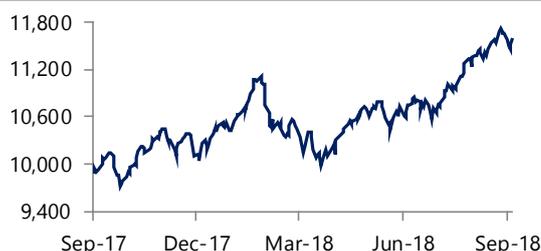


SEPTEMBER 10, 2018

	7-Sep	% Chg			
		1 Day	1 Mth	3 Mths	
Indian Indices					
SENSEX Index	38,390	0.4	1.9	8.3	
NIFTY Index	11,589	0.5	1.8	7.6	
NSEBANK Index	27,481	0.0	(1.4)	3.6	
NIFTY 500 Index	9,875	0.6	1.8	6.2	
CNXMcap Index	19,579	1.3	2.3	4.5	
BSESMCAP Index	16,897	0.6	0.2	0.6	
World Indices					
Dow Jones	25,917	(0.3)	2.4	2.4	
Nasdaq	7,903	(0.3)	0.8	3.4	
FTSE	7,278	(0.6)	(5.1)	(5.3)	
NIKKEI	22,307	(0.8)	0.1	(1.7)	
Hangseng	22,307	(0.8)	0.1	(1.7)	
Shanghai	26,973	(0.0)	(5.9)	(13.8)	
Value traded (Rs cr)		7-Sep	% Chg Day		
Cash BSE		3,278	21.7		
Cash NSE		36,967	5.7		
Derivatives		678,182	(69.0)		
Net inflows (Rs cr)		6-Sep	MTD	YTD	
FII		(861)	1,879	(3,560)	
Mutual Fund		425	861	77,478	
Nifty Gainers & Losers		Price	Chg	Vol	
7-Sep		(Rs)	(%)	(mn)	
Gainers					
Hero MotoCorp		3,329	5.2	0.7	
Bajaj Auto		2,924	5.1	1.4	
Bharti Airtel		390	4.7	4.9	
Losers					
Yes Bank Ltd		323	(4.7)	48.8	
Sun Pharma		664	(1.9)	22.1	
Adani Ports		377	(1.9)	1.9	
Advances / Declines (BSE)					
7-Sep	A	B	T	Total	% total
Advances	267	591	82	940	100
Declines	160	438	64	662	70
Unchanged	5	23	18	46	5
Commodity		% Chg			
	7-Sep	1 Day	1 Mth	3 Mths	
Crude (US\$/BBL)	77.3	0.6	6.2	1.1	
Gold (US\$/OZ)	1,196	(0.3)	(1.4)	(8.1)	
Silver (US\$/OZ)	14.2	0.1	(7.8)	(15.9)	
Debt / forex market		7-Sep	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %		8.0	8.1	7.8	8.0
Re/US\$		71.7	72.0	68.7	67.1

Nifty



Source: Bloomberg

News Highlights

- ▶ India may impose anti-dumping duty of up to USD 185.51 per tonne for five years on certain varieties of Chinese steel with a view to guard domestic players from cheap imports of the commodity from the China. (ET)
- ▶ As per paper Industry, Indian paper industry is growing at 6-7%. At present in India the per capita consumption of tissue paper is low at 123 grams compared to other countries. (ET)
- ▶ **NTPC's** board has approved an investment of Rs 97.8 Bn for the 1,320 MW Stage-III expansion of its Talcher thermal power plant in Odisha. (Mint)
- ▶ **ONGC** Videsh Ltd, has rejected Venezuela's offer for additional stake in an oilfield as it fears the Latin American nation may use it as an excuse to not pay USD 449 million of past dues. (Financial Chronicles)
- ▶ Stepping up scouting activities for strategic minerals, **NMDC Limited** has approached the Western Australian Government, seeking a license to explore Tungsten, a metal much in need for the Indian defence and aerospace sectors. (Mint)
- ▶ **Thyrocare Technologies** approved buyback of 8.63 lakh shares at Rs 730 per share aggregating to Rs 660 mn. The buyback size is 14.97 percent of the aggregate paid-up share capital and free reserve. (Moneycontrol)
- ▶ **Axis Bank** appointed Amitabh Chaudhry as Managing Director and CEO from January 1, after incumbent Shikha Sharma steps down at the end of this year. (BL)
- ▶ **RITES** has secured an additional work of Rs 2.9 Bn from Ministry of Railways for doubling of Dharmavaram Penukunda rail lines (41.5 Kms) in South Western Railways. (Moneycontrol)
- ▶ **Tata Motors-** Jaguar Land Rover reported total retail sales of 36,629 vehicles in August, down 4.9 percent YoY. (Bloomberg)
- ▶ Power projects referred to the NCLT lose their fuel supply agreements (FSAs) with **Coal India Ltd**, power purchase agreements (PPAs) with state governments, and long-term transmission contracts with Power Grid Corp of India. (ET)
- ▶ **Reliance Capital** has received Certificate of Registration from the Reserve Bank of India as Core Investment Company - Non- Deposit Taking Systemically Important Institution. (Moneycontrol)
- ▶ The resolution professional of **Essar Steel** has informed lenders that bids received in the second round will be opened on Monday. ArcelorMittal in partnership with Nippon of Japan, Numetal, backed by Russia's VTB Bank in partnership with **JSW Steel**, and **Vedanta** had submitted bids in the first week of April. (ET)

What's Inside

- ▶ **Company Update:** Adani Port & SEZ

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, IE = Indian Express, BL = Business Line, ToI: Times of India, BSE = Bombay Stock Exchange, MC = Moneycontrol

Company Update

Stock Details

Market cap (Rs mn)	:	781681
52-wk Hi/Lo (Rs)	:	452 / 347
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	4,176,088
Shares o/s (mn)	:	2071

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Sales	113,229	125,684	139,509
Growth (%)	34.2	11.0	11.0
EBITDA	71,454	80,028	89,632
EBITDA margin (%)	63.1	63.7	64.2
Net profit	41,706	47,003	53,941
EPS (Rs)	20.3	22.9	26.2
Growth (%)	15.5	12.7	14.8
Book value (Rs/share)	98.9	118.1	140.0
Dividend per share (Rs)	2.0	2.5	3.5
ROE (%)	22.3	21.1	20.3
ROCE (%)	18.0	18.0	18.4
EV/EBITDA (x)	11.4	10.4	9.4
P/E (x)	18.6	16.5	14.4
P/BV (x)	3.8	3.2	2.7

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	62.3	65.8	63.3
FII	21.3	18.0	21.7
DII	11.5	11.8	10.1
Others	4.9	4.4	4.9

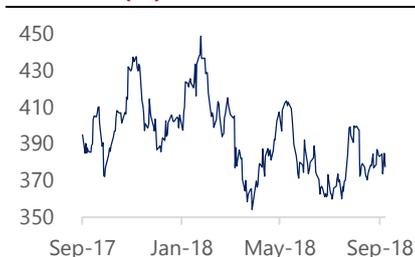
Source: Company

Price Performance (%)

(%)	1M	3M	6M
Adani Port	1.4	(0.7)	0.1
Nifty	1.8	7.6	14.1

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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ADANI PORT AND SEZ (APSEZ)

PRICE Rs.378

TARGET Rs.485

BUY

(1) Strong growth in volumes across segments backed by expansion of capacity; (2) healthy contribution from subsidiary ports; (3) healthy consolidated EBITDA margin, (4) higher non-recurring income (SEZ) and rationalization of interest cost would drive the performance of APSEZ in FY19. The company's good FY19 volume growth guidance, led by commissioning of new ports, new cargo sourcing and market share gains, is a positive. Stake dilution by the promoters of 4% gives us more comfort for addressing group level debt servicing. Maintain BUY with an unchanged TP of Rs 485.

Good beginning in FY19

In Q1FY19, APSEZ reported 9% YoY volume growth, which was much ahead of the 3% growth for all-India volumes and was driven by container volumes (+15% YoY) and recovery in HMEL crude volumes (last year there was maintenance shut down). The growth was also supported by higher coal volumes (Mundra, Goa, Tuna and Dahej). Management indicated that Adani Power has re-commenced its coal imports from Mundra port in June 2018. The same was more than compensated for the weakness in Dhamra port where rake availability remains a drag.

APSEZ has retained its volume guidance for 200 mn tons of cargo FY19. Adani Port is factoring in (1) steady imports of coal volumes due to coal evacuation problems with Coal India. The company has seen healthy demand and import of coal from the cement and the steel sector. The growth in coal volumes does not include that from Mundra power plant, (2) sustained strong growth in container segment at 2x GDP growth on the back of increasing containerization in the country and strong capabilities of APSEZ in handling containers; (3) new cargo sourcing and market share gains and (4) contribution from subsidiary ports.

Quarterly volume trend for APSEZ

Mn tonnes	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	QoQ (%)	YoY (%)
Cargo at Mundra	30.2	29.3	32.4	30.0	32.0	6.7	6.0
Hazira	4.0	4.1	4.3	4.5	4.6	2.0	14.3
Dahej	1.6	1.7	2.1	1.6	2.2	32.7	34.4
Dhamra	5.3	5.0	5.4	5.8	4.4	(23.4)	(16.2)
Kattupalli	1.0	1.0	2.0	1.4	2.0	40.0	96.0
Others	1.9	2.0	1.4	2.1	3.0	42.9	57.9
Consolidated cargo	44.0	43.1	47.6	45.4	48.1	5.9	9.3

Source: Company

APSEZ continued its outperformance to Indian ports in 1QFY19 by reporting total volumes of 48.1 mn tonnes (+9.3% YoY), outperforming major ports growth of 4% and all India growth of 3% led by good growth in Mundra (+6% YoY), Hazira (+14.3% YoY), Dahej (+34.4% YoY) and Kattupalli (+96% YoY). In terms of mix, the company has reported strong growth in the high margin container segment (+15% YoY) which constitute 43% of APSEZ cargo. There was also increased share of crude in cargo composition to 13%, up 200 bps from FY18, led by recovery of 2 mn tonnes of HPCL-Mittal Energy Limited (HMEL) volumes lost in Q1FY18 on account of refinery maintenance shutdown. Dhamra port suffered 16.2% YoY decline in volumes in Q1FY19 as India Railways diverted rakes to service power sector pulling down availability to 12.6 rakes for the port (versus 15.2 rakes earlier run rate).

Multi Geography-multi commodity diversification is healthy

We are impressed with the focus of management PAN India on every commodity. This focus has enabled the company to grow faster than its peers and generate strong cash flows for the group. The port business has shown strong operational performance with continued market share growth even in a weak year like FY18. As per the management, the APSEZ has market share of 15% in port segment in India (increased from 5% in FY10).

Various ports of APSEZ

Port	Capacity (mn tonnes)	Location	Cargo profile
Main Mundra Port	231	Gujarat	All
Tuna	20	Gujarat	Dry cargo
Dahej	20	Gujarat	Dry cargo
Hazira	35	Gujarat	All
Mormugao	7	Goa	Coal
Kattupalli	18	Tamil Nadu	Dry and Containers
Ennore	12	Tamil Nadu	Dry cargo
Vizag	6.5	Andhra Pradesh	Coal
Dhamra	40	Orissa	Dry and Containers
Vizhinjam	10	Kerala	Containers

Source: Company

Overall volume growth estimated at 11% over FY18 to FY20E

We volume growth for the company to come from containers, coal and subsidiary ports. The growth would be primarily led by both market growth and market share gains (lower government revenue share to help). Large value creation from some ports is less likely given higher revenue share to government (Vizag and Ennore) or likely lower rate of growth in cargo volumes given the emerging domestic supply economics (Kandla).

Volume growth for APSEZ and for its subsidiaries (mn tonnes)

Port	FY15	FY16	FY17	FY18	FY19E	FY20E
Total at Mundra	111.0	113.0	114.0	121.9	131.0	137.0
Dahej	12.0	8.0	6.0	7.0	8.0	10.0
Hazira	7.0	12.0	15.0	17.0	19.0	21.0
Dhamra	15.0	15.0	21.0	22.0	25.0	32.0
Others	0.0	0.0	7.0	3.0	5.0	8.0
Total	147.0	153.0	170.0	179.9	200.0	222.0
CAGR	14.0	4.1	11.1	5.8	11.2	11.0

Source: Company, Kotak Securities – Private Client Research

SEZ to add 10% to the total value of the company

The other big value creator could be SEZ land sale/lease where transactions were slow in FY17, but has improved in FY18. In Q1FY19, SEZ business benefitted from the sale of 47 acres of land (revenue of Rs 1.35 bn) versus 83 acres sold in the entire of FY18.

In terms of port development, in Q4FY18 APSEZ booked a revenue of Rs 6.6 bn (EBIDTA of Rs 2.8 bn) for transfer of Container terminal IV to JV (port development revenue was zero in Q1FY19). Management is confident of a revenue of Rs.10bn through port led development in FY19.

Forex MTM loss vs. revenue gain with INR depreciation – a natural hedge

The company does not hedge its dollar revenues. Management shared that one-rupee depreciation increases revenue by Rs. 400 mn on a per annum basis. Simultaneously Rs. 1 depreciation impacts PL with Rs. 1.15 bn per annum on its forex loans. Consequently, the company booked forex MTM loss of Rs3.8 bn in Q1FY19 on US\$ denominated loans of US\$ 2 bn in its BS as per Ind-AS prescription.

More than 35% of the port revenue is dollar denominated which is basically based on the container business plus the marine services and more than 46% of the port EBITDA is dollar denominated. For APSEZ, it is a natural hedge – with given long maturity profile of forex debt and reasonable cover in the form of US\$-denominated revenues.

Logistics Operations

In Logistics, APSEZ has a PAN India rail license and has been a stable business. However, Q1FY19 was not a good quarter for Adani Logistics with 23% decline on the topline again led by unavailability of rakes for transportation. The company has placed an order for 10 rakes on a long-term 10-year leased basis and will place another order for an additional 10 rakes. Once the rakes are received (two rakes to be received per month starting this month), the logistics arm will be able to get back on the growth trajectory.

The company is constructing Private freight terminal at Baroda (expected by March 2019) and Bengaluru (expected by Dec 2018). The company is also in the process of acquiring land for PFT at Panipat and Nagpur. Recently, it has formed a JV with NYK Auto logistics. This JV will offer dedicated train service to transport automobiles in India through rail. APSEZ is targeting revenue growth on year-on-year basis of 40% to 45%.

Promoters have sold 4% stake in APSEZ

The Adani Family through trusts and other entities holding controlling interest in entities Adani Ports and SEZ Limited (APSEZ) has monetized ~4% stake in APSEZ through an on market block trade raising ~ Rs 30 bn on June 21 and June 29, 2018. The proceeds from the equity issuances shall be utilized towards strengthening the balance sheet position of group companies including deleveraging the power business and to part fund the proposed acquisition of integrated business of generation, transmission and distribution of power for Mumbai City. Post monetization of 4% stake, the Promoter Group hold 62.3% stake in APSEZ which they do not intend to dilute further in near term.

We see the stake sale as positive in two ways; 1) it partially helps reduce group net debt of \$ 12 bn which is at 7x EBITDA consensus estimate and 2) it brings in strong anchor institutional investors as shareholders for APSEZ.

Internal targets set by the company

The company has set the following internal targets to be achieved in the medium term

- The company is targeting to achieve 200 million metric ton of cargo volume in FY19 and achieve guidance of at least 1.5 times of all India cargo volume growth and 2 times of all India container volume
- Management expects port EBITDA margins to increase by 100 basis points every year and peaking at 73-74%.

- Capex of Rs 20- 22 bn per annum with a declining trend
- FCF of Rs 20 to 25 bn per annum
- Dividend Pay-out of 15%

Valuation and recommendation

We believe that the company has diversified its offering product wise and geographically, making efforts to enhance non-port revenues, making operations more integrated, taking measures to bring down cost of debt and other cost and have made related party transactions completely nil. We estimate the benefits of these efforts to have already started accruing to APSEZ and would continue to accrue in future as well. We estimate the consolidated entity to report volume CAGR of 11% over FY18 to FY20E with the new ports of Dhamra, Hazira, Dahej, Kattupalli and the container volume at Mundra contributing the maximum.

Our TP is based on SOTP valuation with a weighted average cost of capital (WACC) of 12.0% and book values for other investments. Maintain BUY with an unchanged TP of Rs 485.

SOTP Valuation

Project	Value of equity (Rs Mn)	Share of APSEZ %	APSEZ value (Rs Mn)
Mundra	385,132	100	385,132
Mundra SEZ	95,100	100	95,100
Dhamra	185,420	100	185,420
Hazira	170,500	100	170,500
Dahej	68,128	74	50,415
Mormugao	13,284	74	9,830
Ennore	2,462	100	2,462
Kandla	8,394	100	8,394
Container terminal 3	52,880	50	26,440
Container terminal 4	17,880	50	8,940
Adani Logistics	22,500	100	22,500
Kattupalli	39,246	97	38,069
Total			1,003,202
Shares OS			2,071
Value per share			485

Source: Kotak Securities – Private Client Research

Key risk our call

Weak SEZ revenues, weak global trade, negative impact of global trade war on India

Company background

Adani Ports and Special Economic Zone Limited is India's largest ports developer and Operator Company. In less than two decades, it has built, acquired and developed an unparalleled portfolio of ports infrastructure and services across India. Currently it has ten strategically located ports and terminals, which represent 24% of the country's port capacity, handling cargo of vast hinterland. On a broader level, the company is a seamless integration of 3 verticals consisting of Ports, Logistics and Special Economic Zone.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	84,394	113,229	125,684	139,509
% change YoY	16.3	34.2	11.0	11.0
Operating cost	23,133	31,749	34,698	37,907
Employee cost	3,348	4,595	5,022	5,487
Other expenses	3,957	5,431	5,935	6,484
Total Operating expd	30,438	41,775	45,656	49,878
EBITDA	53,956	71,454	80,028	89,632
Depreciation	11,536	12,064	12,536	12,795
EBIT	42,420	59,390	67,493	76,837
Other income	10,401	10,190	9,500	9,500
Interest expense	12,830	12,574	12,154	11,629
Profit before tax	39,991	57,006	64,838	74,708
Tax	2,579	13,900	16,436	19,367
ETR (%)	6.4	24.4	25.3	25.9
Profit after tax	37,412	43,106	48,403	55,341
Minorities & Associates	(1,299)	(1,400)	(1,400)	(1,400)
Net income	36,113	41,706	47,003	53,941
% change YoY	30.0	15.5	12.7	14.8
Shares outstanding (m)	2,057	2,057	2,057	2,057
EPS (Rs)	17.6	20.3	22.9	26.2

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PAT	36,113	41,706	47,003	53,941
Depreciation + DTL	11,679	12,836	13,449	13,871
Changes in working capital	(6,328)	(17,903)	(7,979)	(9,416)
CF from operations	41,464	36,639	52,473	58,397
Capex	(30,000)	(25,000)	(22,000)	(20,000)
Investments	(20,662)	(3,886)	-	-
CF from investments	(50,662)	(28,886)	(22,000)	(20,000)
Equity issuance	-	-	-	-
Debt raised	11,390	5,251	1,726	(446)
Dividend Paid	(3,155)	(4,855)	(6,068)	(8,495)
Miscellaneous items	2,224	(4,763)	(2,350)	(1,500)
CF from financing	10,459	(4,366)	(6,692)	(10,442)
Net cash flow	1,260	3,387	23,781	27,955
Opening cash	20,052	21,312	24,700	48,481
Closing cash	21,312	24,700	48,481	76,435

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	21,312	24,700	48,481	76,435
Debtors	63,296	84,922	94,263	104,632
Loans and advances	13,925	19,249	21,366	23,717
Other current assets	7,595	11,323	12,568	13,951
Total current assets	84,816	115,494	128,198	142,300
LT investments	26,114	30,000	30,000	30,000
Net fixed assets	269,043	281,979	291,444	298,649
Total assets	401,285	452,173	498,123	547,384
Creditors	30,438	41,775	45,656	49,878
Other current liabilities	2,739	4,178	5,022	5,487
Total current liabilities	33,177	45,953	50,678	55,364
LT debt	197,486	202,738	204,464	204,018
Equity	4,114	4,114	4,114	4,114
Reserves	166,507	199,368	238,866	283,887
Networth	170,621	203,482	242,980	288,001
Total liabilities	401,285	452,173	498,123	547,384
BVPS (Rs)	82.9	98.9	118.1	140.0

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	63.9	63.1	63.7	64.2
EBIT margin (%)	50.3	52.5	53.7	55.1
Net profit margin (%)	42.8	36.8	37.4	38.7
ROE (%)	23.6	22.3	21.1	20.3
ROCE (%)	15.3	18.0	18.0	18.4
DPS	1.3	2.0	2.5	3.5
Dividend payout (%)	8.7	11.6	12.9	15.7
Working capital turnover (days)	210	195	214	215
Debt Equity (x)	1.2	1.0	0.8	0.7
PER (x)	21.5	18.6	16.5	14.4
P/C (x)	16.3	14.3	12.9	11.5
Dividend yield (%)	0.3	0.5	0.7	0.9
P/B (x)	4.6	3.8	3.2	2.7
EV/Sales (x)	11.0	8.2	7.4	6.6
EV/ EBITDA (x)	14.4	11.4	10.4	9.4

Source: Company, Kotak Securities – Private Client Research

RATING SCALE

Definitions of ratings

- BUY** – We expect the stock to deliver more than 12% returns over the next 12 months
- ACCUMULATE** – We expect the stock to deliver 5% - 12% returns over the next 12 months
- REDUCE** – We expect the stock to deliver 0% - 5% returns over the next 12 months
- SELL** – We expect the stock to deliver negative returns over the next 12 months
- NR** – **Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
- SUBSCRIBE** - We advise investor to subscribe to the IPO.
- RS** – **Rating Suspended.** Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a Sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
- NA** – **Not Available or Not Applicable.** The information is not available for display or is not applicable
- NM** – **Not Meaningful.** The information is not meaningful and is therefore excluded.
- NOTE** – Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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