

SICAL LOGISTICS

INR 178

Getting face-lift

BUY



SICAL Logistics (SICAL) has sold off its non-logistics businesses of palm oil, refractories, and auto ancillaries in its effort to emerge as an integrated logistics company. The company has raised INR 1 bn through the process and the capital will be deployed in big ticket logistics projects like an iron ore terminal at Ennore, the MIHAN rail and road terminal, a container train project, and the PSA-SICAL container terminal. In addition, SICAL has also raised INR 1.1 bn through private placement to IDFC, a private equity fund. This restructuring and infusion of fund, we believe, will help SICAL focus on its logistics business and address the high capital requirements of these projects.

SICAL has also announced that it is in the process of raising another USD 25 mn through the QIP route. This will help the company address the concerns of a high gearing ratio and post QIP, the gearing ratio is expected to come down from the current 1.8 to ~1. SICAL is gearing up for high growth through three large projects it has announced viz., an iron ore export handling facility at Ennore, a container rail terminal project, and a rail terminal at Nagpur, which are expected to contribute in FY09E. Adjusting for INR 55/share for these projects, SICAL trades at attractive valuations of 7.2x and 5.8x our FY08 and FY09 EPS estimates, respectively. We maintain our 'BUY' recommendation.

* **Business restructuring to refocus on logistics business**

SICAL, by selling off its non logistics businesses of palm oil, refractories, and auto ancillaries, has raised INR 1 bn. The remaining legacy businesses of plantation, building material, and vehicle sales are being transferred to a group company called SICAGEN. Management has guided that SICAGEN will be registering sales of INR 2.7 bn and net profit of INR 40 mn in FY08E. The hiving off of the non-logistics business will help SICAL focus on the logistics business. This cleaning up of businesses, we believe, will also help in re rating of SICAL Logistics as a pure play logistics company.

Financials

Year to March	FY06	FY07E	FY08E	FY09E
Revenue (INR mn)	9,604	9,594	9,896	8,938
Rev. growth (%)	(20.9)	(0.1)	3.1	(9.7)
EBITDA (INR mn)	1,105	982	1,634	2,003
Net profit (INR mn)	537	403	665	829
Shares outstanding (mn)	40	40	40	40
EPS (INR)	13.4	10.1	16.6	20.8
EPS growth (%)	57.2	(24.9)	64.9	24.8
P/E (x)	8.9	11.9	7.2	5.8
EV/ EBITDA (x)	7.0	9.4	4.6	4.2
ROE (%)	21.3	11.7	12.6	11.5
ROCE (%)	17.6	10.1	11.5	11.5

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Reuters : SICAL.BO
Bloomberg : SIC IN

Market Data

52-week range (INR) : 575 / 145
Share in issue (mn) : 30.2
M cap (INR bn/USD mn) : 5.4 / 121.8
Avg. Daily Vol. BSE ('000) : 28.4

Share Holding Pattern (%)

Promoters : 56.5
MFs, Fls & Banks : 6.5
FIs : 16.9
Others : 20.2



* **Securing capex requirement**

SICAL has announced its foray into big ticket logistics projects like an iron ore terminal at Ennore (INR 3.3 bn), a container rail terminal project (INR 3.7 bn), a rail-road terminal at Nagpur (INR 1.8 bn), and a joint venture with PSA for second container terminal at Chennai (INR 3 bn). To fund these projects, SICAL has taken approval for raising USD 50 mn through equity offerings. It has already raised USD 25 mn through a private placement to IDFC and the remaining USD 25 mn will be raised through QIP. This capital infusion, along with the FCCB money, will help SICAL secure its funding requirement for these big ticket projects.

* **Addresses concern of high debt equity ratio**

Post the USD 75 mn FCCB, convertible at INR 563 per share and considering the likelihood of non conversion, SICAL has a gearing ratio of 1.8x. Post the approved fund raising of USD 50 mn, the debt-equity ratio for SICAL will now come down to ~1x. This, we believe, will alleviate concerns of a high gearing ratio and also constraints to fund high capital intensive project.

* **Financials and valuations**

We expect SICAL's EPS to grow at a CAGR of 15.6% to INR 16.6 and INR 20.8 in FY08E and FY09E, respectively. At INR 178, it trades at a P/E of 10.7x and 8.6x on the above earnings. However, this does take in to account its holdings in long term BOT projects of iron ore and the Tuticorin and Chennai container terminals. For SICAL's holding in these projects, we arrive at a value of INR 55/share. Adjusted for these holdings, it trades at a P/E of 8.2x and 6.6x our FY08 and FY09 EPS estimates, respectively.

Company Background

SICAL is one of the leading logistics service provider based out of Southern India. It provides services such as port handling, trucking & warehousing, ship & customs house agency, container and offshore logistics.

Investment Rationale

* **Leading provider of port-based bulk logistics**

SICAL is a dominant player in port-based bulk logistics, with presence across ports in Chennai, Ennore, Tuticorin, Vizag, and Goa. It currently handles 26 MT of bulk across various categories like coal, coke, iron ore, fertilizer, and cement. Its major contribution comes from contracts like coal handling contracts at Ennore, Tuticorin, and Chennai ports. With the Indian government's target of 100,000 MW addition by 2012E (with ultra mega power projects likely to add 20,000 MW in the next seven-eight years), demand for coal is slated to go up and SICAL is rightly positioned to capture this strong growth.

* **Offshore logistics: Next growth driver**

SICAL provides ocean logistics services like operation and management of offshore supply vessels. It provides management services for 15 offshore supply vessels (OSVs) of ONGC and ONGC is likely to come up with an O&M contract for another 30 OSVs. SICAL has also acquired Bergen Offshore Logistics, a Singapore-based company with a fleet of three anchor handling tugs and one platform supply vessel. With strong growth in the oil exploration sector, we believe that offshore logistics will be the next big growth driver for SICAL.

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Yogesh Radke - 2286 4328	Alternative & Quantitative	Dipesh Shah - 2286 4434

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Buy	Expected to appreciate more than 20% over a 12-month period	Reduce	Expected to depreciate up to 10% over a 12-month period
Accumulate	Expected to appreciate up to 20% over a 12-month period	Sell	Expected to depreciate more than 10% over a 12-month period
Trading Buy	Expected to appreciate more than 10% over a 45-day period	Trading Sell	Expected to depreciate more than 10% over a 45-day period

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