

ISSUE SNAPSHOT

No of Shares offered	40.25 mn (Rs10 each)
Price Band	Rs400-440
Issue Size	Rs16.1-17.7bn
Issue period	Nov 1st-Nov 7th '07
Mkt Cap	Rs160-176 bn
Listing	BSE & NSE
Equity pre issue	360.4 mn shares
Equity post issue	400.7 mn shares

PROMOTERS OF THE ISSUE

Group : Adani (Gautam S Adani & Rajesh S Adani)
 Company : Adani Port Infrastructure Pvt Ltd

IPO OBJECTIVES

- To develop multi product SEZ at Mundra
- Construction and development of coal terminal
- Development of Dahej port via investment in Adani Petronet Port Pvt Ltd
- Contribution to Adani Logistics Ltd for investment in railway infrastructure
- Investment in Inland Conware Pvt Ltd for developing a network of ICDs

COMPANY PROFILE

Mundra Port and Special Economic Zone Ltd. (MPSEZ), a part of the Adani Group, was incorporated in May'98 as Gujarat Adani Port and commenced commercial operations shortly thereafter. The company entered into a Concession Agreement with Gujarat Maritime Board and Gujarat Govt in Feb'01 and changed its name in July'06 post merger of the SEZ and port business.

MPSEZ operates the Mundra Port, which provides multi purpose port services for handling bulk, container and liquid cargo and also provides ancillary services like railway network, storage etc. In addition, it is also developing a multi product SEZ on ~15k acres and planning to expand the same.

With EXIM cargo exhibiting robust growth as well as the inherent locational advantage of MPSEZ and the insulation against cyclicalities which the SEZ revenues will give, we recommend a 'SUBSCRIBE' to the issue.

INVESTMENT RATIONALE

- With the Indian economy growing at a robust pace, EXIM cargo should witness a CAGR of 15-20% over the next 3 yrs. Container traffic should grow at a higher rate of 20-25% during the same period. This buoyant macro economic scenario should augur well for MPSEZ to tap into the cargo movement demand.
- MPSEZ has locational advantages like last mile access to the northern hinterland which accounts for 2/3rds of total hinterland traffic, 15-20 mtr draft to cater to bigger vessels with a 4 km waterfront, diverse cargo handling facilities as well as the upcoming SEZ facility.
- MPSEZ, in addition to managing the port, has also on offer value added services like rail freight, pipeline connectivity, handling and storage, ICD facilities etc. which will help it capture a major part of the value chain.
- MPSEZ is poised to leverage on economies of scale. It has tied up 12-15 large clients with long term contracts of ~20 yrs which would enhance its visibility. Also, it has room to expand with a cargo terminal in Dahej, coal terminal for catering to upcoming power projects as well as expanding container terminal facility.

KEY FINANCIALS (STANDALONE)						(Rs mn)	
Yr Ended (March)	Net Sales	YoY Gr (%)	Op Profits	Op Marg (%)	Net Profits	Eq Capital	
2005	2,641	57.5	1,601	60.6	676	1,400	
2006	3,845	45.6	2,112	54.9	741	1,802	
2007	5,797	50.8	3,076	53.1	1,921	4,007*	

*Post issue Equity capital

KEY RATIOS				
Yr Ended (March)	EPS (Rs.)	BVPS (%)	P/E# (x)	EV/EBDIT (x)
2005	4.8	40.6	91.1	38.9
2006	4.1	33.3	107.0	39.4
2007	4.8*	18.7*	91.8*	53.3*

* Calculated on post issue Equity # PER calculated on upper price band

Industry to grow at a 15% CAGR for next 3 yrs...

Buoyant Industry

With economic growth and increased infrastructure spending by the govt. coupled with the fact that regulations have been liberalised enough to include private parties for managing ports, ports have emerged as an important investment vehicle in the India growth story. Port traffic (EXIM cargo) is expected to sustain its growth momentum and grow at 10-15% CAGR for the next three years driven by increased exports, growing containerisation and oil imports.

Also, growth in logistics industry is now being driven by a need for greater economies in moving larger volumes, increasing draft, seamless connectivity and increased containerisation. This buoyancy provides an environment for MPSEZ to capitalise on the increasing demand for the above.

Locational Advantage

The Mundra port is located in the Kutch region of Gujarat, which accounts for ~1,600km of India's ~7,500km coastline. Gujarat also provides last mile connectivity to the Northern hinterland, which accounts for 2/3rds of the total hinterland traffic. It has a locational advantage over JNPT as it is ~250kms closer to the hinterland with access to national broad gauge rail connectivity, SEZ access, direct pipelines to IOCL refinery in Panipat & HPCL in Delhi and a 4-lane approach road connecting to highways.

The SEZ advantage

In addition to running the port, MPSEZ has 15,000 acres of land, which it is developing into a multi-product SEZ. It has acquired necessary land titles and has already signed MOUs with some engineering and textile companies. It will garner revenues in the form of a lump sum payment and a regular annuity for occupation of premises. It will also set up a subsidiary utility company for supplying water (via de-salination plant) and electricity to the SEZ. This will be another revenue stream, which will insulate MPSEZ against cyclicalities.

SEZ revenues to insulate against cyclicalities...

The next generation port

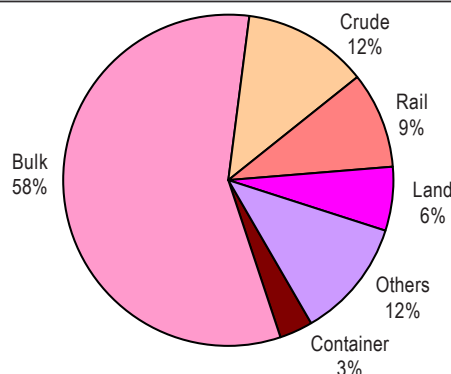
MPSEZ has been developed to cater to increased traffic requirement of the country over the next 3-5 years. It compares favourably with the country's largest container port i.e. JNPT/Nhava Sheva in terms of efficiency (12-24 hrs turnaround of Jumbo feeder ship of ~4k TEUs) as well as other bulk ports (unloading capacity of 25-30k MT/day) like Paradip and New Mangalore. Also, the port has ~3.4k acres of land to develop as well as 4k mtrs of undeveloped water front and draught of 15-17 mtrs which can handle Capesize vessels as well as 8k TEU capacity container vessels.

Better efficiency than JNPT with back ended logistic solutions...

Revenue mix

MPSEZ has two broad revenue streams viz. Port revenues and SEZ revenues. Within the port space, MPSEZ derives revenues from bulk cargo, container and crude oil movement, and land related operation involving storage and other facilities. Rail freight and ICDs also contribute to the revenue mix. In the SEZ space, the company will garner revenues in the form of lumpsum/annuity as well as through its utility subsidiary for provision of power and water. Presently, 70% of revenues of MPSEZ are accounted for by 12-15 clients. While this might be a risk in terms of over dependence on a few clients, it also gives MPSEZ assured heavy weight clients to improve visibility and ramp up volumes. MPSEZ also gets taxation and other benefits by virtue of being a SEZ company.

MPSEZ's Revenue Mix



Objectives of the issue	
Purpose	Amt (Rs mn)
Development of SEZ Phase I	7,000
Development of Coal terminal	4,500
Contribution to Adani Petronet Port Pvt Ltd (Dahej)	2,095
Contribution to Adani Logistics Ltd	220
Investment in Inland Conware Pvt Ltd	544
Total	14,359

Source: Company RHP

Valuations

MPSEZ has no peers in the domestic market and cannot be compared with global peers as it is a port-cum-multi product SEZ developer. It is one of the few ports in the world with a Landlord model i.e. it has exclusive right to develop the port and its related facilities till 2031. The company has exhibited strong growth in performance with a CAGR growth in excess of 50% in revenues and a similar improvement in net profits. In terms of profitability too, it is ahead of larger peers like Dubai Ports, which is also due for a public listing over the next few months.

Mundra port is set to emerge as the next generation port in India with a capability to surpass JNPT as India's largest container port. Another important factor is that it is providing seamless connectivity to the hinterland for cargo as well as pipeline connectivity for crude oil. The coal terminal at Mundra, bulk terminal at Dahej and the network of rail and ICDs would contribute substantially to its earnings growth. The SEZ development would diversify its revenues and insulate it against cyclicalities.

At the upper end of the price band of Rs 440, MPSEZ trades at a PER of 92x and EV/EBIDTA of 53x its FY07 numbers. We are positive on the long term growth prospects of the industry and MPSEZ in particular and recommend a 'SUBSCRIBE' to the issue.

Mundra to emerge as one of the largest ports in India, profitability better than global peers...

Financial Results (Standalone)

Particulars (Rs mn)	Year Ended				
	31/03/03	31/03/04	31/03/05	31/03/06	31/03/07
Net Sales	523	1,677	2,641	3,845	5,797
Expenditure	217	772	1,040	1,734	2,721
Operating Expenses	129	496	746	1,068	1,944
Personnel Expenses	25	63	65	88	148
Admin n other expenses	63	213	229	578	630
Operating profit	307	905	1,601	2,112	3,076
Other Income	22	56	134	124	164
PBDIT	328	961	1,735	2,235	3,240
Interest	257	514	343	507	668
Depreciation	102	376	437	614	807
PBT & Extra Ord. Items	(32)	70	954	1,114	1,765
Extra Ord Items	-	3	-	35	-
Prior period Item	-	(5)	(6)	13	(16)
PBT	(32)	68	949	1,162	1,750
Tax inc. deferred tax	-	9	286	489	(125)
Net Profits	(32)	60	663	672	1,874
Adjustments net of tax	(10)	(193)	14	69	47
Net profits aftr adj	(41)	(133)	676	741	1,921
Equity Capital (FV Rs 10)	1,400	1,400	1,400	1,802	4,007
Reserves (excl. rev. res.)	523	3,173	3,849	4,179	3,843
EPS for the period (Rs)	(0.3)	(1.0)	4.8	4.1	4.8
Book Value (Rs)	13.7	35.7	40.6	33.3	18.7
OPM (%)	58.6	53.9	60.6	54.9	53.1
NPM (%)	(6.0)	(8.0)	25.6	19.3	33.1
Expend. (% of net sales)					
Operating Expenses	24.7	29.6	28.2	27.8	33.5
Personnel Expenses	4.7	3.8	2.5	2.3	2.6
Admin n other expenses	12.0	12.7	8.7	15.0	10.9

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