Equity Research

July 7, 2023

BSE Sensex: 65786

ICICI Securities Limited is the author and distributor of this report

Infrastructure

Initiating coverage

Target price: Rs48

Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	58.9	58.9	59.0
Institutional investors	30.7	30.8	32.5
MFs and other	1.0	1.3	1.2
Banks & FIs	0.0	0.0	1.2
Insurance	1.7	1.7	1.7
FIIs	28.0	27.8	28.4
Others	10.4	10.3	8.5

Source: BSE

ESG disclosure score

Year	2020	2021	Chg
ESG score	**39.0**	**39.2**	**0.2**
Environment	16.3	16.8	0.5
Social	15.7	15.7	0.0
Governance	84.9	84.9	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

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INDIA

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GMR Airports Infrastructure — ADD

Pieces of Jigsaw finally falling into place — Rs45

"Until you spread your wings, you'll have no idea how far you can fly" – Napoleon

Traffic on airports is back, corporate structure has been simplified, a strategic investor has checked in and new terminals are being commissioned – tell-tale signs of improving earnings trajectory and increasing investor interest in airports business. There was a drastic decline in air traffic during Covid. Now, airports of GMR are teeming with activity – growth is back to normal. The simplification of corporate structure has been undertaken in a series of steps: a) Hived of non-airports business – it has emerged as a pure-play company in airports, b) bringing strategic investor in the listed entity (in the works) and c) reducing its corporate debt by selling non-core assets. It has been roller coaster ride for airports business, but worth its while. Moreover, it is all set to capture the tariff growth by commissioning new terminals at Delhi and Hyderabad. We expect GMR Airports Infra's EBITDA to grow 2x over the next 24 months. Initiating coverage on the stock with ADD rating and SoTP-based target price of Rs48.

- **A new simplified corporate structure; strategic investor checks in:** A series of steps are being undertaken to reduce the complexity of corporate structure. In the last three years, GMR Infrastructure Ltd demerged its airport business (GMR Airport Infrastructure Ltd (GAIL)), reduced corporate debt and has sold 49% stake in its airport business to a strategic investor (Groupe ADP). Now it is looking to merge its subsidiary GMR Airports Ltd (GAL) and GMR Airports Infrastructure Ltd., thus, bringing the strategic investor into the listed entity. We believe could potentially reduce investor concerns on the complexity of the business.
- **Owns two of the largest airports in India:** GMR is the largest airport operator in the country with stake in two of the largest airports, Delhi and Hyderabad, with concession life of 45 years. Delhi and Hyderabad handled 66mn pax and 21mn pax, respectively, (market share of ~27%) in FY23. Also, it has just commenced operations in Goa - a lucrative destination.
- **Traffic growth back to normal:** Combined traffic at Delhi and Hyderabad airports was 87mn pax in FY23 (-2% of FY20). 2MFY24 traffic was at 16mn pax (+17% of 2MFY20). Domestic traffic is +20% pre-Covid levels while international traffic is at pre-Covid levels.
- **Attractive business model; significant option value in non-aero business:** Airport businesses are monopoly, as a result, they are regulated in nature. However, non-aero charges and land side development provide attractive upside for the airport operator. Moreover, we expect the strategic investor to aid in unleash the non-aero revenue potential. Note that, ab initio, it started to operate non-aero business in JV with partners at its airport. It is looking to explore lucrative non-aero businesses on its own, thereby, creating huge optionality for minority shareholders (est.~Rs10/share).
- **New terminals on the anvil:** GMR has been expanding its terminals in Delhi and Hyderabad with capex of Rs170bn – increasing the regulated asset base by 2x. The terminal capacity is likely to increase to 100mn pax in Delhi and 34mn pax in Hyderabad by FY24E-end. We believe the impact of these will likely be seen H2FY24 onwards.
- **Initiate coverage with ADD:** We expect airport traffic CAGR at 12% over FY25-FY26E. We value the business on an SoTP basis at Rs48 per share. Note that Delhi and Hyderabad contribute Rs18 and Rs6.3 per share to the target price.

Market Cap	Rs270bn/US$3.3bn
Reuters/Bloomberg	GMRI.BO/GMRI IN
Shares Outstanding (mn)	6,035.9
52-week Range (Rs)	47/34
Free Float (%)	41.0
FII (%)	28.4
Daily Volume (US$/'000)	5,553
Absolute Return 3m (%)	1.7
Absolute Return 12m (%)	30.9
Sensex Return 3m (%)	10.7
Sensex Return 12m (%)	24.0

Year to Mar	FY23	FY24E	FY25E	FY26E
Revenue (Rs bn)	66.9	85.0	102.3	114.3
EBITDA (Rs bn)	21.1	33.3	41.0	47.9
Adjusted NI (Rs bn)	-0.4	-3.7	-2.6	2.6
DEPS (Rs)	-0.0	-0.4	-0.2	0.2
% Chg YoY	-88.6	757.0	-31.6	-200.4
P/E (x)	-1,090.3	-127.2	-185.9	185.2
CEPS (Rs)	0.9	1.2	1.5	2.0
EV/E (x)	13.7	9.3	7.4	6.2
RoCE (%)	2.9	4.9	5.5	4.2
RoE (%)	5.5	129.8	87.5	81.7

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Outlook and valuation

GMR Airports is the largest private airport operator in the country. It owns two out of five busiest airports in India and operates another three resulting in a market share of ~27% (calculated using GMR air traffic with respect to all India air traffic).

The company has taken a series of positive steps to strengthen and reduce the complexity of the business structure. Groupe ADP's presence as a strategic partner may help in leveraging its international relationships and expertise to improve retail and duty free business.

Also, the improving footfall at the airports, a renewed focussed retail strategy and monetisation of the land parcels are likely to yield into higher value for minority shareholders. It is also looking to increase its stake in non-aero businesses, thus, increasing the value creation for minority shareholders. A similar strategy is also being followed for city side development.

We value the business on an SoTP basis and initiate coverage with an **ADD** rating and TP of **Rs48**. Note that value creation at the airports are sum of a) aero business (regulated and subsidised from non-aero), b) non-aero business (unregulated; the specialists pays rent or revenue share to the airports c) city side development. Further, it also owns stake in various non-aero business with JV.

GMR Airports is undergoing merger with its subsidiary and it will be issuing a) new equity shares of 3410mn to the new shareholders of listed entity and b) optionally convertible preference shares which upon conversion will translate into 2605m shares c) existing FCCB will get converted into 1112mn equity shares. The current number of outstanding shares are 6035mn. Post-merger, there will be 10.6bn of equity shares and after OCRPS conversion there will be 13.2bn equity shares. Total shares upon conversion will be 13.2bn. For our forecast period, we are publishing merged financials and have taken the number of fully diluted equity shares as 13.2bn.

The methodology for valuing the business is a) DCF for airport business of Delhi, Hyderabad and Goa, b) land at the airports being valued on recent transactions value, c) DCF for Delhi Duty Free business at Rs216bn or 47x FY25E earnings. After arriving at the value, we are subtracting the FCCB (worth Rs29bn) which is not accounted in DCF's.

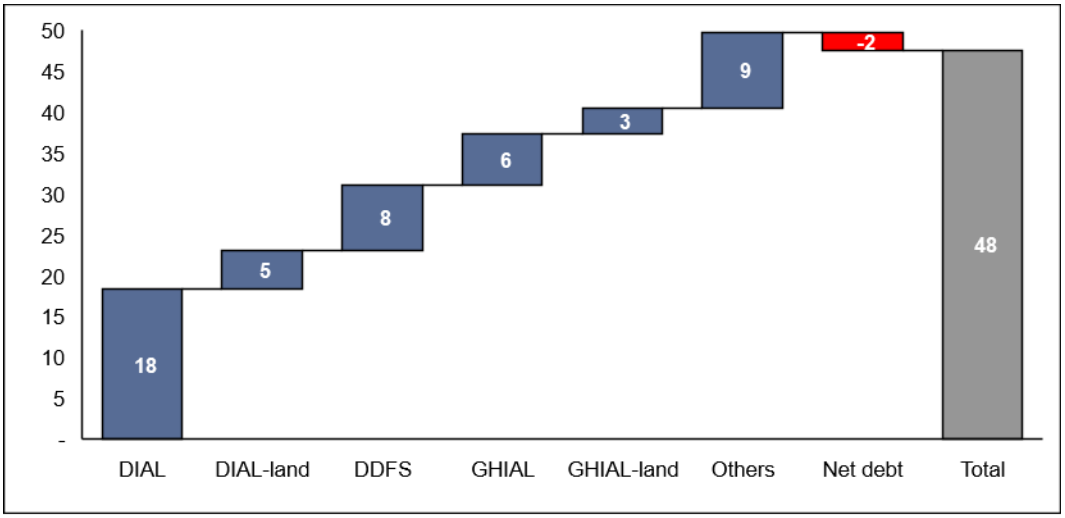
Risks: 1) Muted traffic growth, 2) delay in improvement in non-aero revenue and 3) rise in competition for Delhi airport.

Table 1: SoTP-based target price

Business	Methodology	Equity value of assets (Rs bn)	GMRI's stake(%)	Stake adj. value (Rs bn)	Value per Share
DIAL	DCF (CoE of 10.5%)	377	64%	241	18.3
DIAL - unused land	Valuing at Rs1.3bn/acre	98	64%	63	4.8
Delhi Duty Free	DCF (CoE of 11.5%)	216	49%	106	8.0
GHIAL	DCF (CoE of 10.5%)	131	63%	83	6.3
GHIAL - unused land	Valuing at Rs55mn/acre	64	63%	40	3.1
Goa	DCF (CoE of 10.5%)	19	100%	19	1.4
Goa - unused land	Valuing at Rs150mn/acre	35	100%	35	2.6
Medan	12.5x EV/EBITDA (on pre-covid EBITDA)	35	49%	17	1.3
DIAl - JV's - non aero business	35xFY25PE	14	100%	14	1.1
GHIAL - JV's - non aero business	35xFY25PE	33	100%	33	2.5
Earn - outs from Groupe ADP		6	100%	6	0.4
GIL net debt - corporate and others				(29)	(2.2)
Airports business		**1,027**		**627**	**48**

Source: I-Sec research

Chart 1: SoTP Target Price Breakup (Rs per share)



Source: I-Sec research

Table 2: GMR Airports' valuation comparison with global listed peers

Airport	Country	P/E		EV/EBITDA	
		FY24E	FY25E	FY24E	FY25E
Airports of Thailand	Asia	36.6	30.0	22.9	19.0
Auckland International Airport	New Zealand	41.7	37.4	21.5	18.7
Fraport AG Frankfurt Airport	Europe	10.4	9.3	10.8	10.0
ADP	Europe	20.8	18.5	10.1	9.5
Flughafen Wien AG	Europe	22.3	20.0	10.3	9.5
Aena SME SA	Europe	14.6	13.4	9.6	9.0
Airport Corporation of Vietnam	Asia	17.7	15.6	9.8	8.9
Flughafen Zurich AG-REG	Europe	18.7	16.6	9.7	8.8
Beijing Capital International Airport	Asia	17.4	12.6	8.1	7.0
Tav Havalimanlari Holding AS	Africa	17.1	10.4	5.8	6.9
GMR Airports	**India**	**-**	**-**	**9.3**	**7.4**

Source: I-Sec research, Bloomberg

Investment rationale

- GMR owns five airports in India – three operational airports and two under construction airports at Bhogapuram (Andhra Pradesh) and Nagpur (Maharashtra). It had won Delhi airport in a competitive bidding with 46% revenue share, Hyderabad at 4% revenue share, Goa at 37% revenue share, Nagpur at 14.5% revenue share and Bhogapuram at Rs303/pax.
- Air traffic is back and India is travelling again with vengeance. Note that pre – covid traffic CAGR was at 12% over FY10-FY19. Airport traffic was the most impacted due to covid. Now, we believe, airport traffic is ready to take-off.
- Airport is an attractive business with a stable regulatory regime. It is monopolistic in nature and therefore, partly regulated. The business also has an unlimited upside potential from non–aero business and city side development.
- Further, GMR Airports owns 230 acres (103 acre pending) of prime land in Delhi and 1,467 acres (1,167 acres pending) of land parcel in Hyderabad and 232 acres in Goa. These are non–regulated businesses. Airports being the hub of economic development provide an attractive opportunity for monetisation of these lands in medium term.
- Traffic at airports is back and is all set for 12% CAGR (pre-covid level) over the next few years. Traffic remains the key driver for the non-aero revenue and monetisation value of the city side development of the airport.
- GMR has been expanding its Delhi and Hyderabad airports in the last four years. The terminals are set to be commissioned in FY24E. We expect this to push aero revenues in the near term.
- We note major capex phase is over now and the focus will shift to non–aero businesses and monetisation and development of city side developments.
- Groupe ADP and GMR are working on improving the non–aero revenues. Also, GMR is looking to bring all concessionaire businesses at the platform level, thus, bringing efficiency. This is likely to create value for minority shareholders in the medium term.
- We expect traffic to grow at 12% CAGR, resulting in revenue and EBITDA CAGR of 20% and 32%, respectively, over FY23-FY26E; the business is likely to be profitable in FY26E, in our view.
- We initiate coverage on GMR Airports Infrastructure Ltd with an SoTP-based target price of **Rs48** per share. We have valued the airport business on DCF basis. Delhi, Hyderabad and Goa airports contribute ~Rs26/share to the target price.

GMR Airports – a journey to pure play private airport operator

GMR Airports Infrastructure (erstwhile GMR Infra) is the largest private airport operator in India. It operates five airports in India – three operational airports and one under construction at Bhogapuram (Andhra Pradesh) and Nagpur (Maharashtra) airport awaiting signing of concession agreement. It also has stakes in two international airports – Crete, Greece and Medan, Philippines. It started its journey as a part of GMR Infrastructure – with a varied interest in energy, roads etc. Over the last few years, the company's structure has been simplified. Its airport business has been retained in the company while other businesses have been hived off in a separate listed entity (GMR Power and Urban Infra Ltd). It is in the process of further simplifying the company structure.

FY01- FY06: Won bids to develop two major airports

- GMR Infrastructure submitted bids to develop a greenfield Hyderabad airport in Dec, 2000 in a consortium with Malaysia Airports Holdings.
- It was selected as the winning bidder in May, 2001 and entered into concession agreements in Dec, '04.
- It was selected as the winning bidder for the development of existing Delhi airports in a consortium with Fraport AG Frankfurt Airport Services amidst stiff competition with a revenue share of 46% in Jan, '06.
- It signed agreements and took over operations of Delhi airport in May, '06.

FY08 – FY12: Commissioned two new assets

- It operationalised Hyderabad airport in Mar, '08 with 12mn pax capacity and a capital expenditure of Rs21bn.
- Airport Economic Regulatory Authority (AERA), the independent airport regulator, was formed in May, '09 to regulate the airports business.
- It operationalised new terminals and new runways at Delhi airport with a capital expenditure of Rs128bn in FY10.
- It raised Rs14.8bn from private equity funds (Macquarie SBI and Standard Chartered) in FY11.

FY13- FY17: Greenfield airport concession won + Delhi airport tariff order

- Tariff orders for Delhi airport were issued in Apr, '12 (first control period).
- It won concession of Goa airport in 2016.
- Strong traffic growth at both the airports – Delhi and Hyderabad.
- Tariff orders for Hyderabad airport introduced.

FY18-FY20

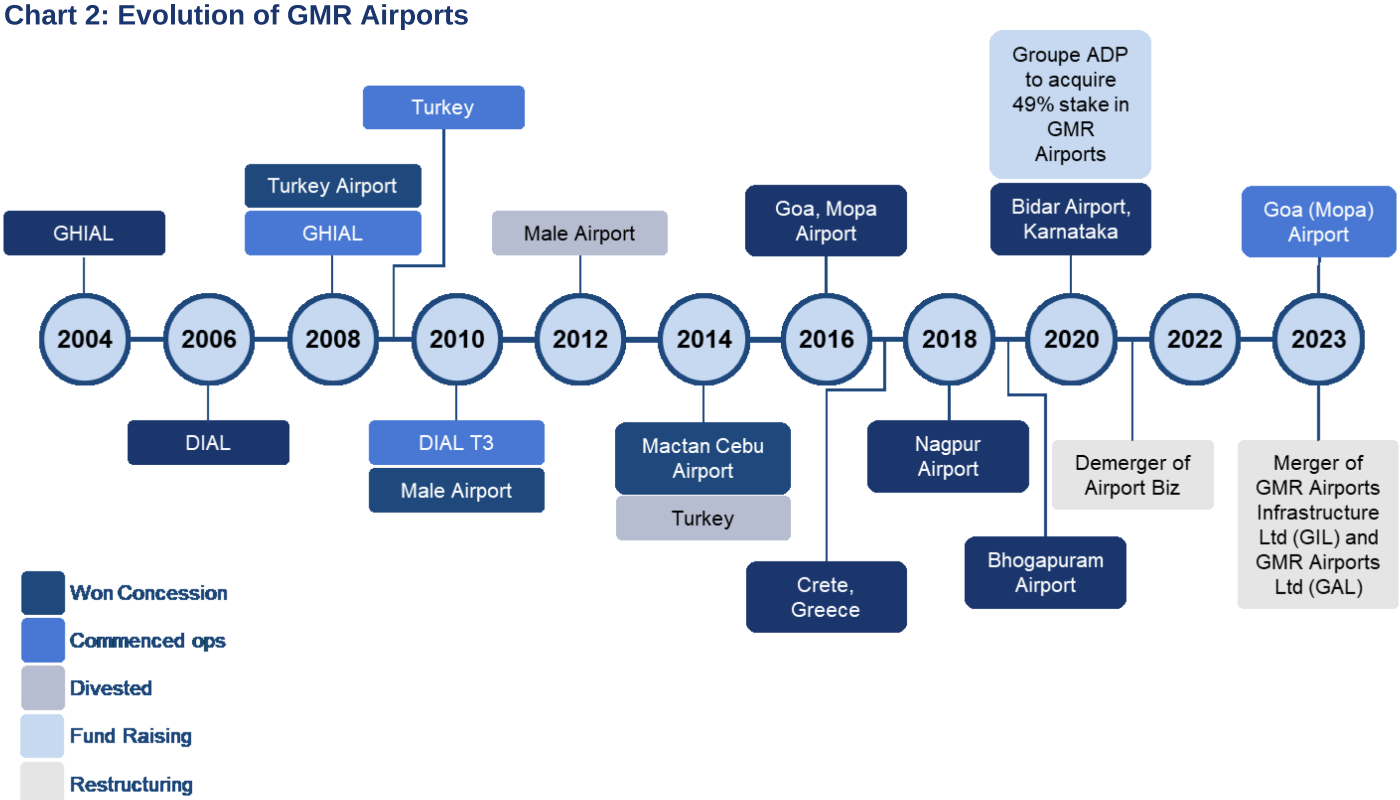
- It won concession to build Nagpur and Bhogapuram airports in 2017. However, Nagpur could not be awarded due to legal issues.
- GMR Infrastructure entered into an agreement to sell 49% stake in GMR Airports, a subsidiary, to Groupe ADP in Feb, '20 at an equity value of ~Rs100bn.

- It received Rs49bn from Groupe ADP in Feb, '20 – the first tranche and paid its corporate debt.

FY21-FY23: A pure play operator

- Air traffic nosedived in FY21 due to covid but bounced back in FY23. GMR declared force majeure and stopped the payment of Rs13bn.
- It received Rs49bn from Groupe ADP in Jun, '20 – the second tranche.
- GMR Infrastructure hived off its non–airport business into a separate listed entity, thus, emerging as a pure play operator and renamed the new entity as GMR Airports Infrastructure.
- It divested its entire 40% stake in Cebu airport for a total consideration of Rs13bn.
- It has acquired 49% stake in Medan airport and took charge of the operations from July'22 after Ankasa Pura II (original state owned operator) invited global bids and after winning the bid, GMR entered into a 49:51 JV with Ankasa Pura II.
- It also operationalized Goa (Mopa) airport with a capacity of 4.4m pax in FY23, and has also raised Rs6.3bn from NIIF through compulsory convertible debentures for the Goa airport.
- It has entered into an agreement to merge GMR Airports and the listed entity (GMR Airports Infrastructure Ltd.) to reduce the complexity of corporate structure and reduce the burden of corporate debt.

Chart 2: Evolution of GMR Airports

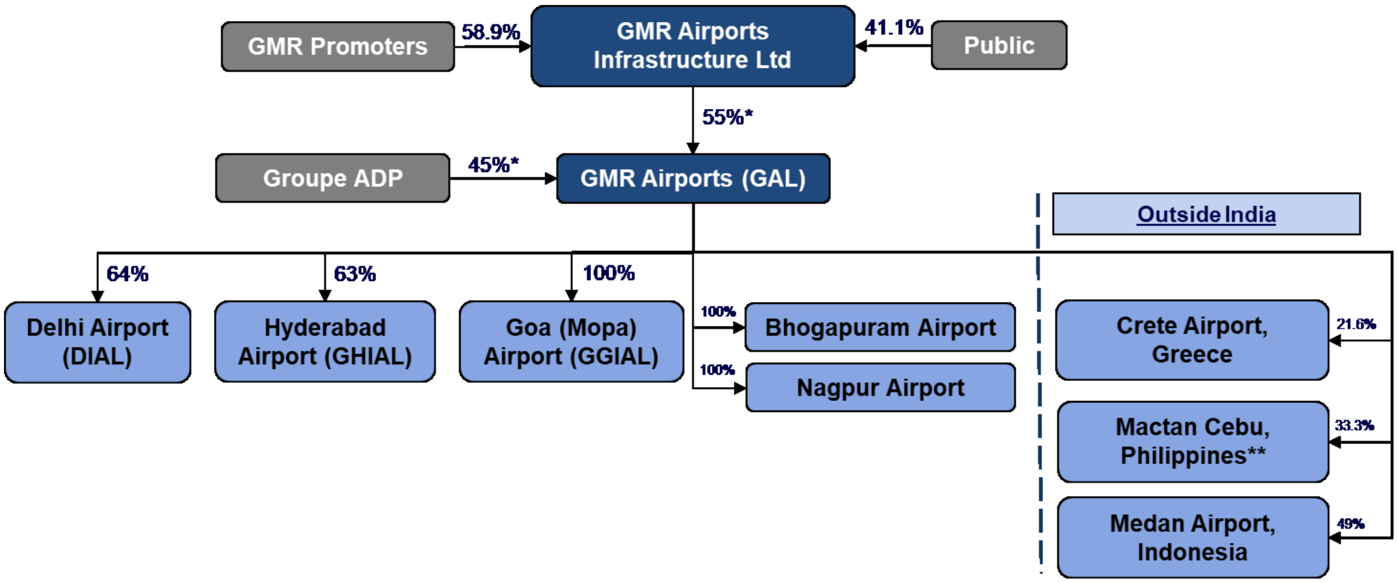


Source: Company, ISEC Research

Current company structure

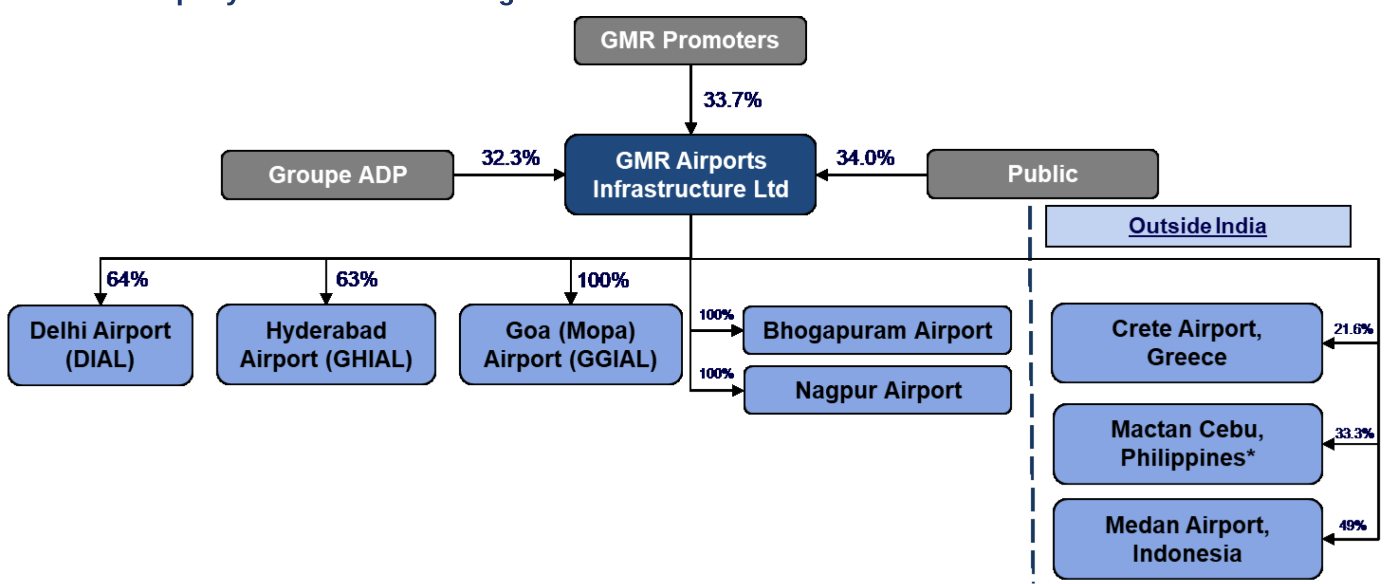
With a portfolio of 9 airports, GMR Airports Infrastructure Limited is one of India's largest airport operators. The business has undergone some restructuring over the last couple of years that has reduced the complexity in the business structure.

Chart 3: Current company structure of GMR Airports



Source: Company, ISEC Research
*Accounts for Rs5.5bn of earn outs granted by Groupe ADP
**Divested in Dec'22

Chart 4: Company structure after merger with GAL



Source: Company, ISEC Research
*Divested in Dec'22

GMR Airports Infra- a simplified structure in the works with strategic investor checking in

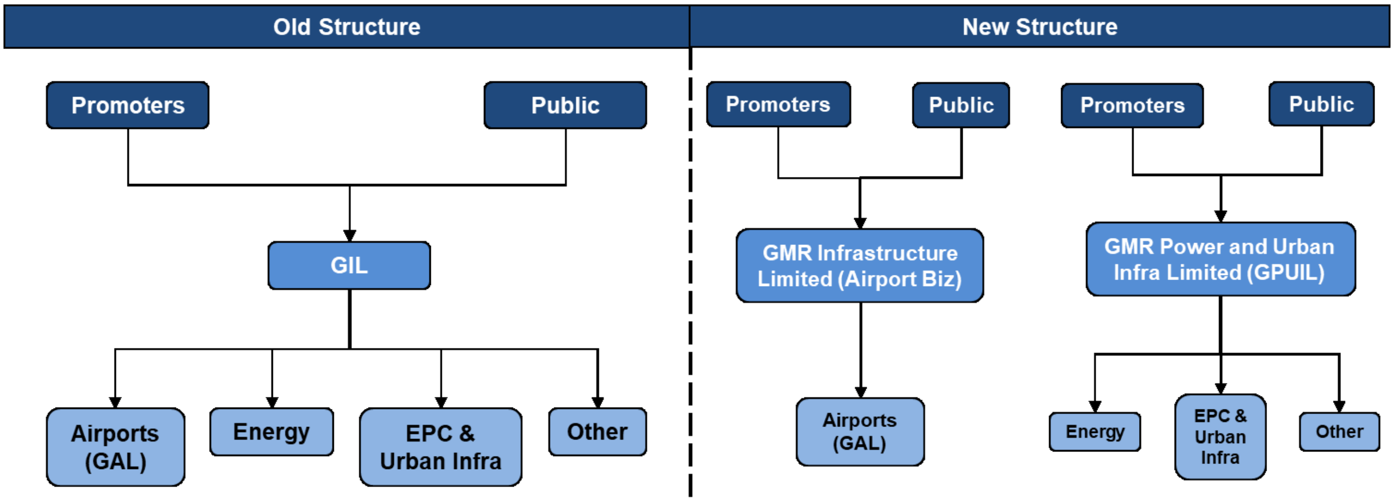
- GMR Infrastructure has taken several steps to reduce the complexity of company structure and emerge as a pure play. This, in our view, could potentially increase investor interest.
- It sold off 50% stake in Airport Business, a subsidiary, to Groupe ADP in two tranches and pared corporate debt.
- It hived off non – aero business into a separate entity through a vertical demerger. As a result, GMR Airports Infrastructure emerged as a pure play with 50% stake in GMR Airports. It sold off stake in Cebu Airport and used the proceeds to reduce the debt.
- Now, it is looking to merge GMR Airports to GMR Airports Infrastructure and issuing shares of listed entity to Groupe ADP.
- Groupe ADP, thereby, will emerge as a promoter with 33% stake in the listed entity. It will also hold optional convertible preference share worth additional 17% stake.
- Groupe ADP is also subscribing to FCCB worth Rs29bn which will be used to repay corporate debt. Note that coupon on FCCB is not payable in interim which aids the cash flow.
- We expect Groupe ADP to replicate its retail strategy at the airports to grow the non-aero business. Groupe ADP grew spending per pax at its Paris airport from €9.8 in 2006 to €19.7 in 2019 (vs a flat SPP at other European Airports).

GMR Infrastructure Limited has undergone a series of transformations over the last 2 years. It hived off its non-airport business into a separate entity, thus, emerging as a pure airport play. However, the company’s structure continued to be complex with the listed entity holding 51% stake in an airport holding company (strategic investor – Groupe ADP was holding the remaining stake). As a result, this was leading to low investor interest in the listed entity. The new structure – in the works – is expected to reduce investors’ concern on complexity and may be a much simplified version. Note that the listed entity will now hold stake directly in underlying airport businesses.

Simplification version 1.0: Demerger of airport business from GMR Infrastructure

GMR Infra demerged its airport business from its main business in FY22. This led to the formation of two entities – GMR Airports Infrastructure Limited and GMR Power and Urban Infrastructure Limited.

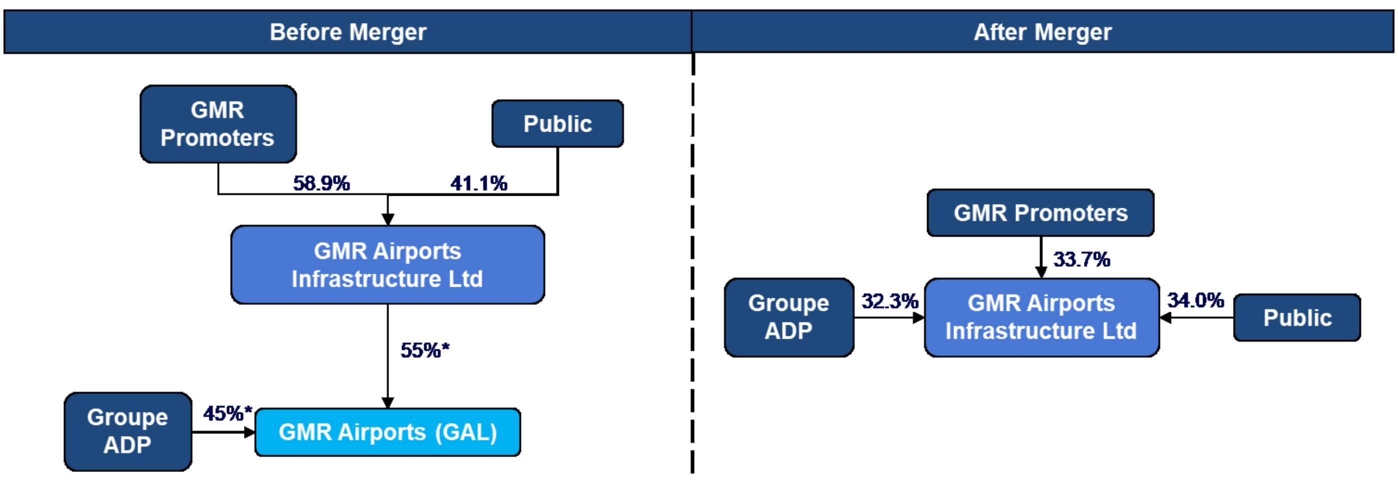
Chart 5: Demerged structure



Simplification version 2.0 (in the works): GMR Airports Ltd is merging with GMR Airports Infrastructure Ltd

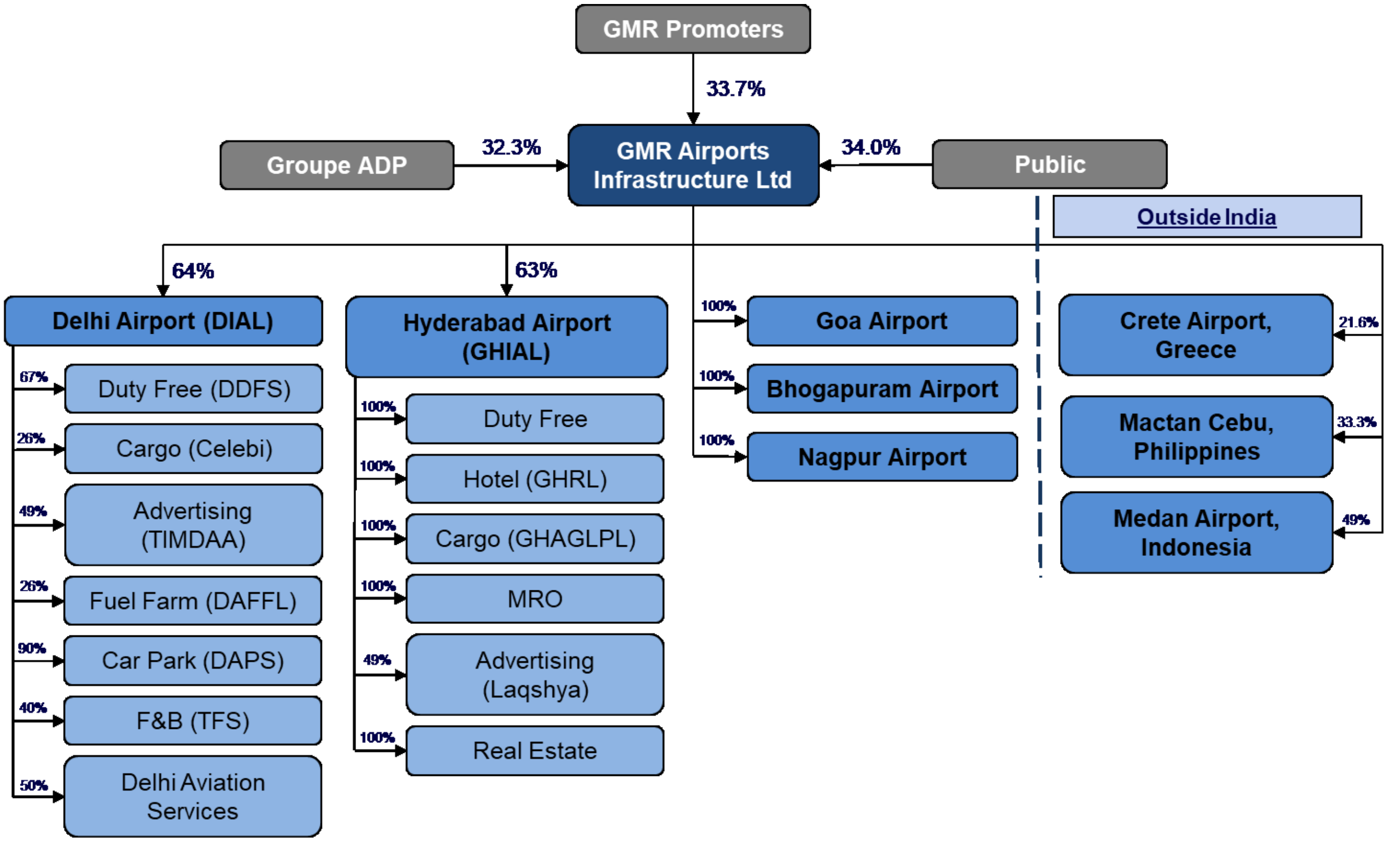
This is being done to reduce the complexity and streamline the business structure. Note that Groupe ADP will hold the shares of the renewed listed entity post the merger. This is awaiting approval and is likely to conclude in FY24.

Chart 6: Demerged structure



Source: Company, ISEC Research
*Accounts for Rs5.5bn of earn outs granted by Groupe ADP

Chart 7: GMR Airports Ltd's structure post the merger



Source: Company, ISEC Research
*Divested in Dec'22

A new entity with a strong strategic investor at the driving seat

- GMR Airports Ltd will be merged into GMR Airports Infrastructure Ltd. The merger is expected to conclude in FY24. Therefore, GMR Airports Ltd. will no longer exist; and the listed entity will be GMR Airports Infrastructure Ltd.

Existing shareholding structure

- Note that the initial number of shares of GMR Airports Infrastructure is 6,035mn (GMR Enterprises is holding 49% while balance is with public).
- Also, an existing FCCB issued to KIA is yet to be converted.

New shareholding structure

- Post-merger, Groupe ADP will be issued a) new shares of the listed entity – GMR Airports Infrastructure Ltd of 3.4bn, b) optionally convertible redeemable preference shares of 2.6bn.
- Also, the FCCB issued to KIA may be converted into equity with the conclusion of the merger. These FCCBs are deep in money (conversion price = Rs18 per share). The number of shares to be issued will be 1.1bn.
- Therefore, GMR Enterprises will hold 33.7% and Groupe ADP will hold 32.3%.
- OCRPS has been issued to ensure majority shareholding of the company lies with the existing promoter of GMR Airports Infrastructure.
- Groupe ADP will also subscribe to FCCB worth Rs29bn which will be used to retire the corporate debt.
- We do not expect FCCBs to be converted in the medium term. In the event of conversion, there will be an additional 5% dilution.

Table 3: Existing shareholding to new shareholding structure post-merger

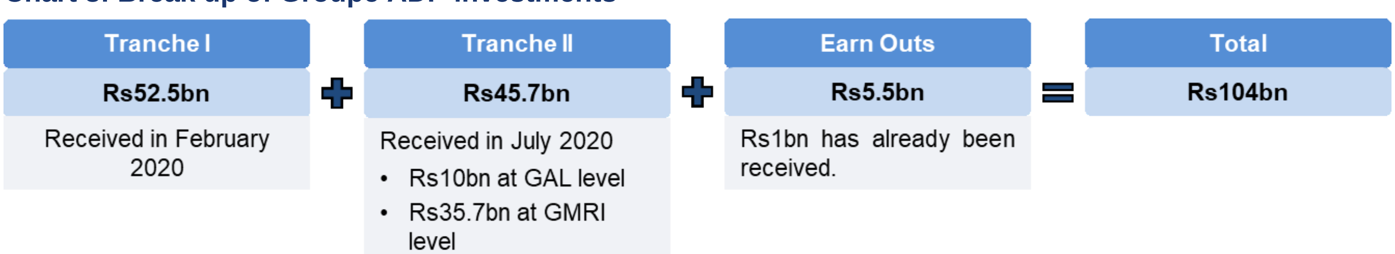
no. of shares in mn	**Existing**	**Post-Merger**	**Post OCRPS Conversion**
GMR Enterprises	3,561	3,561	3,561
Public	2,474	2,474	2,474
Groupe ADP		3,410	3,410
KIA		1,112	1,112
OCRPS -Groupe ADP			2,605
Total	**6,035**	**10,557**	**13,162**

Source: Company, ISEC Research

Partnership with Groupe ADP

GMR Airports has partnered with Groupe ADP (Aéroports de Paris SA), one of the largest airport groups based in Paris (Europe), operating 28 international airports. The deal included an investment of Rs104bn by Groupe ADP for 45% stake at a post money valuation of Rs230bn.

Chart 8: Break up of Groupe ADP investments

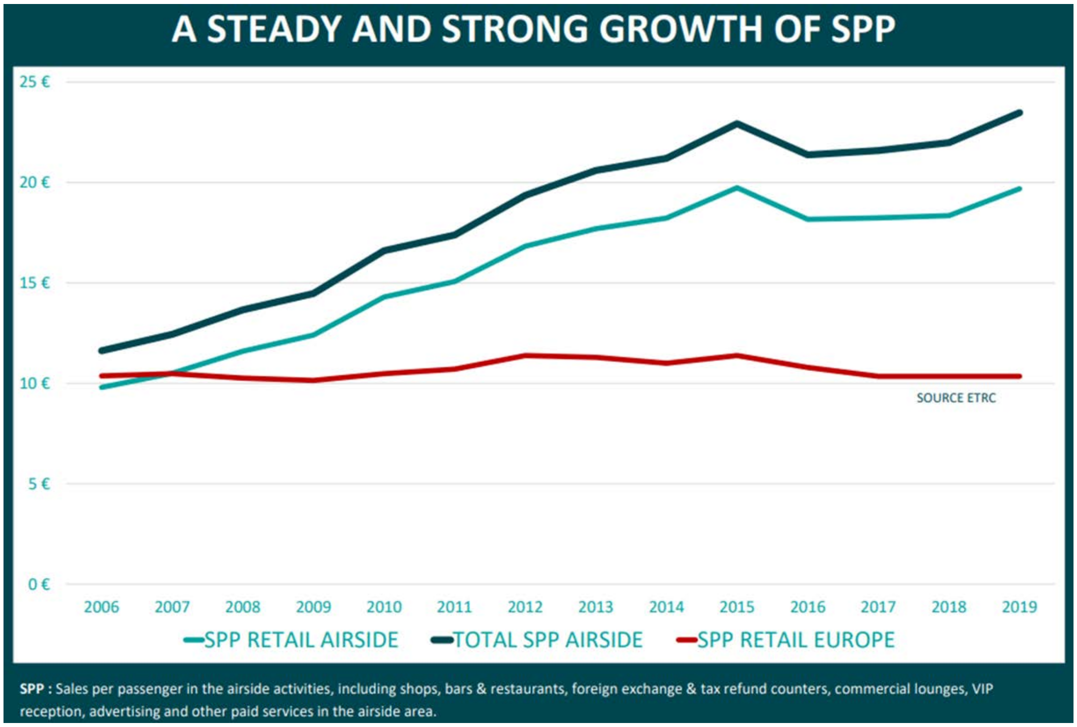


Source: Company, ISEC Research

Rationale for partnership

- GMR Airports can take advantage of Groupe ADP's aeronautical and non-aeronautical expertise.
- Leveraging Groupe ADP's existing global relationships.
- Working jointly on bids for upcoming opportunities in India and Asia.

Chart 9: Groupe ADP has successfully grown SPPs faster than competition and could help GMR replicate the same in India



Source: Groupe ADP, ISEC Research

Groupe ADP - retail strategy is core of its operations

Groupe ADP has been able to grow non–aero revenue per passenger for its Paris airports through marketing and positioning around the ultimate shopping, and dining experience and designing retail spaces conceived as Paris shop windows.

Operating under a single business model, with two main components: Retail subsidiaries, 50% owned by Aéroports de Paris and 50% owned by a specialist in the business, as well as brands with a strong identity operating outlets.

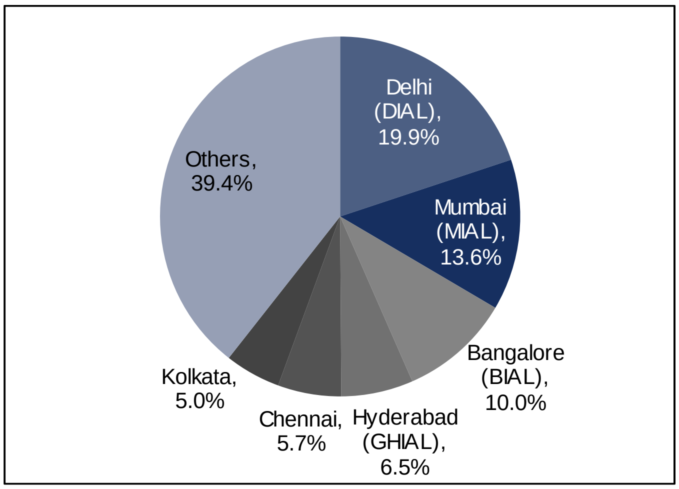
This strategy has enabled Aéroports de Paris to benefit from an increase in revenue in airside shops in relation to the number of departing passengers, from €9.8 in 2006 to €19.7 in 2019.

Groupe ADP has embarked on a new retail and hospitality concept and has trademarked in 2023. We expect Groupe ADP to use its experience and expertise to aid GMR in accelerating its non–aero and city side development businesses.

India's largest private airport operator

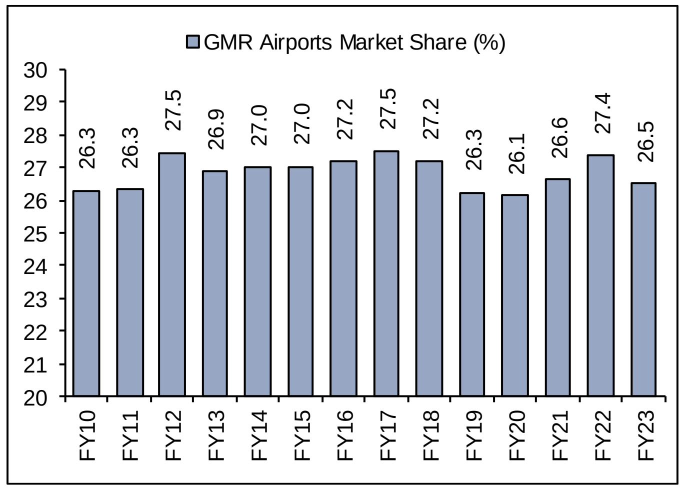
GMR Airports Infra owns five airports in India – three operational airports, Bhogapuram which is under development and Nagpur which is awaiting signing of concession agreement. It had won the Delhi airport in a competitive bidding with 46% revenue share, Hyderabad at 4% revenue share and Goa at 37% revenue share (with 2-year moratorium period). GMR Airports Infra is India's largest private airport operator with a market share of ~46% in CY23.

Chart 10: Delhi and Hyderabad airports are among the top 5 airports in India when it comes to traffic



Source: Industry, ISEC Research

Chart 11: GMR Airports Infra has maintained an average market share of ~27% since FY10. Going ahead, new airports are likely to improve market share

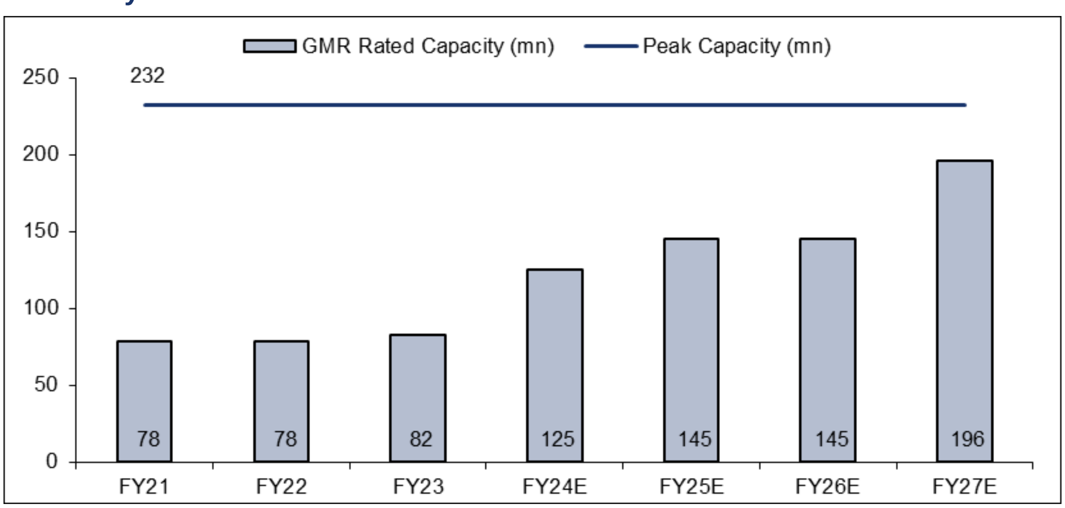


Source: Industry, ISEC Research
Note: Only DIAL and GHIAL have been considered

Coming out of major capex phase

We note major capex phase for GMR Airports Infra is over now and the focus is likely to shift to monetisation and development of non–aero businesses. We believe this may create value for minority shareholders in the medium term.

Chart 12: GMR Airports Infra is likely to come out of major capex phase over the next few years

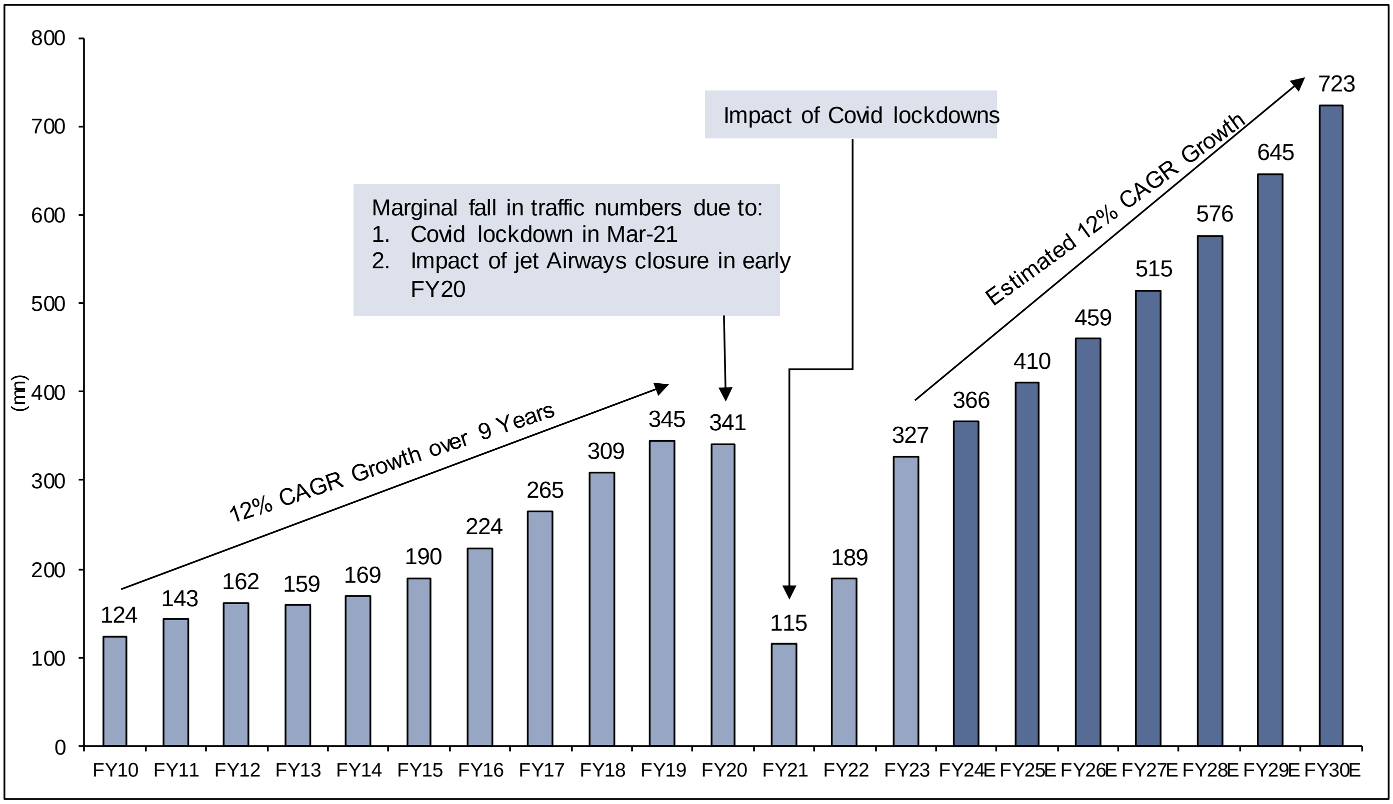


Source: Industry, ICICI Securities
Note: Only Delhi, Hyderabad and Goa (Mopa) Airports are considered

Passenger traffic back with vengeance

Air traffic numbers have returned to pre-covid levels as domestic and international travel restrictions have been lifted and are all set to grow at 12% CAGR over the next couple of years. GMR has been expanding Delhi and Hyderabad airports over the last four years and the new/upgraded terminals are set to be commissioned in FY24E. We expect this to lead to an increase in airport revenues.

Chart 13: Air traffic is likely at 12% CAGR



Source: Industry, ICICI Securities

Stability from regulated aero revenues with unlimited upside potential from non-aero business

Airport businesses are monopolistic in nature because of which they are partly regulated. Regulated revenues with a guaranteed 16% RoE and a stable regulatory regime make airports an attractive business. Additionally, non-aero business and city side development, which are unregulated, provide unlimited upside. It must be noted that a part of non-aero revenue is used to subsidise airport tariffs. Non–aero revenues comprise duty-free sales, food & beverage, parking etc.

Non-aero business- creating platforms to capture the know-how and synergies

GMR Airports Infra has set up a subsidiary and a joint venture for specific non-aero services by tying up with renowned brands. For instance, DIAL has tied up with Aer Reanta for duty-free business and GHIAL has tied up with Laqshya for advertising.

Now, GMR is planning to consolidate all non-aero businesses under one umbrella to reduce complexity, leverage economies of scale and increase its offerings. In our view, this is likely to create significant value for minority shareholders.

Commercial Property Development (CPD) – laundry list of monetisation

GMR Airports Infra has a large area of ~2,000 acres pending for monetisation, 65% of which is at Delhi, Hyderabad and Goa airports, and may be lucrative given the high passenger volumes it caters to.

Table 4: Nearly 2,000 acres of land in pipeline for monetisation

Acres	**Delhi DIAL**	**Hyderabad GHIAL**	**Goa GGIAL**	**Bhogapuram Vizag**	**Nagpur**	**Crete International Airport, Greece**	**TOTAL**
Total	230	1,467	232	294	247	10	**2,480**
Monetized	127	300					**427**
Pending	**103**	**1,167**	**232**	**294**	**247**	**10**	**2,053**

Source: Company, ISEC Research

Airport revenue model

- Airports are monopoly business; hence they are regulated. Airports generally earned revenue through – aero, non-aero and city side development.
- Aero charges are regulated but non-airports charges & city side development are unregulated, thereby providing attractive upside.
- Indian airports are regulated through hybrid-till, which means regulated aero revenues are subsidised through 30% of non-aero revenues.
- Aero revenues comprise of landing and parking fees, passenger charges, cargo charges, etc.
- Non-aero revenues primarily consist of duty free business, retail business, car parking and food and beverages etc.
- City side development can include hotels, commercial offices, theme parks, warehousing, hospitals, schools, etc.
- AERA is the regulatory authority for the airports and regulates the airports under hybrid till. All the airports are being governed by regulation framed by AERA but also governed by its concession agreement.
- Concession agreement for Delhi allows cargo handling charges to be classified under non-aero charges. It also provides a floor for the aero charges which is base airport charges in 2008 + 10%, there by capping the downside.
- Note that the airport business – because of the attractive nature – has attracted interest from Sovereign Wealth Fund and Pension Funds. GMR has seen interest from NIIF, McQuarrie, GIC to acquire stake in their airports business.

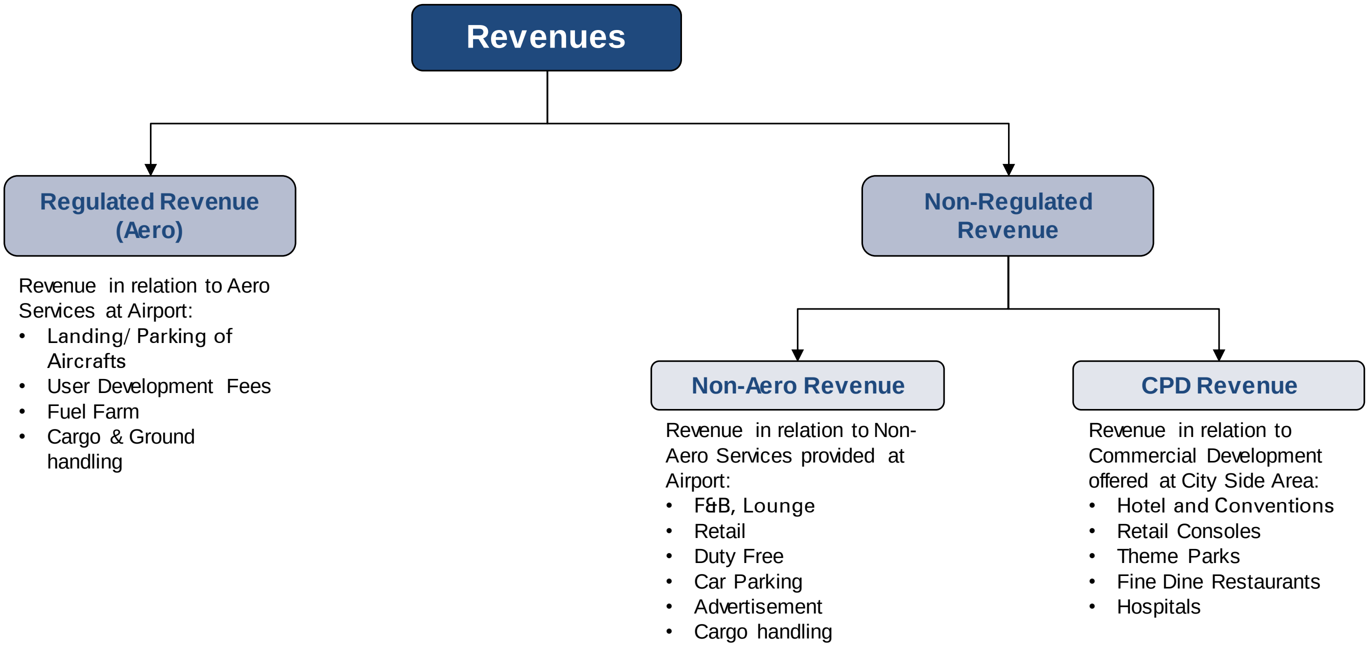
Airports earn both regulated and unregulated revenues. Regulated revenues are earned from charging airlines and passengers. RoE for regulated revenues is fixed at **~16%.**

Non-regulated revenues include non-aero revenues and revenues from commercial development and monetisation of land. Non-aero revenues are primarily earned from the sales made to passengers and advertisements. Hence, these revenues depend on the number of passengers. Non-aero revenues are used to subsidise aero revenues under hybrid till model which is discussed later in the report.

Types of revenues

- <u>Aero revenues:</u> These are regulated revenues generated from passenger charges, terminal rentals, passenger charges, aircraft landing and parking charges, etc.
- <u>Non-aero revenues:</u> They are primarily generated from retail concessions, duty free, car parking, real estate income, food and beverage, etc.
- <u>CPD revenue:</u> It is generated from land monetisation.

Chart 14: Airport revenues



Source: ISEC Research

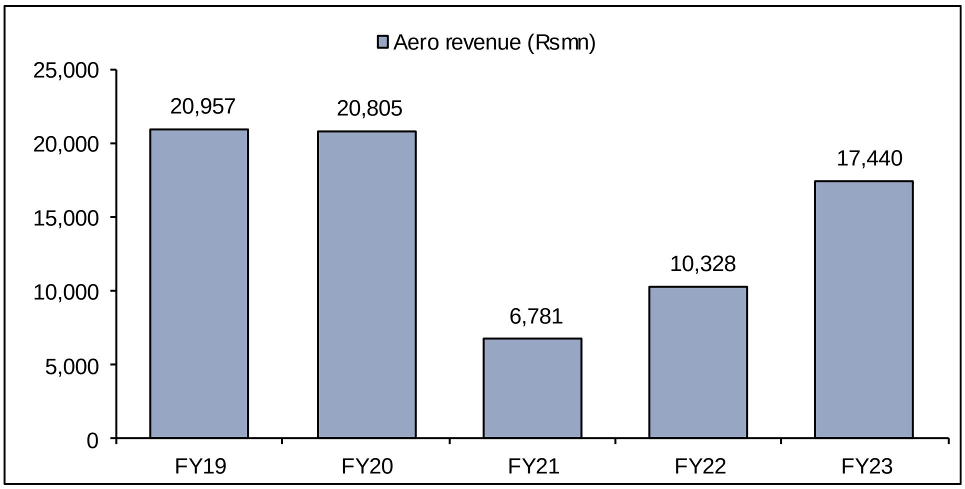
Aero revenues

Aero revenues are generated from primary services, that is aero-related services, which include landing and parking charges levied on aircraft, user development fees levied on departing passengers, fuel farm charges and cargo & handling charges.

To ensure private airports do not overcharge their customers while making sure that the airport makes money, AERA comes out with a tariff order which is revised every 5 years.

Aero tariffs are calculated based on traffic assumptions. The actual numbers can defer due to a variety of reasons, hence, the regulator accounts for under and over recoveries through true-up mechanism. This can result in both upward and downward changes in aero revenues when control period changes.

Chart 15: GMR Airports Infra's aero revenues (only DIAL and GHIAL)



Source: Company, ISEC Research

Non-aero revenues

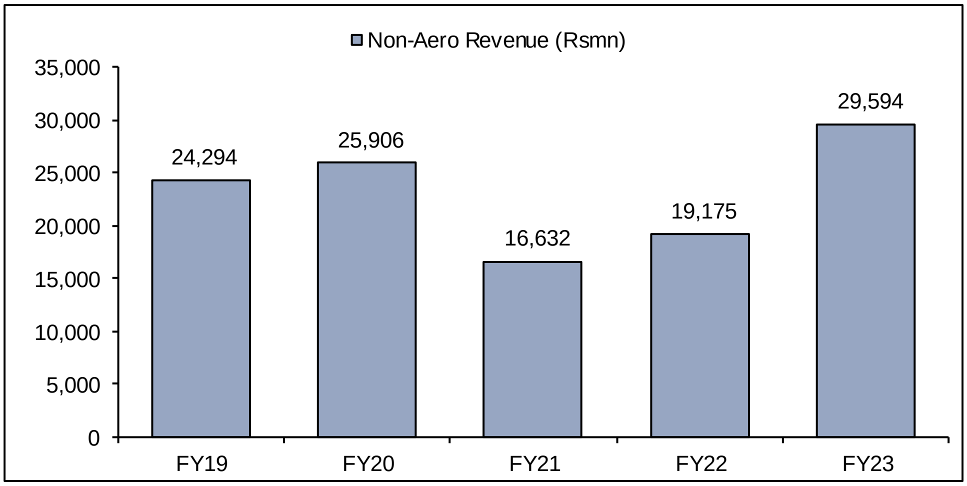
Non-aero revenues are the main drivers for airport revenue growth as aero revenues are regulated. Non-aero revenue has two main growth drivers:

- <u>Traffic growth:</u> Since non-aero revenues are generated from passenger expenditure, the higher the number of passengers, the higher the revenues.
- <u>Spend per passenger:</u> Increase in expenditure per passenger will likely support growth as well (provided traffic does not fall).

Under the hybrid till model, 30% of non-aero revenues are used to subsidise aero charges.

It should be noted that the constituents of non-aero revenues can differ from airport to airport. For example, cargo revenues are considered as non-aero revenues in DIAL because of which its value is included in the 30% aero subsidy.

Chart 16: GMR Airports Infra's non-aero revenues (DIAL and GHIAL only)



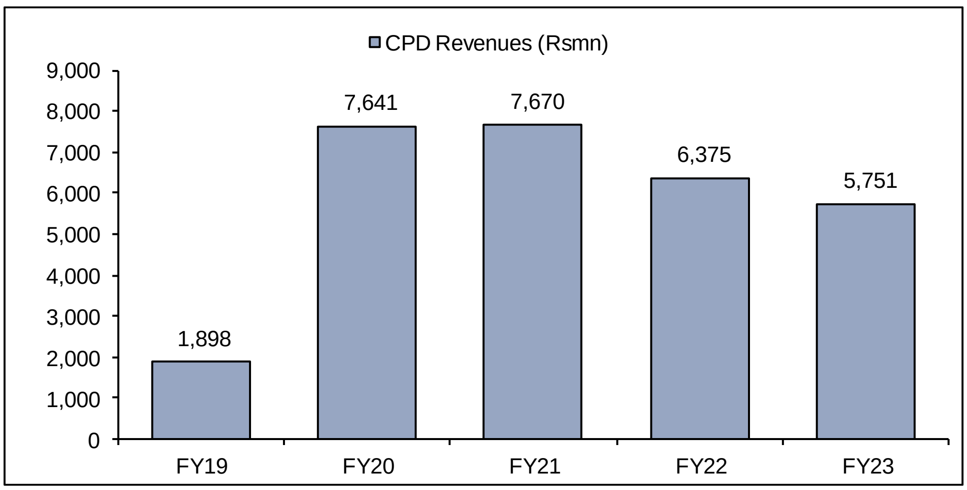
Source: Company, ISEC Research

Commercial property development (CPD) revenues

CPD revenues are generated by the airport operator from the commercial development at city side area on land around the airport.

Decline from FY20-FY23 is due to restructuring of Bharti Realty transaction. As per the revised terms, Bharti Phase 3 is to be undertaken in two phases: 1) Phase 1 of 2.73mn sqft and 2) phase 2 of 2.16mn sqft.

Chart 17: GMR Airports Infra- CPD revenues (DIAL and GHIAL only)



Source: Company, ISEC Research

Hybrid Till Model

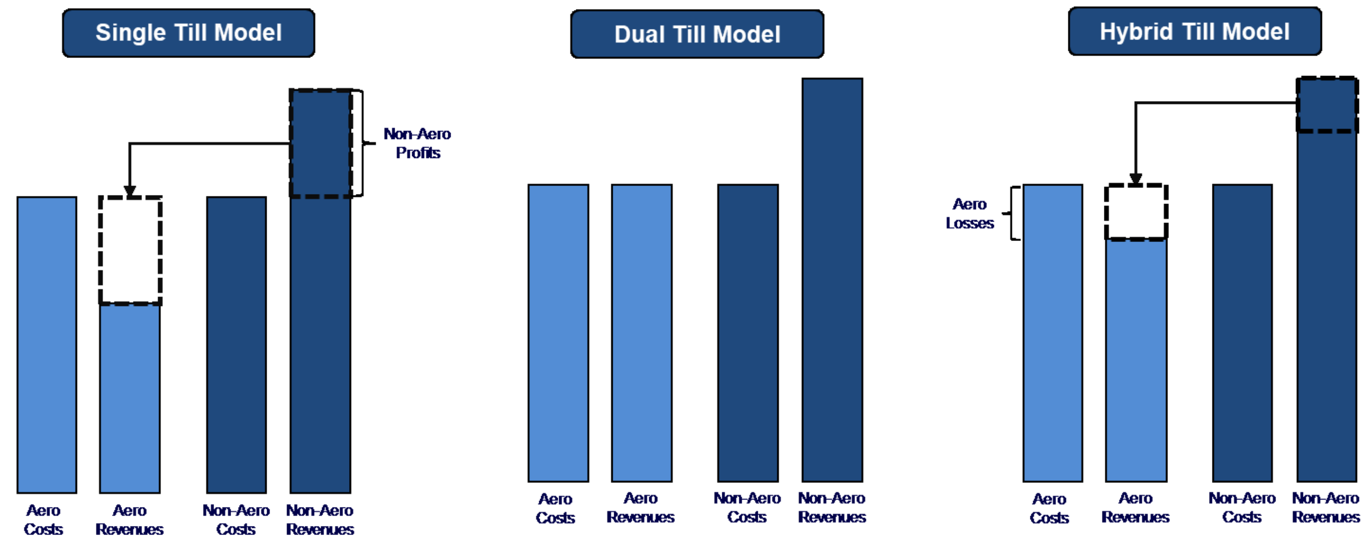
Governments across the globe have realised the merits of developing and running airports in partnership with private organisations. However, since airports are meant for public goods, the government has to ensure prices levied are regulated to make sure passengers do not have to pay a heavy price. This is where single, dual and hybrid till models come into picture. In India, hybrid till model has been adopted. The hybrid till revenue combines single till and dual till models. For a detailed comparison, please refer Table 5.

Table 5: Hybrid till model brings the best of both the worlds

	Single Till	Dual Till	Hybrid Till
Non-Aero Revenues	Considered when determining airport charges	Not considered when determining airport charges	Non-aero earnings are partially considered when determining airport charges
Non-Aero Profits	100% used to subsidise aero revenues	0% used to subsidise aero revenues	Partially used to subsidise aero revenues
Non-Aero Costs	Regulated	Costs of non-aero functions are to be deducted from non-aero revenues	Costs of non-aero functions are to be deducted from non-aero revenues
Aero Revenues	Regulated	Regulated	Regulated

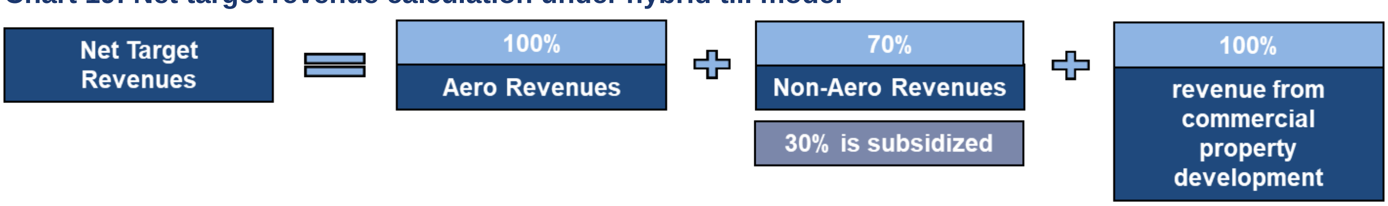
Source: I-SEC Research

Chart 18: Methodology of aero profits being used to subsidise aero costs under different models



Source: ISEC Research

Chart 19: Net target revenue calculation under hybrid till model



Source: ISEC Research

Aero revenue calculations

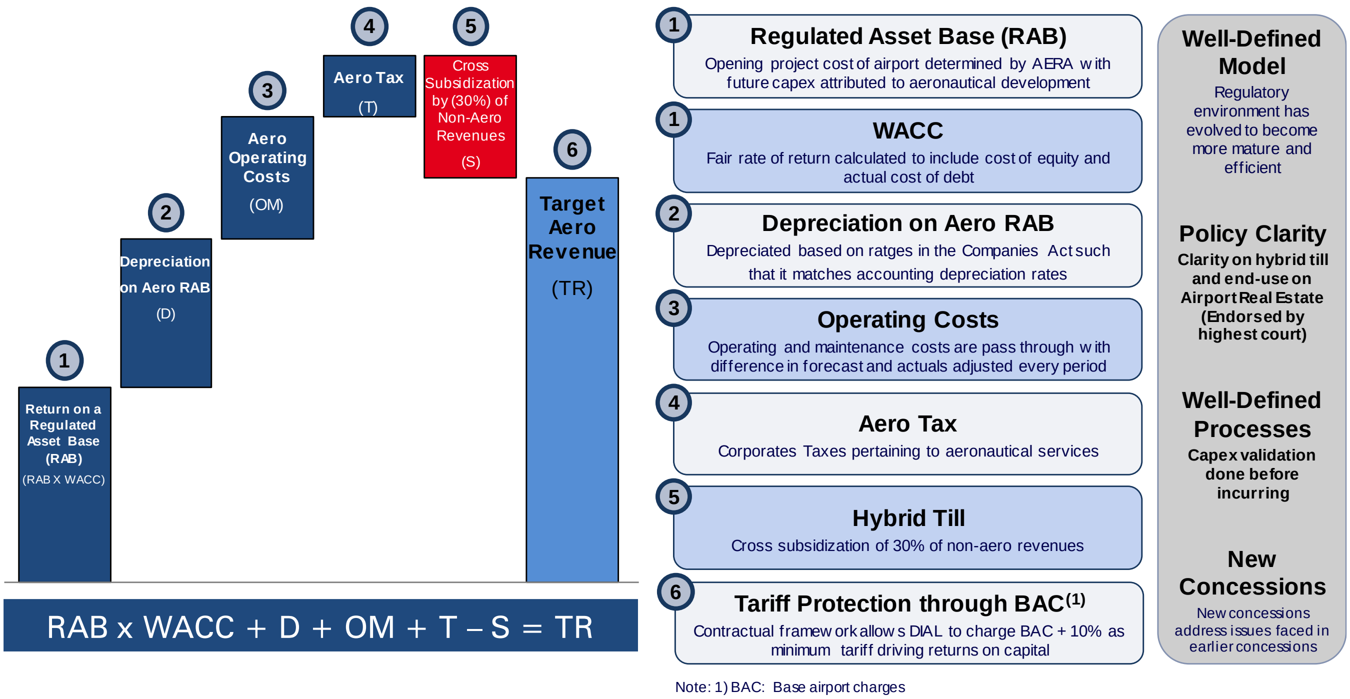
Aero revenues are regulated (~16% RoE) using one of the following two methodologies:

- Building block method
- Base airport charges

Building block method

The following formula is used to calculate gross aero revenues. The cost of equity considered while calculating WACC is ~**16%**.

Chart 20: Total aero revenue requirement calculation using building block method



Source: ISEC Research

Base airport charges (BAC)

- This is only applicable for Delhi as per concession agreement and was implemented from Dec, '18.
- Base charges for DIAL were calculated by increasing 2009 DIAL charges by 10%.
- Under this method, airports are entitled to maintain minimum aero charges. Aero tariffs are frozen under BAC, hence, gross revenue growth depends on increase in passengers, passenger mix and air traffic movement.
- Refer Annexure I for DIAL base charges.

GMR Airports Infra assets overview

- GMR Airports Infra owns 5 airports of which 2 are operational. It also owns stake in two international airports.
- It owns 64% stake in Delhi (30-year concession with option to extend by another 30 years) and 63% stake in Hyderabad (60-year concession). Delhi and Hyderabad are among the busiest airports in India. It owns 100% stake in Goa airports.
- Total pax capacity at its airports is 125m as of FY24E. It handled 87m pax in FY23 (vs 327m in FY23 for all the airports)
- It won Hyderabad airport in 2000. Note that Delhi Airport and Goa airports were won with revenue share of 46% and 37% respectively. All three airports are governed by hybrid till.
- Note that there is a floor for aero charges at Delhi Airport due to its concession agreement.
- Currently, non-aero business at Delhi Airport are being handled in Joint Ventures – where specialists are managing the show. However, with experience, GMR is looking to do entire non aero business on its own.
- Non aero business at Hyderabad Airport is being handled by GMR Airports itself.
- It can commercially exploit 1,467 acres at Hyderabad, 232 acres at Delhi and 230 acres at Goa airport. Out of which, 300 acres, 127 acres and NIL acres at Hyderabad, Delhi and Goa airports respectively have been monetised.

GMR Infrastructure's restructuring has led to the formation of GMR Airports Infra which is the only pure airport play in the country. Currently GIL and Groupe ADP own 51% and 49%, respectively, in GMR Airports Infra and will own 33.7% and 32.3%, respectively, after the merger. Its portfolio consists of 8 airports:

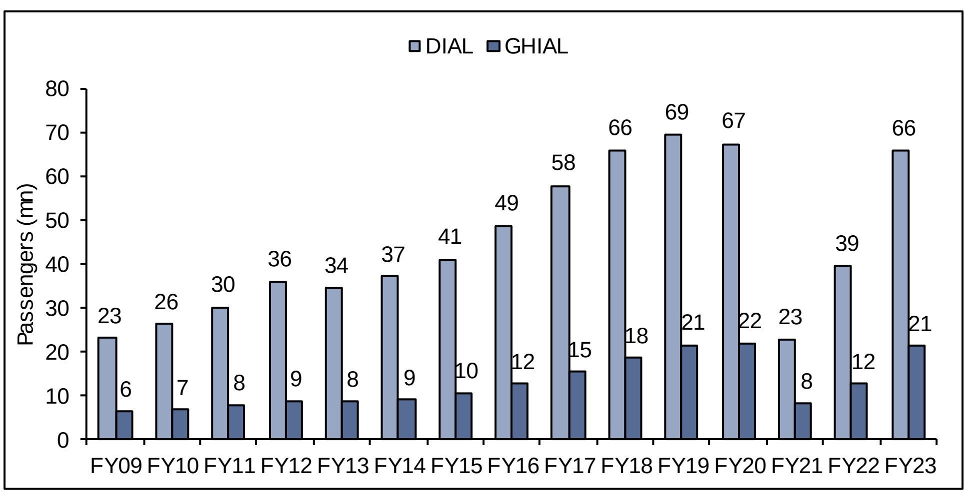
- Operational airports:
  - Domestic – DIAL, GHIAL and GGIAL
  - International – Mactan Cebu (Philippines) – through JV (has been divested but will be a technical service provider till CY26)
- Under-development airports
  - Domestic – Bhogapuram – financial closure is underway
  - International – Crete, Greece
- Nagpur Airport concession rights have been granted to GMR Airports Infra.

Table 6: GMR Airports Infra assets overview

Project	DOMESTIC					INTERNATIONAL		
	Delhi International (DIAL)	**Hyderabad (GHIAL)**	**Goa (GGIAL)**	**Bhogapuram, Vizag**	**Nagpur**	**Cebu Int Airport, Philippines**	**Crete International Airport, Greece**	**Medan International Airport, Indonesia**
Status	Operational	Operational	Greenfield Development	Greenfield Development	Brownfield development	Operational	Greenfield Development	Operational
GIL stake (%)	64%	63%	100%	100%	100%	Divested	21.6%	49%
Shareholding	AAI (26%), Fraport (10%),	Telangana Govt (13%), AAI (13%), MAHB (11%),					TERNA S.A.(32%), Greece Govt (46%),	Angkasa Pura II (51%)
Passenger annual capacity (FY24)	~100mn	~34mn	~8mn	~6mn	-	N.A.	~15mn*	~10mn
Rated capacity	119mn	80mn	33mn	24mn	30mn	N.A.	15mn	65mn
Period (years)	30+30 starting from 2006	60 starting from 2008	40+20	40+20	30+30	25	35	26
Revenue Share	46%	4%	37% (moratorium of 2 yrs)	Rs303/dom pax (moratorium of 10 years)	14.49%	N.A.	N.A.	19% on gross revenue + 2.5% of aero rev + US$207m over 8 years
Regulated Aero Revenues	Hybrid Till with BAC as floor	Hybrid Till	Hybrid Till	Hybrid Till	Hybrid Till	Dual Till	Dual Till	Dual Till
Commercial Property Development	230 acres (127 acres monetized)	1463 acres (300 acres monetized)	232 acres	294 acres (139 acres residential)	247 acres	11 acres	>10 acres	N.A.

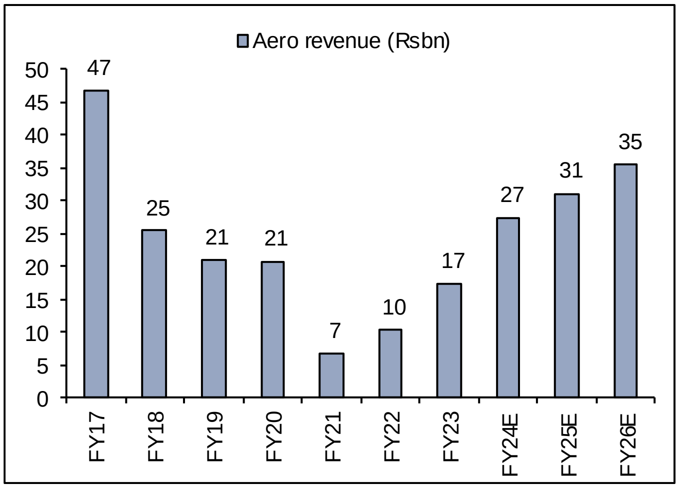
Source: ISEC Research
*post construction

Chart 21: Volume of passengers has been growing over the years other than the covid period



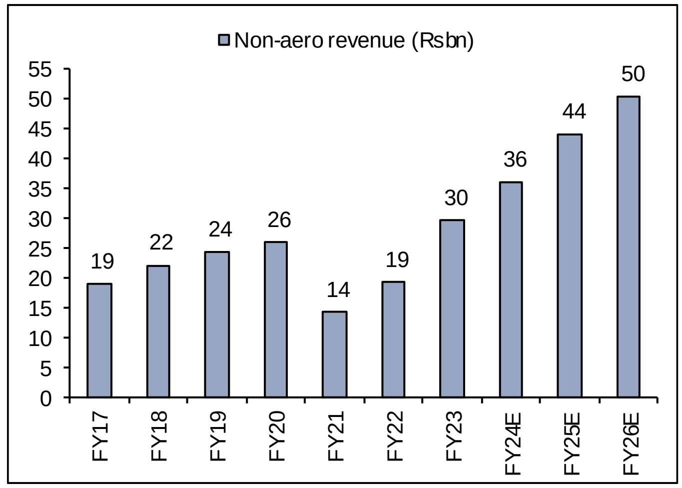
Source: Company, ISEC Research

Chart 22: We expect aero revenues to grow led by commissioning of new assets



Source: Company, ISEC Research

Chart 23: Cumulative non-aero revenues may rise with increasing number of passengers

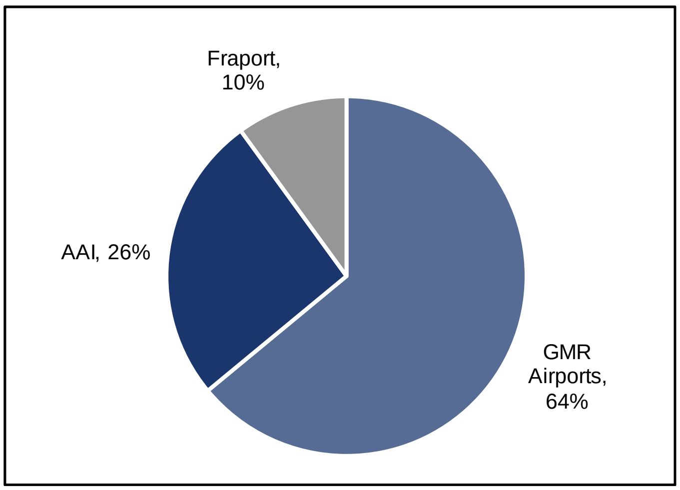


Source: Company, ISEC Research

Delhi International Airport (DIAL)

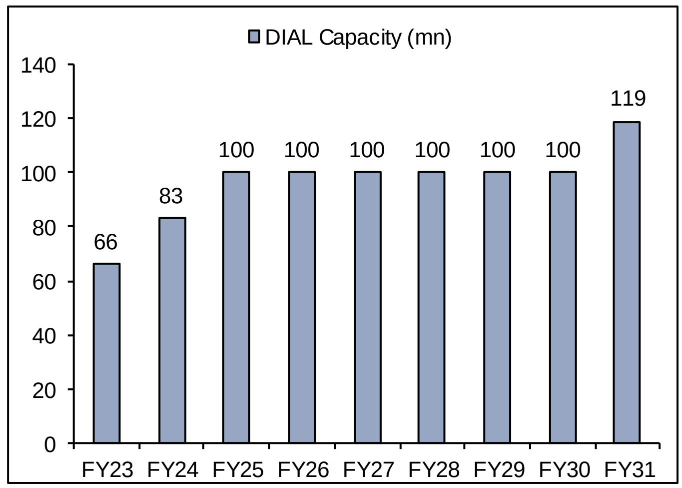
Catering to India's capital, the New Delhi Airport (also known as Indira Gandhi International Airport) is the country's busiest airport. The airport was initially built on an Air Force base (known as Palam Airport at the time) with just one terminal. A sharp increase in traffic at the airport led to the development of a second terminal in May 1986 along with the development of airside facilities. The airport was managed by the AAI until May, '06, when development, operation and maintenance were awarded to GMR Airports Infra for a period of 30 years with the option to extend it by another 30 years. After this transfer, a third terminal was added to the airport in 2010. DIAL's current rated capacity stands at 66mn passengers per annum. The airport is going through an expansion phase which is expected to push the capacity to 119mn by FY31. GMR was allowed to commercially exploit around 230 acres of the 4,600-acre airport land.

Chart 24: GMR Airports Infra owns 64% of DIAL



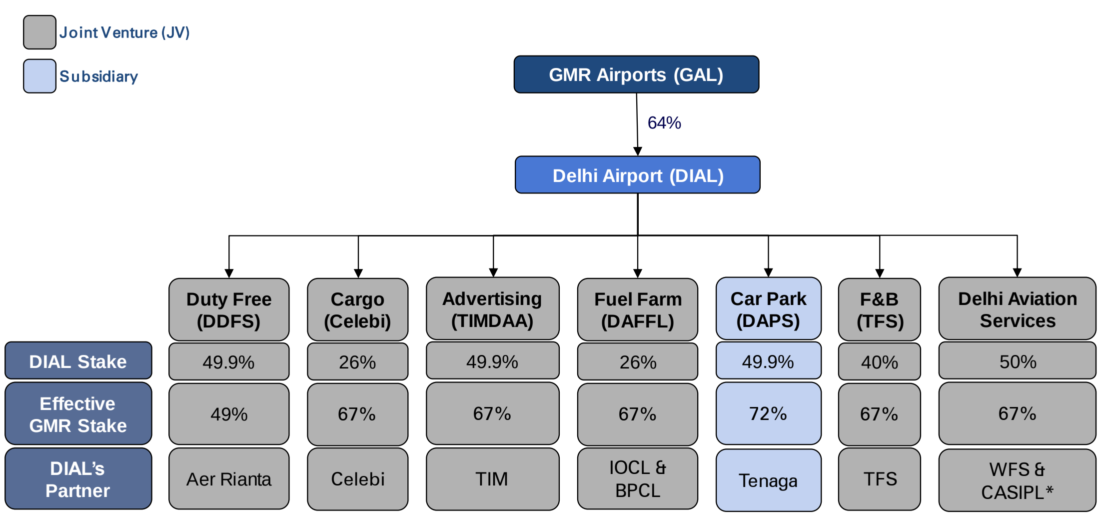
Source: Company, ISEC Research

Chart 25: DIAL's capacity to almost double by FY31 to 119mn pax



Source: Company, ISEC Research

Chart 26: DIAL's JVs and subsidiaries

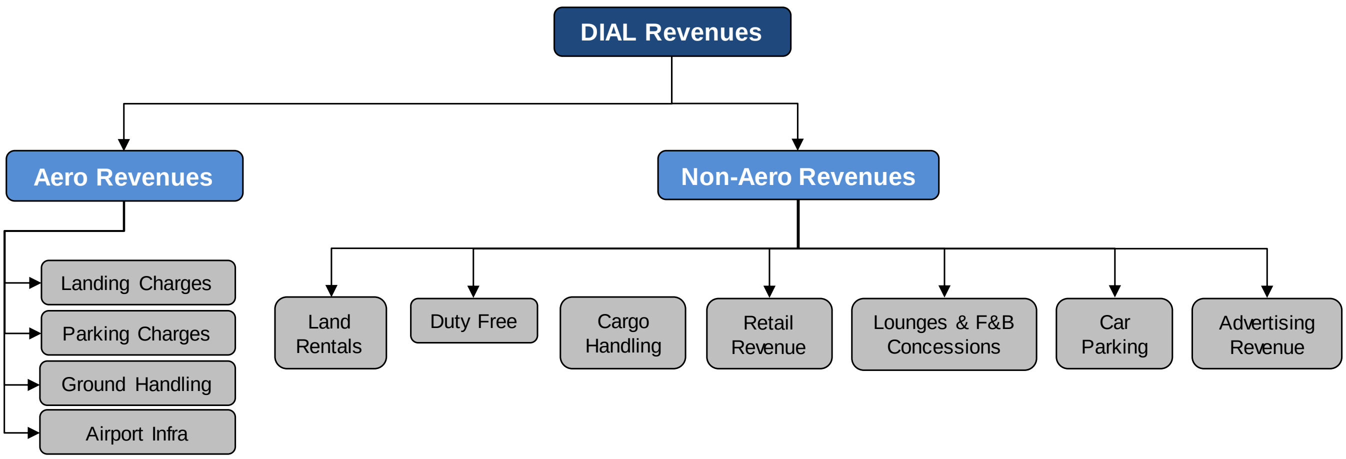


Source: Company, ISEC Research
*Bird World-wide Flight Services India Private Limited & Celebi Airport Services India Private Limited

DIAL revenue model

DIAL's gross aero revenues are currently calculated using maximum of revenue derived from building block and BAC. Unlike GHIAL, cargo and ground handling charges are treated as non-aero revenues. Revenue share as per the concession agreement stands at **46%**.

Chart 27: DIAL revenue classification



Source: Company, ISEC Research

DIAL aero revenues

FY06-FY12: Due to absence of any tariff order, DIAL was charging the prevailing BAC rates.

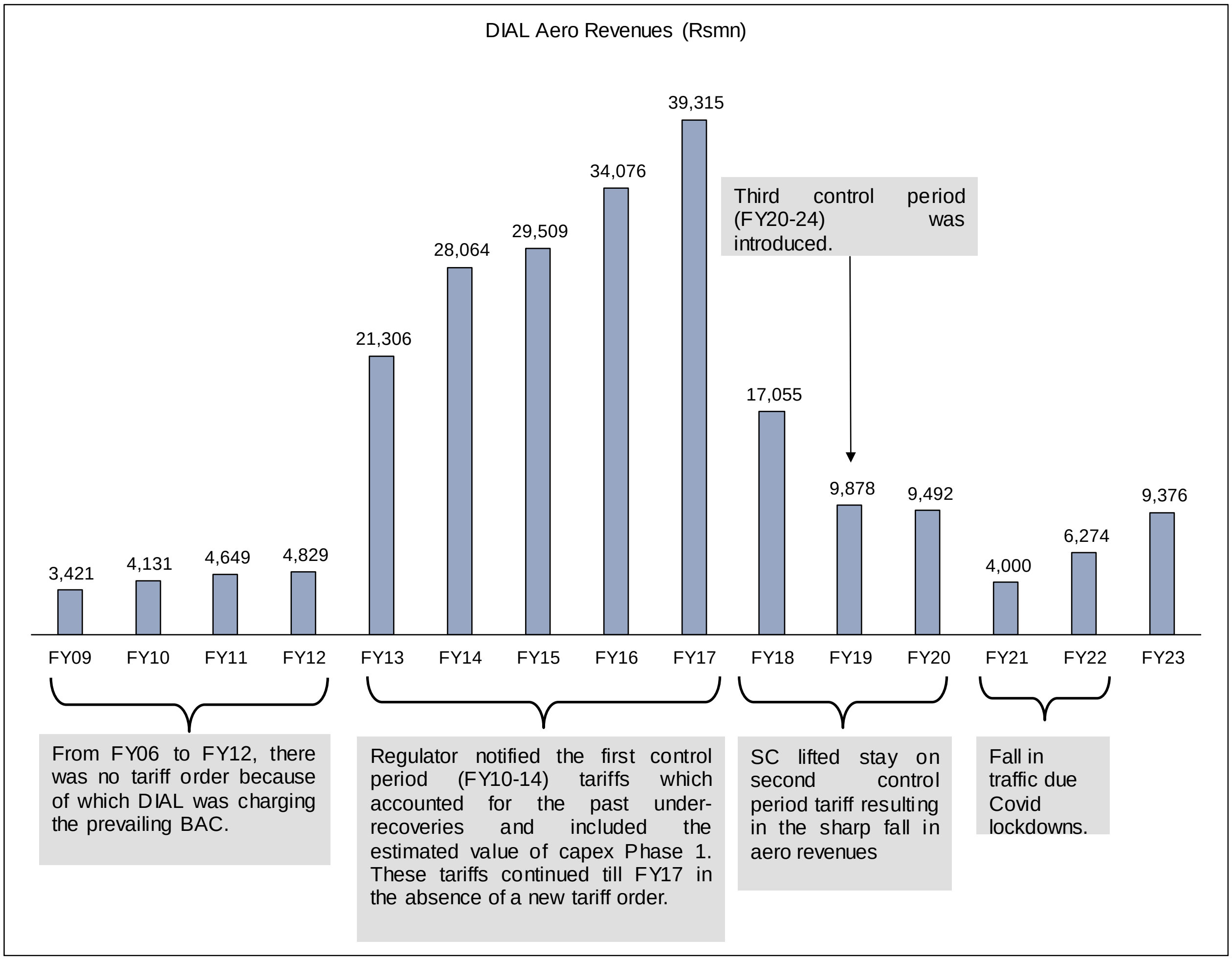
FY13-FY14: Tariff order for the first control period (FY10-FY14) was notified in FY12. Aero revenues witnessed a rise from FY13 as the first control period tariffs accounted for the past under recoveries and estimated capex for phase 1 expansion.

FY15-FY17: Due to contentions between DIAL and AERA related to the return on real estate deposits deployed for aero capex and regulated RoE rate, the issuance of the second period (FY15-FY19) tariff order was delayed. DIAL continued to charge the first control period tariffs which led to over-recoveries.

FY18-FY20: In July 2017, the Supreme Court lifted the stay on the second control period which resulted in a sharp fall in FY18 aero revenues. Third control period was introduced in FY19.

FY21-FY22: Aero revenues had suffered due to fall in air traffic on account of covid restrictions. DIAL did not pay revenue share from Jan, '21 to Mar, '22 after interim relief was granted to the company by the High Court amidst the force majeure situation caused by covid. The net unpaid amount by DIAL is **Rs13bn**. The matter is currently pending before the arbitral tribunal and the company is confident of the decision being in its favour.

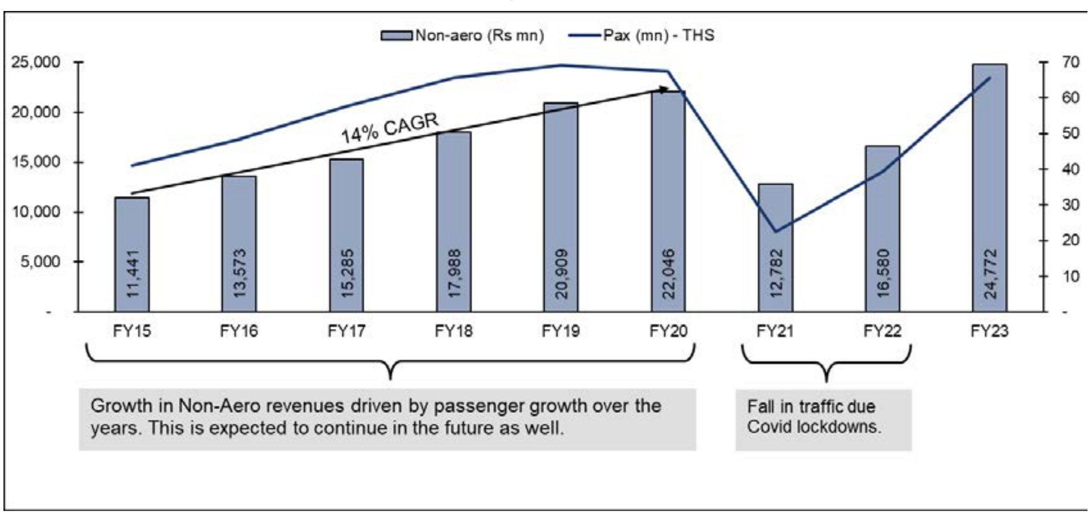
Chart 28: DIAL revenue history



Source: Company, ISEC Research

DIAL non-aero revenues

Chart 29: Non-aero revenues to drive growth for DIAL revenues



Source: Company, ISEC Research

With DIAL's aero revenues being regulated, most of the growth in revenues is expected from non-aero revenues which is likely to be driven by an increase in passenger volumes and growth in expenditure per passenger.

DIAL's commercial property development

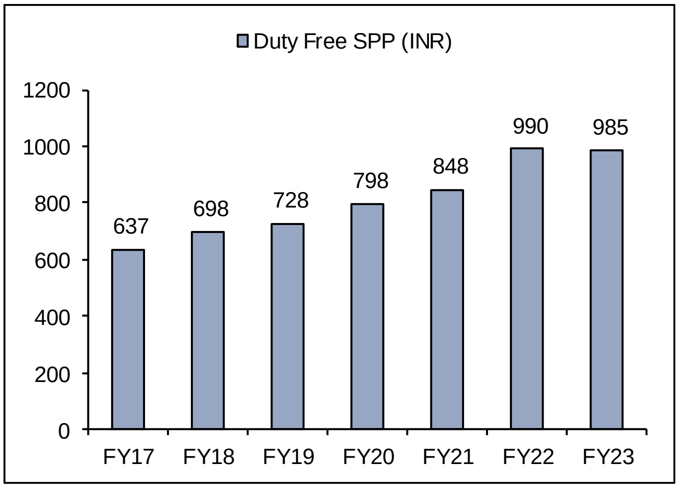
DIAL has the right to monetise **230 acres** of land as per the concession agreement. These revenues are considered separately and not under non-aero revenues, hence, not subsidised.

Table 7: DIAL has ~127 acres out of 230 acres of land pending for monetisation

From	Customer	Area	Income	Escalation	Valid Till
CY09		40 acres	Rs110mn lease	5.5%	CY66
March 2019	Bharti Realty	32 acres (5mn-sqft)	Rs3.6bn lease	50% from FY36	CY66
FY25E	Bharti Realty	32 acres (5mn-sqft)	Rs18bn deposit Rs3.8bn lease	50% from FY36	CY66
FY25E	Bharti Retail	23 acres	Purchase price + 20% revenue share on annual lease revenues		CY66
Total		**127 acres**			

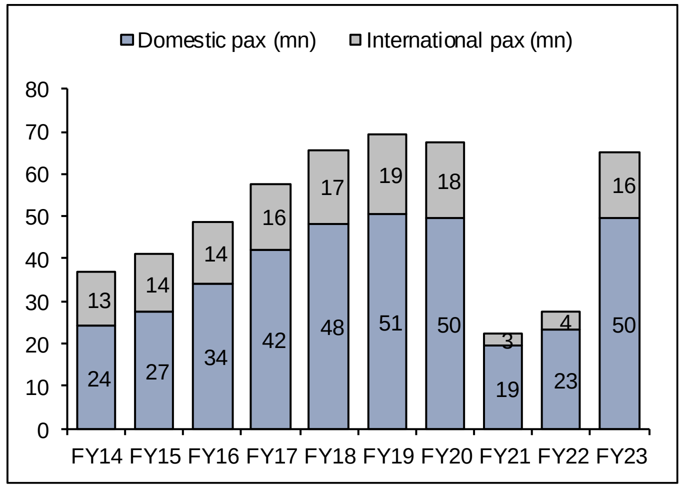
Source: Company, ISEC Research

Chart 30: Duty-free SPP has been on the rise and is likely to rise from FY24E



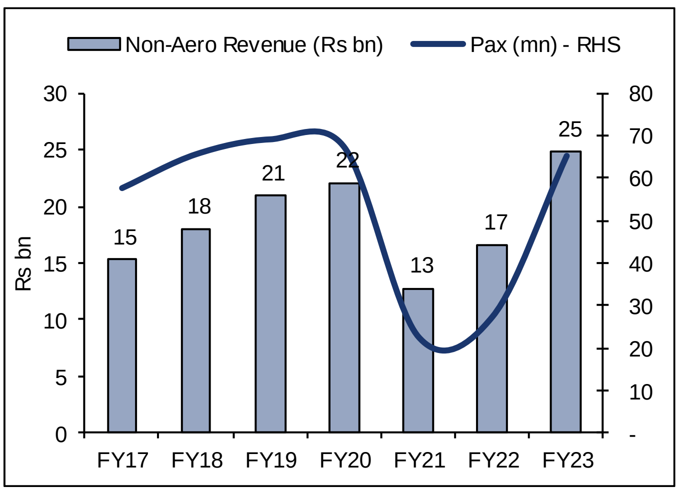
Source: Company, ISEC Research

Chart 31: DIAL's annual passenger traffic is close to pre-covid level



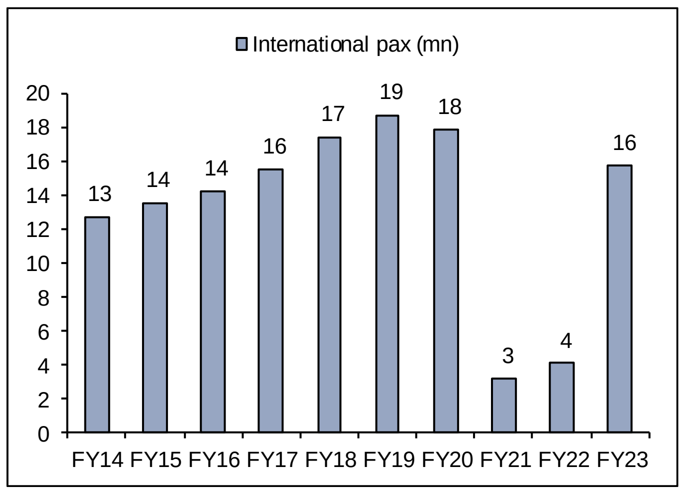
Source: Company, ISEC Research

Chart 32: DIAL's non-aero revenue to be driven by passenger growth



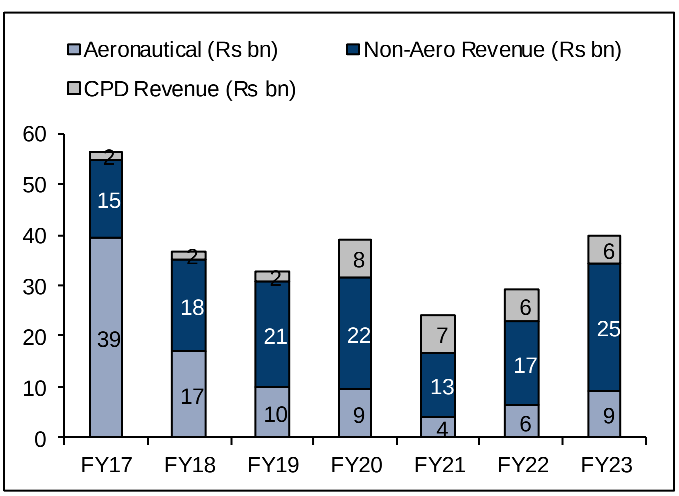
Source: Company, ISEC Research

Chart 33: DIAL's international passenger traffic is close to pre-covid level



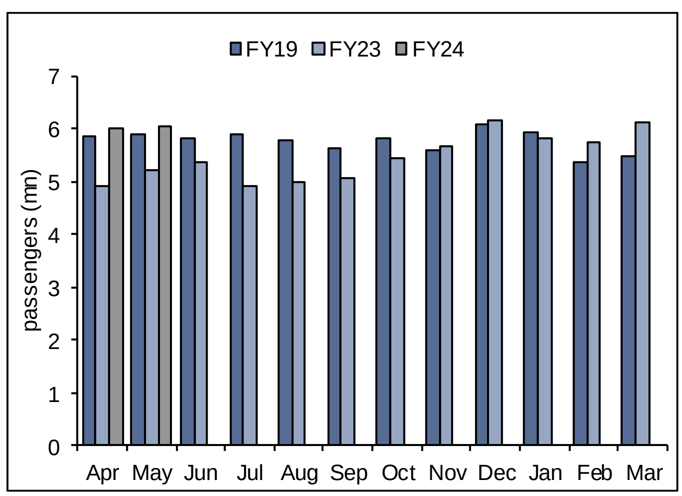
Source: Company, ISEC Research

Chart 34: DIAL's revenue break up



Source: Company, ISEC Research

Chart 35: FY24 monthly air traffic has crossed pre-covid levels

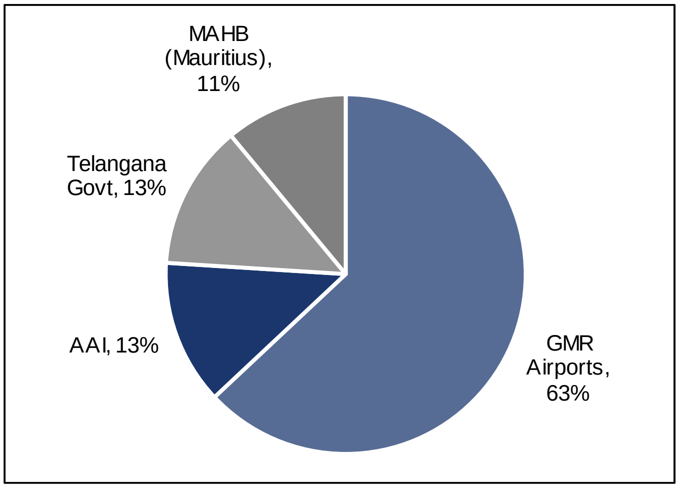


Source: Company, ISEC Research

GMR Hyderabad International Airport Ltd. (GHIAL)

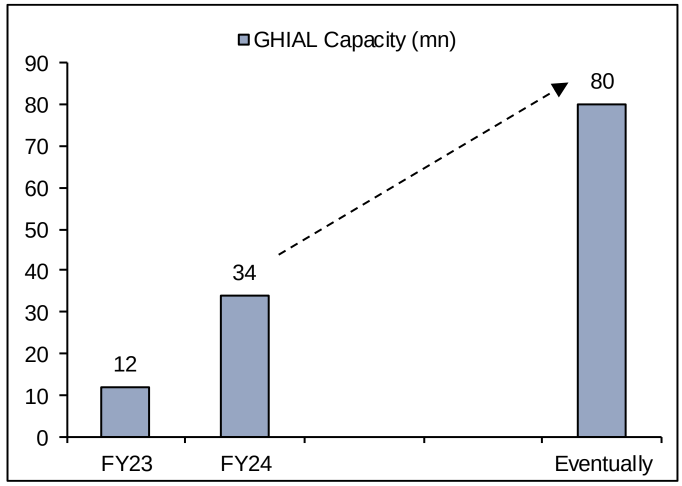
GHIAL is a subsidiary of GAL with the latter's shareholding at 63%. AAI, Telangana government and MAHB (Mauritius) own 13%, 13% and 11%, respectively in GHIAL. Its concession was awarded to GMR in 2008 with a duration of 60 years. GHIAL can currently handle 12mn passengers annually. The airport is going through an expansion phase which is expected to push the capacity to 34mn by FY24. As a part of concession agreement, GMR was allowed to commercially exploit ~1,467 acres of land.

Chart 36: GMR Airports Ltd. own 63% of GHIAL



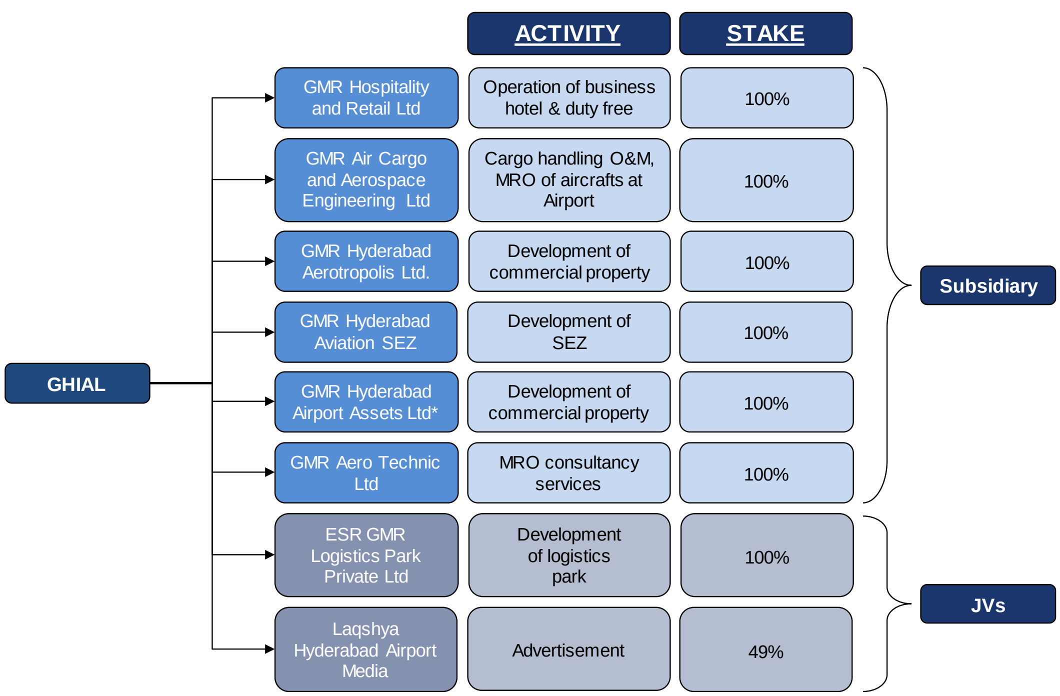
Source: Company, ISEC Research

Chart 37: GHIAL aims to expand to 80mn (passenger) capacity eventually with a short-term target of 34mn



Source: Company, ISEC Research

Chart 38: GHIAL's subsidiaries and JVs

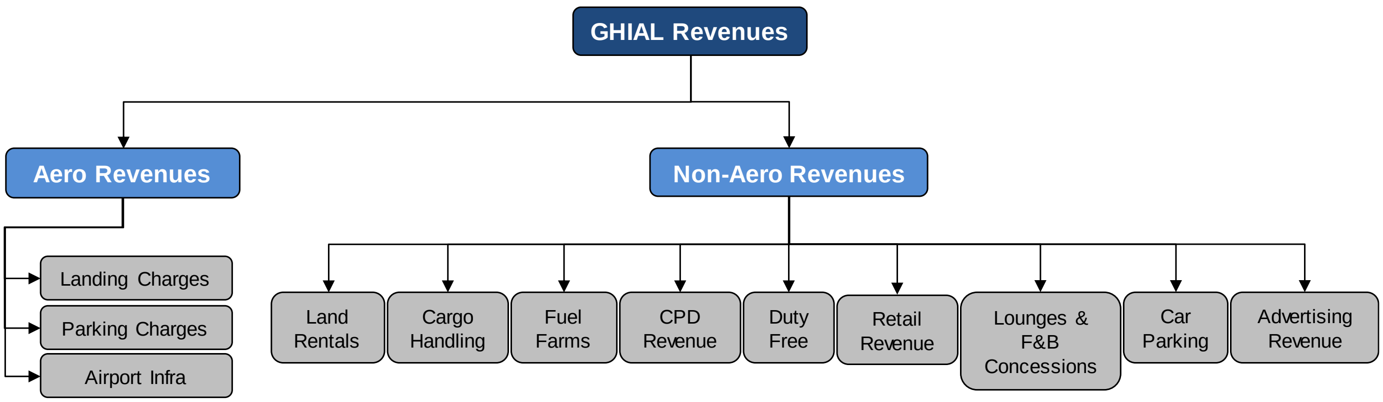


Source: Company, ISEC Research
*Divested in Jun'23

GHIAL's revenue model

GHIAL's net aero revenues are calculated by the building block method; however, unlike DIAL, cargo, ground-handling and fuel farm (CGF) revenues are treated as aero revenues.

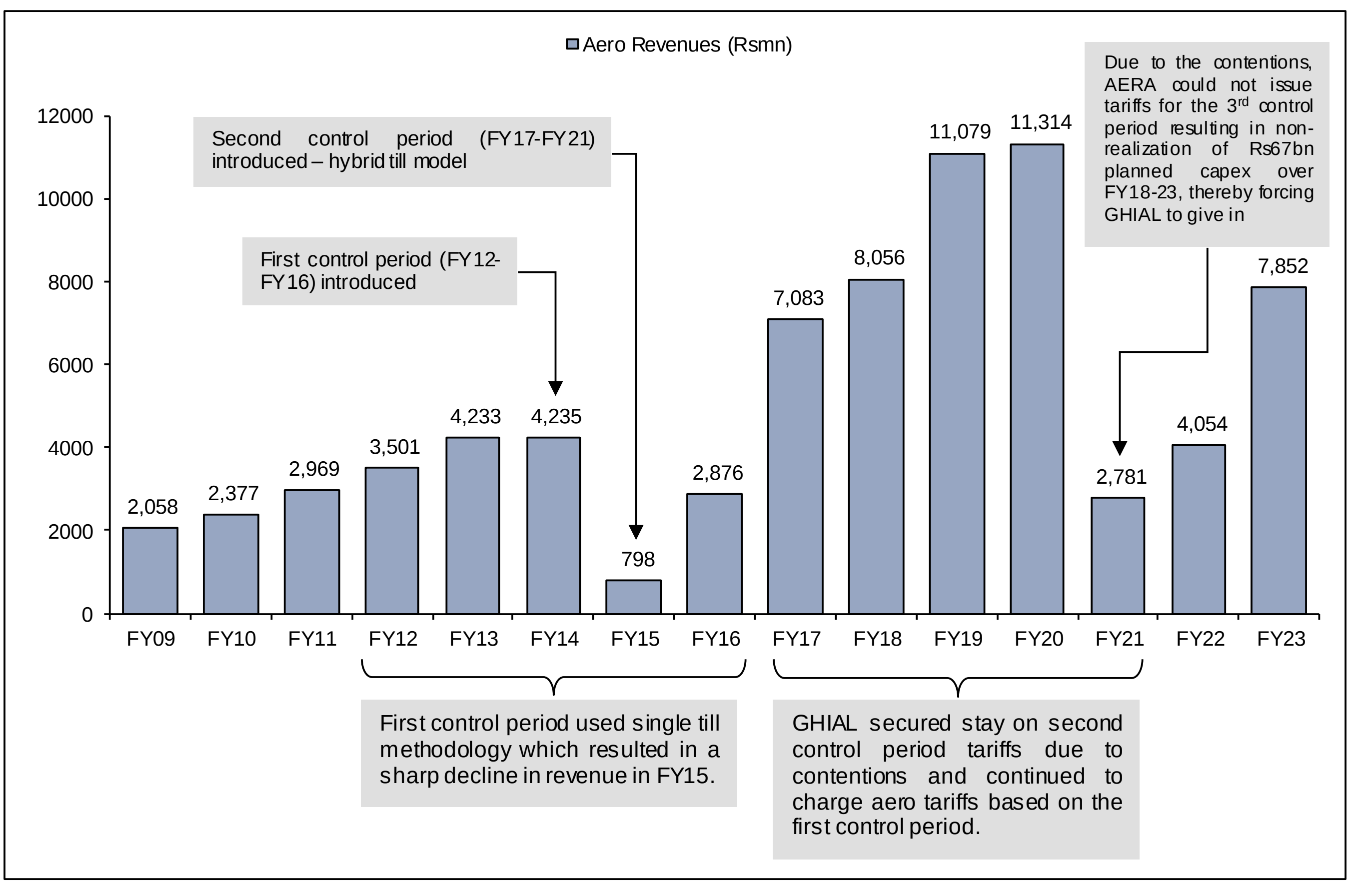
Chart 39: GHIAL's revenue classification



Source: Company, ISEC Research

Revenue share to AAI is **4%** (pass through to passenger) on all revenue streams comprising aero, non-aero and CPD. It is allowed to be charged while computing target aero revenues.

Chart 40: GHIAL's revenue history



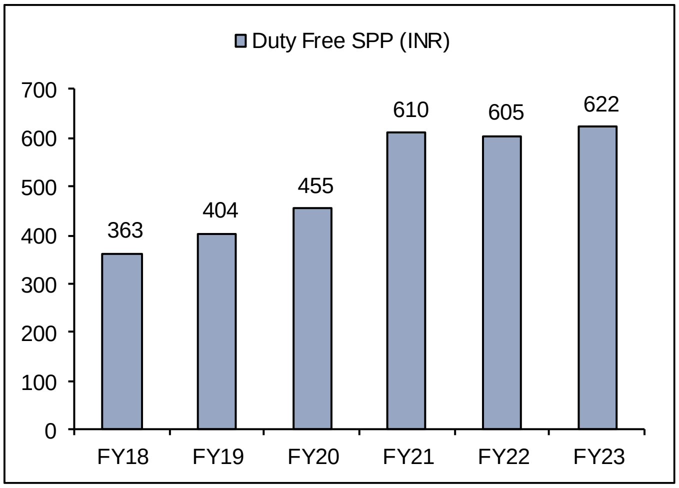
Source: Company, ISEC Research

- **The first control period (FY12-FY16)** was introduced in Feb, '14 which used the single till methodology for GHIAL, which resulted in a sharp decline in revenues in FY15.
- In FY15, the **second control period (FY17-FY21)** was introduced which utilised the hybrid till methodology for revenue calculation.
- There were some points of contention between GHIAL and AERA because of which GHIAL secured a stay on the second period tariffs and continued to charge aero tariffs based on the first control period. The points of contention were:
    - Treatment of CPD revenues as non-aero revenues.
    - Including CPD revenues in 30% subsidy.
    - Treatment of CGF revenues as aero revenues.
    - Refusal to true-up pre FY09 losses because AERA maintained that since AERA was established in 2009, it was outside AERA's purview.
- The stay resulted in over recovery of aero revenues from FY17 to FY20.
- Since the matter was subjudice, AERA was unable to introduce tariffs for the third control period which resulted in non-realisation of Rs67bn of GHIAL's planned capex over FY18-23. This forced GHIAL into accepting AERA's contentions for tariff calculations for the second control period which led to a drop in FY21 aero revenues because of the reversal of over recovery over FY17-20.
- The airport is currently under control period 3 (FY22-FY26).

GHIAL's commercial property development revenues

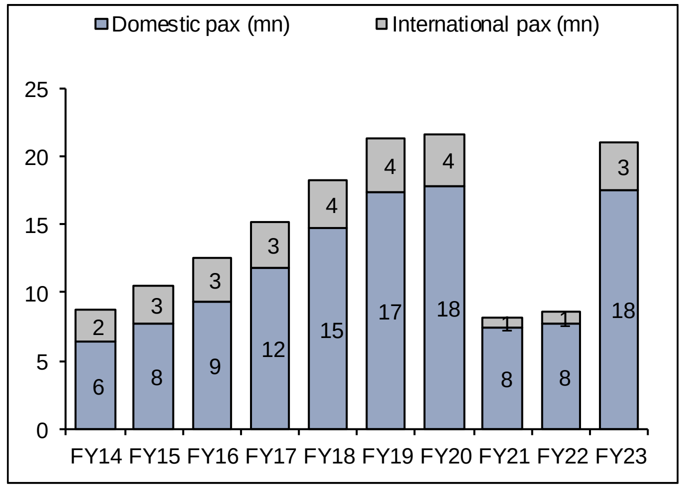
GHIAL has the right to monetise **~1,467 acres** of land as per the concession agreement of which it has already monetised **~300 acres**.

Chart 41: Duty-free SPP (INR) for GHIAL is likely to continue to rise



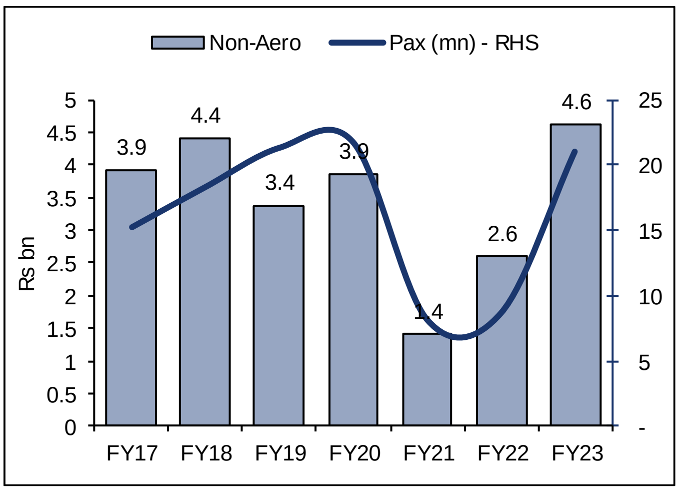
Source: Company, ISEC Research

Chart 42: GHIAL's annual passenger traffic approaches pre-covid level



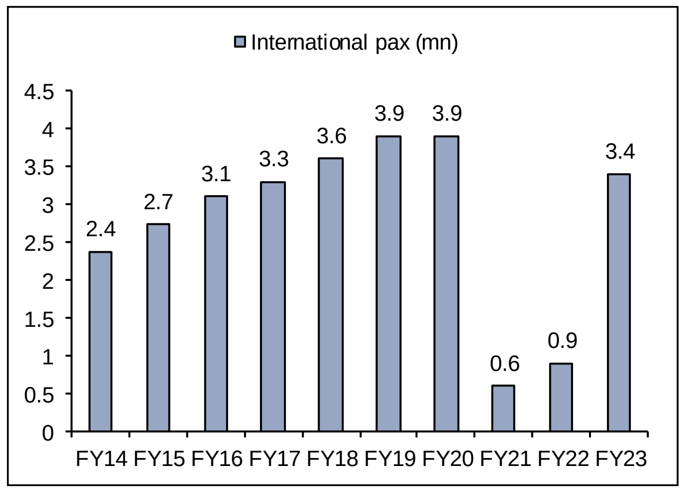
Source: Company, ISEC Research

Chart 43: GHIAL's non-aero revenues to be driven by passenger growth



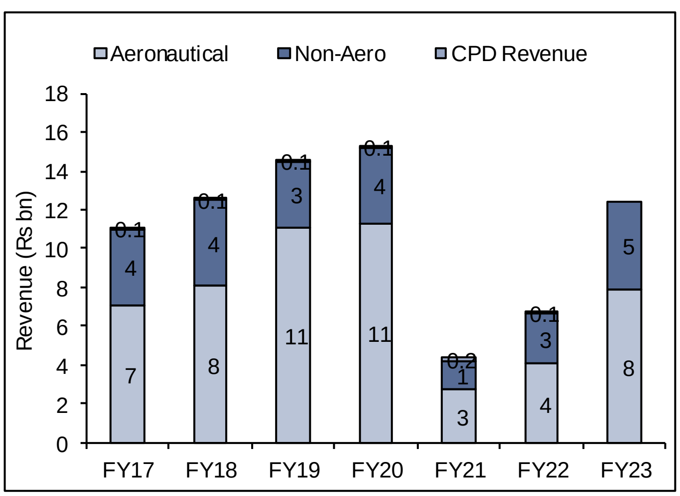
Source: Company, ISEC Research

Chart 44: GHIAL's international passenger traffic is close to pre-covid level



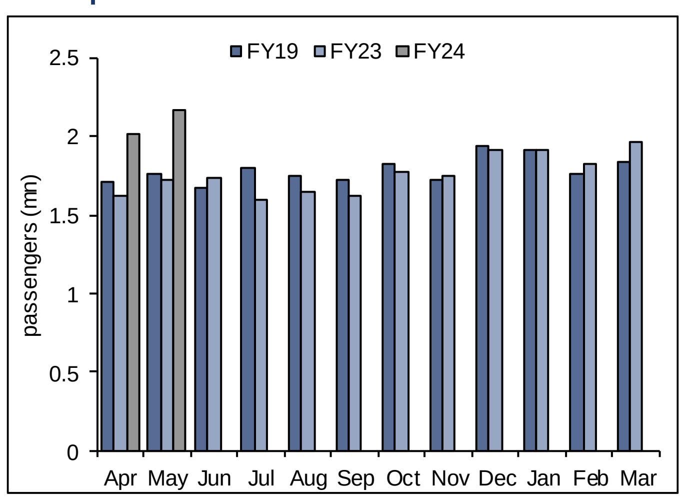
Source: Company, ISEC Research

Chart 45: GHIAL's revenue break up



Source: Company, ISEC Research

Chart 46: FY24 monthly air traffic may continue to cross pre-covid levels

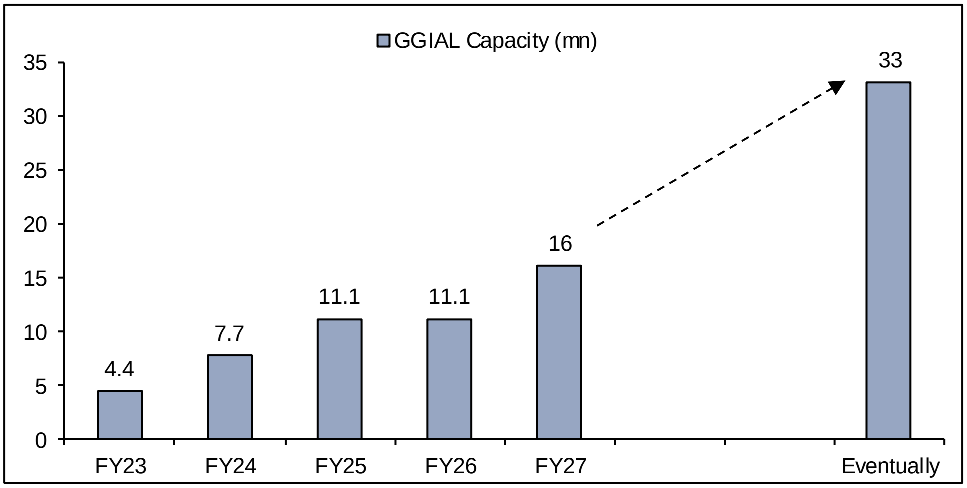


Source: Company, ISEC Research

GMR Goa International Airport, Mopa (GGIAL)

GGIAL is a 100% subsidiary of GAL. Its CoD was Sep, '17 for a duration of 40 years with an option to extend by 20 years. It commenced operations in Jan, '23. The airport can currently handle 4.4mn passengers and plans to take its capacity to 11mn by FY25. Mopa airport opened its doors to passengers in Jan, '23 and handled 0.66mn passengers in Q4FY23.

Chart 47: GGIAL aims to expand capacity to ~8mn and ~11mn by FY24 and FY25, respectively



Source: AERA, Company, ISEC Research

Since the final tariff has not been finalised, AERA has approved an ad-hoc tariff till Sep 30, '23.

Limitations of Dabolim Airport (Goa)

Dabolim Airport is owned by the Indian Navy

- Operations for commercial airlines are restricted on weekdays during curfew hours of 8:30-12:30hrs and 15:30-16:30hrs.
- Dabolim Airport airspace is restricted.
- Defence flights are prioritised over commercial aircraft 24x7.

Limited land availability

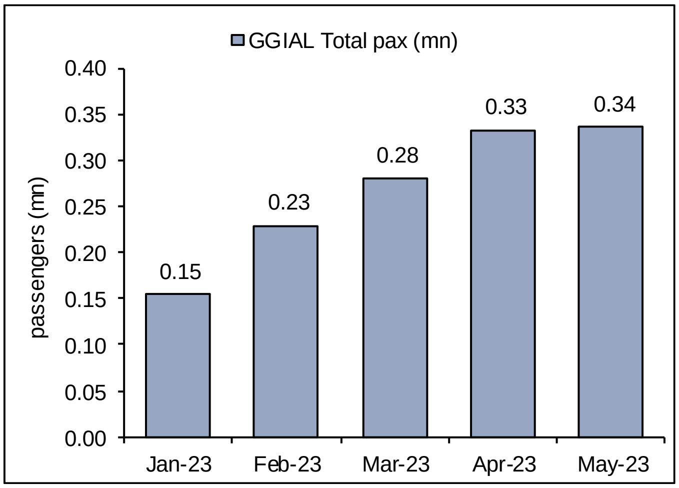
- Restriction on future capacity expansion due to limited land availability.
- Insufficient car and bus parking facilities.

Old and inefficient terminal design

- Dabolim Airport is already operating at higher-than-designed capacity.

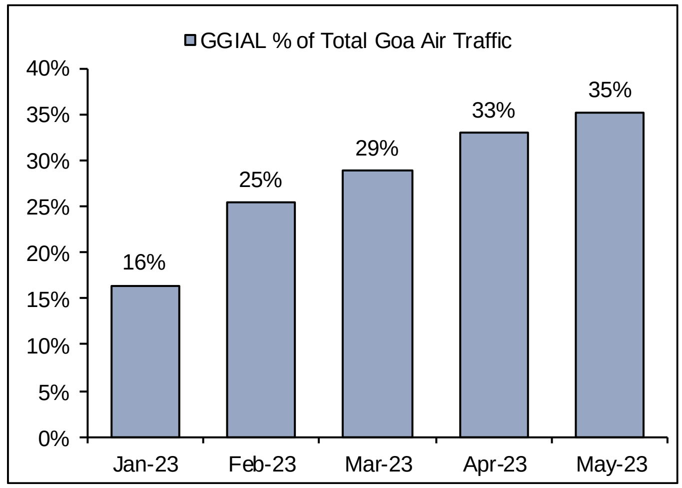
To address the many limitations of Dabolim Airport, development of a greenfield airport was necessary. GGIAL is expected to benefit from an increase in incremental traffic and gain in share of Goa air traffic.

Chart 48: GGIAL's air traffic is on the rise since commencement of operations in Jan, '23



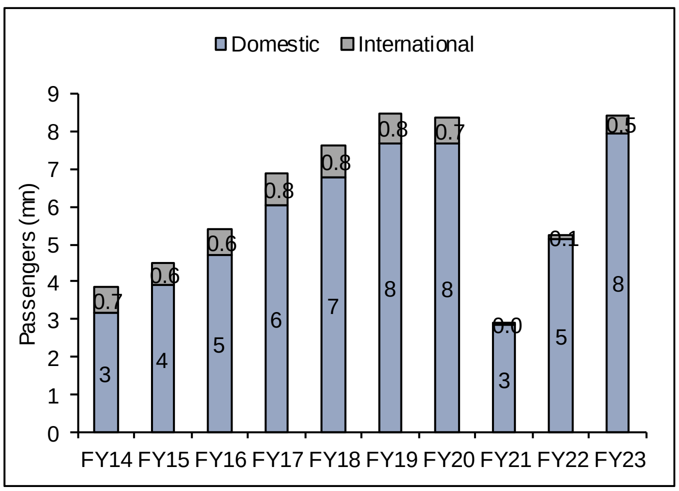
Source: Company, ISEC Research

Chart 49: Despite not being open for international traffic, GGIAL is gaining share in total Goa traffic



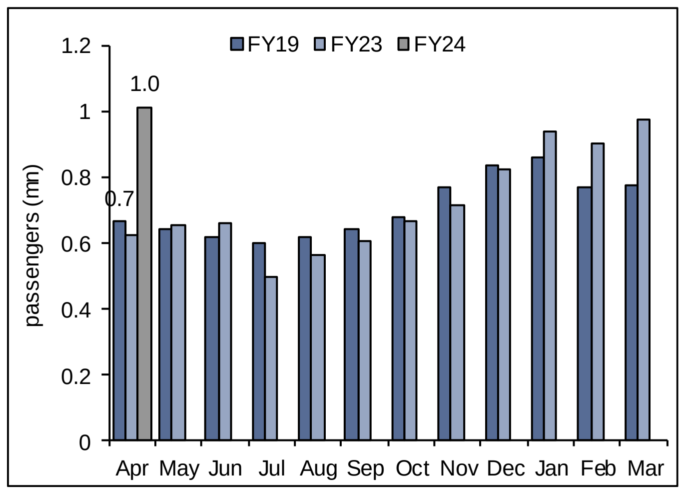
Source: Company, ISEC Research

Chart 50: Dabolim, Goa Airport traffic is back on track



Source: AERA, Company, ISEC Research

Chart 51: Monthly trend of total Goa (Dabolim and GGIAL) air traffic



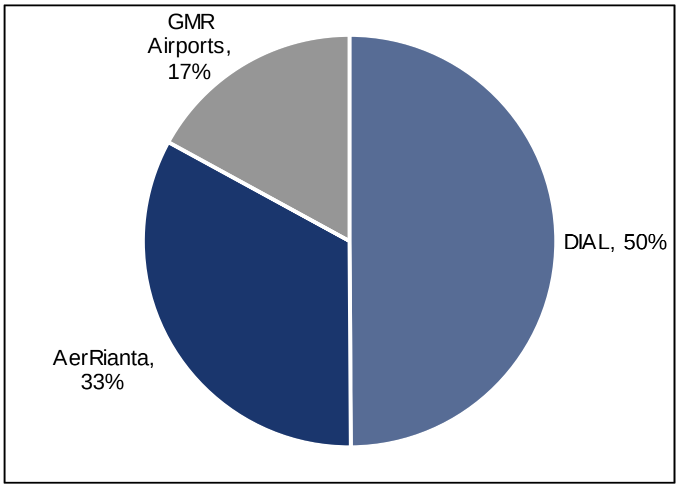
Source: AERA, Company, ISEC Research

Delhi Duty Free Services (DDFS)

Delhi Duty Free Services was the first duty free service started by GMR Airports Infra. Lacking experience in this field, it decided to form a JV with an existing player to develop the knowhow. Hence, DDFS – a JV with Aer Rianta formed with the latter holding 33% stake. The duty free concession is expiring in 15 years.

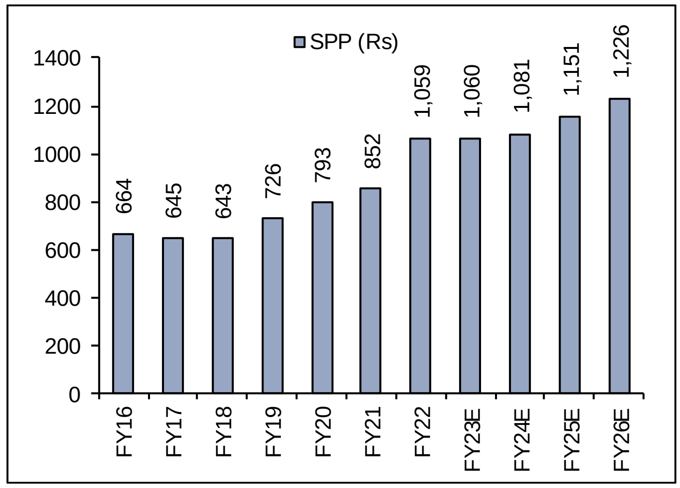
Since GMR Airports Ltd also owns 17% in the entity along with 50% of DIAL, the effective holding of GAL is 49% (considering GAL's 64% stake in DIAL).

Chart 52: GMR Airports Ltd' 64% stake in DIAL takes its effective stake to 49% in DDFS



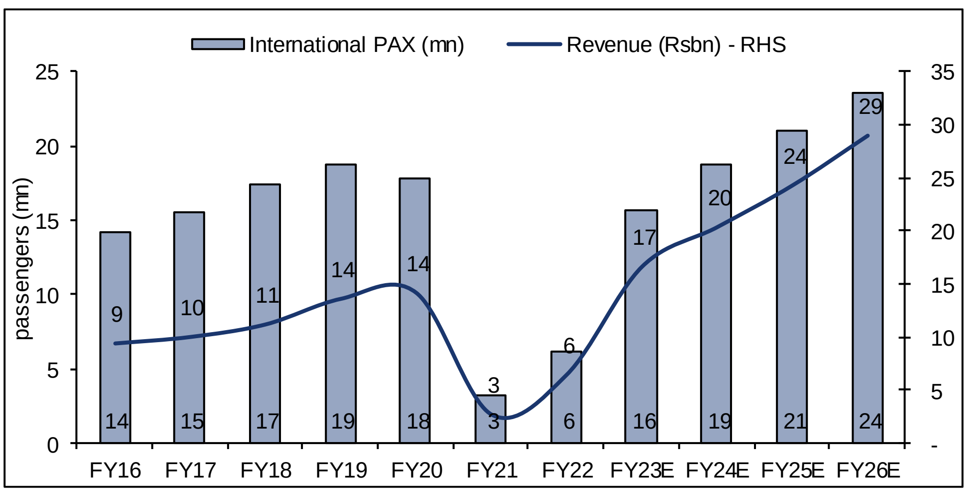
Source: Company, ISEC Research

Chart 53: Higher SPP to aid duty-free revenues in the future



Source: Company, ISEC Research

Chart 54: We expect growth in international passengers to be the main revenue driver for DDFS over FY24-26E



Source: Company, ISEC Research

Option value of all non–aero businesses

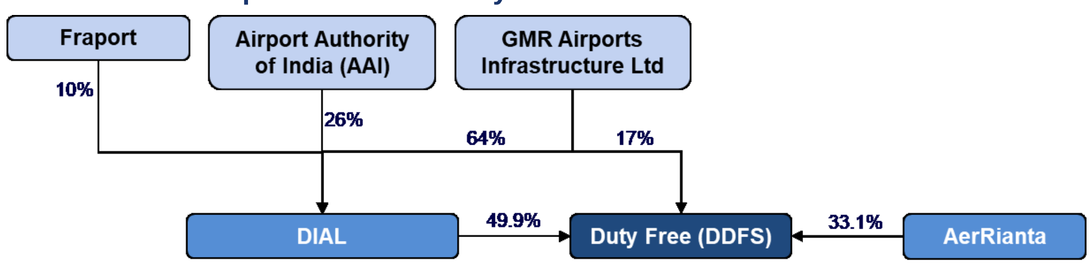
GMR Airports Infra is setting up a platform business for non–aero and CPD businesses. We believe it could potentially create value for minority shareholders. For example, as Delhi Duty Free concession agreement is expiring in FY25, GAL can decide to opt out of the JV and participate in this opportunity on its own.

Note GMR shook hands with Aer Rianta to get into duty-free business in 2009. It was new in airport business, therefore, it was a logical step to do so. After operating for >10 years it has been able to develop the knowhow. As a result, we believe the company has gained enough experience to run the duty-free business on its own. This is supported by the fact that GHIAL's duty-free business is a 100% subsidiary of GHIAL and is operated entirely by the group.

Duty free remains a high growth segment with high margins and negative working capital requirement. Hence, GAL will prefer to keep the entire pie for itself, thus, potentially creating value for minority shareholders.

Currently, only 49% of revenue from DDFS would flow though GAL. If DDFS becomes a wholly-owned subsidiary of GAL, 100% duty-free revenue will belong to the parent.

Chart 55: GMR Airports Infra currently owns an effective stake of 49% in DDFS



Source: Company, ISEC Research

Risks to thesis

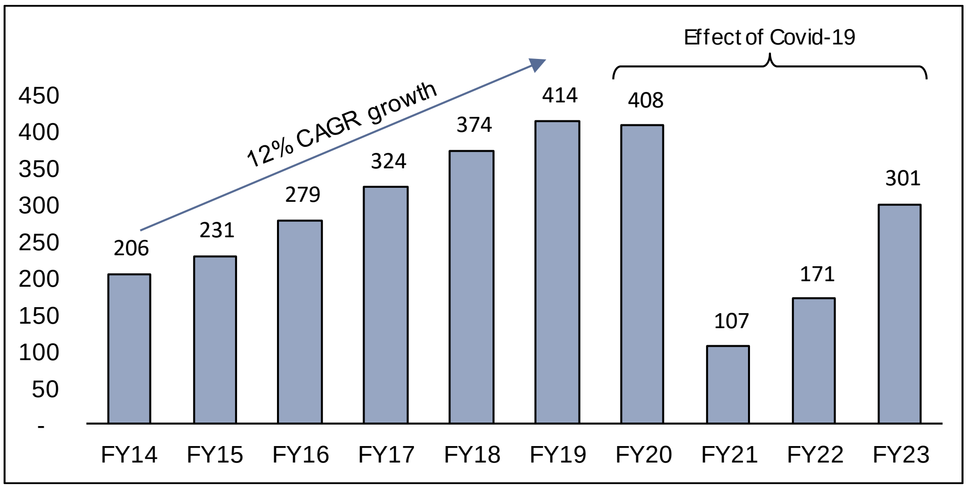
The above mentioned value creation assumes that GMR Airports Infra may win the concession in a competitive bid at fairly attractive rates.

We understand that these decisions will be taken as and when the opportunity arises to do so. However, GAL is looking to grow and increase its pie of non–aero revenues and is looking to drive this through a single company structure by bringing together the entire non-aero offerings on one platform.

Industry outlook

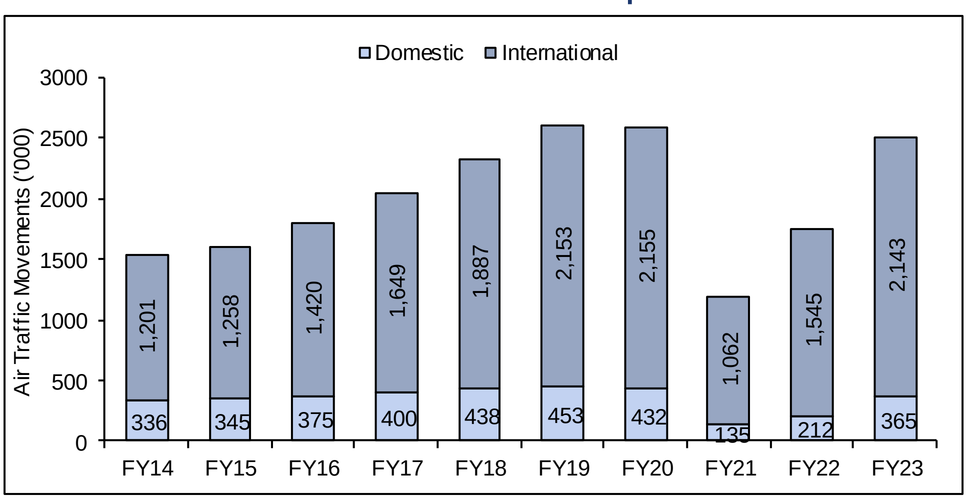
- Air traffic grew by 12% CAGR between FY14-FY22 or 1.8x times GDP.
- During COVID, the airport traffic was impacted. But the impact is now wearing off and growth is now back to normal
- Domestic traffic is 20% above pre – COVID levels and International traffic is back to pre- COVID levels (based on 2mFY24 data).
- Till date, India has privatised 14 airports. The model of bidding has evolved from revenue share to revenue per pax.
- Note that 7 airports including older airports like Delhi and Hyderabad - were awarded on revenue share. It has awarded 8 airports on revenue per pax.
- Government is looking to privatise further 25 airports and also looking to sell its stake in major airports.

Chart 56: India air traffic grew at 15% CAGR till FY19 (mn)



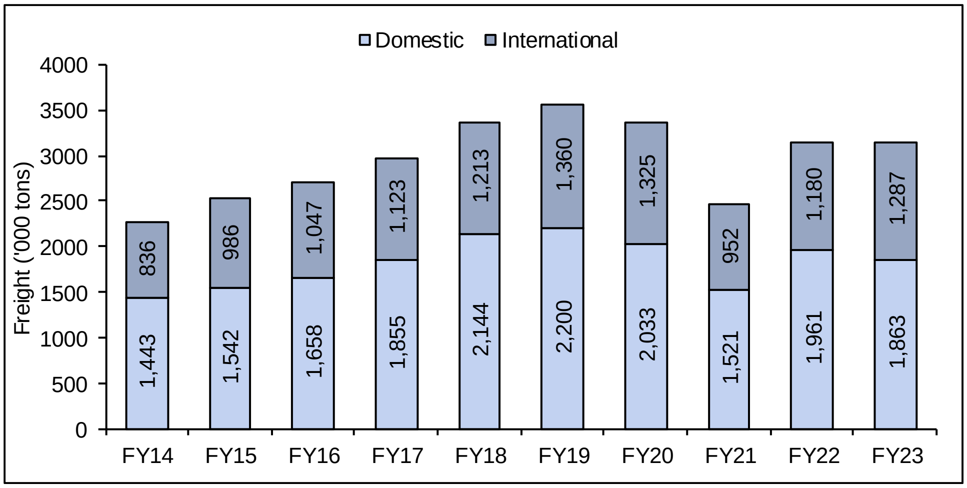
Source: AERA, Company, ISEC Research

Chart 57: India air traffic movement is close to pre-covid levels



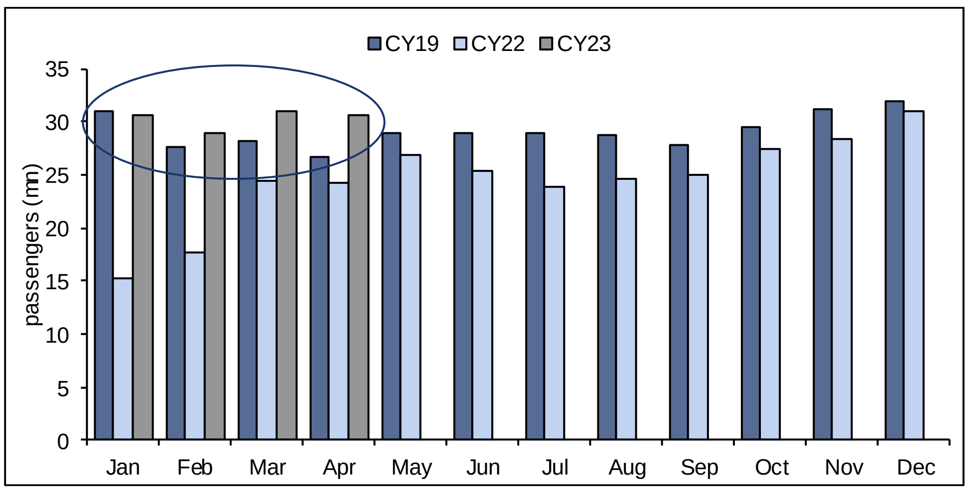
Source: AERA, Company, ISEC Research

Chart 58: India air freight trends



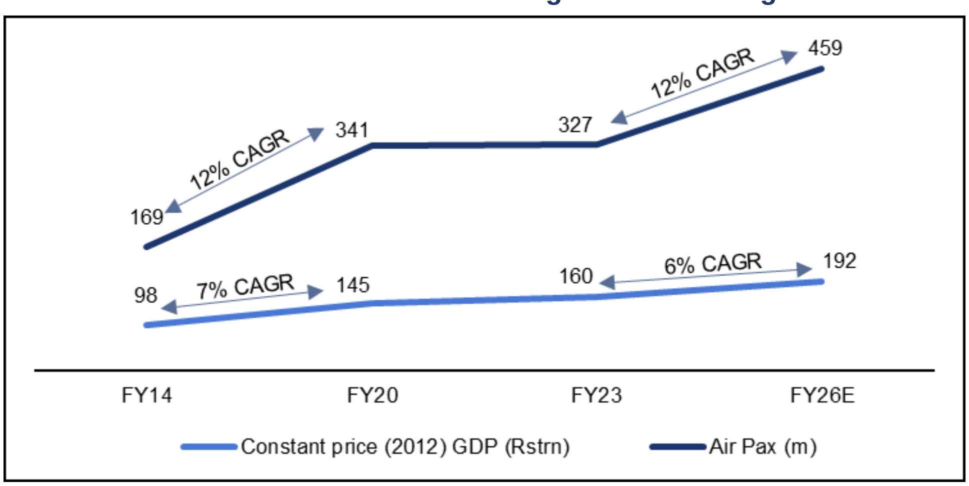
Source: AERA, Company, ISEC Research

Chart 59: FY24 monthly air traffic has started crossing pre-covid



Source: AERA, Company, ISEC Research

Chart 60: We have assumed air traffic to grow at 2x GDP growth



Source: ISEC Research

Table 8: List of airports awarded to private operators

Sr. No.	Airports	Year of award	Bid type	Winner	Values
1	**Hyderabad**	**2003**	**Revenue share**	**GMR - Malaysian Airports**	**Techno Financial Bid**
2	Bangalore	2003	Revenue share	L&T - Zurich - Siemens	Techno Financial Bid
3	**Delhi**	**2006**	**Revenue share**	**GMR - Fraport**	**46%**
4	Mumbai	2006	Revenue share	GVK - Bidwest	38%
5	Navi Mumbai	2016	Revenue share	Mumbai Airport	13%
6	**Goa**	**2016**	**Revenue share**	**GMR**	**37%**
7	**Nagpur**	**2018**	**Revenue share**	**GMR**	**14%**
8	**Bhogapuram**	**2018**	**Per pax**	**GMR**	**Rs303/pax**
9	Lucknow	2019	Per pax	Adani Enterprises	Rs171/pax
10	Trivandrum	2019	Per pax	Adani Enterprises	Rs168/pax
11	Guwahati	2019	Per pax	Adani Enterprises	Rs160/pax
12	Ahmedabad	2019	Per pax	Adani Enterprises	Rs177/pax
13	Jaipur	2019	Per pax	Adani Enterprises	Rs174/pax
14	Mangalore	2019	Per pax	Adani Enterprises	Rs115/pax
15	Noida	2019	Per pax	Zurich Airport	Rs401/pax

Source: Industry, ISEC Research

Industry growth drivers

Divestment of AAI stake in 4 major airports

The government is expected to sell its stakes in the 4 major airports via Airport Authority of India (AAI).

Table 9: Airports with AAI stake that can be monetised

Airport	AAI Stake (%)
Delhi	26%
Mumbai	26%
Hyderabad	13%
Bangalore	13%

Source: AAI, ISEC Research

25 airports earmarked for privatisation

The Government of India has identified 25 airports for monetisation under the National Monetisation Plan. Their monetisation is expected to be completed in the next 4-5 years with a target of FY24 for 11 airports.

Table 10: 25 airports lined up for monetisation

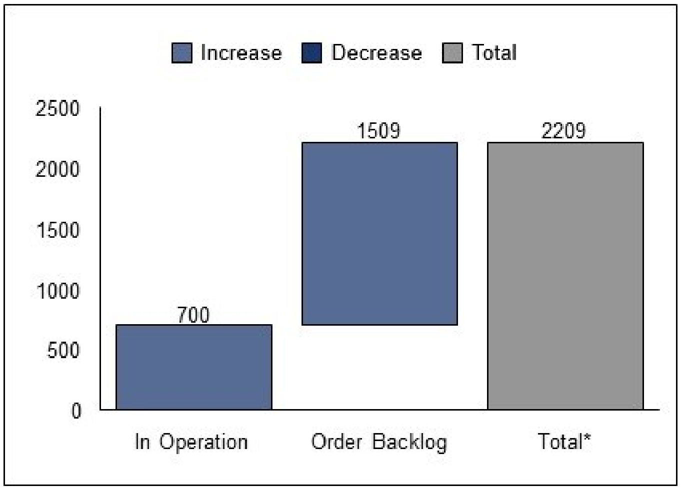
Sr. No.	Airport	Existing Annual Capacity (mn pax)
1	Chennai	21
2	Bhubaneswar	4.5
3	Calicut	2.19
4	Coimbatore	2.5
5	Varanasi	2.5
6	Amritsar	2.5
7	Trichy	1.5
8	Imphal	1.73
9	Vijaywada	2
10	Tirupati	1
11	Nagpur	3
12	Patna	5
13	Madurai	1.28
14	Surat	1.1
15	Indore	3
16	Ranchi	1.46
17	Raipur	2
18	Agartala	0.91
19	Udaipur	0.55
20	Dehradun	0.46
21	Vadodara	1.28
22	Bhopal	1.28
23	Jodhpur	0.5
24	Hubli	1
25	Rajahmundry	1

Source: GoI, ISEC Research

Growing demand for air travel

We expect demand for air travel to keep growing with increasing affordability and penetration. Indian airlines have an order backlog of ~1,500 aircraft (includes the recent orders of 500 aircraft for IndiGo and 470 aircraft for Air India).

Chart 61: Aircraft orders placed by Indian airlines signify industry's confidence in growth



Source: Company, ISEC Research

Table 11: Commercial aircraft order break up

Airline	Order Backlog (no. of aircrafts)
Indigo	977
Vistara	10
Akasa	52
Air India	470
Total	**1509**

Source: Company, ISEC Research
Note: Total does not consider for aircraft retirements

Growing discretionary expenditure

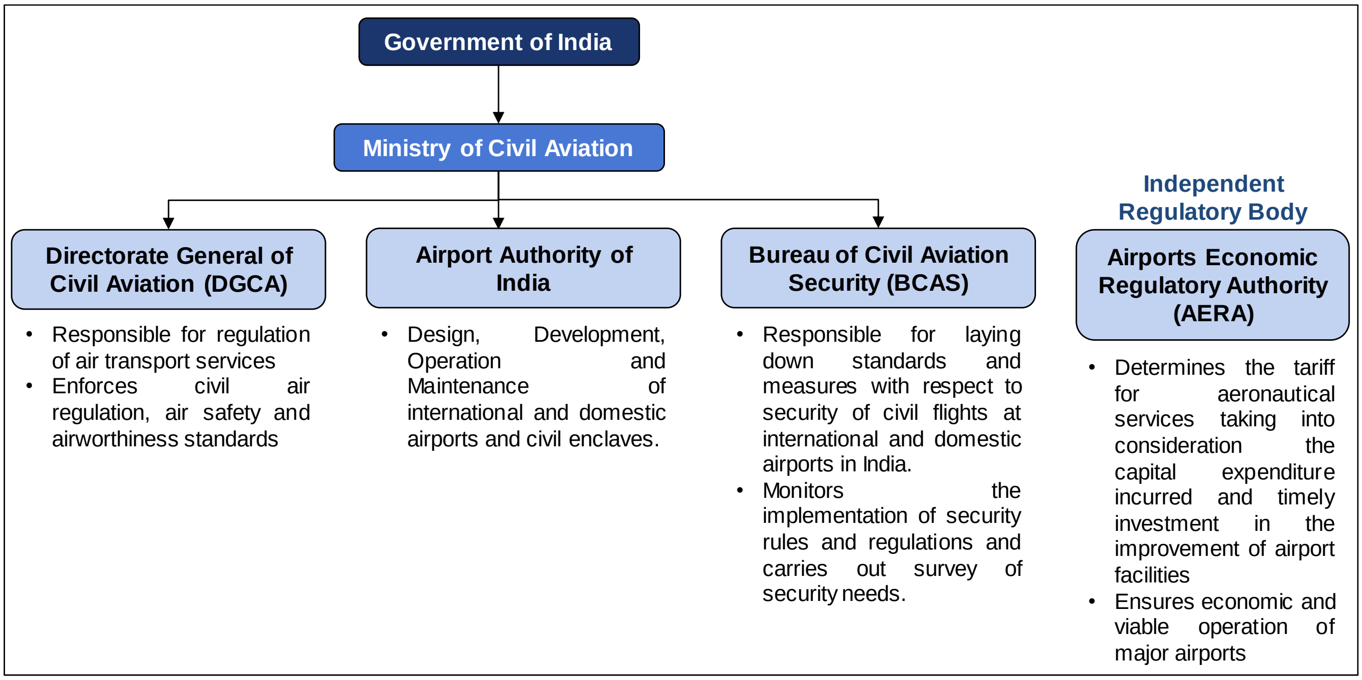
Growth in duty free and retail revenues will likely be supported by: 1) Increasing incomes, 2) rise in number of international passengers and 3) increase in the share of high-ticket items in sales.

Regulatory framework

A brief history

- Earlier, most airports in India used to be under the ownership and control of the Government of India. In 1997, GoI formulated the Airport Infrastructure Policy which permitted private sector's participation with the aim of improving quality and efficiency of services through competition. This led to the development of two greenfield airports – Bangalore and Hyderabad under public-private partnership.
- The Airports Authority of India (AAI) was given the responsibility of ensuring a level-playing field amongst airports, which resulted in a conflict of interest. As a result, the Airports Economic Regulatory Authority (AERA) Bill, 2007, was passed and the AERA Act, 2008 came into effect on Jan 1, '09 which led to the establishment of AERA to regulate tariff and other aeronautical charges.

Chart 62: Current regulatory framework



Source: Industry, I-Sec Research

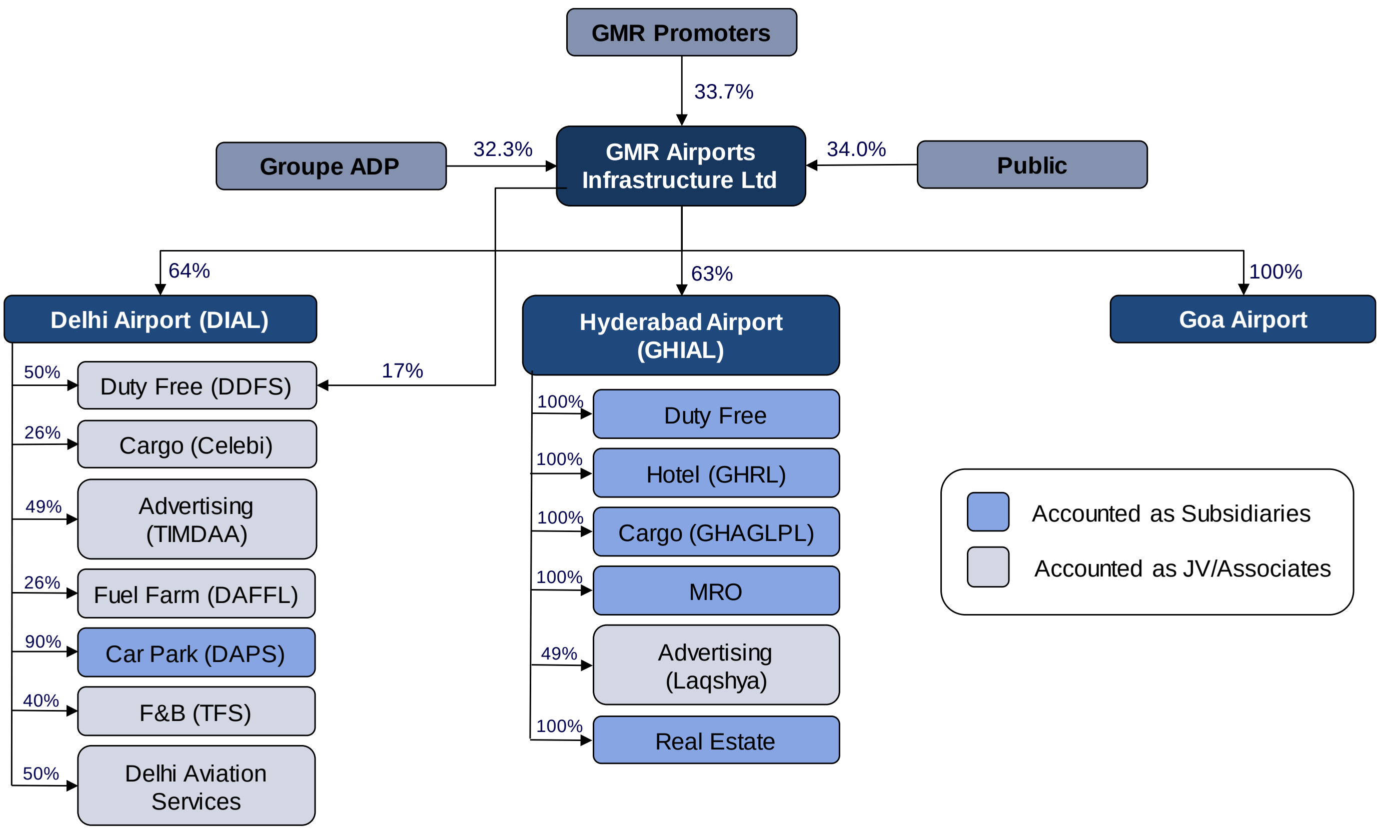
Financial discussion – earnings set for recovery

Earnings are set to improve on rising air traffic especially led by rise in international traffic, rise in spending at the airports and expansion of new airport terminals. Also, the commercial property development will likely provide support to revenues and earnings.

Consolidation of revenues

GMR Airports Infra Ltd. owns 64% stake in DIAL and 63% in GHIAL and owns majority and stake through JV in various non–aero businesses. As a result, many non–aero businesses are not being consolidated on line by line basis.

Chart 63: Non-aero businesses' consolidation



Source: Company, ISEC Research

Accounting for merger

We have accounted for the merger in our financials. As mentioned earlier, the number of equity shares outstanding after merger will grow from 6bn to 10.1bn. Note that however, fully diluted shares on conversion of OCRPS will be 13.6bn. Also, it should be noted that the FCCB is being treated as debt.

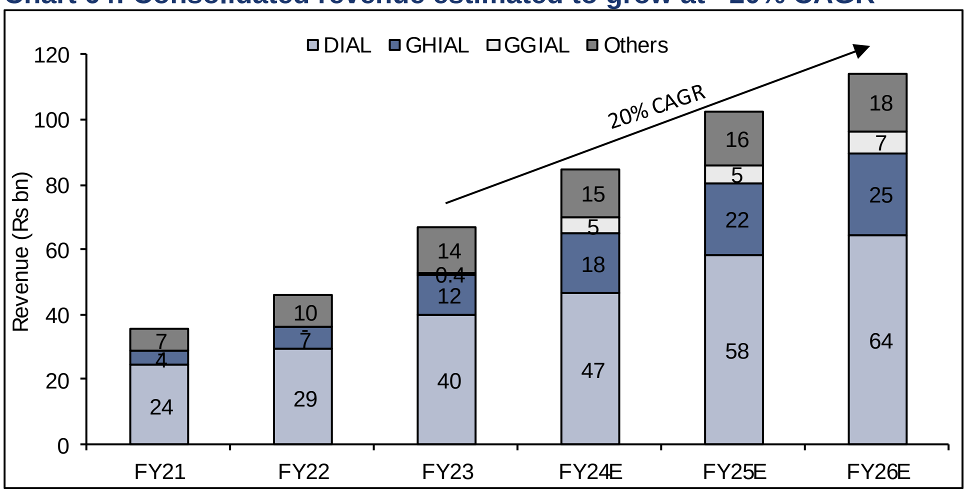
Major assumptions for financials

Table 12: Passenger growth assumptions for DIAL, GHIAL and GGIAL

	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
DIAL										
Domestic (mn)	42	48	51	49	19	33	50	60	67	75
International (mn)	15	17	19	18	3	6	16	19	21	24
Total	**57.7**	**65.7**	**69.2**	**67.3**	**22.6**	**38.9**	**65.6**	**78.7**	**88.1**	**98.7**
% Change		*14%*	*5%*	*-3%*	*-66%*	*72%*	*68%*	*20%*	*12%*	*12%*
GHIAL										
Domestic (mn)	11.9	14.7	17.4	17.7	7.4	11.0	17.7	21.2	23.7	26.6
International (mn)	3.3	3.6	4.0	3.9	0.6	1.4	3.4	4.1	4.6	5.3
Total	**15.2**	**18.3**	**21.4**	**21.7**	**7.9**	**12.4**	**21.1**	**25.3**	**28.3**	**31.9**
% Change		*20%*	*17%*	*1%*	*-63%*	*57%*	*70%*	*20%*	*12%*	*12%*
GGIAL										
Domestic (mn)							0.7	4.0	5.0	6.5
International (mn)								0.5	1.0	1.4
Total							**0.7**	**4.5**	**6.0**	**7.9**
% Change									*33%*	*8%*

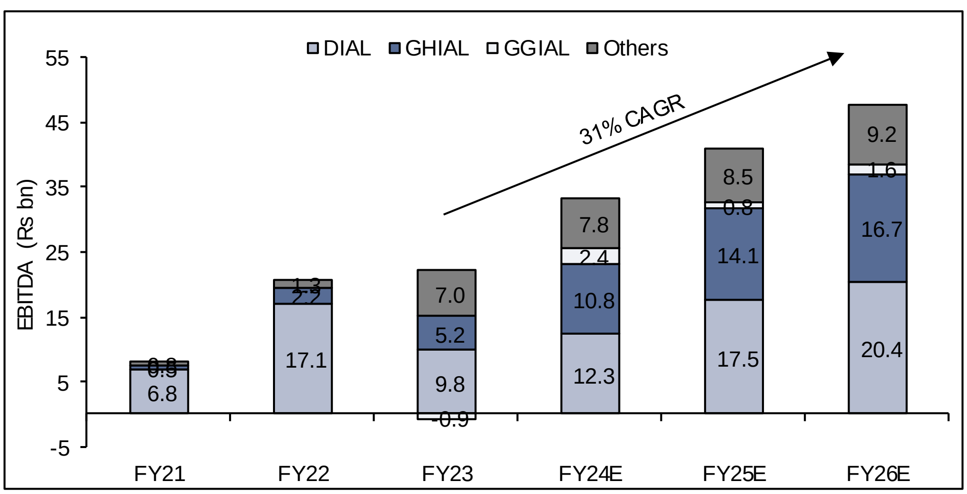
Source: Company, ISEC Research

Chart 64: Consolidated revenue estimated to grow at ~20% CAGR



Source: Company, ISEC Research

Chart 65: Resultant trajectory of EBITDA



Source: Company, ISEC Research

Table 13: DIAL Revenue and EBITDA Projections

Rs mn	FY21	FY22	FY23	FY24E	FY25E	FY26E
Aero Revenue	4,000	6,274	9,376	11,802	13,443	15,158
Non-Aero Revenue	12,782	16,580	24,772	28,510	34,985	39,904
EBITDA	6,832	17,137	9,837	12,309	18,015	21,144

Source: Company, ISEC Research

Table 14: GHIAL Revenue and EBITDA Projections

Rs mn	FY21	FY22	FY23	FY24E	FY25E	FY26E
Aero Revenue	2,781	4,054	7,852	11,767	14,441	16,607
Non-Aero Revenue	1,414	2,595	4,610	6,452	7,535	8,905
EBITDA	531	2,213	5,202	10,608	13,870	16,904

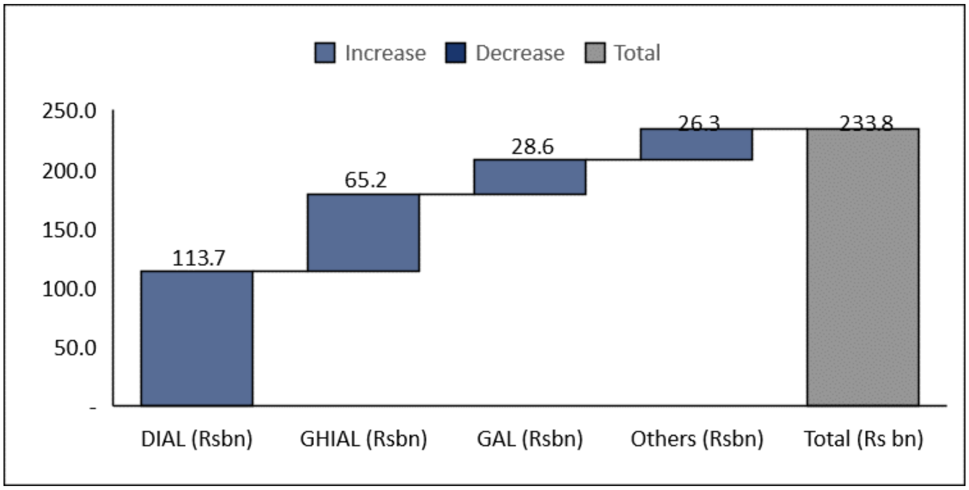
Source: Company, ISEC Research

Table 15: Associate Income Projections

Rs mn	FY21	FY22	FY23	FY24E	FY25E	FY26E
Associate Income	-591	707	860	2,127	2,538	3,008

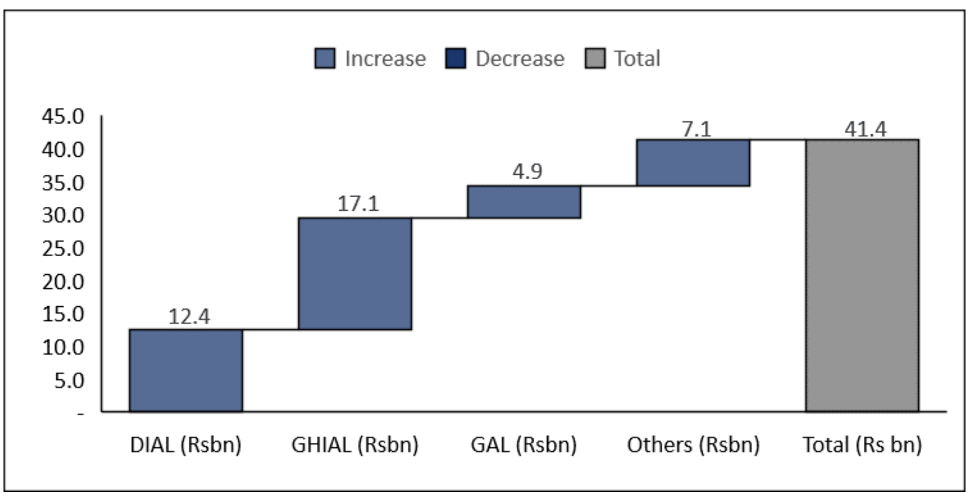
Source: Company, ISEC Research

Chart 66: Net debt of GMR Airports Infra stands at ~Rs230bn as of FY23



Source: Company, ISEC Research

Chart 67: GMR Airports Infra has cash of ~Rs41bn



Source: Company, ISEC Research

Key risks

Risk of unfavorable order non-payment of revenue share (Rs13bn)

DIAL did not pay revenue share from Jan, '21 to Mar, '22 after interim relief was granted to the company by the High Court amidst the force majeure situation caused by covid. The net unpaid amount by DIAL is **Rs13bn**. The matter is currently pending before the arbitral tribunal. In case decision does not come in favour of DIAL, it will be liable to pay Rs13bn. The company though believes the decision will likely be in its favour.

Competition from Noida International Airport (NIAL) (Jewar Airport)

The upcoming Noida International Airport located in Jewar (Uttar Pradesh) is expected to be commissioned towards the end of 2024 with a capacity of 12mn pax. Zurich Airport won the concession to operate the airport for a period of 40 years (2021-2061).

NIAL is 80kms away from DIAL. With the upcoming highway connectivity, there is a chance that NIAL will take some traffic share from DIAL.

Table 16: Zurich Airport was awarded the concession

Bidders	INR per Pax
Zurich Airport	Rs401
GMR Airports (had the RoFR)	Rs351
Adani	Rs360
Anchorage	Rs205

Source: Industry, ISEC Research

Improvement in speed and passenger experience in Railways

The Indian Railways has introduced several new trains and initiatives to reduce travel time and improve overall customer experience:

- New ***Vande Bharat*** trains that have top speed of 160-180kmph are being introduced across the country on various routes. Along with reducing travel times, they also offer a superior experience because of which passengers might choose to shift to rail travel from planes.
- **High speed rail:** Bullet train service is being introduced between Mumbai and Ahmedabad. Introduction of such high speed rail system can reduce demand for air travel on these routes.

While railways do present a risk, we believe it is not a major risk. Air travel penetration is low in India and the country will need both air travel and railway systems to cater to the growing population.

New Regulations

While regulatory environment is improving, there is always a chance of any new regulations being introduced which may be unfavourable from the company's perspective.

Slowdown in air traffic growth

Air traffic growth can be affected due to geopolitical conflicts, pandemics and high prices. While the latter affects tourism more, other factors can impact both business and tourism travellers.

Annexure 1 – DIAL base charges

Landing charges

Table 17: Landing charges

Aircraft Weight	Rate per Landing - International Flight (Rs)	Rate per Landing - Domestic Flight (Rs)
≤ 21 MT	NA	INR 113.30/MT
≤ 100 MT	INR 250.47/MT	INR 187.88/MT
> 100 MT	INR 25,047 + INR 336.60/MT in excess of 100 MT	INR 18,788 + INR 252.45/MT in excess of 100 MT

Source: AERA, I-SEC Research

Landing charges are subject to:

- Minimum charges of Rs1,100 per landing except in case of aircraft with MAUW ≤ 21MT
- 25% surcharge on landing charges for supersonic aircraft
- 5% surcharge on international landing between 23:01-24:00hrs IST (peak hours)
- 5% discount on international landing between 13:01-16:00hrs IST
- 15% reduction on landing charges in case of payments within 15-days credit period for domestic flights
- Domestic leg of international route of Indian operators are treated as domestic flights for the charges.
- No charges for helicopters and domestic aircraft with up to 80 pax seating capacity.

Parking and housing charges

Table 18: Housing charges

Aircraft Weight	Rate per hour
≤ 100 MT	INR 8.14/MT
≥ 100 MT	INR 814 + INR 10.78/MT in excess of 100MT

Source: AERA, I-SEC Research

Parking charges are subject to:

- When aircraft is parked in the open, only half housing charges to be levied. No parking charges for the first two hours.
- Standard time of 15 minutes for touchdown to actual parking plus 15 minutes for parking to take-off is to be added while calculating free parking time.
- For calculating charges, part of the hour is rounded off to the nearest hour.
- Charges to be calculated on the basis of nearest MT.
- Charges to be rounded off to the nearest rupee.
- At in-contact stands, after free parking hours, normal parking charges levied for the first two hours. After this period, the charges are double the normal charges.

Table 19: X-ray baggage charges

Domestic Flights	International Flights
≤ 25 seats: INR 110 26-50 seats: INR220 51-100 seats: INR495 101-200 seats: INR770 ≥ 201 seats: INR880	US$209.55 for all wide body aircraft US$149.33 for all narrow body aircraft

Source: AERA, I-SEC Research

Passenger service fee

- Rs77 per ticket for tickets issued in INR
- US$1.93 per ticket for tickets issued in foreign currencies

Aviation security fee

- Rs200 per embarking domestic passenger
- US$12 per embarking international passenger

User development fee

Table 20: UDF rates

Financial Year	Rate per embarking passenger (Rs)
FY21	65.98
FY22	53.00
FY23	52.56
FY24	51.97

Source: AERA, I-SEC Research

Annexure 2 – GHIAL tariff

Landing charges

Table 21: Landing charges

Aircraft Weight	Rate per Landing - International Flight (Rs)	Rate per Landing - Domestic Flight (Rs)
≤ 100 MT	INR 251/MT	INR 188/MT
> 100 MT	INR 25,100 + INR 337/MT in excess of 100 MT	INR 18,800 + INR 253/MT in excess of 100 MT

Source: AERA, I-SEC Research

Parking and housing charges

Table 22: Housing and parking charges

Aircraft Weight	Housing Charges (Rate/hr)	Parking Charges (Rate/hr)
≤ 100 MT	NA	INR 4.10/hr/MT
≥ 100 MT	NA	INR 410 + INR 5.40/MT/hr in excess of 100MT

Source: AERA, I-SEC Research

Aviation security fee (ASF)

- For domestic passengers, Rs150 (exclusive of GST) per embarking passenger
- For international passengers, US$4.85 per embarking passenger

User development fee (UDF)

Applicable from 1st April, 2023 to 31st March, 2024

- Rs700 (exclusive of GST) charged per embarking domestic passenger
- Rs1,360 (exclusive of GST) charged per embarking international passenger

Applicable from 1st April, 2024 to 31st December, 2025

- Rs750 (exclusive of GST) charged per embarking domestic passenger
- Rs1,500 (exclusive of GST) charged per embarking international passenger

Annexure 3 – Airport regulatory framework worldwide

Table 23: Regulatory Framework of Countries Around the World

Sr. No.	Country	Norms for Till specified	Calculation method for cost of equity	Debt to equity/ debt to paid up capital	Norm for share of ownership
1	Australia	Dual Till	CAPM model	Sydney: 72%/49.5% Melbourne: 75.8%/96%	ACCC does not mandate. The top 21 holders (~91.20% holding) in Sydney do not include any of the government authorities.
2	New Zealand	Dual Till	CAPM and WACC and IRR	Auckland: 28.6%/81%	CC does not mandate. But in Auckland, 45.19% of the total shares are publicly held and traded. Again ~22.15% of the shares are held by Auckland Municipal council
3	United Kingdom	Single Till	CAPM model	Heathrow: 83.4%/99.8% Gatwick: 80%/83%	CAA does not mandate. 100% Shares of Heathrow Airport are held by a private parent company FGP Topco Ltd.
4	South Africa	Single Till	Airport charges regulated with price cap (linked to inflation)	NA	No mandated norm but South African government owns 74.6%
5	Malaysia	Single Till	CAPM model	Malaysia Airport Holdings Berhad: 44%/74.5%	Malaysia Airports owns a number of airports
6	Ireland	Single Till	CAPM model to compute WACC with various factors like baggage, handling time, etc.	Dublin Airport: 48%/85%	State ownership
7	Singapore	Hybrid Till (70-80%)	Sum of (WACC on regulated asset base + WACCC on security asset base)	Changi Airport Group: 7%/14%	Fully government owned
8	Netherland	Dual Till	WACC based on CAPM	Schipol Group: 34.5%/96%	PPP
9	Thailand	Dual Till	CAPM	Airports of Thailand: 21%/66%	70% mandatorily government owned
10	Brazil	Hybrid Till	CAPM	NA	PPP up to 60% observed

Source: AERA, ISEC Research

Annexure 4: Capex Projections

Table 24: Capex Projection by DIAL for Phase 3A Expansion

Rsmn	Categorization	Cost estimate as per Price Discovery
Package 1		
Terminal 1C	Common	3,526
Pier, Node & Balance Part	Common	27,817
Apron Phase 1	Aero	4,865
Apron Phase 2	Aero	3,103
Apron Phase 3	Aero	2,184
Package 2		
Runway 11L/29R	Aero	4,564
North side - Parallel Taxiways	Aero	1,509
North side - Echo-2 Taxiways	Aero	1,874
North side - Runway- 09	Aero	2,762
Other Taxiways & airside Works	Aero	22,285
Package 3		
Landside work	Aero	8,178
Package 4		-
Eastern cross taxiway	Aero	13,642
Package 5		-
Terminal 3 works	Common	1,513
Total		**97,822**

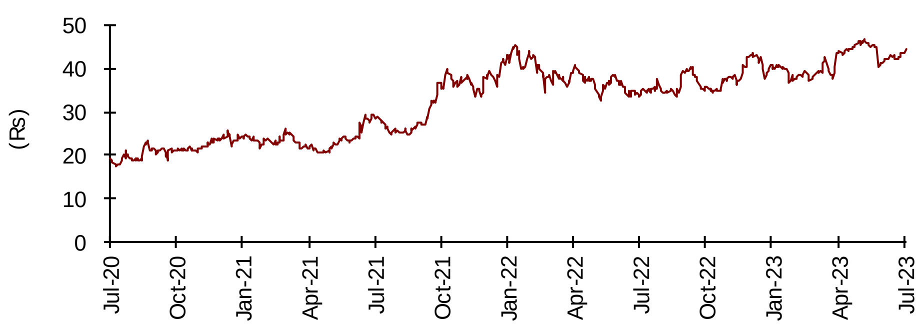
Source: AERA, ISEC Research

Table 25: Capex Projection by GHIAL for Third Control Period

Particulars (In Rsm)	2022	2023	2024	2025	2026	Total
Capacity Expansion to 34 MPPA (a)	11,729	27,370	15,700	-	-	**54,798**
Metro Contribution (b)	-	-	5,195	-	-	**,195**
General Maintenance Capital Expenditure	5,508	4,369	1,350	2,896	1,154	**15,277**
Capex toward PSF Assets (CISF quarters)	943	-	-	-	-	**943**
Total Capex (E) = (sum of a to d)	18,180	31,739	22,245	2,896	1,154	**76,214**
Aeronautical Portion of (e)	16,134	29,255	20,470	2,767	1,153	**69,779**
Non-Aeronautical of (e)	2,046	2,484	1,775	129	2	**6,434**

Source: AERA, ISEC Research

Price chart



Source: Bloomberg

Financial summary

Table 26: Profit and loss statement

(Rs bn, year ending March 31)

	FY23	FY24E	FY25E	FY26E
Operating Income	**66.9**	**85.0**	**102.3**	**114.3**
Less: Revenue Share	19.1	22.5	30.2	33.8
Net Income Post Revenue Share	**47.8**	**62.5**	**72.1**	**80.4**
Operating Expenses	26.6	29.2	31.2	32.6
EBITDA	**21.1**	**33.3**	**41.0**	**47.9**
% margins	44.2	53.3	56.8	59.5
Depreciation & Amortisation	10.4	16.1	18.7	18.8
EBIT	**10.7**	**17.2**	**22.3**	**29.1**
Gross Interest	23.4	28.3	31.9	31.0
Other Income	6.0	2.2	2.2	2.1
PBT before exceptionals	**(6.8)**	**(9.0)**	**(7.4)**	**0.1**
Add: Extraordinaries	0.9	2.1	2.5	3.0
Add: Share in JV	(1.4)	-	-	-
PBT	**(7.3)**	**(6.8)**	**(4.9)**	**3.1**
Less: Taxes	1.1	0.8	1.3	1.7
Less: Minority Interest & Share in associates	(6.6)	(3.9)	(3.6)	(1.2)
Net Income (Reported)	**(1.8)**	**(3.7)**	**(2.6)**	**2.6**
Adjusted Net Income	**(0.4)**	**(3.7)**	**(2.6)**	**2.6**

Source: Company data, I-Sec research

Table 27: Balance sheet

(Rs bn, year ending March 31)

	FY23	FY24E	FY25E	FY26E
Assets				
Total Current Assets	133.0	97.3	94.2	106.2
of which cash & cash eqv.	40.2	3.8	(0.2)	11.2
Total Current Liabilities & Provisions	110.1	89.2	81.3	72.6
Net Current Assets	**22.9**	**8.1**	**12.8**	**33.5**
Investments	44.8	44.8	44.8	44.8
Other Non-Current Assets	4.4	16.0	16.0	16.0
Net Fixed Assets	**147.2**	**240.1**	**223.9**	**207.7**
Goodwill	-	-	-	-
Capital Work-in-Progress	111.7	4.5	6.5	8.5
Total Assets	**331.0**	**313.4**	**304.0**	**310.6**
Liabilities				
Borrowings	319.4	310.5	304.7	306.3
Deferred Tax Liability	-	-	-	-
Minority Interest	17.6	4.0	0.4	(0.8)
Equity Share Capital	6.0	10.6	10.6	10.6
OCRPS	-	2.6	2.6	2.6
Face Value (Rs)	1.0	1.0	1.0	1.0
Reserves & Surplus	(14.0)	(16.0)	(16.1)	(10.0)
Net Worth	**(7.9)**	**(2.9)**	**(2.9)**	**3.1**
Other long term liabilities	1.9	1.9	1.9	1.9
Total Liabilities	**331.0**	**313.4**	**304.0**	**310.6**

Source: Company data, I-Sec research

Table 28: Cashflow statement

(Rs bn, year ending March 31)

	FY23	FY24E	FY25E	FY26E
Operating Cashflow	**1.5**	**8.0**	**12.6**	**20.6**
Working Capital Changes	(12.5)	21.6	8.7	9.4
Capital Commitments	69.7	1.7	4.6	4.6
Free Cashflow	**71.1**	**9.7**	**17.1**	**25.2**
Cashflow from Investing Activities	**6.8**	**-**	**-**	**-**
Issue of Share Capital	-	-	-	-
Buyback of shares	1.0	2.0	3.0	4.0
Inc (Dec) in Borrowings	54.3	(9.0)	(5.8)	1.6
Interest paid	23.4	28.3	31.9	31.0
Dividend paid	-	-	-	-
Extraordinary Items/Others	**(133.9)**	**(67.5)**	**(50.1)**	**(50.5)**
Chg. in Cash & Bank balance	**22.7**	**(36.5)**	**(3.9)**	**11.4**

Source: Company data, I-Sec research

Table 29: Key ratios

(Year ending March 31)

	FY23	FY24E	FY25E	FY26E
Per Share Data (in Rs)				
Diluted adjusted EPS	-0.0	-0.4	-0.2	0.2
Recurring Cash EPS	0.9	1.2	1.5	2.0
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	-0.8	-0.3	-0.3	0.3
Growth Ratios (%)				
Operating Income	45.5	27.0	20.4	11.6
EBITDA	2.2	57.4	23.2	16.8
Recurring Net Income	-88.6	757.0	-31.6	-200.4
Diluted adjusted EPS	-88.6	757.0	-31.6	-200.4
Diluted Recurring CEPS	97.2	23.7	30.9	31.9
Valuation Ratios				
P/E	-1,090.3	-127.2	-185.9	185.2
P/CEPS	47.6	38.5	29.4	22.3
P/BV	-59.9	-165.2	-162.7	151.3
EV / EBITDA	13.7	9.3	7.4	6.2
EV / Operating Income	4.3	3.6	3.0	2.6
EV / Operating FCF (pre - Capex)	2.1	27.1	13.9	10.0
Operating Ratios				
Rev Share/Sales (%)	28.6	26.5	29.5	29.6
Other Income / PBT (%)	-82.1	-32.2	-45.2	65.9
Effective Tax Rate (%)	15.7	12.2	25.8	55.7
NWC / Total Assets (%)	32.3	75.4	73.7	63.3
Inventory Turnover (days)	23.2	23.2	23.2	23.2
Receivables (days)	26.4	26.4	26.4	26.4
Payables (days)	4.0	4.0	4.0	4.0
Net D/E Ratio (x)	-35.2	-106.7	-104.4	94.0
Return/Profitability Ratios (%)				
Recurring Net Income Margins	-0.7	-4.4	-2.5	2.2
RoCE	2.9	4.9	5.5	4.2
RoNW	5.5	129.8	87.5	81.7
Dividend Payout Ratio	-	-	-	-
Dividend Yield	-	-	-	-
EBITDA Margins	31.6	39.2	40.0	41.9

Source: Company data, I-Sec research

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