

# Essar Shipping (ESSSHI)

Rs 123

## WHAT'S CHANGED...

PRICE TARGET .....	Changed from Rs 93 to Rs 112
EPS (FY11E) .....	Changed from Rs 0.9 to Rs 2.7
EPS (FY12E) .....	Changed from Rs 3.9 to Rs 5.3
RATING.....	Changed from Buy to Reduce

## Fairly valued...

Essar Shipping Ports and Logistics Ltd (Essar Shipping) offers a diversified play in the Indian shipping, logistics and ports business. In the last few years, the company has not only consolidated its position in its traditional shipping and logistics business but has also ramped up its presence in the ports and terminal business with the Vadinar (46 MTPA wet cargo) port terminal and Hazira (30 MTPA dry cargo) port. Over the next three years, the company has chalked out plans to further increase its port capacity to 158 MTPA with the establishment of new ports and expansion of existing port operations. Further, the company will also receive the delivery of two new jack-up rigs over the next 1.5 years, thereby increasing its presence in the offshore oilfield business.

### Mixed performance

Essar Shipping reported a 6% QoQ drop in revenue to Rs 795.1 crore in Q1FY11. The drop in topline was on account of drop in earnings from oilfield services business from Rs 101 crore to Rs 70 crore as its semi submersible rig "Essar Wildcat" was deployed for only half the quarter. Earnings from the shipping & logistics business declined from Rs 645 crore to Rs 566 crore while earnings from ports business increased from Rs 105 crore to Rs 160 crore. Commissioning of 30 MTPA Hazira port terminal was key contributor to the rise in earnings from ports business.

The EBITDA margin declined from 32% to 30% QoQ along with a drop in EBITDA to Rs 240.8 crore. The company reported a net profit of Rs 39.5 crore in Q1FY11. However, the net profit also included extraordinary gains of Rs 52.9 crore on account of the profit on sale of investments excluding which the operating loss was Rs 14.0 crore.

## Valuation

We have valued each of the divisions of ESPLL on a DCF basis and arrived at our SOTP price target of **Rs 112**.

### Exhibit 1: Financial Performance

(Rs. Crore)	Q1FY11	Q1FY11E	Q1FY10	Q4FY10	YoY Gr. (%)	QoQ Gr.(%)
Net Sales	795.1	821.8	676.1	851.6	17.6	-6.6
EBITDA	240.8	312.6	275.6	269.6	-12.6	-10.7
EBITDA Margin (%)	30.3	38.0	40.8	31.7	(1050 bps)	(140 bps)
Depreciation	116.8	118.3	116.6	106.6	0.2	9.6
Interest	158.2	153.6	135.1	144.9	17.1	9.2
Reported PAT	39.5	37.8	6.1	63.5	544.0	-37.8
EPS (Rs)	0.6	0.6	0.1	1.0	544.0	-37.8

Source: Company, ICICIdirect.com Research

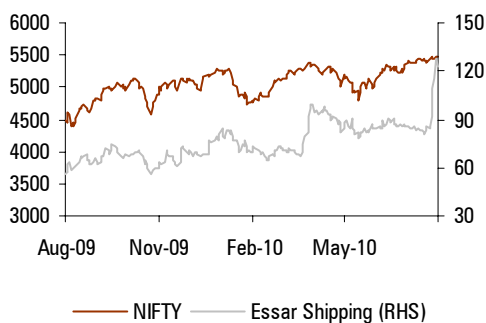
Rating matrix	
Rating	: Reduce
Target	: Rs 112
Target Period	: 12 months
Potential Upside	: -9%

Key Financials				
(Rs crore)	FY09	FY10	FY11E	FY12E
Net Sales	2574.2	2999.4	3222.0	4227.4
EBITDA	834.5	1048.7	1259.8	1656.8
Net Profit	77.2	93.8	167.3	328.5

Valuation summary				
	FY09	FY10	FY11E	FY12E
PE (x)	98.1	80.8	45.3	23.1
Target PE (x)	89.0	73.3	41.1	20.9
EV to EBITDA (x)	17.0	13.4	12.3	9.9
Price to book (x)	1.0	0.9	0.9	0.8
RoNW (%)	1.0	1.1	2.4	4.3
RoCE (%)	3.1	3.9	4.8	6.3

Stock data	
Market Cap.	Rs. 7574 crore
Debt( FY10)	Rs. 7508 crore
Cash (FY10)	Rs. 281 crore
EV	Rs. 14801 crore
52 week H/L	Rs. 136 / 54
Equity capital	Rs.615.8 crore
Face value	Rs.10
MF Holding (%)	0.2
FII Holding (%)	8.3

### Price movement



### Analyst's name

**Bharat Chhoda**  
bharat.chhoda@icicisecurities.com

**Jehangir Master**  
jehangir.master@icicisecurities.com

The topline registered a QoQ drop of 6% at Rs 795.1 crore. The drop in topline was on account of the decline in earnings from its oilfield services business, which declined QoQ from Rs 101 crore to Rs 70 crore as its semi submersible rig "Essar Wildcat" was deployed for only half the quarter.

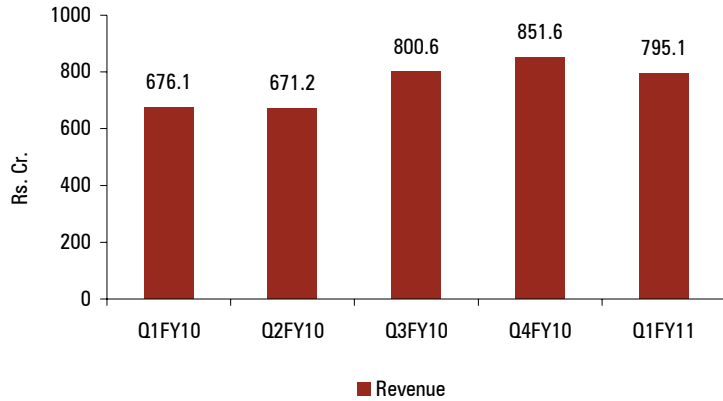
Earnings from the shipping and logistics business also declined from Rs 645 crore to Rs 566 crore

Earnings from the ports and terminal business increased from Rs 105 crore to Rs 160 crore. The commissioning of the 30 MTPA Hazira port terminal was the key contributor to the rise in earnings from the ports business

The EBITDA margin declined from 32% to 30% in the immediately preceding quarter along with the drop in EBITDA to Rs 240.8 crore

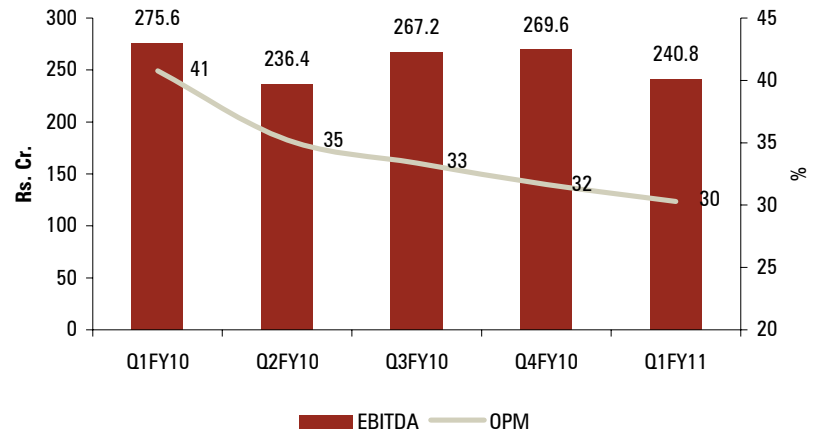
The company reported a net profit of Rs 39.5 crore in Q1FY11

**Exhibit 2: Topline performance**



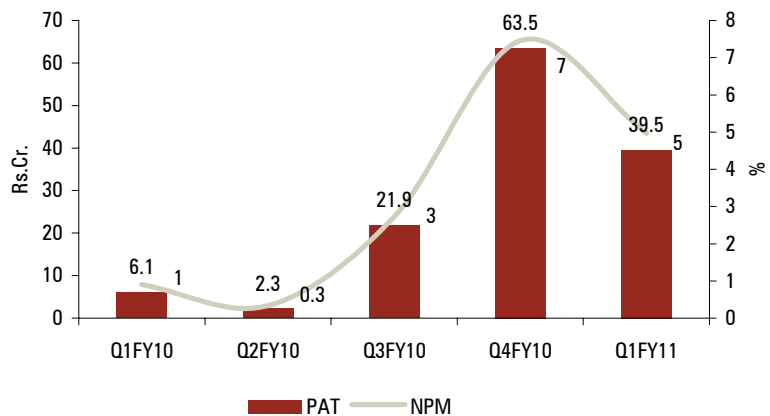
Source: Company, ICICIdirect.com Research

**Exhibit 3: EBITDA performance**



Source: Company, ICICIdirect.com Research

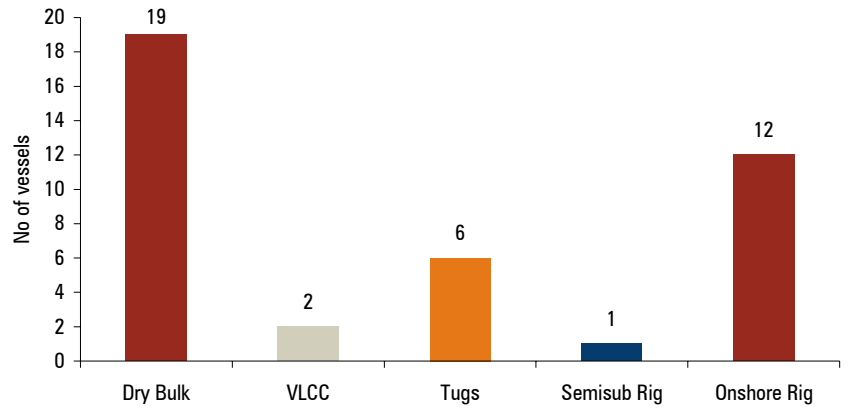
**Exhibit 4: PAT performance**



Source: Company, ICICIdirect.com Research

The current fleet consists of 40 vessels, which includes 19 Bulk carriers, two VLCCs, six tugs, one semi submersible rig and 12 onshore rigs

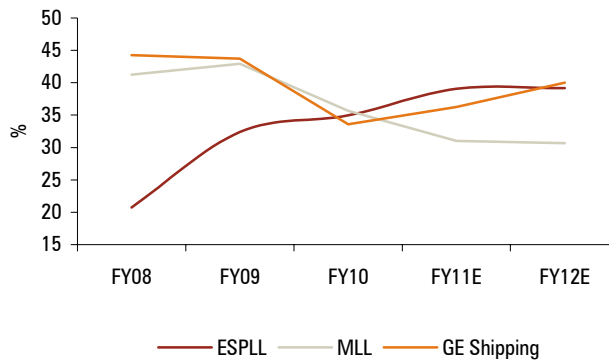
**Exhibit 5: Current fleet profile**



Source: Company, ICICIdirect.com Research

The operating margin of Essar Shipping has been consistently improving on account of the rise in revenue from the ports and terminal business, which is a high margin business compared to its traditional shipping and logistics business

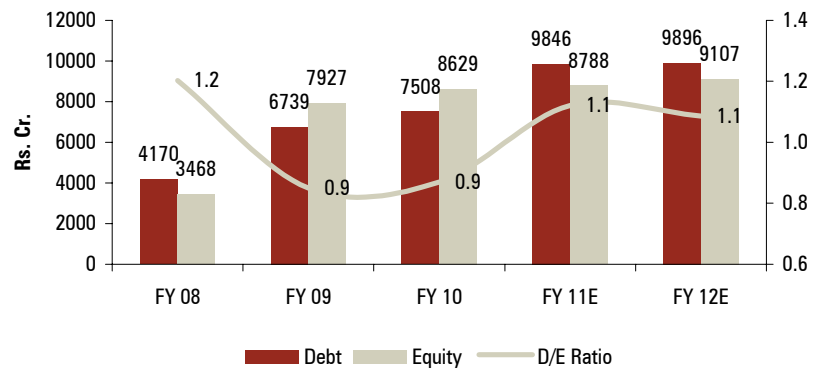
**Exhibit 6: Operating margin comparison**



Source: Company, ICICIdirect.com Research

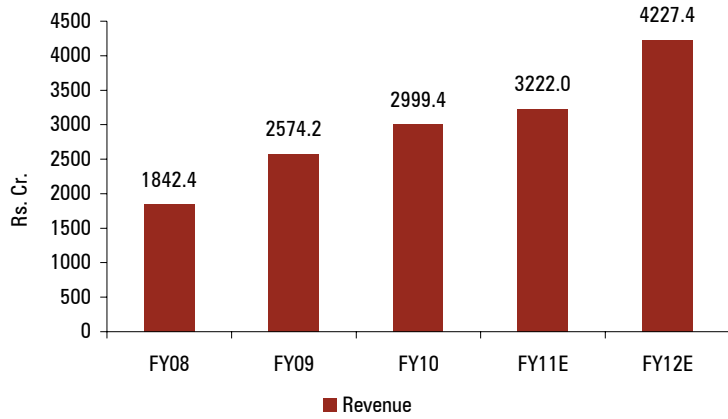
The company is appropriately leveraged as its debt equity ratio has hovered close to 1.0 in the last three years. We expect the debt-equity ratio to inch up higher to 1.1 level over the next two years as its expands its offshore oilfield presence with the acquisition of two jack-up rigs and also aggressively expands its ports and terminal business with the establishment of new port at Salaya in Gujarat and two berths in Orissa (CQ3 and coal)

**Exhibit 7: Debt equity ratio analysis**



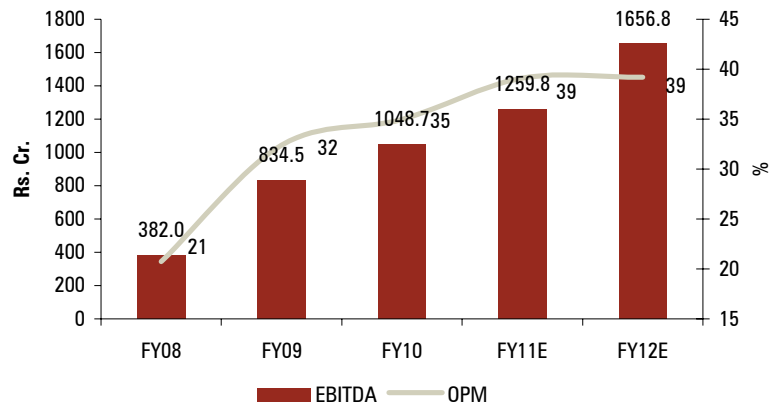
Source: Company, ICICIdirect.com Research

**Exhibit 8: Revenues expected to steadily rise**



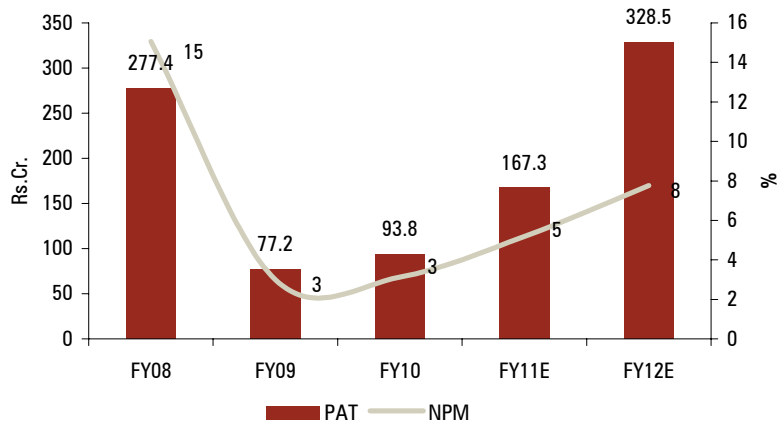
Source: Company, ICICIdirect.com Research

**Exhibit 9: Operating margin expected to inch up gradually**



Source: Company, ICICIdirect.com Research

**Exhibit 10: PAT and net profit margin to improve**



Source: Company, ICICIdirect.com Research

Essar Shipping offers a diversified play in the Indian shipping, logistics and ports business. In the last few years, the company has not only consolidated its position in its traditional shipping and logistics business but has also ramped up its presence in the ports and terminal business with the Vadinar (46 MTPA wet cargo) port terminal and Hazira (30 MTPA dry cargo) port. Over the next three years, the company has chalked out plans to further increase its port capacity to 158 MTPA with the establishment of new ports and expansion of existing port operations. Further, the company will also receive the delivery of two new jack-up rigs over the next 1.5 years, thereby increasing its presence in the offshore oilfield business.

We have valued each of the divisions of ESPLL on a DCF basis and arrived at our SOTP price target of **Rs 112**.

**Exhibit 11: Valuation parameters**

Business	DCF/Rs.
<b>Sea and Surface Transport Business</b>	<b>23</b>
<b>Oilfield Services Business</b>	<b>21</b>
Ports & Terminal	
VOTL & VPTL	18
Hazira Bulk Terminal	33
Salaya Bulk Terminal	11
Paradip CQ3 Berth	3
Paradip Coal Berth	3
<b>Total Value</b>	<b>68</b>
<b>Total SOTP Valuation</b>	<b>112</b>

Source: Company, ICICIdirect.com Research

**Exhibit 12: Valuation**

	Sales (Rs. cr)	Sales Growth (%)	EPS (Rs.)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY10	2999.4	16.6	1.5	23.2	80.8	13.4	1.1	3.9
FY11E	3222.0	7.4	2.7	78.4	45.3	12.3	2.4	4.8
FY12E	4227.4	31.2	5.3	96.3	23.1	9.9	4.3	6.3

Source: Company, ICICIdirect.com Research

**Exhibit 13: Revised estimates**

	Old		New	
	FY11E	FY12E	FY11E	FY12E
Sales	3112.4	4085.9	3222.0	4227.4
EBITDA	1195.4	1616.6	1259.8	1656.8
Net Profit	64.8	277.0	167.3	328.5
EPS	0.9	3.9	2.7	5.3

Source: Company, ICICIdirect.com Research

## ICICIdirect.com coverage universe (Shipping)

ESPLL				Sales (Rs. Crore)	EPS (Rs.)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)	
<b>Idirect Code</b>	ESSSHI	<b>CMP (Rs.)</b>	123	<b>FY10</b>	2999.4	1.5	80.8	13.4	1.1	3.9
		<b>Target (Rs.)</b>	112	<b>FY11E</b>	3222.0	2.7	45.3	12.3	2.4	4.8
<b>MCap</b>	7574.3	<b>% Upside</b>	-9	<b>FY12E</b>	4227.4	5.3	23.1	9.9	4.3	6.3
G.E Shipping				Sales (Rs. Crore)	EPS (Rs.)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)	
<b>Idirect Code</b>	GESHIP	<b>CMP (Rs.)</b>	313	<b>FY10</b>	2856.5	33.7	9.3	8.8	9.0	4.8
		<b>Target (Rs.)</b>	334	<b>FY11E</b>	3194.7	36.7	8.5	7.5	9.1	6.5
<b>MCap</b>	4757.6	<b>% Upside</b>	7	<b>FY12E</b>	3687.5	45.4	6.9	5.9	10.4	8.7
Mercator Lines				Sales (Rs. Crore)	EPS (Rs.)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)	
<b>Idirect Code</b>	MERLIN	<b>CMP (Rs.)</b>	52	<b>FY10</b>	1808.7	2.2	23.5	5.0	2.3	5.3
		<b>Target (Rs.)</b>	56	<b>FY11E</b>	2180.3	3.6	14.4	3.9	3.6	6.2
<b>MCap</b>	1227.2	<b>% Upside</b>	8	<b>FY12E</b>	2570.5	7.8	6.7	2.5	7.2	8.0
SCI				Sales (Rs. Crore)	EPS (Rs.)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)	
<b>Idirect Code</b>	SCI	<b>CMP (Rs.)</b>	168	<b>FY10</b>	3463.1	8.9	18.9	13.5	3.5	1.6
		<b>Target (Rs.)</b>	162	<b>FY11E</b>	3771.8	9.2	18.3	14.9	2.5	1.6
<b>MCap</b>	7114.8	<b>% Upside</b>	-4	<b>FY12E</b>	4004.9	5.9	28.4	12.8	0.8	1.7
Varun Shipping				Sales (Rs. Crore)	EPS (Rs.)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)	
<b>Idirect Code</b>	VARSHI	<b>CMP (Rs.)</b>	43	<b>FY10</b>	666.2	0.8	51.4	14.0	1.5	0.1
		<b>Target (Rs.)</b>	36	<b>FY11E</b>	636.7	-	-	12.9	-	-
<b>MCap</b>	645.0	<b>% Upside</b>	-16	<b>FY12E</b>	749.7	-	-	8.7	-	3.8
Aban Offshore				Sales (Rs. Crore)	EPS (Rs.)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)	
<b>Idirect Code</b>	ABALLO	<b>CMP (Rs.)</b>	880	<b>FY10</b>	3358.7	71.5	12.3	8.4	14.3	10.0
		<b>Target (Rs.)</b>	947	<b>FY11E</b>	3553.0	87.9	10.0	6.8	15.2	12.0
<b>MCap</b>	3326.4	<b>% Upside</b>	8	<b>FY12E</b>	3679.8	199.7	4.4	6.0	26.1	12.9
Garware Offshore				Sales (Rs. Crore)	EPS (Rs.)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)	
<b>Idirect Code</b>	GARSHI	<b>CMP (Rs.)</b>	147	<b>FY10</b>	163.2	17.8	8.3	9.1	15.4	7.9
		<b>Target (Rs.)</b>	182	<b>FY11E</b>	232.3	17.4	8.5	7.8	16.2	9.3
<b>MCap</b>	349.9	<b>% Upside</b>	24	<b>FY12E</b>	234.7	21.1	7.0	7.4	14.4	9.2
Great Offshore				Sales (Rs. Crore)	EPS (Rs.)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)	
<b>Idirect Code</b>	GREOFF	<b>CMP (Rs.)</b>	410	<b>FY10</b>	1172.7	54.6	7.5	7.5	19.4	12.2
		<b>Target (Rs.)</b>	468	<b>FY11E</b>	1198.9	39.7	10.3	5.7	17.8	11.1
<b>MCap</b>	1521.1	<b>% Upside</b>	14	<b>FY12E</b>	1515.9	69.3	5.9	4.4	20.0	15.1
ABG Shipyard				Sales (Rs. Crore)	EPS (Rs.)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)	
<b>Idirect Code</b>	BHASHI	<b>CMP (Rs.)</b>	258	<b>FY10</b>	1812.4	42.8	6.0	7.1	0.3	19.6
		<b>Target (Rs.)</b>	239	<b>FY11E</b>	2334.8	45.3	5.7	6.3	0.1	17.5
<b>MCap</b>	712.1	<b>% Upside</b>	-7	<b>FY12E</b>	2721.2	50.6	5.1	5.6	0.1	16.6
Bharati Shipyard				Sales (Rs. Crore)	EPS (Rs.)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)	
<b>Idirect Code</b>	BHASHI	<b>CMP (Rs.)</b>	246	<b>FY10</b>	1349.0	47.4	5.4	8.3	16.0	10.3
		<b>Target (Rs.)</b>	327	<b>FY11E</b>	1334.1	55.6	4.6	7.6	10.1	10.1
<b>MCap</b>	679.0	<b>% Upside</b>	33	<b>FY12E</b>	1287.2	74.5	3.5	7.4	8.4	9.7

## Global Valuation (Shipping)

Company	Country	P/BV (x)			P/E (x)			EV/EBITDA (x)			ROE (%)		
		CY09	CY10E	CY11E	CY09	CY10E	CY11E	CY09	CY10E	CY11E	CY09	CY10E	CY11E
<b>Dry Bulk/Tankers</b>													
Teekay Corp.*	USA	0.9	0.9	0.9	-	29.6	17.6	11.9	9.0	8.6	-	4.6	6.2
Diana Shipping*	USA	1.0	0.9	0.9	8.0	7.7	8.0	6.1	5.7	5.7	13.5	11.5	10.2
Genco Shipping*	USA	0.6	0.5	0.4	3.5	3.7	6.2	5.5	5.2	5.9	18.0	13.1	7.0
Dry Ships*	USA	0.4	0.4	0.4	3.9	5.0	3.6	7.1	6.3	4.8	7.2	6.2	9.9
Frontline Ltd*	Norway	3.2	2.8	2.6	21.3	9.5	9.4	10.1	7.8	7.7	14.9	29.5	24.2
ESPLL#	India	0.6	0.6	0.6	139.2	87.4	21.4	12.4	11.8	9.0	0.5	0.9	3.2
G.E Shipping#	India	0.8	0.8	0.7	9.4	8.6	6.9	8.8	7.5	5.9	9.0	9.1	10.4
Mercator Lines#	India	0.5	0.5	0.4	21.7	13.3	6.1	5.0	3.9	2.5	2.3	3.6	7.2
SCI#	India	1.1	1.0	1.0	18.3	17.7	27.6	13.5	14.9	12.8	3.5	2.5	0.8

## RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Add, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: 20% or more;  
 Buy: Between 10% and 20%;  
 Add: Up to 10%;  
 Reduce: Up to -10%  
 Sell: -10% or more;

**Pankaj Pandey**

**Head – Research**

**pankaj.pandey@icicisecurities.com**

**ICICIdirect.com Research Desk,  
 ICICI Securities Limited,  
 7<sup>th</sup> Floor, Akruiti Centre Point,  
 MIDC Main Road, Marol Naka,  
 Andheri (East)  
 Mumbai – 400 093**

**research@icicidirect.com**

## ANALYST CERTIFICATION

We I, *Bharat Chhoda MBA FINANCE Jehangir Master ACA* research analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of the ICICI Securities Inc.

## Disclosures:

ICICI Securities Limited (ICICI Securities) and its affiliates are a full-service, integrated investment banking, investment management and brokerage and financing group. We along with affiliates are leading underwriter of securities and participate in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their dependent family members from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on reasonable basis, ICICI Securities, its subsidiaries and associated companies, their directors and employees ("ICICI Securities and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities is acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return of investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities and affiliates accept no liabilities for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities and its affiliates might have managed or co-managed a public offering for the subject company in the preceding twelve months. ICICI Securities and affiliates might have received compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. ICICI Securities and affiliates expect to receive compensation from the companies mentioned in the report within a period of three months following the date of publication of the research report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. It is confirmed that *Bharat Chhoda MBA FINANCE Jehangir Master ACA* research analysts and the authors of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Our research professionals are paid in part based on the profitability of ICICI Securities, which include earnings from Investment Banking and other business.

ICICI Securities or its subsidiaries collectively do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

It is confirmed that *Bharat Chhoda MBA FINANCE Jehangir Master ACA* research analysts and the authors of this report or any of their family members does not serve as an officer, director or advisory board member of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. ICICI Securities and affiliates may act upon or make use of information contained in the report prior to the publication thereof.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.