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Mundra Port & Special Economic Zone Ltd

PRICE : RS.516 | **RECOMMENDATION : BUY**
TARGET PRICE : RS.716 | **CONS. FY10E P/E: 34.6X**

Stock details

BSE code	:	532921
NSE code	:	MUNDRAPORT
Market cap (Rs mn)	:	206,751
Free float (%)	:	18.70
52-wk Hi/Lo (Rs)	:	1324 / 388
Avg. daily volume BSE	:	690384
Avg. daily volume NSE	:	817335
Shares o/s (mn)	:	400.7

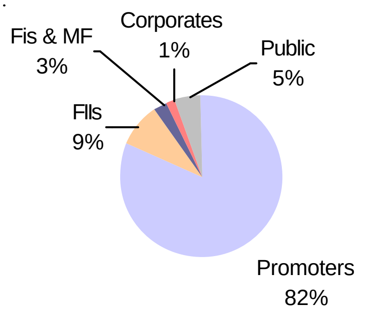
Source: Capitaline

Consolidated summary table

(Rs mn)	FY08E	FY09E	FY10E
Sales	8,170	13,576	17,748
Growth (%)	40.6	66.2	30.7
EBITDA	5,344	8,702	11,383
EBITDA margin (%)	65.4	64.1	64.1
Net profit	2,104	3,971	5,973
Net debt	2,000	5,832	8,829
EPS (Rs)	5.3	9.9	14.9
Growth (%)	12.4	88.7	50.4
DPS (Rs)	1.5	2.0	2.5
ROE (%)	8.3	14.8	19.4
ROCE (%)	10.6	15.1	20.9
EV/Sales (x)	25.6	15.7	12.1
EV/EBITDA (x)	39.1	24.4	18.9
P/E (x)	98.3	52.1	34.6
P/CEPS (x)	66.1	34.1	24.9
P/BV (x)	8.2	7.3	6.2

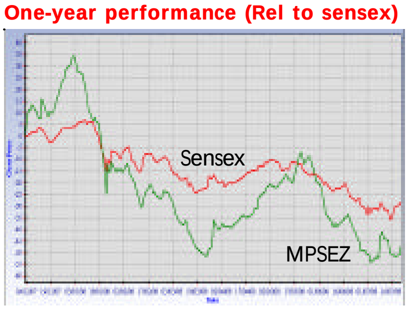
Source: Company, Kotak Securities - Private Client Research

Shareholding pattern (Mar 2008)



Source: Capitaline

One-year performance (Rel to sensex)



Source: Capitaline

Ready for big leap with quality infrastructure

Mudra Port & Special Economic Zone Ltd. (MPSEZ) is developing and operating the modern and fast growing port on India's west coast. It enjoys natural advantages like deep water draft of 17.5 meters and proximity to industrial areas which comprise of almost 55% of India's trade. In order to ensure steady flow of cargo the company is also setting up 31900 acres of SEZ with various industries. It would act as master developer and provide basic infrastructure.

It has also made strategic investments in Dahej port, container train operations and inland container depots which would ensure efficient and seamless movement of cargo from port to the hinterland and vice versa. We expect the traffic at Mundra port to grow at a CAGR of 17.8% from 28.8 MMT in FY08 to 148.7 MMT by FY18E. Over next two years i.e. from FY08 to FY10E, we expect the consolidated revenues of MPSEZ to record CAGR of 47.4% and net profits, a CAGR of 68.5%.

We are positive on the growth prospects of MPSEZ. Therefore, we are initiating coverage on MPSEZ with a BUY recommendation. We are assigning a price target of Rs.716 (39% upside potential) over a 12-month horizon. This is based on the SOTP method of valuation.

Key Investment Rationale

- **Port traffic to register 10.0%CAGR over FY08 to FY12E - minor ports to grow faster.** *Total traffic at Indian ports has grown at CAGR of 10.6% to 683 MMT from FY01 to FY08. Going forward, due to the economic development and overall GDP growth of around 8%, we expect the Indian ports to handle 1000 MMT by 2012E thereby record CAGR of 10.0% from FY08 to FY12E. However due to capacity constraints at major ports which are operating at above 90% capacity utilization levels we expect the minor ports to record higher CAGR of 16.3% as against 7.8% CAGR for the major ports.*

- **Advantage Mundra port - quick evacuation of cargo.** *Mundra has inherent distance advantage of 218 km with Delhi as compared to JNPT which leads to reduced cost of transportation. Thus it is expected to lead to significant growth in handling of containers bound for the northern region. Through its subsidiaries it also provides services like running of private container trains and Inland container depots at strategic locations. Mundra port has natural draft of 17.5 meters which makes it one of the deepest draft ports of India and thus it is able to call new generation large size vessels with bigger capacity of bulk container and crude oil cargo.*

- **Long term contract to assure throughput.** *MPSEZ has entered into long term contract with Indian Oil Corporation (IOCL) and Guru Gobind Singh Refinery Ltd (GGSRL) for single point mooring (SPM) facility for crude oil. It has also contracted with TATA Power to set up dedicated coal handling terminal for their UMPP. Such long term contracts lend lot of safety to the huge investments required to set up the facilities on a big scale.*

- **SEZ - to ensure steady flow of cargo through the port**. *MPSEZ has acquired 18900 acres around the Mundra port and is in various stages of acquiring another 13000 acres. The main advantage of such SEZ is that it is in very close proximity to the port and thus the companies would have significant benefits in terms saving of transportation costs and time. MPSEZ would act as a master developer and would do land leveling and fencing of the plots. It would create social infrastructure like hospitals, schools, entertainment centers, residential colonies etc. It would also give the plots which are ready with critical requirements like water, power, sewage, telecom facilities etc.*

- **Dahej port in JV with Petronet LNG.** *The company is setting up a solid cargo port at Dahej in JV (74:26) with Petronet LNG. The total cost of the project is Rs.12 bn. It would be built to handle 20 MMTPA of cargo and its first phase is expected to be operational by November 2009. This port would be capable of handling large ships as it would have draft of 16 meters.*
- **Looking to handle ports at various locations.** *Since it has successfully demonstrated its abilities to efficiently run a port, MPSEZ is now on the look out for owning, managing and operating other ports across the country. As and when it is able to own, manage or operate any other port it would add to the overall profitability of the company going forward.*
- **Mundra Airport - Future potential.** *The company has also set up a fully operational airport with 2000 meters runway length. The company has already set up an air terminal with facilities for handling the aircraft movements. The company has also set aside ample land surrounding the airport to set up MRO facilities and a cargo hub. The company plans to utilise this as a facility to increase the overall cargo handling at MPSEZ by providing air, water, road and rail connectivity for the cargo. The company is also looking at other future potentials like LNG terminal and ship building facility.*

Valuation & Recommendation

SOTP valuation

Business	Value per share (Rs)
Mundra Port	458
SEZ	170
Dahej Port	58
Adani Logistics	8
Inland Containers	22
Target price	716
CMP	516
Upside (%)	39

Source: Kotak Securities - Private Client Research

- *At the current price of Rs.516, the stock is trading at 34.6x earnings, 24.9x cash earnings, 18.9x EV/EBIDTA multiple and 12.1x EV/sales multiple based on FY10E estimates. We expect the company to report RoE of 19.4% in FY10E.*
- *We feel the stock looks attractive if we consider it on SOTP. This is due to its integrated business model coupled with superior infrastructure consisting of multi cargo port, SEZ, Airport, Rail and Road connectivity. Also the industries in the surrounding SEZ would provide steady flow of cargo to the port. This would ensure steady growth in volume of cargo handled at the port.*
- *We are positive on the growth prospects of MPSEZ. Therefore, we are initiating coverage on MPSEZ with a BUY recommendation. We are assigning a price target of Rs.716 (39% upside potential) over a 12-month horizon. This is based on the SOTP methodology.*

Key risks

- *Any delay in ramping up of the capacities of the port would lead to marginal growth for the company, going forward.*
- *Slower then expected sale of land in SEZ would impact the Financials. Also the company is at various stages of acquisition of 13000 acres. Inability to acquire these would negatively impact the financials of MPSEZ.*
- *MPSEZ has a concession agreement with Gujarat Maritime Board (GMB) for operating Mundra port for 30 years (till February 2031). Any cancellation, early termination and non renewal of this concession would impact the business of the company.*
- *MICT, which operates container terminal one (CT1) at Mundra port has filed a case against MPSEZ operating container terminal two (CT2). Any adverse impact on operations of the CT2 would impact the financials of MPSEZ.*
- *Inefficiency on the part of road and rail services to evacuate the cargo from the port would impact the port operations and thus impact the financials of MPSEZ.*
- *MPSEZ is eligible to avail of tax benefits under section 80IAB. Any ruling by the tax authorities to the contrary would negatively impact the earnings of MPSEZ.*
- *A case has been filed by some fisherman to halt the work of SEZ. Any ruling by the court to the contrary would negatively impact the earnings of MPSEZ.*

BACKGROUND

- *MPSEZ is a part of the Adani Group, which has interests in different industries including commodities trading, coal mining, power trading, power generation, real estate development, agro processing, logistics, shipping and port operations.*
- **Mr. Gautam S. Adani, Chairman and Managing Director and Chief Executive Officer** *is the founder of the Adani Group. He has been instrumental in the diversification of the Adani Group into the port sector. He is responsible for the overall business and future growth of MPSEZ.*
- **Mr. Rajesh S. Adani, non-executive director** *is currently involved in the management of Adani Enterprises Limited (AEL) and is the brother of Mr. Gautam S. Adani. He handles the marketing and finance aspects of AEL and has been responsible for developing the business relationships and contacts since 1988. He has a Bachelor of Commerce degree from the Gujarat University.*
- **Mr. Ameet H. Desai, Executive Director and Chief Financial Officer,** *has more than 20 years of experience in the field of corporate finance, projects and mergers and acquisitions. Prior to joining MPSEZ in 2005, he was Vice President - Mergers & Acquisitions and Business Planning for Ranbaxy Laboratories Ltd. He has a Bachelor degree in business administration where he stood first and a MBA in finance from the B.K. School of Management, Ahmedabad, where he was a national merit scholarship holder.*

Decade of experience in the port sector

- **Mr. Rajeev Ranjan Sinha, Wholetime Director,** *has spent a decade in the port sector of Maharashtra and was the Deputy Chairman of the Mumbai Port Trust for six years from September 1997 to August 2003. He also headed the Maharashtra Maritime Board. He retired as the Principal Secretary, Government of Maharashtra in September 2003. He has a Master of Business Administration degree from Jamnalal Bajaj Institute of Management Studies, Mumbai in 1999. Prior to joining MPSEZ, he was associated with Gujarat Pipavav Port Limited as Managing Director. He is responsible for general management, port management, shipping management, port commercial, legal and labour laws and regulations, international and national maritime law, personnel and financial management.*
- *MPSEZ was incorporated as Gujarat Adani Port Limited on May 26, 1998, and commenced phased operations at Mundra Port in October 1998 with commercial operations beginning in October 2001.*
- *MPSEZ was initially promoted by Adani Port Limited and Gujarat Port Infrastructure Development Company Limited, an undertaking of the Government of Gujarat. Later on it entered into a Concession Agreement with the GMB and the Government of Gujarat on February 17, 2001 pursuant to which it has been granted the right to develop and operate Mundra Port located at the Navinal Island in the Kutch region for a period of 30 years till February 2031.*
- *On expiry of the Concession Agreement, all assets would be transferred to the GMB for which MPSEZ would receive compensation based on an independent valuation of such assets.*
- *Mundra Special Economic Zone Limited and Adani Chemicals Limited were merged with MPSEZ with effect from April 1, 2006.*
- *In 2006, MPSEZ was awarded the title of "Best Port Authority" in the Middle East and Indian Subcontinent by Lloyd's List for its leadership, quality of service and commitment to customers in the area of port operations.*

Mundra port location

Source: Company RHP

BUSINESS PROFILE

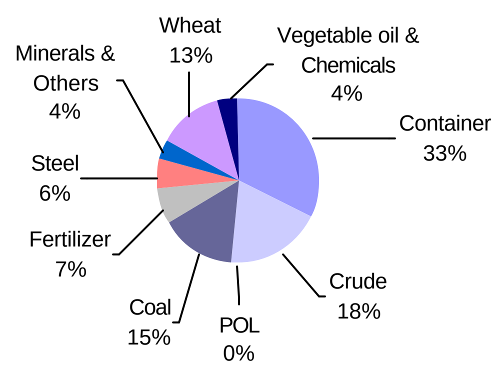
Right to operate the port till February 2031

- *MPSEZ is the developer and operator of the Mundra port till February 2031. Initially the port handled only bulk and liquid cargo and eventually now it handles a whole host of cargoes like bulk, crude oil and container. Mundra Port has storage facilities for various types of dry bulk cargo, mechanized handling and storage systems for liquid bulk cargo.*
- *MPSEZ operates two dedicated multi-purpose terminals ("Terminal I & II"). Terminal I has a total of four berths and a barge berth. Terminal II, which became fully operational in March 2007, has a length of 575 metres and a width of 47 meters and has four berths.*
- *Mundra Port also has container terminal one (CT1), which is operated by the container sub-concessionaire i.e. MICT. It has been in operation since July 2003.*
- *MPSEZ has also commissioned container terminal two (CT2), with 450 meters of berth length since August 2007. The remaining berth length of 181 meters was also completed in May 2008 and thus now it is fully operational.*

Single point mooring facility

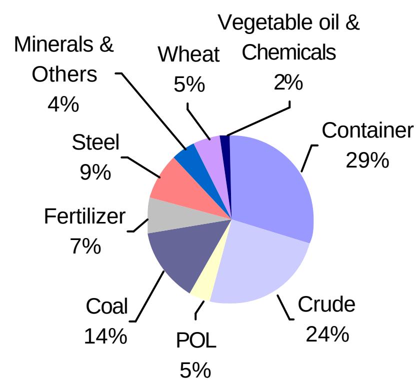
- *In 2005 it commenced operations of its single point mooring (SPM) and related facilities to handle crude oil as part of a long-term agreement with Indian Oil Corporation Ltd (IOCL). It is designed to handle very large crude carriers of up to 360,000 DWT with an overall capacity of 25 MMTPA. The single point mooring is located approximately six km offshore from Mundra Port and has a water depth of 32 metres. MPSEZ has also constructed a pipeline of 48 inches in diameter from the SPM to the tankage area at Mundra Port.*

Cargo mix at Mundra port - FY07



Source: Company, RHP

Cargo mix at Mundra port - FY08



Source: Company presentation

Private railway siding

- *The company also gives value added services like evacuation of cargo through road and rail. The company has built a private railway siding of 57 km to connect to the Indian railways network at Adipur. There are two crossing stations along the entire link and it has the ability to run freight trains of speeds of up to 100 kilometres per hour. The current maximum capacity of the rail link is 22 trains per day in each direction which can be expanded by adding more stations on the rail link.*

ICD's at strategic locations

- *Through its subsidiaries it also provides services like running of private container trains and Inland container depots at strategic locations to facilitate customs examination and other value added services like stuffing, de-stuffing, palletization, warehousing etc.*

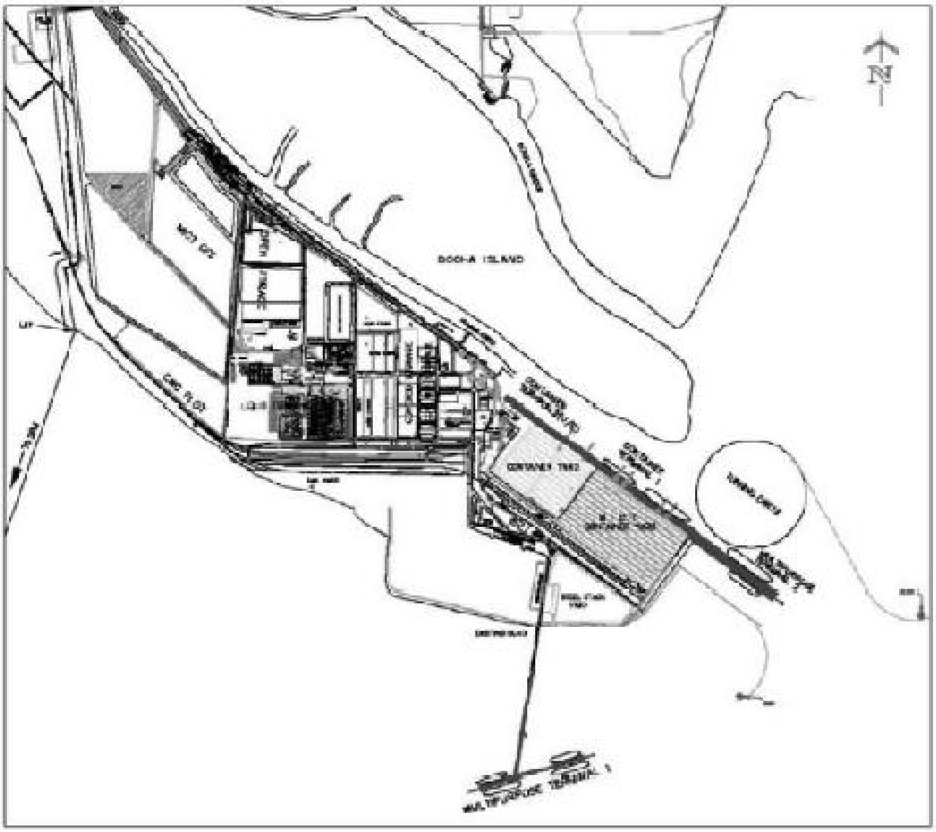
Master developer of SEZ

- *In order to ensure steady volume of cargo to the port, the company is also building SEZ spread over 31900 acres. Of this 18900 acres have already been acquired and balance 13000 acres are in various stages of being acquired. It would act as master developer and lease plots of leveled and fenced land with critical infrastructure like water, power, sewage, telecom etc.*

Incentives for SEZ

- *The SEZ designation provides considerable government incentives and benefits to SEZ developers, operators and other users. This includes exemptions from customs tax, income tax and other taxes, resulting in reduced costs for infrastructure, utilities, raw materials and other resources. This helps to increases export competitiveness and benefits international trade.*

Layout of Mundra Port



Source: Company RHP

Revenue streams and composition

Port

Cargo handling charges

- *MPSEZ receives income for bulk cargo handling services through short-term spot contracts. It also receive fees for storage of bulk cargo, which is predominantly from unit period storage of liquid bulk cargo.*

Royalty payments

- *MPSEZ receives royalties to the tune of 10.0% of the Container Sub-concessionaire's gross operating income from the container services provided at CT1 and the container freight station (CFS) at Mundra Port, with a minimum guaranteed royalty of 40.0% of the cargo projections as set out in the MICT Sub-concession Agreement.*
- *Regarding single point mooring and pipeline, MPSEZ receives the minimum annual payments of Rs.350 mn for 8.25 MMTPA or less of crude oil and it increases up to Rs.484.1 mn for 11 MMTPA and above.*

Haulage charges

- *Railway revenues includes charges for facilitating rail rake movements on the Mundra-Adipur rail link which is based on operational arrangement with Indian Railways and providing railway haulage services within the port area.*

SEZ

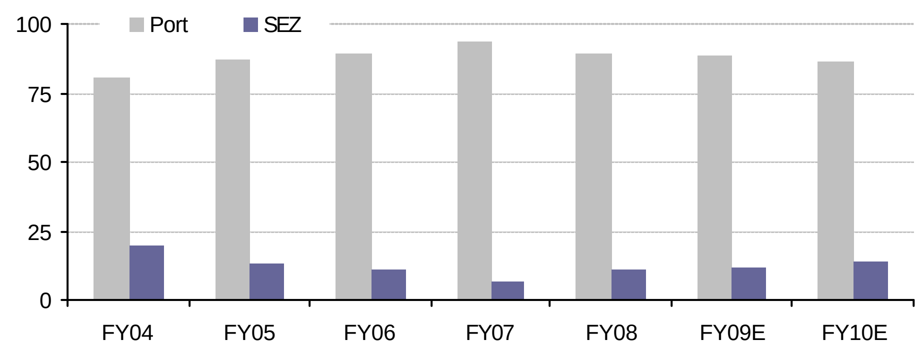
One time and annual lease charges

- *The land-related income in SEZ is through one-time charges and ongoing lease charges on the land allotted to the respective land users. The company also charges utility fees for providing services like power, water, sewage, telecom etc.*

Port and SEZ revenue breakup

- *In FY07, the major portion of revenues i.e. 93.8% was contributed by port related operations and balance 6.2% was out SEZ.*
- *In FY08, the major portion of revenues i.e. 89.0% was contributed by port related operations and balance 11.0% was out SEZ.*
- *Going forward as the sale of SEZ gathers momentum, the ratio of port related operations in total revenues is expected to come down to 88.4% and 85.9% in FY09E and FY10E respectively.*
- *Share of SEZ as a percentage of total revenues is expected to go up from 11.0% in FY08 to 11.6% in FY09E moving upto 14.1% in FY10E.*

Revenue composition graph - Port & SEZ (%)



Source: Company, Kotak Securities - Private Client Research

KEY INVESTMENT RATIONALE

Port traffic to register 10.0%CAGR over FY08 to FY12E to touch 1000 MMTPA

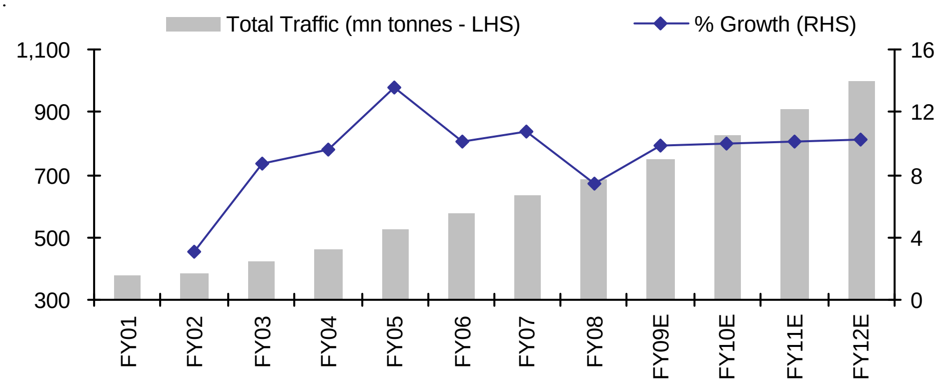
Traffic at Indian ports to grow at 10% CAGR till 2012

- *Total traffic at the Indian ports has grown from 374 MMT in FY01 to 683 MMT in FY08. Thus it recorded CAGR of 10.6%. Going forward, due to the economic development and overall GDP growth of around 8%, we expect the Indian ports to handle 1000 MMT by 2012E thereby record CAGR of 10.0% from FY08 to FY12E.*

12 major and 187 minor ports

- *Indian ports handle approximately 95% of India's total trade in terms of volume and 70% in terms of value. Currently there are 12 major and 187 minor and intermediate ports spread across nine coastal states. Major Ports are principally large ports having a combination of dedicated bulk terminals, specialised container terminals and general cargo berths.*

Total Traffic at Indian ports



Source: NMDP, Ministry of Shipping, Indian Ports Association, Kotak Securities - Private Client Research

- *Over the last few years there have been significant developments in the minor ports. The three such minor ports under the state government jurisdiction in the private sector are located at Mundra and Pipavav in Gujarat and Kakinada in Andhra Pradesh.*

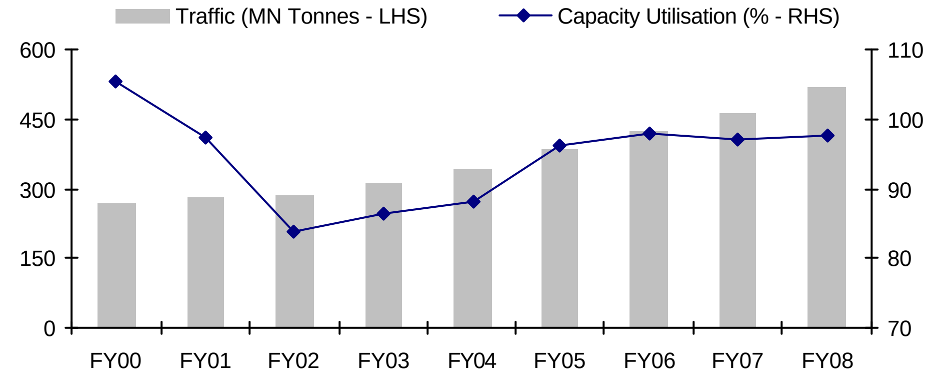
Minor ports to grow faster then major port

- *Total traffic at the major port of India has grown from 284 MMT in FY01 to 519 MMT in FY08. Thus it recorded CAGR of 10.6%. Since the major ports have been operating at around 90% capacity utilization levels we expect that the next round of growth in handling at ports would be at the minor ports. Going forward we expect the major ports of India to handle 700 MMT by 2012E thereby recording CAGR of 7.8% from FY08 to FY12E.*

Major ports are operating at 90% capacity utilization

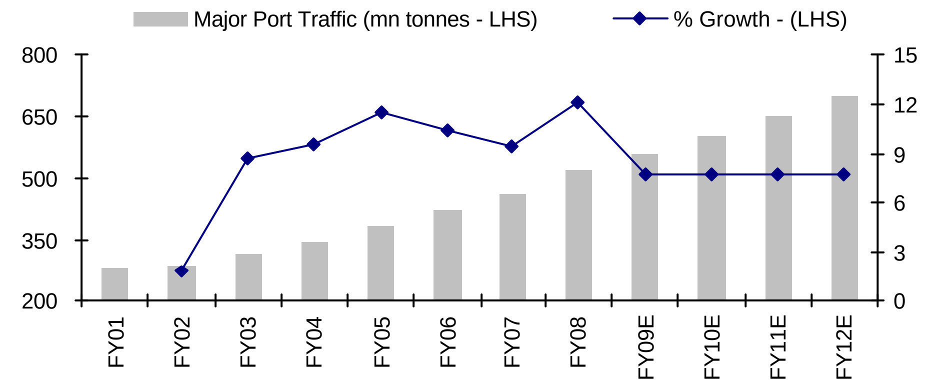
- *On the other hand the total traffic at the minor ports of India has grown from 90 MMT in FY01 to 164 MMT in FY08. There was a minor blip in FY08 as historically minor ports have only been feeder ports, which play a supporting role to the major ports. However, going forward we expect the minor ports to grow faster as the major ports are operating at around 90% capacity utilization levels. Thus it recorded CAGR of 10.6% which is similar to that of the major ports. However going forward due to capacity constraints at the major ports of India we expect the minor ports of India to handle 300 MMT by 2012E thereby recording CAGR of 16.3% from FY08 to FY12E.*
- *Mundra port, being a minor port, is expected to contribute significantly for the growth of traffic at the minor ports.*

Major port traffic and its capacity utilization



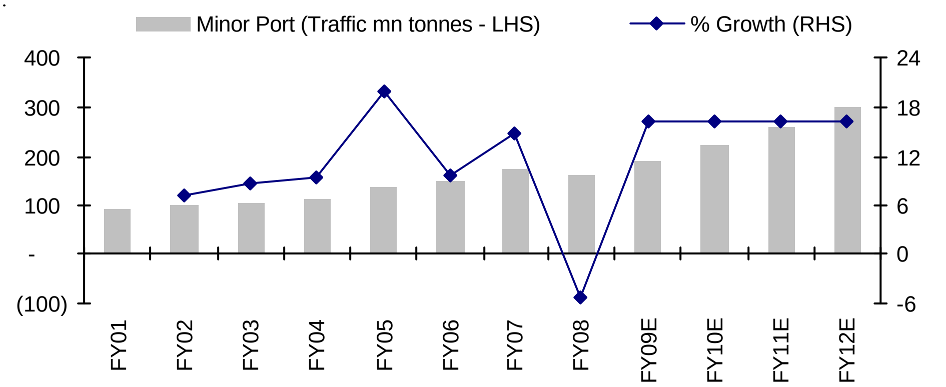
Source: NMDP, Ministry of Shipping, Indian Ports Association, Kotak Securities - Private Client Research

Major port traffic and its growth



Source: NMDP, Ministry of Shipping, Indian Ports Association, Kotak Securities - Private Client Research

Minor port traffic and its growth



Source: NMDP, Ministry of Shipping, Indian Ports Association, Kotak Securities - Private Client Research

- *Thus while the total traffic at the Indian ports are expected to grow at CAGR of 10.0% form FY08 to FY12E, the minor ports are expected to record higher growth rate of 16.3% as against 7.8% CAGR for the major ports.*

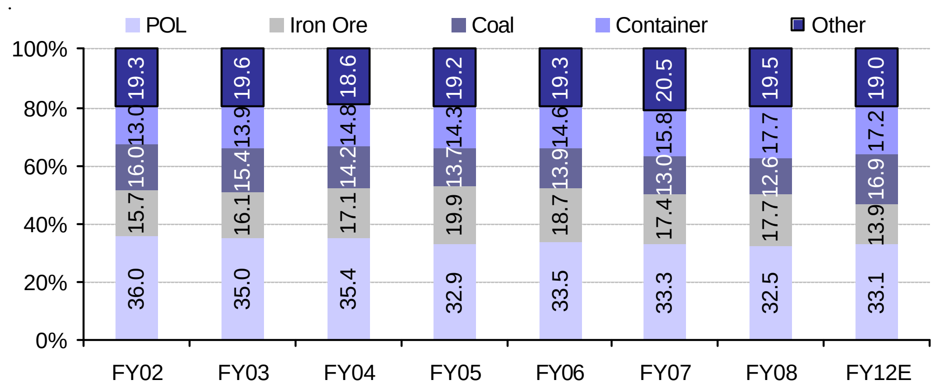
Share of Coal handling in total port traffic to increase

- *Looking at the rapid economic expansion and the overall development, India has set the ambitious target to add 78500MW of power generation capacity in 11th five year plan. Of this more then 70% is expected to be coal based power generation. This would require huge amounts of coal to be imported to meet such a huge demand.*

Coal based UMPP

- *The government has also awarded imported coal based 4000 MW ultra mega power project to TATA Power Ltd. Thus we feel that the share of coal handling in total traffic handled at ports is expected to go up from 12.6% in FY08 to 16.9% by FY12E.*
- *Thus we would require dedicated coal handling port facilities to handle such huge amounts of coal at the ports. Since the major ports are already over utilized we feel that such dedicated coal handling facilities would come up at the minor ports.*

Cargo breakup at Indian ports

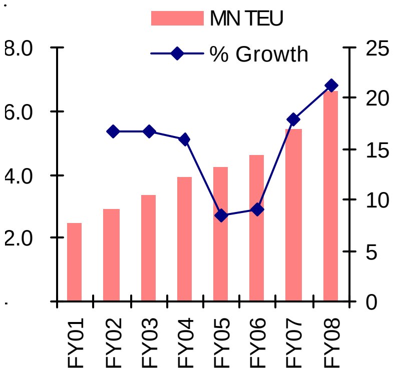


Source: NMDP, Ministry of Shipping, Indian Ports Association, Kotak Securities - Private Client Research

Container traffic to grow at 15% CAGR

- *India's container traffic has recorded CAGR of 15.1% from 2.5 mn TEUs in FY01 to 6.6 mn TEUs in FY08.*
- *The share of containerized cargo to total cargo is also growing at an increasing pace. The share of cargo that can be containerized has also increased from 60% to 68%. Thus the container traffic has grown around twice the GDP rate in the past.*
- *Hence, projecting GDP of around 7.5% for next several years, we expect CAGR of 15% in container handling at the Indian ports. Thus we expect India to handle 10 mn TEUs by 2011E. This would increase to 20 mn TEUs by 2016E.*
- *Once again since the major ports have been operating at around 90% capacity utilization levels we expect that the next round of growth in container handling at ports to be handled at the minor ports.*

Mn TEU at Indian ports



Source: Indian Ports Association, Kotak Securities - Private Client Research

Mundra - growing faster then other port in proximity

- *Mundra port started commercial operations in the year 2001 with bulk cargo. Since then it has never looked back. The total cargo handled at Mundra port has recorded CAGR of 41.9% from 2.5 MMT in FY01 to 28.8 MMT in FY08.*
- *Container terminal commenced operations in the year 2004 with 2.1 lakh TEUs. Then it recorded CAGR of 48.9% to handle around 7 lakh TEU in FY08.*

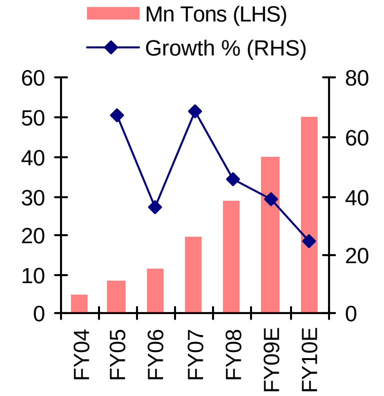
Mundra port growing faster then other ports in proximity (MMT)

	JNPT			Kandla			Mundra		
	Container	Bulk	Total	Container	Bulk	Total	Container	Bulk	Total
FY01	14.3	4.3	18.6	1.3	35.5	36.7	-	2.5	2.5
FY02	18.5	4.0	22.5	1.8	36.0	37.7	-	3.5	3.5
FY03	22.9	4.0	26.8	2.2	38.4	40.6	-	4.2	4.2
FY04	27.8	3.4	31.2	2.4	39.1	41.5	0.6	4.6	5.2
FY05	28.8	4.1	32.8	2.7	38.8	41.5	2.6	6.1	8.6
FY06	32.0	5.7	37.8	3.9	42.0	45.9	3.6	8.2	11.7
FY07	40.8	4.1	44.9	2.8	50.2	53.0	6.3	13.5	19.8
FY08	51.8	3.9	55.8	2.6	62.3	64.9	7.2	21.7	29.0
CAGR % (01-08)	20.2	(1.3)	17.0	10.7	8.4	8.5	88.6	36.3	42.0

Source: Company presentation, Kotak Securities - Private Client Research

- *On the other hand the bulk cargo handling at Mundra port increased form 2.5 MMT in FY01 to 21.7 MMT in FY08, thereby recording CAGR of 36.3%.*
- *Mundra has grown faster then some of the other ports in proximity like and JNPT and Kandla. Also it has long undeveloped waterfront land which can be used in future to further expand port operations substantially.*

Cargo handled at Mundra Port



Source: Company, Kotak Securities - Private Client Research

Mundra - emerging as the port hub for oil and gas industry

- *MPSEZ has commissioned Single Point Mooring (SPM) facility for discharging crude oil from the huge oil tankers away from the coast. It has SPM at the shortest distance from the port with tankage capacity of 8 lakh KL.*
- *A crude pipeline, owned and operated by IOCL, connects Mundra Port directly to IOCL's refinery in Panipat. There is another pipeline, owned and operated by HPCL, which is used to transport liquid petroleum products from Mundra Port to inland regions in northern India such as Delhi.*
- *The company has assured contract on take or pay basis from IOCL for 8.25 MMTPA. Going forward it has also singed an agreement with Guru Gobind Singh Refineries Ltd(GGSRL), subsidiary of HPCL to handle crude oil upto 18 MMTPA. It will set up another SPM for GGSRL which is expected to be operational by year 2011E. This lends assured business for MPSEZ.*
- *Also with this the oil companies need to set up oil tanks around the port and thus it is able to lease its SEZ land around the port to these companies.*
- *MPSEZ has received environmental clearance to set up a total of 4 SPMs at Mundra Port.*

Mundra - setting up dedicated coal terminal

Rs.20 bn coal terminal

- *MPSEZ is setting up a dedicated coal handling terminal at an investment of Rs.20 bn. This would comprise of a jetty with an approach road from the shore ending into berths with a depth of 22 meters and capable of berthing two vessels simultaneously with a capacity of 220000 DWT. It is expected to handle 30 MMTPA coal. Coal will be transported through a conveyor belt to a coal stockyard where it will be stacked and reclaimed.*

To be opearational by January 2011

- *Civil works of the jetty are expected to be completed by September 2010E, plant and machinery are expected to be installed by December 2010E and finally it is expected to be operational by January 2011E.*
- *Its operations will be synchronized with the commencement of the power plant of TATA and Adani power both of which are based on imported coal. The company has already signed firm contract with TATA Power to use this coal terminal.*
- *This facility would also have the flexibility to be expanded further to include additional berths for bulk cargo.*

Advantage Mundra port - excellent rail and road linkage

Distance advantage of 218 km with JNPT

- *Mundra has inherent distance advantage of 218 km with Delhi as compared to JNPT. Thus reduced distance leads to reduced cost of transportation and thus it is expected to lead to significant growth in handling of containers bound for the northern region.*
- *Also with the expected broad gauge conversion of the Bhildi - Luni rail link by December 2008, Mundra would have advantage of 438 km with Bhatinda as compared to JNPT. This can significantly reduce the cost of transportation and thus is an advantage for Mundra.*

It would be linked to dedicated rail freight corridor

- *Going forward the rail link would also get connected to the proposed dedicated rail freight corridor at Palanpur. This creates huge potential for the Mundra port to handle more containers.*

Double stack container trains

- *The Indian railways is also doing test runs of double stack container trains between Mundra and Delhi. If successful, this which would give it a significant cost advantage as compared to road transport and also in terms of transportation cost from Mundra port.*
- *The company has built a private railway siding to connect to the Indian railways network at Adipur. From Adipur it is connected to the vast network of Indian Railways.*

ICDs at strategic locations

- *Through its subsidiaries it also provides services like running of private container trains and Inland container depots at strategic locations to facilitate customs examination and other value added services like stuffing, de-stuffing, palletization, warehousing etc. This makes it the multi modal logistics provider.*

Private container train operators

- *Subsequent to the privatization of container train operations by Indian Railway, presently besides Concor, four private container train operators run container train operations connecting Mundra port to the hinterland.*
- *A four-lane approach road connects the port to Mundra, which is linked to national and state highways, including the Mundra-Anjar state highway. Because of the road and highway network, transporting cargo and goods from Mundra Port to Delhi reduces the travel distance by approximately 218 km over the Mumbai port and approximately 66 km over the Pipavav port.*

Quick and efficient evacuation of cargo

- *Thus we feel that strong rail and road network is a significant advantage that the Mundra port enjoys which should lead to quick and efficient evacuation of the containers from the ports.*

Advantage Mundra port - proximity to northern hinterland

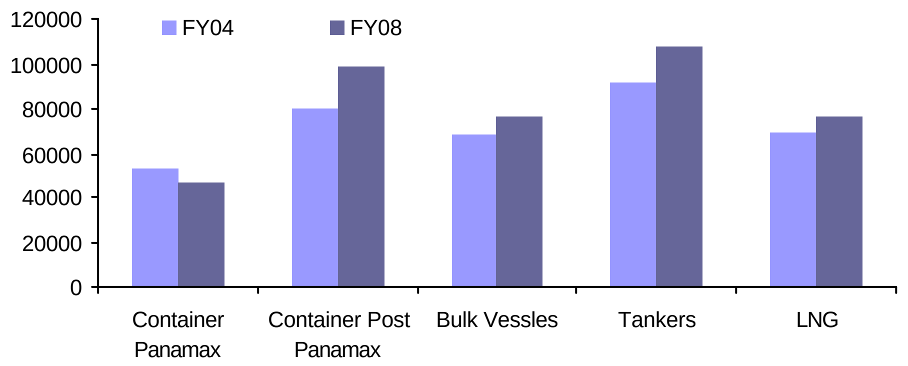
- *Mundra port is located on the west coast of India. Over the last few years the port traffic at the western ports has grown at CAGR of 11% while that on eastern coast ports have grown at CAGR of 9%.*
- *Also 55% of the all imported cargo of India is destined for the northern hinterland regions of India and balance 45% to the southern hinterland.*
- *It also enjoys proximity to the major maritime trade routes which makes it attractive for vessels to call at Mundra port.*
- *Thus it is ideally positioned as an import hub to serve foreign trade to serve imports form and exports to the Middle east, Asia Africa and other international destinations. Mundra fits very well in terms of it being closer to the northern hinterland then JNPT.*

Advantage Mundra port - deep draft

Upto 10000 TEU ships

- *The trend in global shipping has rapidly shifted towards deployment of large sized vessels, requiring deeper draft at ports and highly efficient modes of cargo discharge to minimise the detention time. Recently there are vessels with capacities of upto 10,000 TEU`s. (Twenty foot equivalent unit)*
- *Economies of scale can be gained by a port's ability to handle substantial cargo. This trend can be gauged by the fact that according to Institute of Shipping Economics and Logistics, Europe, over 141 ships with a capacity of 8,000 or more TEUs are on order books globally. This would essentially require ports with greater drafts to be able to handle such vessels.*

Vessel category and average DWT



Source: Company presentation

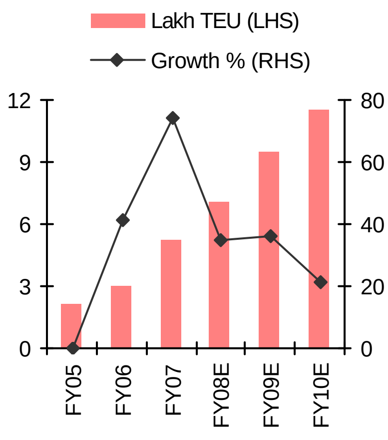
New generation large size vessels

- *Mundra port has natural draft of 17.5 meters which makes it one of the deepest draft ports of India. JNPT has draft of 11.5 meters. As a result of the deep draft it is able to call new generation large size vessels with bigger capacity of bulk container and crude oil cargo. This results into increased handling of cargo at the port.*
- *The ability to directly berth large size vessels of each commodity category results in savings in ocean freight of about 6% to 7% of the C&F value of the commodity.*

Mundra port is operational 24 hours

- *Also because of the natural protection provided by its location, Mundra port is in operation throughout the year in almost all weather conditions. The port is operational 24 hours and also during high and low tide. This makes it attractive as compared to some other ports.*

Lakh TEU handled at Mundra CT1



Source:Company, Kotak Securities - Private Client Research

Advantage Mundra port - longest continuous berth length for container cargo

- *MICT is operating CT1 at Mundra since 2004. The number of containers handled at CT1 have grown from 2.1 lakh TEU in FY05 to 7 lakh TEU in FY08 thereby recording CAGR of 48.9%.*
- *In May 2008 MPSEZ has also commenced operations at CT2 with a capacity to handle 1.25 mn TEU`s per annum.*
- *Mundra has the distinct advantage of having longest continuous berth length for the containerized cargo. Also it is emerging as the auto export hub with facilities of Roll-on-Roll-off terminal.*
- *Maruti has already tied up with MPSEZ to use it for export of its vehicles. It is expected to start using its facility by Q1FY10 with export of 2.5 lakh cars per annum. Going forward looking at good export potential for the cars, we expect Maruti to ramp it upto four lakh cars per annum in next three years.*

SEZ - to ensure steady flow of cargo through the port

18900 acres acquired

- *MPSEZ has acquired 18900 acres around the Mundra port and is in various stages of acquiring another 13000 acres. Thus in all it would have 31900 acres.*

Close proximity to the port

- *The main advantage of such SEZ is that it is in very close proximity to the port and thus the industrial units would have significant benefits in terms saving of transportation costs and time. Besides these industrial units will have the availability of cluster of infrastructure namely road, rail, pipeline network, airline connectivity, water and power for their oprations.*

It would act as a master developer

- *MPSEZ would act as a master developer and would do land leveling and fencing of the plots. It would create social infrastructure like hospitals, schools, entertainment centers, residential colonies etc. It would also give the plots which are ready with critical requirements like water, power, sewage, telecom facilities etc. Thus we feel that it would be relatively easy for the company to lease this land as there are significant benefits that one would derive out of this SEZ.*
- *The company already has strong pipeline for sale of the land in SEZ. As and when the industries come on this SEZ it would automatically develop a customer for the port facilities. Thus we feel that SEZ would play a vital role to ensure steady flow of cargo for the port.*

Adani Logistics

Run private container trains

- *Adani Logistics, 100% subsidiary of MPSEZ has a license to run private container trains. It has category one license which entitles it to run both domestic and EXIM trains on any rail route in India. Thus it can ply on profitable JNPT - Delhi route and the fast developing Delhi - Mundra route.*

Plans to procure 20 rakes

- *It has plans to procure 20 rakes for which the orders have already been placed with suppliers. As on date it has inducted 2 rakes in services and 8 rakes are expected to be commissioned by March 2009. It is likely to spend Rs.3.2 bn in next two years.*
- *This is expected to have synergies with container terminals at Mundra port and also with ICD that are being built by another subsidiary of MPSEZ, i.e. Inland Conware.*

Inland Container - would boost container volumes

14 rail linked ICDs

- *Inland container, 100% subsidiary of the MPSEZ is developing 14 rail linked Inland Container Depots (ICD`s) to handle international and domestic cargo in terms of containers.*

Capex of Rs.9 bn

- *In phase one, ICDs would be built at seven locations in NCR, Punjab and Rajasthan. In phase two, ICDs would be built at seven other locations in important cargo centers across India. It is likely to spend Rs.9.0 bn in next three years to set up these facilities.*
- *It would build a private railway sidings, bonded and non bonded warehouses with complete customs facilities. These would ensure seamless transfer of cargo from port to the hinterland with value added facilities like stuffing, de-stuffing, custom clearance, warehousing, palletization etc.*

Partli ICD has commenced operations

- *Construction at Patli ICD is over and subsequent to customs notification the opeations have commenced at Patli ICD. Another ICD at Kishangarh is nearing completion and is expected to be operational by December 08. Other locations in phase one are Palwal, Chawapail, Kila, Raipur, and Ludhiana.*
- *The next development phase would involve development of additional inland container depots in important cargo centers such as Ahmedabad, Mumbai, Kolkata, Chennai, Bangalore, Coimbatore and Nagpur. Going forward we expect these ICDs to increase container volumes at Mundra Port.*

Seamless connectivity for the cargo - advantage MPSEZ

Efficient services to the clients

- *With services right form handling of cargo at port to transporting them over large distance by container train and again their handling at the ICD, MPSEZ is expected to have significant advantage. MPSEZ would have complete control over these essential services thus it would be able to provide speedy and efficient services to its clients.*
- *It would enable MPSEZ to operate scheduled train services out of Mundra Port and provide assured timely delivery services to the container shipping lines and container port users. This would make it the multi modal logistics provider.*
- *This would ensure increasing volumes for its core port operations and thus increasing profitability for the company as a whole.*

Dahej port in JV with Petronet LNG

Stake to be hiked to 74%

- *The company is setting up a solid cargo port at Dahej in JV with Petronet LNG. Presently the company owns 50% stake in the port which will be hiked to 74% on receipt of regulatory approvals. An application has been made to GMB by Petronet to permit the reduction of Petronet shareholding in Dahej port to 26%, thereby resulting in the increase of the shareholding of the Adani Group to 74%.*

Capex of Rs.12 bn

- *The total cost of the project is Rs.12 bn. It would be built to handle 20 MMTPA of cargo and its first phase is expected to be operational by November 2009. This port would be capable of handling large ships as it would have draft of 16 meters. It is under a 30 year concession period which expires in December 2035.*

To be operational by November 2009

Handling capacity of 20 MMTPA

- *The solid cargo port terminal project would comprise of a development of a T-shaped jetty having two berths, which will be developed in a phased manner. Phase I envisages development of a cargo handling berth having an approximate length of 260 meters (Berth-1), an approach bund and bridge, a development area, a railway line and other administrative buildings. Phase I of the Project has been designed to handle coal, steel and food-grains and is expected to be operational by November 2009.*
- *The Dahej port is expected to be successful as it is strategically located in the highly industrialized zone with proximity of good rail and road connectivity for quick evacuation of cargo. This is the strategic decision by the company to handle more then one port.*

Looking to handle ports at various locations

Since it has successfully demonstrated its abilities to efficiently run a port, MPSEZ is now on the look out for owning, managing and operating other ports across the country. As and when it is able to own, manage or operate any other port it would add to the overall profitability of the company going forward.

Mundra Airport - Future potential

- *The company has also set up a fully operational airport with 2000 meters runway length. The company has already set up an air terminal with facilities for handling the aircraft movements.*
- *Currently small business jets and ATR can land at the airport. However the company has approved its expansion to 4000 meters long runway which would be able to land larger aircrafts like Airbus A320 and Boeing 777.*

Would set up MRO facilities

- *The company has also set aside ample land surrounding the airport to set up MRO facilities. (maintainence, repair and overhaul)*
- *The airports hold great future potential in terms of a cargo hub. Thus we feel that the Mundra Airport holds great future potential couple years down the line to develop into an air-sea-road-rail cargo hub.*

Future potentials

LNG terminal and ship building facility

Along its long waterfront length, MPSEZ has developed a master plan that has ear-marked areas for constructing LNG facility, ship building facility as well as additional berths. GSPC has also shown interest in setting up its LNG facility at the port. Thus we feel that going forward there are some potential triggers which would rerate the stock.

History of high growth in sales and profits - good future potential

The net sales of the company have grown at a CAGR of 48.6% from Rs.1.7 bn in FY04 to Rs.8.2 bn in FY08. The net profits of the company have grown at a CAGR of 99.3% to Rs.2.1 bn in FY08. Going forward, we expect revenues to grow at a CAGR of 47.4% and net profits to grow at a CAGR of 68.5% from FY08 to FY10E.

Attractive valuations

- *At the current price of Rs.516, the stock is trading at 34.6x earnings, 24.9x cash earnings, 18.9x EV/EBIDTA multiple and 12.1x EV/sales multiple based on FY10E estimates. We expect the company to report RoE of 19.4% in FY10E.*
- *We feel the stock looks attractive if we consider it on SOTP. This is due to its integrated business model coupled with superior infrastructure consisting of multi cargo port, SEZ, Airport, Rail and Road connectivity. This would ensure steady growth in volume of cargo handled at the port.*

Price target of Rs.716

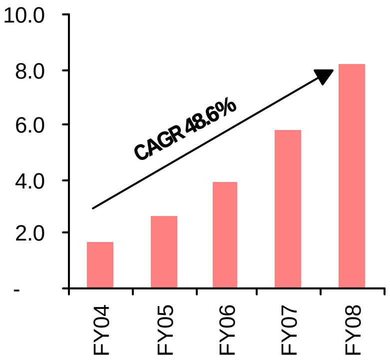
- *We are positive on the growth prospects of MPSEZ. Therefore, we are initiating coverage on MPSEZ with a BUY recommendation. We are assigning a price target of Rs.716 (39% upside potential) over a 12-month horizon. This is based on the SOTP methodology.*

Financials

Robust past performance - consolidated

The Mundra port commenced operations in 2004 with handling of 5.2 MMT of cargo. Thereon, it recorded a CAGR 53.7% to handle 28.8 MMT of cargo in FY08. Similarly the consolidated net sales of the company have grown at a CAGR of 48.6% from Rs.1.7 bn in FY04 to Rs.8.2 bn in FY08. The net profits of the company have grown at a CAGR of 99.3% to Rs.2.1 bn in FY08.

Consolidated net sales (Rs bn)



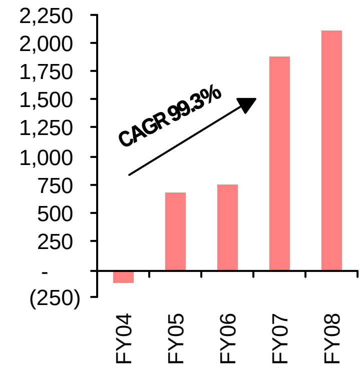
Source: Company, Kotak Securities - Private Client Research

MPSEZ - Results

	Standalone			Consolidated		
(Rs mn)	**Q4FY08**	**Q3FY08**	**QoQ (%)**	**FY08**	**FY07**	**YoY%**
Net Sales	**3,286**	**2,053**	**60.0**	**8,170**	**5,812**	**40.6**
Operating	595	564	5.3	1,842	1,954	(5.8)
Staff cost	87	62	40.0	266	148	79.9
Other exp	256	182	40.7	718	582	23.4
Total Exp.	938	808	16.0	2,826	2,685	5.3
EBIDTA	**2,349**	**1,245**	**88.7**	**5,344**	**3,127**	**70.9**
Other income	209	47	349.7	356	58	515.4
Depreciation	291	269	8.4	1,023	807	26.8
EBIT	**2,267**	**1,023**	**121.6**	**4,677**	**2,378**	**96.7**
Interest	319	307	-	1,079	631	71.0
PBT	**1,947**	**716**	**171.9**	**3,599**	**1,747**	**106.0**
Tax & deferred tax	1,036	192	440.9	1,495	(125)	(1,299.4)
Net Profit	**911**	**524**	**73.7**	**2,104**	**1,872**	**12.4**
Equity shares o/s (mn)	400.7	400.7		400.7	360.4	
Ratios						
Operting profit margin (%)						
excluding other income	71.5	60.6	+1090 bps	65.4	53.8	+1160 bps
Op. exp. / Sales (%)	18.1	27.5		22.5	33.6	
Staff cost / sales (%)	2.6	3.0		3.3	2.5	
Other Exp. / Sales (%)	7.8	8.9		8.8	10.0	
Tax % of PBT	53.2	26.8		41.5	(7.1)	
EPS (Rs)	2.3	1.3	73.7	5.3	5.2	1.1
CEPS (Rs)	3.0	2.0	51.6	7.8	7.4	5.0

Source: Company, Kotak Securities - Private Client Research

Consolidated Net profits (Rs mn)



Source: Company, Kotak Securities - Private Client Research

Strong FY08 financial performance - consolidated

- *For FY08, MPSEZ reported net sales of Rs.8.2 bn, registering a 40.6% YoY growth. Around Rs.900 mn is related to SEZ and balance Rs.7.3 bn is out of the port oprations.*
- *In volume terms it handles 28.8 MMT of cargo in FY08 a YoY growth of 45.6%. In terms of percentage, 45.8% was Bulk cargo, 29.5% container cargo and balance 24.7% was of Crude oil.*
- *MPSEZ recorded EBIDTA margins of 65.4% in FY08 as against 53.8% in FY07, an improvement of 1160 bps. This was primarily due to increased handling of cargo leading to greater efficiency and economies of scale. While, operating expenditure as a percentage of revenues came down form 33.6% in FY07 to 22.5% in FY08, other expenditure as a percentage of revenues came down form 10.0% in FY07 to 8.8% in FY08.*

- *MPSEZ reported net profits of Rs.2.1 bn, which is 12.4% YoY growth. The YoY growth in PAT is lower then YoY growth in revenues due to provisioning of Rs.1.3 bn of deferred tax.*

Deferred tax of Rs.1.3 bn

- *Deferred tax of Rs.1.3bn is on account of its change in deferred tax reversal period from 15 years to 10 years. The company had not availed tax benefits u/s 80 IAB in FY07, hence deferred tax reversal period extended upto 15 years i.e. 5 years of non benefit of 80IAB and subsequent 10 years of tax holiday period. However in FY08 the company has availed of the 10 year tax holiday period.*

FY08 EPS of Rs.5.3

- *MPSEZ reported an EPS of Rs.5.3 and CEPS of Rs.7.8 in FY08.*

Robust Q4FY08 performance - consolidated

- *For Q4FY08, MPSEZ reported net sales of Rs3.2 bn, registering sequential growth of 60%.*

EBIDTA margin of 71.5%

- *The company recorded EBIDTA margins of 71.5% in Q4FY08 as against 60.6% in Q3FY08, thereby up 1090 bps on sequential basis. This was primarily due to increased handling of cargo leading to greater efficiency and economies of scale. This is well supported by the fact that operating expenditure as a percentage of revenues has come down form 27.5% in Q3FY08 to 18.1% in Q4FY08.*

Q4FY08 EPS of Rs.2.3

- *MPSEZ reported net profits of Rs.911 mn, which are up 73.7% on sequential basis. The company reported quarterly EPS of Rs.2.3 and CEPS of Rs.3.0 in Q4FY08.*

Capex & its funding

SEZ capex of Rs.7 bn

- *MPSEZ is expected to spend approximately Rs.7.0 bn over the next three years for the SEZ business. Primarily it would spend for land leveling and creating basic and social infrastructure in its SEZ. Some portion of it would also be spent to acquire further land for SEZ expansion.*

Rs.20 bn coal handling terminal

- *MPSEZ will also spend Rs.20 bn in next three years to set up a dedicated coal handling terminal. It is expected to be operational by January 2011E.*

Dahej port capex of Rs.8.9 bn

- *It would also spend Rs.8.9 bn for the building the Dahej port with the capacity to handle 20 MMTPA. Phase one is expected to be operational by November 2009E.*

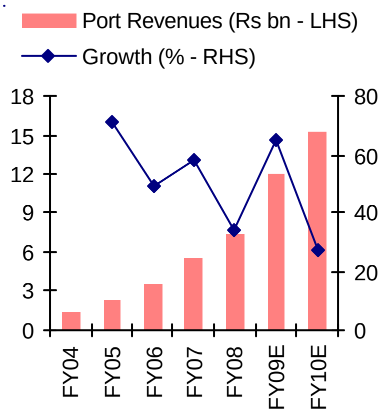
Adani Logistics capex of Rs.1.8 bn and Inland Conware capex of Rs.4.8 bn

- *Adani logistics and Inland Conware wholly owned subsidiaries of MPSEZ would be spending Rs.1.8 bn and Rs.4.8 bn respectively, over next three years, to provide rail freight services and set up Inland container Depots throughout the country to ensure steady volume of cargo for the Mundra Port.*

IPO @Rs.440 per share

- *In November 2007 the company had raised Rs.17.7 bn out of initial public offering of 40.3 mn shares at an issue price of Rs. 440 per share including premium of Rs. 430 per share.*
- *Thus, we feel the combination of money raised, debt and internal accruals would be sufficient to meet the planned capex of the company for the next three years.*

Port revenues & Growth



Source: Company, Kotak Securities - Private Client Research

Projected Financials - Ports

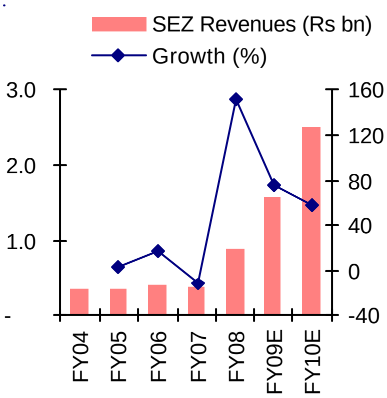
- *For FY09E, we expect the revenues of the ports business to grow by 65.1% to Rs.12.0 bn, EBIDTA margin of 60% and net profit of Rs.2.6 bn.*
- *For FY10E, we expect the revenues of the ports business to grow by 27.1% to Rs.15.3 bn, EBIDTA margin of 59% and net profit of Rs.3.9 bn.*

Port Financials (Rs mn)

	FY09E	FY10E
Revenue	12,000	15,250
EBIDTA	7,200	8,998
EBIDTA (%)	60.0	59.0
PAT	2,683	3,925
PAT (%)	22.4	25.7

Source: Kotak Securities - Private Client Research

SEZ revenues & Growth



Source: Company, Kotak Securities - Private Client Research

Projected Financials - SEZ

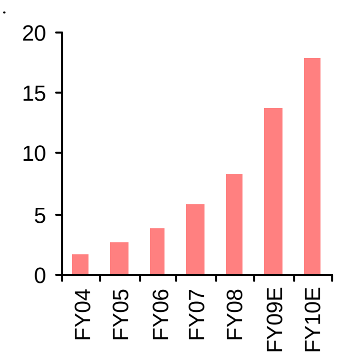
- *For FY09E, we expect the revenues of the SEZ business to grow by 75.2% to Rs.1.6 bn, EBIDTA margin of 95.3% and net profit of Rs.1.3 bn.*
- *The SEZ business enjoys high operating margins as the cost of land development and other related charges are capitalized. The company leases out only piece of land and thus the cost of construction of the building and ameneties is borne by the buyers. MPSEZ incurs costs related to maintainance which is typically 3-5% of the revenues.*
- *For FY10E, we expect the revenues of the SEZ business to grow by 58.4% to Rs.2.5 bn, EBIDTA margin of 95.5% and net profit of Rs.2.1 bn.*

SEZ Financials (Rs mn)

	FY09E	FY10E
Revenue	1,576	2,498
EBIDTA	1,502	2,386
EBIDTA (%)	95.3	95.5
PAT	1,289	2,048
PAT (%)	81.8	82.0

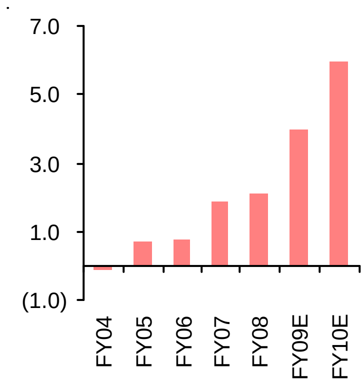
Source: Kotak Securities - Private Client Research

Consolidated net sales (Rs bn)



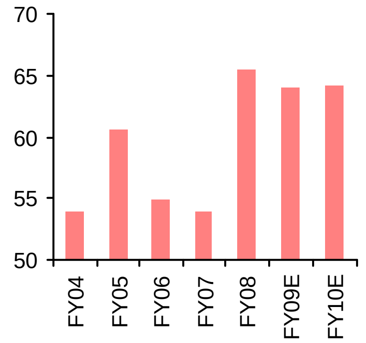
Source: Company, Kotak Securities - Private Client Research

Consolidated net profits (Rs bn)



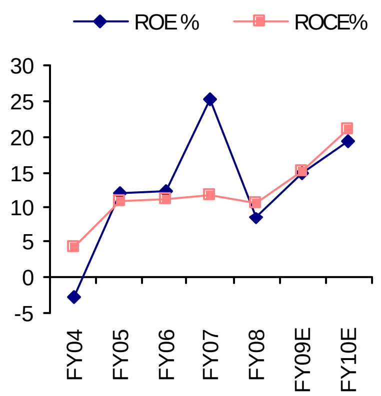
Source: Company, Kotak Securities - Private Client Research

Consolidated EBIDTA margins (%)



Source: Company, Kotak Securities - Private Client Research

Consolidated ROE & ROCE (%)



Source: Company, Kotak Securities - Private Client Research

Projected financials - Consolidated

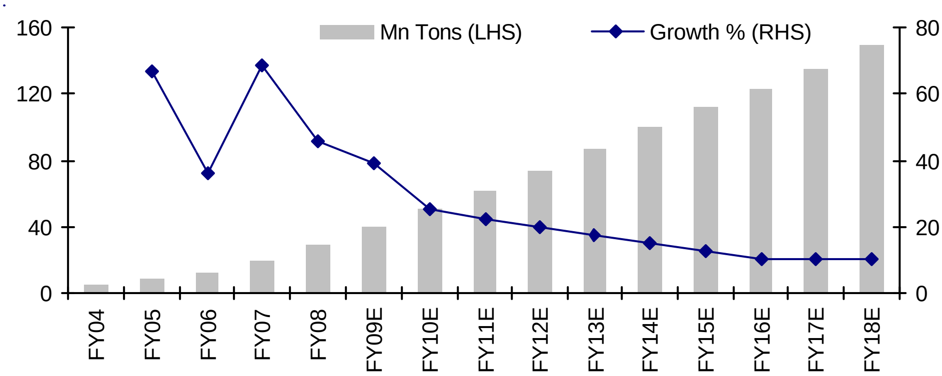
- *Going forward, we expect strong growth and expect the revenues of MPSEZ to grow at 47.4% CAGR for the next two year. More importantly, the net profit is expected to record 68.5% CAGR for the next two years, that is, from FY08 to FY10E.*
- *For FY09E, we expect sales to grow 66.2% to Rs.13.5 bn and net profit to be Rs.3.9 bn, translating into EPS of Rs.9.9 and CEPS of Rs.15.2. This is primarily due to additional contribution from the CT2 which commenced commercial operations in May 2008. Also we expect sale of 300 acres of SEZ land in FY09E as against 155 acres sold in FY08. We expect upfront payment of Rs.4 mn per acre and annual lease income of Rs.2.4 lakh per acre.*
- *For FY10E, we expect sales to grow 30.7% to Rs.17.7 bn and net profit to be Rs.5.9 bn, translating into an EPS of Rs.14.9 and CEPS of Rs.20.7. This is primarily due to increased cargo handling at all its facilities like bulk, container and liquid cargo. Also we expect sale of 500 acres of SEZ land in FY10E as against 300 acres expected in FY09E.*
- *MPSEZ reported EBIDTA margins, excluding other income, of 65.4% in FY08. However we expect EBIDTA margins excluding other income to stabilize at 64.1% in FY09E and FY10E as we feel that the increased efficiency due to additional handling of the cargo at the port would be offset by increase in the operating costs.*
- *For FY09E and FY10E, we expect the book value to be Rs.70.8 and Rs.82.9 per share, respectively.*
- *We expect RoE to improve from 8.3% in FY08 to 14.8% in FY09E moving upto 19.4%in FY10E.*
- *We expect RoCE to improve from 10.6% in FY08 to 15.1% in FY09E and 20.9% in FY10E.*

Consolidated Financials (Rs mn)

	FY09E	FY10E
Revenue	13,576	17,748
EBIDTA	8,702	11,383
EBIDTA (%)	64.1	64.1
PAT	3,971	5,973
PAT (%)	29.3	33.7

Source: Kotak Securities - Private Client Research

Cargo handled at Mundra port and its growth



Source: Company, Kotak Securities - Private Client Research

Peer valuation

- *Strictly speaking, no Indian company can be compared to MPSEZ as it is a unique company with port operations, SEZ and rail operations all combined in one company. However, we have compared MPSEZ with some global companies to get a sense of peer valuation.*

Peer valuation

No.	Name	Mcap/ sales	EV / EBIDTA	P/E CY08E	P/E CY09E	Mcap mn $
1	Dalian Port company	10.4	21.1	15.8	14.6	1,737
2	Xiamen International port	1.9	10.1	12.1	NA	664
3	Shanghai Intl. Port	12.1	27.5	25.7	22.1	15,459
4	Forth Ports	5.4	17.0	33.7	32.3	377
5	Novorossiysk trade port	10.0	26.1	38.8	NA	151
6	Thessaloniki Port	5.4	NA	22.7	20.3	207
7	Port of Tauranga	7.3	16.0	21.3	19.3	1,156
8	Tianjin Port	14.0	36.9	20.0	16.6	3,627
9	Piraeus Port	4.4	15.4	33.9	24.0	357
10	Bintulu Port	5.9	10.1	16.7	16.0	728
11	MPSEZ	15.2	24.4	52.1	34.6	4,819

Source: Bloomberg, KotakSecurities - Private Client Research

- *In our opinion, MPSEZ should command premium valuations as it is a unique company with strong SEZ backup and support infrastructure which would ensure increased handling for the port in terms of cargo volume. We expect the Mundra port traffic to record CAGR of 17.8% from 28.8 MMT in FY08 to 148.7 MMT by FY18E.*

Superior operating and PAT margins

- *MPSEZ fares pretty well as it enjoys superior operating and PAT margins. Also, going forward, the company is expected to grow at a higher pace in terms of both revenues and net profits as compared to others due to its integrated business model coupled with superior infrastructure consisting of multi cargo port, SEZ, Airport, Pipeline, Rail and Road connectivity.*

VALUATIONS & RECOMMENDATION

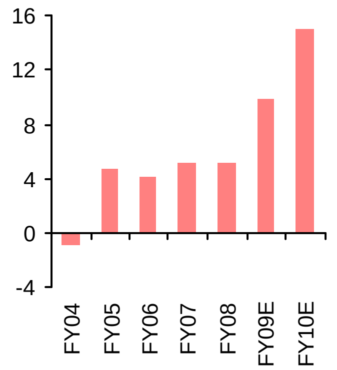
- *At the current market price of Rs.516, the stock is trading at a P/BV of 7.3x for FY09E and 6.2x for FY10E, respectively.*
- *The stock is discounting FY09E and FY10E earnings at 52.1x and 34.6x, respectively. It is trading at 34.1x FY09E and 24.9x FY10E cash earnings.*
- *We are positive on the growth prospects of the company. Hence, we are initiating coverage on MPSEZ with a BUY recommendation. We are assigning a price target of Rs.716 over a 12-month horizon.*
- *We have derived our target price on SOTP method of valuation.*

SOTP Valuation Summary

	Value (Rs mn)	Value per share (Rs)	Basis	Investments (Rs mn)	Stake (%)	MPSEZ Value (Rs mn)
Mundra Port	183,385	458	DCF, 12.0% WACC, 4% Terminal	35,000	100	183,385
Mundra SEZ	68,121	170	25% Discout to NPV		100	90,828
Dahej Port	23,088	58	2.6x Investments (50% discount to Mundra)	12,000	74	8,880
Adani Logistics	3,250	8	1.0x Investments	3,250	100	3,250
Inland Contianer	9,000	22	1.0x Investments	9,000	100	9,000
Total for MPSEZ		716				

Source: KotakSecurities - Private Client Research

Consolidated EPS (Rs)



Source: Company, KotakSecurities - Private Client Research

- *The core port business is valued at Rs.458 per share by DCF methodology, with a WACC of 12.0% and terminal growth rate of 4.0%.*
- *The SEZ business is valued at Rs.170 per share by applying 25% discount to its NPV of Rs.90.8 bn. (WACC of 14.6% and terminal growth rate of 3.0%).*
- *We have given 25% discount to SEZ NPV as we would like to wait for the HC verdict on 7th August on its SEZ. However, even today the construction is going on in full swing. Once the clarity emerges, we would reduce the discount to NPV from 25% to 10%.*
- *The Dahej port is valued at Rs.58 per share by applying 2.6x its investments i.e. 50% discount to valuation of Mundra port which is valued at 5.2x its investments.*
- *Adani Logistics is valued at Rs.8 per share valued at 1.0x its investments of Rs.3.2 bn.*
- *Inland Conware is valued at Rs.22 per share valued at 1.0x its investments of Rs.9.0 bn.*
- *Thus with SOTP method of valuation we arrive at fair value of Rs. 716 per share of MPSEZ. At the current market price of Rs.516, the stock offers an upside potential of 39%.*
- *We recommend* **BUY** *on MPSEZ.*

PORT VALUATION

DCF	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E
PAT	2,683	3,925	4,592	6,117	9,156	12,579	16,160	20,481	25,150	29,839
Depreciation	2,100	2,325	3,150	3,810	3,930	4,050	4,163	4,260	4,350	4,440
Intrerest (1-tax)	1,320	1,452	1,862	2,038	1,587	960	495	165	66	66
CAPEX	(6,500)	(7,500)	(20,000)	(2,000)	(2,000)	(2,000)	(1,750)	(1,500)	(1,500)	(4,440)
WC changes	(1,222)	(833)	(954)	(1,153)	(1,262)	(1,329)	(1,340)	(1,282)	(1,299)	(1,176)
FCFF	(1,620)	(631)	(11,349)	8,811	11,410	14,260	17,728	22,124	26,767	28,729
Discounted Value	(1,620)	(579)	(9,308)	6,452	7,460	8,324	9,240	10,295	11,121	10,658
FCFF	53,663									
Terminal value	138,551									
Total FCFF	192,215									
Less Net Debt	8,829									
MPSEZ	183,385									
Value per share Rs.	458									
WACC (%)	12.0									
Terminal (%)	4.0									

Source:KotakSecurities - Private Client Research

SEZ VALUATION

Valuation	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E
EBIDTA (1-tax)	1,289	2,048	3,897	6,441	8,717	11,115	15,000	17,910	21,973	30,152
CAPEX	(525)	(1,103)	(1,736)	(2,431)	(3,191)	(4,020)	(4,925)	(6,279)	(7,757)	(8,959)
FCFE	764	945	2,160	4,010	5,526	7,095	10,075	11,631	14,216	21,193
Discounted Value	764	853	1,702	2,756	3,315	3,714	4,602	4,636	4,944	6,432
FCFE	33,718									
Terminal value	57,110									
Total FCFE	90,828									
MPSEZ	90,828									
Value per share Rs.	227									
WACC (%)	14.6									
Terminal (%)	3.0									

Source:KotakSecurities - Private Client Research

CONSOLIDATED FINANCIALS

Income Statement (Rs mn)

	FY07	FY08	FY09E	FY10E
Revenues	**5,812**	**8,170**	**13,576**	**17,748**
% change YoY	51.1	40.6	66.2	30.7
EBITDA	**3,127**	**5,344**	**8,702**	**11,383**
% change YoY	48.1	70.9	62.8	30.8
Other + Extra Income	58	356	25	100
Depreciation	807	1,023	2,100	2,325
EBIT	**2,378**	**4,677**	**6,627**	**9,158**
% change YoY	36.9	96.7	41.7	38.2
Net interest	631	1,079	2,000	2,200
Profit before tax	1,747	3,599	4,627	6,958
% change YoY	42.0	106.0	28.6	50.4
Tax	(125)	1,494	655	985
as % of EBIT	(5.2)	32.0	9.9	10.8
Net income	**1,872**	**2,104**	**3,971**	**5,973**
% change YoY	152.6	12.4	88.7	50.4
Shares outstanding (m)	360.4	400.7	400.7	400.7
EPS (reported) (Rs)	5.2	5.3	9.9	14.9
CEPS (Rs)	7.4	7.8	15.2	20.7
DPS (Rs)	1.0	1.5	2.0	2.5

Source: Company, Kotak Securities - Private Client Research

Balance Sheet (Rs mn)

	FY07	FY08E	FY09E	FY10E
Cash and cash equivalents	569	17,000	9,168	2,171
Accounts receivable	3,449	3,250	5,091	6,212
Inventories	104	200	339	444
Others	1,495	1,650	2,715	3,550
Current assets	5,618	22,100	17,314	12,376
Investments	790	2,250	3,250	4,250
Net fixed assets	24,001	31,478	36,403	42,680
Total assets	**30,409**	**55,828**	**56,967**	**59,306**
Payables	2,012	2,775	4,752	6,212
Others	178	200	305	355
Current liabilities	2,189	2,975	5,057	6,567
Deferred Revenue	7,415	6,750	6,750	6,750
LT debt	12,822	19,000	15,000	11,000
Other liabilities(deferred tax)	507	1,750	1,750	1,750
Equity share capital	3,604	4,007	4,007	4,007
Pref share capital	28	28	28	28
Reserves	3,843	21,318	24,375	29,204
Total liabilities	**30,409**	**55,828**	**56,967**	**59,306**
BVPS (Rs)	18.6	63.2	70.8	82.9

Source: Company, Kotak Securities - Private Client Research

Free Cash flow (Rs mn)

	FY07	FY08E	FY09E	FY10E
EBIT	2,378	4,677	6,627	9,158
Depreciation	807	1,023	2,100	2,325
Change in working capital	(2,123)	867	(4)	235
Chgs in other net current assets	(942)	(133)	(960)	(785)
Operating cash flow	120	6,435	7,763	10,933
Interest	(631)	(1,079)	(2,000)	(2,200)
Tax	125	(1,494)	(655)	(985)
Cash flow from opens	**(387)**	**3,861**	**5,108**	**7,748**
Capex	(5,649)	(9,750)	(7,025)	(8,603)
(Inc)/dec in investments	438	(1,460)	(1,000)	(1,000)
Dividends	(771)	(686)	(915)	(1,144)
Cash flow from investmts	**(5,982)**	**(11,896)**	**(8,939)**	**(10,746)**
Proceeds from equity issue	0	17710	0	0
Increase/(decrease) in debt	3,204	6,178	(4,000)	(4,000)
Deferred tax credit / Revenue	2,595	578	-	-
Other Adjustments	182	-	-	-
Cash flow from financing	5,981	24,466	(4,000)	(4,000)
Opening cash	957	569	17,000	9,168
Closing cash	569	17,000	9,168	2,171

Source: Company, Kotak Securities - Private Client Research

Key Ratios (%)

	FY07	FY08E	FY09E	FY10E
EBITDA margin (%)	53.8	65.4	64.1	64.1
EBIT margin (%)	40.9	57.2	48.8	51.6
Net profit margin (%)	32.2	25.8	29.3	33.7
Adjusted EPS growth (%)	152.6	12.4	88.7	50.4
Receivables (days)	216.6	145.2	112.1	116.2
Inventory (days)	6.6	8.9	7.3	8.1
Sales/assets (x)	0.2	0.3	0.4	0.4
Interest coverage (x)	3.8	4.3	3.3	4.2
Debt/equity ratio (x)	1.7	0.8	0.5	0.3
ROE (%)	25.1	8.3	14.8	19.4
ROCE (%)	11.7	10.6	15.1	20.9
EV/ Sales (x)	37.7	25.6	15.7	12.1
EV/EBITDA (x)	70.0	39.1	24.4	18.9
Price to earnings (x)	99.4	98.3	52.1	34.6
Price to book value (x)	27.8	8.2	7.3	6.2
Price to Cash Earnings (X)	69.4	66.1	34.1	24.9

Source: Company, Kotak Securities - Private Client Research

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Disclaimer

Analyst holding in stock: Nil