

Adani Ports and SEZ

Delivering on promises

India Equity Research | Power

Adani Ports & SEZ's (APSEZ) standalone Q4FY13 adjusted PAT (one-off income and non-cash forex/derivative gain) of INR3.8bn was ahead of our ~INR3.6bn estimate due to 100bps higher EBITDA margin (~70%) amidst in-line ~23MT volumes. The Abbot Point asset sale was concluded (cashflow expected in Q1FY14) at par. The management is hoping to surpass 100MT cargo at Mundra in FY14. With almost all ports' capex behind us and reduction in Abbot debt, APSEZ is gearing for next phase of expansion through inorganic growth. Maintain 'BUY' with TP of INR169.

Jump in cargo volumes boosts profit

APSEZ's Q4FY13 standalone PAT of INR4.9bn was boosted by INR700mn profit from Abbot Point sale and ~INR500mn construction contract income at SEZ resulting in adj. PAT of INR3.8bn. Cargo at the Mundra port grew a robust 38% YoY (vs. 3% de-growth registered by major ports of India) to 22.9MT driven by 13% growth in container and 58% in bulk (largely crude and coal) volumes. Dahej closed the second year of operations with a robust 7.6MT of cargo (2.1MT in FY12) and FY13 PAT of INR700mn while Hazira which recently commenced operations handled 1MT during the year.

Abbot sale brings down leverage; gearing for next phase

Sale of Abbot Point terminal at a consideration of AUD235.7mn to the Adani family, led to APSEZ booking profit of INR4.2bn (INR700mn forex gain and loss write back of INR3.34bn since the transaction was concluded on March 30th). This resulted in consolidated debt reducing by ~INR100bn, significantly reducing gearing levels (from 3.6x to 1.6x). With security clearance accorded for government port projects and limited capex requirement at the flagship port, the management is focused on investing incremental cash flows for PPP projects and inorganic growth options.

Outlook and valuations: On a strong footing; maintain 'BUY'

The stake sale of Abbot Point has deleveraged the parent balance sheet and renewed focus on Indian operations. This compounded with security clearance for PPP projects should allay investor concerns. At CMP of INR152/share, the stock is trading at consolidated FY14E and FY15E EV/EBITDA of 12.7x and 10.1x, respectively. Maintain 'BUY/SO' recommendation/rating on the stock with SOTP based TP of INR169/share.

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Equalweight

MARKET DATA (R: APSE.BO, B: ADSEZ IN)

CMP	: INR 152
Target Price	: INR 169
52-week range (INR)	: 163 / 105
Share in issue (mn)	: 2,003.4
M cap (INR bn/USD mn)	: 306/ 5,570
Avg. Daily Vol.BSE/NSE('000)	: 1,681.6

SHARE HOLDING PATTERN (%)

	Current	Q3FY13	Q2FY13
Promoters *	77.5	77.5	77.5
MF's, FI's & BK's	4.9	5.1	5.2
FII's	10.9	10.2	9.9
Others	6.7	7.2	7.4
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Power Index
1 month	4.9	10.4	7.1
3 months	1.7	4.4	(0.7)
12 months	33.0	24.4	3.4

Financials (Standalone)

(INR mn)

Year to March	Q4FY13	Q4FY12	% change	Q3FY13	% change	FY13	FY14E	FY15E
Net revenues	9,152	6,419	42.6	8,922	2.6	33,611	40,039	45,449
EBITDA	6,401	4,575	39.9	6,655	(3.8)	24,843	27,148	30,482
Adj. Net profit	3,832	3,239	18.3	3,602	6.4	17,542	19,910	24,271
Diluted EPS (INR)	1.9	1.6	18.3	1.8	6.4	8.8	9.9	12.1
Diluted P/E (x)						17.4	15.3	12.6
EV/EBITDA (x)						12.9	11.2	9.1
ROAE (%)						29.1	25.7	24.8

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Financial snapshot

(INR mn)

Year to March	Q4FY13	Q4FY12	% change	Q3FY13	% change	FY13	FY14E	FY15E
Net revenues	9,152	6,419	42.6	8,922	2.6	33,611	40,039	45,449
Cost of operations	2,041	1,289	58.3	1,790	14.0	6,488	10,251	11,951
Staff costs	243	217	12.3	244	(0.5)	1,044	1,099	1,209
Other operating expenses	467	338	38.3	233	100.5	1,236	1,563	1,832
Total expenditure	2,751	1,843	49.3	2,267	21.4	8,767	12,914	14,992
EBITDA	6,401	4,575	39.9	6,655	(3.8)	24,843	27,126	30,458
Depreciation & amortization	972	767	26.7	915	6.3	3,424	3,774	4,085
EBIT	5,428	3,808	42.6	5,740	(5.4)	21,420	23,352	26,373
Other income	1,160	84	1,288.3	352	229.6	2,032	143	358
Interest	1,254	297	321.5	1,122	11.7	3,995	2,123	706
Profit before tax	5,495	3,594	52.9	4,375	25.6	18,892	21,372	26,024
Provision for taxes	587	205	185.8	221	165.7	1,350	1,441	1,732
Net profit	4,908	3,389	44.8	4,154	18.1	17,542	19,930	24,292
Adjustments	(1,076)	(150)	NA	(552)	NA			
Adjusted net profit	3,832	3,239	18.3	3,602	6.4	17,542	19,930	24,292
Equity capital (FV INR 2)	4,007	4,007		4,007		4,007	4,007	4,007
No. of shares (mn)	2,003	2,003		2,003		2,003	2,003	2,003
Adj. EPS (INR)	1.9	1.6		1.8		8.8	9.9	12.1

As % of net revenues

Direct costs	22.3	20.1		20.1		19.3	25.6	26.3
Employee cost	2.7	3.4		2.7		3.1	2.7	2.7
Other operating expenses	5.1	5.3		2.6		3.7	3.9	4.0
EBITDA	69.9	71.3		74.6		73.9	67.7	67.0
Reported net profit	53.6	52.8		46.6		52.2	49.8	53.4
Tax rate	10.7	5.7		5.0		7.1	6.7	6.7

SOTP valuations

	Method	CoE (%)	Value (INR mn)	Stake (%)	Value of stake (INR mn)	Price per share (INR)	% age of SOTP (%)
Mundra Port	DCF	12.4	240,872	100.0	240,872	120	71.2
SEZ	DCF	17.8	25,085	100.0	25,085	13	7.4
Dahej Port	DCF	12.4	27,322	74.0	20,218	10	6.0
Mormugao Terminal	DCF	12.4	7,211	74.0	5,336	3	1.6
Hazira Port	DCF	12.4	22,856	100.0	22,856	11	6.8
ALL	P/BV	1x FY12	3,119	100.0	3,119	2	0.9
Cash & equivalents	BV		20,683	100.0	20,683	10	6.1
Total			360,050		338,169	169	100.0

Source: Edelweiss research

Company Description

Adani Ports and SEZ (Mundra Port SEZ earlier), incorporated as Gujarat Adani Port on May 26, 1998, began commercial operations in October 2001, post entering into concession agreement with GMB to build, operate and maintain the port for a period of 30 years till 2031 extendable by another 20 years. The port is into providing cargo handling services for bulk, crude and container cargo. The company has also received approval to develop the adjacent port land as a multi-product SEZ. Notification has been issued to ~16,000 acres of land while the company is in talks to acquire more land to add to its SEZ portfolio. While the company is also bidding for other domestic and international port projects it has also invested in value added services like logistics support, providing container rail services and inland container depots to diversify from its core port business.

Investment Theme

APSEZ, under the aegis of the parent company Adani Enterprises, has been instrumental in developing a deep draft gateway port and SEZ strategically on the West coast of India with state-of-the-art infrastructure and capability to handle diversified cargo. Since inception, APSEZ has posted 35% CAGR and handled ~82 MT cargo in FY13, higher than most other major Indian ports. Also, it has hedged cargo uncertainty risk by getting into long-term service contracts (45% of total cargo to be handled in FY14E). Such a third generation port acting as one-stop-shop for export/import logistics is in unique league of ports and one of its kinds in India. The company has a strong portfolio of projects on the Indian West coast other than the flagship Mundra port. These projects will help the company gain a pan-India presence. It has also been scouting for opportunities to go global and has recently evinced interest in port development projects in Australia and Indonesia, in line with its long-term strategy.

Key Risks

Uncertainty in traffic at ports

Since cargo at ports is contingent on international trade, any slowdown in it could affect Mundra Port as well. APSEZ is hedged to some extent from the traffic risk because of the take-or-pay agreements which constitute about 45% of the cargo going ahead.

Regulatory changes regarding SEZs

The existing SEZ policies and benefits outlined by the government to promote exports are relatively new and are being continuously reviewed. Any changes in the form of reversal of current tax benefits to units under the SEZ umbrella will significantly undermine incentives for industries to setup units in the SEZ, hampering current plans of land sale. Land parcel sale at the SEZ is yet to pick up.

Execution risk in international projects

Although the company has been successful in port projects implemented in India (largely Gujarat), we need to watch out for the execution and the profitability in its international ventures as well the East coast of India. APSEZ is planning to leverage its captive group business—Adani Enterprises' mining operations and Adani Power's coal imports—to provide assured cargo visibility and thereby minimize the risks associated with a greenfield venture.

Financial Statements

Key Assumptions

Year to March	FY12	FY13E	FY14E	FY15E
Macro				
GDP(Y-o-Y %)	6.5	5.0	6.5	7.0
Inflation (Avg)	8.8	7.8	6.0	6.0
Repo rate (exit rate)	8.5	7.5	6.8	6.0
USD/INR (Avg)	47.9	54.5	54.0	52.0
Company				
Mundra cargo handled (MT)	64.0	84.9	103.0	106.8
Average realisation (INR/t)	348	356	369	382
EBITDA margin (%)	65.0	63.1	66.6	64.5
SEZ land sold (Acre)	40	300	100	500
Dahej				
Cargo handled (MT)	2.1	7.0	12.0	16.0
Avg realisation (INR/t)	428	392	392	392
Hazira				
Cargo handled (MT)	-	-	2.4	4.8
Avg realisation (INR/t)	-	-	416.7	431.9
Average Interest rate (%)	2.9	5.1	5.6	5.7
Average Depreciation rate (%)	2.9	3.2	2.9	3.4
Tax rate (%)	7.6	7.3	10.0	10.2
Dividend payout ratio (%)	18.2	12.3	10.7	8.4
Net borrowings (INR mn)	163,768	96,101	84,033	59,173
Capex (INR mn)	134,278	(65,139)	6,845	896
Debtor days	27	74	76	76
Inventory days	28	39	39	39
Payable days	117	53	53	53

Income statement

(INR mn)

Year to March	FY12	FY13	FY14E	FY15E
Net revenue	32,708	35,766	47,844	57,381
Cost of Operations	9,015	9,129	13,511	16,633
Other operating expenses	1,797	1,496	2,093	2,664
Employee costs	1,243	1,308	1,364	1,625
Total operating expenses	12,056	11,932	16,968	20,922
EBITDA	20,653	23,835	30,876	36,459
Depreciation and amortisation	4,630	4,220	4,670	5,673
EBIT	16,022	19,615	26,206	30,786
Other income	596	2,644	268	1,390
Interest expenses	4,796	4,894	5,280	4,947
Profit before tax	11,822	17,365	21,193	27,230
Provision for tax	896	1,231	2,112	2,770
Net profit	10,927	16,134	19,081	24,460
Extraordinary income/ (loss)	-	(599)	-	-
Minority interest + pre-	10,927	15,535	19,081	24,460
Minority interest	(94)	156	309	583
Share in profit of associates	-	853	-	-
Profit after minority interest	11,021	16,232	18,771	23,878
Basic EPS (INR)	5.5	8.1	9.4	11.9
Shares outstanding (mn)	2,003	2,003	2,003	2,003
Diluted EPS (INR)	5.5	8.1	9.4	11.9
Dividend per share (INR)	0.7	1.2	1.2	1.2
Dividend payout (%)	13.6	14.3	12.4	9.8

Common size metrics

Year to March	FY12	FY13	FY14E	FY15E
Operating expenses	36.9	33.4	35.5	36.5
Depreciation	14.2	11.8	9.8	9.9
Interest expenditure	14.7	13.7	11.0	8.6
EBITDA margins	63.1	66.6	64.5	63.5
Net profit margins	33.4	45.1	39.9	42.6

Growth ratios (%)

Year to March	FY12	FY13	FY14E	FY15E
Revenues	63.5	9.4	33.8	19.9
EBITDA	58.9	15.4	29.5	18.1
PBT	17.8	46.9	22.0	28.5
Net profit	20.0	52.7	11.5	27.2
EPS	20.0	47.3	15.6	27.2

Adani Ports and Special Economic Zone

Balance sheet		(INR mn)			
As on 31st March	FY12	FY13E	FY14E	FY15E	
Equity capital	4,035	4,035	4,035	4,035	
Reserves & surplus	44,350	62,272	78,715	100,264	
Shareholders funds	48,385	66,307	82,750	104,299	
Short term debt	10,052	4,047	4,047	4,047	
Long term debt	165,598	102,575	100,648	94,496	
Borrowings	175,650	106,622	104,695	98,543	
Deferred tax liability	15,203	5,530	5,530	5,530	
Deferred revenue	1,349	1,423	1,732	2,315	
Sources of funds	240,586	179,881	194,706	210,686	
Tangible assets	170,393	112,205	135,726	136,911	
Intangible assets	2,761	2,761	2,761	2,761	
CWIP (incl. intangible)	36,377	27,968	6,621	658	
Total net fixed assets	209,531	142,933	145,108	140,330	
Non current investments	697	2,216	2,216	2,216	
Cash and equivalents	11,184	8,306	18,446	37,154	
Inventories	691	980	1,450	1,785	
Sundry debtors	3,339	8,023	10,798	13,089	
Loans and advances	14,105	28,982	28,982	28,982	
Other current assets	19,845	19,157	19,157	19,157	
Total current assets (ex cash)	37,980	57,141	60,387	63,013	
Trade payable	3,853	1,742	2,478	3,055	
Others current liabilities	14,953	28,972	28,972	28,972	
Total current liabilities &	18,806	30,715	31,450	32,027	
Net current assets (ex cash)	19,174	26,427	28,937	30,986	
Uses of funds	240,586	179,881	194,706	210,686	
Book value per share (INR)	24.2	33.1	41.3	52.1	

Free cash flow		(INR mn)			
Year to March	FY12	FY13E	FY14E	FY15E	
Net profit	11,021	16,232	18,771	23,878	
Depreciation	4,630	4,220	4,670	5,673	
Others	1,785	1,553	5,322	4,139	
Gross cash flow	17,436	22,005	28,763	33,690	
Less: Changes in WC	5,439	5,363	2,510	2,049	
Operating cash flow	11,997	16,642	26,253	31,641	
Less: Capex	134,278	(65,139)	6,845	896	
Free cash flow	(122,282)	81,781	19,408	30,745	

Cash flow metrics				
Year to March	FY12	FY13E	FY14E	FY15E
Operating cash flow	11,997	16,642	26,253	31,641
Investing cash flow	(138,760)	67,784	(6,577)	494
Financing cash flow	129,763	(75,397)	(9,536)	(13,427)
Net cash flow	3,000	9,029	10,140	18,708
Capex	(134,278)	65,139	(6,845)	(896)
Dividends paid	(1,499)	(2,328)	(2,328)	(2,328)
Share issuance/(buyback)	456	-	-	-

Profitability & efficiency ratios				
Year to March	FY12	FY13E	FY14E	FY15E
ROAE (%)	24.4	29.4	25.2	25.5
ROACE (%)	10.0	9.4	14.2	15.4
Debtors days	34	58	72	76
Current ratio	2.6	2.1	2.5	3.1
Debt/EBITDA	8.5	4.5	3.4	2.7
Fixed asset turnover (x)	0.3	0.2	0.4	0.4
Average working capital turnover	3.7	1.6	1.7	1.9
Average capital employed	0.2	0.2	0.3	0.3
Debt/Equity	3.6	1.6	1.3	0.9
Adjusted debt/equity	3.6	1.6	1.3	0.9

Operating ratios				
Year to March	FY12	FY13E	FY14E	FY15E
Total asset turnover	0.2	0.2	0.3	0.3
Fixed asset turnover	0.3	0.2	0.4	0.4
Equity turnover	0.7	0.6	0.6	0.6

Valuation parameters				
Year to March	FY12	FY13E	FY14E	FY15E
Diluted EPS (INR)	5.5	8.1	9.4	11.9
Y-o-Y growth (%)	20.0	47.3	15.6	27.2
CEPS (INR)	7.8	10.5	11.7	14.8
Diluted PE (x)	27.7	18.8	16.3	12.8
Price/BV (x)	6.3	4.6	3.7	2.9
EV/Sales (x)	14.4	11.3	8.2	6.4
EV/EBITDA (x)	22.8	16.9	12.7	10.1
Dividend yield (%)	0.5	0.8	0.8	0.8

Peer comparison valuation

Name	Market cap (USD mn)	EV/EBITDA (X)		Price/BV (X)		ROAE (%)	
		FY14E	FY15E	FY14E	FY15E	FY14E	FY15E
Adani Ports and Special Economic Zone	5,570	12.7	10.1	3.7	2.9	25.2	25.5
Essar Ports	697	7.5	6.1	1.3	1.1	12.6	14.1
Gujarat Pipavav Port	420	12.1	10.9	1.7	1.5	9.5	11.1
Median	-	11.3	10.1	1.5	2.9	12.6	25.5
AVERAGE	-	10.5	8.1	2.2	2.0	16.3	19.8

Source: Edelweiss research

Additional Data

Directors Data

Mr. Gautam S. Adani	CMD, Promoter & Executive Director	Mr. Rajesh S. Adani	Promoter & Non-Independent Director
Mr. Rajeeva Ranjan Sinha	Executive Director	Dr. Malay Mahadevia	Executive Director
Mr. Arun Duggal	Independent & Non Executive Director	Mr. D. T. Joseph	Independent & Non Executive Director
Mr. Pankaj Kumar, IAS	GMB Nominee	Prof. G. Raghuram	Independent & Non Executive Director

Auditors - M/s. S. R. Batliboi & Associates

**as per last annual report*

Holding – Top

	Perc. Holding		Perc. Holding
HDFC Asset Management Co Ltd	1.31	T Rowe Price Associates	1.20
Mavi Investment Fund	1.10	Vanguard Group Inc	0.56
Blackrock Fund Advisors	0.26	Alliancebernstein Lp	0.18
UTI Asset Management Co Ltd	0.16	RCM Capital Management Llc	0.13
DSP Blackrock Investment Manager	0.07	Eastspring Investments Singapor	0.07

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Adani Enterprises	BUY	SP	M	Adani Ports and Special Economic Zone	BUY	SO	M
Adani Power	REDUCE	SU	M	CESC	HOLD	SU	H
Essar Ports	BUY	None	None	GMR Infrastructure	BUY	SO	H
Gujarat Pipavav Port	HOLD	None	None	GVK Power and Infra	HOLD	SU	H
JSW Energy	HOLD	SP	H	Lanco Infratech	BUY	SU	H
Marg	BUY	None	None	Navabharat Ventures	BUY	None	None
NTPC	BUY	SP	L	Power Grid Corp of India	BUY	SO	L
PTC India	BUY	None	None	Reliance Infrastructure	BUY	SO	M
Tata Power Co	BUY	SO	L				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return



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Coverage group(s) of stocks by primary analyst(s): Power

Adani Power, Adani Enterprises, Adani Ports and Special Economic Zone, CESC, Essar Ports, GMR Infrastructure, Gujarat Pipavav Port, GVK Power and Infra, JSW Energy, Lanco Infratech, Marg, Navabharat Ventures, NTPC, PTC India, Power Grid Corp of India, Reliance Infrastructure, Tata Power Co

Recent Research

Date	Company	Title	Price (INR)	Recos
15-May-13	Reliance Infra.	Lower EPC margins hurt profitability; <i>Result Update</i>	389	Buy
10-May-13	NTPC	Pipeline projects key to earnings growth; <i>Result Update</i>	155	Buy
06-May-13	Adani Power	Continues to bleed; <i>Result Update</i>	48	Reduce

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	120	49	17	186
* - stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	118	56	12	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

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