

## Container Corporation of India

### Margins to drag

#### Key Takeaways

**Export revival yet to happen:** Export volumes continue to remain lacklustre in turn driving empty running. For first two months of FY2011, the company recorded 147,000TEU of exports as against 181,000TEU of imports leading to 18.5% empty running. Going ahead, export growth rates may be further impacted by the uncertain outlook in Europe. Pertinently, management indicated that the government's ban on export of non-basmati rice has impacted volumes to a large extent.

**Volume guidance:** Container Corporation of India (Concor) has guided modest Exim volume of 10-12% in FY2011E largely on account of the low base in 1HFY2010 and higher imports. Concor registered 9-10% yoy growth in Exim volume for the first two months of FY2011 in spite of the 21% yoy growth at major ports. The company has guided 12-15% growth in domestic volumes with increased focus and strong revival in domestic consumption. Thus, it indicated that the share of domestic volumes would increase to 25% by FY2012E from current levels of 22%.

**Expects hike in haulage charges:** Management stated that talks about Indian Railways (IR) increasing haulage charges on certain routes could come through in the near term. The recent hike in petroleum products has also led to increase in road freight rates. Management believes that it should be able to pass on any further increase in haulage charges, in absolute terms. However, we believe that any increase in haulage charges will be detrimental for Concor volumes. Further, if the haulage rates are increased in absolute terms it would impact margins.

**Margin pressure to persist:** FY2010 OPM fell by 80bp yoy to 26.4% on lower ground rent revenues, the company's inability to pass on the entire hike in haulage charges and rebates, which pulled down Exim performance. Management has indicated OPMs to remain range bound in FY2011E. However, we estimate 50bp decline in OPM in FY2011E on account of increased contribution from the low-margin domestic business and higher empties in 1HFY2011E.

#### Key Financials (Consolidated)

Y/E March (Rs cr)	FY2009	FY2010	FY2011E	FY2012E
<b>Net Sales</b>	<b>3,452</b>	<b>3,702</b>	<b>4,130</b>	<b>4,714</b>
% chg	2.6	7.2	11.6	14.1
<b>Net Profit</b>	<b>779</b>	<b>779</b>	<b>842</b>	<b>944</b>
% chg	6.1	(0.1)	8.2	12.1
<b>FDEPS (Rs)</b>	<b>59.9</b>	<b>59.9</b>	<b>64.8</b>	<b>72.6</b>
EBITDA Margin (%)	26.8	26.4	25.8	25.1
P/E (x)	21.8	21.8	20.2	18.0
RoE (%)	22.6	19.4	18.4	18.1
RoCE (%)	18.9	17.4	17.0	17.0
P/BV (x)	4.9	4.2	3.7	3.3
EV/Sales (x)	4.4	4.1	3.6	3.1
EV/EBITDA (x)	16.5	15.4	13.9	12.2

Source: Company, Angel Research

## REDUCE

CMP	Rs1,306
Target Price	Rs1,194

Investment Period	12 Months
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#### Stock Info

Sector	Logistics
Market Cap (Rs cr)	16,977
Beta	0.4
52 Week High / Low	1,500/907
Avg. Daily Volume	14,689
Face Value (Rs)	10
BSE Sensex	17,756
Nifty	5,223
Reuters Code	CCRI.BO
Bloomberg Code	CCRI@IN

#### Shareholding Pattern (%)

Promoters	63.1
MF / Banks / Indian FIs	10.1
FII / NRIs / OCBs	25.7
Indian Public / Others	1.1

Abs. (%)	3m	1yr	3yr
Sensex	1.7	24.0	22.7
Concor	3.0	38.9	19.3

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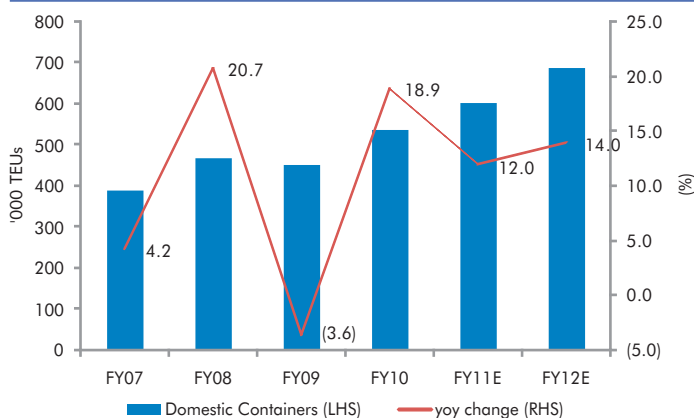
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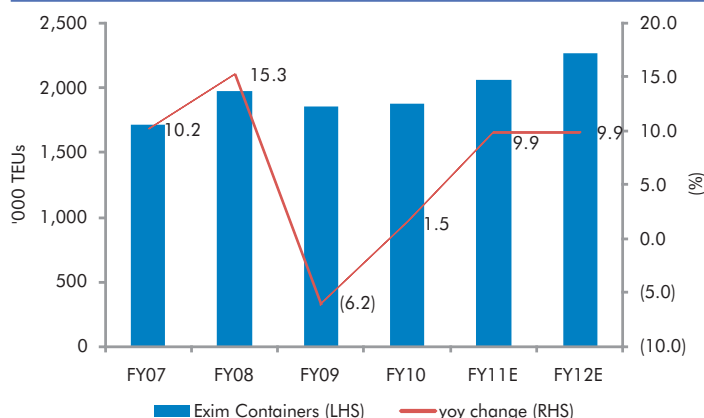
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**Exhibit 1: Domestic Volume Growth Trend**


Source: Company, Angel Research

**Exhibit 2: EXIM Volume Growth Trend**


Source: Company, Angel Research

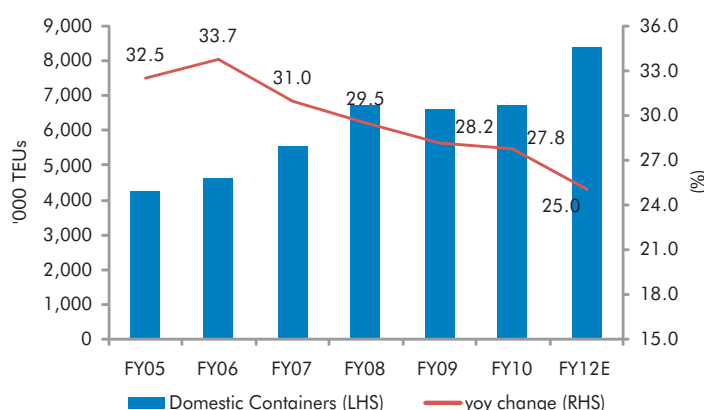
### FY2010 performance hit by lower other income and ground rent

Concor had healthy cash balance of Rs2,000cr as on March 2010. For FY2010, the company reported a 23.5% yoy dip in other income to Rs162cr primarily due to lower interest income. Management indicated that it was mandated to divert its funds to certain nominated investments with a low yield of around 6%, which resulted lower other income. Going ahead too, management stated that other income would continue to register similar yield as in FY2010. Ground rent revenue also fell by Rs Rs200/TEU in FY2010 resulting in lower overall ground rent income of Rs246cr (Rs273cr). The higher ground rent in FY2009 was an aberration as importers were avoiding taking delivery of goods owing to recession. Consequently, Concor reported flat net income in FY2010.

### Deteriorating Exim market share remains a concern

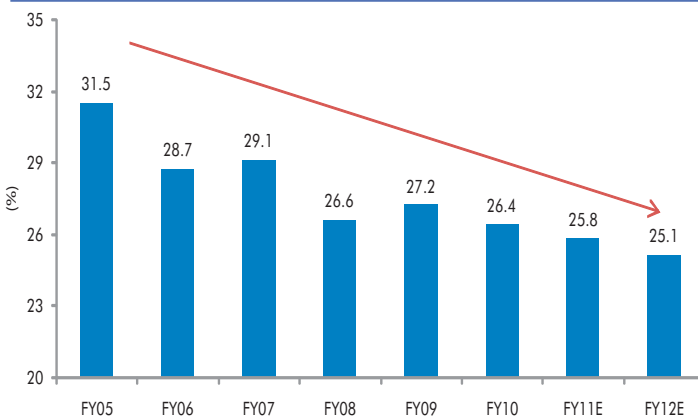
Concor is in a commanding position owing to its mammoth infrastructure - 237 rakes and 60 terminals - built over 20 years. The company plans to add another 40-45 rakes and four terminals over FY2010-12E. Currently, Concor is the preferred transporter via Rail among the shipping lines on account of being the lowest-cost service provider in the segment and due to the strategic location of its container depots. However, during FY2006-10, Concor conceded market share by 620bp to 27.4% from its peak of 33.7% to the Road segment and private players. In FY2007, Concor was impacted by higher IR tariffs and opening up of Rail containerisation to the private players. Over the next four-five years too, we expect Concor to record further drop in market share to around 25% on the back of higher haulage charges, which would render it uncompetitive in the FEU segment, and the private players would gradually increase their presence.

**Exhibit 3: Declining Exim Market share**



Source: Company, Angel Research

**Exhibit 4: Declining Operating Margins**



Source: Company, Angel Research

### Outlook and Valuation

Concor is gradually losing its pricing power in the Exim Segment, which could be a further threat once more Rail-linked ICDs from the private players come up. However, we remain bullish on the Container sector in the long term, which is the core driver of Concor's business. Nonetheless, higher IR tariffs and opening up of the Container industry to the private players will impact the company's market share in the long run. We also believe that the company's growth trajectory will be lower than its historical trend. Thus, key risk to our recommendation will be Concor maintaining its market share and accelerated construction of the dedicated Rail-freight corridor, which could help it wrest market share from the Road segment.

We estimate Concor to post muted Earnings CAGR of 10.1% over FY2010-12E, as against the 17.6% CAGR registered during FY2005-09. At the current market price, the stock is trading at 18.0x FY2012E Earnings and at 12.2x FY2012E EV/EBITDA. **We maintain our Reduce rating on stock, with a Target Price of Rs1,194.**

**Exhibit 5: One Year Forward P/E**



Source: Bloomberg, Angel Research

<b>Profit &amp; Loss Statement (Consolidated)</b>					<b>Rs crore</b>
<b>Y/E March</b>	<b>FY2008</b>	<b>FY2009</b>	<b>FY2010</b>	<b>FY2011E</b>	<b>FY2012E</b>
Gross sales	3,364	3,452	3,702	4,130	4,714
Less: Excise duty	-	-	-	-	-
Net Sales	3,364	3,452	3,702	4,130	4,714
Other operating income	-	-	-	-	-
<b>Total operating income</b>	<b>3,364</b>	<b>3,452</b>	<b>3,702</b>	<b>4,130</b>	<b>4,714</b>
% chg	9.8	2.6	7.2	11.6	14.1
<b>Total Expenditure</b>	<b>2,487</b>	<b>2,526</b>	<b>2,726</b>	<b>3,065</b>	<b>3,530</b>
Terminal & other Service Charges	2,320	2,286	2,462	2,755	3,158
Other Expenses	111	157	185	223	273
Personnel	56	83	79	87	99
Other	-	-	-	-	-
<b>EBITDA</b>	<b>876</b>	<b>927</b>	<b>976</b>	<b>1,066</b>	<b>1,183</b>
% chg	(1.6)	5.8	5.3	9.1	11.0
(% of Net Sales)	26.1	26.8	26.4	25.8	25.1
Depreciation & Amortisation	108.6	119.5	134.3	144.9	148.4
<b>EBIT</b>	<b>768</b>	<b>807</b>	<b>842</b>	<b>921</b>	<b>1,035</b>
% chg	(3.7)	5.1	4.3	9.3	12.4
(% of Net Sales)	22.8	23.4	22.7	22.3	22.0
Interest & other Charges	3	4	-	-	-
Other Income	165	211	162	166	183
(% of PBT)	17.8	20.8	16.1	15.3	15.0
<b>Recurring PBT</b>	<b>930</b>	<b>1,014</b>	<b>1,004</b>	<b>1,087</b>	<b>1,218</b>
% chg	5.5	9.0	(1.0)	8.3	12.1
Extraordinary Expense/(Inc.)	-	-	-	-	-
<b>PBT (reported)</b>	<b>930</b>	<b>1,014</b>	<b>1,004</b>	<b>1,087</b>	<b>1,218</b>
Tax	198	235	225	245	274
(% of PBT)	21.3	23.1	22.4	22.5	22.5
<b>PAT (reported)</b>	<b>732</b>	<b>779</b>	<b>779</b>	<b>842</b>	<b>944</b>
Tax Adjustments of prior period	1.9	(0.5)	-	-	-
Minority Interest	-	-	-	-	-
Prior period items	(0.2)	0.2	-	-	-
<b>PAT after MI (reported)</b>	<b>732</b>	<b>779</b>	<b>779</b>	<b>842</b>	<b>944</b>
<b>ADJ. PAT</b>	<b>734</b>	<b>779</b>	<b>779</b>	<b>842</b>	<b>944</b>
% chg	4.3	6.1	(0.1)	8.2	12.1
(% of Net Sales)	21.8	22.6	21.0	20.4	20.0
<b>Basic EPS (Rs)</b>	<b>56.5</b>	<b>59.9</b>	<b>59.9</b>	<b>64.8</b>	<b>72.6</b>
<b>Fully Diluted EPS (Rs)</b>	<b>56.5</b>	<b>59.9</b>	<b>59.9</b>	<b>64.8</b>	<b>72.6</b>
% chg	4.3	6.1	(0.1)	8.2	12.1

<b>Balance Sheet (Consolidated)</b>					<b>Rs crore</b>
<b>Y/E March</b>	<b>FY2008</b>	<b>FY2009</b>	<b>FY2010</b>	<b>FY2011E</b>	<b>FY2012E</b>
<b>SOURCES OF FUNDS</b>					
Equity Share Capital	130	130	130	130	130
Preference Capital	-	-	-	-	-
Reserves & Surplus	3,036	3,602	4,159	4,753	5,423
<b>Shareholders Funds</b>	<b>3,166</b>	<b>3,732</b>	<b>4,289</b>	<b>4,883</b>	<b>5,553</b>
Minority Interest	-	-	-	-	-
Total Loans	50	49	49	49	49
Deferred Tax Liability	174	194	194	194	194
<b>Total Liabilities</b>	<b>3,390</b>	<b>3,974</b>	<b>4,531</b>	<b>5,126</b>	<b>5,796</b>
<b>APPLICATION OF FUNDS</b>					
Gross Block	2,327	2,722	3,122	3,622	4,122
Less: Acc. Depreciation	581	698	832	977	1,125
<b>Net Block</b>	<b>1,746</b>	<b>2,025</b>	<b>2,290</b>	<b>2,645</b>	<b>2,997</b>
Capital Work-in-Progress	172	246	246	246	246
Goodwill	-	-	-	-	-
<b>Investments</b>	<b>120</b>	<b>168</b>	<b>168</b>	<b>168</b>	<b>168</b>
Current Assets	1,900	2,159	2,401	2,679	3,046
Cash	1,523	1,767	2,004	2,216	2,550
Loans & Advances	282	276	292	342	381
Other	95	116	105	121	115
Current liabilities & Provisions	549	623	573	612	661
<b>Net Current Assets</b>	<b>1,351</b>	<b>1,536</b>	<b>1,827</b>	<b>2,067</b>	<b>2,385</b>
Mis. Exp. not written off	0	0	0	0	0
<b>Total Assets</b>	<b>3,390</b>	<b>3,974</b>	<b>4,531</b>	<b>5,126</b>	<b>5,796</b>

**Cash Flow Statement (Consolidated)**
**Rs crore**

Y/E March	FY2008	FY2009	FY2010	FY2011E	FY2012E
Profit before tax	930	1,014	1,004	1,087	1,218
Depreciation	109	120	134	145	148
Change in Working Capital	(14)	39	(43)	(40)	3
Less: Other Adjustments	(136)	(175)	-	-	-
Direct taxes paid	(191)	(204)	(225)	(245)	(274)
<b>Cash Flow from Operations</b>	<b>697</b>	<b>793</b>	<b>870</b>	<b>947</b>	<b>1,095</b>
(Inc.)/ Dec. in Fixed Assets	(303)	(388)	(400)	(500)	(500)
(Inc.)/ Dec. in Investments	(24)	(48)	-	-	-
(Inc.)/ Dec. in loans and advances	85	(74)	-	-	-
Other income	139	172	-	-	-
<b>Cash Flow from Investing</b>	<b>(102)</b>	<b>(338)</b>	<b>(400)</b>	<b>(500)</b>	<b>(500)</b>
Issue of Equity	-	-	-	-	-
Inc./(Dec). in loans	20	(2)	-	-	-
Dividend Paid (Incl. Tax)	(167)	(205)	(232)	(235)	(261)
Others	(3)	(4)	-	-	-
<b>Cash Flow from Financing</b>	<b>(150)</b>	<b>(211)</b>	<b>(232)</b>	<b>(235)</b>	<b>(261)</b>
Inc./(Dec.) in Cash	445	244	237	212	334
<b>Opening Cash balances</b>	<b>1,078</b>	<b>1,523</b>	<b>1,767</b>	<b>2,004</b>	<b>2,216</b>
<b>Closing Cash balances</b>	<b>1,523</b>	<b>1,767</b>	<b>2,004</b>	<b>2,216</b>	<b>2,550</b>

**Key Ratios**

Y/E March	FY2008	FY2009	FY2010	FY2011E	FY2012E
<b>Valuation Ratio (x)</b>					
P/E (on FDEPS)	23.1	21.8	21.8	20.2	18.0
P/CEPS	19.9	18.5	18.6	17.2	15.5
P/BV	5.9	4.9	4.2	3.7	3.3
Dividend yield (%)	5.4	4.5	4.0	3.5	3.1
EV/Sales	4.6	4.4	4.1	3.6	3.1
EV/EBITDA	17.7	16.5	15.4	13.9	12.2
EV / Total Assets	3.9	3.3	2.9	2.6	2.2
<b>Per Share Data (Rs)</b>					
EPS (Basic)	56.5	59.9	59.9	64.8	72.6
EPS (fully diluted)	56.5	59.9	59.9	64.8	72.6
Cash EPS	65.7	70.7	70.2	75.9	84.0
DPS	13.0	14.0	17.0	19.0	21.0
Book Value	243.5	287.1	330.0	375.7	427.2
<b>Dupont Analysis</b>					
EBIT margin	22.8	23.4	22.7	22.3	22.0
Tax retention ratio	0.8	0.8	0.8	0.8	0.8
Asset turnover (x)	1.5	1.3	1.2	1.2	1.3
ROIC (Post-tax)	26.1	23.7	22.0	21.5	21.6
Cost of Debt (Post Tax)	0.0	0.1	-	-	-
Operating ROE	26.1	23.7	22.0	21.5	21.6
<b>Returns (%)</b>					
ROCE (Pre-tax)	21.2	18.9	17.4	17.0	17.0
Angel ROIC (Pre-tax)	36.6	33.4	31.0	30.0	29.8
ROE	25.3	22.6	19.4	18.4	18.1
<b>Turnover ratios (x)</b>					
Asset Turnover (Gross Block)	1.5	1.4	1.3	1.2	1.2
Inventory / Sales (days)	1	2	2	2	2
Receivables (days)	1	2	2	2	2
Payables (days)	59	66	62	54	50
Working capital cycle (ex-cash) (days)	(18)	(21)	(20)	(14)	(12)
<b>Solvency ratios (x)</b>					
Net debt to equity	(0.5)	(0.5)	(0.5)	(0.4)	(0.5)
Net debt to EBITDA	(1.7)	(1.9)	(2.0)	(2.0)	(2.1)
Interest Coverage (EBIT / Interest)	301.1	191.3	NA	NA	NA

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Disclosure of Interest Statement	Container Corporation of India
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

*Note: We have not considered any Exposure below Rs 1 lakh for Angel, its Group companies and Directors.*

<b>Ratings (Returns) :</b>	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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