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Gujarat Pipavav Port

Performance Highlights

Particulars (₹ cr)	3QFY16	2QFY16	% chg (qoq)	3QFY15	% chg (yoy)
Net Sales	152	140	8.3	170	(10.3)
EBITDA	87	68	28.2	86	1.4
Adj. PAT	53	61	(12.6)	89	(40.3)

Source: Company, Angel Research

For 3QFY2016, Gujarat Pipavav Port (GPPL) reported 10.3% yoy decline in revenues to ₹152cr. On sequential basis revenue was up 8.3%. Reported top-line number is below our expectation of ₹170cr. Top-line de-growth on a yoy basis is on account of (1) 9.2% decrease in Container business volumes (to 178,000TEUs), and (2) 63.3% decrease in Dry Bulk business (to 443,000MT).

GPPL reported an EBITDA of ₹87cr, which is ahead of our expectation of ₹81cr. The reported EBITDA margin of the company came in at 57.1%, up from 48.2% in the sequential previous quarter and from 50.5% in the corresponding quarter a year ago. EBITDA during the quarter benefitted from shift in business mix and ₹1cr of reversal with regards the dredging cost.

GPPL reported an Adj. PAT of ₹53cr, down 40.3% yoy, and 12.6% qoq. Adj. PAT margin for the quarter came in at 35.0% vs 52.7% in the corresponding quarter a year ago. Adj. PAT number, on yoy basis, was impacted by (1) ₹28cr of tax expense (vs tax exemption in 3QFY2015), (2) 53.4% increase in depreciation expenses to ₹25cr, and (3) 1.6% decrease in other income to ₹20cr. The sharp increase in depreciation expense is owing to the change in the estimated useful life of assets.

Outlook and Valuation: At the current market price of ₹156, GPPL is trading at FY2016E and FY2017E P/E multiple of 31.4x and 31.4x, respectively. We have valued the Ports business using free cash flow to equity holders (FCFE) to arrive at FY2017E based business value of ₹160. 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 ₹167. **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**	**632**	**705**
% chg		67.2	(20.2)	11.5
Net Profit	**192**	**389**	**240**	**240**
% chg		102.6	(38.4)	0.2
EBITDA (%)	44.9	53.8	51.6	52.2
EPS (₹)	**4**	**8**	**5**	**5**
P/E (x)	39.2	19.4	31.4	31.4
P/BV (x)	4.0	3.8	3.2	3.1
RoE (%)	14.7	24.3	12.5	11.2
RoCE (%)	13.3	26.4	15.9	16.7
EV/Sales (x)	16.1	9.2	11.6	10.3
EV/EBITDA (x)	35.8	17.1	22.6	19.7

*Source: Company, Angel Research; Note: CMP as of February 2, 2016; *GPPL switched from Dec to Mar year ending*

NEUTRAL

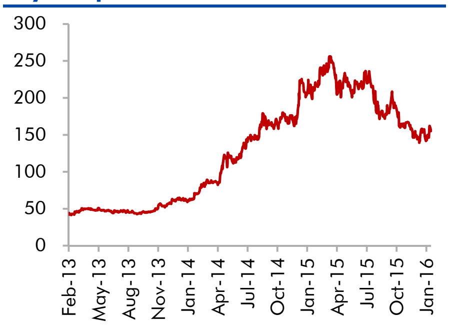
CMP	₹156
Target Price	-
Investment Period	-

Stock Info	
Sector	Infrastructure
Market Cap (₹ cr)	7,539
Net debt (₹ cr)	(245)
Beta	0.8
52 Week High / Low	262/136
Avg. Daily Volume	733,016
Face Value (₹)	10
BSE Sensex	24,539
Nifty	7,456
Reuters Code	GPPL.BO
Bloomberg Code	GPPV@IN

Shareholding Pattern (%)	
Promoters	43.0
MF / Banks / Indian FIs	9.9
FII / NRIs / OCBs	39.5
Indian Public / Others	7.6

Abs. (%)	3m	1yr	3yr
Sensex	(7.7)	(15.4)	24.2
GPPL	(3.9)	(24.6)	271.3

3-year price chart



Source: Company, Angel Research

Yellapu Santosh
022 – 3935 7800 Ext: 6811
santosh.yellapu@angelbroking.com

Exhibit 1: 3QFY2016 Performance

Particulars (₹ cr)	3QFY16	2QFY16	% chg (qoq)	3QFY15	% chg (yoy)	9mFY16	9mFY15	% chg
Net Sales	**152**	**140**	**8.3**	**170**	***(10.3)***	**465**	**483**	***(3.6)***
Total Expenditure	**65**	**73**	***(10.2)***	**84**	***(22.2)***	**224**	**228**	***(1.6)***
Operating Expenses	29	33	*(9.7)*	47	*(37.0)*	103	118	*(13.2)*
Employee benefits Expense	13	14	*(7.1)*	12	*8.4*	40	36	*9.0*
Other Expenses	23	26	*(12.4)*	25	*(9.5)*	82	73	*12.0*
EBITDA	**87**	**68**	***28.2***	**86**	***1.4***	**241**	**255**	***(5.3)***
EBIDTA %	57.1	48.2		50.5		51.9	52.8	
Depreciation	25	23	*9.8*	16	*53.4*	72	50	*44.2*
EBIT	62	45	*37.5*	69	*(10.8)*	170	205	*(17.3)*
Interest and Financial Charges	0	0	*6.3*	0	*(19.6)*	0	18	*(99.4)*
Other Income	20	16	*24.3*	20	*(1.6)*	53	72	*(25.8)*
PBT before Exceptional Items	82	61	*34.1*	89	*(8.7)*	223	259	*(14.1)*
Exceptional Items	0	(60)		0		(60)	0	
PBT after Exceptional Items	82	121	*(32.7)*	89	*(8.7)*	283	259	*9.2*
Tax	28	68	*(58.5)*	0		96	0	
% of PBT	*35*	*56*		*nmf**		*34*	*nmf**	
PAT	**53**	**53**	***0.4***	**89**	***(40.3)***	**187**	**259**	***(28.0)***
Adj. PAT	**53**	**61**	***(12.6)***	**89**	***(40.3)***	**247**	**259**	***(4.8)***
PAT %	35.0	37.8		52.7		40.1	53.7	
Adj. PAT %	35.0	43.4		52.7		53.0	53.7	
Dil. EPS (after excep. Items)	1.10	1.10	*0.0*	1.85	*(40.5)*	3.86	5.37	*(28.1)*
Adj. Dil. EPS (after excep. Items)	1.10	1.26	*(12.7)*	1.85	*(40.5)*	5.07	5.37	*(5.6)*

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

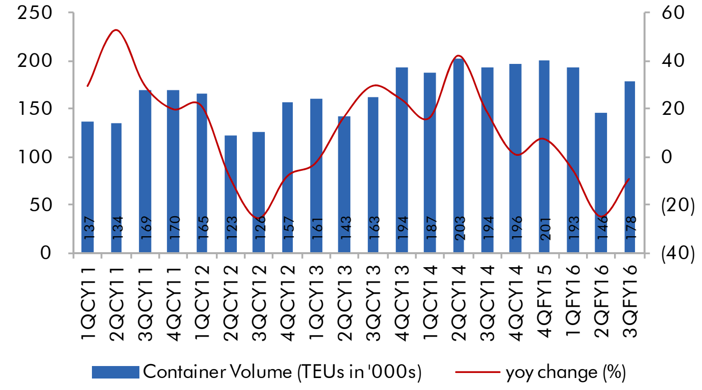
Top-line disappoints

GPPL reported 10.3% yoy decline in revenues to ₹152cr for 3QFY2016. On sequential basis revenue was up 8.3%. Reported top-line number is below our expectation of ₹170cr. Top-line de-growth on yoy basis is on account of (1) 9.2% decrease in Container business volumes (to 178,000 TEUs), and (2) 63.3% decrease in Dry Bulk business (to 443,000MT). Decline in Container and Dry Bulk revenues is attributable to (1) re-alignment of services by FE3, and (2) impact of global slowdown.

Bulk volumes were impacted due to lower fertilizer and mineral volumes (declined on qoq basis). A sharp decline in the coal volumes (owing to lower imports and rail freight differential) contributed to the decline in yoy Bulk volumes. Coal volume used to account for 60% of the Bulk volumes, but the mix declined to 40% during 3QFY2016.

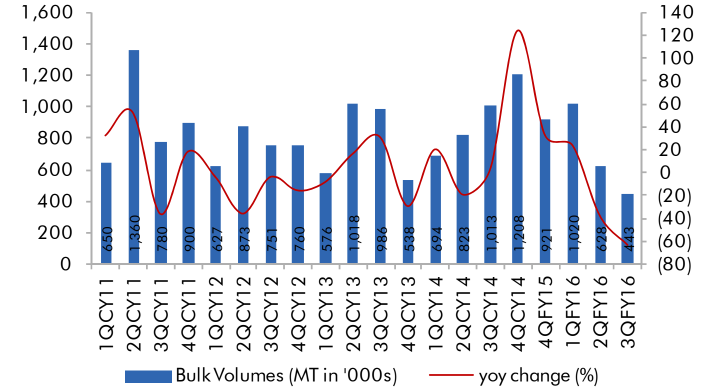
The only positive on the top-line front is the 29% yoy increase in the Liquid Cargo business to 189,000MT and further ramp-up in Ro-Ro business (7 calls/~4,500 cars were handled during the quarter).

Exhibit 2: Container volumes decline 9.2% yoy



Source: Company, Angel Research

Exhibit 3: Bulk volumes decline 63.3% yoy

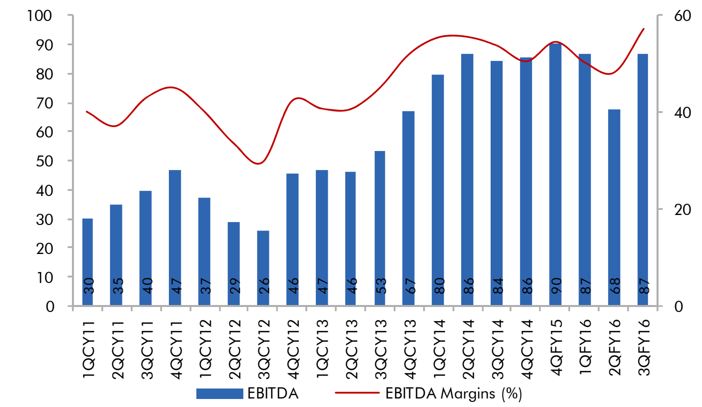


Source: Company, Angel Research

EBITDA Margin dips below 50% levels

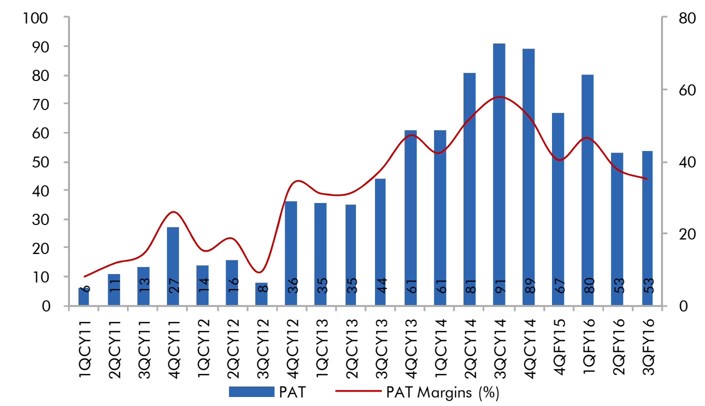
GPPL reported an EBITDA of ₹87cr, which is ahead of our expectation of ₹81cr. The reported EBITDA margin of the company came in at 57.1%, up from 48.2% in the sequential previous quarter and from 50.5% in the corresponding quarter a year ago. EBITDA during the quarter benefitted from a shift in the business mix and ₹1cr of reversal with regards to the dredging cost.

Exhibit 4: EBITDA% expands to 57.1%



Source: Company, Angel Research

Exhibit 5: PAT% declines to 35.1%



Source: Company, Angel Research

GPPL reported an Adj. PAT of ₹53cr, down 40.3% yoy, and 12.6% qoq. In 2QFY2016, GPPL reversed asset impairment provision (₹60.4cr) and deferred tax charge of ₹60.0cr (for 1HFY2016) to arrive at an Adj. PAT of ₹61cr. Adj. PAT margin during the quarter was at 35.0% vs 52.7% in the corresponding quarter a year ago. Adj. PAT number on yoy basis was impacted due to (1) ₹28cr of tax expense (vs tax exemption in 3QFY2015), (2) 53.4% increase in depreciation expenses to ₹25cr, and (3) 1.6% decrease in other income to ₹20cr. A sharp increase in depreciation expense is owing to change in estimated useful life of assets.

Revision of our estimates

On incorporating adjustments for (1) decline in Container & Dry Bulk business volumes, which could lead to change in the EBITDA mix, and (2) tax treatment, we are reducing our PAT estimates for FY2016E and FY2017E to ₹240cr and ₹240cr, respectively.

Exhibit 6: Revised estimates

Particulars (₹ cr)	FY2016E			FY2017E		
	Old	New	% chg.	Old	New	% chg.
Net Sales	629	632	0.5	684	705	3.1
EBITDA	321	326	1.6	357	368	3.1
EBITDA Margins (%)	51.0	51.6		52.2	52.2	
Rep. PAT	309	240	(22.3)	284	240	(15.5)
Rep. PAT Margins (%)	49.1	38.0		41.5	34.0	

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 an 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 and 3QFY2016, the Container business in the prior 5 quarters has been running at over 90% utilization levels (at the 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, at the backdrop of a 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 up operations from here-on. Accordingly, we now expect GPPL to report ~712,000 and ~758,000 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 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 ₹156, GPPL is trading at FY2016E and FY2017E P/E multiple of 31.4x and 31.4x, 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 FY2017E based business value of ₹160. 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 ₹167. **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	7,750	100	7,750	160	FCFE valuation, 11% Cost of Equity
Pipavav Rail Corp.	903	39	350	7	10x FY17E P/E
Total Value of GPPL	**8,653**		**8,100**	**167**	

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, an 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**	**632**	**705**
% Chg		*67.2*	*(20.2)*	*11.5*
Total Expenditure	261	366	306	337
Operating Expenses	132	185	145	162
Employee benefits Expense	42	62	52	59
Other Expenses	87	119	109	116
EBITDA	**213**	**426**	**326**	**368**
% Chg		*100.6*	*(23.5)*	*12.8*
EBIDTA %	*44.9*	*53.8*	*51.6*	*52.2*
Depreciation	61	83	97	112
EBIT	152	343	230	256
% Chg		*126.0*	*(33.0)*	*11.5*
Interest and Financial Charges	37	26	0	0
Other Income	61	116	74	102
PBT	175	433	304	358
Tax	0	0	125	118
% of PBT	0.0	0.0	41.0	33.0
PAT before Exceptional item	175	433	179	240
Exceptional item	(16)	45	(60)	0
PAT	**192**	**389**	**240**	**240**
% Chg		*102.6*	*(38.4)*	*0.2*
PAT %	*40.5*	*49.1*	*37.9*	*34.1*
Diluted EPS	4	8	5	5
% Chg		*102.6*	*(38.4)*	*0.2*

*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	1,547	1,787
Networth	1,404	1,791	2,030	2,270
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	2,067	2,307
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	22
Sundry Debtors	34	36	35	37
Cash and Bank Balance	202	245	152	248
Loans, Advances & Deposits	66	202	202	202
Other Current Asset	4	7	4	4
Current Liabilities	145	163	126	139
Net Current Assets	173	340	286	373
Other Assets	1	3	3	3
Total Assets	1,721	1,829	2,067	2,307

*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	304	358
Depreciation	61	83	97	112
Change in Working Capital	47	6	(43)	8
Interest Expenses & Other Adj.	(48)	13	0	(10)
Direct taxes paid	(22)	(41)	(125)	(118)
Cash Flow from Operations	**230**	**494**	**233**	**350**
(Inc)/ Dec in Fixed Assets	(91)	(23)	(370)	(265)
(Inc)/ Dec in Investments & Oth. Adj.	(85)	(40)	0	10
Cash Flow from Investing	**(176)**	**(63)**	**(370)**	**(255)**
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	(138)	95
Opening Cash balances	**51**	**51**	**175**	**37**
Closing Cash balances	**51**	**175**	**37**	**133**

*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)	39.2	19.4	31.4	31.4
P/CEPS	29.8	16.0	22.4	21.4
Dividend yield (%)	0.0	0.0	0.0	0.0
EV/Sales	16.1	9.2	11.6	10.3
EV/EBITDA	35.8	17.1	22.6	19.7
EV / Total Assets	4.1	3.7	3.3	3.0
Per Share Data (₹)				
EPS (fully diluted)	4.0	8.1	5.0	5.0
Cash EPS	5.2	9.8	7.0	7.3
DPS	0.0	0.0	0.0	0.0
Book Value	38.7	41.3	48.0	50.7
Returns (%)				
RoCE (Pre-tax)	13.3	26.4	15.9	16.7
Angel RoIC (Pre-tax)	12.6	25.7	15.0	15.8
RoE	14.7	24.3	12.5	11.2
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	17
Payables (days)	55	58	72	57

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

Research Team Tel: 022 - 39357800 E-mail: research@angelbroking.com Website: www.angelbroking.com

DISCLAIMER

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)*