

RESULTS

REVIEW

Gujarat Pipavav Port Ltd.

Attractive despite volume concerns ahead

BUY

Analyst

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Nifty: 5,505; Sensex: 18,145

CMP	Rs58
Target Price	Rs80
Potential Upside/Downside	+38%

Key Stock Data

Sector	Transportation
Bloomberg / Reuters	GPPV IN / GPPL.BO
Shares o/s (mn)	423.6
Market cap. (Rs mn)	24,566
Market cap. (US\$ mn)	499
3-m daily average vol.	66,316

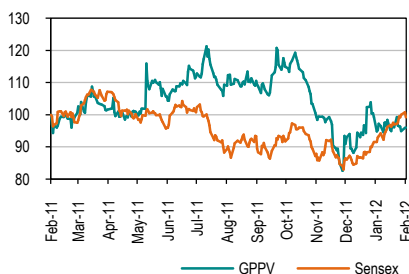
Price Performance

52-week high/low	Rs75/49		
	-1m	-3m	-9m
Absolute (%)	1	(3)	(4)
Rel to Sensex (%)	(7)	(16)	(3)

Shareholding Pattern (%)

Promoters	43.0
FIIIs/NRIs/OCBs/GDR	27.9
MFs/Banks/FIs	18.8
Non Promoter Corporate	6.4
Public & Others	3.9

Relative to Sensex



Source: Capitaline

Summary

Gujarat Pipavav Port (GPPV) recorded better than expected results largely due to improvement in EBIDTA margins on the back of operating leverage, despite one-time write backs. Revenue for the quarter improved 32.5% YoY to Rs1,159 mn with improved container volume (20% YoY) and higher realization in container and bulk segments. EBIDTA margin was up 700bps YoY to 50.9%. Even after one-off write offs, EBIDTA margin was at all time high of 48%. PAT stood at Rs270 mn, up 142% YoY increase.

We expect CY12 container volume growth to slow down to 10% YoY, (~31% YoY growth in CY11), led by slowdown in trade and re-organization of customers. We have also elongated our volume scale-up estimate for Bulk segment to CY15, from earlier CY14 on the back of tardy progress in setting of adjacent power projects. Consequently, we cut our earnings estimates for CY12E/13E by 7.1% and 3% respectively. However, despite these medium term hiccups, we expect GPPV to develop as a major container hub and regain growth levels once the trade momentum improves. As GPPV has significantly corrected and currently trades at a discount to our DCF based target price of Rs80 (from Rs82 earlier), we upgrade the stock to BUY from ACCUMULATE earlier.

Key Highlights

- Revenue grew 35% YoY to Rs1,159 mn (IDBIest Rs997 mn) mainly on the back of 20% YoY growth in container volume and improvement in realization due to higher proportion of Reefer cargo and higher storage income. The higher exchange rate led to an additional Rs40/TEU. In Bulk segment too, volume mix was tilted towards higher realization commodities like fertilizer.
- EBIDTA margin expanded 700bps YoY to 50.9%. EBIDTA margin adjusted for volume and demurrage write-backs stood at 48%. Improvement in margin can hence be ascribed to operating leverage play with increase in volume and better realization mix.
- PAT for the quarter grew 142% to Rs270 mn.
- Interest cost increased by 18.2% YoY for the quarter despite repayment of ~Rs1 bn over the last one year.

Outlook and Valuation

Container volume may be impacted in Q2CY12 due to pullout of a Maersk service to Mundra with expiry of port exclusivity contract in March. Currently three Maersk vessels calling at the port contribute to ~50% of volume. Hence, we have cut our CY12 container growth estimate from 25% to 10% YoY. Despite this, volume is expected to sustain 17% CAGR over CY11-16. The reduction in dependence on Mearsk will improve risk profile and realizations as GPPV currently forwards volume discounts to Mearsk (~15%). 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) and continues to be a key risk to our assumptions. We upgrade the stock to **BUY** with 38% upside from current levels. At CMP of Rs58, GPPV trades at 20.7x CY13E EPS.

Table: Financial snapshot

(Rs mn)

Year	Revenue	EBITDA	EBITDA (%)	Adj. PAT	EPS (Rs)	P/E (x)	EV/EBITDA (x)	RoE (%)	RoCE (%)
CY10	2,839	1,174	41.3	(590)	(1.4)	(41.6)	26.0	(11.3)	4.6
CY11	3,968	1,828	46.1	571	1.3	43.0	16.4	7.5	8.5
CY12E	4,192	2,018	48.1	836	2.0	29.3	14.6	10.0	9.6
CY13E	5,223	2,787	53.4	1,187	2.8	20.7	10.6	12.6	13.3

Source: Company; IDBI Capital Research

Table: Quarterly snapshot

(Rs mn)

Year-end: December	Q4CY10	Q4CY11	YoY (%)	CY10	CY11	YoY (%)	CY12E	YoY (%)	CY13E	YoY (%)
Revenues	875	1,159	32.5	2,839	3,968	39.7	4,192	5.6	5,223	24.6
EBITDA	384	590	53.7	1,174	1,828	55.7	2,018	10.4	2,787	38.1
EBITDA Margins (%)	43.9	50.9		41.3	46.1		48.1		53.4	
Other Income	31	48	54.9	81	153		133		91	
Depreciation	128	161	25.6	493	558	13.2	577	3.5	628	8.9
Interest	176	208	18.2	1271	852	(33.0)	738	(13.4)	749	1.5
PBT	111	270	142.4	(509)	571	212.2	836	46.4	1,501	79.6
Adjusted PAT	111	270	142.4	(509)	571	212.2	836	46.4	1,187	42.0
Exceptional item	0			38		100.0				
PAT	111	270	142.4	(547)	571	204.4	836	46.4	1,187	42.0
EPS (Rs)	0.3	0.6	142.4	(1.3)	1.3	204.4	2.0	46.4	2.8	42.0

Source: Company; IDBI Capital Research

Table: Volume details

	Q4CY10	Q4CY11	YoY (%)	Q3CY11	QoQ (%)	CY10	CY11	YoY (%)
Container Volumes (TEUs)	142,280	170,380	19.7	168,983	0.8	466,138	610,243	30.9
Bulk Volumes (mn Tonnes)	0.7	0.9	28.6	0.8	15.4	3.35	3.68	9.9
Liquid handling (Tonnes)	NA	20,000		26,000	(23.1)	NA	113,000	

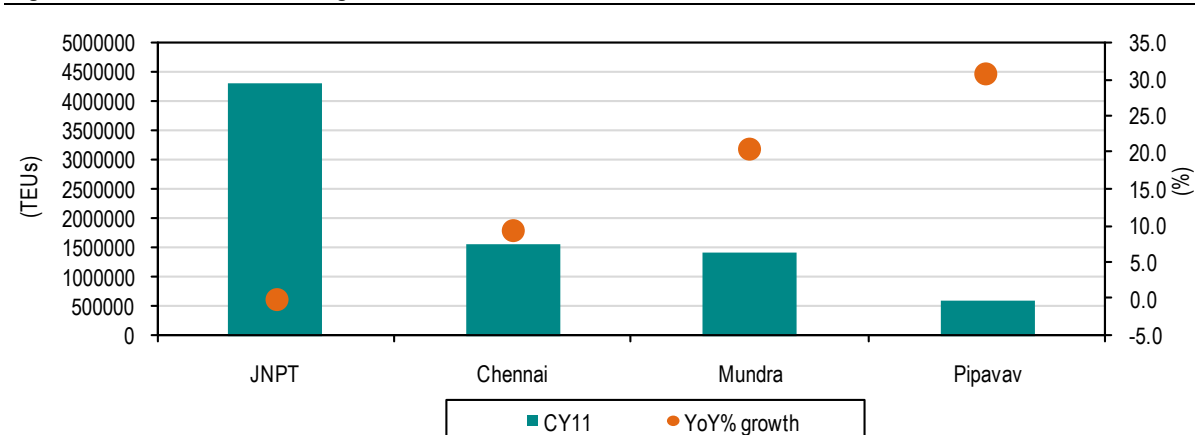
Source: Company; IDBI Capital Research

Table: Traffic scale-up

Traffic scale-up	CY07	CY08	CY09	CY10	CY11	CY12E	CY13E
Container volume ('000 TEUs)	192	196	321	466	610	671	806
YoY (%)		1.8	64.4	45.0	30.9	10.0	20.0
Bulk Volume ('000 tonnes)	1,659	2,072	3,371	3,400	3,680	3,974	4,292
YoY (%)		24.9	62.7	0.9	8.2	8.0	8.0

Source: Company; IDBI Capital Research

Figure: CY11 container volume growth



Source: Company; IDBI Capital Research

Pullout of Maersk service: Incremental demand to make up for it

GPPV signed an MoU with Maersk Line, pursuant to which, effective from April 1, 2010, all Maersk Line and Safmarine ships were to use Pipavav Port as their exclusive port of call in the state of Gujarat, until March 31, 2012. Post expiry of this MoU, Maersk will divert one out of three of its vessels calling at the Pipavav to Mundra as a strategic initiative. These three vessels contributed 50% of container volume for GPPV (~300,000 TEUs). Hence, GPPV container volume is staring at ~100,000 TEUs shortfall in CY12. The space left vacant by Maersk vessel is expected to be contracted to another line according to the management. We expect the additional service to offset ~5% of volume loss.

Moreover, we expect the West coast container throughput to grow 8-9% in FY13E mainly on the back of Far-eastern trade lanes, which translates to an incremental 600,000-675,000 TEUs in the year ahead. This requirement will be catered only between Pipavav and Mundra. Hence, we believe that the shortfall from Maersk will be made up by the incremental demand and translate into a growth of 10% YoY for GPPV container volume in CY12.

Concall Highlights

- Maersk to pullout one of its three weekly services calling at the port. Currently, about 14 vessels call at the port/week. This diversion is due to expiry to exclusivity agreement with Maersk in March 2012.
- Yet to sign contracts with shipping lines. Management expects post re-organization of shipping lines, the contracts to be signed and more clarity to emerge in Q2CY12.
- Western container ports volume expected to register a growth of 8-9% in CY12E.
- Forex gains accounted for a higher revenue of Rs40/TEU during the quarter as about 12% of revenue is US\$ denominated.
- Total planned capex in of ~Rs1-1.45 bn in CY12. Current yard capacity stands at 850,000 TEUs/pa. Plans to increase further capacity with setting up of three RTG cranes by Q4CY12.
- Currently handling 6-8 container rakes/day and 3-4 bulk rakes/day, utilizing ~50% of track capacity.
- Liquid cargo handling stood at 20,000 tonnes as compared to 26,000 tonnes in Q3CY11. The tank farms are expected to be ready by Q2CY12 and expected to contribute from CY13 subject to regulatory approvals. Aegis, Gulf and IMC are already paying the lease rent.
- Added additional new service during the quarter, taking the total to four new services in CY11.
- Extension of FII shareholding limit from 24% to 45% under consideration and likely to be finalized post RBI approval.

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: December	CY10	CY11	CY12E	CY13E
Net sales	2,839	3,968	4,192	5,223
Growth (%)	28.6	39.7	5.6	24.6
Operating expenses	(1,666)	(2,140)	(2,237)	(2,516)
EBITDA	1,174	1,828	2,018	2,787
Growth (%)	133.8	55.8	10.4	38.1
Depreciation	(493)	(558)	(577)	(628)
EBIT	681	1,270	1,441	2,159
Interest paid	(1,271)	(852)	(738)	(749)
Other income	-	153	133	91
Pre-tax profit	(547)	571	836	1,501
Tax	-	-	-	(314)
Effective tax rate (%)	-	-	-	20.9
Net profit	(547)	571	836	1,187
Adjusted net profit	(590)	571	836	1,187
Growth (%)	(47.0)	(196.7)	46.4	42.0
Shares o/s (mn nos)	424	424	424	424

Balance Sheet

(Rs mn)

Year-end: December	CY10	CY11	CY12E	CY13E
Net fixed assets	12,907	12,876	13,367	14,592
Investments	830	830	830	830
Other non-curr assets	-	-	-	-
Current assets	2,849	2,122	3,511	4,128
Inventories	75	57	64	68
Sundry Debtors	295	295	408	512
Cash and Bank	1,949	1,210	1,664	1,823
Loans and advances	530	560	1,375	1,724
Total assets	16,586	15,828	17,708	19,549
Shareholders' funds	7,359	7,930	8,806	10,079
Share capital	4,236	4,236	4,236	4,236
Reserves & surplus	3,123	3,694	4,571	5,844
Total Debt	7,973	6,754	6,664	6,954
Secured loans	7,654	6,754	6,664	6,954
Unsecured loans	319	(0)	(0)	(0)
Other liabilities	7,973	6,754	6,664	6,954
Curr Liab & prov	1,253	1,144	2,237	2,516
Current liabilities	1,253	1,144	2,237	2,516
Total liabilities	9,227	7,899	8,902	9,470
Total equity & liabilities	16,586	15,828	17,708	19,549
Book Value (Rs)	17	19	21	24

Cash Flow Statement

(Rs mn)

Year-end: December	CY10	CY11	CY12E	CY13E
Pre-tax profit	(547)	571	836	1,501
Depreciation	506	558	577	628
Tax paid	-	-	-	(314)
Chg in working capital	(205)	(122)	158	(179)
Other operating activities	-	-	-	-
Cash flow from operations (a)	(247)	1,006	1,571	1,636
Capital expenditure	(545)	(527)	(1,068)	(1,853)
Other investing activities	874	-	-	-
Cash flow from investing (b)	329	(527)	(1,068)	(1,853)
Equity raised/(repaid)	1,087	-	-	-
Debt raised/(repaid)	(2,918)	(1,219)	(90)	290
Other financing activities	2,900	-	-	-
Cash flow from financing (c)	1,069	(1,219)	(90)	290
Net chg in cash (a+b+c)	1,151	(740)	413	73

Financial Ratios

Year-end: December	CY10	CY11	CY12E	CY13E
Adj. EPS (Rs)	(1.4)	1.3	2.0	2.8
Adj. EPS growth (%)	(60.6)	(196.7)	46.4	42.0
EBITDA margin (%)	41.3	46.1	48.1	53.4
Pre-tax margin (%)	(19.3)	14.4	19.9	28.7
ROE (%)	(11.3)	7.5	10.0	12.6
ROCE (%)	4.6	8.5	9.6	13.3
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.2	0.2	0.2	0.3
Leverage factor (x)	3.1	2.1	2.0	2.0
Net margin (%)	(20.8)	14.4	19.9	22.7
Net Debt / Equity (x)	0.8	0.7	0.6	0.5
Working Capital & Liquidity ratio				
Inventory days	10	5	6	5
Receivable days	38	27	36	36
Payable days	275	195	365	365

Valuation

Year-end: December	CY10	CY11	CY12E	CY13E
P/E (x)	(41.6)	43.0	29.3	20.7
Price / Book value (x)	3.3	3.1	2.8	2.4
PCE (x)	(252.3)	21.7	17.4	13.5
EV / Net sales (x)	10.8	7.6	7.0	5.7
EV / EBITDA (x)	26.0	16.4	14.6	10.6
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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