

Gujarat Pipavav Port (GPPL.BO)

Better than it looks, but still below estimates

- Underlying profitability better than headline nos** – GPPV reported 3Q12 revenues of Rs943mn down 4% YoY and 4% below our estimates. The EBITDA margin at 35.7% was significantly below our estimate of 44%. PAT at Rs82mn was down 38% YoY. Management highlighted that EBITDA was affected by Rs60mn of one-off expenses and interest cost was higher by Rs56mn due to write off of syndication fee in the quarter. **Adjusting for these items – PAT was Rs198mn, ~10% below estimates.**
- Volumes were below estimates** – Bulk volumes declined by 4%YoY and were 17% below our ests due to lower than expected coal volumes. Container volumes fell 26%YoY (due to shift of ME 1 vessel in Q2), and were 3% below our ests.
- Container volumes likely near the bottom** – GPPV management highlighted that while they have lost market share due to the shift of ME1 vessel to Mundra and the ramp of the US service is below expectations, they are making efforts to attract new shipping lines/vessels to the port. The company is in advanced negotiations with APL and Hyundai for the same. It has also signed up a new feeder vessel with a monthly cargo of 4000TEUs which will start calling at the port.
- Improvement in realizations** – GPPV's realizations in the quarter were ~Rs382/mt, higher than our ests of Rs362/mt primarily due to 1) Lower transshipment cargo (earlier carried by ME1), 2) Conversion of all container handling tariffs to USD – consequently, ~70% of GPPV revenues would be USD denominated.
- Cutting estimates, TP** – we cut our estimates by 14-15% over CY12-14E primarily driven by a cut in our cargo assumptions. We cut our bulk cargo assumptions by 10-15% due to lower coal volumes. We cut our container volume assumptions by 2-6% as we now expect a more gradual ramp up of the Maersk US line. We cut TP to Rs54 to reflect lower earnings. We maintain Neutral on the stock as we believe the stock is likely to remain range-bound unless cargo growth picks up meaningfully.

Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Dec	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2010A	-509	-1.20	65.8	nm	2.7	-9.7	0.0
2011A	571	1.35	212.2	35.3	2.5	7.5	0.0
2012E	736	1.52	13.0	31.3	1.9	7.4	0.0
2013E	818	1.69	11.2	28.1	1.8	6.6	0.0
2014E	1,036	2.14	26.6	22.2	1.7	7.7	0.0

Source: Powered by dataCentral

- Company Update
- Target Price Change
- Estimate Change

Neutral	2
Price (31 Oct 12)	Rs47.60
Target price	Rs54.00
	from Rs60.00
Expected share price return	13.4%
Expected dividend yield	0.0%
Expected total return	13.4%
Market Cap	Rs23,012M
	US\$426M

Price Performance

(RIC: GPPL.BO, BB: GPPV IN)



Deepal Delivala

+91-22-6631-9857
deepal.delivala@citi.com

Venkatesh Balasubramaniam

+91-22-6631-9864
venkatesh.balasubramaniam@citi.com

Atul Tiwari, CFA

atul.tiwari@citi.com

Vaishnavi G

vaishnavi.g@citi.com

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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GPPL.BO: Fiscal year end 31-Dec						Price: Rs47.60; TP: Rs54.00; Market Cap: Rs23,012m; Recomm: Neutral							
Profit & Loss (Rsm)		2010	2011	2012E	2013E	2014E	Valuation ratios		2010	2011	2012E	2013E	2014E
Sales revenue		2,839	3,968	3,882	4,256	4,785	PE (x)		-39.6	35.3	31.3	28.1	22.2
Cost of sales		-1,247	-1,574	-1,148	-1,254	-1,430	PB (x)		2.7	2.5	1.9	1.8	1.7
Gross profit		1,592	2,393	2,734	3,002	3,356	EV/EBITDA (x)		25.8	15.3	15.8	13.6	12.7
Gross Margin (%)		56.1	60.3	70.4	70.5	70.1	FCF yield (%)		2.9	6.9	4.7	-10.2	-4.5
EBITDA (Adj)		1,174	1,828	1,633	1,867	2,186	Dividend yield (%)		0	0	0	0	0
EBITDA Margin (Adj) (%)		41.3	46.1	42.1	43.9	45.7	Payout ratio (%)		0	0	0	0	0
Depreciation		-493	-558	-548	-585	-687	ROE (%)		-10.5	7.5	6.2	6.6	7.7
Amortisation		0	0	0	0	0	Cashflow (Rsm)		2010	2011	2012E	2013E	2014E
EBIT (Adj)		681	1,270	1,084	1,282	1,499	EBITDA		1,174	1,828	1,633	1,867	2,186
EBIT Margin (Adj) (%)		24.0	32.0	27.9	30.1	31.3	Working capital		-258	-122	163	-14	-15
Net interest		-1,271	-852	-631	-760	-760	Other		81	153	283	297	297
Associates		0	0	0	0	0	Operating cashflow		997	1,859	2,078	2,150	2,468
Non-op/Except		43	153	167	297	297	Capex		-414	-469	-1,000	-4,500	-3,500
Pre-tax profit		-547	571	620	818	1,036	Net acq/disposals		0	0	0	0	0
Tax		0	0	0	0	0	Other		0	0	0	0	0
Extraord./Min.Int./Pref.div.		0	0	0	0	0	Investing cashflow		-414	-469	-1,000	-4,500	-3,500
Reported net profit		-547	571	620	818	1,036	Dividends paid		0	0	0	0	0
Net Margin (%)		-19.3	14.4	16.0	19.2	21.6	Financing cashflow		606	-2,067	3,869	-760	-760
Core NPAT		-509	571	736	818	1,036	Net change in cash		1,151	-677	4,831	-3,110	-1,792
Per share data		2010	2011	2012E	2013E	2014E	Free cashflow to s/holders		583	1,389	1,078	-2,350	-1,032
Reported EPS (Rs)		-1.29	1.35	1.28	1.69	2.14							
Core EPS (Rs)		-1.20	1.35	1.52	1.69	2.14							
DPS (Rs)		0	0	0	0	0							
CFPS (Rs)		2.35	4.39	4.30	4.45	5.11							
FCFPS (Rs)		1.38	3.28	2.23	-4.86	-2.13							
BVPS (Rs)		17.37	18.72	24.93	26.62	28.76							
Wtd avg ord shares (m)		424	424	483	483	483							
Wtd avg diluted shares (m)		424	424	483	483	483							
Growth rates		2010	2011	2012E	2013E	2014E							
Sales revenue (%)		28.6	39.7	-2.2	9.6	12.4							
EBIT (Adj) (%)		nm	86.5	-14.6	18.2	17.0							
Core NPAT (%)		54.0	212.2	28.9	11.2	26.6							
Core EPS (%)		65.8	212.2	13.0	11.2	26.6							
Balance Sheet (Rsm)		2010	2011	2012E	2013E	2014E							
Cash & cash equiv.		1,949	1,272	6,103	2,992	1,200							
Accounts receivables		295	295	160	175	197							
Inventory		75	57	298	308	314							
Net fixed & other tangibles		12,907	12,819	13,270	17,185	19,998							
Goodwill & intangibles		0	0	0	0	0							
Financial & other assets		1,360	1,390	1,380	1,380	1,380							
Total assets		16,585	15,833	21,211	22,040	23,089							
Accounts payable		0	0	92	98	107							
Short-term debt		319	0	0	0	0							
Long-term debt		7,654	6,759	7,759	7,759	7,759							
Provisions & other liab		1,253	1,144	1,310	1,315	1,320							
Total liabilities		9,226	7,903	9,161	9,172	9,185							
Shareholders' equity		7,359	7,930	12,050	12,868	13,904							
Minority interests		0	0	0	0	0							
Total equity		7,359	7,930	12,050	12,868	13,904							
Net debt		6,025	5,487	1,656	4,766	6,559							
Net debt to equity (%)		81.9	69.2	13.7	37.0	47.2							

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For definitions of the items in this table, please click [here](#).

GPPV – Q3CY2012 results

- **Volumes were below estimates** – GPPV reported bulk volumes of 0.75mt, down 4% YoY and 17% below our estimates. The miss was primarily due to lower than expected coal volumes in the quarter. Container volumes declined 26% YoY, and were 3% below our estimates. The YoY drop in the container volumes is due to the shifting of the ME1 vessel to Mundra port from Q2CY12.
- **EBITDA impacted due to one-offs of Rs60mn** – GPPV mentioned that EBITDA had been adversely impacted due to a couple of one-off items i.e. 1) higher handling charge for fertilizer volumes as the expansion of the shed is under progress – Rs 30mn, 2) Cost of refurbishment of quay cranes in the quarter – Rs 30mn. EBITDA was also impacted by the following 1) provisions for bad debts (due to non evacuation of coal by traders) to the tune of Rs12mn and 2) increase in royalty to GMB.
- **Write-off of syndication fee of Rs56mn impacted interest costs** – GPPV wrote off Rs56mn of loan syndication fee in 3QCY12. The company repaid INR loans to the tune of Rs3.5bn in the quarter. The benefit of lower interest costs would accrue from Q4CY2012.
- **Adjusted PAT at Rs198mn, 10% below estimates** – Adjusted PAT (for Rs60mn of one-off items and Rs56mn of syndication fee) is Rs198mn, 10% below estimates.

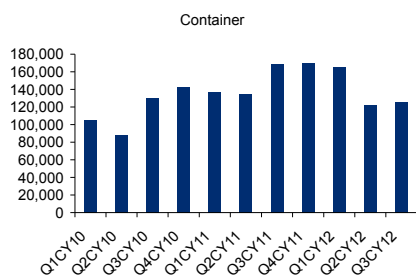
Figure 1. GPPV – Q3CY2012 results

Cargo Throughput	3Q 2011	3Q2012A	3Q 2012E
Bulk	780,000	750,000	900,000
% Growth	-36.1%	-3.8%	15.4%
Container	168,983	125,945	130,000
% Growth	29.7%	-25.5%	-23.1%
Income Statement (Rs mn)	3Q 2011	3Q2012A	3Q 2012
Net Sales/ Income from Operations	925	865	892
Realisation per tonne	329	382	362
Other Operating Income	54	79	89
Total Income	979	943	981
% Growth	21.2%	-3.6%	0.2%
Operating Expenses	(372)	(290)	(271)
as a % of revenues	38%	31%	28%
Employee Cost	(80)	(91)	(80)
as a % of revenues	8%	10%	8%
Administrative and Other Expenses	(76)	(166)	(200)
as a % of revenues	8%	18%	20%
Total Expenditure	(528)	(547)	(552)
Adj. EBITDA	450	397	429
EBITDA Margin%	46.0%	42.1%	43.7%
Depreciation	(131)	(137)	(137)
Finance Cost	(211)	(121)	(102)
Other Income	24	59	30
PBT	132	198	220
Tax Expenses		0	
Recurring PAT	132	198	220
Recurring PAT Margin%	13.5%	21.0%	22.4%
Exceptionals	0	(116)	
Reported PAT	132	82	220
Reported PAT Margin%	13.5%	8.7%	22.4%

Source: Citi Research and Company Reports

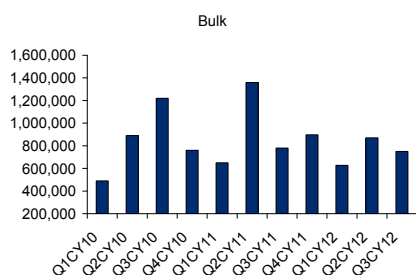
Conference call takeaways

Figure 2. GPPV –Container Volumes



Source: Citi Research and Company Reports

Figure 3. GPPV Bulk Volumes



Source: Citi Research and Company Reports

Container volumes likely at the bottom

- **Container volumes down 26% YoY, up 3% QoQ**- GPPV reported container volumes of 125,945 TEUs in Q3CY12, down 26% YoY but up ~3% QoQ. The sharp decline YoY is due to the shifting of the ME1 vessel to Mundra Port since April, 2012.
- **Ramp up of Maersk's Pipavav- USA service is below expectations** – Management highlighted that the cargo volumes on the new service to USA hasn't ramped up as expected.
- **Added new feeder vessel** – GPPV mentioned that they will start receiving a feeder vessel at the port which will transport cargo between Mumbai and Pipavav port (coastal shipping). This is expected to add ~4000TEUs/ month.
- **In advanced negotiations with 2 lines** – GPPV is in advanced negotiations with a couple of container shipping lines (APL, Hyundai). This could lead to an increase in container volumes at the port.

Bulk volumes impacted due to lower coal imports

- **Bulk volumes declined by 4%YoY, and 14% QoQ** – primarily due to lower coal imports during the quarter.
- **Exported a wheat consignment in Q3CY2012** – GPPV handled export of wheat (client – Govt of India) for the first time at the port. The company expects such cargo to be recurring in nature and intends to bid for upcoming export tenders by Government of India.

Improvement in realizations

- GPPV's realizations in the quarter were ~Rs382/mt, higher than our est of Rs362/mt primarily due to 1) Lower transshipment cargo (earlier carried by ME1), 2) Conversion of all container handling tariffs to USD - As a result of this, ~70% of GPPV revenues would be USD denominated.

Cutting estimates by 14-15% over CY12-14E

- We cut our bulk cargo volume assumptions primarily driven by lower coal volume assumptions. We cut our container volume assumptions slightly as we expect a more gradual ramp up of the Maersk US line. As a consequence, our revenues decline by 5-9% and EBITDA declines by 11-12% (due to operating leverage).

Figure 4. GPPV – Estimate Change

Estimate Change	2012E	2013E	2014E
Bulk Cargo			
Earlier Estimates	3,453,388	4,130,609	4,919,864
Revised Estimates	3,094,976	3,551,082	4,117,446
%Change	-10%	-14%	-16%
Container Cargo			
Earlier Estimates	567,526	624,279	717,920
Revised Estimates	555,321	599,747	671,716
%Change	-2%	-4%	-6%
Operational Income			
Earlier Estimates	4,083	4,568	5,263
Revised Estimates	3,882	4,256	4,785
%Change	-5%	-7%	-9%
EBITDA			
Earlier Estimates	1,830	2,129	2,496
Revised Estimates	1,633	1,867	2,186
%Change	-11%	-12%	-12%
PAT			
Earlier Estimates	864	944	1,210
Revised Estimates	736	818	1,036
%Change	-15%	-13%	-14%

Source: Citi Research

Figure 5. GPPV – TP change %

		New Value	Old Value
DCF Valuation - FCFE	DCF, WACC 13.5%	35	42
Depreciated Replacement Value	50% probability	9	9
Extension of concession agreement	50% probability	8	8
38.8% Share in PRCL	At Book value	2	2
SOTP Value		54	60

Source: Citi Research

Gujarat Pipavav Port

Company description

GPPL is the developer and operator of India's first private sector port at Pipavav, in Gujarat on the west coast of India. The multi-user port currently has facilities to handle up to 0.6mn TEUs of container cargo annually and ~5mn tones of bulk cargo. The A.P.Moller Maersk Group owns a ~43% stake in the company.

Investment strategy

We have a Neutral rating on GPPL, one of the top 5 ports in India and the third-largest on the western coast for handling container cargo. We believe GPPL is well placed to leverage on a 38% CAGR in container trade in India's minor ports over FY10-17 (per Ministry of Shipping estimates). However, we are turning more cautious on the outlook for bulk and container volumes.

Valuation

Our target price for GPPL of Rs54 is based on a sum-of-parts approach. Using a DCF of FCFE (applying a cost of equity of 13.5%), we derive a value for GPPL Rs35/share. To this we add a combined Rs17/share, comprising fair values based on 50% probabilities of two outcomes at the end of the concession period: Rs9/share assuming the asset is transferred at Depreciated Replacement Value, and Rs8/share assuming the concession period is extended. GPPL's investments in PRCL are included at book value - or Rs2/share.

Risks

Key downside risks that could prevent the shares from reaching our target price include: 1) Liabilities arising due to traffic guarantee agreement with PRCL; 2) Longer term for traffic guarantee agreement than the concession agreement; 3) Lower-than-expected traffic growth; 4) Delay in the coal-based power projects planned at Pipavav; and 5) Customer concentration. Key upside risks that could prevent the shares from reaching our target price include: 1) Higher-than-expected traffic growth; 2) Quicker ramp-up of coal-based power projects planned at Pipavav; and 3) Higher shift of container lines from major ports to Pipavav.

Appendix A-1

Analyst Certification

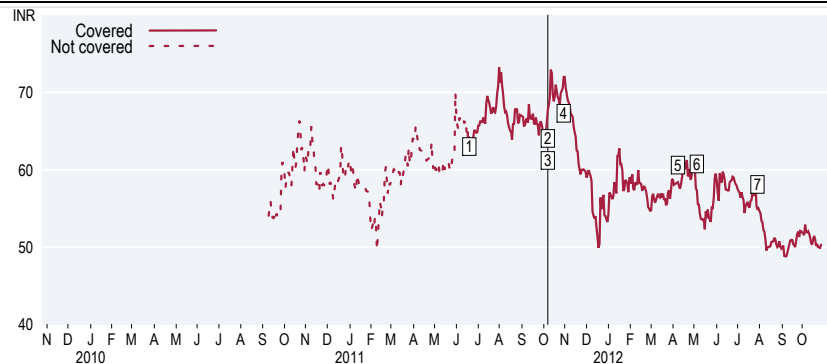
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IMPORTANT DISCLOSURES

Gujarat Pipavav Port (GPPL.BO)

Ratings and Target Price History Fundamental Research

Analyst: Deepal Delivala
Covered since June 19 2011



	Date	Rating	Target Price	Closing Price
1	19-Jun-11	*1L	*81.00	65.25
2	7-Oct-11	Stock rating system changed		
3	7-Oct-11	*1	81.00	67.75

	Date	Rating	Target Price	Closing Price
4	31-Oct-11	*2	*80.00	72.00
5	9-Apr-12	2	*66.00	58.40
6	4-May-12	*1	*73.00	57.35

	Date	Rating	Target Price	Closing Price
7	29-Jul-12	*2	*60.00	55.40

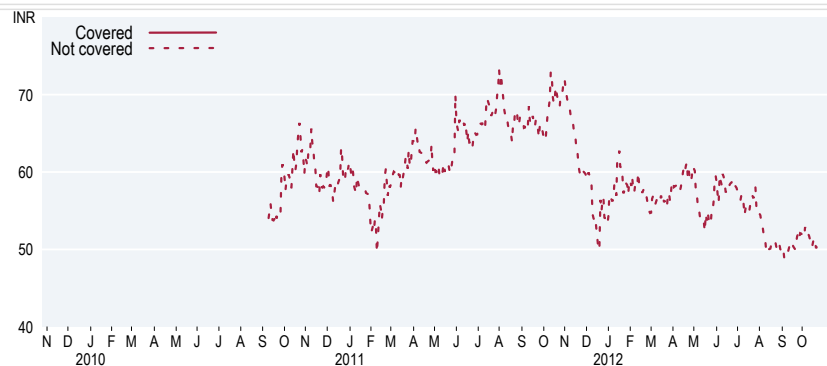
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Gujarat Pipavav Port (GPPL.BO)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Deepal Delivala
Covered since June 19 2011



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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<i>Data current as of 4 Oct 2012</i>	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
Citi Research Global Fundamental Coverage	51%	38%	11%	7%	85%	7%
<i>% of companies in each rating category that are investment banking clients</i>	50%	47%	45%	59%	47%	50%

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