

Part C (30 marks)

Container Corporation of India has a stable business model as India's largest provider of inland transport by rail using containers. For example, annual operating cash flow declined only once in the last 13 years, in FY08- and that too by just 2% as compared to cash generated in FY07.

Over the last few years, the company has generated pre-tax operating cash flow as follows: FY 07: Rs 978 cr; FY 08: Rs 889 cr; FY 09: Rs 994 cr; FY 10: Rs 1,001 cr; and FY11: 1,034 cr.

The company is not only debt-free, it also has surplus cash of Rs 2,000 cr. on its balance sheet. It has 13 crore shares outstanding.

Assuming an interest cover of 3x of average operating cash flow, and an interest rate of 10%, answer the following questions:

1. What's the debt-capacity of the operating business on a per-share basis? (5 Marks)
2. If the minimum value of the business is at least 75% more than debt-capacity, then what's the minimum intrinsic value per share? (5 Marks)
3. At its current stock price of Rs 1,000 per share, what is the market's assessment of the value of the company's operating business? (5 Marks)
4. If average operating cash flow was to grow at 8% p.a. for the next 5 years and then grow at 2% p.a. in perpetuity, what's the equity value per share, using a discount rate of 10% p.a.? (15 Marks)

Midterm Exam Question

Container Corp. of India Ltd. Financial Highlights -Consolidated- [INR-Crore]					
DESCRIPTION	Mar-11	Mar-10	Mar-09	Mar-08	Mar-07
Income Statement Data					
Gross Sales	3892.47	3730.60	3452.40	3363.51	3062.10
Total Income	4094.34	3911.29	3663.50	3528.69	3146.85
Total Expenditure	2881.70	2771.08	2525.45	2486.98	2170.92
PBIT	1212.64	1140.21	1138.05	1041.71	975.93
PBIT	1063.77	1001.44	1018.51	933.20	882.33
PBT	1058.88	997.53	1014.22	930.39	882.08
PAT	878.92	777.61	779.46	732.38	695.89
Balance Sheet Data					
Equity Paid Up	129.98	129.98	129.98	64.99	64.99
Reserves and Surplus	4808.81	4166.98	3601.85	3100.60	2564.65
Net Worth	4938.73	4296.87	3731.77	3165.48	2629.47
Total Debt	47.32	42.42	48.71	50.28	30.47
Gross Block	3367.84	3070.29	2722.27	2326.86	2025.40
Investments	195.58	192.16	168.08	120.36	96.70
Cash and Bank balance	2296.09	1992.50	1768.86	1522.57	1077.57
Net Current Assets	2304.44	1915.74	1535.74	1351.41	915.93
Total Current Liabilities	553.86	637.67	625.01	548.60	468.45
Total Assets	4986.11	4339.38	3780.54	3215.87	2660.11
Cash Flow Data					
Profit Before Tax	1058.88	997.53	1014.22	930.39	882.00
Adjustment	2.85	-5.65	-55.72	-27.46	23.54
Changes in working Capital	-27.58	9.21	40.94	-13.93	72.86
Cash Flow after changes in Working Capital	1034.15	1001.09	999.44	889.00	978.40

Exercise done in Oct 2011

Total cash flow for five years = Rs 4,896 cr.

Average = Rs 979 cr.

Interest expense = 979cr/3 = Rs 326cr.

Debt business can easily support = Rs 326 cr./0.10 = Rs 3,260 cr. (ANSWER 1)

Minimum value of business = Rs 3,260*1.75=Rs 5,705 cr.

Minimum intrinsic value of the company = 5,705+2,000 cr= Rs 7,705 cr

Minimum intrinsic value of equity = Rs 7,705cr/13cr shares = Rs 592 per share

Did it fall to this level?