

## Equities

11 November 2011 | 8 pages

# Mundra Port And Special Economic Zone (MPSE.BO)

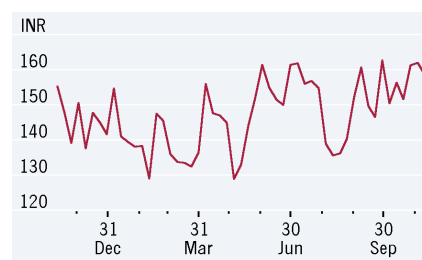
## Alert: 2QFY12 Marginally Ahead

- Headline numbers marginally ahead** – Mundra Port reported a PAT of Rs2.73bn, up 29% YoY and marginally ahead of CIRA (Rs2.68bn). Revenues were ~9% ahead of CIRA expectations, and were up 44% YoY.
- EBITDA margin decline was compensated for by other operational income** – Although EBITDA margins of ~64.4% were weaker than expected (~67.6%), the impact was offset by higher-than-expected other operational income of Rs320m (CIRA at Rs140m). This comprised of (1) SEZ income of Rs65m pertaining to small incremental plots of earlier customers and (2) construction income of Rs220m. Interest expenses and depreciation were also higher than expected. Interest costs this quarter included an MTM provisioning of Rs230m due to rupee depreciation, and were also impacted by lower interest income due to lesser investible surplus.
- Coal drives cargo growth** – Mundra Port registered a ~34% YoY cargo growth, largely driven by strong growth in coal (~70% YoY) and liquid cargo (~33% YoY). Container growth in 2QFY12 was 17% YoY.
- Maintain Buy** – MPSEZ remains our preferred pick on a play of the India ports theme, with its diversified cargo mix (bulk, container, liquid) and customer mix (captive, merchant).

### Company Update

|                              |              |
|------------------------------|--------------|
| <b>Buy</b>                   | <b>1</b>     |
| Price (11 Nov 11)            | Rs150.80     |
| Target price                 | Rs185.00     |
| Expected share price return  | 22.7%        |
| Expected dividend yield      | 0.9%         |
| <b>Expected total return</b> | <b>23.6%</b> |
| Market Cap                   | Rs302,112M   |
|                              | US\$6,044M   |

### Price Performance (RIC: MPSE.BO, BB: MZE IN)



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Figure 1. Mundra Port – 2QFY12 Standalone Results

|  | Q211A            | Q212             | Q212E            | vs CIRA Expectations             |
|--|------------------|------------------|------------------|----------------------------------|
| <b>Net Sales</b>                                       | <b>4,076</b>     | <b>5,878</b>     | <b>5,411</b>     | <b>9% higher than expected</b>   |
| Growth   | 28%              | 44%              | 33%              |                                  |
| Administration and Other Expenses<br>as % of net sales | (202)<br>4.9%    | (358)<br>6.1%    | (300)<br>5.5%    |                                  |
| Operating Expenses<br>as % of net sales                | (1,003)<br>24.6% | (1,497)<br>25.5% | (1,245)<br>23.0% | 20% higher than expected         |
| Personnel Expenses<br>as % of net sales                | (194)<br>4.8%    | (237)<br>4.0%    | (210)<br>3.9%    |                                  |
| <b>EBITDA</b>  | <b>2,678</b>     | <b>3,787</b>     | <b>3,657</b>     |                                  |
| <b>EBITDA Margin</b>                                   | <b>65.7%</b>     | <b>64.4%</b>     | <b>67.6%</b>     | <b>315bps below expectations</b> |
| Depreciation   | (485)            | (679)            | (600)            | 13% higher than expected         |
| Interest Costs   | (92)             | (464)            | (350)            | 33% higher than expected         |
| Other Income   | 95               | 67               |                  |                                  |
| Other Operating Income                                 | 60               | 320              | 140              |                                  |
| PBT  | 2,256            | 3,030            | 2,847            |                                  |
| PBT Margin   | 55.3%            | 51.6%            | 52.6%            |                                  |
| Tax Expenses   | (139)            | (296)            | (171)            |                                  |
| Tax Rate   | 6.2%             | 9.8%             | 6.0%             |                                  |
| <b>Recurring PAT</b>                                   | <b>2117</b>      | <b>2734</b>      | <b>2676</b>      | <b>2% higher than expected</b>   |
| <b>Recurring PAT Margin</b>                            | <b>51.9%</b>     | <b>46.5%</b>     | <b>49.5%</b>     |                                  |

Source: Company filings, Citi Investment Research and Analysis estimates

## Mundra Port And Special Economic Zone

### Valuation

Our Rs185 target price for MPSEZ is based on a Sum of the Parts (SOTP) methodology. We value Mundra Port at Rs143/share on a discounted cash flow to equity basis, using a cost of equity of 13%. The SEZ is valued at Rs13/share, using a cost of equity of 14% and assigning a 30% discount to the calculated NAV (consistent with how we value the smaller Indian real estate companies). We value Dahej Port at Rs8/share on a discounted cash flow to equity basis, using a cost of equity of 13%. We value Hazira Port at Rs10/share on a discounted cash flow to equity basis, using a cost of equity of 14%, and Mormugao port at Rs1/share on a discounted cash flow to equity basis, using a cost of equity of 14%. We value stakes in Adani Logistics (Rs2/share) and Kutch railways at book value. We also value the Abbott Point port at Rs8/share on a discounted cash flow to equity basis, using a cost of equity of 14%. We have assumed a cash infusion of AU\$363mn (~20% of AU\$1.8bn) in FY14 from Mundra Port, when the bridge loan for the Abbott Point acquisition comes up for refinancing.

### Risks

The key downside risks to our target price include: 1) lower-than-expected traffic growth; 2) lower-than-expected demand for the land in the SEZ; and 3) lower-than-expected lease income for the SEZ.

## Appendix A-1

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Analyst: Deepal Delivala  
Covered since February 9 2009

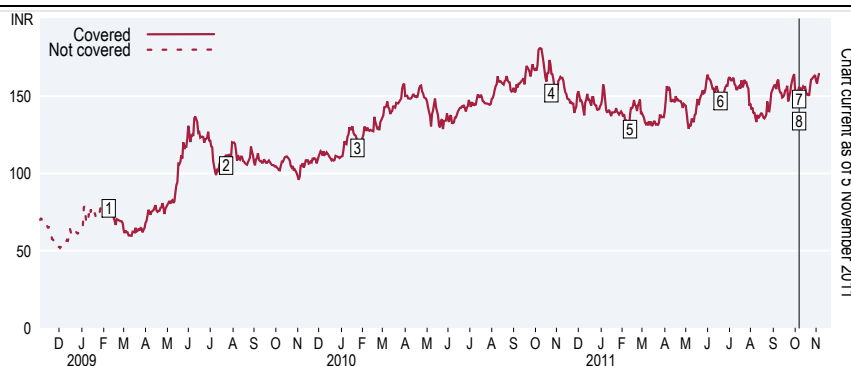


Chart current as of 5 November 2011

|   | Date      | Rating | Target Price | Closing Price |
|---|-----------|--------|--------------|---------------|
| 1 | 9-Feb-09  | *3H    | *58.20       | 77.13         |
| 2 | 23-Jul-09 | *3M    | *94.80       | 111.70        |
| 3 | 25-Jan-10 | *2M    | *131.80      | 120.10        |

\* Indicates change

|   | Date      | Rating | Target Price | Closing Price |
|---|-----------|--------|--------------|---------------|
| 4 | 25-Oct-10 | *3L    | *164.00      | 164.50        |
| 5 | 11-Feb-11 | *1L    | *163.00      | 137.90        |
| 6 | 19-Jun-11 | 1L     | *185.00      | 148.00        |

|   | Date     | Rating                      | Target Price | Closing Price |
|---|----------|-----------------------------|--------------|---------------|
| 7 | 7-Oct-11 | Stock rating system changed |              |               |
| 8 | 7-Oct-11 | *1                          | 185.00       | 156.05        |

Rating/target price changes above reflect Eastern Standard Time

**Mundra Port And Special Economic Zone (MPSE.BO)**

**Ratings and Target Price History**

**Best Ideas Research**

**Relative Call (3 Month)**

Analyst: Deepal Delivala

Covered since February 9 2009



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% of companies in each rating category that are investment banking clients

| 12 Month Rating |      |      | Relative Rating |      |      |
|-----------------|------|------|-----------------|------|------|
| Buy             | Hold | Sell | Buy             | Hold | Sell |
| 59%             | 34%  | 7%   | 10%             | 79%  | 10%  |
| 45%             | 42%  | 37%  | 50%             | 43%  | 46%  |

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