



Current Reco	: BUY
Previous Reco	: BUY
CMP	: INR78
Target Price	: INR159
Potential Return	: 103%

1QFY12 RESULTS REVIEW

Essar Ports Limited

"Reaping benefit of "Take or Pay"

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Market data

Sector	:	Ports
Market Cap (INR bn)	:	32
Market Cap (USDm)	:	720
O/S shares (m)	:	410
Free Float (m)	:	76
52 -wk HI / LO (INR)	:	136/70
Avg 6m Vol ('000)	:	139
Bloomberg	:	ESRS IN
Reuters	:	ESRS.BO

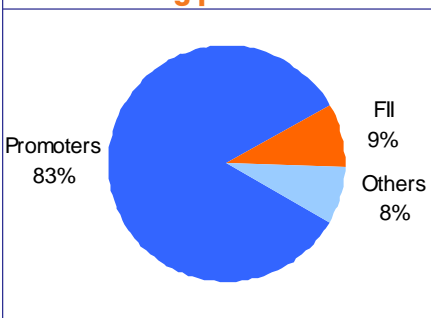
Source: Bloomberg

Returns (%)

	1 m	3 m	6 m	12 m
Absolute	(19)	(41)	(37)	(59)
Relative	(10)	(35)	(35)	(55)

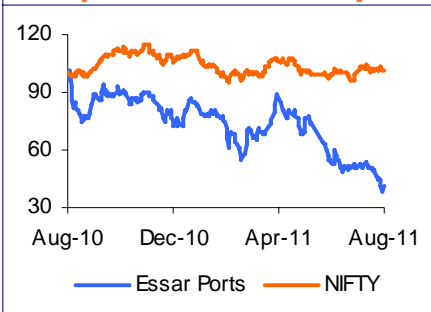
Source: Bloomberg

Shareholding pattern



Source: BSE

Price performance vs Nifty



Source: Bloomberg

Results highlights

- 1QFY12 revenues for Essar Ports Limited (ESPL) increased by 72.1% YoY to INR2.74bn, 24% higher than estimated revenue of INR2.2bn, on the back of the escalation in tariff as per the long-term take or pay contracts along with increased cargo handling requirements of its anchor customers. The company has announced first quarterly results post the demerger.
- The average realisation of the company increased from INR162 per tonne in 1QFY11 to INR245 per tonne in 1QFY12. Total handled volumes increased by 14%, from 9.83mt in 1QFY11 to 11.2mt in 1QFY12. Volume handled at Hazira bulk terminal increased by 36% YoY to 2.8mt, while liquid cargo at Vadinar, Gujarat reported 9% YoY growth in volumes to 8.4mt. The company has started a 12mtpa expansion project at Vadinar, taking the total port capacity to 88mtpa.
- EBITDA increased by 92.2% YoY to INR2.16bn in 1QFY12. EBITDA margins increased to 78.8% (from 70.5% in 1QFY11) mainly on account of escalation in tariff and Take or Pay contracts. The company has billed INR241 per tonne for 4.28mt cargo handled at Hazira as per minimum guaranteed take of pay contract.
- Depreciation and interest cost increased by 33.1% YoY (to INR512m) and 27.5% YoY respectively due to capacity addition at Hazira and Vadinar.
- Net profits increased from INR34.9m in 1QFY11 to INR396m in 1QFY12 (against estimated INR59.4m), translating into EPS of INR0.97.

Valuation and outlook

At the CMP of INR78, the stock is trading at 14.7x FY13e earnings and P/BV of 1.3x FY13e. On EV/EBITDA, it is trading at 10.9x FY12e and 9.1x FY13e respectively. We maintain our valuation based on DCF to INR159 with a BUY rating.

Quarterly financials

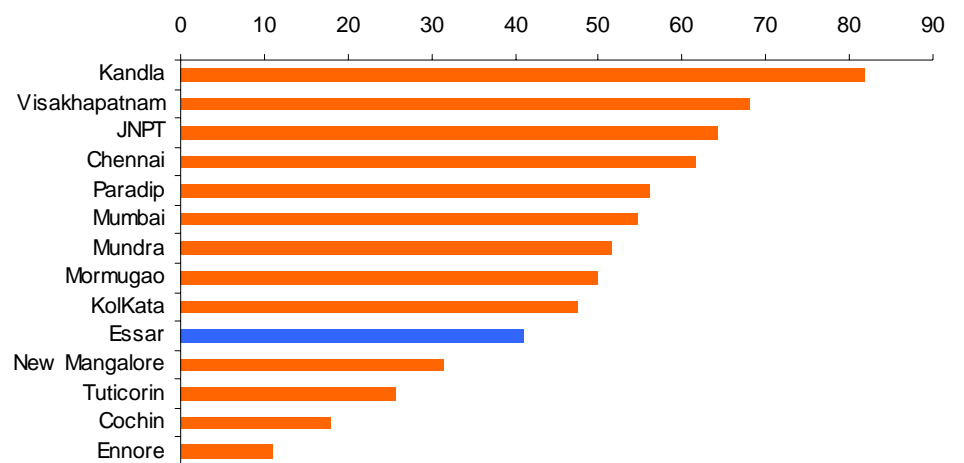
INRm	1QFY12	1QFY11	Chg (%)
Net sales	2,746	1,596	72.1
Operating profit	2,164	1,126	92.2
OPM (%)	78.8	70.5	11.7
Interest	974	764	27.5
Depreciation	512	385	33.1
Tax	232	37	525.1
PAT	396	35	1,035
EPS (INR)	1.0	0.1	1,035

Note: Does not include non-recurring items
Source: Company, Antique

To become the second largest port by FY13e

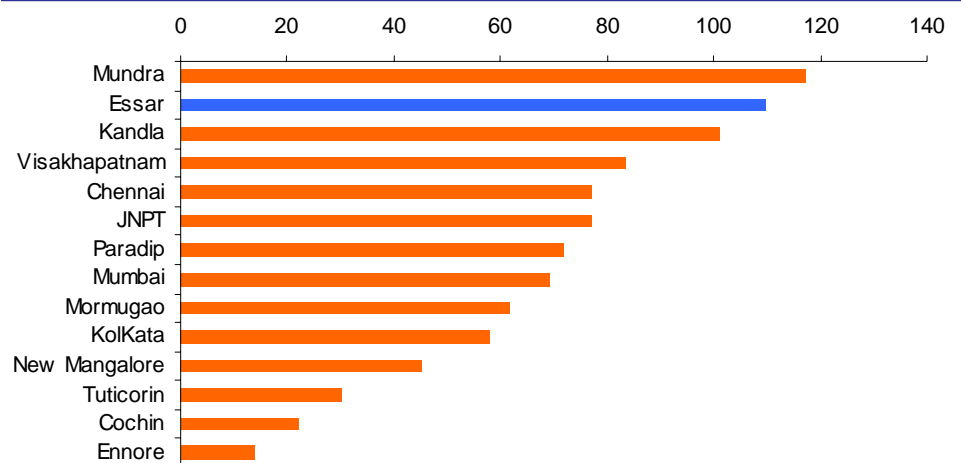
ESPL has aggressive plans to become one of the largest private port operators in India. The company has 58mtpa liquid terminal and 30mtpa bulk terminal operation at Vadinar and Hazira, Gujarat respectively. It is developing 158mtpa port capacity for liquid and bulk cargo at four locations spread on West and East coast of India with a total capital expenditure of INR93bn. It has bulk cargo projects of 16mtpa iron ore berth at Paradip, 20mtpa general cargo terminal expansion at Hazira and 20mtpa terminal at Salaya are under construction. The company has also 14mtpa coal terminal at Paradip and Liquid storage at Vadinar under development. After completion, dry bulk capacity will reach to 100mtpa by FY14e. ESPL is expected to become number two port in terms of cargo handling by FY14e. The asset backed group business is expected to provide captive cargo for the port business, improving revenue visibility and reducing business risk. However, with commencement of additional capacity, the share of revenue from Essar Group business is expected to decline from 100% in FY11 to 76% by FY14e.

Total cargo handling in FY11 (mt)



Source: Antique

Expected total cargo handling in FY14e (mt)



Source: Antique

Support from Take or Pay Contracts

The Port and logistics business would be providing services to group companies like Essar Steel, Essar Power for handling of bulk cargo and Essar oil for crude import and export of finished products. The scale up in operation of these group companies also provides strong visibility to earnings. The company has "take or pay" contracts for ~44mt cargo and will contribute ~60% of the total revenue, and thereby reducing the business risk.

Take or Pay Contracts

INRm	FY11	FY12	FY13	FY14	FY15
VOTL Fixed Pay	-	3,130	3,223	3,320	3,420
VPTL Fixed Pay	-	1,709	1,760	1,813	1,867
Bulk	-	3,997	6,350	9,197	10,294
Total Contracted Revenue	-	8,835	11,334	14,330	15,581
% of Total Revenue	-	73.9%	73.6%	59.8%	56.6%
Hazira (mt)	-	18	25	25	25
Hazira	-	3708	5300	5475	5639
Paradip (mt)	-	2	6	11	11
Paradip	-	289	1050	1944	1944
Salaya (mt)	-	0	0	8	11
Salaya	-	0	0	1778	2710

Source: Company, Antique

Valuation and outlook

The port business is high operating and financial leverage business with a strong cash flow. With visibility in earnings and annual cash flow of ~INR11bn from FY14e, the repayment of debt is expected to improve the equity value going ahead. The book value is expected to increase at a CAGR of 18%, from INR55 in FY11 to INR126 by FY16e.

The port business is in a huge capex phase and most of its projects are getting completed in FY13e. We believe the discounted Cash flow (DCF) would be a better method to value the port assets. The long-term contracts and support from group business provides a strong visibility for the port business. Our assumption of 12.3% discount rate and 3% terminal growth values port business at INR123.7bn translating into a target price of INR159 per share. We reiterate a BUY at current levels.

Financials

Profit and loss account (INRm)

Year ended 31st Mar	2010	2011	2012e	2013e
Net revenues	4,350	7,327	11,962	15,406
Staff costs	95	218	390	547
Power and fuel	652	1,069	1,940	2,885
Other expenses	336	699	1,072	1,033
Total Expense	1,083	1,986	3,402	4,465
EBITDA	3,267	5,341	8,561	10,941
Depreciation & amortisation	1,375	1,684	2,700	3,231
EBIT	1,892	3,657	5,861	7,710
Other income	-	-	250	270
Financial expense	2,647	3,064	4,333	4,945
Exceptional items	(14)	(127)	-	-
PBT	(770)	466	1,278	2,494
Current tax	(49)	132	213	364
Deferred tax	-	-	178	303
PAT	(721)	334	887	1,827
Minority Interest	-	-	83	194
Attributable PAT	(721)	334	804	1,633
Basic EPC (INR)	(2)	1.1	3.2	5.3
Diluted EPS (INR)	(1.72)	1.12	3.17	5.29

Balance sheet (INRm)

Year ended 31st Mar	2010	2011	2012e	2013e
Equity share capital	-	4,107	4,107	4,107
Reserves & surplus	18,490	18,920	18,922	21,095
Shareholder's funds	-	22,597	23,029	25,202
Minority interest	-	-	83	277
Debt	51,622	61,554	67,621	67,621
Deferred tax liability / (asset)	-	-	178	481
Capital employed	-	74,219	84,843	93,580
Gross fixed assets	37,078	64,392	72,361	72,361
Less: Accumulated depreciation	1,684	4,384	4,384	7,615
Net fixed assets	-	35,394	60,008	64,746
Capital work in progress	21,779	9,103	8,995	8,995
Goodwill	14,470	14,470	14,470	14,470
Investments	-	-	-	1,000
Inventory	250	267	316	316
Debtors	800	2,293	1,764	1,764
Cash & cash equivalent	2,766	2,487	2,982	2,982
Loans & advances and others	4,260	1,865	5,114	5,114
Current assets, loans & advances	-	8,076	6,912	10,176
Creditors	1,500	1,530	1,561	1,561
Other liabilities & provisions	4,000	4,120	4,246	4,246
Current liabilities & provisions	-	5,500	5,650	5,807
Net current assets	-	2,576	1,262	4,369
Application of funds	-	74,219	84,843	93,580

Per share data

Year ended 31st Mar	2010	2011	2012e	2013e
Outstanding shares (m)	411	411	411	411
BVPS (INR)	55.0	56.1	61.4	61.4
CEPS (INR)	5.2	10.2	13.9	13.9

Source: Company, Antique

Cash flow statement (INRm)

Year ended 31st Mar	2010	2011	2012e	2013e
PBT		593	1,528	2,764
Depreciation & amortisation	1,684	2,700	3,231	3,231
Interest expense	3,064	4,333	4,945	4,945
Interest / Dividend Recd	-	250	270	270
Other Adjustments	-	(612)	274	274
(Inc)/Dec in working capital	(8,810)	775	(2,885)	(2,885)
Tax paid	(132)	(213)	(364)	(364)
CF from operating activities		(3,601)	8,760	8,235
Capital expenditure	(19,739)	(14,638)	(7,861)	(7,861)
Net Investments	-	-	(1,000)	(1,000)
CF from investing activities		(19,739)	(14,638)	(8,861)
Inc/(Dec) in debt	1,000	9,932	6,067	6,067
Dividends & Interest paid	(3,064)	(4,333)	(4,945)	(4,945)
CF from financing activities		(2,064)	5,598	1,122
Net cash flow		(25,404)	(279)	496
Opening balance	-	2,766	2,487	2,487
Closing balance		2,766	2,487	2,982

Growth indicators (%)

Year ended 31st Mar	2010	2011	2012e	2013e
Revenue	68.4	63.3	28.8	28.8
EBITDA	63.5	60.3	27.8	27.8
PAT	(165.3)	182.6	66.7	66.7
EPS	(165.3)	182.6	66.7	66.7

Valuation (x)

Year ended 31st Mar	2010	2011	2012e	2013e
PE	69.4	24.6	14.7	14.7
P/BV	1.4	1.4	1.3	1.3
EV/EBITDA	15.7	10.9	9.1	9.1
EV/Sales	11.4	7.8	6.5	6.5

Financial ratios

Year ended 31st Mar	2010	2011	2012e	2013e
RoE (%)	2.0	5.7	8.6	8.6
RoCE (%)	4.9	7.4	8.6	8.6
Net Debt/Equity (x)	2.3	2.7	2.7	2.7
EBIT/Interest (x)	1.2	1.4	1.6	1.6

Margins (%)

Year ended 31st Mar	2010	2011	2012e	2013e
EBITDA	72.9	71.6	71.0	71.0
EBIT	49.9	49.0	50.0	50.0
PAT	6.3	11.6	15.4	15.4

Source: Company, Antique

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