15 October 2012

Initiating Coverage | Sector: Logistics

Container Corporation of India

On high ground

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Container Corporation of India: On high ground

Page No.

Summary 3

Story in charts 4-5

Set to further expand its inimitable moat 6-11

Industry background 12-14

Multiple medium-to-long-term triggers 15-22

Leveraging strategic JVs to provide total logistics services 23-24

Financials robust despite higher competition 25-33

Initiating coverage with Buy 34-39

Financials and valuation 40-41

Container Corporation of India

BSE SENSEX	S&P CNX
18,793	5,705

Bloomberg	CCRI IN
Equity Shares (m)	130.0
52-Week Range (INR)	1,057/805
1,6,12 Rel. Perf. (%)	3/0/-7
M.Cap. (INR b)	130.9
M.Cap. (USD b)	2.5

Valuation summary (INR b)

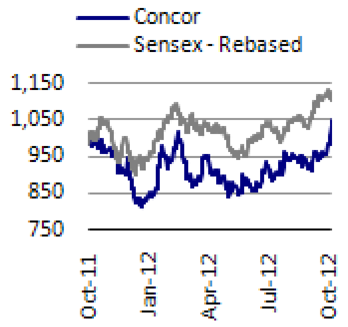
Y/E March	2012	2013E	2014E
Sales	41.0	44.5	49.9
EBITDA	10.2	11.3	13.0
NP	8.7	9.4	10.0
EPS (INR)	66.6	72.4	77.0
EPS Gr. (%)	-1.2	8.7	6.3
BV/Sh. (INR)	427.4	480.0	536.1
P/E (x)	14.0	12.9	12.1
P/BV (x)	2.2	1.9	1.7
EV/EBITDA (x)	10.6	10.1	8.8
EV/Sales (x)	2.7	2.6	2.3
RoE (%)	16.5	16.0	15.1
RoCE (%)	22.3	21.0	20.0

Prices as on 11 October 2012

Shareholding pattern (%)

As on	Jun-12	Mar-12	Jun-11
Promoter	63.09	63.09	63.09
Dom. Inst	7.09	7.31	7.24
Foreign	25.55	25.65	26.51
Others	4.28	3.96	3.16

Stock performance (1 year)



Investors are advised to refer through disclosures made at the end of the Research Report.

CMP: INR1,048 TP: INR1,250 Buy

On high ground

Key beneficiary of GoI's thrust on Indian Railways to correct freight modal mix / key reforms; competition unable to mimic success

- **Over FY13-17, CCRI would be a big beneficiary of (1) the government's focus on Indian Railways to correct freight transport modal mix, (2) infrastructure projects like the DFC and container port capacity expansions, and (3) key reforms such as GST and FDI in retail.**
- **Since 2006, ~15 new players have entered the container train operation (CTO) business. However, none of them have been able to mimic CCRI's success.**
- **By virtue of its legacy pan India strategic assets, CCRI enjoys an inimitable resource advantage over its peers, which is steadily increasing with time.**
- **While concerns such as high empties cost and muted near-term growth outlook remain, the long-term prospects are favorable for CCRI and outweigh near-term concerns. We initiate coverage with a Buy rating.**

Set to further expand its inimitable moat

By virtue of its legacy low cost pan India strategic assets, Container Corporation of India (CCRI) enjoys an inimitable resource advantage over its peers, which is steadily increasing with time. None of the 15-odd new players that have entered since the container train operation (CTO) industry was opened in FY06 have even achieved minimum economies of scale. CCRI is implementing preemptive capex of INR62b, which will not only further enhance its competitive advantage, but also allow it to position itself as a total logistics player.

Multiple medium-to-long-term triggers

CCRI is one of the best proxies to play multiple themes such as (1) infrastructure thrust, especially investments aimed at correcting the freight transport modal mix, (2) reforms – GST, FDI in Retail, and (3) ongoing structural trends – containerization, shift from road to rail. Successful execution of proposed infrastructure capex and key reforms could result in container rail traffic growing at 17.6% over FY13-18. As the undisputed leader, CCRI should benefit the most. We expect CCRI's volumes to grow at a CAGR of 17.1% over FY13-18.

Leveraging strategic JVs to provide total logistics services

CCRI's key strength is its ability to provide single window facility for multimodal logistics services. It is able to do so through its strategic JVs with its customers (GDL/Allcargo), port operators (APM/ DPI), road haulers (TCI), air cargo (HALCON/ GVK) and shipping lines (Maersk).

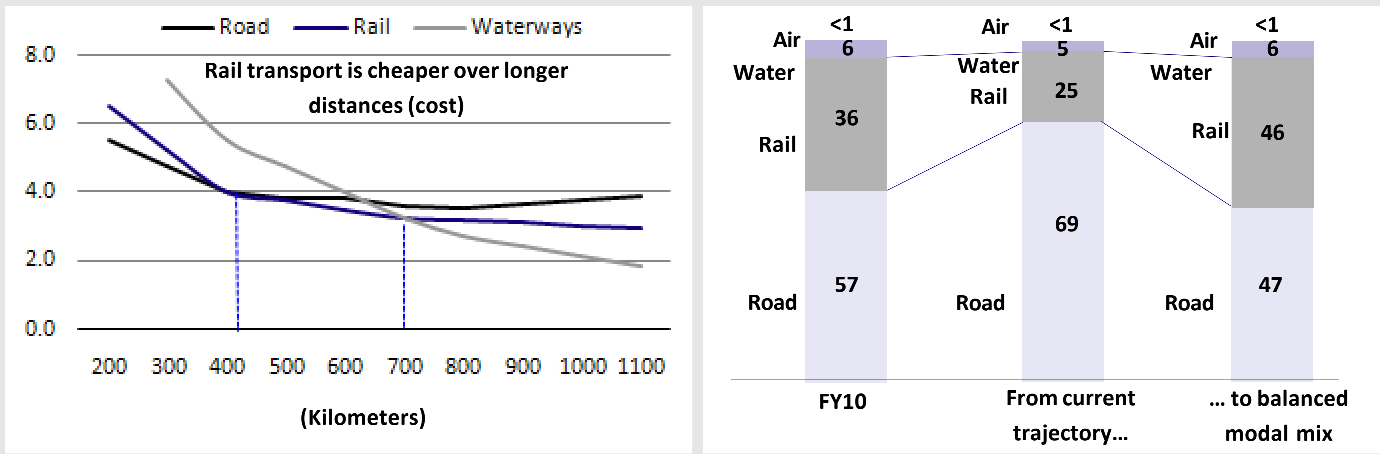
Initiating coverage with Buy

We believe CCRI's inimitable pan India network provides it with a significant moat, which coupled with positive long-term industry prospects, will allow it to enjoy a prolonged period of growth. We believe DCF is the best way to capture the intrinsic value of CCRI, given its stable cash flow, consistent payout ratio, robust operational RoCE and low reinvestment requirements. Initiate coverage with a **Buy** rating and a target price of INR1,250 (upside of 19.3%).

Story in charts Key beneficiary of thrust to correct freight modal mix

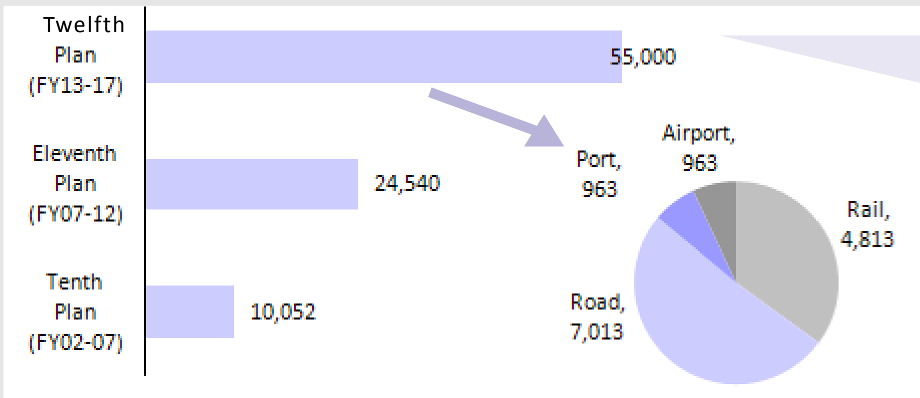
1. Unfavorable transport modal mix with high reliance on roadways hinders India's GDP growth by ~2%.
2. There is now a concentrated effort to correct this imbalance, which is reflected in the sharp increase in allocation for the transport sector in the successive five-year plans.
3. The share of container trade is steadily increasing, but is still significantly lower than world average
4. The share of Indian Railways in container traffic will increase sharply post the implementation of the Dedicated Freight Corridor.

1 Concentrated effort to correct India's modal mix (%)



Source: KPMG, McKinsey, IPA, MOSL

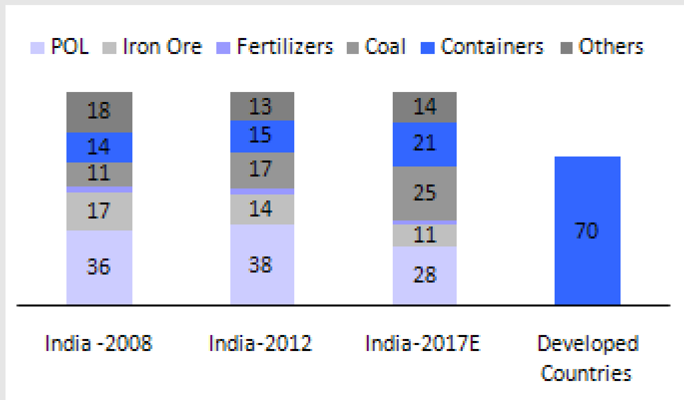
2 Proposed allocation for infrastructure/ transport sector in the 12th Plan to help correct freight modal mix



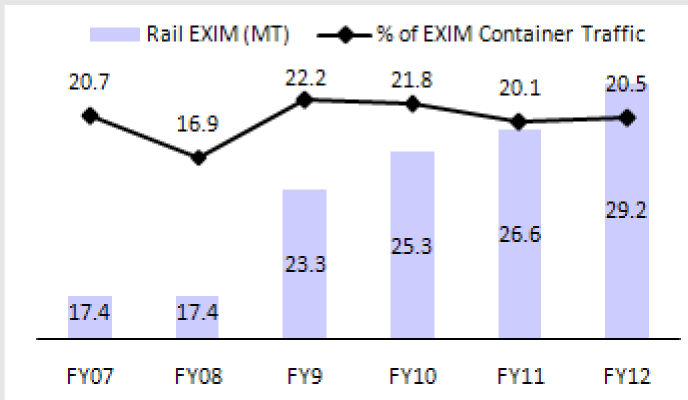
Planned expenditure on transport infrastructure is expected to be about INR13,750b. Assuming the split remains similar to the 11th Five-year Plan, it would amount to INR7,013b in roads, INR4,813b in railways, INR963b in ports and INR963b in airports

Source: Indian Planning Commission, KPMG

3 Share of container trade steadily increasing (%)



4 Share of Indian Railways in container traffic low



Source: IPA, IR, MOSL

Story in charts CCRI best placed to benefit from emerging opportunities

❺ Since 2006, ~15 new players have entered the CTO business. However, none of them have been able to mimic CCRI's success.

❻ Over FY13-17 CCRI is undertaking preemptive capex of ~INR62b over FY13-17, which is aimed at increasing its competitive advantage in the CTO industry and establishing itself as a total multimodal logistics player.

❼ Core RoCE would be under some pressure due to major preemptive capex, but should bottom FY15.

❽ Over FY02-12, its OCF and FCF have grown at a CAGR of 12% and 17%. Post the completion of its preemptive capex by FY16-17, we expect CCRI to enter a sweet spot of sustainable and robust FCF, which should lead to sharp improvement in its payout ratio.

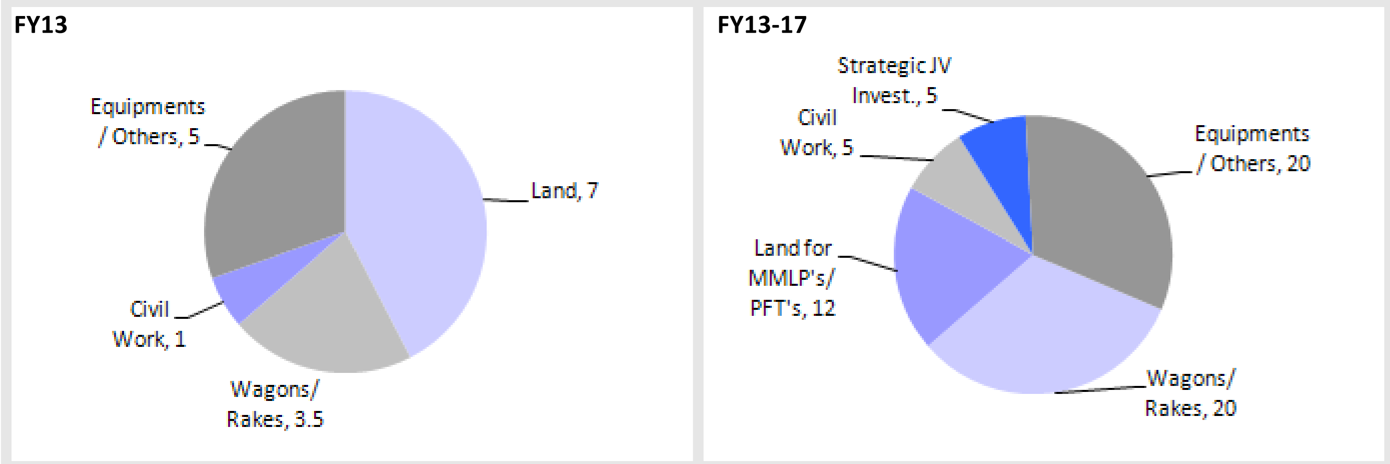
❺ Competitors unable to mimic CCRI's success

	Rakes (Nos.)	Terminals (Nos.)	Volumes (m TEU's) EXIM	Domestic	Total (m TEU's)	Value (INR b)	EBIT (INR b)	EBIT (%)	Capital Emp (INR b)	RoC (%)
Concor	253	63	2.1	0.5	2.6	41	9.3	22.9	28.6#	33
Gateway Rail*	24	3	0.2	0.0	0.2	5	0.3	7.7	6.9	5
Arshiya International**	20	1	-	0.1	0.1	3	0.4	16.4	6.8	7
Others	90	3	0.5	0.0	0.6	10	1.2	11.7	24.3	5
Total	**387**	**70**	**3**	**1**	**3**	**58**	**11.3**	**19.4**	**66.6**	**17**
Concor's Share (%)	**65**	**90**	**76**	**70**	**75**	**70**	**82**		**43**	

Net of cash, *Faridabad to start in 3QFY13, **Khurja to start in 3QFY13

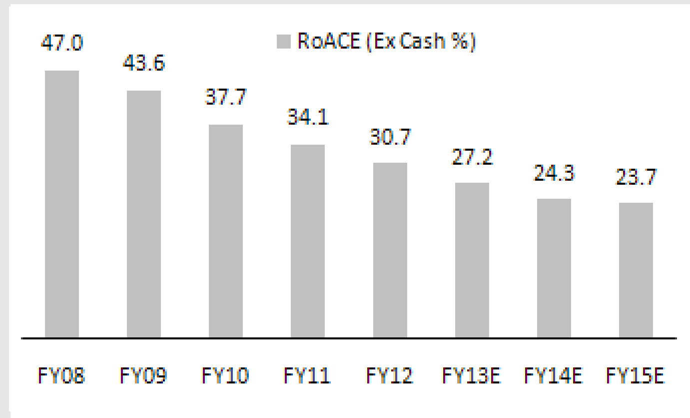
Source: Company, MOSL

❻ Preemptive capex plans for FY13 and FY13-17 to further increase its competitive moat (INR b)

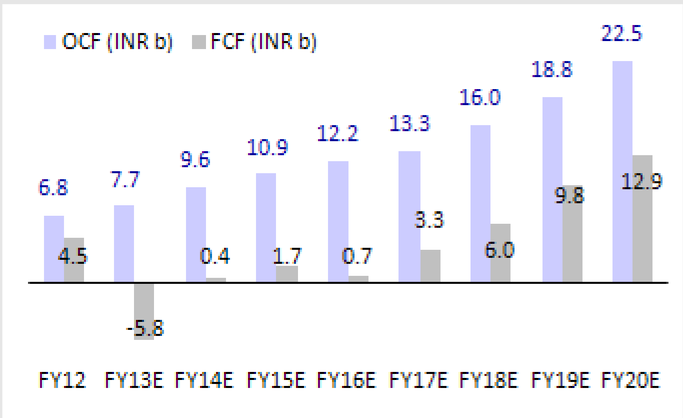


Source: Company, MOSL

❼ Core RoCE to bottom in FY15



❽ FCF to increase sharply from FY16



Source: Company, MOSL

Set to further expand its inimitable moat

Competitive intensity abating; emerging as a total logistics player

- **By virtue of its legacy low cost pan India strategic assets, CCRI enjoys an inimitable resource advantage over its peers, which is steadily increasing with time.**
- **None of the 15-odd new players that have entered since the container train operation (CTO) industry was opened in FY06 have even achieved minimum economies of scale.**
- **CCRI is implementing preemptive capex of INR62b, which will not only further enhance its competitive advantage, but also allow it to position itself as a total logistics player.**

Enjoys inimitable resource advantages

Incorporated in 1988 as a state-owned entity under the Ministry of Railways, CCRI had the benefit of obtaining Indian Railways' surplus land at strategic locations at very attractive long-term lease rates. Till 2006, when private operators were permitted and licensed to enter the container rail business, it was the monopoly player. CCRI's first mover advantage and legacy low cost strategic rail assets give it inimitable resource advantages over its peers, which are steadily increasing with time.

Key success factors for a container train operator (CTO)

- Extensive pan India asset network of rail terminals / container freight stations (CFSs) / inland container depots (ICDs) at strategic trade locations
- Relationships with major international shipping lines
- Ability to offer multi-modal services

Has the largest rail terminal network in India

The nature of the CTO business is such that higher volumes can be captured only if a player has access to a wide network to handle and consolidate freight

The nature of the CTO business is such that higher volumes can be captured only if a player has access to a wide network to handle and consolidate freight. CCRI has ~63 rail terminals at strategic locations across the country. Of these, 18 are pure EXIM terminals, 33 are combined terminals and 12 are pure domestic terminals. Rail terminal yards allow consolidation of cargo and enable implementation of the hub and spoke model. They also enable value addition and drive cost efficiencies.

Setting up a rail terminal is not only capex intensive but also involves the arduous task of (a) acquiring large contiguous land in close proximity to the railway track for inland container depots (ICDs) and near ports for container freight stations (CFSs), and (b) procuring regulatory approvals from the central government and linkages from Indian Railways. Even six years after 15 private CTOs entered the business, they have cumulatively set up only ~7 terminals.

Though its competitors have added ~134 rakes, ~55% of CCRI's rake capacity of ~253 rakes, they have failed to capture a proportionate share of volumes or industry profits. Thus, they have been unable to mimic CCRI's financial success. While there are two key terminals in the NCR region by GDL (at Faridabad) / Arshiya (at Khurja), that are slated to get operational by 3QFY13 and another 12-15 terminals at planning/ implementation stage by various other CTO players, none of the competitors are likely to have the network presence to pose any major challenge to CCRI's dominance in the medium term.

CTOs in India - a snapshot

Name	Group	Rakes	Rail Terminals	Exim (%)	Domestic (%)	Locations	Other Activities
Adani Logistics	Adani	6	2	33	67	Gurgaon/ Kishangarh	Ports, Container terminals, CTO, CFS
Concor	IR#	253	63	80	20	Pan India	Multi modal operator
CRRS*	DPW	8	-	100	-		Ports, Container terminal
CWC	PSU	-	-	100	-		Warehousing, CFS
ETA Star Group	Dubai	11	-	80	20		Shipping and port services
Gateway Rail Freight	GDL	21	3	84	16	Ludhiana/ Mumbai/ Faridabad	CFS, CTO
Hind Terminals	MSC	14	-	100	-		Shipping/ Freight Forwarding
India Infra.	APL	9	-	98	2		Container shipping, infra
SICAL Logistics	-	8	-	-	100		CFS, container terminal
Boxtrans (India)**	JM Baxi & Co.	12	-	10	90		Container terminal, CFS,
TransRail Logistics	-	2	-	-	100		Trucking
Arshiya Rail Infra.	-	20	1	5	95	Khurja	
KRIL	-	8	-	4	96		Fertilizers
Inlogistics	NOL, Singapore	15	-	-	-		
Total		**387**	**69**	**76**	**24**		
Concor Share (%)		**65**	**91**	**76**	**70**		

*Container RAIL Road Services; **Boxtrans (India) Logistics Services, #IR: Indian Railway

Source: Industry, MOSL

Favorably placed with respect to power centers in the industry

The importer or exporter typically appoints a shipping company (like Maersk, Mediterranean Shipping, etc) or a third-party logistics provider (3PL), which in turn engages ancillary service providers such as CTOs. The hypothetical cost break-up of a typical container movement between India and US is: ocean freight 58%, destination delivery 15%, surcharges and taxes 15%, and others ~12%. The CTO accounts for a small proportion of an exporter/importer's overall logistics costs.

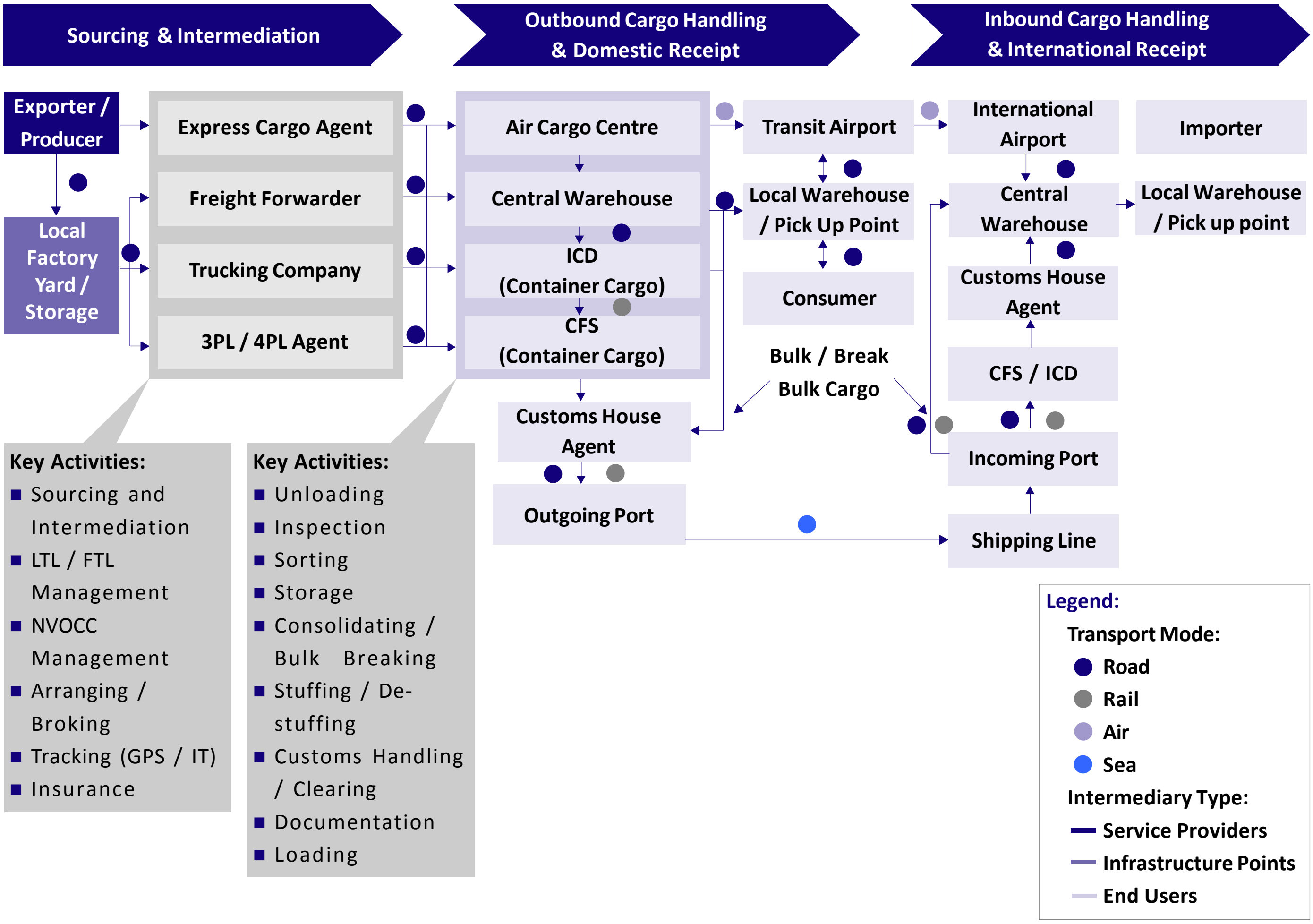
The three key power centers in the CTO value chain are: (1) international shipping lines/alliances, (2) Indian Railways, and (3) pan India rail terminal network owners. Unless, a player has some inimitable advantage with respect to one or more of these power centers, it is likely to get squeezed and fail to appropriate the value created on a sustained basis.

According to industry estimates, ~75% of the global cargo capacity is controlled by 12-15 international shipping lines/alliances

1. **International shipping lines/alliances:** According to industry estimates, ~75% of the global cargo capacity is controlled by 12-15 international shipping lines/ alliances. They use their power to squeeze counterparty prices, switch between rail/road, etc. Unless a CTO has a wide network and large scale, it will be unable to capture the EXIM business, which constitutes ~75% of the CTO market and is significantly more profitable.
2. **Indian Railways:** Indian Railways is the sole owner of the rail network and the sole haulage service provider in India. Since 2006, when private sector companies were allowed to enter the CTO industry, Indian Railways has increased haulage charges by ~23%. Haulage charges constitute 70-75% of a CTO's overall costs and unless a player has reasonable pricing power, it will not be in a position to pass through the frequent increases in haulage charges.

3. **Pan India rail terminal network owners:** A pan India rail terminal network owner like CCRI is able to (1) withstand the bargaining power of international shipping lines/alliances, and (2) pass through the increases in Indian Railways' haulage charges. This allows it to retain the value created on a sustainable basis and enjoy attractive returns on its capital employed.

Understanding the CTO value chain



Source: KPMG Analytics

In a position to play the game strategically

The MES (volume) needed to break even are high, given that the product is homogeneous and demand exogenous

Setting up rail terminals is capital intensive. The minimum economies of scale (volume) needed to break even are high, given that the product is homogeneous and demand exogenous. Success primarily depends on achieving economies of scale, operational excellence and low cost advantage (establishment cost for CCRI is just 2% of sales). The size of most sub-markets is limited and setting up a terminal close to an existing one divides the traffic. Since there is limited scope to create variance in service offerings, there is risk of price-based competition, which lowers RoCE and increases the gestation period. By virtue of its first mover and low cost resource advantages, CCRI is in a position to play the game strategically.

Competition unable to mimic CCRI's success

Since 2006, when private operators were permitted into the CTO business, ~15 new players have entered. These players were largely attracted by: (1) robust financials of the incumbent (PAT margin of 20%; operational RoCE of ~40%), (2) growth potential of the CTO industry, (3) confidence in their ability to create variance in service offerings, and (4) underestimation of minimum economies of scale.

Most of these players have been unable to mimic CCRI's success and have been forced to curtail their expansion plans. This is because of a confluence of factors such as: (1) shrinking EXIM business due to global economic turmoil, (2) poor economic returns on capital employed, (3) difficulty in land acquisition for setting up rail terminals, and (4) contraction of domestic market growth (trade shift to roadways) due to sharp ~22% increase in haulage charges by Indian Railways.

Comparative performance of key players

	Rakes (Nos.)	Terminals (Nos.)	Volumes (m TEU's) EXIM	Volumes (m TEU's) Domestic	Total (m TEU's)	Value (INR b)	EBIT (INR b)	EBIT (%)	Capital Emp (INR b)	RoC (%)
Concor	253	63	2.1	0.5	2.6	41	9.3	22.9	28.6#	33
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Net of cash, *Faridabad to start in 3QFY13, ** Khurja to start in 3QFY13 Source: Company, MOSL

Initially, most of these players were able to expand the market by entering new and under-serviced routes and concentrating on the neglected domestic market. Almost 10 of these players had initially tied up with CCRI to use its rail terminal network, with few non-compete clauses. Faced with intense competition, CCRI took several strategic measures to protect its market share: (a) reduction in tariffs for FEU (forty foot equivalent unit) containers, (b) reduction in rates on selected routes, (c) introduction of incentive schemes (volume discounts, bulk discounts, rebates, lower rates for moving empty containers, and longer free time for clearing loaded containers), and (d) strategic JVs to provide end-to-end logistics solutions. Since FY11, CCRI's market share has stabilized at ~75%.

Most of the new entrants are not making reasonable returns on capital employed and a few are highly leveraged

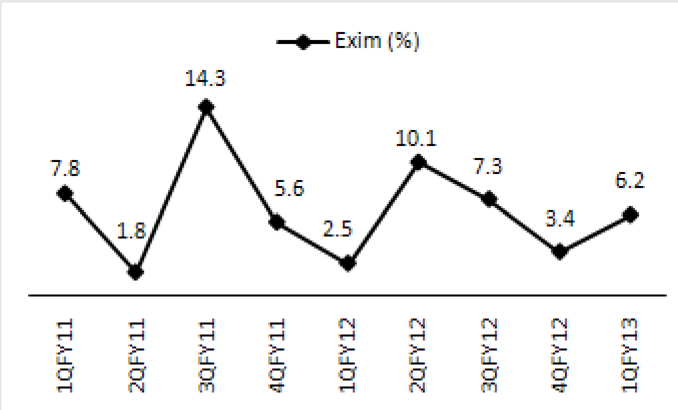
Most of the new entrants are not making reasonable returns on capital employed and a few are highly leveraged. Though one of the reasons for the low returns is the fact that investments are front loaded, nevertheless, since competitors still far away from reaching MES, the returns are likely to remain under pressure in the medium term. On the other hand, the financial situation of CCRI remains robust (net cash of INR30b + operating cash flow of INR10b). As such, the competition does not pose a major challenge to CCRI in the near term. While its competitors plan to cumulatively add ~18-20 rakes in FY13, CCRI alone intends to induct ~30 rakes during the year.

Volume comparison over FY07-12 (Industry v/s CCRI)

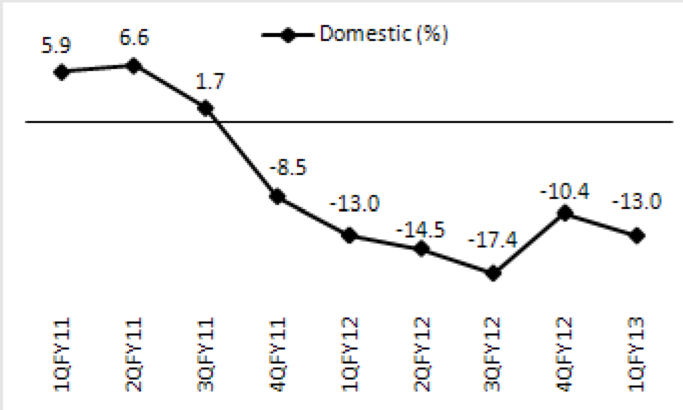
	FY07	FY08	FY9	FY10	FY11	FY12	CAGR (%) (FY07-12)	CAGR (FY10-12)
Indian Railways (m tons)								
EXIM	17.4	17.4	23.3	25.3	26.6	29.1	10.9	7.3
Domestic	2.9	3.7	7.1	9.6	11.0	9.2	26.0	-2.2
Total	**20.3**	**21.1**	**30.3**	**35.0**	**37.6**	**38.4**	**13.6**	**4.8**
% Change								
EXIM		-0.1	33.9	8.7	4.9	9.6		
Domestic		28.9	88.5	36.6	14.3	-16.4		
Total		4.1	43.6	15.2	**7.6**	**2.0**		
Concor (m TEU's)								
EXIM	1.7	1.9	1.9	1.9	2.0	2.1	4.5	6.5
Domestic	0.4	0.5	0.5	0.5	0.5	0.5	3.7	-6.8
Total	**2.1**	**2.5**	**2.3**	**2.4**	**2.6**	**2.6**	**4.3**	**3.7**
% Change								
EXIM		15.3	-6.2	1.5	7.2	5.8		
Domestic		20.7	-3.6	18.9	0.9	-13.9		
Total		**16.3**	**-5.7**	**4.9**	**5.8**	**1.6**		
Container Traffic by Ports	84	103	105	116	132	142	11.1	10.6
Railway Share of EXIM (%)	21	17	22	22	20	21		

Source: Company, MOSL, Indian Railways

CCRI EXIM growth has stabalized (YoY)



Domestic growth under pressure (YoY)



Source: Company, MOSL

Competitive intensity declining

CCRI's market share has declined from 85% in FY08 to ~74% in 1QFY13. However, only 2-3 players (like GDL, Arshiya and Boxtrans) have been able to achieve any credible scale and none of the new entrants have achieved minimum economies of scale. Also, the incremental loss of market share for CCRI (gap between growth rates for industry and CCRI) has reduced sharply over FY11-12. We expect this trend to sustain and CCRI's market share to become more resilient with competitive intensity abating.

The new entrants seem to have underestimated MES

- **New entrants seem to have underestimated minimum economies of scale:** The new entrants seem to have underestimated minimum economies of scale. Based on our industry interaction, we estimate the minimum economies of scale at ~45 rakes and 6-7 terminals spread across the country, with a high concentration in the North-West. This implies minimum investment of ~INR13b (terminals: INR1.2b-1.5b each and rakes: INR120m each).

- **CCI ruling brings increased clarity:** The recent ruling by Competition Commission of India (CCI) on a case between Arshiya International and CCRI has increased clarity on the rights of private players to use its rail infrastructure. Arshiya had moved the Commission alleging that Indian Railways and CCRI work as a group and indulge in exclusionary price discrimination and unfair trade practices. The Commission ruled that there was no abuse of dominant position by the two entities. However, it admonished Indian Railways for frequently changing its haulage charges.

Emerging as a total logistics player

A multi-modal (sea, rail, air, etc) service provider has an edge over a standalone operator

CCRI is implementing a preemptive capex of INR62b, which will not only further enhance its inimitable competitive advantage, but also allow it to position itself as a total logistics player. A multi-modal (sea, rail, air, etc) service provider has an edge over a standalone operator. CCRI aims to provide a unique value proposition by offering a multi-modal single window facility, coordinating with various agencies and services involved in the containerized cargo trade. These include customers, gateway port, railways, road haulers, consolidators, forwarders, custom house agents and shipping lines. To achieve a high degree of customization, CCRI plans to offer packages designed to provide the most cost effective combination.

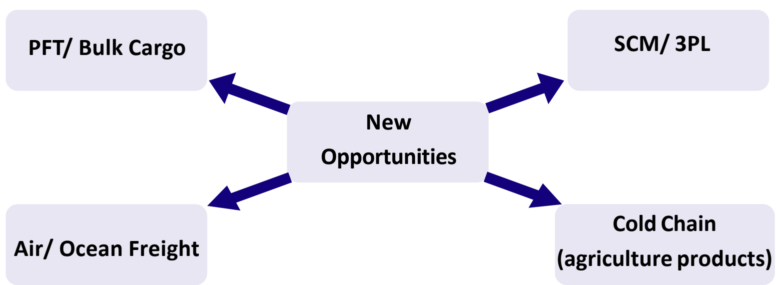
Planned MMLP's

- Khodiyar, Ahmedabad
- Khatuwas, Rajasthan
- Jharsuguda, Odisha
- Quila Raipur, Punjab
- Sriperumbuthur, Chennai
- Kalinganagar, Odisha
- Budhapank, Odisha
- Pantnagar & Haridwar, Uttarakhand
- Visakhapatnam, AP
- Krishnapatnam, AP
- Palanpur, Gujarat

Setting up 12 MMLPs across the proposed DFC alignment

CCRI is at an advanced stage to finalize INR7b-8b of land acquisitions in FY13 for setting up 12 multimodal logistics parks (MMLPs) at strategic points across the proposed Dedicated Freight Corridor (DFC) alignment. A multimodal logistics park (MMLP) is a centralized place for all types of transportation activities and value-added services required by exporters and local traders for shipment of goods. It also works as an interlinking point for all modes of transport at one specific place. MMLP's would open up several new business opportunities for CCRI in areas such as PFT/ SFTO, which is currently not being captured in our estimates, due to lack of details.

New growth opportunities for CCRI



Source: Company, MOSL

Industry background

Size of the industry

The size of India's rail container transport operation (CTO) industry is ~38m tons in volume terms and ~INR58b in value terms.

Industry segmentation

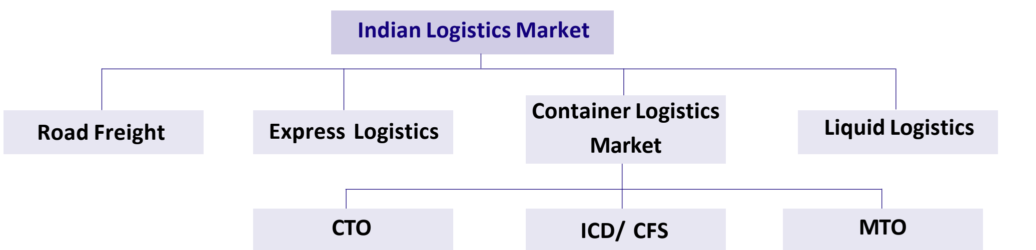
- The CTO industry can be divided into two segments – EXIM and domestic. The EXIM segment accounts for ~75% of the market while the domestic segment accounts for ~25% of the market.
- EBIT margins in the EXIM segment are high at 21-25% compared with 9-12% in the domestic segment. The key reasons for this variance are: (1) the EXIM segment enjoys higher terminal handling revenue due to customs, clearance, etc, (2) the EXIM trade has more balanced up and down loads, leading to lower empties cost, and (3) turnaround time for the domestic segment is high.
- The north western part of India accounts for ~70% of the EXIM trade, with JNPT alone handling ~41% of the container port traffic.
- The traffic-handling capacity of major ports has increased at a CAGR of 13.4% from 504.7m tons in FY07 to 947m tons in FY12. During this period, most major ports operated at a capacity of over 90%.

Liberalization of the industry

To carry out these services effectively, it was provided with land by Indian Railways at strategic locations where trade originates

- The domestic CTO industry was first liberalized in 1988, when Indian Railways carved out its CTO operations, leading to the creation of Container Corporation of India (CCRI). CCRI was established with the objective of facilitating primarily EXIM container movement and providing other logistics services like one-window customs clearing, ICD/CFS, etc. To carry out these services effectively, it was provided with land by Indian Railways at strategic locations where trade originates.
- On 5 January 2006, private sector companies were permitted to enter the industry, with a view to attract a greater share of container traffic for Indian Railways and to introduce competition in rail freight services. Indian Railways remains the sole owner of the rail network and the sole haulage service provider in India.
- Since 2006, ~15 new players (13 private and two state-owned) have entered the industry. To satisfy the requirement of access to terminals, 10 of the 15 new CTOs initially signed MoUs with CCRI.
- The new CTOs were able to compete with CCRI, a monopoly service provider for nearly 17 years, by offering value-added services. CCRI's market share declined from 85% in FY08 to ~75% in FY12.

Indian Logistics industry structure



Source: Industry/MOSL

Industry structure: Homogeneous oligopoly market

Homogeneous Oligopoly Market
Top 4 players control >80% of the market

Nature of demand
- Product homogenous
- Demand exogenous

Nature of firm interaction
- High interdependence amongst firms
- Oligopolies can retain abnormal profits in the long run, because barriers to entry prevent sideline firms from entering market to capture excess profits

Potential to differentiate
- Firms sell similar goods and services, which are close substitutes and, thus, price sensitive.
- Ability to create service variance limited
- Coordination in industry capacity so as to avoid gluts

Competitive analysis for the CTO industry

Willingness to Pay

Value received by customer

Price

Value received by firms in the industry

Cost

Value received by supplier

Opportunity Cost

Substitutes - High
- Alternatives to railways exist, e.g. road transport, particularly for shorter distances

Buyer Power - High
- Buyers consolidated
- Availability of possible substitutes increases buyer power
- Switching cost low for buyers

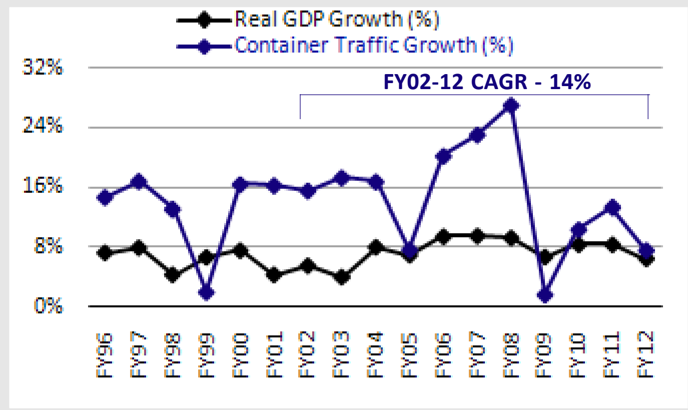
Entry Barriers - High
- Minimum economies of scale (MES) high
- High exit barriers due to high capex intensity
- Regulatory requirements
- Access to favorable locations

Supplier Power - Medium
- Multiple wagon manufacturers
- Many competing suppliers - products standardized

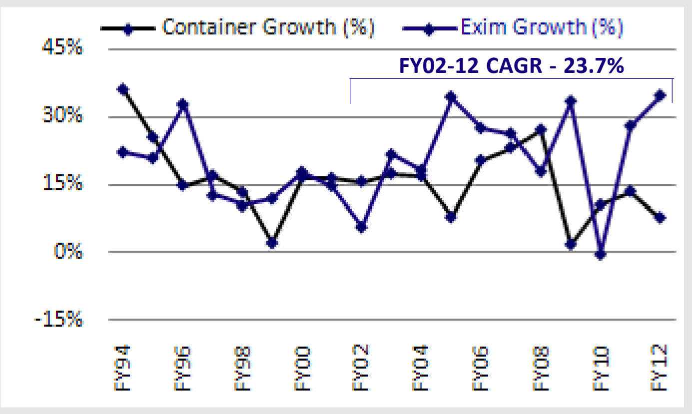
Rivalry amongst firms - High
Given homogenous product and exogenous demand, competition is price based. Firms need to rely on operational excellence and low cost advantage to distinguish themselves and retain high returns. If competitors are weak, the market could witness 'winner takes it all' kind of stuation.

Source: Company, MOSL

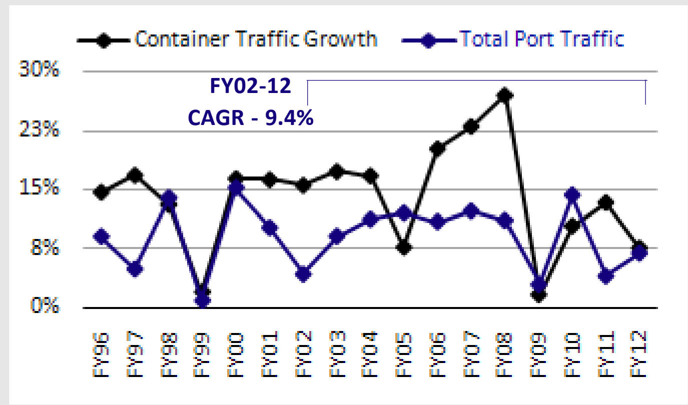
Container Traffic Growth with GDP



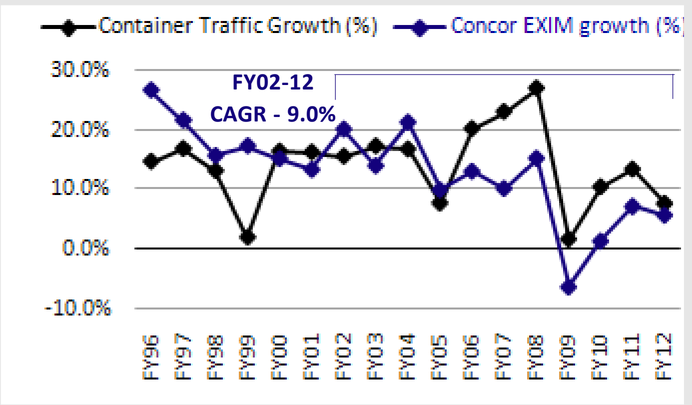
EXIM with Container Traffic Growth



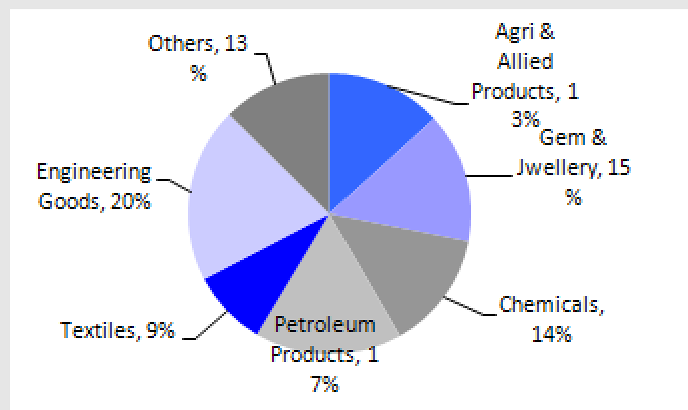
Container Traffic vs Port Traffic (%)



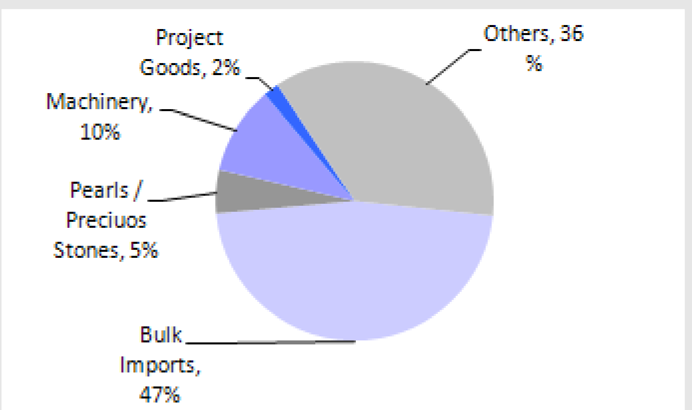
Container Traffic vs Concor Exim Traffic (%)



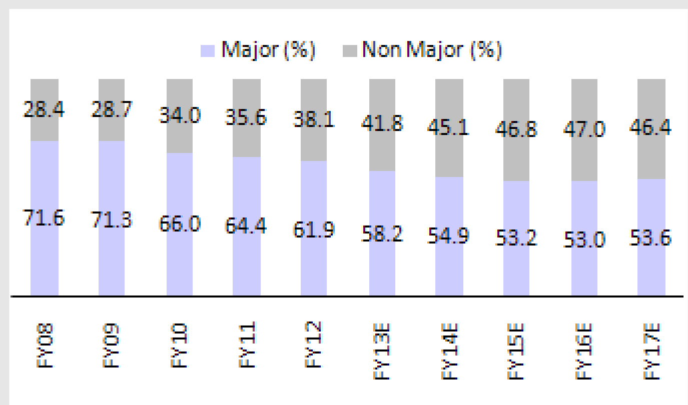
India Export Break-up



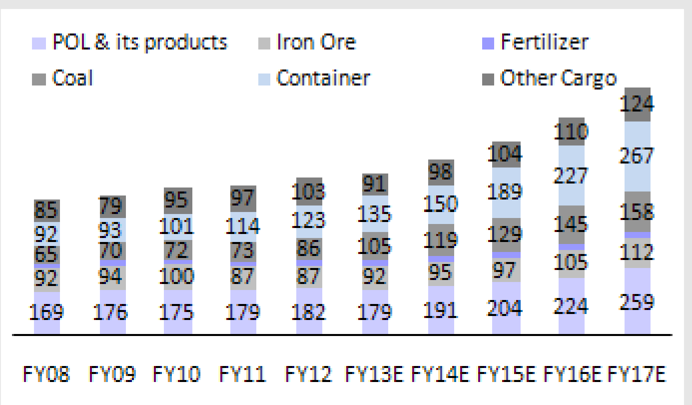
India Import Break-up



Major vs Non Major share (%)



Port traffic mix (MT)*



*Report of Working Group for Port Sector for the 12th five year plan, Ministry of Shipping

Source: IPA, Company, MOSL

Multiple medium-to-long-term triggers

Infrastructure thrust, reforms, structural trends

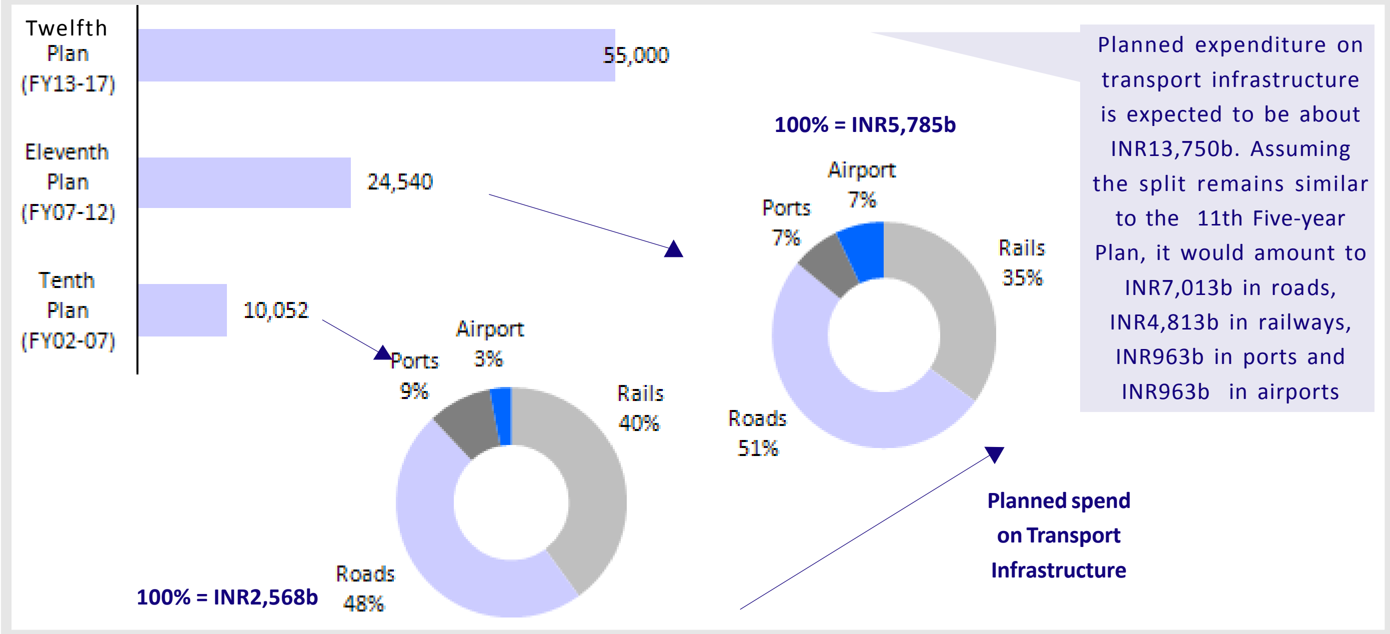
- **CCRI is one of the best proxies to play multiple themes such as (1) infrastructure thrust, especially investments aimed at correcting the freight transport modal mix, (2) reforms – GST, FDI in Retail, and (3) ongoing structural trends – containerization, shift from road to rail.**
- **Successful execution of proposed infrastructure capex plans and implementation of key reforms could result in container traffic increasing by 17.6% over FY13-18.**
- **Given that CCRI is the undisputed leader in the industry, it should benefit the most. We expect CCRI's volumes to grow at a CAGR of 17.1% over FY13-18.**

Infrastructure thrust; sharp increase in allocation to transport

It is estimated that India's transportation and logistics bottlenecks hinder its GDP growth by ~2%

It is estimated that India's transportation and logistics bottlenecks hinder its GDP growth by ~2%. This is primarily due to the fragmented nature of the industry, infrastructure constraints across transport modes, and an unfavorable modal mix, with very high reliance on roadways. There is now a concentrated effort to correct this imbalance, which is reflected in the sharp increase in allocation for the transport sector in the successive five-year plans.

Proposed allocation for infrastructure/ transport sector in the 12th Plan



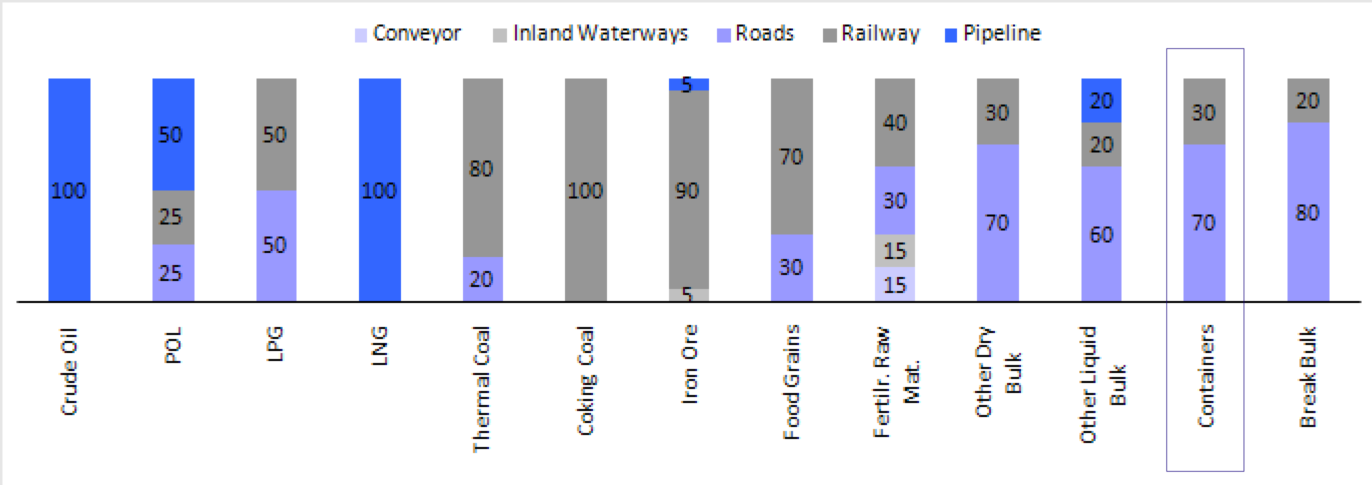
Source: Indian Planning Commission, KPMG

Currently, traffic flows where rail transport is structurally cheaper than road transport account for around two-thirds of the total traffic

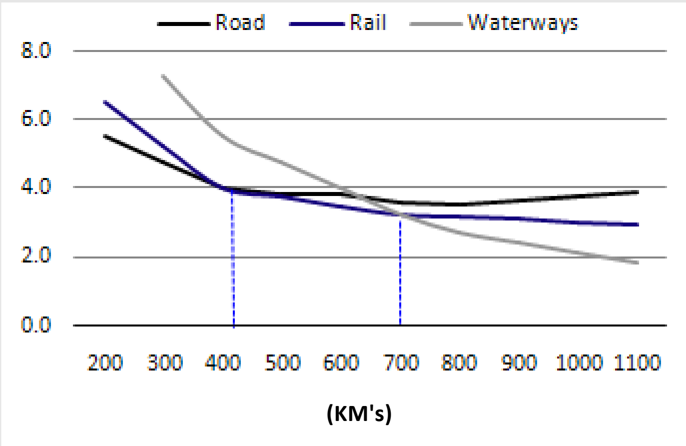
Indian Railways' Vision 2020 aims to correct the modal mix

The route network of Indian Railways has expanded very slowly. In 1947, Indian Railways inherited 53,996km of rail network, which stood at ~64,099km, an increase of 10,000km over 62 years (FY10). Indian Railways' Vision 2020 proposes to add 25,000km of new lines by 2020, supported by government funding and increase in PPP. While road transport is the least expensive for distances up to 400km, rail and waterways are cheaper for longer distances. Currently, traffic flows where rail transport is structurally cheaper than road transport account for around two-thirds of the total traffic.

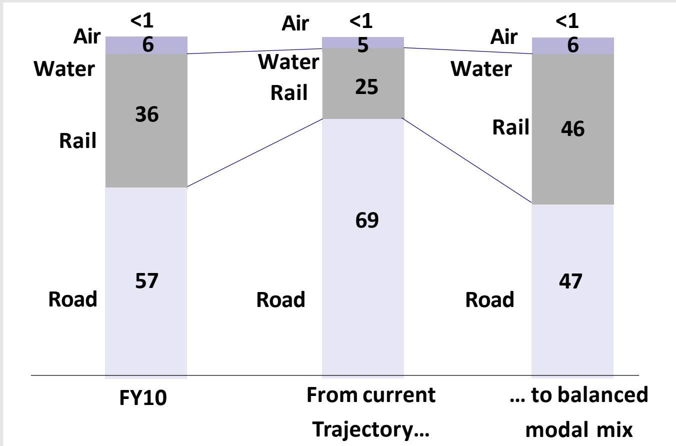
Category-wise modal share (%)



Rail transport is cheaper over longer distances (cost)



Concentrated effort to correct India's modal mix (%)



Source: KPMG, McKinsey, IPA, MOSL

The Dedicated Freight Corridor (DFC) is one of the largest infrastructure projects undertaken by the Indian Railways since independence

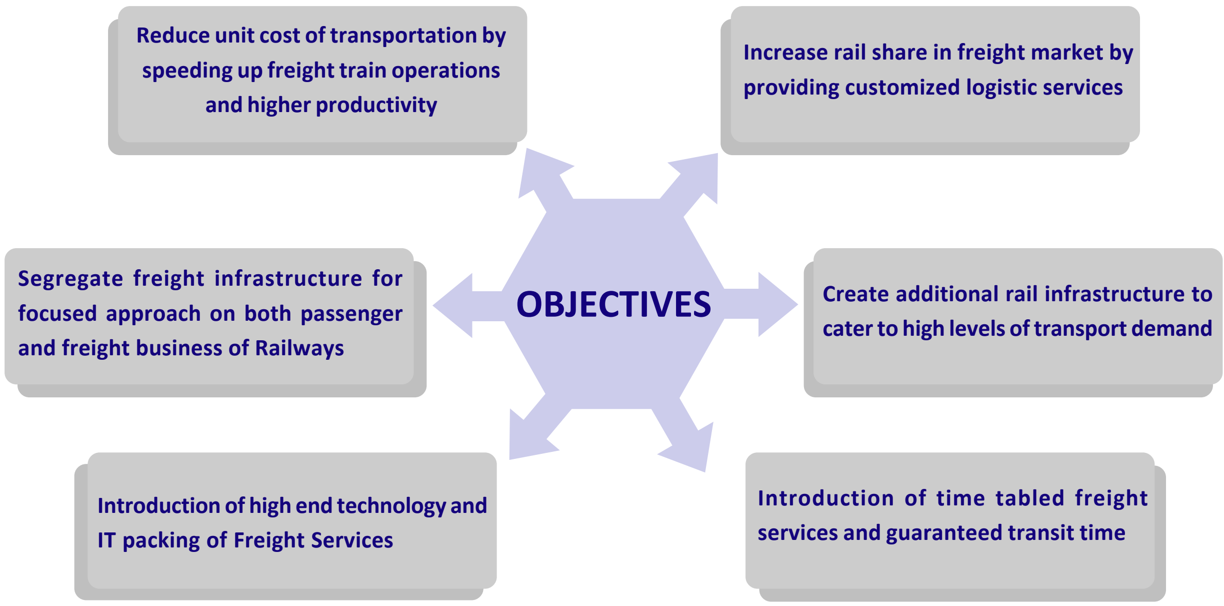
■ Dedicated Freight Corridor (DFC) project to transform CTO

The Dedicated Freight Corridor (DFC) is one of the largest infrastructure projects undertaken by the Indian Railways since independence. Dedicated Freight Corridor Corporation of India (DFCCIL), a special purpose vehicle (SPV) set up under the administrative control of the Ministry of Railways, is constructing two corridors spanning ~3,300km in the first phase – the Western DFC and the Eastern DFC. The Eastern DFC, starting from Ludhiana in Punjab will pass through the states of Haryana, Uttar Pradesh, Bihar, and terminate at Dankuni in West Bengal. The Western DFC will traverse the distance from Dadri to Mumbai, passing through the states of Delhi, Haryana, Rajasthan, Gujarat and Maharashtra.

Opening up of CTO industry in 2006 alone had led to industry witnessing a 2.5x/ 1.5x/ 1.6x volume growth in the EXIM/ domestic/ total segments, over FY08-10.

The Indian Railways' quadrilateral linking the four metropolitan cities of Delhi, Mumbai, Chennai and Kolkata, commonly known as the Golden Quadrilateral, and its two diagonals (Delhi-Chennai and Mumbai-Howrah), adding up to a total route length of 10,122km carries more than 55% of Indian Railways' revenue-earning freight traffic. The existing trunk routes of Howrah-Delhi on the Eastern Corridor and Mumbai-Delhi on the Western Corridor are highly saturated, line capacity utilization varying between 115% and 150%. The surging power needs requiring heavy coal movement, booming infrastructure construction and growing international trade has led to the conception of the DFCs.

Objectives of DFC project



Source: DFCCIL

DFCCIL envisages long haul operations, with trailing loads increasing from ~4,000 tons to ~15,000 tons, carrying capacity increasing from 90 containers to 400 (by double stacking), maximum speed from 75/kmph to 100/kmph and station spacing 7-10Km to 40Km. CTOs will be able to lower cost through increased efficiencies (higher asset turnover and faster turnaround time) and become a reliable/preferred mode for longer haul freight movement.

DFCs will increase efficiencies and lower cost for CTOs

Will increase asset turnover and lower turnaround time sharply

Feature	Existing	On DFC
Moving Dimensions		
Height	4.265 m	7.1 m for Western DFC 5.1 m for Eastern DFC
Width	3200 mm	3660 mm
Container Stack	Single Stack	Double Stack
Train length	700 m	1500 m
Train Load	4,000 Ton	15,000 Ton

Source: DFCCIL

Update on DFC progress

We expect substantial part of the project awards to be completed in FY13/14. The Western DFC is likely to be commissioned by FY16/17. We believe that the DFC project will provide a 'multiplier effect' for India in many ways.

Phase-wise project details

Western Corridor	Year	
Phase I	Rewari- Vadodara (920 Kms)	2009-2016
Phase II	Vadodara- JNPT(430Kms)	2010-2017
Phase III	Rewari – Dadri(140 Kms)	2010-2017
Eastern Corridor		
Phase I-APL1	Khurja - Kanpur (343 Kms)	2009-2016
Phase II-APL2	Kanpur - Mughalsarai (390 Kms)	2010-2016
Phase III-APL3	Khurja-Ludhiana (397 Kms)	2011-2016
Phase IV (Funding through PPP)	Dankuni - Sonnagar (550 Kms)	2011-2016
Phase Ia*	Sonnagar - Mugal Sarai (125 Kms)	2010-2016

*Funding by Ministry of Railways Source: Company, MOSL

Project cost and funding: The total project cost is INR930b, including land cost of INR70b. The net requirement for the DFC project is INR880b. Of this, INR100b of Sonnagar-Dankuni (Eastern DFC) will be funded on PPP basis – IDC: INR60b; Bridges: INR60b. Thus, DFCCIL requires funding of INR680b – debt of INR420b (JICA: INR280b and WB: INR140b) and equity of INR260b.

Project awards to commence in FY13: The final bids for project awards for the Western DFC of 300-350km each are expected to be awarded by October 2012, while work is expected to commence from 1QCY13. The signaling/electrical contract is likely to be taken up for bidding by mid-FY14. For the Eastern DFC, bidding for 345km began in 2QFY13, with ~11 bidders being shortlisted.

Issues in terms of land acquisition in Mumbai/ Thane and 10-12 villages in Gujarat have also been sorted out during 2QFY13

Land acquisition: The Western DFC is being contemplated in three phases: Vadodara to Rewari (920km), JNPT to Vadodara (430km), and Rewari to Dadri (140km). While land acquisition for the Vadodara-Rewari section has been completed to the extent of 83%, issues in terms of land acquisition in Mumbai/Thane and 10-12 villages in Gujarat have also been sorted out during 2QFY13.

Western Dedicated Freight Corridor: Land acquisition status

	Total Scope		20A		20E		20F		Progress	Compensation (INR M)	
	kms	Area (Ha)	kms	Area (Ha)	kms	Area (Ha)	kms	Area (Ha)	(%)	Award	Disbursed
Jaipur	274	1,064	274	1,064	274	1,064	274	1,064	100.0	1,960	1,370
Ajmer	359	958	359	958	339	924	339	924	96.5	1,450	770
Ahmedabad	196	907	144	721	80	459	78	411	45.3	820	130
Vadodara	75	558	75	552	75	412	73	386	69.2	3,550	3,280
Dadri	27	122	27	122	23	82	-	-	-	-	-
Total Phase 1	**930**	**3,608**	**930**	**3,608**	**826**	**3,205**	**776**	**2,998**	**83.1**	**7,780**	**5,550**
Mumbai	202	460	202	460	59	77	-	-	-	-	-
Surat	118	239	118	239	95	148	4	3	1.3	73	44
Vadodara	108	612	108	612	108	446	108	362	59.2	3,590	3,400
Dadri	141	942	141	942	52	307	-	-	-	-	-
Total Phase 2	**569**	**2,252**	**569**	**2252**	**464**	**1718**	**143**	**782**	**34.7**	**3,663**	**3,444**
Grand Total	**1,499**	**5,860**	**1,499**	**5,860**	**1,290**	**4,923**	**919**	**3,780**	**64.5**	**22,886**	**1,370**

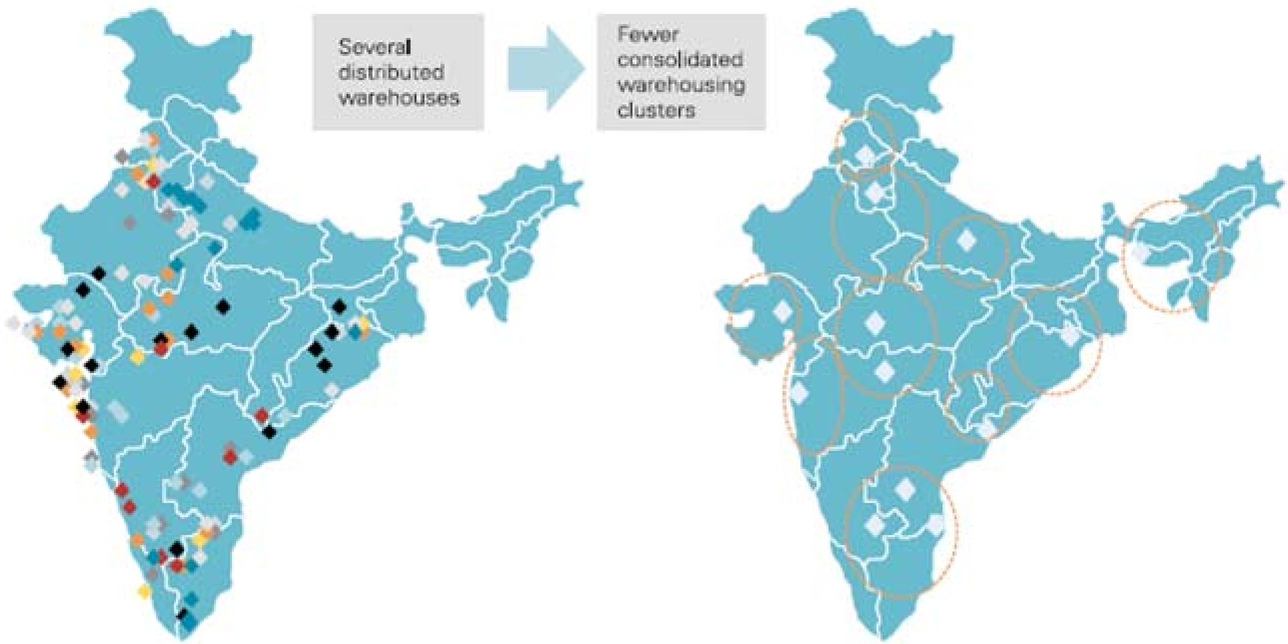
Key reforms that could revolutionize the logistics sector

The CTO industry could get a major fillip from few key reforms such as (1) the implementation of GST, and (2) FDI in multi-brand retail. CCRI has strategically positioned itself to capitalize on these opportunites once they become available.

As such, transport requirement would shift from shorter haul 'warehouse to warehouse' to longer haul 'factory to factory', giving a boost to players like CCRI

Implementation of GST: The implementation of the Goods and Services Tax (GST) could be a significant positive for the logistics industry, particularly for multimodal players like CCRI. Currently, due to multiple and differential state-level taxes, most companies are forced to set up multiple warehouses across the country, to minimize inter-state movement and associated taxes. Implementation of the GST, which aims at leveling these taxes, will obviate the need to have multiple warehouses. Consequently, companies would be able to function effectively with fewer strategically located warehouses across the country and adopt the hub and spoke model to reduce inventory requirements and lower carrying cost. As such, transport requirement would shift from shorter haul 'warehouse to warehouse' to longer haul 'factory to factory', giving a boost to players like CCRI that can effectively handle the entire chain.

GST impact: Factory to factory transfer



Source: KPMG Analysis

FDI in multi-brand retail: CCRI has been setting up cold chains to provide transportation of perishable products from the source to the end user. Currently, only 10-15% of the players in the cold storage business have such capabilities, primarily due to absence of reefer container linkages and high power cost. CCRI has big plans to tap the agriculture business opportunity through this route, for which it has constituted a 100% subsidiary, Fresh and Healthy Enterprises. Approval of FDI in retail is likely to attract established MNC giants, who could potentially become captive customers for CCRI.

Ongoing structural trends that portend well for CTOs

Ongoing structural trends towards increasing containerization and rail transport of containers bode well for CTOs in general and CCRI in particular.

■ Structural move towards containerization

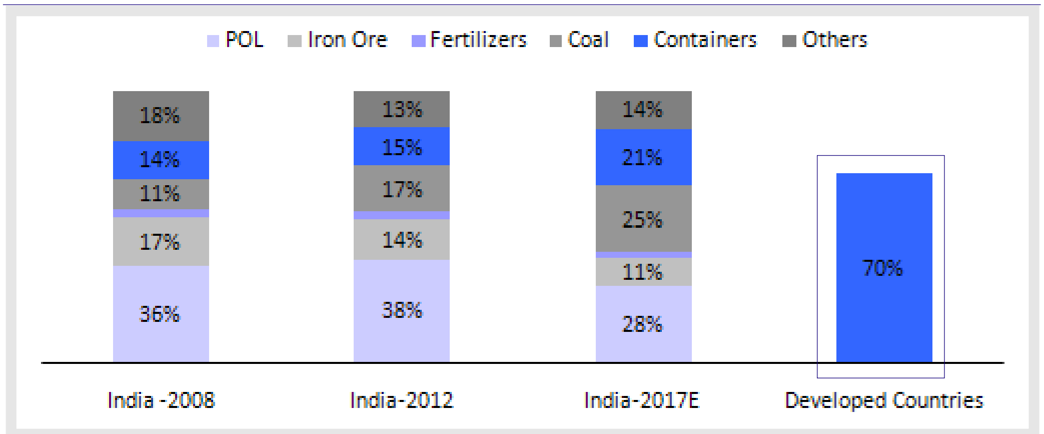
Currently, the share of container traffic in India is very low (~15% of total traffic) compared to developed countries (~70% of traffic). Nonetheless, the share of container freight in India has been steadily increasing over the years (10% in 2000 to ~15% in FY12). Container traffic in India has grown at a CAGR of ~14.3% over FY02-12, compared to port traffic growth of ~9.4%.-Growth has been boosted by increasing contribution of non-major ports from 28.4% in FY08 to 38% in FY12. Maritime Agenda 2020 estimates that container trade in India would grow at a CAGR of 15**%** over FY10-20.

The need to aggregate cargo, which is currently moving piecemeal in bulk form to ports for containerization

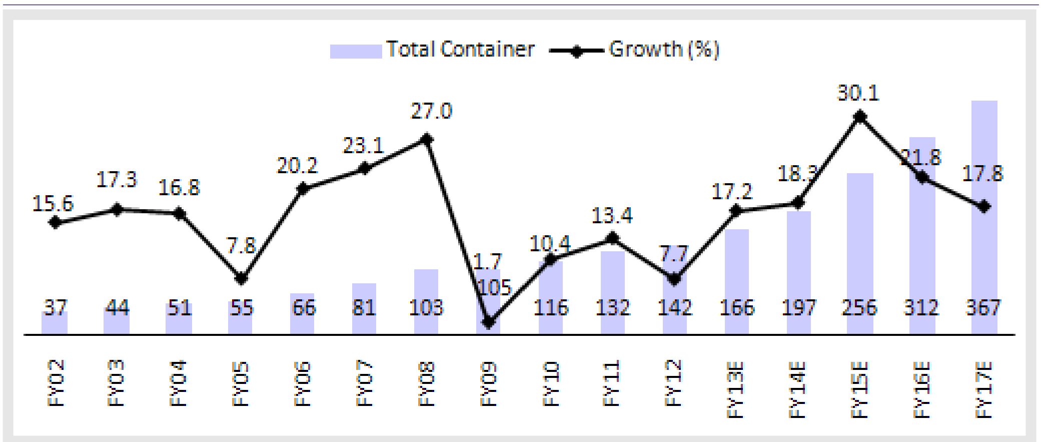
The structural trend towards increased containerization in India is driven by:

- The need to aggregate cargo, which is currently moving piecemeal in bulk form to ports for containerization, aided by the development of new rail freight terminals/ ICDs/PFTs and logistics hubs, which would make it amenable to rail movement.
- Economic development, leading to a shift in trade from raw materials to finished goods, requiring containerization.
- Removal of current infrastructure bottlenecks (ports in particular) and development of other modes of transport (coastal shipping, etc).

Share of container trade steadily increasing



Growth of container freight



Source: IPA/MOSL

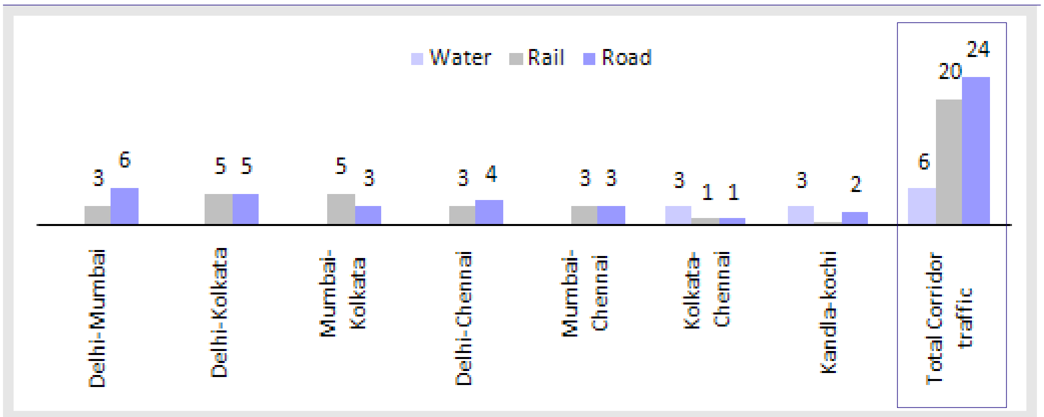
The share of rail transport in overall freight movement has been declining steadily from ~89% in FY51 to 53% in FY87 to ~28% currently

■ Move towards 'rail transport of containers'

The share of rail transport in overall freight movement has been declining steadily from ~89% in FY51 to 53% in FY87 to ~28% currently. There has been little investment in track infrastructure since independence. While route kilometers have grown at a CAGR of just 3%, freight and passenger traffic has grown at a CAGR of ~52%. This has led to most high density corridors becoming oversaturated, negatively impacting CTO industry demand. Top seven key routes account for ~50% of the freight traffic in India. Increasing share of non-major ports in container traffic and infrastructure development around these ports should aid development of new routes and result in lower pressure on existing high density traffic routes.

Top seven key routes account for ~50% of the freight traffic in India

Key routes are congested, negatively impacting rail transport (%)



Source: Industry, MOSL

The top-4 ports in India currently account for ~87% of container demand

CCRI key player across key EXIM markets

CCRI is the key player across key EXIM markets, with a lion's share of the container rail traffic across the four major ports of India. The top-4 ports in India currently account for ~87% of container demand. JNPT alone accounts for 41% of the container trade in India. New private ports such as Mundra and Pipavav are growing faster than the major ports and have been steadily increasing their market share. CCRI has been following the shift in trade and has steadily been increasing operations around these new ports. Consequently, the share of volumes from JNPT has been steadily declining for CCRI (~75% in FY08 to ~55% in 1QFY13).

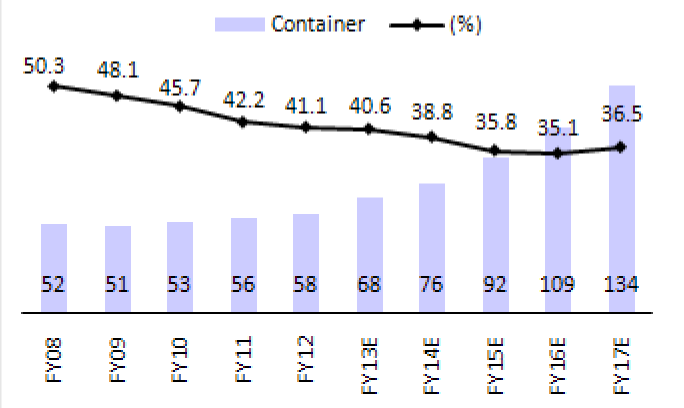
Four ports account for bulk of container rail traffic

	% container handling as % of total capacity	% of total container industry trade	% traffic transported by Rail	Total Rails deployed /Day	Trains deployed by Concor	Export/ Import Mix
JNPT	90	42	25-30	~20*	12	50% /50%
Chennai	26	22	5	~2	~2	49% /51%
Mundra	28	11	20-25	~10	5	54% / 46%
Pipavav	70	12	30-35	~9	4	50% /50%
Total		**87**				

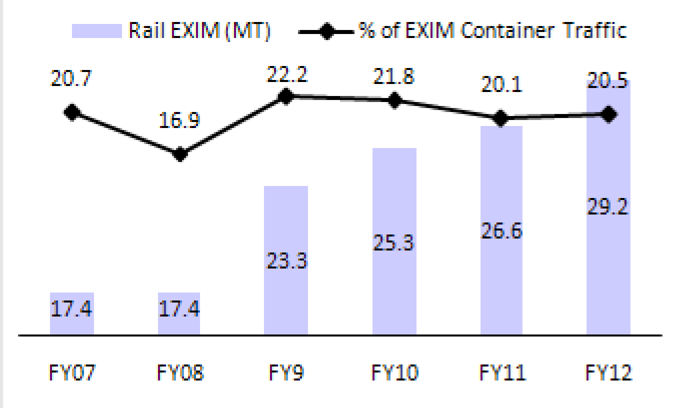
*27 trains possible

Source: Company, MOSL

Share of JNPT in overall container traffic*



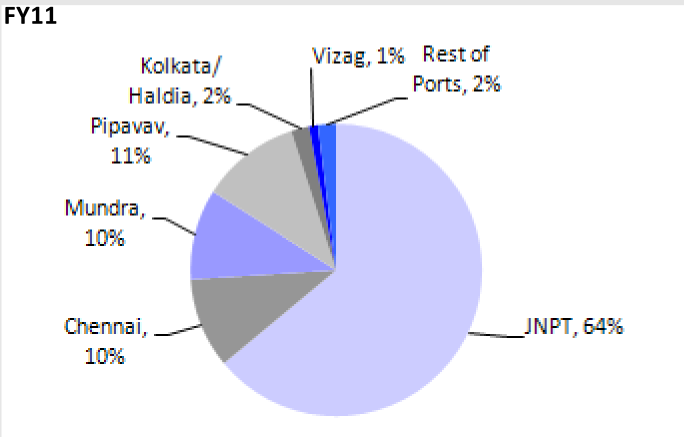
Share of Indian Railways in container traffic

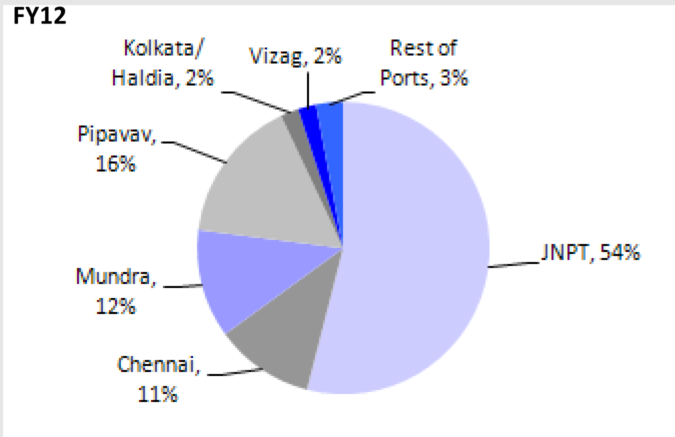


*Report of Working Group for Port Sector for the 12th five year plan, Ministry of Shipping

Source: IPA, IR, MOSL

CCRI's EXIM distribution port-wise





Source: Company

Trade re-alignment and pressure on domestic rail segment has resulted in increasing empties cost for CCRI, which stood at INR1.8b in FY12, empties cost in 1QFY13 stood at INR420m

Changes in haulage charges by Indian Railways for key categories (INR/ TEU for 1,000Km)

	Oct-10	Dec-10	Mar-11	% Change	Apr-12	% Change
Notified List						
Cement Bricks and stones	23,174	23,973	23,547	-1.8	28,257	20.0
Pig Iron and sponge iron			15,240	-	30,138	97.8
Iron and steel	27,809	28,757	28,257	-1.7	33,907	20.0
POL	30,897	31,962	31,395	-1.8	37,674	20.0
Fly Ash		19,179	18,837	-1.8	22,603	20.0
Fire Bricks/ rods		20,778	20,409	-1.8	24,488	20.0
Coal/ Bitumen		27,168	26,685	-1.8	32,023	20.0
Kerosene oil		287	28,257	-	33,907	20.0
Others outside notified list						
Sugar/ Oil cakes		17,580	18,837	7.2	15,240	-19.1
Foodgrains		20,778	19,623	-5.6	15,240	-22.3

Source: Industry, Company, MOSL

Leveraging strategic JVs to provide total logistics services

Gaining an edge over standalone operators

- **CCRI's key strength is its ability to provide single window facility for multimodal logistics services, by coordinating with various agencies and services involved in the containerized cargo trade.**
- **It is able to do so through its strategic JVs with its customers (GDL/Allcargo), port operators (APM), road haulers (TCI), air cargo service providers (HALCON) and shipping lines (Maersk).**
- **CCRI also has a fully-owned subsidiary engaged in cold chain management, through which it aims to provide complete cold chain logistics solutions to organized retailers.**

Strategic JVs across the CTO chain

CCRI has ~12 strategic JVs with leading MNCs like Maersk, DPI, APM, etc, and local players like Gateway Rail, Allcargo, etc, across the value chain – from ports to terminals. It leverages these JVs to provide total logistics services. The company could unlock significant value from these ventures in the future.

CCRI has several strategic JVs with leading MNC and local players (INR m)

Particulars	Type	(%) Holding	Assets	Liabilities	PBT
Star Track Terminals	JV with Maersk India for CFS at Dadri, U.P.	49	114	25	9
#Albatross Inland Ports	JV with Transworld Group for CFS at Dadri, U.P.	49	233	116	47
Gateway Terminals India	JV with APM Terminals for third berth at JN Port, Mumbai	26	2,755	1,724	85
CMA-CGM Logistics Park*	JV with Ameya Logistics for CFS at Dadri, UP	49	85	17	17
Himalayan Terminals	JV with Nepalese Ent & Transworld for management and operation of rail CTO at Birgunj (Nepal)	40	25	7	3
HALCON	A arrangement with Hindustan Aeronautics for operating air cargo complex & ICD at Ozar airport, Nasik	50	33	2	-1
India Gateway Terminal	JV with Dubai Port Int. (DPI) for setting up and managing Container Terminals at Cochin	15	1,476	1,262	-170
Hind CONCOR Terminals*	JV with Hind Terminals for CFS at Dadri, U.P.	49	-	-	-
Infinite Logistics Solutions	JV with TCI Ltd.to establish logistics freight terminals and provide integrated logistics services	49	7	1	-2
Container Gateway	JV with Gateway Rail for operations of existing rail/ road container terminal at Garhi Harsaru, Gurgaon	49	1	0	-
Allcargo Logistics Park	JV with Allcargo Global for setting up and running CFS at Dadri	49	112	83	-8
CONYK Cartrac	JV with NYK Auto Logistics for setting up & dealing in CBU vehicle logistics	50	18	1	-1
Total			**4,858**	**3,239**	**2,727**

*Dadri

Source: Company, MOSL

Targeting the huge growth opportunity in cold chain industry

CCRI has a 100% subsidiary, Fresh and Healthy Enterprises (FHEL), which is engaged in cold chain management. It aims to provide complete cold chain logistics solutions to organized retailers. Its clients include Walmart, More, Big Bazzar, Mother Dairy, Big Apple, etc. In FY12, FHEL procured 6,894m tons of apples, most of which were sold in markets like Delhi, Chennai, Bangalore and Maharashtra. 80-90% of its off-season sales were at fixed rates.

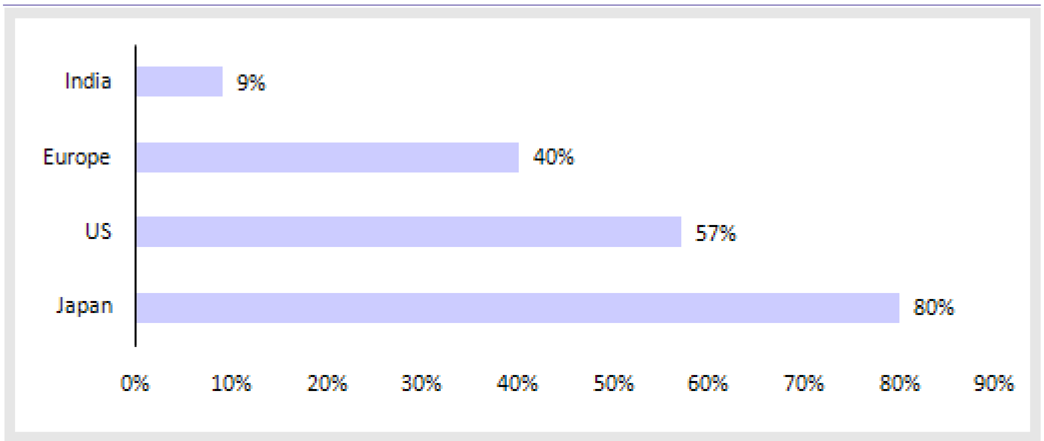
Almost 35% of the fruits and vegetables produced perish due to lack of cold chain and distribution infrastructure

Cold chain management in India offers huge growth opportunity. The fruit and vegetable business in India is almost entirely in the unorganized sector and is worth an estimated ~INR200b. Trade is carried on primarily on credit. Almost 35% of the fruits and vegetables produced perish due to lack of cold chain and distribution infrastructure. Farm sizes are small and farmers sell their produce at nearby markets/ mandis. Almost the entire chain is currently composed of unorganized players. The introduction of GST will lead to increased requirement of total logistics solutions such as 3PL/4PL, inventory /warehouse management, contract logistics services and knowledge support services.

3PL at a nascent stage in India

The role of third-party logistics service (3PL) providers is at an early stage of evolution in India. Unlike their global counterparts, Indian customers are yet to witness end-to-end management of transport & logistics services by 3PLs. Growth of 3PLs will increase demand for multimodal players like CCRI.

Penetration of 3PL in key countries



Source: KPMG, MOSL

Financials robust despite higher competition

Core RoCE at ~30%; to bottom out at ~22.7% in FY16

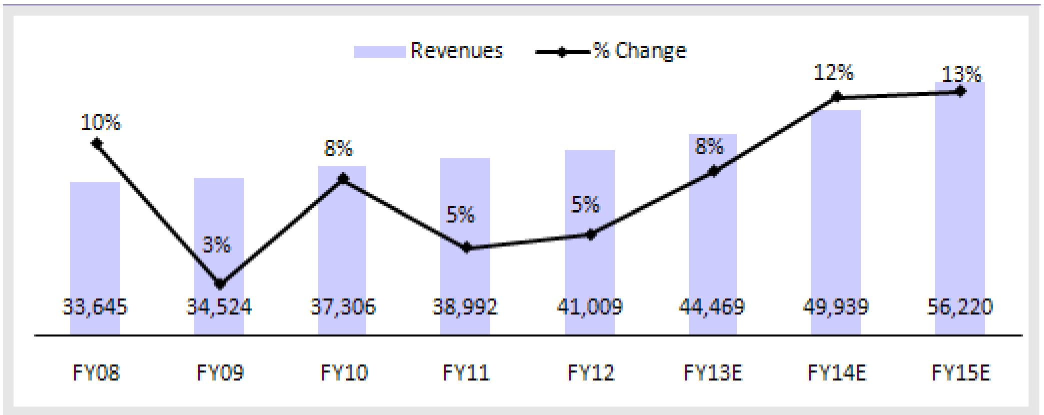
- **We expect CCRI's revenue to grow at a CAGR of 11% and PAT to grow at a CAGR of ~8% over FY12-15. Net margin should sustain at ~20%.**
- **RoE is likely to remain subdued in the near term due to its high preemptive capex of INR60b. We expect RoE to decline from 16.5% in FY12 to 14.9% in FY15.**
- **We expect core RoCE, which is currently ~30%, to remain under pressure over the next ~4 years and bottom at ~22.7% in FY16.**

Expect revenue CAGR of ~11% over FY12-15

We expect CCRI's revenue to grow at a CAGR of 11% over FY12-15 from INR44.6b to INR56.2b

We expect CCRI's revenue to grow at a CAGR of 11% over FY12-15 from INR44.6b to INR56.2b. This would be primarily led by the EXIM business and higher contribution from other value-added segments. The revenue mix between EXIM and domestic is likely to move from 82%:18% to 84%:16%.

Revenue and growth over FY12-15E



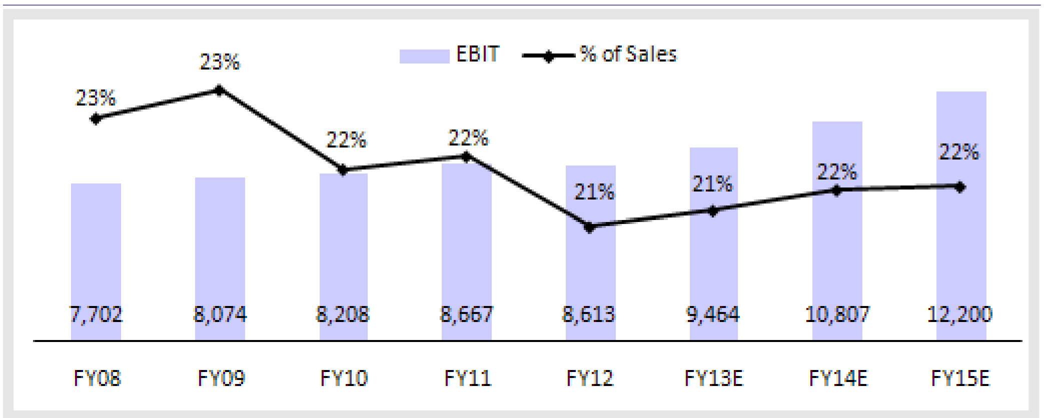
Source: Company, MOSL

EBIT margins to expand

We expect EBIT margins in the EXIM business to expand from 26.4% in FY12 to 26.7% by FY15

Improvement in domestic segment, lower empties cost and operating efficiencies result in EBIT margin expansion over FY12-15. We expect EBIT margins in the EXIM business to expand from 26.4% in FY12 to 26.7% by FY15, while EBIT margins in the domestic business are likely to expand from 8.4% in FY12 to 9.3% by FY15. Overall EBIT margins are likely to expand from 21.2% in FY12 to 22.3% by FY15.

EBIT and EBIT margins over FY12-15E



Source: Company, MOSL

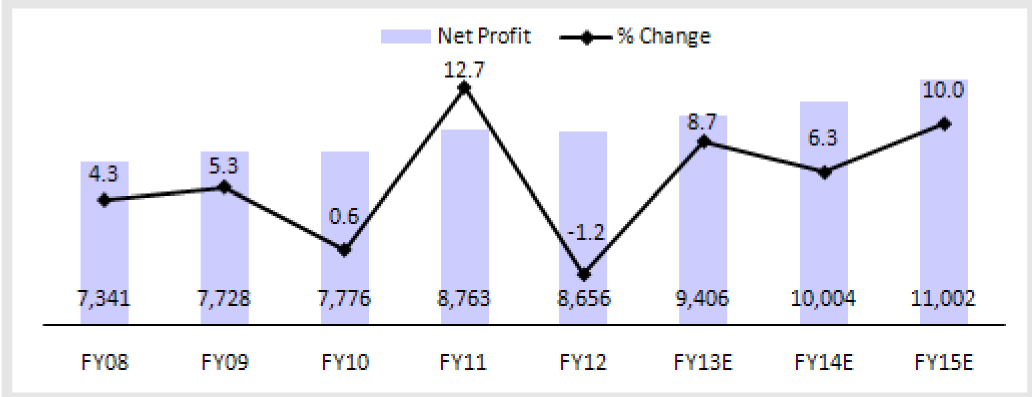
Expect PAT CAGR of ~8.3% over FY12-15

CCRI is undertaking the capex to position itself strategically for the huge opportunity around FY17-18

CCRI has historically maintained a net margin of ~20% due to its pricing power given its dominant position in the industry. We do not see any major decline in CCRI's pricing power and expect this profitability to sustain. We model ~8.3% CAGR in net profit over FY12-15. Given new investment would have a 2-3 year gestation period, in the interim higher depreciation charge and lower other income would exert pressure on the net profit growth. CCRI is undertaking the capex to position itself strategically for the huge opportunity around FY17-18, when DFC gets completed. Industry experts estimate that the completion of the DFC project would result in a jump of 1.7-2x in CTO trade, with shortening of turnaround time, increased asset turnover due to double stacking, and improved efficiencies.

Notwithstanding near-term pressure on net profit growth and RoCE due to the high capex plans, we view this as a key positive, as the preemptive capex would (1) further increase CCRI's competitive advantage and allow it to capitalize on the large emerging opportunity, and (2) correct CCRI's capital structure by utilizing its surplus cash.

PAT growth to be subdued over FY12-15E (INR m)



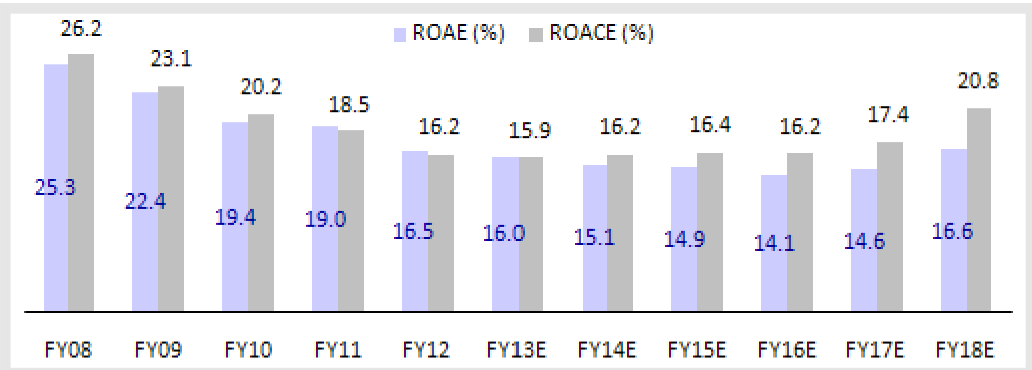
Source: Company, MOSL

RoE to remain subdued in the near term due to high capex intensiy

CCRI's RoE is likely to remain subdued in the near term due to its high preemptive capex of INR62b

CCRI's RoE is likely to remain subdued in the near term due to its high preemptive capex of INR62b. We expect RoE to decline from 16.5% in FY12 to 15.4% in FY15, and asset turnover ratio to remain flat at 0.8x over FY12-15. The biggest gain for CCRI is likely to be benefits with regard to asset turnover improvement. We expect CCRI's asset turnover to increase from 0.8x in FY12 to ~1.4x in FY18, while EBIT margins are likely to improve from 21% in FY12 to ~24% by FY18, resulting in RoAE improving from 16.5% in FY12 to 20% in FY18.

RoE to remain under pressure in the near term

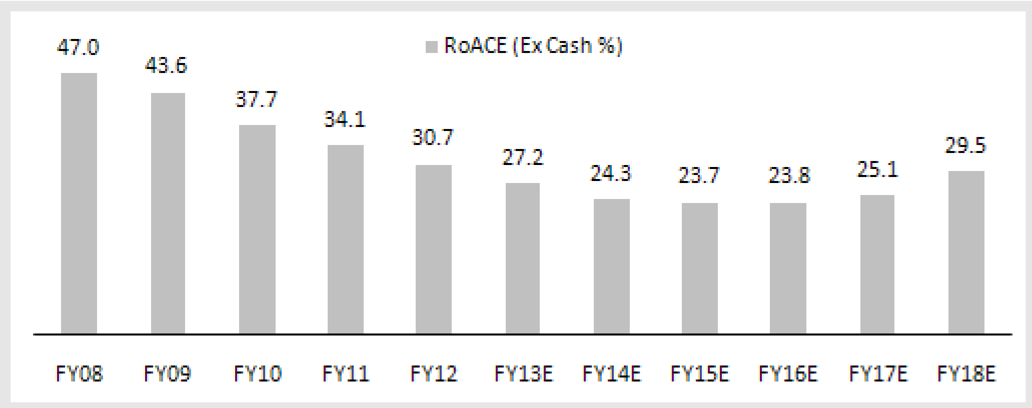


Core RoCE remains attractive

As at FY12, CCRI had ~INR27b cash (49% of capital employed, INR212/share)

As at FY12, CCRI had ~INR27b of cash (49% of capital employed, INR212/share), invested primarily in fixed income securities, yielding low RoCE of ~9%. Consequently, CCRI's overall RoCE was just 16.2%. Its core RoCE, which has been under pressure post the privatization of the CTO industry and has been steadily declining from 47% in FY08, stood at 30.7% for FY12. We expect core RoCE to remain under pressure over the next ~4 years and bottom at ~23.7% in FY15, as the company is undertaking a major preemptive capex of INR62b over FY13-17. DFC will enable CTO players to enjoy double stacking of containers, while also reducing the turnaround time significantly. This will allow companies to significantly increase their utilization rates, while also improving their EBIT margins, implying sharp improvement in RoCE.

RoCE to bottom in FY16



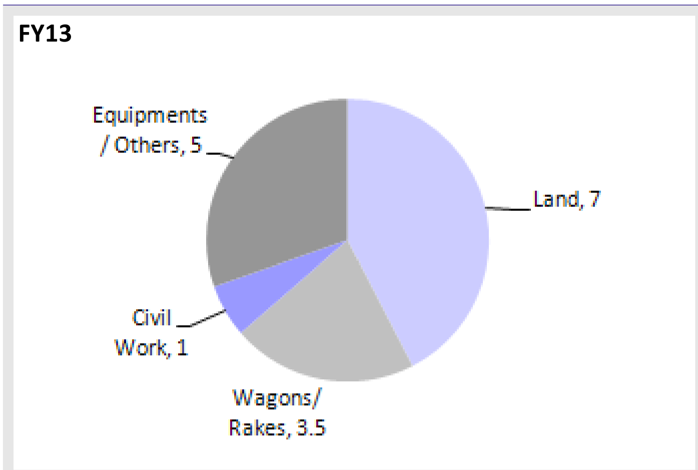
Source: Company, MOSL

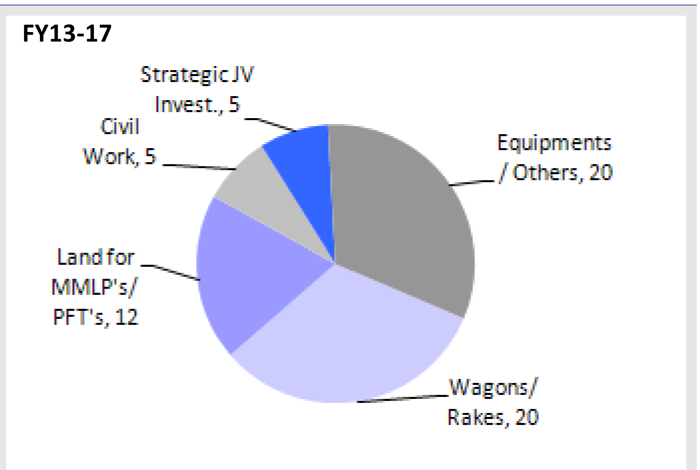
Preemptive capex of INR62b over FY13-17

CCRI is undertaking preemptive capex of ~INR62b over FY13-17, which is aimed at increasing its competitive advantage in the CTO industry

CCRI is undertaking preemptive capex of ~INR62b over FY13-17, which is aimed at increasing its competitive advantage in the CTO industry and establishing itself as a total multimodal player. The break-up of the capex is as follows: ~INR20b for new wagons, INR12b for land, INR5b for strategic JV's and INR20b for equipment and others. For FY13 alone, it has capex plans of ~INR16.5b, which include ~INR7b in land for setting up ~12 MMLPs, ~INR3.5b for wagons and ~INR5b for equipments. These investment would open up several new business opportunities for CCRI in new areas, which is currently not being captured in our estimates, due to lack of details.

Capex plans for FY13 and FY13-17 (INR b)





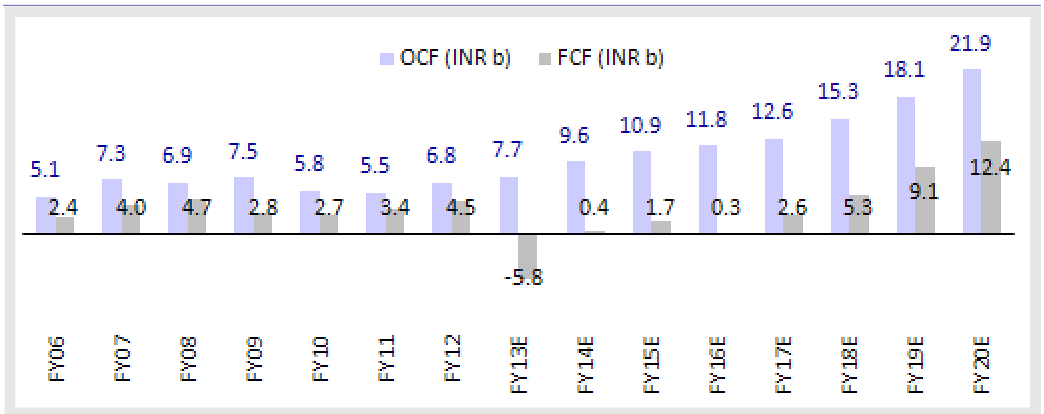
Source: Company, MOSL

Has steady and sustainable free cash flows

Over FY02-12, its OCF and FCF have grown at a CAGR of 12% and 17%, respectively

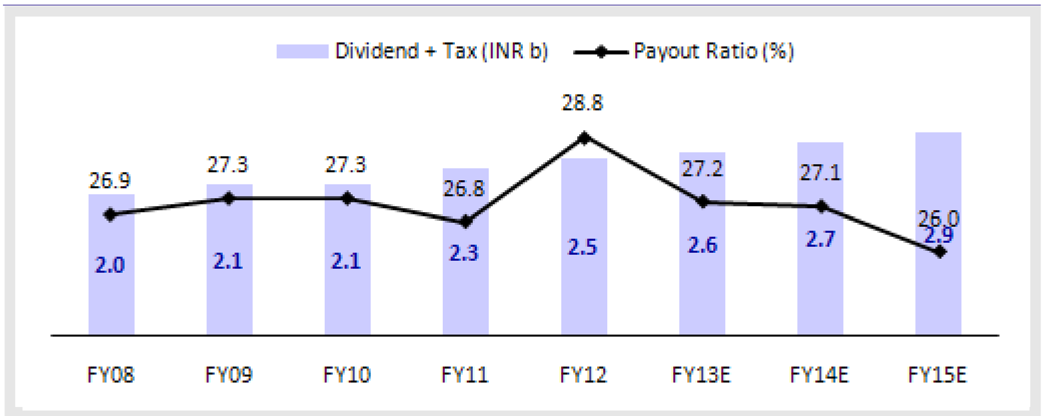
CCRI is a debt-free company (net cash of INR27b as at March 2012) and enjoys steady OCF and FCF. Over FY02-12, its OCF and FCF have grown at a CAGR of 12% and 17%, respectively. This is against net profit CAGR of 13%, due to low reinvestment requirements. It has historically maintained a dividend payout ratio of 25-30%. Despite CCRI's INR62b capex initiative over FY13-17, we expect it to maintain 24-25% payout ratio during this period. Post the completion of its preemptive capex by FY16-17, we expect CCRI to enter a sweet spot of sustainable and robust FCF, which should lead to sharp improvement in its payout ratio.

OCF & FCF generation over FY06-FY15E



Dividend payout ratio has been stable between 25-30%, over FY06-FY15E

Post the completion of its preemptive capex by FY16-17, we expect CCRI to enter a sweet spot of sustainable and robust FCF, which should lead to sharp improvement in its payout ratio



Source: Company, MOSL

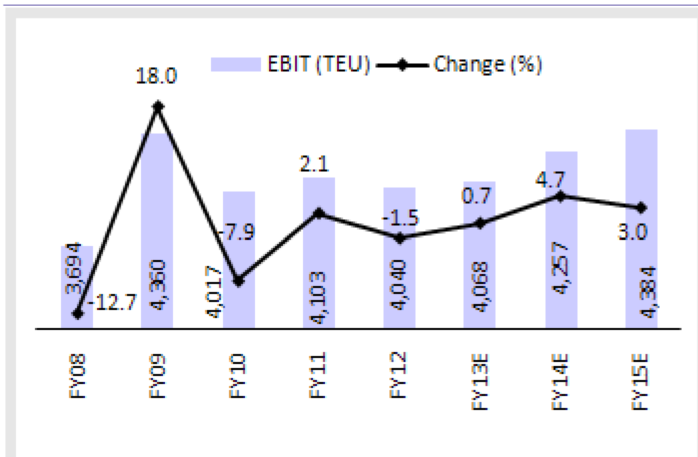
Key Assumptions

	FY08	FY09	FY10	FY11	FY12	FY13E	FY14E	FY15E	CAGR (FY12-15)
EXIM									
Volumes (m TEU)	**2.0**	**1.9**	**1.9**	**2.0**	**2.1**	**2.3**	**2.5**	**2.7**	**8.6**
% Change	15.3	-6.2	1.5	7.2	5.8	6.5	9.5	9.8	
Realization*	**13,385**	**14,693**	**15,399**	**14,820**	**15,293**	**15,645**	**16,005**	**16,357**	**2.3**
% Change	-6.1	9.8	4.8	-3.8	3.2	2.3	2.3	2.2	
Value (INR b)	**26.5**	**27.3**	**29.0**	**29.9**	**32.7**	**35.6**	**39.9**	**44.7**	**11.1**
% Change	8.2	3.0	6.3	3.2	9.2	8.9	12.0	12.2	
EBIT/ TEU	**3,694**	**4,360**	**4,017**	**4,103**	**4,040**	**4,068**	**4,257**	**4,384**	**2.8**
% Change	-12.7	18.0	-7.9	2.1	-1.5	0.7	4.7	3.0	
EBIT (INR b)	**7.3**	**8.1**	**7.6**	**8.3**	**8.6**	**9.3**	**10.6**	**12.0**	**11.6**
% Change	0.6	10.7	-6.5	9.5	4.2	7.2	14.6	13.1	
% of Sales	27.6	29.7	26.1	27.7	26.4	26.0	26.6	26.8	
Domestic									
Volumes (m TEU)	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**	**0.6**	**0.6**	**11.1**
% Change	20.7	-3.6	18.9	0.9	-13.9	10.0	11.2	12.0	
Realization*	**14,895**	**15,176**	**14,977**	**15,387**	**16,983**	**17,238**	**17,583**	**17,899**	**1.8**
% Change	-2.0	1.9	-1.3	2.7	10.4	1.5	2.0	1.8	
Value (INR b)	**7.0**	**6.9**	**8.1**	**8.4**	**8.0**	**8.9**	**10.1**	**11.5**	**13.0**
% Change	18.3	-1.8	17.3	3.7	-4.9	11.7	13.4	14.0	
EBIT/ TEU	**2,032**	**2,104**	**2,413**	**1,474**	**1,420**	**1,465**	**1,618**	**1,665**	**5.5**
% Change	-22.1	3.5	14.6	-38.9	-3.7	3.2	10.4	2.9	
EBIT (INR b)	**1.0**	**1.0**	**1.3**	**0.8**	**0.7**	**0.8**	**0.9**	**1.1**	**17.1**
% Change	-6.0	-0.2	36.3	-38.4	-17.1	13.5	22.8	15.3	
% of Sales	13.6	13.9	16.1	9.6	8.4	8.5	9.2	9.3	
Total									
Volumes (m TEU)	**2.4**	**2.3**	**2.4**	**2.6**	**2.6**	**2.8**	**3.1**	**3.4**	**9.0**
% Change	16.3	-5.7	4.9	5.8	1.6	7.1	9.8	10.2	
Value (INR b)	**33**	**34**	**37**	**38**	**41**	**44**	**50**	**56**	**11.4**
% Change	10.2	2.0	8.6	3.3	6.1	9.5	12.3	12.6	
Realization*	**13,675**	**14,788**	**15,305**	**14,940**	**15,597**	**15,939**	**16,300**	**16,650**	**2.2**
% Change	-5.2	8.1	3.5	-2.4	4.4	2.2	2.3	2.1	
EBIT/ TEU	**3,147**	**3,498**	**3,390**	**3,383**	**3,307**	**3,367**	**3,583**	**3,720**	**4.0**
% Change	-16.9	11.2	-3.1	-0.2	-2.2	1.8	6.4	3.8	
EBIT (INR b)	**7.7**	**8.1**	**8.2**	**8.7**	**8.6**	**9.4**	**11.0**	**12.6**	**13.4**
% Change	-3.4	4.8	1.7	5.6	-0.6	9.1	16.9	14.4	

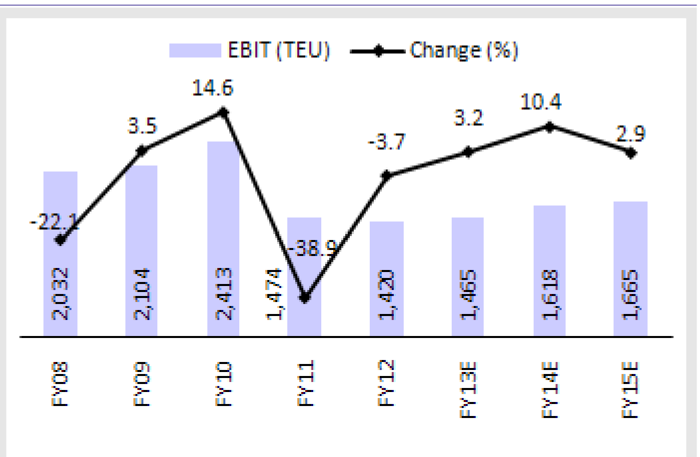
*Realization: INR/TEU

Source: Company, MOSL

EXIM volumes (in m TEU and INR b)



Domestic volumes (in m TEU and INR b)

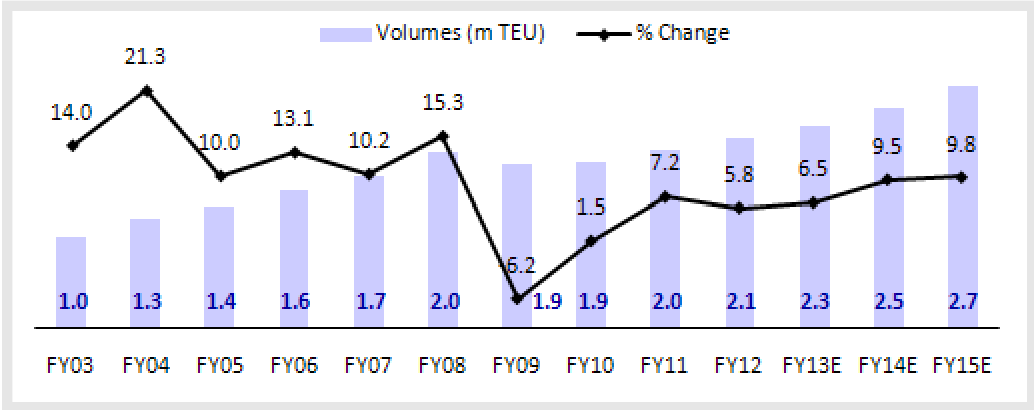


Source: Company, MOSL

EXIM Volumes (CAGR, %)

	Historical
FY09-12	4.8
FY08-12	3.7
FY04-12	6.9
	Estimates
FY13-15	8.6
FY13-18	13.3
FY13-20	15.5

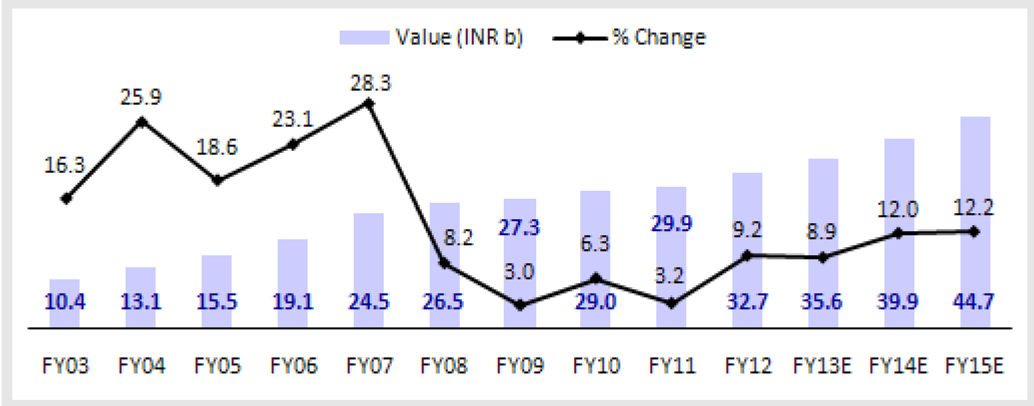
EXIM Volumes over FY03-15



EXIM Value (CAGR, %)

	Historical
FY09-12	6.2
FY08-12	3.6
FY04-12	12.2
	Estimates
FY13-15	11.1
FY13-18	15.0
FY13-20	17.0

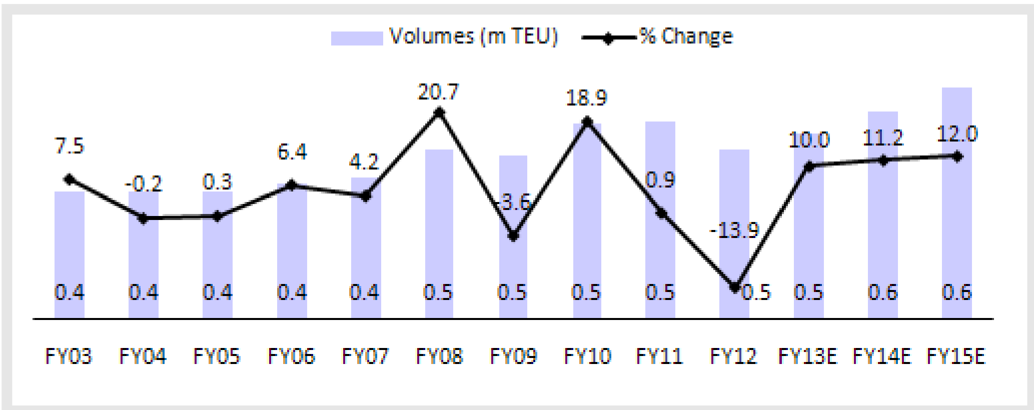
EXIM Value over FY03-15



Domestic Volumes (CAGR, %)

	Historical
FY09-12	1.1
FY08-12	3.1
FY04-12	3.7
	Estimates
FY13-15	11.1
FY13-18	13.7
FY13-20	14.8

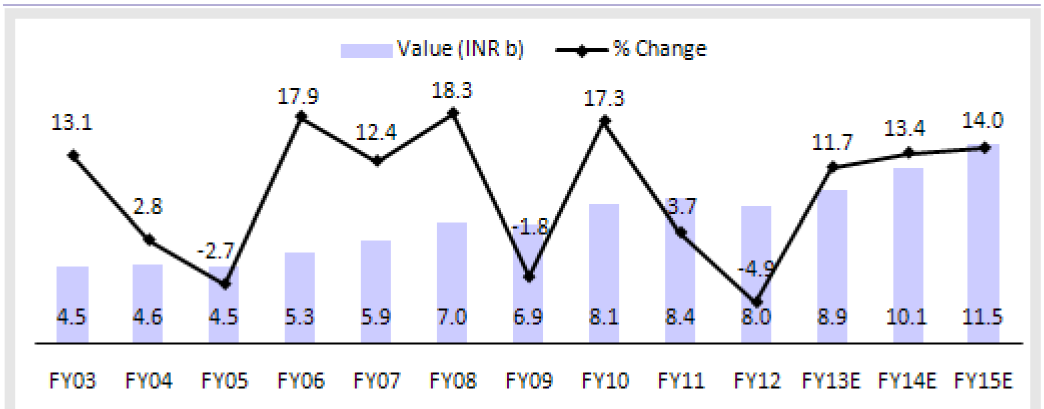
Domestic Volumes over FY03-15



Domestic Value (CAGR, %)

	Historical
FY09-12	5.0
FY08-12	5.0
FY04-12	7.1
	Estimates
FY13-15	13.0
FY13-18	15.1
FY13-20	16.0

Domestic Value over FY03-15



Source: Company, MOSL

Estimating long-term demand for containerized rail transport

If some of the expected triggers play out, the CTO industry could witness a volume CAGR of 17.6% over FY12-18. Being the dominant player in the industry, CCRI should be in a position to capture a significant proportion of this opportunity. We expect the share of rail transport in overall container freight movement to increase from 21% in FY12 to 25% in FY18.

Key assumptions

1. **Container port freight traffic:** We have used the estimates of the Maritime Agenda 2020 and the Planning Commission of India.
2. **Share of rail in overall container port traffic:** The Indian Railway Vision 2020 estimates container haulage at ~200mt for FY20.
3. **Realizations:** We expect realizations to grow at a CAGR of 1.5% for both EXIM and domestic segments over FY12-17. Realizations are likely to be under pressure, given lower pricing in case of double-stacking and declining lead distances.
4. **EBIT margins:** We expect EBIT margins to expand at a CAGR of 2.5% in the EXIM business and 3% in the domestic business, on the back of increased efficiencies.

Opening up of CTO industry in 2006 alone had led to industry witnessing a 2.5x/ 1.5x/ 1.6x volume growth in the EXIM/ domestic/ total segments, over FY08-10.

IR share of container traffic to increase from 21% in FY12 to 25% by FY18

CCRI's total volumes to increase at CAGR of 17.1% over FY12-18

Workings for estimating CTO demand and Concor share by FY17/18

		Base Case		Bear Case	
Container Road Traffic	**FY12**	**FY17-18**	**CAGR (6 Yrs %)**	**FY20**	**CAGR (8 Yrs %)**
1. EXIM					
Total Port Freight in FY12 (MT)	971	1,758	10.4	2,238	11.0
Total Container Traffic (MT)	142	325	14.8	388	13.4
Total Container + Other Traffic (MT)	268	566	13.3	738	13.5
Container Freight by all Ports (MT)	**142**	**325**	**14.8**	**388**	**13.4**
% Share	**15**	**18**	**4.0**	**17.3**	**2.2**
% of Container + Other traffic	53	57	1.4	52.6	-0.1
Industry CTO volumes (MT)	29.2	81.3	18.6	96.9	16.2
Share of Railways (%)	**21**	**25**	**3.3**	**25**	**2.5**
Concor Market Share- Volumes (%)	**76**	**74**	**-0.5**	**72**	**-0.7**
Realizations (INR/ TEU)	15,293	16,722	1.5	16,560	1.0
TEU's ('000)	2.1	5.8	18.0	6.8	15.6
Value (INR m)	33	96	19.8	111	16.6
Multiple (x)		**3.0**		**3.5**	
2. DOMESTIC					
Industry CTO Volumes (MT)	9.4	20.9	14.2	26.5	13.8
Concor Market Share (%)	70	69	-0.3	66.6	-0.6
Realizations (INR/ TEU)	16,983	18,570	1.5	18,391	1.0
Volumes TEU's (m TEU)	0.47	1.02	13.9	1.3	13.2
Value (INR m)	8.0	18.9	15.6	23.1	14.2
Multiple (x)		**2.4**		**2.9**	
TOTAL (1+2)					
Industry CTO Volume (MT)	38.6	102.1	17.6	123.4	15.6
3. CONCOR					
Total Volumes (MT)	28.8	74.2	17.1	87.4	14.9
Total Value (INR m)	40.6	115.4	19.0	134.3	16.1
Multiple (x)		2.8		3.3	
% Market Share Share	74.5	72.7		70.8	-0.6
Share of EXIM - Value-wise	80.4	83.6		82.9	0.4
Share of EXIM - Volume-wise	77.1	80.7		79.9	0.4

Workings for estimating CTO demand and Concor share by FY17/18 (Cont. from earlier page)

Expect operating PAT to increase by 2.8x over FY12-18

Container Road Traffic	FY12	Base Case FY17-18	Base Case CAGR (6 Yrs %)	Bear Case FY20	Bear Case CAGR (8 Yrs %)
EBIT/ TEU					
EXIM (INR/ TEU)	4,040	4,686	2.5	4,375	1.0
Domestic (INR/ TEU)	1,420	1,695	3.0	1,798	3.0
Concor - Volumes (TEU's)					
EXIM	2.1	5.8	18.0	5.6	12.8
Domestic	0.5	1.0	13.9	1.4	14.8
Total	2.6	6.8	17.3	7.0	13.1
Multiple (x)		**2.6**		**2.7**	
Concor - EBIT (INR b)					
EXIM	8.6	27.0	21.0	24.4	13.9
Domestic	0.7	1.7	17.3	2.5	18.2
Total	9.3	28.7	20.7	26.9	14.2
Multiple (x)		3.1		2.9	
Tax	2.0	8.6	27.6	9.2	20.9
Operational PAT (INR b)	**7.3**	**20.1**	**18.4**	**17.8**	**11.8**
Multiple (x)		**2.8**		**2.4**	

Source: Company, MOSL

Port-wise Container Traffic Assumptions (FY12-18)

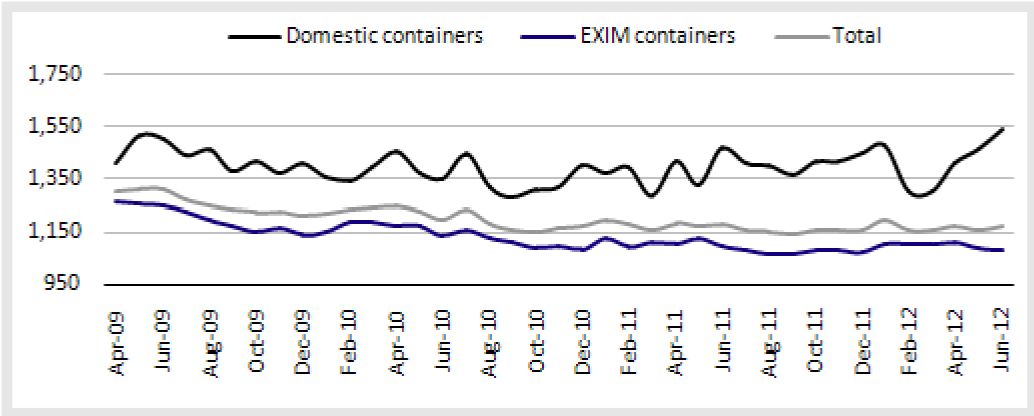
	FY12	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E	% CAGR (FY12-18)
Major Ports (m tons)								
Kolkata	7	8	8	9	10	12	12	**9.9**
Chennai	30	27	27	30	32	32	37	**1.0**
Tuticorin	9	7	7	9	9	10	10	**1.4**
Cochin	5	12	15	17	18	19	19	**25.7**
JNPT	58	58	76	92	105	105	109	**10.3**
Other Major Ports*	14	14	17	33	45	45	49	**21.8**
Total Major Ports	**123**	**125**	**150**	**189**	**219**	**223**	**236**	**10.4**
Non Major Ports	**19**	**31**	**46**	**67**	**76**	**84**	**89**	**28.1**
Total Major and Non-Major Ports	**142**	**156**	**197**	**256**	**295**	**307**	**325**	**13.7**
Major Ports (%)								
Kolkata	4.8	5.0	4.2	3.4	3.2	3.9	3.7	9.9
Chennai	21.2	17.1	13.6	11.7	10.9	10.4	11.4	1.0
Tuticorin	6.5	4.2	3.6	3.3	3.1	3.3	3.1	1.4
Cochin	3.3	7.4	7.6	6.6	6.0	6.0	5.8	25.7
JNPT	41.1	37.3	38.8	35.8	35.7	34.3	33.5	10.3
Other Major Ports*	9.7	9.0	8.6	12.8	15.3	14.7	15.1	21.8
Total Major Ports	**86.6**	**80.0**	**76.4**	**73.7**	**74.2**	**72.6**	**72.6**	**10.4**
Non Major Ports	**13.4**	**20.0**	**23.6**	**26.3**	**25.8**	**27.4**	**27.4**	**28.1**
Total Major and Non-Major Ports	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**13.7**

* Includes Haldia, Paradip, Visakapatpam, Ennore, New Mangalore, Morgumao, Kandla and Port Blair

Source: MOSL

Lead distance has been under pressure in the Exim segment, while it has increased in the domestic segment

Lead distance under pressure in EXIM (kms)



Source: Indian Railways

Increasing share of Mundra and Pipavav leading to shorter lead distance for EXIM segment

Distance Between North India ICDs and Ports (kms)

	Nhava Sheva (Kms)	Mundra (Kms)	Pipavav (Kms)	Closer to Mundra by (Kms)	Closer to Pipavav by (Kms)
TKD	1,513	1,276	1,333	237	180
Loni	1,380	1,183	1,325	197	55
Dadri	1,460	1,228	1,280	232	180
Ludhiana	1,895	1,551	1,590	344	305

Source: Industry

Maritime Agenda 2010-20 growth assumptions (%)

Cargo Volumes	CAGR (FY10-17)	CAGR (FY10-20)
Coal	23.0	18.0
POL	7.0	7.0
Iron-ore	6.0	6.0
Containers	**19.0**	**15.0**
Others	15.0	13.0
Total	**13.0**	**11.0**

Source: Maritime Agenda 2010-20

Summary of Projected Freight Loading by IR by 2020 (M tons)

	2011	2020	Increase (x)	CAGR (FY11-20)
Coal	420	700	1.7	5.8
RM for steel plants	13	39	2.9	12.7
Pig Iron & Finished Steel	33	108	3.3	14.2
Cement	99	250	2.5	10.8
Iron Ore (Exports)	26	75	2.9	12.6
Iron Ore (Imports)	93	150	1.6	5.5
Food grains	43	50	1.2	1.6
Ferilizers	48	70	1.5	4.2
POL	39	48	1.2	2.2
Containers	**38**	**210**	**5.6**	**21.1**
Others	69	150	2.2	9.0
Total	**922**	**1,850**	**2.0**	**8.0**

Source: Indian Railway Vision 2020

Initiating coverage with Buy

Target price of INR1,250 implies 19% upside

- **While concerns such as high empties cost and muted near term growth outlook in particular remain, the long-term prospects are favorable for CCRI and outweigh near term concerns.**
- **We value CCRI using DCF methodology. While our DCF value is INR1,250 (19% upside).**
- **Given CCRI's strong FCF generation capability, high operating RoCE and stable payout ratio, the best way to value it is through DCF.**

DCF based target price of INR1,250

We believe DCF is the best way to capture the intrinsic value of CCRI, given its stable cash flow, consistent payout ratio, robust ROCE and low re-investment requirements.

CCRI's inimitable pan India network provides it with significant entry barriers, which coupled with positive industry growth outlook, will allow it to enjoy a prolonged period of growth. We model CCRI to register a revenue CAGR of 11.5% over FY13-32, driven a high growth period between FY13-20, post which we have assumed its growth rate to move from 9.3% in FY21 towards its terminal growth assumption of 5.4%. Our terminal growth rate assumption is based on RoCE spread of 2.5% over its terminal period cost of capital at 12.9%. Using the DCF methodology, we arrive at a value of INR1,250.

Key assumptions

Valuation Inputs	(%)	Comments
Growth Period		
Risk free Rate (Rf)	8.0	RBI 10 year G-sec Bond Yield 5/10/2012
Levered Raw Beta (B)	0.40	Bloomberg 1 year average Raw Regression Beta
Market Risk Premium (Rmp)	7.5	Implied India Risk Premium based on Sensex
Cost of Equity: Rf+B(Rmp)	11.0	CAPM
Stable Period		
Risk free Rate (Rf)	8.0	RBI 10 year G-sec Bond Yield
Levered Raw Beta (B)	0.65	Assuming long term Beta will trend towards 1x
Market Risk Premium (Rmp)	7.5	Implied India Risk Premium based on Sensex
Cost of Equity: Rf+B(Rmp)	12.9	CAPM
India country Default Spread	2.0	Based on S&P Bond Default spread of 2% based on India's BBB+ rating
Adjusted Risk free Rate (Rf)	6.0	Real Risk free rate in India
Terminal Growth rate (Tg)	**5.4**	**ROCE spread of 2.5% over terminal cost of capital**

Source: MOSL

DCF Valuation

	Base	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Terminal period	CAGR (%)
Revenue Growth (%)	**5.2**	**8.4**	**12.3**	**12.6**	**13.1**	**15.3**	**28.4**	**27.0**	**17.9**	**9.3**	**8.9**	**8.9**	**8.8**	**8.7**	**8.6**	**8.5**	**8.3**	**8.0**	**7.3**	**7.3**	**5.4**	**5.4**	
Revenues (INR b)	**41.0**	**44.5**	**49.9**	**56.2**	**63.6**	**73.3**	**94.2**	**119.6**	**141.0**	**154.1**	**167.9**	**182.7**	**198.8**	**216.2**	**234.9**	**254.9**	**276.1**	**298.2**	**320.1**	**343.6**	**362.0**	**381.5**	**11.5**
EBIT Margin (%)	21.0	21.3	21.6	21.7	21.2	21.8	22.8	23.7	23.7	23.4	23.2	23.2	23.1	23.1	23.1	23.0	22.9	22.8	22.6	22.2	21.0	21.0	
EBIT (INR b)	8.6	9.5	10.8	12.2	13.5	16.0	21.5	28.3	33.4	36.1	38.9	42.3	46.0	49.9	54.2	58.6	63.3	68.0	72.3	76.3	76.0	80.1	11.5
Taxes	2.8	3.0	3.2	3.7	4.5	5.3	7.4	9.5	11.2	12.1	13.1	14.2	15.5	16.8	18.2	19.7	21.3	22.8	24.3	25.6	25.5	26.4	11.6
EBIT(1-t)	**5.8**	**6.4**	**7.6**	**8.5**	**9.0**	**10.7**	**14.0**	**18.8**	**22.2**	**23.9**	**25.8**	**28.1**	**30.5**	**33.2**	**36.0**	**38.9**	**42.0**	**45.1**	**48.0**	**50.6**	**50.5**	**53.7**	**11.5**
+ Depreciation	1.6	1.9	2.2	2.6	3.1	3.5	3.9	4.1	4.4	4.7	5.0	5.4	5.7	6.1	6.5	6.9	7.3	7.8	8.2	8.7	9.3	9.3	9.1
- Capital Exp	2.3	13.5	9.2	9.2	11.5	10.0	10.0	9.0	9.6	10.1	10.7	11.4	12.0	12.7	13.4	14.2	15.0	15.8	16.7	17.7	18.6	23.7	11.0
- Chg WC	0.4	0.6	0.2	0.1	0.4	1.5	2.6	3.4	3.1	3.0	3.2	3.9	4.7	5.5	6.4	7.3	8.2	8.9	9.3	8.9	4.9	8.8	13.4
FCF (INR b)	**4.7**	**-5.8**	**0.4**	**1.7**	**0.3**	**2.6**	**5.3**	**10.5**	**13.9**	**15.6**	**16.9**	**18.2**	**19.6**	**21.1**	**22.7**	**24.4**	**26.2**	**28.1**	**30.3**	**32.8**	**36.2**	**30.5**	**10.8**
Terminal Value																						407	
Cost of Capital	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.2	11.2	11.2	11.2	11.3	11.3	11.4	11.5	11.6	11.9	12.9	12.9	
Total Capital Invested	56	68	76	82	91	99	108	116	124	133	142	152	163	175	188	203	218	235	253	271	285		
Reinvestment Rate	0.19	1.90	0.94	0.80	0.97	0.75	0.75	0.75	0.74	0.74	0.74	0.73	0.73	0.73	0.73	0.73	0.73	0.72	0.71	0.70	0.65	0.65	
Return on Capital		15.2	15.0	15.4	15.5	16.8	20.7	25.3	27.8	28.0	28.3	28.8	29.3	29.6	29.9	30.0	30.1	30.0	29.6	29.1	27.3		
Return on Capital (Ex Cash)		27.2	24.3	23.8	22.8	23.7	28.3	33.6	36.0	35.7	35.5	35.5	35.5	35.4	35.2	35.0	34.6	34.1	33.4	32.5	30.3		
Present Value Calculations																							
Cumulative WACC		1.00	1.11	1.23	1.37	1.52	1.69	1.87	2.08	2.30	2.56	2.85	3.17	3.52	3.92	4.36	4.86	5.42	6.05	6.77	7.64		
PV of FCFF		-5.79	0.40	1.41	0.19	1.74	3.15	5.60	6.70	6.76	6.60	6.39	6.18	5.98	5.78	5.58	5.39	5.20	5.01	4.85	4.73		
PV of Terminal Value																					53		

The Valuation

PV of FCFF during high growth phase	= 81,831
PV of Terminal Value	= 53,237
Value of Operating Assets of the firm	**= 135,068**
Value of Cash & Non-operating assets	= 27,616
Value of Firm	= 162,684
- Value of Outstanding Debt	= 234
Value of Equity	**= 162,450**
Value of Equity per share	**= 1,250**
Upside (%)	**19%**

Terminal Growth and COE in growth period

		COE (%)				
		9	**10**	**11**	**12**	**13**
Terminal Gr. (%)	**3.4**	1,420	1,283	1,163	1,057	965
	4.4	1,472	1,327	1,201	1,091	994
	5.4	1,537	1,384	**1,250**	1,133	1,031
	6.4	1,622	1,457	1,314	1,188	1,079
	7.4	1,738	1,558	1,401	1,264	1,144

Terminal Growth and COE in terminal period

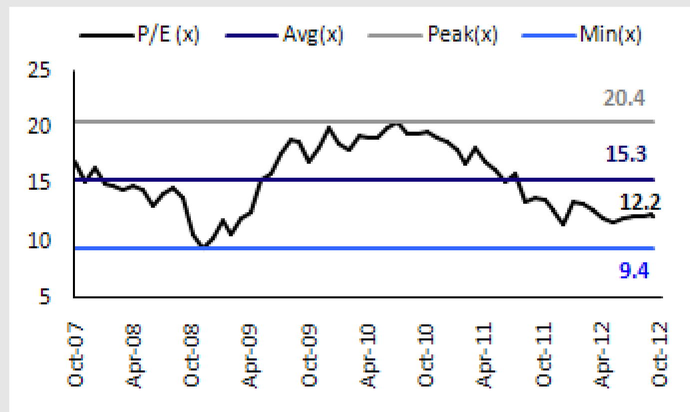
		COE (%)				
		10.9	**11.9**	**12.9**	**13.9**	**14.9**
Terminal Gr. (%)	**3.4**	1,281	1,215	1,163	1,120	1,084
	4.4	1,348	1,265	1,201	1,150	1,108
	5.4	1,440	1,331	**1,250**	1,188	1,138
	6.4	1,573	1,420	1,314	1,235	1,174
	7.4	1,782	1,550	1,401	1,297	1,221

Comparative Valuations

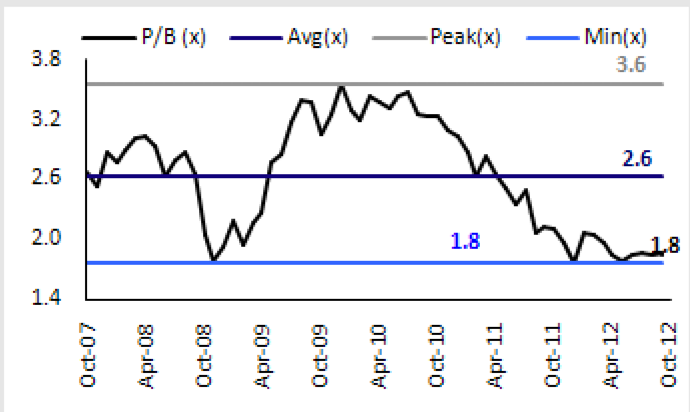
Company Name		Mkt Cap	BV (INR)		EPS Gr. (%)		P/E (x)		P/BV (x)		EV/ EBITDA (x)		RoE (%)	
	CMP	(USD b)	FY13	FY14	FY13	FY14	FY13	FY14	FY13	FY14	FY13	FY14	FY13	FY14
Concor	**1,048**	**2.6**	**480.0**	**536.1**	**8.7**	**6.3**	**14.5**	**13.6**	**2.2**	**2.0**	**9.6**	**8.3**	**16.0**	**15.1**
Gateway Distripark	142	0.3	90.3	97.9	13.0	16.7	10.3	8.9	1.6	1.5	6.6	5.7	15.6	16.7
Allcargo	130	0.3	131.6	146.8	-6.0	15.7	7.5	6.4	1.0	0.9	5.3	4.7	14.1	14.5
Arshiya International	134	0.1	167.8	200.7	29.8	48.1	5.2	3.5	0.8	0.7	7.4	5.4	14.6	18.4
Guangshen Railway	3	2.8	3.7	3.7	10.9	24.9	12.6	10.1	0.7	0.7	4.2	3.5	5.8	6.8
China Railway Tielong	6	1.3	3.7	4.3	24.3	18.3	11.6	9.8	1.7	1.5	6.8	5.5	14.7	15.7
Union Pacific Corp	121	57.3	46.6	51.9	14.9	14.0	12.7	11.1	2.6	2.3	7.0	6.3	20.8	23.2
Canadian Pacific Railway	86	15.2	34.4	39.6	29.2	21.5	15.7	12.9	2.5	2.2	9.2	8.1	16.4	18.7
CSX Corp.	21	22.0	9.9	11.1	12.2	12.6	10.6	9.4	2.1	1.9	6.2	5.7	22.2	20.5

Prices as on 11 October 2012 Source: Bloomberg, Company, MOSL

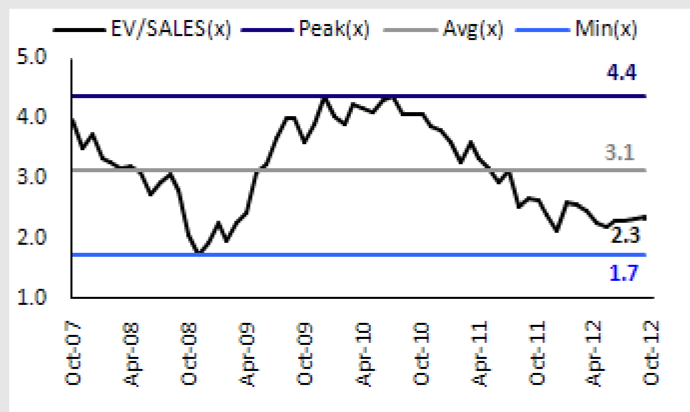
PE below historical average of 15.3x



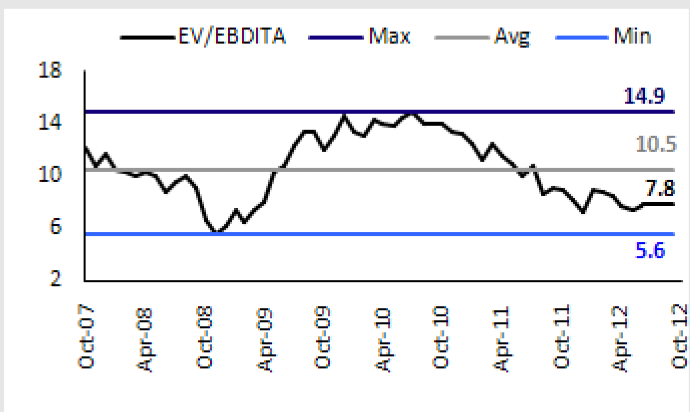
P/B below historical average of 2.6x



EV/ Sales below historical average of 3.1x



EV/ EBITDA below historical average of 10.5x



Risks and concerns

Execution risk / possible delays in DFC implementation: Successful execution of the DFC project has the potential to increase container rail traffic by 1.7-2x. Given its critical nature and the possible upside from its implementation, the project has been able to garner considerable support from both the central and state governments. Nonetheless, the project faces considerable challenges in the form of pending land acquisitions, funding requirements and execution risks. Any delays in project execution would mean delayed upsides and lower our estimated valuations for CCRI.

Forays into new segments: CCRI is foraying into new segments such as warehousing, air cargo, ports, and cold chain management. While this would transform CCRI into a total logistics player, it would also present significant execution challenges.

Unfavorable EXIM trade mix leading to high empties cost: Due to the mismatch between exports and imports in trade, particularly at some of the new ports and in domestic operations, the empties cost of CCRI has been steadily increasing. Unbalanced trade at key ports could further increase empties cost, which stood at INR1.2b in FY12 and INR423m in 1QFY13.

Risks related with economic slowdown: Bulk of the container rail transport in India is for EXIM trade, which is highly correlated with GDP growth. Any slowdown in economic growth would have a negative impact on EXIM trade, and in turn on the growth outlook for CTOs like CCRI.

Overdependence on single rail corridor: Another key risk holding back growth of CTO players is single rail corridor at key ports like Mundra and Pipavav, due to which turnaround time increases and rail traffic gets negatively impacted. Rail transport of the overall container traffic is low at 20-30%.

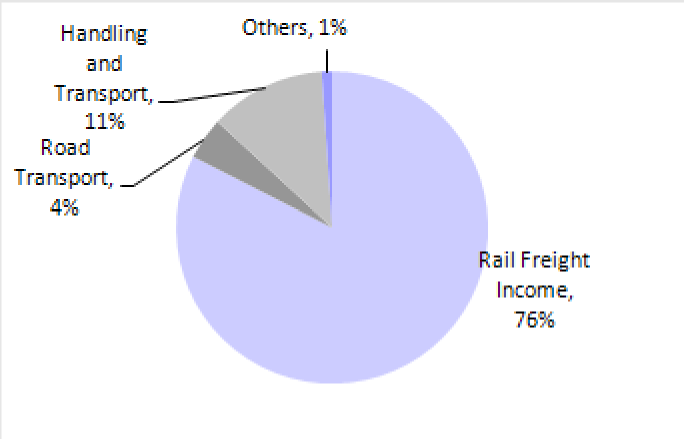
Challenges with regard to JNPT expansion plans: With regard to JNPT expansion for terminal-4, the erstwhile bidders withdrew in August 2012. The port authorities are in the process of inviting fresh bids, which could delay the planned capacity additions.

Tariff Authority for Major Ports (TAMP) related issues: In February 2012, TAMP ordered Nhava Sheva International Container Terminal (NSICT) and Gateway Terminal (GTICT) to lower tariffs by 27.85% and 44.28%, respectively. The tariff cut was largely because these ports were operating at 117%/135% capacity utilization (based on the minimum guaranteed throughput). This tantamounts to punishing efficiency, as the revenue share (paid to JNPT) is not allowed as cost while fixing the tariff. Hence, the operators will attempt to lower their throughput to just the minimum guaranteed.

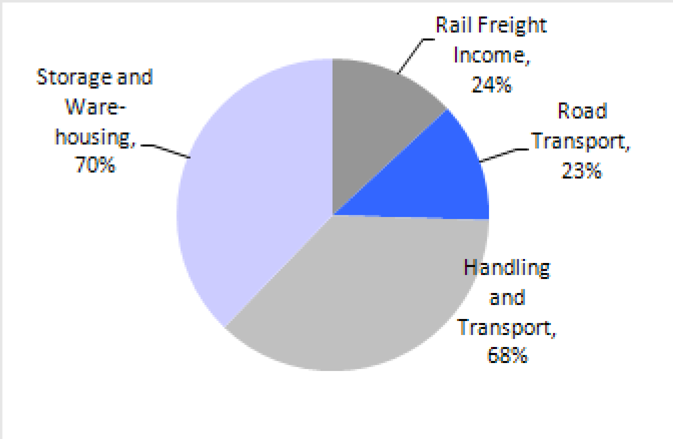
Company background

Container Corporation of India **(CONCOR; Bloomberg Code: CCRI)** is a state-owned company incorporated in March 1988. It was set up with the intent to develop multimodal transport and logistics support for domestic and international containerized cargo. Post the commencement of its operations, Indian Railways' container freight service is being handled by CONCOR through yearly MoUs.

Revenue break-up (FY12)

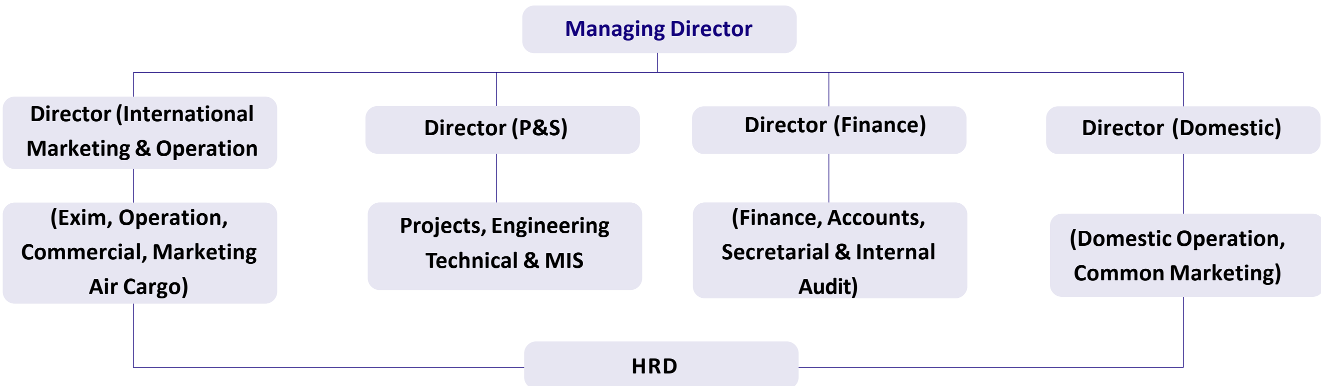


EBIT break-up (FY12)

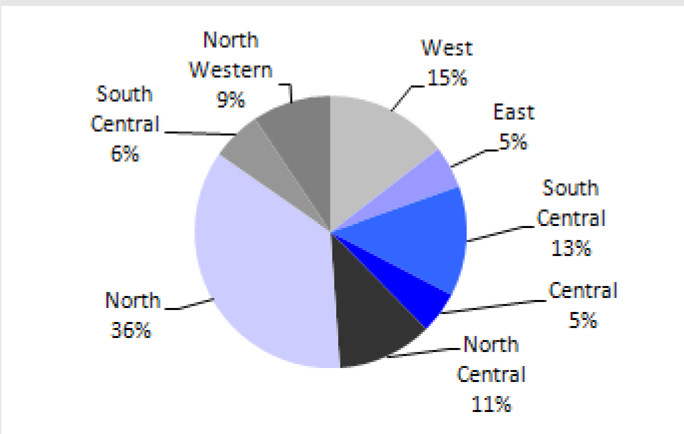


Source: MOSL, Company

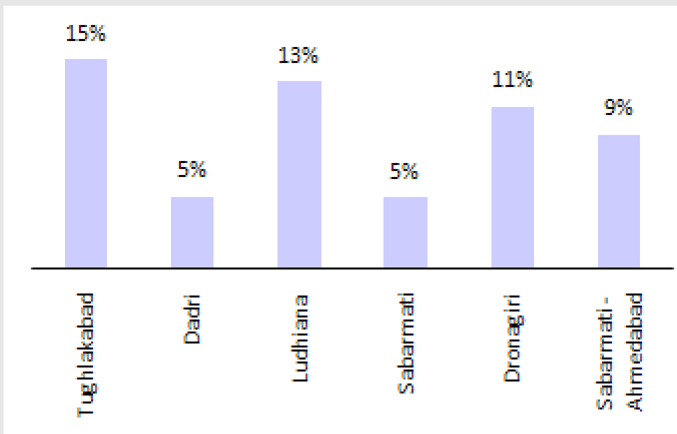
Organizational structure



Region-wise break-up



Top terminal contributors (% of total)



Source: MOSL, Company

CCRI's Pan-India terminal network

Source: Company

Financials and Valuation

Income Statement (INR Million)

Y/E March	2011	2012	2013E	2014E	2015E
Net Sales	**38,992**	**41,009**	**44,469**	**49,939**	**56,220**
Change (%)	4.5	5.2	8.4	12.3	12.6
EBITDA	**10,156**	**10,234**	**11,331**	**13,029**	**14,752**
Margin (%)	26.0	25.0	25.5	26.1	26.2
Depreciation	1,489	1,621	1,867	2,222	2,552
EBIT	8,667	8,613	9,464	10,807	12,200
Int. and Finance Charges	49	54	29	32	34
Other Income - Rec.	1,971	3,135	2,992	2,457	2,543
PBT after EO Exp.	**10,588**	**11,693**	**12,426**	**13,232**	**14,709**
Current Tax	1,647	2,885	2,808	3,003	3,447
Deferred Tax	179	152	211	226	259
Tax Rate (%)	17.2	26.0	24.3	24.4	25.2
Reported PAT	**8,763**	**8,656**	**9,406**	**10,004**	**11,002**
Change (%)	12.7	-1.2	8.7	6.3	10.0
Margin (%)	22.5	21.1	21.2	20.0	19.6

Balance Sheet (INR Million)

Y/E March	2011	2012	2013E	2014E	2015E
Equity Share Capital	1,300	1,300	1,300	1,300	1,300
Total Reserves	48,088	54,252	61,095	68,385	76,523
Net Worth	**49,388**	**55,552**	**62,395**	**69,685**	**77,822**
Deferred Liabilities	2,288	2,438	2,438	2,438	2,438
Other Liabilities	695	449	494	543	598
Total Loans	296	234	254	274	294
Capital Employed	**52,667**	**58,673**	**65,581**	**72,940**	**81,152**
Gross Block	33,683	35,856	49,356	58,556	67,756
Less: Accum. Deprn.	9,722	11,268	13,135	15,356	17,908
Net Fixed Assets	**23,961**	**24,588**	**36,221**	**43,200**	**49,848**
Capital WIP	1,069	1,151	1,151	1,151	1,151
Total Investments	**1,956**	**2,447**	**2,447**	**2,447**	**2,447**
Other Assets	2,475	3,903	4,002	3,995	4,217
Curr. Assets, Loans&Adv.	**28,230**	**32,989**	**28,289**	**29,204**	**31,452**
Inventory	125	360	396	442	496
Account Receivables	296	303	311	350	394
Cash and Bank Balance	22,961	27,616	22,246	22,420	23,816
Loans and Advances	4,848	4,710	5,336	5,993	6,746
Curr. Liability & Prov.	**5,023**	**6,406**	**6,530**	**7,057**	**7,963**
Current Liabilities	3,662	4,865	5,020	5,443	6,110
Provisions	1,361	1,540	1,510	1,614	1,853
Net Current Assets	**23,207**	**26,583**	**21,759**	**22,147**	**23,489**
Appl. of Funds	**52,667**	**58,673**	**65,581**	**72,940**	**81,152**

E: MOSL Estimates; * Adjusted for treasury stocks

Financials and Valuation

Ratios

Y/E March	2011	2012	2013E	2014E	2015E
Basic (INR) *					
Consol EPS	**67.4**	**66.6**	**72.4**	**77.0**	**84.6**
Cash EPS	78.9	79.1	86.7	94.1	104.3
BV/Share	380.0	427.4	480.0	536.1	598.7
DPS	18.0	19.2	19.7	20.9	22.0
Payout (%)	26.8	28.8	27.2	27.1	26.0
Valuation (x) *					
P/E		14.0	12.9	12.1	11.0
Cash P/E		11.8	10.8	9.9	9.0
P/BV		2.2	1.9	1.7	1.6
EV/Sales		2.7	2.6	2.3	2.0
EV/EBITDA		10.6	10.1	8.8	7.6
Dividend Yield (%)		2.1	2.1	2.2	2.4
FCF per share		58.5	-21.5	22.3	32.9
Return Ratios (%)					
RoE	19.0	16.5	16.0	15.1	14.9
RoCE	22.9	22.3	21.0	20.0	19.9
Working Capital Ratios					
Asset Turnover (x)	0.7	0.7	0.7	0.7	0.7
Inventory (Days)	1.7	4.6	4.7	4.7	4.7
Debtor (Days)	2.7	2.7	2.5	2.5	2.5
Creditor (Days)	49.4	62.2	59.4	57.6	57.6
Leverage Ratio (x)					
Current Ratio	5.6	5.1	4.3	4.1	3.9
Interest Cover Ratio	177	160	323	341	358

Cash Flow Statement (INR Million)

Y/E March	2011	2012	2013E	2014E	2015E
EBIT	8,667	8,613	9,464	10,807	12,200
Depreciation	1,489	1,621	1,867	2,222	2,552
Direct Taxes Paid	1,825	3,037	3,020	3,229	3,707
(Inc)/Dec in WC	-2,793	-395	-601	-158	-113
CF from Operations	**5,537**	**6,801**	**7,710**	**9,643**	**10,932**
(inc)/dec in FA	-2,095	-2,331	-13,500	-9,200	-9,200
(Pur)/Sale of Investments	-34	-491	0	0	0
Investment Income	1,971	3,135	2,992	2,457	2,543
CF from investments	**-159**	**312**	**-10,508**	**-6,743**	**-6,657**
(Inc)/Dec in Debt	-128	-62	20	20	20
Interest Paid	49	54	29	32	34
Dividend Paid	2,345	2,493	2,563	2,714	2,865
(Inc)/Dec in Deff Tax Liab	179	150	0	0	0
CF from Fin. Activity	**-2,344**	**-2,459**	**-2,572**	**-2,726**	**-2,879**
Inc/Dec of Cash	**3,035**	**4,655**	**-5,370**	**174**	**1,396**
Add: Beginning Bal	19,925	22,961	27,616	22,246	22,420
Closing Balance	**22,960**	**27,616**	**22,246**	**22,420**	**23,816**

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