Prabhudas Lilladher

# Gujarat Pipavav Port

## Disappointment on container volumes

Q2CY12 Result Update

**July 27, 2012**

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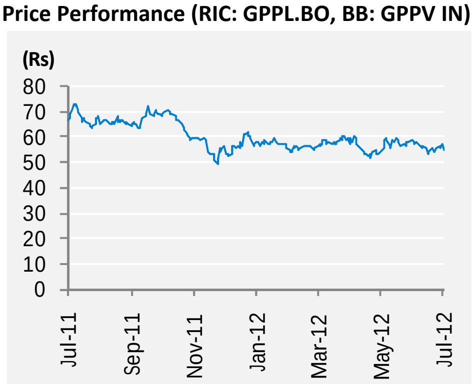
| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs56 |
| Target Price | Rs63 |
| Implied Upside | 12.5% |
| Sensex | 16,839 |
| Nifty | 5,100 |

***(Prices as on July 27, 2012)***

| **Trading data** | | | |
|---|---|---|---|
| Market Cap. (Rs bn) | | | 23.5 |
| Shares o/s (m) | | | 423.6 |
| 3M Avg. Daily value (Rs m) | | | 25.8 |
| **Major shareholders** | | | |
| Promoters | | | 43.01% |
| Foreign | | | 26.09% |
| Domestic Inst. | | | 21.11% |
| Public & Other | | | 9.79% |
| **Stock Performance** | | | |
| **(%)** | **1M** | **6M** | **12M** |
| Absolute | (5.3) | (5.0) | (18.3) |
| Relative | (4.5) | (2.8) | (9.7) |
| **How we differ from Consensus** | | | |
| **EPS (Rs)** | **PL** | **Cons.** | ***% Diff.*** |
| 2012 | 1.8 | 2.0 | *-10.0* |
| 2013 | 2.9 | 3.1 | *-8.1* |

**Price Performance (RIC: GPPL.BO, BB: GPPV IN)**




*Source: Bloomberg*

- **Container volumes down sharply:** Container volumes witnessed a sharp decline of 26% sequentially to 122716 TEUs on account of Maersk shifting one of its lines to Mundra Port. Although this has been replaced by another line, it is much smaller in terms of volumes and is likely to take 2-3 quarters to scale up. Further, the uncertainty in the overall container trade situation proves to be of no help to volumes as well. Bulk volumes, though better than expectations at 0.87m TEUs, remain lacklustre due to lower coal imports.

- **Weak EBITDA margins; other operating income props results:** GPPV's operating revenues declined 6% YoY and 7% QoQ on account of weak volumes. The company reported 'Other Operating Income' of Rs87m as duty benefits under the SFIS scheme which we have clubbed with other income. Excluding this, margins for the quarter stood at 41% as against 44.9% in Q1FY12. PAT (inclusive of other operating income) grew 44% YoY and 12% QoQ.

- **Repaid debt post QIP:** Post the QIP+ preferential issue of Rs3.5bn, the company has prepaid debt of an equal amount. It plans to raise Rs6.5bn through the ECB route to fund its expansion plan. Its expansion plan entails an investment of Rs11bn which shall be financed through equity of Rs3.5bn, debt of Rs4.5bn and the remaining through internal accruals.

- **Reducing estimates for CY12:** On account of the pressure on container volumes which has a direct impact on margins, we have reduced top-line estimates by 7.2%, EBITDA margins by 500bps and hence, PAT by 21.5%.

- **Valuations:** Although we see near-term challenges for the company on the container and bulk volume side, we retain our positive stance on the stock, given the favorable long-term volume growth prospects and resultant margin expansion expectations. Based on our DCF-based approach, our SOTP-based target price stands at Rs63/share. We maintain **'Accumulate'**.

| **Key financials (Y/e December)** | **2010** | **2011** | **2012E** | **2013E** |
|---|---|---|---|---|
| Revenues (Rs m) | 2,839 | 3,968 | 4,332 | 5,217 |
| *Growth (%)* | *29.6* | *39.8* | *9.2* | *20.4* |
| EBITDA (Rs m) | 1,174 | 1,829 | 1,928 | 2,504 |
| PAT (Rs m) | (509) | 572 | 885 | 1,384 |
| EPS (Rs) | (1.2) | 1.3 | 1.8 | 2.9 |
| *Growth (%)* | *(66.3)* | *(212.3)* | *35.6* | *56.3* |
| Net DPS (Rs) | — | 0.1 | 0.4 | 0.6 |

| **Profitability & Valuation** | **2010** | **2011** | **2012E** | **2013E** |
|---|---|---|---|---|
| *EBITDA margin (%)* | *41.3* | *46.1* | *44.5* | *48.0* |
| *RoE (%)* | *(9.8)* | *7.5* | *8.8* | *11.0* |
| *RoCE (%)* | *2.3* | *7.6* | *8.7* | *10.1* |
| EV / sales (x) | 10.4 | 7.3 | 6.8 | 5.8 |
| EV / EBITDA (x) | 25.2 | 15.9 | 15.2 | 12.0 |
| PE (x) | (46.2) | 41.1 | 30.3 | 19.4 |
| P / BV (x) | 3.2 | 3.0 | 2.2 | 2.0 |
| *Net dividend yield (%)* | — | *0.2* | *0.7* | *1.1* |

*Source: Company Data; PL Research*

**Exhibit 1: Q2CY12 Result Overview (Rs m)**

| Y/e March | Q2CY12 | Q2CY11 | YoY gr. (%) | Q1CY12 | H1CY12 | H1CY11 | YoY gr. (%) |
|---|---|---|---|---|---|---|---|
| **Net Sales** | **938** | **999** | ***(6.1)*** | **1,004** | **1,942** | **1,829** | ***6.2*** |
| Operating exp | 259 | 407 | *(36.5)* | 274 | 532 | 630 | *(15.5)* |
| *% of Sales* | *27.6* | *40.7* | | *27.3* | *27.4* | *34.4* | |
| Personnel exp | 95 | 111 | *(14.2)* | 80 | 175 | 181 | *(3.6)* |
| *% of Sales* | *10.1* | *11.1* | | *7.9* | *9.0* | *9.9* | |
| Administration & other exp | 200 | 72 | *1.8* | 199 | 399 | 231 | *73.1* |
| *% of Sales* | *0.2* | *0.1* | *2.0* | *0.2* | *0.2* | *0.1* | |
| Total Expenses | 554 | 590 | *(6.1)* | 553 | 1,106 | 1,042 | *6.2* |
| **EBITDA** | **385** | **409** | ***(6.1)*** | **451** | **836** | **787** | ***6.1*** |
| *Margins (%)* | *41.0* | *41.0* | | *44.9* | *43.0* | *43.0* | |
| Depreciation | 137 | 131 | *4.1* | 137 | 274 | 266 | *3.2* |
| **EBIT** | **248** | **278** | ***(10.9)*** | **314** | **561** | **522** | ***7.6*** |
| Interest | 204 | 214 | *(4.5)* | 206 | 410 | 433 | *(5.3)* |
| Other Income | 114 | 45 | *153.5* | 33 | 147 | 80 | *82.4* |
| **PBT** | **157** | **109** | | **141** | **298** | **169** | ***76.5*** |
| Tax | - | - | | - | - | - | |
| *Effective tax rate (%)* | *-* | *-* | | *-* | *-* | *-* | |
| Extraordinary | - | - | | - | - | - | |
| **PAT** | **157** | **109** | ***44.2*** | **141** | **298** | **169** | ***76.5*** |
| Extraordinary | - | - | | - | - | - | |
| **PAT** | **157** | **109** | ***44.2*** | **141** | **298** | **169** | ***76.5*** |

*Source: Company Data, PL Research*

## Income Statement (Rs m)

| Y/e December | 2010 | 2011 | 2012E | 2013E |
|---|---|---|---|---|
| **Net Revenue** | **2,839** | **3,968** | **4,332** | **5,217** |
| Raw Material Expenses | 1,141 | 1,505 | 1,709 | 1,950 |
| Gross Profit | 1,699 | 2,463 | 2,623 | 3,267 |
| Employee Cost | 272 | 341 | 382 | 428 |
| Other Expenses | 253 | 293 | 314 | 335 |
| **EBITDA** | **1,174** | **1,829** | **1,928** | **2,504** |
| Depr. & Amortization | 493 | 558 | 650 | 713 |
| Net Interest | 1,271 | 852 | 640 | 627 |
| Other Income | 81 | 153 | 247 | 220 |
| **Profit before Tax** | **(509)** | **572** | **885** | **1,384** |
| Total Tax | — | — | — | — |
| **Profit after Tax** | **(509)** | **572** | **885** | **1,384** |
| Ex-Od items / Min. Int. | (77) | — | — | — |
| **Adj. PAT** | **(509)** | **572** | **885** | **1,384** |
| **Avg. Shares O/S (m)** | **423.6** | **423.6** | **483.9** | **483.9** |
| **EPS (Rs.)** | **(1.2)** | **1.3** | **1.8** | **2.9** |

## Balance Sheet Abstract (Rs m)

| Y/e December | 2010 | 2011 | 2012E | 2013E |
|---|---|---|---|---|
| Shareholder's Funds | 7,359 | 7,930 | 12,094 | 13,132 |
| Total Debt | 7,973 | 6,759 | 3,474 | 6,975 |
| Other Liabilities | — | — | — | — |
| **Total Liabilities** | **15,332** | **14,688** | **15,567** | **20,107** |
| Net Fixed Assets | 12,907 | 12,819 | 13,698 | 15,484 |
| Goodwill | — | — | — | — |
| Investments | 830 | 830 | 830 | 830 |
| Net Current Assets | 1,595 | 1,040 | 1,040 | 3,792 |
| *Cash & Equivalents* | *1,949* | *1,272* | *1,051* | *3,772* |
| *Other Current Assets* | *899* | *912* | *1,232* | *1,454* |
| *Current Liabilities* | *1,253* | *1,144* | *1,243* | *1,434* |
| Other Assets | — | — | — | — |
| **Total Assets** | **15,332** | **14,688** | **15,567** | **20,107** |

## Cash Flow Abstract (Rs m)

| Y/e December | 2010 | 2011 | 2012E | 2013E |
|---|---|---|---|---|
| C/F from Operations | (189) | 1,008 | 1,315 | 2,066 |
| C/F from Investing | (1,105) | (448) | (1,529) | (2,500) |
| C/F from Financing | 2,445 | (1,237) | (6) | 3,155 |
| Inc. / Dec. in Cash | 1,151 | (677) | (221) | 2,721 |
| Opening Cash | 798 | 1,949 | 1,272 | 1,051 |
| Closing Cash | 1,949 | 1,272 | 1,051 | 3,772 |
| FCFF | (1,145) | 376 | (285) | (434) |
| FCFE | (4,063) | (839) | (3,570) | 3,067 |

## Quarterly Financials (Rs m)

| Y/e December | Q3CY11 | Q4CY11 | Q1CY12 | Q2CY12 |
|---|---|---|---|---|
| **Net Revenue** | **979** | **1,159** | **1,004** | **938** |
| **EBITDA** | **450** | **590** | **451** | **385** |
| *% of revenue* | *46.0* | *50.9* | *44.9* | *41.0* |
| Depr. & Amortization | 131 | 161 | 137 | 137 |
| Net Interest | 211 | 208 | 206 | 204 |
| Other Income | 24 | 48 | 33 | 114 |
| **Profit before Tax** | **132** | **270** | **141** | **157** |
| Total Tax | — | — | — | — |
| **Profit after Tax** | **132** | **270** | **141** | **157** |
| **Adj. PAT** | **132** | **270** | **141** | **157** |

## Key Financial Metrics

| Y/e December | 2010 | 2011 | 2012E | 2013E |
|---|---|---|---|---|
| **Growth** | | | | |
| Revenue (%) | 29.6 | 39.8 | 9.2 | 20.4 |
| EBITDA (%) | 166.4 | 55.8 | 5.4 | 29.9 |
| PAT (%) | (54.6) | (212.3) | 54.9 | 56.3 |
| EPS (%) | (66.3) | (212.3) | 35.6 | 56.3 |
| **Profitability** | | | | |
| EBITDA Margin (%) | 41.3 | 46.1 | 44.5 | 48.0 |
| PAT Margin (%) | (17.9) | 14.4 | 20.4 | 26.5 |
| RoCE (%) | 2.3 | 7.6 | 8.7 | 10.1 |
| RoE (%) | (9.8) | 7.5 | 8.8 | 11.0 |
| **Balance Sheet** | | | | |
| Net Debt : Equity | 0.8 | 0.7 | 0.2 | 0.2 |
| Net Wrkng Cap. (days) | (216) | (143) | (123) | (130) |
| **Valuation** | | | | |
| PER (x) | (46.2) | 41.1 | 30.3 | 19.4 |
| P / B (x) | 3.2 | 3.0 | 2.2 | 2.0 |
| EV / EBITDA (x) | 25.2 | 15.9 | 15.2 | 12.0 |
| EV / Sales (x) | 10.4 | 7.3 | 6.8 | 5.8 |
| **Earnings Quality** | | | | |
| Eff. Tax Rate | — | — | — | — |
| Other Inc / PBT | (16.0) | 26.7 | 27.9 | 15.9 |
| Eff. Depr. Rate (%) | 2.9 | 3.2 | 3.4 | 3.3 |
| FCFE / PAT | 798.5 | (146.8) | (403.2) | 221.6 |

*Source: Company Data, PL Research.*

## Key Operating Metrics

| Y/e December | 2010 | 2011 | 2012E | 2013E |
|---|---|---|---|---|
| **Volumes** | | | | |
| Container (m TEU) | 0.5 | 0.6 | 0.6 | 0.7 |
| Bulk (mt) | 3.4 | 3.7 | 3.7 | 4.0 |

*Source: Company Data, PL Research.*

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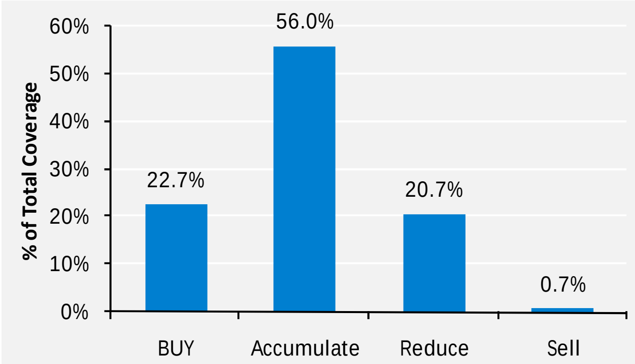


## PL's Recommendation Nomenclature

| | | | | | |
|---|---|---|---|---|---|
| **BUY** | : | Over 15% Outperformance to Sensex over 12-months | **Accumulate** | : | Outperformance to Sensex over 12-months |
| **Reduce** | : | Underperformance to Sensex over 12-months | **Sell** | : | Over 15% underperformance to Sensex over 12-months |
| **Trading Buy** | : | Over 10% absolute upside in 1-month | **Trading Sell** | : | Over 10% absolute decline in 1-month |
| **Not Rated (NR)** | : | No specific call on the stock | **Under Review (UR)** | : | Rating likely to change shortly |

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