and arrive at ~10.5mn smart meters for GPUIL. Assuming a similar bid value and profitability per meter, these additional smart meters could yield an upside of Rs9/sh to the SOTP after assigning 50% probability and assuming Bosch to be the 10% partner in future contracts as well.

Exhibit 38: Sizable AMI tenders expected from the following states

State	Sanctioned	Awarded	Installed
Tamil Nadu	30,140,849	140,849	129,641
Madhya Pradesh	13,444,401	4,884,284	1,169,039
Kerala	13,290,166	805	805
Rajasthan	14,900,527	625,571	614,307
West Bengal	21,208,759	3,724,273	101,207
Goa	741,160	-	-

Source: NSGM, Emkay Research

Exhibit 39: Estimated equity value of GPUIL's smart meter contract

Unit Economics	Rs
Bid Value (ex-GST)	8,475
EPC Cost	3,150
RDSS one-time subsidy	900
Debt	70%
Monthly payout (ex-GST)	75
O&M per month	15
Metered months	93
Cost of Equity	12%
NPV/meter	**1,330**
No. of meters (mn)	7.5
NPV of Smart Meter Business (Rs mn)	**10,008**

Source: Company, Emkay Research

Bidding process

- REC and PFC have been appointed as the nodal agencies for the operation and facilitation of RDSS. Installation of prepaid smart meters for consumers along with associated AMI through public-private partnerships would be facilitated.
- REC has issued a model standard bidding document (Model Bid Document) for the appointment of advance metering infrastructure service providers (AMISP) for smart system metering in India on a design, build, finance, own, operate, and transfer (DBFOOT) basis.
- The Model Bid Document prescribes that in case the bid has been awarded to a consortium, the members of the consortium are required to hold the entire equity capital of the SPV/AMISP for a period of two years after the Installation Milestone (ie installation and operationalization of all the smart meters envisaged for the AMISP project).
- In the event of termination of a contract on default by AMISP: i) after the installation milestone, the AMISP is entitled to a termination payment equivalent to 60% of the value of the termination payment determined in accordance with the terms of the AMISP contract; or ii) prior to the installation milestone, the AMISP will be entitled to 60% of the value of assets proposed to be handed over to the DISCOM, as certified by the independent valuer. In the event of termination of contract on default by DISCOM, 100% of value would be paid.

Benefits to DISCOMs

- Prepaid smart meters can help to reduce electricity theft, as customers can only use the energy for which they have paid as unauthorized connections can be detected and disconnected remotely. This can save DISCOMs significant expenses.
- DISCOMs can improve the efficiency of their networks by being able to monitor energy usage in real time and identify and fix problems more quickly. This can lead to fewer outages and a more reliable supply of electricity.
- It can help increase customer satisfaction. By giving customers more control over their energy usage and by reducing debt, DISCOMs can improve the overall customer experience.
- As consumers can recharge their prepaid meters online or through designated recharge points, this eliminates the need for physical meter reading and manual bill payments, thereby reducing administrative costs and losses for DISCOMs.

Highways segment

This segment is engaged in the development of highways on a BOT/Annuity basis. Its current portfolio comprises of two BOT (Annuity) projects and one BOT (Toll) project located in Andhra Pradesh, Haryana-Punjab, and Tamil Nadu with a total length of ~730 lane kms.

GMR Hyderabad Vijayawada Expressways (GHVEPL) – handed over to NHAI on 1-Jul-24 based on a settlement

This project involved the construction of a 6-lane, 181.5 km section (Hyderabad-Vijayawada section) of NH-9, extending from 40km to 221.5km on a BOT toll basis, awarded through competitive bidding by NHAI. It connects Hyderabad and Telangana with Vijayawada in Andhra Pradesh and toll operations commenced in Dec-12 with 38% revenue sharing with NHAI based on the concession agreement.

GHVEPL has been incurring losses since the start of its commercial operations and had accumulated losses of Rs18bn as on FY24-end, largely on account of subdued toll collection as commercial traffic dropped due to bifurcation of the state of Andhra Pradesh, ban on sand mining in the region, and low traffic of cement trucks. This has adversely affected GHVEPL's debt profile and strained its debt servicing capabilities. GHVEPL filed claims against NHAI for compensation related to these losses stemming from changes in law. After pursuing arbitration and other legal recourse, GHEVPL and NHAI decided to amicably settle all the disputes, wherein NHAI agreed to pay GHVEPL a sum of Rs13.9bn in two instalments, and the project was handed back to NHAI on 1-Jul-24. GHVEPL has received the settlement amount, which will be primarily utilized toward total closure of loans, while any surplus funds will contribute to reducing GPUIL's corporate debt and support growth in its other business ventures.

GMR Ambala Chandigarh Expressway (GACEPL)

This project involves the enhancement and operation of a 35-km stretch of the Ambala-Chandigarh highway (NH-21/NH-22), including the strengthening and widening of the existing two-lane road to a four-lane dual carriageway. It is a toll-based project on a 20-years concession agreement, initially set to expire in May-26, but was extended to Aug-27 due to toll suspensions caused by the pandemic and farmer protests. The project was completed on schedule and achieved its commercial operation date of 14-Nov-08 with toll collection commencing on 10-Dec-08.

GACEPL has faced significant losses, totaling Rs5.4bn as on 31-Mar-24, primarily due to revenue loss from diverted traffic to parallel roads. Consequently, it had initiated arbitration proceedings against NHAI and the Haryana and Punjab governments contending breach of the provisions of concession agreement, and sought redressal for the ongoing losses. The matter is currently sub-judice and the management is confident that the arbitral claims will ultimately favor GACEPL. They anticipate no cash outflow related to negative grants or interest and expect net cash inflows, even after accounting for any negative grant outflows. The realization of GACEPL's claims is expected in the near future.

Furthermore, NHAI has approved an extension of the concession period by 429 days, reflecting the duration of the farmer agitation, along with an additional 26-day extension due to COVID-related disruptions, thereby allowing operations to continue until Aug-27. At present, the traffic has improved on the highway amid the ongoing farmer strike, but it continues to be disrupted intermittently due to congestion from various improvement projects on the highway by NHAI and alternate routes.

Exhibit 40: GACEPL's financial summary

(Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	190	715	811	1,022	1,235
EBITDA	(63)	476	511	675	815
PAT	(883)	(363)	(272)	(93)	(28)
Net Worth	(3,657)	(2,554)	(832)	(925)	(953)
Total Debt	5,616	3,510	2,297	2,182	2,073

Source: Company, Emkay Research

GMR Pochanpalli Expressways (GPEL)

The project entails the development and maintenance of a 102-km stretch of NH-7, connecting Adloor, Yellareddy, and Gundla Pochanpalli in Andhra Pradesh. The concession was awarded by NHAI on a BOT-Annuity basis to the consortium based on its lowest annuity quote of Rs1.1bn (payable semi-annually). GPEL entered into a concession agreement with NHAI for the project and achieved its commercial operations date of 26-Mar-09.

GPEL has initiated arbitration proceedings against NHAI regarding a dispute over the requirement for periodic maintenance (overlay work) of the road every five years, as stipulated in the concession agreement. The Delhi HC upheld GPEL's interpretation regarding the frequency of the overlay work. However, NHAI, aggrieved by this ruling has challenged the order to a division bench of the Delhi HC and the matter remains sub judice. A favorable ruling would lead to modification gains for the company, besides reversal of provisions for overlay costs.

Exhibit 41: GPEL's financial summary

(Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	631	578	777	789	791
EBITDA	218	118	248	252	252
PAT	163	440	(7)	149	215
Net Worth	2,545	2,985	2,979	3,128	3,343
Net Debt	2,648	2,246	1,823	1,700	1,500

Source: Company, Emkay Research

GMR Chennai Outer Ring Road (GCORR)

The project involves 6-laning dual carriageway of the Vandalur to Nemilichery section (29.65-km) of the Outer Ring Road in Chennai. It is being executed on a design, build, finance, operate, and transfer (DBFOT) basis awarded on 21-Oct-09 through competitive bidding by Tamil Nadu Road Development Company. The concession agreement was signed between GCORR and the Government of Tamil Nadu (GoTN) for a period of 20 years.

The project experienced delays due to factors attributable to GoTN that were beyond the company's control. Consequently, GPUIL raised claims with GCORR, which in turn raised claims with GoTN. This claim has been settled, and an amount of Rs548mn has been received. GUPIL will operate this asset until Dec-30.

Exhibit 42: GCORR's financial summary

(Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	853	761	720	717	725
EBITDA	621	497	417	426	431
PAT	(141)	414	286	(234)	(265)
Net Worth	26	440	724	490	225
Total Debt	6,804	6,082	5,656	5,800	6,100

Source: Company, Emkay Research

Gas power assets – untapped potential

GPUIL operates two gas-based thermal power plants, Vemagiri and Rajahmundry, in Andhra Pradesh, with a combined capacity of 1,156MW. However, both the facilities have been stranded for an extended period of time and have been unable to resume operations due to lack of gas supply. The management along with gas-based power players continue to engage with the government and explore potential options for reviving the stranded plants, but a definitive solution has not yet been reached.

- **GMR Vemagiri Power Generation (GVPGL)** — GVPGL operates a 388MW natural gas-fired combined cycle power plant in Rajahmundry, Andhra Pradesh equipped with advanced gas turbines from GE and operational since 2006. GVPGL had entered into a gas supply agreement with Andhra Pradesh State Power Development Corporation (APSPDCL). However, GVPGL alleged that APSPDCL has failed to supply adequate gas supply resulting in operational difficulties and financial losses. As a result, GVPGL initiated legal proceedings against APSPDCL, seeking compensation for the losses attributed to the alleged breach of the gas supply agreement. The case is currently being pursued and remains sub judice. The management expects claim of Rs6bn from this asset; however, we have not factored the same in our base case SOTP valuation.
- **GMR Rajahmundry Energy (GREL) –** GREL operates a 768MW (comprising of two 384MW units) combined cycle gas-based power plant (the group's largest gas-based power plant) located adjacent to Vemagiri power plant and close to Krishna Godavari gas basin in Rajahmundra, Andhra Pradesh. The plant is equipped with an advance Gas Turbine Technology from GE and was commissioned in 2015. The management anticipates the value of plant and equipment of this asset to yield Rs3.5-4mn/MW; however, we have not built the same in our SOTP valuation.

Stressed gas power plants in India

India's energy landscape is undergoing significant transformation as the country grapples with growing peak energy demands and the imperative to transition to sustainable energy sources. Given this transitioning environment, the gas-based power plants are likely to have a limited role in meeting India's growing energy needs. Historically viewed as a flexible solution to bridge the gap between renewable energy supply and excess demand, these plants face substantial challenges due to their reliance on a stable and affordable gas supply.

The existing infrastructure for gas supply is inadequate with majority of the gas power plants stranded due to lack of domestic gas supply and commercial consideration, leading to concerns about reliability. Additionally, the fluctuating prices of natural gas, shaped by global markets and geopolitical factors can lead to unpredictable operational costs for gas-based power plants.

Ex-SBI Chairman, Rajnish Kumar, had replied to the Parliamentary Committee on Energy that gas-based power plants do not have a future in India since commercial viability is a concern even at gas price of USD2.5/mmbtu, and investment decisions were taken in the past on the assumption that cheap domestic gas from the Kaveri basin would be made available to generate power. The Parliamentary Committee report had noted that stranded gas-based power projects had been set up at a capital cost of Rs40-50mn per MW with 70-80% funding from banks and such projects also witnessed 50-75% cost escalation due to non-availability of gas.

India has ~24GW of gas power plant capacity currently, out of which ~14GW capacity was identified as stranded by the Ministry of Power in 2019. The normative gas requirement to operate the existing gas-based power plants at 85% PLF is ~102mmscmd. If we assume that these plants utilize RLNG procured at USD12-13/mmbtu, it could result in gas power tariff of >Rs8/kWh. This indicates the commercial viability issues for gas-based power in India.

Exhibit 43: Gas consumption by the power sector in India

Year	Gas power capacity (MW)	Domestic Gas Allocation (mmscmd)	Average Gas Supplied (mmscmd)	Shortfall of domestic gas (mmscmd)	Shortfall %	Average RLNG supplied (mmscmd)	Total Gas Supply (mmscmd)
2009-10	15,769	61.6	55.5	6.1	10%	NA	55.5
2010-11	16,640	65.9	59.3	6.6	10%	NA	59.3
2011-12	16,926	67.1	56.4	10.7	16%	NA	56.4
2012-13	18,363	81.7	40.0	41.7	51%	NA	40.0
2013-14	20,385	84.3	25.7	58.7	70%	1.5	27.1
2014-15	21,666	84.3	23.6	60.7	72%	1.6	25.2
2015-16	23,076	87.1	22.9	64.2	74%	6.6	29.5
2016-17	24,037	87.1	25.0	62.1	71%	6.9	31.9
2017-18	23,843	87.1	25.7	61.4	70%	7.9	33.6
2018-19	23,883	86.9	22.4	64.4	74%	8.6	31.0
2019-20	23,901	86.7	19.2	67.5	78%	10.3	29.5
2020-21	23,902	84.9	18.4	66.5	78%	11.7	30.1
2021-22	23,845	84.8	15.3	69.5	82%	7.3	22.6
2022-23	23,845	84.8	13.1	71.7	85%	2.8	15.9

Source: CEA, Parliament, Emkay Research

To address peak power demand during the summer months, the GoI directs the industry to activate all gas-based power plants under Section 11 of the Electricity Act, 2003. Recently, this directive was effective for power generation and supply during May-Jun '24. Industry continues to lobby for extension of timeline under the Section 11 directive and for supply of domestic gas. Given the limited duration of the order and the significant costs associated with restarting operations, the company has not operated its gas power plants in FY24.

Standalone EPC business, Land and Renewables

Standalone EPC business

GPUIL's standalone EPC division focuses on surface transport projects including roads, railways, and airstrips/runways. It was also involved in the design and construction of the Eastern Dedicated Freight Corridor project for DFCCI (Dedicated Freight Corridor Corporation of India). This project has physical progress of ~98% as on Jun-24 end, with completion expected by Dec-24. The management intends to bid for railway projects going ahead and has the in-house capabilities to execute the same.

Land bank/SEZ business

GMR group had ~1,172acres of land in Krishnagiri District, Tamil Nadu for developing industrial infrastructure at the beginning of FY24. The group has already sold 504acres to Tata Electronics. During FY24, it has sold ~188acres, including ~122acres to TN State Government agency, while leasing ~101acres to TEL Components Private Limited for their green-field mobile phone assembly plant. The company is also planning to develop ~65acres of land by creating infrastructure facilities suitable for prospective industrial clients in Phase 3.

The company is focused on monetization efforts for ~100acres to the TN government in FY25, besides the next phase of development for ~55acres and leasing of ~120acres to industrial clients in electronics, automobile, logistics, and engineering sectors. Besides this, the company is also under discussions with various other parties for sale of its land. Overall, the company has 770acres of land with monetization potential.

Renewables

GPUIL has exposure to renewable energy through 26MW of solar and 3.4MW of wind power capacities through its subsidiaries. The details relating to its RE assets have been listed as under:

Exhibit 44: GPUIL's renewable energy assets

Entity	Location	Type	Capacity (MW)	COD	Remarks
GMR Gujarat Solar Power	Patan, Gujarat	Solar	25	Mar-12	25-year PPA with GUVNL
GMR Rajam Solar Power	Rajam, AP	Solar	1	Jan-16	25-year PPA with GMR Institute of Technology and GMR Care Hospital
GMR Power Infra	Coimbatore, TN	Wind	1.25	Dec-11	20-year PPA with TANGEDCO
GMR Renewable Energy	Kutch, Gujarat	Wind	2.10	Jul-11	25-year PPA with GUVNL

Source: Company, Emkay Research

Company background

Background and history

- The GMR Group is a multinational conglomerate headquartered in New Delhi, specializing in high-growth sectors such as Airports, Energy, Transportation, and Urban Infrastructure. The company manages projects both domestically and internationally.
- The group was established in the late 1970s by Grandhi Mallikarjuna Rao, a first-generation entrepreneur from Rajam, Andhra Pradesh. Rao, who graduated in engineering from Andhra University, started as a shift engineer and later worked in the Andhra Pradesh government's public works department. He eventually transitioned to his family's trading business. After developing good relations with suppliers and customers in the business, he acquired a failing jute mill, marking the start of the GMR Group. Initially focused on agriculture-related industries such as jute, sugar, and breweries, the group later shifted to infrastructure, construction, and real estate.
- Over time, Rao divested his stake in a multitude of industries and founded Vysya Bank in collaboration with ING Group, later selling his stake for Rs3.4bn. This capital enabled his expansion into the power sector.

Foray into the infrastructure business

- Alcohol prohibition in Andhra Pradesh was a major factor that led the GMR Group to diversify into the infrastructure sector as the prohibition forced shut down of breweries and prompted the shift toward the power sector.
- The group's entry into power generation started with the development of the 388MW gas-based Vemagiri Power Plant in Rajahmundry, Andhra Pradesh. Collaborating with various state and central government bodies, GMR engaged in public-private partnerships to develop infrastructure projects.
- GMR's initial foray into the aviation sector was marked by entering into concession agreement to build, operate and maintain airport at Hyderabad in 2004. This was followed by participation in the privatization of the Delhi International Airport (DIA), wherein a consortium led by GMR won the bid to modernize and operate the airport in 2006. Building on this success, GMR significantly expanded its aviation portfolio by acquiring interests in several airports, both in India and abroad.

Financial difficulties within the group

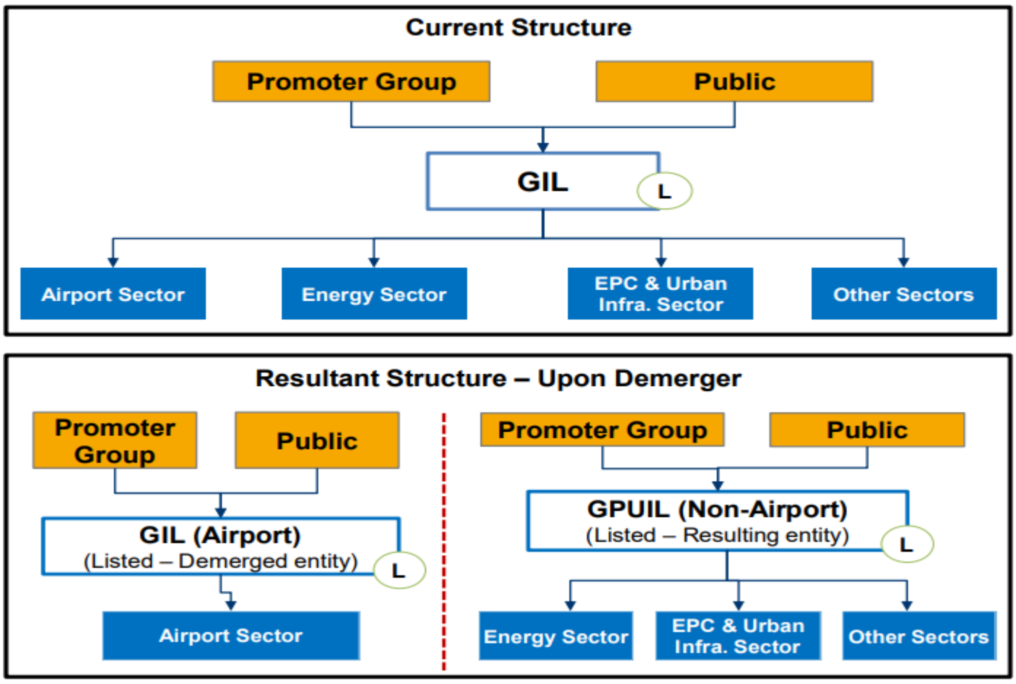
- The group faced significant challenges that led to substantial debt accumulation, straining its ability to service it as it had relied heavily on debt for expansion.
- Government support and regulatory conditions became less favorable, affecting various sectors. In the power sector, GMR faced major difficulties due to supply shortages of natural gas and coal, resulting in underutilization of assets and lower revenues while regulatory concerns hampered its thermal assets. In the airport sector, disputes over tariff determinations from regulatory bodies negatively impacted the financial viability of several projects.
- The group's aggressive expansion strategy, coupled with capital-intensive projects with long gestation periods, led to mounting debt levels. From FY11 to FY15, GMR's consolidated debt surged from Rs212bn to Rs460bn, while its debt-to-equity ratio increased from 1.9x to 5.5x. Its interest coverage ratio also declined to 0.7x.

Restructuring

- The group undertook significant restructuring aimed at reducing debt through various strategies, including fund raise, induction of partners, asset sales and monetization, while disinvesting non-core assets, thereby enabling the group to allocate resources more effectively and focus on core businesses such as airports and energy.
- GMR raised funds through equity markets and various capital market instruments such as QIPs, rights issues, FCCBs, and bonds. The company also divested stakes across multiple sectors (including airports, power, transmission, coal mines, and roads) to raise capital, besides streamlining its focus on core operations.

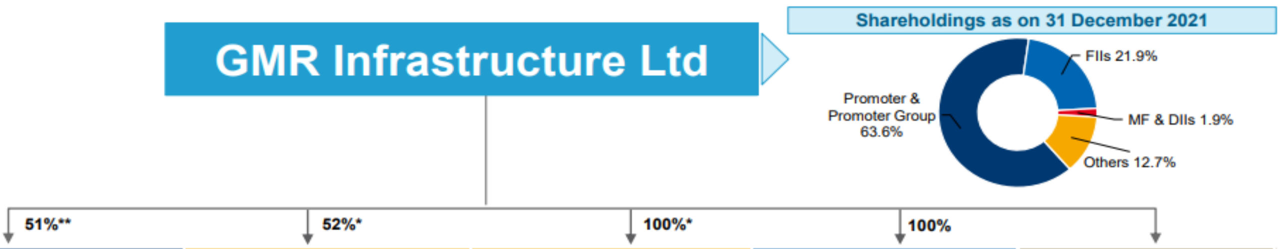
- In the energy sector, the company divested from projects struggling with fuel shortages and tariff delays, and secured USD300mn from Tenaga Nasional Berhad (Malaysia) for a 30% stake in GMR Energy. To further bolster cash flow, the group explored monetizing assets like real estate holdings, etc.
- In 2021, GMR demerged into two distinct entities: 1) GMR Infrastructure, dedicated to the airport business, and 2) GMR Power and Urban Infrastructure, concentrating on power generation, transport development, and urban infrastructure. This demerger was aimed at creating a more focused organizational structure, allowing each entity to pursue its specific strategic direction, improve operational efficiency, and unlock greater value for shareholders.

Exhibit 45: Group structure pre- and post-demerger



Source: Company

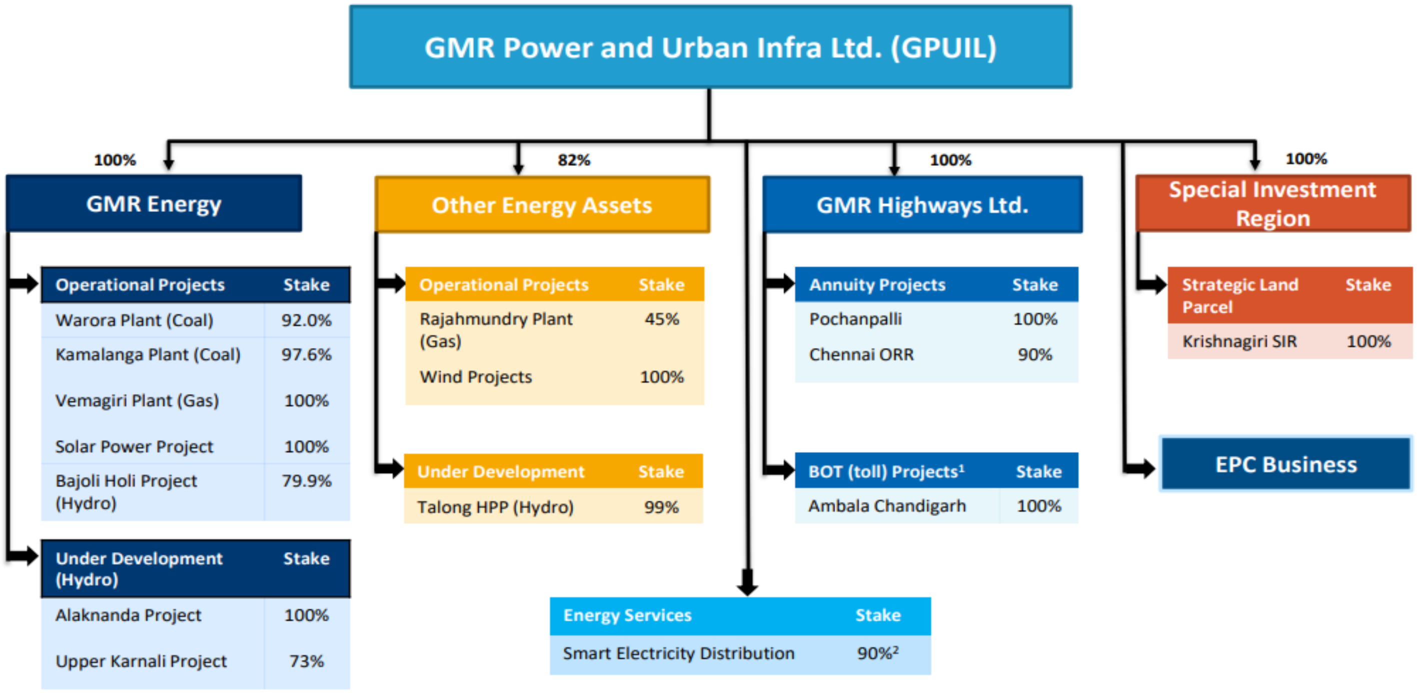
Exhibit 46: Group structure prior to the demerger



GMR Airports Ltd		GMR Energy		Other Energy Assets		GMR Highways Ltd		Special Investment Region	
Operational Projects	Stake	Operational Projects	Stake	Operational Projects	Stake	Annuity Projects	Stake	Projects	Stake
Delhi International Airport	64%	Warora Plant (Coal)	100%	Rajahmundry Plant (Gas)	45%	Pochanpalli	100%	Kakinada SIR&	51%
Hyderabad International Airport	63%	Kamalanga Plant (Coal)	87.4%	Wind Projects	100%	Chennai ORR	90%	Krishnagiri SIR	100%
Mactan-Cebu International Airport, Philippines	40%	Kakinada Plant (Gas)^^	100%						
		Vemagiri Plant (Gas)	100%						
		Solar Power Project	100%						
Under Development Project		Under Construction / Development (Hydro)		Coal Mines (Indonesia)		BOT (toll) Projects			
Goa International Airport (Mopa)	100%	Bajoli Holi Project #	79.1%	PT Golden Energy Mines (PT GEMS)	30%	Ambala Chandigarh	100%		
Bhogapuram Airport	100%	Alaknanda Project	100%			Hyderabad Vijaywada	90%		
Crete International Airport, Greece	22%	Upper Karnali Project	73%						
Clark Internation Airport, Philippines (EPC)	50.0%								

Source: Company

Exhibit 47: GPUIL's current corporate structure



Source: Company

Exhibit 48: Key Assets held under GPUIL

Assets		Capacity (MW)	Comment
Coal	Warora	600	GMR Warora Energy (GWEL) operates a coal-fired power plant in Warora, Maharashtra with a total capacity of 600MW (comprising two 300MW units) and a deemed PLF of 85%. Currently, 90% of the plant's power output is secured through long- and medium-term PPAs with MSEDCL, TANGEDCO, and HPPC, while the remaining capacity of ~50MW is sold in the open market through power exchanges.
	Kamalanga	1,050	GMR Kamalanga Energy (GKEL) operates a coal-fired power plant in Kamalanga, Odisha with a total capacity of 1,050MW (comprising of three 350MW units). Currently, 90% of this capacity is secured through long- and medium-term PPAs with PTC India, GRIDCO, and Bihar State Power Holding Co.
Gas	Vemagiri	388	The Vemagiri power plant was GMR's inaugural power facility. GMR Vemagiri Power Generation (GVPGL) operates a 388MW natural gas-fired combined cycle power plant in Rajahmundry, Andhra Pradesh. In recent years, the plant has been inactive due to shortage of gas. However, ongoing efforts and discussions with the government aim to explore potential solutions for resuming operations.
	Rajahmundry	768	GMR Rajahmundry Energy (GREL) operates a 768MW (comprising of two 384MW units) combined cycle gas-based power plant in Rajahmundry, Andhra Pradesh. The plant is currently facing challenges due to a scarcity of gas. However, ongoing efforts and discussions with the government aim to explore potential solutions for resuming operations.
Hydro	Bajoli Holi	180	GMR Bajoli Holi Hydropower (GBHHPL) has successfully commissioned the 180MW Bajoli Holi Hydro Electric Plant located on the Ravi River in Himachal Pradesh. This project is a notable enhancement to GUIPL's renewable energy portfolio. 100% of the capacity is committed under long-term PPAs with DIAL and UPPCL with any surplus power generated, available for sale in the open market. GBHHPL has also signed a Connectivity Agreement with HP Power Transmission Corporation and a Long-Term Access Agreement with Power Grid Corporation of India to facilitate power evacuation outside Himachal Pradesh.
Renewable Energy	Solar and Wind projects	~29	GMR is rapidly foraying into the renewable energy sector with ~26MW of solar capacity and two wind plants with a combined capacity of 3.4MW.
	Total	**3,015**	

Source: Company, Emkay Research; Note: 350MW coal capacity (4th unit at Kamalanga) and 1,425MW hydro power plants (900MW Upper Karnali, 300MW Alaknanda and 225MW Talong Londa) are under development

Exhibit 49: Board of directors and key management personnel

Name of Director/ KMP	Designation	Profile
GM Rao	Chairman	GM Rao, founder and chairman of GMR Group, holds a mechanical engineering degree from Andhra University. He received honorary doctorates from York University (2011), Andhra University (2010), and Jawaharlal Nehru Technological University (2005). Rao has served on the board of Vysya Bank and was non-executive chairman of ING Vysya Bank (2002-2006). He focuses on high-level business decisions, external relations, leadership development, and organizational growth.
Srinivas Bommidala	Managing Director	He is the MD of the company and Jt MD of GMR Airports Limited. He has been on the board of GMR Infra since 1996. Currently, he oversees the Group's Energy & International Airport businesses. As a MD of GMR Power Corp, he oversaw the establishment of world's largest diesel engine power plant in Chennai and the implementation of a combined cycle gas turbine project in Andhra Pradesh. He became the first MD of the Delhi Airport modernization project, transitioning it to a PPP.
Grandhi Kiran Kumar	Group Director	He is a commerce graduate and the younger son of GM Rao, he has been on the board of GMR Infrastructure since 1999. He led the development of Hyderabad International Airport and the modernization of Delhi International Airport. Previously overseeing Finance, Shared Services, Highways, Construction, and SEZs, he now manages Group Finance, Corporate Strategic Planning, and the Sports business.
BVN Rao	Group Director	He has been with the GMR Group since 1989. A graduate in Electrical Engineering from Andhra University, he previously worked in industrial finance at Andhra Bank and served on the board of Vysya Bank for 8 years. He has held various senior roles within the group and is currently Business Chairman for Transportation and Urban Infrastructure, overseeing Transportation, SEZ, and EPC businesses. He is also a Director on the GMR Group Holding Board and several group subsidiary boards.
G Subba Rao	Executive Director	He is a Chartered Accountant with over 44 years of experience and has been with the GMR Group for more than 28 years. He currently manages two key freight corridor projects worth ~Rs56bn and oversees Group Corporate Communication. Notably, he played a crucial role in securing the Delhi Airport bid and was CEO of GMR Hydro Business where he achieved financial closure for the GMR Bajoli Holi Hydro Power project. Before joining GMR, he was associated with Andhra Bank and ING Vysya Bank.
Madhav B Terdal	Executive Director	He holds postgraduate degrees in Economics, CAIIB, and DBM from the Indian Institute of Bankers. With over 35 years of experience, including roles at Canara Bank and Vysya Bank, he has been with the company for over 19 years. He is also Executive Director of GMR Infrastructure. Previously, as Group CFO, he led transactions exceeding USD6bn, including the company's maiden IPO, FCCB worth USD300mn, and three QIPs totalling USD1.6bn.
Vissa Siva Kameswari	Independent Director	She is a Chartered Accountant with over 24 years of experience in management consultancy and the industry. Her background includes roles at RPG Enterprises, Mercer Consulting, KPMG Advisory, Ashok Leyland, and A.F. Fergusons & Co. She currently serves as an Independent Director for several prominent organizations, including companies within the GMR Group.
Suman Naresh Sabnani	Independent Director	She is a commerce graduate from Mumbai University with a Post-Graduate Certificate in Business Management from XLRI Jamshedpur and has over 30 years of managerial experience. She has held senior roles at HSBC Bank, including a global position reporting to HSBC UK, where she managed Third Party Risk Officers across Asia Pacific, UK, Europe, and North America ensuring comprehensive and accurate risk management.
Emandi Sankara Rao	Independent Director	He has a B.Tech in Electrical & Electronics from Andhra University, M.Tech in Systems Reliability from IIT-Kharagpur, PGDBA from Pondicherry Central University, and a Ph.D. from IIT-Bombay in Project Finance & Management. He has 30 years of top management experience, including 9 years in board roles, and has worked with institutions like IFCI, IIFCL, and IDFC, where he was MD & CEO of IFCI. He is also a Chartered Engineer and has spent over 25 years in social responsibility, focusing on healthcare, education, and mentoring startups.
Suresh Narang	Independent Director	He holds a Bachelor's degree in Arts from the University of Rajasthan. With over 40 years in banking, he began his career with the State Bank of India in 1977 and joined Deutsche Bank AG in 1987. He led Deutsche Bank's Global Markets business in Jakarta from 1994 and was Chief Country Officer in Indonesia from 2001 until his retirement in 2014. Afterward, he served on the board of Mandiri Securities until 2018. Now based in Singapore, Narang supports startups in the shared experience sector and has expertise in capital markets, investment banking, and corporate governance.
Satyanarayana Beela	Independent Director	He holds a Bachelor's in Mechanical Engineering, Master's in Machine Design and Industrial Engineering, M.Tech. in Computer Science, and a Ph.D. from IIT Delhi. With 45 years of experience in industry, academia, and administration, he has supervised 25 PhD theses, published 125 research articles and four books, and completed major projects funded by AICTE and DST. He has also served in notable administrative roles, including as Vice Chancellor of Andhra University.
Fareed Ahmed	Independent Director	He holds a Master's in Agricultural Economics and a Ph.D. in Management from Andhra University. He has over 34 years of experience in the banking sector, advancing from Agricultural Field Officer to Branch Head, Zonal Head, and General Manager at Corporation Bank. He also served as Executive Director at Punjab & Sind Bank for over 3.5 years.
Shantanu Ghosh	Independent Director	He holds a Master's in Economics from Delhi University and a Post-Graduate Diploma in International Trade Management from the Indian Institute of Foreign Trade. With over 40 years of experience, he has held senior positions in Indian and international banks, including as Country Head of Retail Banking at ING Vysya Bank. He was also part of the startup teams at Bank Sohar and Bank Nizwa in Oman. His expertise spans financial leadership, business strategy, consulting, HRD, IT, and investment banking. He currently advises on digital transformation.
Suresh Bagrodia	Chief Financial Officer	He is a Chartered Accountant with two decades of experience in telecommunication and infrastructure industry and has been with the GMR group for over 6 years.

Source: Company, Emkay Research

Auditors: Walker Chandiok & Co LLP is the statutory auditors, while the various SPVs have their own auditors.

Key risks

- Execution risk wrt to generation projects (hydrological risks associated with run-of-the-river power generation), delays and overhangs, cost overruns, and not being able to register timely capacities or sales.
- Policy and regulatory risk wrt decline in GoI push and support to the sector, and consequent policy paralysis. Regulatory risks include disputes with DISCOMs, etc.
- Resource-related risks wrt shortage of domestic coal, spike in e-auction coal prices, etc. Technology risks, natural calamities, operational failures, etc.
- Heavy competition in future PPA bidding and lower tariffs under PPAs which can make projects and SPVs sub-economic.
- Counter-party credit risk due to deterioration in credit profile of offtakers and delay in receipts from DISCOMs.
- Extension of loans and advances to group companies/increase in exposure to group companies; and adverse outcome from disputes.

GMR Power & Urban Infra: Consolidated Financials and Valuations

Profit & Loss

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	**55,157**	**44,890**	**54,027**	**54,445**	**53,345**
Revenue growth (%)	34.5	(18.6)	20.4	0.8	(2.0)
EBITDA	**4,564**	**10,834**	**24,315**	**23,898**	**21,993**
EBITDA growth (%)	(12.0)	137.4	124.4	(1.7)	(8.0)
Depreciation & Amortization	1,492	3,055	5,328	5,202	4,946
EBIT	**3,072**	**7,780**	**18,987**	**18,696**	**17,047**
EBIT growth (%)	(21.3)	153.2	144.1	(1.5)	(8.8)
Other operating income	0	0	0	0	0
Other income	3,308	3,295	1,652	2,468	3,265
Financial expense	13,501	14,794	11,981	9,757	9,107
PBT	**(7,120)**	**(3,720)**	**8,657**	**11,407**	**11,204**
Extraordinary items	0	0	0	0	0
Taxes	927	336	447	560	550
Minority interest	(436)	(244)	327	340	333
Income from JV/Associates	7,415	(1,549)	(58)	19	91
Reported PAT	**11,828**	**(1,030)**	**21,496**	**10,325**	**10,211**
PAT growth (%)	0.0	(108.7)	0.0	(52.0)	(1.1)
Adjusted PAT	**1,696**	**(3,605)**	**7,903**	**10,325**	**10,211**
Diluted EPS (Rs)	**2.8**	**(6.0)**	**11.1**	**14.4**	**14.3**
Diluted EPS growth (%)	0.0	(312.6)	0.0	30.6	(1.1)
DPS (Rs)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Dividend payout (%)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
EBITDA margin (%)	8.3	24.1	45.0	43.9	41.2
EBIT margin (%)	5.6	17.3	35.1	34.3	32.0
Effective tax rate (%)	(155.3)	(78.3)	162.2	4.9	4.9
NOPLAT (pre-IndAS)	**7,844**	**13,867**	**(11,803)**	**17,777**	**16,210**
Shares outstanding (mn)	603.6	603.6	714.8	714.8	714.8

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	3,018	3,018	3,574	3,574	3,574
Reserves & Surplus	(29,232)	(32,190)	11,554	22,219	32,763
Net worth	**(26,214)**	**(29,172)**	**15,128**	**25,793**	**36,338**
Minority interests	(1,201)	(651)	(323)	17	350
Deferred tax liability (net)	0	443	443	443	443
Total debt	**82,157**	**138,756**	**101,290**	**94,301**	**88,312**
Total liabilities & equity	**54,743**	**109,376**	**116,537**	**120,554**	**125,443**
Net tangible fixed assets	8,216	82,138	50,666	46,450	42,159
Net intangible assets	20,669	24,244	24,244	24,244	24,244
Net ROU assets	235	2,995	2,995	2,995	2,995
Capital WIP	0	3,578	1,716	1,716	1,716
Goodwill	0	0	0	0	0
Investments [JV/Associates]	31,633	15,603	17,888	21,384	25,018
Cash & equivalents	**11,209**	**9,189**	**11,661**	**12,686**	**14,796**
Current assets (ex-cash)	46,063	56,941	61,118	61,415	61,616
Current Liab. & Prov.	63,283	85,311	53,749	50,336	47,100
NWC (ex-cash)	**(17,220)**	**(28,370)**	**7,368**	**11,079**	**14,516**
Total assets	**54,743**	**109,376**	**116,537**	**120,554**	**125,443**
Net debt	71,118	131,938	91,628	83,714	75,721
Capital employed	54,743	109,376	116,537	120,554	125,443
Invested capital	**11,901**	**81,006**	**85,273**	**84,767**	**83,913**
BVPS (Rs)	(43.4)	(48.3)	21.2	36.1	50.8
Net Debt/Equity (x)	(2.7)	(4.5)	6.1	3.2	2.1
Net Debt/EBITDA (x)	15.6	12.2	3.8	3.5	3.4
Interest coverage (x)	2.1	1.3	0.6	0.5	0.4
RoCE (%)	**9.3**	**13.5**	**18.3**	**17.9**	**16.5**

Source: Company, Emkay Research

Cash flows

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	(7,120)	(3,720)	8,657	11,407	11,204
Others (non-cash items)	(24,672)	(6,912)	(15,464)	(2,487)	(3,355)
Taxes paid	(937)	(46)	(447)	(560)	(550)
Change in NWC	10,600	6,951	(34,750)	(3,776)	(3,473)
Operating cash flow	**12,303**	**16,903**	**(11,082)**	**19,362**	**17,770**
Capital expenditure	707	(397)	12,870	(986)	(655)
Acquisition of business	0	0	0	0	0
Interest & dividend income	1,479	1,164	1,652	2,468	3,265
Investing cash flow	**31,472**	**(7,895)**	**40,895**	**(1,690)**	**(669)**
Equity raised/(repaid)	0	0	22,477	0	0
Debt raised/(repaid)	(27,548)	(3,005)	(37,466)	(6,989)	(5,989)
Payment of lease liabilities	(63)	(125)	(125)	(125)	(125)
Interest paid	(10,849)	(10,233)	(11,981)	(9,757)	(9,107)
Dividend paid (incl tax)	0	0	0	0	0
Others	0	0	0	0	0
Financing cash flow	**(38,397)**	**(13,237)**	**(26,971)**	**(16,746)**	**(15,096)**
Net chg in Cash	5,637	(4,221)	2,843	926	2,004
OCF	12,303	16,903	(11,082)	19,362	17,770
Adj. OCF (w/o NWC chg.)	1,703	9,952	23,668	23,137	21,242
FCFF	13,010	16,506	1,788	18,376	17,115
FCFE	989	2,876	(8,541)	11,086	11,272
OCF/EBITDA (%)	269.5	156.0	(45.6)	81.0	80.8
FCFE/PAT (%)	8.4	(279.2)	(39.7)	107.4	110.4
FCFF/NOPLAT (%)	**165.9**	**119.0**	**(15.1)**	**103.4**	**105.6**

Source: Company, Emkay Research

Valuations and key Ratios

Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	52.9	(24.9)	13.4	10.3	10.4
P/CE(x)	28.1	(163.0)	8.0	6.8	7.0
P/B (x)	(3.4)	(3.1)	7.0	4.1	2.9
EV/Sales (x)	2.9	4.9	3.7	3.5	3.4
EV/EBITDA (x)	35.2	20.5	8.1	7.9	8.3
EV/EBIT(x)	52.3	28.5	10.4	10.2	10.7
EV/IC (x)	13.5	2.7	2.3	2.2	2.2
FCFF yield (%)	8.1	7.4	0.9	9.7	9.4
FCFE yield (%)	1.1	3.2	(8.0)	10.4	10.6
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
DuPont-RoE split					
Net profit margin (%)	3.1	(8.0)	14.6	19.0	19.1
Total asset turnover (x)	0.8	0.5	0.5	0.5	0.4
Assets/Equity (x)	(2.9)	(3.0)	(16.1)	5.8	4.0
RoE (%)	**(7.1)**	**13.0**	**(112.5)**	**50.5**	**32.9**
DuPont-RoIC					
NOPLAT margin (%)	14.2	30.9	(21.8)	32.7	30.4
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
RoIC (%)	**56.4**	**29.9**	**(14.2)**	**20.9**	**19.2**
Operating metrics					
Core NWC days	(114.0)	(230.7)	49.8	74.3	99.3
Total NWC days	**(114.0)**	**(230.7)**	**49.8**	**74.3**	**99.3**
Fixed asset turnover	1.9	0.6	0.6	0.7	0.7
Opex-to-revenue (%)	19.5	42.6	11.1	11.1	11.5

Source: Company, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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