

Logistics

Downgrading earnings due to declining container volumes

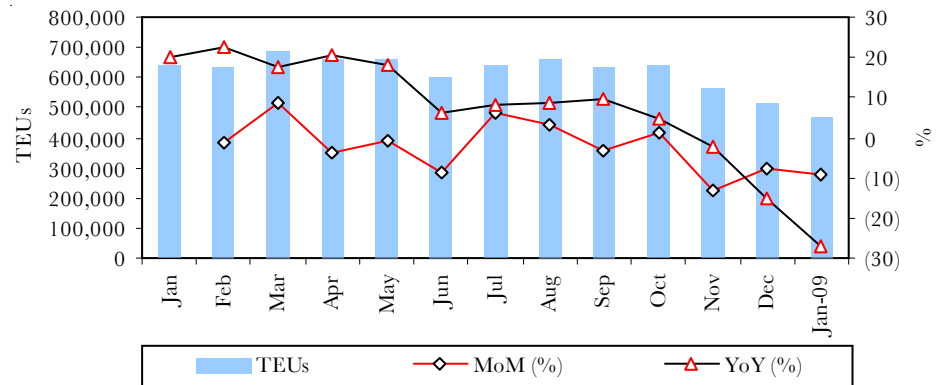
Based on our interactions with the industry on the container volumes, we believe that the recovery in the container volume can take longer than we earlier estimated. With most trading partners in a significant slump, the recovery of container volumes is likely only post FY10. We believe that the container volume decline could be ~10-11% for FY10. We are downgrading our earnings estimates for all companies under coverage with exposure to EXIM container volumes.

- The container volumes at the Indian ports have been declining MoM with pace of decline gathering momentum every month, till January 2009.
- For the month of February based on the limited data available for some ports the container volume declined by 6-7%, on MoM basis.
- We believe that the volume decline would moderate by 2HFY10.
- We are cutting our estimates for all companies under coverage with exposure to EXIM container volumes. We believe container volumes at the Indian ports can decline by ~10-11% on YoY basis for FY10. Also JNPT would be the first port to lead the volume improvement as we expect the shippers to prefer JNPT over other ports due to better connectivity.

B&K's view

We continue to prefer Concor (trading at 10.7x FY09E EPS and 12.3x FY10E EPS) over other players given the pan-India network and a debt free balance sheet, over other players including Gateway (trading at 5.9x FY09E EPS and 8.4x FY10E EPS). We believe that Mundra, being a premier port with the deepest drafts on the western coast and distance advantage over other competing ports, would attract cargo volumes, however given the liquidity crunch, the offtake in the SEZ is likely to be delayed as industry defers its capex plans (we are also cutting the SEZ development from 933 acres to 300 acres for FY10). We maintain our recommendations on the stocks.

All India Port volumes



Source: B&K Research

Changes in estimates

Concor: Outperformer

(Rs mn)	FY10E	FY10E Revised	Remarks
Revenue	33,876	31,819	
EBITDA	9,300	8,309	We are moderating our container volumes for the EXIM
PAT	7,826	6,948	business by 11%.
EPS (Rs)	60.2	53.5	

Gateway Distriparks: Underperformer

(Rs mn)	FY10E	FY10E Revised	Remarks
Revenue	5,694	4,895	
EBITDA	1,560	1,359	We have reduced our container volumes estimates by
PAT	793	625	11% for the operations in CFS business and EXIM
EPS (Rs)	7.4	5.8	operations in rail business.

Mundra Port: Outperformer

(Rs mn)	FY10E	FY10E Revised	Remarks
Revenue	16,061	10,973	
EBITDA	12465	7,881	We have assumed 11% YoY decline in container volumes
PAT	9433	4,846	in FY10E. We have also reduced our SEZ assumptions
EPS (Rs)	23.8	12.1	from 933 acres to 300 acres.

Container Corporation of India

Income Statement					Cash Flow Statement				
Yr end 31 Mar (Rs mn)	FY07	FY08	FY09E	FY10E	Yr end 31 Mar (Rs mn)	FY07	FY08	FY09E	FY10E
Net sales	30,373	33,473	33,457	31,819	Pre-tax profit	8,823	9,485	10,195	8,785
<i>Growth (%)</i>	<i>24.8</i>	<i>10.2</i>	<i>0.0</i>	<i>(4.9)</i>	Depreciation	936	1,063	1,195	1,503
Operating expenses	(21,461)	(24,569)	(23,852)	(23,510)	Change in working capital	93	(10)	1,310	(275)
Operating profit	8,912	8,904	9,605	8,309	Total tax paid	(1,687)	(1,856)	(1,791)	(1,487)
EBITDA	8,912	8,904	9,605	8,309	Cash flow from oper. (a)	8,165	8,683	10,910	8,526
<i>Growth (%)</i>	<i>27.8</i>	<i>(0.1)</i>	<i>7.9</i>	<i>(13.5)</i>	Capital expenditure	(2,690)	(1,882)	(6,902)	(2,000)
Depreciation	(936)	(1,063)	(1,195)	(1,503)	Change in investments	(23)	(237)	(873)	0
Other income	846	1,645	1,785	1,979	Others	(15)	(11)	31	0
EBIT	8,823	9,485	10,195	8,785	Cash flow from inv. (b)	(2,728)	(2,129)	(7,744)	(2,000)
Pre-tax profit	8,823	9,485	10,195	8,785	Free cash flow (a+b)	5,437	6,553	3,165	6,526
(before non-recurring)					Dividend (incl. tax)	(1,498)	(1,987)	(2,120)	(1,835)
Pre-tax profit	8,823	9,485	10,195	8,785	Cash flow from fin. (c)	(1,498)	(1,987)	(2,120)	(1,835)
(after non-recurring)					Net change in cash (a+b+c)	3,938	4,567	1,045	4,691
Tax (current + deferred)	(1,862)	(1,980)	(2,141)	(1,837)					
Net profit (before Minority Interest, Pref. Dividend, etc..)	6,961	7,506	8,054	6,948					
Prior period adjustments	77	0	0	0					
Reported PAT	7,038	7,506	8,054	6,948					
Adjusted net profit	7,038	7,506	8,054	6,948					
<i>Growth (%)</i>	<i>34.4</i>	<i>6.6</i>	<i>7.3</i>	<i>(13.7)</i>					

Balance Sheet				
Yr end 31 Mar (Rs mn)	FY07	FY08	FY09E	FY10E
Cash & Marketable securities	10,626	15,215	16,260	20,914
Other current assets	2,994	3,806	2,449	2,464
Investments	1,317	1,554	2,427	2,427
Net fixed assets	17,544	18,373	24,049	24,545
Total assets	32,481	38,947	45,185	50,351
Current liabilities	4,569	5,371	5,325	5,064
Other non-current liabilities	1,613	1,737	2,087	2,437
Total liabilities	6,182	7,108	7,411	7,501
Share capital	650	650	650	650
Reserves & surplus	25,648	31,189	37,124	42,200
Shareholders' funds	26,298	31,839	37,774	42,850
Total equity & liabilities	32,481	38,947	45,185	50,351
Capital employed	27,911	33,576	39,861	45,287

Key Ratios				
Yr end 31 Mar (%)	FY07	FY08	FY09E	FY10E
Adjusted EPS (Rs)	54.1	57.7	62.0	53.5
Growth	34.4	6.6	7.3	(13.7)
Book NAV/share (Rs)	202.3	244.9	290.6	329.7
Dividend/share (Rs)	10.7	14.5	15.5	13.3
Dividend payout ratio	21.3	26.5	26.3	26.4
Tax	21.1	20.9	21.0	20.9
EBITDA margin	29.3	26.6	28.7	26.1
EBIT margin	29.0	28.3	30.5	27.6
RoCE	35.1	30.9	27.8	20.6
Net debt/Equity	(40.4)	(47.8)	(43.0)	(48.8)

Valuations				
Yr end 31 Mar (x)	FY07	FY08	FY09E	FY10E
PER	12.2	11.4	10.7	12.3
PCE	10.8	10.0	9.3	10.2
Price/Book	3.3	2.7	2.3	2.0
Yield (%)	1.6	2.2	2.3	2.0
EV/Net sales	2.3	2.1	2.1	2.2
EV/EBITDA	7.9	7.9	7.3	8.5

Du Pont Analysis – ROE				
Yr end 31 Mar (x)	FY07	FY08	FY09E	FY10E
Net margin (%)	23.2	22.4	24.1	21.8
Asset turnover	1.0	0.9	0.8	0.7
Leverage factor	1.2	1.2	1.2	1.2
Return on equity (%)	29.8	25.8	23.1	17.2

Gateway Distriparks

Income Statement					Cash Flow Statement				
Yr end 31 Mar (Rs mn)	FY07	FY08	FY09E	FY10E	Yr end 31 Mar (Rs mn)	FY07	FY08	FY09E	FY10E
Net sales	1,610	2,714	4,581	4,895	Pre-tax profit	909	856	1,030	767
<i>Growth (%)</i>	<i>16.2</i>	<i>68.6</i>	<i>68.8</i>	<i>6.9</i>	Depreciation	139	292	380	402
Operating expenses	(797)	(1,689)	(3,044)	(3,536)	Change in working capital	545	(40)	(261)	(8)
Operating profit	812	1,024	1,537	1,359	Total tax paid	(235)	(118)	(165)	(123)
EBITDA	812	1,024	1,537	1,359	Other operating activities	0	0	(20)	20
<i>Growth (%)</i>	<i>(2.9)</i>	<i>26.1</i>	<i>50.0</i>	<i>(11.5)</i>	Cash flow from oper. (a)	1,358	991	964	1,059
Depreciation	(139)	(292)	(380)	(402)	Capital expenditure	(2,907)	(2,223)	(990)	(394)
Other income	250	144	65	50	Change in investments	144	0	0	0
EBIT	923	876	1,222	1,007	Others	209	(14)	9	0
Interest paid	(14)	(20)	(193)	(240)	Cash flow from inv. (b)	(2,554)	(2,236)	(981)	(394)
Pre-tax profit (before non-recurring)	909	856	1,030	767	Free cash flow (a+b)	(1,196)	(1,245)	(17)	665
Pre-tax profit (after non-recurring)	909	856	1,030	767	Equity raised/(repaid)	26	16	(529)	0
Tax (current + deferred)	(139)	(136)	(165)	(123)	Debt raised/(repaid)	(244)	141	1,535	250
Net profit (before Minority Interest, Pref. Dividend, etc.)	771	720	865	645	Dividend (incl. tax)	(527)	(191)	(430)	(255)
Minority interests	7	15	20	(20)	Cash flow from fin. (c)	(262)	134	299	(385)
Reported PAT	778	736	885	625	Net change in cash (a+b+c)	(1,458)	(1,111)	281	280
Adjusted net profit	778	736	885	625					
<i>Growth (%)</i>	<i>7.7</i>	<i>(5.4)</i>	<i>20.3</i>	<i>(29.4)</i>					

Balance Sheet				
Yr end 31 Mar (Rs mn)	FY07	FY08	FY09E	FY10E
Cash & Marketable securities	2,068	957	1,238	1,518
Other current assets	291	515	1,059	1,111
Net fixed assets	4,715	6,650	7,261	7,252
Other non-current assets	48	0	0	0
Total assets	7,122	8,122	9,558	9,882
Current liabilities	227	645	897	940
Total debt	75	215	1,750	2,000
Other non-current liabilities	150	169	169	169
Total liabilities	452	1,030	2,815	3,109
Share capital	924	1,156	1,077	1,077
Reserves & surplus	5,263	5,310	4,987	5,036
Less: Misc. expenditure	0	(9)	0	0
Shareholders' funds	6,187	6,456	6,064	6,113
Minorities interests	483	636	680	660
Total equity & liabilities	7,122	8,122	9,559	9,882
Capital employed	6,895	7,477	8,661	8,941

Key Ratios				
Yr end 31 Mar (%)	FY07	FY08	FY09E	FY10E
Adjusted EPS (Rs)	6.7	6.4	8.2	5.8
Growth	7.5	(5.6)	29.1	(29.4)
Book NAV/share (Rs)	57.8	61.3	62.6	62.9
Dividend/share (Rs)	2.8	3.5	3.2	2.1
Dividend payout ratio	47.4	64.3	45.0	40.8
Tax	15.3	15.9	16.0	16.0
EBITDA margin	50.5	37.7	33.6	27.8
EBIT margin	57.3	32.3	26.7	20.6
RoCE	14.1	12.2	15.1	11.4
Net debt/Equity	(29.9)	(10.5)	7.6	7.1

Valuations				
Yr end 31 Mar (x)	FY07	FY08	FY09E	FY10E
PER	7.2	7.7	5.9	8.4
PCE	6.1	5.5	4.1	5.1
Price/Book	0.8	0.8	0.8	0.8
Yield (%)	5.7	7.2	6.6	4.3
EV/Net sales	2.8	1.7	1.0	0.9
EV/EBITDA	5.5	4.4	2.9	3.3

Du Pont Analysis – ROE				
Yr end 31 Mar (x)	FY07	FY08	FY09E	FY10E
Net margin (%)	48.3	27.1	19.3	12.8
Asset turnover	0.2	0.4	0.5	0.5
Leverage factor	1.1	1.1	1.3	1.4
Return on equity (%)	12.5	10.7	12.8	9.2

Mundra Port and SEZ

Income Statement					Cash Flow Statement				
Yr end 31 Mar (Rs mn)	FY07	FY08	FY09E	FY10E	Yr end 31 Mar (Rs mn)	FY07	FY08	FY09E	FY10E
Net sales	5,961	8,182	10,185	10,973	Pre-tax profit	1,766	3,682	4,553	5,288
<i>Growth (%)</i>	<i>50.2</i>	<i>37.3</i>	<i>24.5</i>	<i>7.7</i>	Depreciation	807	1,006	1,291	1,296
Operating expenses	(2,721)	(2,827)	(2,896)	(3,093)	Change in working capital	(285)	677	321	(739)
Operating profit	3,240	5,355	7,290	7,881	Total tax paid	(60)	(268)	(648)	(484)
EBITDA	3,240	5,355	7,290	7,881	Other operating activities	1,694	1,340	103	0
<i>Growth (%)</i>	<i>42.0</i>	<i>65.3</i>	<i>36.1</i>	<i>8.1</i>	Cash flow from oper. (a)	3,922	6,438	5,619	5,361
Depreciation	(807)	(1,006)	(1,291)	(1,296)	Capital expenditure	(5,936)	(9,565)	(6,313)	(11,451)
Other income	0	279	400	450	Change in investments	438	(10,036)	(1,396)	(149)
EBIT	2,433	4,628	6,399	7,035	Others	103	83	0	0
Interest paid	(668)	(1,062)	(1,846)	(1,747)	Cash flow from inv. (b)	(6,673)	(19,518)	(7,709)	(11,600)
Pre-tax profit (before non-recurring)	1,766	3,565	4,553	5,288	Free cash flow (a+b)	(2,751)	(13,080)	(2,090)	(6,239)
Non-recurring items	0	117	0	0	Equity raised/(repaid)	1,802	403	0	0
Pre-tax profit (after non-recurring)	1,766	3,682	4,553	5,288	Debt raised/(repaid)	3,204	6,244	3,540	5,130
Tax (current + deferred)	125	(1,534)	(635)	(442)	Dividend (incl. tax)	(411)	(601)	(914)	(914)
Net profit (before Minority Interest, Pref. Dividend, etc.)	1,891	2,148	3,917	4,846	Cash flow from fin. (c)	2,699	3,160	(1,875)	(3,936)
Prior period adjustments	(16)	(13)	0	0	Net change in cash (a+b+c)	(52)	(9,920)	(3,964)	(10,176)
Reported PAT	1,875	2,135	3,917	4,846					
Adjusted net profit	1,875	2,018	3,917	4,846					
<i>Growth (%)</i>	<i>202.1</i>	<i>7.6</i>	<i>94.1</i>	<i>23.7</i>					

Balance Sheet				
Yr end 31 Mar (Rs mn)	FY07	FY08	FY09E	FY10E
Cash & Marketable securities	569	8,896	8,954	6,481
Other current assets	5,049	5,084	4,145	3,962
Investments	790	10,826	12,222	12,371
Net fixed assets	24,001	32,477	37,499	47,655
Total assets	30,409	57,282	62,820	70,469
Current liabilities	2,189	3,505	3,105	2,402
Total debt	12,822	19,067	22,607	27,737
Other non-current liabilities	7,922	8,585	8,354	8,094
Total liabilities	22,934	31,157	34,066	38,233
Share capital	3,632	4,035	4,035	4,035
Reserves & surplus	3,843	22,090	24,719	28,201
Shareholders' funds	7,475	26,125	28,753	32,236
Total equity & liabilities	30,409	57,282	62,820	70,469
Capital employed	28,219	53,777	59,715	68,068

Key Ratios				
Yr end 31 Mar (%)	FY07	FY08	FY09E	FY10E
Adjusted EPS (Rs)	5.2	5.0	9.8	12.1
Growth	202.1	(3.2)	94.1	23.7
Book NAV/share (Rs)	20.7	65.2	71.8	80.5
Dividend/share (Rs)	1.0	1.5	2.0	2.0
Dividend payout ratio	21.9	29.8	23.3	18.9
Tax	(7.1)	41.7	14.0	8.4
EBITDA margin	54.4	65.4	71.6	71.8
EBIT margin	40.8	56.6	62.8	64.1
RoCE	9.9	11.3	11.3	11.0
Net debt/Equity	163.9	38.9	47.5	65.9

Valuations				
Yr end 31 Mar (x)	FY07	FY08	FY09E	FY10E
PER	59.7	61.6	31.7	25.7
PCE	41.7	41.1	23.9	20.2
Price/Book	15.0	4.8	4.3	3.9
Yield (%)	0.3	0.5	0.6	0.6
EV/Net sales	22.6	16.4	13.2	12.3
EV/EBITDA	41.5	25.1	18.5	17.1

Du Pont Analysis – ROE				
Yr end 31 Mar (x)	FY07	FY08	FY09E	FY10E
Net margin (%)	31.5	24.7	38.5	44.2
Asset turnover	0.2	0.2	0.2	0.2
Leverage factor	4.0	2.6	2.2	2.2
Return on equity (%)	27.8	12.0	14.3	15.9

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 2. **OUTPERFORMER:** 0 to +25%
 3. **UNDERPERFORMER:** 0 to -25%
 4. **SELL:** Potential downside of < -25% (absolute returns)
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