

Container Corporation of India (CONCOR)

Rs 1,405

WHAT'S CHANGED...

PRICE TARGET	Unchanged
EPS (FY11E)	Changed from Rs 66.3 to Rs 65.3
EPS (FY12E)	Changed from Rs 73.4 to Rs 75.6
RATING.....	Unchanged

Yet another subdued performance...

Container Corporation of India (Concor) recorded net sales of Rs 915.9 crore, growth of 0.9% YoY and decline of 3.6% QoQ in Q1FY11. This was below our as well as Street expectations. Exim and domestic volumes registered annual growth of 7.8% and 6%, respectively. However, the company surprised us negatively on the realisation front owing to a fall in lead distances by 8.8% YoY and 5.9% YoY in exim and domestic routes, respectively. Net profit declined by 3.7% YoY to Rs 193.5 crore, mainly on account of a 13% drop in other income. Moreover, Concor has been unable to completely pass on the exim freight rate hike, which was introduced from January 2010.

Outlook

- A revival in export volumes has shifted Concor's focus back to the higher margin exim business. Exim volumes contributed ~79% in Q1FY11 as compared to 76% in the past two quarters. We believe the same trend will continue, going forward
- Considering the sustainable recovery seen in the port's containerised traffic seen in the past three months and sluggish growth of 1.5% registered by Concor's exim volumes in FY10, we believe exim volumes will improve remarkably by ~13% in FY11E
- Exim volumes were flat QoQ while domestic volumes declined by 16.4% QoQ on account of the fall in sponge iron and pig iron volumes arising due to Naxalite issues in Chhattisgarh and Orissa. Therefore, subsuming the gloomy domestic scenario, we expect domestic volumes to remain under pressure in FY11E till there is any further clarity in this regard.

Valuation

Considering the persistent volatility on the volume and realisation front, Concor has lost pace in executing its expansion plans. Concor added two rakes in Q1FY11 against the planned addition of six rakes. Therefore, considering the above-mentioned concerns, we have maintained our **REDUCE** rating on the stock and reiterated our target price of Rs 1276. This discounts FY11E and FY12E EPS by 19.5x and 16.9x, respectively.

Exhibit 1: Performance highlights

(Rs Crore)	Q1FY11	Q1FY11E	Q1FY10	Q4FY10	QoQ (Chg %)	YoY (Chg %)
Net Sales	915.9	998.7	907.4	950.5	-3.6	0.9
EBITDA	247.0	279.6	247.8	220.1	12.2	-0.3
EBITDA Margin (%)	27.0	28.0	27.3	23.2	381 bps	-35 bps
Depreciation	35.2	37.0	31.6	36.5	-3.4	11.5
Interest	0.0	0.0	0.0	0.0	NA	NA
Other Income	35.9	39.0	41.3	38.3	-6.2	-13.0
Reported PAT	193.5	219.4	200.9	172.7	12.0	-3.7
EPS (Rs)	14.9	16.9	15.5	13.3	12.0	-3.7

Source: Company, ICICIdirect.com Research

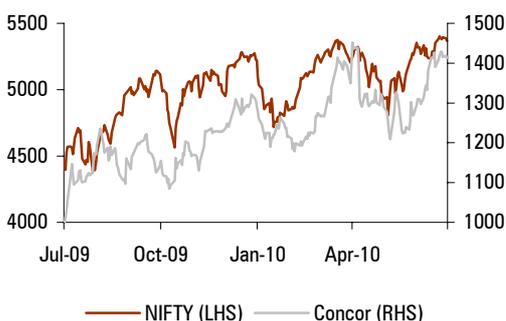
Rating matrix	
Rating	: Reduce
Target	: Rs 1,276
Target Period	: 12 months
Potential Upside	: -9%

Key Financials				
	FY09	FY10E	FY11E	FY12E
Net Sales	3417.2	3705.7	4000.0	4530.9
EBITDA	931.1	961.6	1052.5	1225.7
Net Profit	791.2	786.7	849.2	982.8

Valuation summary				
	FY09	FY10E	FY11E	FY12E
EPS	60.9	60.5	65.3	75.6
PE (x)	23.1	23.2	21.5	18.6
Target PE (x)	21.0	21.1	19.5	16.9
EV to EBITDA (x)	17.5	16.9	15.5	13.3
Price to book (x)	4.9	4.2	3.7	3.2
RoNW (%)	21.0	18.1	17.0	16.9
RoCE (%)	25.9	22.1	20.8	20.8

Stock data	
Market Capitalization	Rs 18,262.6 Crore
Debt (FY10)	Rs 0 Crore
Cash (FY10)	Rs 1,989.5 Crore
EV	Rs 16,273.1 Crore
52 week H/L (Rs)	1,500 / 964
Equity capital	Rs 130.0 Crore
Face value	Rs 10
MF Holding (%)	24.3
FII Holding (%)	3.3

Price movement

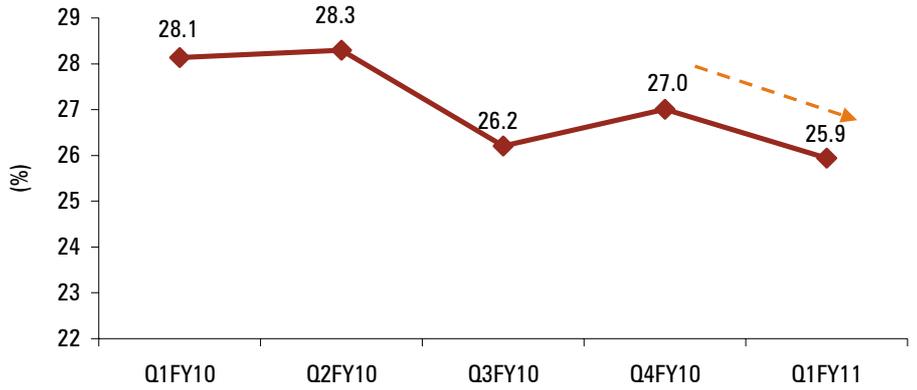


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Concor has witnessed a drop in market share on account of lower volumes at JNPT port. Concor enjoys ~78% market share in JNPT. The respective port constituted ~50% to the total container traffic in May and June 2010 vis-à-vis ~57% during the same period last year. The container traffic has now started shifting to Mundra port where Concor has relatively lower market share ~ 50%

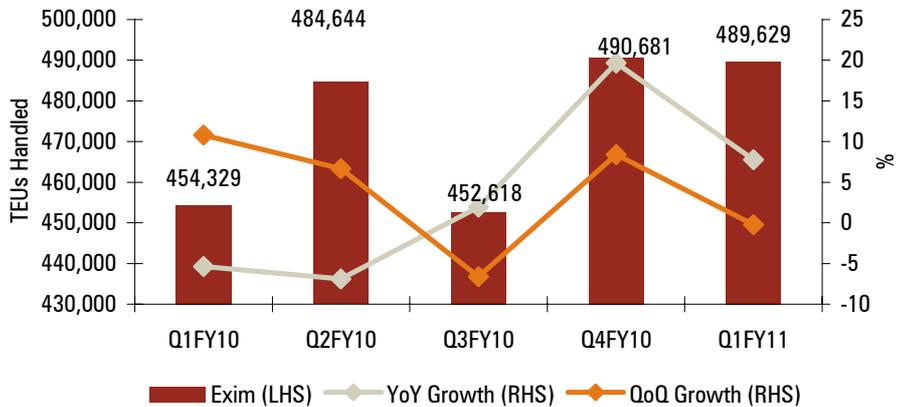
Exhibit 2: Concor's market share in India's containerised exim traffic



Source: Company, ICICIdirect.com Research

The revival in port's export traffic supported Concor's exim volumes to register a growth of 7.8% YoY in Q1FY11. The export-import mismatch has reduced to 46,000 TEUs in Q1FY11 from 95,000 TEUs in Q1FY10. Concor registered higher volumes in Q4FY10 on account of the year-end discount policy adopted by the company. However, a stable QoQ volume growth in Q1FY11 represents a noteworthy recovery in exim volumes

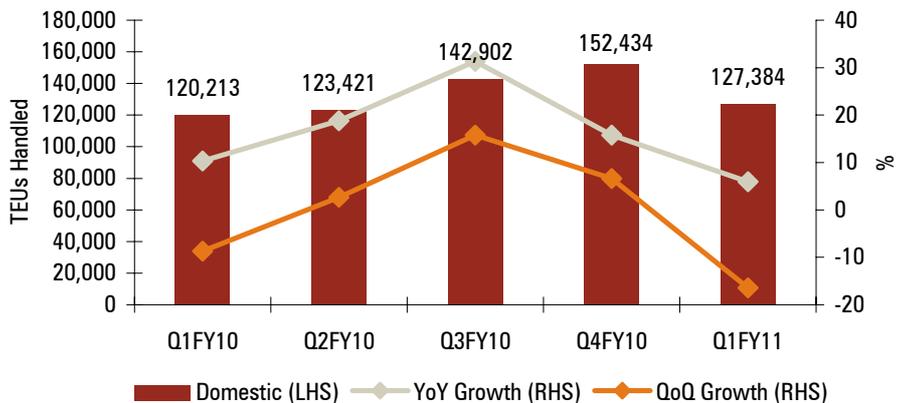
Exhibit 3: Exim container volumes handled by Concor



Source: Company, ICICIdirect.com Research

Domestic volumes posted a growth of 6% YoY and decline of 16.4% QoQ. The downturn in domestic volumes was mainly on account of Naxalite issues in the Chhattisgarh and Orissa region. Concor lost volumes of 10,000 TEUs in Q1FY11 in view of this concern. Therefore, we believe domestic volumes will remain under pressure in FY11E till there is any further clarity in this regard

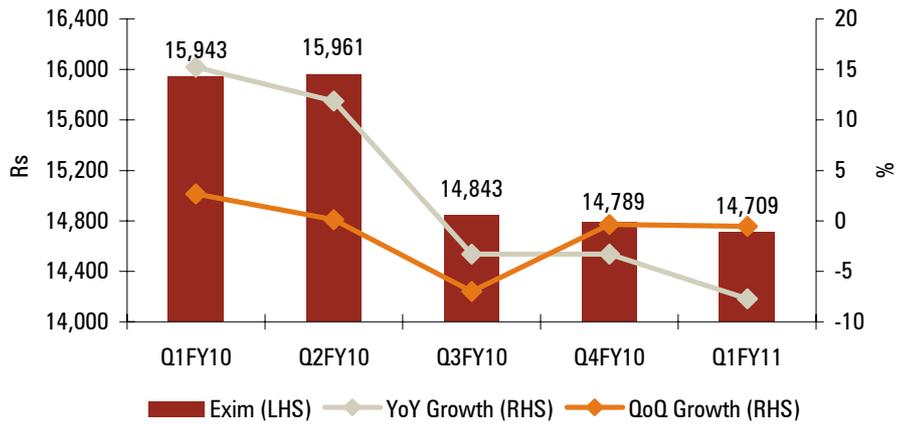
Exhibit 4: Domestic container volumes handled by Concor



Source: Company, ICICIdirect.com Research

A fall in the dwell time and lead distances have been major reasons for the fall in realisation per TEU in the past few quarters

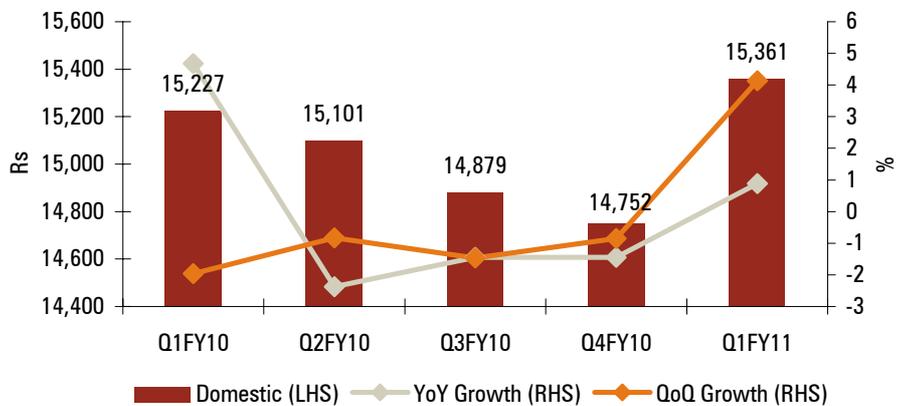
Exhibit 5: Exim realisation per TEU



Source: Company, ICICIdirect.com Research

Concor had adopted a volume discount scheme to retain its customers in Q4FY10. Such volume based discounts had pulled down realisations during the same period. However, a 10% hike in domestic freight rates being passed on to customers in Q1FY11 helped Concor to improve the realisation per TEU

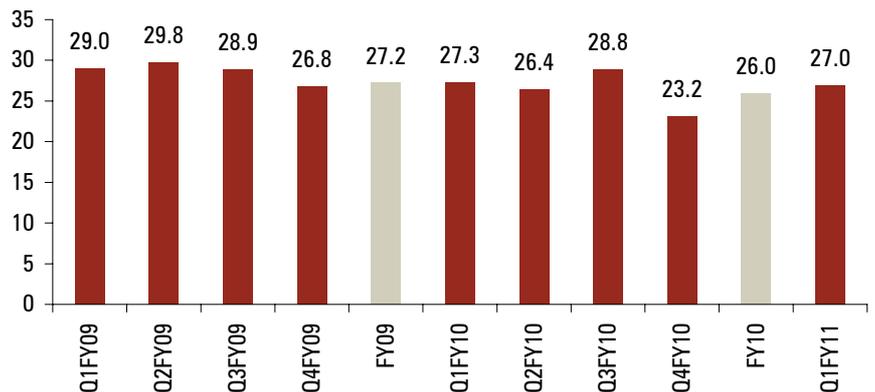
Exhibit 6: Domestic realisation per TEU



Source: Company, ICICIdirect.com Research

A cutback in empty running expenses to 3.8% in Q1FY11 from 4.1% in Q4FY10 and 6.2% in Q1FY10 along with regained focus on higher margin exim traffic has aided Concor to garner a higher profitability margin in Q1FY11

Exhibit 7: Trend in EBITDA margin (%)



Source: Company, ICICIdirect.com Research

Private Freight Terminal (PFT) and Special Freight Train Operator (SFTO) scheme which is recently introduced by Indian Railways will enable the private container train operators to handle and transport other cargo trains like cement and foodgrains (except for coal and iron ore). This is an immense opportunity for container rail operators and especially for Concor which is the largest player in this space. However, there is lack of earning visibility from this scheme. Therefore, we have not yet considered any revenue from these new operations.

ICICIdirect.com coverage universe

Container Corporation of India				Sales (Rs Crore)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	CONCOR CMP	1,405 FY10		3,705.7	60.5	21.5	16.9	18.1	22.1
	Target	1,276 FY11E		4,000.0	65.3	18.6	15.3	17.0	20.8
MCap	18,263 % Upside	-9 FY12E		4,530.9	75.6	18.6	12.8	16.9	20.8
Gateway Distriparks				Sales (Rs Crore)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	GATDIS CMP	114 FY10E		521.7	7.3	15.5	10.2	12.9	11.3
	Target	129 FY11E		658.7	7.7	13.7	8.6	13.3	13.2
MCap	1,228 % Upside	13 FY12E		725.9	9.2	12.4	7.8	13.6	13.6
Allcargo Global Logistics				Sales (Rs Crore)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	ALLGLO CMP	171 CY09		1,856.2	12.5	13.7	10.3	13.2	16.2
	Target	207 CY10E		2,511.7	14.3	12.0	8.1	11.8	16.2
MCap	2,134 % Upside	21 CY11E		2,848.8	13.1	13.1	6.2	13.8	18.4
Transport Corporation of India				Sales (Rs Crore)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	TRACOR CMP	136 FY10E		1,451.5	5.9	22.9	11.3	13.3	14.5
	Target	123 FY11E		1,633.3	7.1	19.0	10.3	14.0	14.4
MCap	986 % Upside	-10 FY12E		1,806.6	8.2	16.6	9.0	14.0	14.5
Sanghvi Movers				Sales (Rs Crore)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	SANMOV CMP	185 FY10E		331.5	20.9	8.9	5.0	19.1	19.4
	Target	192 FY11E		393.5	21.4	8.7	4.9	16.7	17.0
MCap	812 % Upside	4 FY12E		437.0	24.6	7.5	4.0	16.5	17.4

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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Strong Buy: 20% or more;
 Buy: Between 10% and 20%;
 Add: Up to 10%;
 Reduce: Up to -10%
 Sell: -10% or more;

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