

April 29, 2010

Container Corporation of India (CONCOR)

Rs 1310

WHAT'S CHANGED...

| | |
|--------------------|---------------------------------|
| PRICE TARGET | Unchanged |
| EPS (FY11E) | Changed from Rs 72.7 to Rs 66.3 |
| EPS (FY12E) | Introduced at Rs 73.4 |
| RATING..... | Add to Reduce |

Hit on margins despite revenue growth...

Concor's Q4FY10 results were in line with our expectation on the topline front but disappointed on the EBITDA front. The company registered net sales of Rs 950.5 crore in Q4FY10 and Rs 3702.3 crore in FY10, growth of 13.1% YoY (7.5% QoQ) and 8.3% YoY, respectively. Backed by the gain in market share, Concor registered a strong volume growth of 19.7% YoY (8.4% QoQ) and 15.8% YoY (6.7% QoQ) in Q4FY10 in exim and domestic segment, respectively. However, realisation per TEU declined by ~0.5% QoQ due to a fall in proceeds from terminal handling services. The EBITDA margin slid 567 bps QoQ to 23.2% in Q4FY10 on account of rebate given to clients under the volume discount scheme. Concor has completed a capex of ~Rs 400 crore in FY10 and added 14 rakes to its fleet of ~220 rakes. We believe the major benefit from this capex will flow in from FY11E onwards.

EBITDA margin outlook

In an attempt to reduce the empty running expenses on account of increasing gap in the export-import volumes, Concor has diverted its focus to the domestic market. Domestic volumes contributed 22.2% in FY10 as against 19.6% in FY09. Considering the shift towards the low margin domestic business, we have revised our EBITDA margin estimate to 26.4% in FY11E as against our previous estimate of 27.2% and marginally improved it to 27% in FY12E.

Volumes outlook

The management sounded optimistic about ~10-12% growth in domestic volumes but expressed concern on exim volume growth for FY11E. However, considering the volume growth at ports in the past few months, we maintain our volume growth estimate of ~9% and ~10% in the exim and domestic segment, respectively.

Valuation

Considering the sustainability of sequential growth in container volumes, we expect Concor's topline to grow at 8.7% CAGR in FY09-FY12E. We have introduced our FY12E estimates. However, continuing DCF valuation we maintain our target price of Rs 1276, which discounts FY11E and FY12E EPS by 19.2x and 17.4, respectively. We rate the stock as **REDUCE**.

Exhibit 1: Performance highlights

| (Rs Crore) | Q4FY10 | Q4FY10E | Q4FY09 | Q3FY10 | QoQ (Chg %) | YoY (Chg %) |
|-------------------|--------|---------|--------|--------|-------------|-------------|
| Net Sales | 950.5 | 935.1 | 840.6 | 884.5 | 7.5 | 13.1 |
| EBITDA | 220.1 | 241.7 | 224.7 | 255.0 | -13.7 | -2.0 |
| EBITDA Margin (%) | 23.2 | 25.9 | 26.7 | 28.8 | -567 bps | -358 bps |
| Depreciation | 36.5 | 36.2 | 31.3 | 33.5 | 8.8 | 16.3 |
| Interest | 0.0 | 0.0 | 0.0 | 0.0 | NA | NA |
| Other Income | 38.3 | 42.1 | 48.2 | 38.2 | 0.3 | -20.6 |
| Reported PAT | 172.7 | 191.3 | 187.0 | 200.6 | -13.9 | -7.7 |
| EPS (Rs) | 13.3 | 14.7 | 14.4 | 15.4 | -13.9 | -7.7 |

Source: Company, ICICIdirect.com Research

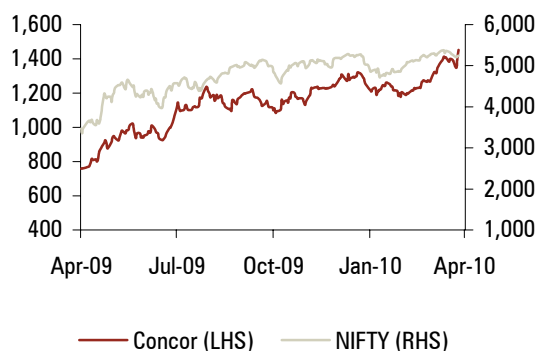
| Rating matrix | |
|------------------|-----------------|
| Rating | : Reduce |
| Target | : Rs 1276 |
| Target Period | : 12 months |
| Potential Upside | : -3% |

| Key Financials | | | | |
|----------------|--------|--------|--------|--------|
| | FY09 | FY10E | FY11E | FY12E |
| Net Sales | 3417.2 | 3702.3 | 4055.9 | 4392.2 |
| EBITDA | 931.1 | 976.3 | 1068.6 | 1184.9 |
| Net Profit | 791.2 | 778.6 | 862.1 | 953.9 |

| Valuation summary | | | | |
|-------------------|------|-------|-------|-------|
| | FY09 | FY10E | FY11E | FY12E |
| EPS | 60.9 | 59.9 | 66.3 | 73.4 |
| PE (x) | 21.5 | 21.9 | 19.8 | 17.9 |
| Target PE (x) | 21.0 | 21.3 | 19.2 | 17.4 |
| EV to EBITDA (x) | 16.4 | 15.6 | 14.3 | 12.9 |
| Price to book (x) | 4.6 | 4.0 | 3.4 | 3.0 |
| RoNW (%) | 21.0 | 17.9 | 17.1 | 16.5 |
| RoCE (%) | 25.9 | 22.0 | 21.1 | 20.4 |

| Stock data | |
|-----------------------|-------------------|
| Market Capitalization | Rs 17,027.7 Crore |
| Debt (FY09) | Rs 0 Crore |
| Cash (FY09) | Rs 1763.5 Crore |
| EV | Rs 15,264.2 Crore |
| 52 week H/L (Rs) | 1,500 / 705 |
| Equity capital | Rs 130.0 Crore |
| Face value | Rs 10 |
| MF Holding (%) | 23.4 |
| FII Holding (%) | 4.3 |

Price movement (Stock vs. Nifty)



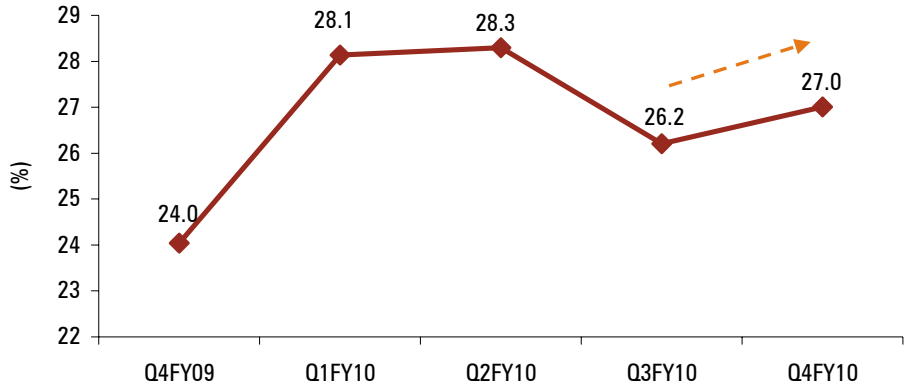
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With higher volumes at JNPT, where Concor has ~78% market share among rail operators, the company was able to improve its market share at 12 major ports to 27% in Q4FY10 from 26.2% in Q3FY10. The market share stood at 27.4% in FY10 as against 27.1% in FY09 in the exim segment

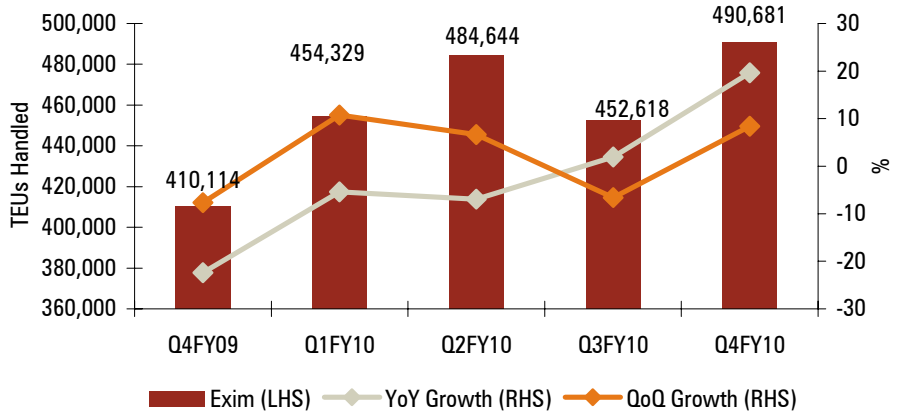
Exhibit 2: Concor's market share in India's containerised exim traffic



Source: Company, ICICIdirect.com Research

Gaining back the market share on yearly as well as sequential basis and better container volumes at ports in Q4FY10 has aided the company in registering a strong exim volume growth of 19.7% YoY and 8.4% QoQ during the same period

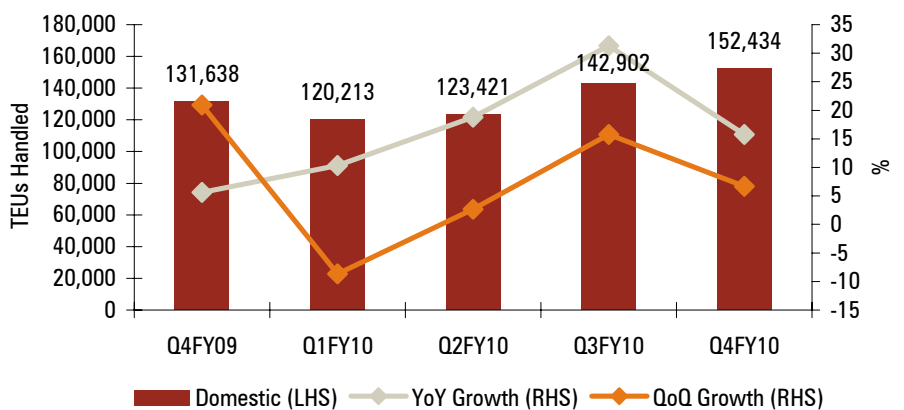
Exhibit 3: Exim container volumes handled by Concor



Source: Company, ICICIdirect.com Research

Domestic volumes posted a growth of 15.8% YoY and 6.7% QoQ. The growth trend in this segment was subdued. However, considering the absolute figures, these are record high volumes registered by Concor in the domestic segment. Still, we are cautious on whether the company could maintain such high volumes

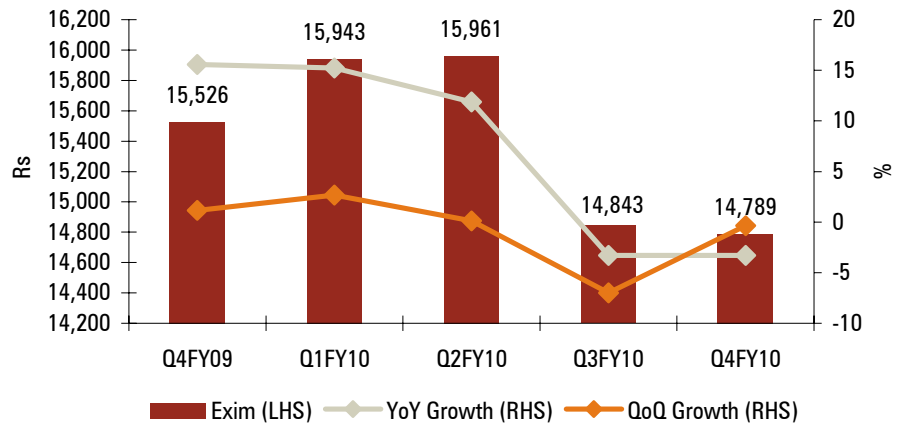
Exhibit 4: Domestic container volumes handled by Concor



Source: Company, ICICIdirect.com Research

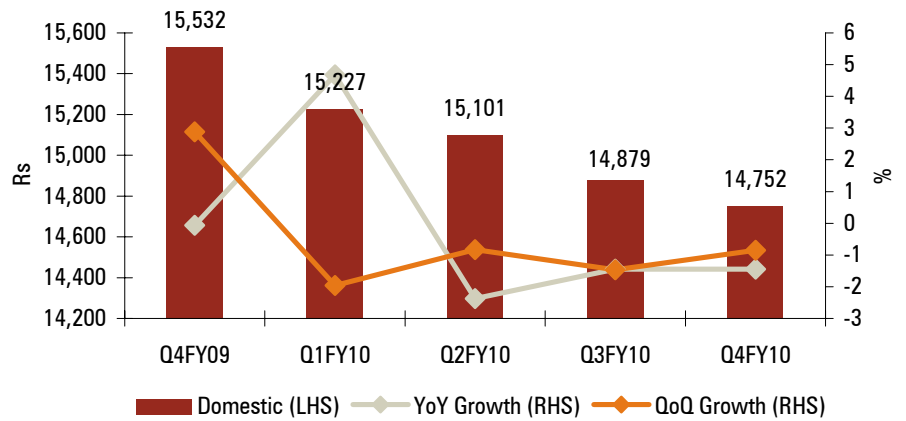
Considering the average rail freight hike of ~5-5.5% in the exim as well domestic route the company has partly passed on the hike to its customers. However, a fall in revenue from terminal handling services has pulled down the realisation by 0.4% QoQ. Further, the company has continued its volumes discount scheme to retain its customers. This has further kept realisation per TEU under pressure and cautions us on the pricing power of the company

Exhibit 5: Exim realisation per TEU



Source: Company, ICICIdirect.com Research

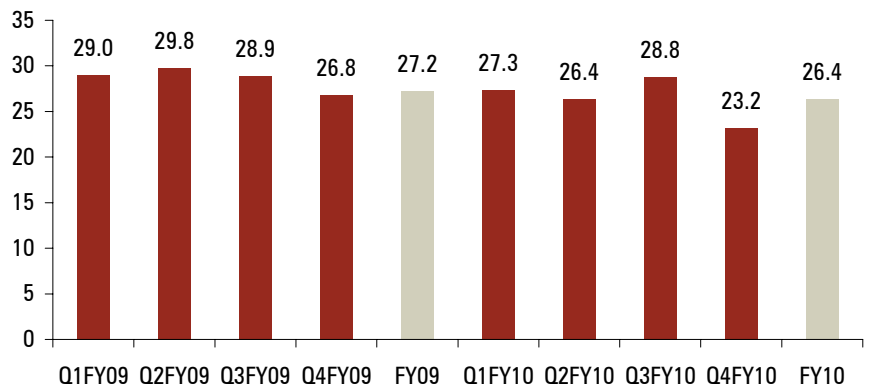
Exhibit 6: Domestic realisation per TEU



Source: Company, ICICIdirect.com Research

Concor has adopted the volume discount scheme to retain its customers. Such volume-based discounts have pulled down the realisation by 5.1% YoY and 0.9% QoQ. However, with this initiative the company has been able to garner higher volumes and stay ahead of the competition

Exhibit 7: Trend in EBITDA margin (%)



Source: Company, ICICIdirect.com Research

Rail freight rates have increased by 5-5.5% on an average from January 1, 2010 and Concor has passed on a part of this increase to its customers. We believe the increasing bent towards the low margin domestic segment along with hike in rail freight tariffs would pressurise margins in the coming quarters. We have accordingly changed our EBITDA margin estimate for FY11E to 26.4% from 27.2% earlier

ICICI direct.com coverage universe

| Container Corporation of India | | | Sales (Rs Crore) | EPS (Rs) | PE (x) | EV/EBITDA (x) | RoNW (%) | RoCE (%) |
|--------------------------------|------------------------|--------------------|------------------|----------|--------|---------------|----------|----------|
| Idirect Code | CONCOR CMP | 1,310 FY10E | 3,702.3 | 59.9 | 19.8 | 17.1 | 17.9 | 22.0 |
| | Target | 1,276 FY11E | 4,055.9 | 66.3 | 17.9 | 15.4 | 17.1 | 21.1 |
| MCap | 17,028 % Upside | -3 FY12E | 4,392.2 | 73.4 | 17.9 | 13.6 | 16.5 | 20.4 |
| Gateway Distriparks | | | Sales (Rs Crore) | EPS (Rs) | PE (x) | EV/EBITDA (x) | RoNW (%) | RoCE (%) |
| Idirect Code | GATDIS CMP | 125 FY09 | 451.0 | 7.4 | 16.9 | 10.2 | 13.6 | 14.6 |
| | Target | 129 FY10E | 519.9 | 7.7 | 16.3 | 10.4 | 12.6 | 11.3 |
| MCap | 1,347 % Upside | 3 FY11E | 619.0 | 8.0 | 15.7 | 9.2 | 11.8 | 11.5 |
| Allcargo Global Logistics | | | Sales (Rs Crore) | EPS (Rs) | PE (x) | EV/EBITDA (x) | RoNW (%) | RoCE (%) |
| Idirect Code | ALLGLO CMP | 185 CY09 | 2,060.9 | 10.4 | 17.8 | 10.3 | 15.8 | 18.9 |
| | Target | 206 CY10E | 2,475.7 | 14.3 | 12.9 | 6.9 | 17.7 | 23.3 |
| MCap | 2,309 % Upside | 11 CY11E | 2,836.8 | 16.9 | 11.0 | 5.9 | 17.8 | 22.3 |
| Transport Corporation of India | | | Sales (Rs Crore) | EPS (Rs) | PE (x) | EV/EBITDA (x) | RoNW (%) | RoCE (%) |
| Idirect Code | TRACOR CMP | 129 FY09 | 1,297.9 | 3.9 | 33.0 | 12.5 | 9.9 | 13.3 |
| | Target | 116 FY10E | 1,435.9 | 5.9 | 22.0 | 11.1 | 13.2 | 14.2 |
| MCap | 935 % Upside | -10 FY11E | 1,609.0 | 6.7 | 19.3 | 9.7 | 13.2 | 14.3 |

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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 Add: Up to 10%;
 Reduce: Up to -10%
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