

# Sluggish growth continues

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## Cutting PO and EPS on muted growth; Underperform

Concor Q3FY11 PAT grew 14.4%, strongest in nine quarters, and 7% higher than our estimate. Key driver of better growth is 25% rise in interest income while EBITDA growth was only 10%. We have cut EPS and PO by 4% as the traffic growth outlook continues to be sluggish.

## Traffic growth to remain 10-12% despite export recovery

In Q3FY11 total number of container handled by Concor grew 11% y-o-y. The management expects the growth rate to remain at around current level. The company's traffic growth is being restrained by macro factor as well as decline average distance of container transportation owing to shift in traffic in favour of new ports which are closer to hinterland. Also Concor is getting affected by decline in market share of railway to road owing to capacity constraint.

## Margin pressure has eased but may not sustain

EBITDA margin of Concor grew by 120bp q-o-q and 7.bp y-o-y as the traffic mix shifted in favour export route. However, sustaining current high margin will remain a challenge for the company owing decline in ability to pass the extent of railway freight cost hikes. Concor recently managed to pass on only 50% of the tariff hike effected by Indian Railway.

## Valuation de-rating likely to continue on slow growth

Concor is trading at PE of 16.2x FY12e and could de-rate further as earnings in FY12e and FY13e could grow only 12% and 8% on a relative low base of FY09 to FY11e. Such an extended period of slow growth is likely to hurt valuation.

### Estimates (Mar)

(Rs)	2009A	2010A	2011E	2012E	2013E
Net Income (Adjusted - mn)	7,915	7,867	8,807	9,849	10,609
EPS	60.89	60.52	67.76	75.77	81.62
EPS Change (YoY)	5.5%	-0.6%	12.0%	11.8%	7.7%
Dividend / Share	14.00	14.00	16.00	18.00	20.00
Free Cash Flow / Share	35.69	31.68	40.33	41.62	45.81

### Valuation (Mar)

	2009A	2010A	2011E	2012E	2013E
P/E	20.21x	20.33x	18.16x	16.24x	15.08x
Dividend Yield	1.14%	1.14%	1.30%	1.46%	1.63%
EV / EBITDA*	16.45x	15.93x	14.42x	12.84x	11.88x
Free Cash Flow Yield*	2.90%	2.57%	3.28%	3.38%	3.72%

\* For full definitions of *iQmethod*<sup>SM</sup> measures, see page 6.

### Stock Data

Price	Rs1,231
Price Objective	Rs1,212
Date Established	19-Jan-2011
Investment Opinion	A-3-7
Volatility Risk	LOW
52-Week Range	Rs1,072-Rs1,500
Mrkt Val / Shares Out (mn)	US\$3,523 / 130.0
Average Daily Volume	38,782
BofAML Ticker / Exchange	CIDFF / BSE
Bloomberg / Reuters	CCRI IN / CCRI.BO
ROE (2011E)	18.9%
Net Dbt to Eqty (Mar-2010A)	-45.9%
Est. 5-Yr EPS / DPS Growth	15.0% / 15.0%
Free Float	36.3%

### Key Changes

(Rs)	Previous	Current
Price Obj.	1,260.00	1,212.00
2011E Rev (m)	43,253.3	38,802.0
2012E Rev (m)	49,359.9	43,992.8
2013E Rev (m)	55,937.0	48,700.6
2011E EPS	69.97	67.76
2012E EPS	78.73	75.77
2013E EPS	87.64	81.62

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Refer to important disclosures on page 7 to 9. Analyst Certification on Page 4. Price Objective Basis/Risk on page 4. Link to Definitions on page 4. 11010791

# iQprofile<sup>SM</sup> Container Corp

Key Income Statement Data (Mar)	2009A	2010A	2011E	2012E	2013E
<b>(Rs Millions)</b>					
Sales	34,172	37,057	38,802	43,993	48,701
Gross Profit	9,311	9,616	10,626	11,928	12,896
Sell General & Admin Expense	NA	NA	NA	NA	NA
Operating Profit	8,152	8,265	9,223	10,263	10,935
Net Interest & Other Income	2,111	1,801	2,068	2,363	2,701
Associates	NA	NA	NA	NA	NA
Pretax Income	10,262	10,066	11,291	12,626	13,636
Tax (expense) / Benefit	(2,347)	(2,199)	(2,484)	(2,778)	(3,027)
Net Income (Adjusted)	7,915	7,867	8,807	9,849	10,609
Average Fully Diluted Shares Outstanding	130	130	130	130	130

## Key Cash Flow Statement Data

Net Income	7,915	7,867	8,807	9,849	10,609
Depreciation & Amortization	1,159	1,351	1,402	1,664	1,960
Change in Working Capital	487	(1,596)	388	280	280
Deferred Taxation Charge	177	168	137	154	168
Other Adjustments, Net	(397)	(168)	(137)	(154)	(168)
Cash Flow from Operations	9,342	7,622	10,597	11,793	12,850
Capital Expenditure	(4,703)	(3,504)	(5,355)	(6,383)	(6,895)
(Acquisition) / Disposal of Investments	(477)	0	0	0	0
Other Cash Inflow / (Outflow)	NA	NA	NA	NA	NA
Cash Flow from Investing	(5,180)	(3,504)	(5,355)	(6,383)	(6,895)
Shares Issue / (Repurchase)	NA	NA	NA	NA	NA
Cost of Dividends Paid	(2,129)	(2,129)	(2,433)	(2,737)	(3,041)
Cash Flow from Financing	(2,611)	(2,132)	(2,296)	(2,584)	(2,874)
Free Cash Flow	4,639	4,118	5,242	5,410	5,955
Net Debt	(17,415)	(19,895)	(22,842)	(25,668)	(28,749)
Change in Net Debt	(1,550)	(1,986)	(2,947)	(2,827)	(3,081)

## Key Balance Sheet Data

Property, Plant & Equipment	19,490	21,639	25,590	30,209	35,093
Other Non-Current Assets	4,488	4,396	4,396	4,496	4,546
Trade Receivables	157	176	170	172	174
Cash & Equivalents	17,415	19,895	22,842	25,668	28,749
Other Current Assets	3,987	5,652	5,460	5,516	5,571
Total Assets	45,537	51,758	58,459	66,061	74,133
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	1,938	2,109	2,246	2,400	2,568
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	6,196	6,284	6,474	6,812	7,149
Total Liabilities	8,134	8,393	8,721	9,212	9,717
Total Equity	37,622	43,364	49,738	56,849	64,417
Total Equity & Liabilities	45,756	51,757	58,459	66,061	74,133

## iQmethod<sup>SM</sup> - Bus Performance\*

Return On Capital Employed	20.8%	17.9%	17.6%	17.2%	16.4%
Return On Equity	22.8%	19.4%	18.9%	18.5%	17.5%
Operating Margin	23.9%	22.3%	23.8%	23.3%	22.5%
EBITDA Margin	27.2%	26.0%	27.4%	27.1%	26.5%

## iQmethod<sup>SM</sup> - Quality of Earnings\*

Cash Realization Ratio	1.2x	1.0x	1.2x	1.2x	1.2x
Asset Replacement Ratio	4.1x	2.6x	3.8x	3.8x	3.5x
Tax Rate (Reported)	22.9%	21.8%	22.0%	22.0%	22.2%
Net Debt-to-Equity Ratio	-46.3%	-45.9%	-45.9%	-45.2%	-44.6%
Interest Cover	NA	NA	NA	NA	NA

## Key Metrics

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 6.

## Company Description

Concor was incorporated in March, 1988 with the objective of developing multi modal logistics support for international and domestic containerized cargo and trade. It currently provides the rail transportation for containerized freight and also operates 57 ICDs/ CFSs spread throughout the country. It has also ventured into cold storage business through a 100% owned subsidiary.

## Investment Thesis

Concor is losing its pricing power, despite having around 75% marketshare of railway container traffic. The entry of new players and rising competition from road operators is the key reason for the decline in competitiveness. Concor has also been affected by the decline in distance travelled by each container owing to new ports, which are closer to customers. Additionally, a shift in export traffic to special economic zones is leading the decline in distance travelled.

## Stock Data

Price to Book Value 3.2x

19 January 2011

**Table 1: Concor quarterly income statement and operating data**

Rs mn	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
<b>Income from operations</b>	<b>8,845</b>	<b>9,505</b>	<b>9,159</b>	<b>9,442</b>	<b>9,711</b>
Expenditure	6,295	7,305	6,689	6,823	6,905
Rail Freight Expenses	4,844	5,571	5,274	5,353	5,371
Staff Cost	188	190	202	194	209
Admin & other expenses	1,263	1,543	1,213	1,276	1,325
<b>Operating profit</b>	<b>2,550</b>	<b>2,201</b>	<b>2,470</b>	<b>2,619</b>	<b>2,807</b>
Interest					
Depreciation	335	365	352	365	335
Other income	382	383	359	381	479
<b>Profit before tax</b>	<b>2,596</b>	<b>2,219</b>	<b>2,476</b>	<b>2,635</b>	<b>2,950</b>
Tax	590	487	541	567	655
<b>Net profit</b>	<b>2,006</b>	<b>1,732</b>	<b>1,935</b>	<b>2,068</b>	<b>2,296</b>
Prior year adjustments					
<b>Net profit (post-adjustments)</b>	<b>2,006</b>	<b>1,732</b>	<b>1,935</b>	<b>2,068</b>	<b>2,296</b>
<b>Growth (%), YoY</b>	<b>Dec-09</b>	<b>Mar-10</b>	<b>Jun-10</b>	<b>Sep-10</b>	<b>Dec-10</b>
Net Sales	4.6	13.0	0.9	-1.6	9.8
Operating profit	4.4	-2.3	-0.3	3.3	10.1
PBT	-2.6	-8.4	-3.8	-0.4	13.6
Net Profit	-2.8	-8.0	-3.7	1.2	14.4
<b>Margins (%)</b>	<b>Dec-09</b>	<b>Mar-10</b>	<b>Jun-10</b>	<b>Sep-10</b>	<b>Dec-10</b>
Operating profit	28.8	23.2	27.0	27.7	28.9
PBT	29.4	23.3	27.0	27.9	30.4
Net Profit	22.7	18.2	21.1	21.9	23.6
<b>Segment Revenue</b>					
International	6,718.28	7,256.614	7,202.07	7,333.14	7,615.96
Domestic	2126	2,248.715	1,956.80	2,109	2,095
<b>TEUs Handled</b>	<b>595,525</b>	<b>643,115</b>	<b>617,013</b>	<b>624,977</b>	<b>662,845</b>
EXIM	452,623	490,681	489,629	493,361	517,461
Domestic	142,902	152,434	127,384	131,616	145,384
<b>TEUs Handled</b>	<b>7.7%</b>	<b>18.7%</b>	<b>7.2%</b>	<b>2.6%</b>	<b>11.3%</b>
EXIM	1.9%	19.6%	7.8%	1.6%	14.3%
Domestic	31.3%	15.8%	5.1%	6.6%	1.7%
Margin per EXIM TEU	4,223	3,267	4,056	4,234	4,534
Margin per Domestic TEU	2,746	2,372	2,087	1,593	1,646

Source: Company

## Price objective basis & risk

### Container Corp (CIDFF)

Our PO of Rs1,212 is based on PE of 16x on FY12E earnings. The stock is currently trading at around a 20% premium to Sensex. Our PO basis of 16x is equivalent to a 5% discount to Sensex PE. There has been a strong correlation of port traffic growth and PE of Concor since the sector was de-regulated in FY06. We expect the stock to de-rate from a PE of 18x FY12E to 16x along with slowing traffic growth. At 16x, the stock would trade at a PEG of 1.2x. Risks: Further deterioration in the global economy impacting traffic and higher competition from road transport owing to slower than anticipated expansion of railway network. Upside risks are a sooner-than-anticipated set-up of the logistics park and a successful foray into the non-container traffic business that occurs before we anticipate.

## Link to Definitions

### Industrials

Click [here](#) for definitions of commonly used terms.

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19 January 2011

**India - General Coverage Cluster**

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Aditya Birla Nu	ADYAF	ABNL IN	Reena Verma Bhasin, CFA
	Anant Raj Industries Ltd	XNRJF	ARCP IN	Gagan Agarwal
	Brigade Enterprises	XBDGF	BRGD IN	Gagan Agarwal
	Chambal Fertilisers & Chemicals	CHBZF	CHMB IN	Prasad Deshmukh
	Cummins India	CUIDF	KKC IN	Sanjaya Satapathy
	DLF Limited	XVDUF	DLFU IN	Gagan Agarwal
	Exide Indus Ltd	XEDRF	EXID IN	Sanjaya Satapathy
	Fortis Healthcare Limited	XFFTF	FORH IN	Prasad Deshmukh
	Havells	HVLIF	HAVL IN	Sanjaya Satapathy
	Housing Development and Infrastructure	XGHSF	HDIL IN	Gagan Agarwal
	Indiabulls Real Estate Ltd	IBELF	IBREL IN	Gagan Agarwal
	Jaypee Infratech	XJAYF	JPIN IN	Gagan Agarwal
	Jet Airways	JTAIF	JETIN IN	Anand Kumar
	Motherson Sumi	XMSUF	MSS IN	Sanjaya Satapathy
	Puravankara Projects Ltd	XPJVF	PVKP IN	Gagan Agarwal
	Renuka Sugars	SRNKF	SHRS IN	Sanjaya Satapathy
	SINTEX INDUSTRIES LTD	SIXDF	SINT IN	Prasad Deshmukh
	Sobha Developers	SBDRF	SOBHA IN	Gagan Agarwal
	SpiceJet Ltd	MDLFF	SJET IN	Anand Kumar
	Voltas	VTSJF	VOLT IN	Sanjaya Satapathy
<b>NEUTRAL</b>				
	Grasim	GRSJF	GRASIM IN	Reena Verma Bhasin, CFA
	Grasim -G	GRSJY	GRAS LX	Reena Verma Bhasin, CFA
	Jain Irrigation Systems Ltd	JNIDF	JI IN	Prasad Deshmukh
	Shree Cements	SREEF	SRCM IN	Reena Verma Bhasin, CFA
	Unitech Ltd	UTKIF	UT IN	Gagan Agarwal
<b>UNDERPERFORM</b>				
	Ambuja Cements	AMBUF	ACEM IN	Reena Verma Bhasin, CFA
	APIL	ANSFF	APIL IN	Gagan Agarwal
	Assoc. Cement	ADCLF	ACC IN	Reena Verma Bhasin, CFA
	Bajaj Hindusthan	BJJHF	BJH IN	Sanjaya Satapathy
	Balrampur Chini	BMPRF	BRCM IN	Sanjaya Satapathy
	Container Corp	CIDFF	CCRI IN	Sanjaya Satapathy
	India Cements	INIAF	ICEM IN	Reena Verma Bhasin, CFA
	India Cements -G	IAMUY	ICEM LX	Reena Verma Bhasin, CFA
	Jindal Saw	SWPFF	JSAW IN	Sanjaya Satapathy
	Nagarjuna Fertilizers & Chemicals Ltd	NFACF	NFCL IN	Prasad Deshmukh
	Omaxe Limited	XOMXF	OAXE IN	Gagan Agarwal
	Tata Chemicals Ltd	TTCXF	TTCH IN	Prasad Deshmukh
	Triveni Engg	TVIEF	TRE IN	Sanjaya Satapathy
	UltraTech Cemen	XDJNF	UTCEN IN	Reena Verma Bhasin, CFA
	Welspun Corp Ltd	XUQRF	WLCO IN	Sanjaya Satapathy

**iQmethod<sup>SM</sup> Measures Definitions**

<b>Business Performance</b>	<b>Numerator</b>	<b>Denominator</b>
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
<b>Quality of Earnings</b>		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
<b>Valuation Toolkit</b>		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

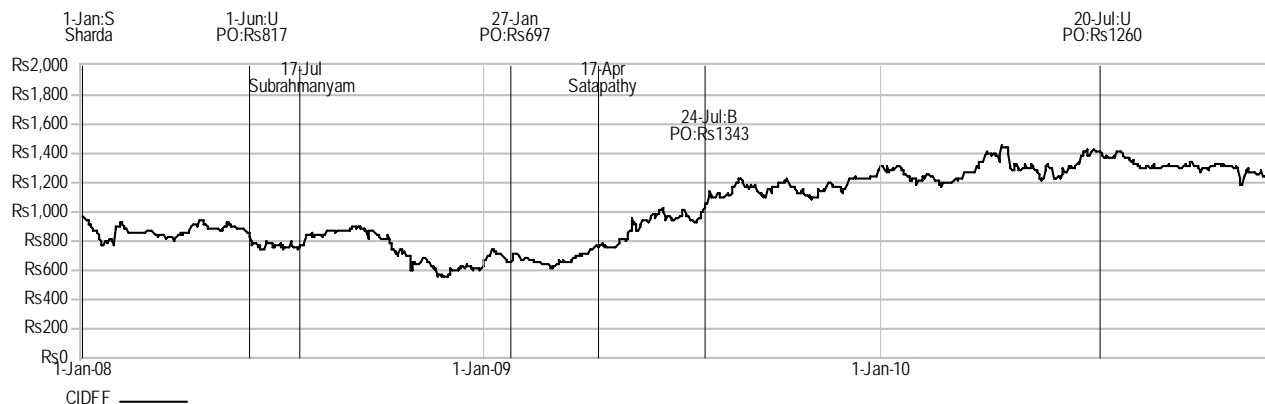
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### CIDFF Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid, NR: No Rating

\*Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of December 31, 2010 or such later date as indicated. BofA Merrill Lynch price charts do not reflect analysts' coverage of the stock at prior firms.\*

### Investment Rating Distribution: Transport/Infrastructure Group (as of 01 Jan 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	90	58.44%	Buy	38	44.71%
Neutral	22	14.29%	Neutral	9	40.91%
Sell	42	27.27%	Sell	8	19.51%

### Investment Rating Distribution: Global Group (as of 01 Jan 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	2011	53.86%	Buy	874	48.31%
Neutral	925	24.77%	Neutral	444	52.30%
Sell	798	21.37%	Sell	276	36.75%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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