

Gujarat Pipavav Port

NEUTRAL
INDUSTRY PORTS & LOGISTICS
CMP (as on 18 Feb 2014) Rs 71
Target Price Rs 74

Nifty 6,127

Sensex 20,634

KEY STOCK DATA

Bloomberg/Reuters GPPV IN/GPPL.BO

No. of Shares (mn) 483

MCap (Rs bn) / (\$ mn) 34/549

6m avg traded value (Rs mn) 37

STOCK PERFORMANCE (%)
52 Week high / low Rs 73 / 41

	3M	6M	12M
Absolute (%)	30.7	58.9	64.9
Relative (%)	31.9	46.2	59.8

SHAREHOLDING PATTERN (%)

Promoters 43.01

FIs & Local MFs 12.98

FIIs 33.82

Public & Others 10.19

Source : BSE

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Operating leverage kicks in

Gujarat Pipavav Port's (GPPV) 4QCY13 APAT of Rs 607bn was way higher than our/consensus estimates of Rs 450mn with the beat on container volumes further aided by operational efficiency and better realisations. Container volumes grew 24% owing to higher cotton exports, reefer cargo and new NMG service from Gulf that commenced in Sep-13.

We see multiple levers for profit growth in CY14-15E led by 1) tariff revision in Aug-13 along with 70% USD denominated revenues, 2) two new services introduced in Jun-13 in place of Maersk lines, 3) new Gulf service expected to add 50,000-60,000 TEUs, and 4) commencement of liquid cargo handling operations in Mar-14.

We like GPPV for its visibility on container volumes that is expected to yield benefits in the form of EBITDA margin expansion of 431bps over CY13-15E leading to EBITDA CAGR of 21% and PAT CAGR of 25% over the same period. We value GPPV with a SOTP of Rs 74/sh (CMP Rs71/sh) and have a NEUTRAL rating. Delay in port expansion remains the key risk to cash flow visibility in the medium term.

FINANCIAL SUMMARY

Year Ending March (Rs mn)	4QCY13	4QCY12	YoY (%)	3QCY13	QoQ(%)	CY11	CY12	CY13	CY14E	CY15E
Net Sales	1,452	1,188	22.3	1,262	15.1	3,959	4,160	5,179	6,028	6,929
EBITDA	835	568	47.1	614	36.0	1,817	1,819	2,568	3,124	3,735
APAT	607	360	68.7	441	37.6	571	740	1,918	2,245	2,761
Diluted EPS (Rs)	1.3	0.7	69.3	0.9	37.6	1.3	1.6	3.5	4.6	5.7
P/E (x)						52.6	43.4	20.4	15.3	12.4
EV / EBITDA (x)						19.6	20.2	13.7	11.4	9.6
RoE (%)						7.5	7.4	14.7	14.8	15.6

Source: Company, HDFC sec Inst Research

- Volumes and margins surprise positively :** GPPV reported 4QCY13 revenues of Rs 1.4bn, 22% higher YoY driven by 24% container volume growth to 0.19mn TEUs and benefits of tariff hike taken in Aug-13. Further, QoQ fall in employee/other expenses led to EBITDA margins of 58% (48% in 4QCY12 and 49% in 3QCY13) and adjusted PAT of Rs 607mn, up 69% YoY.
- Bulk volumes decline on lower coal volumes :** Although container traffic saw robust growth, bulk volumes declined 29% YoY due to lower coal volumes that was offset partially by higher fertilizer volumes. Management guides for bulk volumes to remain volatile going forward owing to variance in demand across coal, fertilizers and mineral cargo.
- Key monitorable :** There has been no incremental progress post EAC giving go ahead to port expansion and the final approval is still pending and capex for expansion will be in abeyance. Any incremental delay in approval for port expansion plan in light of upcoming Indian general elections, may impact container volume growth in the medium term from CY16E onwards.

QUARTERLY FINANCIAL SNAPSHOT

Year Ending March (Rs mn)	4QCY13	4QCY12	YoY (%)	3QCY13	QoQ(%)
Net Sales	1,452	1,188	22.3	1,262	15.1
Material Expenses	(310)	(359)	(13.5)	(302)	2.7
Employee Expenses	(98)	(95)	3.2	(112)	(12.1)
Other Operating Expenses	(209)	(166)	25.7	(234)	(10.9)
EBITDA	835	568	47.1	614	36.0
Interest Cost	(87)	(98)	(10.9)	(98)	(11.1)
Depreciation	(168)	(138)	21.6	(149)	12.6
Other Income	27	28	(3.6)	74	(63.9)
FX Gains / (Loss)	-	-	-	-	-
Extraordinary items	164	-	NM	-	NM
PBT	771	360	114.2	441	74.8
Minority Interest	-	-	NM	-	NM
Share of associates	-	-	NM	-	NM
Tax	-	-	NM	-	NM
RPAT	771	360	114.2	441	74.8
E/o (adj for tax)	-	-	NM	-	NM
APAT	607	360	68.7	441	37.6

Source: Company, HDFC sec Inst Research

MARGIN ANALYSIS

Year Ending March (Rs mn)	4QCY13	4QCY12	YoY (bps)	3QCY13	QoQ (bps)
Material Expenses % Net Sales	21.4	30.2	(883)	23.9	(256)
Employee Expenses % Net Sales	6.8	8.0	(125)	8.9	(209)
Other Operating Expenses % Net Sales	14.4	14.0	39	18.6	(419)
EBITDA Margin (%)	57.5	47.8	969	48.6	885
Tax Rate (%)	0.0	0.0	0	0.0	0
APAT Margin (%)	53.1	30.3	2,278	34.9	1,814

Source: Company, HDFC sec Inst Research

Operating revenues grew by 22% YoY driven by 24% YoY container volume growth and benefits of tariff hike taken in Aug-13

Extraordinary gain of Rs164mn was due to net impact of reversal of impairment provision, depreciation charge on reversal and assets written off/scrapped

QoQ fall in employee/other expenses led to EBITDA margins of 58% (48% in 4QCY12 and 49% in 3QCY13) and adjusted PAT of Rs 607mn, up 69% YoY

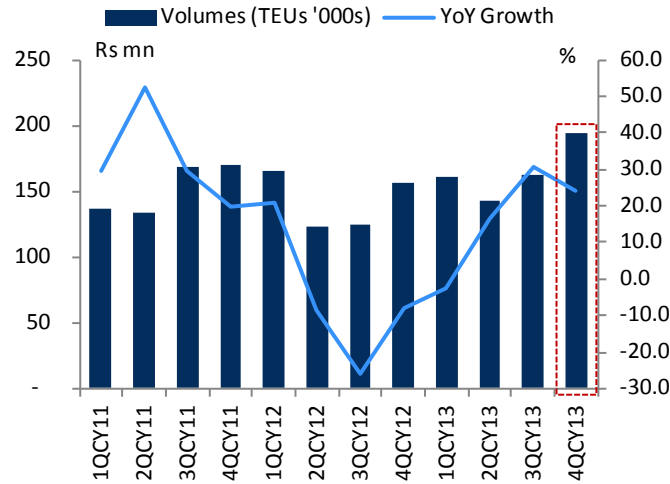
Container volumes grew 24% YoY in 4QCY13 owing to higher cotton exports, reefer cargo and new NMG service from Gulf which commenced operations in Sep-13

Bulk volumes declined 29% YoY due to lower coal volumes that was offset partially by higher fertilizer volumes

Robust container volume growth and full impact of price rationalization done in Aug-13 led to 22% YoY revenue growth

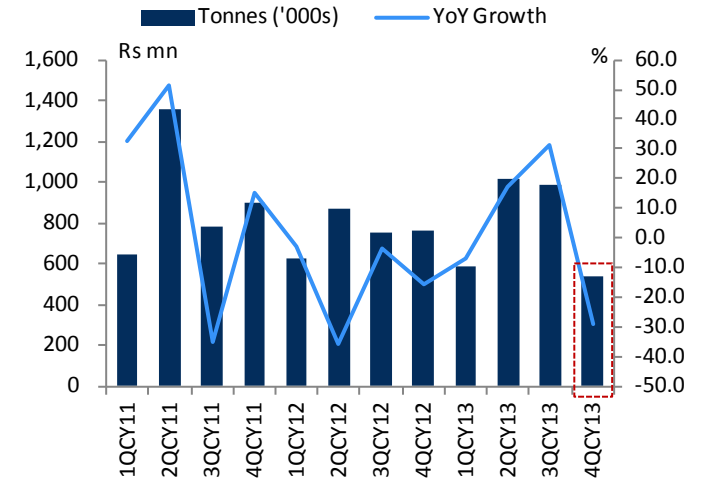
Benefits of operating leverage kicked in with EBITDA margins expanding 885bps QoQ and 969bps YoY

Container volumes grew 24% YoY in 4QCY13



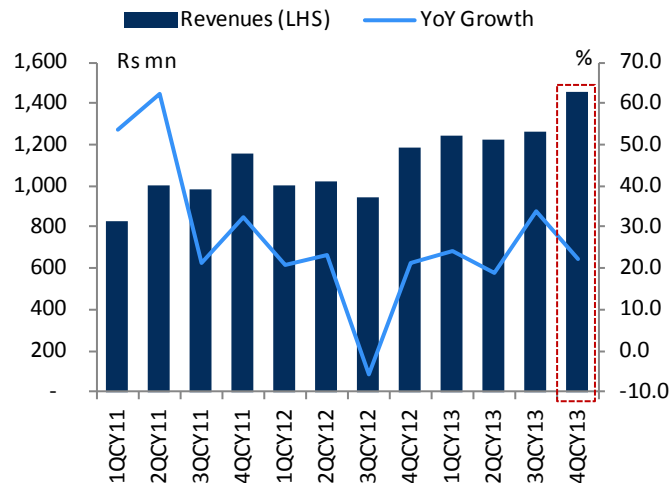
Source: Company, HDFC sec Inst Research

Bulk volumes saw degrowth due to lower coal volumes



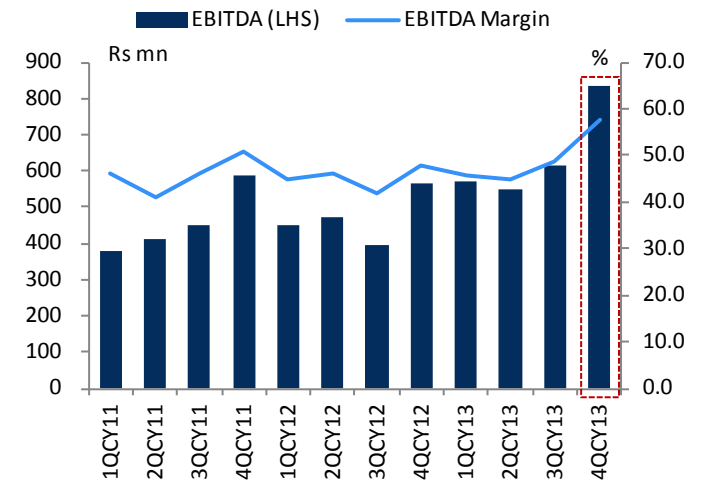
Source: Company, HDFC sec Inst Research

Robust YoY revenue growth sustained



Source: Company, HDFC sec Inst Research

EBITDA margins have seen sharp expansion in 2HCY13



Source: Company, HDFC sec Inst Research

We expect pick up in container volumes over CY13-15E on the back of upsizing of vessels, new services and addition of NMG service from Sep-13 (50,000-60,000 TEUs annually)

We value GPPV on SOTP basis with FCFE value of Pipavav Port contributing 90% or Rs 66/share to our fair value

GPPV KEY ASSUMPTIONS

Year Ending March (Rs mn)	CY11	CY12	CY13	CY14E	CY15E
Containers Handled (Mn TEUs)	0.61	0.57	0.66	0.76	0.87
YoY container cargo volume growth (%)	30.9	(6.6)	16.1	15.0	15.0
Container Realisation (Rs/TEU)	3,977	4,533	5,213	5,370	5,531
YoY Container realisation growth (%)	15.0	14.0	15.0	3.0	3.0
Bulk cargo handled (Mn tons)	3.70	3.01	3.13	3.29	3.45
YoY Bulk cargo volume growth (%)	(32.6)	(18.6)	4.0	5.0	5.0
Bulk Realisation (Rs/tonne)	360	414	414	426	439
YoY Bulk realisation growth (%)	13.9	15.0	0.0	3.0	3.0

Source: Company, HDFC sec Inst Research estimates

GPPV SOTP VALUATION

Details	Valuation Methodology	Value (Rs mn)	Value (Rs/share)	% of Total
Pipavav Port	DCF @ 12% CoE	32,030	66	89.9
PRCL	1x P/B value of investment	830	2	2.3
Cash/other investments	CY14E closing cash	2,749	6	7.7
Total Value		35,610	74	100.0

Source: HDFC sec Inst Research

INCOME STATEMENT

(Rs mn)	CY11	CY12	CY13	CY14E	CY15E
Net Sales	3,959	4,160	5,179	6,028	6,929
Growth (%)	39.4	5.1	24.5	16.4	14.9
Material Expenses	1,078	1,181	1,320	1,494	1,643
Employee Expenses	341	361	421	463	509
Other Operating Expenses	722	800	870	948	1,043
EBIDTA	1,817	1,819	2,568	3,124	3,735
EBIDTA (%)	45.9	43.7	49.6	51.8	53.9
EBIDTA Growth (%)	58.8	0.1	41.2	21.7	19.5
Other Income	164	154	168	142	192
Depreciation	558	549	608	636	659
EBIT	1,423	1,424	2,128	2,630	3,268
Interest	852	684	374	385	507
Exceptional items	-	-	(164)	-	-
PBT	571	740	1,918	2,245	2,761
Tax	-	-	-	-	-
PAT	571	740	1,918	2,245	2,761
Minority Interest	-	-	-	-	-
Share of associate	-	-	-	-	-
EO items (net of tax)	-	-	-	-	-
APAT	571	740	1,918	2,245	2,761
APAT Growth (%)	(204.3)	29.5	159.3	17.0	23.0
EPS	1.3	1.6	3.5	4.6	5.7
EPS Growth (%)	(186.3)	21.3	112.9	33.3	23.0

Source: Company, HDFC sec Inst Research

BALANCE SHEET

(Rs mn)	CY11	CY12	CY13	CY14E	CY15E
Share Capital	4,236	4,834	4,834	4,834	4,834
Reserves	3,694	7,283	9,201	11,445	14,206
Total Shareholders' Funds	7,930	12,117	14,035	16,280	19,041
Minority Interest	-	-	-	-	-
Long Term Debt	6,759	3,039	2,819	4,181	7,094
Short Term Debt	-	-	-	-	-
Total Debt	6,759	3,039	2,819	4,181	7,094
Deferred Taxes	-	-	-	-	-
Long Term Provisions & Others	-	-	-	-	-
TOTAL SOURCES OF FUNDS	14,688	15,156	16,854	20,461	26,135
APPLICATION OF FUNDS					
Net Block	12,698	12,462	13,962	13,495	12,837
CWIP	121	1,577	677	3,370	6,820
Goodwill	-	-	-	-	-
Investments, LT Loans & Advances	830	830	830	830	830
Inventories	57	115	120	143	158
Debtors	295	418	343	495	570
Cash & Equivalents	1,272	511	2,023	2,749	5,644
ST Loans & Advances, Others	560	393	711	1,043	1,191
Total Current Assets	2,184	1,436	3,197	4,431	7,562
Creditors	759	972	1,405	1,408	1,618
Other Current Liabilities & Provns	386	177	407	257	295
Total Current Liabilities	1,144	1,149	1,812	1,665	1,913
Net Current Assets	1,040	287	1,385	2,766	5,648
Misc Expenses & Others	-	-	-	-	-
TOTAL APPLICATION OF FUNDS	14,688	15,156	16,854	20,461	26,135

Source: Company, HDFC sec Inst Research

CASH FLOW

(Rs mn)	CY11	CY12	CY13E	CY14E	CY15E
Reported PAT	571	740	1,918	2,245	2,761
Non-operating & EO items	-	-	-	-	-
PAT from Operations	571	740	1,918	2,245	2,761
Interest expenses	852	684	374	385	507
Depreciation	558	549	608	636	659
Working Capital Change	(121)	(165)	960	(206)	565
OPERATING CASH FLOW (a)	1,860	1,808	3,860	3,060	4,492
Capex	(532)	(2,751)	(677)	(2,693)	(3,450)
Free cash flow (FCF)	1,328	(943)	3,183	367	1,042
Investments	0	0	0	0	0
INVESTING CASH FLOW (b)	(532)	(2,751)	(677)	(2,693)	(3,450)
Share capital Issuance	-	3,500	-	-	-
Debt Issuance	(1,215)	(3,720)	(219)	1,362	2,912
Interest expenses	(852)	(684)	(374)	(385)	(507)
Dividend	-	-	-	-	-
FINANCING CASH FLOW (c)	(2,067)	(904)	(594)	977	2,405
NET CASH FLOW (a+b+c)	(739)	(1,847)	2,589	1,344	3,447
Non-operating and EO items	62	1,086	(1,077)	(618)	(552)
Closing Cash & Equivalents	1,272	511	2,023	2,749	5,644

Source: Company, HDFC sec Inst Research

KEY RATIOS

	CY11	CY12	CY13E	CY14E	CY15E
PROFITABILITY (%)					
GPM	72.8	71.6	74.5	75.2	76.3
EBITDA Margin	45.9	43.7	49.6	51.8	53.9
APAT Margin	35.9	34.2	41.1	43.6	47.2
RoE	14.4	17.8	37.0	37.2	39.8
ROIC	7.5	7.4	14.7	14.8	15.6
RoCE	11.3	10.8	15.3	17.0	17.9
EFFICIENCY					
Tax Rate (%)	0.0	0.0	0.0	0.0	0.0
Asset Turnover (x)	0.3	0.3	0.3	0.3	0.3
Inventory (days)	6	8	8	8	8
Debtors (days)	27	31	27	25	28
Payables (days)	75	76	84	85	80
Cash Conversion Cycle (days)	(42)	(37)	(49)	(52)	(44)
Debt/EBITDA (x)	3.7	1.7	1.1	1.3	1.9
Net D/E	0.7	0.2	0.1	0.1	0.1
Interest Coverage	1.7	2.1	5.7	6.8	6.4
PER SHARE DATA					
EPS (Rs/sh)	1.3	1.6	3.5	4.6	5.7
CEPS (Rs/sh)	2.7	2.7	5.2	6.0	7.1
DPS (Rs/sh)	0.0	0.0	0.0	0.0	0.0
BV (Rs/sh)	18.7	25.1	29.0	33.7	39.4
VALUATION					
P/E	52.6	43.4	20.4	15.3	12.4
P/BV	3.8	2.8	2.4	2.1	1.8
EV/EBITDA	19.6	20.2	13.7	11.4	9.6
OCF/EV (%)	5.2	4.9	11.0	8.6	12.6
FCF/EV (%)	3.7	(2.6)	9.1	1.0	2.9
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company, HDFC sec Inst Research

Rating Definitions

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

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