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Mumbai

CRISIL Research assigns IPO grade 4/5 to Gujarat Pipavav Port

CRISIL has assigned a CRISIL IPO grade of "4/5" (pronounced "four on five") to the proposed initial public offer (IPO) of Gujarat Pipavav Port Ltd (GPPL). This grade indicates that the fundamentals of the IPO are above average relative to the other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals. The grade is not a recommendation to buy / sell or hold the graded instrument, or a comment on the graded instrument's future market price or its suitability for a particular investor.

GPPL is backed by a strong promoter group - APM Terminals, which is one of the biggest terminal and port operators in the world and the IPO grade assigned to the company takes this into account. APM Terminals brings to the company technological expertise, best practices in port operations, and a strong and experienced management. APM Terminals Pipavav enjoys favourable oceanographic conditions, well-developed infrastructural facilities, and good rail and road connectivity to the hinterland. The grade reflects APM Terminals Pipavav's strategic location in terms of proximity to the landlocked north and north-western regions, which account for 65% of the container cargo traffic in India. The grading takes into account strong industry prospects. The container cargo market size of north and north-western India is currently ~ 6 mn TEUs (twenty-foot equivalent unit – a 20-foot long container) and is expected to grow at a CAGR of 11-12% over the next three to four years. Given that Jawaharlal Nehru Port Trust (JNPT) is congested and there are no other ports on the western side except Mundra to handle incremental traffic, APM Terminals Pipavav is positioned well to attract this incremental traffic. The port is located at an approximate distance of 150 nautical miles from the ports located in and around Mumbai. Hence, ships calling to JNPT could sail to APM Terminals Pipavav if JNPT is congested. The bulk handling capacity in Gujarat and Maharashtra is expected to grow at a CAGR of 22% over the next five years from 61 mn tonnes in FY09 to 167 mn tonnes in FY14. Further, the commissioning of new power plants near the port augurs favourably for the bulk cargo traffic growth at the port.

The grading is constrained by the incremental capacity expansion planned by other ports on the western coast of India, viz. Mumbai and JNPT ports. However, capacity expansion will take a minimum of two-three years to become operational. The grading takes into account the fact that GPPL does not have long-term contracts with companies that use the port for the import and export of bulk cargo. The grading also reflects low operating margins reported by the company from CY05 to CY08 compared with other players in the industry.

About the company and the issue

Gujarat Pipavav Port Limited (GPPL), incorporated in 1992, is the developer and operator of APM Terminals Pipavav, India's first private sector port. The company is promoted by APM Terminals, one of the world's leading terminal and port operators. GPPL has the exclusive right to develop and operate APM Terminals Pipavav and related facilities until September 2028 pursuant to the Concession Agreement with Gujarat Maritime Board and the Government of Gujarat. GPPL is principally engaged in providing port handling and marine services for container cargo, bulk cargo and LPG cargo. The container cargo handling capacity at the port is 0.6 mn TEUs and the bulk cargo handling capacity is 5 mn tonnes p.a. In addition, GPPL operates a container freight station for stuffing and de-stuffing of container cargo to and from ships. It also generates revenue from land-related and infrastructure activities.

The company's revenues amounted to Rs 1.5 bn for the nine months ended September 2009, of which container cargo accounted for 48%, bulk cargo accounted for 45%, and marine services to Ultratech and land-related revenues accounted for the rest. For the nine months ended September 2009, the company's

operating margins were 18.5%, which is significantly higher than 7.7% in CY08. The improvement in operating margins can be attributed to the increase in utilisation rates.

GPPL's management is headed by Mr. Prakash Tulsiani, who has held several management positions in the A.P. Moller - Maersk Group prior to joining the company. GPPL has three independent directors - Mr. Per Jorgensen (also the company Chairman), Mr. Pravin Laheri, IAS (Retd.) and Mr. Abhay Bongirwar; two of them have been on the board for the past two years. All of them are fairly involved in the company and have a good understanding of the company's businesses.

Of the expected issue size of Rs 5,000 mn, GPPL plans to utilise around Rs 3,000 mn to part pay the loan taken under the loan agreement; balance will be utilised for investments in capital expenditure, equipments and general corporate purposes.

About CRISIL IPO Grading

CRISIL IPO (Initial Public Offering) Grading is an opinion on the fundamentals of the graded issue that reflects CRISIL's independence and expertise. This opinion is expressed as a relative assessment in relation to other listed equity securities in India. The assessment is based on a grading exercise carried out by industry specialists from CRISIL Research. A CRISIL IPO Grade 5/5 indicates strong fundamentals and a CRISIL IPO Grade 1/5 indicates poor fundamentals. CRISIL IPO Grading reflects its assessment of the graded company's equity fundamentals as distinct from an assessment of debt fundamentals. A CRISIL IPO Grade should not be construed to mean a comment on the price of the graded security nor is it a recommendation to invest or not to invest in the graded security.

<i>Media Contact</i>	<i>Analytical Contact</i>
Mitu Samar Head, Market Development & Communications CRISIL Limited Tel: +91-22- 3342 1838 Mobile: +91- 98200 61934 Fax: +91-22- 3342 3001 <i>E-mail:</i> msamar@crisil.com	Chetan Majithia Head, CRISIL Equities Tel: +91-22- 3342 4148 E-mail: chetanmajithia@crisil.com

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