Parsoli Corporation Limited

In Touch with Your Investment Needs

India Equities
Logistics

Initiating Coverage

Concor

BUY

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CMP	**Rs 871**
Target Price	**Rs 1,169**
Investment horizon	12 months
Sensex	14,482
Nifty	4,338

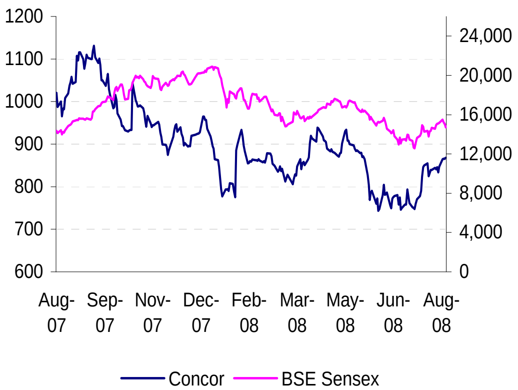
Stock Details

BSE Code	500285
NSE Code	CONCOR
Reuters Code	CCRI.BO
Bloomberg Code	CCRI IN
Market Cap (Rs cr)	11,326
Beta	0.30
52 W Low / High (Rs)	730.00 / 1170.00
Avg Daily Volume	18,651
Face Value (Rs)	10

Shareholding Pattern (%)

Promoters	63.09
MF/Banks/Indian FIs	6.21
FII / NRIs / OCBs	28.91
Indian Public	1.79

Price Chart



Investment Rationale

Competitive pricing structure & increased infrastructure spending key factors for growth: Considering the tremendous growth potential in the Indian Logistics industry, Indian Railways is planning to construct a multimodal high axle load freight corridor with computerized control on western and eastern routes at an estimated cost of Rs 220bn. Container Corporation of India Ltd (Concor) has planned an aggressive capital expenditure of approximately Rs 32bn over the next five years, considering the entry of new private players in the rail haulage business. Concor has a very strong presence on the back of solid infrastructure of ICDs and wagons with more than 20 years of experience in the Rail Logistics sector. On the back of its established position, Concor provides very competitive rates to large client-base. Private players can not provide cheap rates to its clients as they will have their infrastructure at very higher cost. Therefore, we expect Concor will not face any major competition in the short to medium term.

Domestic business to witness strong growth: We expect revenues from domestic business to grow at a CAGR of 9.2% to Rs 1,693cr between FY2008 and FY2017 due to an expected increase in volume (number of TEUs handled) on the back of improved port capacity, increase in company's network of ICDs/CFS as well as number of wagons because 80% of total investment plan of Rs 32bn to be spent on acquiring wagons within next five years.

Valuation: We have valued the stock on a weighted average price based on DCF and Relative Valuation (EV/EBITDA and Price/Sales) methods. We have assigned 60% weight to DCF method and 40% weight to Relative Valuation. As per our weighted average methodology, we have arrived at a target price of Rs 1,169 which represents a potential upside of 34.2%. Considering the robust growth potential within the industry and the company's strong efforts to expand its market size, **we recommend a Buy on the stock considering a 12 month investment horizon with a Target Price of Rs 1,169.**

Exhibit 1: Financial Summary

Particulars	FY2006	FY2007	FY2008	FY2009E	FY2010E
Net Sales (Rs cr)	2440.79	3045.98	3347.30	3762.22	4160.57
Total Income (Rs cr)	2494.94	3114.42	3511.77	3957.96	4385.67
PAT (Rs cr)	502.75	690.94	750.52	835.18	909.48
PAT Margin (%)	20.15%	22.19%	21.37%	21.10%	20.74%
EBIDTA Margin (%)	28.83%	29.91%	26.60%	26.05%	25.42%
EPS* (Rs)	38.66	53.12	57.86	64.24	69.96
P/E (x)	18.70	17.96	14.94	13.56	12.45
P/BV (x)	4.50	4.72	3.53	2.80	2.28
RoE (%)	24.04	26.26	23.63	20.66	18.34
RoCE (%)	30.11	31.79	24.35	21.81	19.68
EV/Sales (x)	3.50	3.64	2.77	2.32	1.98

*Source: Company data, Parsoli Research *past years EPS adjusted for bonus issue*

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Investment drivers

Concor has diversified into coastal shipping, road transport as well as air cargo business

Diversification into shipping & road transport to complement core business
Concor has a comprehensive plan to provide complete logistics services which supports its core business of transport logistics. The company has a plan to focus on backward and forward integration of various value-added services such as integrated freight terminal services, coastal shipping, etc. As part of the company's value chain, it has invited global bids from freight forwarding companies and feeder vessel operators. Concor plans to involve these shipping companies in a Special Purpose Vehicle (SPV) to develop, finance and operate international freight logistics services for catering to EXIM trade requirements of shippers. The company is also focusing on air cargo business by operating two air cargo complexes, one at Bangalore and the other at Nasik, in partnership with Hindustan Aeronautics.

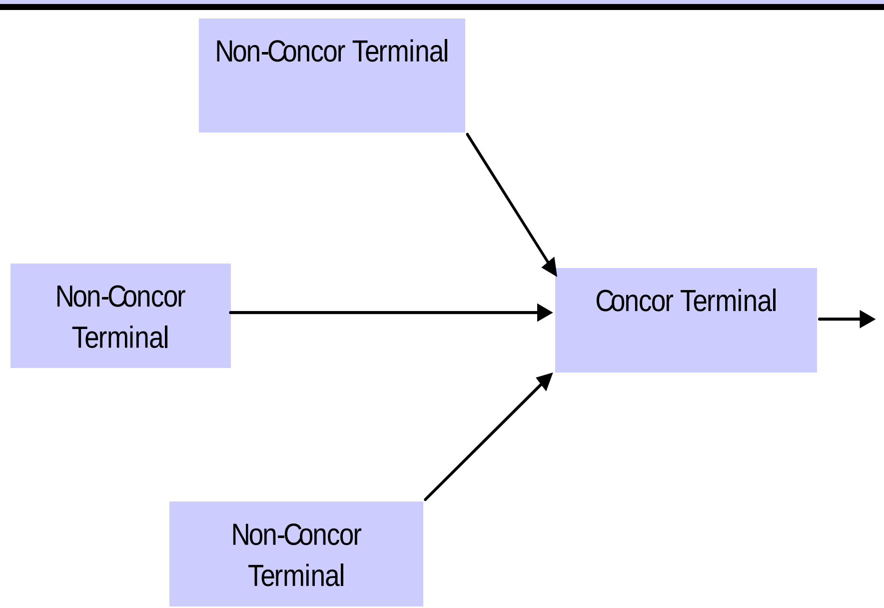
Hub & Spoke model will allow Concor to link road or short lead shuttle services to long lead point-to-point services

Hub & Spoke services make transportation services seamless and door to door by linking road or short lead shuttle services to long lead point-to-point services. It allows for long lead transportation services to be generated on the basis of short lead traffic collections using road and rail shuttle services. In India, there are many companies which have their country-wide or world-wide distribution presence but have their manufacturing facilities at very remote places. Hub & Spoke model smoothen out the distribution process by distributing products over various locations after picking it up from a remote production center. These services generally provide the need of very short haul transportation from production center to a main terminal. After arriving at main terminal it is transported to another terminal and then again distributed to various places using Hub & Spoke services.

Hub & spoke model will smoothen Concor's distribution process by distributing products over various locations after picking it up from a remote production center

Concor has started Hub & Spoke services by distributing the product over various locations after these services picked up from a single production center.

Exhibit 2: Hub & Spoke Model



Source: Company data, Parsoli Research

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Concor has set up a subsidiary (FHEL) for providing controlled atmosphere stores under its cold chain project

Cold storage logistics business to boost future revenue stream

Concor has diversified its revenues base through agricultural business for exploiting the opportunities for expansion of its core business. It has taken several initiatives by way of forming a large number of joint venture companies for various businesses, related to its core business. The cold chain project initiated by Concor is part of its initiatives for diversification. The company has formed a fully owned subsidiary called Fresh and Healthy Enterprises Ltd. (FHEL) for cold chain project. Cold chain is a logistic system that provides a series of facilities for maintaining ideal storage conditions for perishables from the point of production to the point of consumption in the food chain.

We believe there is shortage of cold storage facilities and refrigerated transport vehicles which lead to large amount of wastage of perishable goods, especially at the time of post-harvest. FHEL has set up controlled atmosphere stores under its cold chain project. It also provides end to end cold chain solution which includes nation wide logistics services from farm gate of wholesaler to retail marts.

Indian Railways is expected to construct a multimodal high axle load freight corridor at an estimated cost of Rs 220bn

Infrastructure developments to increase market size

Rail Vikas Yojana plans to improve capacity of existing rail infrastructure. As roads are a competitive mode of freight transportation only for shorter distances up to 400-500kms, for the current geographical size of India, the containerized movement of goods is more economical through rail for longer distances. In addition to that, movement of goods by roads also has higher environmental cost in terms of pollution which makes rail-based containerized movement more competitive. Indian Railways is expected to construct a multimodal high axle load freight corridor with computerized control on western and eastern routes at an estimated cost of Rs 220bn. Currently, trains handle only single stack containers, but a Dedicated Freight Corridor (DFC) will be allowed double stack containers of 25 tonne axle load, which will increase the cargo handling capacity by 25%. The length of a conventional goods train is 650m which runs at 75km per hour; whereas for DFC, train length will be 1.5 km and it will run at a speed of 100km per hour. Phase I of the Western Corridor will start from the JNPT Port connecting Baroda, Ahmedabad, Palanpur, Jaipur and Rewari to Tughlakabad and Dadri. Both the corridors will be joined by a link between Dadri and Khurja. The Eastern Corridor project will start from Ludhiana to Sonnagar via Ambala, Saharanpur, Khurja and Allahabad.

We believe an investment of Rs 590bn under NMDC will increase capacity of major ports three fold in the next five years which will enhance the current market size

In addition, an investment of Rs 590bn under NMDC will increase capacity of major ports three fold in the next five years which will enhance the current market size. We expect DFC and NRVY program, which is currently in progress, to de-congest rail infrastructure and improve freight traffic.

Competitive pricing structure

Concor has a dominant position in providing containerized cargo movement through rail in India. Though the government has allowed many private players to operate rail containerized cargo business, Concor has a very strong position in its business. Concor provides very competitive rates to a large client-base. Private players can not provide cheap rates to its clients as they will have their infrastructure at very higher cost.

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Dedicated freight corridors will also result in a quantum jump in capacity of container transportation and the hinterland connectivity to ports

Containerized cargo movement to increase going forward
In India, around 50% of EXIM cargo is containerized. We expect containerized cargo movement to increase consistently as in many developed countries where containerized cargo movement is approximately 70% of total EXIM cargo movement. The level of containerization is increasing every year by almost 5%. Concor presently owns 3,600 containers. About 8,000 containers are taken on operating lease bringing the total containers to about 12,000. Concor has a total capex plan of Rs 32bn over a period of five years, out of which approximately 80% is expected to be spent on acquiring wagons (rolling stocks). While acquiring new containers, Concor is also replacing its old containers, which have either out-lived their life or are beyond repair. As roads are a competitive mode of freight only for shorter distances of 400-500km and beyond this, movement of containers through roads is not competitive. Given the geographical size of India, the containerized movement of goods is more economical via rail for longer distances. Moreover, movement of goods by roads also has higher environmental costs in terms of pollution, which makes rail-based containerized movement more competitive.

The company expects the containerization of cement, iron ore and petroleum products to increase in the coming years. We expect Rail Vikas Yojana to improve capacity of the existing rail infrastructure. DFC will also result in a quantum jump in capacity and the hinterland connectivity to ports.

Over the 20 years of its existence, Concor has developed a solid infrastructure of ICDs and wagons, therefore we believe no major competition from private players in medium term

Over the last 20 years, Concor has built strong relationships with shipping lines and freight forwarders

Completion muted for medium term on the back of established presence
Concor had monopoly over container traffic movement carried through the railways till FY2006. In FY2006, the government opened up container movement by rail to private players. While there are likely to be concerns over Concor losing market share to the new players, we believe that Concor enjoys a competitive edge on account of its huge infrastructure. Over the 20 years of its existence, Concor has developed a solid infrastructure of ICDs/CFS (Inland Container Depot/Container Freight Station) and wagons, the two critical components in the logistics business. We believe its strong infrastructure will act as a barrier against any competition. ICD needs to be adjacent to the railway tracks to facilitate smooth flow of the container trains. Private operators are, however, facing difficulty in land acquisition as the land prices have increased in the recent past. Approximately 60% of the total cargo being transported between the western ports and the Northern hinterland, there has been a rush for land acquisition which has further led to increase in the prices. Usually, shipping companies have a minimum volume contract with the freight operator which ensures higher discounts for higher volumes. Shipping lines are one of the largest customers of Concor. Over the last 20 years, Concor has built strong relationships with shipping lines and freight forwarders.

Again, there is a time lag of 12-18 months to procure wagons. As Concor and Indian Railways already having placed large wagon orders, it would be difficult for new players to start operations on schedule. Importing wagons cost approximately 75% more than wagons locally produced. The main bottleneck for a wagon manufacturer is wheel set (four wheel sets per wagon) which has forced Concor to import wheel sets and supply to wagon manufacturers to fasten the process.

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We expect ICDs access charges to boost the revenues from private players due to lack of land availability

ICDs access charges to boost medium term revenues

Lack of availability of land for the ICDs has forced a few private players to have a tie-up with Concor. Concor has already signed MOUs (Memorandum of Understanding) with six private rail operators comprising of Central Warehousing Corporation, Hind Terminals Ltd, Boxtrans, Mundra International Container Terminal Pvt. Ltd, PRCL and India Infrastructure Logistics Pvt. Ltd. The MOUs broadly lay down the structure on infrastructure sharing between Concor and the private operators. We believe, the company has clear intentions of monetizing its vast infrastructure through 57 terminals and this is expected to be a huge revenue generator going forward.

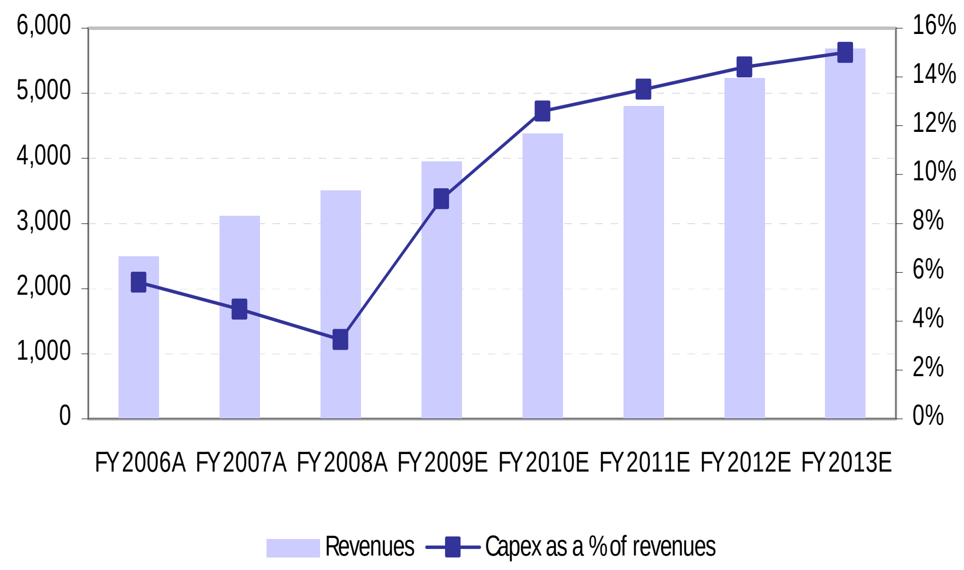
Concor has massive expansion plans considering huge growth potential

Aggressive capex plan to drive future revenues

Concor has an aggressive capex plan considering the entry of new private players in the rail haulage business. The company has a planned investment of approximately Rs 32bn over the next five years. Approximately, 80% of the planned investment will be spent on acquiring wagons and remaining 20% will be used for terminal expansion, containers acquisition and IT related supports such as communication VSAT network at all terminals with facility of online tracking of container traffic. The company has planned to add 5 more ICDs in FY2009. We expect the market size of rail based Logistics business to increase on the back of expansion/modernization of ports, growth in container based traffic and on the back of the government's different initiatives to improve infrastructure facilities. We expect the company's top-line to increase on the back of its aggressive capex plan which will tap increased market size going forward.

Concor plans to spend approximately 80% of total investment of Rs 32bn on acquisition of wagons over a period of 5 years

Exhibit 3: Revenues and capex plan (FY2006-FY2013E) Rs cr



Source: Company data, Parsoli Research

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Company Overview

Concor provides containerized freight transportation service by rail in India and is the life-line of country's EXIM trade

Concor was incorporated in March 1988 and began its operations in November 1989. Concor is a public sector undertaking with 63.1% stake being held by the Government of India, Ministry of Railways. Concor provides containerized freight transportation service by rail in India and is the life-line of country's EXIM (Export-Import) trade. The company provides more than 90% of inland transportation service rail and remaining through road and coastal shipping. As a transport service provider, Concor is the only player which provides containerized rail transport in India. Concor gets the benefit from the close relationship of Indian Railways. Indian Railways provides operational support to the company's ICDs situated in leased railway land. The strength of the company is its ability to provide transportation service according to the need of customer. The company has a strong network of state-of the-art terminals all across the country to capture traffic at the place of its origin. As the company has its strong relationship with Indian railways, a MoU between them provides guaranteed transit on 'liner corridors'. Until 2006, Concor operated in a monopoly market having sole right in railway freight container transportation in India.

Concor's core business is divided into three main activities: terminal operator through ICD/CFS, carrier and ware house operations

Concor helps shippers to obtain containerized freight transportation by rail in India. It also operates container terminals across the country to cater to the needs of the trade, whether in the export-import or the domestic business. Concor's core business is divided in to three main activities: terminal operator through ICD/CFS carrier and ware house operator. By coordinating these activities, the company provides smooth flow of containerized freight transportation service. Its main revenue stream is transportation of containers and storage, handling, and other value added services.

The company has 57 ICDs located across India and has a plan to set up 5 more ICDs in FY2009

The company has 57 ICDs and also has a plan to develop another 5 ICDs in FY2009. As the company has large number of ICDs, we believe that it will not be easy for other new players to replicate all these in next few years. The company has 20 terminals in Northern region, 8 terminals in Western region, 7 terminals in Eastern region, 9 terminals in Southern region, 5 in Central region, 4 in South Central region, 8 in North Western region and 6 in North central region. The ICD at Tughlakabad in Delhi is the company's flagship terminal. Concor also operates and maintains the most modern and sophisticated handling equipments such as a Rail Mounted Gantry (RMG) cranes, Rubber Tyre Gantry (RTG) cranes, and loaded and empty handling reach stackers to load and unload the containers from the train, truck and depot. The company owns 6,722 high speed wagons and 1,357 container flats. The company also uses 342 wagons of Indian Railways (IR).

The company generates its operational revenue from EXIM or domestic transportation service and other income such as interest and miscellaneous income. Both EXIM and domestic divisions of the company are engaged in handling, transportation and warehousing activities.

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We expect export-import activity to grow in India on the back of good corporate performance expectations, strong FDI flows in Automobile & Capital goods sectors and liberalized government policies in various sectors

EXIM business

Concor generates approximately 80% of its operating revenues from EXIM. The company has posted a 7.6% yoy increase to Rs 2,646.7cr in its EXIM business on the back of 15.3% increase in TEUs to 19,77,399 handled in its international business. EXIM business depends wholly upon the country's export-import trade. Going forward, we expect the country's export-import activity to grow at a CAGR of at least 15% for next three years on the back of expected good corporate performance, strong FDI flows in Automobile & Capital goods sectors and liberalized government policies in various sectors.

We expect domestic business of the company to boost future revenues on the back of improved port capacity, increase in company's network of ICDs/CFS as well as number of wagons

Domestic business

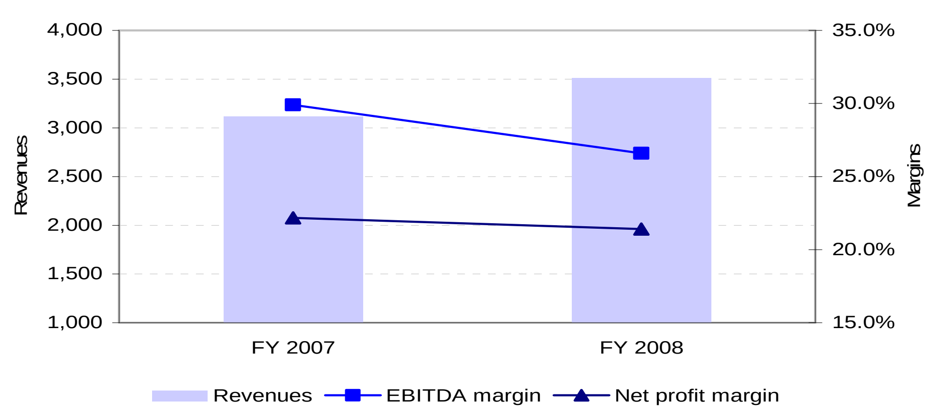
Concor generates approximately 20% of its operating revenues from domestic business. The company has posted a 17.3% yoy growth to Rs 700.6cr in its domestic business on the back of 20.7% yoy growth to 4,70,370 TEUs in its domestic business. Domestic business is mainly dependent upon country's GDP growth rate. Going forward, we expect country's GDP to grow at a CAGR of at least 8% for the next three years on the back various estimates declared for GDP by Government and renowned rating agencies.

FY2008 performance review

Operating revenues increased 9.9% yoy to Rs 3,347.3cr on the back of growth in both EXIM and domestic business in FY2008

Total revenues of Concor increased 12.8% yoy to Rs 3,511.8cr in FY2008 on the back of strong operating revenues. Operating revenues increased 9.9% yoy to Rs 3,347.3cr on the back of growth in both EXIM and domestic business. The revenues from EXIM business went up by 7.6% yoy to Rs 2,646.7cr due to 15.3% yoy growth to 19,77,399 TEUs handled in EXIM business. The revenues from domestic business increased 17.3% yoy to 700.6cr due to 20.7% yoy growth to 4,70,370 TEUs handled in domestic business. However, EBITDA margin declined 331bps to 26.6% due to 15.1% yoy increase in operating expenses on the back of increase in staff cost and rail freight expenses. Net margin witnessed 165bps yoy decline to 21.4% on the back of higher operating expenses partially offset by lower tax payments as a percentage of PBT during FY2008. Diluted EPS increased to Rs 57.86 in FY2008 from Rs 53.12 posted in FY2007.

Exhibit 4: Revenues, EBITDA and net margin (FY2007-FY2008) Rs cr



Source: Company data

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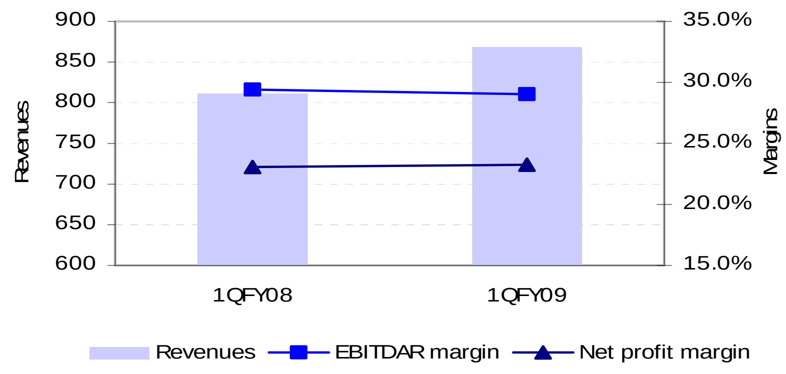
In Q1FY2009, the company's total revenues increased by 7.0% yoy to Rs 868.1cr on the back of strong operating revenues as well as other revenues

Net margin witnessed 18bps yoy increase to 23.2% on the back of increase in other income partially offset by higher tax payments as a percentage of PBT during Q1FY2009.

Q1FY2009 Performance review

In Q1FY2009, the company's total revenues increased by 7.0% yoy to Rs 868.1cr on the back of strong operating revenues as well as other revenues. However, operating revenues increased 6.0% yoy to Rs 822.8cr slightly negatively impacted by the Gujjar agitation in Rajasthan during the quarter and other income increased 29.1% yoy to Rs 45.3cr. However, EBITDA margin declined 36bps to 29.0% due to 6.6% yoy increase in operating expenses on the back of increase in staff cost and rail freight expenses. Net margin witnessed 18bps yoy increase to 23.2% on the back of increase in other income partially offset by higher tax payments as a percentage of PBT during Q1FY2009. Diluted EPS increased to Rs 15.53 in Q1FY2009 from Rs 14.39 posted in corresponding quarter, last year.

Exhibit 5: Quarterly revenues, EBITDA and net margin **Rs cr**



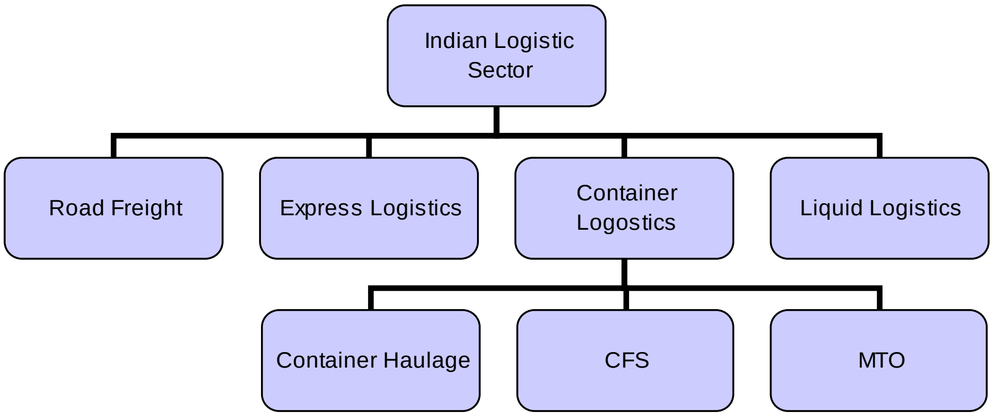
Source: Company data

Industry Overview

Indian Logistics sector can be divided primarily into four parts: Road Freight, Express logistics, Container logistics and Liquid logistics

Indian Logistics sector can be divided primarily into four parts. In India, there are very few major players in this sector which provide one or more kinds of logistic services mentioned below.

Exhibit 6: Indian Logistics industry



Source: Parsoli Research, Allcargo

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While Road Freight industry is mostly based on transportation using different type of trucks, Express transportation is achieved by using a variety of transportation modes

Road Freight Transport

Road Freight transport is nothing but, transportation using different type of trucks. Market size of this industry is approximately Rs 700bn. This industry generates considerable employment opportunities and is highly fragmented.

Express Logistics

The main function of this industry is to provide door to door transportation within a short period of time such as 1-3 days. Express transportation is achieved by using a variety of transportation modes, viz. trucks, vans, trains, passenger aircraft, freight aircraft as well as on-foot delivery. Though express companies prefer surface transport, air transportation is used in cases, where the transit time makes it impossible for goods to be delivered by surface transport. The main players in Road Freight and Express Logistics are TCI, Blue Dart and Gati.

Container Logistic can be classified as container haulage, CFS services and MTO

Container Logistics

Container Logistics can be further classified into container haulage, CFS services and MTO (Multimodal Transport Operator). According to Ministry of Shipping, the combined containerized traffic at all ports stood at 6.2mn TEUs (Twenty Feet Equivalent Units) in FY2007. Among all ports in India, JNPT and Chennai together account for approximately 65% of total cargo handled. The containerized traffic in India is expected to grow at 16% CAGR to 13.0mn TEUs between FY2007 and FY2012. The share of containerized cargo is approximately 16% of total cargo handled at major ports of India.

About 30% of India's container cargo of approximately 7.0mn TEUs every year is transported by rail and the rest by road ways. In Rail transportation, Concor has over 93.0% of market share based on number of TEUs handled in FY2008

Container Haulage business involves movement of containers between ports and CFS or ICD. MTO business involves transportation of LCL (less than container load) and FCL (full container load) using different modes of transportation like sea, rail and road. The operators act as standalone service providers in the supply chain and acts as a link between customer and various other service providers. Therefore, it hardly owns any asset. CFS business involves containerized transportation to/from ports, stuffing/de-stuffing of containers, general and bonded warehousing and custom clearance. Concor and Gateway Distriparks are in Container Haulage and CFS industries while Allcargo Global is in CFS and MTO industries. About 30% of India's container cargo of approximately 7.0mn TEUs every year is transported by rail and the rest by road ways. In Rail transportation, Concor has over 93.0% market share based on number of TEUs handled in FY2008.

Bulk Liquid Logistics

This segment involves sourcing, shipping, storing and distribution of liquids like petroleum products, gas, petrochemicals, inorganic & organic chemicals and vegetable oils. Operators in this industry provide different services like Shipping Agent, Surveyor, CHA Agent, Octroi Agent, and transporters. The main player in this industry is Aegis Logistics in India.

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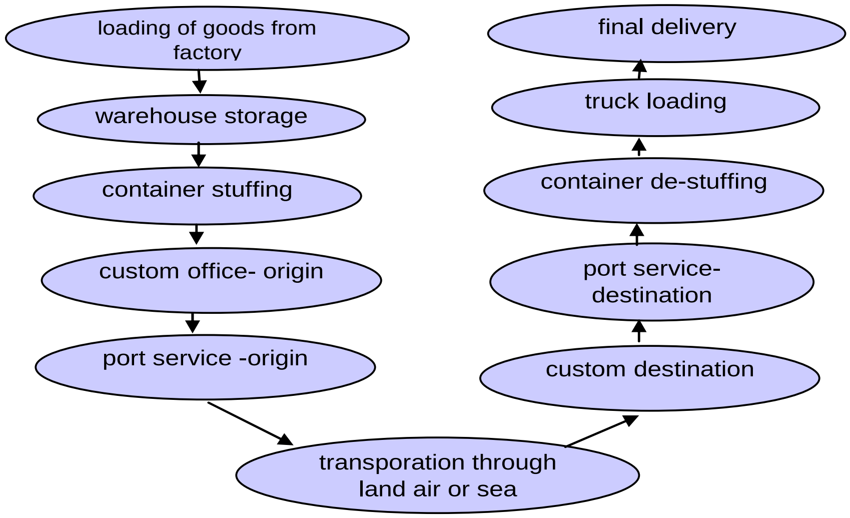
ICDs/CFS operators provide stuffing, de-stuffing as well as warehouse service which plays an important role in the supply chain of Indian logistic industry

How Supply chain operates

Exhibit 7: Supply chain for Indian Logistics industry



Source: Parsoli Research

Regulations for setting up of ICDs & entering into rail haulage business

Inter-ministerial Group examines the feasibility of ICDs, land requirement, design and layout, equipment, rail head and tariff

After 1992, to monitor the growth of ICD/CFS, a regulatory authority in the form of Inter-Ministerial Group (IMC), under the chairmanship of Additional Secretary (Infrastructure), Ministry of Commerce was set up. Amongst other things, IMC examines the feasibility of ICDs, land requirement, design and layout, equipment, rail head and tariff. Till 2006, there were about 245 ICDs/CFS which had received approvals from IMC.

According to new guidelines, an operator will have to invest in land, terminal, tracks connecting to nearest rail head of Indian Railway and also in rolling stocks/ containers

According to new guidelines, an operator will have to invest in land, terminal, tracks connecting to nearest rail head of Indian Railway and also in rolling stocks/ containers. While 11 out of 14 new entrants have Category I license for JNPT to NCR route, 4 companies have opted for route specific license for category II and III. Private operators are required to set up their own terminals with railway siding and allowed to co-use others' terminals.

Growth drivers for Logistics industry

The prospects of Indian Logistics sector is closely related with the growth in key economic indicators such as GDP and foreign trade growth. We expect approximately 8% per annum growth in GDP for the next three years in India. We also expect at least 15% per annum growth in foreign trade for the next three years. The industry being driven by rising export with the aid of outsourcing, government investment on port infrastructure and the entry of private players in the industry; is undoubtedly on a road to success. Following are the key drivers for Logistics industry:

Increased outsourcing of logistic services & FDI

Many major companies want to concentrate on their core business activities and they have started outsourcing the logistics function. Increased flows of FDI in automobile, retail and capital goods will further boost the need of logistics services.

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Favorable investment environment and being a key outsourcing destination for MNCs are likely to drive demand for container traffic in India.

Hugh investment for ports to benefit containerized business activities

An investment of Rs 558bn has been earmarked for National Maritime Development Program (NMDP) port projects in order to handle additional projected traffic of 615mn tonnes at major ports by 2012. Favorable investment environment and being a key outsourcing destination for MNCs are likely to drive demand for container traffic in India.

With expected rise in container volumes, we believe companies which provide ancillary services like CFS and ICD, wagon manufacturers, MTO, container terminal operators, the entire construction sector, etc. would be key beneficiaries. We believe Allcargo Global, Concor and Gateway Distriparks would be major beneficiaries due to increase in containerized traffic.

Containerizing- the next biggest growth driver

Previously, only basic goods were suitable for shipment in containers. However, today most items can be shipped in a container. It has been estimated that 75% of total general cargo can be containerized. Currently, the containerization level is at 47% as compared to 80% globally which shows that there is still room for growth driven by improvement in infrastructure.

Private players are required to pay a license fee of Rs 500mn or Rs 100mn to railways depending on the route on which they operate

Rail containerization permitted for private players

The ministry of railway has allowed entry of private players in the rail container business, earlier dominated by Concor, in order to boost container traffic. Fourteen private container train operators have signed the model concession agreement (MCA) with the railways. Private players have to pay a license fee of Rs 500mn or Rs 100mn to railways depending on the route they operate. As per MCA, private players will have to invest on their own in ICDs and wagons which make this business quite capital intensive.

Peer comparison

Rail logistic business faces stiff competition from shipping industry due to capacity and efficiency constraints of rail based transportation

The Indian logistics market is one of the most rapidly growing sectors in the world with a significant number of freight forwarders, shipping companies, terminal operators, logistics service providers and ware house service providers. We expect Logistics sector to perform well on the back of increased investment on the infrastructure and consumer spending. Rail logistics business faces stiff competition from shipping industry due to capacity and efficiency constraints. Again, transportation through ship costs lesser when compared to rail transportation.

Rail transportation industry faces competition from road transport. Railway haulage is a cheaper mode of transportation as compared to roadways. Rail transportation is approximately 25-30% cheaper than roadways over longer distance. In spite of being cost effective, railways' share has remained low because of longer lead-time due to infrastructure bottlenecks at railways. Congested rail network and preference of passenger train over container train are the primary reasons for longer lead-time. However, the share of railways can improve substantially, once the freight corridor commences.

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The Government has permitted 14 private companies to operate as rail haulage service provider, full market share of Concor will be diluted with growing market size

We expect competition to intensify in terminal service business as many players are aggressively increasing their CFS/ICD network

Concor has a depreciated asset base, which translates into a low per-unit fixed cost. Private players will not have such an advantage as they need to set up infrastructure at much higher costs, which will result in higher depreciation and interest costs.

Competition within railway haulage industry

As the Government has permitted 14 other companies to operate as rail haulage service provider, full market share of Concor will be diluted with growing market size. The management of Concor has taken the competition as an opportunity to improve the productivity and efficiency to provide better customer service. Government has permitted 14 private companies like Adani Logistics, CWC, GDL, Hind Terminal, Indian Infrastructure & Logistics, Dinesh Emirates, Reliance Industries, Mundra Int. Container Terminal, Sical, Mediterran Shipping Company, Delhi Assam Roadways Corporation, Bothra Shipping, JM Baxi & Co and Pipava Rail Corporation to operate as rail transport service provider. We expect Concor to face competition in rail haulage service in medium to log term from these players as it requires huge investment in wagons, containers and other related infrastructure supports. Concor has already signed MoU with 8 out of 14 permitted private sector players for co-share and co-use resources basis. All players are expected to follow pricing rational despite market fragmentation as IR is expected to hike rail haulage charges twice a year. Any increase or decrease of rates is normally passed on to exporters and importers. Concor has biggest rail based transportation share of over 93% with 2.4mn TEUs handled in India.

Competition within ICDs/CFS industry

We expect competition to intensify in terminal service business as many players such as AllCargo Global are aggressively increasing their CFS/ICD network across the country.

Exhibit 8: Peer comparision for FY2008

Ratios	Concor	Allcargo Global	Gateway Distriparks	Balmer Lawrie
EBITDA margin (%)	26.6%	21.7%	54.1%	8.3%
Net margin (%)	21.4%	16.2%	48.2%	5.4%
D/E ratio (%)	0.0	0.04	0.02	0.10
Diluted EPS (Rs)	57.86	28.61	7.88	40.81
Market Capital (Rs cr)	11325.6	1875.1	1076.8	635.3

Source: Company data, Parsoli Research

In terminal business, Concor faces competition from AllCargo which had started its first CFS at JNPT in FY2003 and two more CFS at Chennai and Mundra. Concor has started a Joint Venture with AllCargo to set up a new CFS at Noida with 84,000 TEUs p.a. which is expected to start in Q2FY2009. Gateway Distriparks is the first to come in container railway haulage service as a private sector player. Concor has a depreciated asset base, which translates into a low per-unit fixed cost. Private players will not have such an advantage as they need to set up infrastructure at much higher costs, which will result in higher depreciation and interest costs. Concor has higher margins compared to AllCargo and Balmer Lawrie in FY 2008 due to its established presence in rail logistics and terminal operator business. Concor has delivered highest EPS in FY 2008.

Concor

BUY

We expect revenues from domestic business to grow at a CAGR of 9.2% between FY2008 and FY2017 due to an expected increase in volume on the back of improved port capacity and the company's expansion plan

The company has a capex plan of Rs 20bn for rolling stock and expansion/modernization of ICDs network for the period FY2009-FY2011

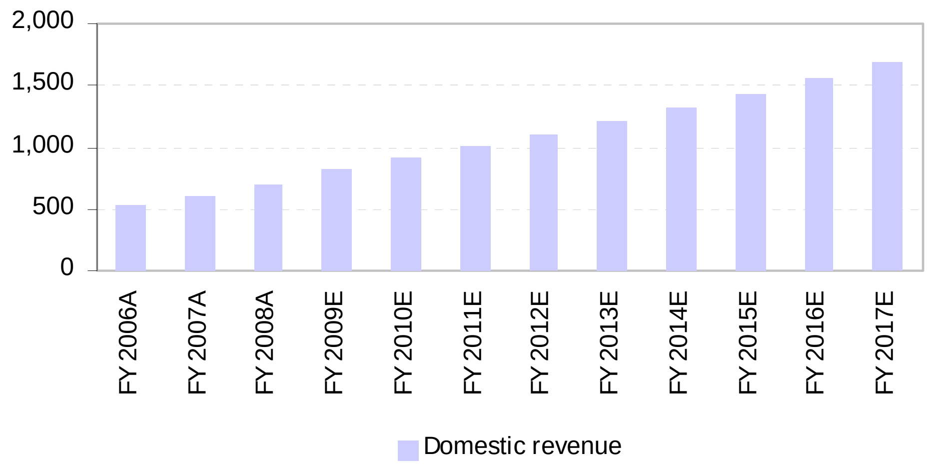
We expect EBITDA margin and net margins to decline going forward on the back of the company's policy of giving discount when IR increases railway haulage charges

Financial Performance

Domestic revenues expected to post strong growth

We expect revenues from domestic business to grow at a CAGR of 9.2% to Rs1,693.6cr between FY2008 and FY2017 due to an expected increase in volume (number of TEUs handled) on the back of improved port capacity, increase in company's network of ICDs/CFS as well as number of wagons. The company has a capex plan of Rs 20bn for rolling stock and expansion/modernization of ICDs network for the period FY2009-FY2011. Going forward, we expect the company's domestic business to perform well on the back of its various plans to venture into shipping and contract logistics business to provide end-to-end logistics solutions.

Exhibit 9: Domestic revenues (FY2006-FY2017E) **Rs cr**



Source: Company data, Parsoli Research

Margin expected to decline due to company's policy of providing discounts

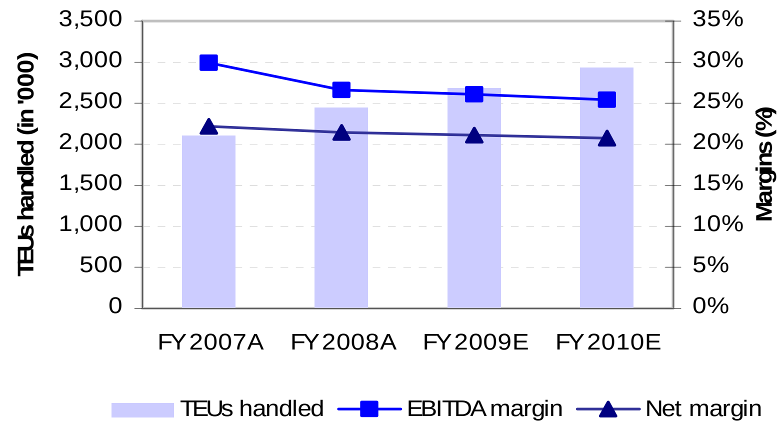
Going forward, we expect margins to decline on the back of company's policy to play in the bulk business by providing attractive discounts to its customers. Normally, Concor increases its railway haulage charges after IR's decision of increasing its haulage charges to maintain its margin picture. However, the company does not increase its charges in the same proportion. We believe Concor is likely to follow same strategy going forward to retain its customers and will provide bulk business discounts policy in the scenario of rising railway haulage charges by IR. This strategy of Concor will likely impact the margins. Therefore, we expect EBITDA margin and net margins to decline going forward. Over a period of two years, EBIDTA margin is expected to decline by 118bps to 25.4% and net margin is expected to decline by 68bps to 20.7% in FY2010.

Concor

BUY

We expect volume of the company's business will increase at greater pace while margins will go southward on the back of increase in competition in the long term

Exhibit 10: Volume and margin expectation (FY2007-FY2010E)



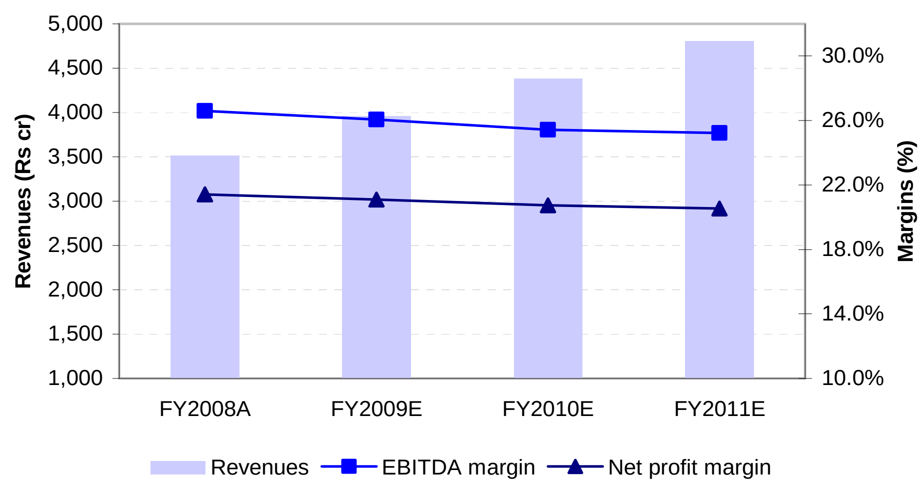
Source: Company data, Parsoli Research

On the back of its established position, we expect revenues of Concor to grow at a CAGR of 8.1% between FY2008-FY2011

Positive earnings outlook

Currently, the company has a network of 57 ICDs/CFS. Going forward, the company has a plan to set up 5 more ICDs in FY2009 and has a capex plan of approximately Rs 32bn over the next five years. Approximately, 80% of the planned investment will be spent on acquiring wagons and remaining 20% will be used for terminal expansion and acquisition of containers. Therefore, we expect strong revenue flow going forward. Between FY2008A-FY2011E, we expect revenues to grow at a CAGR of 8.1% to Rs 4,803.3cr on the back of its strong leadership position as well as aggressive capex plan.

Exhibit 11: Revenues, EBITDA and net margin (FY2008-FY2011E) **Rs cr**



Source: Company data, Parsoli Research

Concor

BUY

Intense pricing pressure over a sustained period could have a significant impact on Concor's bottom line

Lack of storage and warehouse facilities may pose challenges in the scenario of increasing capacity of ports on the back of newer ICDs/CFS

Since the country's growth has positive correlation with the Logistics industry, Concor's performance will be affected if India's growth will slow down going forward

Major Concerns

Entry of new players is likely to lower Concor's market share
Entry of new players in container transportation could lead to aggressive pricing war as smaller players will try to get market share. Intense pricing pressure over a sustained period could have a significant impact on the company's bottom line.

Efficiency & capacity constraints may shift traffic from railways to roadways, thereby affecting company's business prospects
Since last two years there was a decline in market share of railway based transportation mainly due to efficiency constraints in railways. Though rail transportation is the cheapest mode of transport than road transport, we expect market size may get affected by inexperienced new players where efficiency is the major concern. In addition, lack of storage and warehouse facilities may pose challenges in the scenario of increasing capacity of ports on the back of newer ICDs/CFS. Indian Logistics industry is very fragmented in nature, we believe efficiency of the good transport and storage will be the key concern going forward.

Container traffic growth, to a large extent, is dependent on the growth in capacity at the various major ports in India. It is expected that traffic will grow at 15-17% CAGR for the next couple of years. Any delay in capacity addition at the major ports can significantly hamper the growth in container traffic and subsequently Concor's performance.

Economic slowdown may have an adverse impact on company's performance
The Logistics industry has witnessed strong traffic growth due to robust economic growth in India. However, India faces the risk of economic slowdown in future. Since the country's growth has positive correlation with Logistics industry, Concor's performance will be affected if India's growth will slow down going forward.

Changes in regulatory environment may impact negatively in the long run
The market in which the company operates is highly regulated. Any changes in oil prices or on tax structure declared by regulatory authorities will have an impact on company's margins. In addition to this, Concor is subject to a variety of agreements and Joint Ventures. There is no assurance that an agreement between Concor and other party will continue going forward. Any unfavorable regulatory changes will have an adverse effect on the business of Indian logistics companies.

Concor

BUY

Valuation

We have valued the stock based on weighted average of DCF and Relative Valuation methods

For valuing the company, we have used the Discounted Cash Flow (DCF) and comparative valuations based on EV/EBITDA and Price (Market capital)/sales multiple. The DCF method values the stream of future cash flows discounted to the present day using the company's Weighted Average Cost of Capital (WACC), and as such is a good measure of the company's value in absolute terms. While a comparative valuation using EV/EBITDA methodology helps in comparing the company's enterprise value with respect to its operating performance prior to non-cash and finance expenditures, Market cap/sales multiple aids in comparing the current market value of the company with respect to its sales as compared with its peers. We have taken a 12 month investment horizon for this stock.

Comparative valuation

EV/EBITDA method gives a target price of Rs 1,161 per share

Concor is currently trading at an EV/EBITDA of 10.73x, which is at a discount of 26.2% to the current peer group average of 14.53x. Concor had higher margins as compared to AllCargo and Balmer Lawrie and delivered highest diluted EPS among its peers in FY2008. Going forward as well, we expect Concor to trade at higher EV/EBITDA multiple. Therefore, we are assigning a multiple of 11.75x to value the stock which is higher than current EV/EBITDA multiple enjoyed by the stock. Employing this target multiple on our FY2010 EBITDA estimate of Rs 1,057.7cr, we arrive at a target price of Rs 1,161 per share which represents the potential upside of 33.2% from current levels.

Using the Price/TTM Sales method we arrive at a target price of Rs 1,178 per share

The stock currently trades at a price/TTM Sales of 3.64x, which is at a discount of 8.2% to the current peer group average of 3.64x. Concor had lower price/sales TTM multiple compared to its peers, AllCargo and Gateway Distriparks. We expect price appreciation of the stock to outpace its sales growth over next 12 months. Therefore, we are assigning price/TTM Sales 3.68x to value the stock. Employing this target multiple on our FY2010 sales estimate of Rs4,161cr, we arrive at a target price of Rs1,178 per share which represents a potential upside of 35.2% from current levels.

DCF valuation

Using the DCF valuation method, we arrive at a 12 month target price of Rs 1,169 for the stock, which represents a potential upside of approximately 34.2% from current levels. We have based our valuation on the following assumptions:

By using the DCF method, we arrive at target price of Rs 1,169 per share

WACC of 10.85%: We have assumed a risk-free rate of 9.50% which is minimum acceptable risk free return available on Indian government long term securities. We have derived the WACC by multiplying the cost of equity (which stands at 10.85%), and tax-adjusted cost of debt (which stands at 0.00% as the company does not have debt in its balance sheet) with 100% weight to its cost of equity. This yielded a WACC of 10.85%.

Terminal growth rate: We have developed an explicit Free Cash Flow (FCF) estimates for FY 2009 to FY 2017. Thereafter, we have assumed a perpetual growth rate of 4.0%.

Concor *BUY*

We expect wagon acquisition order from private players to be fulfilled only after 12-18 months due to large orders from Concor and IR

After a recent correction in the world market, Concor is available at very attractive market price. Therefore, we strongly expect Concor to perform well for 12 months time horizon on the back of its aggressive expansion plans and established position.

Weighted average price

We assign a weight of 60% for the DCF method, 20% for EV/EBITDA method and 20% for the price/sales method, as the weighted average valuation reflects our estimate of intrinsic value. We thereby arrive at a fair value of Rs 1,169 for the stock considering an investment horizon of 12 months, which indicates a potential upside of 34.2% from current levels.

Exhibit 12: Weighted Average Pricing for Concor Stock

Pricing Methodologies	Weight assigned	Target price	Weighted average price
Target price using DCF approach	60.0%	1,169.35	701.61
Target price using EV/EBITDA approach	20.0%	1,160.62	232.12
Target price using P/sales approach	20.0%	1,177.76	235.55
Weighted average target price (Rs)			1,169.28
Current common stock price (Rs)			871.20
Upside/(downside) from current levels			34.22%

Source: Parsoli Research

Future Outlook and Conclusion

We expect revenues to increase at a CAGR of 8.3% between FY2008 and FY2017 to Rs7,485.5cr mainly due to the company's domestic business on the back of its aggressive plan to expand its network of ICDs/CFS and acquiring wagons. The company has a plan to invest Rs 32bn over a period of next five years. The revenues from domestic business are expected to grow at a CAGR of 9.2% for a period between FY2008 and FY2017 due to an expected increase in volumes on the back of terminal expansion plan during the same period. Going forward, we expect EBITDA margin and net margin to decline on the back of increase in competition as well as the company's policy's of giving bulk discount to its customers.

We expect Logistics industry to perform well on the back of various infrastructure development activities such as ports expansion/modernization and different company's expansion plans for setting up ICDs/CFS. Concor has a strong presence in its industry with more than 20 years of experience which is not available with newly entered private players in the Rail logistics industry. Therefore, we do not expect the company to face any major competition in the short to medium term. Again, acquiring wagons and availability of land for ICDs/CFS for rail transportation requires huge investment from private players. In addition to this, Concor and IR had already put big order for acquiring wagons from suppliers. We expect wagon acquisition order from private players to take at least 12-18 months timeframe. In this scenario, Concor has an advantage of early presence in this industry. After a recent correction in the world market, Concor is available at a very attractive market price. Therefore, we strongly expect the stock to perform well for 12 months time horizon on the back of its aggressive expansion plans and its established position. **We recommend a BUY on the stock with a Target Price of Rs 1,169.**

Concor

BUY

Financial Statements

Exhibit 13: Income Statement (Consolidated) — Rs cr

Particulars	FY2006	FY2007	FY2008	FY2009E	FY2010E
Net Sales	2440.79	3045.98	3347.30	3762.22	4160.57
% chg	*N.A*	*24.8%*	*9.9%*	*12.4%*	*10.6%*
Total Expenditure	1737.23	2135.06	2456.93	2782.03	3102.86
% chg	*N.A*	*22.9%*	*15.1%*	*13.2%*	*11.5%*
EBIDTA	703.56	910.92	890.37	980.19	1057.71
Margin (%)	*28.8%*	*29.9%*	*26.6%*	*26.1%*	*25.4%*
Other Income	54.15	68.44	164.47	195.74	225.10
Depreciation & Amortisation	84.86	91.94	106.34	118.74	131.57
Interest	0.22	0.00	0.00	0.00	0.00
PBT	672.63	887.42	948.50	1057.19	1151.24
Margin (%)	*27.0%*	*28.5%*	*27.0%*	*26.7%*	*26.3%*
Total Tax	169.88	196.48	197.98	222.01	241.76
(% of PBT)	*25.3%*	*22.1%*	*20.9%*	*21.0%*	*21.0%*
PAT	502.75	690.94	750.52	835.18	909.48
Prior period items & Tax adjustments	0.13	0.39	1.69	0.00	0.00
Adj. PAT	502.62	690.55	752.21	835.18	909.48
% chg	*N.A*	*37.4%*	*8.9%*	*11.0%*	*8.9%*
Margin (%)	*20.15%*	*22.17%*	*21.42%*	*21.10%*	*20.74%*

Source: Company data, Parsoli Research

Exhibit 14: Balance Sheet — Rs cr

Particulars	FY2006	FY2007	FY2008	FY2009E	FY2010E
SOURCES OF FUNDS					
Equity Share Capital	64.99	64.99	64.99	64.99	64.99
Reserves & Surplus	2026.18	2564.84	3118.93	3976.72	4894.67
Net Worth	2091.17	2629.83	3183.92	4041.71	4959.66
Total Loans incl Deffered tax	143.84	161.31	173.68	188.18	202.62
Capital Employed	2235.01	2791.14	3357.60	4229.89	5162.27
APPLICATION OF FUNDS					
Gross Block	1793.61	2025.33	2244.24	2600.46	3153.05
Less: Acc. Depreciation	381.71	473.81	579.09	697.83	829.40
Net Block	1411.90	1551.52	1665.15	1902.63	2323.65
Capital Work-in-Progress	165.54	202.83	172.08	192.73	202.37
Investments	129.38	131.70	155.36	158.47	161.64
Current Assets	888.42	1362.00	1902.11	2593.45	3163.20
Current Liabilities	360.23	456.91	537.10	617.38	688.58
Net Current Assets	528.19	905.09	1365.01	1976.06	2474.62
Miscellaneous Expenditure	0.00	0.00	0.00	0.00	0.00
Capital Deployed	2235.01	2791.14	3357.60	4229.89	5162.27

Source: Company data, Parsoli Research

Concor

BUY

Exhibit 15: Key Ratios					
Particulars	**FY2006**	**FY2007**	**FY2008**	**FY2009E**	**FY2010E**
Per Share Data (Rs)					
EPS	38.66	53.12	57.86	64.24	69.96
Cash EPS	45.19	60.19	66.04	73.38	80.08
DPS (incl tax on dividend)	10.55	10.83	12.87	15.34	17.95
Book Value	160.86	202.29	244.92	310.90	381.51
Returns (%)					
ROE	24.04	26.26	23.63	20.66	18.34
ROCE	30.11	31.79	24.35	21.81	19.68
Dividend Payout Ratio	1.46	1.14	1.49	1.76	2.06
Valuation Ratios (x)					
P/E	18.70	17.96	14.94	13.56	12.45
P/CashEPS	16.00	15.85	13.09	11.87	10.88
P/BV	4.50	4.72	3.53	2.80	2.28
EV/Total Sales	3.50	3.64	2.77	2.32	1.98
EV/EBITDA	12.40	12.45	10.91	9.36	8.19

Source: Company data, Parsoli Research

Exhibit 16: Cash Flow Statement					**Rs cr**
Particulars	**FY2006**	**FY2007**	**FY2008**	**FY2009E**	**FY2010E**
Profit before tax	670.13	882.25	948.50	1057.19	1151.24
Depreciation & Amortisation	83.26	93.58	106.34	118.74	131.57
Change in Working Capital	(25.12)	26.82	11.36	37.50	20.34
Direct taxes paid & Fringe Benefit Tax	(238.38)	(225.29)	(191.29)	0.00	0.00
Other Non-cash Exp/(Inc)	(0.11)	(0.35)	(0.20)	0.00	0.00
Cash Flow from Operations	548.07	728.73	719.30	1213.43	1303.15
(Inc.)/Dec. in Fixed Assets	(174.67)	(139.62)	(113.63)	(356.22)	(552.59)
Cap WIP	(10.15)	(37.29)	30.75	(20.65)	(9.64)
Free Cash Flow	363.25	551.82	636.42	836.56	740.92
Inc./(Dec.) in Investments	(45.38)	(2.32)	(23.66)	(3.11)	(3.17)
Inc./(Dec.) in Capital	N.A	N.A	N.A	N.A	N.A
Inc./(Dec.) in Loans	(10.60)	0.00	0.00	0.00	0.00
Dividend paid (incl. tax)	(137.09)	(140.81)	(167.26)	(199.40)	(233.29)
Interest paid (Net)	(0.23)	0.00	0.00	0.00	0.00
Cash Flow from Financing	(147.92)	(140.81)	(167.26)	(199.40)	(233.29)
Inc./(Dec.) in Cash	126.49	386.25	458.91	634.06	504.45
Opening Cash balances	549.85	676.34	1062.59	1521.50	2155.56
Closing Cash balances	676.34	1062.59	1521.50	2155.56	2660.01

Source: Company data, Parsoli Research

Glossary

ICD/CFS (Inland Container Depot/Container Freight Station): The primary function of the CFS or ICD is warehousing and handling of the cargo. CFS/ICD play a critical role in port logistics by providing consolidation/deconsolidation of the cargo, bonded warehousing, custom clearance and logistics services to the final destination. Almost similar in terms of working, CFS is situated near the port and ICD at the hinterland.

TEUs (Twenty Feet Equivalent Units): Twenty Feet Equivalent Units are usually built on the basis of ISO standards, and are used for the movement of conventional dry cargo in the containerized form.

MTO (Multi Transport Operator): It provides a chain that interconnects different modes of transport - air, sea and land into one complete process that ensures an efficient and cost-effective movement of cargo.

DISCLAIMER