



INDIA RESEARCH

Concor

Rs905

OUTPERFORMER

RESULT NOTE

Mkt Cap: Rs118bn; US\$2.9bn

Analyst: Bhoomika Nair (91-22-6638 3337; bhoomika@idfcsski.com)
Result: Q4FY08
Comment: Above estimates led by higher revenues and other income
Last report: 31 January 2008 (Price Rs775; Recommendation: Outperformer)

Key financials

Year to March (Rs mn)	Sales	yoy chg (%)	Net Profit	EPS (Rs)	yoy chg (%)	PER (x)
2004	17,644	18.9	3,563	54.8	31.7	16.5
2005	20,035	13.5	4,289	66.0	20.4	13.7
2006	24,332	21.4	5,237	80.6	22.1	11.2
2007	30,373	24.8	6,961	53.6	32.9*	16.9
2008P	33,415	10.0	7,573	58.3	8.8	15.5
2009E	38,665	15.7	8,684	66.8	14.7	13.5
2010E	44,916	16.2	9,940	76.5	14.5	11.8

* Growth adjusted for bonus issue

Concor reported its 4QFY08 net profit at Rs2.03bn ahead of our estimates on account of higher revenues and other income during the quarter. The revenue growth of 12% yoy to Rs9bn was led by strong volume growth of 16% during the quarter. Operating margins fell by 160bps to 25.7% led by adjustment of 9MFY08 costs of higher land lease payments and employee costs. Adjusting for these costs, the margins would have been higher by 70-80bps to 28%+ for the quarter. We have upgraded our FY08 and FY09 earnings estimates by 1% each to reflect the higher revenues and other income during the quarter. 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 tie up with players to offer end to end logistics solutions to clients. Concor currently trades 13.5x FY09 earnings, which is attractive considering the earnings growth visibility and high return ratios (30%+). We maintain our Outperformer rating on the stock.

RESULT HIGHLIGHTS

- Revenues grew by 12% yoy in 4QFY08 to Rs9.04bn mainly driven by volume growth (+20%) in exim segment.
- Exim revenues grew by 10% yoy to Rs7.1bn in 4QFY08 driven by volume growth of 20% yoy as volumes picked up at the JNPT port, wherein the 3rd terminal (owned by Maersk – Concor JV) picked up momentum. However, realizations fell by 8.6% yoy to Rs13,434/TEU in the exim segment.
 - The decline in realizations was led by the reduction in haulage rates by Indian railways on 40ft containers by 10%, which were passed on by Concor to clients in 2QFY08. Moreover, Concor reduced the terminal handling charges for the 40ft containers by 15% in 2QFY08, which further impacted the realizations during the quarter on a yoy basis.
- Domestic revenues grew by 19.7% during the quarter to Rs1.9bn led by 15.3% yoy growth in realizations led by a higher lead distance. However, the volume growth appears muted on a yoy basis at 3.8% due to the high base effect, while for FY08 the growth has been strong at 21% yoy. The growth in domestic volumes has been driven by

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Concor's initiative and focus to provide end to end logistics solutions to its clients. Moreover, it has tied up with various clients such as Indo Rama, IOC, etc to be their sole transporter to get assured volumes.

Volume and realization trend

	1QFY07	2QFY07	3QFY07	4QFY07	FY07	1QFY08	2QFY08	3QFY08	4QFY08	FY08
Volumes (TEU's)										
Exim	407,865	448,387	419,461	439,948	1,715,661	443,147	504,748	501,070	528,434	1,977,399
Domestic	94,838	82,278	92,489	120,000	389,605	116,657	113,873	115,236	124,604	470,370
Total	502,703	530,665	511,950	559,948	2,105,266	559,804	618,621	616,306	653,038	2,447,769
% growth										
Exim	14.0	14.9	2.8	9.8	10.2	8.7	12.6	19.5	20.1	15.3
Domestic	13.2	5.0	2.2	(0.9)	4.2	23.0	38.4	24.6	3.8	20.7
Total	13.8	13.3	2.7	7.3	9.0	11.4	16.6	20.4	16.6	16.3
Realisation (Rs/TEU)										
Exim	14,172	14,273	13,848	14,691	14,338	13,773	12,994	13,324	13,434	13,370
Domestic	15,109	15,719	17,985	13,480	15,336	14,193	14,305	15,237	15,545	14,834
Average	14,349	14,497	14,595	14,432	14,427	13,861	13,235	13,682	13,837	13,651
% growth										
Exim	19.9	20.0	11.8	14.8	17.1	(2.8)	(9.0)	(3.8)	(8.6)	(6.8)
Domestic	9.6	1.2	25.1	0.3	8.1	(6.1)	(9.0)	(15.3)	15.3	(3.3)
Average	17.6	16.0	14.5	10.6	14.1	(3.4)	(8.7)	(6.3)	(4.1)	(5.4)

- EBIT margins in the exim business fell by 160bps to 26.7% during the quarter. The fall in margins has been primarily due to the rate reduction of the terminal handling charges for 40ft containers.
- The domestic segment's EBIT margins fell by 280bps to 10.7% during the quarter. The fall in margins was led by higher cost of running empty wagon as well as volume based discounts given to clients to garner volumes against road transporters.
- One off charges in 4Q08 further impacted margins:
 - Indian Railways increased the land lease charges for ICD and CFS during the quarter from Rs250/TEU to Rs500/TEU with retrospective effect from 1st April, 2007 resulting in a additional charge of Rs337mn in FY08 over FY07. Consequently, the entire impact of ~Rs200mn for the 9MFY08 was reflected in 4QFY08, which impacted margins in 4Q08. Concor has passed this increase to its clients from 15th February, 2008.
 - Concor has provided for wage costs as per the 6th pay commission recommendation in FY08. Accordingly, a higher provision of Rs132mn was made in FY08. Consequently, the additional provision of ~Rs40mn pertaining to 9MFY08 was provided in 4QFY08.
- Consequently, overall margins fell by 160bps on a yoy basis to 25.7% during the quarter. However, adjusting for the 9MFY08 adjustments, the 4QFY08 margins would have been higher by 70-80bps at 28%. Overall, for FY08 operating margins were at 27%, lower by 230bps on a yoy basis.

Segmental data

	1QFY07	2QFY07	3QFY07	4QFY07	FY07	1QFY08	2QFY08	3QFY08	4QFY08	FY08
Revenues										
Exim	5780	6400	5809	6,463	24599	6104	6559	6677	7,099	26438
Domestic	1433	1293	1663	1,618	5975	1656	1629	1756	1,937	6978
yoy growth (%)										
Exim	36.6	38.0	14.9	26.1	29.1	5.6	2.5	14.9	9.8	7.5
Domestic	24.0	6.2	27.8	-0.6	12.7	15.5	26.0	5.6	19.7	16.8
EBIT Margins										
Exim	1767	2172	1673	1,827	7259	1793	1759	1909	1,898	7358
Domestic	244	187	383	219	1017	326	177	245	206	955
EBIT Margins (%)										
Exim	30.6	33.9	28.8	28.3	29.5	29.4	26.8	28.6	26.7	27.8
Domestic	17.1	14.5	23.0	13.5	17.0	19.7	10.9	14.0	10.7	13.7

- Other income increased sharply by 234% yoy to Rs495mn during the quarter as Concor invested its cash balance of Rs15.5bn in high interest yielding investments as well as income generated from the JV for air cargo services. For FY08, the other income jumped by 88% yoy to Rs1.6bn.
- Depreciation increased by 20% yoy to Rs267mn in 4QFY08 and by 13% yoy to Rs1.06bn due to increase in wagon acquisition as well as investments in handling equipment over the past one year.
- The tax rate for the quarter was at 20.4% in 4QFY08 and 20.7% for FY08 as the company had 80IA benefits for profits earned on its investments in ICD's and wagons after April 2001.
- As a result, net profit grew by 20% yoy to Rs2bn in 4QFY08 and by 9% for FY08.
- Concor has issued bonus shares of 1 share for every 1 share held (1:1).

□ Limited impact from entry of new players – Concor to maintain its leadership position

With the entry of new players in the container rail movement over the past two years, Concor has been able to maintain its leadership position with a dominant market share of 94% in FY08, while private players having only 6% market share. As the private players are acquiring incremental wagons, the private players are finding it difficult to balance the volume mix between exports and imports resulting in increased empty running of rakes. Consequently, Concor is being able to maintain its rates and market share despite the entry of new players and is giving discounts only selectively for assured volumes.

We believe Concor is unlikely to be materially impacted as private players scale up over the next 1-2 years (both wagons and ICD's) as the players will lack scale to manage the higher cost of empty running of rakes. Moreover, the container traffic continues to grow at a strong pace (20%+) led by improved port infrastructure as well as higher containerization, which is further likely to drive volumes in the market. Consequently, we believe Concor will continue to grow its earnings at a steady rate over the medium term.

□ Maintain Outperformer

We have upgraded our earnings estimates for FY09 and FY10 by 1% each to reflect the higher than estimated revenues and other income during the quarter. We believe the strong growth in international trade and higher container volumes in the country will drive sharp growth in exim volumes and resultant earnings growth of 15% CAGR over FY08-10. Considering the earnings growth visibility and high return ratios (30%+), we believe that Concor currently trades at attractive valuations at 13.5x FY09 earnings and at 11x on FY09 EV/EBITDA. We maintain Outperformer rating on the stock with a DCF based target price of Rs1,170/share.

Quarterly results

Rs mn	1QFY07	2QFY07	3QFY07	4QFY07	FY07	1QFY08	2QFY08	3QFY08	4QFY08	FY08
Net Sales	7,213	7,693	7,472	8,081	30,373	7,759	8,188	8,432	9,036	33,415
Total Expenditure	5,053	5,171	5,248	5,879	21,461	5,478	6,065	6,131	6,714	24,388
EBITDA	2,161	2,522	2,224	2,202	8,912	2,281	2,123	2,301	2,322	9,027
<i>OPM (%)</i>	30.0	32.8	29.8	27.3	29.3	29.4	25.9	27.3	25.7	27.0
Other Income	163	169	205	148	846	351	325	417	495	1,587
Depreciation	223	232	242	223	936	258	260	275	267	1,061
PBT	2,101	2,458	2,187	2,128	8,823	2,374	2,187	2,442	2,550	9,553
Tax	414	515	488	360	1,687	481	393	481	491	1,846
Deferred Tax	23	48	42	75	175	22	53	31	29	134
<i>Tax Rate (%)</i>	20.8	22.9	24.2	20.4	21.1	21.2	20.3	21.0	20.4	20.7
PAT	1,664	1,895	1,657	1,694	6,961	1,871	1,742	1,930	2,030	7,573
Extraordinary items	(0)	(2)	(1)	(1)	77	(0)	(1)	(1)	-	(2)
Reported PAT	1,663	1,893	1,656	1,692	7,038	1,871	1,741	1,930	2,030	7,571
Growth (%)										
Sales	34	31	18	19	24	8	6	13	12	10
Expenses	32	26	14	21	24	8	17	17	14	14
EBITDA	39	44	26	12	27	6	(16)	3	5	1
Other Income	56	30	40	(8)	56	116	93	103	234	88
Depreciation	16	12	17	(8)	10	16	12	14	20	13
PBT	43	47	28	13	31	13	(11)	12	20	8
PAT	55	55	21	24	38	12	(8)	16	20	9

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1. Outperformer: More than 10% to Index
2. Neutral: Within 0-10% to Index
3. Underperformer: Less than 10% to Index

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