



Economy News

- ▶ Stressed assets of Indian banks will increase through 2019 and capitalization will remain a key credit weakness for state-owned lenders which will need up to Rs 950 bn additional capital over the next two years, as per Moody. (Mint)
- ▶ India has signed a ground-breaking multilateral BEPS convention that will close loopholes in thousands of tax treaties worldwide. (BS)
- ▶ The Civil Aviation Ministry will frame regulations which would make it mandatory for a passenger to provide his identity card number while booking a flight. (BS)

Corporate News

- ▶ **Indian Oil Corp** has lined up an extensive maintenance turnaround plan for its refineries in 2017, which could force the country's top refiner to tap overseas markets for gasoline and diesel to meet rising local demand. (BS)
- ▶ **Jet Airways** and **Indigo** may participate in round two of the government's regional connectivity scheme UDAN by providing viability gap funding (VGF) under the regional connectivity scheme. (ET)
- ▶ **Strides Shasun** has received approval from the US health regulator, Food and Drug Administration (FDA), for Amantadine Hydrochloride, used for the treatment of Parkinson's disease and select viral infections, in the American market. (Mint)
- ▶ **Srei Infrastructure Finance Ltd**, a Kanoria Foundation entity, has signed a memorandum of understanding with Vnesheconombank to create a \$200 million 'IT and Innovation Fund'. (BL)
- ▶ **Max Life** and **HDFC Life** remain committed to merger and are evaluating various options after the insurance regulator IRDAI again expressed reservations on the deal. (BL)
- ▶ **Jet Airways** has collaborated with Mexican flagship carrier Aeromexico for codeshare flights and frequent flyers programme. (BS)
- ▶ **Jindal Stainless Ltd** will establish an incubation centre for agriculture technology (agri-tech) startups in collaboration with the Japanese company Future Venture Capital Company Ltd. (BS)
- ▶ **Tata Motors** has decided to do away with the system of designations for its 10,000-plus employees. (BS)
- ▶ **Zee Entertainment Enterprises Ltd** will acquire the remaining 49% in India Webportal Pvt. Ltd and a minority stake in a tech startup, as it seeks to expand its digital media business. (BL)
- ▶ With operations in Bangladesh witnessing growth once again, FMCG major **Marico Ltd** will look to accelerate the diversification of its non-coconut oil-based offerings there. (ET)
- ▶ The much-celebrated co-founders of **Infosys** are exploring a sale of their entire 12.75% stake in the company worth about Rs 280 bn. (ET)
- ▶ Donald Trump is a risk factor for **Wipro**, the first time in years an IT company has designated a US president as a potential threat in its annual filing with the US Securities and Exchange Commission. (ET)
- ▶ The largest defence sector foreign direct investment (FDI) is coming soon via French aircraft manufacturer Dassault, in JV with **Reliance Defence**. (ET)

Equity

	8 Jun 17	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	31,213	(0.2)	4.3	7.9
NIFTY Index	9,647	(0.2)	3.5	8.1
BANKEX Index	26,682	(0.1)	3.3	12.9
SPBSITIP Index	10,178	(1.3)	2.6	(2.3)
BSETCG INDEX	17,681	(0.4)	(1.6)	15.1
BSEOIL INDEX	13,824	(1.4)	(3.2)	3.7
CNXMcap Index	17,904	0.3	(1.9)	9.6
SPBSSIP Index	15,473	0.3	(0.5)	13.6
World Indices				
Dow Jones	21,183	0.0	1.0	1.6
Nasdaq	6,322	0.4	3.3	8.3
FTSE	7,450	(0.4)	1.5	1.8
NIKKEI	19,909	(0.4)	1.0	3.8
HANGSENG	26,063	0.3	4.7	10.9

Value traded (Rs cr)

	8 Jun 17	% Chg - Day
Cash BSE	7,399	123.3
Cash NSE	22,447	(2.6)
Derivatives	NA	NA

Net inflows (Rs cr)

	5 Jun 17	% Chg	MTD	YTD
FII	89	(103)	9,957	51,631
Mutual Fund	(1)	(98)	8,960	29,642

FII open interest (Rs cr)

	5 Jun 17	% Chg
FII Index Futures	21,676	0.4
FII Index Options	62,294	(1.2)
FII Stock Futures	73,148	0.3
FII Stock Options	6,755	5.3

Advances / Declines (BSE)

	8 Jun 17	A	B	T	Total	% total
Advances	145	578	51	774	100	
Declines	150	565	48	763	99	
Unchanged	3	25	12	40	5	

Commodity

	8 Jun 17	% Chg		
		1 Day	1 Mth	3 Mths
Crude (US\$/BBL)	45.6	(0.0)	(0.6)	(7.4)
Gold (US\$/OZ)	1,276.8	(1.1)	4.7	5.9
Silver (US\$/OZ)	17.4	(1.0)	7.5	1.8

Debt / forex market

	8 Jun 17	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	6.5	6.6	6.9	6.9
Re/US\$	64.2	64.3	64.3	66.7

Sensex



COMPANY UPDATE

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ADANI PORT AND SPECIAL ECONOMIC ZONE (APZ)

PRICE: Rs.355
 TARGET PRICE: Rs.425

RECOMMENDATION: BUY
 FY19E P/E: 15.7x

Future ready

FY17 was healthy for APZ with 11.1% volume growth, sustained healthy EBIDTA margin, strong earnings growth and improvement in BS quality. The improvement has come in spite of strong capex spending and acquisition debt (Totaling Rs 30bn for FY17). We expect the company to report 11.5% volume CAGR over FY17 to FY19E, sustain the current level of EBIDTA margin and further improve its balance - sheet with strong free cash flow generation of Rs 10 bn per annum. Company also intends to scale-up its logistics and dredging businesses which will be value additive and complement the port business of the company. We revise our SoTP to Rs 425 from Rs 350 and continue to maintain BUY on the stock.

Summary table

(Rs mn)	FY17	FY18E	FY19E
Sales	84,394	96,000	107,060
Growth (%)	16.3	13.8	11.5
EBITDA	53,956	61,056	68,197
EBITDA margin (%)	63.9	63.6	63.7
PBT	39,463	44,272	51,029
Reported PAT	38,914	40,745	46,826
EPS (Rs)	18.9	19.8	22.8
Growth (%)	34.5	4.7	14.9
CEPS (Rs)	24.8	25.9	29.0
Book value (Rs/share)	84.7	103.8	124.8
Dividend/share (Rs)	1.3	1.5	2.5
ROE (%)	22.3	19.1	18.2
ROCE (%)	10.9	11.3	11.7
N cash/(debt)	(186,837)	(178,079)	(161,907)
Net WC (Days)	17.1	18.9	19.9
EV/EBITDA (x)	16.4	14.9	13.7
P/E (x)	18.9	18.0	15.7
P/Cash Earnings	14.4	13.8	12.3
P/BV (x)	4.2	3.4	2.9

Source: Company, Kotak Securities - Private Client Research

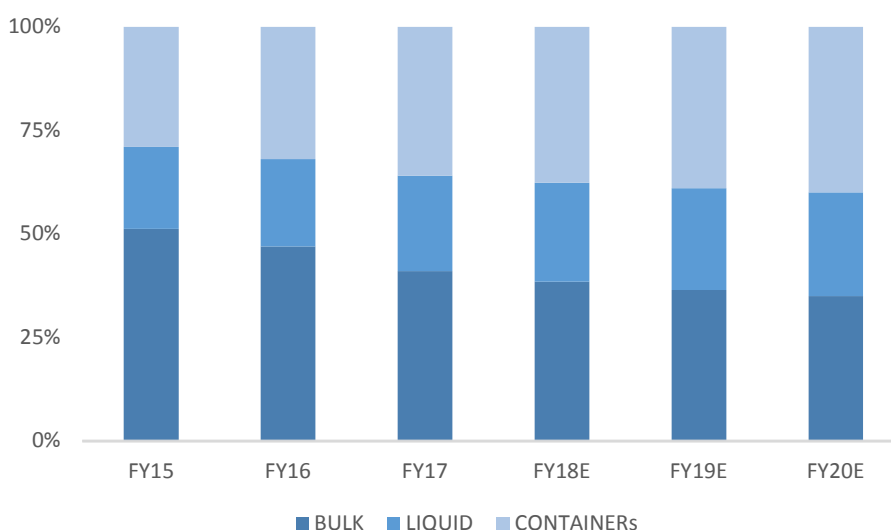
Focus on Non-Bulk category

The management outlined its focus on the growing share of container cargo over time. CT4 and recent additions of Vizhinjam and Kattupalli ports and a transshipment hub corroborate this strategy. The company has similar plans to grow liquid volumes and sees strong uptick in demand at key ports (Mundra, Hazira). Such a strategy will reduce exposure to bulk cargo where visibility of business growth over the medium term is low.

The mix of containers in the 170 mn ton reported volumes in FY17 has increased to 36% from 32% in FY16 and 29% in FY15. This helped compensate for marginal decline in coal volumes, with share of coal volumes declining to 37% from 41%. While the share of liquid has increased to 23% from 21% YoY. We estimate containers and liquid to further gain market share at the cost of bulk category.

Container and Liquid cargo also adds value to APZ as they have higher margins, lower turnaround time and require lesser investment in terms of infrastructure required for evacuation compared to bulk cargo

CARGO MIX FOR APZ



Source: Company, Kotak Securities - Private Client Research

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Details of port projects of APZ

Apart from the core infrastructure at Mundra, APZ has 9 ports in its fold, Adani Logistics and the SEZ business. All the businesses complement each other. The key Mundra Port has already created significant value for the company. We estimate the next phase of growth for the company to come from subsidiary ports, especially the ports of Hazira, Dahej and Dhamra 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). The other big value creator could be SEZ land sale/lease where transactions were slow in FY17, but expected to improve over FY17 to FY19E.

Details of subsidiary port projects of Adani Port

Port	Dahej	Mormugao	Dhamra	Hazira	Kandla	Vizag	Ennore	Vizhinjam	Kattupali
Stake of Adani (%)	74	74	100	100	74	100	100	100	100
Capacity (mt)	20	8	20	35	14	5	0	0	20
Under construction (mt)	0	0	15	0	0	0	20	20	20
Expansion room (Upto mt)	25	8	100	85	20	8	20	50	100

Source: Company

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

Port	FY14	FY15	FY16	FY17	FY18E	FY19E
Coal at Mundra	36	39	35	31	32	33
Other bulk at Mundra	11	13	12	12	13	14
Containers at Mundra	33	37	42	47	54	57
Crude/POL	23	22	24	24	28	29
Total at Mundra	103	111	113	114	127	133
Dahej	8	12	8	6	8	10
Hazira	4	7	12	15	18	20
Mormugao	0	1	1	2	2	3
Vizag	0	1	1	1	2	3
Kandla	0	0	3	4	5	6
Dhamra	14	15	15	21	25	30
Ennore + others	0	0	0	7	5	7
Total	129	147	153	170	192	212

Source: Company, Kotak Securities- Private Client Research

Capex of Rs 47 bn in FY18E and FY19E

APZ saw improvement in the BS quality despite heavy capex in FY17 at Rs 30 bn (including payment of Rs 14.5 bn for Kattupalli). Reversal of related party loan of Rs 35 bn in FY17 was one of the key reasons.

We believe that the capex per annum has peaked for the company, to maintain medium term growth. We estimate a capex of Rs 25 bn in FY18E and Rs 22 bn in FY19E. The capex would be primarily spent towards expansion at Dhamra (two new berths), Kattupalli (non-container berth) and development of Vizhinjam port. With healthy operational performance, sustained EBIDTA margin and slowing capex, we estimate strong free cash flow generation of Rs 10 bn per annum which is estimated to improve the BS quality of the company.

Debt and Profitability measure

Rs mn	FY16	FY17	FY18E	FY19E
Gross debt	201,096	210,986	214,888	215,399
Cash and equivalence	12,909	24,149	36,808	53,492
EBIT	36,771	41,892	48,520	55,307
Capex	29,000	30,000	25,000	22,000
Gross debt/EBIT (x)	5.5	5.0	4.4	3.9
Equity	136,636	174,268	213,427	256,611
Net Debt /Equity (x)	1.4	1.1	0.8	0.6

Source: Company, Kotak Securities - Private Client Research

Management intends to focus on 2 important verticals

Logistics - The management intends to expand its logistics business by developing a port-led logistics model and a unique integrated offering for customers. Management sees high growth opportunity in post GST era. They are looking to expand the footprint of Inland Container Depots (ICDs) across India and offer integrated logistics solutions. APZ is looking at locations such as Bangalore, Hyderabad and nearby areas to build ICDs. The company is trying to leverage existing rail assets (such as sidings and trains) to the fullest and will follow a mixed operating model (60% assets leased, 40% owned) here onwards. We estimate the Logistics business to complement to Port business and add value to the company.

Dredging - To undertake commercial dredging operations. The commercial dredging business is expected to generate Rs 1-1.5 bn of revenues per annum in coming years.

Further expansion in the port business

APZ would look at strategic opportunities in South East Asia, East Africa, Middle East and Bangladesh (Management has identified seven countries including Indonesia, Malaysia, Kenya, Tanzania, Nigeria and Morocco to scout for greenfield container terminal opportunities in JV with an established player)

APZ sees limited opportunity for inorganic growth or fresh Greenfield ports in medium term in India; however it believes that three states present potential opportunity to extend footprint in the medium term in India including Andhra Pradesh, Karnataka and Maharashtra.

Management expects EBIDTA margin to expand

Management expects the standalone Port EBIDTA margin to increase progressively from 69% to 73% - Use of technology, higher utilization, operational efficiency and cost control would help in higher port EBIDTA margin (as per management 100bps improvement is likely every years for next four years). In our base case estimate standalone port EBIDTA margin is stable at ~69% and consolidated EBIDTA margin at ~63.5% over FY17 to FY19E.

We maintain BUY rating on Adani Port and Special Economic Zone (APZ) with a price target of Rs.425

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 believe that the benefits of these efforts to have already started accruing to APZ and would continue to accrue in future as well. We estimate the consolidated entity to report volume CAGR of 11.5% over FY17 to FY19E with the new ports of Dhamra, Hazira and Dahej and the container volume at Mundra contributing the maximum. We have increased our long term volume assumption and factor in a lower equity risk premium in calculating the cost of equity. Also, we have now included Kattupalli in our valuation exercise.

Our TP is based on SOTP valuation with a weighted average cost of capital (WACC) of 12.0% (from 12.5%) and book values for other investments.

Investment risks

Risks include trade weakness, viability of imported coal, shift of cargo to Mumbai ports on the start of DFC from FY20 and slow capex at SEZs.

Valuation table (Rs Mn)

Project	Implied Equity value	Stake (%)	Equity value of the stake
Mundra	331,632	100	331,632
Mundra SEZ	82,842	100	82,842
Dhamra	176,840	100	176,840
Hazira	139,160	100	139,160
Dahej	67,128	74	49,675
Mormugao	9,284	74	6,870
Ennore	4,692	100	4,692
Kandla	3,394	100	3,394
Container terminal 3	24,448	50	12,224
Container terminal 4	24,448	50	12,224
Vizag	8,448	100	8,448
Kattupalli	15,000	100	15,000
Adani Logistics	25,000	100	25,000
Total			868,001
Shares OS (Mn)			2,057
Value per share			425.0

Source: Company, Kotak securities - Private Client Research

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
08-Jun	BGJL	VIVIDOFFSET PRINTERS P L	B	78,000	19.22
8-Jun	ESCORP	YUVA TRADING CO P L	S	56,000	15.50
8-Jun	ESCORP	JHAVERI TRADING AND INVES PVT LTD	B	56,000	15.50
8-Jun	PAWANSUT	CLEMENT MASCARENHAS	S	75,000	20.21
8-Jun	PETRONET	GDF INTERNATIONAL	S	30,000,000	422.17
8-Jun	PETRONET	CITIGROUP GL MRKT MAURITIUS P L	B	10,591,750	421.00
8-Jun	PETRONET	GDF INTERNATIONAL	S	45,000,000	421.09
8-Jun	PETRONET	STICHTING DEPOSITARY APG	B	3,926,837	421.00
		EMERGING MARKETS EQUITY POOL			
8-Jun	SAVERA	RAVI GOEL	S	108,000	67.68
8-Jun	SINCLAIR	XANDER INVESTMENT HOLDING X LTD	S	311,183	305.64

Source: Bseindia.com

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
DR REDDY'S L	2,636	3.8	(0.0)	0.8
SUN PHARMA I	529	3.4	(0.0)	10.6
HOUSING DEV	1,634	2.1	(0.0)	2.3
Losers				
TATA CONSULT	2,522	(3.6)	(0.0)	1.67
GAIL INDIA L	389	(3.5)	(0.0)	3.97
INDIAN OIL C	419	(2.0)	(0.0)	3.4

Source: Bloomberg

RATING SCALE

Definitions of ratings

- BUY** – We expect the stock to deliver more than 12% returns over the next 9 months
- ACCUMULATE** – We expect the stock to deliver 5% - 12% returns over the next 9 months
- REDUCE** – We expect the stock to deliver 0% - 5% returns over the next 9 months
- SELL** – We expect the stock to deliver negative returns over the next 9 months
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- NA** – **Not Available or Not Applicable.** The information is not available for display or is not applicable
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- NOTE** – Our target prices are with a 9-month perspective. Returns stated in the rating scale are our internal benchmark.

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