impetus advisors
research@impetusadvisors.com

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Mercator Lines Ltd

Update: QE Mar-04 Performance

We recommended Mercator Lines at Rs.158 in Oct-03. The stock is up 102% since then. The company has renewed its largest contract and bagged another long-term contract – thus significantly reducing the uncertainty over sustainability of large & long-term contracts. For the Jan-Mar 04 quarter net profit is Rs.202mn up from Rs.139mn in Oct-Dec 03 quarter and Rs.12mn in Jan-Mar 03 quarter.

Price Rs.319	FY04 DEPS Rs 68.82	Trailing P/E 4.6

Performance in QE Mar-04 is better than that in earlier quarters, as freight rates for aframax tankers strengthened further. This led to an upward revision in the World Scale (WS) effective Jan-04. Revenues from its contracts are linked to WS. Moreover, it **added another aframax** to its fleet in early January this year.

For the quarter, EBITDA is Rs.318mn, up from Rs.207mn in the preceding quarter. Depreciation and interest went up due to an addition tanker.

Equity capital increased to Rs.60.2mn from Rs.55mn during the quarter, as company made **preferential allotment** to promoters and an FII at Rs.275 per share. Another preferential allotment (at Rs.275) this year will take the equity capital to Rs.66mn.

Mercator Lines bagged a $32mn firm **five-year contract from BG Exploration** & Production Ltd, which is a joint venture of ONGC, Reliance and British Gas. The contract involves chartering of an aframax tanker to act as storage vessel. Mercator is likely to deploy its 1985-built (94,706 dwt) tanker Devasi on this contract. The payment will be received on monthly basis. The TCE per day works out to around USD 15,000 per day. Devasi is currently deployed on MRPL contract.

Mercator has bagged the **MRPL's Gulf-Mangalore crude transportation contract** for FY05 as well. The contract is worth Rs.1.9bn and involves three tankers transporting around 6million tonne of crude oil in a year. The TCE per day works out to USD 21,000 per day.

We reduce our FY05 profit estimate, as we now assume no addition to the fleet going forward as against our earlier assumption of addition of two vessels every year. Mercator acquired only one tanker as against our assumption of two tankers in the second half of FY04. We will consider impact of vessel acquisitions, as and when they take place. Moreover, we expect seasonal softening in freight rates. There is also an upward revision in charter rates on in-chartered tankers.

In the company's ownership structure, **promoters' pie has been shrinking** from 48.54% at end Sep-03 to 45.82% at end Dec-03 to 44.68% at end Mar-04. This has been so despite preferential allotment to promoters.

Renewal of MRPL Contract and the new contract from BG Exploration lead to **significant reduction in uncertainty** over the sustainability of large and long-term contracts.

Please refer our report of Oct 03 for detailed analysis and subsequent update in Jan-04.

Important Disclosure

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