Transport Corp of India

20 November 2014

Visit note - Not rated

IIFL Institutional Equities

Scalable model, execution holds key

Transport Corporation of India (TCI) aims to transform from a vanilla transport company to an integrated logistics services player. Consequently, through FY07-14, TCI invested Rs6bn to set up warehouses and ramp up delivery network across key locations in India. It plans to spend additional Rs5bn by FY17. Seamless execution by TCI and rollout of GST by Government of India (GoI), should improve its overall earnings growth trajectory.

- TCI, a vanilla transport company earlier, has invested Rs6bn through FY07-14 to scale up its value added services businesses such as managing inbound and outbound logistics, warehousing (supply chain – SCS), and express delivery (XPS) of goods. With the rollout of GST, management expects 15-20% pa growth in these segments over the next 8-10 years. In FY14, SCS and XPS accounted for 56% of revenue and 68% share in Ebitda.
- In the XPS business, TCI focuses on the B2B segment where management anticipates relatively less competition vs. the B2C segment in which Blue Dart and Gati etc., operates. TCI estimates base-case Ebitda margins of XPS and SCS at 8-10%. Further, TCI also plans to ramp up revenues from multimodal transport services (combining integration transport on road, rail and sea).
- It plans to invest another Rs5bn to ramp up its overall infra by FY17. The strategy to part own infrastructure (vs. entering into long lease) needs to be evaluated since the industry is at a nascent stage and several revenue models could emerge. As such its net D/E is <1x.

IIFL's score-card for unrated companies

Key Positives	Score of 1-5 (with 5 as most positive)	Key Risks	Score of 1-5 (with 5 as most risky)
Industry growth potential	✓✓✓✓	Regulatory	✗✗
Dominant position within the industry	✓✓	Corporate Governance	✗✗✗
Balance-sheet strength, profitability ratios	✓✓✓	Competition (including possible foreign)	✗✗
Execution track record of management	✓✓✓	Liquidity (trading volume)	✗✗

CMP	Rs269
Market cap (US$m)	317
Enterprise value(US$m)	363
Bloomberg	TRPC IN
Sector	Logistics

Shareholding pattern (%)

Agarwal & Family	69.4
FII	1.7
DII	1.3
Others	27.7

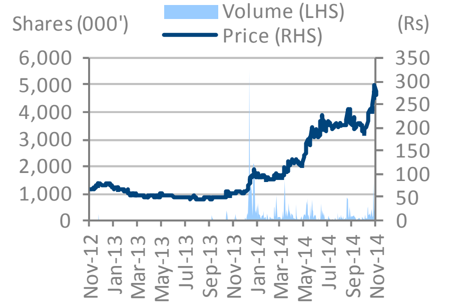
52Wk High/Low (Rs)	299/55
Shares o/s (m)	73
Daily volume (US$ m)	1.0
Dividend yield FY13ii (%)	0.5
Free float (%)	30.6

Price performance (%)

	1M	3M	1Y
Absolute (Rs)	41.5	29.8	355.5
Absolute (US$)	40.2	27.0	362.7
Rel. to Sensex	34.1	23.7	321.4

Cagr (%)	3 yrs
EPS	6.3

Stock performance



Financial summary (Rs m)

Y/e 31 Mar, Parent	FY11A	FY12A	FY13A	FY14A
Revenues (Rs m)	17,578	18,280	19,512	20,273
Ebitda margins (%)	*7.7*	*7.9*	*7.4*	*7.4*
Pre-exceptional PAT (Rs m)	513	558	523	620
Reported PAT (Rs m)	513	518	519	620
Pre-exceptional EPS (Rs)	7.1	7.7	7.2	8.5
Growth (%)	*9.5*	*8.6*	*(6.5)*	*18.3*
PER (x)	**38.0**	**35.0**	**37.4**	**31.6**
ROE (%)	*16.8*	*17.3*	*14.2*	*14.9*
Net debt/equity (x)	1.0	0.9	0.8	0.6
EV/Ebitda (x)	16.6	15.7	15.7	15.1
Price/book (x)	6.5	5.7	5.0	4.4

Source: Company, IIFL Research. Priced as on 19 November 2014

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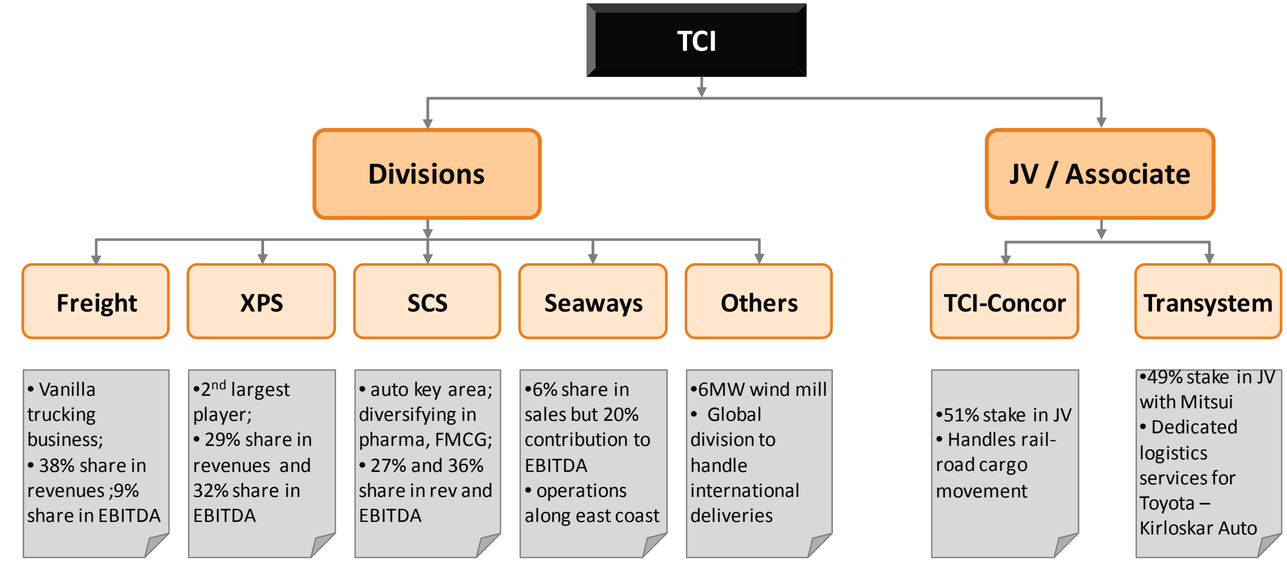
Company Snapshot:

- Transport Corporation of India Limited (TCI) was incorporated in 1958 in Calcutta by Late Prabhu Dayal Agarwal as a road transport company. Subsequent to going public in 1974, TCI diversified its activities into sea cargo movement.
- In 1989, the TCI group further diversified into surface cargo movement on the express mode by launching its express transportation service – GATI. However, in 1996, following the family division of assets among the seven sons of the late P.D. Agarwal, GATI was divested as a separate company.
- TCI today is headed by D.P. Agarwal. His sons Vineet and Chander Agarwal (third generation entrepreneurs) are also actively involved in the business. Over the years TCI has scaled up its operations significantly and it operates warehousing space of 10m sq ft with 7000 trucks (owned and leased) and services around 13,000 locations across India. Its seaways business has five cargo ships and 1200 containers.
- The company has organised its businesses in four key business segments: 1) freight division (provides vanilla road and rail transportation services); 2) express division (XPS - focuses on cargo deliveries in the B2B segment); 3) supply chain solutions (SCS - manages the complete logistics value chain for sectors such as auto and FMCG); and 4) seaways division (undertakes transportation through sea routes).
- Freight business is the largest division for TCI accounting for around 38% of FY14 revenue. However, its share in Ebitda remains low at only 9% since its profitability has been under pressure due to competitive forces (fragmented industry structure and the resultant overcapacity).
- On the other hand, TCI's two other businesses – SCS and XPS, which account for 28% and 30% to revenue respectively, have registered average growth of 16% and 18% in sales and Ebitda respectively over FY08-14.
- In SCS, TCI manages inbound and outbound logistics including warehousing. SCS derives 75-80% revenue from the automobile industry. Business from segments such as FMCG is catching up fast.
- In the XPS business, TCI provides express delivery services and deals with variety of industry verticals including e-commerce. Most shipments are through road (~90%). XPS commands market share of 25%, only next to GATI. In the e-commerce segment, it focuses mainly on the B2B segment and unlike Blue Dart it does not provide last mile connectivity.
- TCI operates five ships and it transports bulk and container cargo along the eastern coast of India (Chennai to Andaman and Nicobar). Although this segment accounts for 5% of TCI's FY14 revenue, its contribution in Ebitda is 13%. This is because company earns healthy Ebitda margins of 15%-25% in this segment.
- TCI also has a 49:51 JV with Mitsui (Japan) to manage auto components logistics for Toyota Kirloskar Motors Ltd. This JV accounts for 6-8% of TCI's consolidated revenue and 15-20% of PAT.

Management

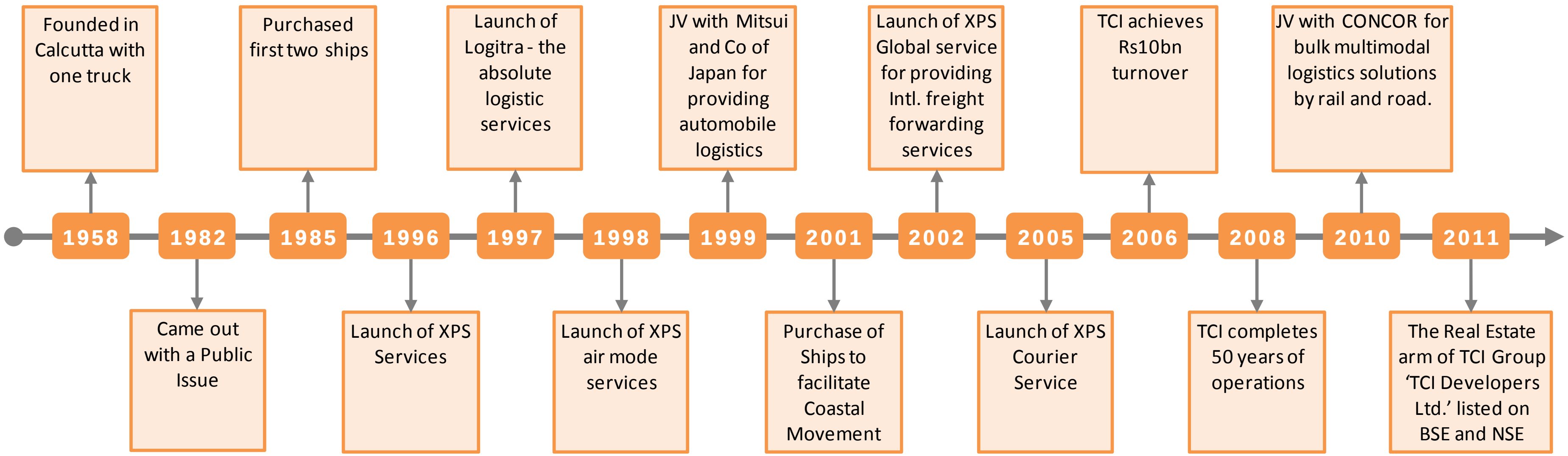
Name	Designation	Remarks / management description
DP Agarwal	Vice Chairman & MD	Associated with the transport industry for 40 years
Vineet Agarwal	MD	Instrumental in reshaping TCI's business model
Chander Agarwal	Jt. MD	Spearheading TCI's Express Cargo Services.

Key divisions and joint ventures of TCI



Source: Company, IIFL Research

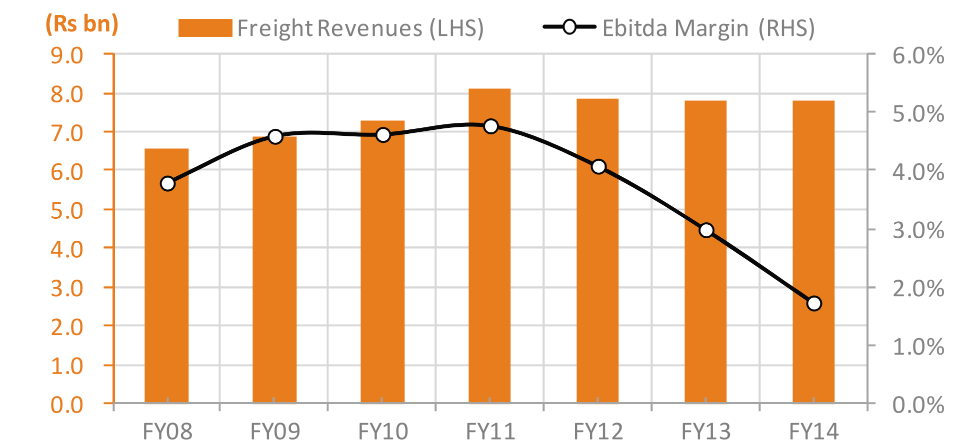
TCI's key achievements and initiatives since inception



Source: Company, IIFL Research

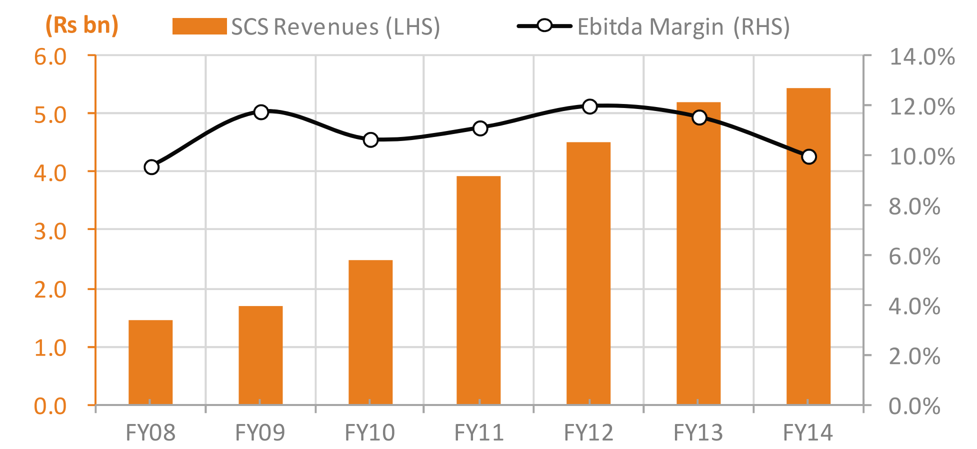
Performance of the key business segments

Figure 1: Vanilla trucking "Freight division's" profitability is under pressure



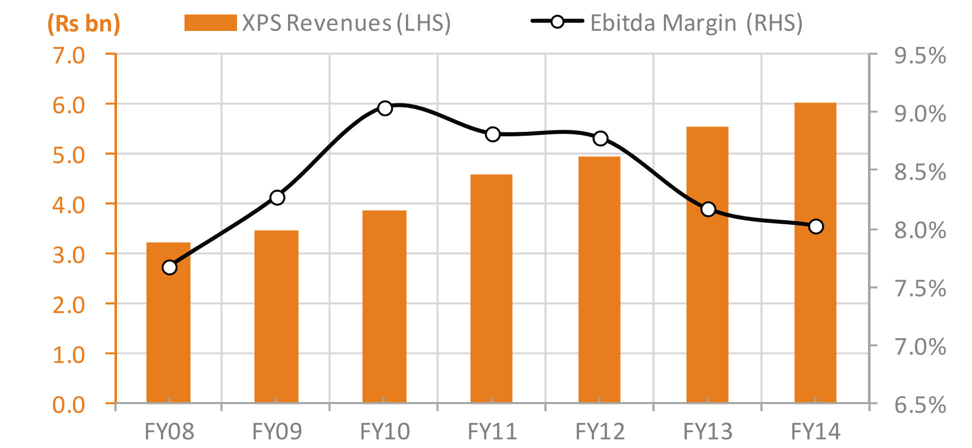
Source: Company, IIFL Research

Figure 2: SCS is the fastest growing business, but is yet to reach steady-state margins



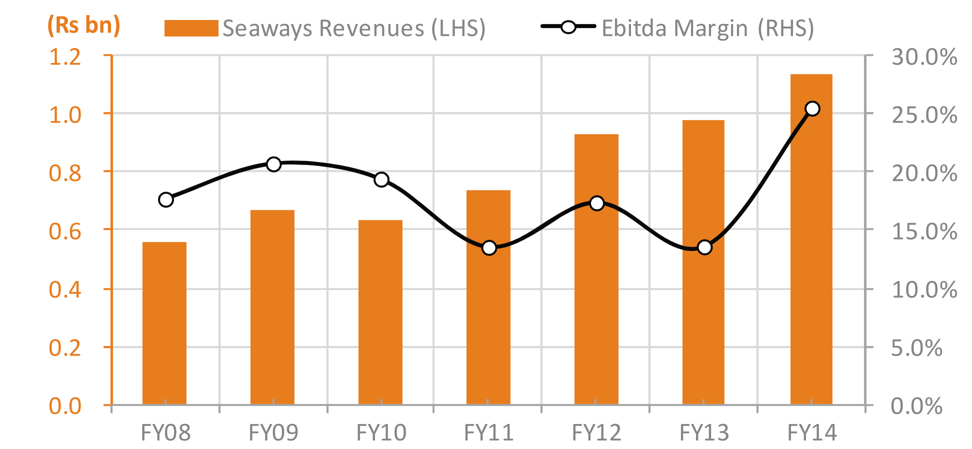
Source: Company, IIFL Research

Figure 3: Margins in the XPS business have remained steady at 8-9% over the years



Source: Company, IIFL Research

Figure 4: TCI's seaways business, although small, has the highest profitability



Source: Company, IIFL Research

Plans to move up the value chain

TCI is focussing more on its SCS and XPS businesses. Through FY07-14, it invested Rs4.4bn in these two businesses for setting up warehouses, fulfilment centres, and purchasing delivery trucks. Unlike the vanilla transport businesses where margins are under significant pressure because of a fragmented industry, these two businesses require differentiated service offerings and have significant entry barriers. Through FY15-17, TCI has planned additional investment to augment the warehousing and delivery capacities for these businesses.

Figure 5: Through FY15-17, TCI plans to invest Rs5bn to augment infrastructure further

Rs m	FY07-14	FY15-17
Hub and w/houses	2,186	2,798
Wind power	90	-
Ships and containers	739	1,181
Trucks and cars	2,200	878
Others	645	144
Total	**5,860**	**5,000**

Source: Company, IIFL Research

In the SCS business, TCI works with almost every automobile manufacturer and helps it optimise inventory-handling costs. It provides inbound logistics (i.e. procuring raw materials / key components) for the OEM manufacturers, outbound logistics (moving vehicles from the factories to the warehouses), and stocking vehicles at the warehouses. TCI boasts of an extended learning curve in this business developed through its JV with Mitsui, Japan. This JV (TCI owns 49% stake) manages the entire inbound logistics operations of Toyota Kirloskar Motors India since 1999.

Clearly, the ability to provide integrated services drives the dynamics of the business, TCI with its PAN India presence, scores over others. So far, around 80% of the SCS revenue accrues from the auto segment.

JV with Mitsui has helped TCI built global service standards:

- TCI and Mitsui & Co. Ltd. (Japan) formed a JV- 'Transystem Logistics International Pvt. Ltd.' (Transystem), to meet the logistics requirement of Toyota Kirloskar India. The JV is operational since 1999. TCI has 49% equity stake and Mitsui owns balance.

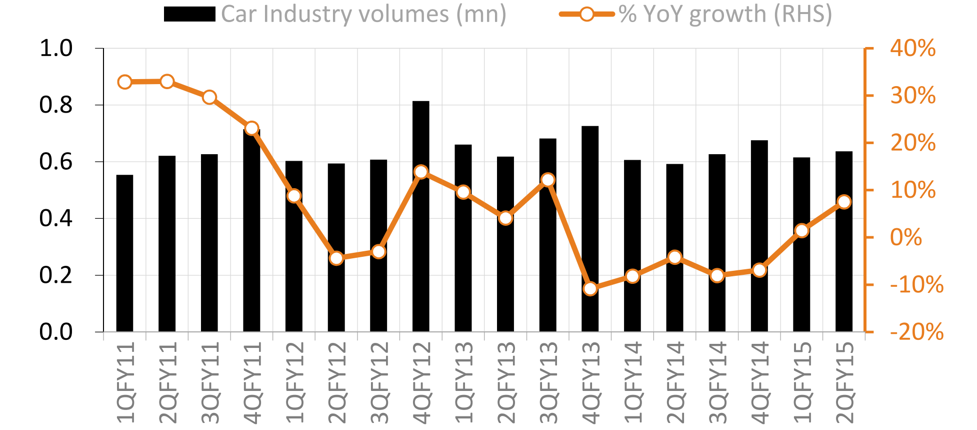
- TCI has benefited from the JV given Mitsui's global presence and its international expertise in handling such operations. Mitsui's resources and skills in training of personnel, offering management consultant services and developing operational systems helped TCI streamline its operations and meet international standards.

- Today, the JV provides inbound and outbound logistics services to auto original equipment manufacturers (OEM):
  - **Inbound Logistics:** supply of production parts from suppliers across India and other countries to the factories of OEMs
  - **Outbound Logistics**: transportation of Complete Built-up Units (CBUs) to auto dealers all over India
  - **Service Parts Logistics**: supply of auto parts to dealers all over India
  - **Warehousing**: storage service for suppliers to stock the materials close to the auto factories.

- The JV meets 100% of inbound logistics and 65-70% of outbound logistics requirement of Toyota Kirloskar India. Additionally, the company is also providing logistics services to Honda since 2009 and Renault since 2010.

- Over FY09-14, both revenue and PAT of the JV have grown at ~25% Cagr each. This JV accounts for 6-8% of TCI's consolidated revenue and 15-20% of consolidated PAT.

Figure 6: Revival in the auto sector is positive for TCI's supply chain business



Source: Company, Industry, IIFL Research

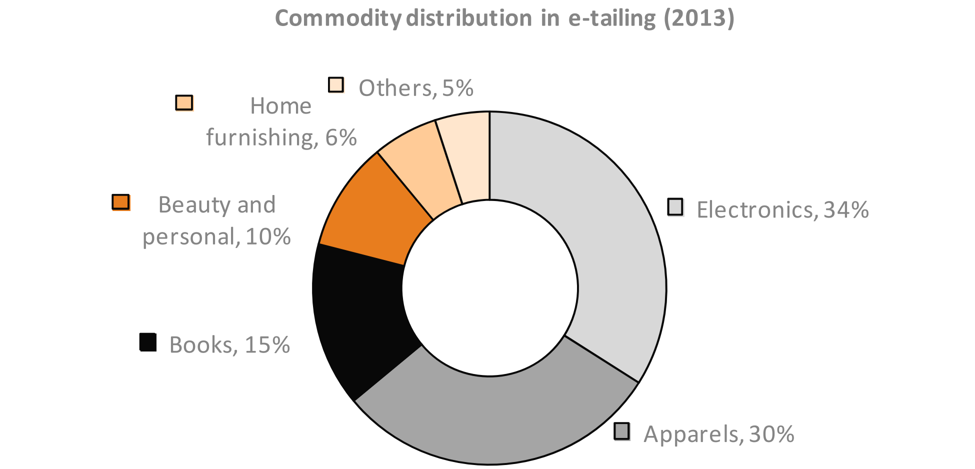
However, TCI has plans to invest in setting up cold chains for catering to the FMCG, pharmaceutical and organised retail industries. Ebitda margins for this business have been at 10-12% over the past few years and are likely to remain in this range.

Overall, it seems confident of achieving revenue growth of 15-20% pa through FY15-17 mainly driven by: 1) revival in the automotive sector; and 2) expansion of its warehousing facilities to cater to other verticals/sectors such as chemicals, temperature-controlled logistics etc. Rollout of GST should further boost the revenue growth.

TCI expects its XPS business to register growth of at least 12-15% pa through FY15-17 on the back of: 1) pickup in the economy; and 2) growth in the e-commerce business. In this business, unlike GATI and Blue Dart (express delivery companies), TCI does not directly deal with the residential/consumer pick-up and drop-down services. It focuses only in the B2B segment of the express delivery market and caters to almost every industry vertical. The company move 90% of the shipments by road and the balance by air. Growth in this business segment is linked to pickup in industrial activity and general economic growth.

TCI also specialises in moving consumer durables and electronic equipment from facilities of the OEMs to warehouses of e-tailing companies. It does not deal with B2C deliveries. TCI also operates fulfilment centres for e-tailing companies and has plans to scale up these services. In all, TCI has invested in this business to set up hub centres, small warehouses and delivery vehicles. With a distribution reach of 13,000 locations, TCI has one of the largest networks across India and it services these locations through a combination of owned and leased delivery vehicles.

Figure 7: TCI specializes in transportation of Electronics and Home furnishing items



Source: Aurum, IIFL Research

Although a small revenue contributor, TCI's seaways business earns the highest Ebitda margin among all its divisions. This division focuses on cargo movement along the eastern coast and deals with perishable/ consumption goods. With five operating ships, TCI aims to start a new service line connecting Gujarat to Kerala. Introduction of new service lines and integration of "vanilla" freight business to offer multimodal services by deriving synergies from its JV with

Concor (TCI-Concor Multimodal Solutions, TCI stake 51%), according to management should drive at least 20% revenue CAGR through FY17.

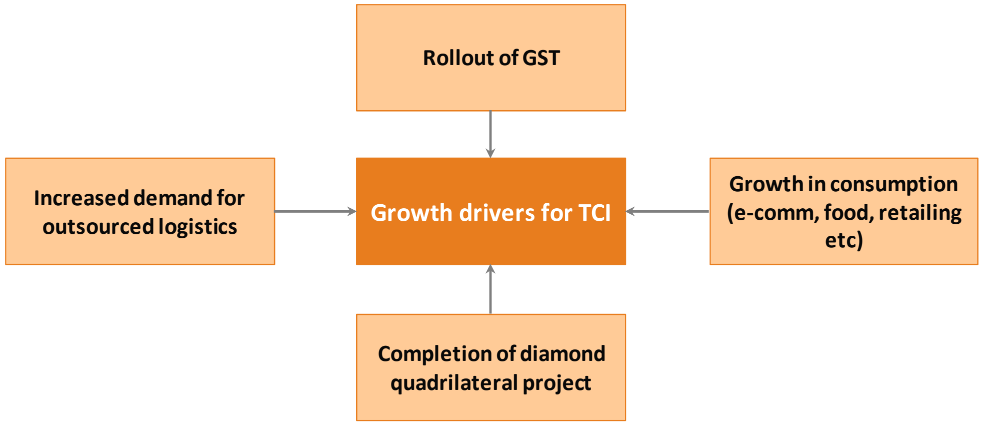
The share of revenue from TCI's vanilla freight business has been falling steadily since at least FY08. This is because of management's conscious decision to let go some of the non-profitable businesses and enhance margins by offering value added services, wherever possible. At best, this business is seen growing at 2-5% pa through FY15-17ii.

Figure 8: TCI has a established PAN India presence, which should help grow its business

	FY14
Warehousing space (mn sq ft)	10
Trucks and trailers	7,000
Ships	5
Ship cargo weight (DWT)	17,040
Containers	1,200
Offices	1,400
Employees	6,500
Outsourced team	20,000
Delivery reach	13,000

Source: Company, IIFL Research;

Figure 9: TCI revenues are likely to grow by 12-15% Cagr given multiple growth drivers



Source: Company, Industry, IIFL Research

Figure 10: Snapshot of industry growth in segments where TCI operates

Industry →	Freight	XPS	SCS	Seaways
Competitive intensity	V high	V low	V low	Low
Industry life cycle stage	Mature	Growth	Nascent	Growth
Industry Growth	5-8%	8-12%	20-30%	10-15%
TCI Ebitda Margins	3-5%	8-10%	10-12%	11-15%
TCI Growth Pattern	2-5%	8-12%	20-30%	10-15%
ROCE (5-yr Average)	13.30%	43.60%	24.60%	14.70%
ROCE (10-yr Average)	17.00%	39.80%	22.90%	18.20%

Source: Company, IIFL Research

GST rollout key for 3PL, warehousing growth

Being a federal country with 29 states and 7 union territories, India's duty and taxation system is complex and expensive and places burden on intra-India trade. Regulations exist at a number of different tiers and differ from city to city, hindering creation of national networks. The sector will benefit from implementation of policy reforms such as Goods and Services Tax (GST). A complicated tax regime places several challenges on the logistics industry. Payment of multiple state and central taxes results in:

- Considerable loss of time in transit for road freight in order to pay such taxes;
- Fragmentation of warehouse space especially for low margin products thereby providing a disincentive to create large integrated warehousing spaces.

GST will allow manufacturers to see India as one large geographical expanse on which to store and distribute with no state boundaries. This will, in turn, allow them to aggregate every 4-6 small state level warehouse into one large, regional warehouse and increasingly use the hub and spoke distribution model that offers proven cost and operational efficiencies in geographically large markets.

On the other hand, it will incentivize logistics companies and 3PL service providers to invest in scale, service focus and technology and align their service offering to the widely changing supply chains of their customers. Logistics Parks are also likely to gain importance with growth in freight volumes, traffic and a renewed focus on consolidation.

Multimodal transportation, which has been proven elsewhere in the world as a solution to reduce logistics costs faces a myriad of constraints in enabling smooth and seamless operations in India. At least four central government ministries oversee and regulate the transport sector and their individual powers overlap quiet often leaving the multimodal transporters in confusion. Cumbersome regulations and documentation procedures only add to the already high costs and delays.

With more and more players from the manufacturing sector relying on multimodal transportation, the potential for this segment of logistics is enormous. But what is required on a war footing is to plug the infrastructure gaps. As government alone cannot meet these objectives, it needs to encourage more and more private participation through PPP route. A coordinated approach is required from an empowered government body to oversee all infrastructure projects spanning road, rail, air, coastal shipping and inland waterways. The Indian economy needs multimodal logistics to sustain its growth.

While India has taken many positive steps to mitigate concerns related to infrastructure capacity and strenuous regulatory mechanisms, much needs to be done in order to create world class logistics ecosystem that would help achieve global competitiveness in the long term.

As the logistics industry in India evolves, it is the interplay of Infrastructure, technology and new types of service providers that will define whether the industry is able to help its customers reduce their logistics costs and provide effective services.

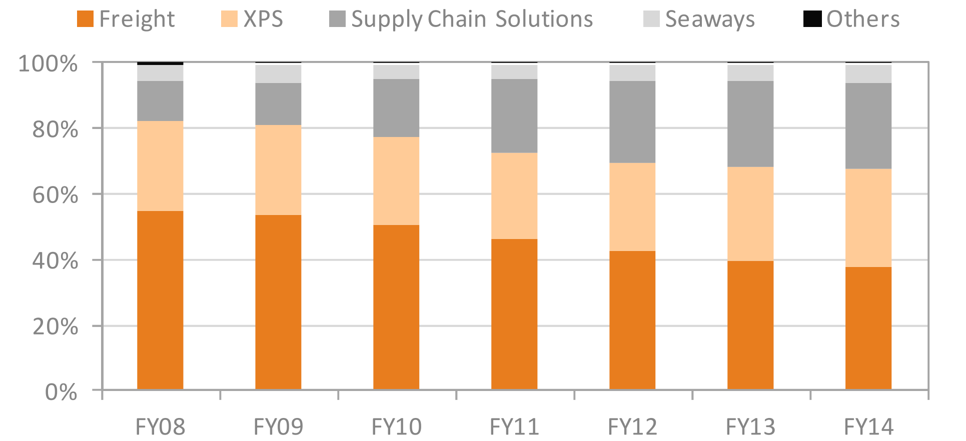
The next 12 months can become an action packed calendar for logistics in India if the government is able to create an environment that is conducive for investment and push through major policy reforms.

Source: TCI's FY14 Annual Report

Seamless execution could improve margins

Through FY08-14 TCI's high-margin XPS and SCS businesses have outpaced the growth of its core freight business; as a result, their share in revenue and Ebitda has increased. These two businesses accounted for 47% Ebitda in FY08 whereas in FY14, this share increased to 68%. Such a shift in the business mix has offset margin pressure on TCI's core freight business where Ebitda margin declined from an average 5% to <2% in FY14. Thus, TCI has maintained its blended Ebitda margin at 7-8%.

Figure 11: Share of high margin XPS and SCS is estimated to improve further ...

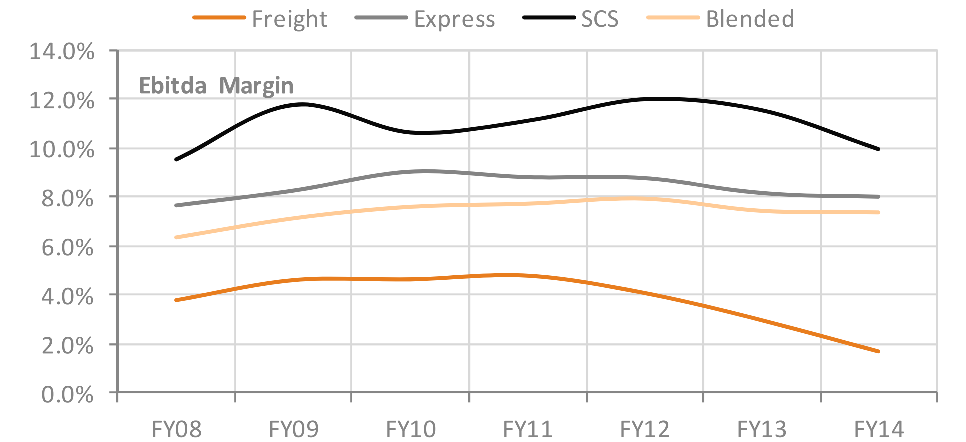


Source: Company, IIFL Research

Considering demand for warehousing, supply chain management and quality reliable third party logistics (3PL), TCI has plans to strengthen its network reach and scale of operations further. Management is upbeat on rollout of GST and the concomitant benefits to logistics players (see text box above). In all, it has plans to invest Rs5bn through FY15-17 to set up hub centres and small warehouses in SCS and XPS businesses, purchase trucks, and scale up its shipping business. Note that such investments are in addition to the Rs6bn invested through FY08-14 in these businesses.

Seamless execution of the business strategy of moving up the value chain and scaling up the XPS and supply chain businesses should improve overall Ebitda margins.

Figure 12:...which would drive blended Ebitda margins from here on

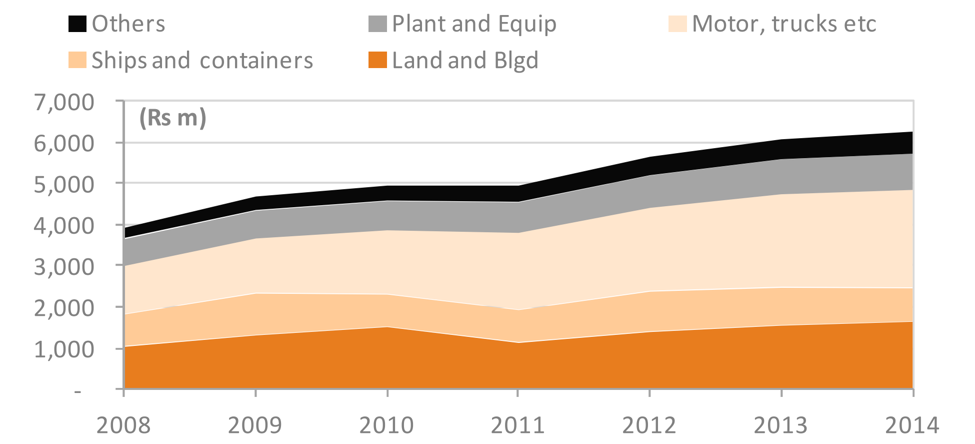


Source: Company, IIFL Research

Strategically TCI prefers to own real estate at key locations across India for its supply chain and XPS businesses. According to the management although this entails upfront capex initially, it improves competitive advantage significantly in the long term. Similarly, its strategy to part own fleet of trucks vs. long lease would need to be evaluated since the industry is at a nascent stage and several revenue models could emerge over the next 3-5 years.

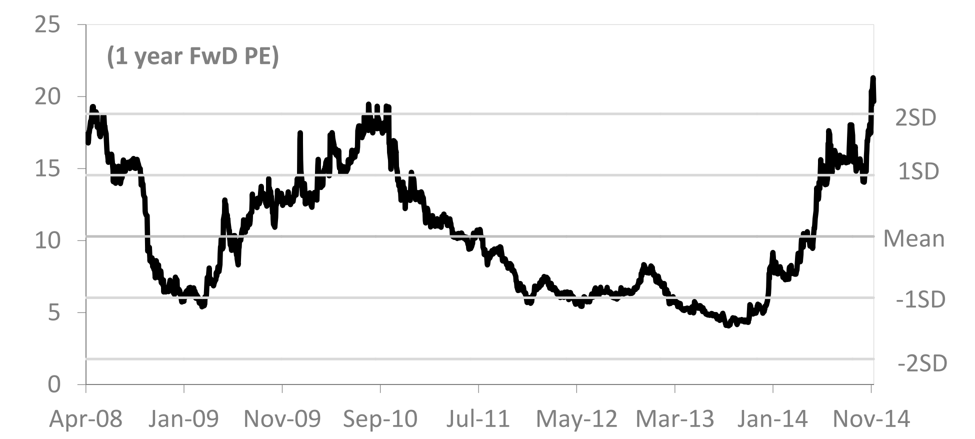
To part fund the planned capex through FY15-17, TCI has plans to raise equity. The timelines and quantum of such equity dilution are not yet clear. TCI's internal accruals and unleveraged balance sheet are adequate to fund such investments.

Figure 13: TCI incurs two-third capex towards land and building and motor and trucks



Source: Company, IIFL Research

Figure 14: Stock has seen a massive re-rating in past 1 yr, and valuations now not cheap



Source: Bloomberg, IIFL Research

Stock valuations not cheap wrt historical band

TCI's stock price has seen a significant re-rating in the past 12 months over which the stock has yielded ~350% returns. Expectations on rollout of GST and the concomitant benefits to players such as TCI that have a pan-India presence perhaps explain such massive re-rating. Partly, the re-rating is also attributable to the rub-on effect of re-rating in companies handling logistics for e-commerce companies (Blue Dart, Gati etc). The stock trades at 28x FY14 reported consolidated PAT, well above its historical average and 2SD. On consensus earnings (as reported on Bloomberg), the stock trades at 18x FY16 consolidated EPS.

TCI's valuations appear rich wrt its historical multiples, however, relative to its peers it trades inexpensively on consensus earnings forecasts

Company	M-cap	EPS Cagr		PE			PB			ROE (%)			EV/Ebitda		
	US$mn	FY11-14	FY14-17	FY14	FY15E	FY16E	FY14	FY15E	FY16E	FY14	FY15E	FY16E	FY14	FY15E	FY16E
Concor	4,618	4.1%	10.6%	29.3	30.0	24.8	4.2	3.8	3.5	14.9	13.2	14.6	23.6	19.8	15.7
Blue Dart	2,401	12.6%	24.8%	109.7	83.9	71.6	23.3	40.3	35.5	19.4	35.2	52.7	80.3	58.8	46.1
Allcargo*	686	-4.1%	20.7%	27.9	20.1	16.7	4.5	3.9	3.2	13.8	19.7	23.2	12.7	9.5	7.7
Gati*	439	29.7%	NA	85.3	NA	NA	8.3	NA	NA	9.4	NA	NA	38.0	NA	NA
TCI*	320	12.5%	18.9%	27.5	21.8	18.3	4.2	3.6	3.1	15.9	21.3	25.7	13.7	12.0	10.4

Source: Bloomberg, IIFL Research. * Bloomberg estimates

Figure 15: In last 10 quarters, TCI's revenues grew by 6-7% YoY and margins remained stable at 7-8%

Quarter Ended (Rs mn)	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14	2QFY14	3QFY14	4QFY14	1QFY15	2QFY15
Net Sales	**4,574**	**4,702**	**4,920**	**5,317**	**4,777**	**4,993**	**5,149**	**5,354**	**5,202**	**5,560**
Operating Costs	4,204	4,358	4,577	4,921	4,441	4,666	4,774	4,899	4,794	5,152
EBITDA	**370**	**344**	**343**	**396**	**336**	**327**	**375**	**455**	**408**	**408**
Other Income	13	9	-1	28	38	6	2	11	4	67
PBDIT	**383**	**353**	**342**	**424**	**374**	**333**	**377**	**466**	**412**	**475**
Depreciation	99	102	108	113	103	105	108	108	120	120
Interest	86	83	77	75	73	77	76	71	75	83
Pre-tax Profit	**198**	**168**	**158**	**236**	**198**	**151**	**193**	**288**	**217**	**272**
Tax	66	37	44	90	58	20	49	83	57	58
Profit After Tax	**133**	**131**	**113**	**146**	**140**	**131**	**144**	**205**	**160**	**214**
EO Gain / (Loss)	3	-	-	(7)	-	-	-	-	-	-
Reported Net Profit	**136**	**131**	**113**	**139**	**140**	**131**	**144**	**205**	**160**	**214**

Source: Company, IIFL Research

Figure 16:However the revenue mix is changing in favour of high margin XPS and SCS business – inline with TCI's long term strategy

Share in revenues (%)	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14	2QFY14	3QFY14	4QFY14	1QFY15	2QFY15
Freight Division	39%	39%	40%	41%	39%	39%	37%	38%	36%	36%
XPS Division	28%	29%	29%	27%	29%	30%	30%	29%	29%	30%
Supply Chain Solutions Division	27%	26%	26%	27%	25%	25%	28%	28%	29%	28%
Seaways Division	5%	5%	4%	5%	6%	6%	5%	5%	5%	5%
Energy Division	0%	1%	0%	0%	1%	1%	0%	0%	0%	1%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: Company, IIFL Research

Figure 17: The EBIT contribution from the traditional freight business has declined sharply given intense competition lowering pricing power

Share in EBIT (%)	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14	2QFY14	3QFY14	4QFY14	1QFY15	2QFY15
Freight Division	15%	17%	15%	10%	5%	1%	3%	9%	8%	6%
XPS Division	37%	37%	50%	33%	43%	42%	45%	34%	37%	37%
Supply Chain Solutions Division	35%	33%	33%	41%	26%	28%	28%	33%	29%	29%
Seaways Division	9%	2%	3%	16%	19%	20%	25%	25%	23%	20%
Energy Division	5%	10%	-1%	0%	7%	9%	-1%	-1%	3%	8%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: Company, IIFL Research

Financial summary

Income statement summary (Rs m)

Y/e 31 Mar, Parent	FY11A	FY12A	FY13A	FY14A
Revenues	**17,578**	**18,280**	**19,512**	**20,273**
Ebitda	1,355	1,445	1,449	1,493
Depreciation and amortisation	(321)	(379)	(421)	(424)
Ebit	1,034	1,067	1,028	1,069
Non-operating income	24	43	54	57
Financial expense	(257)	(333)	(322)	(297)
PBT	800	777	760	829
Exceptionals	0	(40)	(4)	0
Reported PBT	800	737	757	829
Tax expense	(287)	(219)	(237)	(209)
PAT	513	518	519	620
Minorities, Associates etc.	0	0	0	0
Attributable PAT	**513**	**518**	**519**	**620**

Ratio analysis

Y/e 31 Mar, Parent	FY11A	FY12A	FY13A	FY14A
Per share data (Rs)				
Pre-exceptional EPS	7.1	7.7	7.2	8.5
DPS	0.9	1.0	1.0	1.3
BVPS	41.4	47.6	53.6	60.6
Growth ratios (%)				
Revenues	21.2	4.0	6.7	3.9
Ebitda	23.1	6.7	0.2	3.1
EPS	9.5	8.6	(6.5)	18.3
Profitability ratios (%)				
Ebitda margin	7.7	7.9	7.4	7.4
Ebit margin	5.9	5.8	5.3	5.3
Tax rate	35.9	29.7	31.3	25.2
Net profit margin	2.9	2.8	2.7	3.1
Return ratios (%)				
ROE	16.8	17.3	14.2	14.9
ROCE	17.0	16.7	14.9	14.7
Solvency ratios (x)				
Net debt-equity	1.0	0.9	0.8	0.6
Net debt to Ebitda	2.1	2.1	2.2	1.9
Interest coverage	4.0	3.2	3.2	3.6

Source: Company data, IIFL Research

Balance sheet summary (Rs m)

Y/e 31 Mar, Parent	FY11A	FY12A	FY13A	FY14A
Cash & cash equivalents	109	142	177	185
Inventories	14	20	21	17
Receivables	2,995	3,074	3,562	3,461
Other current assets	736	665	752	741
Creditors	0	0	0	0
Other current liabilities	1,026	960	1,158	1,138
Net current assets	**2,828**	**2,940**	**3,355**	**3,266**
Fixed assets	3,090	3,582	3,770	3,692
Intangibles	0	0	0	0
Investments	280	294	320	440
Other long-term assets	131	182	97	396
Total net assets	**6,329**	**6,998**	**7,542**	**7,793**
Borrowings	3,012	3,221	3,324	3,045
Other long-term liabilities	309	317	314	327
Shareholders equity	**3,009**	**3,460**	**3,905**	**4,421**
Total liabilities	**6,329**	**6,998**	**7,542**	**7,793**

Cash flow summary (Rs m)

Y/e 31 Mar, Parent	FY11A	FY12A	FY13A	FY14A
Ebit	1,034	1,067	1,028	1,069
Tax paid	(287)	(219)	(237)	(209)
Depreciation and amortization	321	379	421	424
Net working capital change	(133)	(79)	(380)	97
Other operating items	(433)	(251)	212	196
Operating cash flow before interest	501	897	1,044	1,577
Financial expense	(257)	(333)	(322)	(297)
Non-operating income	24	43	54	57
Operating cash flow after interest	**268**	**607**	**777**	**1,337**
Capital expenditure	**(496)**	**(753)**	**(344)**	**(483)**
Long-term investments	71	(14)	(26)	(119)
Others	(164)	67	(389)	(337)
Free cash flow	**(321)**	**(92)**	**17**	**397**
Equity raising	0	0	0	0
Borrowings	295	209	103	(279)
Dividend	(76)	(85)	(85)	(111)
Net chg in cash and equivalents	(101)	32	35	8

Source: Company data, IIFL Research

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Key to our recommendation structure

BUY - Absolute - Stock expected to give a positive return of over 20% over a 1-year horizon.

SELL - Absolute - Stock expected to fall by more than 10% over a 1-year horizon.

In addition, **Add** and **Reduce** recommendations are based on expected returns relative to a hurdle rate. Investment horizon for **Add** and **Reduce** recommendations is up to a year. We assume the current hurdle rate at 10%, this being the average return on a debt instrument available for investment.

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