

Mercator Lines Ltd.

CMP Rs. 89.55
Not Rated

Q1 FY2009
Result Update

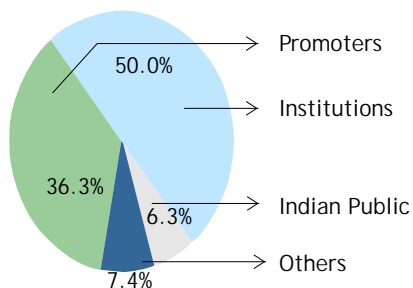
Stock Data

Bloomberg : MRLN.IN
Reuters : MRCT.BO
BSE Code : 526235
NSE Code : MLL
BSE Group : S

Stock Codes

Benchmark : BSE Midcap
52 Week High : 184.95
52 Week Low : 46.00
Mkt Cap : Rs. 16,947 Mn
Face Value : Rs. 1.0

Shareholding Pattern (as on June 08)



Stock Returns

	1 Mth	3 Mths	6 Mths
MLL	15.83	-5.76	-18.12
BSE MID	1.90	-23.12	-29.89

Price Comparison



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Q1 FY09 Performance Review

Mercator Lines Ltd. (MLL) reported a Y-o-Y jump of 84% in Operating Revenues from Rs. 2,673.4 Mn. in Q1FY08 to Rs. 4,929 Mn. in Q1FY09. With all Cost parameters increasing anywhere between 50 - 85% over the same quarter last year, the company saw more than 9 fold rise in its dry-docking expense from Rs. 29.9 MN. for Q1FY08 to Rs. 283.8 Mn. in Q1FY09. This has largely been due to the fact that the company has completed all scheduled dry-docking for the entire financial year 2008-09 in the first quarter itself. Even taking this into account, the company has been able to report a growth of 121% in Operating Profits on a Y-o-Y basis. Last year, for the quarter ended June 2007, the company had an Other Income of Rs. 157.8 Mn. & a Forex Gain of Rs. 183.3 Mn. In contrast, for quarter ended June 2008, the MLL has a Mark-to-Market Forex Loss of Rs. 139.3 Mn. & loss arising on freight forward derivative contracts of Rs. 71.4 Mn. These factors have led to the PAT growing by only 8% Y-o-Y.

On a Q-o-Q comparison, the consolidated performance for the company has been rather subdued. The company saw its topline grow only by 5.7% from 4,663.9 Mn. in Q4FY08 to Rs. 4,929 Mn. in Q1FY09. There was a dip of 200 bps in Operating Margins due to the increased dry-docking expense. Further with the Mark-to-Market Forex Loss of Rs. 139.3 Mn. & loss arising on freight forward derivative contracts of Rs. 71.4 Mn., MLL reported a Q-o-Q decrease in PAT from Rs. 1,081.2 Mn. for Q4FY08 to Rs. 759 Mn. for Q1FY09.

Q1 Results Conference Call Takeaways

- MLL has a total fleet size of 29 vessels of which 23 vessels are owned by the company & the rest 6 vessels are chartered in. During Q1FY09, the company acquired a 2006 built VLCC of 2,99,235 DWT & took delivery of a 2008 built dredger of 4,500 Cu.M. MLL Singapore, a wholly owned subsidiary of the company acquired a 1997 built Panamax vessel of 69,186 DWT.
- Post June 2008, MLL Singapore acquired one more 1997 built Panamax vessel of 69,221 DWT. With these additions, the total owned vessels by the company increased to 29.
- The 4th dredger has been chartered with a company in Taiwan at about US\$ 30,000 a day.
- The other 3 dredgers have contributed roughly about 6% of the revenues in Q1FY09. These 3 dredgers have been contracted with

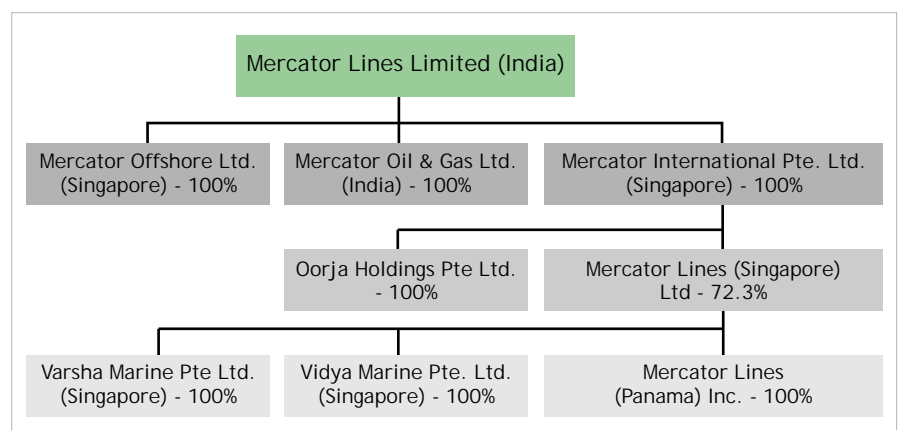
Dredging Corporation of India on a performance evaluation basis & have earned a calculated day rate of US\$ 20,000 on an average.

- MLL further has a Jack Up rig on order with a shipyard in Singapore that will be delivered by March 2009 & will start contributing from FY2010. The company has already contracted this rig on a Bareboat Charter basis for a period of 3 years, earning a day rate of US\$ 92,700.
- MLL has completed all the scheduled dry-docking for the entire financial year 2008-09 in the first quarter ended June 2008. Hence, there will be no dry-docking expense for the rest of the year.
- Coal mining operation of the company in Indonesia have started & the first consignment is already being loaded.
- MLL had bid for 2 onshore blocks under the NELP VII & has received an in-principle approval for it. The company will start the exploration activity after the formal announcement of awarding these blocks by the NELP authorities.

Company Profile

Mercator Lines Ltd. is the fastest growing private sector shipping company in India. Incorporated in 1983 as a lighterage service provider, the company has diversified its business into tanker & dry bulk segments. Starting with a modest tonnage of 0.004 million DWT in 1994, Mercator Lines (including its subsidiaries) currently owns a capacity of 2.3 million DWT (owned & chartered). On a consolidated basis, its fleet of 23 owned vessels include 9 dry bulk carriers, 10 tankers & 4 dredgers. The company recently acquired its 4th dredger during the July 2008.

Mercator Lines has eight subsidiaries of which six are incorporated in Singapore & one each in India & Panama. The preference for Singapore as a destination for incorporating subsidiaries & registering ships stems from the fact that it has a tax-friendly regime.



Our View

Seeing the recent boom in the shipping sector, MLL has been very aggressive in expanding its fleet base in the past couple of years. The company has also ventured into the very lucrative offshore drilling as well as dredging sectors. MLL has also acquired coal mines in Indonesia & Mozambique. It also has plans to enter into the shipbuilding sector going forward. With such robust & dynamic future plans, we believe the company would be able to report better financial performance in the coming years.

Mercator Lines : Quarterly Financials

Earnings Statement								
YE March (Rs. Mn.)	Q109	Q408	Q-Q(%)	Q108	Y-Y(%)	FY08	FY07	Y-Y(%)
Net Revenues	4,929.0	4,663.9	5.7%	2,673.4	84.4%	14,548.7	11,227.6	29.6%
Cost of Materials	0.0	0.0		0.0		0.0	0.0	
Gross Profit	4,929.0	4,663.9	5.7%	2,673.4	84.4%	14,548.7	11,227.6	29.6%
Operating Expenses	2,484.1	2,229.4	11.4%	1,611.3	54.2%	7,766.1	7,398.9	5.0%
Staff Costs	46.3	103.2	-55.1%	70.5	-34.3%	299.4	148.2	102.0%
Dry Docking Expenses	283.8	205.2	38.3%	29.9	850.1%	421.1	548.2	-23.2%
Other Expenses	53.0	81.9	-35.3%	30.1	75.9%	188.4	175.7	7.2%
Total Expenditure	2,867.2	2,619.7	9.4%	1,741.7	64.6%	8,674.9	8,271.1	4.9%
Operating Profit	2,061.8	2,044.2	0.9%	931.6	121.3%	5,873.8	2,956.5	98.7%
OPM (%)	41.8%	43.8%		34.8%		40.4%	26.3%	
Forex Gain/(Loss)	(139.3)	160.5		183.3		433.4	0.0	
Other Income	(71.4)	92.6		157.8		579.8	232.6	149.3%
EBITDA	1,851.2	2,297.4	-19.4%	1,272.7	45.4%	6,887.0	3,189.1	116.0%
Depreciation	492.6	474.2	3.9%	306.3	60.8%	1,675.0	1,038.0	61.4%
EBIT	1,358.6	1,823.2	-25.5%	966.4	40.6%	5,212.0	2,151.1	142.3%
Interest	300.4	338.1	-11.2%	253.5	18.5%	1,320.2	807.7	63.5%
PBT	1,058.2	1,485.1	-28.7%	712.9	48.4%	3,891.8	1,343.4	189.7%
Tax	25.7	38.9	-34.0%	10.3	149.5%	90.2	34.1	164.5%
PAT	1,032.6	1,446.2	-28.6%	702.7	47.0%	3,801.6	1,309.3	190.4%
Minority Interest (MI)	277.2	242.7	14.2%	0.0		298.9	0.8	37878.4%
PAT after MI	755.4	1,203.5	-37.2%	702.7	7.5%	3,502.7	1,308.5	167.7%
Extraordinary Income	3.7	(122.3)		0.0		(226.1)	40.1	
Profit/(Loss) on Sale of Assets	0.0	295.3		0.0		295.4	31.1	850.1%
Other EI	3.7	(417.6)		0.0		(521.5)	9.0	
Reported PAT	759.0	1,081.2	-29.8%	702.7	8.0%	3,276.6	1,348.6	143.0%
Equity Capital	236.0	234.9		189.2		234.9	189.2	
EPS	3.22	4.60	-30.1%	3.71	-13.4%	13.95	7.13	95.7%
Ratio Analysis								
Profitability								
YE March (Rs. Mn.)	Q109	Q408	Q-Q(bps)	Q108	Y-Y(bps)	FY08	FY07	Y-Y(bps)
OPM (%)	41.8%	43.8%	(200.1)	34.8%	698.1	40.4%	26.3%	1,404.1
EBITDA (%)	37.6%	49.3%	(1,170.2)	47.6%	(1,005.1)	47.3%	28.4%	1,893.3
EBIT (%)	27.6%	39.1%	(1,152.8)	36.1%	(858.7)	35.8%	19.2%	1,666.6
PAT (%)	15.4%	23.2%	(778.3)	26.3%	(1,088.5)	22.5%	12.0%	1,051.0
Operational Parameters								
YE March (Rs. Mn.)	Q109	Q408	Q-Q(bps)	Q108	Y-Y(bps)	FY08	FY07	Y-Y(bps)
RM Consumed	0.0%	0.0%	0.0	0.0%	0.0	0.0%	0.0%	0.0
Operating Expenses	50.4%	47.8%	259.7	60.3%	(987.2)	53.4%	65.9%	(1,252.0)
Staff Costs	0.9%	2.2%	(127.4)	2.6%	(169.8)	2.1%	1.3%	73.7
Dry Docking Expenses	5.8%	4.4%	135.9	1.1%	464.1	2.9%	4.9%	(198.8)
Other Expenses	1.1%	1.8%	(68.2)	1.1%	(5.2)	1.3%	1.6%	(27.0)
Effective Tax Rate	2.4%	2.6%	(19.2)	1.4%	98.2	2.3%	2.5%	(22.1)

Mercator Lines : Financials

Earnings Statement					
Particulars (Rs Mn)	FY04	FY05	FY06	FY07	FY08A
Total Revenues	2,423.3	5,606.6	8,262.5	11,227.6	14,548.7
- Growth (%)		131.4%	47.4%	35.9%	29.6%
Total Expenditure	1,655.5	3,408.7	4,781.4	8,271.1	8,674.9
Operating Profit	767.8	2,197.9	3,481.1	2,956.5	5,873.8
Other Income	1.1	6.8	166.8	241.6	1,013.1
EBITDA	769.0	2,204.7	3,647.9	3,198.1	6,886.9
Depreciation	131.2	326.9	936.7	1,038.0	1,675.0
EBIT	637.7	1,877.8	2,711.1	2,160.0	5,212.0
Interest	98.0	194.0	707.7	807.7	1,320.2
PBT	539.7	1,683.8	2,003.5	1,352.4	3,891.7
Tax	20.5	(36.2)	27.1	34.1	90.2
PAT Before EI	519.3	1,720.0	1,976.4	1,318.3	3,801.5
- Growth (%)		231.2%	14.9%	-33.3%	188.4%
Minority Interest	0.0	0.0	0.0	0.8	298.9
Extra-ordinary Items	(20.8)	24.1	32.0	26.8	(226.1)
PAT	498.5	1,744.2	2,008.3	1,344.3	3,276.6

Balance Sheet				
Particulars (Rs Mn)	FY04	FY05	FY06	FY07
Equity Capital	60.2	72.7	189.2	189.2
Preference Capital	0.0	400.0	400.0	400.0
Warrants against Share Capital	0.0	16.8	48.8	48.8
Reserves	843.5	2,944.1	4,771.7	5,645.6
Shareholders Funds	903.7	3,433.6	5,409.8	6,283.7
Minority Interest	0.0	0.0	0.0	0.0
Borrowed Funds	1,011.0	5,265.0	13,103.1	18,347.3
Deferred Tax Liability	66.4	18.0	0.0	0.0
Total Liabilities	1,981.1	8,716.7	18,512.9	24,631.0
Fixed Assets	1,793.5	8,210.1	13,453.8	17,848.5
Investments	4.3	25.0	997.8	870.7
Current Assets				
Inventory	27.1	76.9	237.2	250.0
Sundry Debtors	207.3	616.4	771.3	1,859.3
Loans & Advances	82.5	145.9	2,542.8	2,087.9
Cash & Bank Balance	29.7	223.9	1,182.0	3,787.8
Current Liabilities				
Sundry Creditors	124.4	484.0	606.5	1,848.4
Provisions	39.0	97.6	65.6	224.7
Net Current Assets	183.4	481.6	4,061.3	5,911.9
Total Assets	1,981.1	8,716.7	18,512.9	24,631.0

Ratio Analysis				
Particulars	FY04	FY05	FY06	FY07
OPM (%)	31.7%	39.2%	42.1%	26.3%
EBITDA (%)	31.7%	39.3%	44.1%	28.5%
PBIT (%)	26.3%	33.5%	32.8%	19.2%
PAT (%)	20.6%	31.1%	24.3%	12.0%
Interest Cover (x)	6.5	9.7	3.8	2.7
EPS (Rs.)	8.3	24.0	10.6	7.1
P/E (x)	10.8	3.7	8.4	12.6
P/BV (x)	6.0	1.9	3.1	2.7
BVPS (Rs.)	15.0	47.2	28.6	33.2
Market Cap (Rs. Mn.)	5,390.9	6,510.0	16,946.7	16,946.7
M Cap/Sales (x)	2.2	1.2	2.1	1.5
EV (Rs. Mn.)	6,372.2	11,551.1	28,867.8	31,506.3
EV/EBITDA (x)	8.3	5.2	7.9	9.9
EV/Sales (x)	2.6	2.1	3.5	2.8
ROCE (%)	33.3%	21.6%	14.6%	8.8%
RONW (%)	57.5%	50.1%	36.5%	21.0%
Debt/Equity Ratio (x)	1.1	1.5	2.4	2.9
Inventory T/o Days	4.1	5.0	10.5	8.1
Debtors T/o Days	31.2	40.1	34.1	60.4
Advances T/o Days	12.4	9.5	112.3	67.9
Creditors T/o Days	18.7	31.5	26.8	60.1
Working Cap T/o Days	27.6	31.4	179.4	192.2
Fixed Assets T/o (Gross)	1.2	0.7	0.6	0.6
DPS (Rs.)	0.5	2.0	0.9	1.0
Dividend Payout (%)	6.0%	8.2%	8.3%	14.1%
Dividend Yield (%)	0.6%	2.2%	1.0%	1.1%

Cash Flow				
Particulars (Rs Mn)	FY04	FY05	FY06	FY07
Opening Cash & Bank	2.3	29.7	223.9	1,182.0
Profit After Tax	519.3	1,720.0	1,976.4	1,318.3
Investment Income	(1.1)	(6.8)	(166.8)	(241.6)
Interest Paid	98.0	194.0	707.7	807.7
Depreciation	131.2	326.9	936.7	1,038.0
Deferred Taxation	13.7	(48.4)	(18.0)	0.0
Others	(67.1)	(341.8)	(548.2)	(802.5)
Change in Working Cap	(60.4)	(104.1)	(2,621.6)	755.1
CF - Operating Activities	633.6	1,739.9	266.2	2,875.0
Change in Fixed Assets	(1,379.6)	(6,703.2)	(6,051.5)	(5,120.1)
Change in Investments	0.2	(20.7)	(972.8)	127.1
Investment Income	1.1	6.8	166.8	241.6
CF - Investing Activities	(1,378.3)	(6,717.2)	(6,857.5)	(4,751.4)
Increase in Equity	142.8	548.6	193.4	(212.4)
Changes in Preference Capital	0.0	400.0	0.0	0.0
Changes in Borrowings	693.5	4,254.0	7,838.1	5,244.2
Interest Paid	(98.0)	(194.0)	(707.7)	(807.7)
Dividend Paid	34.0	162.8	225.6	257.9
CF - Financing Activities	772.2	5,171.4	7,549.5	4,482.1
Net Change in Cash	27.5	194.1	958.2	2,605.7
Closing Cash & Bank Balance	29.7	223.9	1,182.0	3,787.8

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