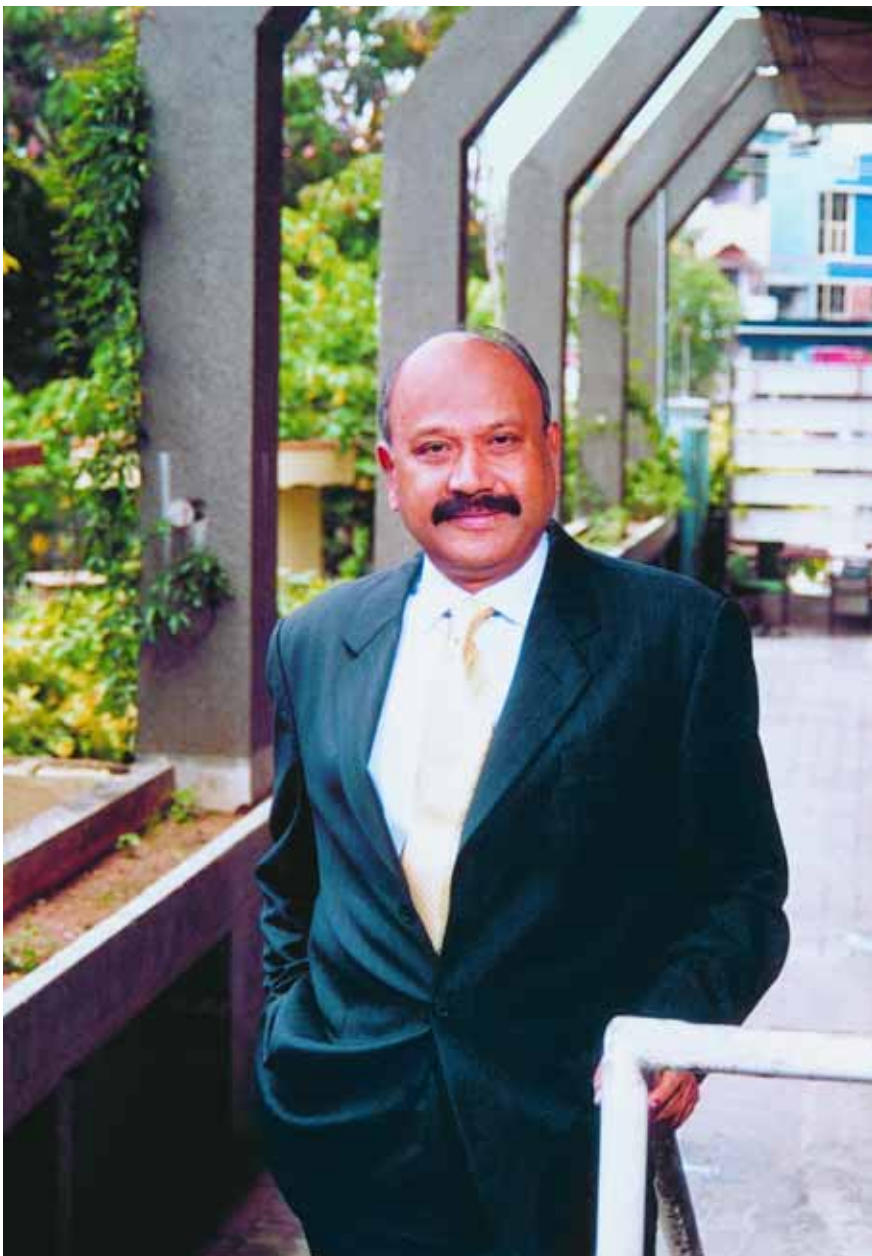


Flying high

Hyderabad's GMR and GVK group have bagged contracts to develop airports at India's biggest cities. An India Now report



BETTING ON INFRASTRUCTURE: G.M. Rao, chairman and managing director, GMR Group

Two companies made it to the headlines of Indian newspapers recently. A consortium led by the GMR group bagged a contract to operate, manage and develop the Delhi airport. The same day another consortium led by the GVK group was awarded a similar contract for the Mumbai airport. What is common here, however, is that both companies have origins in India's southern city of Hyderabad.

For both companies, this was a significant achievement. One, these bids were won amidst intense competition. The Anil Ambani-run Reliance which had placed its bid alongwith ASA, a Mexican airport, is battling it out in courts against them. After losing its case in the Delhi High Court, the matter is now being argued in the Indian Supreme Court.

Mumbai and Delhi airports are, after all, jewels in the Airports Authority of India's crown. AAI is the government authority that monitors and manages airports in India, and Mumbai and Delhi airports put together account for some 76 per cent of its revenues. Both airports continue to bring in more than half international traffic coming into the country. But the move towards privatisation was in keeping with a decision taken by the government in 2003, to encourage private-sector participation in Indian airports.

Post privatisation, AAI will retain a minority stake in Delhi airport but will hand

overall day-to-day management to GMR. The GMR consortium, on the other hand, will invest nearly \$2 billion in upgradation work to make up for constraints at the airports that have increased with rise in passenger and cargo traffic.

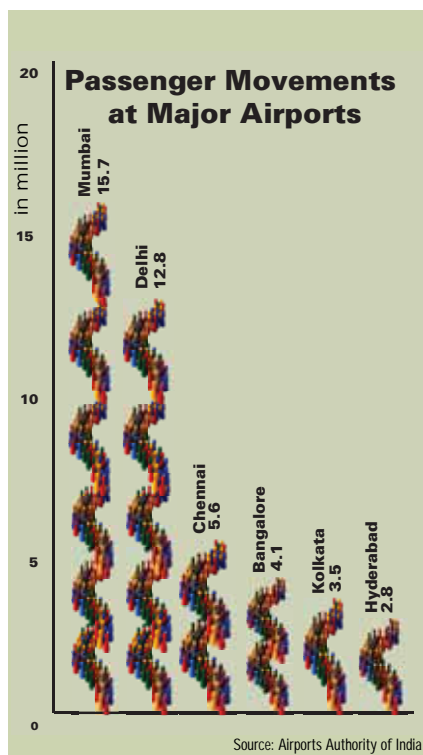
In India, growth in infrastructure has for long not kept pace with demand. According to the DGCA (Directorate General of Civil Aviation), in the financial year 2005, India's 126 airports handled 59 million passengers and 1.2 million tonnes of cargo. This was 21.7 per cent higher than the previous year. The combined air passenger traffic at the four metro airports of Mumbai, Delhi, Kolkata and Chennai has grown almost six-fold in the last 30 years.

According to the Centre for Monitoring Indian Economy, Indian air carriers have finalised orders for more than 500 aircrafts, with deliveries extending to 2010. If the orders are fully delivered, the Indian aviation industry will add capacity by about 78,000 seats.

Yet Mumbai and Delhi airports stand at the 80th and 109th post when compared to airports across the globe. "We have a lot to do," says G.M. Rao, chairman and managing director, GMR group. The GMR-led consortium includes Malaysia Airports and



FLYING HIGH: G.V.Krishna Reddy, chairman, GVK Industries



ON THE LONG ROAD

GMR Industries, listed on the Bombay Stock Exchange, has interests in the energy, roads and aviation sector. The government's ninth plan has targeted a capacity addition of 40,245 MW, of which 24.4 per cent will come from hydro electricity, 73 per cent (from thermal) and 2 per cent from nuclear. It is now targeting an installed capacity of 212,000 MW by 2012.

GMR owns a 220 MW naphtha-fired power plant in Mangalore, in the state of Karnataka, and a 200 MW Low and High Speed Diesel-fired plant in Chennai in the state of Tamil Nadu, and a 388 MW gas-fired power plant in Vemagiri in the state of Andhra Pradesh. It also has the licence to develop a 140 MW hydroelectric power plant in the state of Uttaranchal. In roads, India has one of the largest networks in the world comprising 3.3 million kilometers. Today roads in India

account for 85 per cent of passenger traffic and 70 per cent of freight, making it the main artery for commuting across the country. Traffic on the Indian roads too has been growing at 7-10 per cent per annum.

GMR has developed a 59-kilometre stretch on the Chennai-Kolkata highway, a 93-kilometre stretch on the Chennai-Dindigul highway, and an 86-kilometre stretch on the Hyderabad-Nagpur highway.

The company now plans to develop annuity projects. Under such projects, the company will receive a fixed amount from the National Highway Authority of India for 15 years. In future it plans to develop a 35-kilometre stretch on the New Delhi-Chandigarh Highway, a 46-kilometre stretch on the Hyderabad-Bangalore highway, and a 73-km stretch on the Chennai-Dindigul highway.



MAKING THE MOST OF IT: Sanjay Reddy, executive director, GVK Industries



THE WING BENEATH: Kiran Gandhi, managing director, Hyderabad International Airport

GVK expects its revenues by 2021 to come largely from non-aeronautical services - like development of commercial estate and cargo.

the India Development Fund, and its investment will be \$700 million to upgrade the Delhi airport.

"Infrastructure will be a key growth area for the group," adds Rao, who was on a trip to Mumbai on a roadshow prior to an initial public offering on the Bombay Stock Exchange. The GMR group has interests in various other businesses (see box), but the members of the GMR family - eldest son G.S. Raju and the youngest Kiran Grandhi - are now more involved in the development of these airports. "All other businesses are

looked after by professional managers. It is largely in the airports business that the family keeps a keen interest," says an analyst with Indiainfoline.com.

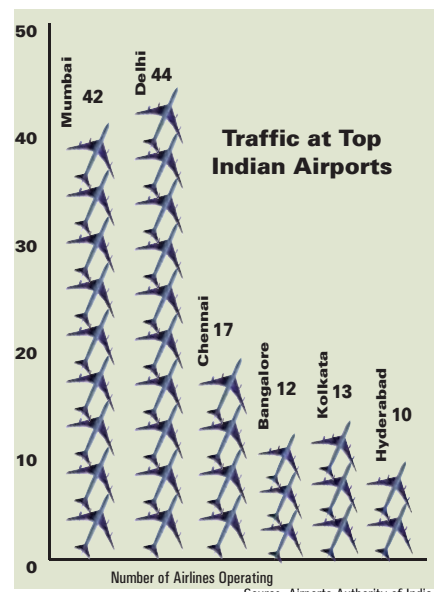
GMR has a 50.1 per cent interest in the Delhi airport. Apart from operation, development and management, it will carry out aeronautical services, and develop real estate around the airport. "This will happen for the first 30 years and can be extended to another 30 years," says Gandhi. While GMR has paid AAI an upfront fee of \$3 million, it will continue to annually pay it 46 per cent of revenues.

GMR's profits will come largely through the services it delivers. From flights and passengers passing through the airport, through landing charges, parking charges, and passenger service fees. Real estate surrounding the airport will be developed - including hotels and business parks, which it can either lease or rent to another developer.

This is not GMR's first project. Back in year 2000, the Group bagged a contract to build a greenfield airport at India's southern city of Hyderabad. Being built in corporation with Malaysia Airports Holding at a cost of \$390 million, this airport will be complete by March 2008. Its capacity is being increased to handle seven million

passengers and 100,000 tonnes of cargo, annually.

With a runway length of 4,260 metres and a width of 75 meters, it will be able to handle wide body aircraft like the A-350 and A-380. Significantly, GMR will retain 94 per cent of profits in the Hyderabad airport. "That's a significant amount in the long run," says Vallabh Bhansali, chief executive officer, Enam Securities.



SPREADING OUT

The GVK group has interests in many sectors like power, roads and urban infrastructure, to bio-science, hotels and manufacturing. It has identified power and infrastructure as its core businesses in future.



GVK Power & Infrastructure is the holding company for the power business, and is a listed entity. It owns a 53 per cent stake in GIL, which has a 216-MW power plant in Jegurupadu in the south of India, and another Phase II 220-MW power plant that it will set up in the same location. Next in line is the Peddapuram project, a 464 MW dual fuel power plant, also in south India, which started to generate power from September this year. The company entered into a contract in 1996 to sell all the power it generates in its plants to the Andhra Pradesh Distribution Company, a state-owned body, for 18 years, renewable for another 15 years.

In roads, it has a build, operate and transfer project in Jaipur valued at \$15.21 million. The group is also a bidder for other airports, ports and mass rapid transit systems across India. It has also been in the hotel business since 1999.

In a joint venture with the Taj Group, it has three Taj hotels under its belt. In 2005 it bought a fourth hotel in Chandigarh, also under the Taj banner. Now it plans to double its room capacity from around 500 to more than 1,000 by the end this year. There are other businesses too. Its biotech business, that does contract research work, serves eight of the top 10 pharma companies in the world, and through its research facilities in Hyderabad, about 30 companies based in Europe or the US. It has also launched a non banking finance company with operations in investment banking and corporate finance.

In manufacturing it has a presence in particle boards. A joint venture with Novopan has set-up a particle board plant with a capacity of 45,000 cubic meters boards per annum near Hyderabad. And in petrochemicals, it manufactures high tech thermosetting resins.

Payment of an annual concession fee of 4 per cent to AAI is deferred until the 11th year of commercial operation.

GVK, on the other hand, has lined up more than \$1 billion to invest in the Mumbai Airport over the next 20 years. The airport is owned today by GVK (76 per cent) and its partner, the South Africa airport. Like the Delhi Airport, here too GVK will take over all management control for 30 years, which can be extended by another 30. While AAI does not hold an equity interest in this airport, about 38 per cent of revenues will be shared with it.

International traffic is higher in Delhi, but Mumbai is by far the busiest airport in India. The Mumbai airport accounts for 37 per cent of India's air traffic, and handled over 17 million passengers last year and about 490,000 tonnes of cargo. Once the

second runway is fully operational, the Mumbai airport will be able to handle 25 million passengers.

Yet unlike the 4,500 acres for development around the Delhi airport, the Mumbai airport has just 1,500 acres. "There are encroachments and infrastructural constraints," says G.V. Sanjay Reddy, son of group head G.V.K. Reddy. Airport development will thus take place in three phases, the first being a plan to improve facilities in select areas. All employees will be retained for three years, an issue that had threatened to de-rail the privatisation process right from the start. At the end of three years while 60 per cent of the staff will be retained, the rest will be re-absorbed into the AAI.

To do all this GVK has appointed two consultants - Netherlands Airports Consultants B.V. and Singapore's Changi

The GMR consortium will invest nearly \$2 billion in upgradation work.

Airport. They will help GVK develop a plan for implementation. This will include building a second runway, constructing rapid exit taxiways, realigning the existing parallel taxiway, and constructing a cargo terminal, and will be financed through a combination of internal cash generation, fresh capital infusion by the sponsors, and bank loans. The debt/equity ratio has been capped at 4:1. "We would like to increase capacity to 40 million passengers annually," adds Reddy.

GVK expects its revenues by 2021 to come largely from non-aeronautical services - like development of commercial estate - and cargo revenues. Its single biggest expenditure will be payment to AAI. EBID-TA (earnings before interest depreciation tax and amortisation) will reduce to 17.9 per cent of revenue for 2007, after providing for the revenue share to AAI. "Post that it can increase to 40.2 per cent by 2017-18, due to an increase in non-aeronautical revenue and income from real estate development," says S. Nanda Kumar, an analyst from Fitch Ratings. "Thereafter, it is projected to stabilise in the range of 33-39 per cent, on account of lowering landing charges and passenger fees charged. The airport, however, itself has a track record of growing revenues and profitable operations. This should provide a good launch pad for the venture."

Both GMR and GVK are today at the forefront of airport development in India. Yet ask one to comment about the other, and both refrain from doing so. "In a privatised environment, Delhi and Mumbai airports become natural competitors," says an analyst.

But take a walk outside the Hyderabad airport, which is now run by GMR, and almost every advertisement you'll see belongs to GVK. Yet GVK was incorporated in Delhi, and GMR shifted base to Bangalore recently. That's the curious case of the Gs of Hyderabad. 🌈