Gujarat Pipavav Port Limited

Buy

BP WEALTH
BP EQUITIES

Ports | Initiating Coverage **10th October 2011**

Robust growth in container and bulk volumes to drive growth

Company Description

Gujarat Pipavav Port Limited (GPPL) is managed and operated by APM Terminals (43.01% stake), the ports and terminals company of the maritime giant, the A.P. Moller-Maersk Group . GPPL is located just 152 nautical miles from Nhava Sheva in Mumbai or 10 hours steaming time providing excellent access to the main shipping lines as well as to the cargo belt in the northwestern region of India. GPPL has an exclusive right to develop and operate the Pipavav Port until September 2028 under the concession agreement with Gujarat Maritime Board (GMB) and Government of Gujarat (GoG).

Investment Rationale

Strong growth in coal and fertilizer volume to drive bulk cargo growth

GPPL has shown robust growth in its bulk volumes during the last three years on the back of strong growth in coal and fertilizer traffic. Bulk volume has doubled over CY07-CY10 from 1.66 mtpa to 3.38 mtpa and going forward we expect bulk volume to achieve 16.5% CAGR over CY11E-CY15E as new coal based power plants of ~3,200 MW are being set up in the port's vicinity over the next 3-4 years. Coal requirement for these power plants would be ~12 mtpa which will provide an impetus to GPPL's coal volumes. GPPL has held preliminary talks with these power plants for coal handling contracts and fertilizer business is also expected to improve on the back of robust domestic demand driving overall bulk cargo growth at the port.

Robust growth in container volumes

Container traffic is generally said to grow at 1.5 times the GDP growth rate and container traffic has achieved ~14% CAGR at all Indian ports during the last 10 years. GPPL has achieved 34% CAGR in its container volumes over CY07-CY10 and we believe strong GDP growth and faster growth in external trade would drive growth in container volumes across the country. Since GPPL is located on the western coast close to the key cargo rich markets of northwestern India, we believe the port would achieve at least 17% CAGR in its container volumes over CY11E-CY15E.

Capacity constraints at Mumbai ports to benefit GPPL

Capacity utilization for Mormugao, Mumbai, Kandla and JNPT ports, all located on the western coast, were 122%, 123%, 94% and 100% respectively during FY11 due to which we believe incremental container traffic arising over the coming years would flock to non-major ports located on the western coast such as Mundra and Pipavav port. Pipavav port can treble its container capacity to 3.6 mn TEUs from the current 1.2 mn TEUs and it also has superior road and rail connectivity to cargo rich north-western markets which makes it a preferred port of call for container lines.

Benefits of strong promoters

GPPL is managed by A.P. Moller-Maersk (APMM) group, one of the largest container terminal operator in the world due to which GPPL has benefits like access to modern technology, operational know-how, best industry practices, increased bargaining power and competitive rates for purchase of port equipment. Maersk line and Safmarine Container Lines belonging to APMM group are amongst GPPL's largest clients. APMM group contributed 30% towards GPPL's total revenues during CY10.

Valuation & Outlook

The company has repaid significant amount of its debt during the past 18 months which has reduced its interest payment substantially and going forward on the back of capacity and margin expansion we believe GPPL to post healthy revenue and profits. At CMP the stock is trading at 12.9x CY13E EV/EBITDA and 20.5x CY13E P/E. We initiate coverage on GPPL with a BUY rating and have arrived at target price of Rs 79 based on DCF valuation which implies 16.2% upside from the current levels.

Key Financials					
YE December (Rs mn)	**CY09**	**CY10**	**CY11E**	**CY12E**	**CY13E**
Net Sales	**2,207**	**2,839**	**3,654**	**4,271**	**5,173**
Sales Growth (Y-o-Y)	31.9%	28.6%	28.7%	16.9%	21.1%
EBITDA	**503**	**1,174**	**1,599**	**2,050**	**2,638**
EBITDA Growth (Y-o-Y)	295.3%	133.5%	36.2%	28.2%	28.7%
Net Profit	**(1,164)**	**(547)**	**359**	**805**	**1,405**
Net Profit Growth (Y-o-Y)	NA	NA	NA	124.4%	74.6%
Diluted EPS	**(3.9)**	**(1.6)**	**0.8**	**1.9**	**3.3**
Diluted EPS Growth (Y-o-Y)	NA	NA	NA	124.4%	74.6%
Key Ratios					
EBITDA (%)	22.8%	41.3%	43.8%	48.0%	51.0%
NPM (%)	-52.7%	-19.3%	9.8%	18.8%	27.2%
RoE (%)	-33.7%	-10.5%	4.8%	9.9%	15.2%
RoCE (%)	-0.05%	4.9%	8.0%	10.9%	13.9%
Debt / Equity (x)	3.5x	1.1x	0.9x	0.8x	0.7x
Valuation Ratios					
P/E (x)			80.3x	35.8x	20.5x
P/BV (x)			3.7x	3.4x	2.9x
EV/EBITDA (x)			21.9x	17.0x	12.9x

Source: Company, BP Equities Research

Stock Rating

BUY	HOLD	SELL
■		
> 15%	-5% to 15%	< -5%

Sector Outlook **Bullish**

Stock

CMP (Rs)	68
Target Price (Rs)	79
BSE code	533248
NSE Symbol	GPPL
Bloomberg	GPPV IN
Reuters	GPPL.BO

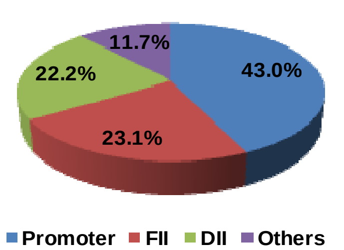
Key Data

Nifty	4,888
52WeekH/L(Rs)	75.1/49.0
O/s Shares (mn)	423.56
Market Cap (Rs mn)	28,690
Face Value (Rs)	Rs 10

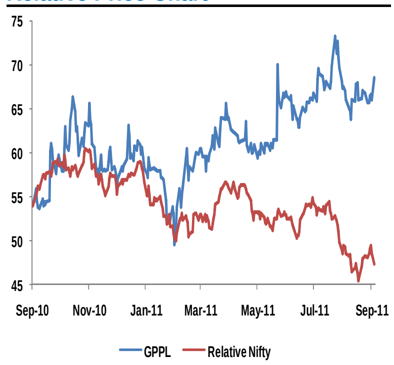
Average volume

3 months	449,655
6 months	335,869
1 year	469,163

Share Holding Pattern (%)



Relative Price Chart



Research Analyst

Jinit Mehta

jinitmehta@bpwealth.com

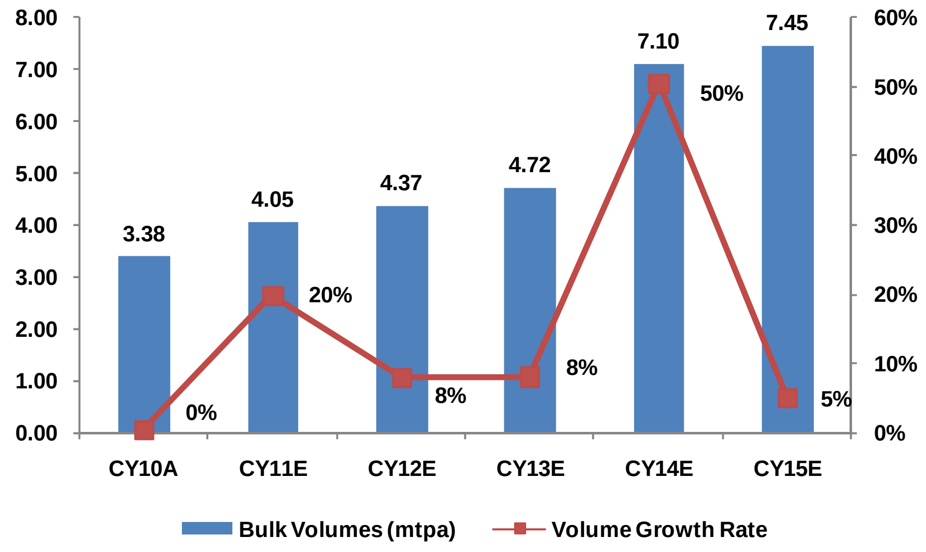
022-61596408

Investment Rationale

Strong growth in coal and fertilizer volume to drive bulk cargo growth

GPPL's bulk volume has doubled from 1.66 mtpa to 3.38 mtpa over CY07-CY10 and has achieved a CAGR of ~27% during that period. Coal and fertilizers form most of the bulk volumes at the port. Over the next few years there are new thermal power projects being set up in the port's vicinity due to which there would be increased demand for imported coal from these power companies. ~3200 MW of thermal power plants are being planned by these companies which roughly translates into coal requirement of ~12.0 mtpa. GPPL has held preliminary talks with these power plants for coal handling contracts. Fertilizer business is also expected to improve on the back of robust domestic demand. We expect the company to achieve a CAGR of 16.5% over CY11E-CY15E in its bulk volumes.

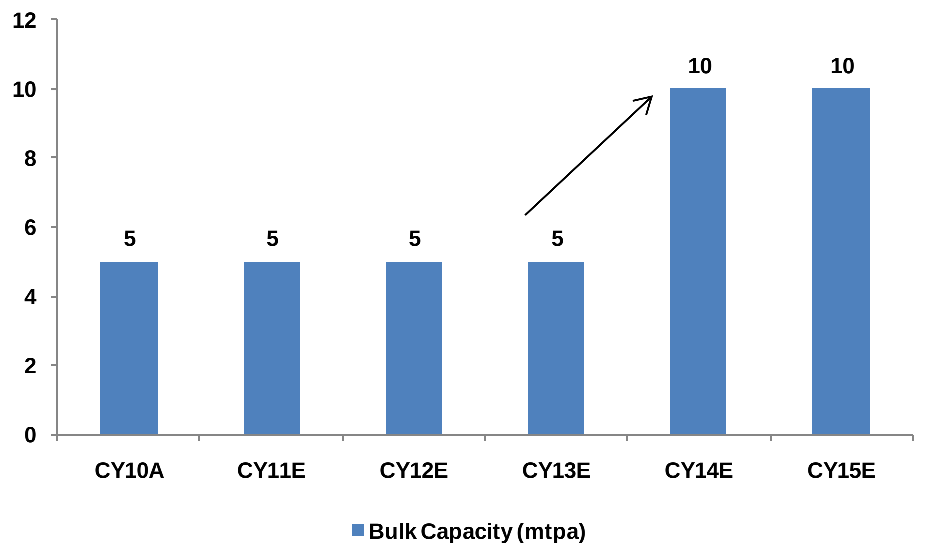
Figure: Growth in bulk volumes



Source: Company, BP Equities Research

Bulk volume is expected to increase substantially CY14 onwards as new coal based power projects would provide a fillip to coal volumes.

Figure: Growth in bulk capacity



Source: Company, BP Equities Research

GPPL has the potential to treble its bulk capacity from the current 5 mtpa to 15 mtpa. We believe the company to increase its bulk capacity to 10 mtpa by CY14E

New thermal power projects to drive bulk volumes

As mentioned earlier there are new thermal power projects being set up in port's vicinity. The Videocon group is already in the process of constructing a 1,200 MW imported coal based power project at Pipavav. Financial closure has already been achieved for the project and ordering of equipments has also been done through BHEL. The project is to be carried out in two phases and we believe the first phase to be completed by FY14. Total coal requirement for the project is expected to be around 6 mtpa.

Torrent Power has signed a shareholder's agreement with Gujarat Power Corporation Limited to develop a 1,000 MW coal based power project at Pipavav in Amreli district. The project would initially have a capacity of 1,000 MW which would later be increased to 2,000 MW.

Similarly, Visa Power and Simplex are also planning to set up coal based power plants of 1,320 MW and 1,000 MW respectively near Pipavav. However we haven't factored the potential upside from these power plants.

Liquid cargo - Low revenues with high margins

Pipavav port has liquid cargo capacity of around 2 mtpa. Aegis Logistics, Gujarat Petrochem India Pvt Ltd and IMC have signed lease agreements with the company wherein GPPL will lease out its land to these companies to be used for fuel farms and liquid cargo.

Aegis Logistics would take on lease 75 acres of land at Pipavav port to develop a 600,000 kilo litres (kl) oil terminal and a petrochemical complex which we believe would be completed by CY13.

Aegis Gas is expected to develop on its existing 25 acres of land at the port a tankage facility of 70,000-100,000 kl capacity.

Gulf Petrochem is setting up a 100,000 kl tank facility at the port by CY12 by taking on lease ~22 acres of land.

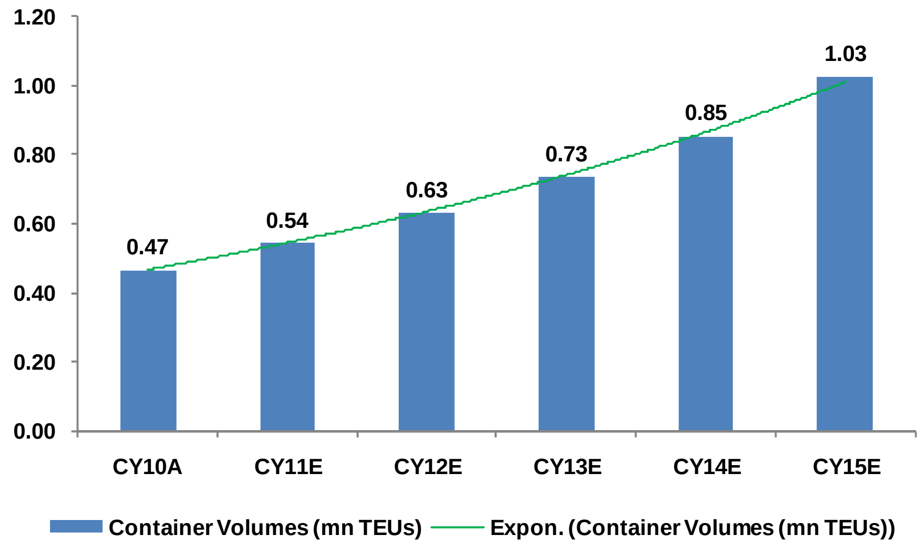
GPPL recently signed an agreement with IMC wherein IMC will take on lease ~25 acres of land to develop tankage facility at the port. IMC is India's largest independent bulk liquid storage company.

GPPL is expected to earn revenue in the form of lease rentals from land and charges for the usage of sea side facilities from these contracts. Margins from these contracts are expected to be close to 75-80% as they are based on lease-rental model. Revenue contribution from the liquid cargo is expected to be low for next 2-3 years but could increase as and when expansion happens.

Robust growth in container volumes

India has been experiencing robust growth of 16% to 19% in its container volume for the past few years and the trend is expected to continue on the back of strong GDP growth in the county. Container traffic at all Indian ports have increased at ~14% CAGR over the last 10 years. Container volumes is said to grow at 1.5x times the GDP growth rate of the county and going forward it is expected that along with strong GDP growth rate, faster growth of external trade would provide a fillip to the container volumes in the country. Gateway ports located in the northwestern region have been on a strong growth trajectory and it provides 65% of the total container trade volume in India. GPPL is strategically located on India's west coast, close to the country's cargo rich market of northwestern India due to which we expect the company's container business to achieve CAGR of over 17% from CY11E to CY15E. The container volumes have increased from 0.19 mn TEUs (twenty foot equivalent units) in CY07 to 0.47 mn TEUs in CY10 thereby achieving a CAGR of 34% during that period.

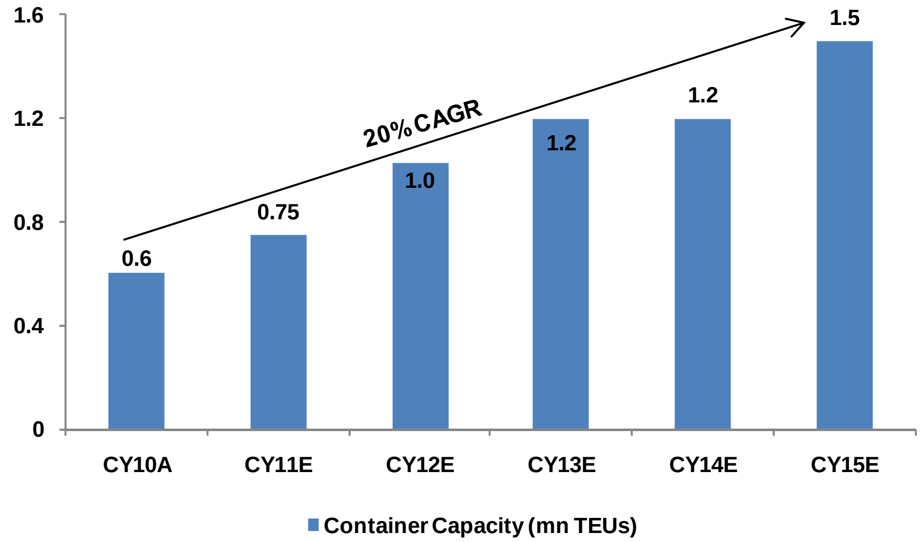
Figure: Growth in container volumes at Pipavav port



Source: Company, BP Equities Research

Container volumes at the port are expected to increase significantly and would achieve 17% CAGR over CY11E-CY15E

Figure: Growth in container capacity (land side) at Pipavav Port



Source: Company, BP Equities Research

The port has the potential to treble its quayside container capacity from 1.2 mn TEUs to 3.6 mn TEUs

GPPL to benefit as Mumbai ports are faced with capacity constraints

JNPT handled 4.27 mn TEUs against its container capacity of 4.0 mn TEUs during FY11 implying that it operated at close to 107% capacity utilization level. With container traffic showing robust growth, ports in Gujarat such as Mundra and Pipavav are attracting incremental container business due to under capacity at Mumbai ports. The proposal to set up a fourth terminal of 4.4 mn TEUs capacity at JNPT has been getting delayed continuously for various reasons due to which we believe the terminal wouldn't become operational before CY15. This we believe would lead in container shipping lines flocking to Mundra and Pipavav port which have the necessary capacity to handle the container traffic over the coming years.

Container traffic handled at major ports (in mn TEUs)

Major Ports	FY10	FY11	Y-o-Y change (%)
Kolkata	0.50	0.53	4.8%
Paradip	0.004	0.003	-25.0%
Visakhapatnam	0.10	0.14	48.5%
Ennore	0.00	0.00	NA
Chennai	1.22	1.52	25.2%
Tuticorin	0.44	0.47	6.1%
Cochin	0.29	0.31	7.6%
New Mangalore	0.03	0.04	25.0%
Mormugao	0.01	0.02	38.5%
Mumbai	0.06	0.07	25.9%
JNPT	4.09	4.27	4.4%
Kandla	0.15	0.16	8.8%
All Ports	**6.89**	**7.54**	**9.4%**

Source: IPA, BP Equities Research

High capacity utilization at major ports located on India's west coast

Capacity utilization for Mormugao, Mumbai, Kandla and JNPT ports were 122%, 123%, 94% and 100% respectively during FY11. All these ports are located on India's west coast which shows that these ports do not have enough capacity currently to handle additional traffic emerging from the key cargo rich northwestern hinterland. Thus non-major ports located on India's west coast such as Pipavav port and Mundra port would benefit going forward.

Capacity utilization at major ports during FY11

Major Ports	Capacity (mn tonnes)	Capacity Utilization (%)
Kolkata	16.35	77%
Haldia	50.70	69%
Paradip	76.50	73%
Visakhapatnam	64.93	105%
Chennai	79.72	77%
Ennore	31.00	36%
Tuticorin	27.04	95%
Cochin	40.98	44%
New Mangalore	45.57	69%
Mormugao	41.00	122%
Mumbai	44.53	123%
Kandla	86.91	94%
JNPT	64.00	100%
Total Capacity	**669.23**	**85%**

Source: IPA, BP Equities Research

Strategically located; Good connectivity

⇒ Proximity to vast cargo-rich hinterland

GPPL is strategically located on India's west coast near the entrance of the Gulf of Khambat on the main maritime trade route which caters to key international markets like the Middle East, Asia, Africa, United States, Europe etc. The port's proximity to cargo-rich markets of Gujarat and northwestern India provides it with a clear and strategic edge over its competitors. GPPL offers quick and efficient transit times as it is located just 152 nautical miles from Nhava Sheva in Mumbai (~10 hours' streaming time).

⇒ Good connectivity through rail and road

- **Rail Connectivity**

Port Pipavav is connected to its vast hinterland by the broad gauge Indian Railways rail network . The 269 km long dedicated railway line is maintained by PRCL which is 38.8% owned by GPPL. The port was the country's first port to receive double stacked container trains, operating between Inland Container Depot (ICD) Kanakpura (Jaipur) and the port, on the back of which there has been a reduction in cost and evacuation time.

Source: Company Website

Figure: ICD - Rail Distances to port

ICD	Distance (km)
Tughlakabad	1333
Sabarmati	398
Jaipur	980
Jodhpur	810
Amritsar	1726
Ludhiana	1590
Indore	910

Source: Company Website

Source: Company Website

- **Road Connectivity**

Pipavav port has developed an 11 km, a four-lane expressway which connects the port to National Highway 8E. The highway was previously known as Coastal Highway 6, and was upgraded significantly after its conversion to NH 8E. In addition, the Ahmedabad-Dholera central spine road would be extended up to Port Pipavav. It would be a 10-lane road and the extension will provide alternate port connectivity to the Special Investment Region. This project has been fast-tracked, and the government has allocated 26,000 hectares of the required 36,000 hectares.

Source: Company Website

Figure: Road distance to port

City	Distance (km)
Ahmedabad	337
Amreli	90
Baroda	341
Bhavnagar	140
Jamnagar	318
Mahuva	40
Porbandar	253
Rajkot	230
Veraval	170

Source: Company Website

Excellent Infrastructure

⇒ Port Pipavav is an all-weather port situated directly across from two islands - Shial Bet and Savai Bet -which act as a natural breakwater, making the port safe in all weather conditions.

⇒ The port has very good infrastructure with channel length of 4,550 metres and a draft of 14.5 metres which enables the port to handle container vessels of up to ~8,000 TEUs capacity which implies that the port can handle the largest container ship calling an Indian port currently.

⇒ The port has 5 berths - 2 bulk, 1 container handling, 1 multipurpose and 1 liquid cargo. The port has a total land area of 590 hectares out of which at least 400 hectares of land is available for development and expansion of port related services. GPPL has a total waterfront of ~4-5km out of which only ~1.1 km has been developed leaving ample opportunity to develop it further as and when required. We believe the company would increase its container capacity (sea-side) from the current 1.2 mn TEUs to 3.6 mn TEUs and its bulk cargo capacity from current 5 mn tonnes to 15 mn tonnes over the coming years.

⇒ The port has created extensive support infrastructure to handle container, bulk and LPG cargo, such as container yards, yard handling equipment, quay cranes, rubber-tyred gantry cranes, paved rail sidings, warehouses, open stackyards and a port users' building to accommodate the offices of custom house agents, stevedores' agents and shipping lines.

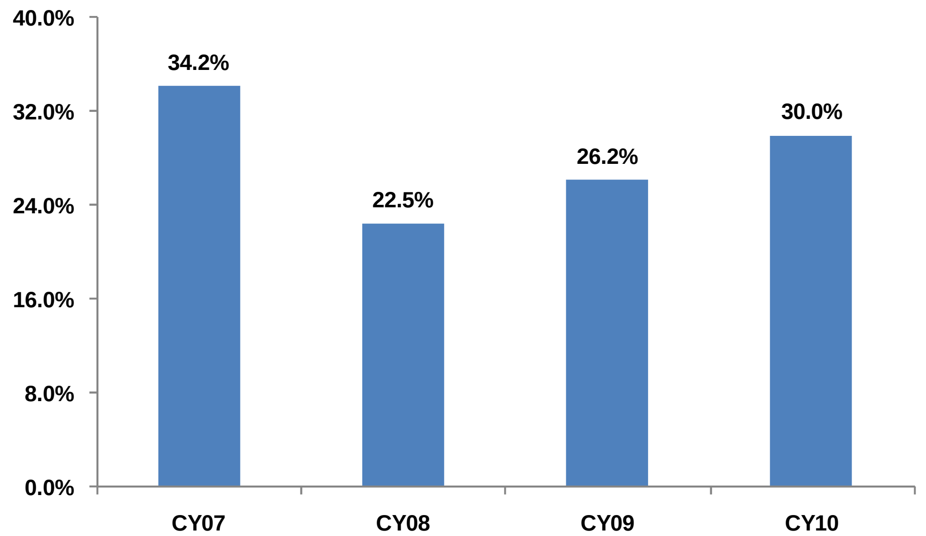
Benefits of strong promoter

APM Terminals, promoter of GPPL, is one of the largest container terminal operators in the world with a global terminal network of 50 terminals in 34 countries across five continents. APM Terminals currently owns ~43% stake in GPPL.

GPPL receives benefits from its relationship with APM Terminals such as access to modern technology, operational know-how, best industry practices, increased bargaining power and competitive rates for purchase of port equipment, and access to experienced personnel resources from APM Terminals. GPPL's employees also attend management and staff development programs organized by APM Terminals to develop and improve competencies with respect to operational and technical skills. In addition, periodic business audits and financial audits of GPPL's operations are conducted by APM Terminals and A.P.Moller-Maersk (APMM) Group, respectively.

From APMM Group, GPPL receives benefits such as developing business with shipping lines and assistance in developing relationships with third parties in the shipping industry. Maersk Line and Safmarine Container Lines, each part of APMM Group and both strategic customers of APM Terminals, are also among their largest customers and operate regular cargo shipping services from Pipavav Port to international destinations, including the Middle East, Europe and the United States. APMM group's contribution to the total revenue of GPPL in the past four years has been around 34.2%, 22.5%, 26.2% and 30.0% respectively.

Figure: APMM's contribution to GPPL's revenue



Source: Company Website

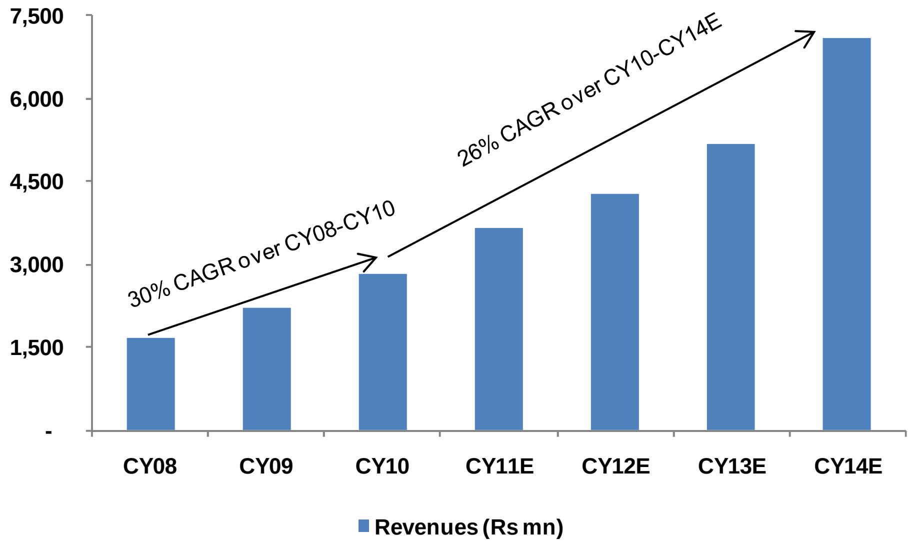
APMM has consistently been contributing on an average 28% to 30% towards GPPL's revenue in the last four years.

Financial Analysis

⇒ Robust revenue growth due to strong growth in volumes

We expect GPPL to achieve 26% CAGR in its revenues over CY10-CY14E on the back of robust volume growth in its container business and improvement in container and bulk realizations. Container traffic is expected to grow at Pipavav port as there is continued congestion at major ports and the company has been successful in adding new shipping lines which would enhance growth. Bulk cargo volume is also expected to achieve strong growth post CY14E as there would be coal requirements from the proposed thermal power projects (~3,200 MW) being set up in the port's vicinity.

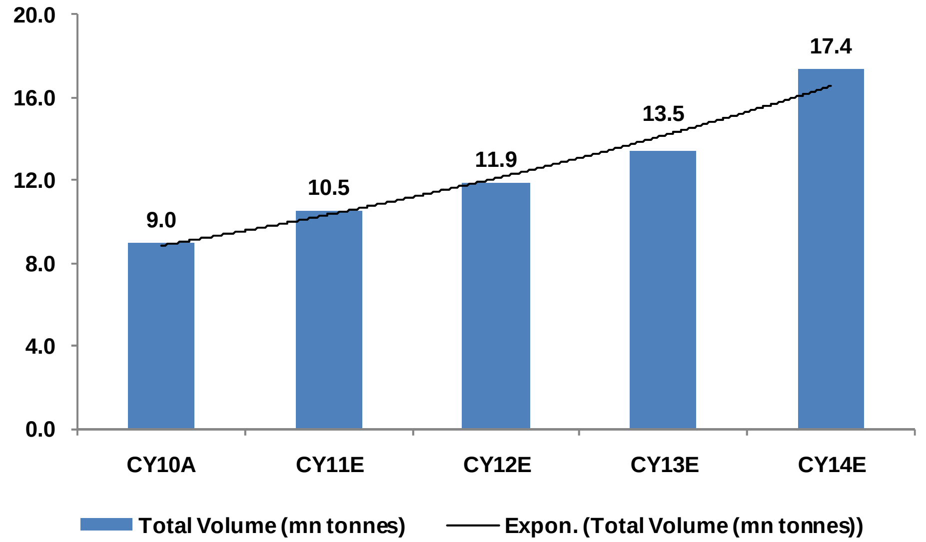
Figure: GPPL's Revenues



Source: Company, BP Equities Research

Volume growth in both container and bulk business and improvement in their realizations would drive GPPL's revenues going forward

Figure: GPPL's Volume Growth



Source: Company, BP Equities Research

Note: Container volume have been converted into mn tonnes assuming 1 mn TEU = 12 mn tonnes

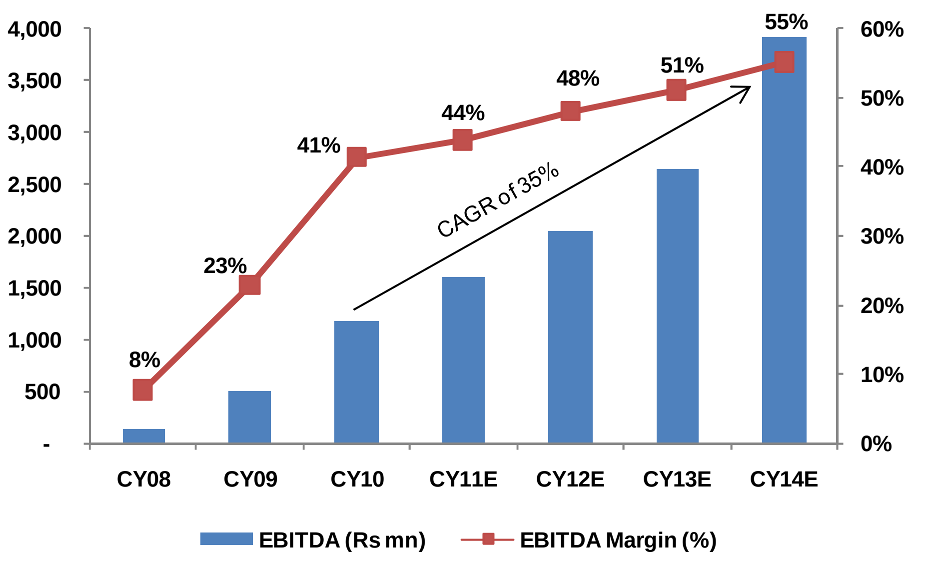
We expect the company's volumes to almost double by CY14E from its CY10 level.

Financial Analysis

⇒ EBITDA margin to improve significantly

The company's EBITDA is expected to achieve CAGR of 35% over CY10-CY14E on the back of increased revenue contribution from the high margin container business over the coming years. The port business has a high proportion of fixed cost due to which an improvement in capacity utilization on back of increased volumes will help operating margins to improve significantly. We haven't included in our analysis revenue contribution from the high margin liquid business. Liquid cargo enjoys ~75-80% operating margins and is expected to contribute ~7-8% towards revenues from CY12 onwards.

Figure: GPPL's EBITDA & EBITDA Margin



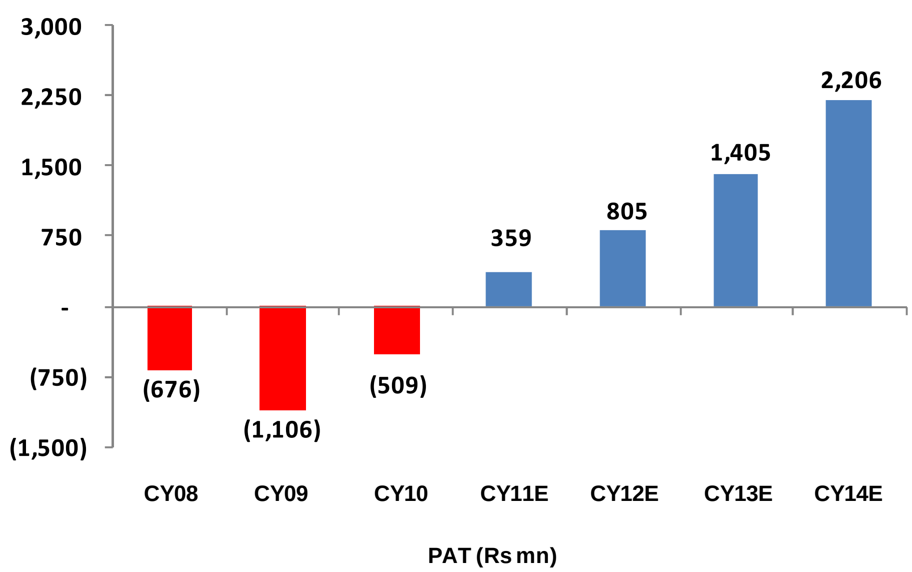
Source: Company, BP Equities Research

GPPL's EBITDA margin is expected to expand substantially as capacity utilization improves on back of volume growth

⇒ Company to turn profitable in CY11

The company, we believe, would turn profitable in CY11and would continue to achieve higher profits going forward on the back of robust revenue growth and expansion in margins. The company has repaid loans of ~Rs 3 bn and ~Rs 1.2 bn respectively during CY10 and 6 months ended CY11 due to which interest outgo has reduced substantially thus improving profits.

Figure: Company to turn profitable in CY11



Source: Company, BP Equities Research

Improving operating margins and reduction in interest payments due to prepayment of Rs 4.2 bn of debt during the last 18 months would help GPPL to turn profitable during CY11

Company Overview

⇒ Company Description

GPPL is managed and operated by APM Terminals (~43% stake in GPPL), the ports and terminals company of the maritime giant, the A.P. Moller-Maersk Group. APM Terminals is one of the largest container terminal operators in the world and offers the global shipping community an integrated Global Terminal Network of 50 operating facilities in 34 countries on five continents.

GPPL is a successful public-private enterprise and has emerged as an important gateway port on the West Coast of India for containers, bulk and liquid cargo. Located just 152 nautical miles from Nhava Sheva in Mumbai or 10 hours steaming time, Port Pipavav provides excellent access to the main shipping lines as well as to the cargo belt in the northwestern region of India.

The company has exclusive rights to develop and operate Port Pipavav until September 2028 under the concession agreement signed with the Gujarat Maritime Board and the Government of Gujarat.

Port Pipavav is an all-weather port situated directly across from two islands - Shial Bet and Savai Bet - which act as a natural breakwater, making the port safe in all weather conditions.

The port has a deep draft of 14.5m which enables the port to handle container vessels of up to ~8,000 TEUs capacity which implies that the port can handle the largest container ship calling an Indian port currently.

The port has 5 berths - 2 bulk, 1 container handling, 1 multipurpose and 1 liquid cargo. It has capacity to handle 0.6 mn TEU and 5 mn tonne of bulk cargo. The port has a total land area of 590 hectares out of which at least 400 hectares of land is available for development and expansion of port related services.

⇒ Key Management Personnel

- **Mr. Prakash Tulsiani, Managing Director**

Mr Tulsiani has been associated with the Maersk group since 1993 and has held several management positions until 2005. He then headed the project in Gateway Terminals in Mumbai as the chief operating officer from 2005-2009 and was instrumental in its success from project stage to commercial operations. Mr. Tulsiani is the Managing Director of APM Terminals Pipavav since January 2009. He is a certified Chartered Accountant from the Institute of Chartered Accountants of India (ICAI – CA), certified company secretary from Institute of Company Secretaries of India (ICSI – CS). He also holds a degree in Law and a degree in Commerce from Mumbai University.

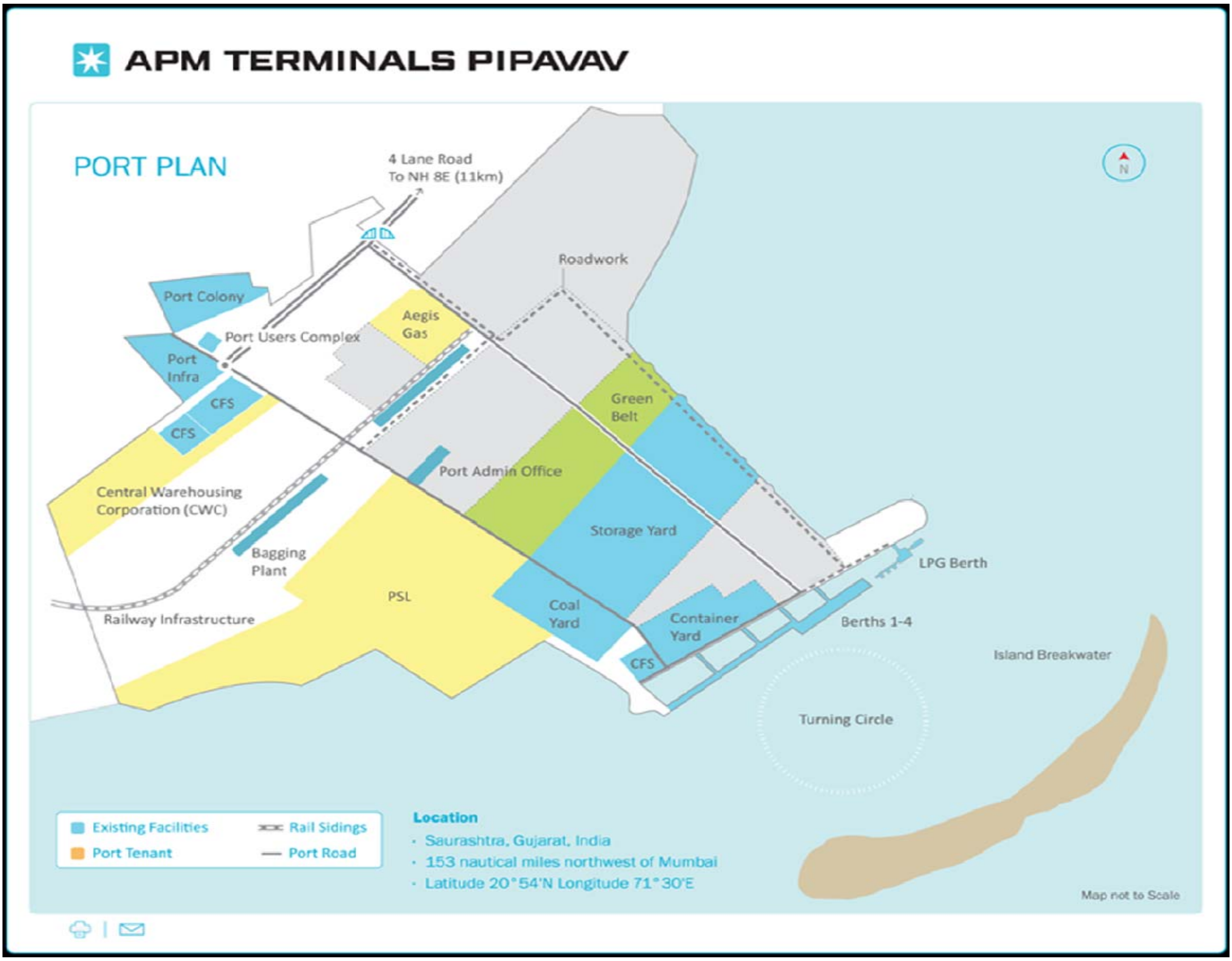
- **Mr Hariharan Iyer, Chief Financial Offer**

Mr Iyer has over 25 years of experience in various aspects of finance, both in India and overseas. He has been with the A. P. Moller Maersk Group since May 2009 and has held various positions in finance and information technology in UAE, India and Denmark, lately as the Chief Financial Officer of Maersk Line – India and South Asia. Mr Iyer is a Chartered Accountant from the Institute of Chartered Accountants of India (ICAI – CA) and Cost Accountant from the Institute of Cost and Management Accountant of India and Management Accountant from the Chartered Institute of Management Accountant, London.

- **Mr. Ravi Gaitonde, Chief Operating Officer**

Mr Gaitonde has over 28 years experience in the shipping industry and has been associated with the Maersk Group since 1985. He has worked in various managerial positions for the Maersk group over the years. He holds a bachelor's degree in Commerce from Mumbai University.

⇒ Pipavav Port Plan



Source: Company Website

⇒ Shipping lines calling at Port Pipavav

New shipping lines are calling Port Pipavav which ensures revenue visibility for GPPL's business. The company had secured eight new container lines and provided five new services in CY10 and has secured three new container line services for six months ended June 2011. With an increase in new clients, dependence on the promoter group (Maersk Line and Safmarine Container Lines) for generating operating revenues has reduced. The promoter group has contributed on an average ~28-30% towards GPPL's revenues during the last four years.

Key customers in container cargo	
Maersk Line	Mitsui O.S.K. Lines
Safmarine Container Lines	Samudera Shipping Line Limited
Hyundai Merchant Marine India Private Limited	The Shipping Corporation of India Limited
Emirates Shipping Line	Malaysia International Shipping Corporation
Orient Overseas Container Line Limited	United Arab Shipping Company
CMA CGM Agencies (India) Private Limited	Mediterranean Shipping Company (IPAK Service)
NYK Lines (Hercules Service)	APL/OOCL (CIX Service)

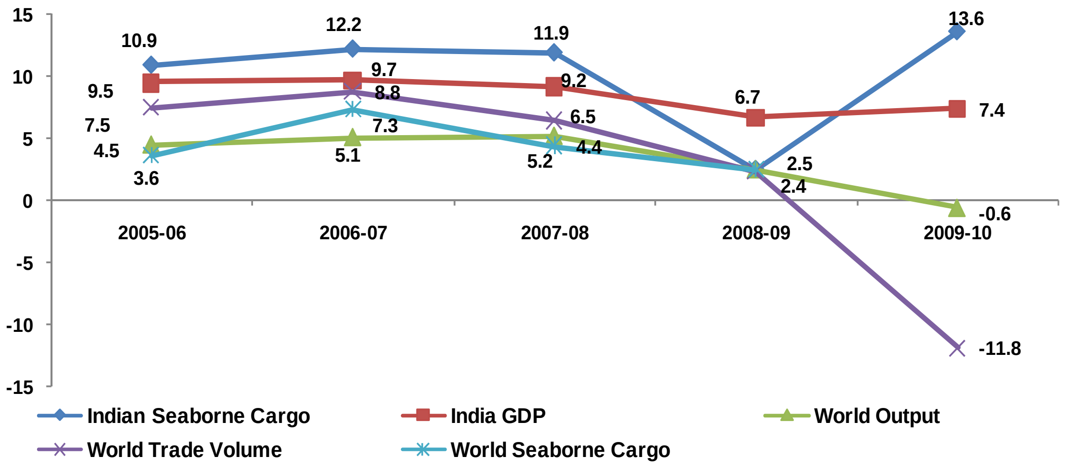
Source: Company, BP Equities Research

Industry Overview

⇒ Ports vital for overall economic development

In India around 90% by volume and 70% by value of international trade is carried on through maritime transport. India's growth is dependent on the sustained development of the county's ports and trade related infrastructure. India's ports comprise of 13 major ports and 176 non-major (minor) ports. The growth in cargo handled at Major and Non-major ports in 2009-10 was 5.8% and 35.4% respectively compared to 2.2% and 3.3% achieved in of 2008-09. The robust overall growth in India's seaborne cargo traffic in 2009-10 reflects fairly strong recovery in India's growth during the course of 2009-10. The growth in India's GDP, port traffic and growth in world output, world trade volume and world seaborne trade (loading and unloading) since 2005-06 to highlight the India's position of stable / vibrant economy is given in the following chart.

Figure: Growth in Indian Seaborne Trade vis-a-vis Growth in Select Parameters

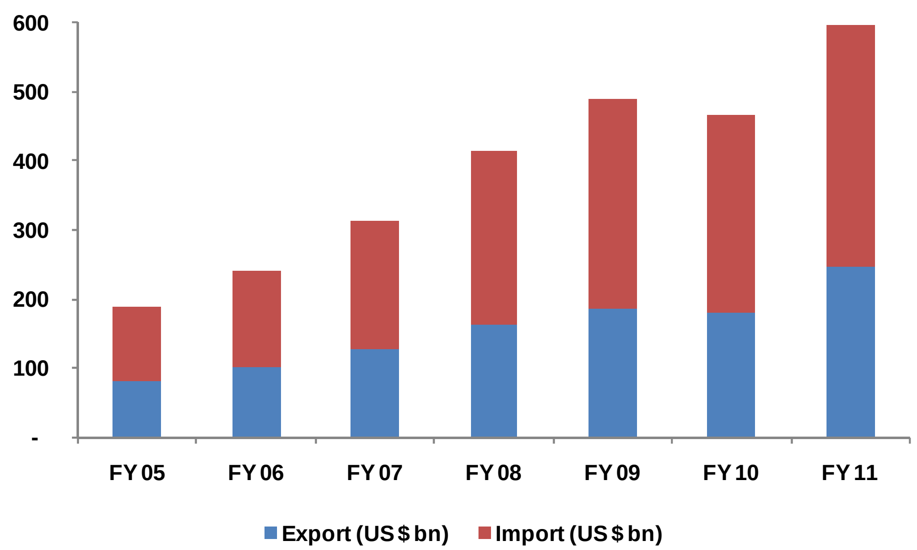


Indian seaborne cargo has been growing consistently since FY06 proving that traffic at ports would continue to increase going forward

Source: Maritime Agenda 2010-2020

Growth rates for India's GDP and Cargo Traffic are based on statistics released by Central Statistical Organization and data available with Transport Research Wing of M/o Shipping, Road Transport & Highways and pertain to fiscal year. Growth rates in the World Output and World Trade Volume refer to calendar years (2005-06 refers to 2005 and so on) based on (World Economic Outlook, April 2010, IMF)

Figure: India's trade (Export and Import)



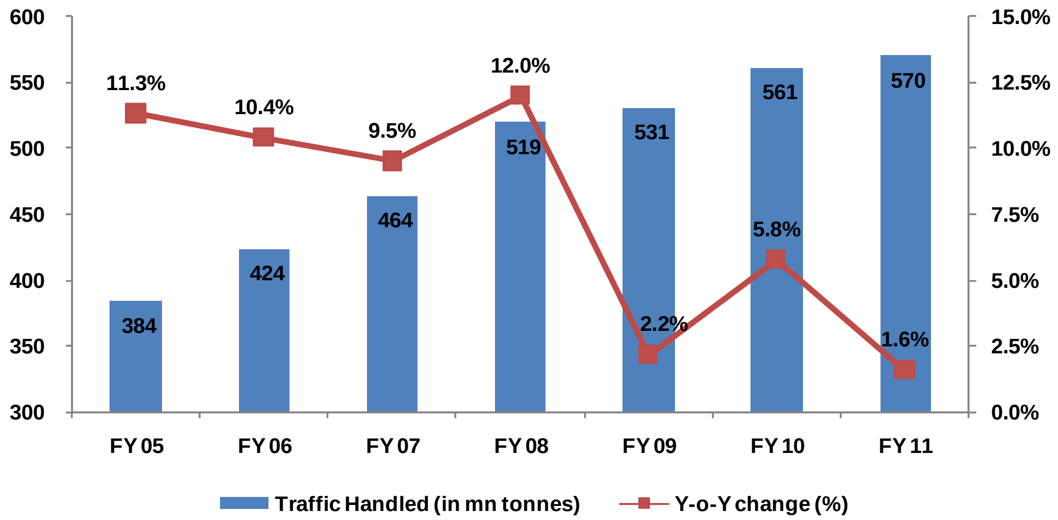
India's trade (export and import) has grown at over 20% CAGR during FY05-FY11

Source: Ministry of Commerce & Industry, BP Equities research

⇒ Major Ports

Major ports are administered by the Central Government under Ministry of Shipping except Ennore Port which is run by a company named Ennore Port Limited registered under Companies Act,1958 whereas non-major ports are administered by the nine maritime states and three Union territories within their respective coastlines. The size of the traffic handled is not used as a basis of classification between major and non-major ports instead ports are classified on the basis of the authority governing them. There are 13 major ports in India and they handled 570 mn tonnes of cargo traffic in 2010-11 which formed ~64.4% of the country's total cargo traffic. Kandla port in Gujarat handled the maximum traffic at ~ 82 mn tonnes followed by Visakhapatnam port , JNPT and Chennai port with 68, 64 and 61 mn tonnes respectively during FY11. These four ports handled close to 50% of the total cargo traffic at major ports during FY11. The major ports are currently in an expansion mode and have taken various measures to enhance its capacity through various forms such as dredging, development of new berths on Public Private Partnership, purchase of new equipments, better connectivity, etc. Most of these projects are brownfield projects making them attractive for bidders as they do not have to face some of the usual problems of land acquisition, environment clearance, etc. associated with Greenfield projects.

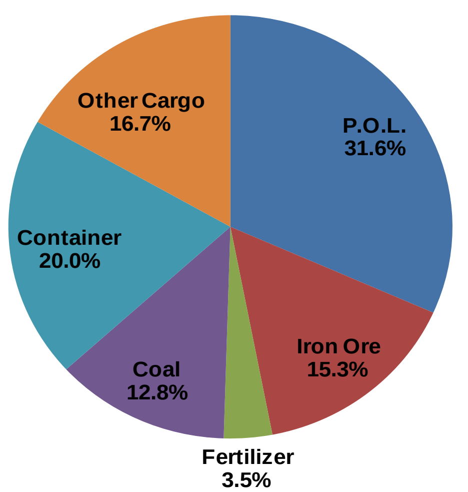
Figure: Traffic Growth at Major Ports



Source: IPA, BP Equities Research

Traffic growth at major ports has been in single digits during the last three years and was only 1.6% during FY11

Figure: Cargo Break-up at Major Ports in FY 2011



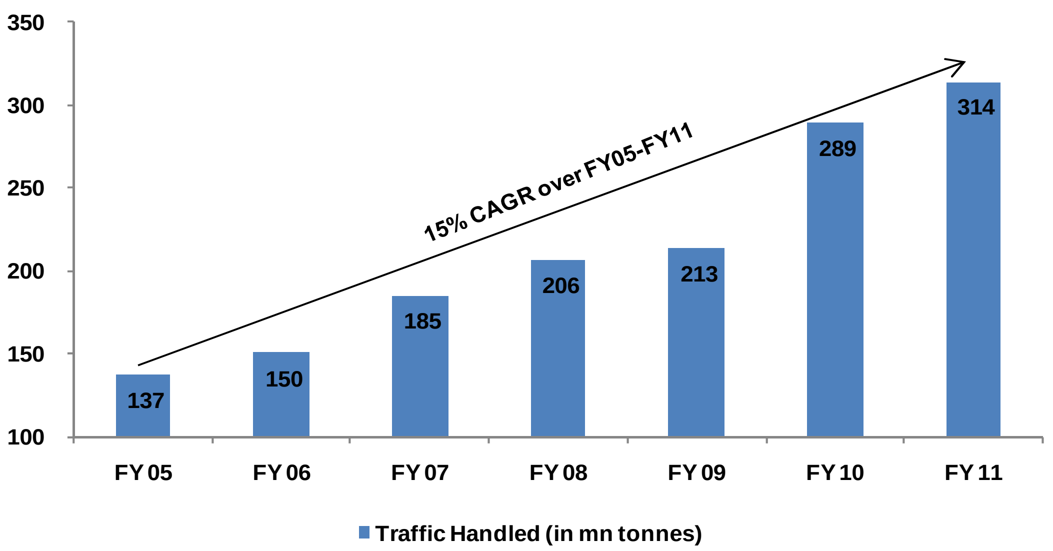
Source: IPA, BP Equities Research

POL and container cargo formed half of the cargoes handled at major ports during FY11

⇒ Non-Major Ports

There are 176 non-major ports situated along the peninsular coast-line and sea-islands and out of these only a few ports are well developed and provide all-weather berthing facilities for cargo handling. The non-major port's share in the total traffic handled has been continuously increasing over the years and their share increased from 26.3% in FY05 to more than 35% in FY11. Their share in total traffic was 314 mn tonnes during FY11 increasing 8.7% Y-o-Y whereas traffic at major ports increased by a meagre 1.6% during the same period which shows that the major ports have been facing steep competition and the trend is likely to continue in years to come. Non-major ports would have an edge over major ports on the back of their robust growth rate which would continue as a number of green field ports are coming up with huge capacities through private sector. The major portion of the growth in cargo traffic witnessed by all the ports in India came from non-major ports mostly located in Gujarat and also through various captive ports owned by various industries. Gujarat's share in total traffic handled by non-major ports has consistently averaged ~70% since the last five years. The substantial rise of non-major port traffic in a short span of time could be attributed to better location, higher productivity, faster turnaround time, better connectivity, etc. Most of the non-major ports have been planed keeping latest shipping trends in mind. Hence, they score over most of the major ports which were planned and commissioned several decades ago.

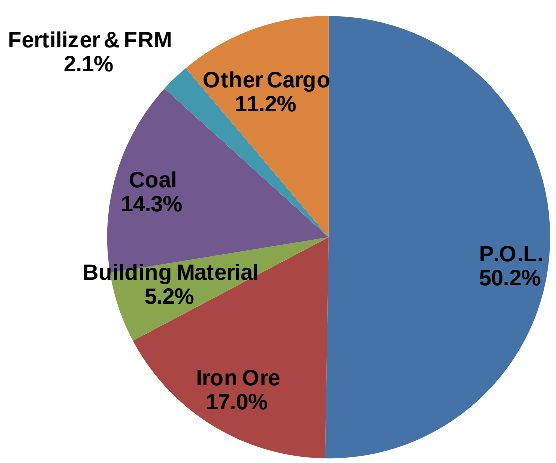
Figure: Traffic Growth at Non-Major Ports



Source: IPA, BP Equities Research

Traffic at non-major ports grew by 35.7% in FY10 and 8.7% in FY11 indicating their increasing market share

Figure: Cargo Break-up at Non-Major Ports in FY 2010



Source: IPA, BP Equities Research

POL formed half of the cargo handled by non-major ports during FY10

Key Concerns

⇒ Concern over economic slowdown

Port volumes are highly correlated to the overall growth rate of the country due to which any slowdown in the economy may adversely impact volume growth at a port. Container volumes are usually believed to grow at 1.5x times GDP due to which any slowdown in the economic activity may directly impact container volumes.

⇒ Regulatory risk

GPPL is a non-major port which comes under the purview of Gujarat Maritime Board and not the Central Government due to which it enjoys the benefit to fix its own tariff. Any change in rules and regulations relating to tariffs could hamper future earnings of the port.

⇒ Increasing competition

Gujarat Maritime Board plans to increase its total port capacity in Gujarat from the current 273 mtpa to 557 mtpa by the end of FY 2014. This may lead to increased competition as new players try to attract volume by lowering tariff rates.

⇒ High revenue concentration from promoter group

Pipavav port is dependent on its promoter group for 30% of its total volume. Reduction in the business from its promoter group may affect the revenues of the company. However GPPL has added new shipping lines in the current year which has provided necessary diversification to its client base.

Valuation

We have initiated coverage on Gujarat Pipavav Port Ltd with a BUY rating with target price of Rs.79 implying an upside of 16.2% from the current levels. We have valued the company on DCF basis and have assumed weighted average cost of capital of 12% and nominal growth rate of 5% to arrive at our target price.

The company has the potential to triple its container capacity (quayside) from the existing 1.2 mn TEUs to 3.6 mn TEUs and its bulk capacity from 5 mtpa to 15 mtpa subject to necessary approvals. However we have factored in capacity expansion (landside) up to 1.2 mn TEUs in its container business till CY13E and capacity expansion up to 10 mtpa in its bulk business till CY14E. We haven't factored in any upside from the liquid cargo business.

DCF valuation and assumptions

Particulars	Rs mn
WACC (%)	12%
Terminal growth rate (%)	5%
PV of FCFF till CY16	7,265
Terminal Value	57,975
PV of terminal value	31,917
Firm Value	39,183
Less; Net debt	5783
Equity Value	33,400
No of equity shares outstanding (mn)	423.6
Value per share (Rs)	79

Peer Comparison

Company Name	Country	M.Cap (USD mn)	P/E (x)		P/BV (x)		EV/EBITDA (x)		RoE (%)	
			CY11E	CY12E	CY11E	CY12E	CY11E	CY12E	CY11E	CY12E
Cosco Pacific Ltd	Hongkong		7.7x	7.2x	0.9x	0.8x	13.3x	11.4x	11.8%	11.6%
China Merchants Hldgs Intl	Hongkong		10.4x	10.9x	1.3x	1.2x	15.6x	15.1x	12.1%	11.6%
Dalian Port (PDA) Co Ltd	Hongkong		7.0x	6.2x	0.5x	0.5x	10.8x	9.3x	6.8%	7.3%
Xiamen International Port	Hongkong		6.6x	5.9x	0.6x	0.6x	3.9x	3.5x	8.5%	8.6%
Tianjin Port Development	Hongkong		7.6x	6.8x	0.5x	0.5x	6.5x	5.8x	7.2%	7.8%
Tianjin Port Co Ltd	China		12.0x	10.3x	1.0x	0.9x	7.2x	6.4x	8.5%	9.3%
Shenzhen Chiwan Wharf	China		12.6x	11.3x	2.0x	1.8x	6.8x	6.3x	14.6%	14.4%
Shenzhen Yantian Port	China		15.7x	15.5x	1.6x	1.5x	12.3x	12.2x	10.1%	9.8%
Shanghai International Port Group	China		11.8x	10.5x	1.5x	1.4x	7.9x	7.2x	12.8%	12.8%
Rizhao Port Co Ltd	China		15.1x	12.8x	1.2x	1.1x	8.5x	7.2x	8.4%	9.3%
Hamburger Hafen und Logistik AG	Germany		17.5x	14.9x	2.4x	2.2x	5.6x	5.1x	15.3%	16.4%
Port of Tauranga Ltd	New Zealand		19.4x	17.8x	1.8x	1.8x	13.2x	12.3x	9.0%	9.5%
DP World Ltd	Dubai		21.0x	17.3x	1.0x	1.0x	10.7x	9.8x	7.0%	6.2%
Bintulu Port Holdings BHD	Malaysia		17.9x	16.7x	2.9x	2.7x	10.3x	9.4x	16.6%	17.3%
Mundra Port and SEZ Ltd	India		37.1x	25.4x	7.5x	6.0x	28.2x	17.3x	22.1%	24.4%
Essar Ports Ltd	India		18.4x	8.8x	1.0x	0.6x	7.7x	5.8x	5.7%	10.6%
Gujarat Pipavav Port Ltd	India		80.3x	35.8x	3.7x	3.4x	21.9x	17.0x	4.8%	9.9%

Source: Bloomberg, BP Equities Research

Income Statement

YE December (Rs mn)	CY09	CY10	CY11E	CY12E	CY13E
Net Sales	**2,080**	**2,609**	**3,400**	**3,955**	**4,703**
Y-o-Y Growth (%)	24.3%	25.4%	30.3%	16.3%	18.9%
Other Operating Income	127	230	254	316	470
Total Revenues	**2,207**	**2,839**	**3,654**	**4,271**	**5,173**
Less;					
Operating Expenses	1,704	1,665	2,055	2,221	2,535
EBITDA	**503**	**1,174**	**1,599**	**2,050**	**2,638**
Y-o-Y Growth (%)	295.3%	133.5%	36.2%	28.2%	28.7%
Less: Depreciation	458	493	552	612	652
EBIT	**45**	**681**	**1,047**	**1,438**	**1,986**
Less: Interest Paid	1,157	1,271	838	804	788
Add: Non Operating Income	7	81	150	171	207
Exceptional Item	(58)	(38)	-	-	-
Profit Before Tax	**(1,163)**	**(547)**	**359**	**805**	**1,405**
Less: Taxes	0.9	-	-	-	-
Profit After Tax	**(1,164)**	**(547)**	**359**	**805**	**1,405**
Adjusted Profit After Tax	**(1,106)**	**(509)**	**359**	**805**	**1,405**
Y-o-Y Growth (%)	NA	NA	NA	124.4%	74.6%
Adjusted Diluted EPS	**(3.75)**	**(1.45)**	**0.85**	**1.90**	**3.32**
Y-o-Y Growth (%)	NA	NA	NA	124.4%	74.6%

Source: Company, BP Equities Research

Key Ratios

YE December (Rs mn)	CY09	CY10	CY11E	CY12E	CY13E
Key Operating Ratios:					
EBITDA Margin (%)	22.8%	41.3%	43.8%	48.0%	51.0%
Tax / PBT (%)	-0.1%	0.0%	0.0%	0.0%	0.0%
Net Profit Margin (%)	-52.7%	-19.3%	9.8%	18.8%	27.2%
RoE (%)	-32.0%	-9.7%	4.8%	9.9%	15.2%
RoCE (%)	0.4%	5.2%	8.0%	10.9%	13.9%
Current Ratio (x)	1.1x	2.3x	1.2x	1.2x	1.5x
Dividend Payout (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Book Value Per Share (Rs.)	9.9	17.4	18.2	20.1	23.4
Financial Leverage Ratios					
Debt/ Equity (x)	3.5x	1.1x	0.9x	0.8x	0.7x
Interest Coverage (x)	0.4x	0.9x	1.9x	2.6x	3.3x
Interest / Debt (%)	12.6%	13.5%	11.4%	12.0%	12.0%
Growth Indicators %					
Growth in Gross Block (%)	45.4%	0.0%	5.9%	7.0%	6.5%
Sales Growth (%)	24.3%	25.4%	30.3%	16.3%	18.9%
EBITDA Growth (%)	295.3%	133.5%	36.2%	28.2%	28.7%
Net Profit Growth (%)	72.2%	-53.0%	-165.5%	124.4%	74.6%
Diluted EPS Growth (%)	88.9%	-65.1%	-165.5%	124.4%	74.6%
Turnover Ratios					
Debtors (Days of net sales)	38	41	41	41	42
Creditors (Days of Raw Materi-	257	190	189	190	188
Inventory (Days of Optg. Costs)	11	16	20	21	22

Source: Company, BP Equities Research

Balance Sheet

YE December (Rs mn)	CY09	CY10	CY11E	CY12E	CY13E
Liabilities:					
Equity Capital	3,149	4,236	4,236	4,236	4,236
Reserves & Surplus	(38)	3,123	3,481	4,286	5,691
Net Worth	**3,111**	**7,359**	**7,717**	**8,522**	**9,927**
Total Loans	10,891	7,973	6,750	6,649	6,480
Capital Employed	**14,002**	**15,332**	**14,467**	**15,171**	**16,407**
Assets:					
Gross Block	16,883	16,883	17,883	19,133	20,383
Less: Depreciation	4,052	4,280	4,832	5,444	6,096
Net Block	**12,830**	**12,603**	**13,051**	**13,689**	**14,287**
Capital WIP	156	304	358	383	408
Investments	830	830	830	830	830
Current Assets:					
Inventories	52	75	113	128	153
Sundry Debtors	217	295	380	445	539
Cash & Bank Balance	798	1,949	545	556	1,137
Loans & advances	645	530	658	769	931
Total Current Assets	**1,711**	**2,848**	**1,695**	**1,897**	**2,759**
Less: Current Liabilities & Provisions					
Sundry Creditors	1,199	868	1,065	1,158	1,307
Provisions	326	385	402	470	569
Total Current Liabilities & Provi-	**1,526**	**1,253**	**1,467**	**1,628**	**1,877**
Capital Applied	**14,002**	**15,332**	**14,467**	**15,171**	**16,407**

Source: Company, BP Equities Research

Free Cash Flow Analysis

YE December (Rs mn)	CY09	CY10	CY11E	CY12E	CY13E
EBITA	**45**	**681**	**1,047**	**1,438**	**1,986**
Less: Adjusted Taxes	0	0	0	0	0
NOPLAT	**45**	**681**	**1,047**	**1,438**	**1,986**
Plus: Depreciation	458	493	552	612	652
Less: Increase in Working Capital	877	268	50	39	72
Operating Cash flow	**(374)**	**906**	**1,549**	**2,011**	**2,566**
Less: Net Capex	3,275	414	1,053	1,275	1,275
Less: Increase in Net Other Assets	0	0	0	0	0
FCF From Operation	**(3,649)**	**492**	**496**	**736**	**1,291**
Less: Inc./(Dec.) in Investment	0	0	0	0	0
FCF after Investment	**(3,649)**	**492**	**496**	**736**	**1,291**
Plus: Gain/(loss) on Exceptional	(58)	(38)	0	0	0
Total FCF	**(3,707)**	**454**	**496**	**736**	**1,291**

Source: Company, BP Equities Research

Valuation Ratios

YE December (Rs mn)	CY09	CY10	CY11E	CY12E	CY13E
Adjusted P/E (x)			80.3x	35.8x	20.5x
P/BV (x)			3.7x	3.4x	2.9x
P/CEPS (x)			31.6x	20.3x	14.0x
EV/EBIDTA (x)			21.9x	17.0x	12.9x

Source: Company, BP Equities Research

BP WEALTH

Research Desk Tel: +91 22 61596464

Institutional Sales Desk Tel: +91 22 61596403/04/05

Disclaimer Appendix

Analyst (s) holding in the Stock : Nil

Analyst (s) Certification:

We analysts and the authors of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer (s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation (s) or view (s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of the BP Equities Pvt. Ltd. (Institutional Equities).

General Disclaimer

This report has been prepared by the research department of BP WEALTH Pvt. Ltd. and BP EQUITIES Pvt. Ltd, is for information purposes only. This report is not construed as an offer to sell or the solicitation of an offer to buy or sell any security in any jurisdiction where such an offer or solicitation would be illegal.

BP WEALTH Pvt. Ltd. and BP EQUITIES Pvt. Ltd have exercised due diligence in checking the correctness and authenticity of the information contained herein, so far as it relates to current and historical information, but do not guarantee its accuracy or completeness. The opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time. Prospective investors are cautioned that any forward looking statement are not predictions and are subject to change without prior notice.

Recipients of this material should rely on their own investigations and take their own professional advice. BP Wealth or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. BP Wealth Pvt. Ltd. or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

BP Wealth and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This report is not directed to or intended for display, downloading, printing, reproducing or for distribution to or use by any person in any locality, state and country or other jurisdiction where such distribution, publication or use would be contrary to the law or regulation or would subject to BP Wealth or any of its affiliates to any registration or licensing requirement within such jurisdiction.