

### IPO Note

#### IPO Details

Face Value	Rs. 10
Price Band	Rs. 400-440
Issue Opens	1-Nov-07
Issue Closes	7-Nov-07
BRLM	DSP Merrill Lynch, JM Financial Consultants, SSKI Corp. Finance ENAM Securities, SBI Cap. Markets
Registrar to issue	Intime Spectrum Registry Ltd.
Shares on offer for sale	40.3 mn

#### Pre issue shareholding pattern

	% Stake
Promoters and Promoter group	90
Others	10

#### Post issue shareholding pattern

Shareholders	% Stake
Promoters and Promoter group	81.3
Employees	0.04
Public	10.0
Others	8.7

#### Segmented Allocation

QIBs	24,060,000
Non-Institutional	4,010,000
Retail	12,030,000
Employees	150,000

IPO Details	Lower End	Upper End
Price Band (Rs.)	400	440
Equity Shares prior to issue (mn)	360.4	360.4
Fresh Issue of shares (mn)	40.3	40.3
Total Equity Shares (mn)	400.7	400.7
Share Capital (bn)	Rs. 4.0	Rs. 4.0
Implied market cap (bn)	Rs. 160.3	Rs. 176.3
Debt (bn) (as on 30/06/2007)	Rs. 14.4	Rs. 14.4
Cash (bn) (as on 30/06/2007)	Rs. 0.9	Rs. 0.9
Implied EV (bn)	Rs. 173.8	Rs. 189.8

### Mundra Port and SEZ Ltd.

### Subscribe

Mundra Port and SEZ Ltd. (MPSEZ) is the developer and has exclusive rights to operate the port till 2031. The Company is engaged in providing port services for bulk, container & crude oil cargo, and value added port services like railways. The Company also generates income from land related & infrastructure activities. We believe that the issue is attractively priced with a potential to provide substantial gains on listing. The key features are:

- Mundra Port has a strategic location which is well knit by network of road, railways and pipelines to northern and north-western India, which is likely to bring huge amount of business for the Company.
- It has a total land area of 15,665 acres that can be used in the expansion of port services which includes 5,947 acres reserved for the development of SEZ. With the setup of infrastructural facilities, the Company will benefit from various government incentives and subsidies and also attract clients due to the SEZ's advantageous location near the port.
- It is expected that there will be a growth of 12-15% every year in port traffic for the next 2-3 years driven by increased exports and higher oil imports.

#### Valuation and Recommendations

We have based our estimates on the forward earnings for FY08E. We believe that MPSEZ's plan to develop SEZ will unlock significant value for the Company given the location advantage and connectivity through rail, road and pipelines. Also, with expansion of Mundra port cargo handling facilities, development of crude oil facilities and establishment of new terminal shall aid in attracting investment from other port based industries. On a fully diluted basis, MPSEZ is valued at a P/E of 57.2x and 62.9x for FY08E, at the lower and upper price band respectively. Based on our analysis, we believe that the Company is in a high growth phase and the issue is attractively priced and will provide substantial gains on listing. Hence, we recommend the investors to Subscribe to the issue.

*Issue details*

MPSEZ plans to raise Rs. 16.1 bn to Rs. 17.7 bn through an IPO of 40.3 mn equity shares. The promoters and promoter group held 90.4% of the issued and paid up capital. After the issue, the promoters and promoter group will own 81.3% of the post-issue paid-up equity share capital. The Company plans to allocate 24.1 mn shares of the net issue for QIBs, 4 mn for non-institutional buyers, 12 mn for the retail applicants and the remaining for the employees of the Company. The issue constitutes 10.1% of the post issue paid-up capital of the Company.

*Issue objective*

The IPO is being carried out to raise funds for the following purposes:

- For the construction and development of basic infrastructure and the allied facilities in the proposed SEZ at Mundra which is scheduled to be completed by 2010 at a cost of Rs. 7 bn.
- For Construction and development of a terminal with a project cost of Rs. 20 bn for coal and other cargo at Mundra Port.
- Investment in Adani Petronet (Dahej) Port Pvt. Ltd., Adani Logistics Ltd. and Inland Conware Pvt. Ltd.
- General Corporate Purposes

**Promoters**

MPSEZ was promoted by Mr. Gautam S. Adani, Mr. Rajesh S. Adani and 2 Adani Group companies: Adani Port Infrastructure and Adani Infrastructure Services. Mr. Gautam S. Adani, is the Chairman, MD and CEO of the Adani Group and was instrumental in the diversification of the Adani Group into the port sector. He has been associated with the Company as the MD since Jan'99 and as the Chairman and Managing Director thereafter. As the CEO, he is responsible for the overall business and future growth. Mr. Rajesh S. Adani is a non-executive director of MPSEZ and is involved in the management of Adani Exports Limited (presently Adani Enterprises Limited).

### Investment Rationale

#### *Potential to improve revenues tremendously*

MPSEZ reported income from operations at Rs. 5,797.4 mn, a 51% rise over last year. Revenue has grown at a CAGR of 82.4% for FY03-07 with a throughput of 19.8 MMT in FY07.

MPSEZ generates majority of its revenue from the bulk cargo handling that is carried out at 2 terminals. The second terminal was completed in Mar'07 making the total handling capacity of 20 mn ton/year. It is expected that there will be growth of 12-15% every year in port traffic for the next 2-3 years especially due to increased exports and higher oil imports. As the Company receives most of the bulk cargo from international imports, improvement in the utilization rate for bulk cargo is likely to increase cargo handling capacity and provide significant boost to the revenues of the Company. MPSEZ presently has cargo handling efficiency of 60-75% which we expect to improve in the near term.

MPSEZ has significant value locked in its SEZ project covering an area of 5,947 acres which is scheduled to complete in 2010. Proximity to northern region, availability of port services and connectivity by road, railways and pipelines provides locational benefit. The SEZ is likely to attract several clients due to its strategic location and the various government incentives including exemptions from custom duty, income tax, and other taxes that reduce costs and increase export competitiveness for the clients.

#### *Development of back-up facilities*

MPSEZ intends to develop its logistics services to be able to provide better services to its clients. So, the Company has planned to invest in container train operations and inland container depots with the help of Adani Logistics Ltd. The Company also plans to set up a 30 MMT/year coal terminal at Mundra Port that will cater to the requirements of its wholly-owned subsidiary Adani Power Ltd.

#### *Investment in other projects*

With the motive to diversify its revenue generation sources, MPSEZ entered into a MOU with JK group to develop and operate Dholera port and is awaiting

clearance from the Gujarat Maritime Board to develop the new port. Dholera Port Ltd will set up facilities to handle 4 MMT of general cargo, containers and chemicals in the first phase of the project. Under MPSEZ's extensive expertise, this project shall provide thrust to revenues of the Company.

*Strategic location brings government incentives*

MPSEZ will receive several fiscal as well as other incentives under the SEZ development policy that will have a positive effect on the operating margins of the Company and thus provide thrust to earnings.

*Positive industry outlook*

The significant increase in India's international trade during the recent years has resulted in cargo at Indian ports increasing at a 5 year CAGR of 11.1% to approximately 649 MMT in FY07. Growth is expected to be driven by increased exports (driven by a buoyant world economy), and higher oil imports. The Government of India has fixed an ambitious target of USD 150 bn for exports by FY09 to double India's share in world exports from approx 0.8% to 1.5%. This would require exports to grow at a CAGR of at least 15% over the next 2-3 years. As a result, the traffic at ports in India is expected to increase to 1,009 MMT/year by FY12 and 1,225 MMT/year by FY14 from the current 649 MMT/year in FY07. The additional capacity expected to be built by FY12 is approximately 763 MMT. Together, all these factors provide a favorable environment for the MPSEZ's growth.

**Outlook**

MPSEZ has several capacity expansion plans on the cards that will increase its cargo handling capacity by many folds by 2010 from the present 19.8 MMT. Considering the upsurge in the port traffic, increased capacity is likely to benefit the Company and generate higher revenues. The second most attractive feature of this issue is the SEZ project that shall unlock significant value for the shareholders in the near term due to its location benefits and fiscal benefits received from the government. MPSEZ has significant amount of land bank covering 15,665 acres that shall be used to develop deep water berths which

includes 5,947 acres reserved for development of infrastructural facilities for the SEZ. The Company is also keen on investing in other projects apart from the Mundra Port wherein it can use its extensive expertise and generate revenue for the Company. As MPSEZ is moving on a high growth trajectory, we have based our valuation on the forward earnings for FY08E. On a fully diluted basis, the Company is valued at PE of 57.2x and 62.9x at the lower and upper price band for FY08E respectively. We believe the issue is cheap and is likely to provide substantial listing gains and can prove to be a good long term investment given the boom in the world economy, Indian port traffic and significant revenue recognition from SEZ. Hence, we recommend the investors to Subscribe to the issue.

### Company Background

MPSEZL is the developer and operator of Mundra Port which is located in Kutch district of Gujarat. The Company is primarily engaged in providing bulk cargo services, container cargo, crude oil cargo and value-added port services, including railway services between Mundra Port and Adipur. In addition, it also generates income from land related and infrastructure activities. While, container cargo handling and related operations are provided by the Container Sub-concessionaire on Container Terminal I, similar services are provided by MPSEZ on Container Terminal II. As Mundra Port is approximately 850 km northwest of Mumbai, it is well positioned to service the vast inland populations of northern and central India. The Company has a range of third parties and customers that operate at or use its port, including the Container Sub-concessionaire, Indian Oil Corporation Limited (IOCL), Indian Railways, Indian Farmers Fertilisers Cooperative Limited, Food Corporation of India and some of the Adani Group companies, such as Adani Enterprises Limited and Adani Wilmar Limited.

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