



# India: Transportation: Logistics

## Indian Logistics – strong long-term growth; initiate on five cos

### Industry context

We initiate coverage on the Indian logistics sector with a neutral stance, focusing on five stocks representing 63% of the Indian logistics sector's total market capitalization. We believe the Indian logistics sector's fundamentals are strong and long-term prospects are attractive; we forecast 20% revenue growth for our coverage group for the next two years. However, our stance is neutral given uncertainty over the extent and length of the current US slowdown, with GS economists forecasting world GDP to slow down by 1% this year.

### Source of opportunity

We prefer companies with higher exposure to domestic demand and increasing vertical integration (given the current capex cycle), such as Gateway Distriparks and Gati.

### Initiate Gateway Distriparks and Gati with Buy ratings

We initiate coverage of Gateway Distriparks (GATE.BO) with a 12-mo TP of Rs175 and Gati Ltd (GATI.BO) with a 12-mo TP of Rs149, both with Buy ratings. We initiate on the following with Neutral ratings: Allcargo (ALGL.BO), 12-mo TP of Rs904, Transport Corporation (TCIL.BO), 12-mo TP of Rs119 and Container Corporation (CCRI.BO), 12-mo TP of Rs928.

**Gateway Distriparks** is the largest private port-based logistics services provider. It is a direct beneficiary of the ongoing infrastructure spend and strong growth in GDP and trade in India over the next five years. We forecast EPS CAGR of 19% for FY2008E-FY2010E, FY2009E P/E of 16.4X (peer group average of 17.2X).

**Gati** is a dominant player in the surface cargo business in India and stands to benefit from domestic growth and the planned infrastructure rollout in India over FY2008-2012E. We forecast EPS CAGR of 43% for FY2008E-FY2010E, FY2009E P/E of 17.3X (peer group average of 17.2X).

### Catalyst

1) Growth in Indian GDP/trade, 2) supportive regulatory changes already in place, 3) infrastructure rollout & 4) containerization trend gaining momentum.

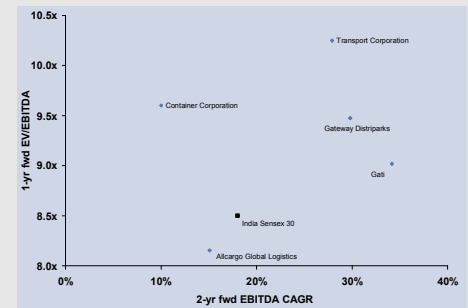
### Risks

1) GDP slowdown, 2) entry of new players/overcapacity and 3) liquidity risk.

	Rating	Price		Potential upside / downside	2 yr PEG
		Current (Rs)	12-month TP (Rs)		
Gateway Distriparks	Buy	113	175	55%	0.8
Gati	Buy	104	149	44%	0.4
TCIL	Neutral	95	119	25%	0.6
Allcargo Global	Neutral	713	904	27%	0.5
Concor	Neutral	885	928	5%	1.5
<b>Logistics group average</b>					<b>0.8</b>

Note: All target prices are based on DCF analysis with a cross-check against 3 shorter duration ratios (i.e., P/E, EV/EBITDA and PEG).

**Our Buy-rated stocks offer higher growth over a 2-year time frame than Sensex at reasonable multiple ranges.**



Source: Goldman Sachs Research estimates.

	12-month GS TP (RS)	Potential Upside (%)	2-year potential multiple	Scenario Analysis	
				Bear case % up/down	Blue sky case % up/down
Gateway	175	55%	1.7x - 2.1x	20%	89%
Gati	149	44%	1.5x - 1.7x	8%	61%

Source: Goldman Sachs Research estimates.

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The prices in the body of this report are based on the market close of May 23, 2008.

The authors thank Vaishnavi Kandalla and Neha Rustagi for their valuable contribution to this publication.

### Exhibit 1: Our Buy-rated companies offer high growth at attractive short-term valuations, based on our estimates

DCF-based 12-month target prices for our coverage group

	Ticker	Mkt. cap (\$mn)	Free float	Rating	Price		Potential upside / downside	One year Forward (x)			GS 2 year CAGR	
					Current (Rs)	12-month TP (Rs)		P/E	EV / EBITDA	2 yr PEG	Sales	EPS
Gateway Distriparks	GATE.BO	306	57%	Buy	113	175	55%	16.4	9.5	0.8	32%	19%
Versus coverage group								-5%	-1%			
Gati	GATI.BO	195	52%	Buy	104	149	44%	17.3	9.0	0.4	22%	43%
Versus coverage group								0%	-6%			
TCIL	TCIL.BO	161	32%	Neutral	95	119	25%	24.1	10.2	0.6	22%	38%
Versus coverage group								40%	7%			
AllCargo Global	ALGL.BO	338	20%	Neutral	713	904	27%	14.0	9.5	0.5	14%	31%
Versus coverage group								-19%	-1%			
Concor	CCRI.BO	2694	37%	Neutral	885	928	5%	14.3	9.6	1.5	12%	10%
Versus coverage group								-17%	0%			
<b>Logistics group average</b>								<b>17.2</b>	<b>9.6</b>	<b>0.8</b>	<b>20%</b>	<b>28%</b>
<b>Global Peer average*</b>								<b>18.7</b>	<b>8.2</b>	<b>1.2</b>	<b>8%</b>	<b>16%</b>

\*\*A complete list of global peers used in our comparison appears in Exhibit 59.

Note: Our 12-month TPs are based on DCF. Allcargo has a December year-end; thus, CAGR refers to 2007-2009.

Risks to our investment view: 1) Slowdown in GDP and trade in India, and 2) Entry of new players leading to overcapacity.

For important disclosures, please go to <http://www.gs.com/research/hedge.html>

Source: Datastream, Goldman Sachs Research estimates.

## Initiate coverage of Indian logistics industry; focus on five stocks

**We initiate coverage on the Indian logistics sector with a neutral stance. We believe the sector's fundamentals are strong and long-term prospects are attractive, and forecast 20% revenue growth for our coverage group for the next two years. However, although our coverage group is currently trading near its two-year trough valuations (average 1-year forward P/E of 17.2X) and stocks are down 8%-47% since Jan 1 with the recent market sell-off in India, our stance is neutral given the uncertainty on the extent and length of the current US slowdown and its impact on the global economy. We estimate that our coverage group's revenues have 59% exposure to export-import (EXIM) trade, and GS economists expect world GDP to slow down by 1% in 2008. Given this scenario and the current capex cycle (leading to pressure on margins), we prefer companies with higher exposure to domestic demand and increasing vertical integration, and highlight our Buy-rated stocks, Gateway Distriparks and Gati Ltd.**

**We highlight five key points for investors about the Indian logistics sector:**

- 1. Growth in GDP and trade are the core drivers** — Growth in the logistics sector is closely linked to India's overall GDP and trade growth. Robust macro forecasts for India, with GS economists expecting GDP growth of 8% until 2020E, point to an encouraging outlook for the sector.
- 2. Supportive regulatory changes are catalyzing growth by removing inefficiencies** — The Government of India recently implemented key regulatory changes (such as the phase-out of a central sales tax and opening of rail haulage to private players) to improve the efficiency of the logistics sector and the competitiveness of Indian manufacturers in the global context. We note that third-party logistics players currently handle about 7% of logistics business in India, compared with more than 50% in developed markets such as US and Japan (source: KPMG).
- 3. Ongoing infrastructure buildup improves long-term prospects** — With planned spending on infrastructure expected to rise three-fold over FY2008-2012E compared with the previous five years to US\$168 bn compared with US\$52 bn spent during FY2003-FY2007 (Exhibit 45), the logistics sector will be a key beneficiary. The expansion of highways from two to four–six lanes and the construction of a dedicated freight corridor would lower the cost of transportation and shorten the transit time. Higher capacity at ports led by containers (Exhibit 50) should also help reduce current congestion (with average turnaround time at Indian ports among the highest globally), as well as provide a sufficient buffer for growth over the next five years; the Planning Commission of India expects spending on infrastructure by government and private companies to increase by 9.3X for FY2008E-FY2012E compared with FY2003-FY2007.
- 4. Containerization gains momentum; specific segments will benefit more** — Due to the inherent advantages of transferring cargo through containers (less wastage, quicker delivery), combined with increasing container capacities at ports, we expect container penetration to rise from the current 16% to above 21% by 2012. Logistics players with significant presence and increasing exposure to the containerization business, such as GDL, would be key beneficiaries of this long-term trend.
- 5. At 2-year trough valuations, short-term slowdown is more than priced in** — The sector is currently trading near its 2-year trough valuation at a one-year forward P/E multiple of 17.2X, based on our estimates. Despite these relatively inexpensive valuations, we have a neutral coverage view on the sector given our concerns over the global and domestic slowdown and its impact on India's trade growth and competitiveness. (GS economists expect Indian GDP growth to slow down to 7.8% in FY2009E, from an average of 8.8% recorded in FY2005-FY2008.)

Please see the Industry section at the back of this report for a detailed discussion of these points.

**We are initiating coverage on five Indian logistics companies:** Gateway Distriparks (GATE.BO) with a 12-month TP of Rs175 and Gati Ltd (GATI.BO) with a 12-month TP of Rs149, both with Buy ratings, and the following with Neutral ratings: Allcargo (ALGL.BO), 12-month TP of Rs904; Transport Corporation (TCIL.BO), 12-month TP of Rs119; and Container Corporation (CCRI.BO), 12-month TP of Rs928.

Our coverage group companies operate across the different parts of the logistics space and accordingly have different growth and margin dynamics. We observe that, due to the fragmented state of the Indian logistics industry, none of the companies are integrated across various functions — i.e., road, rail, express, coast-to-coast, container freight station (CFS), in-land container depot (ICD) and multi-modal transport operator (MTO).

However, we believe that certain companies such as Gateway and Gati have demonstrated the ability to identify and execute business-mix changes to turn their long-term positioning into profitable segments.

**Exhibit 2: Exposure to different parts of the value chain determines growth and profitability for companies**

Our coverage universe – Gateway and Gati have increasing domestic exposure and vertical integration synergies

	Road freight	Express	Coast-to-Coast	Container Haulage (rail)	CFS/ICD	MTO	
<b>Scenario</b>	Mature	Growth	Growth	Growth - capital intensive	Growth	Mature	
<b>Entry barriers</b>	Low	High	High	High	Medium	Low	
<b>Growth</b>	5 - 10%	20 - 22%	15%	20%	35%	10 - 15%	
<b>EBITDA margins</b>	3 - 5%	8 - 10%	25% +	30%	40%	4 - 6%	
Position of coverage companies on the value chain  numbers in box indicate % share of FY08 sales				<b>Gateway - Buy, 55% potential upside</b>			
				16%	72%		
	<b>GATI - Buy, 44% potential upside</b>						
	73%			11%			
	<b>TCIL - Neutral, 25% potential upside</b>						
	54%	39%	4%				
					<b>Allcargo - Neutral, 27% potential upside</b>		
					6%	88%	
				<b>Concor - Neutral, 5% potential upside</b>			
				50%	50%		

Source: Company data, KPMG, Goldman Sachs Research estimates.

**Valuation**

We have derived the 12-month price targets for the stocks in our coverage group using a DCF methodology. As a reality check, we have tested our conclusions against three shorter duration ratios — one-year forward P/E and EV/EBITDA multiples and 2-year PEG ratios.

The sector is currently trading at close to its own historical 2-year lows on a one-year forward P/E multiple of 17.2X, in line with the Sensex P/E of 17.4X (see Exhibits 57–58). Despite valuations we view as reasonable, we have a neutral stance on the sector because of the current concerns over the US and global slowdown and its impact on India’s trade growth and competitiveness in the medium term.

## Risks

**GDP slowdown** – we estimate that every 1% drop in world GDP could mean a 4% drop in freight.

**Entry of new players** – leading to overcapacity and price-based competition.

**Small-cap risk** –Most of our coverage group companies are in the small- and mid-cap space. Despite the compelling fundamental stories, we believe investors need to weigh the nontrivial liquidity risks in this space. Our analysis suggests that the average daily trading value (ADTV—the most common liquidity statistic) overestimates actual liquidity by 60%-80% because mid-cap volumes are highly irregular and ADTV uses historical price averages. In the current liquidity environment, we find that median volumes, which we believe are more “representative” of mid-cap stocks, are only a quarter of what “average” volumes indicate.

We note that liquidity tends to grow (or shrink) based on the performance of the stock over time. The variability and predictability of mid-cap liquidity appear to be much higher than large-caps because mid-caps have a narrow investor base and less analyst coverage, and therefore their pricing is less efficient than that of large-caps.

# Gateway Distriparks Ltd. (GATE.BO; Buy, TP: Rs175)

## Direct play on GDP, trade growth; containerization trend also a catalyst

### Investment thesis

- We initiate coverage on Gateway Distriparks (GDL) with a Buy rating and DCF-based 12-month price target of Rs175, implying 55% upside from current levels.
- GDL is the largest private port-based logistics services provider in India (accounted for about 5% of container [CFS] traffic in FY2008), and plans to double its capacity over the next three years (we expect segment growth of 18% in FY2008-FY2010E).
- GDL is a direct beneficiary of the ongoing infrastructure spend in India (US\$168 bn in FY2007-FY2012E) and the strong GDP and trade growth expected – GS forecasts GDP growth of 8% annually in FY2008-FY2020E in India, and EXIM trade, which typically leads economic growth, had a CAGR of 29% in FY2004-FY2008.
- Our Buy rating for GDL is based on our view that the company’s current valuation does not fully reflect the value of its high-margin CFS business (70% of sales; above-40% EBIT margins in FY2008E) as well as its expansion into the rail logistics segment. Rs4,000 mn (US\$100 mn) has already been invested; we estimate the ICD/rail business will contribute 51% of incremental growth in FY2008-FY2010.
- GDL is now the largest private railway haulage operator in India – we project that it could go from 8 trains currently to 20 by FY2009-end.

### Valuation

- We derive our 12-month TP using DCF methodology (WACC 11.1%, terminal growth 4%) with a cross-check against P/E, EV/EBITDA and PEG ratios. GDL trades at a one-year forward EV/EBITDA of 9.5X and offers a 2-year PEG of 0.8X.
- Based on our blue-sky scenario, the stock has the potential to deliver 28% EPS growth (vs. 19% base case) and return 89% upside over the next 12 months (see bottom exhibit on right).

### Catalysts

- Improving realizations through business mix change (sales CAGR of 32% FY08-FY10E); haulage throughput realizations are more than double those of CFS (Exhibit 3).
- We expect margins to stabilize in 2HFY09 and bounce back in 1HFY10 as the haulage business executes higher load factors.
- With container traffic expected to grow at 21% (in FY07-FY12E, we expect container penetration (as % of total cargo) to go above 21% from the current 16% level), GDL is positioned as a key beneficiary.

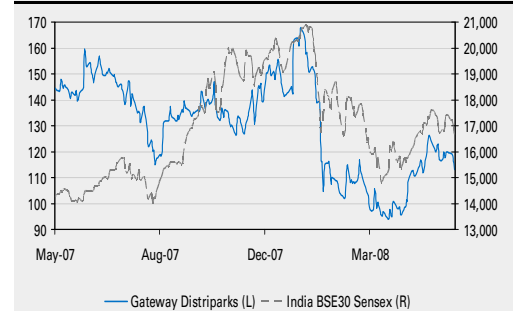
### Risks

- 1) Global recession, 2) further capital raising requirements, 3) severe price-led competition among CFS and ICD players, and 4) liquidity risk.

Key data	Current
Price (Rs)	113.15
12 month price target (Rs)	175.00
Market cap (Rs mn / US\$ mn)	13,079.8 / 306.3
Foreign ownership (%)	22.8

	3/07	3/08E	3/09E	3/10E
EPS (Rs)	8.42	6.41	6.91	9.14
EPS growth (%)	(6.4)	(23.9)	7.8	32.3
EPS (diluted) (Rs)	8.42	6.41	6.91	9.14
EPS (basic pre-ex) (Rs)	8.43	6.41	6.91	9.14
P/E (X)	13.4	17.7	16.4	12.4
P/B (X)	1.7	2.0	1.9	1.7
EV/EBITDA (X)	14.5	14.6	10.6	7.9
Dividend yield (%)	3.5	3.5	3.5	3.5
ROE (%)	13.0	11.6	11.9	14.7

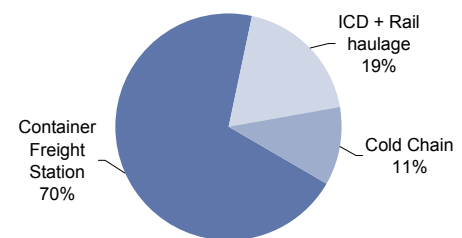
### Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	4.8	(14.8)	(22.2)
Rel. to Bombay SE Sensitive Index	9.2	(3.5)	(32.8)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 5/23/2008 close.

### Sales by division (%) FY2008



Source: Company data.

Scenario Analysis	Key assumptions			P/E FY09E	2-year potential multiple
	Potential upside %	Growth in ICD Throughput (TEUs)	FY2009E Capacity Utilization		
Blue sky Rs214	89%	118%	73%	15.6 x	
GS TP Rs175	55%	91%	66%	16.4 x	1.7x - 2.1x
Bear Case Rs136					
Current price Rs113		53%	53%	17.8 x	
Last year performance		115%	-		

Source: Datastream, Goldman Sachs Research estimates.

## **Investment view: Direct play on GDP, trade growth; containerization trend also a catalyst**

The company's future prospects are closely linked to growth on the following fronts, in our view:

- **Containerization trend gaining momentum** — As the penetration level of containers in general cargo increases, GDL stands to benefit, with a significant presence at the largest container ports of India, given that it is developing its own haulage system (Exhibit 52).
- **GDP and trade growth** – Indian GDP growth has been robust at close to 8% for the last 5 years and is expected to sustain at these levels for the next 12 years (GS economists forecast CAGR of 8% in FY2008-2020E).
- **Infrastructure buildup** – The Planning Commission of India estimates spending of US\$168 bn on infrastructure building and improvement over the next five years, vs. US\$52 bn spent in the last four years (Exhibit 45).

### **Capacity expansion towards higher-realization haulage business**

We expect GDL to spend around Rs3,000 mn (~US\$72mn) on network development and for purchasing rolling stock for its haulage business over the next two years. This would expand its capacity from its current one inland container depot (ICD) at Garhi and six rakes (trains) to three ICDs (adding Faridabad and Ludhiana) and up to 20 rakes by FY2009. Since the haulage business generally has almost double the realizations of the container freight station (CFS) business, we expect GDL's sales to grow at 32% CAGR in FY2008-FY2010E; we estimate rail haulage to account for 51% of this growth (Exhibit 3).

The company currently operates two CFSs at the Jawaharlal Nehru Port Trust (JNPT) port, which is the biggest container port of India and handles more than half of all Indian traffic. In addition, the company operates two CFSs at Chennai and Vizag, with one more planned in Kochi – which we believe would be an advantage in the long term, given the development of competitive and pricing pressures at JNPT.

### **Two ICDs expected to be added in FY2009**

The CFS business contributes a majority of the company's revenues (70% of FY2008 revenue). However, this business has lower realization per TEU (twenty-foot equivalent unit - pertaining to capacity of cylinder) relative to the ICD/rail business (Exhibit 3). Over the past eight quarters, the share of ICD-related sales in the company's total revenues has seen an uptrend from 4% to 19% (Exhibit 5). GDL currently operates an ICD at Garhi Harsaru and signed a JV with Concor to undertake rail movement of containers from this ICD. The company is planning to add two more ICDs at Faridabad and Ludhiana by FY2009-end, which would further shift the business mix towards the ICD business.

Traffic on its own haulage will also increase from the domestic business segment (non-EXIM), where the company has already started running trains on two routes (Orissa to Haryana for Jindal Industries and a reefer train from Delhi to Bombay). The domestic transportation segment is more challenging than regular EXIM traffic because there is no assured return traffic (the combination of imports-exports ensures return traffic). GDL has negotiated rates ensuring operational breakeven to begin with, and it aims to work towards circular route management to increase the load factor.

**Exhibit 3: Greater contribution from higher-realization ICD business means faster growth**  
 Margins should stabilize, then improve after critical load factor levels are achieved

Sales by segments( \$m)	2005	2006	2007	2008	2009E	2010E	2011E
CFS - Throughput (TEUs)	178,410	200,750	223,413	330,834	375,000	440,000	510,000
Realization - \$/TEU	180	167	159	145	151	151	151
CFS Revenue	32	34	36	48	57	67	77
ICD/Rail - Throughput(TEUs)	0	10,226	17,078	36,666	70,000	105,000	150,000
Realization - \$/TEU	0	140	181	350	354	355	355
ICD/Rail Revenue	0	1	3	13	25	37	53
Cold Chain	0	0	2	8	10	12	14
<b>Total Revenues</b>	<b>32</b>	<b>35</b>	<b>41</b>	<b>68</b>	<b>91</b>	<b>116</b>	<b>145</b>
EBIT Margins	47.3%	52.7%	41.8%	27.9%	24.4%	25.4%	25.9%

Source: Company data, Goldman Sachs Research estimates.

**Longer gestation period will likely impact margins in the short term**

We forecast margins to decline to 24.4% in FY2009 from 27.9% in FY2008, but expect them to trend back up to 25.4% in FY2010. Since container rail haulage is a longer gestation period business, with trains starting to break even at around 60% load factor, we believe GDL will see margins suffer for another 2-3 quarters while it invests heavily in fresh rolling stock without critical load factors being achieved from them. (We note that Concor runs at around 80% load factor on its EXIM routes due to its monopoly position and extensive network of terminals and rakes.)

**Long-term value from cold chain business**

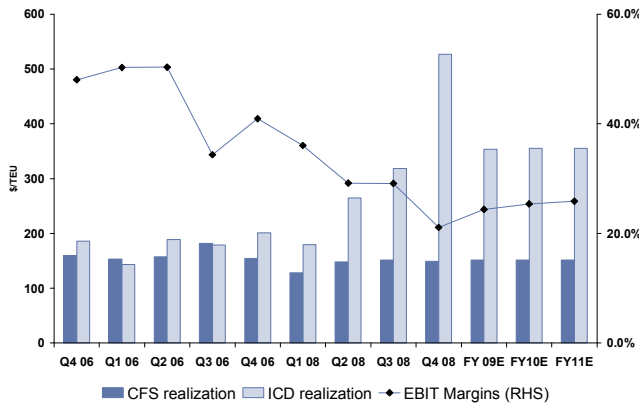
We believe the cold chain logistics business offers a Rs10 bn (~US\$240 mn) market opportunity in India, as value accretion over the long term through development of organized retail will require cold-chain logistics support. With sales from this segment above Rs300 mn in FY2008, GDL already accounts for 20% of the organized market (10% of the overall market is organized). The Government of India has supported development on this front by announcing tax breaks for refrigeration equipment imports and set-up costs in an effort to reduce wastage in this critical part of the value chain, ultimately leading to lower overall costs. According to government estimates, currently ~35% of all fruit and vegetable production is wasted in India due to lack of cold storage and transportation facilities.

**Railroad operators should continue to have an advantage over truckers**

We believe railways will maintain their relative advantage over truckers given the price benefits and their suitability to India's terrain (Exhibits 55-56). However, the lack of infrastructure available will likely continue to be an impediment to their growth in the medium term; we note that railway lines are almost fully saturated currently.

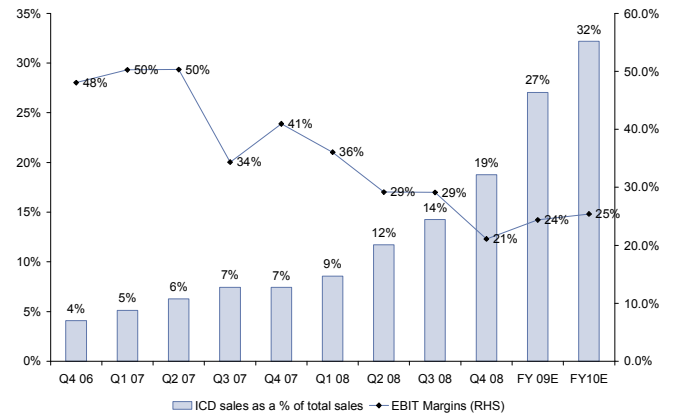
As we see it, the construction of a dedicated freight corridor (DFC) would provide the biggest boost for the players operating in the railway haulage business by adding additional capacity that they can utilize.

**Exhibit 4: Comparison of business segments**  
Shift in focus towards the higher realization ICD/rail business



Source: Company data, Goldman Sachs Research estimates.

**Exhibit 5: Initial investments led to margin reduction**  
ICD/rail haulage contribution to increase over next two years



Source: Company data, Goldman Sachs Research estimates.

## Valuation

GDL currently trades at 16.4X one-year forward P/E and 9.5X one-year forward EV/EBITDA. Our DCF-based 12-month TP of Rs175 assumes a capacity addition of 33% in FY2009E (overall utilization going to 66%) and ICD/rail throughput growth of 91% (driven by investment in its own rolling stock and start of ICDs at Faridabad and Ludhiana). Key long-term assumptions are WACC 11.1%; terminal growth 4%; and reduction in margins by 200 bp. **We also estimate that on our base case numbers the stock has the potential to become 1.7X-2.1X (70%-110% return) on a two-year horizon.**

Under our blue sky scenario, the company could potentially deliver overall capacity utilization of 73% in FY2009 and growth of 118% in the ICD throughput. This would translate into an EPS CAGR of 28% over FY2008-10E (compared to 19% in our base-case) and potential upside of 89% from current levels (see Exhibit 6).

Another key parameter to note is that at a 1-year forward multiple of 16.4X, the stock is currently trading near its 2-year trough multiple of 14.2X, offering investors an attractive entry point, in our view (Exhibit 7).

**Exhibit 6: Potential blue-sky return of 89%**  
 Potential to become 1.7X-2.1X (70%-110% return) on 2-yr horizon

Scenario Analysis Potential upside %	Key assumptions			2-year potential multiple
	Growth in ICD Throughput (TEUs)	FY2009E Capacity Utilization	P/E FY09E	
Blue sky Rs214 89%	118%	73%	15.6 x	
GS TP Rs175 55%	91%	66%	16.4 x	1.7x - 2.1x
Bear Case Rs136				
Current price Rs113	53%	53%	17.8 x	
Last year performance	115%	-		

Source: Datastream, Goldman Sachs Research estimates.

**Exhibit 7: Trading at close to 2-yr trough multiple**  
 1-yr forward P/E



Source: Bloomberg, Goldman Sachs Research estimates.

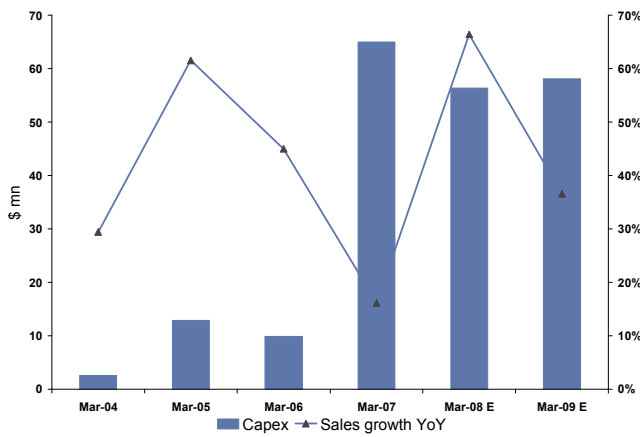
**Risks**

The Bombay port (JNPT) accounts for around 75% of GDL’s business. Thus, any downturn or regulatory changes at JNPT could be detrimental to the company’s growth prospects. Apart from competitive pressures at the various CFSs that the company operates, a rise in transportation costs would likely add additional pressure on the company’s margins.

GDL is expected to face strong competition from Concor, the incumbent player in the container train operation business. We expect initial revenues in this segment to accrue from the lower-margin domestic container traffic rather than EXIM traffic.

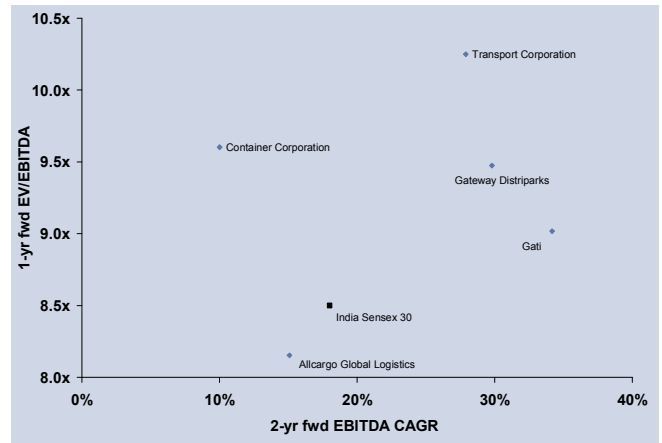
**Exhibit 8: Capex and sales growth**

We expect capex to peak between FY2007 and FY2009E



Source: Datastream, Goldman Sachs Research estimates.

**Exhibit 9: Gateway offers higher growth at reasonable multiples vs. Sensex and peers**



Source: Goldman Sachs Research estimates.

**Exhibit 10: SWOT Analysis for Gateway Distriparks**

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>▶ With the Punjab Conware CFS, Gateway has two CFS and can handle 216,000 TEUs at JNPT, which handles more than half of the container traffic in India. Additional CFSs at Chennai, Vizag and Kochi would be an advantage in the long term, given the competition and pricing pressures at JNPT.</li> <li>▶ First private sector company to operate container trains. The Government of India expects the volume of EXIM containers to jump from 4 mn TEUs currently to 20 mn in 2014. The JV with Concor for the rail-linked ICD at Gurgaon offers the potential to consolidate its double-stack container business on the NCR-western ports route.</li> <li>▶ Integrated company with the ability to provide end-to-end services. GDL offers port-related logistics, rail movement of containers and cold chain logistics services. Ability to provide value-added services, which implies the potential to improve margins.</li> <li>▶ Diversification into the cold chain logistics business. Potentially a significant business opportunity given the entry of large retail competitors into India. We expect these retail players to outsource these logistics services to cold chain logistics players.</li> </ul>	<ul style="list-style-type: none"> <li>▶ GDL has a concentration of business at JNPT (about 75% of revenues), which is characterized by high competition and pricing pressures on freight operators. A downturn at JNPT or regulatory changes could adversely affect the company.</li> <li>▶ Strong competition from Concor in rail container operations. Initial revenues are expected to be mostly from low-margin domestic traffic rather than from high-margin EXIM traffic.</li> <li>▶ Gateway has 60% of its containers at JNPT for imports, unlike Allcargo, which has 95% of its containers for imports. This lowers GDL's potential to earn ground rent from import containers.</li> <li>▶ We do not expect any further margin expansion at JNPT, given the pricing pressures. At the other CFSs, the company has lower margins as it does not own its road transport/handling equipment in these CFSs.</li> </ul>
<ul style="list-style-type: none"> <li>▶ Containerization as part of total general cargo in India is currently at 60% vs. the global average of 80%. Keeping in line with the global trend, the Planning Commission of India expects the penetration in India to improve to 75% as the sector experiences growth in the next few years, underpinned/driven by cost advantages in favor of containerization, which could benefit companies such as GDL.</li> <li>▶ Substantial growth expected in international trade, according to estimates from the Ministry of Trade and Commerce - India's exports as of FY2008 were US\$155 bn. The government has targeted US\$200 bn exports for FY2009. Also, a balance of trade with 40% more imports than exports, further encourages containerization.</li> <li>▶ Improvement in the logistics infrastructure in the country - the industry expects the dedicated rail freight corridor, modernization of ports, and improvement in road infrastructure to boost intra-state and inter-state freight movement.</li> <li>▶ Initiative by Indian Railways to allow private operators to run container trains. ICDs coming up at Faridabad and Ludhiana could cater to the current sizeable demand for hinterland connectivity.</li> <li>▶ Rapid growth of organized retail and agro processing industries and strong FDI inflows into various industries should lead to enhanced market opportunities for logistics services.</li> </ul>	<ul style="list-style-type: none"> <li>▶ A rise in transportation costs will adversely affect margins. Also, an increase in container traffic over and above capacity at the ports could lead to congestion at the ports leading to a decline/ delay in the throughput handled by the company.</li> <li>▶ Operational efficiency is significantly lower at Indian ports compared to global standards. Average ship turnaround time is 3.5 days in India vs 13 hours in Hong Kong.</li> <li>▶ High land acquisition costs for developing ICDs imply that the sector is capital intensive.</li> <li>▶ Strong competition from road transportation. Additionally, shipping lines might consider setting up CFSs/ICDs of their own, leading to higher competition in an already competitive business.</li> <li>▶ Business depends on international trade to a huge extent. Hence, companies in this sector have exposure to geopolitical risk.</li> </ul>
Opportunities	Threats

Source: Planning Commission of India, Indian Railways, Company data, Goldman Sachs Research estimates.

**Exhibit 11: Gateway Distriparks Ltd – Summary financials**

<b>Profit model (Rs mn)</b>	<b>3/07</b>	<b>3/08E</b>	<b>3/09E</b>	<b>3/10E</b>	<b>Balance sheet (Rs mn)</b>	<b>3/07</b>	<b>3/08E</b>	<b>3/09E</b>	<b>3/10E</b>
<b>Total revenue</b>	<b>1,609.7</b>	<b>2,678.9</b>	<b>3,658.8</b>	<b>4,633.0</b>	Cash & equivalents	2,068.1	427.7	637.8	1,106.0
Cost of goods sold	(435.5)	(1,011.6)	(1,473.0)	(1,819.0)	Accounts receivable	182.1	303.1	414.0	524.2
SG&A	(500.6)	(920.3)	(1,293.5)	(1,637.9)	Inventory	0.0	0.0	0.0	0.0
R&D	--	--	--	--	Other current assets	109.3	109.3	109.3	109.3
Other operating profit/(expense)	0.0	0.0	0.0	0.0	<b>Total current assets</b>	<b>2,359.5</b>	<b>840.1</b>	<b>1,161.1</b>	<b>1,739.5</b>
<b>EBITDA</b>	<b>812.2</b>	<b>1,034.7</b>	<b>1,340.0</b>	<b>1,743.2</b>	Net PP&E	4,466.0	6,431.8	8,307.2	8,432.8
Depreciation & amortization	(138.6)	(287.7)	(447.8)	(567.1)	Net intangibles	249.3	249.3	249.3	249.3
<b>EBIT</b>	<b>673.6</b>	<b>747.0</b>	<b>892.2</b>	<b>1,176.1</b>	Total investments	47.6	47.6	47.6	47.6
Interest income	173.9	--	29.9	44.6	Other long-term assets	0.0	0.0	0.0	0.0
Interest expense	(13.7)	(20.3)	(107.7)	(107.7)	<b>Total assets</b>	<b>7,122.4</b>	<b>7,568.8</b>	<b>9,765.2</b>	<b>10,469.2</b>
Income/(loss) from uncons. subs.	0.0	0.0	0.0	0.0	Accounts payable	179.2	298.2	407.3	515.7
Others	75.8	140.9	140.0	150.0	Short-term debt	42.5	42.5	42.5	42.5
<b>Pretax profits</b>	<b>909.6</b>	<b>867.6</b>	<b>954.4</b>	<b>1,263.1</b>	Other current liabilities	40.8	40.8	40.8	40.8
Income tax	(138.8)	(141.6)	(155.7)	(206.1)	<b>Total current liabilities</b>	<b>262.5</b>	<b>381.5</b>	<b>490.6</b>	<b>599.0</b>
Minorities	7.4	14.6	0.0	0.0	Long-term debt	32.4	2.4	1,752.4	1,752.4
<b>Net income pre-preferred dividends</b>	<b>778.3</b>	<b>740.7</b>	<b>798.7</b>	<b>1,057.0</b>	Other long-term liabilities	156.8	156.8	156.8	156.8
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	189.2	159.2	1,909.2	1,909.2
<b>Net income (pre-exceptionals)</b>	<b>778.3</b>	<b>740.7</b>	<b>798.7</b>	<b>1,057.0</b>	<b>Total liabilities</b>	<b>451.7</b>	<b>540.7</b>	<b>2,399.8</b>	<b>2,508.3</b>
Post-tax exceptionals	0.0	0.0	0.0	0.0	Common stock & premium	923.7	923.7	923.7	923.7
<b>Net income</b>	<b>778.3</b>	<b>740.7</b>	<b>798.7</b>	<b>1,057.0</b>	Other common equity	5,264.1	5,636.1	5,973.4	6,569.0
EPS (basic, pre-except) (Rs)	8.43	6.41	6.91	9.14	<b>Total common equity</b>	<b>6,187.8</b>	<b>6,559.8</b>	<b>6,897.1</b>	<b>7,492.6</b>
EPS (basic, post-except) (Rs)	8.43	6.41	6.91	9.14	Minority interest	482.9	468.3	468.3	468.3
EPS (diluted, post-except) (Rs)	8.42	6.41	6.91	9.14	<b>Total liabilities &amp; equity</b>	<b>7,122.4</b>	<b>7,568.8</b>	<b>9,765.2</b>	<b>10,469.2</b>
DPS (Rs)	3.99	3.99	3.99	3.99	<b>BVPS (Rs)</b>	<b>66.99</b>	<b>56.75</b>	<b>59.66</b>	<b>64.82</b>
Dividend payout ratio (%)	47.4	62.3	57.8	43.7					
Free cash flow yield (%)	(5.2)	(8.0)	(8.1)	7.2					
<b>Growth &amp; margins (%)</b>	<b>3/07</b>	<b>3/08E</b>	<b>3/09E</b>	<b>3/10E</b>	<b>Ratios</b>	<b>3/07</b>	<b>3/08E</b>	<b>3/09E</b>	<b>3/10E</b>
Sales growth	16.2	66.4	36.6	26.6	ROE (%)	13.0	11.6	11.9	14.7
EBITDA growth	(2.9)	27.4	29.5	30.1	ROA (%)	11.5	10.1	9.2	10.4
EBIT growth	(7.8)	10.9	19.4	31.8	ROACE (%)	17.6	13.1	11.4	12.9
Net income growth	7.7	(4.8)	7.8	32.3	Inventory days	NM	NM	NM	NM
EPS growth	(6.5)	(24.0)	7.8	32.3	Receivables days	28.6	33.1	35.8	37.0
Gross margin	72.9	62.2	59.7	60.7	Payable days	109.0	86.1	87.4	92.6
EBITDA margin	50.5	38.6	36.6	37.6	Net debt/equity (%)	(29.9)	(5.4)	15.7	8.7
EBIT margin	41.8	27.9	24.4	25.4	Interest cover - EBIT (X)	NM	36.8	11.5	18.7
<b>Cash flow statement (Rs mn)</b>	<b>3/07</b>	<b>3/08E</b>	<b>3/09E</b>	<b>3/10E</b>	<b>Valuation</b>	<b>3/07</b>	<b>3/08E</b>	<b>3/09E</b>	<b>3/10E</b>
Net income pre-preferred dividends	778.3	740.7	798.7	1,057.0	P/E (analyst) (X)	13.4	17.7	16.4	12.4
D&A add-back	138.6	287.7	447.8	567.1	P/B (X)	1.7	2.0	1.9	1.7
Minorities interests add-back	0.0	0.0	0.0	0.0	EV/EBITDA (X)	14.5	14.6	10.6	7.9
Net (inc)/dec working capital	0.2	(2.0)	(1.8)	(1.8)	Dividend yield (%)	3.5	3.5	3.5	3.5
Other operating cash flow	298.2	5.7	77.8	63.0					
<b>Cash flow from operations</b>	<b>1,215.3</b>	<b>1,032.1</b>	<b>1,322.5</b>	<b>1,685.3</b>					
Capital expenditures	(2,599.9)	(2,253.6)	(2,323.2)	(692.7)					
Acquisitions	(3,212.6)	0.0	0.0	0.0					
Divestitures	3,742.9	0.0	0.0	0.0					
Others	157.3	0.0	29.9	44.6					
<b>Cash flow from investments</b>	<b>(1,912.2)</b>	<b>(2,253.6)</b>	<b>(2,293.2)</b>	<b>(648.0)</b>					
Dividends paid (common & pref)	(521.2)	(368.6)	(461.4)	(461.4)					
Inc/dec in debt	(244.0)	(30.0)	1,750.0	0.0					
Common stock issuance (repurchase)	19.5	0.0	0.0	0.0					
Other financing cash flows	(15.5)	(20.3)	(107.7)	(107.7)					
<b>Cash flow from financing</b>	<b>(761.1)</b>	<b>(418.9)</b>	<b>1,180.9</b>	<b>(569.1)</b>					
<b>Total cash flow</b>	<b>(1,458.1)</b>	<b>(1,640.4)</b>	<b>210.1</b>	<b>468.2</b>					

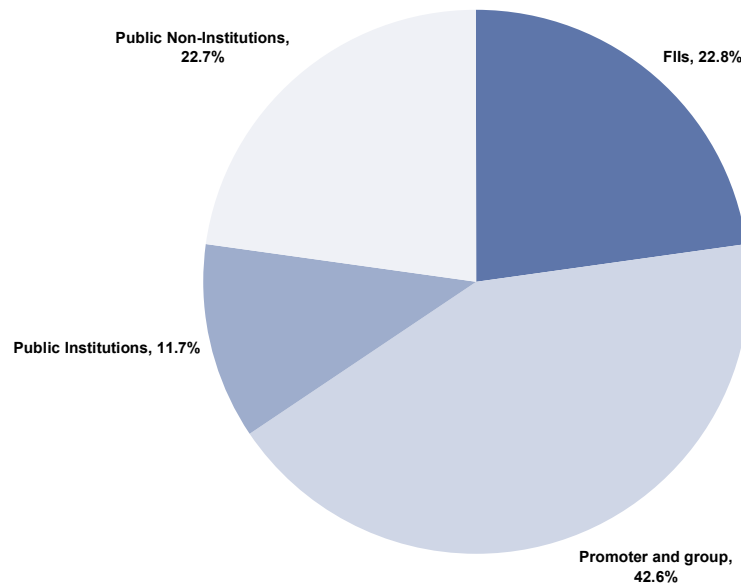
Note: Last actual year may include reported and estimated data.  
Source: Company data, Goldman Sachs Research estimates.

## Company description

Gateway Distriparks Ltd. is a leading provider of port-related logistics support services via CFSs and ICDs, placed at strategic locations in the country. The company has CFSs at Navi Mumbai, Chennai and Vishakapatnam, and an ICD at Garhi Harsaru. The services offered at the CFSs and ICDs include repacking of exports, sorting and labeling, re-bagging, palletization, shrink wrapping and inspection. The company is undergoing expansion and setting up two new ICDs. The company is also shifting its business mix by entering into the rail business of operating container freight post its privatization. The company also entered into the cold chain business via its acquisition of management control in Snowman Frozen Foods Ltd in November 2007 (with pan-Indian frozen and chilled foods distribution system).

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### Exhibit 12: Shareholder structure as of March 2008



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Source: Bombay Stock Exchange (BSE) data.

# Gati Ltd. (GATI.BO; Buy, TP: Rs149)

## Established player in express; new forays support growth

### Investment thesis

- We initiate coverage on Gati (GATI.BO) with a Buy rating and DCF-based 12-month target price of Rs149, implying 44% potential upside from current levels.
- Gati is a dominant player in the surface cargo business in India with a strong distribution network and delivery capability to reach 594 of India's 602 districts.
- Our Buy rating for Gati is based on our view that the market has not fully valued the margin strength of its core express business and the potential growth from its freighter and logistics segments.
- Gati is currently undergoing a shift in its business mix away from its legacy surface express business (>50% of 2007 sales). We expect the higher-margin freighter and logistics businesses to grow at a CAGR of 57% and 23% over FY2008-FY2010 (which would constitute 24% of FY2010E sales compared with 17% of FY2008 sales).
- We estimate that the business mix changes, along with the recent network re-engineering process, will enable Gati to improve EBIT margins by 200 bp over FY2008E-FY2010E.
- The company plans to invest US\$100 mn (50% of current sales) over the next two years in capacity expansion to meet growing demand. With funding already closed, we believe the company is well placed relative to its peers to gain from incremental demand in the space.
- The acquisition of Kausar India in December 2007 gives Gati exposure to the high-growth/high-margin cold-chain logistics business (99 existing refrigerated trucks, FY2007 EBITDA margin of 19.3% for Kausar vs 7.6% for Gati).

### Valuation

- We derive our 12-month TP using DCF methodology (WACC 11.1%, terminal growth 4%) with a cross-check against P/E, EV/EBITDA and PEG ratios. Gati trades at a one-year forward EV/EBITDA of 9.0X and offers a 2-year PEG of 0.4X.
- Under our blue-sky scenario, the stock has the potential to deliver 67% EPS growth (vs. 43% base case) and return 61% upside over the next 12 months (see bottom exhibit on right).

### Catalysts

- The planned phase-out of Central Sales Tax (CST) by FY2010 should open up additional opportunities in the logistics space.
- Gati is also considering spinning off its fuel station properties, which would add cash and improve overall margins.

### Key risks

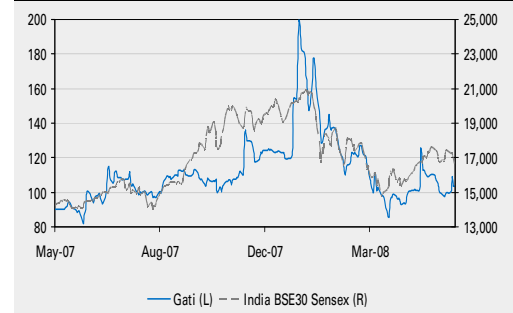
- Slowdown in Indian GDP and manufacturing growth,
- continued increase in oil prices will hamper margins and
- liquidity risk.

Key data	Current
Price (Rs)	103.50
12 month price target (Rs)	149.00
Market cap (Rs mn / US\$ mn)	8,333.8 / 195.1
Foreign ownership (%)	8.7

	6/07	6/08E	6/09E	6/10E
EPS (Rs)	2.68	3.36	5.99	6.91
EPS growth (%)	(6.9)	25.4	78.3	15.3
EPS (diluted) (Rs)	2.68	3.36	5.99	6.91
EPS (basic pre-ex) (Rs)	3.01	3.56	6.35	7.32
P/E (X)	38.6	30.8	17.3	15.0
P/B (X)	4.3	1.4	1.3	1.2
EV/EBITDA (X)	18.2	12.0	10.0	7.6
Dividend yield (%)	0.9	0.9	0.9	0.9
ROE (%)	12.9	7.5	8.5	9.1

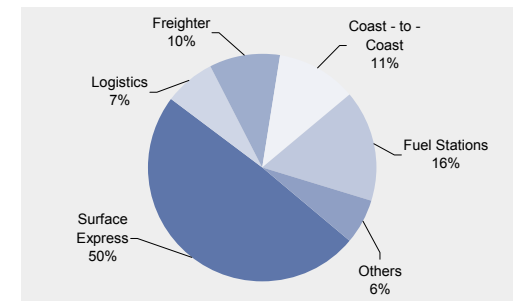
### Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(15.7)	(11.7)	15.0
Rel. to Bombay SE Sensitive Index	(12.2)	(0.0)	(0.8)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 5/23/2008 close.

### Sales by division FY2008E (%)



Source: Goldman Sachs Research estimates.

Scenario Analysis	Key assumptions			2-year potential multiple
	Potential upside %	Freight segment 2008-10E CAGR	Logistics Segment 2008-10E CAGR	
Blue sky	61%	65%	57%	13.6x
GS TP	44%	57%	23%	17.3x
Bear case		46%	19%	19.4x
Current price				Rs104
Last year performance	70%	20%	-	-

Source: Datastream, Goldman Sachs Research estimates.

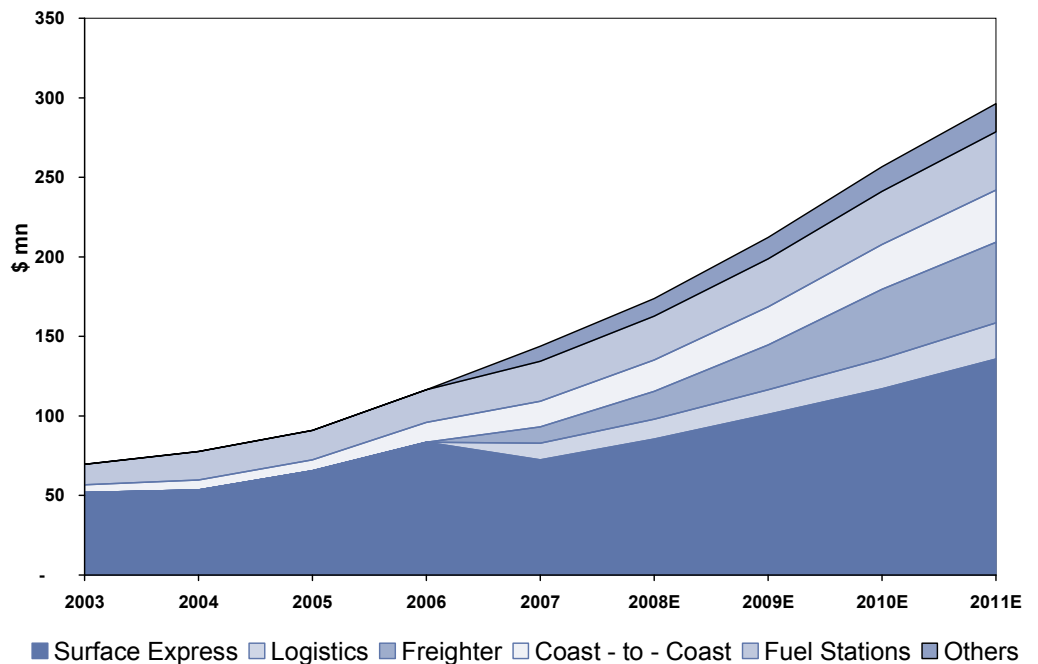
### Investment view: Investments in freighter and supply-chain segments should boost growth, support margins

The surface express business contributed to >50% of total sales for the company in FY2007. Gati plans to shift its focus towards the higher-margin freighter and logistics segments over the next two years and decrease its dependence on the legacy surface express business. The company targets to increase the revenue contribution of the high-margin freighter business to 21% in FY2009 from 10% in FY2007 (Exhibit 13).

We believe the freighter business will be a major driver of growth and expect sales from the segment to grow at a CAGR of 57% over FY2008E-FY2010E. The company entered into a JV with Air India Cargo in November 2007, involving the leasing of up to five freighter aircraft over 2008 from Air India Cargo. On the back of this venture, the company is well positioned to expand its presence and gain market share in the domestic air cargo aviation space; the company expects the overall market to grow at a CAGR of 20% over the next two years.

#### Exhibit 13: Business mix shifting to higher-margin segments

Growth in core express segment (17%) would be supported by freighter (57%) and logistics (23%)



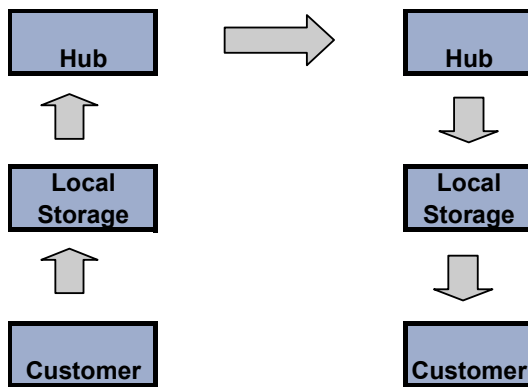
Source: Company data, Goldman Sachs Research estimates.

Gati plans to have a fully operational mechanized warehousing space of 2 mn sq ft by FY2009, up from 1.2 mn sq ft as of FY2007. On the back of this capacity expansion, we expect the company's logistics business to deliver sales growth at a CAGR of 23% over FY2008-FY2010E. We also expect the proposed spending by the Government of India on improving road infrastructure in the country — US\$78 bn as part of the 11th Five-Year Plan vs. US\$25 bn in the 10th Plan (Exhibit 45) to lead to higher incremental demand for logistics services. We think the planned phase-out of the Central Sales Tax and the growth of organized logistics will open up additional opportunities for Gati in the logistics business (for details, see the Industry section of this report).

**Margins set to expand through reengineering of value chain**

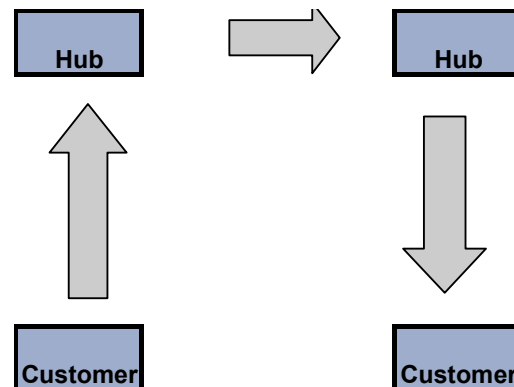
We expect the company’s planned shift in business mix towards higher-margin segments and the impact of the network re-engineering initiative to lead to a 200 bp improvement in margins for Gati over FY2008-FY2010E. The network re-engineering initiative (Exhibits 14–15) is aimed at eliminating local storage, which should lead to savings on rental expenses. Gati intends to adopt the hub & spoke model and have one central distribution center (CDC) in Nagpur and 19 express distribution centers across the country connected to this CDC. The achievement of scale (now has reach across 594 of 602 districts in India) and growth across geographies has necessitated the re-engineering effort.

**Exhibit 14: Network structure before re-engineering**



Source: Company data.

**Exhibit 15: Network structure after re-engineering – larger scale should help improve efficiency**

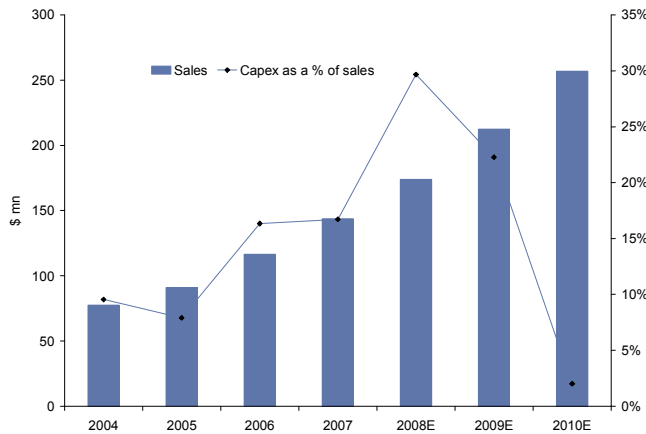


Source: Company data.

**Kausar acquisition adds to growth and supports margins**

Gati acquired a majority stake in Kausar India Ltd. in December 2007, marking its entry into the high-opportunity cold chain logistics segment. Kausar currently runs 99 refrigerated vehicles and has the capacity to move 120,000 tons of refrigerated cargo. Apart from the exposure to the rapidly growing cold-chain logistics business, we expect this acquisition to also lead to margin expansion for Gati. Kausar delivered EBITDA of Rs36 mn in FY2007 on net sales of Rs187 mn, implying an EBITDA margin of 19.3%. This is significantly above Gati’s EBITDA margin of 7.6% in FY2007 and thus potentially stands to increase overall margins for Gati.

**Exhibit 16: Investments to continue another two years**  
Sales and capex as % of sales



Source: Company data, Goldman Sachs Research estimates.

**Exhibit 17: GATI is currently trading in line with the sector average of 17.2X on 1-yr forward P/E (17.3X)**  
One-year forward P/E



Source: Bloomberg, Goldman Sachs Research estimates.

## Valuation

Gati currently trades at 17.3X on one-year forward P/E and 9.0X EV/EBITDA. Our DCF-based 12-month target price of Rs149 assumes Freighter segment growth of 57% and logistics segment growth of 23% over the next two years. **We also estimate that on our base case numbers the stock has the potential to become 1.5X-1.7X (50%-70% return) on a two-year horizon.**

We note that under our blue sky scenario, assuming higher growth traction in key areas, the company could potentially deliver sales CAGR of 65% over FY2008E-FY2010E in the freighter segment and sales CAGR of 57% in the logistics segment over the same period. This would translate to an EPS CAGR of 66% (compared with our base-case growth estimate of 43%) and potential upside of 61% from current levels (see Exhibit 18).

**Exhibit 18: 61% return potential in a blue sky scenario**

Scenario analysis - potential to become 1.5X-1.7X (50%-70% return) on a two-year horizon

Scenario Analysis		Key assumptions			2-year potential multiple
Potential upside %		Freighter segment 2008-10E CAGR	Logistics Segment 2008-10E CAGR	P/E FY09E	
61%	Blue sky Rs167	65%	57%	13.6x	
44%	GS TP Rs149	57%	23%	17.3x	1.5x - 1.7x
	Bear case Rs112	46%	19%	19.4x	
	Current price Rs104				
	Last year performance	70%	20%	-	-

Source: Datastream, Goldman Sachs Research estimates.

**Exhibit 19: SWOT analysis for Gati Limited**

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>► Dominant player in the surface cargo segment in India, which accounts for more than 55% of the total volume of cargo moved. International presence, state-of-the-art mechanronic warehouses, warehouse management solutions and value-added services should aid growth in market share.</li> <li>► Entry into the coveted cold-chain logistics business through the acquisition of Kausar India, which has a fleet of 99 refrigerated vehicles</li> <li>► JV pact with Air India Cargo involving leasing up to five freighter aircraft in FY08. The company aims to gain 11% market share in the Indian domestic air cargo industry by December 2008 and 20% by June 2009.</li> <li>► Agreement with Indian Airlines to develop a joint product called IC - Zipp to leverage the growth in the retail courier market. This product will cover the high-value courier segment and the company expects it to contribute towards business growth both nationally and internationally.</li> <li>► Signed an MoU in January 2007 with China Railway Express International Logistics for rail and road cargo delivery on the India-China trade lane. The company expects this association to generate more than US\$20 mn in revenue in the first year.</li> </ul>	<ul style="list-style-type: none"> <li>► Dominance of Blue Dart in the domestic air cargo industry. We expect Gati to face strong competition from Blue Dart in the domestic air cargo business.</li> <li>► Freight expenses account for a majority of Gati's operating expenses. A further increase in Gati's freight expenses, with an increase in fuel costs, could potentially lead to further contraction in margins.</li> </ul>
<ul style="list-style-type: none"> <li>► Strong macroeconomic growth, robust growth in trade driving the growth of the Indian express industry. The industry was valued at Rs71 bn in 2005-06 and has grown in the range of 25%-30% over the past 3-4 years. We expect the industry to register a similar growth rate over the next few years.</li> <li>► Exemption of interstate sourcing from VAT will make having centralized large warehouses more viable for companies than having local sourcing and distribution. We expect most Indian companies to outsource the warehousing function, creating a potentially attractive market for 3PL providers.</li> <li>► Entry of a large number of global retailers would require efficient and cost-effective supply chain solutions and 3PL and 4PL logistics solutions within the country. With the retail sector in India spending approximately Rs30 bn on JIT, companies like Gati stand to benefit.</li> <li>► Improvement in the logistics infrastructure in the country - the dedicated rail freight corridor, modernization of ports, and improvement in road infrastructure are set to give a boost to intra-state and inter-state freight movement.</li> <li>► The company is re-engineering its network by eliminating the local storage function. It plans to have 1 CDC at Nagpur and 19 EDCs spread across the country. This is expected to result in substantial savings in operational expenses and lead to margin expansion.</li> </ul>	<ul style="list-style-type: none"> <li>► A rise in fuel charges could have an adverse impact on margins, which are already low for the company.</li> <li>► Significant investments involved in the setting up of warehouses and building of vessels - capital-intensive industry.</li> <li>► An economic slowdown could impact the logistics industry as a whole.</li> </ul>
Opportunities	Threats

Source: Planning Commission of India, NHAI, KPMG, Company data, Goldman Sachs Research estimates.

**Exhibit 20: Gati Limited – Summary financials**

<b>Profit model (Rs mn)</b>	<b>6/07</b>	<b>6/08E</b>	<b>6/09E</b>	<b>6/10E</b>	<b>Balance sheet (Rs mn)</b>	<b>6/07</b>	<b>6/08E</b>	<b>6/09E</b>	<b>6/10E</b>
<b>Total revenue</b>	<b>5,679.7</b>	<b>6,869.2</b>	<b>8,384.7</b>	<b>10,144.0</b>	Cash & equivalents	482.2	2,192.0	782.6	1,130.7
Cost of goods sold	(1,086.0)	(1,369.5)	(1,671.7)	(2,022.5)	Accounts receivable	758.9	917.8	1,120.4	1,355.4
SG&A	(4,272.0)	(5,063.6)	(6,055.1)	(7,274.8)	Inventory	22.1	27.9	34.0	41.1
R&D	--	--	--	--	Other current assets	327.6	327.6	327.6	327.6
Other operating profit/(expense)	0.0	0.0	0.0	0.0	<b>Total current assets</b>	<b>1,590.7</b>	<b>3,465.2</b>	<b>2,264.5</b>	<b>2,854.8</b>
<b>EBITDA</b>	<b>433.8</b>	<b>627.7</b>	<b>891.9</b>	<b>1,129.8</b>	Net PP&E	2,212.4	4,079.8	5,740.1	5,692.1
Depreciation & amortization	(112.1)	(191.7)	(234.0)	(283.1)	Net intangibles	60.4	38.7	12.1	(20.0)
<b>EBIT</b>	<b>321.7</b>	<b>436.0</b>	<b>658.0</b>	<b>846.7</b>	Total investments	213.3	213.3	213.3	213.3
Interest income	--	28.9	131.5	47.0	Other long-term assets	0.0	0.0	0.0	0.0
Interest expense	(58.7)	(133.1)	(133.1)	(133.1)	<b>Total assets</b>	<b>4,076.8</b>	<b>7,797.0</b>	<b>8,230.0</b>	<b>8,740.2</b>
Income/(loss) from uncons. subs.	0.0	0.0	0.0	0.0	Accounts payable	91.9	111.1	135.6	164.0
Others	41.7	25.0	25.0	25.0	Short-term debt	303.9	303.9	303.9	303.9
<b>Pretax profits</b>	<b>304.7</b>	<b>356.8</b>	<b>681.4</b>	<b>785.6</b>	Other current liabilities	275.9	275.9	275.9	275.9
Income tax	(90.4)	(88.1)	(202.2)	(233.2)	<b>Total current liabilities</b>	<b>671.7</b>	<b>690.9</b>	<b>715.4</b>	<b>743.9</b>
Minorities	0.0	0.0	0.0	0.0	Long-term debt	1,597.8	1,597.8	1,597.8	1,597.8
<b>Net income pre-preferred dividends</b>	<b>214.3</b>	<b>268.7</b>	<b>479.1</b>	<b>552.4</b>	Other long-term liabilities	60.6	60.6	60.6	60.6
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	1,658.5	1,658.5	1,658.5	1,658.5
<b>Net income (pre-exceptionals)</b>	<b>214.3</b>	<b>268.7</b>	<b>479.1</b>	<b>552.4</b>	<b>Total liabilities</b>	<b>2,330.2</b>	<b>2,349.4</b>	<b>2,373.9</b>	<b>2,402.4</b>
Post-tax exceptionals	0.0	0.0	0.0	0.0	Common stock & premium	144.8	144.8	144.8	144.8
<b>Net income</b>	<b>214.3</b>	<b>268.7</b>	<b>479.1</b>	<b>552.4</b>	Other common equity	1,601.8	5,302.8	5,711.3	6,193.0
EPS (basic, pre-except) (Rs)	3.01	3.56	6.35	7.32	<b>Total common equity</b>	<b>1,746.6</b>	<b>5,447.6</b>	<b>5,856.1</b>	<b>6,337.8</b>
EPS (basic, post-except) (Rs)	3.01	3.56	6.35	7.32	Minority interest	0.0	0.0	0.0	0.0
EPS (diluted, post-except) (Rs)	2.68	3.36	5.99	6.91	<b>Total liabilities &amp; equity</b>	<b>4,076.8</b>	<b>7,797.0</b>	<b>8,230.0</b>	<b>8,740.2</b>
DPS (Rs)	0.94	0.94	0.94	0.94	<b>BVPS (Rs)</b>	<b>24.13</b>	<b>72.15</b>	<b>77.56</b>	<b>83.94</b>
Dividend payout ratio (%)	31.1	26.3	14.7	12.8					
Free cash flow yield (%)	(12.1)	(21.7)	(17.1)	5.7					
<b>Growth &amp; margins (%)</b>	<b>6/07</b>	<b>6/08E</b>	<b>6/09E</b>	<b>6/10E</b>	<b>Ratios</b>	<b>6/07</b>	<b>6/08E</b>	<b>6/09E</b>	<b>6/10E</b>
Sales growth	23.5	20.9	22.1	21.0	ROE (%)	12.9	7.5	8.5	9.1
EBITDA growth	14.7	44.7	42.1	26.7	ROA (%)	6.4	4.5	6.0	6.5
EBIT growth	17.5	35.5	50.9	28.7	ROACE (%)	9.6	8.3	7.9	8.7
Net income growth	23.1	25.4	78.3	15.3	Inventory days	7.1	6.7	6.8	6.8
EPS growth	(4.1)	18.3	78.3	15.3	Receivables days	42.2	44.5	44.4	44.5
Gross margin	80.9	80.1	80.1	80.1	Payable days	23.8	27.0	26.9	27.0
EBITDA margin	7.6	9.1	10.6	11.1	Net debt/equity (%)	81.3	(5.3)	19.1	12.2
EBIT margin	5.7	6.3	7.8	8.3	Interest cover - EBIT (X)	5.5	4.2	409.9	9.8
<b>Cash flow statement (Rs mn)</b>	<b>6/07</b>	<b>6/08E</b>	<b>6/09E</b>	<b>6/10E</b>	<b>Valuation</b>	<b>6/07</b>	<b>6/08E</b>	<b>6/09E</b>	<b>6/10E</b>
Net income pre-preferred dividends	214.3	268.7	479.1	552.4	P/E (analyst) (X)	38.6	30.8	17.3	15.0
D&A add-back	112.1	191.7	234.0	283.1	P/B (X)	4.3	1.4	1.3	1.2
Minorities interests add-back	0.0	0.0	0.0	0.0	EV/EBITDA (X)	18.2	12.0	10.0	7.6
Net (inc)/dec working capital	(31.1)	(145.5)	(184.1)	(213.8)	Dividend yield (%)	0.9	0.9	0.9	0.9
Other operating cash flow	(75.0)	104.2	1.6	86.2					
<b>Cash flow from operations</b>	<b>220.3</b>	<b>419.1</b>	<b>530.5</b>	<b>707.9</b>					
Capital expenditures	(949.7)	(2,037.4)	(1,867.7)	(202.9)					
Acquisitions	(25.0)	0.0	0.0	0.0					
Divestitures	11.4	0.0	0.0	0.0					
Others	25.5	28.9	131.5	47.0					
<b>Cash flow from investments</b>	<b>(937.8)</b>	<b>(2,008.5)</b>	<b>(1,736.2)</b>	<b>(155.9)</b>					
Dividends paid (common & pref)	(56.6)	(67.8)	(70.7)	(70.7)					
Inc/dec in debt	1,182.4	0.0	0.0	0.0					
Common stock issuance (repurchase)	(46.3)	3,500.0	0.0	0.0					
Other financing cash flows	(13.5)	(133.1)	(133.1)	(133.1)					
<b>Cash flow from financing</b>	<b>1,066.0</b>	<b>3,299.1</b>	<b>(203.8)</b>	<b>(203.8)</b>					
<b>Total cash flow</b>	<b>348.5</b>	<b>1,709.8</b>	<b>(1,409.4)</b>	<b>348.2</b>					

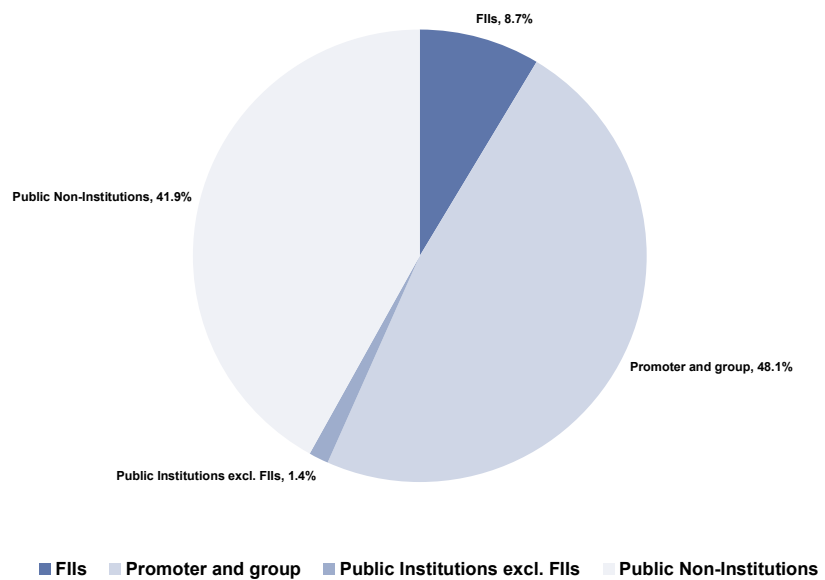
Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

### Company description

Gati is India’s largest express distribution company, operating a fleet of 953 vehicles and having the delivery capability to reach 594 of India’s 602 districts. It also has a strong presence internationally with delivery avenues in the APAC region. Apart from surface express, the company also operates in the logistics (esp. supply chain management), freighter and coast-to-coast businesses. The company is changing its business mix and shifting focus towards the freighter and logistics business. It has closed funding of US\$100 mn for expanding capacity over the next two years.

**Exhibit 21: Shareholder structure as of March 2008**



Source: BSE.

# Transport Corporation of India Ltd. (TCIL.BO; Neutral, TP: Rs119)

## Expanding toward a profitable business mix, but limited upside

### Investment thesis

- We initiate coverage on Transport Corporation of India (TCIL.BO) with a Neutral rating and a DCF-based 12-month target price of Rs119, implying 25% upside from current levels.
- TCIL is an integrated logistics company and the largest organized player in the road freight business, with a 15% share of the organized market – it moves close to 1.5% of India’s surface traffic annually.
- The company plans to invest Rs3,400 mn (~US\$85 mn) in capex (~30% of current sales) between FY2009E-FY2010E. A majority of this would be directed toward the quick-turnaround express and SCS businesses (1.5 mn sq ft of warehouse space added in FY2008).
- We prefer Gati (Buy) over TCIL in the space; even though both have similar mix dynamics and multiples, in our view Gati offers a better business mix and has higher absolute margins (we estimate that the low-margin legacy transport segment will still account for 48% of TCIL’s revenues in FY2010E (55% in FY2008).
- TCIL seeks to add a ship each year over FY2008E-FY2010E to its fleet of five vessels (combined capacity >16,000 DWT) in the high-margin seaways division.
- We forecast acceleration in TCIL’s sales growth to a CAGR of 22% for FY2008E-FY2010E (compared with 15% over FY06-FY08E) coupled with an expansion in margins (65 bp during FY2008E-FY2010E, driven by increasing contribution from higher-margin segments).

### Valuation

- We derive our 12-month TP using DCF methodology (WACC 11.1%, terminal growth 4%) with a cross-check against P/E, EV/EBITDA and PEG ratios. TCIL trades at a one-year forward EV/EBITDA of 10.2X and offers a 2-year PEG of 0.6X.
- Under our blue-sky scenario, the stock has the potential to deliver 86% EPS growth (vs. 39% base case) and return 47% upside over the next 12 months (see bottom exhibit on right).

### Catalysts

- Expanding pipeline of clients through the Mitsui JV in the supply chain segment (SCS) business – phase-out of CST should catalyze growth.
- Asset base of 220 properties valued at Rs930 mn (~US\$25 mn) by the company, which intends to sell these to unlock potential value.

### Risks

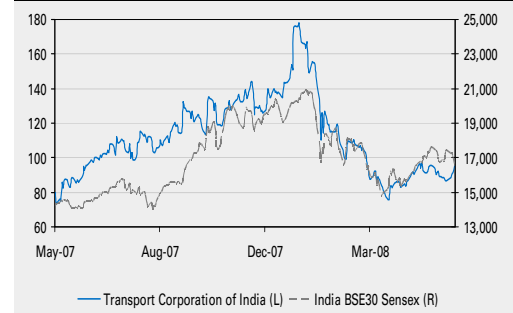
- Slowdown in Indian GDP growth,
- continued sharp rise in domestic oil prices and
- liquidity risk.

Key data	Current
Price (Rs)	95.00
12 month price target (Rs)	119.00
Market cap (Rs mn / US\$ mn)	6,888.4 / 161.3
Foreign ownership (%)	10.6

	3/07	3/08E	3/09E	3/10E
EPS (Rs)	4.53	2.59	3.94	4.93
EPS growth (%)	14.4	(42.9)	52.2	25.2
EPS (diluted) (Rs)	4.53	2.59	3.94	4.93
EPS (basic pre-ex) (Rs)	4.53	2.59	3.94	4.93
P/E (X)	21.0	36.7	24.1	19.3
P/B (X)	3.4	2.7	2.5	2.2
EV/EBITDA (X)	9.4	14.9	11.1	9.2
Dividend yield (%)	0.7	0.7	0.7	0.7
ROE (%)	17.5	8.5	10.7	12.2

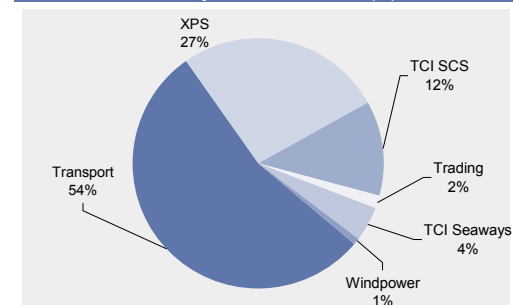
### Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(12.2)	(26.4)	31.9
Rel. to Bombay SE Sensitive Index	(8.5)	(16.7)	13.8

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 5/23/2008 close.

### Sales by division FY2008E (%)



Source: Goldman Sachs Research estimates.

Scenario Analysis	Key assumptions			2-year potential multiple
	Upside %	SCS segment 2008-10E CAGR	Share of SCS in FY2010E sales	
Blue sky	47%	71%	20%	17.3 x
GS TP	25%	38%	15%	24.1 x
Current price				
Bear case		30%	15%	33.6 x

Price levels: Blue sky Rs140, GS TP Rs119, Current price Rs95, Bear case Rs70.

Last year performance	31%	12%	-	-
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Source: Goldman Sachs Research estimates.

### Investment view: Aggressive expansion plans directed at achieving the right business mix; growth prospects mostly priced in

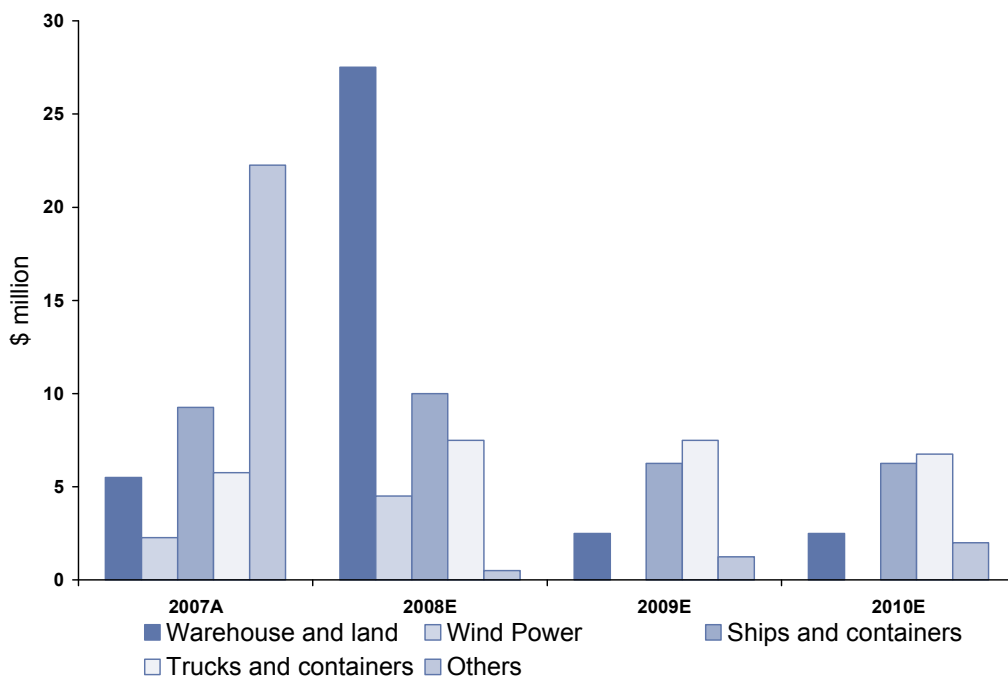
We initiate coverage on Transport Corporation (TCIL.BO) with a Neutral rating and a 12-month target price of Rs119. TCIL is a leader in the transport segment with a 15% market share in the organized sector. The company operates a fleet of over 7,000 trucks and moves close to 1.5% of India’s surface traffic annually. XPS, its express distribution brand, is the fastest-growing brand in the space and is the preferred brand for high-end and time-sensitive sectors. We expect the company’s sales to grow at a CAGR of 22% in FY2008-FY2010E (vs. FY2005-FY2008E CAGR of 18%). However, the company trades at a premium to our coverage group at a one-year forward P/E of 24.1X, which, we believe, indicates that most of the positive effects of the expansion initiative are priced in.

#### SCS business to be the primary driver of growth

The key factor that would drive 22% CAGR growth in FY2008-FY2010E, in our view, is the capex initiative that the company has undertaken to build sufficient capacity to meet the increase in demand. The company plans to spend Rs3,400 mn over FY2008E-FY2010E, with most of this spending directed toward expanding warehouses and containers. The company already added 1.5 mn sq ft of warehousing space in FY2008. While the share of the legacy transport business is set to decrease to 48% in FY2010E from 55% in FY2008E, we expect the SCS business to contribute to 15% of FY2010E sales.

#### Exhibit 22: Capex spend across various segments

The majority of the capex is directed towards expansion of warehouses and containers



Source: Company data, Goldman Sachs Research estimates.

TCIL has set up a JV (49:51) with Mitsui to provide integrated logistics solutions to Toyota Kirloskar Motors. Its execution on this JV appears to have led to a solid pipeline of clients in the SCS business across various verticals. The phase-out of the CST, expected to happen by FY2010, would open up additional opportunities for TCIL in the SCS business.

**Expansion in the seaways division**

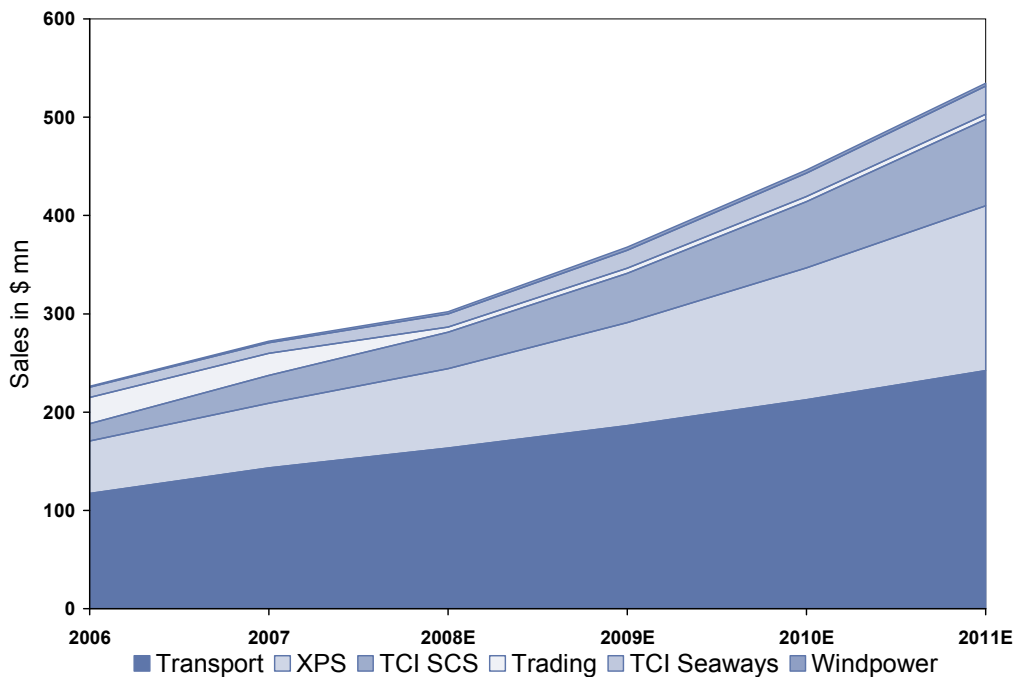
TCIL currently owns a fleet of five ships with capacity in excess of 16,000 DWT. The company plans to add a ship each year over FY2008-FY2010E to expand its capacity in this segment. In addition, the company has also entered into a JV with ScanTrans for a project ship of 4,500 DWT, which, in our opinion, will enable the company to meet growing demand in this segment.

**Shift in business mix driving profitability**

We expect a 65 bp improvement in EBIT margin for TCIL over FY2008E-FY2010E, driven by a change in business mix towards the higher-margin SCS and seaways business (Exhibit 23). We expect the share of the legacy transport business to fall to 48% in FY2010E from 55% in FY2008E.

**Exhibit 23: Business mix shifting to higher-margin segments**

Transport business to contribute to 48% of total sales in FY2010E, down from 55% in FY2008E



Source: Company data, Goldman Sachs Research estimates.

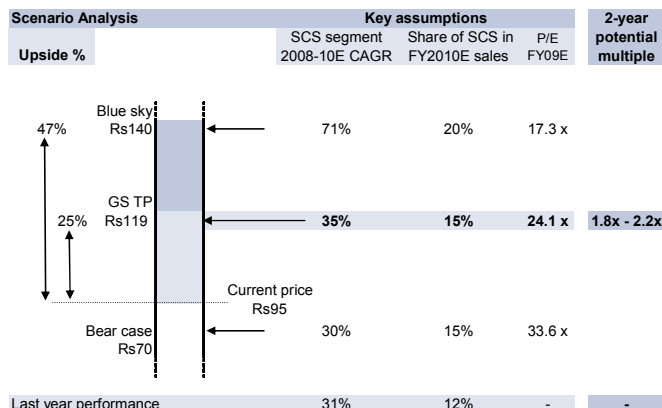
**Valuation**

TCIL currently trades at 24.1X on one-year forward P/E and EV/EBITDA of 10.2X. This is at a premium to the average P/E of 17.2X for our coverage universe – indicating, in our view, that most of the expected positive impact of the expansion initiative is already priced in.

In the near term, our DCF-based target price of Rs119 assumes that the SCS business will grow at 35% in FY2008-FY2010E and contribute to 15% of total sales in FY2010. Key long-term assumptions are WACC (11.1%), terminal growth rate (4%) and margins stabilizing at 5.5%. **We also estimate that on our base case numbers the stock has the potential to become 1.8X-2.2X (80%-120% return) on a two-year horizon.**

We observe that under our blue sky scenario, the SCS business could potentially grow at a CAGR of 71% over FY2008–FY2010E to contribute to 20% of total sales by FY2010E. This would imply an EPS CAGR of 86% (compared with our base-case growth estimate of 38%) and potential upside of 47% from current levels (see Exhibit 24).

**Exhibit 24: 47% return potential in a blue-sky scenario**  
Potential to become 1.8X-2.2X (80%-120% return) on a two-year horizon



Source: Datastream, Goldman Sachs Research estimates.

**Exhibit 25: The stock has sold off significantly**  
TCIL is still trading at a 1-yr forward P/E of 24.1X – at a premium to the sector P/E of 17.2X, based on our estimates



Source: Company data, Goldman Sachs Research estimates.

**Exhibit 26: SWOT analysis for TCIL**

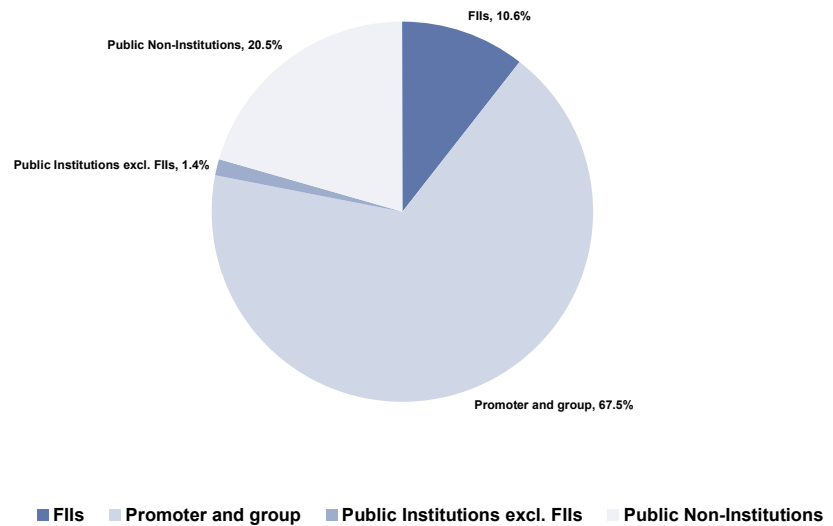
Strengths	Weaknesses
<ul style="list-style-type: none"> <li>▶ Leader in the transport segment with a 15% mkt share in the organized sector. Offers a mix of services - full truckload, less than truckload, sundry cargoes; also value-added specialities in handling overdimensional, containerized &amp; project cargoes, which typically provide higher margins.</li> <li>▶ JV (49:51) with Mitsui set up to provide integrated logistics solutions for Toyota Kirloskar Motors. Leveraging this experience to win contracts across various verticals. Rs150 mn investment planned through 2010 that the company estimates could lead to growth of 55% CAGR in SCS revenues over FY2007-FY2009E.</li> <li>▶ Currently owns 220 properties across the country with a book value of Rs930 mn as of end-FY2007. Some of these are located in the central parts of cities and the company intends to develop these properties for commercial purposes and have warehouses at city outskirts.</li> <li>▶ Strategic tie-ups, including the one with Concor to offer a rail-to-road, door-to-door cargo transportation mix and a 50:50 JV with Scan Trans of Denmark to run a 4,500 DWT capacity ship; these two events should provide the company higher exposure in both the national and international market.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Concentration of revenues in the transport division, which has very low EBITDA margins, given that the company outsources most of its trucking requirements to limit its capital commitments. The company owns only 15% of the approximately 7,000 trucks it moves daily.</li> <li>▶ Warehouse projects have been delayed by 6-9 months. This could have an adverse impact on growth plans.</li> </ul>
<ul style="list-style-type: none"> <li>▶ Strong macroeconomic growth, robust growth in trade driving the growth of the Indian express industry. The industry was valued at Rs71 bn in 2005-06 and has grown in the range of 25%-30% over the past 3-4 years. We expect the industry to register similar growth rate over the next few years.</li> <li>▶ Exemption of interstate sourcing from VAT will make having centralized large warehouses more viable for companies than having local sourcing and distribution. We expect most Indian companies to outsource the warehousing function, creating a potentially attractive market for 3PL providers.</li> <li>▶ Entry of a large number of global retailers would necessitate efficient and cost-effective supply chain solutions and 3PL and 4PL logistics solutions within the country.</li> <li>▶ Improvement in the logistics infrastructure in the country - the dedicated rail freight corridor, modernization of ports, improvement in road infrastructure are set to give a boost to intra-state and interstate freight movement.</li> </ul>	<ul style="list-style-type: none"> <li>▶ A rise in fuel charges could have an adverse impact on margins, which are already low for the company.</li> <li>▶ Substantial investments involved in the setting up of warehouses and building of vessels. Thus the industry is inherently capital-intensive.</li> <li>▶ An economic slowdown could impact the logistics industry as a whole.</li> </ul>
Opportunities	Threats

Source: Planning Commission of India, NHAI, KPMG, Company data, Goldman Sachs Research estimates.

### Company description

TCIL is an integrated logistics company operating via six business segments: transport, express (quick delivery service), supply chain solutions (SCS), shipping, fuel energy and wind energy. The company operates a fleet of over 7,000 trucks and draws the majority of its revenues from the transport segment (50% in FY2007). The company is looking at shifting its business mix towards the express and SCS businesses. It has approximately 6.5 mn sq ft of warehousing space. The company is also expanding in the shipping space, with plans to add one vessel each year over FY2008E-10E.

**Exhibit 27: Shareholder structure as of March 2008**



Source: BSE.

**Exhibit 28: Transport Corporation of India Ltd. — Summary financials**

<b>Profit model (Rs mn)</b>	<b>3/07</b>	<b>3/08E</b>	<b>3/09E</b>	<b>3/10E</b>	<b>Balance sheet (Rs mn)</b>	<b>3/07</b>	<b>3/08E</b>	<b>3/09E</b>	<b>3/10E</b>
<b>Total revenue</b>	<b>10,853.3</b>	<b>11,990.5</b>	<b>14,594.6</b>	<b>17,713.7</b>	Cash & equivalents	153.4	274.0	102.5	114.0
Cost of goods sold	(1,077.9)	(1,244.8)	(1,515.2)	(1,839.0)	Accounts receivable	1,542.8	1,704.4	2,074.6	2,517.9
SG&A	(9,274.2)	(10,293.9)	(12,456.6)	(15,092.2)	Inventory	6.8	7.9	9.6	11.7
R&D	--	--	--	--	Other current assets	345.0	345.0	345.0	345.0
Other operating profit/(expense)	0.0	0.0	0.0	0.0	<b>Total current assets</b>	<b>2,048.0</b>	<b>2,331.3</b>	<b>2,531.7</b>	<b>2,988.6</b>
<b>EBITDA</b>	<b>700.3</b>	<b>725.7</b>	<b>956.3</b>	<b>1,187.2</b>	Net PP&E	2,659.9	4,065.9	4,751.4	5,062.5
Depreciation & amortization	(199.1)	(273.9)	(333.4)	(404.6)	Net intangibles	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>501.2</b>	<b>451.8</b>	<b>622.9</b>	<b>782.5</b>	Total investments	55.9	55.9	55.9	55.9
Interest income	12.2	9.2	16.4	6.2	Other long-term assets	0.0	0.0	0.0	0.0
Interest expense	(115.6)	(153.0)	(223.0)	(265.0)	<b>Total assets</b>	<b>4,763.9</b>	<b>6,453.1</b>	<b>7,339.1</b>	<b>8,107.0</b>
Income/(loss) from uncons. subs.	0.0	0.0	0.0	0.0	Accounts payable	210.9	233.0	283.7	344.3
Others	42.4	10.0	10.0	10.0	Short-term debt	1,190.7	1,190.7	1,190.7	1,190.7
<b>Pretax profits</b>	<b>440.2</b>	<b>318.0</b>	<b>426.3</b>	<b>533.7</b>	Other current liabilities	99.0	99.0	99.0	99.0
Income tax	(134.5)	(130.4)	(140.7)	(176.1)	<b>Total current liabilities</b>	<b>1,500.6</b>	<b>1,522.7</b>	<b>1,573.3</b>	<b>1,634.0</b>
Minorities	0.0	0.0	0.0	0.0	Long-term debt	995.1	1,995.1	2,595.1	2,995.1
<b>Net income pre-preferred dividends</b>	<b>305.7</b>	<b>187.6</b>	<b>285.6</b>	<b>357.6</b>	Other long-term liabilities	389.0	389.0	389.0	389.0
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	1,384.1	2,384.1	2,984.1	3,384.1
<b>Net income (pre-exceptionals)</b>	<b>305.7</b>	<b>187.6</b>	<b>285.6</b>	<b>357.6</b>	<b>Total liabilities</b>	<b>2,884.7</b>	<b>3,906.8</b>	<b>4,557.4</b>	<b>5,018.1</b>
Post-tax exceptionals	0.0	0.0	0.0	0.0	Common stock & premium	135.0	135.0	135.0	135.0
<b>Net income</b>	<b>305.7</b>	<b>187.6</b>	<b>285.6</b>	<b>357.6</b>	Other common equity	1,744.2	2,411.2	2,646.6	2,953.9
EPS (basic, pre-except) (Rs)	4.53	2.59	3.94	4.93	<b>Total common equity</b>	<b>1,879.2</b>	<b>2,546.2</b>	<b>2,781.6</b>	<b>3,088.9</b>
EPS (basic, post-except) (Rs)	4.53	2.59	3.94	4.93	Minority interest	0.0	0.0	0.0	0.0
EPS (diluted, post-except) (Rs)	4.53	2.59	3.94	4.93	<b>Total liabilities &amp; equity</b>	<b>4,763.9</b>	<b>6,453.1</b>	<b>7,339.1</b>	<b>8,107.0</b>
DPS (Rs)	0.69	0.69	0.69	0.69	<b>BVPS (Rs)</b>	<b>27.84</b>	<b>35.12</b>	<b>38.37</b>	<b>42.61</b>
Dividend payout ratio (%)	15.3	26.8	17.6	14.1					
Free cash flow yield (%)	(19.6)	(16.5)	(9.5)	(3.7)					
<b>Growth &amp; margins (%)</b>	<b>3/07</b>	<b>3/08E</b>	<b>3/09E</b>	<b>3/10E</b>	<b>Ratios</b>	<b>3/07</b>	<b>3/08E</b>	<b>3/09E</b>	<b>3/10E</b>
Sales growth	20.0	10.5	21.7	21.4	ROE (%)	17.5	8.5	10.7	12.2
EBITDA growth	30.8	3.6	31.8	24.1	ROA (%)	7.5	3.3	4.1	4.6
EBIT growth	43.1	(9.9)	37.9	25.6	ROACE (%)	11.4	5.8	7.1	7.8
Net income growth	13.9	(38.6)	52.2	25.2	Inventory days	3.9	2.2	2.1	2.1
EPS growth	14.4	(42.9)	52.2	25.2	Receivables days	44.8	49.4	47.3	47.3
Gross margin	90.1	89.6	89.6	89.6	Payable days	77.4	65.1	62.2	62.3
EBITDA margin	6.5	6.1	6.6	6.7	Net debt/equity (%)	108.2	114.4	132.4	131.8
EBIT margin	4.6	3.8	4.3	4.4	Interest cover - EBIT (X)	4.8	3.1	3.0	3.0
<b>Cash flow statement (Rs mn)</b>	<b>3/07</b>	<b>3/08E</b>	<b>3/09E</b>	<b>3/10E</b>	<b>Valuation</b>	<b>3/07</b>	<b>3/08E</b>	<b>3/09E</b>	<b>3/10E</b>
Net income pre-preferred dividends	305.7	187.6	285.6	357.6	P/E (analyst) (X)	21.0	36.7	24.1	19.3
D&A add-back	199.1	273.9	333.4	404.6	P/B (X)	3.4	2.7	2.5	2.2
Minorities interests add-back	0.0	0.0	0.0	0.0	EV/EBITDA (X)	9.4	14.9	11.1	9.2
Net (inc)/dec working capital	(457.6)	(140.6)	(321.3)	(384.8)	Dividend yield (%)	0.7	0.7	0.7	0.7
Other operating cash flow	123.0	143.8	206.6	258.9					
<b>Cash flow from operations</b>	<b>170.2</b>	<b>464.7</b>	<b>504.3</b>	<b>636.3</b>					
Capital expenditures	(991.3)	(1,679.9)	(1,018.9)	(715.7)					
Acquisitions	(17.1)	0.0	0.0	0.0					
Divestitures	23.6	0.0	0.0	0.0					
Others	12.2	9.2	16.4	6.2					
<b>Cash flow from investments</b>	<b>(972.6)</b>	<b>(1,670.7)</b>	<b>(1,002.5)</b>	<b>(709.6)</b>					
Dividends paid (common & pref)	(42.7)	(46.8)	(50.2)	(50.2)					
Inc/(dec) in debt	1,055.1	1,000.0	600.0	400.0					
Common stock issuance (repurchase)	0.0	526.3	0.0	0.0					
Other financing cash flows	(115.6)	(153.0)	(223.0)	(265.0)					
<b>Cash flow from financing</b>	<b>896.8</b>	<b>1,326.5</b>	<b>326.7</b>	<b>84.7</b>					
<b>Total cash flow</b>	<b>94.5</b>	<b>120.5</b>	<b>(171.4)</b>	<b>11.5</b>					

Note: Last actual year may include reported and estimated data.  
Source: Company data, Goldman Sachs Research estimates.

# Allcargo Global Logistics (ALGI.BO; Neutral, TP: Rs904)

## Margin pressures compound low growth problem; valuations reflect scenario

### Investment thesis

- We initiate coverage on Allcargo with a Neutral rating and a DCF-based 12-month target price of Rs904, implying 27% potential upside from current levels.
- Allcargo is a leading player in the MTO segment, with a strong international network. It provides consolidation services for less-than-container (LCL) load cargo and is also in the project cargo handling business, involving packaging and transportation of cargo from factory to project site.
- Heavy operating expenses in the MTO segment and high employee costs (including severance) associated with recent acquisitions have led to significant margin erosion over the past several quarters (EBIT margins moved down from 19% in 2005 to 7.7% in 2007).
- Despite our expectation of a slight improvement in margins in 2008E (contribution from the higher-margin cranes business), we believe the company's growth will be restricted (sales CAGR of 14% in 2007-2009E), given its higher exposure to lower-growth areas outside India (41% of 2006 revenues from Europe). Thus, we initiate with a Neutral rating.
- With capacity expansions through new inland depots, we expect the company to increase its market share in CFS/ICD operations and forecast CFS/ICD segment to grow at a 32% CAGR over the same period.

### Valuation

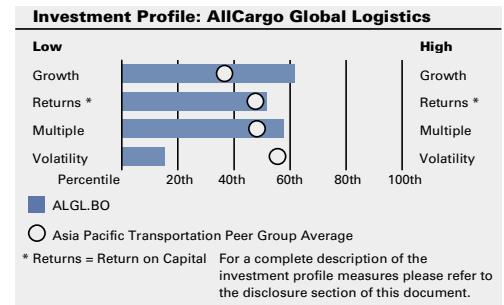
- We derive our 12-month target price of Rs904 using DCF methodology (WACC 11.1%, terminal growth 4%) with a cross-check against three shorter-duration ratios (P/E, EV/EBITDA and PEG). Our TP implies upside of 27% from current levels.
- At a one-year forward P/E multiple of 14.0X, the company trades at a 19% discount to our coverage universe (which is trading at 17.2X). However, we believe current valuations fairly price in the company's business quality; thus, we initiate with a Neutral rating.

### Catalysts

- Faster ramp-up of CFS operations at the Chennai and Mundra ports.
- Lower impact of the expected slowdown in Europe in the MTO business.

### Key Risks

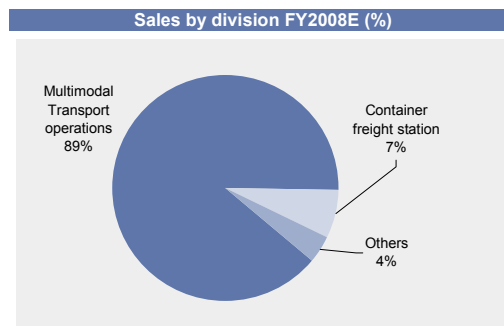
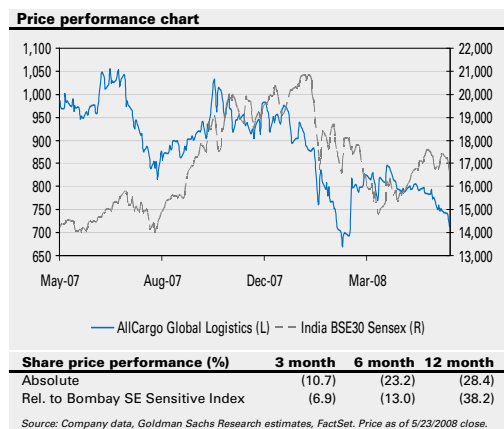
- Global slowdown, 2) higher operating expenses leading to margin contraction, 3) competition in the MTO business, given the low barriers-to-entry and 4) liquidity risk.



Key data	Current
Price (Rs)	712.85
12 month price target (Rs)	904.00
Market cap (Rs mn / US\$ mn)	14,440.9 / 338.2
Foreign ownership (%)	7.7

	12/07	12/08E	12/09E	12/10E
EPS (Rs)	35.35	50.91	60.39	69.71
EPS growth (%)	15.6	44.0	18.6	15.4
EPS (diluted) (Rs)	35.35	50.91	60.39	69.71
EPS (basic pre-ex) (Rs)	36.18	50.91	60.39	69.71
P/E (X)	20.2	14.0	11.8	10.2
P/B (X)	3.2	2.2	1.6	1.4
EV/EBITDA (X)	17.5	9.5	7.9	6.5
Dividend yield (%)	0.8	0.9	1.0	1.1
ROE (%)	16.8	18.4	15.6	14.7



Source: Goldman Sachs Research estimates.

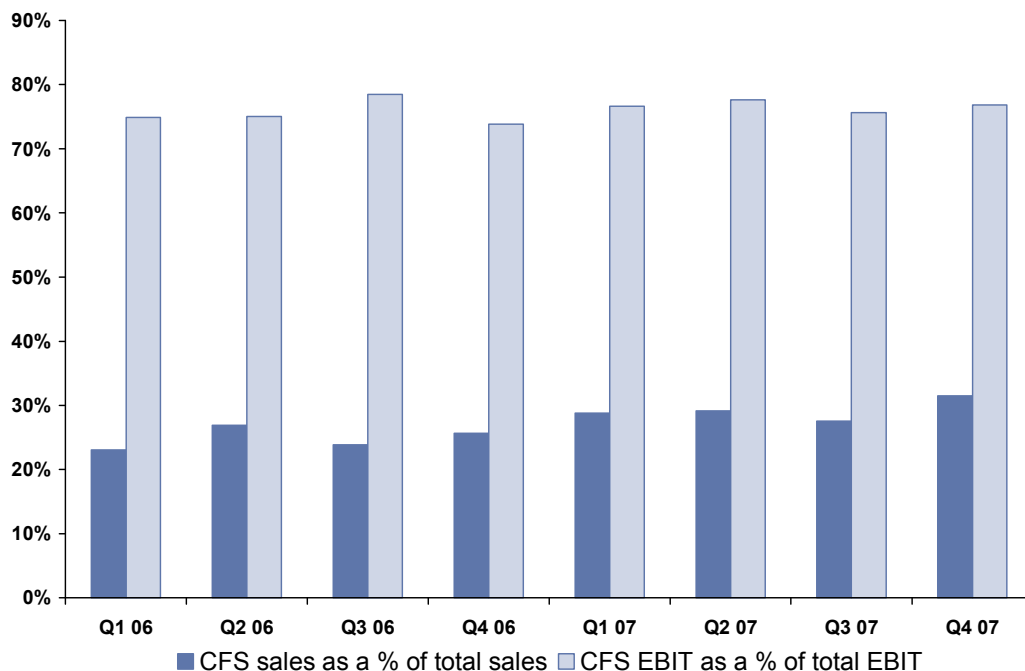
**Investment view: Pressure on margins in a restricted growth scenario; current valuations reflect business quality**

We initiate coverage on Allcargo Logistics Ltd (ALGL.BO) with a Neutral rating and a 12-month target price of Rs904. ALGL is primarily a multimodal transport operator and is the leading less-than-container-load (LCL) consolidator in India. Being one of the few players with the requisite permissions for inter-CFS movement in the vicinity of JNPT, it has an 8% share of the CFS business at the port. We expect ALGL to deliver sales growth of 14% CAGR over 2007-2009E, driven by growth in its CFS business (32% CAGR over 2007-2009E). Our DCF-based TP implies upside of 27% from current levels and is trading at 14.0X 2008E EPS.

**MTO business is the biggest contributor to sales**

The MTO business accounted for 85%-90% of Allcargo’s total sales in 2007. The low-margin nature of this business (about 6% EBIT level) has kept overall margins low for the company despite its presence in the CFS business, which has significantly higher margins (about 50%). The MTO business inherently has a low barrier to entry and Allcargo faces the risk of an increase in competition in this core business segment. We expect Allcargo’s MTO business to grow at a CAGR of 12% over 2007-2009E (vs. our total sales CAGR of 14% forecast over the same period) and contribute to 86% of 2009E sales, down from 91% in 2006.

**Exhibit 29: CFS segment accounts for <30% of sales but contributes ~70% of EBIT**  
CFS contribution to sales and operating profits



Source: Company data.

**Upcoming CFS and ICD facilities should support growth**

The company has a CFS at JNPT with a capacity of 120,000 TEUs pa and is one of the few players to have the requisite permissions for inter-CFS movement of cargo in the vicinity of JNPT. The recently operational CFSs at the ports of Chennai and Mundra have added 104,000 TEUs pa to Allcargo’s capacity. The company has also entered into a JV with Concor to establish a CFS at its Dadri ICD, located at Greater Noida and covering an area of

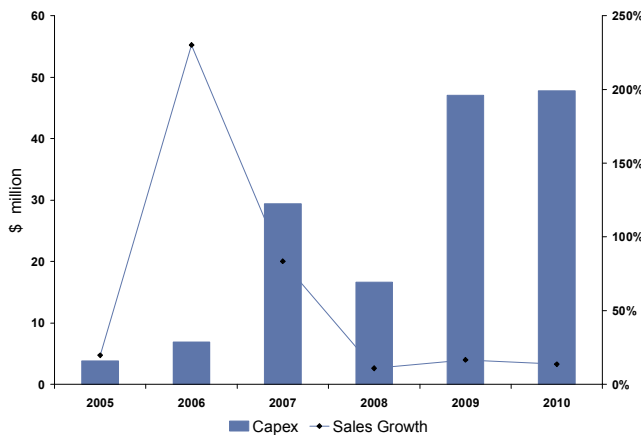
40,000 sq mt with a capacity to handle 84,000 TEUs pa. The CFS would cater mostly to container traffic in North India. Allcargo is also setting up eight ICDs across the country at an estimated investment of Rs3.2 bn (US\$80 mn). On the back of this aggressive expansion initiative, we expect the CFS division to grow at a CAGR of 32% over 2007-2009E and contribute to 8% of incremental sales by 2009E.

**Acquisitions have led to operational underperformance**

In 2006, Allcargo increased its stake to 100% in Belgium-based ECU Hold NV, a worldwide leader in cargo consolidation operations, with which it has shared business relations for more than a decade. It also entered into a JV with US-based Transworld Group and acquired Hindustan Cargo in January 2007. Rising employee expenses (along with severance packages) owing to the acquisitions, especially the ECU Hold acquisition, and substantial operating expenses in MTO have led to significant margin contraction over the past several quarters.

We expect the cost-control initiatives undertaken by the company to yield results and forecast a margin expansion over 2007-2009E; our forecasts imply a margin expansion of 150 bp at the EBIT level and we expect EBIT margins to stabilize at about 7.7% by 2009-end.

**Exhibit 30: Capex expected to peak in 2009E and 2010E**



Source: Company data, Goldman Sachs research estimates.

**Exhibit 31: Allcargo is trading at a 1-yr forward P/E of 14X – a 19% discount to our sector average of 17.2X**



Source: Bloomberg, Goldman Sachs Research estimates.

**Valuation**

Allcargo currently trades at a one-year forward P/E of 14X and EV/EBITDA of 9.5X, based on our estimates. This is at a 19% discount to our sector average and close to the 2-year trough valuation for the company of 13.5X. However, we believe pressure on margins will limit any upside in the near term and that current valuations fairly reflect the company’s business quality and current positioning. We initiate coverage with a Neutral rating and would look for an improvement in business mix and operational performance before becoming more positive on the stock.

**Exhibit 32: SWOT Analysis for Allcargo Global**

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>▶ Major player in the MTO and CFS segments - two ancillary services within the sector that are expected to benefit the most from the trend of containerization growth.</li> <li>▶ Margins earned on handling of import containers higher than those earned from export containers, due to ground rent earned from storage of import containers pending clearance. In Allcargo's current business mix, 95% of volumes handled involves import containers.</li> <li>▶ Strong presence at JNPT - India's largest container port via Transindia Logistics Park, which is 18 kms from JNPT. One of the few players to have the requisite permissions for inter-CFS movement of cargo in the JNPT vicinity.</li> <li>▶ Pan-Indian and international presence - covers over 5,000 destinations worldwide and has 16 branches and 7 franchisees across India. Acquired ECU Hold NV to cater to European markets; JV with Transworld Group to cater to the US markets.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Substantial operating expenses in the MTO segment - which is the company's biggest - are leading to weak margins.</li> <li>▶ Spate of acquisitions - both international and domestic, since 2006. Increase in employee costs in 2006, due to the acquisition of ECU Hold N.V leading to operational underperformance.</li> </ul>
<ul style="list-style-type: none"> <li>▶ Increase in the penetration of containerization - containerization as part of total general cargo in India is currently at 60% vs 80% globally. Keeping in line with the global trend, the Planning Commission of India expects the penetration to improve to 75%, driven by cost advantages in favour of containerization.</li> <li>▶ Substantial growth expected in international trade, according to estimates from the Ministry of Trade and Commerce - India's exports as of FY2008 were US\$155 bn. The government has targeted US\$200 bn exports for FY2009. Also, a balance of trade with 40% more imports than exports, further encourages containerization.</li> <li>▶ Improvement in the logistics infrastructure in the country - the dedicated rail freight corridor, modernization of ports, and improvement in road infrastructure are set to give a boost to intra-state and inter-state freight movement.</li> <li>▶ Initiative by Indian Railways to allow private operators to run container trains.</li> <li>▶ Rapid growth of organized retail and agro processing industries and strong FDI inflows into various industries should lead to enhanced market opportunities for logistics services.</li> </ul>	<ul style="list-style-type: none"> <li>▶ High land acquisition costs for developing ICDs. Capital-intensive industry.</li> <li>▶ Low entry barriers to the MTO business with no restriction on the entry of private, public or foreign players into the business. Shipping lines might consider setting up CFS/ICDs of their own, leading to higher competition in an already competitive business.</li> <li>▶ Business depends on international trade to a great extent. Thus companies in the sector are exposed to geopolitical risk.</li> </ul>
Opportunities	Threats

Source: Indian Railways, Company data, Goldman Sachs Research estimates.

**Exhibit 33: Allcargo Global Logistics Limited – Summary financials**

<b>Profit model (Rs mn)</b>	<b>12/07</b>	<b>12/08E</b>	<b>12/09E</b>	<b>12/10E</b>	<b>Balance sheet (Rs mn)</b>	<b>12/07</b>	<b>12/08E</b>	<b>12/09E</b>	<b>12/10E</b>
<b>Total revenue</b>	<b>16,430.5</b>	<b>18,222.5</b>	<b>21,243.5</b>	<b>24,134.1</b>	Cash & equivalents	73.2	390.2	802.0	1,904.1
Cost of goods sold	(11,384.8)	(12,808.9)	(14,932.4)	(16,964.3)	Accounts receivable	3,414.5	3,786.9	4,414.7	5,015.4
SG&A	(4,027.1)	(4,010.7)	(4,675.6)	(5,311.8)	Inventory	0.0	0.0	0.0	0.0
R&D	--	--	--	--	Other current assets	808.5	808.5	808.5	808.5
Other operating profit/(expense)	0.0	0.0	0.0	0.0	<b>Total current assets</b>	<b>4,296.2</b>	<b>4,985.6</b>	<b>6,025.3</b>	<b>7,728.1</b>
<b>EBITDA</b>	<b>1,207.4</b>	<b>1,612.5</b>	<b>1,879.8</b>	<b>2,135.6</b>	Net PP&E	2,631.7	4,348.7	6,068.5	6,090.9
Depreciation & amortization	(189.0)	(209.6)	(244.4)	(277.6)	Net intangibles	1,491.3	1,447.0	1,395.2	1,336.5
<b>EBIT</b>	<b>1,018.7</b>	<b>1,402.9</b>	<b>1,635.4</b>	<b>1,857.9</b>	Total investments	596.8	596.8	596.8	596.8
Interest income	--	4.4	23.4	48.1	Other long-term assets	0.0	0.0	0.0	0.0
Interest expense	(56.4)	(76.6)	(76.6)	(76.6)	<b>Total assets</b>	<b>9,016.0</b>	<b>11,378.0</b>	<b>14,085.7</b>	<b>15,752.3</b>
Income/(loss) from uncons. subs.	0.0	0.0	0.0	0.0	Accounts payable	2,255.2	2,501.2	2,915.9	3,312.6
Others	80.4	20.0	20.0	20.0	Short-term debt	0.0	0.0	0.0	0.0
<b>Pretax profits</b>	<b>1,042.7</b>	<b>1,350.7</b>	<b>1,602.3</b>	<b>1,849.5</b>	Other current liabilities	716.1	716.1	716.1	716.1
Income tax	(246.6)	(319.5)	(379.0)	(437.4)	<b>Total current liabilities</b>	<b>2,971.4</b>	<b>3,217.3</b>	<b>3,632.0</b>	<b>4,028.7</b>
Minorities	(83.8)	0.0	0.0	0.0	Long-term debt	1,275.8	1,275.8	1,275.8	1,275.8
<b>Net income pre-preferred dividends</b>	<b>712.3</b>	<b>1,031.2</b>	<b>1,223.3</b>	<b>1,412.1</b>	Other long-term liabilities	72.8	72.8	72.8	72.8
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	1,348.6	1,348.6	1,348.6	1,348.6
<b>Net income (pre-exceptionals)</b>	<b>712.3</b>	<b>1,031.2</b>	<b>1,223.3</b>	<b>1,412.1</b>	<b>Total liabilities</b>	<b>4,320.0</b>	<b>4,566.0</b>	<b>4,980.6</b>	<b>5,377.4</b>
Post-tax exceptionals	3.8	0.0	0.0	0.0	Common stock & premium	202.9	202.9	202.9	202.9
<b>Net income</b>	<b>716.1</b>	<b>1,031.2</b>	<b>1,223.3</b>	<b>1,412.1</b>	Other common equity	4,357.0	6,473.1	8,766.2	10,035.9
EPS (basic, pre-exception) (Rs)	36.18	50.91	60.39	69.71	<b>Total common equity</b>	<b>4,559.9</b>	<b>6,676.0</b>	<b>8,969.0</b>	<b>10,238.8</b>
EPS (basic, post-exception) (Rs)	36.37	50.91	60.39	69.71	Minority interest	136.3	136.3	136.3	136.3
EPS (diluted, post-exception) (Rs)	35.35	50.91	60.39	69.71	<b>Total liabilities &amp; equity</b>	<b>9,016.2</b>	<b>11,378.3</b>	<b>14,086.0</b>	<b>15,752.5</b>
DPS (Rs)	5.81	6.39	7.03	7.73	<b>BVPS (Rs)</b>	<b>225.09</b>	<b>329.55</b>	<b>442.74</b>	<b>505.42</b>
Dividend payout ratio (%)	16.0	12.5	11.6	11.1					
Free cash flow yield (%)	(3.8)	(5.2)	(4.5)	8.7					
<b>Growth &amp; margins (%)</b>	<b>12/07</b>	<b>12/08E</b>	<b>12/09E</b>	<b>12/10E</b>	<b>Ratios</b>	<b>12/07</b>	<b>12/08E</b>	<b>12/09E</b>	<b>12/10E</b>
Sales growth	83.5	10.9	16.6	13.6	ROE (%)	16.8	18.4	15.6	14.7
EBITDA growth	51.3	33.5	16.6	13.6	ROA (%)	9.1	10.1	9.6	9.5
EBIT growth	41.6	37.7	16.6	13.6	ROACE (%)	16.4	16.0	14.6	14.8
Net income growth	18.7	44.0	18.6	15.4	Inventory days	NM	NM	NM	NM
EPS growth	18.7	40.0	18.6	15.4	Receivables days	58.6	72.1	70.5	71.3
Gross margin	30.7	29.7	29.7	29.7	Payable days	55.9	67.8	66.2	67.0
EBITDA margin	7.3	8.8	8.8	8.8	Net debt/equity (%)	25.6	13.0	5.2	(6.1)
EBIT margin	6.2	7.7	7.7	7.7	Interest cover - EBIT (X)	18.0	19.4	30.8	65.4
<b>Cash flow statement (Rs mn)</b>	<b>12/07</b>	<b>12/08E</b>	<b>12/09E</b>	<b>12/10E</b>	<b>Valuation</b>	<b>12/07</b>	<b>12/08E</b>	<b>12/09E</b>	<b>12/10E</b>
Net income pre-preferred dividends	712.3	1,031.2	1,223.3	1,412.1	P/E (analyst) (X)	20.2	14.0	11.8	10.2
D&A add-back	188.8	209.6	244.4	277.6	P/B (X)	3.2	2.2	1.6	1.4
Minorities interests add-back	0.0	0.0	0.0	0.0	EV/EBITDA (X)	17.5	9.5	7.9	6.5
Net (inc)/dec working capital	(527.5)	(126.4)	(213.1)	(203.9)	Dividend yield (%)	0.8	0.9	1.0	1.1
Other operating cash flow	144.0	72.2	53.1	28.4					
<b>Cash flow from operations</b>	<b>517.5</b>	<b>1,186.6</b>	<b>1,307.7</b>	<b>1,514.2</b>					
Capital expenditures	(664.3)	(1,882.2)	(1,912.4)	(241.3)					
Acquisitions	(570.0)	0.0	0.0	0.0					
Divestitures	0.0	0.0	0.0	0.0					
Others	0.0	4.4	23.4	48.1					
<b>Cash flow from investments</b>	<b>(1,234.3)</b>	<b>(1,877.8)</b>	<b>(1,889.0)</b>	<b>(193.2)</b>					
Dividends paid (common & pref)	(103.9)	(114.3)	(129.4)	(142.3)					
Inc/(dec) in debt	500.0	0.0	0.0	0.0					
Common stock issuance (repurchase)	0.0	1,199.2	1,199.2	0.0					
Other financing cash flows	(56.4)	(76.6)	(76.6)	(76.6)					
<b>Cash flow from financing</b>	<b>339.6</b>	<b>1,008.3</b>	<b>993.2</b>	<b>(218.9)</b>					
<b>Total cash flow</b>	<b>(377.1)</b>	<b>317.0</b>	<b>411.9</b>	<b>1,102.1</b>					

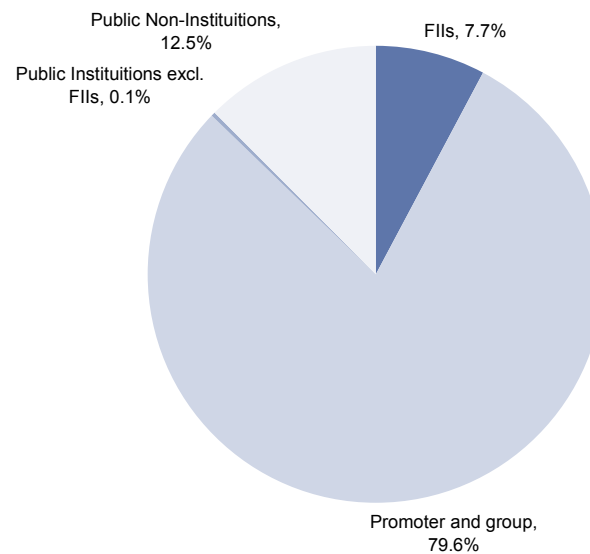
Note: Last actual year may include reported and estimated data.  
Source: Company data, Goldman Sachs Research estimates.

## Company description

Allcargo Global Logistics is primarily a multi-modal transport operator, mostly moving less-than-container (LCL) cargo. It also owns and operates CFSs and moves project cargo. The company offers end-to-end freight services for EXIM and domestic cargo and also provides port-related support services through its CFS. The company has a widespread network covering over 5,000 destinations nationally and internationally. It has been expanding via inorganic means and recently acquired Belgium-based ECU Hold N.V. and India-based Hindustan Cargo and Transindia Freight Services Pvt Ltd.

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### Exhibit 34: Shareholder structure as of March 2008



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Source: BSE data.

# Container Corp. of India Ltd. (CCRI.BO; Neutral, TP: Rs928)

## Arrival of new players compounds problem of low growth and service quality issues, limiting margins

### Investment thesis

- We initiate coverage on Container Corp. of India Ltd. (Concor) with a Neutral rating and a DCF-based 12-month price target of Rs928, implying 5% upside from current levels.
- Concor is the largest established player in the Indian multimodal logistics business, with a significant infrastructure advantage over its peers – the company handles 33% share of India’s EXIM container traffic (we estimate the segment accounted for 80% of FY2008E sales).
- Post the privatization of container freight services in India, Concor has been offering incentives including volume-based discounts to retain customers, which has led to margin erosion. We expect the company to continue its price discount strategy and forecast EBIT margins to drop to 24% in FY2009E from 26% in FY2007.
- We believe that the company would be unable to sustain the growth it delivered in FY2006-FY2007 (25%) because of a lack of spare capacity and slower overall EXIM demand growth. We forecast Concor’s sales to grow at a 12% CAGR in FY2008E-FY2010E.
- Though the company has a significant presence at most of the major ports and a longstanding relationship with Indian Railways, we expect private players, which have aggressive expansion plans, to offer stiff competition to Concor, especially in the domestic container freight business.

### Catalysts

Concor’s infrastructure advantage in terms of its larger number of rakes and terminals helps protect it from competition from private players and maintain its market share in the container freight business, in our view.

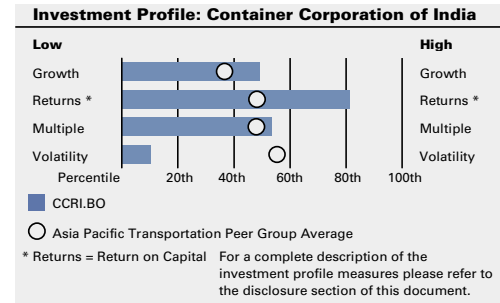
- Concor has stated its intent to diversify into the air cargo and cold-chain logistics space by leveraging its core infrastructure. If successful, this could provide a boost to sales.

### Valuation

- We derive our 12-month target price of Rs928 using a DCF methodology with a cross-check against three shorter-duration ratios – P/E, EV/EBITDA and PEG.
- At a one-year forward EPS multiple of 14.3x and with EPS CAGR of 10% FY2008-FY2010E, we believe the stock is fairly valued. Our DCF-based price target of Rs928 implies 5% upside from current levels.

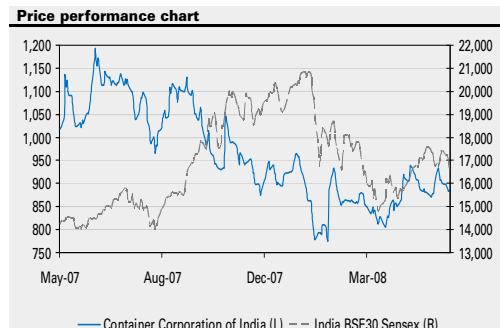
### Risks

- Global trade slowdown (the company derives approx. 80% of its revenues from the EXIM trade),
- competition from private operators could lead to deterioration in growth and margins and
- liquidity risk.



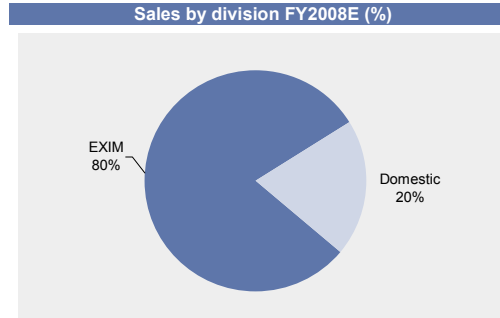
Key data	Current
Price (Rs)	885.20
12 month price target (Rs)	928.00
Market cap (Rs mn / US\$ mn)	115,060.1 / 2,694.3
Foreign ownership (%)	27.9

	3/07	3/08E	3/09E	3/10E
EPS (Rs)	54.13	57.22	61.98	68.95
EPS growth (%)	33.8	5.7	8.3	11.3
EPS (diluted) (Rs)	54.13	57.22	61.98	68.95
EPS (basic pre-ex) (Rs)	53.54	57.22	61.98	68.95
P/E (X)	16.4	15.5	14.3	12.8
P/B (X)	4.4	3.6	3.0	2.5
EV/EBITDA (X)	11.8	12.0	9.1	7.7
Dividend yield (%)	1.4	1.6	1.7	1.9
ROE (%)	29.8	25.5	22.9	21.4



Share price performance (%)	3 month	6 month	12 month
Absolute	2.7	(1.6)	(12.8)
Rel. to Bombay SE Sensitive Index	7.1	11.4	(24.8)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 5/23/2008 close.



Source: Goldman Sachs Research estimates.

## Investment view: Privatization of container freight haulage – major threat to Concor’s industry dominance

We initiate coverage on Container Corp. of India Ltd. (CCRI.BO; Concor) with a Neutral rating and a 12-month target price of Rs928. Concor is the incumbent player in the multimodal logistics business, with a significant advantage over its peers in terms of its infrastructure: it operates a fleet of over 12,812 containers and 5,927 high-speed wagons. We expect the company’s sales to grow at a 12% CAGR in FY2008-FY2010E. The stock trades at a one-year forward P/E of 14.3X, which is at a 17% discount to our coverage universe. However, we believe the company’s growth prospects are already reflected in current valuations, and thus initiate with a Neutral rating.

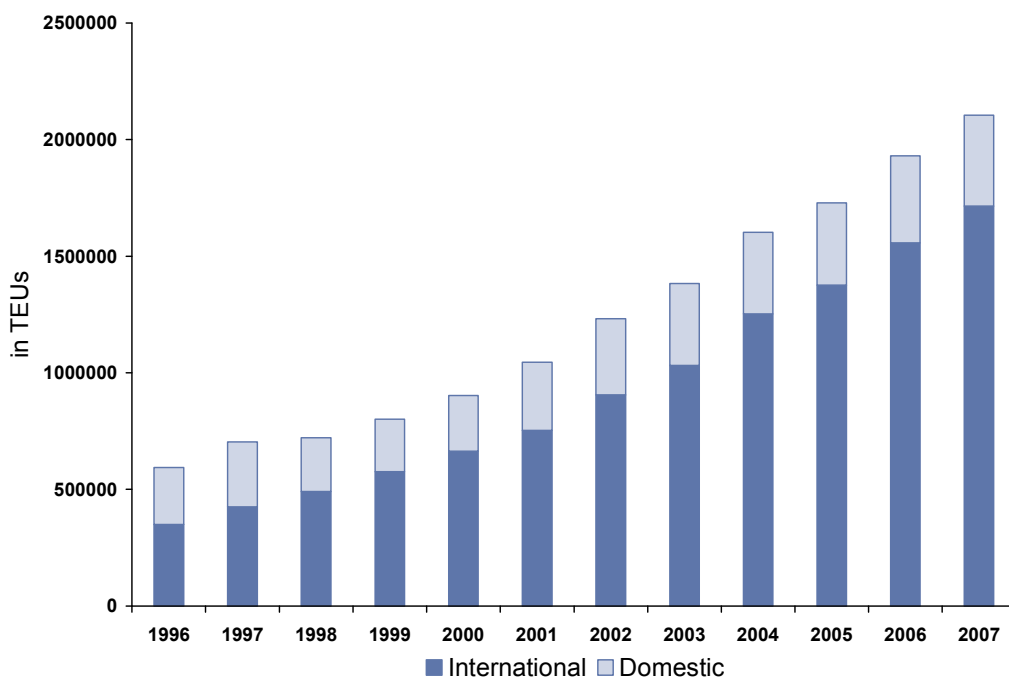
### Core Drivers

#### EXIM growth is key driver

Concor dominates the EXIM container traffic business in India, with a 33% share of the market in FY2007. The company derives about 75% of its revenues from the EXIM business (FY2007). The volume of EXIM traffic handled by the company grew at an 11% CAGR over FY2004-07, while the domestic traffic volume grew at 4% CAGR over the same period (Exhibit 35), underscoring Concor’s dependence on growth in EXIM traffic. India’s EXIM growth has slowed recently, because of the global slowdown in trade, which, in our opinion, could be a major drag on Concor’s growth in the near term (Exhibit 41). We expect Concor’s EXIM business to grow at a 12% CAGR over the next two years (vs. 21% CAGR in FY2005-FY2008E).

**Exhibit 35: EXIM traffic is a major growth driver**

Total traffic (in TEUs) handled by Concor



Source: Company data.

**Poor asset maintenance has led to lower efficiency and clogged capacities**

In our view, poor maintenance of its assets over the years has made Concor's assets (terminals and trains) highly inefficient, leading to both lower capacity utilization and higher costs of transportation. This could, in our view, lead to customers shifting to private players, with the only current impediment to switching being the lack of scale of private players.

**Privatization of container freight services leading to higher competition**

The Ministry of Railways privatized container freight haulage services in India in 2006. With this, private players like Gateway Distriparks have emerged as strong competitors to Concor. While the private players are investing aggressively to expand their presence in this business, we believe Concor's public sector undertaking (PSU) status will limit its ability in pursuing expansion initiatives (Exhibit 36). Though Concor continues to enjoy a significant infrastructure advantage over its peers, we expect favorable policies such as the new wagon leasing policy (proposed in the Indian Railway Budget for FY2009) to equip private players to bridge this gap and provide stiff competition to Concor, especially in the domestic container business to start with. We expect Concor's domestic business to grow at a 13% CAGR during FY2008E-FY2010E (vs. FY2005-FY2007 CAGR of 15%).

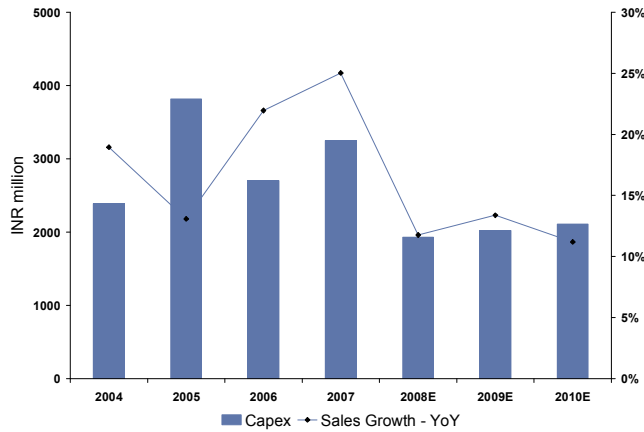
Overall, we expect the company to deliver sales growth at a 12% CAGR over FY2008E-FY2010E, down from 19% CAGR in FY2005-FY2007.

**Strategy of competing on prices is affecting margins**

The majority of Concor's revenues comes from the international/ EXIM container business. The EBITDA margins for the domestic container business are in the 10% range, while the margins for EXIM containers are in the >30% range. This favorable mix has helped Concor consistently maintain its EBITDA margin in the 25%-30% range of FY2005-FY2007. However, Concor's strategy of offering volume-based discounts to retain clients has led to margin compression over the last few quarters. We expect Concor's EBIT margins to decrease by 240 bp in FY2009E from FY2007 levels.

**Exhibit 36: We expect capex to slow down in the next 2-3 years**

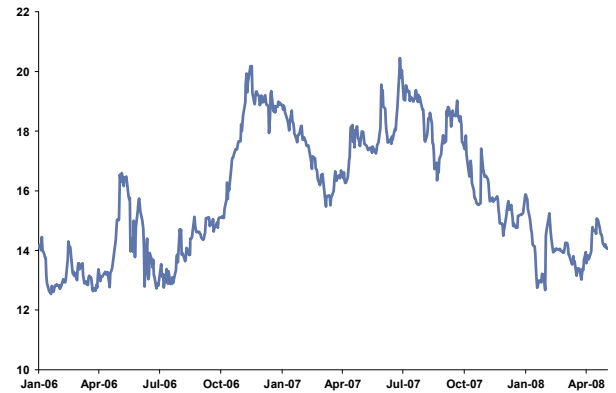
Capex and sales growth, 2004–2010E



Source: Company data, Goldman Sachs Research estimates.

**Exhibit 37: The stock currently trades at a one-yr forward P/E of 14.2X vs sector average of 17.2X**

One-year forward P/E



Source: Bloomberg, Goldman Sachs Research estimates.

## Valuation

Concor currently trades at 14.3X on a one-year forward P/E, which is at a 17% discount to the average 17.2X for our logistics coverage universe, based on our estimates. The company trades at a one-year forward EV/EBITDA multiple of 10.2X. However, we believe the current valuation adequately prices in the company’s moderate growth prospects and additional pressure on margins, and thus we initiate coverage on Concor with a Neutral rating.

**Exhibit 38: SWOT Analysis for Concor**

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>▶ Incumbent player with a significant market share and margins significantly higher than the other players. Concor accounts for one-third of the country's EXIM container traffic.</li> <li>▶ Infrastructure advantage - 8,200 wagons, 175 rakes operating per year, 57 terminals; the company plans to add to this infrastructure to take advantage of the expected growth in EXIM trade.</li> <li>▶ The company also owns its terminals, which is a substantial advantage given that other players pay close to 40% of their freight revenue as terminal charges.</li> <li>▶ Significant presence at JNPT and other major Indian ports. Long-standing relationship with Indian Railways.</li> </ul>	<ul style="list-style-type: none"> <li>▶ The company is offering attractive volume-based discounts to customers in order to gain market share and to keep competition from the private players at bay. We expect this to continue to weigh on margins.</li> </ul>
<ul style="list-style-type: none"> <li>▶ Increase in the penetration of containerization - containerization as part of total general cargo in India is currently at 60% vs 80% globally. Keeping in line with the global trend, the Planning Commission of India expects the penetration to improve to 75% driven by cost advantages in favor of containerization.</li> <li>▶ Substantial growth expected in international trade, according to estimates from the Ministry of Trade and Commerce - India's exports as of FY2008 were US\$155 bn. The government has targeted US\$200 bn exports for FY2009. Also, a balance of trade with 40% more imports than exports, should further encourage containerization.</li> <li>▶ Improvement in the logistics infrastructure in the country - the dedicated rail freight corridor, modernization of ports, and improvement in road infrastructure are set to give a boost to intra-state and inter-state freight movement.</li> <li>▶ Rapid growth of organized retail and agro processing industries and strong FDI inflows into various industries should lead to enhanced market opportunities for logistics services.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Entry of new players into the container train operations business. Fourteen new operators have signed the concession agreement with Indian Railways to run container trains for a period of 20 years, extendable by another 10 years.</li> <li>▶ A rise in transportation costs would adversely affect margins. Also, an increase in container traffic over and above capacity at the ports could lead to congestion at the ports, leading to a decline/delay in the throughput handled by the company.</li> <li>▶ High land acquisition costs for developing ICDs imply that the sector is capital-intensive.</li> <li>▶ Business depends on international trade to a great extent. Thus companies in the sector are exposed to geopolitical risk.</li> </ul>
Opportunities	Threats

Source: Planning Commission of India, Indian Railways, KPMG, Company data, Goldman Sachs Research estimates.

**Exhibit 39: Container Corporation – Summary financials**

<b>Profit model (Rs mn)</b>	<b>3/07</b>	<b>3/08E</b>	<b>3/09E</b>	<b>3/10E</b>	<b>Balance sheet (Rs mn)</b>	<b>3/07</b>	<b>3/08E</b>	<b>3/09E</b>	<b>3/10E</b>
<b>Total revenue</b>	<b>30,420.5</b>	<b>33,998.4</b>	<b>38,548.3</b>	<b>42,861.7</b>	Cash & equivalents	10,775.7	15,840.1	21,451.4	27,823.5
Cost of goods sold	(21,270.8)	(24,299.6)	(27,686.4)	(30,891.5)	Accounts receivable	99.0	110.6	125.5	139.5
SG&A	(1,175.9)	(1,399.1)	(1,682.7)	(1,978.1)	Inventory	46.7	53.3	60.8	67.8
R&D	--	--	--	--	Other current assets	2,922.4	2,922.4	2,922.4	2,922.4
Other operating profit/(expense)	0.0	0.0	0.0	0.0	<b>Total current assets</b>	<b>13,843.8</b>	<b>18,926.5</b>	<b>24,560.0</b>	<b>30,953.2</b>
<b>EBITDA</b>	<b>8,909.8</b>	<b>9,345.9</b>	<b>10,365.3</b>	<b>11,310.8</b>	Net PP&E	17,517.4	18,432.6	19,302.9	20,130.8
Depreciation & amortization	(936.0)	(1,046.1)	(1,186.1)	(1,318.8)	Net intangibles	568.8	537.5	502.0	462.6
<b>EBIT</b>	<b>7,973.8</b>	<b>8,299.8</b>	<b>9,179.2</b>	<b>9,992.0</b>	Total investments	968.7	968.7	968.7	968.7
Interest income	598.5	646.5	950.4	1,287.1	Other long-term assets	0.0	0.0	0.0	0.0
Interest expense	--	(18.3)	(18.3)	(18.3)	<b>Total assets</b>	<b>32,898.7</b>	<b>38,865.3</b>	<b>45,333.7</b>	<b>52,515.3</b>
Income/(loss) from uncons. subs.	0.0	0.0	0.0	0.0	Accounts payable	1,532.6	1,712.9	1,942.1	2,159.4
Others	248.4	500.0	100.0	100.0	Short-term debt	0.0	0.0	0.0	0.0
<b>Pretax profits</b>	<b>8,820.7</b>	<b>9,428.0</b>	<b>10,211.3</b>	<b>11,360.8</b>	Other current liabilities	2,247.0	2,247.0	2,247.0	2,247.0
Income tax	(1,861.9)	(1,990.1)	(2,155.4)	(2,398.1)	<b>Total current liabilities</b>	<b>3,779.6</b>	<b>3,959.9</b>	<b>4,189.1</b>	<b>4,406.4</b>
Minorities	0.0	0.0	0.0	0.0	Long-term debt	304.7	304.7	304.7	304.7
<b>Net income pre-preferred dividends</b>	<b>6,958.8</b>	<b>7,438.0</b>	<b>8,055.9</b>	<b>8,962.8</b>	Other long-term liabilities	2,518.0	2,518.0	2,518.0	2,518.0
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	2,822.7	2,822.7	2,822.7	2,822.7
<b>Net income (pre-exceptionals)</b>	<b>6,958.8</b>	<b>7,438.0</b>	<b>8,055.9</b>	<b>8,962.8</b>	<b>Total liabilities</b>	<b>6,602.3</b>	<b>6,782.6</b>	<b>7,011.8</b>	<b>7,229.1</b>
Post-tax exceptionals	77.4	0.0	0.0	0.0	Common stock & premium	649.9	649.9	649.9	649.9
<b>Net income</b>	<b>7,036.2</b>	<b>7,438.0</b>	<b>8,055.9</b>	<b>8,962.8</b>	Other common equity	25,646.5	31,432.9	37,672.0	44,636.3
EPS (basic, pre-except) (Rs)	53.54	57.22	61.98	68.95	<b>Total common equity</b>	<b>26,296.4</b>	<b>32,082.8</b>	<b>38,321.9</b>	<b>45,286.2</b>
EPS (basic, post-except) (Rs)	54.13	57.22	61.98	68.95	Minority interest	0.0	0.0	0.0	0.0
EPS (diluted, post-except) (Rs)	54.13	57.22	61.98	68.95	<b>Total liabilities &amp; equity</b>	<b>32,898.7</b>	<b>38,865.3</b>	<b>45,333.7</b>	<b>52,515.3</b>
DPS (Rs)	12.71	13.98	15.37	16.91	<b>BVPS (Rs)</b>	<b>202.31</b>	<b>246.82</b>	<b>294.82</b>	<b>348.40</b>
Dividend payout ratio (%)	23.5	24.4	24.8	24.5					
Free cash flow yield (%)	4.1	5.2	6.3	7.0					
<b>Growth &amp; margins (%)</b>	<b>3/07</b>	<b>3/08E</b>	<b>3/09E</b>	<b>3/10E</b>	<b>Ratios</b>	<b>3/07</b>	<b>3/08E</b>	<b>3/09E</b>	<b>3/10E</b>
Sales growth	25.0	11.8	13.4	11.2	ROE (%)	29.8	25.5	22.9	21.4
EBITDA growth	27.7	4.9	10.9	9.1	ROA (%)	23.9	20.7	19.1	18.3
EBIT growth	29.8	4.1	10.6	8.9	ROACE (%)	43.3	42.9	43.4	45.6
Net income growth	33.8	5.7	8.3	11.3	Inventory days	0.8	0.8	0.8	0.8
EPS growth	33.8	5.7	8.3	11.3	Receivables days	1.1	1.1	1.1	1.1
Gross margin	30.1	28.5	28.2	27.9	Payable days	24.5	24.4	24.1	24.2
EBITDA margin	29.3	27.5	26.9	26.4	Net debt/equity (%)	(39.8)	(48.4)	(55.2)	(60.8)
EBIT margin	26.2	24.4	23.8	23.3	Interest cover - EBIT (X)	NM	NM	NM	NM
<b>Cash flow statement (Rs mn)</b>	<b>3/07</b>	<b>3/08E</b>	<b>3/09E</b>	<b>3/10E</b>	<b>Valuation</b>	<b>3/07</b>	<b>3/08E</b>	<b>3/09E</b>	<b>3/10E</b>
Net income pre-preferred dividends	6,958.8	7,438.0	8,055.9	8,962.8	P/E (analyst) (X)	16.4	15.5	14.3	12.8
D&A add-back	936.0	1,046.1	1,186.1	1,318.8	P/B (X)	4.4	3.6	3.0	2.5
Minorities interests add-back	0.0	0.0	0.0	0.0	EV/EBITDA (X)	11.8	12.0	9.1	7.7
Net (inc)/dec working capital	728.7	162.0	207.0	196.2	Dividend yield (%)	1.4	1.6	1.7	1.9
Other operating cash flow	(1,096.3)	(628.3)	(932.1)	(1,268.8)					
<b>Cash flow from operations</b>	<b>7,527.2</b>	<b>8,017.7</b>	<b>8,516.8</b>	<b>9,209.0</b>					
Capital expenditures	(3,249.7)	(1,930.0)	(2,021.0)	(2,107.2)					
Acquisitions	(23.2)	0.0	0.0	0.0					
Divestitures	10.2	0.0	0.0	0.0					
Others	706.4	646.5	950.4	1,287.1					
<b>Cash flow from investments</b>	<b>(2,556.3)</b>	<b>(1,283.4)</b>	<b>(1,070.6)</b>	<b>(820.2)</b>					
Dividends paid (common & pref)	(1,408.1)	(1,651.6)	(1,816.8)	(1,998.4)					
Inc/(dec) in debt	299.5	0.0	0.0	0.0					
Common stock issuance (repurchase)	0.0	0.0	0.0	0.0					
Other financing cash flows	150.0	(18.3)	(18.3)	(18.3)					
<b>Cash flow from financing</b>	<b>(958.6)</b>	<b>(1,669.9)</b>	<b>(1,835.0)</b>	<b>(2,016.7)</b>					
<b>Total cash flow</b>	<b>4,012.3</b>	<b>5,064.4</b>	<b>5,611.2</b>	<b>6,372.1</b>					

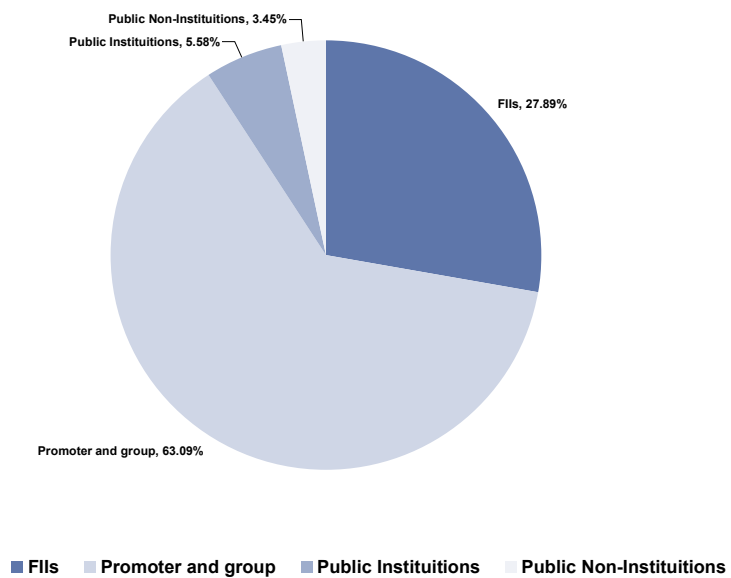
Note: Last actual year may include reported and estimated data.  
Source: Company data, Goldman Sachs Research estimates.

## Company description

Concor is the largest container freight services provider in the country. It operates a fleet of ~13,000 containers and 5,927 high-speed wagons. It is a market leader with a network of 57 ICDs and CFSs, the largest in the country. Though the company operates two segments – EXIM and domestic – the core business can be subdivided into three distinct activities: 1) carrier (container freight), 2) terminal operator and 3) warehouse operator (ICDs and CFSs). Though the container rail sector has been opened for private players, Concor still remains the price-setter for the sector.

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### Exhibit 40: Shareholder structure as of March 2008



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Source: BSE data.

# Indian Logistics Industry: Improving fundamentals at reasonable multiples, but macro overhang remains

Five key points for investors in the sector:

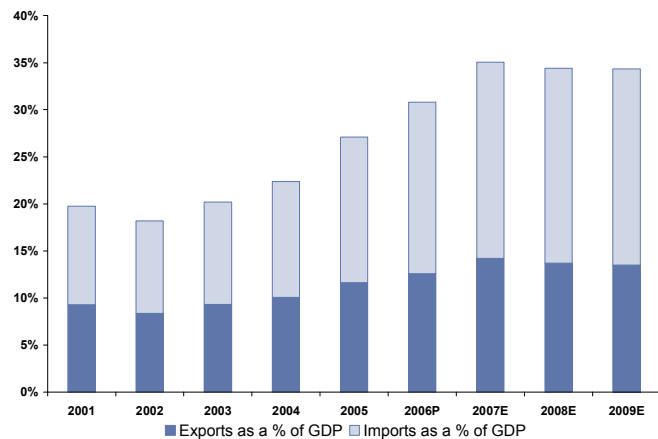
1. Growth in GDP and trade are the core drivers;
2. Regulatory changes in place are catalyzing growth by removing inefficiencies;
3. Ongoing infrastructure buildup improves long-term prospects;
4. Containerization is gaining momentum – specific segments will benefit more; and
5. At 2-year-trough valuations, short-term slowdown is already priced in, as we see it.

### Growth in GDP and higher participation in world trade are the core drivers

The growth of the logistics sector is closely linked to India’s overall GDP growth and participation in the world trade. With India’s economy growing at an average of 7.72% annually over the last five years and looking set to grow at an average of 8% for the next five years (GS economists forecast 8% CAGR in FY2008-FY2020E), the domestic demand scenario looks encouraging over the longer term and should support growth in the logistics sector. However, EXIM growth seems to have slowed over the last three quarters of FY2008 and the outlook for the near term looks mixed (29% growth in trade over FY2004–FY2008), while GS economists expect EXIM growth to slow down to about 14% in FY2009E. In our view, this remains a key overhang for the sector performance, as, despite strong long-term fundamentals, investors will likely be wary of any near-term pain.

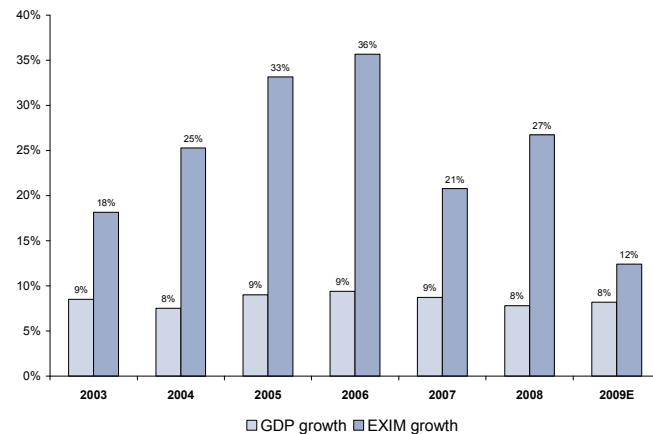
The Indian government has set an ambitious target of achieving US\$200 bn in exports for the next fiscal year (vs. US\$155 bn achieved in FY2008), and a 1.5% share of global trade despite the scenario of weakening global demand and strengthening currency. To achieve this target, the government has identified three key areas of infrastructure development – ports, railways and roads – and has approved regulatory changes to support growth across the logistics value chain.

**Exhibit 41: EXIM growth has slowed down recently and remains a key risk for the sector**



Source: Ministry of Trade and Commerce, Goldman Sachs Research estimates.

**Exhibit 42: EXIM grows at a multiple to the domestic GDP growth and typically leads the economy**



Source: Ministry of Trade and Commerce, Goldman Sachs Research estimates.

**Regulatory changes already in place are improving efficiency in the industry**

The Indian logistics sector has been systemically inefficient because of 1) the complex, nonstandardized nature of the Indian tax structure (which differs for each state and by product), and 2) a lack of scale for existing players. Third-party logistics companies (3PL), which typically handle the bulk of the logistics functions for any manufacturing company in mature markets, control a very small proportion of the business in India (only 7% compared with >40% for mature markets, according to KPMG; see Exhibit 44).

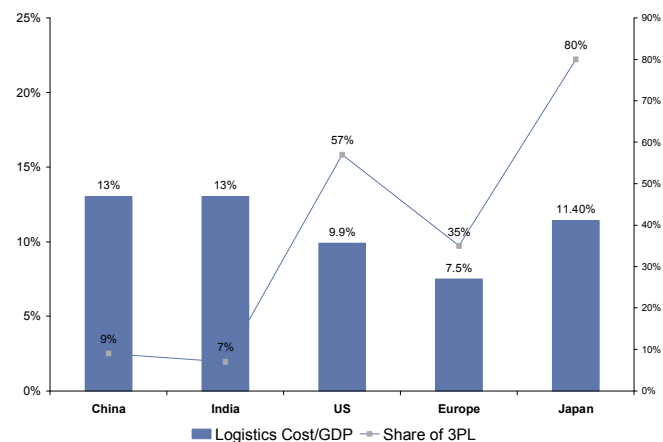
We expect the phase-out of the current central sales tax of 3% by April 2010 to spur demand for specialized 3PL providers, leading to a higher scale of operations for these companies. As we see it, this would not only save costs for customers, but also lead to better time efficiency, improving the overall competitiveness of Indian manufacturers along the way (Exhibit 43).

**Exhibit 43: Recent regulatory initiatives would encourage higher share with 3PLs**

Regulatory changes	Benefit
Phase out of CST (April 2010')	Streamlined tax structure, Growth for 3PL's
Rail haulage opened to pvt. Players (2006)	Better time efficiency, Improved quality of service
Leasing of wagons (2008)	Easier for pvt. companies to expand
Automation of customs and tax filings	Saves time compared to current manual process

Source: Goldman Sachs Research estimates.

**Exhibit 44: With 13% of its GDP being spent on logistics, India is one of the most inefficient**



Source: KPMG, Goldman Sachs Research estimates.

**Ongoing infrastructure buildup should improve long-term prospects**

The Planning Commission of India expects spending on infrastructure to triple over the 11th Five-Year Plan compared with the 10th Five-Year Plan (Exhibit 45). This will be on top of the doubling of infrastructure spending that occurred in FY2003-FY2007. We believe the logistics sector, which is inherently dependent on the quality and scale of infrastructure available, will be a key beneficiary of this event.

**Exhibit 45: With 3X increase in planned investment on infrastructure, the logistics sector would be a key beneficiary**

Ports and airports would have the largest increments

Outlay in USD Billion	9th Plan (1999-2003)	10th Plan (2003-2007)	11th Plan (2007-2012)	Increase in planned spend
Roads	12	25	78	3.1x
Railways	12	22	63	2.8x
Ports	1	1	14	9.3x
Airports	2	3	13	4.0x
<b>Total</b>	<b>26</b>	<b>52</b>	<b>168</b>	<b>3.2x</b>

Source: Planning Commission of India.

**Exhibit 46: Evidence of improvement in infrastructure already visible**

Even if the execution of these plans is moderate, the improvements over the next 5 years could be substantial

Executed and Planned	9th Plan (1999 - 2003)	10th Plan (2003-2007)	11th Plan E (2007-2012)
<b>Roads</b>			
Additions to NH length(kms)	23,814	9,008	7,000
Four laning/six laning(kms)	153	800	300
Widening to two lane(kms)	1,032	4,000	8,000
<b>Railways</b>			
New Lines(kms)	662	945	8,300
Gauge Conversion(kms)	2,103	4,432	6,700
<b>Ports</b>			
Capacity Addition(mt)	125	165	831
<b>Airports</b>			
Capacity Addition (million ATKms)	283	3,206	9,354

Source: Planning Commission of India.

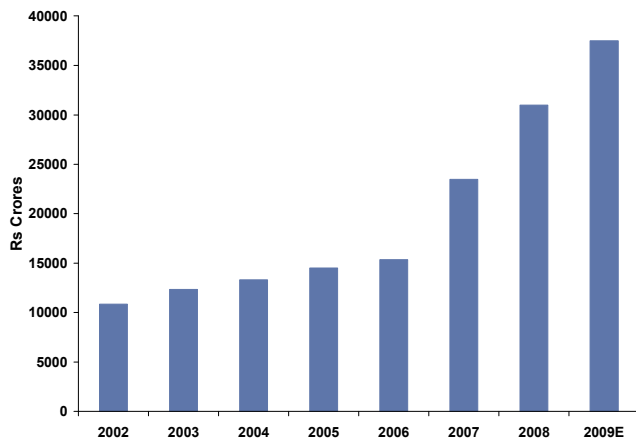
**Dedicated freight corridor – significant benefits but execution will take time**

Rail infrastructure has lagged the growth in traffic, leading to severe congestion at all points of the value chain. As railways' finances have improved, the size of their planned investments has increased as well (Investment in rail improvements for the 11th Plan is expected to reach US\$63 bn). The biggest project will be the development of a dedicated freight corridor (DFC) separating freight traffic from passenger traffic on trunk routes. The first phase is to develop two corridors – western and eastern – to connect the four metropolitan areas of Delhi, Mumbai, Chennai, and Kolkata. This phase of the project will add approximately 2,700 km of new rail length and could potentially reduce transit time between Delhi and Mumbai to less than ~36 hours from the current 60 hours.

Although the benefits from this development are apparent, we believe the timelines for the achievement of this infrastructure (scheduled to be completed by 2012) could be delayed, as it will involve massive interstate and public-private coordination and execution over a complex terrain.

**Exhibit 47: Improvement in railway finances has released funds for investment**

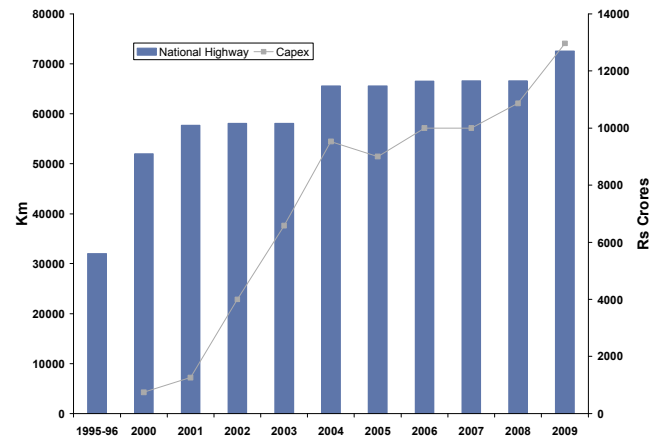
Railways' annual planned expenditure



Source: Indian Railways budget estimates.

**Exhibit 48: Majority of NHAI expenditure has gone into road improvement – focus on widening now**

NHAI annual planned spend



Source: National Highways Authority of India (NHAI).

**National Highway Development Project – helping roads win market share**

The NHDP, which is currently being implemented by NHAI, involves widening the national highways to four–six lanes from the current two. Improvement of highways has been the focus in the 10th and 11th Plans rather than just to increase the number of low-quality highways. We believe the benefits of this highway buildup will begin to show, with roads winning back some portion of their lost market share from railways over the medium term. Over the long term, however, as DFC takes shape, railways will have a cost-and-time advantage over the roads in long-haul freight transportation.

**Exhibit 49: Progress on highway projects – although delayed, ramping up now**

Table with NHDP progress and planned rollout

	NHDP					Port Connectivity	Others	Total by NHAI
	GQ	NS - EW (Ph - 1&2)	NHDP Ph - 3	NHDP Ph - 5	NHDP Total			
Total length(Km)	5,846	7,300	12,109	6,500	31,755	380	962	33,097
Already 4 - laned (Km)	5,650	1,962	330	-	7,942	169	425	8,536
Under Implementation(Km)	196	4,359	1,745	1,030	7,330	205	517	8,052
% completed	97%	27%	3%	0%	25%	44%	44%	26%

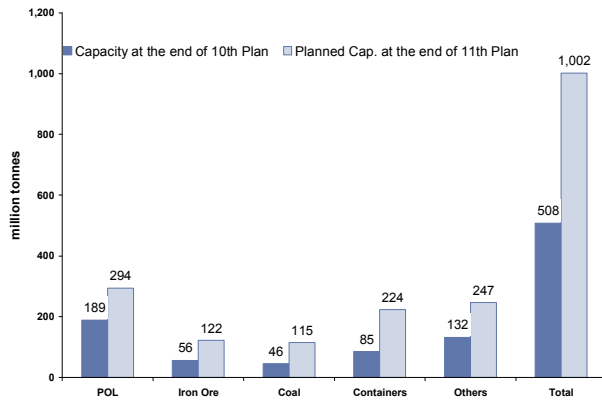
Source: Ministry of Roadways, NHAI.

**Ports development – biggest incremental beneficiary with 9X planned spending**

Investment in ports development has also been a major focus of the government, given its intention to reach US\$200 bn in exports in FY2008-FY2009E (about 95% by volume and 70% by value of the country's international trade is carried on through maritime transport).

The Shipping Ministry's NMDP aims to catalyze this growth with total planned spend of about US\$14 bn on port development, upgradation and connectivity (60% private contribution) in the 11th Five-Year Plan. With this, the government aims to double current port capacity from 165mt currently to over 831mt by the end of the 11th Plan and projects traffic growth of 7.7% for all the ports (Exhibit 50). The Planning Commission estimates the highest CAGR of 21% in container traffic – from 85mn tonnes in FY2007 to 224mn tonnes in FY2012; containers currently account for around 16% of all trade volume, and we estimate this will go up to 21% by 2011E.

**Exhibit 50: Container capacity set to increase the most**  
Total major port capacity planned over next 5 years



Source: IPA, Planning Commission of India.

**Exhibit 51: Indian container capacity is highly concentrated at JNPT terminal (by TEUs)**  
Largest Indian and global ports by container capacity

Top Seven Indian Container Ports		Top Seven World Container Ports	
Ports	2007 - 08 (000 TEUs)	Ports	2006 (000 TEUs)
JNPT	3,298	Singapore	24,792
Chennai	798	Hong Kong	23,230
Mundra	393	Shanghai	21,710
Tuticorin	377	Shenzhen	18,468
Kolkata	240	Busan	12,030
Cochin	227	Kaoshiung	9,774
Kandla	177	Rotterdam	9,690

Source: Indian Ports Association (IPA).

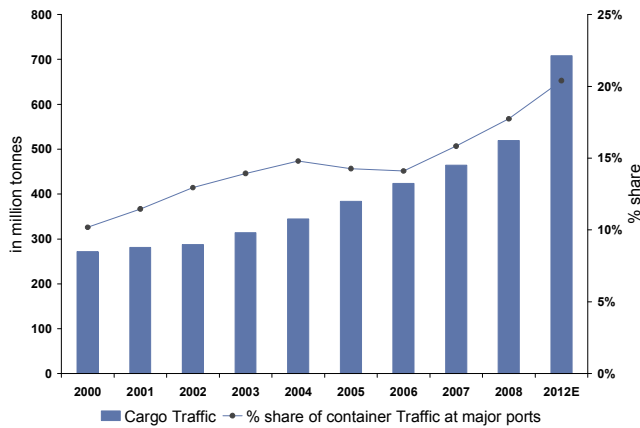
**Containerization gains momentum – specific segments should benefit**

Due to the many advantages of transporting cargo through containers vs. break bulk (e.g., cost benefits, reduction in damages, and standardization of vehicles), the segment penetration in India has increased substantially – containers currently account for 12% by volume and 30% by value of all EXIM trade, major and minor ports combined (source: IPA). This proportion is likely to increase further as the port and intermodal infrastructure improves and more general cargo is containerized (60% of containerizable cargo is currently containerized, compared with around 80% in mature markets).

Recognizing this, the Government of India plans to more than double container handling facility at ports over the next 5 years (Exhibit 50). Global shipping lines have also been gradually shifting their assets toward a higher proportion of container fleet (Exhibit 53).

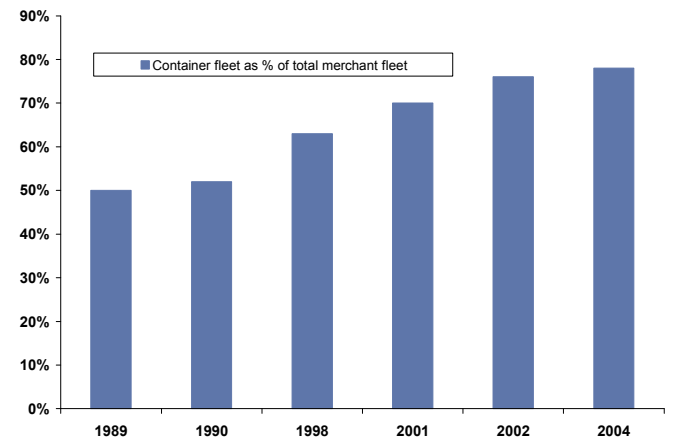
Logistics players with a significant presence (Concor, GDL) and increasing exposure to the containerization business (GDL) would be key beneficiaries of this trend.

**Exhibit 52: Container penetration in India has risen and still has room to grow**



Source: IPA, NMDP, Goldman Sachs Research estimates.

**Exhibit 53: Global shippers prefer containerization due to cost and efficiency advantages**



Source: IPA, Goldman Sachs Research estimates.

**Hinterland connectivity and evacuation will remain a key focus**

The connectivity of the hinterland to ports remains a key area of weakness in the Indian logistics landscape. With existing transportation lines (both rail and road) already running at capacity, this leads to both time and cost inefficiencies. We believe that as the infrastructure development programs by NHA and the Shipping Ministry (NHDP and NMDP, respectively) are executed, this situation should improve. The entry of private players into the ICD space would also likely improve productivity at connecting inland stations as well (Exhibit 54).

The CFS and ICD businesses are near-shore and inland facilities where customers pay rent for parking containers in the company’s space. Since the business is capital-intensive (given land and development costs), this business is usually profitable only above a critical occupancy level ranging around 50%. Typical services provided at the CFS and ICD, apart from storage, are warehousing, stuffing/de-stuffing, customs clearance and evacuation to and from the port terminal. Because of the existing congestion on existing lines connecting inland depots to various ports, most of the incremental demand for evacuation services has gone to the CFS players.

**Exhibit 54: Entry of private players into ICD space should improve productivity**

Number of ICDs expected to come up in FY2009

Company	Number of ICDs	Location	Expected timeline
Gateway	2	Faridabad	FY2009 end
		Ludhiana	FY2009 end
Allcargo	6	Indore	Sep, 2008
		Dadri	Jan, 2009
		Goa, Bangalore, Nagpur, Hyderabad	NA
		Rourkela, Durgapur, Kuder(Gujrat), Madhosingh(UP), Rattlam, Baddi(MP), Khemli(Rajasthan)	FY 2009 end
Concor	8		

Source: Company data, Goldman Sachs Research estimates.

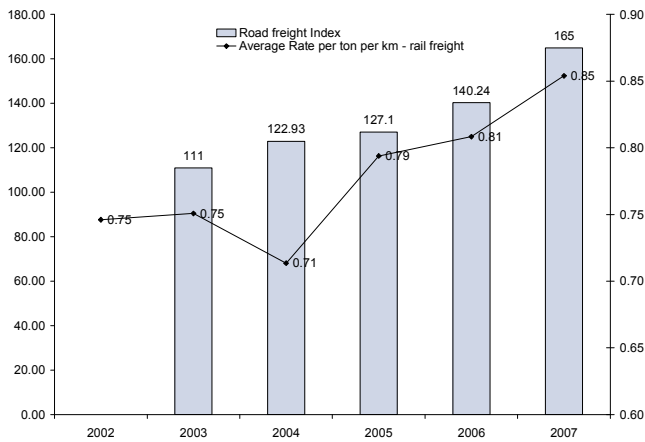
**Roadways vs. railways – railways to utilize advantage as infrastructure builds up**

Due to the price advantage of railroads over truckers on long hauls, railways tend to be the preferred choice of transport across developed markets. Railroads offer a similar price advantage in India as well (Exhibit 56), but due to the lack of infrastructure available (existing lines are already fully utilized), roadways have been able to raise freight charges (Exhibit 55) and garner more market share as well.

Given this scenario, we prefer railroads over truckers as an investment vehicle in the long term. However, most of the incremental investment (especially in the dedicated freight corridor) has yet to hit the ground and will likely involve long gestation periods.

**Exhibit 55: Road freight charges have increased faster than rail**

Roadways have still gained market share over this period



Source: Ministry of Railways, TCIL.

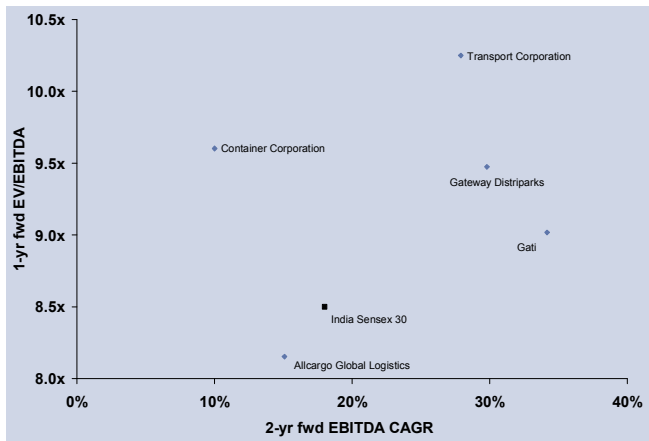
**Exhibit 56: Railways enjoy ~60% price advantage**

Haulage charges on major EXIM routes

Inland haulage charges from Delhi to various ports (Rs/TEU)			
	Distance (km)	Rail	Road
JNPT	1388	18000	30600
Mundra	1295	16500	20000
Pipavav	1333	17000	25000
Chennai	2100	30000	70000

Source: Ministry of Railways.

**Exhibit 57: Our Buy-rated stocks offer better 2-yr forward estimated EBITDA growth relative to the Sensex**



Source: Goldman Sachs Research estimates.

**Exhibit 58: Sector trading at 17.2X – close to 2-yr trough valuations**

Coverage group 1-yr forward P/E



Source: Bloomberg, Goldman Sachs Research estimates.

**Exhibit 59: Indian logistics sector offers higher growth at lower multiples than global peers**

Lags in return on capital due to the current investment cycle

GS India Logistics Valuation Snapshot									
Company	Rating	Potential Upside(%)	P/E(x)		EV/EBITDA(x)		Sales CAGR	EPS CAGR	
			FY1	FY2	FY1	FY2	FY2008 - 10E	FY2008 -10E	
<b>India</b>									
TCIL	Neutral	25%	24.1	19.3	10.2	8.8	22%	38%	
Gati	Buy	44%	17.3	15.0	9.0	7.6	22%	43%	
Gateway Distriparks	Buy	55%	16.4	12.4	9.5	7.9	32%	19%	
AllCargo Global	Neutral	27%	14.0	11.8	9.5	7.7	14%	31%	
Concor	Neutral	5%	14.3	12.8	9.6	7.7	12%	10%	
<b>India Average</b>			<b>17.2</b>	<b>14.3</b>	<b>9.6</b>	<b>8.0</b>	<b>20%</b>	<b>28%</b>	
<b>Global Logistics</b>									
Agility	Buy	127%	6.0	6.0	5.1	5.1	36%	1%	
Aramex PJSC	Buy	29%	25.6	22.9	18.1	16.2	28%	19%	
C.H. Robinson Worldwide, Inc.	Buy	4%	30.0	25.9	16.9	14.6	13%	16%	
Forward Air Corporation	Neutral	-2%	20.9	18.3	10.7	9.7	15%	12%	
Hub Group, Inc.	Neutral	3%	20.8	17.7	11.9	10.5	7%	11%	
Kuehne & Nagel	Sell	-20%	23.1	21.1	11.8	10.6	8%		
Landstar System, Inc.	Neutral	-2%	23.9	20.7	13.3	12.0	6%	14%	
Pacer International, Inc.	Neutral	-5%	10.7	9.5	7.7	7.4	6%	11%	
Panalpina	Neutral	-13%	19.1	16.4	9.9	8.6	5%		
<b>Average</b>			<b>20.0</b>	<b>17.6</b>	<b>11.7</b>	<b>10.5</b>	<b>9%</b>	<b>13%</b>	
<b>Global Railroads</b>									
Burlington Northern Santa Fe Corporation	Neutral	-19%	17.8	14.6	8.4	7.4	8%	18%	
CSX Corporation	Neutral	-2%	17.8	15.0	9.3	8.7	8%	20%	
Kansas City Southern	Buy*	18%	22.9	16.8	9.0	7.4	10%	33%	
Norfolk Southern Corporation	Neutral	-5%	14.9	12.8	7.6	6.9	8%	13%	
Union Pacific Corporation	Buy	-1%	17.7	14.5	8.5	6.8	9%	21%	
<b>Average</b>			<b>18.2</b>	<b>14.7</b>	<b>8.6</b>	<b>7.4</b>	<b>8%</b>	<b>20%</b>	
<b>Global Trucking</b>									
Arkansas Best Corporation	Neutral	-7%	15.9	14.3	4.5	4.3	4%	12%	
Con-way Inc.	Buy	6%	16.0	12.2	5.7	5.1	11%	15%	
Heartland Express, Inc.	Neutral	1%	23.5	18.3	11.3	10.4	5%	5%	
J. B. Hunt Transport Services, Inc.	Buy	-2%	23.2	18.7	9.0	7.7	8%	9%	
Knight Transportation, Inc.	Neutral	-3%	28.0	20.3	9.3	7.5	5%	9%	
Marten Transport, Ltd.	Sell	-31%	28.2	20.3	5.2	4.5	7%	12%	
Old Dominion Freight Line, Inc.	Neutral	4%	17.2	13.8	6.6	5.6	13%	9%	
Werner Enterprises, Inc.	Neutral	-16%	25.4	18.2	5.0	4.2	3%	5%	
YRC Worldwide Inc.	Neutral	-3%	24.8	8.4	5.4	4.0	0%		
<b>Average</b>			<b>22.5</b>	<b>16.1</b>	<b>6.9</b>	<b>5.9</b>	<b>6%</b>	<b>11%</b>	

\* This stock is on our regional Conviction list  
Source: Goldman Sachs Research estimates.

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The precise calculation of each metric may vary depending on the fiscal year, industry and region but the standard approach is as follows:

**Growth** is a composite of next year's estimate over current year's estimate, e.g. EPS, EBITDA, Revenue. **Return** is a year one prospective aggregate of various return on capital measures, e.g. CROCI, ROACE, and ROE. **Multiple** is a composite of one-year forward valuation ratios, e.g. P/E, dividend yield, EV/FCF, EV/EBITDA, EV/DACF, Price/Book. **Volatility** is measured as trailing twelve-month volatility adjusted for dividends.

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Ishan Sethi: India Tactical.

India Tactical: AllCargo Global Logistics, Container Corporation of India, Essel Propack, Everest Kanto Cylinder, Gateway Distriparks, Gati, Nitin Fire Protection Industries, Sintex Industries, Transport Corporation of India.

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