

RESULTS

REVIEW

Gujarat Pipavav Port Ltd.

Bulk volume disappoints; container growth sustains

ACCUMULATE

Analyst

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Nifty: 5,327; Sensex: 17,705

CMP	Rs73
Target Price	Rs82
Potential Upside/Downside	+12%

Key Stock Data

Sector	Transportation
Bloomberg / Reuters	GPPV IN / GPPL.BO
Shares o/s (mn)	423.6
Market cap. (Rs mn)	30,920
Market cap. (US\$ mn)	633
3-m daily average vol.	189,334

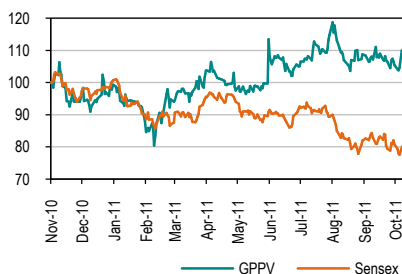
Price Performance

52-week high/low	Rs75/49		
	-1m	-3m	-9m
Absolute (%)	12	3	18
Rel to Sensex (%)	5	6	31

Shareholding Pattern (%)

Promoters	43.0
FIIIs/NRIs/OCBs/GDR	26.4
MFs/Banks/FIs	19.5
Non Promoter Corporate	7.1
Public & Others	4.0

Relative to Sensex



Source: Capitaline

Summary

Gujarat Pipavav Port (GPPV) earnings were largely inline despite lower bulk volume, which was offset by higher than expected container volume growth. Revenue grew 21% YoY to Rs979 mn; though on a QoQ basis it was down 3%. EBIDTA margins were up 280bps YoY to 46%. Adjusted PAT for the quarter stood at Rs132 mn against Rs98 mn loss in Q3CY10. Despite trade growth concerns on back of worsening situation in the developed markets, mainly Europe, we maintain our volume growth estimates for CY12E and CY13E at 25% and 20% respectively. Pipavav is likely to handle the excess cargo from JNPT port which is expected to face capacity constraints in container handling during the period. We have introduced liquid cargo volume estimates in our assumptions, but the impact on earnings is negligible, as its revenue share at peak is likely to be ~5% with volume handled of ~1.6 mn tonnes. Our revised estimate of higher other income and liquid income component leads to a higher DCF based valuation for the stock with target price of Rs82. We maintain ACCUMULATE with 12% upside from current levels. At CMP of Rs73, GPPV trades at 34x CY12E EPS.

Key Highlights

- Revenue grew 21% YoY to Rs979 mn (IDBIest Rs970 mn) mainly on the back of 30% YoY growth in container volume despite a 36% YoY fall in bulk volume.
- EBIDTA margins expanded 280bps YoY to 46%. The margin improvement was lower than expected due to the 23% YoY increase in administrative expenses due to higher legal and travel expenses, and also high equipment rental expenses.
- Lower bulk volume also led to lower margin expansion, as the bulk volume has higher operating leverage.
- Interest cost shrunk 42% YoY for the quarter with reduction in debt outstanding to Rs6.7 bn. GPPL further repaid long term loans of ~Rs1 bn during the quarter, which would help lower interest expense going forward despite an upward movement in the interest rate cycle.

Outlook and Valuation

The container volume at Pipavav is expected to retain growth momentum with CAGR of 25% for CY10-14E due to lack of capacity at the other ports like JNPT. The bulk volume is likely to remain stagnant till further clarity on the power plants which are to be set up in the vicinity (Videocon and Torrent Power/GPCL). This has turned into a key risk for our assumptions. We have included liquid cargo volume in our assumptions and have estimated full capacity utilization (1.6 mn tonnes) of the liquid jetty by CY17. Our revised estimate of higher other income and liquid income component leads to a higher DCF based valuation for the stock with target price of Rs82. We maintain ACCUMULATE with 12% upside from current levels. At CMP of Rs73, GPPV trades at 34x CY12E EPS.

Table: Financial snapshot

(Rs mn)

Year	Revenue	EBITDA	EBITDA (%)	Adj. PAT	EPS (Rs)	P/E (x)	EV/EBITDA (x)	RoE (%)	RoCE (%)
CY09	2,207	502	22.7	(1,114)	(3.5)	(20.4)	65.3	(32.4)	0.3
CY10	2,839	1,174	41.3	(590)	(1.4)	(51.7)	31.1	(11.3)	4.6
CY11E	3,593	1,685	46.9	421	1.0	72.5	21.4	5.5	7.5
CY12E	4,356	2,113	48.5	900	2.1	33.9	16.8	10.9	10.1

Source: Company; IDBI Capital Research

Table: Quarterly snapshot

(Rs mn)

Year-end: Dec.	Q3CY10	Q3CY11	YoY (%)	9MCY10	9MCY11	YoY (%)	CY10	CY11E	YoY (%)	CY12E	YoY (%)
Revenue	808	979	21.1	1,964	2,808	43.0	2839	3593	26.6	4356	21.2
EBITDA	349	450	29.1	756	1,238	63.8	1174	1685	43.5	2113	25.4
EBITDA Margins (%)	43.2	46.0		38.5	44.1		41.3	46.9		48.5	
Other Income	38	24	(36.3)	63	104	65.3	81	72		91	
Depreciation	123	131	6.7	365	397	8.9	493	549	11.5	577	5.1
Interest	362	211	(41.7)	1,078	644	(40.2)	1271	787	(38.1)	727	(7.6)
PBT	(98)	132	235.0	(623)	301	148.3	(509)	421	182.7	900	113.8
Adjusted PAT	(98)	132	235.0	(623)	301	148.3	(509)	421	182.7	900	113.8
Exceptional item	0			0			38		100.0		
PAT	(98)	132	235.0	(623)	301	148.3	(547)	421	176.9	900	113.8
EPS (Rs)	(0.2)	0.3	235.0	(1.5)	0.7	148.3	(1.3)	1.0	176.9	2.1	113.8

Source: Company; IDBI Capital Research

Table: Volume details

	Q3CY10	Q3CY11	YoY (%)	Q2CY11	QoQ (%)	9MCY10	9MCY11	YoY (%)
Container Volumes (TEUs)	130,271	168,983	29.7	134,370	25.8	323,858	439,863	35.8
Bulk Volumes (mn Tonnes)	1.22	0.78	(36.1)	1.4	(42.6)	2.59	2.79	7.7
Liquid handling (Tonnes)	NA	26,000	NA	36,000	(27.8)	NA	93,000	NA

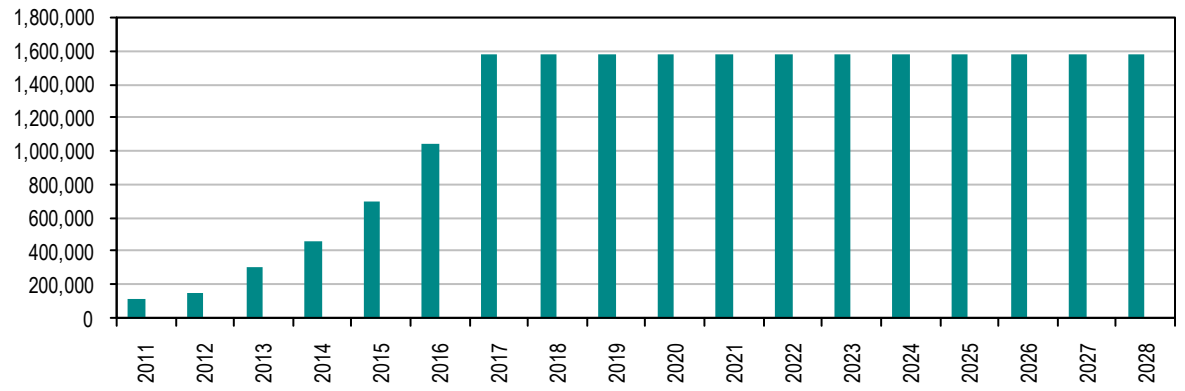
Source: Company; IDBI Capital Research

Concall Highlights

- EBITDA margins though up on YoY and QoQ basis by 280bps and 500bps respectively, its further improvement was constricted by the higher operating costs on back of equipment rentals and fuel price hike. The admin costs were also higher due to higher legal and travel expenses.
- Container volumes improved by 30%YoY though the revenue growth was lower at 21%YoY impacted by the throughput reduction in the bulk segment by 36%YoY. There was no significant improvement of the tariff rationalization implemented in June 2011 as the container tariff remained in the range of Rs3700-3900/TEU.
- GPPV repaid loan of Rs1 bn till Sept 2011 reducing the total loan liability to Rs6.7 bn.
- The cargo mix has become more Import intensive with Export:Import mix increasing to 48:52 from 52:48 earlier.
- The maximum liquid handling capacity can go upto 1.6-2 mtpa and the tank farms are expected to be ready by Q2CY12 and expected to contribute from CY13.

Figure: Liquid volume growth

(Tonnes)



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: December	CY09	CY10	CY11E	CY12E
Net sales	2,207	2,839	3,593	4,356
Growth (%)	11.2	28.6	26.6	21.2
Operating expenses	(1,705)	(1,666)	(1,963)	(2,308)
EBITDA	502	1,174	1,685	2,113
Growth (%)	14.5	133.8	43.6	25.4
Depreciation	(458)	(493)	(549)	(577)
EBIT	44	681	1,136	1,536
Interest paid	(1,157)	(1,271)	(787)	(727)
Other income	-	-	72	91
Pre-tax profit	(1,164)	(547)	421	900
Tax	(1)	-	-	-
Effective tax rate (%)	(0.1)	-	-	-
Net profit	(1,165)	(547)	421	900
Adjusted net profit	(1,114)	(590)	421	900
Growth (%)	64.8	(47.0)	(171.3)	113.9
Shares o/s (mn nos)	315	424	424	424

Balance Sheet

(Rs mn)

Year-end: December	CY09	CY10	CY11E	CY12E
Net fixed assets	12,868	12,907	12,885	13,376
Investments	830	830	830	830
Other non-curr assets	-	-	-	-
Current assets	1,782	2,849	3,031	3,737
Inventories	52	75	63	64
Sundry Debtors	217	295	349	424
Cash and Bank	798	1,949	1,441	1,821
Loans and advances	682	530	1,177	1,428
Total assets	15,479	16,586	16,746	17,942
Shareholders' funds	3,079	7,359	7,810	8,751
Share capital	3,149	4,236	4,236	4,236
Reserves & surplus	(70)	3,123	3,574	4,515
Total Debt	10,891	7,973	6,973	6,883
Secured loans	10,559	7,654	6,654	6,564
Unsecured loans	332	319	319	319
Other liabilities	10,891	7,973	6,973	6,883
Curr Liab & prov	1,510	1,253	1,963	2,308
Current liabilities	1,510	1,253	1,963	2,308
Total liabilities	12,401	9,227	8,936	9,192
Total equity & liabilities	15,480	16,585	16,745	17,942
Book Value (Rs)	10	17	18	21

Cash Flow Statement

(Rs mn)

Year-end: December	CY09	CY10	CY11E	CY12E
Pre-tax profit	(1,164)	(547)	421	900
Depreciation	(1,006)	506	549	577
Tax paid	(1)	-	-	-
Chg in working capital	(1,024)	(205)	19	19
Other operating activities	-	-	-	-
Cash flow from operations (a)	(3,196)	(247)	989	1,496
Capital expenditure	(1,692)	(545)	(527)	(1,068)
Other investing activities	816	874	-	-
Cash flow from investing (b)	(876)	329	(527)	(1,068)
Equity raised/(repaid)	(306)	1,087	-	-
Debt raised/(repaid)	3,476	(2,918)	(1,000)	(90)
Other financing activities	-	2,900	-	-
Cash flow from financing (c)	3,170	1,069	(1,000)	(90)
Net chg in cash (a+b+c)	(902)	1,151	(538)	338

Financial Ratios

Year-end: December	CY09	CY10	CY11E	CY12E
Adj. EPS (Rs)	(3.5)	(1.4)	1.0	2.1
Adj. EPS growth (%)	64.8	(60.6)	(171.3)	113.9
EBITDA margin (%)	22.7	41.3	46.9	48.5
Pre-tax margin (%)	(52.7)	(19.3)	11.7	20.7
ROE (%)	(32.4)	(11.3)	5.5	10.9
ROCE (%)	0.3	4.6	7.5	10.1
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.2	0.2	0.2	0.3
Leverage factor (x)	4.2	3.1	2.2	2.1
Net margin (%)	(50.5)	(20.8)	11.7	20.7
Net Debt / Equity (x)	3.3	0.8	0.7	0.6
Working Capital & Liquidity ratio				
Inventory days	9	10	6	5
Receivable days	36	38	35	36
Payable days	323	275	365	365

Valuation

Year-end: December	CY09	CY10	CY11E	CY12E
P/E (x)	(20.4)	(51.7)	72.5	33.9
Price / Book value (x)	7.4	4.1	3.9	3.5
PCE (x)	(34.6)	(313.7)	31.4	20.6
EV / Net sales (x)	14.8	12.9	10.0	8.2
EV / EBITDA (x)	65.3	31.1	21.4	16.8
Dividend Yield (%)	0.0	0.0	0.0	0.0



Notes

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Key to Ratings

Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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