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2QFY2016 Result Update | Infra

October 31, 2015

Gujarat Pipavav Port (GPPL)

Performance Highlights

Particulars (₹ cr)	2QFY16	1QFY16	% chg (qoq)	2QFY15	% chg (yoy)
Net Sales	140	173	*(18.8)*	157	*(10.6)*
EBITDA	68	87	*(22.0)*	83	*(18.3)*
Adj. PAT	61	80	*(24.1)*	92	*(33.9)*

Source: Company, Angel Research

Gujarat Pipavav Port Ltd (GPPL) reported a poor set of numbers for 2QFY2016, with its top-line declining by 10.6% yoy/18.8% qoq to ₹140cr. The top-line de-growth on yoy basis was owing to (1) 24% decrease in Container volumes (to 145,000 TEUs), and (2) 39% decrease in Bulk business (to 628,000MT).

EBITDA for the quarter stood at ₹68cr, down 18.3% yoy/22.0% qoq. Reported EBITDA margins came in at 48.2% as against 52.8% in corresponding year ago quarter and 50.2% in the sequential quarter. Fall in EBITDA margin was due to revenue de-growth coupled with yoy increase in employee expenses.

PAT for the quarter amounted to ₹53cr, down 42.4% yoy and 33.9% qoq. On adjusting for reversal of asset impairment provision and deferred tax charges, the Adj. PAT stood at ₹61cr. Adj. PAT margins came in at 43.4% (vs 58.7% in the corresponding year-ago quarter and 46.5% in the previous quarter).

Outlook and Valuation: At the current market price of ₹161, GPPL is trading at FY2016E and FY2017E P/E multiple of 25.2x and 27.4x, respectively. We have valued the Ports business using free cash flow to equity holders (FCFE) to arrive at FY2017E based business value of ₹154. We have assigned 10x P/E multiple to our FY2017E earnings estimate of Pipavav Rail Corporation Ltd (PRCL) to arrive at business value of ₹7 (adj. for 38.8% stake). On using the sum-of-the-parts (SOTP) based valuation methodology we arrive at a FY2017E based price target of ₹162. **Given the limited upside potential in the stock from the current levels, we maintain our Neutral rating on the stock.**

Key Financials

Y/E March (₹ cr)	FY13	FY15*	FY16E	FY17E
Net Sales	**474**	**792**	**629**	**684**
% chg		*67.2*	*(20.6)*	*8.8*
Net Profit	**192**	**389**	**309**	**284**
% chg		*102.6*	*(20.6)*	*(8.2)*
EBITDA (%)	44.9	53.8	51.0	52.2
EPS (₹)	**4**	**8**	**6**	**6**
P/E (x)	40.5	20.0	25.2	27.4
P/BV (x)	4.2	3.9	3.3	3.0
RoE (%)	14.7	24.3	15.9	12.7
RoCE (%)	13.3	26.4	17.0	16.9
EV/Sales (x)	16.6	9.5	12.0	10.8
EV/EBITDA (x)	36.9	17.7	23.5	20.7

*Source: Company, Angel Research; Note: CMP as of October 30, 2015; *GPPL switched from Dec to Mar year ending*

NEUTRAL

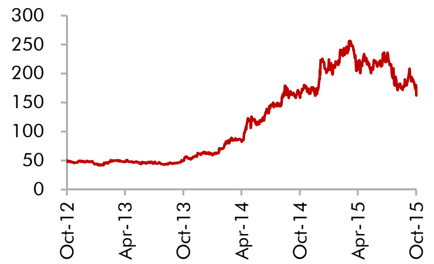
CMP	₹161
Target Price	-
Investment Period	-

Stock Info	
Sector	Infrastructure
Market Cap (₹ cr)	7,846
Net debt (₹ cr)	(245)
Beta	0.8
52 Week High / Low	262/156
Avg. Daily Volume	151,925
Face Value (₹)	10
BSE Sensex	26,657
Nifty	8,066
Reuters Code	GPPL.BO
Bloomberg Code	GPPV@IN

Shareholding Pattern (%)	
Promoters	43.0
MF / Banks / Indian FIs	11.0
FII / NRIs / OCBs	38.7
Indian Public / Others	7.4

Abs. (%)	3m	1yr	3yr
Sensex	(31.7)	(2.8)	238.3
GPPL	(5.2)	(4.3)	44.0

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 2QFY2016 Performance

Particulars (₹ cr)	2QFY16	1QFY16	% chg (qoq)	2QFY15	% chg (yoy)	1HFY16	1HFY15	% chg
Net Sales	**140**	**173**	*(18.8)*	**157**	*(10.6)*	**313**	**313**	*0.1*
Total Expenditure	**73**	**86**	*(15.5)*	**74**	*(2.1)*	**159**	**144**	*10.5*
Operating Expenses	33	41	*(19.6)*	38	*(15.2)*	73	71	*2.4*
Employee benefits Expense	14	13	*6.5*	11	*21.5*	27	25	*9.3*
Other Expenses	26	33	*(19.2)*	24	*7.7*	59	48	*23.4*
EBITDA	**68**	**87**	*(22.0)*	**83**	*(18.3)*	**155**	**169**	*(8.7)*
EBIDTA %	48.2	50.2		52.8		49.3	54.1	
Depreciation	23	24	*(5.4)*	16	*38.9*	47	33	*39.7*
EBIT	45	63	*(28.4)*	67	*(32.4)*	108	136	*(20.7)*
Interest and Financial Charges	0	0	*66.8*	9	*(99.5)*	0	17	*(99.6)*
Other Income	16	18	*(10.1)*	35	*(54.6)*	33	52	*(35.2)*
PBT before Exceptional Items	61	80	*(24.4)*	92	*(34.1)*	141	170	*(17.0)*
Exceptional Items	(60)	0		0		(60)	0	
PBT after Exceptional Items	121	80	*50.7*	92	*31.4*	202	170	*18.6*
Tax	68	0		0		68	0	
% of PBT	*56*	*nmf**		*nmf**		*34*	*nmf**	
PAT	**53**	**80**	*(33.9)*	**92**	*(42.4)*	**134**	**170**	*(21.5)*
Adj. PAT	**61**	**80**	*(24.1)*	**92**	*(33.9)*	**141**	**170**	*(17.1)*
PAT %	37.8	46.5		58.7		42.6	54.3	
Adj. PAT %	43.4	46.5		58.7		45.0	54.3	
Dil. EPS (after excep. Items)	1.10	1.66	(33.7)	1.91	(42.4)	2.76	3.52	(21.6)
Adj. Dil. EPS (after excep. Items)	1.26	1.66	(24.1)	1.91	(34.0)	2.92	3.52	(17.0)

Source: Company, Angel Research; Note: nmf- Not meaningful; ** GPPL switched from Dec to Mar year ending*

Top-line disappoints

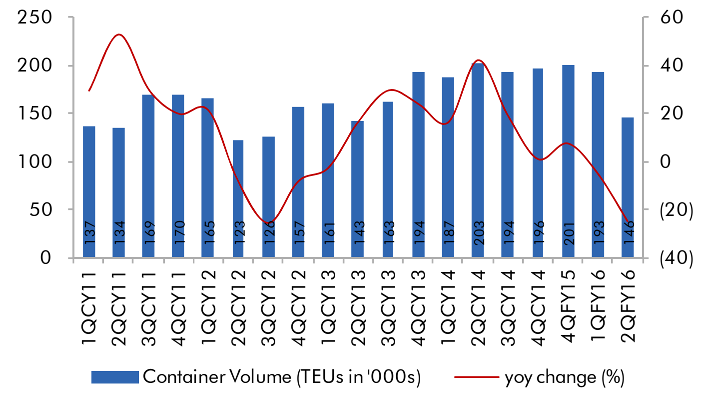
GPPL, for 2QFY2016, reported a 10.6% yoy decline in revenues to ₹140cr. On a sequential basis, revenues were down 18.8%.The Reported top-line numbers are below our expectation of ₹179.8cr. The top-line de-growth on a yoy basis is on account of (1) 24% decrease in Container business volumes (to 146,000TEUs), and (2) 38% decrease in Dry Bulk business (to 628,000MT).

Decline in Container and Dry Bulk revenues is attributable to (1) cyclone weather at port, witnessed (Force Majeure) (2) re-alignment of services, and (3) impact of global slowdown.

On the top-line front, the 2 positives were (1) 52% qoq increase in Liquid Farm Tanks volumes to 163,000MT, and (2) better realizations at both, Container as well as Dry Bulk business.

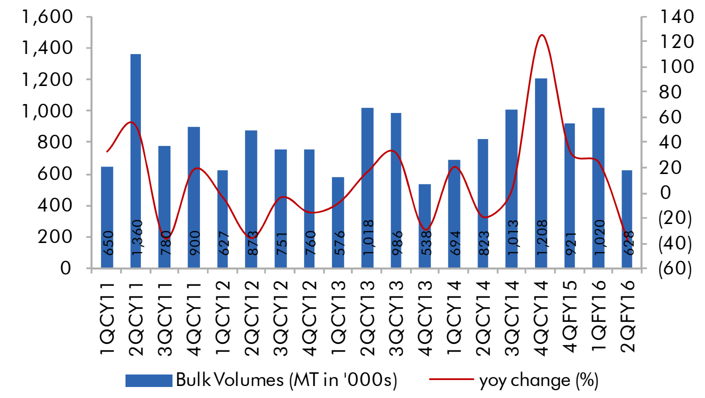
Container Terminal volumes of GPPL reported yoy decline for second consecutive quarter. Volumes de-grew 5% yoy in 1QFY2016, with decline further accentuating to 24% yoy in 2QFY2016 to ~146,000 TEUs.

Exhibit 2: Container volumes decline 24% yoy



Source: Company, Angel Research

Exhibit 3: Bulk volumes continue to show traction

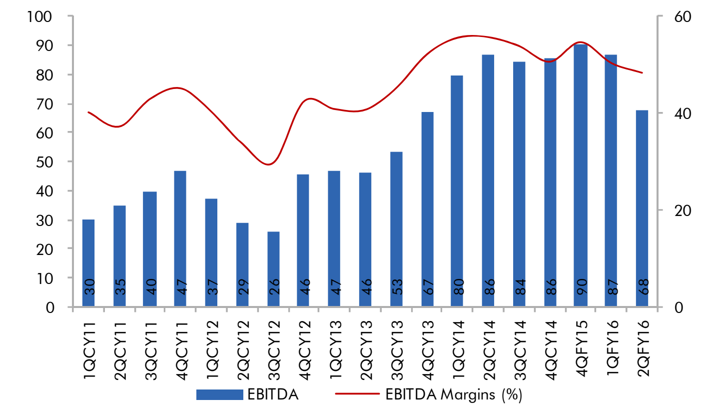


Source: Company, Angel Research

EBITDA Margin dips below 50% levels

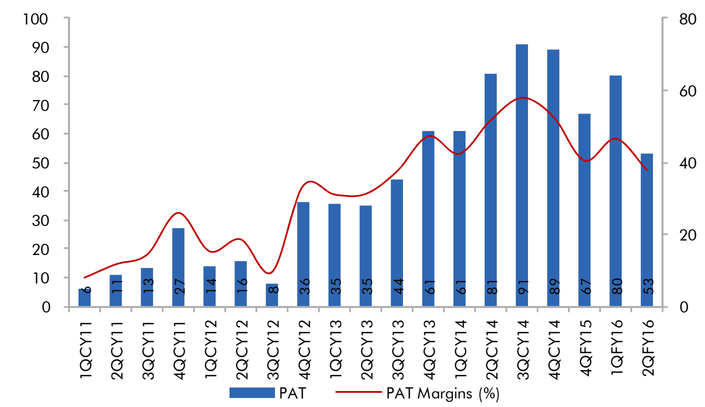
GPPL reported an EBITDA of ₹68cr, which is below our expectation of ₹95cr. Reported EBITDA margin of the company was at 48.2%, down from 50.2% in the sequential quarter and 53.7% in corresponding quarter a year ago. EBITDA during the quarter was impacted on account of yoy revenue de-growth, as well as owing to 21.5% yoy increase in employee costs to ₹14cr.

Exhibit 4: EBITDA% dips below 50% levels



Source: Company, Angel Research

Exhibit 5: PAT% stood at 37.8%



Source: Company, Angel Research

GPPL reported a PAT of ₹53cr, down 42.4% yoy, and 33.9% qoq. On adjusting for reversal of asset impairment provision (₹60.4cr) and deferred tax charge of ₹60.0cr (for 1HFY2016), the adj. PAT stands at ₹61cr, which is below our expectation of ₹86.1cr. Adj. PAT margins during the quarter was at 43.4% vs 58.7% in the corresponding quarter year ago. Adj. PAT number, on yoy basis, was impacted due to (1) repayment of entire debt (leading to just ₹0.04cr of interest expenses in 2QFY2016 vs ₹9cr in the corresponding quarter a year ago quarter), (2) 38.9% increase in depreciation expenses to ₹23cr, and (3) 54.6% decrease in other income to ₹16cr. The sharp increase in depreciation expense is owing to change in estimated useful life of assets (resulting in ₹6.7cr increase in depreciation expenses).

Concall Highlights

- GPPL is running as per schedule its ongoing capex (to increase the container capacity from 1.1mn TEUs to 1.35mn TEUs) and expects to commission operations by 4QFY2016. Management confirmed that it has already incurred 30-35% of the total proposed capex.
- Rail line disruption led to loss of Container volumes by 25,000-30,000 TEUs. Re-alignment of services by FM3 line (to Mundra Port) contributed to loss of 75,000-80,000 TEUs (annual basis) and discontinuation of services by NMG contributed to a loss of 20,000-30,000 TEUs (annual basis).
- Post the rail line disruption, GPPL re-directed 2 coal and 2 fertilizer ships, which led to a loss of 0.2-0.25MT of Bulk volumes during the quarter.
- Having set-off all of its carry forward losses, the company is now eligible to start distributing dividends from FY2016 onwards. Management highlighted towards ongoing discussions at the board room level.

Revision of our Estimates

On incorporating adjustments for (1) decline in Container business volumes, which could further result in EBITDA margin decline, and (2) deferred tax charge, we are reducing our PAT estimates for FY2016E and FY2017E to ₹309cr and ₹284cr, respectively.

Exhibit 6: Revised estimates

Particulars (₹ cr)	FY2016E			FY2017E		
	Old	New	*% chg.*	Old	New	*% chg.*
Net Sales	721	629	*(12.8)*	784	684	*(12.8)*
EBITDA	383	321	*(16.2)*	420	357	*(15.0)*
EBITDA Margins (%)	*53.1*	*51.0*		*53.6*	*52.2*	
Rep. PAT	397	309	*(22.2)*	439	284	*(35.3)*
Rep. PAT Margins (%)	*55.0*	*49.1*		*56.1*	*41.4*	

Source: Company, Angel Research

Investment Arguments

Stable Container volumes and ramp-up in Bulk business to lead to strong revenues for FY2016-17E:

Ramp-up of operations from Hanjin, Maersk, and NMG helped GPPL report 18.7% CAGR in Container volumes during CY2010-14 to 780,000 TEUs. Also, in the last few quarters, GPPL has maintained an average quarterly Container volume run-rate of 180,000+ TEUs with the exception of 2QFY2016 (where it reported ~146,000 TEUs). Again, with the exception of 2QFY2016, the Container business in the last 5 quarters has been running at over 90% utilization levels (at yard level). Sensing that the port would soon hit peak utilization, GPPL embarked upon an expansion plan. This expansion plan (yard level capacity would increase from 850,000 TEUs to 1,350,000 TEUs) is likely to get completed by 4QFY2016.

Notably, in the backdrop of global slump in the pricing environment, many shipping lines are exploring alternatives. This when coupled with loss of business from FM3 and NMG in 2QFY2016, indicates that GPPL may find it challenging to further scale operations from here-on. Accordingly, we now expect GPPL to report ~742,000 and ~760,000 TEUs for FY2016E and FY2017E, respectively.

Similarly, despite the recent traction in Bulk volumes business, we are now building lower volumes for FY2016-17E.

Given the loss of business and slump in the global pricing environment, we expect delays in further ramp-up in operations from here-on. Accordingly, we have revised down our estimates for FY2016-17E.

Ramp-up in Liquid Farms business:

Sensing business opportunity, GPPL tied-up with Aegis Logistics, IMC, and Gulf Petrochem to construct and set-up Liquid Tank Farms. We expect GPPL to continue reporting strong growth in profitability, well aided by ramp-up in business in Liquid Tank Farms, which also happens to be a high margins business. EBITDA margin in Liquid Tank Farms is in the range of 65-70%.

Outlook and Valuation

We expect GPPL to report soft earnings during FY2016-2017E, on the back of (1) weak container volume growth outlook, and (2) delays in further ramp-up in the Bulk business.

At the current market price of ₹166, GPPL is trading at FY2016E and FY2017E P/E multiple of 25.2x and 27.4x, respectively. At current valuations, the stock price is capturing all the possible positives.

We have valued the Ports business (on revised numbers) using free cash flow to equity holders (FCFE) to arrive at FY2017 based business value of ₹154. Given that the company is debt free, has negative working capital, strong market positioning, and better revenue visibility, we have assumed cost of equity of 11% for discounting the FCFE. We have assigned 10x P/E multiple to our FY2017E earnings of Pipavav Rail Corporation Ltd (PRCL) to arrive at a business value of ₹7 (adjusted for 38.8% stake). On using the sum-of-the-parts based valuation methodology, we arrive at FY2017E based price target of ₹162. **Given the limited upside potential in the stock from the current levels, we maintain our Neutral rating on the stock.**

Exhibit 7: SoTP Valuation Summary

Particulars	Valuation (₹cr)	Stake (%)	Valuation (adj. for stake; ₹ cr)	Per Share (₹)	Valuation Basis
Pipavav Port	7,468	100	7,468	154	FCFE valuation, 11% Cost of Equity
Pipavav Rail Corp.	903	39	350	7	10x FY17E P/E
Total Value of GPPL	**12,021**		**7,818**	**162**	

Source: Angel Research

Company Background

Gujarat Pipavav Port Ltd (GPPL) is India's first BOT Port project awarded to SKIL Infrastructure led JV (Gujarat Maritime Board being the other partner in the JV) in 1992. In 2005, a APM Terminals (part of AP Moller Maersk) led consortium bought the entire stake in GPPL from SKIL. APM Terminals, through APM Terminals Mauritius Ltd, holds 43.01% stake in GPPL.

Details of the Concession Agreement

Gujarat Pipavav Port Ltd. (GPPL) signed a 30 years' concession agreement with a JV led by Gujarat Maritime Board (GMB; SKIL being the other partner) to build, construct, operate and maintain Pipavav Port, at Amreli district in Gujarat in Aug-1992. In 1998, GMB divested its entire stake in GPPL to SKIL. Later in 2005, SKIL divested its entire stake to APM Terminals led investors.

GPPL is looked upon as one of the most efficient port operators by shipping liners. Located near the entrance of the Gulf of Khambhat, this port enjoys a location advantage as the 2 islands act as natural breakwater. This location advantage helps it in being identified as part of the main maritime trade route, which is helpful in import and export to USA, Middle East, China and other European markets.

Income Statement

Y/E March (₹ cr)	CY13	FY15*	FY16E	FY17E
Net Sales	**474**	**792**	**629**	**684**
% Chg		*67.2*	*(20.6)*	*8.8*
Total Expenditure	261	366	308	327
Operating Expenses	132	185	148	157
Employee benefits Expense	42	62	52	57
Other Expenses	87	119	109	112
EBITDA	**213**	**426**	**321**	**357**
% Chg		*100.6*	*(24.8)*	*11.4*
EBIDTA %	*44.9*	*53.8*	*51.0*	*52.2*
Depreciation	61	83	97	112
EBIT	152	343	224	245
% Chg		*126.0*	*(34.7)*	*9.5*
Interest and Financial Charges	37	26	0	0
Other Income	61	116	107	133
PBT	175	433	331	378
Tax	0	0	83	95
% of PBT	0.0	0.0	25.0	25.0
PAT before Exceptional item	175	433	248	284
Exceptional item	(16)	45	(60)	0
PAT	**192**	**389**	**309**	**284**
% Chg		*102.6*	*(20.6)*	*(8.2)*
PAT %	*40.5*	*49.1*	*49.1*	*41.4*
Diluted EPS	4	8	6	6
% Chg		*102.6*	*(20.6)*	*(8.2)*

*Note: * GPPL switched from Dec to Mar year ending*

Balance Sheet

Y/E March (₹ cr)	CY13	FY15*	FY16E	FY17E
Sources of Funds				
Equity Capital	483	483	483	483
Reserves Total	920	1,307	1,616	1,900
Networth	**1,404**	**1,791**	**2,099**	**2,383**
Total Debt	282	0	0	0
Other Long-term Liabilities	12	14	13	13
Other Long-term Provisions	24	24	24	24
Total Liabilities	**1,721**	**1,829**	**2,136**	**2,420**
Application of Funds				
Gross Block	1,919	1,983	2,395	2,685
Accumulated Depreciation	561	645	740	852
Net Block	1,358	1,338	1,656	1,833
Capital WIP	106	65	40	14
Investments	83	83	83	83
Current Assets				
Inventories	12	14	19	21
Sundry Debtors	34	36	35	36
Cash and Bank Balance	202	245	221	358
Loans, Advances & Deposits	66	202	202	202
Other Current Asset	4	7	4	4
Current Liabilities	145	163	126	135
Net Current Assets	173	340	355	486
Other Assets	1	3	3	3
Total Assets	**1,721**	**1,829**	**2,136**	**2,420**

*Note: * GPPL switched from Dec to Mar year ending*

Cash Flow Statement

Y/E March (₹ cr)	CY13	FY15P*	FY16E	FY17E
Profit before tax	192	433	331	378
Depreciation	61	83	97	112
Change in Working Capital	47	6	(44)	6
Interest Expenses & Other Adj.	(48)	13	(26)	(41)
Direct taxes paid	(22)	(41)	(83)	(95)
Cash Flow from Operations	230	494	276	361
(Inc)/ Dec in Fixed Assets	(91)	(23)	(370)	(265)
(Inc)/ Dec in Investments & Oth. Adj.	(85)	(40)	26	41
Cash Flow from Investing	(176)	(63)	(345)	(224)
Issue/ (Buy Back) of Equity	0	0	0	0
Inc./ (Dec.) in Loans	(17)	(282)	0	0
Dividend Paid (Incl. Tax)	0	0	0	0
Interest Expenses	(38)	(26)	0	0
Cash Flow from Financing	**(54)**	**(308)**	**0**	**0**
Inc./(Dec.) in Cash	(0)	124	(69)	137
Opening Cash balances	**51**	**51**	**175**	**106**
Closing Cash balances	**51**	**175**	**106**	**243**

*Note: * GPPL switched from Dec to Mar year ending*

Ratio Analysis

Y/E March	CY13	FY15P*	FY16E	FY17E
Valuation Ratio (x)				
P/E (on FDEPS)	40.5	20.0	25.2	27.4
P/CEPS	30.8	16.5	19.2	19.7
Dividend yield (%)	0.0	0.0	0.0	0.0
EV/Sales	16.6	9.5	12.0	10.8
EV/EBITDA	36.9	17.7	23.5	20.7
EV / Total Assets	4.2	3.8	3.3	2.9
Per Share Data (₹)				
EPS (fully diluted)	4.0	8.1	6.4	5.9
Cash EPS	5.2	9.8	8.4	8.2
DPS	0.0	0.0	0.0	0.0
Book Value	38.7	41.3	48.6	52.9
Returns (%)				
RoCE (Pre-tax)	13.3	26.4	17.0	16.9
Angel RoIC (Pre-tax)	12.6	25.7	15.8	15.9
RoE	14.7	24.3	15.9	12.7
Turnover ratios (x)				
Asset Turnover (Gross Block) (X)	0.1	0.2	0.1	0.1
Inventory / Sales (days)	9	6	9	11
Receivables (days)	27	15	19	18
Payables (days)	55	58	71	58

*Note: * GPPL switched from Dec to Mar year ending*

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Disclosure of Interest Statement	**GPPL**
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):	*Buy (> 15%)*	*Accumulate (5% to 15%)* *Reduce (-5% to -15%)*	*Neutral (-5 to 5%)* *Sell (< -15)*