Plan Expenditure Hike: The Silver Lining

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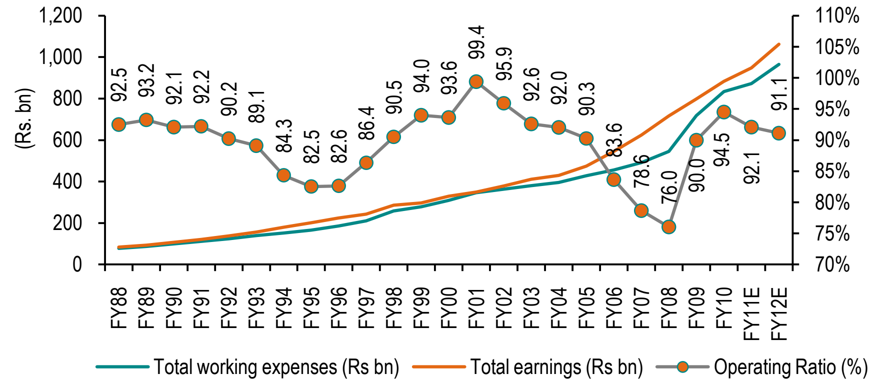
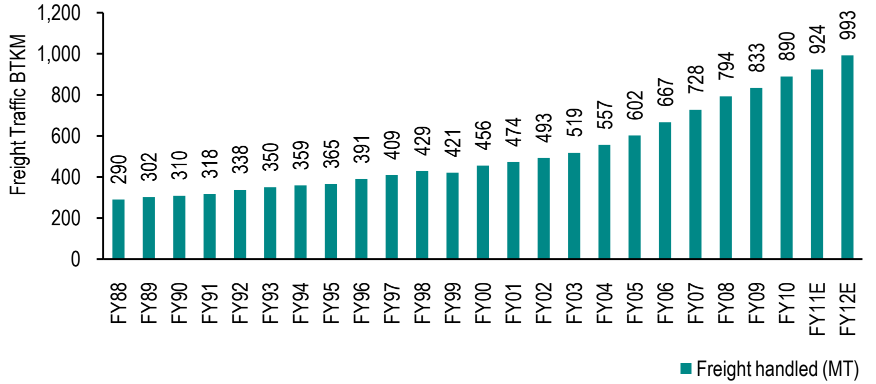
Fiscal situation remains tight…

- The Fiscal situation of Indian Railways remains dire. The operating ratio (operating expense/revenues) jumped to 94.5% in FY10 post the implementation of the sixth pay commission with 92% hike in wage expense and two hikes in diesel prices.
- Volume growth in freight, the workhorse which subsidizes the passenger losses, also weakened and for FY11E it is expect to fall short of the original target by 20mn tonnes to now revised 924mn tonnes.
- Under the circumstances it was imperative for the budget to rejuvenate the revenue streams by increasing the passenger realisations.
- We believe that the budget has failed to achieve it by refraining from any passenger fare hikes. Hence, the expected operating ratio for FY12E is likely to remain at ~91.1%.

Financial Performance



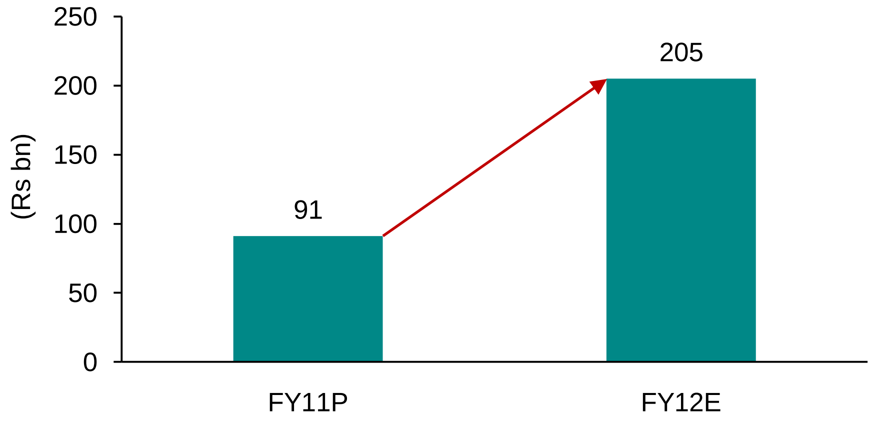
Freight Traffic



Market borrowings will almost double…

- IR will have to increasingly fall upon the high cost market borrowings which are expected to almost double in FY12E, increasing the interest cost.
- In a bid to shore up resources, IR is set to come out with Rs100 bn tax free bonds.
- The positives will emerge if the long pending projects are taken in the right earnest e.g. Dedicated Freight Corridor, locomotive facilities at Marorha and Madhepura and the coach factory at Kanchrapara.

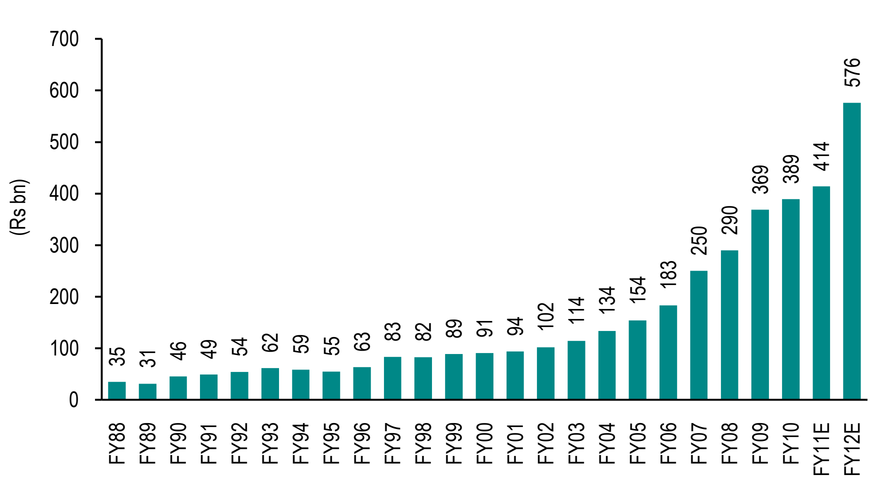
Market Borrowings



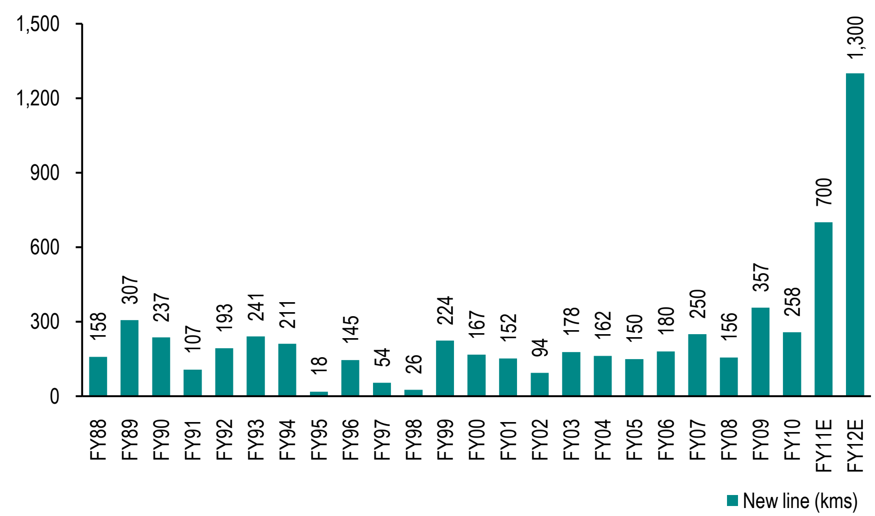
Plan Expenditure - The silver lining

- The Ministry however, seems to have realised the concerns on Rail Infra development.
- Plan expenditure therefore, has been upped by a significant 38% to Rs576 bn.
- New line capacity addition is another focus the railway minister announced an 85% increase in new line capacity.
- Single window for PPP clearances is another positive.

Significant jump in Plan expenditure



New line capacity addition key area of focus



Railway Stocks: Win some, lose some…

Measure	Impact	Stocks Impacted
Acquisition of 18,000 wagons for FY12.	Neutral to negative. We were expecting a similar number due to the limited financial capability of IR.	Titagarh Wagons and Texmaco (Rail and Engineering entity)
Setting up of wagon factories at Kolar, Alappuzha and Buniadpur.	Negative. The industry currently suffers from under utilisation of existing capacity (pegged at 30,000 wagons pa).	Titagarh Wagons
1,300 km new lines, 867km doubling of lines and 1,017km gauge conversion targeted in 2011-12.	Positive. This will mean a 30% YoY increase in the execution targets. Though execution remains a concern as only 70% of the target is expected to be achieved for FY11E.	Kalindee Rail, ARSS Infra, Era Infra, Simplex Infrastructure

Peer Valuations (Rs mn)

Company Name	CMP (Rs)	Net Sales FY11E	Net Sales FY12E	Net Profit FY11E	Net Profit FY12E	EPS (Rs) FY11E	EPS (Rs) FY12E	PE (x) FY11E	PE (x) FY12E	EV/EBITDA (x) FY11E	EV/EBITDA (x) FY12E	RoE (%) FY11E	RoE (%) FY12E	RoCE (%) FY11E	RoCE (%) FY12E	Target Price (Rs)	Upside / Downside (%)	Rating
Kalindee Rail	117	2,450	2,800	100	111	8.2	9.1	14.2	12.8	5.8	5.7	7.6	7.9	10.7	11	118	0.1	HOLD
Titagarh Wagons	332	7,001	8,404	707	793	37.6	39.7	8.8	8.3	3.7	2.9	14.5	14.4	18.8	20.6	476	43.4	BUY

- The recent correction has made Titagarh valuation at 8.3x FY12E EPS attractive.

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