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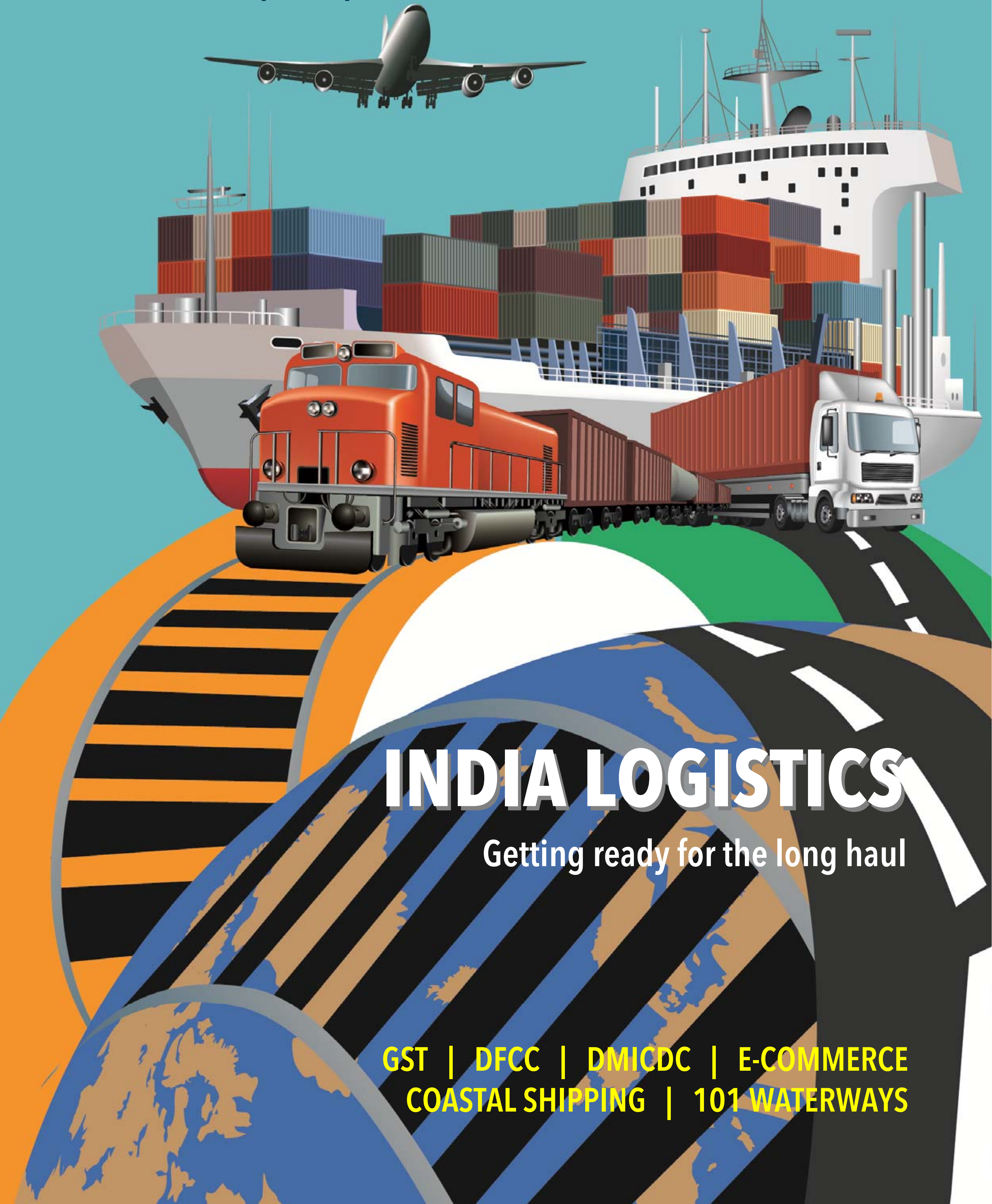

INDIA LOGISTICS

Getting ready for the long haul

GST | DFCC | DMICDC | E-COMMERCE
COASTAL SHIPPING | 101 WATERWAYS

India Logistics

Getting ready for the long haul

INDIA | LOGISTICS| Sector Update

9 August 2016

Why read this report?

- India's logistics network is insufficient to support its expected GDP growth of +8% and would require overhauling rather than incremental change.
- Road and rail transport is under severe pressure while water transport is not developed. Logistics is the backbone of economic growth and investments in road, rail, and waterways are critical to maintain smooth and efficient movement of goods.
- With policy support, the significant reorientation of cargo towards rail and coastal shipping, which are more economical than road.
- Logistics stocks have already outperformed with significant rerating in earnings multiples. However, we believe the sector still offers great investment opportunities over the long term. Along with higher growth, logistics players will also see improvement in return ratios because of capital efficiency.
- We maintain BUY on Allcargo while initiating coverage on Navkar and Gateway Distriparks with a BUY recommendation.

GST implementation to rationalise tax structure

As a result of the new GST tax model, individual state administrative borders are likely to become irrelevant for most industries, driving rationalization of logistics operations and infrastructure. Major changes after GST: (1) consolidation of warehouses, (2) improved efficiencies due to reduction of trade barriers, (3) revaluation of sourcing and manufacturing decisions, and (4) growth in free-trade warehousing (FTWZ) and multimodal logistics parks (MMLP). Changing dynamics of the retail industry have shifted focus to the consumer from the supplier – delivering products in less time is gaining importance.

Container trade to witness secular growth

Container cargo now constitutes 20% of total cargo at major ports from 14% in 2004. Container traffic has remained one of the highest growing cargoes in India historically; we see it continuing to grow at a GDP multiplier of around 1.5x and the shift to containerisation from bulk cargo to persist. Logistic players – Concor, Allcargo, and Gateway – with businesses related to container movement and trade, are uniquely placed to benefit from growing international trade.

DFCC: Container train operators to benefit

Dedicated freight corridors (DFCs) and industrial corridors will strengthen India's logistic network infrastructure. Development of DFCs would result in enhancing the market share of rail freight as this is a more efficient, safe, and economical option. DMICDC and multimodal logistics parks (with common user facilities) will give a good chance to private container rail operators to expand businesses with a level playing field. The container train operators will benefit significantly with (1) an improvement in the rail network, (2) increase in asset turnaround, and (3) rationalisation of haulage charges.

Revival of coastal and inland water

Coastal shipping accounts for less than 6% of total domestic freight movement, even though it is approximately 60% more economical, safer, and less polluting than road transport. The government plans to lower India's logistics costs (as % of GDP) to around 9-10% from current 13%. To do this, it plans (1) significant investment in waterways, (2) to provide an enabling environment, and (3) to focus on developing waterways with institutional arrangements. This fits in nicely with the government's mission of a 'clean India' and 'Make in India' besides reducing cost of transportation, accidents, and environmental pollution.

Companies

Navkar Corporation	
Reco	BUY
CMP, Rs	205
Target Price, Rs	288
Gateway Distriparks	
Reco	BUY
CMP, Rs	272
Target Price, Rs	363
Container Corporation of India	
Reco	Neutral
CMP, Rs	1435
Target Price, Rs	1530
Allcargo Logistics	
Reco	BUY
CMP, Rs	186
Target Price, Rs	200
VRL Logistics	
Reco	SELL
CMP, Rs	312
Target Price, Rs	316
Aegis Logistics	
Reco	NOT RATED
CMP, Rs	122
Blue Dart	
Reco	NOT RATED
CMP, Rs	5,680
Transport Corporation of India	
Reco	NOT RATED
CMP, Rs	355
Gati Ltd	
Reco	NOT RATED
CMP, Rs	164
Snow man Logistics	
Reco	NOT RATED
CMP, Rs	73
Sical Logistics	
Reco	NOT RATED
CMP, Rs	154

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INDEX

Companies Section

Indian logistics overview

Operationally, logistics is mainly divided into transportation, storage and warehousing, and distribution. Currently, India uses road transport more extensively vs. rail and waterways, thereby increasing cost of transportation. In storage and distribution, contribution of third party logistics (3PL) activity is significantly lower and major focus is on freight forwarding.

Transportation

- Road
- Rail
- Air
- Water /Sea

Storage

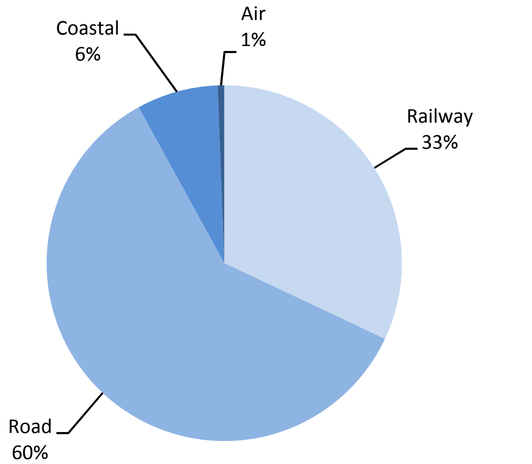
- Godown
- Inland container depot (ICD)
- Bonded warehouse
- Cold storage warehouse
- 3PL warehouse

Distribution

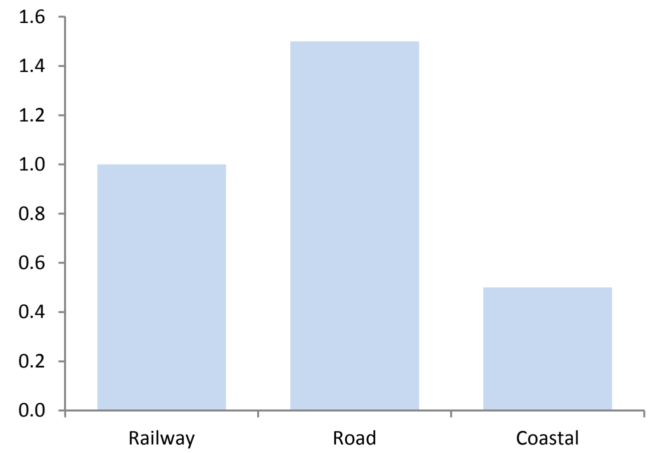
- Stock-keeping units
- Express distribution
- Unorganised; mainly through small carriers

India mostly uses the costliest mode of transport – roads

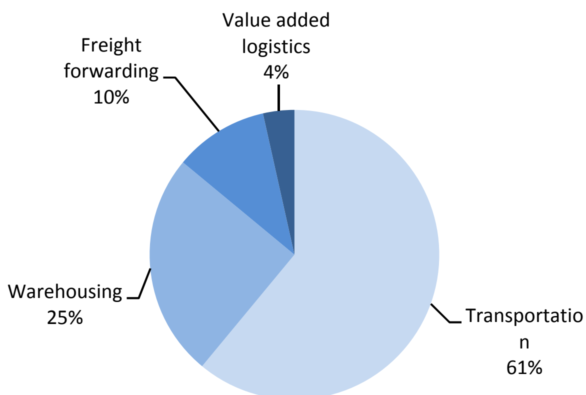
Modal mix



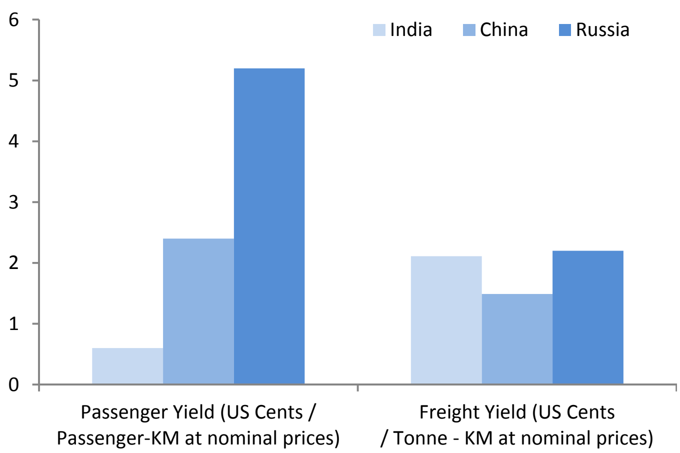
Cost per tonne per km (Rs)



Logistics is driven by basic need of transportation & storage

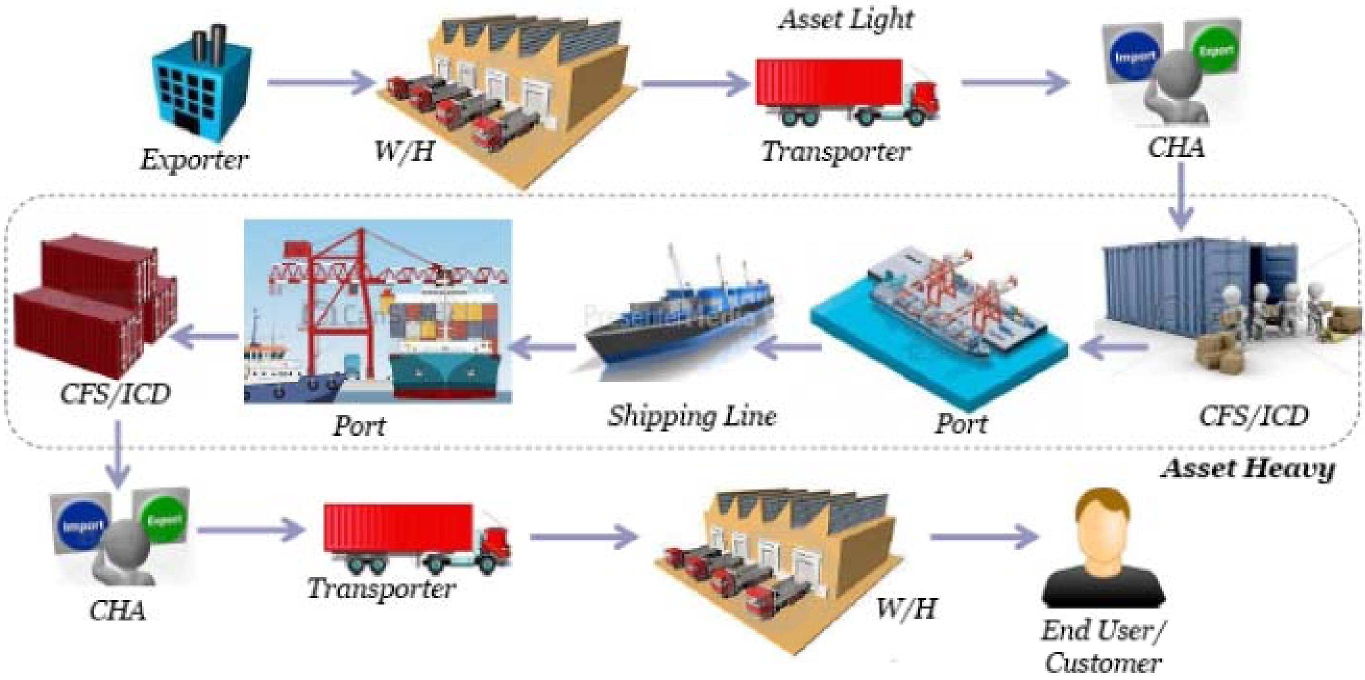


In India rail passengers are subsidised



Source: Industry, World Bank, PhillipCapital India Research

Typical flow of material: Multimodal logistics for exim containers



W/H: Warehouse, CHA: Custom house agent, CFS: Container freight station, ICD: Inland Container Depot

Leading logistics players' business profile

	Road Transport	Container Rail	Express Logistics	Coastal Shipping	NVOCC	CFS	FTWZ	Cold Chain	Project Engineering	Equipment leasing	3PL
Blue Dart	✓		✓								
Concor	✓	✓				✓					
Allcargo				✓	✓	✓			✓	✓	✓
Navkar	✓	✓				✓		✓			
Gateway	✓	✓				✓					
Arshiya In	✓	✓					✓				
VRL	✓		✓								
TCI	✓	✓	✓	✓					✓		✓
Gati	✓		✓					✓			✓
Aegis											✓
Sical	✓	✓		✓		✓					✓
Snowman	✓							✓			
Patel Int.	✓		✓								✓

Source: Company, Bloomberg, PhillipCapital India Research Estimates *(Note: Based on material revenue contribution)*

Key Financials

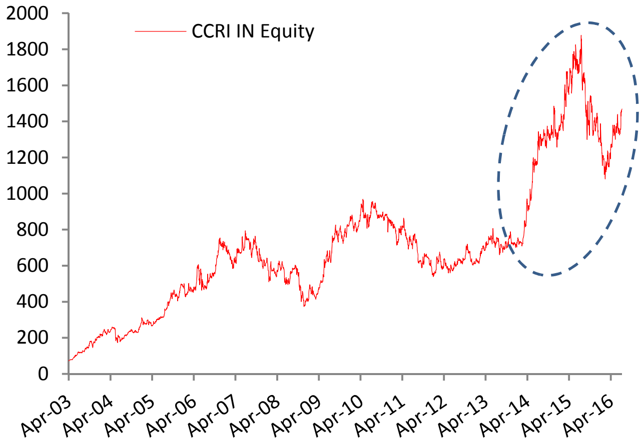
Company	Blue Dart	Concor	Allcargo	Navkar	Gateway	VRL	TCI	Gati	Aegis	Sical	Patel Int.	Snowman
MCap (Rs mn)	**134,786**	**279,825**	**46,872**	**29,233**	**29,566**	**28,467**	**27,005**	**14,386**	**40,748**	**8,562**	**1,667**	**12,191**
EV (Rs mn)	**135,936**	**254,182**	**51,470**	**31,812**	**30,257**	**32,819**	**30,375**	**18,601**	**41,711**	**19,813**	**2,106**	**13,432**
P/E (x)												
FY16	69.9	35.5	16.9	26.2	27.0	27.8	33.1	39.3	36.0	60.2	20.1	59.2
FY17	72.0	28.0	14.5	19.0	25.0	25.6	31.0	31.1	32.3	30.4	16.5	106.6
FY18	59.4	22.6	11.2	12.8	15.6	19.8	24.8	23.1	24.1	21.2	10.7	68.0
P/B (x)												
FY16	33.5	3.5	2.1	2.2	3.1	5.5	3.9	3.0	8.8	3.1	1.6	2.8
FY17	26.8	3.1	1.9	2.0	3.0	5.0	3.8	2.9	7.7	2.9	1.5	2.8
FY18	21.4	2.8	1.7	1.8	2.8	4.4	3.4	2.7	6.6	2.6	1.4	2.7
EV/EBITDA												
FY16	35.6	25.7	5.0	21.2	13.9	11.7	15.4	14.2	22.5	18.4	9.3	26.3
FY17	35.2	20.0	8.2	12.1	14.2	11.0	13.3	12.4	18.8	15.2	8.3	22.6
FY18	30.7	15.0	6.5	8.8	10.4	9.1	11.6	10.6	14.7	12.7	6.3	18.0
P/Cash EPS (x)												
FY16	49.0	24.3	10.9	22.3	15.6	14.8	19.2	19.2	29.8	13.7	13.5	23.9
FY17	47.6	20.2	9.7	14.9	14.9	13.7	16.6	16.6	25.9	11.4	9.5	23.4
FY18	40.1	16.0	7.7	10.7	10.5	11.6	14.0	13.7	19.9	9.3	6.4	19.6
RocE (%)												
FY16	40.5	12.7	13.1	8.1	12.5	20.0	13.1	9.2	22.4	4.1	12.2	4.7
FY17	35.1	14.1	13.6	12.4	11.8	20.3	13.3	10.3	22.3	5.4	13.1	5.9
FY18	41.9	15.9	15.8	16.0	16.5	24.8	14.4	11.5	24.7	6.3	16.0	6.6
D/E (x)												
FY16	1.0	0.0	0.2	0.4	0.2	0.6	0.6	0.9	0.4	4.3	0.6	0.3
FY17	0.8	0.0	0.3	0.3	0.2	0.5	0.7	0.9	0.5	4.0	0.6	0.5
FY18	0.4	0.0	0.2	0.2	0.2	0.4	0.6	0.8	0.4	3.7	0.6	0.7
Key Financials (Rs mn)												
Revenue												
FY16	25645	57426	56879	3473	10509	17225	25214	16671	22132	8352	5114	2401
FY17	26674	65834	62738	6850	11218	18616	27182	19113	37694	9396	5616	2201
FY18	29341	78388	71439	8960	12862	20802	30380	21800	45404	10631	6179	2720
EBITDA												
FY16	3817	10815	5220	1501	2487	2677	1968	1309	1853	1078	217	507
FY17	3859	13543	6201	2693	2470	2800	2280	1495	2218	1300	257	641
FY18	4427	17591	7566	3597	3382	3318	2618	1746	2845	1566	343	809
PAT												
FY16	1928	7876	2783	1117	1096	1023	816	366	1133	142	84	206
FY17	1872	9978	3238	1542	1181	1111	872	463	1260	282	102	132
FY18	2268	12360	4193	2276	1893	1440	1089	623	1691	403	157	175
Capital Employed												
FY16	8150	83484	28184	19103	15082	9212	11078	11630	7600	18261	1740	5351
FY17	9165	93351	33586	19170	16151	9436	12003	12126	9037	18516	1830	6104
FY18	8772	102413	36040	20624	17148	9745	12958	12759	10529	19400	2022	7204

Source: Company, Bloomberg, PhillipCapital India Research Estimates

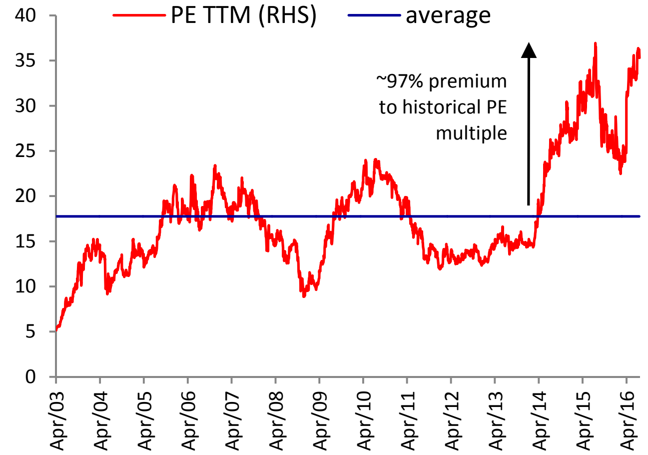
Significant sector rerating; will it sustain?

Logistics stocks have been rising since 2014 on broader hopes of GST and an economic recovery. However, their performance was mainly driven by a rerating in their earnings multiples (see charts below). Concor and Gateway are trading at ~97% and 70% premium to their historical average PEs of 18x and 17x respectively while Allcargo is close to its average PE multiple of 16x.

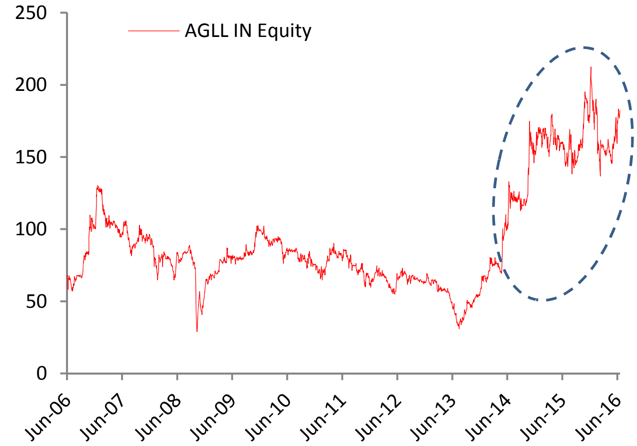
Container Corporation price performance



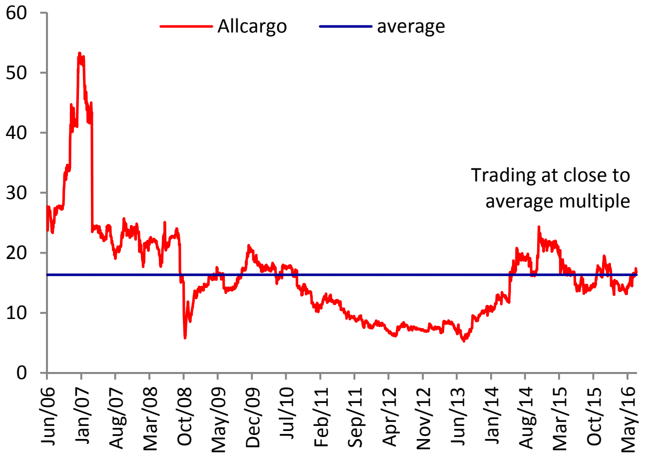
P/E trailing 12 months



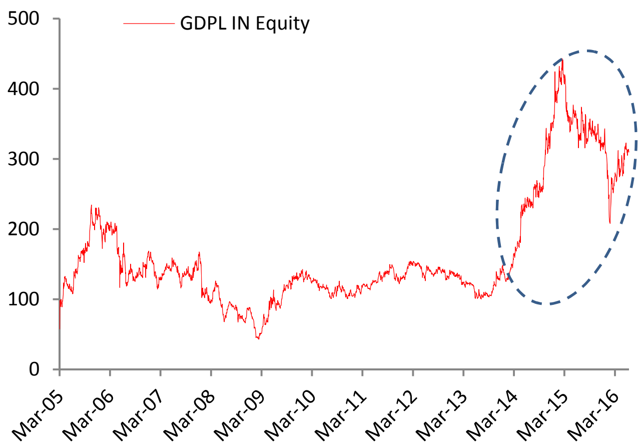
Allcargo Logistics price performance...



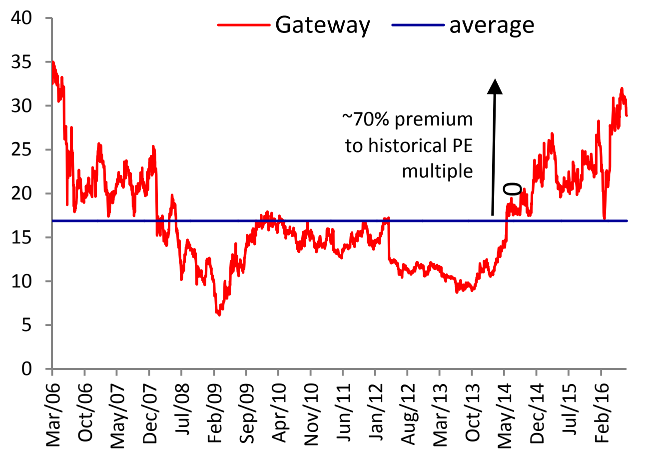
...P/E trailing 12 months



Gateway Distriparks price performance...



...P/E trailing 12 months



Source: Ace Equity, PhillipCapital India Research

Where does India stand in the logistics space?

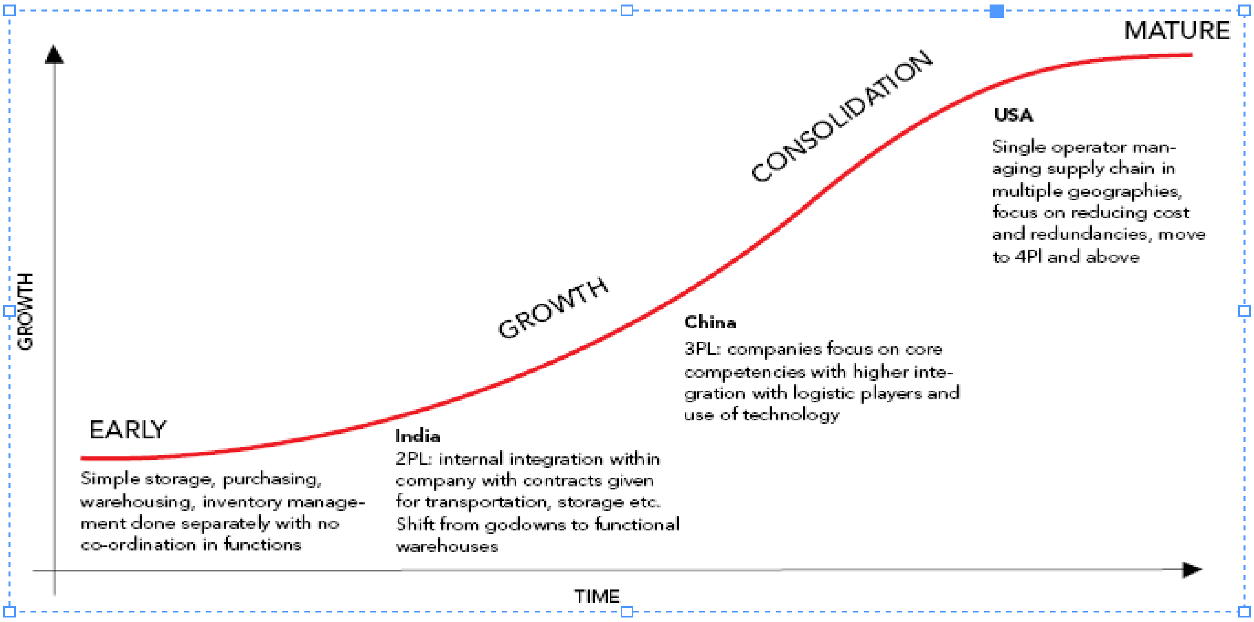
Lots of opportunities, but quite behind in terms of service level and value add

India is burdened with high logistics costs – about 15% of the value of goods compared to 6-8% in other developed/developing countries. India's average cost to export or import one container is about 72% higher than China's (direct cost comparison).

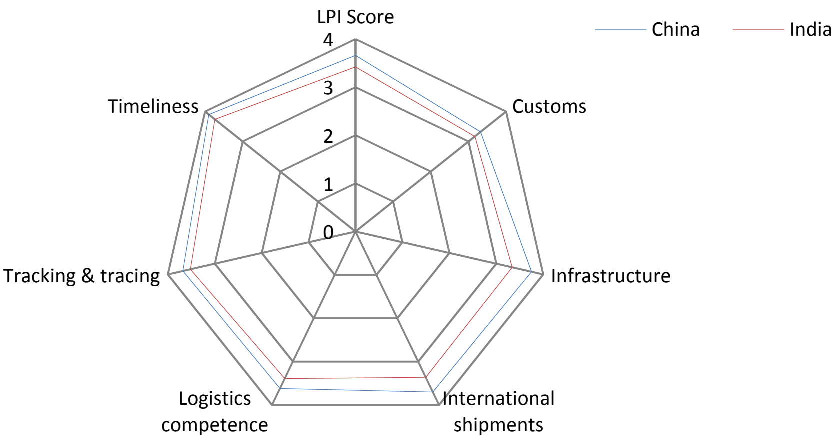
India is unique in both the opportunities and challenges that it presents in logistics. Inadequate infrastructure has resulted in an inefficient logistics network created using smaller warehouses to save on state taxes, resulting in higher costs and increased inventory levels for companies. Third-party logistics outsourcing is at a nascent stage, but provides growth opportunities for organised players. We believe India has a long way to go to in bringing in an efficient modal shift in cargo transportation and improving the supply chain.

Inadequate infrastructure has resulted in an inefficient logistics network, created using smaller warehouses to save on state taxes

Logistics growth life cycle



India logistics performance vs. China



Source: World Bank database

Due to its insufficient infrastructure, India ranks 32nd on global competitiveness. Within BRICS economies, India is below South Africa (20) and China (27), while it is above Brazil (55) and Russia (99). Roads dominate – making up for about 60% of total freight traffic. Rail/coastal shipping account for about 33%/6%, while inland waterways transportation and air is less than 1% each. Logistics costs (% of GDP) in China are higher than India due to higher share of manufacturing.

India ranks 32 on global competitiveness in logistics due to insufficient infrastructure

India logistics compared to USA and China

	USA	China	India
Logistics Performance index (LPI 2016)	**Score:3.99 (Rank 10 /160)**	**Score: 3.66 (Rank 27/160)**	**Score: 3.45 (Rank 35/160)**
Agricultural GDP %	1.2	10.1	17.0
Industry DGP %	19.1	46.9	18.0
Service GDP %	79.7	43.0	65.0
Logistics spent as % of GDP	8.5	18.0	14.0
Warehousing as % of GDP	2.8	8.1	4.1
Total container handled (mn TEU)	43.0	180.0	12.0
Road network (mn km)	6.5	4.0	4.8
Rail network (km)	2,40,000	1,00,000	65,000
Coast line (Km)	19,924	14,500	7,500

Source: World Bank, Industry, PhillipCapital

Rail network: Lots needs to be done

Indian rail network is fourth largest after the US, China, and Russia. It is the largest passenger carrier in the world. India has historically had sub-optimal investment in transportation. In the last 64 years, freight loading has grown by 1344% and passenger kilometres by 1642%, while railway capacity (route kilometres) have grown by only 23%!

In the last 64 years, India's railway capacity (route kilometres) has grown by only 23%!

Share of transport in public sector expenditure: Five Year Plans (%)

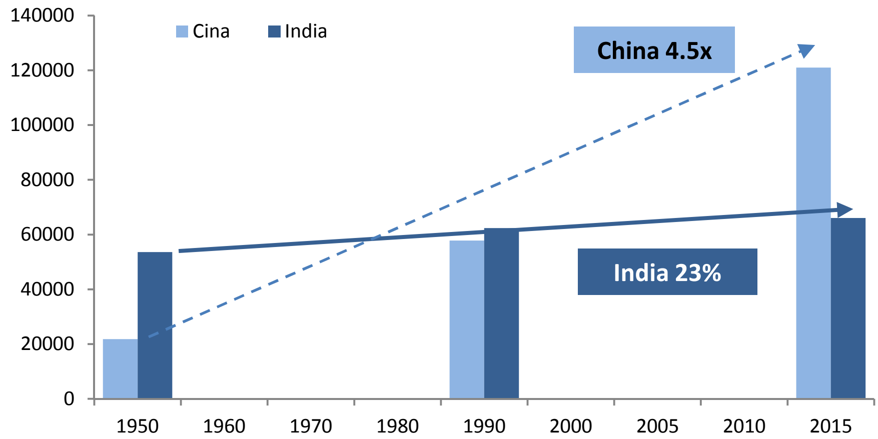
Sector	1st to 6th Plan (1951-85)	7th plan (1985-90)	8th plan (1992-97)	9th Plan (1997-2002)	10th plan (2002-07)	11th Plan (2007-12)
Railways	46.4	56.1	49.1	38.2	35.7	29.7
Roads	28.5	21.5	24.4	39.9	45.6	39.9
Road transport	7.6	7.3	5.9	5	2.4	2.3
Ports	6.3	5.1	3.5	4.2	1.4	3
Shipping	4.7	2.4	5	2.5	1.3	1.3
Light house	0.1	0	NEG	NEG	NEG	0.02
Inland water transport	0.4	0.6	0.2	0.3	0.2	0.4
Civil Aviation	6.1	6.6	11.4	5.8	3.6	7.9
Pradhan Mantri Gram Sadak Yojana	0	0	0	4.1	7.5	13.4
Other transport	0	0.2	0.4	0	2.1	2.1
Total (Rs bn)	255	295	656	1,196	2,422	6,472
Total Public Sector expenditure (Rs bn)	1,797	2,187	4,855	8,140	16,185	37,510
Transport sector % of total public sector expenditure	14.2	13.5	13.5	14.7	15.0	17.3

Source: Planning commission

Indian Railways has suffered from considerable under-investment during the last several years. It has added a track length of ~3,700km in 25 years (since 1990). In contrast, China has set up 30,500km of new railway lines in just three years (2012-15) at a cost of CNY 3.58tn and is investing CNY 2.8tn to lay out 23,000km over 2016-20 and targets +270,000km by 2050.

The Indian government targets increasing railways' share in local transport to 45% by 2030 from 33% right now, with the development of six freight corridors. In 2016-17, it aims to commission 2,800km of track at ~7km per day vs. an average of about 4.3km per day in the last six years. Its plans is to construct ~19 kms of railway network per day with an investment of about Rs 8.5tn in the next four years.

Increase in railway track length (km)



Source: PhillipCapital research, Indian railway, World bank

Poor spending on inland waterways

After its independence, India took nearly forty years to set up the Inland Waterways Authority of India (IWAI, 1986) and has spent a dismal US$ 200mn so far on inland waterways. This compares very badly to China's US$ 15bn expenditure in the last five years alone and Germany's annual budget of € 15bn in CY14.

Growth drivers for the logistics sector

The major drivers for logistic players are implementation of GST for efficient tax system, growth in retail and e-commerce, and a revival of water and rail transport.

India's logistic and warehousing industry presents a big opportunity – with growth in consumption along with infrastructure and regulatory support from the government. The Make in India movement and ease of doing business will revive growth in the industry and in services, resulting in increased movement of goods and services. We expect a significant pick up in investments in transport and logistics ahead, with the government focused on reducing cost of logistics and increasing the competitiveness of Indian exports.

Significant investment in DFCC (about Rs 1tn) and in DMICDC (about Rs 3tn) along with focus on water transport should create an enabling infrastructure for efficient logistics. Demand drivers are also affecting the need for logistics. The changing dynamics of the retail industry has shifted the focus from supplier to consumer and delivering products in less time is gaining importance. Retailers are now maintaining steady flow of stock, as delay in the delivery of products could threaten their entire business model. Focus is on real-time inventory management and order placement and retailers are becoming heavily dependent on smooth and efficient supply management.

Key growth drivers for logistics

GDP
- Overall GDP growth, increased industrial activities and export-import trade
- Make in india
- Ease of doing buisness

Infra-structure
- Logistics parks, SEZ, FTW
- Dedicated freight corridors for efficient rail movement
- Road network
- Developemt of water ways with coastal and inland waterways
- Revised land acquisition act
- Development of regional transporation links in South Asia

GST
- Inplementation of Goods and Service tax
- support from state and central governemnt

Organised structre
- Increased FDI, entry of foreign players
- Increasing focus on 3PL activities and cost competitiveness
- Ecommerce

GST implementation to rationalize tax structure

India has made significant progress towards improving its structure (first VAT, now very close to implementing GST). Under GST, a specific product or service would have the same level of taxation across the entire country, irrespective of being manufactured and sold in different sub-national territories (states). GST will replace almost all indirect taxes including excise duty, service tax, value added taxes (VAT), central sales tax (CST), and entry taxes. Certain products such as petroleum and gas, alcoholic products, and farm produce may be exempted from GST's purview. Interstate sales (including stock transfers) and imports will attract an integrated GST (IGST) collected by the central government. This tax will then be distributed between

GST is defined as a 'nationwide uniform taxation system' and usually replaces multiple taxations by central and state governments within a country. The GST system is based on taxing only the component of 'value addition' at each level of goods or services supply by offsetting the tax paid already at the previous level of the value chain. Thus, it automatically incorporates a mechanism that compels every level of the value chain to ensure that the appropriate tax has already been paid in the previous level

the central government and the 'destination' state governments. As a result of this new tax model, individual state administrative borders are expected to become irrelevant for most industries, thereby driving them towards the rationalisation of their logistics operations and infrastructure.

Huge impact on logistics players: Opportunities within

Currently, companies need to have specific warehouses for each state because selling stock stored in one state to another one, attracts sales tax from both states. This means significantly high level of investments in assets and inventory holding costs than ideally needed. With the rollout of GST, state-level warehouses are likely to be replaced with regional hub-level large integrated warehousing facilities, thus significantly bringing down the number of warehouses needed. Various value-added logistics functions (packing, kitting, labelling) are also likely to be performed at these warehouses. This would eventually require logistics service providers to restructure their operations and infrastructure. *Major changes we expect:*

- ***Consolidation of warehouses***

Industry players could consolidate their warehouses and set up larger facilities, which would bring in supply-chain efficiencies. Current supply-chain models have to depend more on tax considerations instead of the more logical operational considerations. Tax rationalisation is also likely to increase third-party outsourcing for logistics and lead to companies focusing more on their core competencies.

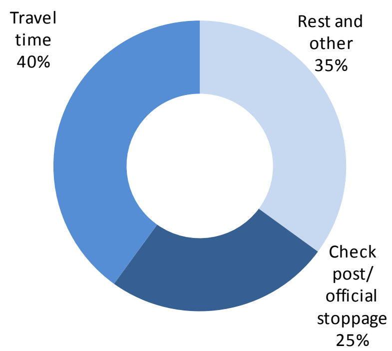
Current supply-chain models have to depend more on tax considerations instead of the more logical operational considerations.

- ***Improved efficiencies due to reduction of trade barriers***

With the removal of trade barriers, the downtime of vehicles (check-post inspection, filing of waybills/entry permits, compliances under entry tax laws, and local levies) is likely to reduce. After GST, interstate movement of goods will be subject to IGST, under which all movements will be 'tax paid'. Additionally, the GSTN will have an audit trail of the movement of goods across state boundaries, which would lead to optimisation of delivery schedules and operational costs of transporters, resulting in competitive pricing.

- ***Shift in sourcing and manufacturing decisions***

Currently sourcing and manufacturing decisions are dependent on indirect tax considerations. Under the GST regime, due to fungibility of credits, these decisions will be made from a supply-chain perspective – which will lead to logistics hubs in new locations. Free-flowing movement of goods across the country would result in logistics players gaining larger volumes and nationwide contracts from clients. To fulfil large and long-distance consignments in the new scenario, logistics players would need a significantly larger share of heavy trucks (20+ tonnes); they would also need mini trucks for efficient last-mile delivery. Currently most logistics service providers have a large share of medium-sized trucks in their fleet and a very low share of large truck-trailers or small trucks.



Indian trucks' productivity is very low at ~250 km per day vs. ~800 km in developed countries. This could easily be increased to at least 350 km per by cutting congestion and introducing electronic toll collections

- ***Ecommerce and Free Trade Warehousing Zones (FTWZ)***

Under the present indirect tax regime, the ecommerce industry is facing significant challenges in terms of VAT payments in destination states. Clear guidelines on the taxability of ecommerce transactions would provide much-needed relief to the ecommerce industry. If GST extends benefits of tax-free supply to an FTWZ unit for onward exports, these units will be able to attract significant volumes.

- ***Emergence of Multimodal Logistics Parks (MMLP)***

The focus of logistics companies is shifting towards handling multiple cargos and increasing the share of value-added services. Leading players are setting up Multimodal Logistics Parks (MMLP) instead of simple ICDs/CFS. MMLP are mainly connected with rail network (for efficient handling of large cargo parcels), container yards, and warehousing (with value added services such as cross docking, palletisation, inventory management, wrapping, packing, bar coding and labelling).

They also provide supporting infrastructure and ancillary services such as staff housing, weigh bridges, banking and insurance, maintenance and fuel stations, and recreational centres.

Rise of ecommerce in the Indian retail sector

We expect the Indian retail sector to increase to US$ 765bn by FY20 from ~US$ 500bn in FY16 – an 11% CAGR. Online retailing has about 7% of the pie and has seen strong 60% CAGR over the last five years. Urbanisation is leading to expansion of cities, creating the need for a wider retail foot print around the country. Consumers are increasingly moving from just shopping for needs, to looking for an experience while they shop. Organized retail companies are looking at improving in areas relating to supply chain-efficiencies and inventory management. This will open doors for logistics companies – creating new and innovative logistics and supply-chain models. Considering the dynamic and highly technology-dependent operations, the online retail segment needs to make supply-chain management models efficient and advanced.

India has an internet user base of about 462mn (about 35% penetrations). Despite being the second-largest user base in world (only behind China's 721mn, 52% of its population), the penetration of ecommerce is low in India compared to markets like the United States (266mn, 84%), or France (54mn, 81%). India's internet user base is likely to see a CAGR of 25-30% over the next five years and we estimate a much faster CAGR of 30-35% for logistics related to e-commerce over the next five years. Online retailers are competing on both prices and shorter delivery cycles, creating opportunities for express logistics services and a host of value-added services.

India's internet user base is expected to grow at a much faster CAGR of 25-30% over the next five years.

Growing ecommerce is also increasing the need for specialised reverse logistics. Offline customers purchase product only after seeing/experiencing them, thereby limiting scope for returns or exchange. This is not the case with online customers, where returns and exchanges are quite high – which calls for an extremely efficient reverse logistics network. Key characteristics of logistics services for the ecommerce sector are – network reach, timely express delivery, efficient sourcing, standard packaging practices to facilitate easy and secure shipping, ability to service a high number of stock keeping units (SKUs), and multiple modes of payment collection.

Implementation of DFCC and DMICDC

Cargo movement by train is more cost competitive than movement by road, particularly for a distance of more than 500km. However, in India, containers are moved by road even for a distance of more than 1,000km, due to poor rail infrastructure. In addition, the Indian railways tends to increases haulage charges for goods transport while subsidising passenger tariff, even as its main earnings come from its freight operations. Due to shortage of tracks, passenger trains are given preference and cargo trains are made to wait. As a result, the average speed of a goods train is ~25kms per hour, which makes trucks a better option for many customers.

Railways' share in the goods movement of the country has come down to around 34% from 65% in 1987 while the road sector's share has gone up to 60% from 34%. Dedicated Freight Corridors (DFCs) will strengthen India's rail transport infrastructure to meet expected high future demand for freight movement. Development of DFCs would result in enhancing the market share of railways in freight by providing an efficient, safe, economical, and environment-friendly option. DFCCs will reduce unit cost of transportation by creating rail infrastructure to carry higher throughput per train. They will provide non-discriminatory access to freight trains belonging to Indian railways and other qualified operators.

Construction of DFCs across the country is the most ambitious project ever conceived by the Indian Railways. Out of six DFCs planned in a phased manner, two corridors (eastern and western) are scheduled to be fully commissioned by FY18-19. The eastern corridor will run from Ludhiana in Punjab to Dankuni near Kolkata (1,839km) and the western corridor will stretch from JNPT near Mumbai to Dadri in Delhi (1,534kms). The phasing of corridors is synchronised with the most-saturated sections on the Mumbai-Delhi and Delhi-Kolkata rail links.

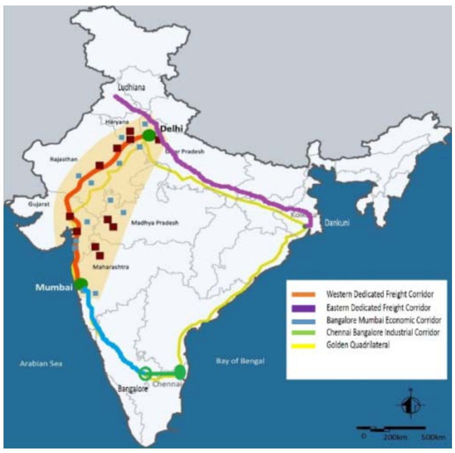
Efficient infrastructure for container trains post DFCC

Feature	Existing	Western DFC
Height	4.26m	7.1m
Width	3200mm	3660mm
Container Stack	Single Stack	Double Stack
Train Length	700m	1500m
Train Load	4000 ton	15000 ton
Axle Load	22.9t /25t	32.5t / 25t
Track loading Density	8.67 t/m	12 t/m
Maximum speed	75 km per hour	100 km per hour
Traction	Electrical (25KV)	Electrical (2x25 KV)
Station Spacing	7-10 Km	40Km
Signalling	Absolute /Automatic with 1 km spacing	Automatic with 2km spacing
Communication	Emergency Sockets /Mobile Train Radio	Mobile Train Radio

Source: DFCCIL

Delhi Mumbai Industrial Corridor (DMICDC)

DMICDC acts as a pass-through entity for specific projects and is developing industrial cities around a multi-modal high-axle-load dedicated freight corridor between Delhi and Mumbai, covering an overall length of 1,400km. It will develop an area of around 150-200kms on both sides of its alignment. Its project influence area (PIA) comprises 430,000 sq. km., which constitutes around 14% of India's total geographical area. Six DMICDC states contribute ~50% of India's principal crops, constitute 45% of the country's GDP, and 58% of value of output. The development of industrial regions in these states will result in a 70% contribution to GDP by 2030. DMIC aims to double employment potential in five years (15% CAGR), triple industrial output in five years (25% CAGR), and quadruple exports from the region in five years (32% CAGR).



DMIC will have 24 investment regions developed in three phases out of which seven will be developed in the first phase over the next five years. Each state has one investment region, except Maharashtra, which has two. The master plan for all seven industrial regions is ready. DMICDC is planning to use information technology to the fullest, in addition to having a physical master plan for all these cities. Cisco and IBM are to create a digital layer on top of the physical plan for these cities. The entire city control and governance will be managed from one place with an integrated approach on a massive scale. To monitor real-time container movement, DMICDC is working on logistics data software for connectivity with all logistic players. Apart from DMICDC, four more corridors will be developed by the ministry of commerce, where DMC will provide support.

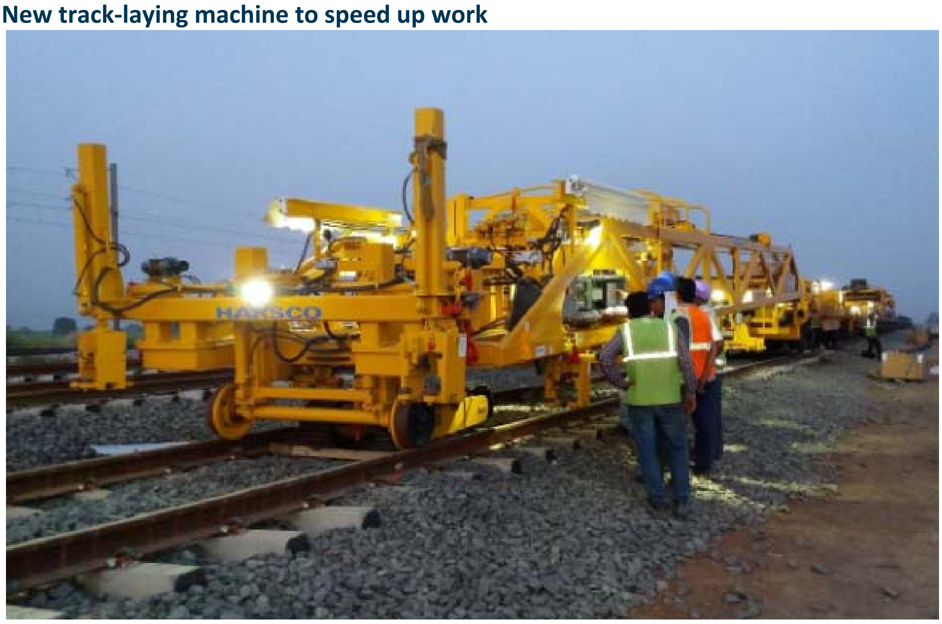
With the development of the Dedicated Freight Corridor Corporation (DFCC) and Delhi Mumbai Industrial Corridor Corporation (DMICC), the growth rate in the container trade could see a structural shift in the coming years.

Progress on DFCC

Land: The land acquisition is 85% complete (out of the total land requirement of 11,539ha for 3,300km). For the Western DFC, most of the land has been acquired with compensation pay-outs of of Rs 41.42bn; for the Eastern DFC, land acquisition for 1,318km is largely over with compensation pay-outs of Rs 27.4bn, but it is pending for the Sonnagar–Dankuni section (538km).

DFCC Corporation has spent ~Rs 220bn so far and has awarded contracts worth ~Rs 450bn. Contracts for 65% track and civil (1,830 km) and 50% systems and 48% electrical have been awarded. There has been improvement in speed of work with mechanised track laying with earth work of 100,000 m3/day, concreting of 1,000 m3/day, and ballast supply of 3,000 m3/day on each corridor. DFCC has been given very stiff targets for completion of major works in both the corridors by December 2018 and commissioning by December 2019.

New track-laying machine to speed up work



Source: DFCCIL

It can lay 1.5km of tracks per day compared to ~100m- 150 per day when done manually

Revival of coastal and inland water

India has long coast line spanning 7,500km, forming one of the largest peninsulas in the world; but, coastal shipping accounts for less than 6% of total domestic freight movement – though this mode of transport is approximately 60% more economical, safer, and cleaner compared to road transport. The government's plan is to lower India's logistics cost as percentage of GDP to around 9-10% (from current 13%) with an investment in waterways and railways. It is committed to provide an enabling environment and is focusing on development of waterways with institutional arrangements. The modal shift of cargo to water from roads is expected to reduce cost of transportation, accidents, and environmental pollution, supporting the government's mission of 'clean India' and 'Make in India'.

The necessary institutional framework is being created to enable the central and state authorities to work together for ensuring inclusive growth. The government highlighted that IRRs in waterway development would be very attractive and is ready to develop innovative models in PPP. Issues related to financing, taxation, and customs are under consideration to attract investment into the sector.

India has almost 14,500km of navigable inland waterways, of which 5,200km are major rivers and 500km are canals suitable for mechanized crafts. It has five declared National Waterways (NW 1 to 5), out of which three are operational with an annual cargo movement of ~7mn mt (miniscule compared with ~1bn mt of port volumes), representing only 0.7% share. IWAI is developing NW-1, from Haldia port in West Bengal to Allahabad in Uttar Pradesh, at a capital expenditure of ~US$ 1bn with World Bank's technical and financial assistance. The government has widened its portfolio by declaring 101 rivers as 'waterways'.

Inland Water Transport (IWT)

Declared national waterways

	National Waterway	Location	Stretch (kms)
1	NW 1	Ganga-Bhagirathi-Hooghly river system from Allahabad to Haldia	1620
2	NW 2	Brahmaputra river from Sadiya to Dhubri	891
3	NW 3	West Coast Canal from Kottappuram to Kollam along with Champakara and Udyogmandal canals	205
4	NW 4	Godavari & Krishna rivers & Canals between Kakinada and Puducherry	1095
5	NW 5	Brahmani river & Mahanadi delta system along with East Coast Canal	623

Source: Company, PhillipCapital India Research

The government is setting up ten coastal economic regions (CERs). To develop each CER, a Special Purpose Vehicle (SPV) would be formed with equity participation from the concerned state government and the Sagar Mala Company. The management of the CER SPV would vest with the state government. The CER SPV would be responsible for implementing the DPR prepared for the development of the CER. The government is working on seamless movement of cargo on waterways with integration of coastal and inland waterways.

Sagarmala Project to develop coastal regions and maritime sector

Source: Ministry of shipping

Development of coastal economic zones, enhancement of port infrastructure and efficient evacuation through integration of rail, road and inland waterways

Government's focus on cold chain

India's cold chain industry is still evolving, not well organized. The Indian cold chain market is highly fragmented with more than 3,500 companies in the whole value system. Organized players contribute only ~8%–10% of the cold chain industry market and most equipment in use is outdated and single commodity based. According to industry estimates, approximately 105 mn tons of perishable produce is transported between cities each year and about 100 million tons moves via non–reefer mode and only ~5 mn tons are transported by reefer trucks.

India's temperature controlled logistics Industry is estimated to grow at 15-20% each year for the next 3-5 years, driven by an increased consumption of perishable items that depend upon temperature-controlled logistics, deeper penetration of these logistics in key categories (including pharmaceuticals, fruits and vegetables), and an increasing number of niche and high end products that require cold chain services.

Key emerging opportunities in Indian logistics

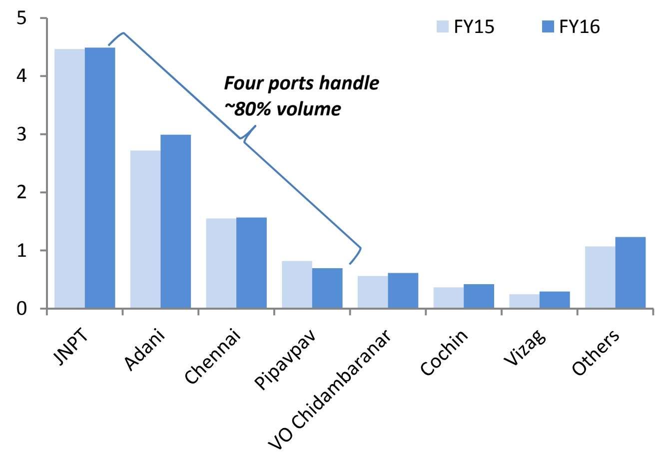
Increase in containerisation of cargo

Most of India's container cargo moves through gateway ports in north-west India, which account for around 65% of the container trade. Containers remains a 'unique' cargo and traffic mostly belongs to select major ports, unlike bulk cargo handled by almost all ports. Earlier, JN Port, Chennai, and select private ports such as Pipavav Port and Mundra were major container-handling ports, but with the emergence of container trade, many private and government ports are focusing on container cargo – there is an emergence of container trade at Visakhapatnam, Cochin, and Vo Chidambaranar (Tuticorin). CFS operators are also increasing their presence across the country along with their presence at JN Port.

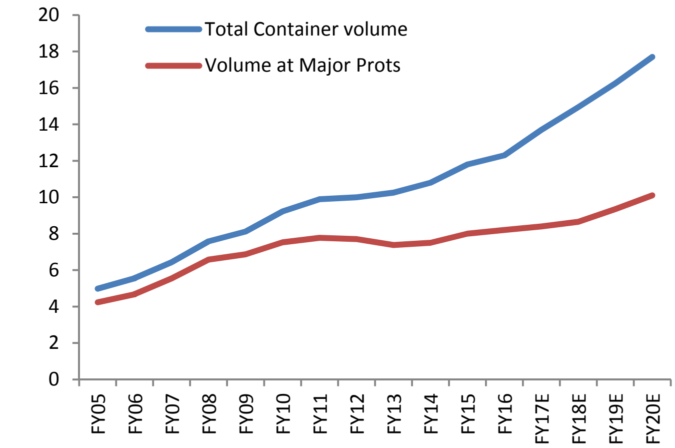
Container traffic has remained one of the highest growing cargoes in India historically, with a GDP multiplier of around 1.1x

Logistic players related to container movement and trade are uniquely placed to benefit from growing international trade and a shift to containerised cargo from bulk form

Four ports handle 80% of India's volume (mn TEU)



Cargo handled at major port (mn TEU)



Source: Indian Ports Association

The share of container cargo as a percentage of total cargo at major ports has increased to 20% in 2016 from 14% in 2004. Historically, container cargo has grown at 1.1x GDP over the past 10 years (multiplier is high at ~1.6x during economic recovery). With increased container penetration and development of industrial corridors, this growth should increase. Substantial incremental demand should come from a shift of general cargo in break bulk to containerised form.

Growing containerisation of cargo has brought about a significant change in the organisation of port terminal services and resulted in demand for highly sophisticated handling equipment, inland logistics capabilities, and service efficiencies. Even goods that were formerly never transported exclusively as bulk cargo are now being containerised due to the latter's advantages (a few examples – tea, rice, food grains and newsprint).

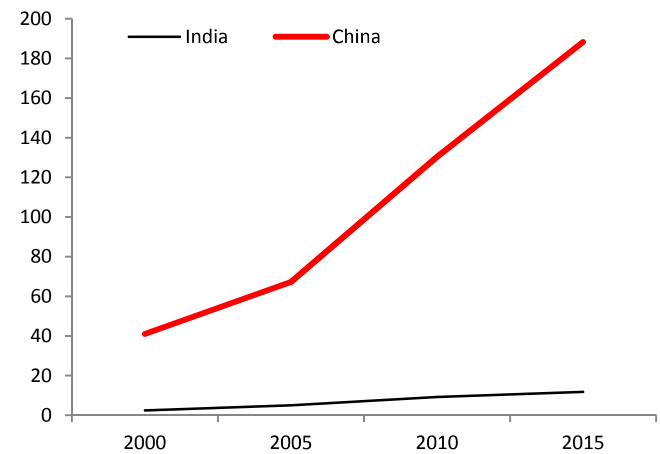
Main containerised cargo includes auto and engineering components, garments, electronic goods, agro products, cotton yarn, machinery/parts, granite products, coir products, leather products and jute products

Due to standardisation, handling costs are lower for containerized cargo vs. break bulk. This cost advantage is more pronounced due to India's balance of trade –India has an exim imbalance with more imports than exports. As a result, incoming containers wait for repositioning to other locations. Instead of shipping out these 'empties', container lines offer good deals to specific locations – as a result, soya, sugar, steel plates, and agricultural products are increasingly getting containerised. Damages eat up 20% of break bulk cargo, which also offers a strong incentive to 'box it'. This is also true for small consignments. Shippers wanting to handle smaller parcel sizes because customers want just-in-time deliveries prefer containers – because for these, tracking transit and transit times are easier due to the technology and communication facilities.

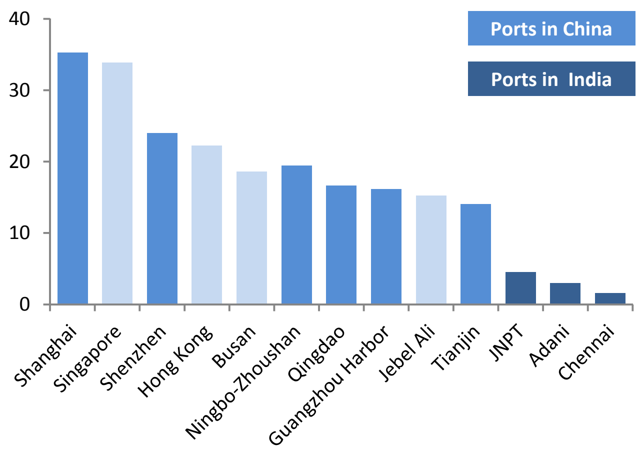
Indian ports have been seeing many former break bulk cargo (rice, maize, glass, granite, garnet sand, soya, cement and flowers) moving into containers

Indian container trade (despite being higher growth than other commodities) is lower than other developing countries. Total container trade in China has increased by 122mn TEU to ~188mn TEU since 2005, while India container trade grew by 6.8mn TEU over the same period. In fact, India's total container trade is significantly lower than volumes in many single ports in China and Singapore *(see chart below).* With improved port infrastructure and rail network, container trade provide secular growth opportunities.

Container volume trend (mn TEU)



Container volumes at global ports (mn TEU)



Source: World Bank, Indian Ports Association, Industry

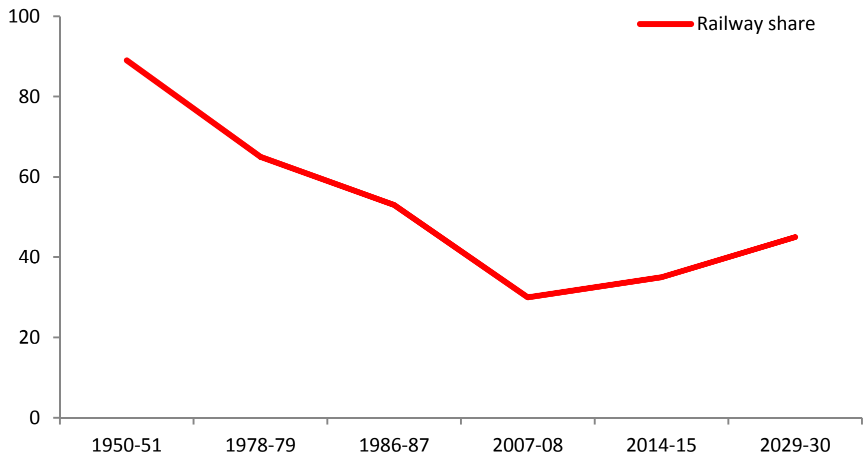
Model shift to benefit container train operators

In 2006, Indian Railways deregulated rail transportation of containers — its first major effort towards attracting private capital to the sector. Currently, there are around 15 private container-train operators in India, out of which 3-4 are inactive. Since deregulation, private investors have pumped in +Rs 40bn in wagons, containers, and terminals in addition to Rs 6.5bn in license fees. Frequent and steep increase in rail haulage charges for container trains and incongruous policy decisions have impacted investments in this segment.

The Indian Railway network, one of the largest in the world, is overburdened and operating at over 100% utilisation

Even in other commodities, railways consistently lost out to roads, as it did not install adequate capacity or respond to market needs. Economic growth, as seen in India over the past decade, has led to congested roads and an over-burdened railway network. India has 4mn kms of roads, accounting for nearly 60% of domestic traffic of which the National Highways constitute only 1.7% but carry as much as 40% of the total road freight. The divide between the two modes became even more pronounced as roads expanded rapidly on focused policy and investments, particularly during the last decade. This consistent and unchecked fall in the share of railways through the years was estimated by RITES to have cost the Indian economy about Rs 385bn (16% of the total transport cost).

Railway share in cargo transport to recover (%)



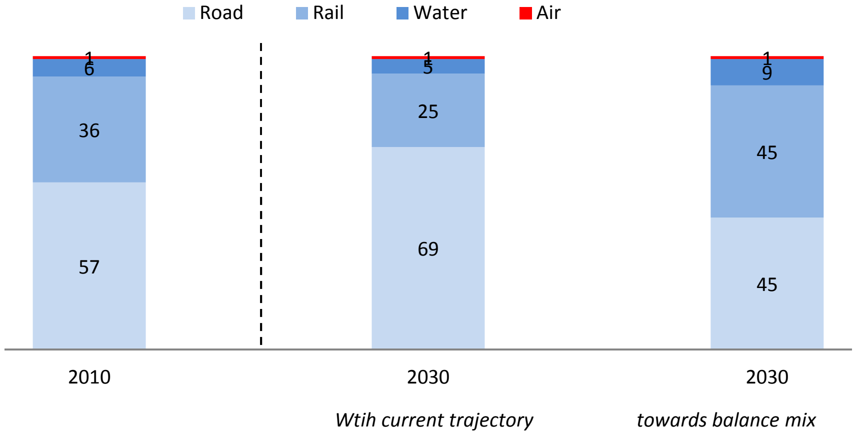
Source: Planning commission

The freight segment generates around 70% of railways' revenues. Rail Vikas Nigam Ltd is responsible for executing projects under national Rail Vikas Yogana, which was initiated in 2002. These projects pertain to rail-port connectivity and include strengthening of the golden quadrilateral and diagonals linking the four metro cities (Delhi, Mumbai, Chennai and Kolkata) - they total about 10,000km and include developing multi-modal corridors to the hinterland. The dedicated freight corridor corporation of India is formed to implement the country's most ambitious dedicated freight corridor project. Six special purpose vehicles (SPV) out of three are operational.

Policy support to make huge investment in DFCC – ~Rs 1tn

We believe the share of railways will increase to ~45% over FY30 with the beginning of DFCC and strengthening of the existing rail network. The government is expected to support a shift in cargo to railways from roads. We expect container train operators to benefit significantly – with an improvement in rail network, increase in asset turnaround, and rationalisation of haulage charges.

India Cargo: Modal mix

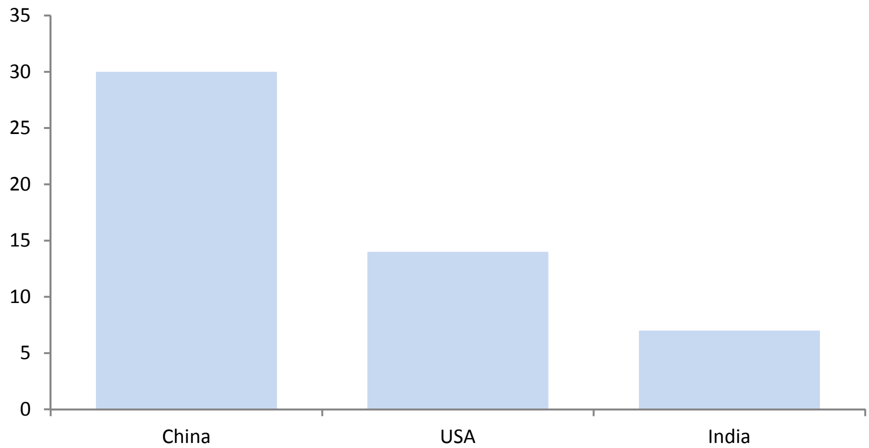


Source: Planning commission

The future: Integrating coastal shipping and inland waterways

India has a long coastline, spanning 7,516km, forming one of the biggest peninsulas in the world. It is serviced by 13 major ports (12 governments, one private) and 187 notified minor and intermediate ports. These ports account for nearly 90% (by volume) of India's international trade. However, for India, the share of coastal shipping in overall cargo is only about 6% compared to ~30% in China and 40% in Japan. In fact, in China, waterways have a larger share than roads. Presently, India has just 140 vessels for coastal movement while China has around 12,000 specially built coastal cargo ships for carrying coal, steel, grains, and fertilisers.

Country-wise share of water in overall transport (%)



Source: Industry Reports

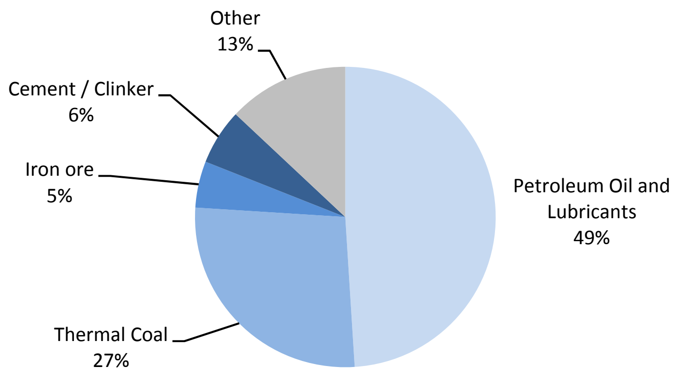
The potential of coastal shipping and inland waterways is untapped, but it is receiving much-need attention from the government of late. There are many inherent advantages of this mode of transportation. Coastal shipping or use of water as a mode of transportation is much safer, more economical, and less polluting (see table below). Waterways are 50% cheaper than road and nearly 30% cheaper than railways. The coastal leg, apart from being more fuel efficient, can also carry larger parcel sizes and provide a great opportunity for consolidation of loads and over-dimensional cargo.

IWT is more fuel efficient vs. road and train

	Operating cost per ton kn	Fuel efficiency ton km/litre
Shipping	0.75	105
Rail	1.18	85
Road	1.51	24

Source IWA

Cargo breakup for coastal movement



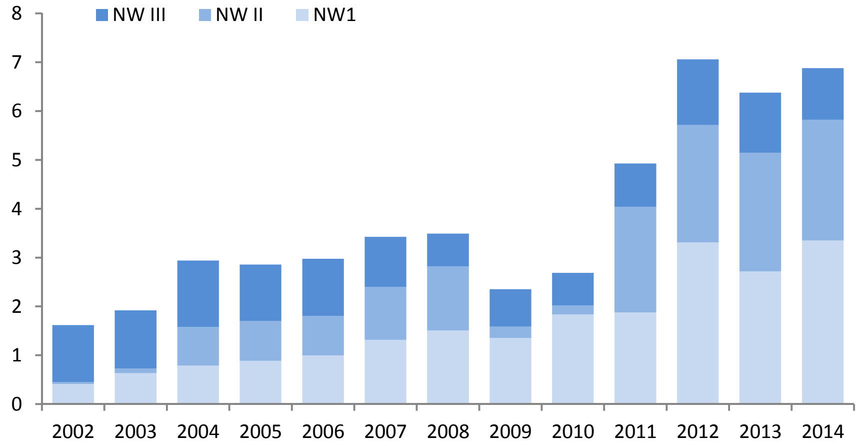
Source: Indian Ports Association

Major government initiatives to encourage coastal shipping include (1) relaxation in Cabotage law, (2) concession on port charges, (3) reduction in duty on bunker, and (4) dedicated berth for coastal shipping at major ports. Development of coastal shipping will also be linked to increased opportunities in container-feeder service. The possibility of a dedicated sea corridor with inter-port connectivity is being explored. Coastal shipping has the potential to transport 160mtpa of coal and 80mtpa of steel, cement, and food grains.

Major coastal routes in India

Source: Company

Cargo movement on national waterways (mn tonnes)



Source: Company, PhillipCapital India Research

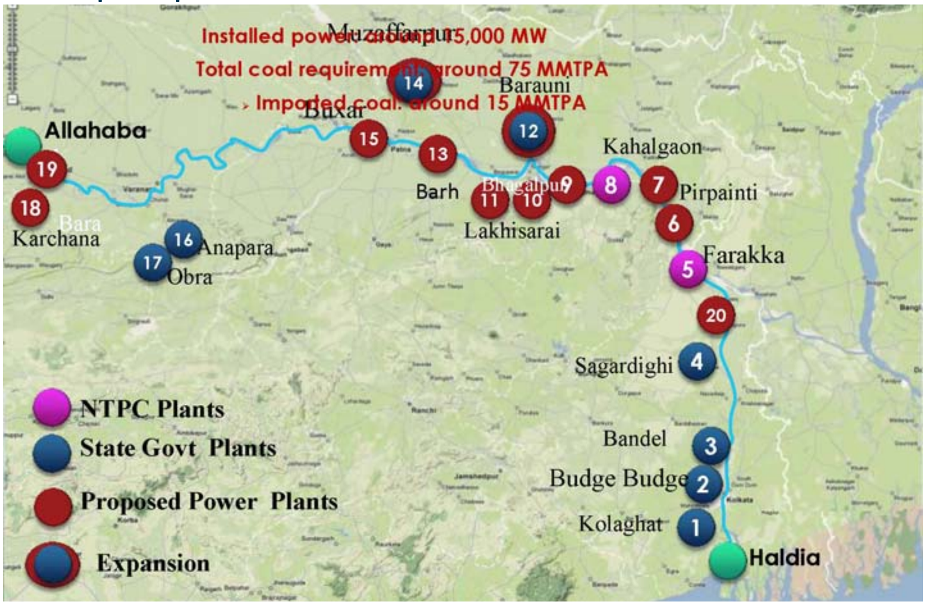
The government is inviting private-sector participation for development of river ports, multimodal terminals, construction and repair facilities, and operation of barges on rivers. IWAI is setting up four multimodal terminals at Varanasi, Haldia, Kolkata, and Sahibganj, which will have rail and road connectivity. It has also signed an MoU with DFCC for creating a logistic hub and rail connectivity at Varanasi. NTPC is using NW-1 for transportation of 3mtpa of imported coal from Haldia to Farakka in West Bengal and has a seven-year contract with Jindal ITF. NTPC has also finalized a contract for its Barh power plant (3mpta coal transport on NW-1 for 10 years) for which work orders are in process.

NTPC coal import – a success story

NTPC is using NW-1 for transportation of 3mtpa of imported coal from Haldia to Farakka and has a seven-year contract with Jindal ITF. NTPC has also finalised a contract for its Barh power plant for 3mpta coal transport on NW-1 for 10 years for which work orders are expected from August 2015. Jindal ITF has invested ~Rs 8bn in setting up infrastructure and operating 30 barges for the Farakka plant. Thermal power plants, cement companies, fertiliser companies, edible oil companies and Food Corporation of India will be able to use NW-1 extensively for cargo transport.

The project would have terminals at Allahabad, Varanasi and Gazipur in Uttar Pradesh, Sahibganj in Bihar and Katwa in West Bengal to facilitate transhipment and movement of bulk cargo and is expected to take 5-6 years to fully complete. At present, 10 thermal power stations are operational in the proximity of NW-1. Another 11 are expected to come up along NW-1 in the next 5-8 years with the total installed capacity of 15,000 MW. NW-1 is fully ready to cater to the transportation needs of NTPC and other industrial units for transportation of bulk cargo required for the plants located on the banks of the Ganga.

Thermal power plants on NW-1



Source: Ministry of Shipping

Cargo movement by IWT increased to 70mn tonnes in 2015-16 from 32mn tonnes in 2003-04. Most of the cargo movement by IWT takes place in Goa and Maharashtra, which account for around 90% share of its cargo traffic. There is a 147mn-tonne potential to divert traffic to national waterways from rail and road. The government is investing ~Rs 227bn in providing basic infrastructure on NW1-6 while private investment is seen at ~Rs 656bn in buying barges and creating other operational assets.

Most of the cargo movement by IWT takes place in Goa and Maharashtra, which account for around 90% share of its cargo traffic.

Capex plan for waterways

Rs bn	Phase 1	Phase 2	Total
Waterway development	15.4	173.2	188.5
Terminal development	6.6	13.9	20.5
Port Connectivity	3.4	8.1	11.5
Road Connectivity	0.9	2.3	3.2
Rail connectivity	0.0	3.9	3.9
Total	**26.3**	**201.3**	**227.6**

Source: IWA

Companies such as Allcargo, TCI, and SCI have already started operating in coastal shipping to handle bulk and container cargo. We believe these logistics players will benefit more than pure shipping companies in this segment due to advantage of cargo aggregation and end-to-end solutions.

Annexure

Technological impact on truck transport

Innovations and market disruption

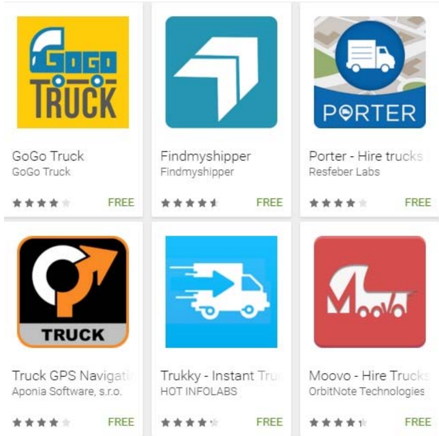
Today, information availability, visibility, operational flexibility, and scalability are critical to a successful logistics function. Market innovators are changing the business models based on technology (like what Uber and OLA did in taxi transport). These entrants should be watched closely for market disruption.

New players are connecting last-mile logistics companies with customers, for inter-city transport. Logistics tech ventures such as TruckSuvidha and BlackBuck follow an asset-light model and do not own vehicles themselves; they are mostly a booking platform (like Ola and Uber).

- Rivigo is among the few players that owns a fleet of trucks. Rivigo's drivers do not spend more than a day on the road (it has a system it calls 'Driver Relay' which makes sure drivers get back home on the same day).

- Dipper logistics run by Dipper Technologies Pvt Ltd serves the long-haul (inter-city) full truckload market. It provides a technology platform enabled with IoT devices to large-fleet owners, small-to-mid-sized trucking carriers, and transporters. It has about 2,000 verified, GPS-enabled vehicles.

- Flywheel Logistics: Started in 2009, it has a unique model - it transports domestic containers by operating on a 'network style' with 160 daily departures on 60 national routes with its 750-strong fleet of 40-feet and 20-feet TEU containers reaching 18 states.



Companies Section

INSTITUTIONAL EQUITY RESEARCH

Navkar Corporation (NACO IN)

Favourable mix, rail connectivity, VAS

INDIA | LOGISTICS | Initiating Coverage

9 August 2016

Why Navkar?

- High growth: Over FY16-18, revenue/EBITDA/earnings CAGRs will be 61%/55%/43%
- Leading player in container-handling and storage with CFS and ICD facilities in Mumbai and Vapi. It has significantly outperformed industry growth
- Creating new market opportunities in Vapi to cater to Gujarat's industrial belt
- Competitive advantage of rail connectivity

Differentiated service in JN Port's crowded market

Navkar has three CFS (container freight stations) with a total handling capacity of 310,000 TEU per annum at Panvel, Mumbai, close to National Highway 4 and JN Port (Jawaharlal Nehru Port, NhavaSheva, Navi Mumbai), which accounts for 40% of India's total container trade. This port has 30 CFSs with average capacity utilisation of ~55% each, but Navkar has been able to raise its utilisation to 97% in FY16 from 60% in FY12 with a container volume CAGR of 13%. We believe its competitive advantages include: (1) favourable cargo mix (exim), (2) cost-effectiveness due to rail connectivity, and (3) value-added services.

VapiI CD should provide strong growth and value creation opportunities

It is developing a 474,000 TEU p.a. ICD (inland container depot) at Umergaon (near Vapi), Gujarat. The Vapi-Valsad-Daman-Silvassa-Surat-Ankleshwar-Bharuch-Baroda belt is one of the largest and vibrant industrial clusters in India, covering industries such as chemicals, textiles, engineering, food products, steel, and paper. Due to rail connectivity, Navkar is in an advantageous position for providing cost-effective solutions. Importers and exports can save ~20-25% by transporting goods through rail to JN Port directly using Navkar ICD compared to road transport, which requires multiple handling. We believe Vapi ICD can generate revenue of Rs 3bn and EBITDA of Rs 1bn in FY18.

Warehousing services to complement its Vapi ICD

Navkar is setting up a fully-integrated logistics park close to its ICD at Umergaon at an estimated cost of Rs 3.14bn; it is likely to be ready in 2HFY17. This park would provide warehousing (~4.7mn sq. ft.) and value-added services including a cold-storage facility (5,000 sqm), container maintenance, a repair and cleaning yard, an empty container yard, and a modern garage facility with a workshop for vehicle maintenance. We have assumed 45% utilisation with revenue of Rs 1.38bn and EBITDA of Rs 698mn in FY18.

Containers to remain an attractive cargo

CFS / ICD are a critical link in container logistics and should benefit from secular growth in containerised cargo in India. Containers have remained one of the highest growing cargoes in India historically, with a GDP multiplier of around 1.1x. Incremental demand is likely to come from a shift of general break bulk cargo to the containerised form. We believe DFCC, and an increase in container capacity at JN Port, with the fourth container terminal of ~4.8mnTEU, will increase container trade at the port significantly (trade was adversely impacted due to capacity constraints) – this will benefit Navkar's Panvel CFS.

Valuations

At CMP, stock is trading at 13x FY18 earnings and 8.8x EV/EBITDA. The company has a limited valuation history and came out with an IPO in December 2015. Navkar with strong execution back ground offer both short term and long term growth opportunities. We have valued the company at 18x FY18 EPS (average multiple of our logistic coverage) to arrive at target price of Rs 288, which offers almost 40% upside from current levels.

BUY

CMP RS 205

TARGET RS 288 (+40%)

COMPANY DATA

O/S SHARES (MN) :	143
MARKET CAP (RSBN) :	29
MARKET CAP (USDBN) :	0.45
52 - WK HI/LO (RS) :	224 /151
LIQUIDITY 3M (USDMN) :	0.4
PAR VALUE (RS) :	10

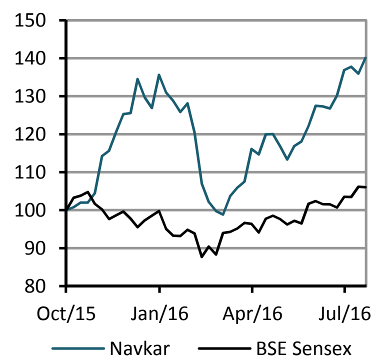
SHARE HOLDING PATTERN, %

	Jun 16	Mar 16	Dec 15
PROMOTERS :	32.5	32.5	32.5
FII / NRI :	29.3	35.0	38.5
FI / MF :	2.0	2.2	2.3
NON PRO :	8.5	4.1	2.8
PUBLIC & OTHERS :	27.8	26.3	23.9

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	-2.7	17.3	NA
REL TO BSE	-6.1	6.2	NA

PRICE VS. SENSEX



Source: Phillip Capital India Research

KEY FINANCIALS

Rs mn	FY16	FY17E	FY18E
Net Sales	3,473	6,850	8,960
EBIDTA	1,501	2,693	3,597
Net Profit	1,117	1,542	2,276
EPS, Rs	7.8	10.8	16.0
PER, x	26.2	19.0	12.8
EV/EBIDTA, x	21.2	12.1	8.8
P/BV, x	2.2	2.0	1.8
ROE, %	8.5	10.8	13.7
Debt/Equity (%)	41.5	30.7	20.1

Source: PhillipCapital India Research Est.

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Investment Positives

Differentiated service in crowded market at JN Port

Navkar has three CFS with a total handling capacity of 310,000 TEU per annum at Panvel, Mumbai, close to National Highway 4 and JN Port, which accounts for 40% of India's total container trade. JN Port's container cargo was adversely affected due to capacity constraints and the economic slowdown over the past three years. This Port is serviced by 30 CFS', which have an average capacity utilisation of ~55%, but Navkar has been able to raise its utilisation to 97% in FY16 from 60% in FY12 with a container volume CAGR of 13%. We believe its competitive advantages include:

Has three CFS with a total handling capacity of 310,000 TEU per annum at Panvel, Mumbai

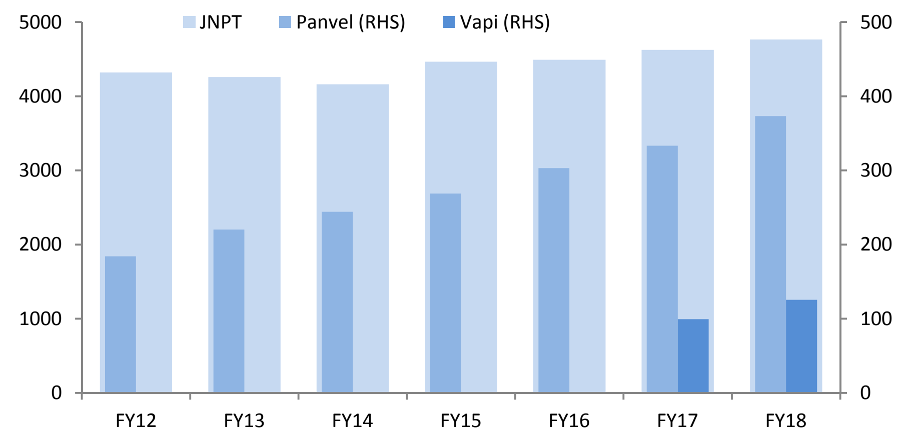
- **Favourable mix of exim cargo:** Navkar's export and import cargo mix is favourable at 44.5% and 55.5%, which helps it to manage empty containers efficiently and to provide cost-effective service to shipping lines. Rail connectivity through a Private Freight Terminal (PFT) helps it to attract large-parcel agricultural cargo, which accounts for ~41% of its total container volume. It specialises in handling hazardous cargo at its CFS – this has seen 20% CAGR to ~42,400 TEU, contributing to 14% of its volume. Diverse mix in cargo significantly reduces volatility.
- **Cost-effective service with rail connectivity:** Navkar is the only CFS with rail connectivity out of the total 30CFS at JN Port. Roads leading to the port are often congested resulting in transportation delays and difficulties in managing larger cargo size. Navkar has entered into an agreement with the Central Railways to operate a private freight terminal (PFT) at its Somatane CFS in 2012, which enables cargo transportation by rail between its CFS and JN Port. Rail connectivity reduces the cost for long distance cargo compared to road. Its PFT allows transportation of cargo from inland destinations on the Indian rail network to CFS increasing the marketable area for the facility. Its CFS' are located close to National Highway 4 and National Highway 17, which provide good connectivity to interior parts of the country.

Navkar is the only CFS with rail connectivity out of the total 30 CFS' at JN Port

Its CFS' are located close to National Highway 4 and National Highway 17, which provide good connectivity to interior parts of the country

- **Supporting services:** The company is following the asset-ownership model and has an in-house fleet for reliable cargo delivery. It also provides ancillary services such as empty container storage, repair, and maintenance. The Somathane CFS has a unit for the inspection and approval of agricultural cargo set up by "The plant and quarantine authority" of the Ministry of Agriculture, Government of India. Agricultural cargo at this CFS has seen 16% CAGR to ~124,000 TEU, which compares favourably with just 1% cargo CAGR at JN Port over the past four years. It has set up an empty container yard and provides services for the repair and maintenance of containers at CFS.

Navkar: Significant outperformance at JN Port (000 TEU)



Source: Indian Ports Association, Company

Navkar has been able to raise its utilisation to 97% in FY16 from 60% in FY12 – with a container volume CAGR of 13%

Navkar is adding capacity at Panvel by installing six rubber-tyred gantry cranes (RTGS) out of which it has installed two and will installed the rest by August 2016. We have assumed volume CAGR of 11% to 3,73000 TEU at Mumbai CFS over FY16-18.

ICD at Vapi to provide strong growth and value-creation opportunities

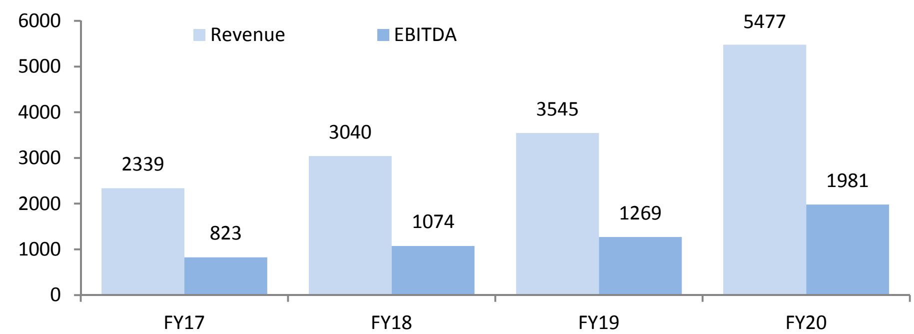
The company is developing an ICD at Umergaon (Valsad district, near Vapi) in Gujarat, with an initial capacity of 474,000 TEUs per annum. The Vapi-Valsad-Daman-Silvassa-Surat-Ankleshwar-Bharuch-Baroda belt is one of the largest and vibrant industrial clusters in India, covering industries such as chemicals, textiles, engineering, food products, steel, and paper. Vapi is also being considered for inclusion into the 100 'smart cities' planned all across India.

VapiI CD: An attractive location with competitive advantage

Source: Company

Vapi is 205km from JN Port and approximately 145km from Hazira Port. It is well connected through road and railway networks with NH8, which actually passes through the city. Due to rail connectivity, Navkar has a significant advantage in providing cost-effective solutions. Importers can save ~20-25% by transporting goods through rail to JN Port directly compared to road transport, which requires multiple handling. We have assumed container volumes at its Vapi ICD at 100,000 TEU in FY17 and at 125,000 TEU in FY18 with 21% and 27% capacity utilisation respectively. We estimate that in FY18, Navkar's Vapi ICD will generate Rs 3.04bn in revenue and an EBITDA of Rs 1bn.

Vapi ICD revenue and EBITDA estimates (Rs mn)



Source: PhillipCapital India Research Estimates

Warehousing to complement its Vapi ICD

Navkar is setting up a fully-integrated logistics park close to its ICD at Umergaon at an estimated cost of Rs 3.79bn; it is likely to be ready in 2HFY17. This park would provide warehousing and value-added services including a cold storage facility, container maintenance, a repair and cleaning yard, an empty container yard, and a modern garage facility with a workshop for maintenance of vehicles enabling trailer operators to reduce waiting time. It will have total warehousing space of 4.7mn sq. ft. and we have assumed 45% utilisation with revenue of Rs 1.38bn and EBITDA of Rs 698mn in FY18. The logistics park will be able to provide comprehensive logistics and warehousing services to customers and attract more volumes for the company.

It will have total warehousing space of 4.7mn sq. Ft. And we have assumed 45% utilisation with revenue of Rs 1.38bn and EBITDA of Rs 698mn in FY18

Expansion to benefit from lower capex; to improve return ratios

Navkar has an asset-ownership model to ensure reliable service to its customers. It owns and operates 513 trailers for transporting cargo between its CFS and the JN Port. It has ~32 forklifts, 21 reach-stackers, and five heavy-duty cranes to load and unload freight containers from trains and trailers. It also owns five weighbridges each with a capacity of 100MT to weigh cargo loaded on to trailers, and an in-motion weighbridge with a capacity of 120MT to weigh rail wagons.

It is expanding its capacity at Panvel by installing six rubber-tyred gantry cranes (RTGC), which would increase its container-handling capacity by ~252,000 TEUs and improve efficiency. It was able to buy these RTGCs at a significant discount from Mitsubushi due to the cancellation of an order by a previous buyer and save around Rs 346mn on capex. The decline in commodity prices also helped it to save Rs 450mn in project costs at its logistics park, which helped it to repay loans worth Rs 873mn in FY16 – this will improve its return ratios.

It is expanding its capacity at Panvel by installing six rubber-tyred gantry cranes

Savings in capex helped to repay loan

Rs mn	Proposed amount	Revised amount	Amount utilised till Q4FY16
Capacity enhancement at Somathane CFs	1145	799	362
Dev. of non-notified area of CFS	543	469	192
Logistics park at Valsad	3146	2693	678
Repayment of loan	**0**	**873**	**745**
Total	4833	4833	1978

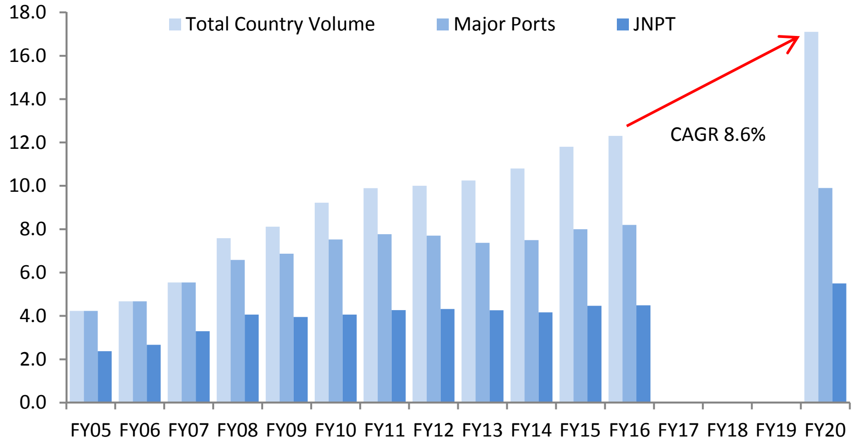
Source: Company

Containers to remain attractive cargo

CFS / ICD are critical links in container logistics and are expected to benefit from secular growth in containerised cargo in India. Container traffic has remained one of the highest growing cargoes in India historically; with a GDP multiplier of around 1.1x. India has seen growth of 15-17% in its container volumes in FY06-08 signalling higher multiplier of ~1.6x during economic recovery. The share of container cargo as a percentage of total cargo at major ports has increased to 20% in 2016 from 14% in 2004. Substantial incremental demand should come from a shift of general cargo in break bulk to containerised form.

Most of India's container cargo moves through gateway ports in north-west India, accounting for around 65% of the container trade. Container traffic mostly belongs to major ports. Only select non-major/intermediate ports such as Pipavav Port and Mundra Port cater to containerised traffic. With increased container penetration and development of industrial corridors, growth in container traffic should increase.

Container volume in India (mn TEU)



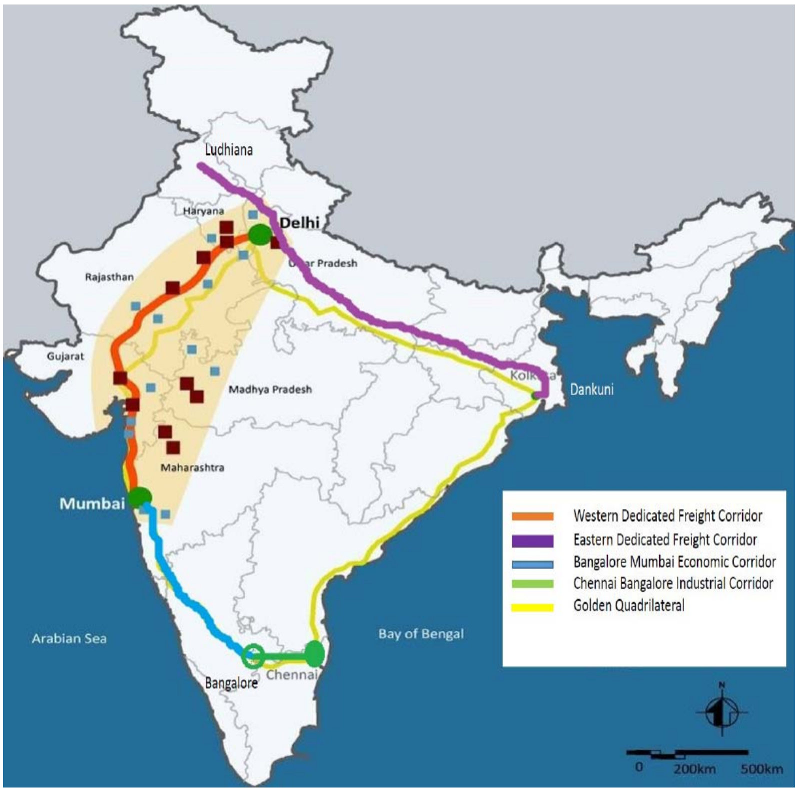
Source: Indian Ports association

DFC/DMICDC: Changing paradigm for long-term growth

We believe that its Panvel facilities will see higher and faster growth as (1) additional capacity at JN Port comes up (by FY18), and (2) with the completion of the Dedicated Freight Corridor (DFCC).

Dedicated freight corridors will enhance railways' competitive edge significantly with the hub-and-spoke model gaining prominence by reducing lead times with higher speed (~2x) and higher cargo-carrying capability by double-stacking of containers. Currently, a train from Mumbai to Delhi carries 90 containers each way in ~40 hours; after the DFCC starts, one train should carry 360 containers in ~25 hours. This implies more than 4x cargo carriage per year, thus yielding significant reduction in capital intensity, in turn resulting in better return ratios.

DFCC and DMICDC alignment



Source: DMICDC

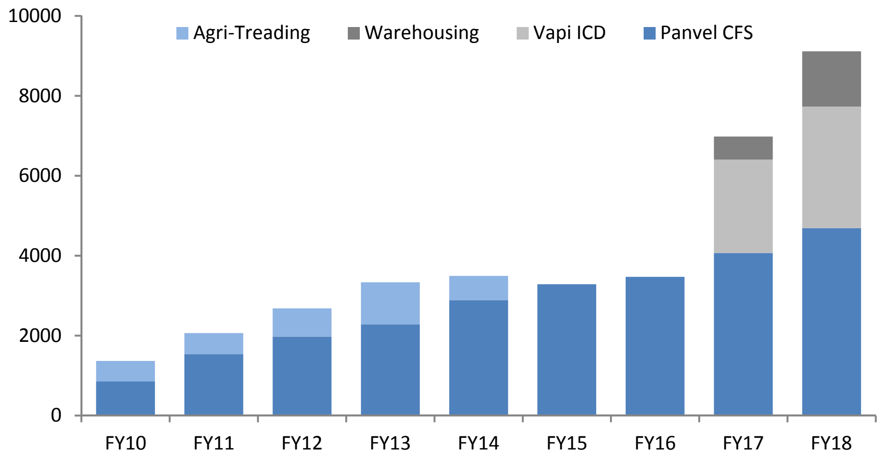
The Ministry of Commerce and Industries, GOI, is developing an industrial corridor along the western dedicated freight corridors (DFCC) to create an economic base with a globally-competitive environment and modern infrastructure. It is India's most ambitious infrastructure project for developing new industrial cities as "Smart Cities," implementing next-generation technologies across infrastructure sectors. It will expand India's manufacturing and services base and develop DMIC as a global manufacturing and trading hub. The western corridor is specifically dedicated to the container traffic requirements for existing as well as emerging ports of Gujarat, Maharashtra, and the northern hinterland. Its route comprises of the following main destinations: JNPT-Surat-Vadodara-Ahmedabad-Palanpur-Ajmer-Rewari.

We believe DFCC and the increase in container capacity at JN Port with fourth container terminal of ~4.5mn TEU will increase container traffic at JN Port significantly, which was otherwise constrained by capacity. This will benefit Navkar's Panvel CFS. The rail connectivity of Vapi CFS and its location advantage will provide competitive advantage to cater to northern container trade efficiently.

Financials

We forecast revenue CAGR of 61% to Rs 8.96bn over FY16-18 driven by an 11% CAGR in volume growth at its Panvel CFS and revenue addition from the Vapi ICD and warehousing. The Vapi expansion is likely to lead to a 29% CAGR in container volumes to 476,688 TEU over FY16-18. We expect warehousing and value-added activates to contribute revenue of Rs 1.38bn in FY18 (about 15% of total).

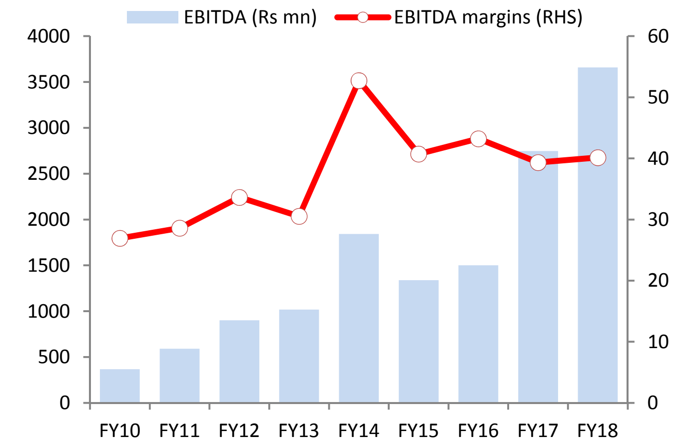
Revenue CAGR of 61% over FY16-18 (Rs mn)



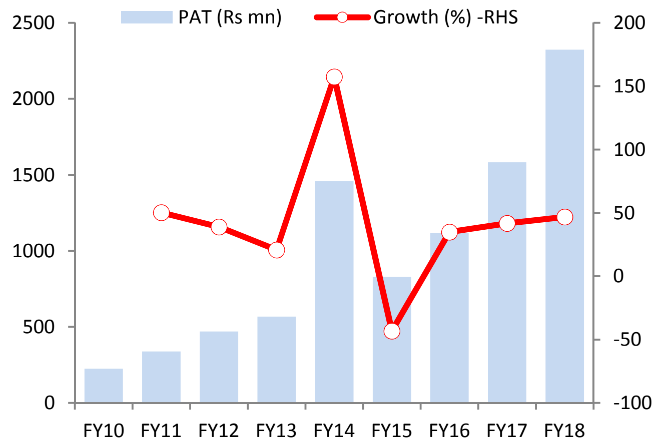
Source: Company, PhillipCapital

Over FY12-16, the company's average realisation per TEU at its Panvel CFS was about Rs 11,400 – with a 1.7% CAGR. We have assumed average increase of 3% per annum to Rs 12,150 per TEU. Its FY16 EBITDA margin was 43%; we have assumed sustainable margin of ~40% for the Panvel CFS over FY17-18. We expect EBITDA CAGR of 10% to Rs 1.8bn over FY16-18 for the Panvel CFS. In FY18, we estimate the EBITDA of its Vapi ICD at Rs1bn and at Rs 700mn for its warehousing facility. We expect an EBITDA CAGR of 55% to Rs 3.6bn over FY16-18.

EBITDA and margin



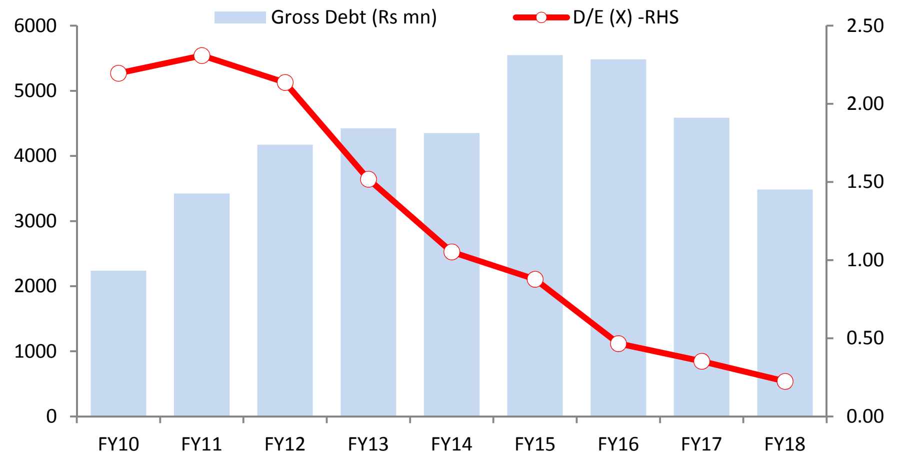
Earnings CAGR of 43% over FY16-18



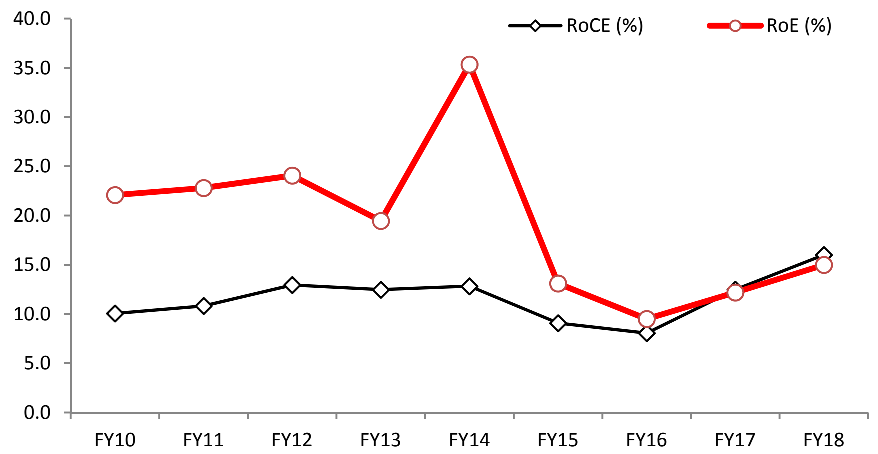
Source: Company, PhillipCapital India Research

The company's capital expenditure for the Vapi ICD is at Rs 3.8bn and it is spending Rs 2.7bn for setting up warehousing. Navkar is expanding capacity at its Panvel CFS by ~80% to 562,000 TEU with capital expenditure of Rs 800mn. The company has raised Rs 4.8bn through its IPO in December 2015 and we expect it to generate Rs 4.6bn cash from operation over FY17-18, resulting in comfortable D/E of 0.2x in FY18.

Healthy balance sheet despite aggressive capex



Return ratios to improve with increased utilisation



Source: Company

Valuations

Navkar's rapid expansion – with an increase in its container-handling capacity at Vapi and Panvel, and the setting up of its logistic and warehousing park – makes it an exciting play on container growth. It has been able to gain market share consistently, thereby appeasing investors' concerns. We believe it is set for a rerating with the demonstration of a leadership position in a challenging environment.

Relative valuation of logistics players

Company	Navkar	Allcargo	Concor	Gateway	VRL
MCap (Rs mn)	**29,233**	**46,872**	**279,825**	**29,566**	**28,467**
EV (Rs mn)	**31,812**	**51,470**	**254,182**	**30,257**	**32,819**
P/E (x)					
FY16	26.2	16.9	35.5	27.0	27.8
FY17	19.0	14.5	28.0	25.0	25.6
FY18	12.8	11.2	22.6	15.6	19.8
P/B (x)					
FY16	2.2	2.1	3.5	3.1	5.5
FY17	2.0	1.9	3.1	3.0	5.0
FY18	1.8	1.7	2.8	2.8	4.4
EV/EBITDA					
FY16	21.2	5.0	25.7	13.9	11.7
FY17	11.8	8.2	20.0	14.2	11.0
FY18	8.8	6.5	15.0	10.4	9.1
P/Cash EPS (x)					
FY16	22.3	10.9	24.3	15.6	14.8
FY17	14.9	9.7	20.2	14.9	13.7
FY18	10.7	7.7	16.0	10.5	11.6
RocE (%)					
FY16	8.1	13.1	12.7	12.5	20.0
FY17	12.4	13.9	14.1	11.8	20.3
FY18	16.0	15.8	15.9	16.5	24.8

Source: Company, PhillipCapital India Research Estimates

The company has limited valuation history with its IPO coming out only about seven months ago. Strong execution back ground offers both short term and long term growth opportunities. We have valued the company at 18x our FY18 EPS (average multiple of our logistic coverage) to arrive at a target price of Rs 288.

Additionally, we have also used DCF as a second reference (8% higher than our PE valuation), considering change in revenue mix with up-front capacity addition. The major benefit of the Rs 7.3bn expenditure and operational benefit of DFCC should start materialising from FY18.

Our DCF valuation is based on the following assumptions:

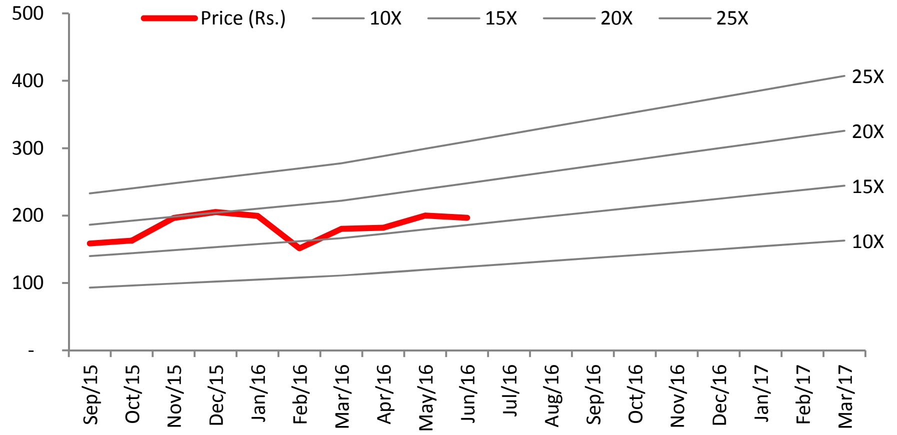
- WACC derived from cost of equity of 11.5%. Equity risk premium of 3.5% and effective tax rate of 23%.
- Perpetual growth rate of 5.5% in EBITDA from FY20 onwards, considering strong outlook for container trade in India along with the company's increasing competitive market position.

DCF valuation (Rs mn)

Present Value of Cash flow	5,337	Key Assumptions	
Present Value of Terminal Value	41,692	Cost of Equity	11.5%
Total Present Value	47,029	Cost of Debt	9.2%
Less: Net Debt	2,579	WACC	11.5%
Equity value	44,450	Tax rate	23.0%
Value Per Share (Rs)	312	Terminal Growth rate	5.5%

Source: PhillipCapital India Research

One-year forward P/E: New assets to provide boost to topline and earnings



Source: Company, PhillipCapital India Research

Business risks

Haulage charges: Container train operators have very limited control over the largest cost component — namely rail haulage. Increase in rates on an ad-hoc basis by Indian Railways is a point of concern.

Competition from road: Shift of cargo from road to rail may take some time. Improved road infrastructure in the country is facilitating direct road transfers with competitive transit times and costs, despite all environmental and energy advantages associated with rail transport.

Concentration of business at one port: The business operations are geographically concentrated and are dependent on container traffic at the JN Port. Any decline in container traffic handled by this port or any significant social, political, economic, or geological disruption in the region could have an adverse effect on business.

Project execution and business scale up: It is creating a new market (ICD at Vapi) and this business is not tested for different economic scenarios. A delay in scale up of operations will adversely impact financials.

Business Background

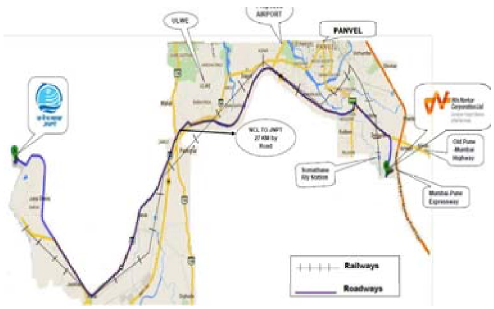
Promoters and management

- Promoted by Mr Shantilal Jayavantraj Mehta (MD) and Mr Nemichand Jayavantraj Mehta (CEO) who have several years of experience in the container freight business and have established business relationships with shipping lines, logistical service providers and customs house agents.
- Senior operational team includes Captain Dinesh Gautama, Captain Ashish Chandna, and Mr Dinesh Mohanlal Jain who have extensive strategic and operational experience in the shipping and container freight business.

Navkar Operations

- **CFS**
  At Panvel with 310,000 TEU capacity
- **ICD**
  At Vapi 447,000 TEU capacity 100% subsidiary
- **Logistics Park, Vapi**
  Warehousing, Cold storage, value added services

- Operates three CFS at Panvel – close to the JN Port (India's largest container port with a total container handling capacity of 310,000 TEU per annum).
- Has a private railway freight terminal (PFT), which allows it to (1) load and unload cargo from container trains operating between its CFS and the JN Port and (2) to transport domestic cargo to and from inland destinations on the Indian rail network.
- Offers services such as packing, labelling/bar-coding, palletising, and fumigation at its warehouses spread over an aggregate area of 500,000 sq. ft., which includes a bonded warehouse of 60,782 sq. ft. and an area of 118,000 sq. ft. designated for the consolidation of less than container load (LCL).



The company works with shipping lines, logistical service providers and customs house agents, importers and exporters including United Arab Shipping Agency Company (India) Private Limited, NYK Line (India) Limited, Hyundai Merchant Marine India Private Limited, Evergreen Shipping Agency (India) Private Limited. The top three shipping lines contribute 40-45% of its volume handled.

Panvel CFS: Operational details

Particular	Ajivali CFS I	Ajivali CFS II	Somathane CFS
Location	Panvel, Mumbai	Panvel, Mumbai	Panvel, Mumbai
Area Custom Notified	135156 sqft	428400 sqft	1073224 sqft
Operational	May-08	May-06	May-09
Installed capacity (TEU)	25000	65000	220000
Bonded warehouse	0	27641	33141
Reefer Points	16	24	52
Temperature controlled chamber	0	500m3	0
Hazardous cargo	0	yes	yes
Connectivity	Road	Road	Rail and Road

Source: Company

- Planning a rail logistics network across the country by setting up distribution hubs or ICDs near railway sidings in major business cities – to capitalise on the growing container traffic in the country. Railways in India are the preferred mode of transport for bulk commodities since they have large rakes that can carry a higher load. A single railway rake can carry 2,610-3,465 tonnes while a multi-axle vehicle can carry a maximum payload of only 45 tonnes at a time.

Equipment	Total
Reach stackers	21
Forklifts	32
Heavy duty cranes	5
Weigh bridges	5

Financials

Income Statement

Y/E Mar, Rs mn	FY15	FY16	FY17e	FY18e
Net sales	**3,288**	**3,473**	**6,850**	**8,960**
Growth, %	-6	6	97	31
Operating expenses	-1,383	-1,437	-3,041	-3,869
Employee expenses	-222	-248	-427	-580
Other Operating expenses	-344	-287	-689	-915
EBITDA (Core)	**1,339**	**1,501**	**2,693**	**3,597**
Growth, %	7.9	12.1	79.4	33.5
Margin, %	40.7	43.2	39.3	40.1
Depreciation	-152	-193	-425	-453
EBIT	**1,187**	**1,308**	**2,268**	**3,144**
Growth, %	6.9	10.2	73.4	38.6
Margin, %	36.1	37.7	33.1	35.1
Interest paid	-264	-231	-376	-346
Other Non-Operating Income	22	232	111	159
Pre-tax profit	**944**	**1,308**	**2,002**	**2,956**
Tax provided	-117	-191	-461	-680
Profit after tax	**828**	**1,117**	**1,542**	**2,276**
Others (Minorities, Associates)	0	0	0	0
Net Profit	**828**	**1,117**	**1,542**	**2,276**
Growth, %	(3.5)	34.9	38.1	47.6
Net Profit (adjusted)	**828**	**1,117**	**1,542**	**2,276**
Unadj. shares (m)	110	143	143	143
Wtd avg shares (m)	143	143	143	143

Balance Sheet

Y/E Mar, Rs mn	FY15	FY16	FY17e	FY18e
Cash & bank	11	2,903	1,083	1,021
Debtors	775	480	959	1,344
Inventory	16	40	43	46
Loans & advances	1,435	1,359	1,386	1,317
Other current assets	233	191	210	231
Total current assets	2,469	4,973	3,681	3,959
Investments	114	74	221	664
Gross fixed assets	11,602	15,755	17,508	18,958
Less: Depreciation	-594	-787	-1,212	-1,665
Add: Capital WIP	0	0	0	0
Net fixed assets	11,008	14,968	16,295	17,292
Total assets	**13,591**	**20,015**	**20,198**	**21,916**
Current liabilities	194	820	934	1,196
Provisions	77	92	94	96
Total current liabilities	271	912	1,027	1,291
Non-current liabilities	5,870	5,885	4,869	3,945
Total liabilities	6,141	6,797	5,896	5,236
Paid-up capital	1,120	1,449	1,426	1,426
Reserves & surplus	6,320	11,758	12,865	15,243
Shareholders' equity	7,450	13,217	14,301	16,679
Total equity & liabilities	**13,591**	**20,015**	**20,198**	**21,916**

Source: Company, PhillipCapital India Research Estimates

Cash Flow

Y/E Mar, Rs mn	FY15	FY16	FY17e	FY18e
Pre-tax profit	944	1,308	2,002	2,956
Depreciation	152	193	425	453
Chg in working capital	-423	1,030	-413	-76
Total tax paid	-70	-108	-380	-562
Cash flow from operating activities	**604**	**2,422**	**1,634**	**2,771**
Capital expenditure	-4,169	-4,153	-1,753	-1,450
Chg in investments	89	40	-148	-443
Other investing activities	0	0	0	0
Cash flow from investing activities	**-4,080**	**-4,113**	**-1,900**	**-1,893**
Free cash flow	-3,476	-1,690	-266	878
Equity raised/(repaid)	914	4,816	-23	0
Debt raised/(repaid)	1,200	-67	-1,096	-1,042
Dividend (incl. tax)	-129	-170	-424	-594
Cash flow from financing activities	**1,984**	**4,579**	**-1,544**	**-1,636**
Net chg in cash	-1,492	2,889	-1,810	-758

Valuation Ratios

	FY15	FY16	FY17e	FY18e
Per Share data				
EPS (INR)	5.8	7.8	10.8	16.0
Growth, %	(3.5)	34.9	38.1	47.6
Book NAV/share (INR)	52.2	92.6	100.2	116.9
FDEPS (INR)	5.8	7.8	10.8	16.0
CEPS (INR)	6.9	9.2	13.8	19.1
CFPS (INR)	4.1	15.4	10.7	18.3
DPS (INR)	0.8	1.0	2.5	3.5
Return ratios				
Return on assets (%)	10.4	9.8	13.6	17.4
Return on equity (%)	11.1	8.5	10.8	13.7
Return on capital employed (%)	9.1	8.1	12.4	16.0
Turnover ratios				
Asset turnover (x)	0.3	0.2	0.4	0.5
Sales/Total assets (x)	0.3	0.2	0.3	0.4
Sales/Net FA (x)	0.4	0.3	0.4	0.5
Working capital/Sales (x)	0.7	0.4	0.2	0.2
Receivable days	86.0	50.5	51.1	54.8
Inventory days	1.8	4.2	2.3	1.9
Payable days	21.8	132.7	72.2	73.2
Working capital days	251.4	131.3	88.7	71.0
Liquidity ratios				
Current ratio (x)	12.7	6.1	3.9	3.3
Quick ratio (x)	12.7	6.0	3.9	3.3
Interest cover (x)	4.5	5.7	6.0	9.1
Total debt/Equity (%)	74.6	41.5	30.7	20.1
Net debt/Equity (%)	74.5	19.5	23.1	13.9
Valuation				
PER (x)	35.3	26.2	19.0	12.8
PEG (x) - y-o-y growth	(10.0)	0.8	0.5	0.3
Price/Book (x)	3.9	2.2	2.0	1.8
EV/Net sales (x)	8.5	9.2	4.7	3.5
EV/EBITDA (x)	20.9	21.2	12.1	8.8
EV/EBIT (x)	23.6	24.3	14.3	10.0

Gateway Distriparks Ltd (GDPL IN)

On the right track

INDIA | LOGISTICS | Initiating Coverage

9 August 2016

Why GDL?

- Well placed to benefit from secular container growth in India with its presence in CFS, ICDs, and rail transportation
- One of the largest private container train operators; significant leverage in this segment after DFCC
- FY16-18 revenue/PAT CAGRs of 11%/31% with EBITDA margins at 16.6%
- Strong management with recovery in cash flow

CFS business to report volume recovery

GDL is one of the largest private container freight station (CFS) operators in India with a total handling capacity of 570,000 TEU per annum. Economic slowdown and the subsequent business loss at its two CFS affected this segment's performance in FY16 with 6.7% decline in volumes. We expect volume recovery at 8% CAGR to 421000 TEU over FY16-18 driven by Mumbai, Chennai and Kochi. With minimum capex needs, CFS is a cash generator (annual cash flow of Rs 0.86-1.00bn), which will help GDL in its expansions to other locations such as Kochi and Krishnapatnam. CFS contributed 42% to GDL's consolidated EBITDA in FY16 (Mumbai, Chennai, and Vizag operations) and we expect this share ~38% in FY18.

Gateway Rail Freight: Play on modal shift

GDL started container train operations after the sector opened to private players in 2007. Since then, it has become the largest private container train operator among 15 other players. It operates its rail and ICD (inland container depot) businesses through a subsidiary – Gateway Rail freight limited (GRFL) – which has a fleet of 21 rakes, 270+ road trailers, and four ICDs in Gurgaon, Faridabad, Mumbai, and Ludhiana. GRFL also operates a dedicated refrigerated container train service between NCR and Navi Mumbai. All its facilities are in the north-west region of India, which contributes to ~50% of container traffic on the west coast. GRFL expects to benefit in terms of higher asset turnaround and volumes after the dedicated freight corridor (DFC) starts, considering 2x increases in average speed and double-stacking of containers. With the DFC, the cost per TEU by rail is likely to fall significantly (by 40-45%) vs. road transport, leading to a shift in container traffic to railways. Its ICD at Viramgam near Ahmadabad (Gujarat) is likely to start in Q3FY17, and we see volumes at its other ICDs picking up from H2FY17 with an economic recovery. Rail volumes will also benefit from removal of 10% import congestion charge (April 2016) by the Indian Railways and the service-tax rebate allowed to rail transport in Budget 2017.

Earnings CAGR at 31% to Rs 1.9bn in FY16-18

Over FY16-18, we see consolidated revenue CAGR of 10.6% to Rs 12.8bn (CFS @ 8.3% to Rs 3.76bn and rail @12% to Rs 9.1bn), supported by economic recovery and start of CFS operations at Krishnapatnam Port (in Andhra Pradesh) and ICD operations at Viramgam in 2HFY17. Margins should improve with a pickup in volumes, considering high operating leverage and increase in double-stacking with the opening of a second hub at Gujarat. Net profit should double to ~Rs 1.9bn in FY18 from Rs 1.1bn in FY16 (31% CAGR).

Valuations

At its CMP, the stock is trading at 15.6x our FY18 earnings and at EV/EBITDA of 10.4x. We have valued the company on SOTP (sum-of-the-parts) with a target price of Rs 363 including Rs 149 for CFS business and Rs 173 for rail. Gateway Distriparks holds 40% in Snowman after its IPO, which we value at Rs 41, after applying a 10% discount to its average market cap of Rs 12bn.

BUY

CMP RS 272

TARGET RS 363 (+33%)

COMPANY DATA

O/S SHARES (MN) :	109
MARKET CAP (RSBN) :	30
MARKET CAP (USDBN) :	0.4
52 - WK HI/LO (RS) :	378 / 206
LIQUIDITY 3M (USDMN) :	0.7
PAR VALUE (RS) :	10

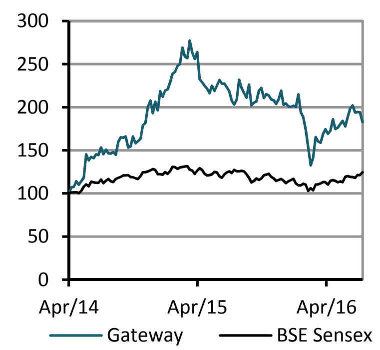
SHARE HOLDING PATTERN, %

	Mar 16	Dec 15	Sep 14
PROMOTERS :	25.2	25.2	32.9
FII / NRI :	38.6	36.9	31.4
FI / MF :	26.6	27.6	25.4
NON PRO :	1.6	1.5	1.8
PUBLIC & OTHERS :	8.1	8.8	8.6

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	-12.9	-2.1	-26.1
REL TO BSE	-16.2	-13.3	-25.6

PRICE VS. SENSEX



Source: Phillip Capital India Research

KEY FINANCIALS

Rs mn	FY16	FY17E	FY18E
Net Sales	10,509	11,218	12,862
EBIDTA	2,487	2,470	3,382
Net Profit	1,096	1,181	1,893
EPS, Rs	10.1	10.9	17.4
PER, x	27.0	25.0	15.6
EV/EBIDTA, x	13.9	14.2	10.4
P/BV, x	3.1	3.0	2.8
ROE, %	11.6	12.2	17.9
Debt/Equity (%)	55.9	62.0	56.9

Source: PhillipCapital India Research Est.

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CFS business to report volume recovery

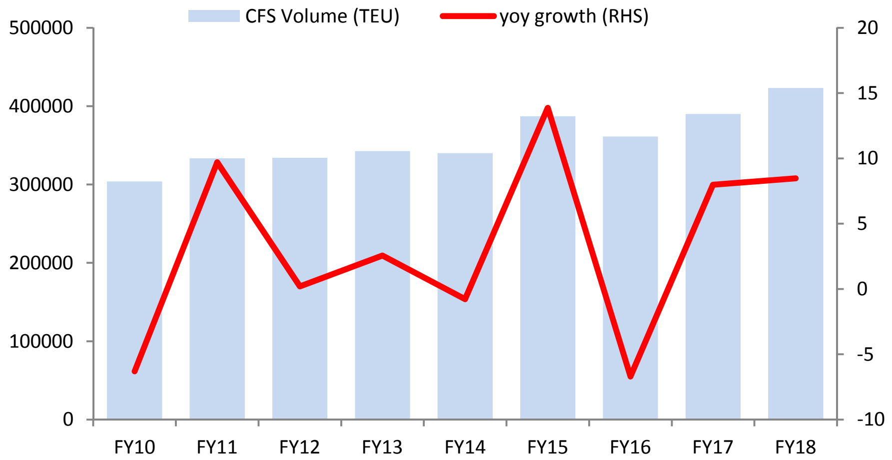
GDL is one of the largest private CFS operators in India with a total handling capacity of 570,000 TEU (Twenty-Foot Equivalent Unit) per annum and six CFS facilities (two each at Mumbai and Chennai; others at Vizag and Kochi) covering major container trade in India. Mumbai and Chennai ports handle ~50% of India's total container trade (36% and 13% respectively) of ~12.3mn TEUs per year. In FY10-15, GDL's CFS business' volume CAGR was 5% (to ~3,61,000 TEU in FY16 from 3,33,000 TEU in FY10) –thereby, it outperformed JN Port/Chennai Port's container volume CAGR of 2%/5%.

In FY10-15, GDL's CFS business' volume CAGR was 5%

The performance of this business was negatively affected in FY16 with ~7% decline in volume (revenue down 5% to Rs 3.2bn, EBITDA down 22% to Rs 1bn) due to economic slowdown and business loss at two of its CFS. The customs department had temporarily suspended operations at its Chandra CFS in Chennai (for about six month) and Punjab Conware CFS at JN Port (for about a fortnight) due to theft of containers at both facilities. The operations at both CFS'are now normal. We expect CFS business volume recovery CAGR of 8% to 4,21,000TEU over FY16-18.

We expect CFS business volume recovery CAGR of 8% to 421,000TEU over FY16-18.

Container volumes at CFS (TEU)



Source: Company, PhillipCapital India Research Estimates

CFS business contributed to 42% of GDL's consolidated EBITDA in FY16 (mainly from its Mumbai, Chennai, and Vizag operations). Its Kochi CFS, which started in 2013, operates at ~33% capacity and offers high future growth potential, which is why GDL has plans to build a second bigger CFS at Kochi covering 20 acres (its existing one is spread over 6.5 acres).

CFS business contributed to 42% of GDL's consolidated EBIDA in FY16

With minimum capex, CFS business is a cash generator (Rs 860mn to Rs 1bn annually), which helps expansions. GDL is setting up a container freight station and warehouse spread over 48 acres at Krishnapatnam Port near Nellore in Andhra Pradesh. This port has a container handling capacity of 1.2mn TEU per annum, which it plans to increase to 6mn TEU.

With minimum capex, CFS business is a cash generator which helps expansions

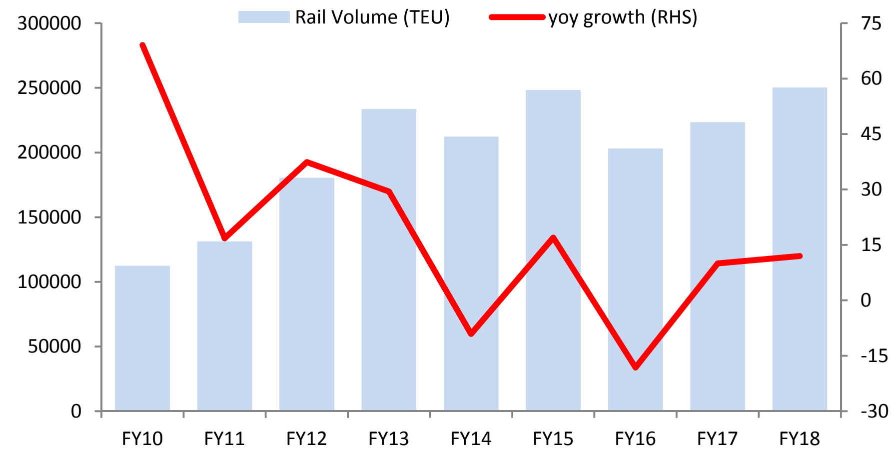
Gateway Rail Freight: Play on modal shift

Has a fleet of 21 rakes (railway trains), 270+ road trailers, and four ICDs

GDL started container train operations after the private sector opened up to private players in 2007; since then, it has become the largest private container train operator among 15 other players. It operates its rail and ICD (inland container depot) business through a subsidiary, Gateway Rail Freight Limited (GRFL), which has a fleet of 21 rakes (railway trains), 270+ road trailers, and four ICDs (Gurgaon, Faridabad, Mumbai, and Ludhiana). GRFL also operates dedicated refrigerated container train services between NCR and Navi Mumbai.

GRFL is setting up a new terminal at Viramgam, Gujarat, to capture international trade in the new industrial belt of Ahmedabad, Sanand, Mehsana, and Becharaji. This ICD, set up on 35 acres with a capital expenditure of about Rs 1bn, will have a container handling capacity of 150,000 TEU per annum. This ICD would have railway sidings for handling container trains and will be GDL's second rail hub after its hub operations out of Garhi Harsaru (Haryana), which will help to consolidate cargo and reduce operating costs.

Container volumes at GRFL (TEU)

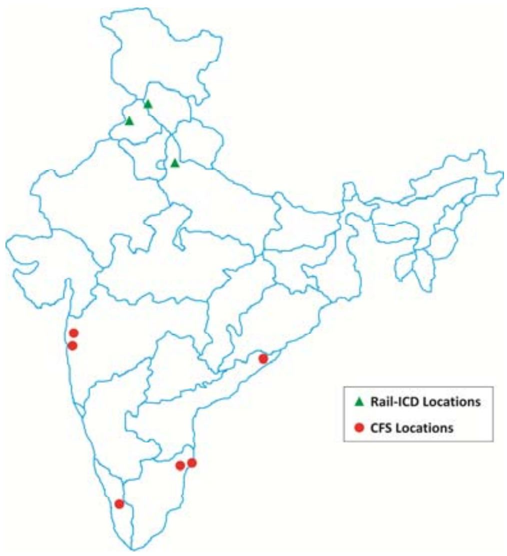


Source: Company, PhillipCapital India Research Estimates

Its rail business has had a volume CAGR of 17% over FY10-15.It had decline of ~18% in FY16

All its facilities are in the North West region of the country, which contributes to ~50% of container traffic on west coast. GRFL is likely to benefit in terms of higher asset turnaround and volumes after DFCs, considering 2x increase in average speed and double-stacking of containers. On DFCs, the cost per TEU for transporting containers by rail is expected to be significantly lower (~40-45%) than road, which should lead to a shift of containers to rail transport.

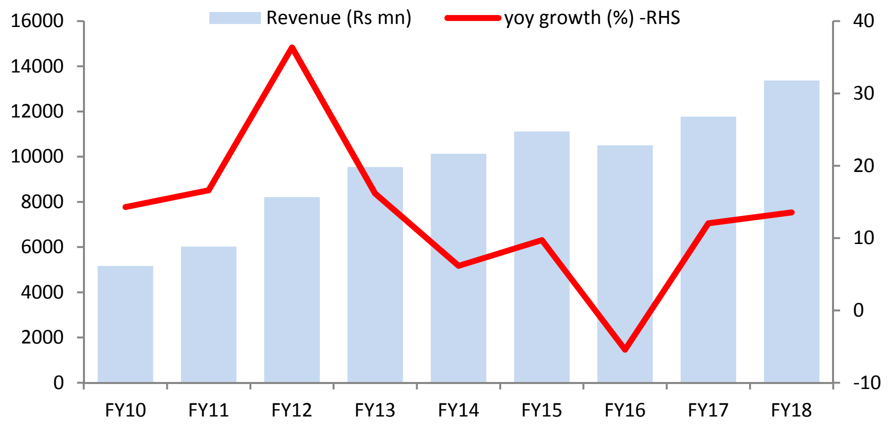
The company already runs regular container train services to JN Port, Adani, and Pipavav Port, controlling major container volume on the Indian west coast. Its rail business has had a volume CAGR of 17% over FY10-15. Container volumes declined by 18% to 200,000 TEU in FY16 due to lower exports from India and operational disturbance at Adani Port and Pipavav Port in June due to heavy rains. GRFL's Viramgam ICD is likely to start operations between October and December this year, and we expect volumes at other ICDs to pick up from the second half of FY17 with economic recovery. Container volumes will also get a boost due to the Indian Railways' removing 10% import congestion charge (in April 2016) and the service-tax rebate allowed in Budget 2017. We have assumed volume growth of 10% CAGR to ~246,000 TEU over FY16-18 in its rail business.



Earnings CAGR at 31% to Rs 1.9bn over FY16-18

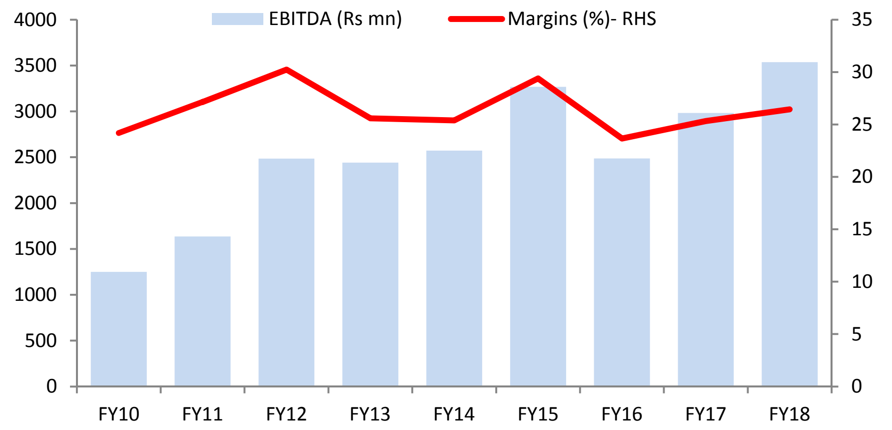
We expect consolidated revenue CAGR of 10.6% to Rs 12.8bn over FY16-18 with CFS business CAGR of 8.3% to Rs 3.8bn and rail business CAGR of 12% to Rs 9.1bn. Revenue growth will be supported by economic recovery and the start of both CFS operations at Krishnapatnam port and ICD operations at Viramgam in 2HFY17. Margins should recover with a pickup in volumes, considering high operating leverage and increase in double-stacking of containers with the start of a second hub at its new ICD in Gujarat.

Consolidated revenue to recover



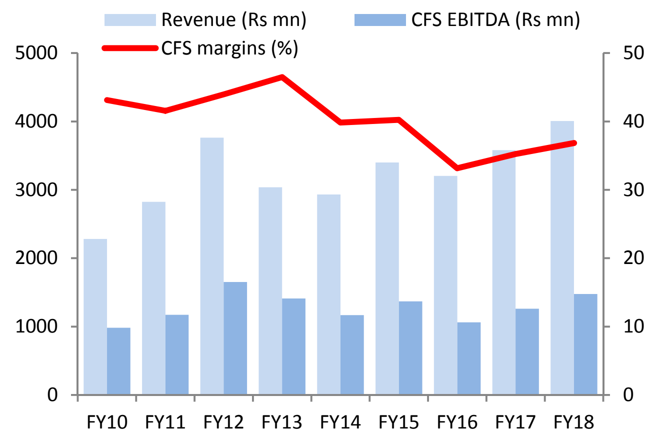
GDL's margin fell 570bps to 23.7% in FY16, but we expect it to recover by 260bps to 26.3% in FY18 based on 220bps recovery in CFS and 030bps in rail business. EBITDA should rise to Rs 3.4bn in FY18 from Rs 2.5bn in FY16 – 17% CAGR

Consolidated EBITDA and margin trend, expect 260bps margin improvement

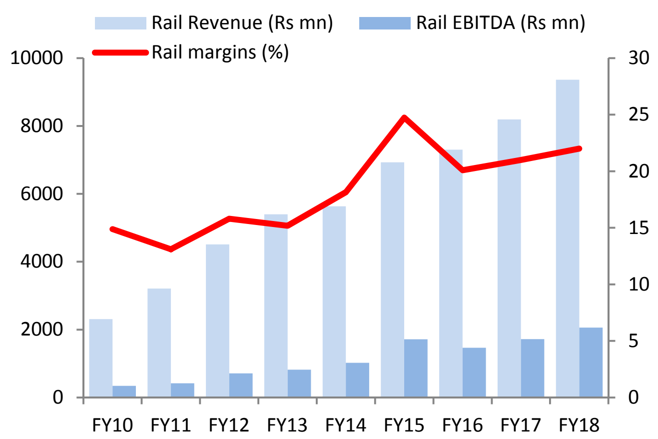


Over FY16-18, CFS is likely to see EBITDA CAGR of 12% to Rs 1.3bn, and its rail business 21% to Rs 2bn

CFS business financials



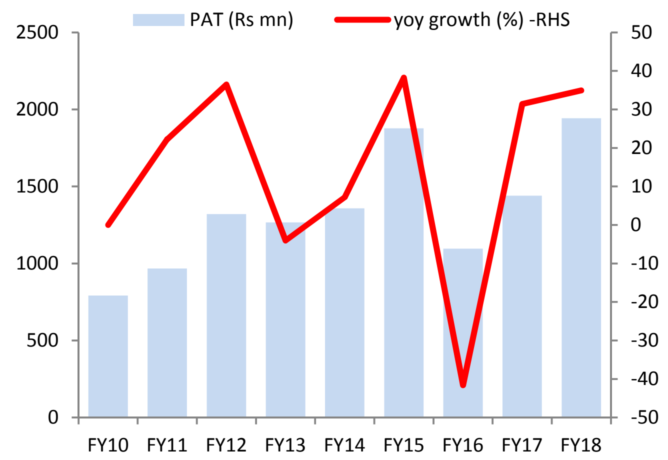
Rail business financials



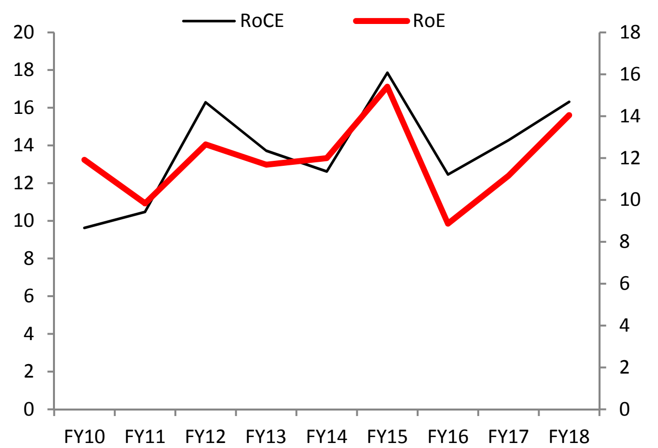
Source: Company, PhillipCapital India Research Estimates

Net profit is likely to double to ~Rs 1.9bn in FY18 from a low base of Rs 1.1bn in FY16 (31% CAGR). For its rail business, GDL will receive tax benefits under Section 80-IA for 10 years starting FY18, which will impact profits positively.

Consolidated PAT CAGR of 30%



Recovery in return ratios



Source: Company, PhillipCapital India Research Estimates

Valuations

We believe Gateway Distriparks is well placed to benefit from secular container growth in India with its presence in CFS, ICDs, and rail transportation. Its leadership position in challenging times demonstrates its management's capabilities and expertise in the rail business, which should help it to capitalize growth opportunities after DFCC (Dedicated Freight Corridor Corporation) and DMICDC (Delhi-Mumbai Industrial Corridor Development Corporation). The stock has re-rated over the past two years in line with the sector and listing of its cold chain business. Snowman is a leading integrated temperature-controlled logistics service provider operating across India with a total pallet capacity of ~100,000.

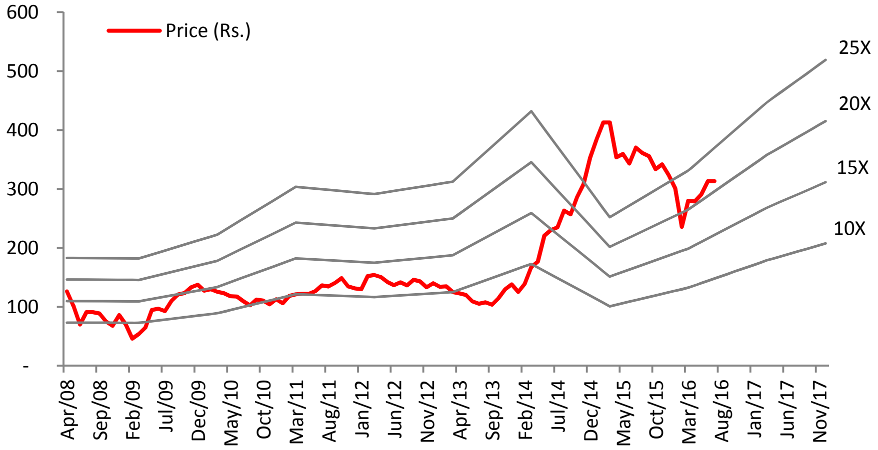
GDL is working on listing its subsidiary Gateway Rail Freight through an IPO soon. The company had earlier raised money from Blackstone by issuing compulsory convertible preference shares; its stake in rail business will dilute after equity conversion by Blackstone PE and the IPO.

We have valued the company on SOTP (sum-of-the-parts) with a target price of Rs 363 including Rs 149 for CFS business and Rs 173 for rail. Gateway Distriparks holds 40% in Snowman after its IPO, which we value at Rs 41, after applying a 10% discount to its average market cap of Rs 12bn. We initiate coverage with BUY.

Business	Reference	Multiple	valuation to GDL	Rs /Share
CFS	FY18 PAT	20.0	16,204	149
Gateway Rail	FY18 EBITDA	18.0	18,837	173
Showman	Market Cap.	10% discount	4,437	41
Total			39,478	363

Source: Company, PhillipCapital India Research Estimates

One-year forward PE chart



Source: Company, PhillipCapital India Research Estimates

Company Background

- Promoted by Newsprint Trading & Sales Corporation (Prism International Group), GDL was incorporated in 1994 to conduct the business of General and Bonded Warehousing, handling and clearing of sea borne EXIM cargo in containerised form at Navi Mumbai. Over time, GDL had ventured into other activities in the logistics industry.
- Entered container train transport in 2007, after Indian railways opened up the sector to private players.
- Started cold chain business through Snowman Logistics, which it listed in 2014.
- Business is divided into three business segments
    1. Container freight stations
    2. Container rail transport
    3. Cold Storage.
- CFS facilities at Mumbai, Chennai, Vishakapatnam, Kochi and Krishnapattan (to be operational in FY17).

Gateway Rail Freight

- GDL's rail operations are handled by a subsidiary, Gateway Rail Freight Limited (Gateway Rail) in which The Blackstone Group of USA has made a private equity investment through Blackstone GPV Capital Partners (Mauritius) V-H Ltd.
- Inland container depot (ICD) operated under Gateway Rail Freight.
- Owns and operates 24 rakes and a fleet of 270+ trailers.
- India’s largest private sector container train operator. Provides container logistics solutions between major Indian ports and ICDs through rail services (for export, import, and domestic containerized cargo, integrated with road transportation, custom clearance, and transit and bonded warehousing, refrigerated container facilities, and other value added services).
- Gateway Rail operates from its four owned terminals at Garhi (Haryana), Sahnewal (Ludhiana), Asaoti (Faridabad), and Kalamboli (Mumbai).
- Total ICD capacity of 500,000 TEU, which can be scaled up to ~1mn TEU with marginal capital expenditure at existing locations.
- Setting up a new ICD (150,000 TEU annual capacity) at Viramgam, Gujarat.

Gateway Distriparks CFS and ICD network

Place	Type	Title	Area	Yard	Warehouse
Navi Mumbai	CFS	60 year lease	35.0	100000	40000
Punjab Conware	CFS	15 yr O&M, 1Feb 2007	27.0	65000	50000
Chennai	CFS	Freehold	20.0	70000	7000
Chandra CFS	CFS	Freehold	10.5	36000	4000
Vizag	CFS	30 yr lease	20.0	75000	3000
Kochi	CFS	30 yr lease	6.5	24000	1000
Kochi	CFS	Freehold	20.0	land bank	
Krishnapatnam	CFS	Freehold	48.0		
Garhi Harsaru (Gurgaon)	Rail ICD	Freehold	90.0	250000	15000
Kalamboli (Navi Mumbai)	ICD	Alliance	17.0	20000	1000
Sanehwal (Near Ludhiana)	Rail ICD	Freehold	60.0	220000	4000
Asaoti (Faridabad)	Rail ICD	Freehold	66.0	240000	5000
Viramgam (Gujarat	Rail ICD		35.0		

Source: Company, PhillipCapital India Research

Financials

Income Statement

Y/E Mar, Rs mn	FY15	FY16	FY17e	FY18e
Net sales	**11,113**	**10,509**	**11,218**	**12,862**
Growth, %	10	-5	7	15
Total income	11,113	10,509	11,218	12,862
Raw material expenses	0	0	0	0
Employee expenses	-421	-392	-451	-518
Other Operating expenses	-7,426	-7,630	-8,297	-8,961
EBITDA (Core)	**3,267**	**2,487**	**2,470**	**3,382**
Growth, %	27.0	(23.9)	(0.7)	36.9
Margin, %	29.4	23.7	22.0	26.3
Depreciation	-889	-805	-773	-784
EBIT	**2,378**	**1,682**	**1,697**	**2,598**
Growth, %	34.3	(29.3)	0.9	53.1
Margin, %	21.4	16.0	15.1	20.2
Interest paid	-240	-184	-245	-245
Other Non-Operating Income	128	197	213	230
Pre-tax profit	**2,355**	**1,777**	**1,714**	**2,668**
Tax provided	-441	-671	-533	-775
Profit after tax	**1,915**	**1,107**	**1,181**	**1,893**
Others (Minorities, Associates)	-37	-10	0	0
Net Profit	**1,878**	**1,096**	**1,181**	**1,893**
Growth, %	38.2	(41.6)	7.8	60.2
Net Profit (adjusted)	**1,878**	**1,096**	**1,181**	**1,893**
Unadj. shares (m)	109	109	109	109
Wtd avg shares (m)	109	109	109	109

Balance Sheet

Y/E Mar, Rs mn	FY15	FY16	FY17e	FY18e
Cash & bank	744	303	378	486
Debtors	1,064	1,026	1,231	1,477
Loans & advances	969	1,005	1,156	1,329
Other current assets	301	273	314	361
Total current assets	3,077	2,606	3,079	3,653
Investments	2,253	3,023	3,308	3,543
Gross fixed assets	12,727	13,381	14,581	15,681
Less: Depreciation	-3,620	-4,425	-5,198	-5,982
Add: Capital WIP	299	751	751	751
Net fixed assets	9,406	9,707	10,134	10,450
Non-current assets	856	918	918	918
Total assets	**15,593**	**16,254**	**17,439**	**18,564**
Current liabilities	1,080	713	784	863
Provisions	478	458	503	554
Total current liabilities	1,558	1,171	1,288	1,416
Non-current liabilities	4,542	5,395	6,178	6,307
Total liabilities	6,101	6,565	7,466	7,723
Paid-up capital	1,087	1,086	1,086	1,086
Reserves & surplus	8,146	8,327	8,612	9,479
Shareholders' equity	9,492	9,689	9,973	10,841
Total equity & liabilities	**15,593**	**16,254**	**17,439**	**18,564**

Source: Company, PhillipCapital India Research Estimates

Cash Flow

Y/E Mar, Rs mn	FY15	FY16	FY17e	FY18e
Pre-tax profit	2,355	1,777	1,714	2,668
Depreciation	889	805	773	784
Chg in working capital	64	-419	-280	-338
Total tax paid	-331	-692	-499	-646
Cash flow from operating activities	**2,977**	**1,471**	**1,708**	**2,468**
Capital expenditure	1,902	-1,106	-1,200	-1,100
Chg in investments	-1,913	-770	-285	-235
Cash flow from investing activities	**79**	**-1,793**	**-1,436**	**-1,251**
Free cash flow	3,056	-322	272	1,217
Equity raised/(repaid)	-92	60	50	50
Debt raised/(repaid)	-1,327	874	750	0
Dividend (incl. tax)	-897	-898	-897	-1,025
Cash flow from financing activities	**-3,350**	**42**	**-97**	**-975**
Net chg in cash	-294	-280	175	242

Valuation Ratios

	FY15	FY16	FY17e	FY18e
Per Share data				
EPS (INR)	17.3	10.1	10.9	17.4
Growth, %	38.2	(41.7)	7.9	60.2
Book NAV/share (INR)	85.0	86.6	89.3	97.3
FDEPS (INR)	17.3	10.1	10.9	17.4
CEPS (INR)	25.5	17.5	18.0	24.6
CFPS (INR)	22.8	11.5	13.3	19.8
DPS (INR)	7.0	7.0	7.0	8.0
Return ratios				
Return on assets (%)	13.2	8.1	8.5	11.9
Return on equity (%)	20.3	11.6	12.2	17.9
Return on capital employed (%)	17.9	12.5	11.8	16.5
Turnover ratios				
Asset turnover (x)	0.9	1.0	1.0	1.0
Sales/Total assets (x)	0.7	0.7	0.7	0.7
Sales/Net FA (x)	1.0	1.1	1.1	1.2
Working capital/Sales (x)	0.1	0.2	0.2	0.2
Fixed capital/Sales (x)	0.9	0.9	0.9	0.8
Receivable days	34.9	35.6	40.1	41.9
Payable days	15.1	16.9	17.1	17.4
Working capital days	41.2	55.3	62.4	65.4
Liquidity ratios				
Current ratio (x)	2.9	3.7	3.9	4.2
Quick ratio (x)	2.9	3.7	3.9	4.2
Interest cover (x)	9.9	9.1	6.9	10.6
Dividend cover (x)	2.5	1.4	1.6	2.2
Total debt/Equity (%)	47.6	55.9	62.0	56.9
Net debt/Equity (%)	39.5	52.7	58.1	52.4
Valuation				
PER (x)	15.7	27.0	25.0	15.6
PEG (x) - y-o-y growth	0.4	(0.6)	3.2	0.3
Price/Book (x)	3.2	3.1	3.0	2.8
Yield (%)	2.6	2.6	2.6	2.9
EV/Net sales (x)	3.0	3.3	3.1	2.7
EV/EBITDA (x)	10.2	13.9	14.2	10.4
EV/EBIT (x)	14.0	20.5	20.7	13.5

Container Corporation (CCRI IN)

On a recovery path

INDIA | LOGISTICS | Company Update

9 August 2016

CONCOR, promoted by the Ministry of Railways is a leader in multi-modal transport with the largest network of intermodal terminals across the country providing wide reach and penetration, combined with a strong presence at almost all container-handling ports. Its aggressive expansion plans over FY12-17 (ahead of competitors) should help it to grow faster and improve return ratios with higher asset turnover. It will benefit from incremental revenue from value-added services with the commencement of multi-modal logistics parks over FY17-19.

Container remains attractive cargo, where Concor enjoys near monopoly

Substantial incremental demand is likely to come from a shift in general cargo to containerised from bulk – as is the case globally. We believe Concor is uniquely placed to capitalise on upcoming growth opportunities in containers and warehousing. With its scheduled services between major port traffic centres and its nationwide terminal network, it enjoys significant competitive advantage and economies of scale over private players. It has 62 terminals, 11,770 wagons (including 10,413 high-speed), 18,680 containers, and it is adding 2-3 terminals and 1,000 wagons every year. Its second largest competitor is about a tenth of its size despite the government allowing 15 private players to enter containerised transportation in 2007. Private logistics players are focusing on the asset-light model and are tying up with Concor for their rail transport requirements due to its nationwide network. With a market share of ~74%, it will continue to have partial monopoly in container transport.

Asset turnaround to improve after DFCC, DMICDC

Concor is spending Rs 60bn over FY12-17 for capacity addition and land acquisition to be ready to capture growth opportunities after DFCC. It has also started Concor Air, its air-cargo division, which will tie up with major airports for cargo handling. Dedicated freight corridors will enhance the railways' market share by allowing it to carry containers faster and with a more reliable and competitive service. Container trains after DFCs will carry almost 4x current cargo at a speed up to ~100kmph (vs. current average speeds of ~30kmph), leading to significant reduction in capital intensity, which in turn would result in better return ratios for operators.

Earnings to pick up in the medium term from a low base

We expect volume growth of 12.5% in FY17 with a revenue growth of ~14% (it was down 6% in FY16 due to economic slowdown and service tax impact of Rs 300mn in the domestic business). Service tax impact will disappear in FY17 with a change in tax norms in the FY16 budget. Removal of 10% import-congestion charge in April 2016 will support volume on domestic routes. Concor is setting up around 15 logistic parks ahead of competitors; four are partially operational and three more should be operational in FY17. Most of these investments are back-ended due to purchase of land and high gestation period – they should start contributing meaningfully from FY19.

Outlook and valuation

Concor is debt free and has a cash balance of Rs 25bn. It is way ahead of competition in creating infrastructure (capex of ~Rs 60bn over the past five years; most for buying land and setting up logistics parks). We expect its profit to increase to Rs 12.3bn in FY18 (from Rs 7.8bn in FY16) with cash EPS of Rs 89. We continue to value the company on DCF (to account for its aggressive capex plans to capitalise on container growth, once freight corridors are operational) with a price target of Rs 1,530.

Neutral (Maintain)

CMP RS 1,435

TARGET RS 1,530 (+6%)

COMPANY DATA

O/S SHARES (MN) :	195
MARKET CAP (RSBN) :	282
MARKET CAP (USDBN) :	4.2
52 - WK HI/LO (RS) :	1690 / 1051
LIQUIDITY 3M (USDMN) :	4.0
PAR VALUE (RS) :	1

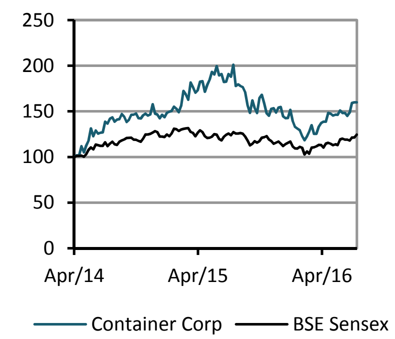
SHARE HOLDING PATTERN, %

	Jun 15	Mar 16	Dec 15
PROMOTERS :	56.8	56.8	61.8
FII / NRI :	28.4	28.3	27.9
FI / MF :	11.6	11.6	7.2
NON PRO :	0.4	1.9	0.2
PUBLIC & OTHERS :	2.8	1.4	2.9

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	-1.0	7.3	-11.2
REL TO BSE	-4.4	-3.8	-10.6

PRICE VS. SENSEX



Source: Phillip Capital India Research

KEY FINANCIALS

Rs mn	FY16	FY17E	FY18E
Net Sales	57,426	65,834	78,388
EBIDTA	10,815	13,543	17,591
Net Profit	7,876	9,978	12,360
EPS, Rs	40.4	51.2	63.4
PER, x	35.5	28.0	22.6
EV/EBIDTA, x	25.2	20.0	15.0
P/BV, x	3.5	3.1	2.8
ROE, %	9.7	11.0	12.4
Debt/Equity (%)	0.6	0.5	0.5

Source: PhillipCapital India Research Est.

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Financials

Consolidated Income Statement

Y/E Mar, Rs mn	FY15	FY16	FY17e	FY18e
Net sales	**55,737**	**57,426**	**65,834**	**78,388**
Growth, %	12	3	15	19
Total income	55,737	57,426	65,834	78,388
Terminal and Service Charges	-38,308	-42,105	-46,281	-54,088
Employee expenses	-1,579	-1,539	-1,647	-1,778
Other Operating expenses	-2,885	-2,967	-4,364	-4,931
EBITDA (Core)	**12,965**	**10,815**	**13,543**	**17,591**
Growth, %	17.7	(16.6)	25.2	29.9
Margin, %	23.3	18.8	20.6	22.4
Depreciation	-3,727	-3,646	-3,893	-5,085
EBIT	**9,238**	**7,169**	**9,650**	**12,506**
Growth, %	1.2	(22.4)	34.6	29.6
Margin, %	16.6	12.5	14.7	16.0
Other Non-Operating Income	3,707	3,447	3,479	3,757
Pre-tax profit	**12,946**	**10,616**	**13,129**	**16,263**
Tax provided	-2,469	-2,740	-3,151	-3,903
Profit after tax	**10,477**	**7,876**	**9,978**	**12,360**
Net Profit	**10,477**	**7,876**	**9,978**	**12,360**
Growth, %	6.4	(24.8)	26.7	23.9
Net Profit (adjusted)	**10,477**	**7,876**	**9,978**	**12,360**
Unadj. shares (m)	195	195	195	195
Wtd avg shares (m)	195	195	195	195

Balance Sheet

Y/E Mar, Rs mn	FY15	FY16	FY17e	FY18e
Cash & bank	25,881	7,999	9,609	16,101
Debtors	366	375	413	454
Inventory	168	177	195	214
Loans & advances	11,918	14,139	14,422	14,711
Other current assets	1,596	17,399	18,443	19,550
Total current assets	39,929	40,089	43,082	51,029
Investments	11,548	13,550	14,050	14,050
Gross fixed assets	53,510	58,370	69,370	76,370
Less: Depreciation	-18,009	-21,655	-25,548	-30,633
Add: Capital WIP	1,515	1,530	1,545	1,561
Net fixed assets	37,015	38,245	45,367	47,298
Total assets	**88,492**	**91,884**	**102,500**	**112,377**
Current liabilities	6,442	6,603	7,207	7,868
Provisions	1,797	1,798	1,941	2,097
Total current liabilities	8,239	8,400	9,148	9,964
Non-current liabilities	2,306	2,426	2,566	2,738
Total liabilities	10,544	10,826	11,714	12,703
Paid-up capital	1,950	1,950	1,950	1,950
Reserves & surplus	76,000	79,108	88,835	97,725
Shareholders' equity	77,949	81,058	90,785	99,675
Total equity & liabilities	**88,494**	**91,884**	**102,500**	**112,377**
Cash & bank	25,881	7,999	9,609	16,101

Source: Company, PhillipCapital India Research Estimates

Cash Flow

Y/E Mar, Rs mn	FY15	FY16	FY17e	FY18e
Pre-tax profit	12,946	10,616	13,129	16,263
Depreciation	3,727	3,646	3,893	5,085
Chg in working capital	572	-17,882	-634	-640
Total tax paid	-3,452	-2,843	-3,020	-3,741
Cash flow from operating activities	**13,792**	**-6,463**	**13,368**	**16,968**
Capital expenditure	-8,335	-4,876	-11,015	-7,015
Chg in investments	-2,907	-2,003	-500	0
Other investing activities	677	0	0	0
Cash flow from investing activities	**-10,565**	**-6,878**	**-11,515**	**-7,015**
Free cash flow	3,228	-13,341	1,853	9,953
Debt raised/(repaid)	72	223	9	9
Dividend (incl. tax)	-3,057	-2,210	-2,802	-3,471
Cash flow from financing activities	**-2,985**	**-1,987**	**-2,793**	**-3,461**
Net chg in cash	243	-15,328	-940	6,491

Valuation Ratios

	FY15	FY16	FY17e	FY18e
Per Share data				
EPS (INR)	53.7	40.4	51.2	63.4
Growth, %	6.4	(24.8)	26.7	23.9
Book NAV/share (INR)	399.8	415.7	465.6	511.2
FDEPS (INR)	53.7	40.4	51.2	63.4
CEPS (INR)	72.9	59.1	71.1	89.5
CFPS (INR)	51.7	(50.8)	50.7	67.8
DPS (INR)	13.4	9.7	12.3	15.2
Return ratios				
Return on assets (%)	12.4	8.7	10.3	11.5
Return on equity (%)	13.4	9.7	11.0	12.4
Return on capital employed (%)	16.5	12.7	14.1	15.9
Turnover ratios				
Asset turnover (x)	1.3	1.1	1.0	1.1
Sales/Total assets (x)	0.7	0.6	0.7	0.7
Sales/Net FA (x)	1.6	1.5	1.6	1.7
Working capital/Sales (x)	0.1	0.4	0.4	0.3
Receivable days	2.4	2.4	2.3	2.1
Inventory days	1.1	1.1	1.1	1.0
Payable days	17.2	14.6	13.9	12.8
Working capital days	49.8	162.0	145.6	126.0
Liquidity ratios				
Current ratio (x)	6.2	6.1	6.0	6.5
Quick ratio (x)	6.2	6.0	6.0	6.5
Dividend cover (x)	4.0	4.2	4.2	4.2
Total debt/Equity (%)	0.3	0.6	0.5	0.5
Net debt/Equity (%)	(32.9)	(9.3)	(10.1)	(15.7)
Valuation				
PER (x)	26.7	35.5	28.0	22.6
PEG (x) - y-o-y growth	4.2	(1.4)	1.1	0.9
Price/Book (x)	3.6	3.5	3.1	2.8
Yield (%)	0.9	0.7	0.9	1.1
EV/Net sales (x)	4.6	4.7	4.1	3.4
EV/EBITDA (x)	19.6	25.2	20.0	15.0
EV/EBIT (x)	27.5	38.0	28.0	21.1

PhillipCapital

Allcargo Logistics (AGLL IN)

A play on growing containerisation

INDIA | LOGISTICS | Company Update

9 August 2016

Allcargo, a leading integrated logistics player with operations spread across 90 countries and shipments across 4,000+ port pairs, is the largest player in asset-light LCL consolidation. Its synergized business model provides cost effective logistic solutions and it is ready to exploit attractive opportunities in new businesses with entry into coastal shipping and 3PL. It is also focusing on e-commerce and supply chain logistics and will develop a land bank of 200acres for ICD/warehousing after GST. Valuations are expected to rerate with earnings CAGR of 23% to Rs 4.17bn over FY16-18 and cash profit of ~Rs 10.3bn over FY17-18. We believe that with its presence across the critical value chain in logistics, Allcargo would be a major beneficiary of increased global trade and recovery in domestic industrial activity. We maintain a BUY rating and target price of Rs 200.

Multimodal Transport Operations (MTO) to grow at 11% CAGR in FY16-18

Its MTO business accounts for 83% of consolidated revenue and 49% of EBITDA and is asset light with high returns on capital employed. Its successful acquisition strategy has helped this segment to see 17% CAGR over CY09-FY16 (from Rs 18bn to Rs 47.6bn), thereby consolidating its network in major global economies and adding business lines. We see 11% CAGR in this segment over FY16-FY18 to Rs 59bn. The business is more resilient in a downturn because full-load container business shifts to LCL. We see its EBITDA margins rising 40bps yoy to 6.1% in FY18, EBIT margins by 50bps to 5.5%.

CFS and ICD to benefit from growing containerisation in India

Allcargo has leveraged its relationships with freight forwarders and major shipping lines by entering into CFS. It has a presence at key container ports of the country (JNPT, Chennai, and Mundra) that collectively handle more than 75% of India's container cargo. It has used 50% of the land at its second CFS at JNPT; potential to double capacity as demand picks up. It also has a land bank of more than 200 acres across three strategic locations—Hyderabad, Bangalore, and Nagpur. Its current CFS' capacity utilisation is ~65% and economic recovery would provide significant upside to profits. Its new CFS at Kolkata port of 100,000 TEU would be operational by the end of FY17 with a capital expenditure of Rs 350mn.

Recovery in project business to improve return ratios

Its project and Engineering (P&E) business combines equipment leasing, project movement, and coastal shipping. It focuses on providing integrated logistics solutions to clients through P&E especially in sectors like oil & gas, steel, cement and power. P&E contributes to ~15% of EBIT (FY16), but constitutes 33% of capital employed, thereby pulling down return ratios. P&E demand has picked up with utilization rates increasing to ~90% in FY16 from 72% in FY14. Economic recovery is likely to improve this unit's asset turnover to ~0.7x in FY18 from 0.4x in FY14, thereby improving return ratios (considering high operating leverage).

Focus on new business opportunities

Allcargo sees high growth from project logistics (3PL), ecommerce, and coastal businesses. It is managing inventory at plant locations and providing warehousing for auto and pharma sectors; it plans to expand to other sectors. It is consolidating contract logistics by creating subsidiary Avvashya CCI Logistics (ACCI) after acquiring CCI Logistics. Allcargo is setting up a logistic park in Haryana (Jhajjar), close to the DFC, which will comprise of a rail-link private terminal, free-trade warehousing zone, domestic tariff area, and contract logistics services.

Valuation

At CMP, the stock is trading at 11x our FY18 earnings of Rs 16.6 and P/BV of 2.0x FY17. Allcargo would be a major beneficiary of increased global trade and recovery in domestic industrial activity with its presence across the critical value chain in logistics. We maintain BUY with target price of Rs 200 (15x FY18).

BUY (Maintain)

CMP RS 186

TARGET RS 200 (+8%)

COMPANY DATA

O/S SHARES (MN) :	252
MARKET CAP (RSBN) :	47
MARKET CAP (USDBN) :	0.7
52 - WK HI/LO (RS) :	222 / 128
LIQUIDITY 3M (USDMN) :	0.9
PAR VALUE (RS) :	2

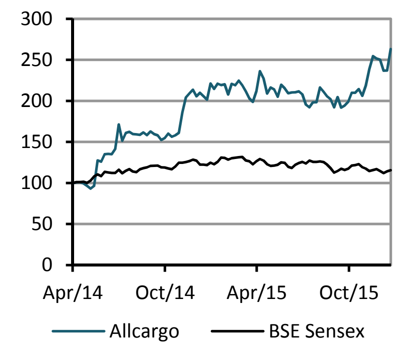
SHARE HOLDING PATTERN, %

	Jun 15	Mar 16	Dec 15
PROMOTERS :	69.9	69.9	69.9
FII / NRI :	13.8	14.0	13.8
FI / MF :	0.1	0.1	0.1
NON PRO :	12.3	12.4	12.3
PUBLIC & OTHERS :	3.8	3.6	3.8

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	5.2	23.1	17.4
REL TO BSE	1.8	11.9	17.9

PRICE VS. SENSEX



Source: Phillip Capital India Research

KEY FINANCIALS

Rs mn	FY16	FY17E	FY18E
Net Sales	56,879	62,738	71,439
EBIDTA	5,220	6,201	7,566
Net Profit	2,783	3,238	4,193
EPS, Rs	11.0	12.8	16.6
PER, x	16.9	14.6	11.2
EV/EBIDTA, x	5.0	8.2	6.5
P/BV, x	2.1	1.9	1.7
ROE, %	12.6	13.2	15.0
Debt/Equity (%)	21.7	30.5	22.2

Source: PhillipCapital India Research Est.

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Financials

Consolidated Income Statement

Y/E Mar, Rs mn	FY15	FY16	FY17e	FY18e
Net sales	**56,288**	**56,879**	**62,738**	**71,439**
Growth, %	16	1	10	14
Total income	56,288	56,879	62,738	71,439
Employee expenses	-8,566	-9,256	-10,089	-11,300
Other Operating expenses	-42,968	-42,403	-46,447	-52,573
EBITDA (Core)	**4,754**	**5,220**	**6,201**	**7,566**
Growth, %	21.5	9.8	18.8	22.0
Margin, %	8.4	9.2	9.9	10.6
Depreciation	-1,574	-1,529	-1,620	-1,860
EBIT	**3,180**	**3,692**	**4,582**	**5,706**
Growth, %	47.3	16.1	24.1	24.5
Margin, %	5.6	6.5	7.3	8.0
Interest paid	-535	-425	-615	-568
Other Non-Operating Income	105	263	284	312
Pre-tax profit	**2,770**	**3,569**	**4,311**	**5,551**
Tax provided	-700	-700	-978	-1,254
Profit after tax	**2,070**	**2,869**	**3,333**	**4,297**
Others (Minorities, Associates)	-92	-86	-95	-104
Net Profit	**1,978**	**2,783**	**3,238**	**4,193**
Growth, %	48.7	40.7	16.4	29.5
Net Profit (adjusted)	**1,978**	**2,783**	**3,238**	**4,193**
Unadj. shares (m)	126	126	252	252
Wtd avg shares (m)	252	252	252	252

Balance Sheet

Y/E Mar, Rs mn	FY15	FY16	FY17e	FY18e
Cash & bank	1,738	2,069	4,074	4,044
Debtors	6,476	6,669	7,670	8,820
Inventory	117	112	146	189
Loans & advances	3,633	3,867	4,177	4,511
Other current assets	685	814	936	1,076
Total current assets	12,648	13,531	17,001	18,640
Investments	894	1,466	2,052	3,078
Gross fixed assets	28,898	31,268	34,468	36,768
Less: Depreciation	-8,283	-9,811	-11,431	-13,291
Add: Capital WIP	302	308	315	321
Net fixed assets	20,918	21,766	23,352	23,798
Total assets	**34,460**	**36,762**	**42,405**	**45,516**
Current liabilities	7,099	7,965	8,144	8,735
Provisions	627	613	675	742
Total current liabilities	7,726	8,578	8,819	9,477
Non-current liabilities	7,436	5,893	8,706	7,607
Total liabilities	15,161	14,471	17,525	17,084
Paid-up capital	252	505	505	505
Reserves & surplus	18,826	21,559	24,053	27,501
Shareholders' equity	19,299	22,292	24,880	28,433
Total equity & liabilities	**34,460**	**36,763**	**42,405**	**45,516**

Source: Company, PhillipCapital India Research Estimates

Cash Flow

Y/E Mar, Rs mn	FY15	FY16	FY17e	FY18e
Pre-tax profit	2,770	3,569	4,311	5,551
Depreciation	1,574	1,529	1,620	1,860
Chg in working capital	198	301	-1,225	-1,011
Total tax paid	-644	-707	-850	-1,090
Cash flow from operating activities	**3,897**	**4,691**	**3,855**	**5,310**
Capital expenditure	229	-2,376	-3,206	-2,306
Chg in investments	1,009	-572	-586	-1,026
Cash flow from investing activities	**1,257**	**-2,909**	**-3,732**	**-3,232**
Free cash flow	5,155	1,782	123	2,078
Equity raised/(repaid)	-906	899	150	150
Debt raised/(repaid)	-3,878	-1,536	2,686	-1,263
Dividend (incl. tax)	-301	-596	-745	-745
Cash flow from financing activities	**-5,420**	**-1,312**	**2,092**	**-1,858**
Net chg in cash	-266	471	2,214	220

Valuation Ratios

	FY15	FY16	FY17e	FY18e
Per Share data				
EPS (INR)	7.8	11.0	12.8	16.6
Growth, %	48.7	40.7	16.4	29.5
Book NAV/share (INR)	75.7	87.5	97.4	111.1
FDEPS (INR)	7.8	11.0	12.8	16.6
CEPS (INR)	14.1	17.1	19.3	24.0
CFPS (INR)	15.0	17.4	13.9	19.4
DPS (INR)	1.0	2.0	2.5	2.5
Return ratios				
Return on assets (%)	6.8	8.8	9.4	10.6
Return on equity (%)	10.4	12.6	13.2	15.0
Return on capital employed (%)	11.9	13.1	13.6	15.8
Turnover ratios				
Asset turnover (x)	2.2	2.3	2.3	2.5
Sales/Total assets (x)	1.6	1.6	1.6	1.6
Sales/Net FA (x)	2.6	2.7	2.8	3.0
Working capital/Sales (x)	0.1	0.1	0.1	0.1
Fixed capital/Sales (x)	0.4	0.4	0.4	0.3
Receivable days	42.0	42.8	44.6	45.1
Inventory days	0.8	0.7	0.8	1.0
Payable days	40.5	42.3	39.4	37.7
Working capital days	24.7	22.4	27.8	29.9
Liquidity ratios				
Current ratio (x)	1.8	1.7	2.1	2.1
Quick ratio (x)	1.8	1.7	2.1	2.1
Interest cover (x)	5.9	8.7	7.4	10.1
Dividend cover (x)	7.8	5.5	5.1	6.6
Total debt/Equity (%)	33.2	21.7	30.5	22.2
Net debt/Equity (%)	24.1	12.4	13.9	7.8
Valuation				
PER (x)	23.8	16.9	14.6	11.2
PEG (x) - y-o-y growth	0.5	0.4	0.9	0.4
Price/Book (x)	2.5	2.1	1.9	1.7
Yield (%)	0.5	1.1	1.3	1.3
EV/Net sales (x)	0.5	0.5	0.8	0.7
EV/EBITDA (x)	5.9	5.0	8.2	6.5
EV/EBIT (x)	8.9	7.1	11.0	8.7

PhillipCapital

VRL Logistics (VRLL IN)

Short-term pain continues

INDIA | SECTOR | Company Update

9 August 2016

VRL has emerged as one of the leading pan-India logistics and parcel-delivery service providers with strong brand equity backed by over 38 years of operations. The company has a track record of growth and operational efficiency and would be one of the major beneficiaries of GST implementation and the new transport bill. The company's valuation is expected to be negatively affected due to recent weakness in operating performance and the promoter's decision to enter into aviation (subsequently cancelled). We maintain Sell, considering significant run up in valuations ahead of earnings growth.

Goods transport impacted by slowdown in industrial and agricultural sectors

VRL has garnered a leading player status in surface logistics and parcel services in India over the past three decades. It currently operates an owned fleet of 4,297 vehicles (3,872 goods carriers and 425 passenger buses) along with third-party hired vehicles when required. Its operational infrastructure includes 717 branches, 288 agencies in 1,005 locations, and 48 transhipment hubs in 28 states and four union territories. VRL provides general-parcel and priority-parcel deliveries and courier and full-truckload (FTL) services. Its hub-and-spoke model enables it to facilitate last-mile connectivity to remote areas in India. Goods transportation is ~78% of its revenue while revenue from passenger buses is ~20%. Its goods transport revenue was impacted with volume growth of 0.8% in FY16 and 2% yoy decline in Q1FY17.

Diversified customer base and revenue mix

The company has a diverse mix of end markets across several industries/sectors — no single customer accounted for >2% of its revenue in FY16. This revenue mix helped it to keep its bad debts to a minimum. The revenue from 'paid' and' to pay' customers (excluding FTL) is around 10% and 59% respectively — these are primarily small and medium enterprises, distributors, and traders. Thus, the company has a speedy cash-conversion cycle, ensuring lower working capital requirements.

Cost pressure impacting healthy margins

VRL has kept control on major costs such as diesel (tie-ups with oil companies and use of biodiesel) and repair and maintenance (in-house maintenance facilities and tie-ups with suppliers). It operates with its own fleet to (1) reduce dependence on hired vehicles, (2) retain control on costs, value chain, and service quality, and (3) establish reputation for reliable and timely delivery. These advantages have enabled the company to report a healthy margin in the past. However economic slowdown and cost inflation has resulted in a margins decline of 80bps to 15.5% in FY16 and 412bps to 14.6% in Q1FY17. We have assumed margin of 15% and 16% in FY17 and FY18 respectively assuming economic recovery.

GST and transport bill will be growth catalysts

The proposed implementation of GST is likely to remove current multiple taxation and benefit the logistics sector, particularly interstate movement of goods. The transport bill proposes a unified vehicle registration system and a simplified system of transport permits, which will significantly improve operating efficiencies and reduce operational cost for passenger transportation business. The company has ~90% revenue from less than truck load (LTL) in its goods segment, which is likely to benefit from increased logistics outsourcing after GST rollout.

Outlook and valuation

At its CMP, the company trades at a FY17/18 P/E of 26x/20x respectively. We expect earnings CAGR of 19% to Rs 1.4bn over FY16-18. We maintain valuation multiple at 20x FY18, with a target price of Rs 316.

SELL (Maintain)

CMP RS 312

TARGET RS 316 (+1%)

COMPANY DATA

O/S SHARES (MN) :	91
MARKET CAP (RSBN) :	29
MARKET CAP (USDBN) :	0.4
52 - WK HI/LO (RS) :	479 / 253
LIQUIDITY 3M (USDMN) :	5
PAR VALUE (RS) :	10

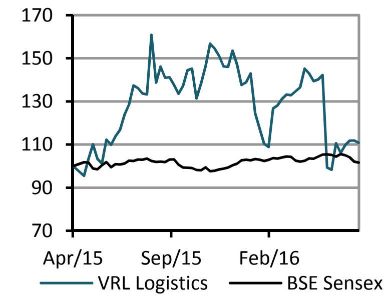
SHARE HOLDING PATTERN, %

	Jun 16	Mar 16	Dec 15
PROMOTERS :	69.6	69.6	69.6
FII / NRI :	14.2	22.2	17.6
FI / MF :	7.5	6.7	6.6
NON PRO :	1.3	0.9	1.0
PUBLIC & OTHERS :	7.4	5.8	5.2

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	0.4	-20.2	-18.8
REL TO BSE	-2.9	-31.4	-18.3

PRICE VS. SENSEX



Source: Phillip Capital India Research

KEY FINANCIALS

Rs mn	FY16	FY17E	FY18E
Net Sales	17,222	18,616	20,802
EBIDTA	2,674	2,800	3,318
Net Profit	1,020	1,111	1,440
EPS, Rs	11.2	12.2	15.8
PER, x	27.8	25.6	19.8
EV/EBIDTA, x	11.7	11.0	9.1
P/BV, x	5.5	5.0	4.4
ROE, %	19.9	19.5	22.4
Debt/Equity (%)	61.8	49.4	37.7

Source: PhillipCapital India Research Est.

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Financials

Consolidated Income Statement

Y/E Mar, Rs mn	FY15	FY16	FY17e	FY18e
Net sales	**16,562**	**17,064**	**18,451**	**20,629**
Growth, %	12%	3%	8%	12%
Other Operating Income	150	157	165	173
Total income	**16,712**	**17,222**	**18,616**	**20,802**
Operating expenses	11,794	11,850	12,929	14,283
Employee expenses	1,980	2,455	2,627	2,890
Other Operating expenses	210	243	261	312
EBITDA (Core)	**2,729**	**2,674**	**2,800**	**3,318**
Growth, %	32.1%	-2.0%	4.7%	18.5%
Margin, %	16.3%	15.5%	15.0%	16.0%
Depreciation	877	900	960	1,020
EBIT	**1,852**	**1,774**	**1,840**	**2,298**
Growth, %	54%	-4%	4%	25%
Margin, %	11%	10%	10%	11%
Interest paid	586	307	261	228
Other Non-Operating Income	77	69	80	80
Pre-tax profit	**1,343**	**1,536**	**1,659**	**2,150**
Tax provided	467	517	547	709
Profit after tax	**876**	**1,020**	**1,111**	**1,440**
(-) Exceptional Expenses	36	0	0	0
Net Profit	**912**	**1,020**	**1,111**	**1,440**
Growth, %	60%	12%	9%	30%
Margin, %	5%	6%	6%	7%
Net Profit (adjusted)	**876**	**1,020**	**1,111**	**1,440**
No. of Eq. Sh O/S (m nos)	86	91	91	91

Balance Sheet

Y/E Mar, Rs mn	FY15	FY16	FY17e	FY18e
Cash & bank	166	196	383	697
Debtors	902	730	776	867
Inventory	150	183	220	243
Loans & advances	1,079	967	1,144	1,179
Other current assets	74	21	21	22
Total current assets	**2,371**	**2,097**	**2,544**	**3,008**
Investments	1	1	1	1
Gross fixed assets	12,489	13,495	14,334	15,228
Less: Depreciation	5,420	6,319	7,280	8,300
Add: Capital WIP	91	162	100	100
Net fixed assets	**7,160**	**7,338**	**7,155**	**7,028**
Total assets	**9,531**	**9,436**	**9,699**	**10,037**
Current liabilities	419	102	142	169
Provisions	144	122	122	122
Total current liabilities	563	224	264	291
Non-current liabilities	4,519	3,173	2,823	2,423
Deferred Tax Liability	888	904	904	904
Total liabilities	**5,969**	**4,301**	**3,990**	**3,618**
Paid-up capital	855	912	912	912
Reserves & surplus	2,707	4,223	4,797	5,506
Shareholders' equity	3,562	5,135	5,709	6,419
Total equity & liabilities	**9,531**	**9,436**	**9,699**	**10,037**

Source: Company, PhillipCapital India Research Estimates

Cash Flow

Y/E Mar, Rs mn	FY15	FY16	FY17e	FY18e
Pre-tax profit	1,379	1,540	1,659	2,150
Depreciation	877	900	960	1,020
Chg in working capital	-216	-101	-220	-122
Total tax paid	-287	-517	-547	-709
Other operating activities	564	238	181	148
Cash flow from operating activities	**2,317**	**2,060**	**2,033**	**2,487**
Capital expenditure	-491	-1,078	-777	-894
Other investing activities	0	69	80	80
Cash flow from investing activities	**-491**	**-1,009**	**-697**	**-814**
Free cash flow	1,827	1,051	1,336	1,673
Equity raised/(repaid)	0	1,170	0	0
Debt raised/(repaid)	-621	-1,346	-350	-400
Dividend (incl. tax)	-604	-538	-538	-731
Other financing activities	-587	-307	-261	-228
Cash flow from financing activities	**-1,812**	**-1,021**	**-1,148**	**-1,359**
Net chg in cash	15	30	187	314

Valuation Ratios

	FY15	FY16	FY17e	FY18e
Per Share data				
EPS (INR)	10.7	11.2	12.2	15.8
Growth, %	60%	5%	9%	30%
Book NAV/ FD share (INR)	39.0	56.3	62.6	70.3
FDEPS (INR)	10.0	11.2	12.2	15.8
CEPS (INR)	20.9	21.1	22.7	27.0
CFOPS (INR)	25.4	22.6	22.3	27.3
DPS (INR)	4.0	5.0	5.0	6.8
Return ratios				
Return on assets (%)	10.2	11.1	11.8	14.8
Return on equity (%)	25.6	19.9	19.5	22.4
Return on capital employed (%)	21.5	20.0	20.3	24.8
Turnover ratios				
Sales/Total assets (x)	1.9	1.9	2.0	2.2
Sales/Net FA (x)	2.4	2.4	2.6	3.0
Working capital/Sales (x)	0.1	0.1	0.1	0.1
Fixed capital/Sales (x)	0.4	0.4	0.4	0.3
Receivable days	19.4	15.3	15.0	15.0
Inventory days	3.9	4.5	5.0	5.0
Payable days	14.5	5.5	6.0	6.0
Working capital days	8.8	14.3	14.0	14.0
Liquidity ratios				
Current ratio (x)	4.2	9.4	9.7	10.3
Quick ratio (x)	3.9	8.5	8.8	9.5
Interest cover (x)	4.1	7.3	8.9	11.8
Dividend cover (x)	2.7	2.2	2.4	2.3
Total debt/Equity (%)	126.9	61.8	49.4	37.7
Net debt/Equity (%)	122.2	58.0	42.7	26.9
Valuation				
PER (x)	31.2	27.8	25.6	19.8
PEG (x) - y-o-y growth	0.5	2.3	3.0	0.7
Price/Book (x)	8.0	5.5	5.0	4.4
Yield (%)	1.3	1.6	1.6	2.2
EV/Net sales (x)	1.9	1.8	1.7	1.5
EV/EBITDA (x)	11.4	11.7	11.0	9.1
EV/EBIT (x)	16.1	17.0	16.1	12.7

PhillipCapital

Aegis Logistics (AGIS IN)

Standing out from crowd

INDIA | LOGISTICS | Company Update

9 August 2016

Aegis is a leading liquid and gas logistics player providing services such as sourcing of products, storage and distribution for oil, gas and chemicals. The company's focus on construction of a national network of logistics facilities with integrated supply chain management is expected to be a major growth driver. ALL has become a critical part of India's gas and liquid logistics network.

Leadership in liquid logistics

Aegis has modern liquid-terminal facilities at five strategic ports, which handle ~70% of POL (petroleum, oil, and lubricants) traffic at major ports. It offers third-party liquid logistics services for handling and storage and provides operations and maintenance (O&M) services for liquid storage tanks. Liquid logistics is a service-based stable revenue business and Aegis enjoys an attractive EBITDA margin of ~60%. Its Mumbai facility has a significant advantage of close proximity to two major refineries HPCL and BPCL – which are connected with a dedicated pipeline. It is expanding its liquid logistics capacity by 25% to ~630,000KL in FY17 by setting up a new terminal at Kandla (Gujarat). It has also acquired land at Mangalore to set up a liquid terminal.

Niche player in gas logistics and distribution

The company has three businesses in gas logistics: (1) gas storage and handling, (2) gas distribution, and (3) gas sourcing. It has gas storage tanks at Mumbai, Pipavav Port, and is setting up a new facility at Haldia Port with a capital expenditure of Rs 2.5bn. It is expanding its throughput capacity in gas logistics from 0.7mn tonnes in FY16 to 3mn tonnes in FY18 with a new capacity at Haldia. In gas distribution, it has a retail network of 104 gas stations in five states for LPG distribution under the "Aegis Auto Gas" brand. It also markets LPG packed in cylinders, which are used for domestic, commercial, and industrial applications through its network of 81 commercial distributors in 42 cities within seven states.

Increasing demand for oil and gas logistics

India's petroleum cargo volume handled at major ports has seen a CAGR of 4% to 196mt over FY05-16 and industry estimates peg future growth at ~35mt to touch 230mt by FY20. India faces LPG shortage and imports ~8mt tonnes annually. With increasing consumption, imports are likely to increase to ~11mt by FY20. Aegis is best placed to capitalise on growing LPG trade with its established network, growing capacities, and expertise in third-party logistics (3PL) for handling oil, gas, and chemicals.

Sourcing JV to provide competitive advantage

Aegis has a JV with ITOCHU Petroleum Co., (Singapore) Pte Ltd for its Singapore-based LPG sourcing and supply business. The JV arranges sourcing/transportation for the gas requirements of almost all leading Indian importers and also helps Aegis in its own gas-distribution business. The JV company aggregates orders for different importers and is able to generate good margins due to its expertise in sourcing and infrastructure support for handling and storage. The sourcing volume is likely to double in FY17 with commitment from its clients and expansion of throughput capacity in Mumbai and Haldia.

Valuations

At its CMP, the stock trades at 36x it FY16 EPS and an EV/EBITDA of 22.5x FY16. Its valuations are likely to remain premium, considering its location advantage and stable business in liquid and gas logistics.

Not Rated

CMP RS 122

COMPANY DATA

O/S SHARES (MN) :	334
MARKET CAP (RSBN) :	41
MARKET CAP (USDBN) :	0.6
52 - WK HI/LO (RS) :	132 / 63
LIQUIDITY 3M (USDMN) :	1.8
PAR VALUE (RS) :	1

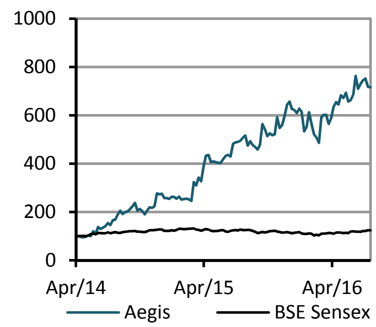
SHARE HOLDING PATTERN, %

	Jun 16	Mar 16	Dec 15
PROMOTERS :	62.9	62.9	62.9
FII / NRI :	13.6	27.2	7.0
FI / MF :	1.4	2.7	2.8
NON PRO :	5.1	4.0	13.2
PUBLIC & OTHERS :	17.0	14.1	14.1

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	-3.2	9.0	44.3
REL TO BSE	-4.8	-1.4	45.6

PRICE VS. SENSEX



Source: Phillip Capital India Research

KEY FINANCIALS

Rs mn	FY14	FY15	FY16
Net Sales	50,309	39,160	22,132
EBIDTA	1,077	1,434	1,853
Net Profit	611	726	1,133
EPS, Rs	1.8	2.2	3.4
PER, x	66.7	56.2	36.0
EV/EBIDTA, x	39.4	29.3	22.5
P/BV, x	12.1	10.2	8.8
ROE, %	18.1	18.1	24.4
Debt/Equity (%)	72.8	54.0	38.3

Source: PhillipCapital India Research Est.

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Financials

Consolidated Income Statement

Y/E Mar, Rs mn	FY13	FY14	FY15	FY16
Net sales	**39,816**	**50,309**	**39,160**	**22,132**
Growth, %	-11	26	-22	-43
Raw material	37,633	48,038	36,352	18,739
Employee expenses	328	350	409	469
Other Operating expenses	2,856	844	964	1,071
EBITDA (Core)	**-1,000**	**1,077**	**1,434**	**1,853**
Growth, %	25.4	(2.1)	0.3	0.3
Margin, %	(2.5)	2.1	3.7	8.4
Other income	2,319.0	129.1	113.9	84.4
Depreciation	191	222	230	234
EBIT	**1,128**	**984**	**1,319**	**1,704**
Interest paid	596	185	205	177
Pre-tax profit	532	799	1,114	1,527
Tax provided	181	112	299	265
Profit after tax	**351**	**687**	**815**	**1,261**
Others (Minorities, Associates)	-15	-76	-89	-128
Net Profit	**336**	**611**	**726**	**1,133**
Growth, %	70.7	81.7	18.8	56.2
Extraordinary	-	-	308.6	-
Net Profit (adjusted)	**336**	**611**	**1,034**	**1,133**
Un adj. shares (m)	33.4	33.4	33.4	334

Valuation Ratios

Y/E Mar, Rs mn	FY13	FY14	FY15	FY16
EPS (Rs)	1.0	1.8	2.2	3.4
Cash EPS (Rs)	1.6	2.5	2.9	4.1
Book Value (Rs)	9.1	10.1	12.0	13.9
Dividend (Rs / Share)	0.4	0.3	0.8	1.0
P/E	121.3	66.7	56.2	36.0
P/BV	13.4	12.1	10.2	8.8
EV/EBITDA	-41.9	39.4	29.3	22.5
RoCE (%)	17%	16%	19%	22%
RoE (%)	11%	18%	18%	24%

Source: Company, PhillipCapital India Research

Balance sheet

Y/E Mar, Rs mn	FY13	FY14	FY15	FY16
Share Capital	334	334	334	334
Warrants	0	0	0	0
Reserves	2762	3168	3939	4711
Total Shareholders fund	3096	3502	4274	5045
Minority interest	50	126	264	392
Long Term Borrowings	1182	1092	1315	1091
Other Long term Borrowings	130	138	128	139
Short term borrowings	1949	1162	627	465
Current maturities	0	156	239	239
Total Loan	3261	2548	2309	1934
Deferred tax	187	164	189	229
Capital Employed	**6594**	**6340**	**7036**	**7600**
Gross Block	**4481**	**6003**	**6540**	**6953**
Fixed Assets (Tangible)	2788	4105	4391	4574
Fixed Assets (Intangible)	29	19	10	6
WIP	829	354	339	734
Goodwill on Consolidation	137	137	137	137
Non current investments	100	100	26	4
Current Investment	56	12	187	0
Other non current assets	6	5	1	0
Current Assets	6107	4129	4275	3537
Inventories	185	249	204	115
Trade Receivables	2974	2058	2012	972
Cash	2045	725	1054	967
Loans and advances	815	1011	923	1397
Other current assets	87	86	83	86
Current liabilities	3459	2522	2331	1391
Trade Payables	2860	1912	1921	772
Other Current liabilities	423	413	310	473
Provisions	175	198	100	145
Net working Capital	**2649**	**1607**	**1944**	**2146**
Total Assets	**6594**	**6340**	**7036**	**7600**

PhillipCapital

Blue Dart (BDE IN)

Leader in express distribution

INDIA | LOGISTICS | Company Update

9 August 2016

BDL is a leading express service provider in India with more than 30 years of operational experience. Its domestic network covers 34,267 locations; more than 220 countries and territories are serviced worldwide through DHL. It is first and only scheduled cargo airline with a dedicated fleet of freighters and infrastructure support. It had reported consolidated revenue of Rs 25.6bn and a PAT of Rs 1.92mn with a CAGR of 14% & 12% respectively over FY12-16.

Unparalleled reach and network

The company is a dominant leader in the domestic air express industry and commands around 46% market share in the organized 'air' express market and ~14% in the 'ground' segment. Its infrastructure comprises a fleet of six Boeing 757 freighters offering a revenue payload of over 504 tonnes per day, ~8,500 vehicles, ~450 facilities, and over 10,000 employees. The entire aircraft fleet is on long term Operating lease while majority of its vehicles are on outsourced basis. The company carries almost 160mn domestic shipments and over 1mn international shipments annually. BDL is increasing its coverage and footprint in tier-2 and 3 towns with focus on small and medium enterprises. It has 79 warehouses across the country and seven bonded warehouses (Ahmedabad, Bangalore, Chennai, Delhi, Mumbai, Kolkata, and Hyderabad). It has started e-fulfilment centres at Gurgaon and Bangalore and is expanding to other regions.

Sustainable revenue growth

The express industry has a strong correlation with macro economic environment of the Country (Real GDP) and is estimated at Rs 150bn (organised market at Rs 82bn of which Rs 40bn is air express and Rs 42bn is ground express). It derives ~93% revenue from big institutional clients with long term relationship while walk in customers account for ~7% of revenue. The organised express market is likely to see major boost post implementation of GST. Post GST, the most of bulk volume which is currently going as depot transfer between warehouses in different states of same company to avoid state taxes is expected to shift to express delivery directly to customer from hub location. Blue Dart derives ~80% revenue from air express (remaining 20% from ground). Ecommerce contributed around 25% of total revenue for the year ended 31st March 2016 and has substantial growth potential in coming years.

Strong financials

Blue Dart's EBITDA margins are 11-15% with limited capital expenditure needs. The company had return ratios of 23-45% over the past five years. The business is highly scalable with significant operating leverage. Blue Dart generates robust operating and free cash flows due to its capital-efficient business model. The implementation of GST is expected to cut transit time, increase efficiency of road transport, and shift the market toward organised players. Strong growth in organised retail and ecommerce would impact organised logistic players positively and Blue Dart, with a strong network and management expertise, should benefit significantly.

Valuations

At CMP, the stock is trading at 70x FY16 earnings of Rs 81 and P/BV of 33x. We believe with its strong customer relationship, network, and technology support, Blue Dart would be a major beneficiary of a growing express business. We expect the company to continue to receive premium valuation due to expertise in express logistics and management quality.

Not Rated

CMP RS 5680

COMPANY DATA

O/S SHARES (MN) :	24
MARKET CAP (RSBN) :	135
MARKET CAP (USDBN) :	2
52 - WK HI/LO (RS) :	7823/ 5271
LIQUIDITY 3M (USDMN) :	0.7
PAR VALUE (RS) :	10

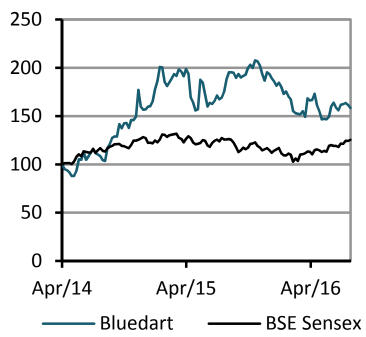
SHARE HOLDING PATTERN, %

	Jun 16	Mar 16	Dec 15
PROMOTERS :	75.0	75.0	75.0
FII / NRI :	7.8	7.8	7.9
FI / MF :	5.4	5.4	5.5
NON PRO :	0.8	0.9	0.7
PUBLIC & OTHERS :	11.0	10.9	10.9

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	-5.6	4.0	-23.1
REL TO BSE	-9.0	-7.2	-22.6

PRICE VS. SENSEX



Source: Phillip Capital India Research

KEY FINANCIALS

Rs mn	FY14	FY15	FY16
Net Sales	19,383	22,722	25,645
EBIDTA	1,741	2,242	3,817
Net Profit	1,226	1,293	1,928
EPS, Rs	51.7	54.5	81.3
PER, x	109.9	104.2	69.9
EV/EBIDTA, x	76.8	60.8	35.6
P/BV, x	21.0	43.8	33.5
ROE, %	19.1	42.1	48.0
Debt/Equity (%)	0.0	108.1	97.4

Source: PhillipCapital India Research Est.

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Financials

Consolidated Income Statement

Y/E Mar, Rs mn	FY13	FY14	FY15	FY16
Net sales	**21,717**	**19,383**	**22,722**	**25,645**
Growth, %	45.2	-10.7	17.2	12.9
Freight and Handling	14,107	13,278	15,180	13,733
Employee expenses	3,002	2,666	3,216	5,009
Other Operating expenses	1,920	1,698	2,083	3,086
EBITDA (Core)	**2,688**	**1,741**	**2,242**	**3,817**
Growth, %	49.5	(35.2)	28.8	70.2
Margin, %	12.4	9.0	9.9	14.9
Other income	400	377	246	302
Depreciation	347	273	436	821
EBIT	**2,741**	**1,845**	**2,053**	**3,299**
Interest paid	0	0	112	355
Pre-tax profit	2,741	1,845	1,941	2,943
Tax provided	834	635	669	1,014
Profit after tax	**1,907**	**1,210**	**1,272**	**1,930**
Others (Minorities, Associates)	26	16	22	-2
Net Profit	**1,933**	**1,226**	**1,293**	**1,928**
Growth, %	55.6	(36.6)	5.5	49.0
Extraordinary	-	-	-	-
Net Profit (adjusted)	**1,933**	**1,226**	**1,293**	**1,928**
Unadj. shares (m)	24	24	24	24

Valuation Ratios

Y/E Mar, Rs mn	FY13	FY14	FY15	FY16
EPS (Rs)	81.5	51.7	54.5	81.3
Cash EPS (Rs)	96.1	63.2	72.9	115.9
Book Value (Rs)	278.2	271.1	129.5	169.4
Dividend (Rs / Share)	71.0	50.0	160.1	30.0
P/E (X)	69.7	109.9	104.2	69.9
P/BV (x)	20.4	21.0	43.8	33.5
EV/EBITDA	49.2	76.8	60.8	35.6
RoCE (%)	40.6	27.9	31.6	40.5
RoE (%)	29.3	19.1	42.1	48.0

Source: Company, PhillipCapital India Research

Balance sheet

Y/E Mar, Rs mn	FY13	FY14	FY15	FY16
Share Capital	237	238	238	238
Warrants	0	0	0	0
Reserves	6362	6192	2835	3904
Total Shareholders fund	6599	6430	3073	4141
Minority interest	0	0	0	124
Long Term Borrowings	0	0	3322	4032
Other Long term Borrowings	0	0	0	0
Short term borrowings	0	0	0	0
Current maturities	0	0	0	0
Total Loan	0	0	3322	4032
Deferred tax	148	175	102	-147
Capital Employed	**6747**	**6604**	**6496**	**8150**
Gross Block	**4481**	**6003**	**6540**	**6953**
Fixed Assets (Tangible)	1828	1880	1705	4554
Fixed Assets (Intangible)	453	474	657	655
WIP	49	11	49	50
Non current investments	228	243	265	0
Current Investment	3	5	6	12
Other non current assets	0	0	0	0
Current Assets	7948	6790	7200	7811
Inventories	24	27	40	211
Trade Receivables	2272	2667	2910	3184
Cash	2417	1064	1663	2882
Loans and advances	3233	3030	2540	1446
Other current assets	3	1	48	89
Current liabilities	3760	2798	3385	4932
Trade Payables	729	1073	1280	1730
Other Current liabilities	881	1171	1274	2040
Provisions	2151	553	831	1162
Net working Capital	**4187**	**3992**	**3815**	**2880**
Total Assets	**6747**	**6604**	**6496**	**8150**

PhillipCapital

Transport Corporation of India (TRPC IN)

Shifting focus to value-added services

INDIA | LOGISTICS | Company Update

9 August 2016

TCI started in 1958 and is a dominant player in surface transport and warehousing with national presence in the freight industry. It would be one of the biggest beneficiaries of GST implementation with its distribution, warehousing, and inventory management capabilities. It is aggressively adding capacity to capture growth in 3PL, ecommerce, and express businesses.

Specific focused business segments and vast network

The company has segregated its operations into five strategic business units: (1) TCI Freight - for heavy cargo services through road, rail, and sea (37% of revenue in FY16), (2) TCI XPS – time-sensitive door-to-door express courier and cargo (29%), (3) TCI Supply Chain – single-window solution to manage logistics operations for big industries (28%). (4) TCI Seaways - coastal shipping, NVOCC, and project cargo (6%). It also has a joint venture with Concor to provide end-to-end multi-modal solutions and a JV with Mitsui for auto logistics. It has global presence with logistics services in Asia, Latin America (Brazil), Africa (Nigeria), and Indonesia.

Expertise in freight and warehousing

TCI is a premier organised freight-services provider – pan-India presence, operates~9,000 vehicles per day, 14,000+ owned branches, 6,000+ employees. It has a single-window key account management (KAM) solutions for managing information flow and tracking. It manages ~11mn sq. ft. warehousing space and is adding GST-ready warehouses at five new locations with 600,000 sq. ft. space by FY17. After GST, it should benefit from its expertise in warehousing and related technology, with multi-modal movement between hubs. GST is likely to cut its transit time and costs by 20-30%, with lesser boarder checks leading to better utilisation of its fleet.

TCI Express – separating business to capture growth

TCI XPS handles diverse express logistics requirements, both in India and abroad. It is likely to see 20-22% CAGR over the next five years mainly due to continued growth in FMCG, pharmaceutical, ecommerce, and auto sectors. The division serves the complete ecommerce chain – delivers to 13,000 locations in India and more than 200 countries worldwide, with 20,000 deliveries a day. It is separating Express business into a new company and shareholders will get one share for every two shares held in TCI to cater to the fast-growing ecommerce and retail industry. Express business also supports B2B requirements of ecommerce companies and has higher margins.

TCI supply chain to benefit from 3PL outsourcing

TCI provides inbound/outbound logistics and designs supply-chain strategies from procurement to distribution. It operates with a customized fleet of 1,100 owned trucks, including 34 refrigerated. The supply chain division is mainly focused on third-party logistics to the automobile sector contributing 75% of total division revenue. TCI aims to be a significant player in warehousing in apparel, retail, and FMCG. It manages high-margin e-fulfilment centres and back-end operations for ecommerce. It has started cold-chain business for perishable cargo in pharma and foods with 5000 pallets capacity.

Valuations

At CMP, the stock is trading at 33x FY16 earnings of Rs 10.7 and P/BV of 3.9x. We believe TCI would be major beneficiary of GST implementation with its wide network in road transport and warehousing expertise.

Not Rated

CMP RS 355

COMPANY DATA

O/S SHARES (MN) :	77
MARKET CAP (RSBN) :	27
MARKET CAP (USDBN) :	0.4
52 - WK HI/LO (RS) :	384 / 207
LIQUIDITY 3M (USDMN) :	0.7
PAR VALUE (RS) :	2

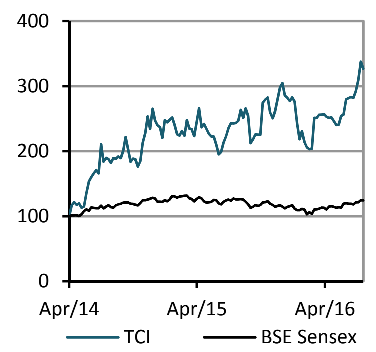
SHARE HOLDING PATTERN, %

	Jun 16	Mar 16	Dec 15
PROMOTERS :	66.1	66.5	66.5
FII / NRI :	4.8	5.2	5.1
FI / MF :	6.7	7.1	6.4
NON PRO :	5.6	5.4	6.4
PUBLIC & OTHERS :	16.7	15.8	15.6

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	9.7	35.2	31.2
REL TO BSE	8.1	24.8	32.5

PRICE VS. SENSEX



Source: Phillip Capital India Research

KEY FINANCIALS

Rs mn	FY14	FY15	FY16
Net Sales	22,265	24,167	25,214
EBIDTA	1,680	1,932	1,968
Net Profit	716	816	816
EPS, Rs	9.4	10.7	10.7
PER, x	37.7	33.1	33.1
EV/EBIDTA, x	17.8	15.4	15.4
P/BV, x	5.4	4.3	3.9
ROE, %	14.3	12.9	11.9
Debt/Equity (%)	52.4	104.1	94.9

Source: PhillipCapital India Research Est.

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Financials

Consolidated Income Statement

Y/E Mar, Rs mn	FY13	FY14	FY15	FY16
Net sales	**21,305**	**22,265**	**24,167**	**25,214**
Growth, %	9.0	4.5	8.5	4.3
Operating expenses	17,184	18,070	19,477	20,105
Employee expenses	1,121	1,172	1,305	1,545
Other Operating expenses	1,263	1,343	1,454	1,596
EBITDA (Core)	**1,737**	**1,680**	**1,932**	**1,968**
Growth, %	11.1	(3.3)	15.0	1.9
Margin, %	8.2	7.5	8.0	7.8
Other income	73	92	91	77
Depreciation	464	468	545	590
EBIT	**1,347**	**1,304**	**1,477**	**1,455**
Interest paid	336	311	333	295
Pre-tax profit	1,010	993	1,144	1,160
Tax provided	315	275	326	340
Profit after tax	**695**	**718**	**818**	**821**
Others (Minorities, Associates)	0	-1	-2	-4
Net Profit	**695**	**716**	**816**	**816**
Growth, %	17.5	3.0	13.9	0.1
Extraordinary	-	-	(1.8)	(0.3)
Net Profit (adjusted)	**695**	**716**	**814**	**816**
Un adj. shares (m)	73	73	76	76

Valuation Ratios

Y/E Mar, Rs mn	FY13	FY14	FY15	FY16
EPS (Rs)	9.1	9.4	10.7	10.7
Cash EPS (Rs)	15.2	15.8	17.6	18.5
Book Value (Rs)	59.2	66.1	83.1	90.3
Dividend (Rs / Share)	1.0	1.2	1.5	1.5
P/E (X)	38.9	37.7	33.1	33.1
P/BV (x)	6.0	5.4	4.3	3.9
EV/EBITDA	17.3	17.8	15.4	15.4
RoCE (%)	16.3	15.1	15.2	13.1
RoE (%)	15.4	14.3	12.9	11.9

Source: Company, PhillipCapital India Research

Balance sheet

Y/E Mar, Rs mn	FY13	FY14	FY15	FY16
Share Capital	237	238	238	238
Warrants	0	0	0	0
Reserves	6362	6192	2835	3904
Total Shareholders fund	6599	6430	3073	4141
Minority interest	0	0	0	124
Long Term Borrowings	677	432	778	1006
Other Long term Borrowings	0	0	0	0
Short term borrowings	2419	2478	2058	2562
Current maturities	449	460	361	361
Total Loan	3545	3369	3198	3929
Deferred tax	315	332	293	354
Capital Employed	**8241**	**8642**	**9732**	**11078**
Gross Block	**4481**	**6003**	**6540**	**6953**
Fixed Assets (Tangible)	1828	1880	1705	4554
Fixed Assets (Intangible)	453	474	657	655
WIP	49	11	49	50
Goodwill on Consolidation	0	0	0	0
Non current investments	80	80	72	72
Current Investment	0	0	0	0
Other non current assets	0	0	0	0
Current Assets	5344	5429	6020	6511
Inventories	21	17	23	20
Trade Receivables	3951	3800	4346	4536
Cash	460	428	421	558
Loans and advances	899	1172	1192	1376
Other current assets	12	12	39	21
Current Liabilities	1409	1367	1644	1810
Trade Payables	878	773	870	959
Other Current liabilities	113	180	181	302
Provisions	419	414	593	549
Net working Capital	**3935**	**4062**	**4376**	**4700**
Total Assets	**8241**	**8642**	**9732**	**11078**

INSTITUTIONAL EQUITY RESEARCH

PhillipCapital

Gati Limited (GTIC IN)

GST ready

INDIA | LOGISTICS | Company Update

9 August 2016

Gati is one of the leading integrated express logistic players in India with global operations. It has 16 express distribution centres, 3mn sq. ft. warehousing space, and a fleet of more than 5,000 vehicles. It has restructured operations with five verticals: (1) Express distribution and supply chain (EDSC), (2) cold chain and refrigerated transport, (3) fuel station, (4) International Express, and (5) ecommerce. It is set on a new growth trajectory after successfully completing business restructuring and capital infusion along with its focus on ecommerce and cold chain.

Leading player in express distribution and supply chain solutions

The express distribution and supply chain management business of the group is managed by Gati-Kintetsu Express (Gati-KWE) and accounts for 68% of overall business. Gati provides deliveries to 20,000 pin codes, covering 667 out of 671 districts in India. It provides customised supply-chain solutions to customers across industries with IT-backed multi-modal networks (air, road, rail and warehousing facilities). It also has four fuel stations and an import export trading division to focus on trade between India and China, Hong Kong, and Singapore. Its financials are significantly improved after reducing business exposure to shipping and focus on more stable growth businesses.

Capitalising on synergy benefits with KWE

Gati transferred a substantial part of its EDSC business to its Gati-Kintetsu Express to form a strategic joint venture with Kintetsu World Express (KWE) Japan, a global leader listed in Tokyo. The JV has helped Gati to strengthen its leadership position in India and establish a global footprint. KWE has invested Rs 2.67bn for its 30% stake in the JV. The JV Gati-KWE has the advantage of Gati's expertise in 3PL and express distribution in India and KWE's freight forwarding expertise and global customer base. It is working with IBM for business transformation to identify cost saving and margin improvement opportunities.

Moving up in the cold transportation value chain

Cold chain business is managed through 80% subsidiary Gati Kausar offering customised transportation for temperature-sensitive shipments including consumer foods, pharma, retail, and agri-food. It provides full truckload services for long-haul transportation of bulk and volumetric shipments with a fleet of 220 reefer vehicles. It is now focusing on value-added cold chain warehousing solutions, with a hub-and-spoke model that will help to start less-than full truckload services. Gati Kausar had revenue of Rs 494mn and an EBITDA of Rs 47mn in FY16. It is setting up its first cold storage warehouse near Gurgaon in FY17 to provide end-to-end services in cold chain logistics.

Strong focus on ecommerce

Gati is uniquely placed to provide ecommerce services pan India through support from Gati-KWE and is setting up front-end commercial capabilities. It has increased delivery capabilities from 15,000 parcels per day to 72,000 per day in FY16 and has an ambitious target of 1mn packages per day by 2020. It operates 16 express distribution centres and 3m sq. ft. warehousing space with four e-fulfilment centres. Ecommerce revenue reported 60% CAGR over the past four years to Rs 2bn in FY16 and is likely to continue similar growth. It provides same-day delivery service to six metros with high-speed cargo movement and has the capability to manage refused and exchange shipments.

Valuations

At CMP, the stock is trading at 39x FY16 earnings of Rs 4.2 and P/BV of 3x. Gati would be major beneficiary of growing e-commerce with its focus on express logistics capabilities. Cold chain business also presents significant opportunities.

Not Rated

CMP RS 164

COMPANY DATA

O/S SHARES (MN) :	88
MARKET CAP (RSBN) :	15
MARKET CAP (USDBN) :	0.2
52 - WK HI/LO (RS) :	189 / 206
LIQUIDITY 3M (USDMN) :	8.4
PAR VALUE (RS) :	2

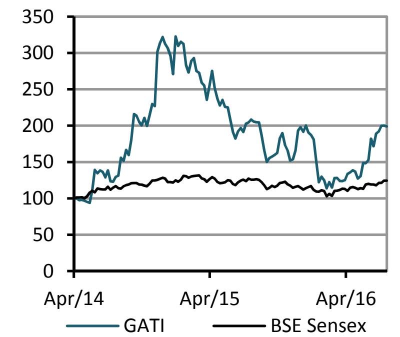
SHARE HOLDING PATTERN, %

	Mar 16	Dec 15	Sep 15
PROMOTERS :	41.0	41.3	41.4
FII / NRI :	13.2	16.1	9.3
FI / MF :	0.4	0.4	0.3
NON PRO :	11.7	13.2	21.4
PUBLIC & OTHERS :	33.7	29.0	27.7

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	-0.3	46.9	-9.5
REL TO BSE	-1.9	36.5	-8.2

PRICE VS. SENSEX



Source: Phillip Capital India Research

KEY FINANCIALS

Rs mn	FY14	FY15	FY16
Net Sales	11,151	16,481	16,671
EBIDTA	825	1,393	1,309
Net Profit	235	442	366
EPS, Rs	2.7	5.0	4.2
PER, x	61.2	32.6	39.3
EV/EBIDTA, x	22.9	13.3	14.2
P/BV, x	2.2	3.1	3.0
ROE, %	3.6	9.4	7.7
Debt/Equity (%)	62.2	86.5	88.9

Source: PhillipCapital India Research Est.

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Financials

Consolidated Income Statement

Y/E Mar, Rs mn	FY13	FY14	FY15	FY16
Net sales	**12,729**	**11,151**	**16,481**	**16,671**
Growth, %	7.2	-12.4	47.8	1.2
Cost of Goods	1,714	1,749	2,336	2,163
Operating expenses	7,859	6,627	9,799	9,960
Employee expenses	1,236	1,027	1,565	1,797
Other Operating expenses	1,099	923	1,389	1,442
EBITDA (Core)	**822**	**825**	**1,393**	**1,309**
Growth, %	6.8	0.4	68.8	(6.0)
Margin, %	6.5	7.4	8.4	7.9
Other income	166	123	146	148
Depreciation	248	221	332	383
EBIT	**740**	**727**	**1,206**	**1,074**
Interest paid	437	325	419	429
Pre-tax profit	303	402	787	645
Tax provided	60	118	192	155
Profit after tax	**244**	**284**	**595**	**490**
Others (Minorities, Associates)	-76	-49	-153	-124
Net Profit	**167**	**235**	**442**	**366**
Growth, %	(69.3)	40.6	87.9	(17.1)
Extraordinary	-	-	(29.6)	-
Net Profit (adjusted)	**167**	**235**	**412**	**366**
Un adj. shares (m)	73	73	76	76

Valuation Ratios

Y/E Mar, Rs mn	FY13	FY14	FY15	FY16
EPS (Rs)	1.6	2.7	5.0	4.2
Cash EPS (Rs)	4.4	5.2	8.8	8.5
Book Value (Rs)	76.6	74.7	53.4	54.1
Dividend (Rs / Share	0.6	0.7	1.4	0.0
P/E (X)	103.0	61.2	32.6	39.3
P/BV (x)	2.1	2.2	3.1	3.0
EV/EBITDA	23.5	22.9	13.3	14.2
RoCE (%)	5.1	5.3	10.9	9.2
RoE (%)	2.1	3.6	9.4	7.7

Balance sheet

Y/E Mar, Rs mn	FY13	FY14	FY15	FY16
Share Capital	173	175	175	175
Warrants	0	0	0	0
Reserves	7697	7554	5312	5460
Total Shareholders fund	7870	7728	5487	5635
Minority interest	1154	1173	804	887
Long Term Borrowings	2378	2672	2709	2903
Other Long term Borrowings	4	6	18	40
Short term borrowings	1381	1304	1243	1372
Current maturities	1011	826	774	697
Total Loan	4774	4808	4745	5012
Deferred tax	107	61	74	97
Capital Employed	**13905**	**13770**	**11109**	**11630**
Gross Block	**4481**	**6003**	**6540**	**6953**
Fixed Assets (Tangible)	3859	3779	2916	3082
Fixed Assets (Intangible)	13	15	21	21
WIP	243	387	27	20
Goodwill on Consolidation	4469	4469	4469	4469
Non current investments	202	548	647	647
Current Investment	0	0	25	343
Other non current assets	5	18	17	8
Current Assets	6813	6558	5315	6010
Inventories	118	119	35	52
Trade Receivables	2203	2414	2669	2912
Cash	466	308	592	454
Loans and advances	4008	3717	2019	2592
Other current assets	19	0	0	0
Current liabilities	1699	2003	2329	2969
Trade Payables	663	732	808	850
Other Current liabilities	442	431	481	758
Provisions	594	840	1041	1362
Net working Capital	**5115**	**4555**	**2986**	**3040**
Total Assets	**13905**	**13770**	**11109**	**11631**

Source: Company, PhillipCapital India Research

PhillipCapital

Snowman Logistics (SNLL IN)

Valuations too hot

INDIA | LOGISTICS | Company Update

9 August 2016

Not Rated

CMP RS 73

Snowman, founded in 1993, is an integrated pan-India temperature-controlled logistics services provider, focused on distribution services and warehousing. It is expected to benefit from strong growth in temperature-controlled segment in India with its leadership position. Capacity addition and focus on value-added services would be major growth drivers.

Pan-India integrated temperature controlled logistics services

Snowman is one of the largest integrated temperature controlled end-to-end logistics service providers across a temperature range of -25°C to +20°C, operating 28 warehouses spread across 15 locations. It has set up temperature-controlled warehouses adjacent to cities with a large potential for sourcing and/or consumption of temperature-sensitive products (including larger cities such as Mumbai, Chennai, Bangalore and Kolkata). Its distribution network comprises primary and secondary transportation – 226 primary transportation vehicles with an ability to cover over 242 cities and towns and 144 secondary transportation vehicles supplying to QSRs, retail outlets, restaurants, and hotels within a city. Its reefer operations maintain temperature integrity of the customers' products from the point of origin to the consumption point, which is critical for product quality.

Strong capex to maintain leadership

Snowman reported revenue/EBITDA CAGR of 40%/45% over FY11-16 (Rs 2.4bn/ Rs 507mn in FY16). It is increasing its warehousing capacity and distribution network to meet growing demands of the market. It increased its pallet capacity by 5x to ~98,500 in FY16 from ~19,200 in FY11. It has seen strong utilisation of increased capacity (consistently above 75%) and is expected to add ~25-30,000 pallets per year. It is setting up new facility at Krishnapatnam in Andhra Pradesh with capacity of 3,500 pallets (Scalable up to 10,000) by Q4FY17. Snowman is also evaluating setting up temperature-controlled warehouses in food parks for processing fruits and vegetables. The Ministry of Food Processing Industries, Government of India, has launched the Mega Food Parks Scheme (MFPS), which aims to accelerate the growth of food processing in India by facilitating strong infrastructure backed by an efficient supply chain. It has started rationalizing its food service business and distribution business to control profitability. It is now focusing on own reefer truck with value add service which should improve margins in its transportation business.

Increasing revenue share from value-added services

Snowman is focusing on enhancing the range of services such as kitting, labelling, and sorting to existing customers to improve margins. The increase in capacity with additional floor space will help it to provide value-added services. It is also focusing on VAS in the fruit and vegetable segment by offering services such as pre-cooling, ripening, and processing, in addition to existing services such as cleaning, grading, sorting, cutting, and packing. It has the required infrastructure and expertise to add these to its service offerings.

Temperature-controlled market to see 15-18% CAGR

The current share of organised players in temperature-controlled warehousing is 6-7% and 15-20% in temperature-controlled transportation; consequently, the potential for growth is immense. It sees the market CAGR at 15% with organized services CAGR at ~20%, providing a significant long-term opportunity.

Valuations

At CMP, the stock is trading at 59x FY16 earnings of Rs 1.2 and P/BV of 2.8x FY16. The company is early player in cold chain business with pan India presence and will benefit from market shift toward organised players.

COMPANY DATA

O/S SHARES (MN) :	167
MARKET CAP (RSBN) :	13
MARKET CAP (USDBN) :	0.2
52 - WK HI/LO (RS) :	116 / 46
LIQUIDITY 3M (USDMN) :	3.6
PAR VALUE (RS) :	10

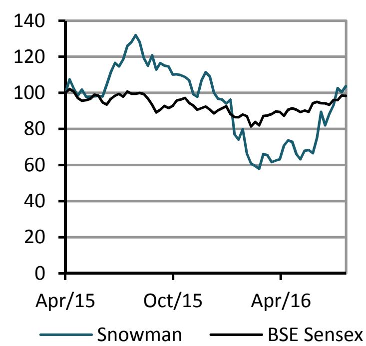
SHARE HOLDING PATTERN, %

	Mar 16	Dec 15	Sep 15
PROMOTERS :	40.3	40.3	40.3
FII / NRI :	1.4	3.6	4.4
FI / MF :	4.3	4.8	5.1
NON PRO :	37.2	36.8	38.0
PUBLIC & OTHERS :	16.9	14.5	12.4

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	-1.8	41.9	-30.6
REL TO BSE	-3.4	31.5	-29.4

PRICE VS. SENSEX



Source: Phillip Capital India Research

KEY FINANCIALS

Rs mn	FY14	FY15	FY16
Net Sales	1,534	2,029	2,401
EBIDTA	380	470	507
Net Profit	225	247	206
EPS, Rs	1.3	1.5	1.2
PER, x	54.3	49.3	59.2
EV/EBIDTA, x	35.5	26.0	26.3
P/BV, x	5.5	2.9	2.8
ROE, %	10.2	5.9	4.7
Debt/Equity (%)	66.0	20.8	31.2

Source: PhillipCapital India Research Est.

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Financials

Consolidated Income Statement

Y/E Mar, Rs mn	FY13	FY14	FY15	FY16
Net sales	**1,137**	**1,534**	**2,029**	**2,401**
Growth, %	85.2	34.9	32.3	18.3
Operating expenses	661	902	1,175	1,418
Employee expenses	129	152	170	191
Other Operating expenses	92	100	214	285
EBITDA (Core)	**255**	**380**	**470**	**507**
Growth, %	97.9	49.1	23.7	7.9
Margin, %	22.4	24.8	23.2	21.1
Other income	4	18	47	27
Depreciation	91	150	245	305
EBIT	**168**	**249**	**272**	**230**
Interest paid	24	112	124	99
Pre-tax profit	144	137	147	**131**
Tax provided	-46	-88	-100	-75
Profit after tax	**190**	**225**	**247**	**206**
Others (Minorities, Associates)	0	0	0	0
Net Profit	**190**	**225**	**247**	**206**
Growth, %	199.4	18.3	10.1	(16.7)
Extraordinary	-	-	-	-
Net Profit (adjusted)	**190**	**225**	**247**	**206**
Un adj. shares (m)	103	124	167	167

Valuation Ratios

Y/E Mar, Rs mn	FY13	FY14	FY15	FY16
EPS (Rs)	1.1	1.3	1.5	1.2
Cash EPS (Rs)	1.7	2.2	2.9	3.1
Book Value (Rs)	7.7	13.2	25.0	26.3
Dividend (Rs / Share)	0.0	0.0	0.5	0.5
P/E (X)	64.2	54.3	49.3	59.2
P/BV (x)	9.5	5.5	2.9	2.8
EV/EBITDA	51.3	35.5	26.0	26.3
RoCE (%)	7.7	7.1	5.7	4.3
RoE (%)	14.8	10.2	5.9	4.7

Source: Company, PhillipCapital India Research

Balance sheet

Y/E Mar, Rs mn	FY13	FY14	FY15	FY16
Share Capital	1029	1241	1667	1671
Warrants	0	0	0	0
Reserves	255	972	2513	2721
Total Shareholders fund	1284	2213	4180	4392
Minority interest	0	0	0	0
Long Term Borrowings	300	904	712	1207
Other Long term Borrowings	609	403	36	34
Short term borrowings				
Current maturities	41	155	124	129
Total Loan	950	1462	871	1370
Deferred tax	-50	-164	-309	-409
Capital Employed	**2184**	**3511**	**4743**	**5353**
Gross Block	**2026**	**3082**	**4210**	**5596**
Fixed Assets (Tangible)	1567	2487	3370	4452
Fixed Assets (Intangible)	8	13	13	13
WIP	320	424	212	216
Goodwill on Consolidation				
Noncurrent investments	0	0	0	0
Current Investment	0	0	0	0
Other non current assets	0	0	0	0
Current Assets	488	796	1584	1117
Inventories	0	0	0	13
Trade Receivables	256	395	482	562
Cash	73	161	837	211
Loans and advances	156	235	262	314
Other current assets	2	5	4	17
Current liabilities	198	210	437	446
Trade Payables	53	45	33	86
Other Current liabilities	141	160	300	352
Provisions	5	4	105	8
Net working Capital	**289**	**586**	**1147**	**671**
Total Assets	**2184**	**3511**	**4743**	**5353**

PhillipCapital

Sical Logistics (SICL IN)

Diversified play

INDIA | LOGISTICS | Company Update

9 August 2016

Sical Logistics is a part of the Coffee Day group, Asia's largest integrated coffee business. While traditionally known for its stevedoring, customs handling, trucking, and steamer agency businesses, Sical today has made significant investments in logistics-related infrastructure and operates mechanized port terminals, container freight stations, container rakes, and rail and road terminals.

Diversified logistics player

Sical is into port logistics, surface logistics, rail transport, mining, and integrated logistics. In port logistics, it owns and operates terminals at four ports in south India and also provides stevedoring services. It handles bulk commodities and has entered into innovating mining and cargo-handling solutions. It also provides offshore support services to the oil and gas industry and owns and operates one cutter-suction dredger. SICAL handles more than 26mn tonnes of bulk cargo under its stevedoring operations and over 0.5mn TEUs of container cargo annually. It has a clearing and forwarding division for EXIM trade in bulk and containers, and also provides ship-agency services for handling ships at major ports. The company is contemplating venturing into carrying project cargoes and cars through the coastal movement. Through its subsidiaries, Sical operates: (1) container rails, (2) container freight station, and (3) container terminal operation.

Integrated player in surface logistics

This division caters to the construction, steel, fertiliser, and chemical industries. It also provides support in the integrated logistic sector for movement of coal and surface mining projects. Sical also operates cold chain refrigerated vehicles for the movement of food in Chennai, Bangalore, and Hyderabad, which it plans to operate on a pan-India basis. Surface operations are supported by a fleet of more than 1,000 vehicles consisting of trucks, tankers, trailers, tippers, and medium-sized vehicles. It is a category-1 license holder to operate container trains throughout Indian Railways network in both EXIM and domestic sectors and operates seven container trains (rakes with 45 wagons each). It also has supporting ICD and CFS network and is expanding ICDs in Bangalore and Chennai. In CFS, it is a market leader in the east coast of India, with facilities at Chennai, Tuticorin, and Vizag, with a capacity to handle 300,000 TEU containers.

Capacity to handle diverse cargo with presence in port and mining logistics

Sical has developed expertise in handling variety of cargo over its 50 years of existence (dry bulk, steel material, liquid bulk, over dimensional cargo for industries, and containerised cargo). It started transportation of coal through road-rail-sea route for NLC Tamil Nadu Power (NTPL) plant at Tuticorin with annual revenue of Rs 3bn. Sical operates port terminals in Chennai, Kamarajar (Ennor), and Tuticorin, Visakhapatnam, Mangalore, and Kandla. It is converting its idle iron-ore terminal (already spent Rs 5.9bn), which was impacted due to a ban on iron-ore exports into coal-handling with an option to handle iron-ore in the future, depending on opportunity. PSA SICAL Terminals, a JV with Port of Singapore Authority, operates a container terminal with an annual volume of ~0.5mn TEU. Sical has started surface-mining and transportation in FY15 with mining contracts at Bharatpur mines (three-year contract worth Rs 2.63bn) and Lajukura (two-year contract worth Rs 500mn) of Mahanadhi Coal Fields.

Valuations

At CMP, the stock is trading at 60x FY16 earnings of Rs 2.6 and P/BV of 3.1x. Sical is in the process of consolidating its operations in ports, surface mining and transportation, and exploring new opportunities in coastal shipping, cold chain, warehousing, and dredging.

Not Rated

CMP RS 154

COMPANY DATA

O/S SHARES (MN) :	56
MARKET CAP (RSBN) :	8
MARKET CAP (USDBN) :	0.1
52 - WK HI/LO (RS) :	203 / 119
LIQUIDITY 3M (USDMN) :	0.2
PAR VALUE (RS) :	10

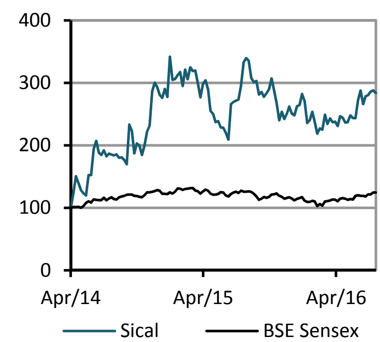
SHARE HOLDING PATTERN, %

	Jun 16	Mar 16	Dec 15
PROMOTERS :	66.1	69.3	69.3
FII / NRI :	0.6	0.6	0.2
FI / MF :	0.3	0.4	0.4
NON PRO :	14.6	22.3	15.1
PUBLIC & OTHERS :	18.5	7.5	15.1

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	-8.0	11.5	-23.8
REL TO BSE	-9.6	1.0	-22.5

PRICE VS. SENSEX



Source: Phillip Capital India Research

KEY FINANCIALS

Rs mn	FY14	FY15	FY16
Net Sales	8,420	8,273	8,352
EBIDTA	864	839	1,078
Net Profit	97	165	142
EPS, Rs	1.7	3.0	2.6
PER, x	88.1	52.0	60.2
EV/EBIDTA, x	19.3	21.6	18.4
P/BV, x	3.3	3.3	3.1
ROE, %	3.8	6.4	5.2
Debt/Equity (%)	193.2	225.6	258.1

Source: PhillipCapital India Research Est.

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Financials

Consolidated Income Statement

Y/E Mar, Rs mn	FY13	FY14	FY15	FY16
Net sales	**7,605**	**8,420**	**8,273**	**8,352**
Growth, %	-2.5	10.7	-1.7	1.0
Cost of Services	6,024	6,891	6,720	6,375
Operating expenses				
Employee expenses	297	297	325	446
Other Operating expenses	355	367	388	453
EBITDA (Core)	**929**	**864**	**839**	**1,078**
Growth, %	15.0	(7.0)	(2.9)	28.4
Margin, %	12.2	10.3	10.1	12.9
Other income	157	278	408	155
Depreciation	378	404	457	482
EBIT	**708**	**738**	**790**	**751**
Interest paid	641	607	571	561
Pre-tax profit	67	131	219	190
Tax provided	-30	-34	20	46
Profit after tax	**96**	**164**	**200**	**144**
Others (Minorities, Associates)	0	-67	-35	-2
Net Profit	**96**	**97**	**165**	**142**
Growth, %	(34.9)	0.9	69.4	(13.7)
Extraordinary	(27.2)	(2.6)	(1.6)	(2.0)
Net Profit (adjusted)	**69**	**95**	**163**	**140**
Un adj. shares (m)	56	56	56	56

Valuation Ratios

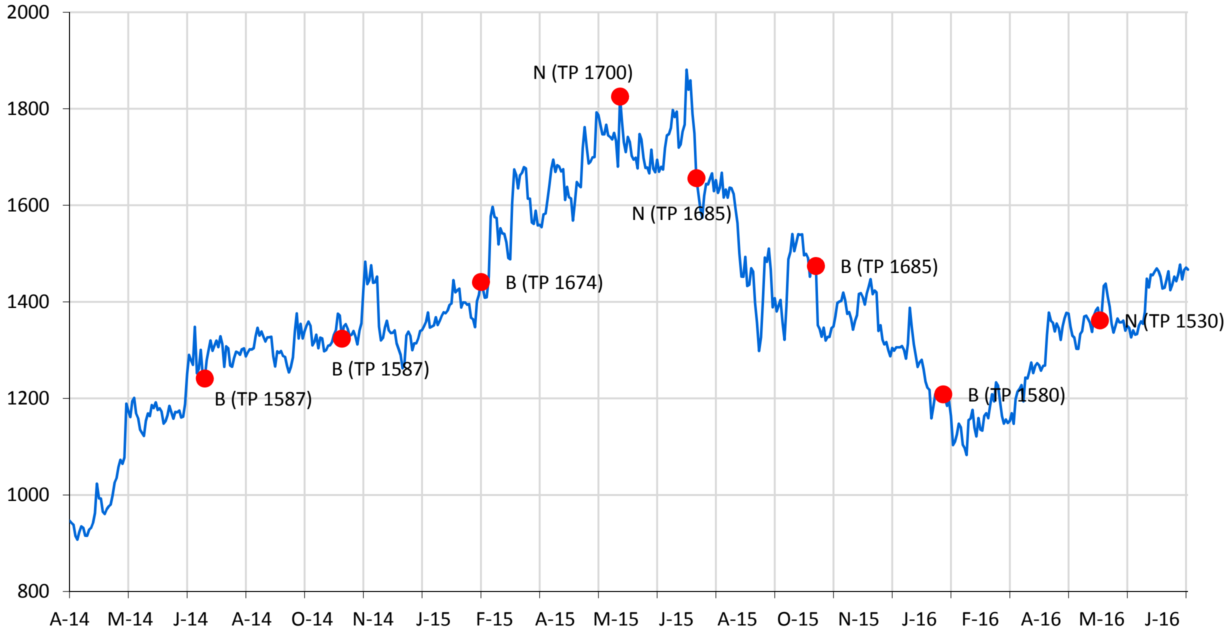
Y/E Mar, Rs mn	FY13	FY14	FY15	FY16
EPS (Rs)	1.7	1.7	3.0	2.6
Cash EPS (Rs)	8.5	9.0	11.2	11.2
Book Value (Rs)	46.9	46.4	46.5	49.1
Dividend (Rs / Share)	0.0	0.0	0.0	0.0
P/E (X)	88.9	88.1	52.0	60.2
P/BV (x)	3.3	3.3	3.3	3.1
EV/EBITDA	17.1	19.3	21.6	18.4
RoCE (%)	4.8	5.0	4.8	4.1
RoE (%)	3.7	3.8	6.4	5.2

Balance sheet

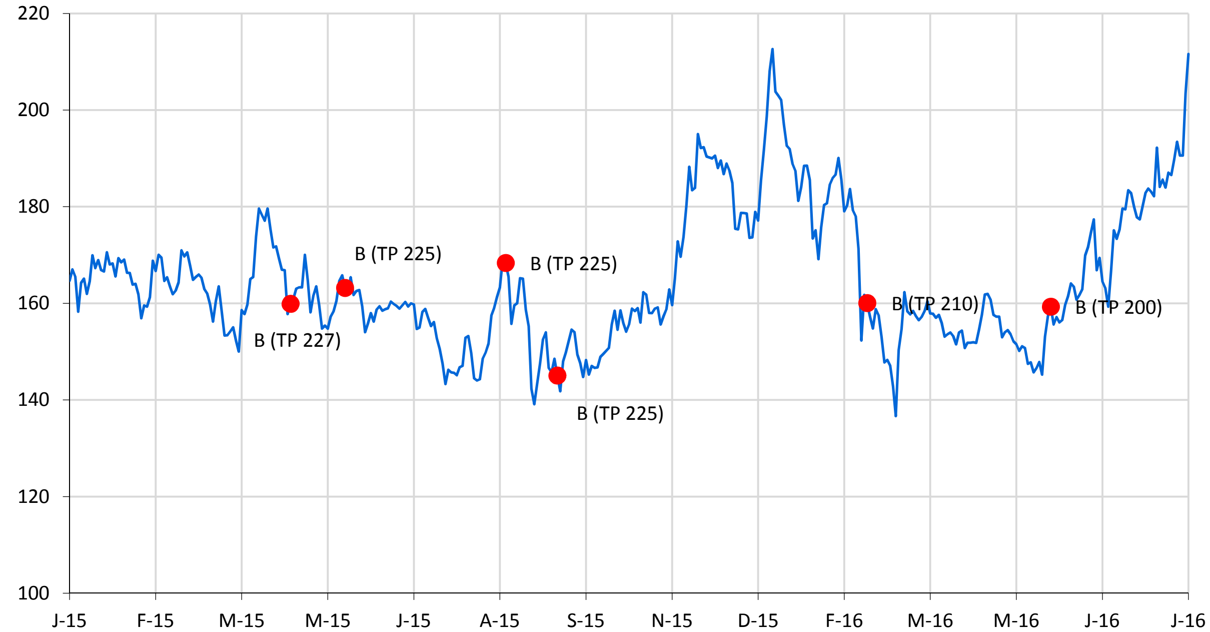
Y/E Mar, Rs mn	FY13	FY14	FY15	FY16
Share Capital	556	556	556	556
Warrants	0	0	0	0
Reserves	3784	3827	3868	4011
Total Shareholders fund	4340	4384	4424	4567
Minority interest	1734	1800	1835	1837
Long Term Borrowings	5906	6408	6210	7615
Other Long term Borrowings	713	176	1457	1986
Short term borrowings	1416	1026	1402	1270
Current maturities	527	859	915	915
Total Loan	8562	8468	9983	11786
Deferred tax	84	55	84	71
Capital Employed	**14720**	**14707**	**16326**	**18261**
Gross Block	**7692**	**8006**	**8661**	**11059**
Fixed Assets (Tangible)	4885	4891	5261	7177
Fixed Assets (Intangible)	527	454	431	431
WIP	5634	6148	6911	6219
Goodwill on Consolidation	0	0	0	31
Non current investments	1	1	1	1
Current Investment	16	12	0	0
Other non current assets	675	836	845	809
Current Assets	4360	3733	3980	5173
Inventories	153	161	151	148
Trade Receivables	1593	1657	1652	2457
Cash	1232	349	412	535
Loans and advances	1234	1360	1290	1377
Other current assets	147	205	474	656
Current liabilities	1379	1367	1102	1580
Trade Payables	571	704	877	905
Other Current liabilities	764	611	163	596
Provisions	44	53	63	79
Net working Capital	**2982**	**2365**	**2878**	**3593**
Total Assets	**14720**	**14707**	**16326**	**18261**

Source: Company, PhillipCapital India Research

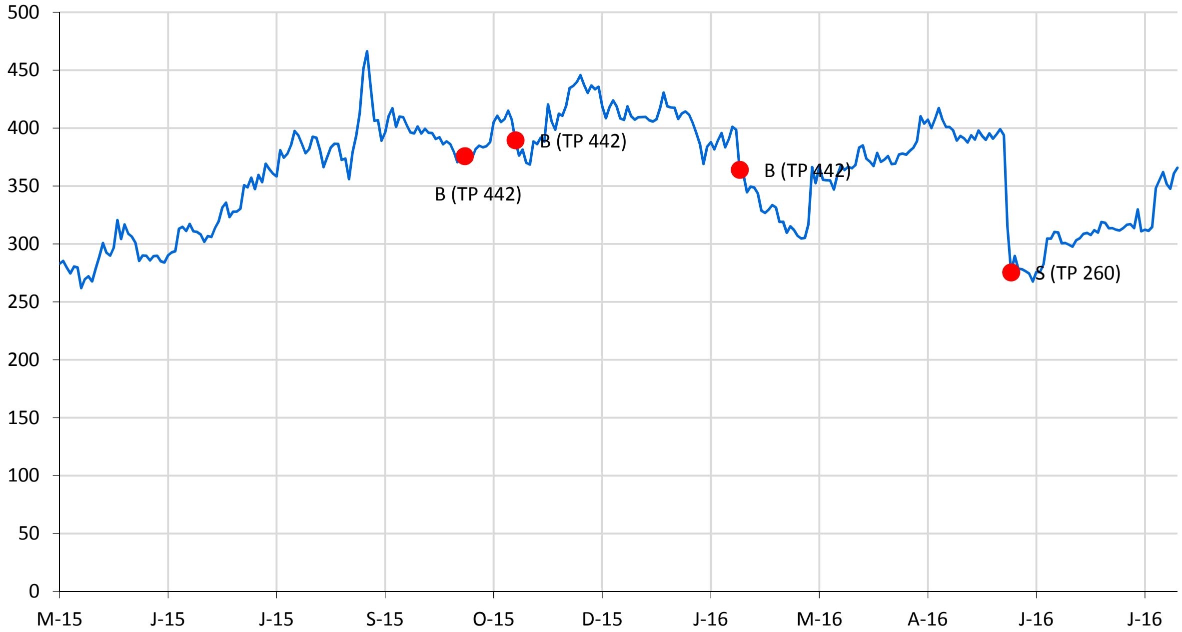
Stock Price, Price Target and Rating History (Container Corporation)



Stock Price, Price Target and Rating History (Allcargo)



Stock Price, Price Target and Rating History (VRL Logistics)



Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year.

Rating	Criteria	Definition
BUY	>= +15%	Target price is equal to or more than 15% of current market price
NEUTRAL	-15% > to < +15%	Target price is less than +15% but more than -15%
SELL	<= -15%	Target price is less than or equal to -15%.

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