

Container Corp of India

Q1FY12/ Introducing FY14E

22 July 2011

Hold

Target Price: Rs1,150

CMP: Rs1,123*

Upside: 2.4%

*as on 22 July 2011

Domestic segment drags performance

Container Corporation of India's (Concor) Q1FY12 operational performance was below our expectation due to the decline in the domestic segment's margins. However, other income and lower taxes boosted net profit. The domestic segment underperformed with volumes declining 13.0% YoY and EBIT plunging 46.2% YoY. We have introduced our FY14 estimates and marginally cut FY13E earnings to factor in slower domestic volume growth and lower margins. The stock has underperformed over the last one year. We maintain our Hold rating with a revised target price of Rs1,150.

- **Operational performance below expectations:** Q1 standalone revenue inched up 3.6% YoY to Rs9,490mn, but lower than our estimate of Rs9,777mn. Operating profit at Rs2,597mn (up 5.1% YoY) was 7.1% below estimate, while operating margin at 27.4% was 123bp below expectations.
- **Volumes growth muted:** Exim volumes grew just 2.5% YoY to 501,672 containers, while the domestic segment continued with its poor performance with volumes declining 13.0% YoY to 110,775 containers.
- **Maintain Hold with a negative bias:** At CMP, the stock trades at 15.6x FY13E earnings and 9.8x FY13E EV/EBITDA and appears fully-valued. Given the low profitability growth expected (6.2% CAGR over FY11-13E) and decline in RoE to 16.1% in FY13 from 17.9% in FY11, we maintain our Hold rating with a revised target price of Rs1,150 (earlier: Rs1,170) valuing the stock at 16x FY13E earnings.

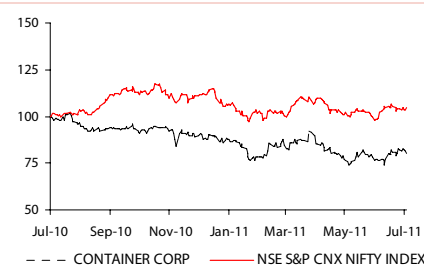
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Key Data

Bloomberg Code	CCRI IN
Reuters Code	CCRI.BO
Current Shares O/S (mn)	130.0
Diluted Shares O/S (mn)	130.0
Mkt Cap (Rsbn/USDbn)	145.9/3.3
52 Wk H / L (Rs)	1453/1018
Daily Vol. (3M NSE Avg.)	30,227
Face Value (Rs)	10
1 USD = Rs44.4	

One Year Indexed Stock Performance



Price Performance (%)

	1M	6M	1Yr
Concor	3.5	(7.7)	(19.2)
NIFTY	6.7	(1.1)	3.5

Source: Bloomberg, Centrum Research
*as on 22 April 2011

Y/E March (Rsmn) (Standalone)	Q1FY12	Q1FY11	YoY (%)	Q4FY11	QoQ (%)	Q1FY12E	Variance (%)
Net sales	9,490	9,159	3.6	9,954	(4.7)	9,777	(2.9)
Rail Freight Expenses	5,390	5,274		5,811		5,399	
% of sales	56.8	57.6	(78)bp	58.4	(159)bp	55.2	157bp
Employee costs	229	202		229		204	
% of sales	2.4	2.2		2.3		2.1	
Other op expenses	1,275	1,213	5.1	1,582	(19.4)	1,377	(7.5)
% of sales	13.4	13.2	19bp	15.9	(247)bp	14.1	(66)bp
Operating profit	2,597	2,470	5.1	2,331	11.4	2,796	(7.1)
OPM (%)	27.4	27.0	39bp	23.4	394bp	28.6	(123)bp
Depreciation	402	352	14.2	385	4.4	388	
Interest	0	0		0		0	
Other income	588	359	64.0	516		402	46.5
PBT	2,783	2,476	12.4	2,462	13.0	2,809	(0.9)
Provision for tax	441	541		449		618	
-effective tax rate	15.9	21.9		18.3		22.0	
Exceptional item	0	0		(1)		0	
PAT	2,342	1,935	21.0	2,012	16.4	2,191	6.9
NPM (%)	24.7	21.1	354bp	20.2	446bp	22.4	226bp
EPS (Rs)	18.0	14.9		15.5		16.9	

Source: Company, Centrum Research

Y/E Mar (Rsmn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	EPS (Rs)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY10	37,057	8.4	9,616	26.0	7,867	(0.6)	60.5	19.4	19.4	19.2	13.6
FY11	38,266	3.3	10,226	26.7	8,301	5.5	63.9	17.9	17.9	20.4	14.2
FY12	40,496	5.8	10,843	26.8	8,938	7.7	68.8	17.1	17.1	16.3	11.0
FY13E	44,172	9.1	11,774	26.7	9,355	4.7	72.0	16.1	16.1	15.6	9.8
FY14E	48,990	10.9	12,981	26.5	10,426	11.5	80.2	16.1	22.0	14.0	8.3

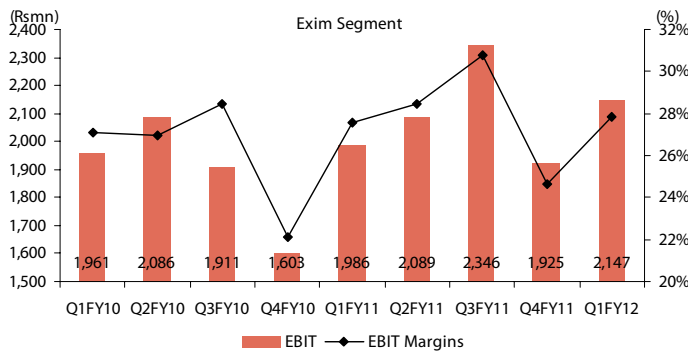
Source: Company, Centrum Research Estimates

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Centrum Equity Research is available on Bloomberg, Thomson Reuters and FactSet

Q1 operational performance below expectations

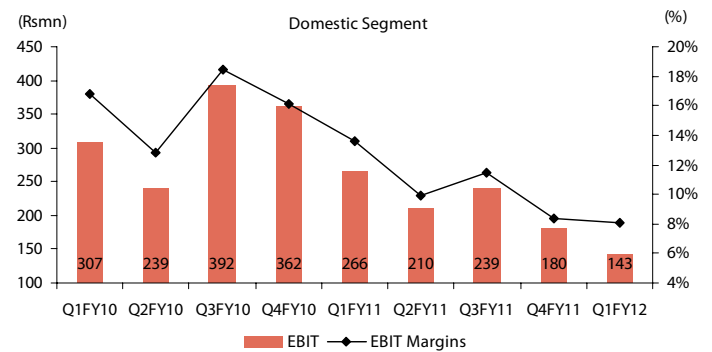
Though Q1 standalone revenue grew 3.6% YoY to Rs9,490mn, it was 2.9% lower than our estimate of Rs9,777mn. The company's domestic segment continued to underperform with lower margins due to its inability to pass on increased haulage charges. Operating profit grew 5.1% YoY to Rs2,597mn, 7.1% below our estimate of Rs2,796mn. EBITDA margin was flat YoY (up 39bp) to 27.4%, 123bp below estimated as rail freight expenses as a percentage to revenue was 157bp higher than our estimate.

Exhibit 1: Exim segment's profitability relatively stable ...



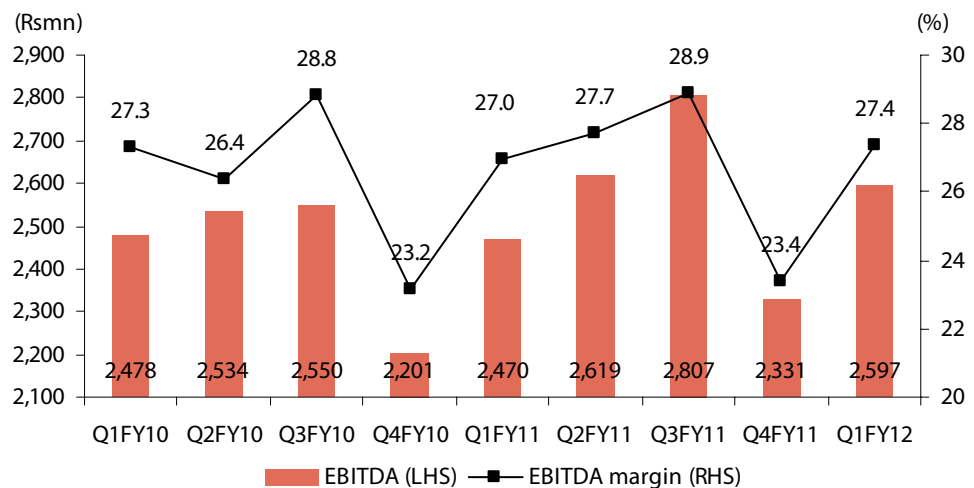
Source: Company, Centrum Research

Exhibit 2: ... while decline in domestic segment continues



Source: Company, Centrum Research

Exhibit 3: Exim segment leads overall EBIDTA margin back to normal levels



Source: Company, Centrum Research

Other income and lower tax boost net profits

High other income and a lower tax rate helped boost PAT which improved 21.0% YoY to Rs2,342mn, 6.9% above our estimate. As a result, net margin improved 354bp YoY to 24.7%, 226bp above our estimate of 22.4%. The company reported other income of Rs588mn (up 64% YoY) vs. our estimate of Rs402mn while its tax rate for Q1 was 15.9% vs. 21.9% last year and our estimate of 22%. Notes to the results have clarified that the company has got an ITAT decision in its favour for a tax penalty of Rs267mn relating to the period of AY04 to AY06.

Domestic segment continues to be a drag on performance

On a segmental basis, the Exim segment’s revenues were in-line with our estimate while domestic revenues were 11.3% lower-than-estimated. Exim volumes were up 2.5% YoY to 501,672 containers, underperforming the industry (12 major port’s throughput) growth of 3.2% YoY in Q1. Exim segment’s PBIT grew 8.1% YoY to Rs2,147mn (4.7% below estimated) with margins at 27.8% vs. 29.0% estimated. The sharp increase in the domestic segment’s rail haulage charges by Indian Railways (IR) during Q3FY11 continued to impact the company. While domestic volumes declined 13.0% YoY to 110,775 containers, the segment’s profitability declined 46.2% YoY to Rs143mn and EBIT margin contracted 556bp YoY to 8.0%.

Exhibit 4: Segmental break-up

Y/E March (Rsmn)	Q1FY12	Q1FY11	YoY (%)	Q4FY11	QoQ (%)	Q1FY12E	Variance %
Revenue							
EXIM	7,710	7,202	7.1	7,812	(1.3)	7,770	(0.8)
Domestic	1,780	1,957	(9.0)	2,142	(16.9)	2,006	(11.3)
Total	9,490	9,159	3.6	9,954	(4.7)	9,777	(2.9)
EBIT							
EXIM	2,147	1,986	8.1	1,925	11.5	2,253	(4.7)
Domestic	143	266	(46.2)	180	(20.5)	211	(32.2)
Total EBIT	2,290	2,252	1.7	2,104	8.8	2,464	(7.1)
EBIT margin (%)							
EXIM	27.8	27.6	27bp	24.6	321bp	29.0	(115)bp
Domestic	8.0	13.6	(556)bp	8.4	(36)bp	10.5	(247)bp
EBIT margin (%)	24.1	24.6	(46)bp	21.1	299bp	25.2	(108)bp

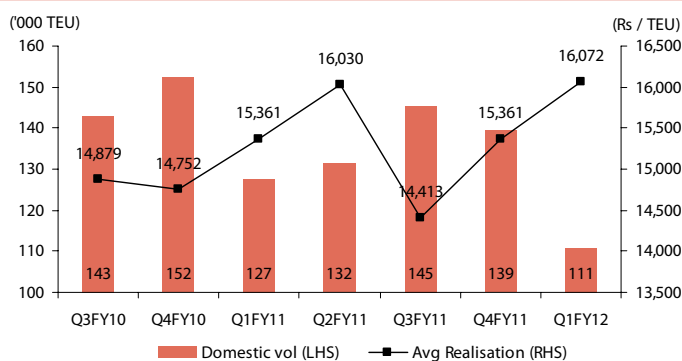
Source: Company, Centrum Research

Average realisations improve on higher value-added services, volumes continue to decline in the domestic segment

Concor’s combined volume declined 0.7% YoY to 612,447 containers, primarily led by decline in the domestic segment. However, blended realisations increased 4.4% YoY to Rs15,500 per container and were spread across segments.

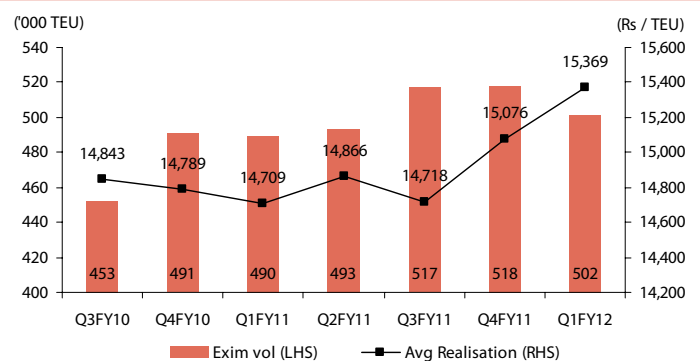
While average realisations increased 4.5% YoY to Rs15,369 per container, in the domestic segment they increased 4.6% YoY to Rs16,072 per container. The contribution from rail freight income declined to 75.5% in Q1 vs. 79% last year. An incremental contribution from other activities like terminal handling (CFS / ICD), road freight and warehousing led to increase in realisations. The average lead distance in the Exim segment for loaded containers declined ~60km to 1,080kms.

Exhibit 5: Domestic volumes lower, realisations up YoY



Source: Company, Centrum Research

Exhibit 6: Volumes flat but realizations up YoY in EXIM



Source: Company, Centrum Research

Container volumes in the Exim segment grew just 2.5% YoY to 501,672 containers on the back of slower growth at the 12 major ports (growth of 3.2% recorded during Q1). Volumes at JNPT, India’s largest container port, were lacklustre as the port continues to face capacity constraints. Further operations at one of its terminals were halted for 10-12 days during June for repairs and maintenance work. This helped boost volumes at the Mundra and Pipavav ports where Concor faces stiff competition from private operators. Domestic segment continued with its poor performance and volumes declined 13.0% YoY to 110,775 containers in Q1FY12 on the back of the 8.5% YoY decline in volumes during Q4FY11.

Introducing FY14 numbers; lowering estimates for FY13

We have introduced our FY14 numbers with revenue growth estimate of 10.9% to Rs49.0bn, while EBITDA is estimated to increase 10.2% to Rs13.0bn. Profitability margins are likely to remain under pressure with a 16bp decline expected in OPM to 26.5%. However, net margin is expected to remain flat at 21.3% in FY14. PAT is estimated at Rs10.4bn and EPS at Rs80.2. We have slightly lowered our FY13 estimates to factor in slower volume and lower margins in the domestic segment.

Exhibit 7: FY14 estimates introduced

Particulars (Rsmn)	Estimates			Growth (%)		
	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E
Revenue	40,496	44,172	48,990	5.8	9.1	10.9
EBITDA	10,843	11,774	12,981	6.0	8.6	10.2
PAT	8,938	9,355	10,426	7.7	4.7	11.5
EPS (Rs)	68.8	72.0	80.2	7.7	4.7	11.5
Margins (%)						
EBITDA	26.8	26.7	26.5	5bp	(12)bp	(16)bp
PAT	22.1	21.2	21.3	38bp	(89)bp	10bp
Volume (TEUs)						
EXIM	10,843	11,774	12,981	6.0	8.6	10.2
Domestic	8,938	9,355	10,426	7.7	4.7	11.5

Source: Centrum Research Estimate

With India's exim trade expected to remain stable and result in increased container movement, we estimate Concor's FY14 EXIM segment volumes at 2.5mn TEUs, a stable growth of 8.5% over FY13.

We, however, expect the domestic segment's volumes to decline 6% in FY12 before recovering to grow 8% in FY13. We have also reduced our volume expectations for the domestic segment by 11.3% for both FY12 and FY13. Our volume expectation for the domestic segment is 0.55mn TEUs for FY13 and 0.61mn TEUs for FY14.

However, after adjusting for the higher other income and lower tax rate, our earning estimates are now higher by 3% for FY12 at Rs68.8%, but 1.7% lower for FY13 at Rs72.0.

Exhibit 8: Estimates revised

Particulars (Rsmn)	Revised		Earlier		Variance (%)	
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Revenue	40,496	44,172	41,350	45,856	(2.1)	(3.7)
EBITDA	10,843	11,774	11,072	12,223	(2.1)	(3.7)
PAT	8,938	9,355	8,680	9,520	3.0	(1.7)
EPS (Rs)	68.8	72.0	66.8	73.2	3.0	(1.7)
Margins (%)						
EBITDA	26.8	26.7	26.8	26.7	(0)bp	0bp
PAT	22.1	21.2	21.0	20.8	108bp	42bp
Volume (TEU)						
Exim	2,142,999	2,315,607	2,180,263	2,356,035	(1.7)	(1.7)
YoY (%)	6.2	8.1	8.0	8.1	(185)bp	(1)bp
Domestic	511,121	552,011	576,371	622,480	(11.3)	(11.3)
YoY (%)	(6.0)	8.0	6.0	8.0	(1,200)bp	0bp

Source: Centrum Research Estimate

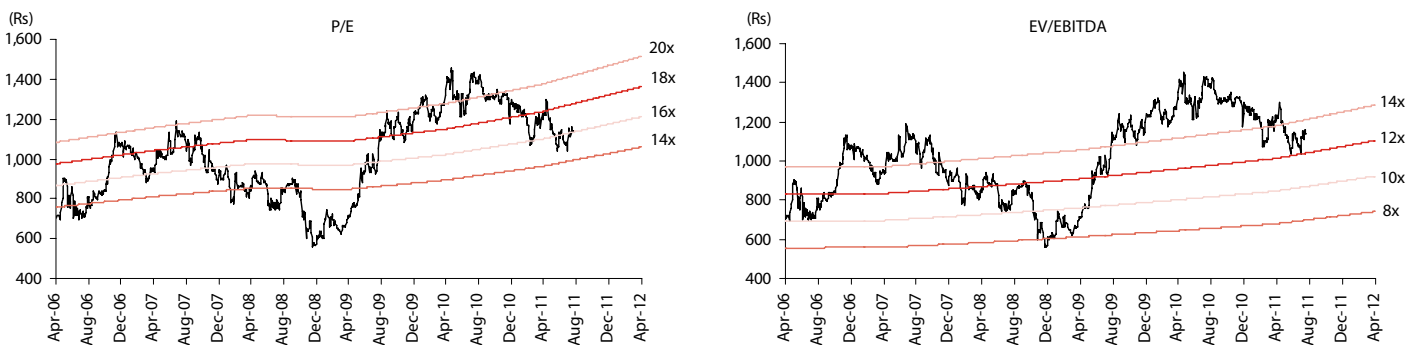
Maintain Hold, target price lowered to Rs1,150

At CMP, the stock trades at 15.6x FY13E earnings and 9.7x FY13E EV/EBITDA and appears fully-valued. Given the low profitability growth expected (6.2% CAGR over FY11-13E) and decline in RoE to 16.1% in FY13 from 17.9% in FY11, we maintain our Hold rating with a revised target price of Rs1,150 (earlier: Rs1,170) valuing the stock at 16x FY13E revised earnings.

Concor is facing challenges in both its business segments. The company lost roughly 25% of its domestic business volumes due to the change in railway policy. Classification of 9 commodities and an increase of 50-150% in their haulage charges led to the traffic move back to roads/ IR.

The Exim segment's volume is slowing down as JNPT is running at overcapacity, and incremental volume growth is coming from newer ports like Mundra and Pipavav, where the company faces stiff competition from private rail operators.

Exhibit 9: Valuations at fair levels (one-year rolling forward P/E and EV/EBIDTA)



Source: Bloomberg, Company, Centrum Research Estimates

Key takeaways from the conference call

- Concor has planned a total capex of Rs7bn for FY12. Of these, Rs1bn is for buying land for its logistics parks, Rs1.6bn for developing terminals (including the logistics parks), Rs4.2bn for acquiring new wagons and the rest for IT and miscellaneous purposes.
- The company recorded other income of Rs588mn (up 64% YoY) in Q1 on the back of higher interest income and dividend received from profitable Joint-ventures for FY11.
- The contribution of rail freight to total income declined to 75.5% in Q1 from 79% last year. This helped improve realisations and margins.
- Concor has tied up with Krishnapatnam Port as the preferred rail partner for providing container rail service and connecting the port to its CFS/ICDs. The company is also looking at setting up a CFS at the port in future as volumes grow under a JV with the port operator.
- The management is looking at other ports to increase its share in the Exim container rail movement. The ports which hold promise are Kolkata, Kochi, Chennai and Tuticorin. The company has also tied up with Karikal port for rail connectivity.
- Concor is aggressively pursuing value added services to increase its revenue and profitability in future. It believes that warehousing holds a lot of promise and is looking to develop both transit and bonded warehousing space in future.

Financials – Standalone

Exhibit 10: Income Statement

Y/E March (Rsmn)	FY10	FY11	FY12E	FY13E	FY14E
Revenue	37,057	38,266	40,496	44,172	48,990
YoY growth (%)	8.4	3.3	5.8	9.1	10.9
Operating expenses	25,174	25,904	27,466	29,968	33,315
% of Sales	67.9	67.7	67.8	67.8	68.0
Employee Cost	839	834	891	994	1,102
% of Sales	2.3	2.2	2.2	2.3	2.3
Admin & other expenses	1,428	1,301	1,296	1,436	1,592
% of Sales	3.9	3.4	3.2	3.3	3.3
Total expenditure	27,440	28,040	29,653	32,398	36,009
EBITDA	9,616	10,226	10,843	11,774	12,981
EBITDA margin (%)	26.0	26.7	26.8	26.7	26.5
Depreciation	1,351	1,437	1,670	1,888	1,971
EBIT	8,265	8,789	9,173	9,886	11,010
Interest expenses	0	0	0	0	0
Other income	1,801	1,734	1,727	1,881	2,105
PBT	10,066	10,524	10,900	11,767	13,115
Provision for tax	2,199	2,213	1,962	2,412	2,689
Effective tax rate (%)	21.8	21.0	18.0	20.5	20.5
PAT	7,867	8,311	8,938	9,355	10,426
Exceptional income (Expenses)	0.2	(10.1)	0.0	0.0	0.0
Adj Net Profit	7,867	8,301	8,938	9,355	10,426
YoY growth (%)	(0.6)	5.5	7.7	4.7	11.5
PAT margin (%)	21.2	21.7	22.1	21.2	21.3

Source: Company, Centrum Research Estimates

Exhibit 11: Balance Sheet

Y/E March (Rsmn)	FY10	FY11	FY12E	FY13E	FY14E
Equity Share Capital	1,300	1,300	1,300	1,300	1,300
Reserves & Surplus	42,064	48,008	53,905	59,914	66,994
Net worth	43,364	49,308	55,204	61,213	68,294
Total Loan Funds	0	0	0	0	0
Deferred Tax Liability	2,109	2,266	2,484	2,719	2,982
Total Capital Employed	45,473	51,574	57,688	63,933	71,276
Gross Block	29,889	35,778	40,908	43,937	46,237
Accumulated Dep.	8,250	9,687	11,357	13,245	15,216
Net Block	21,639	26,091	29,551	30,692	31,021
Capital WIP	1,991	250	650	1,450	450
Net Fixed Assets	23,629	26,341	30,201	32,142	31,471
Investments	2,405	2,448	2,448	2,448	2,448
Inventories	70	29	67	73	81
Sundry debtors	176	153	200	218	242
Cash & bank balances	19,895	23,632	27,041	30,849	37,916
Other Current Assets	784	795	769	883	1,225
Loans and Advances	4,798	4,238	4,050	4,859	5,879
Total current assets	25,724	28,846	32,126	36,882	45,342
Current liabs & prov	6,285	6,062	7,087	7,540	7,985
Net Current Assets	19,438	22,784	25,039	29,343	37,356
Total Assets	45,473	51,574	57,688	63,933	71,276

Source: Company, Centrum Research Estimates

Exhibit 12: Cash flow

Y/E March (Rsmn)	FY10	FY11	FY12E	FY13E	FY14E
Profit after Tax	7,867	8,301	8,938	9,355	10,426
Depreciation	1,351	1,437	1,670	1,888	1,971
Provision for deferred tax	171	157	218	235	262
Misc Items	0	0	0	0	0
CF bf WC change	9,389	9,895	10,826	11,478	12,659
Working capital adj	(1,592)	387	546	(495)	(947)
Cash from operation	7,797	10,282	11,373	10,983	11,712
Capex	(3,034)	(4,149)	(5,530)	(3,829)	(1,300)
Investments	(375)	(43)	0	0	0
Cash from investing	(3,408)	(4,192)	(5,530)	(3,829)	(1,300)
Borrowings/ (repayments)	0	0	0	0	0
Proceeds from sh capital	0	0	0	0	0
Dividend paid	(2,129)	(2,353)	(2,433)	(3,346)	(3,346)
Cash from financing	(2,129)	(2,353)	(2,433)	(3,346)	(3,346)
Net Cash inc/(dec)	2,260	3,737	3,409	3,808	7,067
Opening Cash Balance	17,635	19,895	23,632	27,041	30,849
Closing Cash Balance	19,895	23,632	27,041	30,849	37,916
FCF to firm (FCFF)	4,764	6,133	5,843	7,154	10,412
FCF per share	37	47	45	55	80

Source: Company, Centrum Research Estimates

Exhibit 13: Key Ratios

Y/E March	FY10	FY11	FY12E	FY13E	FY14E
O/s shares mn (FV-Rs 10)	130.0	130.0	130.0	130.0	130.0
Per share (Rs)					
Fully diluted EPS	60.5	63.9	68.8	72.0	80.2
CEPS	70.9	74.9	81.6	86.5	95.4
BVPS	333.6	379.3	424.7	470.9	525.4
Cash/Share	153.1	181.8	208.0	237.3	291.7
Dividend ratios					
DPS (Rs)	14.0	15.5	20.0	22.0	22.0
Dividend yield (%)	1.2	1.2	1.8	2.0	2.0
Dividend payout (%)	27.0	28.4	34.0	35.8	32.1
Turnover ratios (days)					
Debtors turnover	1.6	1.6	1.6	1.7	1.7
Creditors turnover	26.6	26.6	24.7	24.5	24.3
Working cap turnover	(12.4)	(6.2)	(12.8)	(14.5)	(7.7)
Asset turnover (x)	0.8	0.7	0.7	0.7	0.7
Return ratios (%)					
RoE	19.4	17.9	17.1	16.1	16.1
RoCE	19.4	17.9	17.1	16.1	16.1
RoIC	33.5	27.6	26.3	24.8	25.3
Valuation ratios (x)					
P/E	19.2	20.4	16.3	15.6	14.0
P/BV	3.5	3.4	2.6	2.4	2.1
EV/EBITDA	13.6	14.2	11.0	9.8	8.3
EV/Sales	3.5	3.8	2.9	2.6	2.2
M-Cap to Sales	4.1	4.4	3.6	3.3	3.0

Source: Company, Centrum Research Estimates

Appendix A

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