

# Container Corporation

**BUY**

## Resilient margins

CONCOR has sustained operating margin at a healthy 24.5% (flat QoQ) despite a sluggish demand environment. The operator will receive DFC compliant 25T axle load wagons from 3QFY20 onwards. We reiterate that it will be a key beneficiary of the DFC. Maintain BUY with a revised TP of Rs 645 (at 24x Sep-21 EPS).

### HIGHLIGHTS OF THE QUARTER

- Financials:** Despite tepid volumes (-2% YoY), CONCOR sustained healthy margins at 24.5% (flat QoQ) due to efficiency gains (lower empty running charges of Rs 526mn vs. Rs 648mn YoY) and a 5% price hike taken in the year. Adj. PAT at Rs 3.1bn is not comparable YoY as SEIS income (Rs 996mn in 2QFY19) has not been booked. CONCOR has improved profitability in the sluggish environment by focusing on its profitable routes as well as through efficiency gains.
- Dedicated Freight Corridor:** The management expects freight pricing on the DFC will be similar to the current railway charges. Further, as the 25ton axle load wagons are operationalised, CCRI will gain market share from the domestic roadways segment, particularly on the long haul routes. We believe that CONCOR will witness

healthy double digit growth with the phased commissioning of the DFC.

- Volume outlook:** Near term volume outlook remains tepid as management has lowered guidance to low single digits (0-2%) for FY20. To gain market share, the co is attempting to move bulk commodities, cement and food grains onto its containers. Medium term outlook will be driven by the shift from road once the DFC is operational.
- Reducing dependence on Indian Railways:** CONCOR derives over 40% of its vols from railway owned terminal. Current land license fee is Rs 1,175 per container (vs. Rs 1,015 YoY). They intend to shift to their own ICDs and will reduce the share of railways to 30%.

### STANCE

**We reiterate BUY as (1) Vol growth is expected in mid-teens with the commissioning of the DFC. We are building in 14/18% growth in volumes over FY21/22E (2) Margins have been resilient amidst a weak macro and (3) Any developments on privatization will improve valuations. Key risk: Any increase in charges by Indian railways.**

### Financial Summary: Standalone

(Rs mn)	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)	FY18	FY19	FY20E	FY21E	FY22E
Net Sales	17,387	18,223	(4.6)	16,389	6.1	61,572	68,819	70,905	82,763	100,458
Adj. EBITDA	4,255	4,045	5.2	4,033	5.5	12,079	14,408	17,296	20,502	24,978
APAT	3,150	3,361	(6.3)	2,278	38.2	10,445	12,154	11,665	14,498	18,116
Diluted EPS (Rs)	5.2	5.5	(6.3)	3.7	38.2	17.1	19.9	19.1	23.8	29.7
P/E (x)						34.6	29.7	31.0	24.9	19.9
EV / EBITDA (x)						21.7	25.0	19.9	16.6	13.4
RoE (%)						11.5	12.3	11.4	13.9	16.2

Source: Company, HDFC sec Inst Research

INDUSTRY	LOGISTICS
<b>CMP (as on 31 Oct 2019)</b>	<b>Rs 588</b>
<b>Target Price</b>	<b>Rs 645</b>
Nifty	11,877
Sensex	40,129
KEY STOCK DATA	
Bloomberg	CCRI IN
No. of Shares (mn)	609
MCap (Rsbm) / (\$ mn)	358/5,051
6m avg traded value (Rsmn)	671
STOCK PERFORMANCE (%)	
<b>52 Week high / low</b>	<b>Rs 666/460</b>
	3M 6M 12M
Absolute (%)	15.0 19.3 16.0
Relative (%)	7.9 16.5 (0.5)
SHAREHOLDING PATTERN (%)	
	Jun-19 Sep-19
Promoters	54.8 54.8
FIs & Local MFs	12.3 12.5
FPIs	28.5 28.3
Public & Others	4.4 4.4
Pledged Shares	0.0 0.0

Source : BSE

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*Volumes were affected due to weak EXIM activity*

*Other expenses includes an amount of Rs 91.5mn provided for as discount on the eligible SEIS income of Rs 1.82bn*

*Depreciation expenses have risen by Rs 246mn on lease expense treatment under IND AS 116*

*Exceptional loss is due to the provision taken for the ineligible SEIS income of Rs 8.6bn. There is a corresponding deferred tax asset created of Rs 2.5bn*

### QUARTERLY FINANCIAL SNAPSHOT

Particulars (Rs mn)	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)	1HFY20	1HFY19	YoY (%)
Volumes (in TEU)	969,158	988,727	(2.0)	926,923	4.6	1,896,081	1,923,998	(1.5)
Realization/TEU	17,940	18,431	(2.7)	17,681	1.5	17,813	17,622	1.1
<b>Net Sales</b>	<b>17,387</b>	<b>18,223</b>	<b>(4.6)</b>	<b>16,389</b>	<b>6.1</b>	<b>33,776</b>	<b>33,906</b>	<b>(0.4)</b>
Ex-SEIS	17,387	17,227	0.9	16,389	6.1	33,776	32,202	4.9
SEIS	-	996	NA	-	NA	-	1,704	NA
Railway Charges	9,397	9,714	(3.3)	8,953	5.0	18,350	18,437	(0.5)
Employee Expenses	829	802	3.4	806	2.9	1,635	1,503	8.8
Other Operating Expenses	2,905	2,666	9.0	2,598	11.8	5,503	5,022	9.6
<b>Total Expenses</b>	<b>13,132</b>	<b>13,181</b>	<b>(0.4)</b>	<b>12,357</b>	<b>6.3</b>	<b>25,488</b>	<b>24,962</b>	<b>2.1</b>
<b>EBITDA</b>	<b>4,255</b>	<b>5,042</b>	<b>(15.6)</b>	<b>4,033</b>	<b>5.5</b>	<b>8,288</b>	<b>8,944</b>	<b>(7.3)</b>
<b>Adj. EBITDA</b>	<b>4,255</b>	<b>4,045</b>	<b>5.2</b>	<b>4,033</b>	<b>5.5</b>	<b>8,288</b>	<b>7,240</b>	<b>14.5</b>
Depreciation	1,278	1,048	22.0	1,253	2.0	2,532	2,070	22.3
<b>EBIT</b>	<b>2,977</b>	<b>3,994</b>	<b>(25.5)</b>	<b>2,779</b>	<b>7.1</b>	<b>5,756</b>	<b>6,874</b>	<b>(16.3)</b>
Other Income (Including EO Items)	(7,974)	692	NA	583	NA	(7,391)	1,313	NA
Interest Cost	81	-	-	112	NA	194	-	-
<b>PBT</b>	<b>(5,078)</b>	<b>4,686</b>	<b>NA</b>	<b>3,250</b>	<b>NA</b>	<b>(1,829)</b>	<b>8,187</b>	<b>NA</b>
Tax	(1,856)	1,326	NA	971	NA	(885)	2,302	NA
<b>RPAT</b>	<b>(3,222)</b>	<b>3,361</b>	<b>NA</b>	<b>2,278</b>	<b>NA</b>	<b>(944)</b>	<b>5,885</b>	<b>NA</b>
EO (Loss) / Profit (Net Of Tax)	(6,372)	-	-	-	-	(6,372)	-	-
<b>APAT</b>	<b>3,150</b>	<b>3,361</b>	<b>(6.3)</b>	<b>2,278</b>	<b>38.2</b>	<b>5,428</b>	<b>5,885</b>	<b>(7.8)</b>
<b>EPS</b>	<b>5.2</b>	<b>5.5</b>	<b>(6.3)</b>	<b>3.7</b>	<b>38.2</b>	<b>8.9</b>	<b>9.7</b>	<b>(7.8)</b>

Source: Company, HDFC sec Inst Research

As % of net sales	2QFY20	2QFY19	YoY (bps)	1QFY20	QoQ (bps)	1HFY20	1HFY19	YoY (bps)
Railway Charges	54.0	53.3	74	54.6	(58)	54.3	54.4	(5)
Employee Expenses	4.8	4.4	37	4.9	(15)	4.8	4.4	41
Other Operating Expenses	16.7	14.6	208	15.8	86	16.3	14.8	148
Total Expenses	75.5	72.3	319	75.4	13	75.5	73.6	184
EBITDA	24.5	27.7	(319)	24.6	(13)	24.5	26.4	(184)
Adj. EBITDA	24.5	23.5	99	24.6	(13)	24.5	22.5	205
APAT Margin (%)	18.1	18.4	(33)	13.9	421	16.1	17.4	(129)
Tax Rate (%)	NA	28.3	NA	29.9	NA	NA	28.1	NA

Source: Company, HDFC sec Inst Research

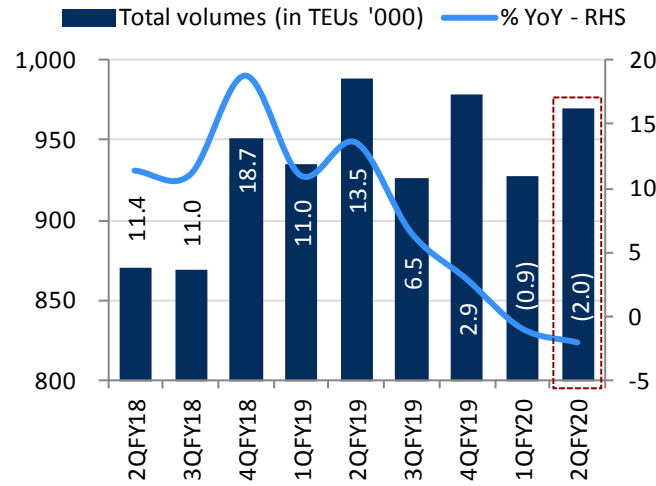
**In 1HFY20, volumes declined 5% to 20.9mn tons**

**For 1HFY20, lead distance was higher at 786 kms vs. 773 1HFY19**

**Double stack trains were 674 in 2QFY20 compared to 812/758 trains YoY/QoQ**

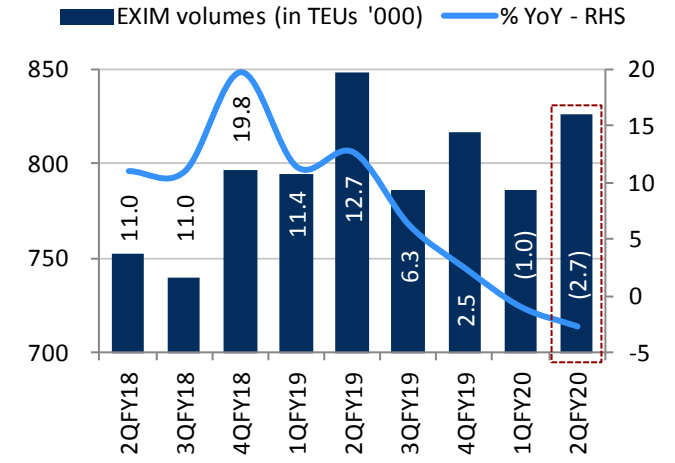
**Management believes that CONCOR is eligible to receive the SEIS benefit of Rs 8.6bn which DFGT has disapproved of. The co is taking legal advice as competitors have already received similar income**

**Volumes impacted amidst a weak macro backdrop**



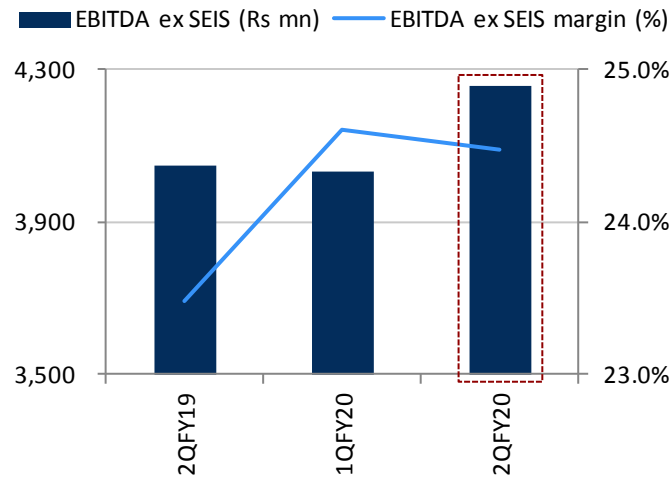
Source: Company, HDFC sec Inst Research

**EXIM Volumes**



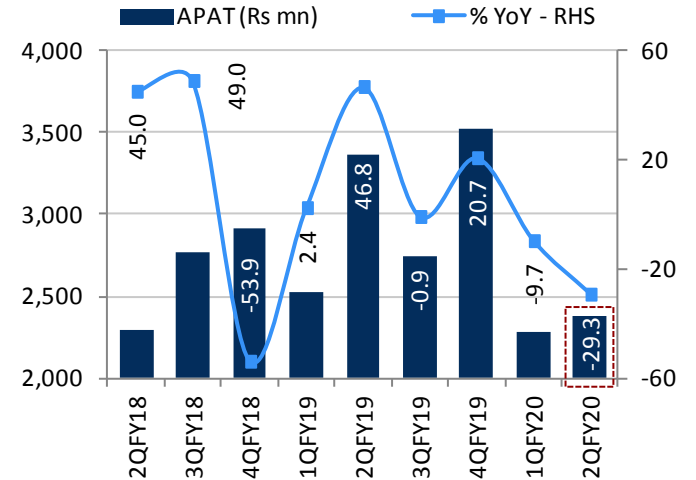
Source: Company, HDFC sec Inst Research

**EBITDA Margins are healthy at 24.5%**



Source: Company, HDFC sec Inst Research

**PAT: Not comparable YoY due to SEIS income**



Source: Company, HDFC sec Inst Research

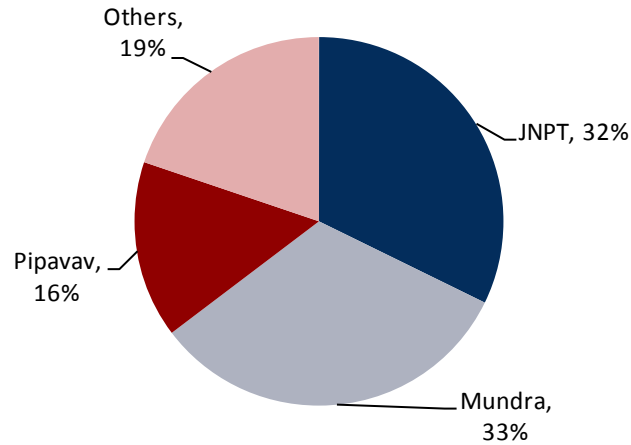
**Market share at the major ports has reduced as the company is not participating in low margin short haul traffic**

**Current market share in 1HFY20 is 67.4% (vs. 73.1% YoY)**

**Rail coefficient remains low at JNPT 17% and Mundra 27%**

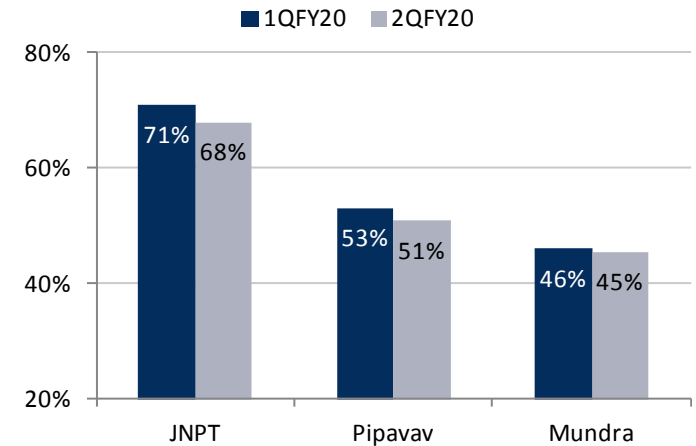
**Capex for 1HFY20 was Rs ~1240mn. As the DFC compliant wagons are delivered over 2H, management is confident of achieving its guidance of Rs 800mn**

**Current port-wise mix (%)**



Source: Company, HDFC sec Inst Research

**CONCOR's market share at various ports**



Source: Company, HDFC sec Inst Research

**CONCOR will receive DFC compliant wagons from 3QFY20 onwards**

**We are building in higher volumes in FY21-22 as the logistics provider will benefit from the commissioning of the DFC**

### Key assumptions

	FY18	FY19	FY20E	FY21E	FY22E
Domestic TEU	529,952	584,160	613,368	699,240	811,118
% YoY	15.1	10.2	5.0	14.0	16.0
Exports TEU	3,001,948	3,245,259	3,310,164	3,773,587	4,466,664
% YoY	13.6	8.1	2.0	14.0	18.4
<b>Total TEU</b>	<b>3,531,900</b>	<b>3,829,419</b>	<b>3,923,532</b>	<b>4,472,827</b>	<b>5,277,782</b>
% YoY	<b>13.9</b>	<b>8.4</b>	<b>2.5</b>	<b>14.0</b>	<b>18.0</b>
Realizations (in INR)	17,433	17,971	18,072	18,504	19,034
% Growth	(2.0)	3.1	0.6	2.4	2.9

Source: Company, HDFC sec Inst Research

### Change in estimates

	NEW			OLD			% chng		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Net Revenue	70,905	82,763	100,458	71,865	82,746	99,671	(1)	0	1
Adj. EBITDA	17,296	20,502	24,978	16,737	19,826	24,191	3	3	3
Adj. EBITDA margin (%)	24.6	25.0	25.0	23.9	24.4	24.5	78 bps	62 bps	50 bps
PAT	11,665	14,498	18,116	11,652	14,255	17,559	0	2	3
EPS	19.1	23.8	29.7	19.1	23.4	28.8	0	2	3

Source: HDFC sec Inst Research

**Income Statement (Standalone)**

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
<b>Net Revenues</b>	<b>61,572</b>	<b>68,819</b>	<b>70,905</b>	<b>82,763</b>	<b>100,458</b>
<b>Growth (%)</b>	<b>11.6</b>	<b>11.8</b>	<b>3.0</b>	<b>16.7</b>	<b>21.4</b>
Railway Charges	41,683	45,175	47,152	54,789	66,001
Employee Cost	2,779	3,368	3,333	3,559	4,420
Other Expenses	2,352	2,477	2,446	3,228	4,360
<b>Total Expenditure</b>	<b>46,814</b>	<b>51,019</b>	<b>52,931</b>	<b>61,576</b>	<b>74,781</b>
<b>EBITDA</b>	<b>14,758</b>	<b>17,800</b>	<b>17,974</b>	<b>21,187</b>	<b>25,677</b>
<b>EBITDA Margin (%)</b>	<b>24.0</b>	<b>25.9</b>	<b>25.4</b>	<b>25.6</b>	<b>25.6</b>
<b>Adj. EBITDA</b>	<b>12,079</b>	<b>14,408</b>	<b>17,296</b>	<b>20,502</b>	<b>24,978</b>
<b>Adj. EBITDA Margin (%)</b>	<b>20.5</b>	<b>22.0</b>	<b>24.6</b>	<b>25.0</b>	<b>25.0</b>
<b>EBITDA Growth (%)</b>	<b>20.7</b>	<b>19.3</b>	<b>20.0</b>	<b>18.5</b>	<b>21.8</b>
Depreciation	3,927	4,246	4,954	5,124	5,213
<b>EBIT</b>	<b>10,832</b>	<b>13,554</b>	<b>13,020</b>	<b>16,063</b>	<b>20,464</b>
Other Income (Including EO Items)	3,026	3,342	(5,695)	3,520	3,966
Interest	1	7	208	212	224
<b>PBT</b>	<b>13,857</b>	<b>16,889</b>	<b>7,118</b>	<b>19,371</b>	<b>24,206</b>
Tax (Incl Deferred)	3,412	4,735	1,825	4,874	6,090
<b>RPAT</b>	<b>10,445</b>	<b>12,154</b>	<b>5,293</b>	<b>14,498</b>	<b>18,116</b>
EO (Loss) / Profit (Net Of Tax)	-	-	(6,372)	-	-
<b>APAT</b>	<b>10,445</b>	<b>12,154</b>	<b>11,665</b>	<b>14,498</b>	<b>18,116</b>
<b>APAT Growth (%)</b>	<b>25.1</b>	<b>16.4</b>	<b>(4.0)</b>	<b>24.3</b>	<b>25.0</b>
<b>Adjusted EPS (Rs)</b>	<b>17.1</b>	<b>19.9</b>	<b>19.1</b>	<b>23.8</b>	<b>29.7</b>
<b>EPS Growth (%)</b>	<b>25.1</b>	<b>16.4</b>	<b>(4.0)</b>	<b>24.3</b>	<b>25.0</b>

Source: Company, HDFC sec Inst Research \*EBITDA adjusted for SIES income

**Balance Sheet (Standalone)**

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
<b>SOURCES OF FUNDS</b>					
Share Capital - Equity	2,437	3,047	3,047	3,047	3,047
Reserves	91,300	100,632	98,146	104,162	112,740
<b>Total Shareholders Funds</b>	<b>93,737</b>	<b>103,679</b>	<b>101,192</b>	<b>107,209</b>	<b>115,786</b>
<b>Total Debt</b>	<b>-</b>	<b>7,007</b>	<b>101</b>	<b>113</b>	<b>124</b>
<b>Deferred Tax Liability</b>	<b>1,732</b>	<b>1,616</b>	<b>(970)</b>	<b>(873)</b>	<b>(786)</b>
<b>TOTAL SOURCES OF FUNDS</b>	<b>95,469</b>	<b>112,301</b>	<b>100,323</b>	<b>106,449</b>	<b>115,125</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	36,484	41,947	45,118	48,116	51,023
CWIP	6,710	6,247	6,122	5,999	5,879
Investments	7,142	7,280	7,531	7,782	8,033
<b>Total Non-current Assets</b>	<b>50,336</b>	<b>55,474</b>	<b>58,771</b>	<b>61,898</b>	<b>64,936</b>
Cash & Equivalents	26,566	8,453	17,325	20,094	25,741
Inventories	274	233	194	227	275
Debtors	604	884	913	1,066	1,294
Other Current Assets	29,280	61,025	37,716	38,899	40,120
<b>Total Current Assets</b>	<b>56,723</b>	<b>70,594</b>	<b>56,149</b>	<b>60,286</b>	<b>67,429</b>
Creditors	10,886	13,048	13,733	14,699	15,997
Other Current Liabilities & Provsns	704	719	863	1,036	1,243
<b>Total Current Liabilities</b>	<b>11,590</b>	<b>13,767</b>	<b>14,596</b>	<b>15,735</b>	<b>17,240</b>
<b>Net Current Assets</b>	<b>45,133</b>	<b>56,827</b>	<b>41,552</b>	<b>44,551</b>	<b>50,189</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>95,469</b>	<b>112,301</b>	<b>100,323</b>	<b>106,449</b>	<b>115,125</b>

Source: Company, HDFC sec Inst Research

**Cash Flow (Standalone)**

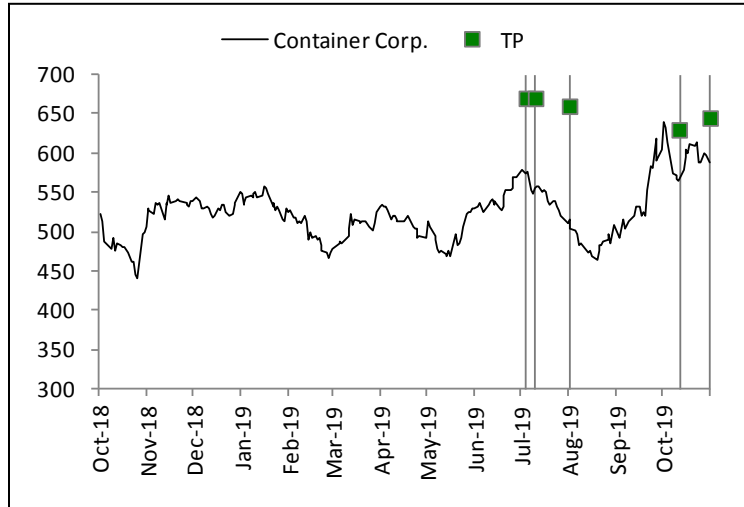
(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Reported PBT	13,857	16,889	7,118	19,371	24,206
Non-operating & EO Items	(3,026)	(3,342)	5,695	(3,520)	(3,966)
Interest Expenses	1	7	208	212	224
Depreciation	3,927	4,246	4,954	5,124	5,213
Working Capital Change	2,606	(29,806)	24,147	(230)	8
Tax Paid	(3,961)	(4,851)	(4,410)	(4,777)	(6,003)
<b>OPERATING CASH FLOW ( a )</b>	<b>13,403</b>	<b>(16,858)</b>	<b>37,711</b>	<b>16,181</b>	<b>19,682</b>
Capex	(8,352)	(9,245)	(8,000)	(8,000)	(8,000)
<i>Free Cash Flow (FCF)</i>	<i>5,052</i>	<i>(26,103)</i>	<i>29,711</i>	<i>8,181</i>	<i>11,682</i>
Investments	(153)	(139)	(251)	(251)	(251)
Non-operating Income	3,026	3,342	(5,695)	3,520	3,966
<b>INVESTING CASH FLOW ( b )</b>	<b>(5,479)</b>	<b>(6,042)</b>	<b>(13,946)</b>	<b>(4,731)</b>	<b>(4,285)</b>
Debt Issuance/(Repaid)	-	7,007	(6,906)	12	11
Interest Expenses	(1)	(7)	(208)	(212)	(224)
<i>FCFE</i>	<i>5,051</i>	<i>(19,104)</i>	<i>22,598</i>	<i>7,981</i>	<i>11,469</i>
Share Capital Issuance	57	5,609	-	-	-
Dividend	(4,998)	(7,821)	(7,779)	(8,481)	(9,538)
<b>FINANCING CASH FLOW ( c )</b>	<b>(4,942)</b>	<b>4,787</b>	<b>(14,893)</b>	<b>(8,681)</b>	<b>(9,751)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>2,982</b>	<b>(18,113)</b>	<b>8,873</b>	<b>2,769</b>	<b>5,646</b>
Closing Cash & Equivalents	26,565	8,453	17,325	20,094	25,740

Source: Company, HDFC sec Inst Research

**Key Ratios (Standalone)**

KEY RATIOS	FY18	FY19	FY20E	FY21E	FY22E
<b>PROFITABILITY (%)</b>					
Adj. GPM	29.2	31.0	32.9	33.2	33.8
Adj. EBITDA Margin	20.5	22.0	24.6	25.0	25.0
EBIT Margin	17.6	19.7	18.4	19.4	20.4
APAT Margin	17.0	17.7	16.5	17.5	18.0
RoE	11.5	12.3	11.4	13.9	16.2
RoIC (or Core RoCE)	12.0	11.3	10.4	14.2	17.4
RoCE	8.8	9.4	9.1	11.6	13.8
<b>EFFICIENCY</b>					
Tax Rate (%)	24.6	28.0	25.6	25.2	25.2
Fixed Asset Turnover (x)	1.7	1.6	1.6	1.7	2.0
<i>Inventory (days)</i>	<i>1.6</i>	<i>1.2</i>	<i>1.0</i>	<i>1.0</i>	<i>1.0</i>
<i>Debtors (days)</i>	<i>3.6</i>	<i>4.7</i>	<i>4.7</i>	<i>4.7</i>	<i>4.7</i>
<i>Other Current Assets (days)</i>	<i>173.6</i>	<i>323.7</i>	<i>194.2</i>	<i>171.6</i>	<i>145.8</i>
<i>Payables (days)</i>	<i>64.5</i>	<i>69.2</i>	<i>70.7</i>	<i>64.8</i>	<i>58.1</i>
<i>Other Current Liab &amp; Provns (days)</i>	<i>4.2</i>	<i>3.8</i>	<i>4.4</i>	<i>4.6</i>	<i>4.5</i>
Cash Conversion Cycle (days)	110.1	256.6	124.7	107.9	88.8
Debt/EBITDA (x)	-	0.4	0.0	0.0	0.0
Net D/E (x)	(0.3)	(0.0)	(0.2)	(0.2)	(0.2)
Interest Coverage (x)	NA	NA	62.6	75.8	91.4
<b>PER SHARE DATA (Rs)</b>					
EPS	17.1	19.9	19.1	23.8	29.7
CEPS	29.5	26.9	27.3	32.2	38.3
Dividend	17.1	12.3	10.9	11.9	13.4
Book Value	192	170	166	176	190
<b>VALUATION</b>					
P/E (x)	34.6	29.7	31.0	24.9	19.9
P/BV (x)	3.1	3.5	3.6	3.4	3.1
EV/EBITDA (x)	21.7	25.0	19.9	16.6	13.4
EV/Revenues (x)	4.3	5.2	4.9	4.1	3.3
OCF/EV (%)	5.1	(4.7)	11.0	4.7	5.9
FCF/EV (%)	1.9	(7.3)	8.6	2.4	3.5
FCFE/Mkt Cap (%)	1.7	(5.3)	6.3	2.2	3.2
Dividend Yield (%)	2.9	2.1	1.8	2.0	2.3

Source: Company, HDFC sec Inst Research

**RECOMMENDATION HISTORY**


Date	CMP	Reco	Target
4-Jul-19	573	BUY	670
10-Jul-19	549	BUY	670
2-Aug-19	515	BUY	660
11-Oct-19	564	BUY	630
31-Oct-19	588	BUY	645

**Rating Definitions**

- BUY** : Where the stock is expected to deliver more than 10% returns over the next 12 month period  
**NEUTRAL** : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period  
**SELL** : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period



## INSTITUTIONAL RESEARCH

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