

Mundra Port & SEZ Ltd

In-line quarter

Mundra Port & SEZ (MPSEZ) reported revenue and EBITDA growth of 33% YoY each in Q3FY11 accompanied by a 40% increase in PAT, in line with our estimates. Volumes at the port totalled 12.4mt, up 26% YoY. Recent commissioning of a 60mtpa integrated coal terminal will enable MPSEZ to meet the import requirements of Adani Power and Tata Power, which are likely to bring in over 10mt of coal in FY12 and to ramp up further in FY13. With regard to the show-cause notice issued by the environment ministry in December '10, MPSEZ has delivered its response within the stipulated 10-day period and is awaiting feedback from the ministry. We do not see a risk to existing operations on this account and maintain BUY with a 12-month price target of Rs 175.

Q3 port traffic volumes at 12.4mt, up 26% YoY: MPSEZ handled 12.4mt of cargo in Q3FY11, mainly comprising coal (23.4%), containers (31.6%), POL (14.9%), fertiliser (9.1%) and crude (7.9%). Crude oil cargo declined sequentially as crude handling for IOC has been lower this quarter as well. Container traffic growth was robust at 3.4%QoQ, up 44% YoY. In Q4FY11, volumes are likely to see a leg up due to a rise in coal imports for Adani Power, which commissioned a 660MW unit in December '10.

Coal terminal commissioned in Q3: MPSEZ has commissioned a 60mtpa integrated coal terminal at Mundra in Q3FY11. Heavy traffic at this terminal will come from Adani Power and Tata Power in coming years, which are setting up projects of 4,600MW and 4,000MW respectively at Mundra.

MoEF notice unlikely to hit operations, growth plans: In December '10, the Ministry of Environment and Forests (MoEF) issued a show-cause notice to MPSEZ seeking clarifications regarding (a) the impact of operations on mangroves around the port area, and (b) construction of certain buildings without obtaining Coastal Zone Regulation notification. MPSEZ has submitted a reply to the notice within 10 days of receipt and is awaiting a further response from the ministry. In our view, current operations at the port are unlikely to be affected as the issues raised by the MoEF pertain to an area which is located at a distance from the west port (where the coal terminal is located).

Maintain BUY: Our March '12 target price stands at Rs 175 and includes Rs 122/sh for the Mundra port (70% of target price), Rs 34/sh for the SEZ, Rs 10/sh for other port concessions and Rs 8/sh for liquid investments and cash. Maintain BUY.

What's New? Target Rating Estimates

CMP	TARGET	RATING	RISK
Rs 134	Rs 175	BUY	MEDIUM

BSE	NSE	BLOOMBERG
532921	MUNDRAPORT	MSEZ IN

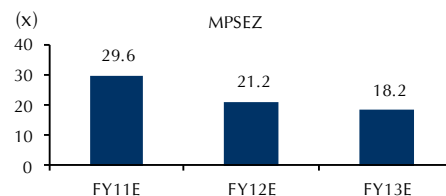
Company data

Market cap (Rs mn / US\$ mn)	268,455 / 5,902
Outstanding equity shares (mn)	2,003
Free float (%)	22.5
Dividend yield (%)	0.4
52-week high/low (Rs)	185 / 112
2-month average daily volume	1,143,740

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
MPSEZ	134	(8.5)	(16.9)	(14.1)
Sensex	18,037	(8.4)	(14.1)	(0.6)

P/E comparison



Valuation matrix

(x)	FY10	FY11E	FY12E	FY13E
P/E @ CMP	39.8	29.6	21.2	18.2
P/E @ Target	52.0	38.6	27.7	23.8
EV/EBITDA @ CMP	32.2	23.5	16.0	12.9

Financial highlights

(Rs mn)	FY10	FY11E	FY12E	FY13E
Revenue	14,955	19,323	29,107	36,590
Growth (%)	25.2	29.2	50.6	25.7
Adj net income	6,744	9,083	12,667	14,727
Growth (%)	55.9	34.7	39.5	16.3
FDEPS (Rs)	3.4	4.5	6.3	7.4
Growth (%)	55.9	34.7	39.5	16.3

Profitability and return ratios

(%)	FY10	FY11E	FY12E	FY13E
EBITDA margin	64.6	68.5	66.7	65.9
EBIT margin	52.1	55.5	54.3	56.0
Adj PAT margin	45.1	47.0	43.5	40.2
ROE	21.1	23.6	26.3	24.5
ROIC	12.1	12.4	15.2	15.1
ROCE	13.7	14.4	16.7	15.9





Result highlights

Fig 1 - Actual vs estimated performance

(Rs mn)	Actual	Estimate	% Variance
Revenue	4,508	4,391	2.6
EBITDA	3,098	2,977	4.1
EBITDA margins (%)	68.7	67.8	95
Adj net income	2,285	2,310	(1.1)
FDEPS (Rs)	1.1	1.2	(1.1)

Source: RCML Research

Numbers in line with estimates

Fig 2 - Quarterly performance

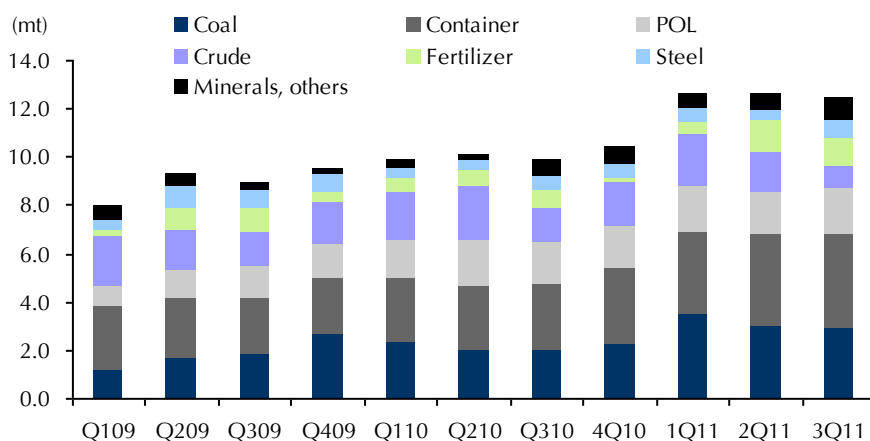
(Rs mn)	Q3FY11	Q3FY10	% Chg YoY	Q2FY11	% Chg QoQ
Net sales	4,508	3,378	33.4	4,135	9.0
Expenditure	1,410	1,048	34.5	1,398	0.8
EBITDA	3,098	2,330	33.0	2,737	13.2
Other income	207	325	(36.3)	309	(32.9)
Interest	362	468	(22.7)	317	14.1
Depreciation	531	433	22.7	485	9.6
PBT	2,413	1,754	37.5	2,244	7.5
Tax	158	203	(22.0)	139	14.0
Reported PAT	2,254	1,551	45.3	2,106	7.1
Adjusted PAT	2,285	1,632	40.0	2,117	7.9
EBITDA margin (%)	68.7	69.0	(24.7)	66.2	253.6

Source: Company, RCML Research

Higher volumes (+26%) led revenue growth of 33%YoY

Lower interest and depreciation cost supported PAT growth of 40%YoY

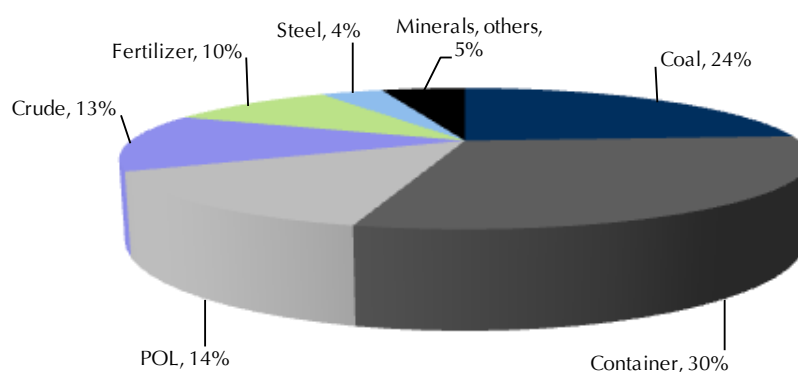
Fig 3 - Cargo volume trends



Source: Company, RCML Research



Fig 4 - Q3FY11: Composition of traffic



Source: Company

Valuation

Fig 5 - SOTP valuation summary

Particulars	Rs mn	Rs/sh	Value contribution (%)
Mundra port	244,220	122	70
Mundra SEZ	67,622	34	19
Dahej port	9,920	5	3
Hazira port	6,812	3	2
Mormugao port – berth	3,719	2	1
Other investments, cash*	17,904	8	5
Total	350,197	175	100

Source: RCML Research * Liquid investments and FY12E cash



Consolidated financials

Profit and Loss statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Revenues	14,955	19,323	29,107	36,590
<i>Growth (%)</i>	25.2	29.2	50.6	25.7
EBITDA	9,663	13,230	19,418	24,098
<i>Growth (%)</i>	27.9	36.9	46.8	24.1
Depreciation & amortisation	1,868	2,499	3,604	3,603
EBIT	7,795	10,730	15,814	20,495
<i>Growth (%)</i>	28.0	37.7	47.4	29.6
Interest	2,177	2,561	3,793	3,720
Other income	1,939	1,630	1,695	1,763
EBT	7,556	9,799	13,717	18,539
Income taxes	601	741	1,180	3,834
Effective tax rate (%)	7.9	7.6	8.6	20.7
Extraordinary items	16	-	-	-
Min into / inc from associates	(8)	(24)	(130)	(22)
Reported net income	6,760	9,083	12,667	14,727
Adjustments	16	-	-	-
Adjusted net income	6,744	9,083	12,667	14,727
<i>Growth (%)</i>	55.9	34.7	39.5	16.3
Shares outstanding (mn)	2,003.4	2,003.4	2,003.4	2,003.4
FDEPS (Rs) (adj)	3.4	4.5	6.3	7.4
<i>Growth (%)</i>	55.9	34.7	39.5	16.3
DPS (Rs)	0.8	0.8	0.8	0.8

Cash flow statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Net income + Depreciation	8,331	11,582	16,271	18,330
Non-cash adjustments	234	(24)	(130)	(22)
Changes in working capital	1,307	(4,990)	(2,878)	(2,066)
Cash flow from operations	9,873	6,568	13,263	16,242
Capital expenditure	(18,810)	(22,148)	(8,057)	(19,148)
Change in investments	(514)	5	(0)	0
Other investing cash flow	-	1,851	206	(1)
Cash flow from investing	(19,324)	(20,293)	(7,850)	(19,149)
Issue of equity	712	-	-	-
Issue/repay debt	9,465	10,652	5,414	5,351
Dividends paid	(1,404)	(1,600)	(1,600)	(1,920)
Other financing cash flow	63	-	-	-
Change in cash & cash eq	(616)	(4,673)	9,227	524
Closing cash & cash eq	9,995	5,322	14,549	15,073

Economic Value Added (EVA) analysis

Y/E March	FY10	FY11E	FY12E	FY13E
WACC (%)	8.2	8.2	8.2	8.2
ROIC (%)	12.1	12.4	15.2	15.1
Invested capital (Rs mn)	67,934	91,419	98,689	116,340
EVA (Rs mn)	2,638	3,899	6,931	8,070
EVA spread (%)	3.9	4.3	7.0	6.9

Balance sheet

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Cash and cash eq	9,995	5,322	14,549	15,073
Accounts receivable	1,764	3,325	4,903	6,034
Inventories	316	441	679	849
Other current assets	5,114	8,075	11,906	14,654
Investments	2,219	2,214	2,214	2,214
Gross fixed assets	54,858	89,926	90,382	90,942
Net fixed assets	47,411	79,909	76,762	73,719
CWIP	19,183	6,263	13,863	32,451
Intangible assets	1,089	-	-	-
Deferred tax assets, net	(2,817)	(2,812)	(2,812)	(2,812)
Other assets	(69)	(97)	(197)	(197)
Total assets	84,208	102,640	121,867	141,985
Accounts payable	2,064	3,005	4,778	6,160
Other current liabilities	2,690	1,372	2,329	2,889
Provisions	740	774	812	853
Debt funds	37,062	47,714	53,129	58,480
Other liabilities	7,113	7,149	7,010	6,952
Equity capital	4,035	4,035	4,035	4,035
Reserves & surplus	30,503	38,592	49,775	62,616
Shareholder's funds	34,538	42,627	53,810	66,651
Total liabilities	84,208	102,640	121,867	141,985
BVPS (Rs)	19.2	23.3	28.8	35.3

Financial ratios

Y/E March	FY10	FY11E	FY12E	FY13E
Profitability & Return ratios (%)				
EBITDA margin	64.6	68.5	66.7	65.9
EBIT margin	52.1	55.5	54.3	56.0
Net profit margin	45.1	47.0	43.5	40.2
ROE	21.1	23.6	26.3	24.5
ROCE	13.7	14.4	16.7	15.9
Working Capital & Liquidity ratios				
Receivables (days)	50	48	52	55
Inventory (days)	28	23	21	22
Payables (days)	194	152	147	160
Current ratio (x)	3.6	3.9	4.5	4.0
Quick ratio (x)	2.2	1.7	2.6	2.2
Turnover & Leverage ratios (x)				
Gross asset turnover	0.3	0.3	0.3	0.4
Total asset turnover	0.2	0.2	0.3	0.3
Interest coverage ratio	3.6	4.2	4.2	5.5
Adjusted debt/equity	1.1	1.1	1.0	0.9
Valuation ratios (x)				
EV/Sales	20.8	16.1	10.7	8.5
EV/EBITDA	32.2	23.5	16.0	12.9
P/E	39.8	29.6	21.2	18.2
P/BV	7.0	5.8	4.6	3.8



Quarterly trend

Particulars	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11
Revenue (Rs mn)	3,378	4,206	4,157	4,135	4,508
YoY growth (%)	12.3	47.8	35.5	26.3	33.4
QoQ growth (%)	3.2	24.5	(1.2)	(0.5)	9.0
EBITDA (Rs mn)	2,330	2,500	2,895	2,737	3,098
EBITDA margin (%)	69.0	59.4	69.7	66.2	68.7
Adj net income (Rs mn)	1,632	1,922	2,113	2,117	2,285
YoY growth (%)	61.9	27.1	23.7	21.1	40.0
QoQ growth (%)	(6.6)	17.8	9.9	0.2	7.9

DuPont analysis

(%)	FY09	FY10	FY11E	FY12E	FY13E
Tax burden (Net income/PBT)	85.2	89.3	92.7	92.3	79.4
Interest burden (PBT/EBIT)	83.4	96.9	91.3	86.7	90.5
EBIT margin (EBIT/Revenues)	51.0	52.1	55.5	54.3	56.0
Asset turnover (Revenues/Avg TA)	18.9	19.5	20.7	25.9	27.7
Leverage (Avg TA/Avg equitiy)	227.3	239.7	242.1	232.8	219.0
Return on equity	15.6	21.1	23.5	26.3	24.5

Company profile

Mundra Port and Special Economic Zone (MPSEZ) is one of India's leading private ports with a current cargo handling capacity of 70mt. In addition, the company will install another 65mt of cargo handling capacity in the next 12 months. Moreover, MPSEZ has 24,000 acres of land, of which 16,000 acres have been notified as SEZ land.

Shareholding pattern

(%)	Jun-10	Sep-10	Dec-10
Promoters	77.5	77.5	77.5
FIs	9.7	10.4	10.4
Banks & FIs	4.8	4.5	4.4
Public	8.0	7.6	7.7

Recommendation history

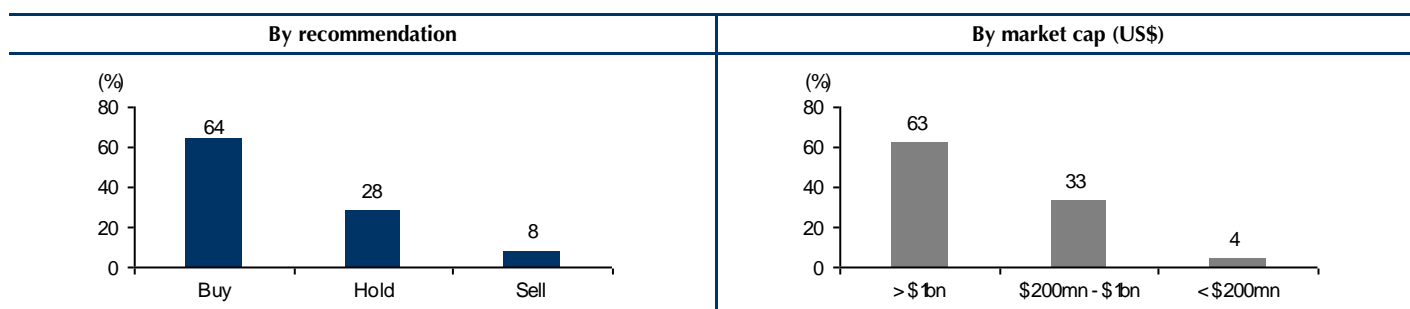
Date	Event	Reco price	Tgt price	Reco
3-Dec-10	Initiating Coverage	147	175	Buy
19-Dec-10	Alert	148	175	Buy
8-Feb-11	Results Review	134	175	Buy

Stock performance





Coverage Profile



Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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