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Mundra Port and Special Economic Zone (MPSEZ)

PRICE : RS.153 | **RECOMMENDATION : ACCUMULATE**
TARGET PRICE : RS.166 | **FY13E: P/E: 18.8**

Mundra Port and Special Economic Zone (MPSEZ) is the largest private port (minor port) in the country providing port services for a diversified cargo including bulk, liquid and container cargo. It also provide value added service including container rail and storage service. Its superior in-frastructure and natural advantages have helped the company increase its volume at a CAGR of 33 % over FY06 -FY11 to ~52 mn tonnes and we estimate a CAGR of 29% over FY11-14E led by strong volumes growth in bulk (40%), container (18%) and crude and Petroleum Oil and Lubricant (POL) (~14 %). A significant portion of these volumes (~ 50% by FY13E) would come from long term contracts. The company is also aggressively expanding in other coastal parts of India and even abroad. We incorporate robust growth in volumes in medium term for MPSEZ. However, due to the recent run up in the price, we initiate coverage on the stock with an ACCUMULATE rating and a price target of Rs 166.

Key investment argument

- **Strong and quality infrastructure - attracts volumes**. Mundra port is strategically located on the west coast spread across 36,000 acres catering to an industrious Gujarat with proximity to industrialized NCR. The fourth generation port has superior infrastructure and support services to meet ~150mtpa traffic presently and would ramp it up to 225 mtpa in near term (FY15E). The port has one of the deepest drafts (max 32 meters) capable of accommodating even ultra large vessels. As a result, it is able to attract huge volumes and benefits from economies of scale and higher operational efficiency. It also offers integrated logistics (effective connectivity via rail & road) to meet customer requirement.

- **Volumes to cross 100 million tonnes port by FY14E - Volumes at Mundra to grow at a healthy 29% CAGR over FY11 to FY14E**. Overall port traffic in India has grown at 11% over the past five years, with non major ports witnessing 13% growth; we estimate 11% overall growth in port volumes during FY11-14E (Crisil estimate 10% CAGR over FY11-14E). MPSEZ has seen 33% traffic growth over FY06 - FY11 and we estimate a CAGR of 29% over FY11-14E led by strong volumes growth in bulk (40%), container (18%) and crude and POL (~14 %). We believe Mundra on the west coast is well poised to capture higher traffic share due to its natural advantage, superior infrastructure and tie ups with oil and power majors.

- **Assured contracts/revenues to form ~50% of the business by FY13E.** Mundra has signed long term contracts with IOC and HPCL for handling crude and petroleum products, with Adani power (4600 mw) and Tata power (UMPP of 4000 mw) for handling thermal coal and with Maruti for exporting cars from Mundra. Of the 93 million tonne that we expect Mundra to handle by FY13E, 45 million tonnes (~50%) are assured from the aforesaid contracts. This would provide Mundra with assured revenues of ~Rs 16 bn and PAT of ~Rs 7bn per annum by FY13E.

Stock details

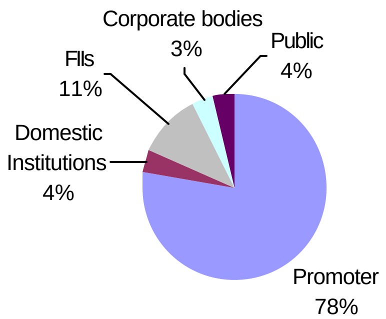
BSE code	:	532921
NSE code	:	MUNDRAPORT
Market cap (Rs mn)	:	317,300
Free float (%)	:	23
52 wk Hi/Lo (Rs)	:	183/112
Avg daily volume	:	1,000,000
Shares (o/s) (mn)	:	2004

Summary table

(Rs mn)	FY11	FY12E	FY13E
Sales	20,001	25,818	33,916
Growth (%)	33.7	29.1	31.4
EBITDA	12,994	16,551	21,840
EBITDA margin (%)	65.0	64.1	64.4
Net profit	8,930	10,833	15,493
EPS (Rs)	4.5	5.4	7.7
Growth (%)	33.9	21.3	43.0
CEPS (Rs)	6.0	7.1	9.6
Book value (Rs/share)	21.9	26.1	32.0
Dividend per share (Rs)	0.8	1.2	1.8
ROE (%)	21.7	22.3	25.9
ROCE (%)	11.9	14.4	18.0
Net cash (debt)	40,726	34,695	23,862
NW Capital (Days)	16.7	7.2	13.0
EV/EBITDA (x)	22.9	18.3	14.1
P/E (x)	32.5	26.8	18.8
P/Cash Earnings	24.2	20.5	15.1
P/BV (x)	6.6	5.6	4.5

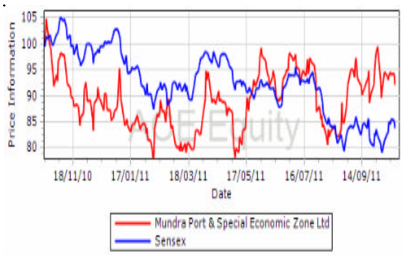
Source: Company,
Kotak Securities - Private Client Research

Shareholding pattern



Source: ACE Equity

One-year performance (Rel to Sensex)



Source: ACE Equity

- **MPSEZ enjoys natural advantage**. MPSEZ has two strong natural advantages; 1) Deep draft of up to 32 mts which can easily accommodate the next generation vessels like ULCC/ Chinamax, leading to economies of scale for the customer and 2. Good proximity to highly-industrialized and landlocked northern/north western states of Delhi, Punjab, Haryana, Rajasthan and West UP which reduces the road and rail distance to NCR by 218 km vis-à-vis Mumbai (JNPT). Both these natural advantages are critical for the customer to reduce logistics cost and it has helped MPSEZ to attract volumes at the port
- **Port business beyond Mundra.** MPSEZ is also looking for port business beyond Mundra. MPSEZ currently holds 74% stake in Adani Petronet Port Pvt (APPL) at Dahej, a JV company with Petronet LNG (PLL) for a solid cargo port terminal at Dahej with a capacity of 15 mtpa. It has also won a BOT for a 10 mtpa coal terminal at Mormugoa for a period of 30 years. Plus it has been awarded the LOI for construction and operation of 13 berths (bulk, break bulk, liquid cargo, and containers) at the Hazira Port (a 74:26 JV between Shell Gas and Total Gaz of France). This put together would give Mundra additional volume of more than 9 mtpa (except Hazira) by FY13E.
- **Vast SEZ - complements the port business.** Mundra has so far obtained 26,000 acres of land of which 16,000 acres has been notified as SEZ by the government. The port and the SEZ complement each other in business. The huge SEZ provides captive cargo to the port and the port provides smooth transport of goods produced in SEZ. Though so far Mundra has just leased out a meager ~1800 acres of land, the complementary nature of business provides for significant pickup in land volumes at the SEZ which would benefit MPSEZ.
- **Value accretive International Acquisition - Abbot Point.** Abbot point coal terminal is located in Queensland, Australia, and has a current capacity of 50 mtpa which can be extended up to 80 mtpa by FY16E. The terminal has, take or pay agreements with nine mining companies including Rio Tinto, Xstrata and BHP. By FY16E, the management expects revenues to touch AUD 305mn and EBITDA AUD 213mn. To date, the transaction has been fully funded with debt (for three years) from Standard Chartered and State Bank of India, with no equity investment from MPSEZ. We use FCFE model with a 14% cost of equity and the conservative assumption that capacity stays constant at 50 mtpa (not expanded to 80 mtpa), giving us a fair value of Rs 19.5 bn (or ~Rs 10 per share for MPSEZ).

Valuation and Recommendation

We initiate coverage on the stock with an ACCUMULATE rating and a price target of Rs 166

We expect traffic at MPSEZ to see a strong CAGR of 29% over FY11-14E - dry bulk (40% CAGR), container volumes (18% CAGR) and POL/Crude (18% CAGR), driven by natural advantages, integrated logistics, colossal infrastructure, good hinterland connectivity & strong execution. The company's ventures/JVs including multi-product SEZ, new ports, logistics and ICDs will add value to the company. Currently valuations currently are rich with the stock trading at 26 x P/E and 19 x EV/EBIDTA FY12E, which is almost 25% premium to valuation of major global ports. But we believe MPSEZ's superior growth (29% CAGR Vs. 10% for global companies), superior ROE (+20% versus ~15% for global companies), assured contracts and scale of operations deserves premium valuations. We factor in healthy volume growth at 29% CAGR and margins at ~ 65% over FY11 - FY14E. Our estimate of the net present value of equity cash flow of the existing businesses - sum-of-parts value comes at ~ Rs 156 per share. Abbot Point contributes ~ Rs 10 per share to the value of MPSEZ valuing the company at Rs 166 per share. This leaves for some room for upside for the stock from the current level of Rs 153. We initiate coverage on MPSEZ with an **ACCUMULATE** rating and target price of Rs 166.

Risk and Concerns

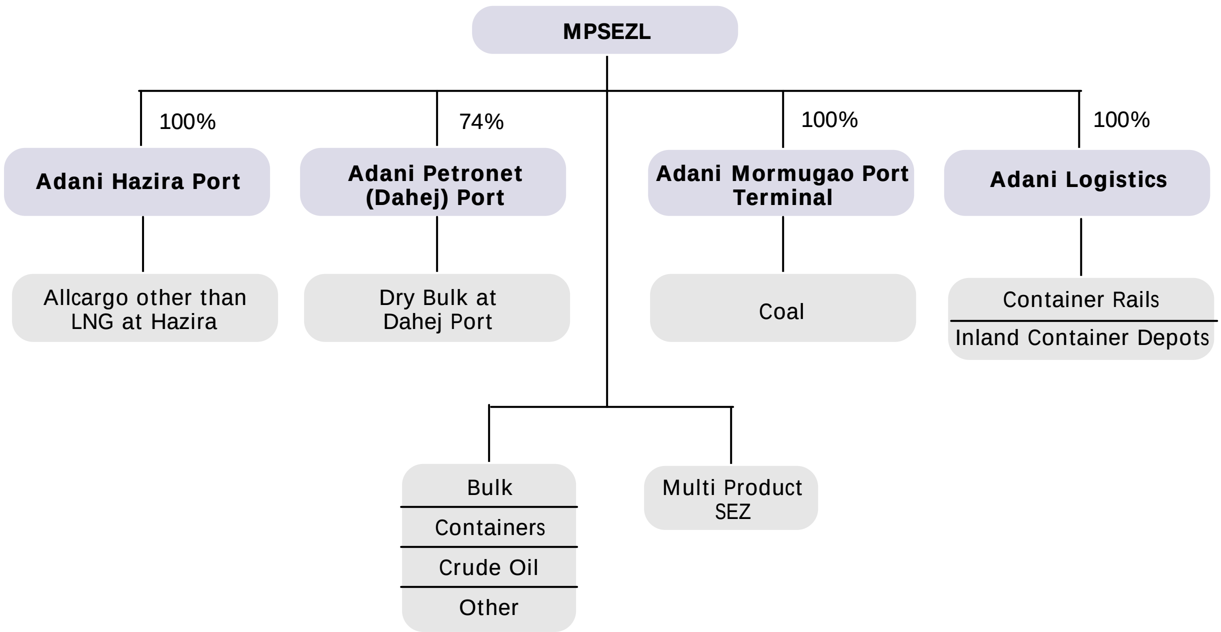
- If minor ports are brought under the Tariff Authority for Major Ports (TAMP) umbrella, as is being considered by the Government, TAMP's practice of linking pricing to cost base (though with some incentives for efficiency) would neutralize the significant return differential MPSEZ enjoys vs. its peers by being one of the most efficient port.
- If trade slows down, given the weak global economic climate, then the volume CAGR could shrink in the near term, resulting in risk to earnings and valuations.
- Competition in the port sector could climb significantly, as major ports increase capacities and as minor ports (especially in Gujarat and Andhra Pradesh) come up, eroding MPSEZs strong growth projections. Mundra may have to compete with new fourth generation ports like Krishnapatnam (Orissa), Dhamra (Orissa), Gangavaram (AP), Dighi (Maharashtra) etc.
- Lifting of SEZ-related tax benefits as proposed by the Direct Tax Code (DTC) after FY12E would hinder development of SEZ and also off take of units in SEZ.
- Delays in progress of the power projects which would lead to lower-than-expected coal volumes.
- Other risks include (a) Delays and/or cost escalation in planned capital expenditure (b) unavailability of revenue break-up which impedes understanding and (c) inability to sustain tariffs at current/projected levels.

INTRODUCTION

Mundra Port incorporated as Gujarat Adani Port Limited (GAPL) in 1998 is India's largest private port which commenced operations in October 2001. Later in November 2003 Mundra Special Economic Zone Limited (MSEZ) was incorporated, to set up an SEZ at Mundra. MSEZ was merged with GAPL in April 2006. The merged entity was christened as Mundra Port and Special Economic Zone Limited (MPSEZ), to reflect the nature of business.

Mundra Port provides cargo handling and other value-added port services and Mundra SEZ is India's first port-based multi-product SEZ.

Business Overview



Source: Company; Kotak Securities - Private Client Research

Concession agreement with Gujarat Maritime Board (GMB)

Mundra has exclusive right, until February 17, 2031, to develop, operate and maintain approximately 3,404 acres of land located at Mundra Port which includes a waterfront of approximately 5,000 metres in length within the port area. On expiry of the Concession Agreement, all assets shall be transferred to the GMB for which MPSEZ will receive compensation based on an independent valuation of such assets.

Port Traffic in India and Mundra

Containers, coal and POL traffic contribute about 80% of the total traffic at Indian Ports. With India growing at 7%+ and with increasing containerization, we estimate the share of these items in the total volumes at Indian ports only to increase.

Snapshot of traffic at 12 major ports

	FY06	FY07	FY08	FY09	FY10	FY11
Volumes in '000' TEUs						
JNPT	2,799	3,298	4,060	3,953	4,061	4,271
Chennai	735	886	1,128	1,143	1,225	1,523
12 major ports	**4,745**	**5,541**	**6,710**	**6,596**	**6,872**	**7,537**
YoY growth (%)		16.8	21.1	-1.7	4.2	9.7
Total cargo port wise '000' tonnes						
KOLKATA WB	53,143	55,050	57,329	54,051	46,295	47,432
PARADIP Orissa	33,109	38,517	42,439	46,412	57,011	56,030
VISAKHAPATNAM AP	56,501	56,385	64,597	63,908	65,501	68,041
ENNORE TN	9,168	10,714	11,875	11,495	10,703	11,009
CHENNAI TN	47,248	53,414	57,154	57,191	61,057	61,460
TUTICORIN TN	17,139	18,001	21,480	22,011	23,787	25,817
COCHIN Kerela	13,887	15,257	15,810	15,228	17,149	17,873
NEW MANGALORE Karnataka	34,451	32,042	36,019	36,591	35,528	31,550
MORMUGAO Goa	31,688	34,241	35,128	41,681	48,847	50,022
MUMBAI Maharashtra	44,190	52,364	57,038	51,876	54,543	54,585
J.N.P.T. Maharashtra	37,836	44,815	55,838	60,428	60,746	64,299
KANDLA Gujarat	45,907	52,982	64,920	72,225	79,521	81,880
Total	**424,267**	**463,782**	**519,627**	**533,097**	**560,688**	**569,998**
YoY growth (%)		9.3	12.0	2.6	5.2	1.7
Total cargo commodity wise '000' tonnes						
POL	142,087	154,339	168,751	175,797	175,482	180,363
Iron ore	79,171	80,585	91,796	94,080	99,914	87,306
Fertiliser	12,894	14,127	16,630	18,113	17,719	20,114
Coking coal	37,658	37,309	39,601	44,028	44,052	44,266
Thermal coal	21,101	22,674	25,324	27,130	27,532	28,498
Other cargo	69,376	81,311	85,256	81,153	95,116	95,411
Container tonnes	61,980	73,437	92,269	92,796	100,873	114,040
Total	**424,267**	**463,782**	**519,627**	**533,097**	**560,688**	**569,998**

Source: Company

Infrastructure and performance of major ports

The 12 major ports in the country are suffering from limited water depths, old infrastructure, inefficient handling systems, poor hinterland connectivity, overstaffing and poor quality of services. The traffic at major ports is growing at a slow rate. This has led to steady decline in market share of the major ports over the last 10 years in the face of growing competition from the rapidly developing non-major ports (intermediate ports developed under public-private partnerships and private ports) like MPSEZ.

Major ports have been losing market share to minor ports like MPSEZ

Fall of share of Major ports

(mn tonnes)	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY14E
Major ports	384	424	464	520	530	561	570	698
CAGR (%)		10.4	9.4	12.1	1.9	5.8	1.6	7.0
Minor ports	138	146	172	196	202	274	314	477
CAGR (%)		5.8	17.8	14.0	3.1	35.6	14.6	15.0
Total	**522**	**570**	**636**	**716**	**732**	**835**	**884**	**1176**
CAGR (%)		9.2	11.6	12.6	2.2	14.1	5.9	11.0
% share								
Major ports		74.4	73.0	72.6	72.4	67.2	64.5	59.4
Minor ports		25.6	27.0	27.4	27.6	32.8	35.5	40.6

Source: Indian Ports Association

Up gradation and capacity addition for major ports is few years' away

The government of India (GOI) has planned investment of Rs 600 billion via NMDP for almost doubling capacity of major ports to 1,020 mtpa by FY12E (present is 743 mtpa). This implies a shortfall of 287 mtpa to be added by March 2012. However a significant portion of the outlay allocation and key decisions regarding the actual expansion are still pending. We expect the targeted capacity to spillover by a few years, leading to overutilization continuing and volumes remaining stagnant at major ports. We envisage no major threat to MPSEZ from Kandla, JNPT and Mumbai Port Trust (West coast ports) in near term.

We estimate overall port traffic (minor + major) to grow at 11% CAGR over FY11- FY14E – MPSEZ to be the main beneficiary and grow the fastest ~ 29% CAGR

MPSEZ is India's largest private port and SEZ. Given its huge asset base the company is well poised to capitalize on the surge in port traffic and economic activity in Gujarat and the North West. While we expect overall port traffic (minor + major) to grow at a CAGR of 11% over FY11 to FY14E(Crisil estimates 10% CAGR over FY11 to FY14E), for Mundra we estimate total cargo traffic to increase to 93 mn tonnes by FY13E and to ~112 mn tonnes by FY14E from ~52 tonnes in FY11 leading to volume CAGR of 29 % over FY11-14E (versus 16.5% CAGR for minor ports as per Crisil). We expect Mundra to have high utilization levels of 70%.

This would be driven by (over FY11 to FY14E):

- Bulk traffic would increase at 40% CAGR to ~67 million tonnes
- Container by 18 % CAGR to 24 million tonnes (1.8 mn TEUs)
- Crude and POL by 14% CAGR to ~21 million tonnes

Mundra ramping up infrastructure/capacity for the same

Present and upcoming capacity for Mundra (mtpa)

Current		Upcoming		
Terminal	**Capacity**	**Terminal**	**Capacity**	**Status**
Multi Purpose	25	Multi Purpose	15	Mid FY13E
Container 1	15	Container	20	End FY15E
Container 2	15	Bulk	40	End FY15E
SPM1	25			
SPM2	25			
New coal	45			
	150		**75**	

Source: Company

Capacity at ports is determined primarily by the following three efficiency parameters:

- Average output of a ship at the berth per day measured in tonnes of cargo – involves loading and unloading speed (discharge rate) from a ship and is a function of infrastructure at the port, storage facility at the port and hinterland connectivity (evacuation).
- Idle time of the ship at the berth – depends on quick availability of cranes and skilled labour force
- Pre berthing time – involves pilotage, draft, maintenance of channels and infrastructure at the port

The above 3 factors would be reflected in the **Turn Around Time (TRT)** for the ship "the time ship spends since its entry in and departure from the port". The TRT for Indian ports is very high compared to International ports and hence high occupancy and poor volumes

Capacity at any port is aggregated capacities of all their berths.

Capacity of a berth= 365 *berth occupancy * achievable ship berth day output

Where,

365 = no of available days

Berth occupancy = 70% (best berth occupancy as recommended by Port of Rotterdam)

Achievable ship berth day output = Amount of cargo handled in a year/no of days for which the berth is occupied (Cargo handled considers factors like type of cargo, method of handling, vessel characteristics and equipment productivity)

Capacity of a berth (example)

Cargo handled in previous year (mn tonnes)	100	A
No of days occupied	250	B
No of available days	360	C
Capacity (mn tonnes)	100.8	(A *70%*C/B)

Source: Industry

Investment Positives

Robust performance of MPSEZ could be also be attributed to the following factors

MPSEZ offers several competitive advantages over other ports in the western region which have, in turn, been the key drivers behind the strong growth in cargo volumes handled at the port.

Natural advantages:

- Mundra is one of the deepest draught ports on India's West Coast with a draught of 15-32 meters at a short distance from the port. The port can accommodate huge carriers like Very Large Ore Carrier (VLOC > 275,000 dwt, Ultra Large Crude Carrier (ULCC > 300,000 dwt) and Suezmax (Containership = 12,000 TEUs). These vessels are next generation vessels and Mundra would one of the gateways to them.

Mundra can handle very large ships

Draft requirement of ships of various size

Size (dwt)	Draft required (mts)
20,000	9
40,000	11
60,000	12
80,000	13
100,000	15
140,000	16
200,000	18

Source: Industry

- Mundra has good proximity to highly-industrialized and landlocked northern/ north western states of Delhi, Punjab, Haryana, Rajasthan, West UP etc. The port offers benefit of linkage to major road and rail network on the Mumbai-Delhi route as well as connectivity to the crude oil/ POL pipelines in the country. Rail connectivity of the port reduces the rail distance to NCR by 218 km vis-à-vis Mumbai (JNPT) and the route is also capable of handling double-stack trains, thereby offering substantial freight cost savings.
- Mundra is a 'minor port' and is not governed by the Tariff Authority for Major Ports (TAMP), which enables Mundra to set competitive tariffs and charges in accordance with the prevailing market rates.
- Mundra Port's location near the entrance of the Gulf of Kutch on the northwest coast of India makes it ideally positioned to serve imports from and exports to the Middle East, Asia, Africa and other international destinations.

Diversified cargo profile – act as a hedge against any cargo category

Mundra Port has the ability to handle different types of cargo including bulk, crude and container. Moreover, the port has developed Single Point Mooring (SPM) facilities, which further enable it to handle large tankers. The diverse handling capacity coupled with location advantage provides the port with multiple growth drivers and hedges it against slowdown in any particular cargo category.

Cargo profile of Mundra and JNPT/ Kandla– for FY11

	Mundra		Kandla		JNPT	
	Cargo (mn tonnes)	% share	Cargo (mn tonnes)	% share	Cargo (mn tonnes)	% share
Bulk	23.1	44.4	30.8	37.7	2.7	4.2
Crude/POL	14.1	27.1	48.4	59.2	5.1	7.9
Containers	14.9	28.6	2.6	3.2	56.4	87.9
Total	**52.2**	**100.0**	**81.8**	**100.0**	**64.2**	**100.0**

Source: Indian Ports Association; Company

Assured revenues from contracts

Long term contracts ensures visibility of revenues and earnings

MPSEZ currently derives ~ 50% of its total cargo volumes from long-term contracts with big industrial players. Going forward, we expect a surge in MPSEZ's contracted volumes driven by commissioning of new projects / capacities by these players. Further, it has also entered into long-term contracts for handling of coal with upcoming coal-based power plants in the region. These contracts provide the port with long-term volumes, and thereby ensure steady revenues.

Contract with HPCL

MPSEZ has also entered into a contract with HPCL for handling crude for its 9 mtpa HPCL-Mittal Energy (HMEL) refinery at Bhatinda, which has gone stream from 2011. HPCL is laying a 1,012 km long crude oil pipeline from Mundra to its Bhatinda refinery. This implies a sharp jump in POL/ crude volumes handled by Mundra Port for HPCL.

Contract with IOC

IOC's Panipat refinery is connected to the crude oil facilities at Mundra Port by a 1,174 km pipeline, owned and operated by IOC. IOC has a long-term contract with MPSEZ for use of its SPM facilities at Mundra Port. Capacity at the Panipat refinery is now being expanded to 15 mtpa from 12 mtpa and capacity of the Mundra-Panipat pipeline too is being simultaneously expanded to 9 mtpa from 6 mtpa to cater to the planned increase in refining volumes at the Panipat refinery. This implies a sharp jump in crude volumes handled by Mundra Port for IOC.

Contract with upcoming coal based power plants

The Adani Group is setting up a 4,620 MW power plant at Mundra and a 1,980 MW power plant at Dahej. Tata Power is also setting up a 4,000 MW UMPP at Mundra. These power plants would be fired using imported coal and at full capacity, we estimate them to generate total coal cargo of ~ 30 to 35 mtpa for Mundra Port and ~ 7 mtpa for Dahej Port. MPSEZ has long-term contracts in place for handling of coal for these power plants.

Calculation of peak coal requirement by the power plants

Power Projects	Capacity (mw)	Thermal coal requirement (mt)
Mundra 1 and 2	1,320	4.6
Mundra 3	1,320	4.6
Mundra 4	1,980	6.9
Dahej	1,980	6.9
Tata (UMPP)	4,000	14.0
Total	**10,600**	**37.1**

Note: 1 mw requires = 3500 tonnes of thermal coal annually; Source: Kotak Securities - Private Client Research

Car exports by Maruti and Nissan

The excellent draft at Mundra has motivated Maruti Suzuki and Nissan motors to export cars (A Star and Pixo respectively) from Mundra port. Car liners NYK, K Line & Hoegh Auto are operating out of Mundra Port. Mundra and Maruti have jointly developed a floating cost-effective Roll-on Roll-off (RORO) terminal for facilitating automobile export by Maruti Suzuki from the port. The port handled about 125,000 cars in FY10 and 135,000 cars in FY11. It is expected to handle an average of 12,000 to 15,000 cars per month.

Captive cargo from the SEZ

MPSEZ is a unique blend of a coast based SEZ and a full service 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.

Progress On SEZ land acquisition; Provides High Revenue Visibility

MPSEZ's multi-product SEZ at Mundra, currently under development, is spread across ~ 36,000 acres (excluding the 1,871 acres occupied by Mundra Port). MPSEZ already possesses ~ 26,000 acres of land (acquired under concession agreement) of which 16,000 acres has been notified by the government. The company has not done any significant land transactions in FY11 and we do not expect any meaningful volumes (factored 3% volume CAGR) going forward in near term.

Assumption for MPSEZ volume off-take in SEZ business

	FY12E	FY13E	FY14E	FY15E
Land Volumes (acres)	515	530	546	563
Land Volumes (sq mts)	2,084,205	2,146,731	2,211,133	2,277,467
Land volumes (sq ft)	22,402,500	23,074,575	23,766,812	24,479,817
Cumulative volumes (sq ft)	122,452,500	145,527,075	169,293,887	193,773,704

Source: Company; Kotak Securities - Private Client Research

The company is also in various stages of acquiring another 10,000 acres. The management expects no problems in acquisition and notification to SEZ process since most of the land is barren land. The rapid progress in land acquisition and notification process imparts visibility to potential revenue stream from the SEZ in long term (as an when the corporate capex picks up).

CONTAINER RAIL BUSINESS HAS BEGUN

MPSEZ is also ramping up its container rail and ICD business

To strengthen its foothold in the logistics value chain, MPSEZ has acquired 100% stake in Adani Logistics Limited (ALL) which has a category I license (Pan India License) to run container trains. This will enable MPSEZ to operate scheduled train services at its port and provide assured and timely delivery services to container shipping lines and port users. Presently it operates 6 rakes and would expand the number gradually. The company would gradually ramp it up to 20 rakes over a period of 5 years. The total investment in the business would be around Rs 3 bn (debt equity of 2:1).

INLAND CONWARE PRIVATE LTD (ICPL)

Adani's ICPL has two operational ICDs, at Patli and Kishangarh. The company plans developing 14 ICDs to handle domestic and international cargo by FY16E. The initial phase of development would create network of seven ICDs in North India (viz., Patli, Palwal and Noli in NCR; Chawapail and Kila Raipur in Punjab; and Kishangarh in Rajasthan). The next phase would involve development of additional ICDs at important cargo centres such as Ahmedabad, Mumbai, Kolkata, Chennai, Bangalore, Coimbatore and Nagpur in India. For this, MPSEZ has purchased 600 acres of land at 14 locations. The total investment in this business would be around Rs 9 bn (debt equity of 2:1).

Note: MPSEZ plans to consolidate its container rail and logistics businesses with the aim of improving efficiencies and providing better services to customers. MPSEZ plans to merge ALL and ICPL

Highlights of Container Rail and ICD business

- Total investment of about Rs 2 bn made in the business till date
- We estimate this investment generating about Rs 1.5 bn of revenue per annum
- Further investment of Rs 12 bn in the pipeline to be invested over FY11 to FY16E to ramp up the business.
- It complements the port business of MPSEZ and helps generate more volume at the port.
- We value Logistics business at one time book value.

Terminals at MPSEZ

Old Multipurpose terminal (POL/ bulk)

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 12.5 mtpa. The depth of these berths ranges from 13 meters to 16.5 meters. Both these terminals are operating at peak capacity handling 23 mtpa of cargo per annum. The company is adding another 15 million tonnes (total would be 40 million) by FY13E.

Assumption for this multipurpose terminal (MPT)

We are assuming cargo traffic to grow at 15% CAGR over FY11 to FY14E driven by demand from the nearby industrial belt. Cargo at this terminal would peak in FY14E at 35 mn tonnes.

Volumes at old multipurpose terminal (mtpa)

	FY12E	FY13E	FY14E	FY15E
Capacity	30.0	35.0	40.0	40.0
Volumes	26.4	30.6	35.0	35.0

Source: Kotak Securities - Private Client Research

Container terminal and car export Pontoon

MPSEZ has two container terminals with a handling capacity of 15 mtpa (1.25 mn TEUs) each. Container terminal 1 (CT1) or Mundra International Container Terminal (MICT) is under a Sub concession Agreement with P&O Ports (Australia / UK) with MPSEZ receiving royalty of 10.0% of the Sub concessionaire's gross operating income with a minimum guaranteed royalty of 40.0% of the cargo projections. It comes to about Rs 2000/ TEU. The second container terminal (CT2) is managed by MPSEZ since April 2008. The company has also made a Floating Pontoon dedicated for car export (operational since June, 2009).

Assumption for Container terminal

We are assuming container traffic to grow at 18% CAGR over FY11 to FY14E driven by quick turnaround time, deep draft, good hinterland connectivity, proximity to NCR and capacity constraints at JNPT. Container traffic at both these terminals is expected to peak in FY14E at 12 mn tonnes each. Post this the incremental container volumes of the port would be diverted to the new container terminal of 20 mn tonnes which would come up in FY15E.

Volume at container terminal 1 (mtpa)

	FY12E	FY13E	FY14E	FY15E
Capacity	15.0	15.0	15.0	15.0
Volumes (mn TEUs)	0.7	0.8	1.0	1.0
Volumes (mn tonnes)	9.0	10.5	12.0	12.0

Source: Kotak Securities - Private Client Research

Volume at container terminal 2 (mtpa)

	FY12E	FY13E	FY14E	FY15E
Capacity	15.0	15.0	15.0	15.0
Volumes (mn TEUs)	0.7	0.8	1.0	1.0
Volumes (mn tonnes)	9.0	10.5	12.0	12.0

Source: Kotak Securities - Private Client Research

Volume at Ro Ro terminal (no of vehicles)

	FY12E	FY13E	FY14E	FY15E
Capacity	400,000	400,000	400,000	400,000
Volumes	162,360	166,320	170,280	174,240

Source: Kotak Securities - Private Client Research

Crude facility – Single Point Mooring (SPM) 1 for IOC

MPSEZ has constructed a single point mooring (SPM1 with capacity of 25 mtpa) about 6 km offshore and handles crude oil from this SPM1 through a pipeline to IOCL's storage tank (max capacity 2.83 mn barrels) area at the port. MPSEZ receives fixed annual payments from IOC for developing and maintaining this SPM1 with minimum annual payments of Rs 350 million for 8.25 mn tonnes or less of crude oil which increases up to Rs. 484.1 million for 11.0 mn tonnes and above. IOC's Panipat refinery is connected to the storage facility by a 1,174 km pipeline, owned and operated by IOC. This 1,174 km pipeline meets the crude oil demand of Panipat refinery, whose capacity has recently been expanded from 6 to 12 mtpa. IOC will be further augmenting the Mundra Panipat pipeline from 6 to 9 mtpa for transporting an additional 3 mtpa of crude oil required for Panipat Refinery, currently under expansion from 12 to 15 mtpa (0.26 mbpd). IOC is also setting up four additional crude oil storage tanks of 0.38 mn barrels capacity each at the port. The below table shows the potential in crude volumes handled for IOC from MPSEZ.

Panipat Refinery, IOC (September 2011, update)

Current capacity	12 MMTPA
Increment in capacity (Oct 2011)	15 MMTPA
Sourcing of crude	From MPSEZ through 1,200 km long
	Mundra-Panipat pipeline
Petroleum Products Offtake	Panipat-Bhatinda pipeline
	Panipat-Rewari pipeline

Source: IOC

Assumption for SPM1 & SPM2

We are assuming crude traffic to grow at 14% CAGR over FY11 to FY14E at both the SPMs with increase in refining capacity in the country from current 3.5 mn barrels per day to 5 mn barrels per day in the next 2 calendar years (as per Ministry of Oil) which would lead to healthy demand for crude in the country. We estimate crude handled at both the SPMs would peak at 17.5 mn tonnes in FY18E.

Volume at SPM1 (mtpa)

	FY12E	FY13E	FY14E	FY15E
Capacity	25.0	25.0	25.0	25.0
Volumes	7.5	8.3	9.0	10.0

Source: Kotak Securities - Private Client Research

SPM 2

MPSEZ has entered into a long-term agreement with HPCL Mittal Energy (HME), a subsidiary of HPCL for the construction of SPM2 facility with a total capacity of 25 mn tonnes. HME has been allocated ~ 310 acres of back-up land at Mundra Port for the crude oil terminal for which MPSEZ will receive royalty income of Rs 63 per tonne of crude oil, inclusive of wharfage charges. MPSEZ is currently receiving rent from HME and would receive royalty of Rs 63 per tonne for handling crude from SPM2 which has become operational in FY12. HPCL is laying a 1,012 km long crude oil pipeline from Mundra to its Bhatinda refinery. This implies a sharp jump in POL/ crude volumes handled by Mundra Port for HPCL.

Details of HME Refinery, HPCL (September 2011)

Current capacity	Green field project
Operational (May 2011)	9 MMTPA
Sourcing of crude	From MPSEZ through 1,012 km long
	Mundra-Bhatinda pipeline
Petroleum Products Offtake	Raman Mandi - Bathinda pipeline
HPCL POL	
Mundra-Bahadurgarh pipeline	7 MMTPA

Source: HPCL

Volume at SPM2 (mtpa)

	FY12E	FY13E	FY14E	FY15E
Capacity	25.0	25.0	25.0	25.0
Volumes	7.5	8.8	10.0	11.3

Source: Kotak Securities - Private Client Research

New coal terminal

Tata UMPP (4000 mw) & Adani Power (4620 mw), both estimated to be fully operational by end FY13

MPSEZ has set up a coal terminal having an estimated capacity of 45 mtpa. It involves a coal jetty and a berth which is capable of accommodating two vessels simultaneously. These berths are designed for vessels with a capacity of 220,000 DWT (large capesize). 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/Australia to their respective power plants. These power plants when fully operational would require about ~31 to 35 mtpa of coal cargo to be handled at Mundra port (peak estimated by FY15E = 32 mn tonnes). The handling equipment would be highly mechanized with a capacity of 6000 tonnes per hour per berth.

Assumption for the new coal terminal

We are assuming coal traffic of the new terminal dedicated for the 2 key power projects at Mundra to grow at 70% CAGR over FY12E to FY14E to 31.5 mn tonnes. This would be driven by commissioning of power units in stages from FY12 to end of FY13 with demand for coal peaking in FY14E at 31.5 mn tonnes.

Volume at new coal terminal (mtpa)

	FY12E	FY13E	FY14E	FY15E
Capacity	45.0	45.0	45.0	45.0
Volumes	11.3	22.5	31.5	31.5

Source: Kotak Securities - Private Client Research

Time lines for power projects in Mundra

Tata Power		Adani Power	
Project	**Completion**	**Project**	**Completion**
800 mw	Sep-11	1320 mw	Sep-11
4000 mw (entire)	Mid 2013	1320 mw	End FY12
		1980 mw	End FY13

Source: Tata Power, Adani Power

OTHERS

Company is also continuously looking for port projects on both east and west coast of India.

Dahej BOT

Highlights of Dahej BOT

- It is a JV between MPSEZ (74%) and Petronet LNG (26%)
- It has a 30-year concession period which expires in December'35.
- The solid cargo port terminal project comprises of a T-shaped jetty with two berths. This port is capable of handling large ships as it has a draft of 16 meters
- Project cost is Rs 12 bn (debt equity of 2:1).
- Capacity of these facilities is ~15 mtpa of cargo.
- It would host Adani Group's proposed 1,980 MW thermal power plants (7 mtpa of thermal coal would be required) and would also cater to the highly industrialized Bharuch-Surat-Hazira corridor. The government has also notified a SEZ of ~4,000 acres in Dahej, which would compliment the cargo volumes at Dahej port

Assumptions for Dahej BOT

We have assumed volumes at Dahej to grow at 10% CAGR over FY12E to FY21E driven by demand from the industrial belt of Baruch - Surat - Hazira and thermal coal demand by Adani group. Peak capacity handled at the port would be at 12 mn tonnes in FY21E.

Volume at Dahej (mtpa)

	FY12E	FY13E	FY14E	FY15E
Capacity	15.0	15.0	15.0	15.0
Volumes	5.3	6.0	6.8	7.5

Source: Kotak Securities - Private Client Research

Mormugoa BOT

The company has won the BOT project for 10 mtpa coal terminal for a period of 30 years, at the Mormugoa Port in Goa. This project has a revenue share of 22% (with the port authority) and project cost is Rs. 4 bn (debt equity 2:1). This project is expected to be commissioned by mid FY13.

Assumption for Mormugoa BOT

We have assumed volumes from Mormugoa to grow at 12% CAGR over FY12 to FY19E driven by demand industries in and around Goa, Karnataka and Southern Industrial belt of Maharashtra. Peak capacity handled at the port would be at 9 mn tonnes in FY19E.

Volume at Mormugoa terminal (mtpa)

	FY13E	FY14E	FY15E	FY16E
Capacity	10.0	10.0	10.0	10.0
Volumes	2.5	3.5	5.0	6.5

Source: Kotak Securities - Private Client Research

Hazira

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. This project has a revenue share of 3% (from 10th year onwards with the port authority) and project cost is Rs.10 bn (debt equity 2:1).**We have not factored this BOT in our valuations as the project is still at very nascent stage.**

Additional infrastructure at / near MPSEZ which facilitate volumes at the port

- Mundra-Adipur railway line which transports bulk and container cargo from the port to inland cargo centres via the Indian railway network – MPSEZ receives royalty from Concor (Rs 575/TEU) and Indian railways for the use of the Mundra-Adipur rail line.
- Six lane highway which directly connects the national highway
- The company has a fleet of 12 tugs which help in Pilotage and berthing and a fleet of 13 dredgers which help in capital and maintenance dredging.

PURCHASE OF ABBOT POINT

In May 2011, Mundra was declared the successful bidder for a 99-year coal terminal lease at Abbot Point in Queensland, Australia. Mundra paid A$1.8bn (~US$2bn) in cash for the asset. The port has a capacity of 50mn tons (as on - Jun 11), expandable to 80mn tons. It posted volume of 15mn tons for year ending Jun-11.

Abbot Point is an existing operating port, with take-or-pay arrangements for its entire 50 mn ton capacity (by FY15E) which can be extended up to FY30E (renewable for 10 years more on mutually agreeable terms). Mundra will own the port infrastructure and get a capacity charge. The port operator's job is currently being handled by Xstrata and the operator charges will transit to Mundra only in F16E.

Purchase of Abbot Point is value accretive for MPSEZ

To date, the transaction has been fully funded with debt (for three years) from Standard Chartered and State Bank of India, with no equity investment from Mundra. We use an FCFE model with a 14% cost of equity and the conservative assumption that capacity stays constant at 50mtpa (not expanded to 80mtpa), giving us a fair value of Rs 19.5bn (or ~Rs 10 per share).

Abbot point assumptions (Rs per tonne)

	FY12E-FY15E	FY16-FY20E	FY21E-FY25E	FY26E-FY30E
Revenue	200	315	325	325
Ebidta	195	260	265	265
Net income	8	110	130	142

Source: Kotak Securities - Private Client Research

Financial Analysis

Exponential growth in volumes from 52 mn tonnes in FY11 to ~93 mn tonnes by FY13E and ~112 mn tonnes by FY14E

We estimate the port to have a capacity of 200 mn tons by FY14E (current = 155 mn tonnes). We have built in strong growth in port volumes for MPSEZ over FY11 to FY14E. We estimate the total port volumes to grow at a strong CAGR of 29% over FY11 to FY14E led by (1) 40% CAGR of bulk cargo volumes (2) 18% CAGR in container cargo and (3) 14% CAGR for crude volumes.

Volumes for MPSEZ estimated to grow at 29% CAGR over FY11 to FY14E

Volume growth for Mundra

Volumes in million tonnes	FY11	FY12E	FY13E	FY14E
Misc. cargo (including other coal)	23.13	26.40	30.63	35.00
Thermal coal (Adani power / Tata UMPP)	0.00	11.25	22.50	31.50
Coal / Bulk	**23.13**	**37.65**	**53.13**	**66.50**
Crude	6.69	8.25	9.00	10.00
POL	7.42	8.75	10.00	11.25
Container terminal	14.91	18.00	21.00	24.00
Total handled	**52.15**	**72.65**	**93.13**	**111.75**
Capacity	**127.00**	**155.00**	**175.00**	**200.00**
Overall growth (%)	29.8	39.3	28.2	20.0
Growth in Coal/bulk (%)	60.1	62.8	41.1	25.2
Growth in Crude (%)	-10.8	23.3	9.1	11.1
Growth in PoL (%)	6.2	17.9	14.3	12.5
Growth in Container volumes (%)	32.5	20.7	16.7	14.3

Source: Company, Kotak Securities - Private Client Research

Revenue CAGR of 30% over FY11-FY13E

With the capacity ramp up and tied up volumes, we estimate revenues for MPSEZ to grow at 30% CAGR over FY11-FY13E.

Terminal /Segment wise revenue break for MPSEZ

	FY10	FY11	FY12E	FY13E
Old Bulk Terminal (bulk and oil)			9,240	10,719
New Bulk Terminal (coal)			3,938	7,875
SPM 1 and 2 (POL/Crude)			3,861	4,332
Container terminal			3,168	3,696
Ro Ro terminal			406	416
ICD			720	840
Rail Container Business			467	778
Dahej			1,360	1,554
Mormugoa			-	813
SEZ			2,660	2,895
Gross revenues	**14,955**	**20,001**	**25,818**	**33,916**
CAGR	**25.16**	**33.74**	**29.08**	**31.37**

Source: Company, Kotak Securities - Private Client Research

Substantial business assured - weak correlation of the port with growth of trade

Correlation between volumes at a port and the trade of the country is very high. But in case of Mundra the correlation is weak as majority of the cargo is for captive purpose and assured. The cargo involves thermal coal for Tata Power UMPP and Adani Power, crude for refineries of IOC at Panipat and HPCL Mittal Energy at Bina and Bhatinda and export of cars by Maruti.

MPSEZ has strong visibility in revenues - we estimate 50% of the FY13E to be assure for MPSEZ

Assured volumes for MPSEZ

Assured tonnage FY13E	Bulk	Crude/POL	Container	Total
(mn tonnes)				
Adani /Tata power	22.5			
Other bulk	5.0			
IOC and HPCL		17.0		
Total	**27.5**	**17.0**	**0.0**	**44.5**
Avg realisation per tonne (Rs)				350
Revenues (Rs mn)				15,575
PAT margins (%)				45
PAT (Rs mn)				**7,009**

Source: Company; Kotak Securities - Private Client Research

Operating margins to sustain at healthy 65%

MPSEZ has been maintaining its operating margin at 65 % for the last four financial years (FY08 to FY11) and we expect the company to maintain its operating margin at the current level which would be driven by three factors: 1. Premium pricing (almost 25 % more to major ports) which the port is able to command as the port provides faster turnaround time, good hinterland connectivity, proximity to Northern India and deep draft (leads to economies of scale); 2.Crude/POL traffic at the port forms almost 30% of the cargo and which has an operating margin of 90% as it does not involve handling cost; 3. MPSEZ also provides value added services like storage and transportation which helps it command superior pricing to other major ports.

Healthy free cash flow generation of more than Rs 24 bn over FY11 to FY13E – balance sheet to become stronger

Company to generate healthy free cashflow of more than Rs 24 bn over FY11 to FY13E

Debt and cash flow analysis

(Rs mn)	FY10	FY11	FY12E	FY13E
Gross Debt	43,480	42,075	39,168	36,545
Networth	36,256	43,961	52,337	64,127
Cash	8,914	1,349	4,473	12,683
Net Debt/equity (x)	0.95	0.93	0.66	0.37
Gross Debt /EBITDA (x)	4.50	3.24	2.37	1.67
Operating cash flow	7,665	13,594	13,386	18,587
Free cash flow	-10,125	-6,002	9,891	14,682
Capex			4,000	4,000

Source: Company; Kotak Securities - Private Client Research

We expect MPSEZ to generate free cash flow of ~Rs 24 bn over FY11 -13E. This will help reduce the net debt-to-equity ratio to 0.66 x by FY12E and to 0.37 x by FY13E from 0.93 x at end of FY11. Despite been a capital intensive business the debt situation for MPSEZ is very comfortable. The stable cash flows from assured cargo and minimum working capital investment would be very important for the company to make more capex in the future and grow.

Further capex for the expansion can be done easily from internal accruals

MPSEZ has already incurred major part of the capex to create capacity of 225 mtpa

We estimate a total spending of ~ Rs 70 bn (MPSEZ share at ~ Rs 63 bn) in creating infrastructure at MPSEZ (for capacity of 150 mn tonnes plus Adani Logistics ltd) and for Dahej, Mormugoa and Hazira BOT through FY15E.

MPSEZ has already made significant investment till date through a mix of IPO proceeds of Rs 18 bn in FY08 and debt. We estimate the company to spend another Rs 8 bn over FY11-FY13E primarily through internal accrual.

Capex done by MPSEZ till date

Project	Details	Total Cost (Rs mn)	Equity (Rs mn)	Debt (Rs mn)	MPSEZ Stake (%)	Share of capex
Old Bulk terminal	Bulk capacity 35 mtpa	12,000	4,000	8,000	100	12,000
New Coal Terminal	Coal capacity 50 mtpa	20,000	8,000	12,000	100	20,000
Container Terminal 1& 2	30 mtpa/ 2.5 mn TEUs	11,000	3,500	7,500	100	11,000
Single Point Mooring 1	25 mtpa	3,500	700	2,800	100	3,500
Dahej Port	Coal capacity 15 mtpa	11,500	3,000	8,500	74	8,510
Mormugoa	Coal capacity 10 mtpa	4,000	1,300	2,700	100	4,000
Hazira	Break Bulk capacity 35 mtpa	2,000	670	1,330	100	2,000
Cotainer Rail Business	6 rakes	3,000	1,000	2,000	50	1,500
SEZ		3,000	1,000	2,000	100	3,000
Total		**70,000**	**23,170**	**46,830**		**62,510**

Note: The above table doesn't include Abbott point; SPM2 has been funded by HPCL; Source: Company

Superior return ratios

Dupont analysis

Parameter	Ratio	FY09	FY10	FY11	FY12E	FY13E
EBIT ratio	EBIT/ Revenue	0.51	0.52	0.53	0.53	0.55
Asset Turn over	Revenue /Capital employed	0.18	0.18	0.23	0.27	0.33
Financial Leverage	Capital Employed/ Equity	2.29	2.36	2.11	1.89	1.70
Interest Burden	PBT/EBIT	0.83	0.93	0.95	0.90	0.94
Tax burden	PAT/PBT	0.89	0.92	0.91	0.91	0.91
ROE	**PAT/Equity**	**15.50**	**19.32**	**21.73**	**22.28**	**25.93**
EBIT ratio	EBIT/ Revenue	0.51	0.52	0.53	0.53	0.55
Capital Turnover	Revenue/ Capital Employed	0.18	0.18	0.23	0.27	0.33
ROCE	**EBIT/Capital Employed**	**9.09**	**9.57**	**11.93**	**14.43**	**17.96**

Source: Kotak Securities - Private Client Research

The ROE has improved from 19.32 % in FY10 to 21.73% in FY11 and may improve to 22.28% in FY12E, primarily because of improving asset turnover and less debt in the balance sheet – debt has decreased from ~Rs 43 bn in FY10 to Rs 39 bn in FY12E. As a result the interest burden for the company has come down considerably. We expect the return ratios to sustain at these levels as the company has already made the capex required for medium term growth and has the requisite tie ups in place.

Assumptions

1. Average realization of Rs 350/ tonne for the current financial year
2. We have assumed 5% annual YoY improvement in cargo handling and related revenue at each of the terminals. Peak capacity utilisation of 70% for each of the terminals.
3. We have projected cash flows till FY31E, assuming the end of concession period with Gujarat Maritime Board (GMB). We have taken the terminal value as the book value of the assets assuming a project life of 30 years.
4. For projects at other ports we have taken valuation of only Dahej and Mormugoa separately. We have not considered Hazira, as it is still in inception stage.
5. Adani Logistics business we have valued at book value. Business still has to mature for the Adani's.
6. For SEZ we have taken a 3% CAGR in incremental volume off take.

Quarterly performance

Quarterly snapshot (standalone)

Total cargo (mn tonnes)	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12
Bulk	7.10	7.13	7.51	8.81	8.75
Crude	2.15	1.66	0.98	1.90	2.19
Containers	3.40	3.79	3.92	3.80	4.14
Total	**12.65**	**12.58**	**12.41**	**14.51**	**15.08**
(Rs mn)					
Sales	4,157	4,135	4,508	5,176	5,296
OPEX	855	1,003	1,095	1,232	1,168
Employee cost	147	193	148	177	206
Admn cost	259	202	166	268	294
EBIDTA	**2,896**	**2,737**	**3,099**	**3,499**	**3,628**
Ebidta (%)	69.67	66.19	68.74	67.60	68.50
Other Income	7	95	9	386	4
Interest inc	202	214	186	103	57
Depreciation	476	485	531	586	587
Gross int	403	306	350	350	407
PBT	**2,226**	**2,255**	**2,413**	**3,052**	**2,695**
Taxes	67	139	158	543	171
Effective tax rate (%)	3	6	7	18	6
PAT	**2,159**	**2,116**	**2,255**	**2,509**	**2,524**
Extraordinary items	-46	0	31	845	18
Adj PAT	**2,113**	**2,116**	**2,286**	**3,354**	**2,542**
NPM (%)	50.83	51.17	50.71	64.80	48.00
Equity	4,007	4,007	4,007	4,007	4,007
EPS (Rs)	1.05	1.06	1.14	1.67	1.27

Source: Company

- MPSEZ had reported strong volume growth of ~20% YoY, which was led by (1) strong bulk cargo growth (23% YoY), especially coal (up 43% YoY) majorly on account of the increased coal requirement for Adani's power plant based on progress in commissioning of the project and (2) container volumes (up 22.8% YoY) likely led by container terminal-2. The port has outperformed the sector in terms of volume growth (major port volumes recorded a 5.3% YoY growth in 1QFY12). The port now ranks fifth among major ports in terms of total cargo handled - a jump of two positions (versus seventh rank in FY11).

- MPSEZ reported 1QFY12 standalone revenues of Rs 5.3 bn recording a strong 27% YoY growth. The strong revenue growth was primarily led by higher volumes - up 20% YoY. MPSEZ management cited Rs 60 mn of revenues from SEZ land sales of about 5-6 acres.
- EBITDA margin was broadly in line with estimates. EBITDA margin declined by about 110 bps YoY to 68.5% .The margin decline was led by higher operating expense (150 bps) and employee cost (40 bps) as percent of sales. The margin decline was partly compensated by lower other expenses as percent of sales.
- MPSEZ reported an adjusted PAT of Rs2.5 bn in 1QFY12, up 20% YoY. The company has availed a MAT credit benefit of Rs528 mn in the quarter leading to a low reported effective tax rate of 6.3%.

We value MPSEZ at Rs 166/share

Based on the net present value of equity cash flow of the existing businesses, our sum-of-parts valuation for MPSEZ works out to Rs 166/share. Our valuations factor in the adverse impact of higher interest rates in the economy by way of higher cost of equity in our DCF valuations.

Valuation table

	Value of equity (Rs Mn)	Share of MPSEZ %	Base case (12% WACC) (Rs Mn)
Old Bulk Terminal (Bulk and POL)	131,891	100	131,891
New Bulk Terminal (Coal)	55,820	100	55,820
SPM 1	26,698	100	26,698
SPM 2	6,483	100	6,483
Container terminal 1	23,219	10	2,322
Container terminal 2	21,705	100	21,705
Ro Ro terminal	3,261	100	3,261
Dahej	20,021	74	14,816
Mormugoa	8,023	100	8,023
SEZ	36,511	100	36,511
Logistics	4,073	100	4,073
Equity value			**311,604**
Equity Capital			**4,007**
Value from India Operations per share			**156**
Value from Abbot Point (per share)			10
Fair value			**166**

Source: Kotak Securities - Private Client Research

Calculation of weighted average cost of capital

		Weights	Weighted Cost
After-tax cost of debt	7.5%	40.0%	3.0%
Cost of equity	14.5%	60.0%	8.7%
Weighted average cost of capital (WACC)			**11.7%**

Source: Kotak Securities - Private Client Research

Peer Analysis

MPSEZ currently trades at a 10 to 30 % premium to global peers, at FY12E & FY13E P/E of 26 x & 19x versus global peer ports at 19x and 16x respectively. We believe the premium is justified, given the company's strong earnings growth of 32% (versus 15%) over FY11 to FY13E and 2 x ROE.

Also most of the peer ports for MPSEZ are landlord ports who subcontract most of the port activities to contractors and in turn they receive commission and payment on agreed basis from the contractors. While MPSEZ is a landlord port and also the operator which does all the activities like pilotage, berthing stevedoring, storage etc.(apart from providing value added services) on its own. Hence, we believe there is no comparable listed port.

Peer valuation

Company	Mkt Cap ($ mn)	ROE (%) CY11E	ROE (%) CY12E	P/E (x) CY11E	P/E (x) CY12E	EV/EBIDTA (x) CY11E	EV/EBIDTA (x) CY12E	P/B (x) CY11E	P/B (x) CY12E
Shanghai International (China)	14,014	13.6	13.5	20.0	18.8	11.6	10.9	2.8	2.6
Tianjin Port Co. (China)	2,214	7.6	8.1	17.5	15.0	11.0	8.6	1.5	1.4
DP World Ltd (Dubai)	7,985	4.4	5.3	24.1	20.0	11.4	10.0	1.0	1.0

Source: Kotak Securities - Private Client Research

FINANCIALS

Profit and Loss Statement (Rs mn)

(Year-end March)	FY10	FY11	FY12E	FY13E
Net sales	**14,955**	**20,001**	**25,818**	**33,916**
Direct expense	3,789	5,321	6,620	8,572
Employee cost	595	798	938	1,260
Other expenses	909	888	1,710	2,243
- Operating expenses	5,293	7,007	9,267	12,076
Operating profit	**9,662**	**12,994**	**16,551**	**21,840**
+ Other income	1,640	1,101	1,100	1,100
- Depreciation	1,852	2,444	2,957	3,209
- Interest	2,177	1,671	2,485	2,296
- Tax	601	874	1,087	1,569
PAT	6,672	9,106	11,122	15,866
+ (Associates-Minorities)	(1)	(176)	(289)	(373)
Consolidated PAT	**6,671**	**8,930**	**10,833**	**15,493**

Source: Company, Kotak Securities - Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY10	FY11	FY12E	FY13E
Equity Capital	4,007	4,007	4,007	4,007
Reserves	29,429	36,483	44,501	55,773
DTL	2,820	3,471	3,830	4,347
Networth	36,256	43,961	52,337	64,127
Debt	43,480	42,075	39,168	36,545
Minority interests	822	987	1,276	1,649
Capital employed	**80,558**	**87,023**	**92,782**	**102,321**
Fixed Assets (net)	67,725	84,877	85,415	86,111
Investments	2,219	666	2,000	2,000
Working capital	1,700	131	894	1,527
Cash	8,914	1,349	4,473	12,683
Capital deployed	**80,558**	**87,023**	**92,782**	**102,321**

Source: Company, Kotak Securities - Private Client Research

Cash Flow Statement (Rs mn)

(Year-end March)	FY10	FY11	FY12E	FY13E
Consolidated PAT	6,671	8,930	10,833	15,493
Non-cash items	2,373	3,095	3,316	3,727
Cash profit	9,044	12,025	14,149	19,220
Inc. in working capital	1,379	(1,569)	763	633
Cash Flow from Opns	**7,665**	**13,594**	**13,386**	**18,587**
Capital expenditure	(17,790)	(19,596)	(3,495)	(3,905)
Investments	(312)	1,553	(1,334)	-
Cash flow from Invest	**(18,102)**	**(18,043)**	**(4,829)**	**(3,905)**
Dividends	(1,877)	(1,877)	(2,815)	(4,221)
Equity raised	-	-	-	-
Debt raised	7,965	(1,405)	(2,907)	(2,624)
Inc. in minority interests	729	165	289	373
Miscellaneous items	(220)	-	-	-
Cash flow from finance	**6,597**	**(3,117)**	**(5,433)**	**(6,472)**
Net cash flow	(3,840)	(7,565)	3,124	8,210
+ Opening cash	12,754	8,914	1,349	4,473
Closing cash balance	**8,914**	**1,349**	**4,473**	**12,683**

Source: Company, Kotak Securities - Private Client Research

Ratio Analysis

(Year-end March)	FY10	FY11	FY12E	FY13E
Topline growth (%)	25.2	33.7	29.1	31.4
Bottomline growth (%)	46.9	33.9	21.3	43.0
Operating margins (%)	64.6	65.0	64.1	64.4
FDEPS (Rs/share)	3.3	4.5	5.4	7.7
CEPS (Rs/share)	4.5	6.0	7.1	9.6
DPS (Rs/share)	0.8	0.8	1.2	1.8
BV (Rs/share)	18.1	21.9	26.1	32.0
PER (x)	43.5	32.5	26.8	18.8
P/C (x)	32.1	24.2	20.5	15.1
Dividend yield (%)	0.6	0.6	0.8	1.2
P/B (x)	8.0	6.6	5.6	4.5
EV/Sales (x)	21.6	16.1	12.5	9.5
EV/ EBITDA (x)	28.6	22.9	18.3	14.1
Debt/Equity (x)	1.2	1.0	0.7	0.6
Working capital turn (days)	24.7	16.7	7.2	13.0
Dividend payout (%)	28.1	21.0	26.0	27.2
ROE (%)	19.3	21.7	22.3	25.9
ROCE (%)	9.6	11.9	14.4	18.0

Source: Company, Kotak Securities - Private Client Research

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