Economy News

- Concerned over reduced coal supplies, a grouping of captive power producers today said the government should ensure equitable distribution of coal among captive and independent electricity generators. Captive power generation capacity in the country is estimated to be around 34,000 MW. (ET)
- Much-touted foreign direct investment (FDI) reforms notwithstanding, India received 38 per cent less of such inflows into the country at $22.4 billion in 2012-13 against $35.1 billion in the previous year, data released from The Department Of Industrial Policy & Promotion (DIPP) showed. This is in sharp contrast to 2011-12, when FDI inflows grew 64 per cent from $21.4 billion, despite the fact that the year saw some controversial decisions like retrospective amendments to the Income Tax Act. (BS)
- Petrol could become costlier by about Rs. 4 a litre if the government compels oil firms to sell 5% ethanol-blended petrol across the country by next month as these companies would be forced to import huge quantities of the biofuel at exorbitant rates. (ET)
- A meeting of an Empowered Group of Ministers (EGoM) on changing priority for gas allocation has been postponed. The EGoM headed by Defence Minister A K Antony was scheduled to meet on Tuesday to consider abolishing the priority ranking in natural gas allocation so that fuel currently consumed by urea plants can also be diverted to fuel-starved power plants. (ET)
- The Republican-controlled House of Representatives in the US is in the process of formulating its own version of the Immigration Reforms Bill which is expected to help the IT outsourcing industry. (BS)

Corporate News

- **JKTyre & Industries** Ltd said it plans to invest over Rs 8 Bn to double the capacity of Chennai manufacturing facility over two years. Besides, the company is looking to invest USD 25 million at its Mexican subsidiary Tornel to increase capacity by 25 per cent in the next twelve months. (ET)
- **The Indian Oil Corporation** is planning to spend Rs 110 Bn in the current financial year, on projects in the refinery, marketing, pipeline and petrochemical divisions. (BS)
- **Bata**, a household name in the footwear market, is diversifying its business in accessories categories like sunglasses and scarves and is expecting to net 15-20% of revenues from this area in the next two-three years. (ET)
- State-owned oil company **Hindustan Petroleum Corporation** (HPCL) has teamed up with public sector gas company Gas Authority of India (Gail) to revive an ambitious Rs. 320 Bn petrochemical project in Andhra Pradesh. The Petroleum, Chemicals and Petrochemicals Investment Region (PCPIR) project in AP could not take off for over six years as both the anchor clients - HPCL and private infrastructure conglomerate GMR Group - were plagued by troubles. (ET)
- State-run **Coal India** has reported a 35% increase in quarterly profits, helped by higher output, and said it is mulling a price cut for its premium grades of Coal to bring them on a par with the imported varieties. State-owned CIL will raise coal prices by an average of 10 per cent on lower grades with effect from today, a move which may lead to higher input costs for some user industries. (ET)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line, ToI: Times of India, BSE = Bombay Stock Exchange

Equity

	27 May 13	% Chg 1 Day	% Chg 1 Mth	% Chg 3 Mths
Indian Indices				
SENSEX Index	20,031	1.7	3.9	4.6
NIFTY Index	6,083	1.7	3.6	4.9
BANKEX Index	14,806	1.5	3.2	8.1
BSET Index	6,025	1.2	7.3	(10.4)
BSETCG INDEX	9,653	0.7	(1.1)	1.5
BSEOIL INDEX	8,806	2.8	1.3	0.2
CNXMcap Index	7,915	1.2	2.6	1.7
BSESMCAP INDEX	6,040	0.8	0.3	(4.6)
World Indices				
Dow Jones	15,303	0.1	4.0	8.7
Nasdaq	3,459	(0.0)	5.5	9.4
FTSE	6,654	(0.6)	3.5	5.2
NIKKEI	14,612	0.9	1.9	25.7
HANGSENG	22,619	(0.2)	0.6	0.5

Value traded (Rs cr)

	27 May 13	% Chg - Day
Cash BSE	1,839	(4.8)
Cash NSE	9,255	(13.8)

Net inflows (Rs cr)

	26 May 13	% Chg	MTD	YTD
FII	(182)	(156.9)	15,575	76,733
Mutual Fund	(209)	(32.5)	(2,704)	(11,295)

FII open interest (Rs cr)

	26 May 13	% Chg
FII Index Futures	17,278	(2.6)
FII Index Options	61,842	2.6
FII Stock Futures	29,058	0.6
FII Stock Options	4,943	1.0

Advances / Declines (BSE)

27 May 13	A1	B2	T	Total	% total
Advances	25	415	148	588	24
Declines	178	1,340	206	1,724	71
Unchanged	1	82	29	112	5

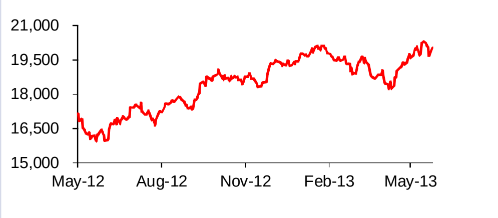
Commodity

	27 May 13	% Chg 1 Day	% Chg 1 Mth	% Chg 3 Mths
Crude (NYMEX) (US$/BBL)	93.5	(0.7)	0.5	0.8
Gold (US$/OZ)	1,387.4	(0.0)	(4.0)	(12.7)
Silver (US$/OZ)	22.5	0.2	(5.1)	(22.0)

Debt / forex market

	27 May 13	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.3	7.3	7.6	7.9
Re/US$	55.575	55.645	54.245	53.875

Sensex



OIL INDIA LIMITED (OINL)

PRICE: RS.587 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.621 **FY14E P/E: 8.4X**

- **In Q4FY13, Oil India Ltd. has reported a drop in the PAT mainly on account of 1). Lower crude oil and natural gas production, 2). Lower revenue from pipeline transportation, 3). Higher other expenditure, employee cost & Cess rate, and 4). Lower other income (down by 5.0% QoQ).**
- **In Q4FY13, OINL's realized net crude oil price of US$55.4/bbls versus US$52.6/bbls in Q3FY13 and US$38.9/bbl in Q4FY12. OINL's share in the under-recovery in Q4FY13 is Rs. 18.49 bn or US$56/bbls in crude price oil equivalent terms versus crude price equivalent of US$56/bbls in Q3FY13 and US$80.8/bbls in Q4FY12.**
- **In Q4FY13, OIL India has proposed a final dividend of Rs.7/share. The Company has also given an interim dividend of Rs.23/Share.**
- **Our positive view on OINL is premised on: 1) Relatively under-exploited resource base; 2) quality assets with relatively low finding and development costs; 3) resilient production growth; 4) strong balance sheet; 5) an attractive valuation; and 6) OINL's potential to maintain a reserve replacement ratio (RRR) of 1.**
- **We expect OINL to report an EPS of Rs. 69.7 FY14E. On the basis of our estimates, the stock at current market price of Rs.587 is reasonably valued at 8.4x P/E and 7.2x P/cash earnings on the basis of FY14E. We recommend ACCUMULATE on OINL with a revised price target of Rs.621. We are bullish on OIL India from medium to long term on account of key triggers such as 1). Increase in domestic gas price, 2). Regular diesel price hike resulting in lower subsidy burden.**

Summary table

(Rs mn)	FY12	FY13E	FY14E
Net Sales	95,188	95,458	103,857
Growth (%)	18.9	0.3	8.8
EBIDTA	41,989	43,569	44,452
EBIDTA margin (%)	44.1	45.6	42.8
PBT	51,014	52,880	62,739
Net profit	34,465	35,920	41,915
EPS (Rs)	57.3	59.8	69.7
Growth (%)	19.5	4.2	16.7
CEPS (Rs)	164.7	69.4	81.9
BV (Rs/share)	295.1	320.2	717.6
DPS (Rs)	19.00	30.00	20.92
ROE (%)	19.9%	18.4%	13.1%
ROCE (%)	19.3%	18.4%	13.1%
Net Cash (Debt)	109,360	121,367	321,212
NW Capital (Days)	47.1	-0.1	27.8
P/E (x)	10.2	9.8	8.4
P/BV (x)	0.8	1.8	0.8
P/CEPS (X)	3.6	8.5	7.2
Net Cash (Debt)	109,360	121,367	321,212
NW Capital (Days)	47.1	-0.1	27.8
P/E (x)	10.2	9.8	8.4
P/BV (x)	0.8	1.8	0.8
P/CEPS (X)	3.6	8.5	7.2

Source: Company, Kotak Securities - Private Client Research

Key Highlights

- The Company has guided for crude oil production of 3.95 MMTPA for FY14E and 4.0 MMTPA for FY15E. Similarly, OINL has guided for 2.74 BCM of gas production for FY14E and 3.0 BCM for FY15E.
- OINL's good reserve replacement ratio and high 2P & 3P reserves suggest that OINL can continue to grow its volumes in the medium term.

KEY RISK AND CONCERNS

- Uncertainty over under-recovery sharing could impact valuations.
- Nationalization of foreign assets (like in Venezuela) by the respective government can significantly impact the valuations of the Company.
- Significant drop in crude prices and sharp rupee appreciation remains the key downside risks to earnings.
- OINL has been producing oil from its Assam discoveries from last few decades with recovery factor more than 50%. We believe incremental crude oil production will be more expensive.
- OINL is initiating significant exploration activity in the NELP blocks, which increases the risks of failures and hence material dry wells write-offs. This can impact earnings and cash flows in the short-run.
- Any higher rate of royalty imposed by government of India.

Quarterly Table

OIL India (Rs.mn)	Mar-13	Mar-12	YoY (%)	QoQ (%)
Net Sales/Income from ops	23,766	17,197	38.2	(1.5)
Incr/(Decr) in stock	226	(119)	(290.6)	(457.6)
Total Expenditure	15,184	13,189	15.1	18.4
EBIDTA	8,808	3,889	126.5	(21.7)
Depreciation+ Depletion & Write-offs	2393.6	1881	27.3	7.7
EBIT	6,414	2,009	219.3	(28.9)
Other income	4,646	4,186	11.0	(5.0)
Interest-net	20	1.10	1718.2	1438.5
PBT	11,040	6,194	78.2	(20.6)
Tax	3,394	1,746	94.4	(24.7)
PAT	7,646	4,448	71.9	(18.7)
Equity Capital	6,011	6,011	0.00	0.00
FV	10	10		
Basic EPS	12.7	7.4	71.9	(18.7)

Quarterly Table

OIL India (Rs.mn)		Mar-13	Mar-12	YoY (%)	QoQ (%)
EBITDA Margin	%	37.1	22.6	14.4	(9.5)
EBIT Margin	%	27.0	11.7	15.3	(10.4)
Adj PAT Margin	%	32.2	25.9	6.3	(6.8)
Other Income/PBT	%	42.1	67.6	(25.5)	6.9
Tax/PBT	%	30.7	28.2	2.6	(1.7)
Expenses (Rs. Mn)		Mar-13	Mar-12	YoY (%)	QoQ (%)
staff costs	Rs. Mn	3670	3,574	2.7	15.4
Statutory Levies	Rs. Mn	7,315	5,189	41.0	(3.8)
Other Expenditure	Rs. Mn	4,199	4,427	(5.1)	105.9
Total	Rs. Mn	15,184	13,189	15.13	18.40
Expenses Ratio (%)		Mar-13	Mar-12	YoY (%)	QoQ (%)
RM to Sales	%	0.00	0.00	0.00	0.00
Employee to Sales	%	15.30	20.93	(5.63)	2.09
Statutory Levies to VoP	%	30.49	30.38	0.11	(1.11)
Other Exp. to Sales	%	17.50	25.92	(8.42)	9.03

Source: Company

Performance Analysis

We believe QoQ result comparison will give a better picture.

- Realization: In Q4FY13, OIL's net realized crude price was US$ 55.44/bbls versus US$ 38.92/bbls in Q4FY12 and US$ 52.59/bbls in Q3FY13. OIL's subsidy burden in Q4FY13 is Rs. 18.5 bn or US$56.0/bbl in crude price oil equivalent terms versus crude price equivalent of US$ 80.82/bbl in Q4FY12 and US$ 56.0/bbl in Q3FY13.
- Oil and gas production and sales volumes: In Q4FY13, OINL has produced crude oil and condensate of 1.10 MMT which is higher by 19.5% QoQ and by 14.99% YoY. Natural gas production of 0.648 bcm is down by 4.0% QoQ and by 1.41% YoY.
- Q4FY13, OINL's crude oil sale is 0.874 MMT down by 9.5% YoY and by 5.4% QoQ whereas gas sales stood at 0.511 bcm, lower by 4.7% QoQ.

- OINL's LPG sales stood at 11,919 Ton in Q4FY13 lower by 2.9% QoQ and by 1.0% YoY.
- Net Revenue: Net revenues for Q4FY13 were at Rs. 23.77 bn, up by 38.2% YoY but down by 1.5% QoQ. The top line is fallen mainly due to 1). Lower sales volume - crude oil, gas & LPG.
- Subsidy burden: In Q4FY13, OIL India shared Rs.18.49 Bn as subsidy burden which is lower by 5.1% QoQ and by 35.6% YoY. OIL's share of under recovery is mainly to IOCL (Rs.11.88 Bn) and BPCL (Rs.6.62 Bn). Among upstream companies, OIL India shared 12.54% of the total upstream subsidy which is 40 bps down QoQ and 333 bps YoY.
- Employee cost: Staff cost for Q4FY13 is at Rs. 3.67 bn, higher by 15.4% QoQ and by 2.7% YoY.
- Other expenditure: In Q4FY13, other expenses has increased by 105.9% QoQ to Rs. 4.2 Bn.
- Statutory levies: In Q4FY13, statutory levies has increased by 41.0% YoY due to increase in cess from Rs.2500/MT to Rs.4500/MT, resulting in additional burden. However, on sequential basis it has fallen by 3.6% due to lower production.
- In Q4FY13, operational profit has fallen by 21.7% QoQ to Rs.8.8 bn.
- Margin Pressure: The Company has seen pressure on its operating margin. In Q4FY13, the operating margin was 37.1% as against 46.6% in Q3FY13 on account of the reason mentioned above.
- Lower Depreciation, Depletion & Amortization (DD&A) expenses: In Q4FY13, DD&A expenses increased by 7.7% QoQ and by 27.3% YoY to Rs. 2.4 Bn. DD&A expenses increased mainly on account of higher dry well expenses w/off. The higher DD&A figure reflects higher write-off from dry wells at Rs. 915 mn versus Rs. 740 mn in Q3FY13 and Rs. 687 mn in Q4FY12.
- Lower other Income: Reported other income has fallen by 5.0% QoQ but up by 11.0% YoY to Rs. 4.6 Bn due to lower dividend income. We note that the company's cash and current investments have increased modestly to Rs. 131 bn on March 31, 2013 from Rs. 128 bn on March 31, 2012.
- PBT for Q4FY13 is at Rs.11.0 bn down by 20.6% QoQ but up by 78.2% YoY due to factors mentioned above.
- In Q4FY13, it has paid tax at the rate of 30.7% as against 32.4% in Q2FY13 and 28.2% inQ4FY12 due to higher other income.
- PAT for Q4FY13 is at Rs. 7.65 Bn down by 18.7% QoQ but up by 71.9% on YoY basis thereby translating into quarterly EPS of Rs.12.7.

Valuation & Recommendation- SOTP
Our positive view on OINL is premised on:

- 1) Relatively under-exploited resource base; 2) quality assets with relatively low finding and development costs; 3) resilient production growth; 4) strong balance sheet; 5) an attractive valuation; and 6) OINL's potential to maintain a reserve replacement ratio (RRR) of 1.
- In Q4FY13, OIL India has proposed a final dividend of Rs.7/share. The Company has also given an interim dividend of Rs.23/Share.
- We expect OINL to report an EPS of Rs. 69.7 FY14E. On the basis of our estimates, the stock at current market price of Rs.587 is reasonably valued at 8.4x P/E and 7.2x P/cash earnings on the basis of FY14E. We recommend ACCUMULATE on OINL with a revised price target of Rs.621. We are bullish on OIL India from medium to long term on account of key triggers such as 1). Increase in domestic gas price, 2). Regular diesel price hike resulting in lower subsidy burden.

We recommend Accumulate on Oil India with a price target of Rs.621

Our Accumulate rating and target price of Rs 621, comprises:

- Core business valued at P/E of 13x FY14E core EPS. We believe PE captures the uncertainty relating to the under-recovery, so we value OINL on a PE basis (value per share of Rs.353).
- OINL's investment in Venezuela (value per share of Rs.57)
- Investment in refinery is considered at book value (value per share of Rs.20.1)
- Cash at Rs.190/share (considered at a ~20% discount).

RESULT UPDATE

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CONTAINER CORPORATION OF INDIA

PRICE: RS.1075 **RECOMMENDATION: SELL**
TARGET PRICE: RS.975 **FY14E P/E: 14.3**

Concor continues to report small growth in profitability - No surprises

- Concor reported its Q4FY13 net profit at Rs 2.25bn (-1% YoY) ~ below our expectation of Rs 2.49 bn. Realizations have improved for both Exim and Domestic segment which was offset by falling lead distance. Due to Export Import imbalance increasing at all the ports, the empty running has also increased for the company. Other operating expenses have increased considerably as the company has provided for discount/rebates offered to customers to face the competition and regain market share. Consequently the operating margins of the company came in at 21.1 % falling by 320 bps QoQ. Revenues were reported at Rs 12.3 bn growing ~15% YoY primarily aided by improved average realisation (+13%YoY).
- We estimate the company to deliver 3% volume growth (both Domestic and Exim) for FY14E a, operating margins to sustain at ~22% and ROE of ~15%. The stock at CMP of Rs 1075 trades at 14.3 times FY4E earnings which we believe is overvalued for the estimated ~4% growth in profitability in FY14E. We value the company at 13 times FY14E EPS of Rs 75 per share. P/E of 13 x is at 25% discount to one year forward P/E of 17x for the company during high growth phase of FY06 to FY10. Recommend SELL with a target price of Rs 975. We recommend buying the stock only post healthy correction. Risk to our call includes:1) Rationalization of haulage charges by the IR or 2) Pick-up in containerized trade both in Exim and domestic segment.

Summary table

(Rs mn)	FY12	FY13	FY14E
Sales	40,608	44,059	46,321
Growth (%)	6.1	8.5	5.1
EBITDA	10,236	10,473	10,897
EBITDA margin (%)	25.2	23.8	23.5
PBT	11,349	12,117	12,197
Net profit	8,779	9,411	9,758
EPS (Rs)	67.5	72.4	75.1
Growth (%)	5.8	7.2	3.7
CEPS (Rs)	83.3	85.7	89.7
BV (Rs/share)	447.0	500.9	556.0
DPS (Rs)	17.0	18.5	20.0
ROE (%)	15.8	15.0	14.0
ROCE (%)	15.5	14.5	13.5
Net cash (debt)	27,615	29,500	31,558
NWC (Days)	(3.9)	(10.7)	(9.0)
EV/EBITDA (x)	13.6	13.3	12.8
P/E (x)	15.9	14.8	14.3
P/Cash Earnings	12.9	12.5	12.0
P/BV (x)	2.4	2.1	1.9

Source: Company, Kotak Securities - Private Client Research

Quarterly Snapshot (Standalone)

(Rs Mn)	Q4FY12	Q1FY13	Q2FY13	Q3FY13	Q4FY13
Revenues	10,711	10,369	10548	10828	12,314
Staff cost	293	275	279	299	220
Rail freight expenses	6,161	5,919	6,124	6,254	7,501
Others	2,018	1,503	1,571	1,642	1,999
Operating expenditure	8,472	7,697	7,974	8,195	9,720
EBIDTA	2,239	2,672	2,574	2,633	2,594
EBIDTA (%)	20.9	25.8	24.4	24.3	21.1
Other Income	1,126	823	809	841	899
Interest	0	0	0	0	0
Depreciation	397	407	423	442	456
Taxation	698	636	636	652	782
PAT	2,270	2,452	2,324	2,380	2255
Prior perod adjustment	0	0	1	2	0
Adjusted PAT	2,270	2,452	2,323	2,378	2255

Source: Company

Highlights of the quarter

- Revenues in the Exim segment were reported at Rs 9,673 mn (+15% YoY). Revenues in the domestic segment were reported at Rs 2,641 mn (+14%YoY). Overall revenue was reported at Rs 12.3 bn growing 15% YoY primarily aided by improved average realisation (+13%YoY).
- Realisation has improved for the company as it has taken an average hike of 12% in rail freight in the month of December to pass on the hike in haulage of Indian Railways.

- Operating margins of the company came in at 21.1 % falling by 220 bps YoY, primarily due to higher rail freight expense, higher empty running and higher other expense.
- With Concor having a cash reserve of Rs 29 bn, company has reported other income of Rs 899 mn
- Company would continue to be a MAT paying entity going ahead
- Consequently the company has reported PAT of Rs 2.25bn (-1% YoY) ~ below our expectation of Rs 2.49 bn.
- The company has announced a final dividend of Rs9.5share.Total dividend for FY13 is Rs 17.5/share

Volume and Realisation

Volume and realisation	Q4FY12	Q1FY13	Q2FY13	Q3FY13	Q4FY13
Exim volumes (TEUs)	535,575	532,539	528,148	522,926	568,421
Domestic volumes (TEUs)	124,907	96,346	106,175	113,894	117,237
Total volumes (TEUs)	**660,482**	**628,885**	**634,323**	**636,820**	**685,658**
Exim revenues (Rs Mn)	8,433	8,583	8,530	8,611	9,673
Domestic revenues (Rs mn)	2,278	1,786	2,018	2,217	2,641
Total revenues (Rs mn)	**10,711**	**10,369**	**10,548**	**10,828**	**12,314**
Realisation Exim/ TEU	15,746	16,117	16,151	16,467	17,017
Realisation Domestic/ TEU	18,238	18,537	19,006	19,465	22,527
Avg Realisation/TEU	**16,217**	**16,488**	**16,629**	**17,003**	**17,959**

Source: Company

- Total volumes have grown to 685,658 (+4% YoY). Volume in the Exim segment was reported at 568,421 TEUs (+6% YoY) while volumes have declined in the domestic segment by ~6% YoY to 117,237 Management attributed the fall in volumes to three things: 1) Slow growth in container volumes at all the major ports. 2) Frequent hike in rail haulage by Indian Railways which is impacting the margins and volumes and 3) Competition from private players. We expect domestic volumes to grow by 4% in FY14E to 4.51 lakh TEUs and Exim volumes to grow by 3% in FY14E to 22.1 lakh TEUs.
- Realizations were up in the quarter as the company has been taking marginal tariff hike on various routes to cover increasing operating cost. This hike in realisation was offset to some extent by falling lead distance with some originating volumes shifting from JNPT to Pipavav and Mundra for the company and also because of competition. Realization in the Exim segment has increased in Q4FY13 to Rs 17,017 per TEU (versus 15,746/TEU YoY). The realization have also increased in the domestic segment, as the company was able to pass on a significant portion (not entirely) of the rail haulage hike on certain commodities. However this hike is hurting the domestic volumes as the company has lost business of these commodities to either IR or roadways.

Empty running increasing due to EXIM imbalance adding to operational cost

- The company spent a total of Rs 1.88 bn in FY12 and Rs 59.6 mn in Q4FY13 (Rs 2.25 bn in FY13) as cost of empty running. The empty running has gone up for the company as the export import imbalance of containerized cargo for India increases with import growing at a faster pace to exports. There have been imbalances also at the ports with JNPT largely handling export cargo and Mundra and Pipavav handling import cargo. With these imbalances the company had to run increased number of empty rakes which has increased the empty running cost. We believe the problem of increased empty running is structural in nature and would continue to hurt the company for a long time.

Estimates large capex in logistics parks of ~Rs60 bn in XII plan

- Concor had earlier shared a capex plan of Rs 60 bn for the XII plan- FY12 to FY17E (Rs10 bn in FY13E) with plans to develop several logistics parks along the dedicated freight corridor. Such investments would have a long gestation period and may be returns dilutive in the near term. However, note that return dilution should be seen in the context that currently this capital earns returns attributable to cash only. While short-term pressure may exist, eventually business returns would exceed cash returns

We estimate overall volume growth of 1.6% in FY13E and 5.3% in FY14E

- Concor management in Q4FY13 concall had guided for a 9% growth in Exim volumes in FY14E versus about flat recorded in FY13 (handled volumes of 21.15 mn TEUs). We believe key risks to business lie in slower Exim growth on the back of slower GDP growth and negative global business sentiment. Furthermore, the recent Rupee depreciation (against US$) is also likely to impact import volumes, also leading to empty running. We also note that competition may also constrain incremental volumes with deployment of idle capacity. Consequently, we estimate Exim volume growth of 2.8 % in FY14E.We build in domestic volume growth of ~4% YoY in FY14E.

Container Volumes for Concor (000)

	FY10	FY11	FY12	FY13	FY14E
Exim TEUs	1,882	2,018	2,145	2,152	2,213
YoY %	1.5	7.2	6.3	0.3	2.8
Domestic TEUs	539	544	468	433	451
YoY %	18.9	0.9	-13.9	-7.5	4.2
Total	**2,421**	**2,561**	**2,613**	**2,585**	**2,664**
YoY %	4.9	5.8	2.0	-1.1	3.1

Source: Company, Kotak

Concor continues to increase rail freight across various categories

- Concor have been partially passing on any hike in rail haulage on both - Domestic and Exim segment to customers. Indian Railways have been regularly increasing rail haulage charges for container rail companies, which these companies are passing (partially) to the customers and which is impacting the volumes and profitability of these companies including Concor.

JNPT continues to key port for the company - Mundra continues to grow fast

- The company has increased its share of Exim business from Mundra and Pipavav to 36.5% in Q4FY13 versus 26.7% Q4FY12. This has been led by (1) spillover of industry container volumes to Mundra and Pipavav and (2) market share gains by Concor (especially at Mundra). The company said a significant portion of the volume growth in FY13 was primarily led by increased volumes from the Mundra port. However, JNPT continues to have a lion's share of the business with 50,6% share in Q4FY13 versus 54.7% in Q4FY12

Cash balance is healthy which yields significant other income

- Concor today has a cash balance of over Rs 29.5 billion on its balance sheet which would yield the company around 9 to 10% per annum. Consequently the other income for the quarter was higher at Rs 899 million.

Competition continuous to intensify - Private container rail business growing gradually

- Private operators are getting tie-ups (as Concor do) with shipping lines to drive their Exim volumes. Most private players have also accelerated their ICD expansion and rolling stock addition programme to get a share in the Exim business. Today all the private player put together operate about 140 rakes (versus 253 rakes of Concor). We estimate that Concor which has already lost 26% Exim business to private operators would lose further market share to private operators like In logistics Solutions, Boxtrans Logistics, Gateway Distriparks and Arshiya International.

Operational performance and cash flow generation continuous to be healthy

- Even though operational performance of Concor is not at historical high (ROE has fallen from 25% in FY07 to around ~15% in FY13), still it has one of the highest operating margins of 22% (Vs. 17% of GDL). Also we estimate strong operational cash flows of ~ Rs 13 bn in FY14E and healthy free cash flow of ~Rs 6 bn FY14E. The key reason for fall in ROE for the company is the fall in asset turnover - the asset turnover for Concor has fallen from 0.97 in FY08 to 0.71 in FY13. Similarly asset turnover has impacted the ROCE of the company. This is primarily due to competition where the asset + additional capex are not translating into revenue and profitability as it did historically for Concor.

Comforting factor is the Healthy balance sheet - zero debt, substantial cash balance and no funding issues

- We estimate Concor to spending around Rs 7 bn in FY14E towards capex. The cash balance of ~Rs 29 bn and operating cash flow of about ~Rs 13 bn in FY14E very comfortably supports such a capex. The company doesn't require taking high cost debt in these uncertain times.

Company continues to have a huge unutilized cash pile - dividend distribution is also low

- Average dividend payout for Concor for the last 6 years is around 23% with average net profit of ~Rs 8 bn. While the average capex is ~Rs 3.3 bn per annum. The above has resulted in a huge unutilized cash pile of Rs 29bn in the BS with no debt. Healthy cash position insulates the company from any downturn in global economy. Note: The Company has a big capex programme of Rs40 bn for XII plan (2012 to 2017)

Cash utilisation by Concor

Rs mn	FY07	FY08	FY09	FY10	FY11	FY12	FY13
Cash	10,776	15,226	17,689	19,895	23,636	27,615	29,500
Net Profit	6,797	7,335	7,795	7,840	8,299	9,776	9,411
Dividend	1,430	1,690	1,820	1,820	1,950	2,493	2,600
Payout (%)	21.0	23.0	23.3	23.2	23.5	25.5	25.5
Capex	1,090	2,528	4,723	2,278	4,150	5,386	10,000

Source: Company, Kotak

Outlook and Valuation

We recommend SELL on Container Corporation with a price target of Rs.975

- We are valuing Concor at 20% discount to its average one year forward for the last three years which comes at 13 x FY14E P/E and a target price of Rs 975/. Our value reflects the following :1) Slow growth in Exim trade (2) potentially slower Exim growth as exports growth slow and competitors shift capacity to Exim from domestic amidst slow domestic growth and frequent hike in rail haulage (3) declining margins and (4) Strong BS. In a slow growth competitive environment coupled with uncertainty of haulage hike by IR, we recommend sell with a target price of Rs 975.

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
RELIANCE IND	828.3	5.3	21.4	4.3
HOUSING DEV	929.5	2.6	11.3	2.4
HDFC BANK LT	715.1	2.0	7.8	2.3
Losers				
MAHINDRA & M	952	(1.7)	(2.3)	
CIPLA LTD	402	(1.7)	(1.1)	
MARUTI SUZUK	1,649	(1.6)	(1.0)	

Source: Bloomberg

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