

GUJARAT PIPAVAV PORT

Volume picks up; realisation pressure to persist

India Equity Research | Infrastructure - Ports

Gujarat Pipavav Port's (GPPV) Q4FY18 EBITDA was 10% below our and consensus estimates impacted by pricing pressures and high dredging cost. Key highlights: 1) GPPV reported 19% QoQ growth in container volumes following two line additions, higher trans-shipment and coastal volumes; 2) management indicated volume traction is sustainable (targeting 0.8mn TEU's in FY19) with full ramp up of existing services and likely addition of new service; and 3) realisation fell ~5% mainly marred by pricing pressures (FY19E realisations to be ~6200/TEU). We believe that dividend yield of ~3.5% and net cash in hand pare the risks to business to a large extent. Moreover, GPPV could be a potential buy-out target, which could restrict the downside. Maintain 'BUY'.

Volume improves; margins impacted by dredging cost

GPPV reported flat revenue QoQ growth for FY18, despite 19% container volume growth as it was offset by 52%/35% decline in dry bulk and liquid cargo, respectively. Management indicated that the dip in dry bulk and liquid cargo was on account of lower volumes in coal & fertiliser and lower LPG imports (it is expected to pick up in ensuing quarters). EBITDA margin fell by 200bps QoQ to 56.2% impacted by: A) INR60mn dredging cost (INR50mn to be further booked in Q1FY19); and B) pricing pressure (down 5% QoQ) in container business and lower liquid and RORO volumes.

Management targeting 0.8mn plus TEU's in FY19

The 19% QoQ volume growth in Q4FY18 was led by the recent addition of Maersk liner and COSCO which started making port of calls from mid Jan to Feb. Management is hopeful that these services are likely to be further ramped up and with a possibility of new line addition (Ocean Network Express) post merger of three Japanese lines, it believes that Q4FY18 exit rate of 68K is very much sustainable. It mentioned that India's west coast is in surplus capacity now post new services at JNPT and in times to come there could be fierce competition in container volumes.

Outlook and valuations: Container volumes key; maintain 'BUY'

We believe that pricing pressure is likely to persist in ensuing quarters, and upcoming volume recovery should boost revenues. At CMP, the stock trades at reasonable 14x and 11x EV/EBITDA on FY19E and F20E earnings, respectively. We maintain 'BUY' with SoTP-based target price of INR160.

Financials (Standalone)						(INR mn)		
Year to March	Q4FY18	Q4FY17	% change	Q3FY18	% change	FY18	FY19E	FY20E
Net revenues	1,655	1,746	(5.2)	1,627	1.7	6,489	7,363	8,698
EBITDA	930	1,147	(18.9)	947	(1.8)	3,741	4,258	5,202
Adjusted Profit	486	662	(26.7)	500	(2.8)	1,985	2,463	3,219
P/BV (x)						3.2	3.2	3.2
EV/EBITDA (x)						16.2	14.0	11.3
ROAE (%)						9.8	12.2	15.6

EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	Value

MARKET DATA (R: GPPL.BO, B: GPPV IN)

CMP	: INR 134
Target Price	: INR 160
52-week range (INR)	: 168 / 126
Share in issue (mn)	: 483.4
M cap (INR bn/USD mn)	: 65 / 994
Avg. Daily Vol. BSE/NSE ('000)	: 781.8

SHARE HOLDING PATTERN (%)

	Current	Q3FY18	Q2FY18
Promoters *	43.0	43.0	43.0
MF's, FI's & BKs	18.1	18.1	16.2
FII's	31.4	31.4	33.5
Others	7.5	7.5	7.3
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	(3.9)	(8.4)	(4.6)
3 months	(2.8)	(6.4)	(3.6)
12 months	7.0	(15.4)	(22.5)

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Key takeaways from Q4FY18

Container volume growth: 19% increase in container volume was strong driven by addition of two new lines - POSCO and Maersk. Merger of three Japanese lines (ONE) could be another service that will be added shortly and operating from Pipavav port. Going forward, the company expects to maintain the Q4FY18 exit run rate of 68K per month. Coastal volumes and transshipment impacted realisations.

Container freight index has cracked to USD400/container; management indicated that customers become less eager to launch new services.

On competition: India's west coast is in surplus capacity and tough to measure in current numbers. But, in times to come, there could be fierce competition in containers volumes.

Transshipment boxes: Stood at 10-13K TEU's, while realisations are lower than full fledged handling. This was adhoc and is not sustainable. Besides, coastal volume also posted growth (23-25K TEU's).

Realisations: Fell due to pricing pressures, coastal volumes and transshipment and are expected to be ~6,000-6,200/TEU (down from INR6,500-7,000/TEU in Q3FY18). This tariff factors in currency appreciation. The company is not looking to increase tariffs in near term at least.

Revenue break-down: 70% container, 20% liquid & RORO and 10% bulk

Capex guidance of INR500-700mn annually for maintenance.

Cash balance: No immediate plans on application of strong cash balance.

Capacity utilisation is currently ~60% and may be when it touches >80%, the company might think about capacity expansion.

Dry bulk was down due to lower coal and fertiliser. Company is not concerned and expects the volumes to recover.

Liquid volumes: The fall in liquid volumes is not a concern as it should revert to normal growth rate. It was down due to lower import of LPG volumes

Other expenses spurted on higher maintenance dredging cost of INR60mn. Dredging cost of another INR50mn would come in Q1FY19 (no further cost after that). Dredging cost is once in two years. The draft is back to 14.5 metres now.

Lower other income was due to low interest income.

Table 1: SOTP

	Method	Multiple(x) /CoE	Value (INR mn)	Stake (%)	Value of stake (INR mn)	Price per share (INR)	% age of SOTP (%)
Pipavav Port	DCFE	11.5%	63,405	100.0	63,405	131	82.0
PRCL	NPV	11.5%	24,824	38.8	9,627	20	12.4
Cash/investments	FY18E Book	BV	4,315	100.0	4,315	9	5.6
Total			92,545		77,347	160	100.0

Source: Edelweiss research

Financial snapshot

(INR mn)

Year to March	Q4FY18	Q4FY17	% change	Q3FY18	% change	FY18	FY19E	FY20E
Net revenues	1,655	1,746	(5.2)	1,627	1.7	6,489	7,363	8,698
Cost of operations	259	247	4.8	323	(19.9)	1,185	1,442	1,728
Staff costs	137	118	15.6	131	4.5	529	566	605
Other operating expenses	329	234	40.8	226	45.7	1,034	1,096	1,162
Total expenditure	725	599	21.0	680	6.6	2,748	3,105	3,496
EBITDA	930	1,147	(18.9)	947	(1.8)	3,741	4,258	5,202
Depreciation	267	259	3.0	251	6.5	1,036	1,066	1,090
EBIT	663	887	(25.3)	696	(4.8)	2,705	3,193	4,113
Interest	1	-	1,769.0	1	(3.0)	3	3	9
Other income	82	67	23.3	74	11.4	370	487	701
Add: Exceptional items								
Profit before tax	744	954	(22.0)	769	(3.2)	3,072	3,677	4,804
Provision for taxes	258	292	(11.5)	269	(4.0)	1,087	1,213	1,585
Reported net profit	486	662	(26.7)	500	(2.8)	1,985	2,463	3,219
Adjustments								
Adjusted Profit	486	662	(26.7)	500	(2.8)	1,985	2,463	3,219
Diluted shares (mn)	-	483		-		483	484	484
Adjusted Diluted EPS	-	1.4	(100.0)	-		4.1	5.1	6.7
Direct costs	15.6	14.1		19.9		18.3	19.6	19.9
Employee cost	8.3	6.8		8.1		8.2	7.7	7.0
Other operating expenses	19.9	13.4		13.9		15.9	14.9	13.4
EBITDA	56.2	65.7		58.2		57.6	57.8	59.8
Reported net profit	29.4	37.9		30.7		30.6	33.5	37.0
Tax rate	34.7	30.6		35.0		35.4	33.0	33.0

Company Description

GPPL was incorporated on August 5, 1992, to build, construct, operate, and maintain the port at Pipavav, district Amreli, in Gujarat (India). The company entered into a concession agreement with GMB and the GoG on September 30, 1998 pursuant to which it has been granted the right to develop and operate APM Terminals Pipavav for a period of 30 years until September 2028. GPPL is one of the principal gateways on the West coast of India and is located in the Saurashtra region of Gujarat. The port is strategically located near the entrance of the Gulf of Khambhat on the main maritime trade routes, which helps serve imports from and exports to the Middle East, Europe and other international destinations.

Investment Theme

Single port play with a turnaround story: Reduction in interest cost post IPO, robust growth in cargo volumes has fuelled margin expansion, which, in turn, has led to a turnaround of the port's operations

Brighter cargo forecast, strategic location to benefit the port: The port is in a strategic. Given the bright outlook for cargo growth at the port and uptick in utilisation level, GPPL is planning to be ready for the next leg of growth by enhancing capacity and improving operational efficiency.

Key Risks

Cargo volume lower than expected: We have modeled GPPL to achieve peak container handling of 1.3mn TEU's by FY22. Lower than estimated growth rates for container/bulk cargo is a key risk to our valuation call.

Margin volatility : Intense competition and opening of new services can impact margins

Terminal value: As per the agreement with GMB, post the expiry of the concession period in 2028, GPPL is eligible for "depreciated replacement value of asset". We have estimated INR31.3bn (PV of INR 3.8bn) towards this based on 4% inflation, 3.33% depreciation, INR500mn recurring capex, and 13% Ke. Any value lower than this is a risk.

Financial Statements

Key Assumptions

Year to March	FY17	FY18	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	6.6	6.5	7.1	7.6
Inflation (Avg)	4.5	3.6	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.0	6.5
USD/INR (Avg)	67.1	64.5	66.0	66.0
Company				
EBITDA margin (%)	61.3	57.6	57.8	59.8
Capacity (MT)	23.2	23.2	23.2	23.2
Container handled (Nos)	663,000	703,000	829,540	929,085
Container realz (USD/t)	107.0	102.7	101.7	106.8
Bulk cargo handled (MT)	3.2	2.8	3.2	3.5
Bulk realisation (INR/t)	567	519	529	556
Op. Exp. As % of sales	14.7	18.3	16.4	16.4
Employee exp. (%yoy inc)	4.3	9.2	7.0	7.0
SG&A Exp. growth(%)	(10.1)	9.1	6.0	6.0
Capex (INR mn)	600	538	600	600
Net borrowings (INR mn)	(3,522)	(4,315)	(5,191)	(6,041)
Avg. Interest rate (%)	17.0	5.0	5.0	5.0
Depreciation rate (%)	4.6	3.8	4.0	4.0
Debtor days	15	15	15	15
Inventory days	47	45	45	45
Payable days	60	83	116	117
Tax rate (%)	28.0	35.4	33.0	33.0

Income statement

(INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Net revenue	6,831	6,489	7,363	8,698
Cost of Operations	1,213	1,185	1,442	1,728
Other operating expenses	948	1,034	1,096	1,162
Employee costs	484	529	566	605
Total operating expenses	2,645	2,748	3,105	3,496
EBITDA	4,186	3,741	4,258	5,202
Depreciation	1,065	1,036	1,066	1,090
EBIT	3,121	2,705	3,193	4,113
Less: Interest Expense	4	3	3	9
Add: Other income	353.58	370.45	486.92	700.63
Profit Before Tax	3,470	3,072	3,677	4,804
Less: Provision for Tax	971	1,087	1,213	1,585
Reported Profit	2,499	1,985	2,463	3,219
Adjusted Profit	2,499	1,985	2,463	3,219
Shares o /s (mn)	483	483	483	483
Adjusted Basic EPS	5.2	4.1	5.1	6.7
Diluted shares o/s (mn)	483	483	483	483
Adjusted Diluted EPS	5.2	4.1	5.1	6.7
Adjusted Cash EPS	9.2	7.1	7.3	8.9

Common size metrics

Year to March	FY17	FY18	FY19E	FY20E
Operating expenses	38.7	42.4	42.2	40.2
Depreciation	15.6	16.0	14.5	12.5
EBITDA margins	61.3	57.6	57.8	59.8
Interest Expense	0.1	0.1	-	0.1
Net Profit margins	36.6	30.6	33.5	37.0

Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	3.5	(5.0)	13.5	18.1
EBITDA	11.3	(10.6)	13.8	22.2
PBT	12.4	(11.5)	19.7	30.7
Adjusted Profit	30.8	(20.6)	24.1	30.7
EPS	30.8	(20.6)	24.1	30.7

Infrastructure - Ports

Balance sheet		(INR mn)			
As on 31st March	FY17	FY18	FY19E	FY20E	
Share capital	4,834	4,834	4,834	4,834	
Reserves & Surplus	15,361	15,306	15,553	16,068	
Shareholders' funds	20,195	20,141	20,387	20,902	
Long term borrowings	-	-	120	240	
Total Borrowings	-	-	120	240	
Long Term Liabilities	880	788	788	788	
Def. Tax Liability (net)	(416)	-	-	-	
Sources of funds	20,659	20,928	21,295	21,930	
Gross Block	25,601	27,061	27,661	28,261	
Net Block	16,753	16,848	16,705	16,216	
Capital work in progress	922	323	-	-	
Intangible Assets	9	15	15	15	
Total Fixed Assets	17,684	17,186	16,720	16,231	
Non current investments	830	830	830	830	
Cash and Equivalents	3,522	4,315	5,311	6,281	
Inventories	156	136	219	207	
Sundry Debtors	286	258	359	369	
Loans & Advances	314	125	125	125	
Other Current Assets	298	255	255	255	
Current Assets (ex cash)	1,053	773	957	956	
Trade payable	256	285	632	476	
Other Current Liab	2,174	1,892	1,892	1,892	
Total Current Liab	2,430	2,176	2,524	2,368	
Net Curr Assets-ex cash	(1,377)	(1,403)	(1,566)	(1,412)	
Uses of funds	20,659	20,928	21,295	21,930	
BVPS (INR)	41.8	41.7	42.2	43.2	

Free cash flow		(INR mn)			
Year to March	FY17	FY18	FY19E	FY20E	
Reported Profit	2,499	1,985	2,463	3,219	
Add: Depreciation	1,065	1,036	1,066	1,090	
Interest (Net of Tax)	3	2	2	6	
Others	134	55	(486)	(698)	
Less: Changes in WC	319	265	163	(154)	
Operating cash flow	4,020	3,343	3,209	3,463	
Less: Capex	600	538	600	600	
Free Cash Flow	3,420	2,806	2,609	2,863	

Peer comparison valuation

Name	Market cap (USD mn)	EV / EBITDA (X)		P/B (X)		ROAE (%)	
		FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Gujarat Pipavav Port	994	14.0	11.3	3.2	3.1	12.2	15.6
Adani Ports and Special Economic Zone	12,321	13.9	11.8	3.4	2.9	17.7	18.4
Median	-	13.9	11.5	3.3	3.0	14.9	17.0
AVERAGE	-	13.9	11.5	3.3	3.0	14.9	17.0

Source: Edelweiss research

Cash flow metrics		FY17	FY18	FY19E	FY20E
Year to March					
Operating cash flow		4,020	3,343	3,209	3,463
Financing cash flow		(2,272)	(1,976)	(2,100)	(2,593)
Investing cash flow		(2,409)	(167)	(113)	101
Net cash Flow		(661)	1,200	995	970
Capex		(600)	(538)	(600)	(600)

Profitability and efficiency ratios

Year to March	FY17	FY18	FY19E	FY20E
ROACE (%)	17.3	15.2	18.1	23.1
ROAE (%)	12.4	9.8	12.2	15.6
Inventory Days	47	45	45	45
Debtors Days	15	15	15	15
Payable Days	60	83	116	117
Cash Conversion Cycle	2	(23)	(56)	(57)
Current Ratio	1.9	2.3	2.5	3.1
Gross Debt/EBITDA	-	-	-	-
Gross Debt/Equity	-	-	-	-
Adjusted Debt/Equity	-	-	-	-
Interest Coverage Ratio	-	777.3	1,064.2	468.1

Operating ratios

Year to March	FY17	FY18	FY19E	FY20E
Total Asset Turnover	0.3	0.3	0.3	0.4
Fixed Asset Turnover	0.5	0.4	0.4	0.5
Equity Turnover	0.3	0.3	0.4	0.4

Valuation parameters

Year to March	FY17	FY18	FY19E	FY20E
Adj. Diluted EPS (INR)	5.2	4.1	5.1	6.7
Y-o-Y growth (%)	30.8	(20.6)	24.1	30.7
Adjusted Cash EPS (INR)	9.2	7.1	7.3	8.9
Diluted P/E (x)	26.0	32.7	26.4	20.2
P/B (x)	3.2	3.2	3.2	3.1
EV / Sales (x)	9.0	9.3	8.1	6.8
EV / EBITDA (x)	14.7	16.2	14.0	11.3

Additional Data

Directors Data

Mr. Pravin Laheri , IAS (Retd.)	Independent, Non-Executive	Mr. David Skov	Non Independent, Non-Executive
Mr. Keld Pedersen	Managing Director	Mr. Pradeep Mallick	Independent, Non-Executive
Mr. Tejpreet Singh Chopra	Chairman , Independent, Non-Executive	Mr. Julian Bevis	Non Independent, Non-Executive
Mr. A. K. Rakesh, IAS	Independent, Non-Executive	Ms. Hina Shah	Independent Non-Executive
Mr. Jan Damgaard	Non- Independent,Non-Executive		

Auditors - BSR & Associates

Holding – Top10

	Perc. Holding		Perc. Holding
Apm terminals maurit	43.01	Apm terminals maurit	43.01
Jpmorgan chase & co	8.24	Jpmorgan chase & co	8.24
Icici prudential ass	7.46	Icici prudential ass	7.46
Hdfc asset managemen	6.19	Hdfc asset managemen	6.19
Matthews intl capita	4.77	Matthews intl capita	4.77

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
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No Data Available

**as per last available data*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
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No Data Available

**as per last available data*

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Coverage group(s) of stocks by primary analyst(s): Infrastructure - Ports

Adani Ports and Special Economic Zone, Gujarat Pipavav Port

Recent Research

Date	Company	Title	Price (INR)	Recos
03-May-18	Adani Ports and SEZ	Strong quarter; encouraging guidance; <i>Result Update</i>	397	Buy
20-Feb-18	Adani Ports and SEZ	Leagues ahead; <i>Visit Note</i>	395	Buy
02-Feb-18	Gujarat Pipavav Port	Realisation pressure continues; <i>Result Update</i>	141	Buy

Distribution of Ratings / Market Cap

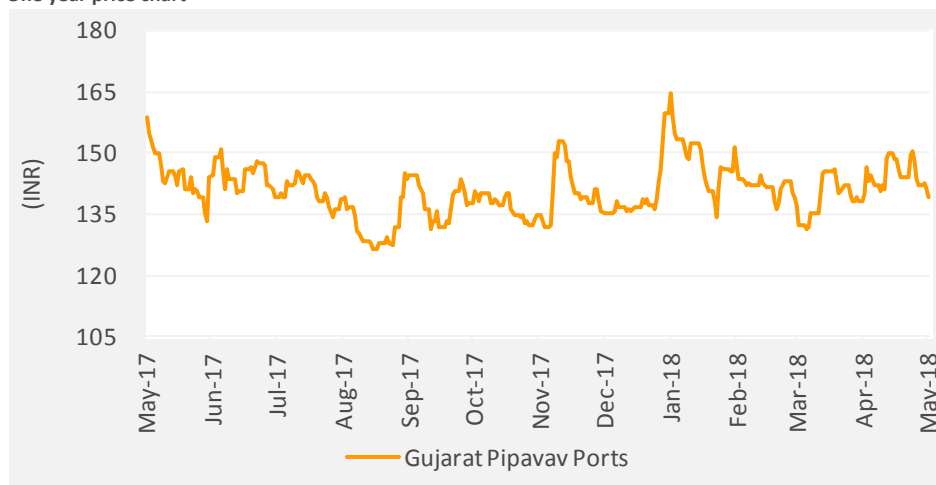
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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