Gujarat Pipavav Port Ltd.

EQUITY REPORT

Indbank Merchant Banking Services Ltd (A Subsidiary of Indian Bank)

October 1st, 2014

BSE Code: 533248 **NSE Code:** GPPL **Reuters Code:** GPPL.NS **Bloomberg Code:** GPPV:IN

Gujarat Pipavav Port Ltd (GPPL), incorporated in 1996, is the country's first private sector port managed and operated by APM Terminals. APM Terminals is the ports and terminals company of the maritime giant, the A.P. Moller-Maersk Group. The company is engaged in providing port handling and marine services for container cargo, bulk cargo, and LPG cargo. Apart from that, GPPL is also engaged in operating Container Freight Station (CFS) and it also generates revenue from land-related and infrastructure activities. GPPL has emerged as an important gateway port on the West Coast of India for containers, bulk and liquid cargo. Location in Gujarat offers the distinct advantage of being a gateway to vast North and North West hinterland (Rajasthan, Delhi/NCR and Punjab), which account for ~60% of the total cargo traffic in India.

Investor's Rationale

Lower finance cost to aid profitability further, expects revenue CAGR of ~39% over CY13-15E: We expect GPPL to record earnings CAGR of 24.8% over CY13-15E, driven by EBITDA growth of ~21.5% and 22.5% YoY in CY14E and CY15E, respectively. Further, lower interest expense is likely to push the net profit by ~24.6% in CY14E and by ~33.4% in CY15E, respectively. We expect the finance cost to grow mere by ~10% YoY in CY14E as well as in CY15E, as the company has planned to fund its future drawdowns through ECB route, thereby leading to a decline in interest cost. With GPPL retiring its rupee denominated debt and moving to ECB for funding further capex, we expect interest cost to decline substantially, going ahead. The company had a debt of ₹2,819.4 mn as in CY13 and is planning to repay the entire debt and fund the capex via ECB.

Prime assets with strong parentage: Accessibility to long water front, large contiguous land, rich hinterland, dedicated support & evacuation infrastructure and pertinent location in Gujarat makes GPPL a prime asset. It is among the first private sector port in India, own and operated by APM Terminal. APM Terminals operates a global terminal network in 63 countries with interests in 56 port and terminal facilities and over 154 Inland services operations making it one of the largest container terminal operators in the world. Strategic location along with strong parentage is a key to the port's success in the long run.

Volume rise and tank farms revenue addition provide valuation upside: GPPL's ability to grow faster than the market through addition of new shipping lines (added 2 new lines in Q2CY14) and upsizing of existing vessels leads to higher revenue visibility and better margin. Also, superior evacuation along with added revenue from tank farms will provide further revenue upside.

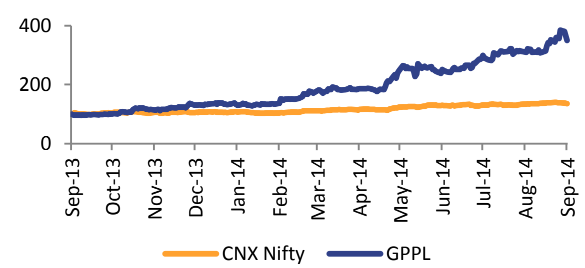
Market Data

Rating	**BUY**
CMP (₹)	163.5
Target (₹)	**192**
Potential Upside	~17%
Duration	Long Term
Face Value (₹)	10.0
52 week H/L (₹)	182.4/44.6
Adj. all time High (₹)	182.4
Decline from 52WH (%)	10.4
Rise from 52WL (%)	266.5
Beta	0.8
Mkt. Cap (₹bn)	79.0
Enterprise Value (₹bn)	79.8

Fiscal Year Ended

Y/E	CY12A	CY13A	CY14E	CY15E
Revenue (₹bn)	4.2	5.2	6.5	8.1
EBITDA (₹bn)	1.8	2.6	3.3	4.2
Net Profit (₹bn)	0.7	1.9	2.4	3.2
EPS (₹)	1.6	3.6	4.9	6.6
P/E (x)	99.9	45.1	33.1	24.8
P/BV (x)	6.1	5.6	4.8	4.0
EV/EBITDA (x)	44.8	31.1	24.7	19.1
ROCE (%)	9.2	12.4	11.5	13.2
ROE (%)	6.1	12.5	14.5	16.3

One year Price Chart



Shareholding Pattern	Jun'14	Mar'14	Diff.
Promoters	43.0	43.0	-
FII	33.8	32.7	1.1
DII	13.8	13.9	(0.1)
Others	9.4	10.4	(1.0)

Gujarat Pipavav Port Ltd #India's first private sector port

GPPL, one of the principal gateway ports on the West Coast of India, is engaged in providing port handling and marine services for container cargo, bulk cargo, and LPG cargo.

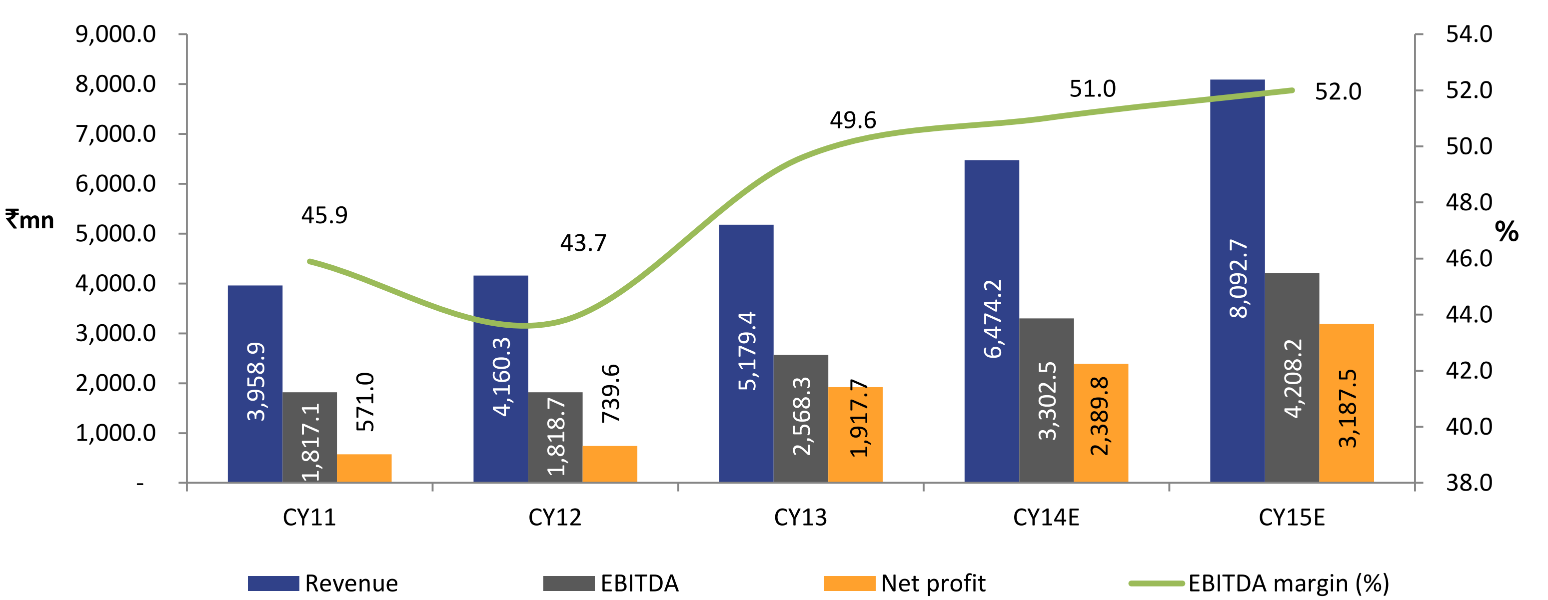
GPPL leverages the shipping experience, strengths and network of its parent, APM Terminals, which operates 56 ports and terminals and 154 inland services in 63 countries.

Gujarat Pipavav Port Ltd (GPPL), the country's first private sector port, was incorporated in August 1996. GPPL, one of the principal gateway ports on the West Coast of India, is engaged in providing port handling and marine services for container cargo, bulk cargo, and LPG cargo. In addition, the port operates a Container Freight Station (CFS) and also generates revenue from land-related and infrastructure activities. GPPL is located in the Saurashtra region of Gujarat, and near the entrance of Gulf of Khambhat. Location in Gujarat offers the distinct advantage of being a gateway to vast North and North West hinterland (Rajasthan, Delhi/NCR and Punjab), which account for ~60% of the total cargo traffic in India. Also, Gujarat is one of India's primary cargo generating states, accounting for ~20% of the country's export cargo and nearly 40% of its industrial output. Besides, the port falls on the main maritime trade routes to the US, Middle East, Asia, Africa, Europe and other international destinations, which provides a strategic advantage to the port.

The port's location in Gujarat and proximity to a robust rail and road network also provides a logistical advantage, connecting the port to critical markets in the hinterland and the Northwest. GPPL's rail connectivity project was undertaken by Pipavav Rail Corporation Limited (PRCL), promoted by Port Pipavav and the Ministry of Railways. Port Pipavav has an equity stake of 38.8% in PRCL. In addition, coastal feeder connectivity establishes the port as a transshipment hub. The port is well-connected to Cochin, Tuticorin, Goa, Mangalore, Kandla and Mundra, and is focused on bringing in volumes from all cargo generating areas on the West Coast.

GPPL leverages the shipping experience, strengths and network of its parent, APM Terminals, which operates 56 ports and terminals and 154 inland services in 63 countries. With a 43.01% stake, APM Terminals, a part of the international maritime giant, the AP Moller Maersk Group, is the largest shareholder in GPPL. Other key shareholders in Port Pipavav are: New York Life International India Fund (Mauritius) LLC; IDFC Infrastructure Fund; The Infrastructure Fund of India; IL&FS Trust Company Ltd.; Jacob Ballas Capital India Pvt. Ltd.; Unit Trust of India; Industrial Development Bank of India; and India Infrastructure Fund.

Financial Performance trend



Showcased strong numbers in Q2CY14

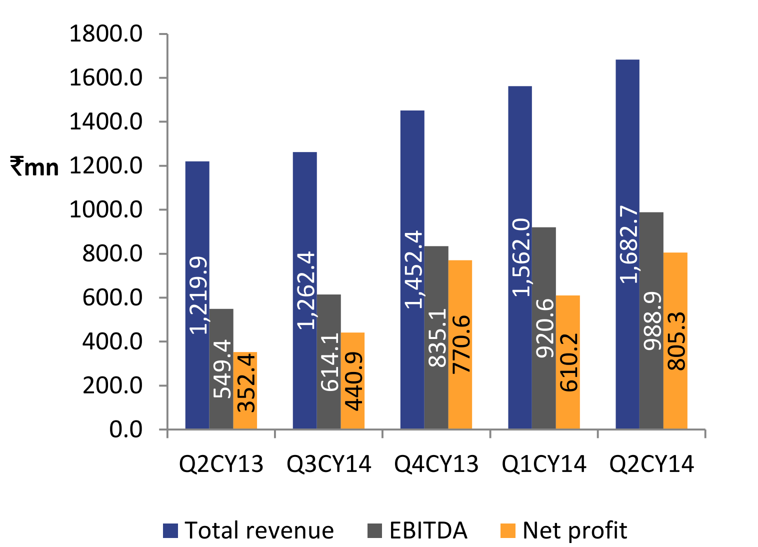
During Q2CY14, the company registered a growth of 37.9% YoY in its total revenues at ₹1,682.7 mn, on account of higher container volumes.

Strong top-line growth; container volumes lead the way: GPPL showcased a robust performance in Q2CY14 with revenue growth of 37.9% YoY at ₹1,682.7 mn as against ₹1,219.9 mn in the corresponding period a year ago led by robust growth in container volumes. The container volumes surprised with 42% YoY and 8.6% QoQ growth at 203,000 TEUs (20 foot equivalent units) on the back of addition of 2 new lines and scale up in volumes of existing line. The bulk volumes, however, decreased by ~19% YoY and increased 18.6% QoQ to ~0.8 MMT, as coal, fertilizers and wheat volumes picked up while minerals did not show any sign of revival. On the back of strong volume growth especially on the container front and improving macroeconomic scenario we remain optimistic for improved top-line growth in Q3CY14 and CY14 as a whole.

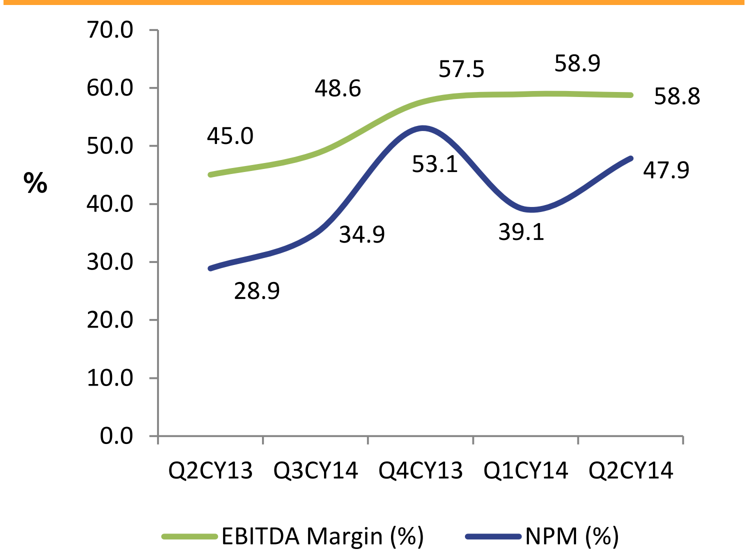
EBITDA margin surged 1,380bps YoY to 58.8% as against 45.0% in Q2CY13 led by higher container volumes and higher other operating income.

EBITDA margin - boosted by high container volumes: GPPL witnessed a strong growth of 80.0% YoY and 7.4% QoQ in EBITDA at ₹988.9 mn, boosted by higher container volumes. Consequently, EBITDA margin surged 1,380bps YoY to 58.8% as against 45.0% in Q2CY13 led by higher container volumes and higher other operating income. The other operating income grew by 39.4% YoY to ₹124.5 mn. Apart from that, the company has undergone a tariff revision as a result of which improved tariff rationalizations also helped the company achieve good margins. As per the new norms, the company raised the terminal handling charges for road containers by ~15% (across loaded and empty containers for both 20ft and 40ft containers). Also, all containers arriving at and departing from the port by rail will be charged port infrastructure development fee (new) – USD 6 for 20ft and USD 12 for 40ft containers.

Quarterly performance remained healthy in Q2CY14



NPM grew massively by 1,900 bps YoY in Q2CY14



The company has a debt of ₹2,819.4 mn as in CY13 and is currently in process to repay the entire debt and fund the capex via ECB which will further reduce the interest cost.

PAT jumped 128.5%; Debt levels reduced further: GPPL posted an impressive triple digit growth of 128.5% YoY at ₹805.3 mn in net profit in Q2CY14 primarily on account of strong operating performance and lower finance cost. During the quarter, the interest cost reduced by 12.6% YoY to ₹82.9 mn. The company has a debt of ₹2,819.4 mn as in CY13 and is currently in process to retire its entire debt and fund the capex via ECB which will further reduce the interest cost. The net profit margin (NPM) of the company grew tremendously by 1,897 bps YoY to 47.9% as against 28.9%, during the quarter.

The company registered a 42% YoY growth in container volumes in Q2CY14 vis-à-vis 143,000 TEUs in Q2CY13 and 187,000 TEUs in Q1CY14.

Container volumes continued to be strong; bulk volumes improved in Q2CY14

GPPL reported strong container volume of ~203,000 TEUs in Q2CY14 vis-a-vis 143,000 TEUs in Q2CY13 and 187,000 TEUs in Q1CY14, reflecting an uptick by 42.0% YoY as against the same period a year ago. Owing to its strategic location on the Indian west cost and proximity to industry clusters in the region, volume growth was considerably healthy. The strong increase in volumes was led by addition of new lines and scale-up in volumes of existing lines. The company has added two new service lines in Q2CY14 which initially contributed ~5% of total volumes and are expected to pick further. GPPL has been able to continuously add new clients for its container business, which make the company's prospects for long-term quite brighter. Further, with robust growth in global container volume (~8% CAGR in 2000-10) due to increased intra-Asia trade coupled with low level of container penetration in India (at 68% against global average of 80%) there is ample scope for growth of container segment. Bulk volumes, on the other hand, improved to 0.82 mn tones in Q2CY14 as against 0.69 mn tones in Q1CY14, reflecting an uptick by 18.8% YoY.

Quarterly volumes trend

Segment	Q2CY13	Q3CY13	Q4CY13	Q1CY14	Q2CY14
Container (no. of TEUs)	1,43,000	1,63,000	1,93,729	1,87,000	2,03,000
Bulk volumes (mn tonnes)	1.02	0.99	0.54	0.69	0.82
Rail Volumes (mn tonnes)	1.9	2.1	1.9	2.1	2.2
Inland Container Depot (ICD) volumes (TEUs)	1,01,590	1,16,320	1,19,001	1,23,361	1,32,797
No. of rakes	672	715	642	665	673

The company's move to raise the tariffs was in line with its strategy to align charges in line with competition, high inflation and crude prices.

We believe that this move would help the company to improve its operating performance in H2CY14 and CY14 as a whole.

Tariff hike flexibility sustained revenue growth in Q2CY14; outlook for CY14 remains brighter

The company has hiked tariff across various cargo handled and infrastructure services with effect from 16 August 2013 as a result of which, GPPL has been able to improve its per container realisations by ~10% from ₹5,000/TEU in Q2CY13 to ₹5,500/TEU in Q2CY14. The company has proposed revision in port tariffs a year after dollarisation of container tariffs (August 2012). GPPL raised the terminal handling charges for road containers by ~15% (across loaded and empty containers for both 20ft and 40ft containers) and all containers arriving at and departing from the port by rail will be charged port infrastructure development fee of USD 6 for 20ft and USD 12 for 40ft containers. Further, marine charges (includes port dues, pilotage, berth hire charges, etc) have been tweaked and a few new charges have been introduced. The likely impact of these on customers may be only ~4% due to rebates/discounts. The company's move to raise the tariffs was in line with its strategy to align charges in line with competition, high inflation and crude prices. We believe that this move would help the company to improve its operating performance in H2CY14 and CY14 as a whole.

Revenue contribution from the liquid cargo is expected to be low for next 2-3 years but could increase as and when expansion happens post CY14E.

Liquid expected to contribute to volumes from Q3CY14

GPPL can handle liquid cargo of ~2 mtpa but currently handling almost zero. Companies like Aegis Logistics, Gulf Petrochem Ltd and Indian Molasses Company (IMC) have signed lease agreements with the company wherein GPPL will lease out its land to these companies to be used for fuel farms and liquid cargo. This would create potential for liquid cargo at GPPL as the liquid would have to be handled at the liquid jetty of GPPL. The company's management indicated that the progress on the construction of the tankage farms is on track and expects the same to be completed shortly. GPPL is expected to earn revenue in the form of lease rentals from land and charges for the usage of sea side facilities from these contracts. Revenue contribution from the liquid cargo is expected to be low for next 2-3 years but could increase as and when expansion happens post CY14E.

Creation of tank farms - Potential for Liquid cargo at GPPL

Company	Tank Capacity (lakh litres)	Q3CY13
Aegis Logistics	600,000	CY14
Gulf Petrochem	100,000	CY14
Indian Molasses Company	100,000	CY14

PRCL reported strong scale-up in operations (with increased volumes from the port) and reported strong revenues of ₹1,790 mn in CY13 with a net PAT of ₹464 mn.

Rail subsidiary PRCL has started contributing to profitability

Pipavav Rail Corporation Ltd (PRCL) is the 50:50 Joint Venture Company of Indian Railways and Gujarat Pipavav Port Ltd (GPPL) with an equity investment of ₹1.6 bn, set up to construct, maintain and operate 271 kilometer long broad gauge railway line connecting Port of Pipavav to Surendranagar Junction of Western Railway, in the state of Gujarat. The rail operation has been reporting profits for the last 3 years. Infact it reported strong scale-up in operations (with increased volumes from the port) and reported strong revenues of ₹1,790 mn in CY13 with a net PAT of ₹464 mn. The company has declared its first-ever dividend - declared 5% interim dividend for FY14. We estimate PRCL to continue with its strong performance on the back of increased volumes from the port.

PRCL's revenue growth remain consistent

₹ mn	CY09	CY10	CY11	CY12	CY13
Sales	684	766	896	1,530	1,790
Profit	(238)	(180)	35	553	464

GPPL has cut its capex plans to ₹4.5 bn as against the earlier planned ₹11 bn due to weak volumes in the bulk segment and already enough capacity in the place in the container segment.

Revised capex plan – sufficient for near-term growth

GPPL had cut its capex plans to ₹4.5 bn and put the bulk capex plans on hold. The company has outlined a capex of ₹11 bn in CY13 (₹9 bn for container and ₹2 bn for bulk). The deferment in capex is primarily due to weak volumes in the bulk segment and already enough capacity in the place in the container segment. The revise plans would result in increase of the existing container capacity to 1.5 mn TEUs (from ~1 mn TEUs) while bulk capacity (5 mn tons) and liquid capacity (2 mn tons) would remain unchanged. GPPL had earlier outlined a plan to increase container capacity to 2 mn TEUs and bulk capacity to 10 mn tons.

Besides, the company's plan to fund the capex by ECB route will reduce the interest cost significantly, which will further help in improving the profitability, thereby strengthening the company's outlook.

Revised capex plan of GPPL

Segment	Current Capacity	Current Plan	Earlier plan
Container	1 mn TEUs	1.5 mn TEUs	2.0 mn TEUs
Bulk	5 mn tons	No addition	10 mn tons
Liquid	2 mn tons	No addition	No addition

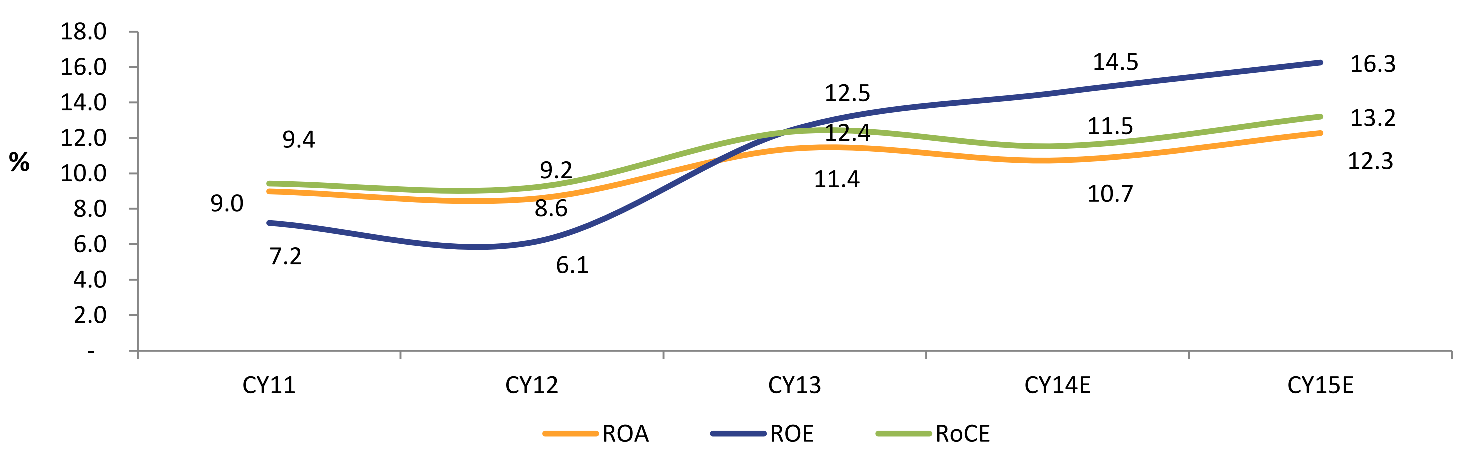
Key Risks

Shift in container volumes from one port to competing port is one of the major threat the company faces.

- *Minimal consistency in container cargo:* A large part of container cargo of shipping lines are based on voyages and have short term charter hire contract, berthing contracts and small proportion of long term contracts. Thus, there exists possibility of shift in container volumes from one port to competing port for better rates, operational efficiency/turnaround time etc.

- *Competition and upcoming capacity may impact volume growth:* Currently, the competing ports of GPPL i.e. JNPT, Mundra, Kandla either have spare capacity or are undergoing huge expansion plans. To illustrate, Mundra port's container capacity stands at 4 mn TEUs, while volume stands at 1.7 mn TEUs – 40% utilization. This existing and upcoming capacity may exert pressure on the company's volume growth and realization.

Key return ratios trend



Balance Sheet (Consolidated)

Y/E (₹mn)	CY12A	CY13A	CY14E	CY15E
Share Capital	4,834.4	4,834.4	4,834.4	4,834.4
Reserve and surplus	7,283.0	9,200.7	11,590.5	14,778.0
Net Worth	**12,117.4**	**14,035.1**	**16,424.9**	**19,612.4**
Long term borrowings	3,038.8	2,819.4	7,419.4	7,419.4
Provisions	400.5	406.6	508.2	624.8
Other non-current liabilities	105.9	118.3	145.4	178.9
Current liabilities	971.6	1,287.0	1,608.8	1,828.7
Total equity & liabilities	**16,634.2**	**18,666.3**	**26,106.7**	**29,664.1**
Fixed assets	14,039.1	14,639.1	19,239.1	21,163.1
Investments	830.0	830.0	830.0	830.0
Loans & advances	582.3	658.5	682.7	712.9
Cash & cash equivalents	510.7	2,023.1	4,721.5	6,126.3
Other non-current assets	169.1	11.0	11.0	11.0
Other current assets	503.0	504.6	622.4	820.9
Total Assets	**16,634.2**	**18,666.3**	**26,106.7**	**29,664.1**

Profit & Loss Account (Consolidated)

Y/E (₹mn)	CY12A	CY13A	CY14E	CY15E
Operating revenue	**4,160.3**	**5,179.4**	**6,474.2**	**8,092.7**
Expenses	2,341.6	2,611.1	3,171.7	3,884.5
EBITDA	**1,818.7**	**2,568.3**	**3,302.5**	**4,208.2**
Other Income	154.5	167.6	167.6	167.6
Depreciation	549.4	607.8	668.6	735.5
EBIT	**1,423.8**	**2,128.1**	**2,801.5**	**3,640.4**
Interest	684.2	374.3	411.7	452.8
Profit Before Tax	**739.6**	**1,753.8**	**2,389.8**	**3,187.5**
Tax	0.0	0.0	0.0	0.0
Exceptional Items	-	(163.8)	-	-
Net Profit	**739.6**	**1,917.7**	**2,389.8**	**3,187.5**

Key Ratios (Consolidated)

Y/E	CY12A	CY13A	CY14E	CY15E
EBITDA Margin (%)	43.7	49.6	51.0	52.0
EBIT Margin (%)	34.2	41.1	43.3	45.0
NPM (%)	17.8	37.0	36.9	39.4
ROCE (%)	9.2	12.4	11.5	13.2
ROE (%)	6.1	12.5	14.5	16.3
EPS (₹)	1.6	3.6	4.9	6.6
P/E (x)	99.9	45.1	33.1	24.8
BVPS (₹)	26.8	29.0	34.0	40.6
P/BVPS (x)	6.1	5.6	4.8	4.0
EV/Net sales (x)	19.6	15.4	12.6	9.9
EV/EBITDA (x)	44.8	31.1	24.7	19.1

Valuation and view

GPPL witnessed strong volume growth in Q2CY14 and the trend is likely to continue as new services have been added and macroeconomic scenario is showing signs of uptick. Operating margin is likely to improve in the coming time as volumes are picking up and high margin liquid volumes will kick in H2CY14 onwards. A strong balance sheet coupled with consistent revenue growth and improving EBITDA margin would enable GPPL to catalyse its earnings growth. Further, as the company is planning to retire its rupee denominated debt and utilise the ECB route for further funding, we expect the interest cost to come down significantly. With volume visibility from container shipping lines being intact and addition of new revenue stream in form of tank farms, we believe there will be healthy revenue growth for GPPL over an extended timeframe.

Considering the above aspects, we rate the stock as 'BUY' at a current CMP of ₹163.5, attractively placed at P/E of ~33.1x and ~24.8x, for CY14E and CY15E, respectively to arrive at a target price of ₹192, with a potential upside of ~17% for the coming 12 months.

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