29 March 2010

BSE Sensex: 17645

IDFC SSKI

INDIA RESEARCH

Logistics

Container Corp (Concor)

Rs1282

OUTPERFORMER

Face to face investor meeting with MD, Mr. Anil Gupta

Mkt Cap: Rs166.6bn; US$3.7bn

We recently organized an investor meet with the management of Concor, being represented by Mr. Anil Gupta, Managing Director. The management believes the pick up in import is continuing which is likely to drive a 19% yoy growth in 4QFY10 exim volumes. Similarly, the domestic volume trend continues to remain robust, which is likely to grow by 11% in 4QFY10. However, the export volumes continue to remain lackluster thereby driving empty running. Concor has controlled the empty running to 5% in 4QFY10 against 11% in 1HFY10 by re-positioning empty wagons for domestic movement. Accordingly, realisations have fallen sharply due to shorter lead distances to control empty running. Consequently, we believe revenues will grow at a slower pace during the quarter vis-à-vis volumes. We have downgraded our earnings for FY10E by 2% and for FY11Eand FY12E by 3% each to reflect lower realisations. The management believes Concor has not been impacted by competition led by its strong network of ICD and CFS coupled with its wagon fleet. Moreover, Concor expects to incur Rs5bn each in FY11 and FY12 towards additional rolling stock and setting up logistics parks to attract customers and retain its strong competitive edge vis-à-vis private players. We believe the growth in international trade coupled with higher penetration, will drive volume growth for Concor over the longer term. On the other hand, we believe the competition from the new entrants is unlikely to impact Concor considering its strong infrastructure (ICD network and wagon fleet) as well as strategic alliances to garner volumes and offer seamless logistics solutions to its clients. Concor currently trades 18.3x FY11E earnings, which we believe is attractive considering the earnings growth visibility and high return ratios. We maintain our Outperformer rating on the stock.

Exhibit 1: Key financials

As on 31 March	FY08	FY09	FY10E	FY11E	FY12E
Net sales (Rs m)	33,473	34,172	36,456	41,715	49,454
Adj. net profit (Rs m)	7,505	7,915	8,001	9,094	10,846
Shares in issue (m)	130	130	130	130	130
Adj. EPS (Rs)	58	61	62	70	83
% growth	*7.8*	*5.5*	*1.1*	*13.7*	*19.3*
PER (x)	22.2	21.1	20.8	18.3	15.4
Price/Book (x)	5.2	4.4	3.8	3.3	2.9
EV/EBITDA (x)	16.8	15.8	14.2	12.1	9.9
RoE (%)	25.8	22.8	19.8	19.5	20.3
RoCE (%)	25.5	22.3	20.7	20.5	20.9

Source: Company; IDFC-SSKI Research

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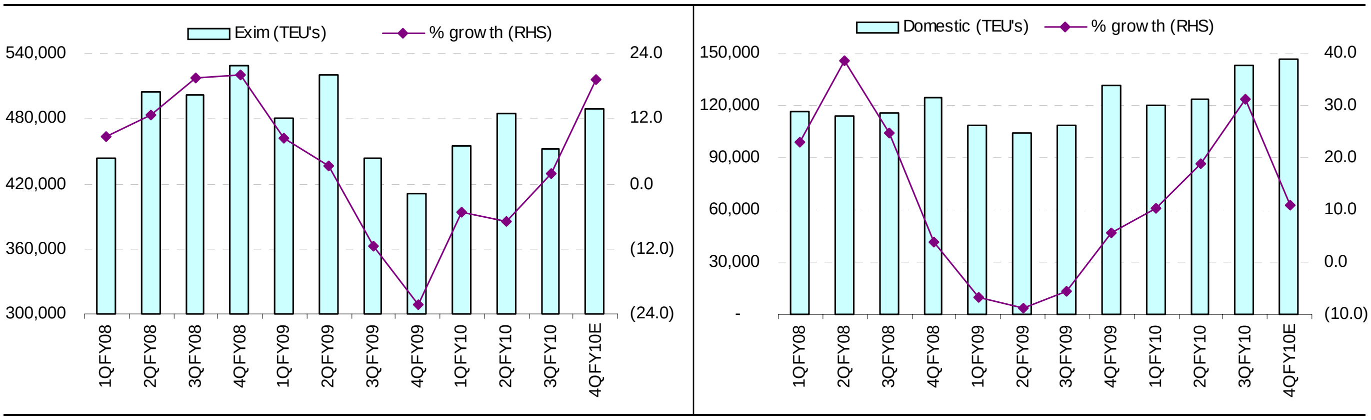
❑ Exim volumes begin to show traction; domestic continue to remain strong

The exim volumes have begun to show traction on back of improved container port volumes as imports have picked up while exports too have started showing some traction. Accordingly, 4QFY10 exim volumes are likely to grow by 19% yoy, which will drive a 1.5% growth in FY10. The management has guided for a 10% yoy volume growth for FY11E. However, we believe as international trade picks up as also a low base effect, exim volumes are likely to grow by 13.5% in FY11E. On the other hand, domestic volumes continue to witness strong volume growth of 11% yoy in 4QFY10, which are likely to grow by 17.5% yoy in FY10. While the management has guided for a 15% growth in domestic volumes for FY11E driven by increased focus and availability of wagons, we believe the growth is likely to be at 12% driven by increased volumes in exim as also a high base effect.

Exhibit 2: Volumes are beginning to show traction over the past quarter



Source: Company, IDFC-SSKI Research

❑ Empty running controlled – down to 5% against 11% in 1HFY10

The empty running had touched a peak of 11% in 1HFY10 led by the huge mismatch between import and export volumes. However, while the mismatch continues led by lower export volumes, Concor has reduced the empty running to 5% over the past 2 quarters. Concor has been running on the domestic route from the hinterland to areas near the port, thereby reducing the empty running. For eg. To cover the empty haulage from NCR to the western ports, Concor has been running domestic volumes from the NCR region to Nagpur. Accordingly, we expect operating margins to remain strong at 28-29% in 4QFY10.

❑ Realisations likely to fall – driving slower revenue growth

The higher volumes to reduce the empty running of rakes have resulted in lower realisations during 4QFY10. The volumes for covering the empty running have shorter lead distances as also lower realisations per container. Consequently, we expect the revenue growth (~7%) to be slower than the volume growth (17%) during 4QFY10. We expect the realisations to improve as the export volumes pick up and shorter lead distance volumes are lower.

❑ Focusing on providing entire end to end logistics – setting up logistics park

Concor is focusing setting up logistics parks across various locations. Such logistics parks will act as hub for rail and road connectivity as well as have area for storage and value add services. The work for the initial two parks has begun at Ahmedabad and Andhra Pradesh, while land acquisition has begun in a few more locations. We believe such logistics parks are a step in the right direction to provide end to end logistics requirements as also tying in customers in the longer term.

❑ Limited impact of competion – continues to maintain a healthy market share

Concor continues to maintain a dominant market share of over 80% (exim and domestic). The pan India ICD network as also its wagon fleet enables Concor to capture higher volumes and effectively lower its empty running compared to other players, who have been severely impacted with the slowdown in the economy.

❑ Capex of Rs5bn annually

The management expects to incur Rs3.7-3.8bn capital expenditure in FY10 on 24 rakes (approx. 1000 wagons), ICD/CFS and other handling equipment at various facilities. The large investments into wagons is being undertaken to continue its dominant position and attract higher volumes. Further, investment for handling equipment enables Concor to improve operating efficiencies. Further, the management expects to incur Rs5bn capex annually in FY11 and FY12.

❑ Maintain Outperformer

We have downgraded our FY10E estimates by 2% and FY11E and FY12E by 3% each to reflect the lower realisations. We continue to like Concor's business model considering it is a play on the growth in international trade and rising container volumes (both international and domestic). Further, we believe Concor is unlikely to be impacted by the entry of private players in the medium term considering its strong competitive edge in the form of large wagon fleet, pan India network of ICD and CFS's as well as depreciated assets giving it economies of scale and ability to garner higher volumes. Moreover, the management has been proactive in tying up of volumes through strategic alliances, which will continue to drive consistent growth in volumes. Consequently, considering the earnings growth visibility and high return ratios, we believe that Concor currently trades at attractive valuations of 18.3x FY11E earnings. We maintain Outperformer rating on the stock.

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2. Neutral: Within 0-5% to Index
3. Underperformer: Less than 5% to Index

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