

## Commencement of DFC operations to spur volumes

Gujarat Pipavav Port's (GPPL) container volumes grew 13% YoY. Bulk and RoRo volumes de-grew 18%, and 6% mainly due to lower growth in the fertiliser volumes and weak consumer demand, respectively, while liquid volumes grew 25%. This led overall revenue to remain flat YoY. Subsequently, EBITDA margins increased 576 bps mainly due to Ind-AS 116 adjustment of ₹ 5.1 crore in the operating expense element. However, PAT grew 20% YoY mainly due to higher other income (includes dividend from subsidiary PRCL). The management expects the macro situation to remain tough due to the rising US-China trade war. However, it also expects its container import volumes on the Far-East to remain least impacted (GPPL 70-80% import dependence). GPPL also expects to become DFC compliant by Q2-Q3CY20. Hence, it expects to win market share from other container ports (ex-Gujarat) such as JNPT due to undertaking time bound operations.

## Exim container growth remains on strong footing

Q1FY20 began on a strong footing of 8% Exim container growth and 13% overall container growth. Bigger competitors have sounded a note of caution on the ongoing US-China trade war. However, GPPL remains cautious and is reliant on its Far-East operations (70-80% import dependence). The management expects to remain unaffected by the tussle. Also, with the electrification of the last leg of the DFC connectivity in FY20, the management expects to begin its operations along the same in CY20. However, addition of clients on Ro-Ro segment remains crucial for negating the ongoing slowdown in the segment. We expect 15% container growth (core + trans-shipment) to drive revenue at 11% CAGR in FY19-21.

## Competitive pressure remains high on the west coast

All major container ports lie on the western coast (~75% India's capacity). Competition from JNPT and Mundra Ports is expected to keep realisations from container and bulk subdued. The management expects it to remain at similar levels for FY20. However, growth from high margin/realisation business (liquid cargo, Ro-Ro) remains critical for margin improvement. Subsequently, we expect EBITDA to grow at a CAGR of 12% in FY19-21E.

## Valuation and Outlook

GPPL is running at ~60-65% of capacity utilisation and is expected to undertake a major capex program once the utilisation reaches 80%. Higher utilisation with a favourable product mix remains key to the stronger earnings for GPPL. Post DFC, the incremental FCF could be further utilised for port expansion (mostly greenfield expansion). We maintain our target price at ₹ 90 (at FY21E P/E multiple of 14) with a **HOLD** rating on the stock.



Particulars	
Particular	Amount
Market Capitalisation (₹ Crore)	3,674.1
Total Debt (FY19) (₹ Crore)	-
Cash (FY19) (₹ Crore)	533.7
EV (₹ Crore)	3,140.4
52 week H/L	117 / 74
Equity Capital (₹ Crore)	483.4
Face Value (₹)	10.0
MF Holding (%)	10.6
FII Holding (%)	39.9

### Key Highlights

- Management expects container and liquid volumes to remain strong in FY20 but expects slower growth in Ro-Ro segment
- We expect 15% container growth (core + trans-shipment) to drive revenue at 11% CAGR in FY19-21
- GPPL expected to become DFC compliant in CY20
- Maintain HOLD recommendation on the stock

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### Key Financial Summary

₹ crore	FY17	FY18	FY19	FY20E	FY21E	CAGR (%)
Net Sales	683.1	648.9	702.0	768.1	858.1	5.9
EBITDA	418.6	374.1	388.9	427.8	490.0	4.0
EBITDA margins (%)	61.3	57.6	55.4	55.7	57.1	
PAT	282.2	221.0	236.7	265.2	306.4	2.1
P/E (x)	13.0	16.6	15.5	13.9	12.0	
P/B (x)	1.7	1.7	1.7	1.7	1.6	
RoCE (%)	14.0	12.1	12.2	13.5	15.8	
RoE (%)	11.5	9.2	9.4	10.5	12.2	

**Exhibit 1: Variance Analysis**

	Q1FY20	Q1FY20E	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Comments
Revenue	177.6	177.4	176.0	0.9	180.1	-1.4	Revenues flat YoY inspite of the tariff hike taken on 1st April 2019 (4% contribution to revenues), due to negative impact from the non-container business
Operating Expenses	31.0	33.7	39.1	-20.6	37.9	-18.1	Adoption of IND-AS 116 leases led to lowering of operational expenses in ₹ 5.1 crore
Employee Expenses	14.5	15.1	14.9	-2.9	15.0	-3.5	
Administrative & Oth Expenses	29.7	30.2	30.7	-3.2	27.7	7.1	
Total Expense	75.2	78.9	84.7	-11.2	80.6	-6.7	
EBITDA	102.4	98.5	91.4	12.1	99.5	2.9	
EBITDA Margin (%)	57.7	55.5	51.9	576 bps	55.2	241 bps	Adjusting for the IND-AS116 impact, EBITDA margins came largely in-line with I-direct estimates
Depreciation	31.6	29.3	27.0	17.1	31.0	1.8	Higher YoY due to ₹ 4.4 crore adjustment due to IND-AS116 'leases accounting
Interest	1.7	0.0	0.1	1,316.7	0.1	1,316.7	Higher YoY due to ₹ 1.7 crore adjustment due to IND-AS116 'leases accounting
Other Income	16.1	13.0	10.6	51.7	11.1	45.4	Received dividend of ~₹ 3 crore from PRCL
Exceptional Gain/Loss	0.0	0.0	0.0	0.0	0.0	0.0	
PBT	85.3	82.2	74.9	13.8	79.5	7.3	
Total Tax	28.8	28.8	27.8	3.7	28.5	1.0	
PAT	56.4	53.4	47.1	19.8	50.9	10.8	
<b>Key Metrics</b>	<b>Q1FY20</b>	<b>Q1FY19</b>	<b>YoY (%)</b>	<b>Q4FY19</b>	<b>QoQ (%)</b>		
Container Volume (000 TEUs)	221.0	195.0	13.3	219.0	0.9		EXIM volumes grew 8% YoY
Bulk Volume (Million Tonnes)	0.51	0.62	-17.6	0.52	-1.9		Higher volumes in fertiliser segment lead to strong growth
Liquid Volume (Million Tonnes)	0.20	0.16	25.0	0.24	-16.7		
Ro-Ro (no of cars)	15,000	16,000	-6.3	18,000	-16.7		Ro-Ro continues to remain subdued

Source: ICICI Direct Research

**Exhibit 2: Change in estimates**

	FY20E			FY21E			Comments
(₹ Crore)	FY17	FY18	FY19	Old	New	% Change	
Revenue	683.1	648.9	702.0	772.9	768.1	-0.6	RoRo estimates revised downwards for FY20
EBITDA	418.6	374.1	388.9	430.5	427.8	-0.6	
EBITDA Margin (%)	61.3	57.6	55.4	55.7	55.7	0 bps	Margins expected to remain at 56-57%
PAT	282.2	221.0	236.7	267.2	265.2	-0.7	
EPS (₹)	5.8	4.6	4.9	5.5	5.5	-0.7	

Source: Company, ICICI Direct Research

**Exhibit 3: Assumptions**

	Current			Earlier		
	FY17	FY18	FY19	FY20E	FY21E	FY20E
Container Volume (000 TEUs)	663.0	703.0	903.0	1,038.5	1,194.2	1,038.5
Bulk Volume (Million Tonnes)	2.47	1.82	2.00	2.08	2.16	2.08

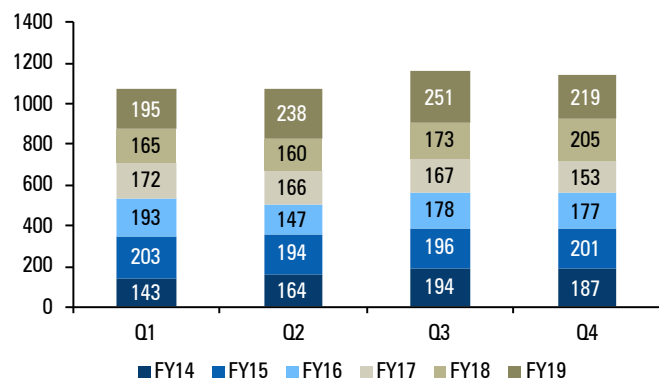
Source: ICICI Direct Research, Company

## Conference call highlights

- The management is cautious on the macro outlook with respect to the US-China trade war but it has not received any indicators from the shippers regarding bleak scenario getting currently played out. GPPL expects the imports from the Far East to continue unabated (GPPL has 70-80% import dependence from Far East)
- GPPLs discussion on extension of port license with Gujarat Maritime Board is ongoing and has suggested several measures such as 20 years port extension etc, however, GMB has yet to respond on that
- Regarding the ₹ 18-crore bank guarantee encashed by GMB in Q4FY19, the management expects to gain clarity in a quarter or two. The bank guarantee relates to GPPL expansion plan submitted to GMB in 2012, which never materialised
- Import: export container volumes were at 60:40 levels
- FY19 capex was at ₹ 70 crore with FY20 capex expected to increase to ₹ 120-140 crore (inclusive of ₹ 50 crore to become DFC compliant in FY20; Total expense of ₹ 70 crore of which ₹ 20 crore already spent in FY19)

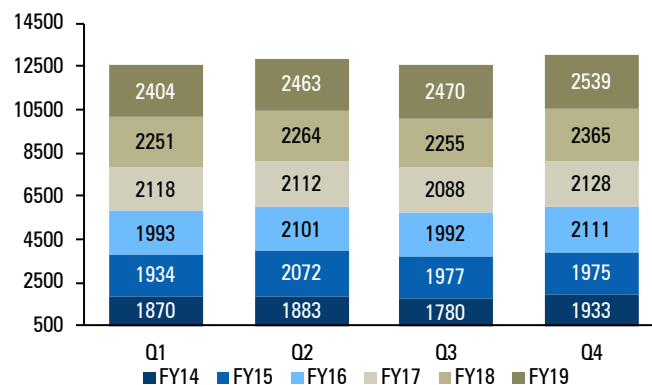
## Key Metrics

Exhibit 4: Container volume at GPPL



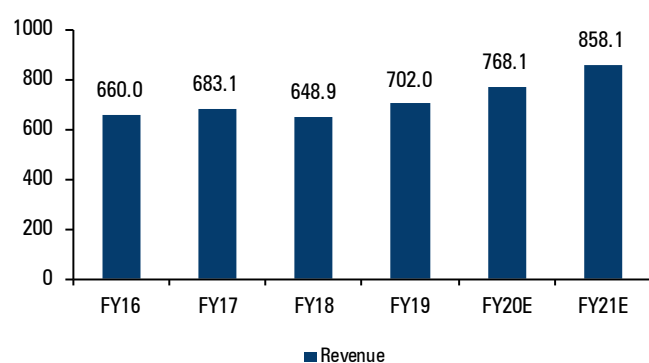
Source: ICICI Direct Research, Company

Exhibit 5: Container volume at major ports



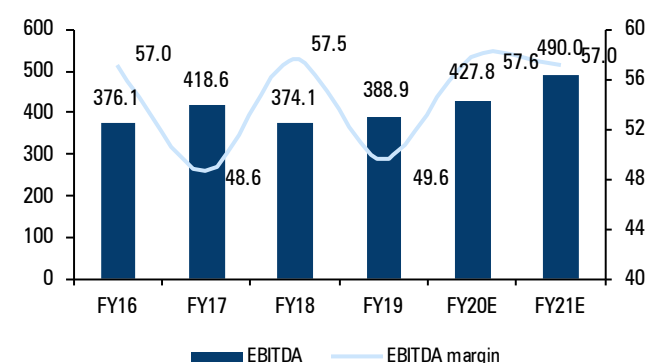
Source: ICICI Direct Research, Company

Exhibit 6: Revenue likely to grow at 11% CAGR (FY19-21)



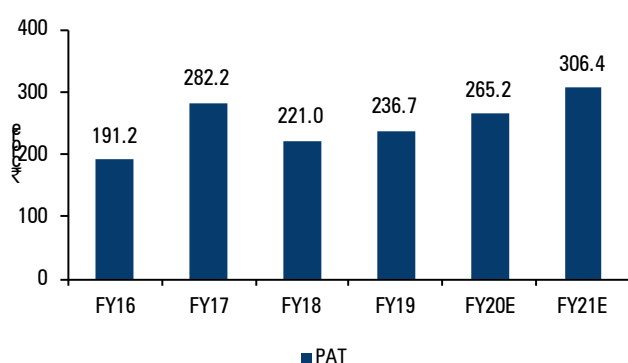
Source: ICICI Direct Research, Company

Exhibit 7: EBITDA expected to grow at 12% CAGR (FY19-21)



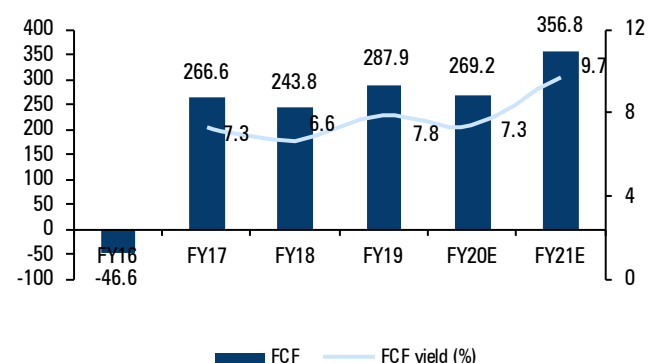
Source: ICICI Direct Research, Company

Exhibit 8: PAT expected to grow at 14% CAGR (FY19-21)



Source: Company, ICICI Direct Research

Exhibit 9: Free cash flow expected to remain strong



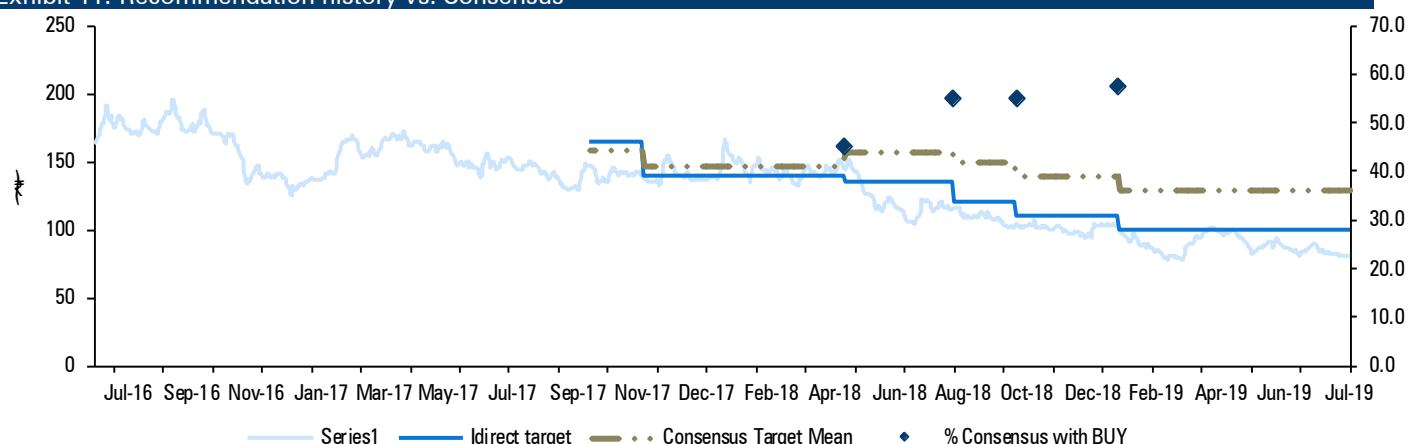
Source: Company, ICICI Direct Research

Exhibit 10: Valuation Summary

	Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY17	683.1	3.5	5.8	7.9	25.7	16.8	14.0	11.5
FY18	648.9	(5.0)	4.6	(21.7)	16.6	8.7	9.2	12.1
FY19	702.0	8.2	4.9	7.1	18.4	8.1	9.4	12.2
FY20E	768.1	9.4	5.5	12.1	16.4	7.3	10.5	13.5
FY21E	858.1	11.7	6.3	15.5	14.2	6.2	12.2	15.8

Source: Company, ICICI Direct Research

**Exhibit 11: Recommendation history vs. Consensus**



Source: ICICI Direct Research, Reuters

**Exhibit 12: Shareholders**

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	AP Moeller - Maersk A/S	31-Mar-19	0.43	207.9	0.0
2	ICICI Prudential Asset Management Co. Ltd.	30-Jun-19	0.10	46.5	2.5
3	HDFC Asset Management Co., Ltd.	31-Mar-19	0.09	43.5	0.0
4	J.P. Morgan Asset Management (Hong Kong) Lt	31-Mar-19	0.04	19.8	0.0
5	Schroder Investment Management Ltd. (SIM)	30-Apr-19	0.03	14.1	1.5
6	Franklin Templeton Asset Management (India) P	31-Mar-19	0.03	13.3	0.0
7	Kotak Mahindra Group	31-Mar-19	0.02	11.1	11.1
8	HDFC Life Insurance Company Limited	31-Mar-19	0.02	7.6	1.0
9	Eastspring Investments (Singapore) Limited	31-Mar-19	0.01	6.9	0.5
10	Wellington Management Company, LLP	30-Jun-19	0.01	6.8	0.0

Source: ICICI Direct Research, Reuters, Company

**Exhibit 13: Shareholding Pattern**

(in %)	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	43.0	43.0	43.0	43.0
Public	57.0	57.0	57.0	57.0

Source: ICICI Direct Research, Reuters, Company

**Exhibit 14: Recent Activity**

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Kotak Mahindra Group	15.96	11.09	Matthews International Capital Management, L.L.C.	-15.94	-11.08
ICICI Prudential Asset Management Co. Ltd.	3.21	2.52	SBI Funds Management Pvt. Ltd.	-1.62	-1.27
Schroder Investment Management Ltd. (SIM)	1.84	1.46	Schroder Investment Management (Singapore) Ltd.	-0.23	-0.18
HDFC Life Insurance Company Limited	1.39	0.96	Wellington Management Company, LLP	-0.04	-0.03
Eastspring Investments (Singapore) Limited	0.68	0.47	Nordea Investment Management AB (Denmark)	-0.02	-0.01

Source: ICICI Direct Research, Reuters

## Financial summary

**Exhibit 15: Profit & Loss Statement**

₹ crore

(Year-end March)	FY18	FY19	FY20E	FY21E
Total operating Income	648.9	702.0	768.1	858.1
Growth (%)	-500.7	818.0	941.4	1172.2
Operating Expenses	106.1	125.5	149.8	163.0
Waterfront Royalty	12.4	18.8	14.6	16.3
Power and fuel	25.4	24.9	30.0	33.5
Repairs-plant, mach & equi	31.0	34.2	28.4	31.7
Employee Cost	52.9	59.7	61.4	63.5
Other Expenses	47.1	50.0	56.1	60.1
Total Expenditure	274.8	313.1	340.3	368.1
EBITDA	374.1	388.9	427.8	490.0
Growth (%)	-10.6	4.0	10.0	14.5
Depreciation	103.6	112.8	118.0	123.6
Interest	0.4	0.4	0.4	0.4
Other Income	37.1	45.2	49.9	55.8
PBT	307.2	320.9	359.3	421.8
Tax	108.7	115.3	125.8	147.6
PAT	198.5	205.6	233.6	274.1
Share of Profit from Associ	22.6	31.1	31.7	32.3
Adjusted PAT	221.0	236.7	265.2	306.4
Growth (%)	-19.4	3.6	13.6	17.4
EPS	4.6	4.9	5.5	6.3

Source: ICICI Direct Research

**Exhibit 16: Cash flow Statement**

₹ crore

(Year-end March)	FY18	FY19	FY20E	FY21E
Profit after Tax	221.0	236.7	265.2	306.4
Add: Depreciation	103.6	112.8	118.0	123.6
Less: Interest Expense	0.4	0.4	0.4	0.4
(Inc)/dec in Current Assets	-1.7	-42.0	10.6	-6.1
Inc/(dec) in CL and Provisior	-25.4	11.4	4.6	7.4
Others	0.0	0.0	0.0	0.0
CF from operating activities	297.8	319.3	398.8	431.8
(Inc)/dec in Fixed Assets	-54.0	-31.4	-129.6	-75.0
(Inc)/dec in Investments	48.7	-28.8	-2.8	-2.8
Others	-9.1	41.1	0.7	0.7
CF from investing activities	-14.4	-19.1	-131.7	-77.1
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0
Dividends	-203.7	-197.7	-239.9	-277.2
Add: Interest Expense	-0.4	-0.4	-0.4	-0.4
Others	0.0	0.0	0.0	0.0
CF from financing activities	-204.0	-198.1	-240.3	-277.6
Net Cash flow	79.4	102.1	26.8	77.1
Opening Cash	352.2	431.6	533.7	560.5
Closing Cash	431.6	533.7	560.5	637.6

Source: ICICI Direct Research

**Exhibit 17: Balance Sheet**

₹ crore

(Year-end March)	FY18	FY19	FY20E	FY21E
Sources of Funds				
Equity Capital	483.4	483.4	483.4	483.4
Reserve and Surplus	1,676.0	1,714.0	1,739.3	1,768.5
Total Shareholders funds	2,159.5	2,197.4	2,222.7	2,252.0
Total Debt	0.0	0.0	0.0	0.0
Long term Provisions	0.0	0.0	0.0	0.0
Other Long term liabilities	78.5	71.7	72.4	73.1
Deferred Tax Liability	0.34	47.50	47.50	47.50
Total Liabilities	2,238.2	2,316.64	2,342.6	2,372.6
Application of Funds				
Gross Block	1,991.2	2,007.6	2,107.6	2,207.6
Less: Acc Depreciation	305.0	417.5	535.5	659.2
Net Block	1,686.3	1,590.1	1,572.0	1,548.4
Capital WIP	32.3	45.4	75.0	50.0
Total Fixed Assets	1,718.6	1,635.4	1,647.0	1,598.4
Non-current Investments	228.4	259.4	262.0	264.6
Other Non current inv	9.9	4.9	5.0	5.0
Deferred Tax Asset	0.0	0.0	0.0	0.0
Current tax assets	11.5	14.2	14.3	14.5
Inventory	13.6	8.4	16.8	18.8
Debtors	25.8	51.0	31.6	35.3
Loans and Advances	0.2	0.5	0.5	0.5
Other Current Assets	16.4	38.1	38.5	38.9
Cash	431.6	533.7	560.5	637.6
Total Current Assets	487.5	631.7	647.9	731.1
Creditors	28.5	32.6	33.7	37.6
Other liab & Provisions	189.2	196.5	199.9	203.4
Total Current Liabilities	217.6	229.0	233.6	241.0
Net Current Assets	269.9	402.7	414.3	490.0
Application of Funds	2,238.2	2,316.6	2,342.6	2,372.6

Source: ICICI Direct Research

**Exhibit 18: Key Ratios**

(Year-end March)	FY18	FY19	FY20E	FY21E
Per share data (₹)				
EPS	4.6	4.9	5.5	6.3
Cash EPS	6.2	6.6	7.3	8.2
BV	44.7	45.5	46.0	46.6
DPS	3.5	3.0	4.1	4.8
Cash Per Share	8.9	11.0	11.6	13.2
Operating Ratios (%)				
EBITDA Margin (%)	57.6	55.4	55.7	57.1
PBT / Total Operating income	82.1	82.5	84.0	86.1
PAT Margin	30.6	29.3	30.4	31.9
Inventory days	7.7	4.4	8.0	8.0
Debtor (Days)	14.5	26.5	15.0	15.0
Creditor days	16.0	16.9	16.0	16.0
Return Ratios (%)				
RoE	9.2	9.4	10.5	12.2
RoCE	12.1	12.2	13.5	15.8
RoIC	18.0	19.7	22.1	27.1
Valuation Ratios (x)				
P/E	16.6	15.5	13.9	12.0
EV/EBITDA	8.7	8.1	7.3	6.2
EV/Sales	5.0	4.5	4.1	3.5
Market Cap / Sales	5.7	5.2	4.8	4.3
Price to Book Value	1.7	1.7	1.7	1.6
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	2.2	2.8	2.8	3.0
Quick Ratio	2.2	2.7	2.7	3.0

Source: ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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