

# Gujarat Pipavav Port Limited

CRISIL IPO Grade 4/5 (Above average)

March 29, 2010

## Grading summary

CRISIL has assigned a CRISIL IPO grade of '4/5' (pronounced "four on five") to the proposed 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 offer price for the issue may be higher or lower than the level justified by its fundamentals. The grade is not a recommendation to buy/sell or hold the graded instrument, its future market price or suitability for a particular investor. To arrive at the overall grade, amongst various other parameters, CRISIL has considered company's business prospects, its financial performance, management capabilities and the corporate governance practices.

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.

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.

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## About the company

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 million TEUs (twenty-foot equivalent unit – a 20-foot long container) 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.

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.

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## Issue details

<b>Shares offered to public</b>	Not available at the time of grading
<b>As per cent of post issue equity</b>	Not available at the time of grading
<b>Object of the Issue</b>	Prepayment of loan amount, investment in capital expenditure & equipments and general corporate purposes
<b>Amount proposed to be raised</b>	Rs 5,000 million (approximate)
<b>Price Band</b>	Not available at the time of grading
<b>Lead managers</b>	IDFC-SSKI Limited, Kotak Mahindra Capital Company Limited

## Detailed Grading Rationale

### A. Business Prospects

- **Well-developed port infrastructure**

The port has a channel length of 4,550 metres and draft length of 14.5 metres, which implies that the port is capable of handling 80,000 DWT vessels. It has dedicated container and bulk berths, dedicated container stackyard of 102,700 sq. metres, coal storage yards with an aggregate capacity of 3,00,000 Metric Tonnes and other such port facilities to ensure that optimum services are provided to its customers. The port also enjoys favourable oceanographic conditions. Two islands are located directly across APM Terminals Pipavav, acting as natural breakwaters and making the port safe in all weather conditions.

APM Terminals Pipavav has good road and rail connectivity to the hinterland. It is connected to the Indian Railways network through an approximately 269 km-long dedicated broad gauge railway link maintained by Pipavav Railway Corporation Limited (PRCL), where GPPL owns a 38.8% stake. This broad gauge link connects the port to Surendranagar and can run double-stack container trains of standard 40-foot containers up to Inland Container Depot at Kanakpura (Jaipur). The port also has a four-lane link of approximately 10 km to the National Highway-8E for transporting cargo to and from the port.

Under the Concession Agreement, GPPL has the right to develop approximately 1,561 acres of land. The company has developed 485 acres of land and has a balance of 1,076 acres of land which it can utilise for expanding port operations. Hence, with ample land availability, the company can significantly increase its capacity through marginal investments in capital equipments. Under the agreement, the company has the right to sub-lease the land, which provides it an opportunity to earn incremental revenues and subsequently attract companies using the leased land to use the port services for all their trading activities.

- **Container traffic expected to register strong growth**

CRISIL Research expects container traffic at non-major ports to grow at a CAGR of 26.4% from 13 mn tonnes to 43 mn tonnes from 2008-09 to 2013-14. This growth is led by a recovery in the global markets; subsequent pick-up in imports and exports; increased containerisation of bulk exports; and trade in items like capital and engineering goods, textiles and food items which are essentially carried in containers. The container market size of north and north-western India is currently ~ 6 mn TEUs, which is expected to grow at a CAGR of 11-12% in the next three to four years.

- **APM Terminals Pipavav well-positioned to handle incremental growth in container cargo volumes**

We believe that the company is well poised to cater to the incremental traffic growth in container cargo volumes. The port is located at an approximate distance of 150 nautical miles from the ports located in and around Mumbai. Hence, ships calling at JNPT could sail to APM Terminals Pipavav if JNPT is congested. Further, the port is located in the Saurashtra region of Gujarat which is in close proximity to the landlocked north and north-western regions. The north and north-western regions of India have experienced significant manufacturing growth in the past and account for ~65% of the container cargo traffic in India. The company also has ample land available through the Concession Agreement and, hence, can further increase its capacity significantly through marginal investments.

- ***Increase in demand for coal will help boost bulk cargo volumes***

Total traffic of coal at Indian ports is expected to grow at a CAGR of 7.2% from 91.9 mn tonnes in 2008-09 to 130 mn tonnes by 2013-14. Coal, with a share of 44% of the bulk cargo as of September 2009, is the major bulk cargo commodity handled at the APM Terminals Pipavav. According to the Government of Gujarat, six power plants are being commissioned close to APM Terminals Pipavav and 11,164 MW of power generation capacity will be added in the state by 2012. This will translate into a coal requirement of around 45 mtpa (million metric tonnes per annum); 4 mtpa for a 1,000 MW power plant. The increase in demand for coal will help boost the coal traffic at APM Terminals Pipavav.

## B. Financial Performance

The company clocked revenues of Rs 1.5 bn for the nine months ended September 2009 as against Rs 1.6 bn in CY08. Of the total revenues, container cargo services contributed 48% and bulk cargo contributed 45% as on September 2009. 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 18.57%, significantly higher than 7.7% in CY08. The improvement in operating margins is primarily on account of increase in utilisation rates.

The penalty charges payable by the company to PRCL were Rs 1,076.9 mn in March 2008 and Rs 316.6 mn in March 2009 due to non-fulfilment of the Minimum Guaranteed Quantity under the Traffic Guarantee Agreement with PRCL. The payment of penalty charges adversely impacted GPPL's operating margins. Going forward, the company is expected to meet the guaranteed quantity with the growth in traffic; this will help improve its operating margins considerably.

The funds to be raised via the IPO are crucial for the company to pre-pay the loan due under the loan agreement and for investment in capital equipments to enhance infrastructural facilities at the port.

Post IPO, the gearing of the company is expected to significantly reduce from 4.7x in September 2009 to 0.9x in CY12 as a major portion of the IPO proceeds will be used to pay off the loan under the loan agreement. The reduction in interest costs will help improve the PAT margins significantly.

### Financial performance snapshot

		CY08	Sep-2009
		Actual	Actual
Operating Income	Rs. Mn.	1,682	1,553
Operating Margins	Per cent	7.7	18.5
Net Profits	Rs. Mn.	-697	-825
Net Margins	Per cent	-41.4	-53.1
ROCE	Per cent	-2.2	-0.3
RONW	Per cent	-21	-33.4
Basic EPS	Rs	-2.4	-2.8
Diluted EPS	Rs	-2.4	-2.8
No. of equity shares	Mn.	293.7	293.7
Net worth	Rs. Mn.	3,323	2,469
Book Value (FV Rs 10)	Rs	11.3	8.4
Dividend per share	Rs	0.0	0.0
Gearing	Times	2.2	4.7
Net Cash Accruals to Debt	Times	0.0	0.0
Interest Coverage	Times	0.5	-0.1
Current Ratio	Times	1.1	1.0

\* Note: Numbers have been reclassified as per CRISIL standards

Source: DRHP, Company

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## C. Management Capabilities and Corporate Governance

GPPL has a strong professional management. Top management comprises people with good experience in port and port-related businesses. They have been previously associated with the APMM Group for a long period of time and have held several management positions within the group.

The company has a strong and experienced second line of management too. Majority of them have been associated with the APMM Group and are highly experienced in handling container terminal operations. The functional heads have detailed domain expertise and are well aware of the business opportunities, their strengths and weaknesses. We feel that the management is capable and has been given reasonable autonomy to take independent decisions for executing projects.

Independent directors have a good understanding of the business. The board includes dignitaries who have held management positions in the promoter group. The board also includes Mr. Pravin Laheri, IAS (Retd.), who has served as the Chief Secretary of the Government of Gujarat from 2003 to 2005. We believe the board is well-equipped to provide guidance and exercise oversight over the company's management.

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As per our discussion, we believe that GPPL is practising sound board practices. The Chairman and Independent Director, Mr. Per Jorgensen, ensures that the board meetings are disciplined and encourages detailed discussions.

## Annexure I

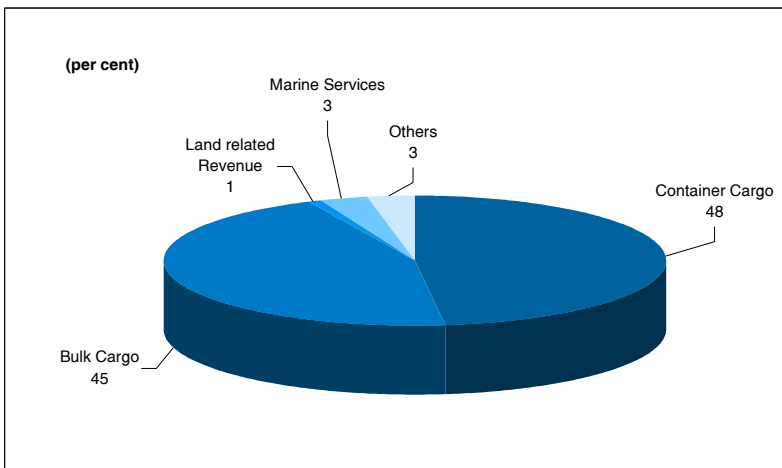
### Business Profile

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 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 (twenty-foot equivalent unit – a 20-foot long container) 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. APM Terminals Pipavav has well-developed infrastructural facilities, viz. a draft length of 14.5 metres, dedicated container stackyards and coal storage yards, good rail and road connectivity to the hinterland, etc. The company operates four berths at the port, of which two are for handling bulk cargo, one is multipurpose (bulk as well as container) and one is dedicated for container cargo.

The company also provides marine services which include pilotage services to vessels calling on the captive jetty built by Ultratech Cement within the port limits. Other income includes operating revenues derived from providing non-recurring berthing services. The company reported operating revenues of Rs 1.6 bn in CY08 and Rs 1.5 bn for the nine months ended September 2009.

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### Break-up of revenues (as on September 2009)



Source: DRHP

### Management and Board Profile

GPPL is a professionally run company promoted by APM Terminals, the second largest container shipping terminal in the world. APM Terminals brings to the company technological expertise, best practices in port operations, and strong and experienced management. Subsequent to APM Terminals acquiring a majority stake in GPPL in 2005, the management structure of the company has evolved and the port operations are implemented on par with the best practices in the world. Mr. Per Jorgensen, the Chairman of the company and also an independent director on the board, has rich experience in the port business having worked in various positions in the APMM Group for 50 years.

Mr. Prakash Tulsiani, the Managing Director, joined the Maersk Group in Indonesia in 1993 and held several management positions until 2005. He also served as the Chief Operating Officer of Gateway Terminals, a joint venture between APM Terminals and CONCOR of India, from 2005 to 2009.

Mr. Ashley Dinning, the Chief Commercial Officer, holds an advanced certificate in transport operations from the Royal Melbourne Institute of Technology, Melbourne, Australia. He has 30 years of experience in the ports, shipping and transport industries. Mr. Ravi Gaitonde is the Chief Operating Officer. He has over 28 years of experience in the shipping industry. He joined Maersk India Private Ltd in 1980 and has worked across various projects during his tenure.

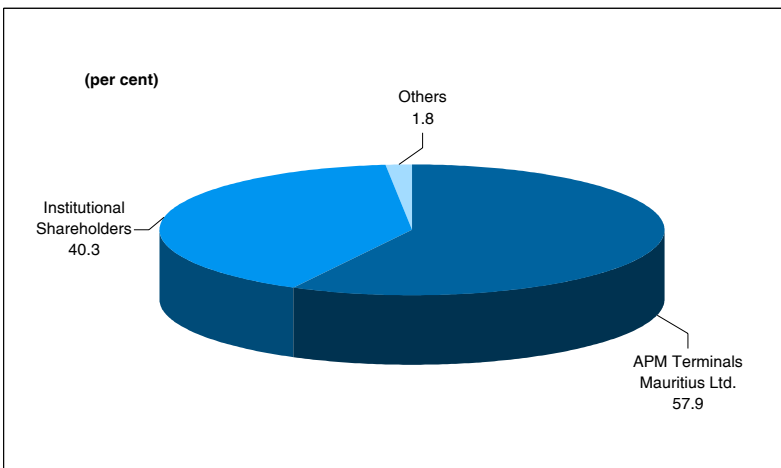
Mr. Hariharan Iyer, the Chief Financial Officer, has over 25 years of experience and has been with the Maersk Group holding various positions in finance and information technology in UAE, India and Denmark, and lately as the Chief Financial Officer of Maersk Line – India and South Asia. Prior to this, Mr. Iyer worked with Sealand Service Inc.

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. They have a reasonable understanding of the company’s business and have the ability to exercise management oversight.

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### Shareholding Pattern

#### Pre-IPO



Number of shares to be offered is not known; hence, the post-IPO shareholding cannot be determined

Source: DRHP



## Annexure II: Profile of the Directors

Name of Directors	Designation	Age	Qualification	Experience (years)	Previous Employment	Directorships / partnership in other entities
Mr. Per Jorgensen	Chairman & Independent Director	74	Completed Education from Harvard University	50+	Worked with AP Moller Maersk A/S as a Executive Vice President	-
Mr. Prakash Tulsiani	Managing Director	47	Chartered Accountant, Company Secretary, Holds a degree in Law and a degree in Commerce from Mumbai University	15+	Worked with Maersk group. Headed the Gateway Terminals project in Mumbai	Pipavav Railway Corporation Limited (PRCL)
Mr. Pravin Laheri	Non-Executive and Independent Director	64	IAS officer, Bachelors degree in Arts & Law. Masters of Science (Economics) degree from University of Wales		Worked as Executive Director of National Institute of Fashion Technology under Ministry of Textiles. Served as the Principal Secretary to the five Chief Ministers of Gujarat. Retired as the Chief Secretary of Government of Gujarat.	§ Torrent Energy Ltd, Amap Management Consultancy Private Ltd, Gujarat Heavy Chemicals Ltd, Ambuja Foundation
Mr. Luis Miranda	Non-Executive Director	48	Masters Degree in Business Administration from the University of Chicago, Booth School of Business, member of Institute of Chartered Accountants of India (ICAI)		Has extensive experience in dealing with early stage companies and private equity investing.  Set up IDFC Private Equity. Was a partner at Chryis Capital, Key member of the start up team at HDFC Bank, worked with HSBC Markets, Citibank, KPMG, Price Waterhouse	§ Moser Baer Solar PLC, L&T Infrastructure Development Projects Limited, Chalet Hotels Limited, Manipal – City and Guilds Skills Training Private Limited
Mr. Christian Moller Laursen	Non-Executive Director	43	Masters degree in Finance from University of Aarhus, Denmark.		Served as an economist in Moller-Maersk Group. held the position of General Manager Finance in Indonesia, Pakistan, Taiwan, Singapore and Chief Financial Officer, Latin America Region	§ APM Terminals B.V. , APM Terminals China Ltd, APM Terminals Mauritius Holding Ltd, Maersk Holding B.V., APM Terminals Dalian Co. Ltd., APM Terminals Invest Co. Ltd., APM Terminals Qingdao Co. Ltd., APM Terminals Shanghai Co. Ltd.

Mr. Dinesh Lal	Non-Executive Director	57	Commerce Graduate from Delhi University	Member of the Trustee of JNPT, MBPT.	<p>§ Santusht Credit Capital and Investment Private Ltd, illenary Impex (P) Ltd, Lotus Real Estates Private Ltd, Shefali Farms Private Ltd, Shibani Agro Products Private Ltd,</p> <p>§ Sweet Valley Agro Products Private Ltd, Shefali Greens Private Ltd, Shibani Greens Private Ltd, Shefali Agro Products Private Limited, Shefali Horticulture Private Ltd, Shibani Plantations Private Limited, AMI India Logistics Private Ltd, Maersk India Private Ltd, Gateway Terminals India Private Limited, Alert Agencies and Investments Private Ltd, Pipavav Railway Corp Ltd, Lotus Court Ltd.</p> <p>§ European Union Chamber of Commerce and Industry</p>
Mr. Abhay Bongirwar	Non-Executive and Independent Director	51	Post graduate in Mathematics from Mumbai University and a qualified Cost Accountant. He holds a degree in Management from Jamnalal Bajaj Institute of Management, and a degree in Computers from Tata Institute of Fundamental Research and is an Associate Member of Banking.	26+ Worked in the retail and corporate sector IDBI Bank. Worked in areas of infrastructure financing, small and medium project lending, merchant banking, corporate advisory, investment banking, recovery, corporate debt restructuring	-
Mr. Charles Menkhorst	Non-Executive Director	44	Masters Degree in Economics and Finance from Nijenrode University in The Netherlands	15+ Started his career in logistics with Federal Express in 1991, and later moved to DHL where he held several senior positions in USA, Asia Pacific Region and Europe, before joining APM Terminals.	<p>§ Aqaba Container Terminal Ltd, Jordan APM Terminals Jordan Ltd, Jordan APM Terminals Bahrain Ltd., Bahrain Salalah Port Services Ltd., Oman South Asia Gateway Terminal Ltd, Sri Lanka Gateway Terminals India Ltd., India Meridian Ports Holding Ltd., United Kingdom West Africa Container Terminals Ltd., Nigeria APM Terminals Apapa Ltd., Douala International Terminal SA, Cameroun , Societe Exploitation du, Terminal de Vridi SA, Ivory Coast , § Sociedada Gestora de Terminais SA, Angola</p>

Source: DRHP

***Disclaimer***

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