India Equity Research | Logistics | Initiating Coverage

Mundra Port and SEZ Ltd — INR 556

Making its way to the top — **BUY**

KRChoksey
wealth enhancement solutions

Strategic advantages
Mundra Port and SEZ Ltd (MPSEZ) operates an all weather port at Mundra, Gujarat. MPSEZ's hinterland consists of the most industrialized states in India, which account for nearly 70% of India's container traffic. It is also close to major shipping routes via western countries, which account for a major portion of India's trade. The port has a deep draft (17mt-32mt) and is located on west coast which offers better rail connectivity (it has a 319 km distance advantage over JNPT on the congested Mumbai-Delhi route, which results in lower transportation costs). The state-of-the-art infrastructure at port offers quicker turnaround time (which again leads to reduced cost for shipping lines).

Long-term contracts to provide sustainable cash flows
More than 50% of its estimated coal traffic has been tied up with 8,620 MW imported coal-based power plants coming up in Mundra (4,000 MW of Tata and 4,620 MW of Adani). Nearly 16 mtpa (out of the 50 mtpa capacity post expansion) of POL/crude traffic has also been contracted with the refinery majors HPCL and IOC. MPSEZ has entered into an agreement with MICT for the operation of Container Terminal I. MPSEZ has entered into a MoU with Maruti Suzuki for exporting cars. Maruti Suzuki plans to export about 200,000 cars by FY11 expected to scale to 400,000 cars p.a.). Based on the visible capacity expansion, we estimate the long-term contracts to contribute ~39% to the overall revenue of the company on an ongoing basis.

SEZ to unlock significant value
The company is developing a multi-product SEZ over 18,480 acres of land (propose to scale up to 32,500 acres). MPSEZ is a unique blend of a coast based SEZ with an integrated port – both are extremely complementary business models. These two distinct businesses offer a significant advantage in terms of better occupancy of SEZ and committed cargo to the port. The port acts as a strong anchor for industrial development at the SEZ. Some of the recent transactions have been done at Rs. 65-70 per sq. ft. upfront lease and ~Rs. 6 per sq. ft. as annual rentals, which is extremely lucrative considering they acquired the land at about Rs. 2.5 per sq. ft. We thus believe that SEZ could be a significant value driver in future.

Valuation & view
Mundra port is slated to become the largest standalone port in terms of the handling capacity by FY12-13 and based on our projections it would handle more than 100 mtpa by FY14, which would make it one of the largest standalone ports in terms of the cargo handled. Such growth will be mainly driven by the capacity expansion that the company has undertaken (coal terminal, dedicated container terminals for car exports, bulk cargo port at Dahej, ICDs at new locations, and additional rakes at Adani Logistics). We believe the company exhibited a steady performance in H1FY10. MPSEZ's cargo growth was at 9.3% y-o-y in H1FY10, significantly outperforming the 2.9% y-o-y growth registered by the major ports in India during the same period. Major ports on the west coast (JNPT, Mumbai Port and Kandla Port) are operating at close to 100% capacity utilization. We thus believe Mundra port is well placed to attract the traffic on the west coast due to its unutilized capacity and strategic advantages. At the CMP of Rs. 556, the company's stock is trading at 25.3x its FY11E EPS of Rs. 22.0 per share. We initiate our coverage on MPSEZ assigning a BUY rating to the stock with 12-month target price of Rs. 705, based on our SOTP valuation.

Key Financials (Rs. Crore)

	FY09	FY10E	FY11E	FY12E	FY13E	FY14E
Revenue	1,135.1	1,453.2	1,734.1	2,274.8	2,719.0	3,075.3
EBIDTA	739.9	1,025.3	1,231.6	1,628.3	1,952.8	2,216.7
Net Profit	461.1	752.1	881.9	1,203.0	1,503.9	1,765.3
Adjusted EPS (Rs.)	11.5	18.8	22.0	30.0	37.5	44.1
EBITDA Margin (%)	65.2%	70.6%	71.0%	71.6%	71.8%	72.1%
Net Margin (%)	40.6%	51.8%	50.9%	52.9%	55.3%	57.4%
RoE (%)	16.6%	23.3%	23.0%	26.0%	26.7%	25.7%
RoCE (%)	12.3%	14.9%	15.1%	18.8%	21.3%	22.7%
P/E ratio (x)	48.3	29.6	25.3	18.5	14.8	12.6
EV / EBITDA (x)	32.0	23.1	19.2	14.5	12.1	10.7
P/B (x)	7.6	6.3	5.3	4.4	3.6	3.0

Source: Company, KRC Research

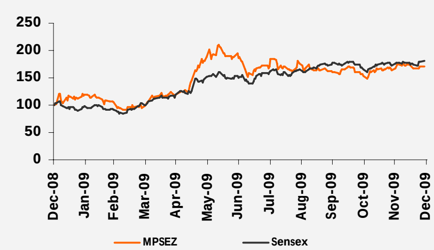
Price Outlook (INR): 705

Market Data	January 5, 2010
Shares outs (Cr)	40.1
Equity Cap (Rs. Cr)	400.7
Mkt Cap (Rs. Cr)	22,278
52 Wk H/L (Rs.)	705 / 290
Avg Vol (1yr avg)	687,933
Face Value (Rs.)	10.0
Bloomberg Code	MSEZ IN

Market Info:

SENSEX	17,558
NIFTY	5,232

Price Performance



Share Holding pattern (%)

Particulars	30-Sep	30-Jun	Chg
Promoters	81.0	81.0	0.0
Institutions	2.8	2.8	0.0
FII	6.8	7.3	-0.5
Public/Others	9.4	8.9	+0.5
Total	100.0	100.0	

Analysts :
Kunal Lakhan
kunal.lakhan@krchoksey.com
☎ 91-22-6696 5569

Shraddha Shroff
shraddha.shroff@krchoksey.com
☎ 91-22-6696 5536

www.krchoksey.com
☎ 91-22-6696 5555
91-22-6691 9569

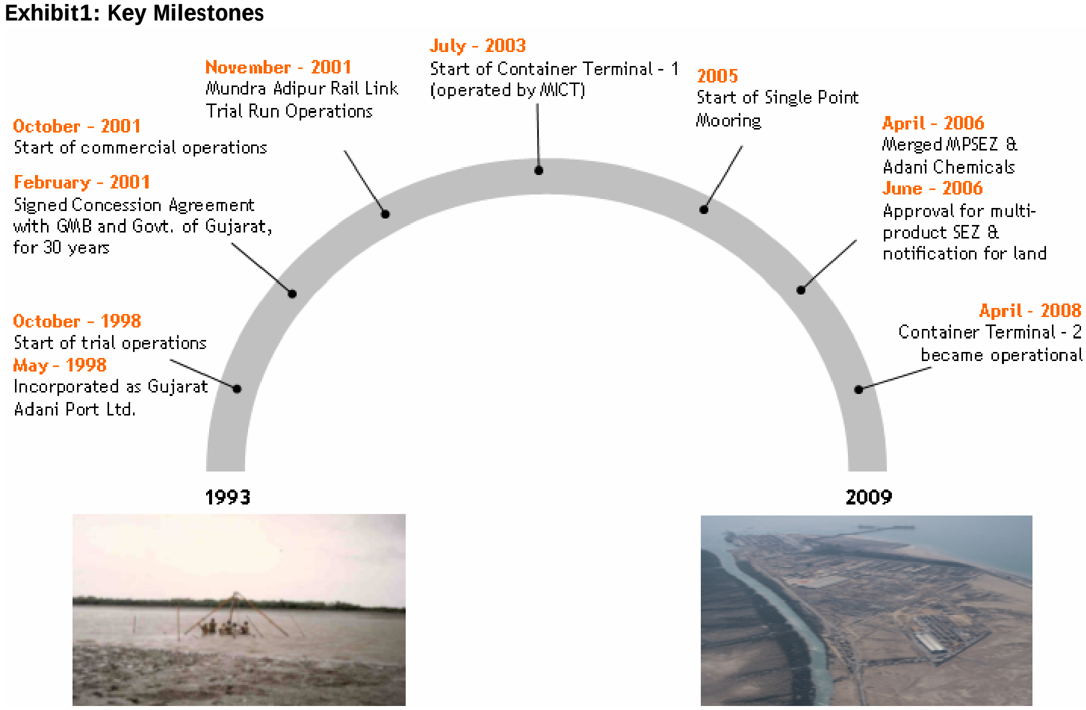
Table of contents

Company background

MPSEZ has entered into a concession agreement with GMB to operate Mundra port until 2031

Incorporated in May 1998, as Gujarat Adani Port, MPSEZ commenced its commercial operation in October 2001. MPSEZ was promoted by Adani Port Ltd and Gujarat Port Infrastructure Development Company Ltd (GPIDC Ltd), an undertaking of Government of India. In February 2001, Mundra Port entered into a concession agreement with Gujarat Maritime Board (GMB) and the Government of Gujarat to develop and operate Mundra Port for 30 years, i.e. until February 2031. The company received the approval to develop a multi-product SEZ in June 2006. MPSEZ is developing an SEZ of ~32,500 acres along the Mundra Port. Around 18,480 acres of land has already been acquired, according to the company, while the balance is in various stages of acquisition.

Exhibit1: Key Milestones



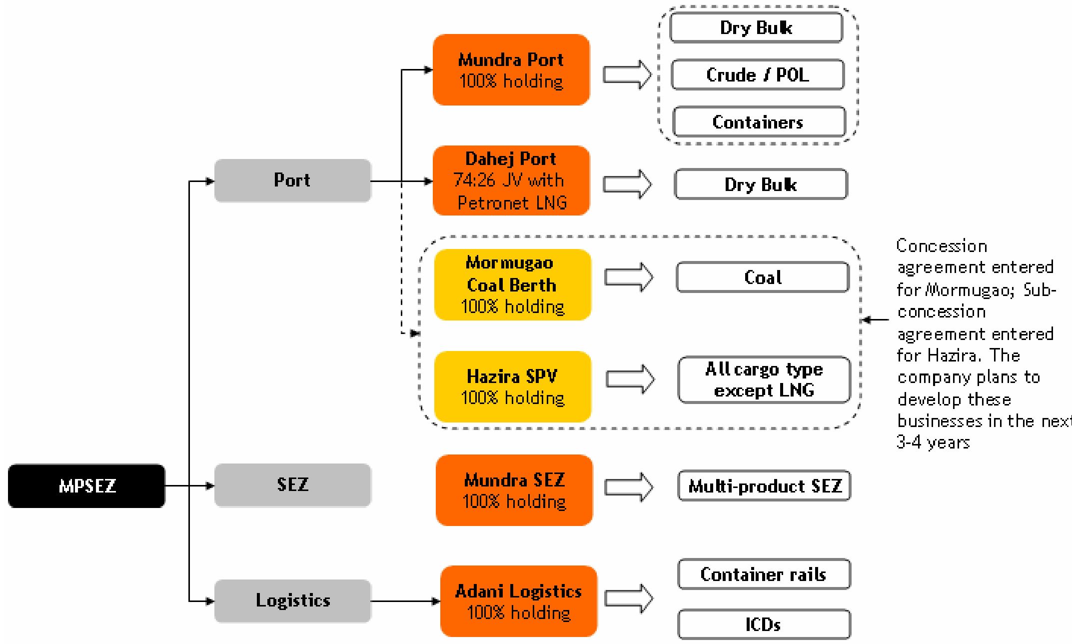
Source: Company data

Long term agreements entered for container cargo and crude

Initially the port handled only bulk and liquid cargo and eventually now it handles a whole host of cargoes like bulk, crude oil and container. Mundra Port has storage facilities for various types of dry bulk cargo, mechanized handling and storage systems for liquid bulk cargo. MPSEZ operates two dedicated multi-purpose terminals ("Terminal I & II"). Terminal I has a total of four berths and a barge berth. Terminal II, which became fully operational in March 2007, has a length of 575 meters and a width of 47 meters and has four berths. Mundra Port also has container terminal one (CT1), which is operated by the container sub-concessionaire i.e. MICT. It has been in operation since July 2003. MPSEZ has also commissioned container terminal two (CT2), with two berths of 450 meters and 181 meters. CT2 was commissioned in April 2008. In 2005, MPSEZ commenced operations of its single point mooring (SPM) and related facilities to handle crude oil as part of a long-term agreement with Indian Oil Corporation Ltd (IOCL). It is designed to handle very large crude carriers of up to 360,000 DWT with an overall capacity of 25 mtpa. The single point mooring is located approximately 8 kms offshore from Mundra Port and has a water depth of 32 meters. MPSEZ has also constructed a pipeline of 48 inches in diameter from the SPM to the tankage area at Mundra Port. MPSEZ is developing a solid cargo port terminal at Dahej (74%) in a joint venture (JV) with Petronet LNG. MPSEZ, along with Adani Port Infrastructure (APIPL, a promoter group company), has secured a pan-India license to operate container rail through their subsidiary Adani Logistics (ALL). ALL is also setting up a chain of ICDs at several locations across the

Company has JV with Petronet LNGto develop solid cargo port terminal at Dahej country for EXIM and domestic services. The facilities will cater to the requirements of ALL and third parties. The logistics business acts as a forward integration to the existing port business, and provides the company greater control over the cost and quality of service.

Exhibit 2: Business Model



Source: Company data, KRC Research

Exhibit 3: Port Infrastructure

The company currently has 80 mtpa capacity which is expected to more than double to 170 mtpa

Terminal	Cargo type	No. of Berths	Capacity (mtpa)	Operational Status
Terminal 1	Dry / Liquid Bulk	5	12.5	Operational
Terminal 2	Dry Bulk (3) / Harbour Craft (1)	4	12.5	Operational
Container Terminal 1	Containers	1	15	Operational
Container Terminal 2	Containers	2	15	Operational
Single Point Mooring 1	Crude / POL	-	25	Operational
Single Point Mooring 2	Crude / POL	-	25	FY11-12
Coal Terminal	Coal	2	50	Q3FY11
Dry Bulk Terminal (Dahej)	Dry Bulk	2	15	Q3FY11
Total			170	

Source: Company data;

Company has 2 dry / liquid bulk terminal with cumulative capacity of 25 mtpa

It has 2 container terminals, of which one is sub contracted to MICT for 30 years

MPSEZ has two terminals which handles dry and liquid bulk with total capacity of 25 MTPA. The terminal 1 has 4 berths, and has a capacity of 12.5 mtpa. It also has an additional barge berth. The terminal 2 has 4 berths with a total cargo handling capacity of 10 mtpa. The depth of these berths ranges from 13 meters to 16.5 meters. MPSEZ has two container terminals with a handling capacity of 15 mtpa (1.25 mn TEUs), each. The container terminal 1 (CT1) has been sub contracted to MICT, where MPSEZ receives royalty of 10% of the gross operating income of the terminal. The second container terminal (CT2), which became fully operational in April 2008, has a handling capacity of 15 mtpa (1.25 mn TEUs). Unlike CT1, this terminal is being operated by MPSEZ.

The company has entered into contract with GGSRL for its second SPM

MPSEZ has established a Single Point Mooring Facility (SPM1), with a total crude handling capacity of 25 mtpa. SPM1 is operational and is situated at 8 kms offshore. SPM1 is being contracted to IOC under a "take or pay" agreement. The company is developing a second single point mooring terminal (SPM2), which has a capacity to handle 25 mtpa of liquid cargo. It has signed an agreement with Guru Gobind Singh Refineries Ltd (GGSRL), subsidiary of Hindustan Petroleum Corporation Ltd (HPCL) for the second SPM terminal. The construction of the terminal is underway and it is expected to be operational by FY11-12.

Coal terminal has established clientele – Adani Power and Tata Power

The company is setting up a coal terminal having an estimated capacity of 50 mtpa. It involves setting up of a coal jetty and a berth which is capable of two vessels simultaneously. These berths are designed for vessels with a capacity of 220,000 DWT. The company has entered into port service agreements with Adani Power (for 4620 MW) and Tata Power (for 4,000 MW) for transporting imported coal from Indonesia to their respective power plants. These power plants when fully operational would require about ~31 mtpa of coal cargo to be handled at Mundra port.

MOU with Maruti Suzuki for exporting cars. In past Eleven months it has exported 100,000 cars

MPSEZ has entered into a MoU with Maruti Suzuki for exporting cars. Maruti Suzuki commenced its export operations in January 2009, and in the eleven months of operations the company has already exported ~100,000 cars through Mundra port. Maruti Suzuki is expecting to export about 200,000 cars by FY11. The capacity of car exports at Mundra is quite scalable and can handle about 450,000 cars per annum. Moreover, this is quite a lucrative business as MPSEZ realizes about Rs. 2,500 per car with nominal operating expenses.

Total project cost is Rs.1200 crore. It is expected to be funded with a mix of debt & equity in the ratio of 70:30

Strategic location along with good connectivity to Delhi – Mumbai highway

Dahej Port

MPSEZ is setting up a solid cargo port at Dahej in JV with Petronet LNG, where the former will hold 74% stake and the latter will hold about 26% stake. The total cost of the project is Rs. 1,200 crore and would be funded through a debt-to-equity of 70:30. It would be built to handle 15 mtpa of cargo and its first phase is expected to be operational by the end of this fiscal. This port would be capable of handling large ships as it would have draft of 16 meters. It is under a 30 year concession period which expires in December 2031.

The solid cargo port terminal project would comprise of a development of a T-shaped jetty having two berths, which will be developed in a phased manner. Phase I envisages development of a cargo handling berth having an approximate length of 260 meters (Berth-1), an approach bund and bridge, a development area, a railway line and other administrative buildings. Phase I of the Project has been designed to handle coal, steel and food-grains and is expected to be operational by FY11.

The Dahej port is expected to be successful as it is strategically located in the highly industrialized zone with proximity of good rail and road connectivity for quick evacuation of cargo. This is the strategic decision by the company to operate more then one port.

Exhibit 4: Dahej Port

Specifications
Solid Cargo Port
Two berths with depth of 16 meters
Handling capacity of 15 mtpa
Total Cost: Rs. 1,200 crore
Expected to be operational by FY11

Source: Company data

Key Advantages to Dahej Port

- It is located in the Bharuch district and situated along the Vadodara-Mumbai corridor, which services cargo centers in south Gujarat, upper Maharashtra and parts of central India.
- It has good connectivity to Delhi-Mumbai Highway. Dahej is connected to the Delhi-Mumbai national highway through a state highway and is also linked by a narrow gauge railway via Bharuch. Both the state highway and rail link are being upgraded currently.
- It can attract some cargo headed for Mumbai Port. Being located in the Delhi- Mumbai route, the solid cargo port terminal at Dahej would also attract cargo presently being catered to by the Mumbai Port.
- The government has also notified a SEZ of ~4,000 acres in Dahej, which would compliment the cargo volumes at Dahej port

Mormugao project has a revenue share of 20%

Coal berth at Mormugao

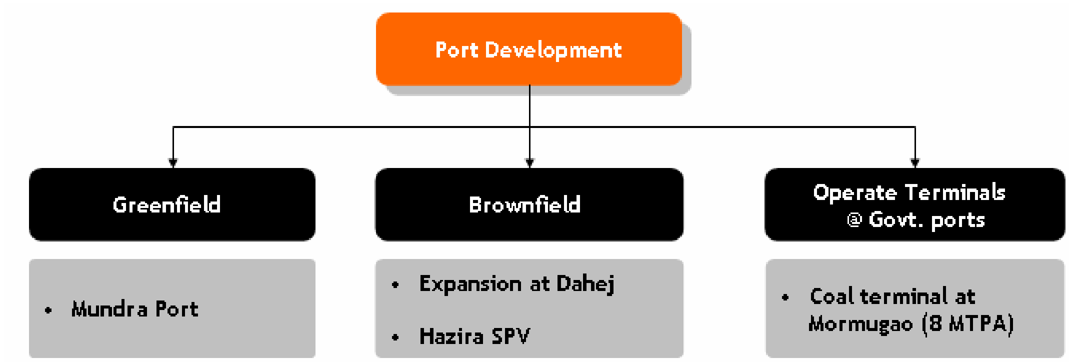
The company has recently won the BOT project for 8 mtpa coal terminal for a period of 30 years, at the Mormugao Port in Goa. This project has a revenue share of 20% (with the port authority) and project cost is Rs. 350 crore. This project is expected to be commissioned by FY12-13. MPSEZ plans to handle 5 mnte of coal cargo in the first year of operation.

MPSEZ has won the project to construct & operate 13 berths at Hazira port for 35 years

Berths awarded at Hazira Port

MPSEZ has been awarded the Letter of Intent (LoI) for construction and operation of 13 berths (bulk, break bulk, liquid cargo, and containers) at the Hazira Port for a period of 35 years. Hazira Port is a 74:26 JV between Shell Gas and Total Gaz of France. Geological study is underway, on the completion of which construction activity may begin as all the necessary statutory approvals are in place. In the first phase the company plans to develop 3 berths, with a capex of ~Rs. 800 crore.

Exhibit 5: Methods of port development in India



Source:- Company

In India, port project can be undertaken in three ways – greenfield project, brownfield project or operating terminal at a Govt. port. MPSEZ has undertaken port activities under all of these channels.

Greenfield project – The best example of a greenfield project, which the company has undertaken would be the Mundra port. The company has transformed the location from a barren piece of land to a modern port, built with state-of-the-art technology. The port has been a runaway success and has been responsible for the overall economic development of the area.

Brownfield project – At present, the company is carrying out brownfield expansion at Dahej port, where it is setting up a solid cargo capable of handling 15 mtpa of cargo. Another brownfield expansion the company plans to undertake is at the Hazira port, where it has been awarded a LoI for construction and operation of 13 berths.

Operate terminals at Govt. ports – Recently, the company won a BOT project for 8 mtpa coal terminal for a period of 30 years, at the Mormugao Port in Goa. This is a remarkable achievement for a private operator, in terms acquiring a project to develop terminal at a major port, who themselves have years of experience of operating ports.

Presence of MPSEZ across the operating chain indicates the expertise it has garnered from the development and operation of Mundra port.

Mundra SEZ to benefit from its proximity to port

Company has constructed 1,000 houses and has plans to build 3,000 residential apartments in near future

Govt, incentives improve export competitiveness and thus attract industrial units

SEZ Plan

MPSEZ has acquired 18,480 acres around the Mundra port and is in various stages of acquiring another 14,000 acres. Thus it plans to develop an SEZ of about ~32,500 acres. The management expects no headwinds to the land acquisition process since most of the land is barren, waste land with no agricultural use. Out of the 18,480 acres acquired land, about ~16,000 acres have been notified. The main advantage of such an SEZ is that it is in very close proximity to the port and thus the industrial units would have significant benefits in terms saving of transportation costs and time. Besides these industrial units will have the availability of cluster of infrastructure namely road, rail, pipeline network, airline connectivity, water and power for their operations. It also provides various Govt. incentives and benefits to industrial units operating in such an SEZ. Thus we feel that it would be relatively easy for the company to lease this land as there are significant benefits that one would derive out of this SEZ.

MPSEZ would act as a master developer and would do land leveling and fencing of the plots. It would create social infrastructure like hospitals, schools, entertainment centers, residential colonies etc. It would also give the plots for creating basic infrastructure like water, power, sewage, telecom facilities etc. Hospitals, schools and residential properties are being constructed for the resident population involved in the activities of the port. The company has completed construction of about 1,000 houses, which have been built for the employees who would be working at the SEZ. Current plan involves a total of 3,000 residential apartments to be built in the near future. As and when the industries come on this SEZ it would automatically develop a customer for the port facilities. Thus we feel that SEZ would play a vital role to ensure steady flow of cargo for the port.

Industries located in SEZs get a host of fiscal advantages over those located outside them. The SEZ Policy of the Government of India lays down a number of financial benefits (fiscal benefits) for manufacturing units in the SEZ. Besides the Government of India benefits, the Gujarat government has also designed a policy that offers added incentives (operational benefits) to the in-SEZ industrial units. This helps to increases export competitiveness and benefits international trade.

Exhibit 6: Benefits for Industrial Units

Fiscal Benefits	Operational Benefits
Direct Tax Benefits - Income Tax	Single Window Clearance for statutory requirements
100% exemption for the first 5 years	Waiver of routine Customs examination of imports and exports
50% exemption for the 6th to 10th (next 5) years	Clearance of Export consignments on self-certification
50% exemption on the ploughed back profits, for an additional 5 years, after ten years	100% FDI permitted through the automatic approval route except the negative list
Exemption from Minimum Alternate Tax	Freedom to realize and repatriate export proceeds within 12 months
Indirect Tax Benefits - exemption in all taxes including Excise Duty, Custom Duty, Service Tax, Value Added Tax (VAT), Stamp Duty / Lease Tax	No limit on quantum of DTA sales
Domestic Tariff Area (DTA) supplier is eligible for export benefits on SEZ sales making the sourcing cost competitive.	Foreign investments allowed for items generally reserved for the Small Scale sector
External Commercial Borrowings upto US $ 500 million without any specific approvals. Cost competitive financing can be availed from Offshore Banking Units (OBUs).	Contract manufacturing permitted with units outside the SEZ or in other SEZs

Logistics provides strong synergies to the ports operations in terms of forward integration

Logistics

Competition among ports is increasing due to development of inter-modal routes. Private transport companies are integrating their services across modes and even clients are looking for one-stop-solution for their consignments (shippers, port operators, CHAs, transport, etc). The integrated solutions available at ports have become the unique selling proposition in attracting business. MPSEZ operates its logistics business through its 100% subsidiary, ALL. Logistics business provides strong synergies to its ports operations in terms of forward integration and helps the company provide end-to-end logistics solutions.

Adani logistics envisages to operate 20 rakes and 14 ICDs

Adani Logistics

ALL operates in two business segments – rail and ICDs. ALL has a license to run private container trains. It has category one license which entitles it to run both domestic and EXIM trains on any rail route in India. Thus it can operate on profitable JNPT - Delhi route and the fast developing Delhi - Mundra route. It has plans to procure 20 rakes for which the orders have already been placed with suppliers. ALL commenced its operation in 2007 and as on date it has 6 rakes operational. The estimated project cost comprising of procurement of rakes and license fees is ~Rs. 320 crore, which is expected to be funded through a debt-to-equity of 2.3:1. The total equity commitment in the project is ~Rs. 98 crore of which MPSEZ has already invested ~Rs. 75 crore. ALL is also developing 14 rail linked ICDs to handle international and domestic cargo in terms of containers. In phase one, ICDs would be built at seven locations in NCR, Punjab and Rajasthan. In phase two, ICDs would be built at seven other locations in important cargo centers across India. The total cost of the project is Rs. ~940 crore which will be funded by debt-to-equity of 2:1. MPSEZ would be making an equity investment of ~Rs. 300 crore of which it has already invested ~Rs. 120 crore and will invest the remaining over the next 2 years. It would build a private railway sidings, bonded and non bonded warehouses with complete customs facilities. These would ensure seamless transfer of cargo from port to the hinterland with value added facilities like stuffing, destuffing, custom clearance, warehousing, palletization etc. It has two operational ICDs, at Patli and Kishnagarh. Other locations in phase one are Palwal, Chawapail, Kila, Raipur, and Ludhiana. The next development phase would involve development of additional ICDs in important cargo centers such as Ahmedabad, Mumbai, Kolkata, Chennai, Bangalore, Coimbatore and Nagpur. Going forward we expect these ICDs to increase container volumes at Mundra Port. ALL, with its rail and the ICD business is expected to have strong synergies with MPSEZ's container terminals.

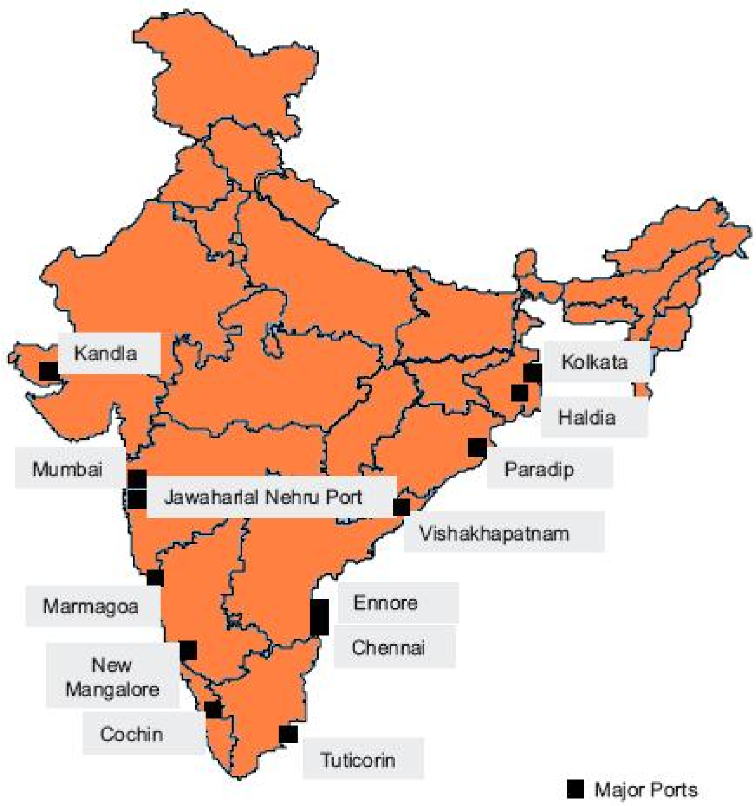
There are 13 major ports & 200 non major ports in India

Major ports are under jurisdiction of the GoI where as minor ports are under respective State Governments

Indian Ports Industry

India has a long coastline spanning 7,517 kms, which is one of the longest in the world. It is serviced by 13 major ports and ~200 non-major ports. Major ports handle ~72% of all the seaborne cargo traffic, while the rest (~28%) is handled by non-major (minor) ports. The classification of major and minor ports does not have any association with the traffic volumes served by these ports. In fact, some of the minor ports handle volumes which are comparable with those handled by some of the major ports. The classification of Indian ports into major and minor has an administrative significance. Major Ports are under the jurisdiction of the Government of India (GoI), while the minor ports (including private ports) are controlled by the respective State Governments (through their maritime boards) on the basis of the broad guidelines of the GoI.

Exhibit 7: Major ports in India



Source: KRC Research

Major ports are losing competitive edge

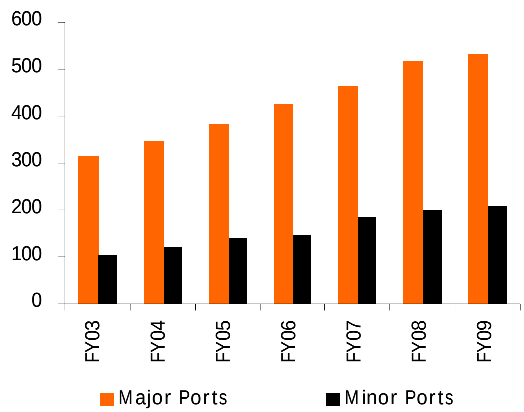
Until the 1990s, the Indian port sector was dominated by ports owned by the GoI. During that period, GoI's policy formulation for the port sector was driven by the principle of self-sufficiency and public sector dominance. While this policy enabled the major ports to build up a dominant share of the cargo throughput and also report reasonable financial performance, service levels began to decline because of several legacy issues, high level of berth occupancy, inadequate investments in handling equipment, overstaffing and low labor productivity and high vessel related charges. These are reflected in the major ports' performance metrics — such as average turnaround time, average pre-berthing time, average output per ship-berth-day, and dwell time of cargo—which remain highly un-competitive as compared to international standards. However, as result of the liberalization measures being initiated in the port sector from the mid-1990s and proactive policies being adopted by certain States like Gujarat, the share of the private sector in the port sector development has been increasing gradually over the years.

Total cargo handled at Indian ports for 2008-09 stands at 738 mnte

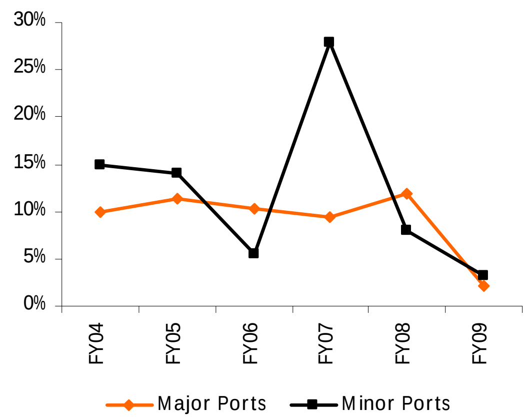
72% of total capacity is handled by major ports, balance 28% by minor ports

As on March 31, 2009, Indian ports had a capacity to handle 786 mtpa. The total cargo traffic carried in 2008-09 was around 738.1 mnte, of which 530.4 mnte (72%) was handled by major ports while the remaining 208 mnte (28%) was handled by minor ports. The total cargo traffic handled by the 13 major ports during 1HFY10 has been 268.0 mnte as against 261.7 mnte in the corresponding period last fiscal. Over the last six years, cargo traffic at major and minor ports has grown at a CAGR of 9.2% and 12.0%, respectively. The total traffic has grown at a CAGR of 12% during the same period.

Cargo Traffic (mnte)



Cargo growth (%)

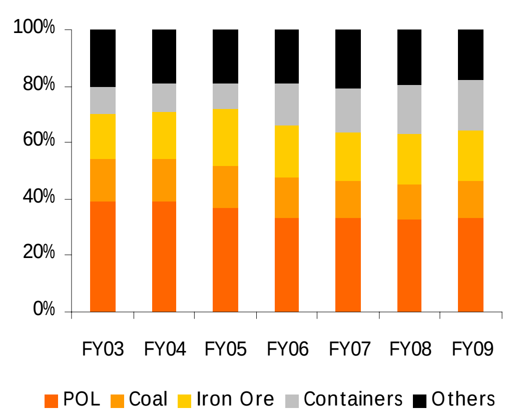


Source: IPA

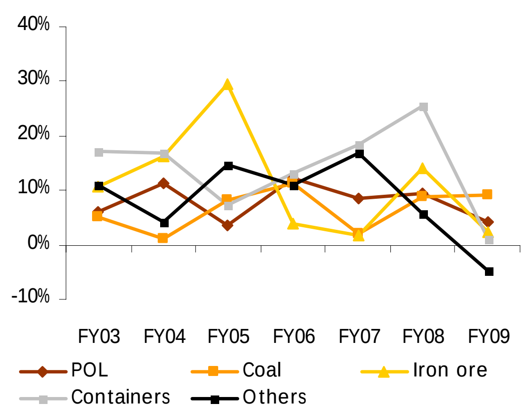
Composition of containers in the overall cargo has been steadily increasing

In FY09, most of this traffic was in the form of petroleum products (33%) followed by iron ore (17.7%), containers (17.5%) and coal (13.4%). Over the past six years, container cargo has registered the highest growth, clocking a CAGR of 13.4% followed by 10.9% for iron ore. The contribution of the container cargo has also increased from 10% in FY03 to 17.5% in FY09, indicating towards increased containerization of cargo in India. The traffic composition is similar to the global pattern, wherein petroleum products account for more than one-thirds of the total traffic.

Cargo Composition (%)



Cargo growth (%)

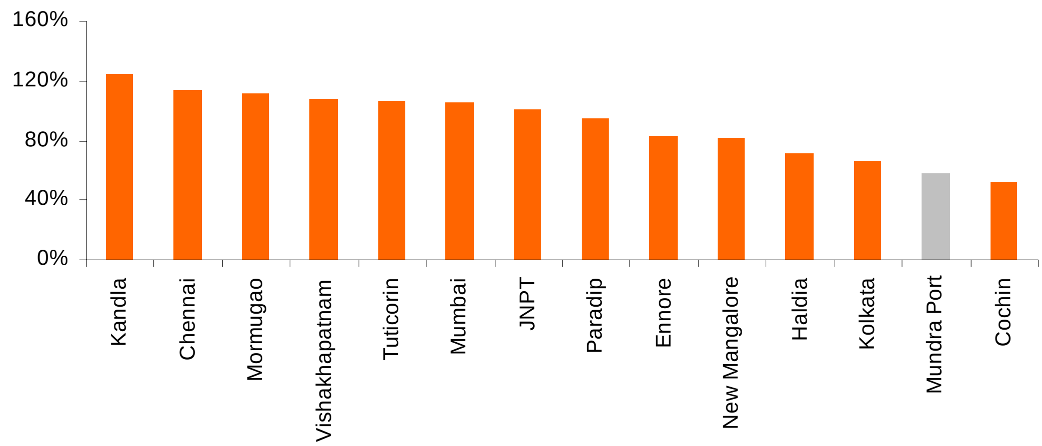


Source: IPA

A sharp increase in cargo volumes driven by the overall growth of the economy led to congestion at the Indian ports as capacity additions could not keep pace with demand. As a result, presently most of the major ports are operating at more than 90% utilization levels and have been operating at over 85% level for the last 5 years.

Mundra has unutilized capacity as compared to most of the major ports

Exhibit 8: Capacity Utilization at Major Ports



Source: IPA, KRC Research

Private ports have modernized cargo handling facilities and are more operationally efficient. This saves on time, which is a distinct advantage. Private managements focus on marketing products to attract more clients. Private ports also offer competitive rates to attract customers. Incremental traffic is thus getting diverted to these ports.

Besides the need for improving the operational efficiency in major ports, the other reason for encouraging private sector participation in ports is the scale of investments required. To facilitate investments, the GoI has announced new sets of Public-Private-Partnership (PPP) guidelines. Further, in order to attract foreign investors, the Foreign Direct Investment (FDI) policy has been progressively liberalized, with 100% participation now being allowed in the port sector. As a result, several foreign investors, such as DP World, PSA Corporation of Singapore, Portia Management Services of UK, IQ Martrade GmbH of Germany, and AP Moller-Maersk of Netherlands, have invested in the domestic ports sector. Besides, a number of private sector groups, such as Larsen & Toubro, Gammon India, Sical Logistics, ABG, JSW and JM Baxi, have also invested in terminals at the major ports.

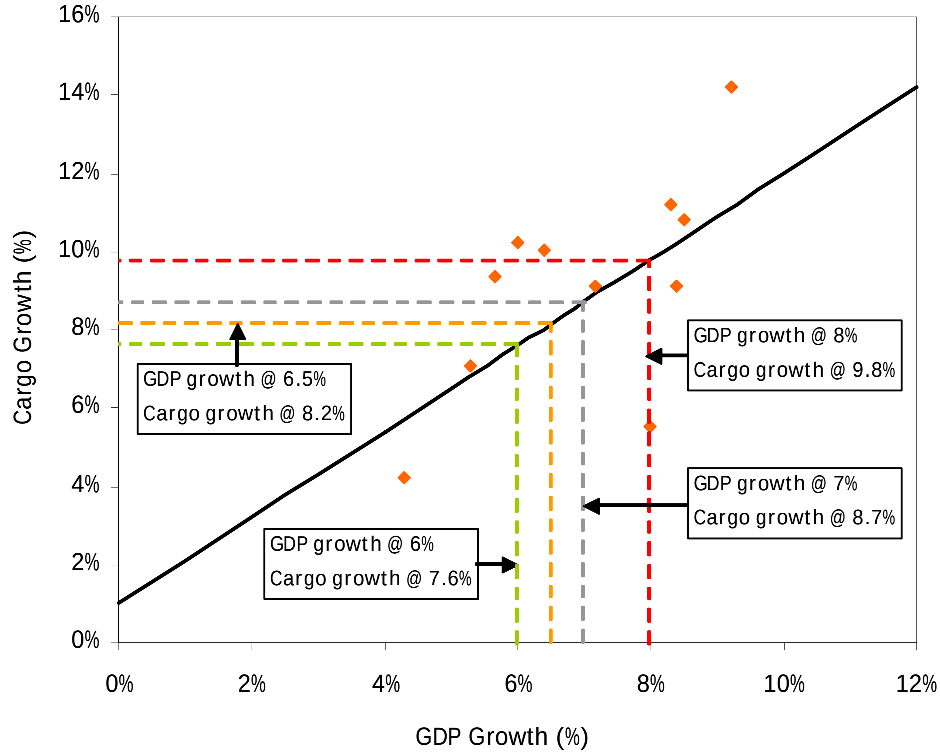
Capacity addition target for XI Five Year Plan to be missed

Slowdown in the capacity addition of major ports to benefit minor ports

At the beginning of XI Five Year Plan (FYP), National Maritime Development Programme (NMDP) had envisaged a plan to increase the cargo handling capacity of Major Ports to 1,000 mnte by 2011-12. The total cost of these projects was estimated at Rs. ~56,000 crore. However, GoI is most likely to miss this target by a huge margin. Instead the major ports are likely to have a capacity to handle 743 mnte of cargo at the end of FYP XI (March 31, 2012). Investment requirements in the FYP XI, which were estimated to be around ~Rs. 56,000 crore are likely to drop 61% to Rs. 22,000 crore. India's economic growth slowed to 6.7% in the year ended March 2009 as the global recession damped world trade. However, on account of the strong recovery shown by the Indian economy coupled with GoI setting aggressive GDP growth rate projections for the next two years, we believe the trade environment in India is bound to improve. Thus, the slowdown in the capacity addition of major ports, presents significant opportunity for minor ports, which already have idle capacity to attract the incremental cargo. Moreover, the private sector entities are trying to keep up with their ambitious plans to raise capacity to around 500 mnte from the level of 230 mnte as of March 31, 2009.

GDP growth has a strong correlation with cargo traffic growth

Exhibit 9: Cargo growth projections at various GDP growth rates

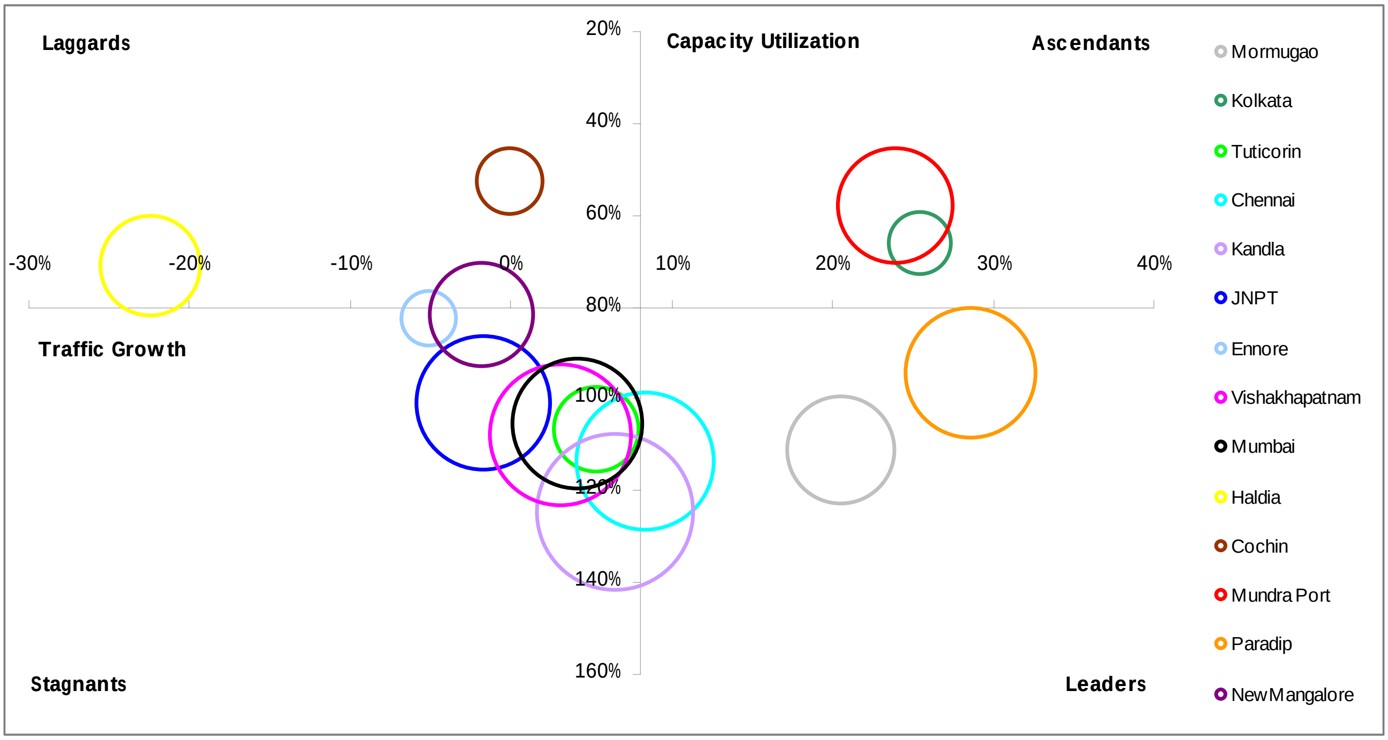


Source: IPA, KRC Research

We estimate share of minor ports in the overall traffic to increase from the existing 28% to 31% by FY14

In the above chart we have derived a linear relationship between GDP growth and cargo growth, which have shown a strong correlation in the past. We have considered past eleven years data to arrive at the linear equation, as we believe the recent trend will give us a better picture of the near term growth than the data of much prior years. In our base case scenario, we estimate GDP to grow at a CAGR of 6.5% over the next five years. Based on our GDP growth estimates and the linear relationship between the GDP growth and cargo growth, we project the cargo to grow at a CAGR of 8.2% over the next five years. We estimate the cargo traffic to reach about 1,095 mnte by FY14. Further, we estimate the share of minor ports in the overall cargo traffic would increase from the current levels of 28% to 31% by FY14. Thus, based on our projections minor ports are likely to handle cargo traffic of about 339 mnte in FY14, registering a CAGR of 10.3%. Major ports are likely to handle cargo traffic of 755 mnte, registering a CAGR of 7.3%.

Exhibit 10: Competitive positioning of various ports



Source: IPA, KRC Research
Note: Cargo growth and capacity utilization in the chart is for YTDFY10

To understand the competitive positioning of various major ports (along with Mundra Port), we have categorized them based on the traffic growth registered (YTDFY10) and their capacity utilization (YTDFY10, annualized). We have four quadrants for which the crossover points are – Capacity Utilization at 80% and Traffic Growth at 8.0%. We believe due to the capacity constraints faced in the medium term, Indian ports would continue to operate at high utilization and thus we have assumed the average utilization of 80% as compared to the global average of 70-75%. Over the next five years we are expecting the cargo traffic to grow at a CAGR of 8.2%. We thus estimate the average traffic growth of ~8.0% for the Indian ports. Based on this, we classify the ports into four quadrants – *Leaders (High Cargo Growth and High Utilization), Ascendants (High Cargo Growth and Low Utilization), Stagnants (Low Cargo Growth and High Utilization) and Laggards (Low Cargo Growth and Low Utilization).*

Laggards are the ports where the capacity is not being utilized efficiently due to lack of traffic growth and thus have a negative outlook going forward. Stagnants include the ports which are facing lack of cargo growth due to capacity constraints and thus are expected to show muted growth in the mid-term. Leaders consist of ports which are leading the pack in terms of efficient utilization to support high cargo traffic. Lastly, Ascendants are the ports, which have the capacity so as to witness a continued traffic growth that they are already seeing. Currently, there are two ports that lie in the Ascendants quadrant – Mundra port and Kolkata port. Thus, we believe these two ports are better placed (than their peers) to capitalize on the strong cargo growth that we are likely to witness in the mid-term. Further, Mundra is undergoing a huge capacity expansion, which would more than double its capacity to 170 mtpa by FY12 from the current level of 80 mtpa. Such a humongous capacity addition would place Mundra port ahead of some of the major ports. Moreover, Mundra port would continue to attract incremental cargo on the west coast due to its strategic advantages and operational efficiencies.

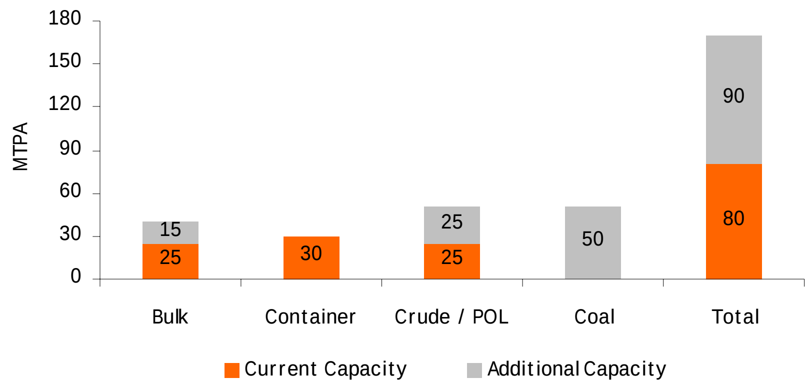
Investment Rationale

Capacity to more than double in the next two years

Mundra Port – entering the big league

The company plans to more than double its capacity from the existing 80 mtpa to 170 mtpa in the next two years. The additional capacity is in the form of dedicated coal terminal (50 mtpa), second SPM terminal (25 mtpa) and bulk terminal at Dahej port (15 mtpa). Such a humongous capacity addition would place Mundra port ahead of some of the major ports.

Capacity expansion



Source: Company data

Note: The above capacity expansion includes 15 mtpa bulk cargo capacity at Dahej

Mundra port to become the largest port in terms of handling capacity and one of the largest players in terms of cargo handled

Based of the visible capacity expansion of some of the major ports, we believe that Mundra port with a handling capacity of 155 mnte (excluding Dahej) is slated to become the largest standalone port in terms of the handling capacity by FY12-13. Moreover, based on our projections, Mundra port would handle more than 100 mtpa by FY14, which would make it one of the largest standalone ports in terms of the cargo handled (the other ports that may handle similar cargo traffic would be Kandla, JNPT, Vizag and Paradip). We thus believe, MPSEZ has created a launch pad for itself in terms of modern infrastructure, reputed clientele and strong capacity build-up, which would make it a dominant player in the Indian port industry.

Capacity expansion at major ports

Port	As of FY09	FY10	FY11	FY12	FY13	FY14	By FY14
Kandla	64.0	-	20.0	8.0	-	-	92.0
Paradip	58.0	-	-	20.0	-	-	78.0
Vizag	61.2	15.0	-	3.3	-	-	79.5
Ennore	13.0	20.0	18.0	-	-	-	51.0
Tuticorin	22.0	-	7.2	10.0	-	-	39.2
Mormugao	34.0	-	-	7.0	-	-	41.0
Mumbai	51.0	-	-	7.2	-	-	58.2
JNPT	58.0	-	-	-	-	60.0	118.0
Kolkata	19.0	-	-	-	14.4	-	33.4
Mundra	80.0	-	50.0	25.0	-	-	155.0

Source: Company data, NMDP, Port websites, KRC Research

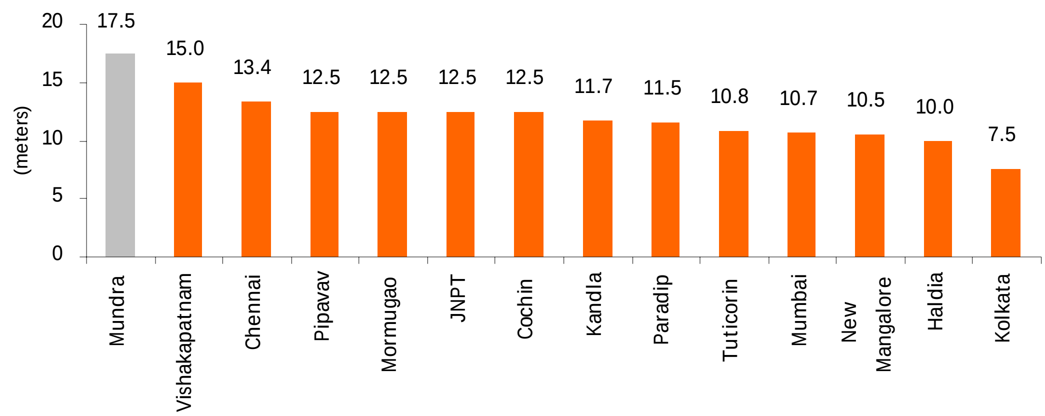
Strategic advantages to Mundra Port

Deep draft

Mundra port enjoys one of the deepest drafts among the Indian ports

Mundra has one of the deepest drafts of about 17.5 meters among the Indian ports, which enables large vessels like Panamax, Capesize and VLCCs to dock alongside its berth. With a draft varying from 15-32 meters at different points from the port, MPSEZ is able to cater to larger ships that are not serviceable at other ports. For shipping lines, this means economies of scale and hence reduced costs.

Exhibit 11: Drafts at various ports



Source: Company data, IPA, KRC Research

Tankers	Draft (m)	Minimum DWT
Panamax	12	60,000
Aframax	14	80,000
Suezmax	16	120,000
VLCC	20	200,000
ULCC	20-25	320,000

Bulk Carriers	Draft (m)	Minimum DWT
Handysize	10	10,000
Supramax	12	52,000
Panamax	13-14	60,000
Capesize	17	100,000
Very Large Bulk Carriers	22-23	200,000

Source: KRC Research

Lower turnaround time

Mundra port's turnaround time is significantly lower than its peers on the west coast

Major ports score very low on operational parameters like average pre-berthing time and average turnaround time due to various factors like outdated infrastructure, inefficient cargo handling systems, lack of extension possibilities. The average turnaround time for Indian Ports is ~3.9 days vs. 13-14 hours for container ships at Hong Kong ports. However, new ports like Mundra have modern equipments which leads to operational efficiencies. As a result, the turnaround time for containers at Mundra is about 0.9 days much lower than its peers on the west coast.

Exhibit 12: Turnaround time at various ports

Port	Average Turnaround Time (in days)		
	Bulk Cargo	Liquid Cargo	Container Cargo
Mundra Port	3.0	NA	0.9
JNPT	4.6	1.8	1.9
Mumbai Port	4.9	2.1	1.3
Kandla	5.6	1.9	1.2

Source: IPA

Mundra port's hinterland accounts for ~70% of India's container traffic

Rich hinterland

MPSEZ's hinterland consists of the most industrialized states in India such as Gujarat, Rajasthan, Punjab, Haryana, Delhi, parts of Uttar Pradesh (UP) and to an extent Maharashtra and Himachal Pradesh. Importantly, the GDP of this hinterland has been outperforming the national average over the past many years. Its hinterland accounts for nearly 70% of India's container traffic.

Mundra-Delhi route is shorter by 319 kms as compared to Mumbai-Delhi route

Connectivity

MPSEZ rail connectivity with key northern ICDs is better as compared to those of competing ports such as JNPT or Mumbai. The Mundra-Delhi line is shorter by 319 kms as compared to the congested Mumbai-Delhi route. Further, with the dedicated rail corridor implementation expected in phases beginning FY15-16, MPSEZ will be connected to the same through hub and spoke network.

Source: Company data

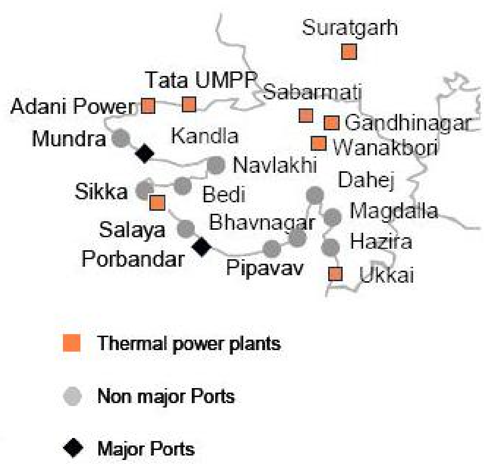
Coal demand in Gujarat to triple in the next 4 years

Coal to be a major driver of cargo

The FYP XI targets capacity addition of 78,577 MW over FY08-12E. Specifically 52,905 MW is expected from coal-based power plants. As of now the planned capacity addition till 2012 in Gujarat is estimated to be ~8,200 MW, which will increase its capacity from the current levels of ~11,000 MW to ~19,200 MW by 2012. Power generation companies like TATA Power, Adani Power, Essar Power, Torrent Power, GSPC and Visa Power will play a major role in expansion of the power generation capacity in Gujarat. Huge investments lined up in coal based power plants in Gujarat are likely to propel coal imports by more than 200 % over the next 4 years. Gujarat is likely to import over ~50 mnte of coal annually by 2013-14 through its ports as against current imports of about 16 mnte.

Exhibit 13: Thermal Power plants in Gujarat

Power plants and ports in Gujarat



Upcoming Power Plants in Gujarat

Location	Capacity (MW)	Operator / Developer
Mundra (Adani)	4,620	Adani Power
Mundra (TATA)	4,000	Tata Power
Salaya	1,200	Essar Power
Sabarmati	400	Torrent Power
Ukkai	500	GSEC

Source: GMB

Mundra to have the largest coal terminal

MPSEZ is setting up India's largest coal terminal of 50 mtpa at ~2.5kms from the main port, at a cost of Rs. 2,000 crore and comprising of berths capable of berthing two vessels simultaneously. The planned depth is ~22 meters in front of the berths, designed for vessels with a capacity of 220,000 DWT. Mundra port is expected to handle ~31 mtpa of coal cargo mainly on account of its agreements with Adani Power (4620 MW) and Tata Power (4,000 MW) by FY15. We estimate MPSEZ to handle another ~9 mtpa of coal cargo from the power plants that are expected to come up in the western region by FY16.

~31 mtpa of assured coal volumes from Adani Power and Tata Power

Exhibit 14: Projection of coal volumes handled

(mn Tonnes)	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E
Adani Power	4.6	8.4	16.3	16.3	16.3	16.3	16.3
Tata Power	0.0	3.0	7.0	11.7	15.0	15.0	15.0
Assured Coal Imports	4.6	11.5	23.3	28.0	31.3	31.3	31.3
Other Power Projects	0.0	1.5	3.2	5.8	8.2	9.0	9.0
Total Coal Cargo	4.6	13.0	26.5	33.8	39.5	40.3	40.3
Coal Terminal Capacity	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Capacity Utilization (%)	9.2%	25.9%	53.0%	67.5%	79.0%	80.6%	80.6%

Source: KRC Research

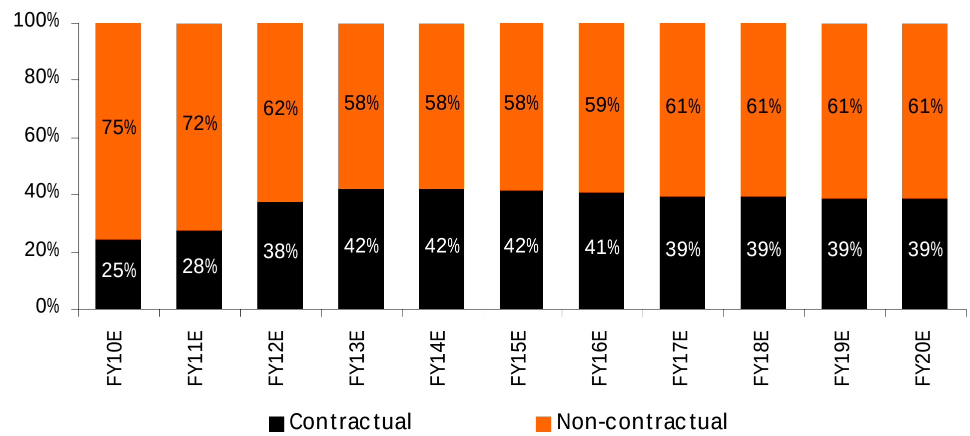
Long-term contracts entered for container, crude, coal and cars

Long-term contracts to provide sustainable cash flows

MPSEZ has already entered into long-term contracts for bulk of the projected traffic from coal and POL/crude. About 31 mtpa of coal traffic has been tied up with the imported coal-based power plants coming up in Mundra (4,000 MW of Tata Power and 4,620 MW of Adani Power). Coal traffic is likely to give a major boost mainly on account of these power plants set to come up in Gujarat. Nearly 16 mtpa (~32% of the capacity post expansion) of POL/crude traffic has also been contracted with the refinery majors HPCL and IOC. Further, IOC plans to expand its capacity at Haldia by 1.5 mnte each in FY10 and FY12, as well as at Panipat by 1.2 mnte by FY12. The pipeline, too, is being expanded to 9 mnte from 6 mnte to meet additional demand. We believe that given the surplus capacity available at MPSEZ, strong potential upside exists for traffic movement of POL/crude emerging from new refining capacity being set up in the North and West. MPSEZ has entered into a sub-concession agreement with MICT for the operation of CT1. The contract entails that MICT pay the port a royalty of 10% of gross operating income of CT1. MPSEZ has entered into a MoU with Maruti Suzuki for exporting cars. Maruti Suzuki commenced its export operations in January 2009, and in the eleven months of operations the company has already exported about 100,000 cars through Mundra port. Maruti Suzuki is expecting to export about 200,000 cars by FY11. The capacity of car exports at Mundra is quite scalable and can handle about 450,000 cars per annum. The company is considering setting up a world-class, dedicated automobile terminal with Nippon Yusen Kaisha of Japan, a global auto terminal operator, and Wallenius Wilhelmsen Lines of Norway.

Long-term contracts to account for 39% of the revenue

Exhibit 15: Contractual and Non-contractual Revenue Split



Source: KRC Research

In the above chart we have shown the contribution of the long-term contracts to the overall revenue of the company over the next few years. As we can see the long-term contracts continue to contribute significantly to the overall top-line of the company, mainly driven by the coal contracts with Adani Power and Tata Power. We have included the contracts for which MPSEZ has entered into a MoU with the respective clients. Based on the visible capacity expansion and the long-term contracts we estimate the long-term contracts to contribute ~39% to the overall revenue of the company on an ongoing basis. Due to the "take-or-pay" nature of these long-term contracts, they provide cushion to the company's top-line amid slowdown. Further contracts with respect to the expansion of HPCL and IOC, additional coal contracts for Adani Power's Dahej and Kawai projects and any pick up in the car exports would further increase the contribution of such long-term contracts.

SEZ – to unlock huge potential

Ports to act as a strong anchor for the SEZ

MPSEZ is a unique blend of a coast based SEZ with an integrated port – both are extremely complementary business models. These two distinct businesses offer a significant advantage in terms of better occupancy of SEZ and committed cargo to the port. Globally, successful ports have led to strong industrialization of nearby areas, which in turn feeds further traffic into the port. Notable examples are the Port of Rotterdam, Hamburger and Shanghai. MPSEZ, too, is likely to benefit from the success of Mundra port, which in itself acts as a strong anchor for the development of industrialization at the SEZ and vice versa. For example, Thermax has set up its industrial unit in Mundra SEZ. It uses Mundra port for both importing its project cargo and for exporting its finished goods. MPSEZ has already allocated nearly 2,000 acres to co-developers and industrial units. The company has leased ~700 acres of land to Adani Power Ltd and 35 acres of land to Maruti Ltd. The company has also leased land to companies like Renuka Agri-Venture Ltd. They have also allotted land for Textile Parks, etc. Agreements are usually structured as a higher upfront lease payment and lower annual rent over a period of time. The recent transactions have been done at Rs. 65-70 per sq. ft. upfront lease and ~Rs. 6 per sq. ft. as annual rentals, which is quite lucrative considering their land acquisition cost is ~Rs. 2.5 per sq. ft.

SEZ land acquired at very low cost

Exhibit 16: Details of the land bank

Planned Land Bank (acres)	32,500
Land acquired (acres)	18,480
Land notified as SEZ (acres)	16,000
Land notified as SEZ (mn sq. ft.)	697.0
Total acquisition cost for the planned land bank (Rs. crore)	480.0
Total acquisition cost for the acquired land bank (Rs. crore)	200.0
Avg. Land acquisition cost for planned land (Rs. / sq. ft.)	3.4
Avg. Land acquisition cost for acquired land (Rs. / sq. ft.)	2.5

Source: Company data

As mentioned earlier, the company has so far leased out ~2,000 acres of land. In the second half of FY09, the off-take of SEZ land had slowed down mainly on account of the slowdown in the overall economy. However, over the past six months the economy has shown signs of revival and industrial growth seems to be back on track. In H1FY10, the company leased out ~140 acres of land as compared to 157 acres leased in the whole of FY09. We believe the commissioning of the two power plants in Mundra would lead to pick-up in the industrial activity in and around Mundra, which would further expedite the off take of SEZ land.

Huge capacity expansion over the next two years

Capacity expansion to drive next leg of growth

MPSEZ has created a launch pad for itself in terms of modern infrastructure and reputed clientele, and is ready to take the big leap. We believe Mundra Port due its unutilized capacity and strategic advantages is well positioned to capitalize on the cargo growth that we are likely to witness particularly in the western zone. Nevertheless, the company is further investing in building assets (coal terminal, dedicated container terminals for car exports, bulk cargo port at Dahej, ICDs at new locations, and additional rakes at Adani Logistics). These new initiatives as and when they become operational would further trigger growth.

Exhibit 17: Capacity expansion plan

Current Capacity	(mtpa)	Additional Capacity	(mtpa)
Bulk Cargo		**Bulk Cargo**	
Terminal I	12.5	Dahej Port Terminal	15
Terminal II	12.5		
Containers		**Coal**	
Container Terminal I (CT I)	15	Dedicated Coal Terminal	50
Container Terminal II (CT II)	15		
Crude / POL		**Crude / POL**	
Single Point Mooring I (SPM I)	25	Single Point Mooring II (SPM II)	25
Cars			
Dedicated Car Terminal (No of Cars per annum)	400,000		
Rakes (no.s)	6	Rakes (no.s)	20
ICD (no.s)	2	ICD (no.s)	14

Source: Company data, KRC Research

Capacity to more than double to 170 mtpa by FY12

At present, Mundra port has handling capacity of 80 mtpa. Post expansion, the handling capacity of Mundra Port would more than double to 170 mtpa by FY12. Such a humongous capacity addition would place Mundra port ahead of some of the major ports. Further, once the capacity expansion at ALL is achieved, the company would be one of the leading multi-modal operator providing end-to-end logistics solutions. Such a huge capacity, built with world-class infrastructure, coupled with operating efficiencies and end-to-end logistics solution, would most likely turn Mundra port into a favored location for offloading/unloading cargo particularly on the west coast.

New initiatives towards expansion

Since the company has successfully demonstrated its abilities to efficiently run a port, MPSEZ is now on the look out for owning, managing and operating other ports across the country. Following are some of its recent initiatives:-

- MPSEZ has been awarded the Letter of Intent (LoI) for construction and operation of 13 berths (bulk, break bulk, liquid cargo, and containers) at the Hazira Port for a period of 35 years. , Hazira Port is a 74:26 JV between Shell Gas and Total Gaz of France. The company is soon expected to commence construction activity as all the necessary statutory approvals are in place. In the first phase the company plans to develop 3 berths, which would incur a capex of ~Rs 800 crore.
- The company has recently won the BOT project for 8 mtpa coal terminal for a period of 30 years, at the Mormugao Port in Goa. This project has a revenue share of 20% (with the port authority) and project cost is Rs. 350 crore. This project is expected to be commissioned by FY12-13. MPSEZ plans to handle 5 mnte of coal cargo in the first year of operation.
- MPSEZ is also looking for opportunities on the eastern coast of India as well as in South East Asia and Africa. Based on news reports, some of the opportunities for which the company has bid include –
  - Chennai Port Trust is planning to award its 5 mn TEU container terminal, worth Rs. 3,700 crore, by March 2010. MPSEZ is one of the nine bidders.
  - The Orissa government is planning a port in Barunei Muhan in Kendarapara district with proposed investment of Rs. 5,000 crore. MPSEZ is one of the five bidders for this project.
  - MPSEZ is in discussions with the Vietnam government to set up a port in that country catering to iron ore and coal.

As and when it is able to own, manage or operate any other port/terminal it would add to the overall profitability of the company going forward.

Management Profile

Name	Designation	Details
Mr. Gautam Adani	Chairman and MD	Mr. Adani is the Founder, Chairman and Managing Director of Adani Group has been associated with MPSEZ since inception as a promoter director. Under his leadership, Adani Group has emerged as a diversified conglomerate with interests in international trading, infrastructure development, power generation and distribution, development of special economic zones, gas distribution, oil and gas exploration and production, coal mining and shipping. He has been instrumental in the diversification of the Adani Group into the port and logistics sector.
Mr. Rajesh Adani	Non Executive Director	He brings his vast experience in a variety of management functions ranging from Finance, Marketing and business development, Legal aspects of business and organization building for the development of the MPSEZ. He has a Bachelor of Commerce (B.Com) degree from the Gujarat University.
Mr. Malay Mahadevia	Executive Director	Dr. Malay Mahadevia, is a Whole Time Director (WTD) of MPSEZL with effect from 20th May, 2009. He has contributed from grass roots to organization development with his rich experience and dedicated work with organization and had played a vital role in implementation of all infrastructure projects along with Mundra Port project. He is M.D.S. from Nair Hospital Dental College, Mumbai of 1989 batch and is gold medalist. Also recently in the year 2008, he has completed his Ph.D. in Marine Ecology. He joined Corporate Sector in 1992 with explicit mandate to assess viability of building a captive berth / Jetty for exports. Selected Mundra as a final location for developing a captive jetty, primarily for salt exports. Worked on developing the business model for the port from ground zero.
Mr. K. N. Venkatasubramanian	Independent director	He has been working as a project consultant, after superannuating as Chairman of Indian Oil Corporation Ltd. He has more than 45 years of experience in the chemical, petrochemical, engineering and refining industry and has worked with international oil companies like Standard Vaccum, Exxon and Philips Petroleum. He is a chemical engineering graduate from University of Madras, and holds a Masters degree in Chemical Engineering from the Indian Institute of Technology (IIT), Kharagpur.
Mr. Surendra Kumar Tuteja	Independent director	He is a former Indian Administrative Service official. Belonging to the Punjab cadre, he has served the Government of India and the Government of Punjab in various capacities. He is presently the Chairman of Central Warehousing Corporation, Swaraj Mazda Limited and Abhishek Industries Limited. He holds a Masters degree in Commerce from the Shriram College of Commerce, University of Delhi and is a member of the Institute of Company Secretaries of India.
Mr. Daniel Trevelyn Joseph	Independent director	He is a former Indian Administrative Service official belonging to the Maharashtra cadre and was elected as President at the International Maritime Organization's Plenary Conference in February 2004. In June 2007, he was appointed as the Chairman of Pay Revision Committee for Class I and Class II officers in Major Port Trusts and Dock Labor Boards of India. He holds a Masters degree in English Literature and Economics from the University of Madras and University of Manchester, respectively.

Mr B. Ravi – He joined MPSEZ as a CFO since June 2009. He has about 23 years of experience in the field of finance, accounting, secretarial, legal, business management, strategy & planning, debt restructuring and M&A. Prior to joining MPSEZ, he was working with Senmawang Engineering & Constructions Pvt Ltd. He is a qualified CA and CS.

Key Concerns

- MPSEZ's various projects like SEZ, coal terminal, solid cargo port terminal at Dahej, and venture into container train business and ICDs are capital intensive and long gestation projects. Any delay in ramping up of the capacities of the port would lead to marginal growth for the company, going forward.

- MPSEZ has a concession agreement with Gujarat Maritime Board (GMB) for operating Mundra port for 30 years (till February 2031). Any cancellation, early termination and non renewal of this concession would impact the business of the company.

- Significant capacities are expected to come up on the west coast of India, catering to the container traffic, which may lead to oversupply in the region and in turn adversely affect MPSEZ's container terminal utilization.

- MPSEZ is eligible to avail of tax benefits under section 80IAB. Any ruling by the tax authorities to the contrary would negatively impact the earnings of MPSEZ.

Valuation

Mundra Port

We have valued Mundra Port based on DCF methodology. We have projected the cash flows until FY31 (assuming the end of concession period) and we have taken the terminal value as the book value of its assets. We have not included the contribution from the Dahej Port in our projections, as the port is yet to start its operations (we have valued Dahej Port separately based on P/B). We have also not included contribution of ALL in our projections, as these businesses are yet to pick up pace (we have valued them separately based on P/B).

Exhibit 18: Mundra Port - DCF Valuation

Rs. in Crores	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E
Net Income	881.9	1,203.0	1,503.9	1,765.3	2,031.7	2,201.3	2,276.4	2,404.3	2,486.7	2,585.5
Add: Post-tax Interest Expenses	132.7	154.0	121.8	90.9	63.2	44.0	30.6	21.3	14.8	10.4
Add: Dep & Amortization	179.5	190.0	195.4	199.0	201.7	203.5	205.0	206.2	207.4	208.6
NOPLAT	1,194.1	1,547.0	1,821.1	2,055.1	2,296.6	2,448.8	2,512.0	2,631.8	2,708.9	2,804.5
Change in Working Capital	(27.7)	(59.0)	(25.9)	(1.8)	(31.9)	(27.7)	(41.0)	(49.9)	(49.8)	(51.9)
Capital Expenditure	(1,050.0)	(350.0)	(180.0)	(120.0)	(90.0)	(60.0)	(50.0)	(40.0)	(40.0)	(40.0)
Free Cash Flows to Firm	116.4	1,138.0	1,615.2	1,933.3	2,174.7	2,361.1	2,421.1	2,541.9	2,619.1	2,712.6
PV of FCFF	105.0	926.9	1,187.1	1,282.3	1,301.8	1,275.5	1,180.3	1,118.4	1,040.0	972.0

WACC	10.8%
PV of Cash Flows (Rs. in crore)	17,758.7
PV of Terminal Value	7,575.1
Enterprise Value (Rs. in crore)	25,333.8
Add: Cash (Rs. in crore)	1,090.0
Less: Total Debt (Rs. in crore)	(2,490.0)
Equity Value (Rs. in crore)	23,933.8
Shares Outstanding (in crore)	40.1
Value per Share (Rs.)	**597.3**

Source: KRC Research

SEZ

We have valued the SEZ business using the NPV valuation methodology. In our projections we have only valued the land bank which the company has already acquired i.e. 18,480 acres. For leasing of industrial land we have assumed upfront lease payment of Rs. 65 per sq. ft. and annual lease payment of Rs. 6 per sq. ft. in FY11. We have assumed commercial leasing to pickup in FY13 and thereafter. For leasing of commercial land we have assumed annual lease payment of Rs. 21 per sq. ft. per month in FY13. We have assumed the lease rate and the development cost to increase 2% annually. Further we have assumed an average duration of 20 years for lease contracts (both for industrial and commercial) and have thus amortized the cost of apportioned land over the same period.

Exhibit 19: SEZ - NPV Valuation

Rs. in Crores	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E
EBITDA (post Taxes)	106.4	127.9	163.4	204.4	254.2	310.2	382.3	461.3	557.5	657.9
Capex	(1.6)	(2.6)	(4.9)	(8.2)	(12.7)	(18.6)	(22.9)	(115.3)	(167.2)	(197.4)
Change in WC	-	-	-	-	-	-	-	-	-	-
Change in net borrowing	-	-	-	-	-	-	-	-	-	-
FCFE	-	-	-	-	-	-	-	-	-	-
PV of FCFE	104.8	125.3	158.5	196.2	241.5	291.6	359.4	345.9	390.2	460.5

Cost of Equity	13.0%
NPV of Cash Flows	2,596.5
Terminal Value (Rs. Crore)	7,075.3
NPV of TV (Rs. Crore)	543.4
NPV of SEZ (Rs. Crore)	3,139.8
Shares Outstanding (in crore)	40.1
Value per Share (Rs.)	**78.4**

Source: KRC Research

Exhibit 20: Sum-Of-The-Parts Valuation

Business Segment	Methodology	Value (Rs. Crore)	Value per Share (Rs.)
Mundra Port	Based on DCF; WACC of 10.8%	23,933.8	597.3
SEZ	Based on NPV; Cost of Equity 13%	3,139.8	78.4
Adani Logistics	Rail segment valued based on P/B of 3.5x (equal to that of Concor); Equity Investment of Rs. 75 Crore ICD segment valued based on P/B of 2.5x (equal to that of GDL); Equity Investment of Rs. 120 Crore	562.5	14.0
Dahej Port	Based on P/B of 3.0x (50% discount to Mundra Port); Equity Investment of Rs. 201 crore	621.0	15.5
SOTP Value		**28,257.2**	**705.2**
CMP			556.0
Upside / Downside %			**26.8%**

Source: KRC Research

We have valued ALL and Dahej Port based on P/B of comparable companies. For all these business we have considered only the equity investments made so far in these businesses. We have valued these businesses quite conservatively as some of these businesses are yet to commence operations (Dahej Port) and others have yet not picked up pace (ALL). Nevertheless, as and when these businesses start delivering, they would add to the overall profitability of the company and would thus command higher valuation. Based on our SOTP valuation, we arrive at a target price of Rs. 705 per share, which represents an upside potential of 26.8% from the current levels. At our target price, the company's stock is valued at 32 times its FY11 earnings.

Exhibit 21: Global Comparison

Company	Country	P/E		P/BV		EV/EBITDA		ROE%		ROCE%	
		2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
Mundra Port & SEZ Ltd	India	29.6	25.3	6.3	5.3	23.1	19.2	23.3	23.0	14.9	15.1
Shangahai International	China	29.6	27.8	3.4	3.2	17.3	15.9	11.7%	12.3%	8.0%	8.3%
Dalian Port PD (in Rmb)	China	12.9	11.5	1.0	1.0	9.8	8.9	8.6%	9.1%	5.7%	6.1%
Shenzhen Yan Tian	China	21.2	20.0	2.3	2.1	38.0	36.8	11.0%	10.8%	0.0%	0.0%
Rizhao port	China	23.3	20.1	2.1	2.1	13.9	12.3	10.2%	10.7%	7.4%	7.8%
Yantian Port	China	21.2	20.0	2.3	2.1	38.0	36.8	11.0%	10.8%	0.0%	0.0%
Xiamen Int Port	Hong Kong	13.6	11.5	0.9	0.8	7.4	6.8	7.1%	7.5%	4.8%	4.7%
Cosco Pacific	Hong Kong	13.0	11.8	1.0	0.9	15.5	14.5	7.7%	8.2%	5.0%	5.2%
Tianjin Port Co	Hong Kong	30.0	27.9	1.3	1.3	27.5	25.1	6.8%	5.7%	7.6%	8.4%
Lyttelton Port (NZ)	New Zealand	22.4	20.0	1.8	1.7	9.8	9.2	8.1%	8.9%	7.5%	8.3%
Port of Tauranga	New Zealand	20.3	19.0	1.5	1.4	13.2	12.3	7.2%	7.7%	7.4%	8.1%
Forth Ports	UK	21.1	18.8	2.2	2.1	11.9	11.1	10.3%	12.7%	0.0%	0.0%
Hamburger Hafen und Logistik	Germany	24.8	19.2	3.0	2.7	7.4	6.5	14.2%	15.3%	8.1%	8.4%

Source: KRC Research; * Bloomberg estimates

At present, there is no established, publicly listed port which can be compared with MPSEZ. Thus, we have compared MPSEZ with some of the international ports. MPSEZ is trading at a premium as compared to these ports based on all the valuation parameters mentioned above. However, we believe, that MPSEZ deserves to command such a premium over its international peers due to its profitability, which is highest among its peer group. Further, we estimate the company's earnings to grow at a CAGR of ~24% over the next five years driven by its capacity expansion. Based on these parameters we believe the company's stock seems like a very attractive investment proposition.

Cargo traffic is expected to grow at a CAGR of 22% till FY14

Cargo traffic is expected to cross 100 mnte in FY14

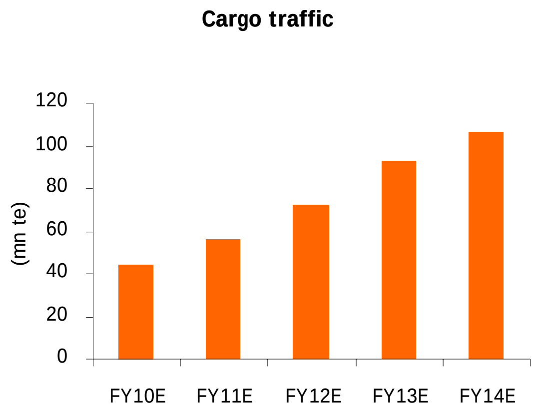
Revenue and net profit to grow at a CAGR of 20% and 28% till FY14

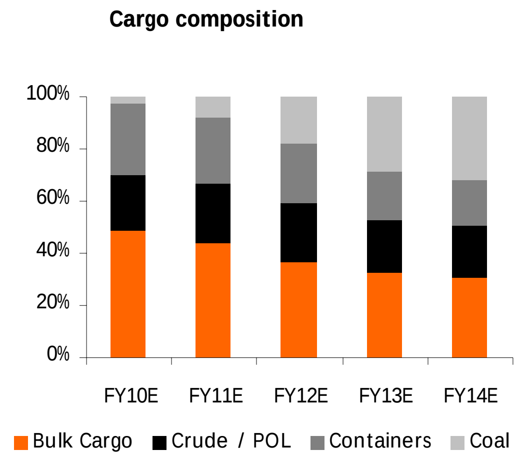
Profitability to improve steadily

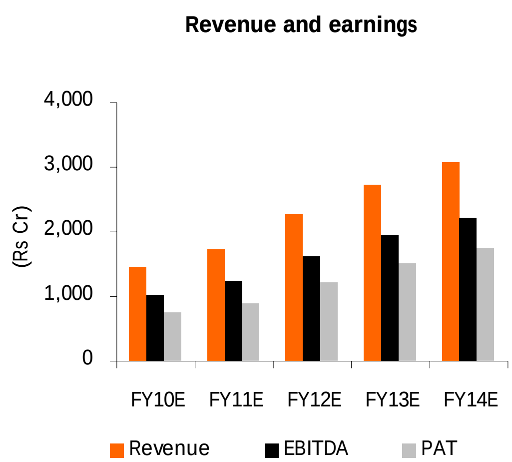
Most of the capex to be incurred over the next 12-15 months

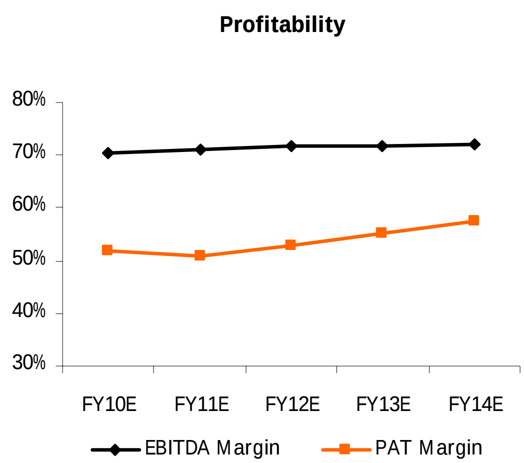
Financials

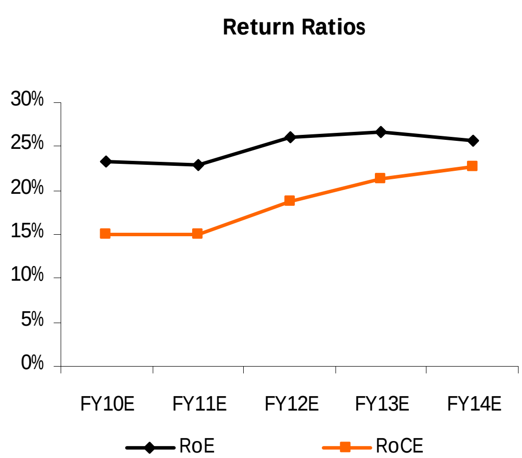
Exhibit 22: Snapshot

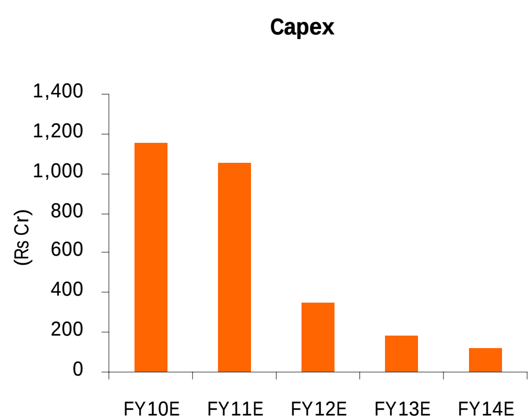












Source: KRC Research

Exhibit 23: Income Statement **(Rs. Crore)**

	FY09	FY10E	FY11E	FY12E	FY13E	FY14E
Revenue	1,135.1	1,453.2	1,734.1	2,274.8	2,719.0	3,075.3
Operating Expense	(261.4)	(303.3)	(355.8)	(436.6)	(490.2)	(541.1)
Personnel expenses	(36.7)	(46.7)	(52.7)	(74.1)	(96.0)	(110.4)
Administrative and other expenses	(97.1)	(77.8)	(94.1)	(135.8)	(180.0)	(207.1)
EBIDTA	739.9	1,025.3	1,231.6	1,628.3	1,952.8	2,216.7
Depreciation & Amortization	(137.2)	(143.0)	(179.5)	(190.0)	(195.4)	(199.0)
EBIT	602.7	882.3	1,052.1	1,438.4	1,757.5	2,017.7
Financial expenses	(133.0)	(122.6)	(147.4)	(173.1)	(138.4)	(103.8)
Non-operating income / expenses	44.3	62.3	75.2	86.4	90.0	103.5
Profit Before Tax	514.0	821.9	979.9	1,351.7	1,709.0	2,017.4
Taxes	(52.9)	(69.9)	(98.0)	(148.7)	(205.1)	(252.2)
Profit After Tax	461.1	752.1	881.9	1,203.0	1,503.9	1,765.3

Source: Company data, KRC Research

Exhibit 24: Balance Sheet **(Rs. Crore)**

	FY09	FY10E	FY11E	FY12E	FY13E	FY14E
Cash and Cash Equivalents	1,130.7	1,292.4	1,146.5	1,465.1	1,965.0	2,751.9
Other Current Assets	448.2	607.6	726.6	943.8	1,128.7	1,278.1
Total Current Assets	1,578.9	1,900.0	1,873.1	2,408.9	3,093.8	4,030.0
Less: Current Liabilities	354.8	418.0	509.4	667.7	826.6	974.1
Net Current Assets	1,224.1	1,481.9	1,363.7	1,741.3	2,267.1	3,055.8
Gross Block	3,781.9	4,931.9	5,981.9	6,331.9	6,511.9	6,631.9
Less: Accumulated Depreciation	530.5	673.6	853.0	1,043.0	1,238.3	1,437.3
Net Block	3,251.4	4,258.4	5,128.9	5,289.0	5,273.6	5,194.7
Capital WIP incl. Capital Advances	1,232.6	1,232.6	1,232.6	1,232.6	1,232.6	1,232.6
Non-current Investments	431.7	431.7	431.7	431.7	431.7	431.7
Total Non-current Assets	4,915.7	5,922.7	6,793.2	6,953.3	6,937.9	6,859.0
Total Assets	6,139.8	7,404.6	8,156.9	8,694.6	9,205.1	9,914.8
Total Debt	2,313.0	3,065.9	3,204.7	2,884.2	2,307.4	1,730.5
Deferred Tax Liabilities (Net)	229.7	229.7	229.7	229.7	229.7	229.7
Other Liabilities	651.8	599.7	551.7	507.6	467.0	429.6
Total Non-current Liabilities	3,194.5	3,895.3	3,986.1	3,621.5	3,004.1	2,389.9
Shareholders' Equity	2,945.3	3,509.3	4,170.8	5,073.0	6,201.0	7,524.9
Total Liabilities and Shareholders' Equity	6,139.8	7,404.6	8,156.9	8,694.6	9,205.1	9,914.8

Source: Company data, KRC Research

Exhibit 25: Cash Flow statement **(Rs. Crore)**

	FY09	FY10E	FY11E	FY12E	FY13E	FY14E
Net profit before tax	514.0	759.7	904.7	1,265.3	1,619.0	1,913.9
Adjustments for:						
Depreciation	137.2	143.0	179.5	190.0	195.4	199.0
Other adjustments	52.4	132.8	174.7	215.3	187.8	170.0
Change in Working Capital	14.1	(96.1)	(27.7)	(59.0)	(25.9)	(1.8)
Direct Taxes paid (Net)	(22.6)	(69.9)	(98.0)	(148.7)	(205.1)	(252.2)
Cash Generated from Operating Activities	695.1	869.4	1,133.2	1,462.9	1,771.2	2,028.9
Purchase of Fixed Assets	(1,256.9)	(1,150.0)	(1,050.0)	(350.0)	(180.0)	(120.0)
Other investing activities	144.5	0.0	0.0	0.0	0.0	0.0
Cash Generated from Investing Activities	(1,112.4)	(1,150.0)	(1,050.0)	(350.0)	(180.0)	(120.0)
Procurement of Long-term Borrowings	465.7	950.0	400.0	0.0	0.0	0.0
Repayment of Long-term Borrowings	(177.8)	(197.1)	(261.2)	(320.5)	(576.8)	(576.8)
Interest and Finance Charges Paid	(196.8)	(122.6)	(147.4)	(173.1)	(138.4)	(103.8)
Payment of Dividend	(140.3)	(188.0)	(220.5)	(300.8)	(376.0)	(441.3)
Other financing activities	(3.2)	0.0	0.0	0.0	0.0	0.0
Cash Generated from Financing Activities	(52.3)	442.3	(229.1)	(794.3)	(1,091.3)	(1,122.0)
Net Change in Cash	(469.7)	161.7	(146.0)	318.7	499.9	786.9

Source: Company data, KRC Research

Exhibit 26: Key Ratios

	FY09	FY10E	FY11E	FY12E	FY13E	FY14E
EBITDA Margin (%)	65.2%	70.6%	71.0%	71.6%	71.8%	72.1%
EBIT Margin (%)	53.1%	60.7%	60.7%	63.2%	64.6%	65.6%
Net Margin (%)	40.6%	51.8%	50.9%	52.9%	55.3%	57.4%
RoE (%)	16.6%	23.3%	23.0%	26.0%	26.7%	25.7%
RoCE (%)	12.3%	14.9%	15.1%	18.8%	21.3%	22.7%
Adjusted EPS (Rs.)	11.5	18.8	22.0	30.0	37.5	44.1
Cash EPS (Rs.)	14.9	22.3	26.5	34.8	42.4	49.0
Book Value Per Share (Rs)	73.5	87.6	104.1	126.6	154.8	187.8
Dividend Per Share (Rs)	3.5	4.7	5.5	7.5	9.4	11.0
Fixed Asset Turnover (%)	24.6%	26.8%	27.3%	33.1%	39.1%	44.6%
Total Asset Turnover (%)	18.6%	20.3%	21.0%	25.2%	28.0%	29.4%
Debt / Equity (x)	0.8	0.9	0.8	0.6	0.4	0.2
Interest coverage (x)	4.5	7.2	7.1	8.3	12.7	19.4
Dividend Payout (%)	30.4%	25.0%	25.0%	25.0%	25.0%	25.0%
P/E ratio (x)	48.3	29.6	25.3	18.5	14.8	12.6
Market Cap to Sales (x)	19.6	15.3	12.8	9.8	8.2	7.2
EV / Sales (x)	20.9	16.3	13.7	10.4	8.7	7.7
EV / EBITDA (x)	32.0	23.1	19.2	14.5	12.1	10.7
Price to Book Value (x)	7.6	6.3	5.3	4.4	3.6	3.0

Source: Company data, KRC Research

Rajiv Choksey	Co-Head Institutional Equities	rajiv.choksey@krchoksey.com	+91-22-6653 5135
Anuj Choksey	Co-Head Institutional Equities	anuj.choksey@krchoksey.com	+91-22-6696 5500
Maulik Patel	Head Research	maulik.patel@krchoksey.com	+91-22-6696 5574

Mundra Port and SEZ Ltd.

Rating Legend	
Our Rating	**Upside**
Strong Buy	More than 25%
Buy	15% - 25%
Hold	10% - 15%
Reduce	Nil – 10%
Sell	Less than 0%

Other Stocks in the sector under our active coverage: Shipping & Logistics

Ticker		Company	Recommendation	Return	Bmk	Outper	BARR
Summary		Coverage 16	Avg Rating: 3.9	-12.23%	-3.11%	-9.12%	
AGIS	IN	Aegis Logistics	reduce	-239.83%	-26.09%	-213.74%	
BDE	IN	Blue Dart Express	buy	62.64%	49.32%	13.32%	1st
ABAN	IN	Aban Offshore	strong buy	-48.04%	-32.89%	-15.15%	
PF	IN	Pantaloon Retail India	hold	-58.63%	4.70%	-63.33%	
CCRI	IN	Concor	hold	16.60%	7.29%	9.30%	
DLFU	IN	DLF	hold	22.10%	-19.78%	41.88%	2nd
BHSL	IN	Bharati Shipyard	buy	131.10%	16.49%	114.61%	3rd
PARSV	IN	Parsvnath Developers	hold	0.00%	-82.91%	82.91%	2nd
MSEZ	IN	Mundra Port and SEZ	buy	70.38%	12.75%	57.64%	1st
HDIL	IN	HDIL	buy	52.96%	-1.42%	54.38%	
KUTN	IN	Koutons Retail India	buy	-25.94%	-6.66%	-19.28%	
GDPL	IN	Gateway Distriparks	buy	-3.62%	42.20%	-45.81%	
GOFF	IN	Great Offshore Ltd	buy	-27.37%	17.45%	-44.83%	
SHOP	IN	Shopper's Stop Ltd	hold	-165.73%	-18.57%	-147.16%	
GESCO	IN	GE Shipping	hold	5.39%	3.37%	2.02%	
VISH	IN	Vishal Retail Ltd	hold	0.00%	-18.18%	18.18%	2nd

Disclaimer:

This publication has been prepared solely for information purpose and does not constitute a solicitation to any person to buy or sell a security. While the information contained therein has been obtained from sources believed to be reliable, investors are advised to satisfy themselves before making any investments. Kisan Ratilal Choksey Shares & Sec Pvt Ltd., does not bear any responsibility for the authentication of the information contained in the reports and consequently, is not liable for any decisions taken based on the same. Further, KRC Research Reports only provide information updates and analysis. All opinion for buying and selling are available to investors when they are registered clients of KRC Investment Advisory Services. As per SEBI requirements it is stated that, Kisan Ratilal Choksey Shares & Sec Pvt Ltd., and/or individuals thereof may have positions in securities referred herein and may make purchases or sale thereof while this report is in circulation.

Please send your feedback to **krc.research@krchoksey.com**

Visit us at **www.krchoksey.com**

Kisan Ratilal Choksey Shares and Securities Pvt. Ltd.

Registered Office:
1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.
Phone: 91-22-6633 5000; Fax: 91-22-6633 8060.

Branch Office:
ABHISHEK, 5th Floor, Link Road, Dalia Industrial Estate, Andheri (W), Mumbai – 400 058.
Phone: 91-22-6696 5555; Fax: 91-22-6691 9576.