

Container Corporation of India Ltd

Stock price adequately factoring in growth

▼ Neutral

Previous: Overweight

CCRI.BO, CCRI IN

Price: Rs1,299.55

▼ Price Target: Rs1,310.00

Previous: Rs1,360.00

- Downgrading to Neutral:** While we expect Concor to benefit from reviving growth in foreign trade, we now expect the margin expansion to be restricted to c.50bps (vs our earlier expectations of c.100 bps increase) over FY11-12E given a) traffic mix skewed towards imports, b) management's continued focus on the domestic segment. We are consequently lowering our EPS estimates by 7% in FY11E and by 3% in FY12E to factor in the above and thus revising our PT to Rs.1,310. While the stock has outperformed the broader Sensex over the past year, we believe that at current levels, the stock is adequately factoring the growth ahead. We thus downgrade our recommendation to Neutral.
- Cautious optimism:** Management has guided for a modest volume growth of 10-12% over 1HFY11E. While volume growth has revived (off a low base), the mix remains tilted towards imports. The company will continue to focus on growth in the domestic segment over the near term to supplement overall growth.
- Margins outlook –** While FY10 margins came in at 26.4% (-80bp yoy) given a changing product mix, management expects margins to remain range bound given: a) continued focus in the lower margin domestic segment, b) management expects that empty running would remain high given the higher proportion of imports. In FY10, empty running charges were at Rs.1B (+30% yoy), and c) steep price hikes by the railways - the company could only partially pass on the recent price hike taken by the railways (tariffs may be raised further).
- Price Target:** We are lowering our EPS estimates by 7% in FY11E and 3% in FY12E to factor in lower margin outlook and are revising our PT to Rs.1,310, which is based on a 10% premium to the DCF based value. At this price, the stock is valued at a one year forward PE of 15x on FY12E EPS, which is at a 10% premium to the company's historic five year trading multiple.
- Risks:** on the upside – higher than expected operating margins. On the downside: growth rates may be impacted by an uncertain outlook in Europe.

India

Logistics & Freight

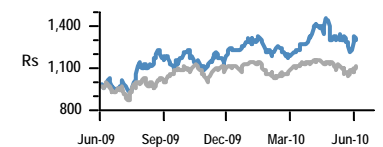
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J.P. Morgan India Private Limited

Price Performance



	YTD	1m	3m	12m
Abs	-0.7%	-1.1%	8.7%	33.6%
Rel	1.3%	-1.0%	7.8%	19.5%

Table 1: Container Corporation of India – Summary of financials (Year ending March; Rs in M)

	FY09	FY10E	FY11E	FY12E		
Net sales	34,172	37,023	43,124	49,902	52-week range (Rs)	924 - 1,453
Net profit	7,915	7,790	9,501	11,355	Market cap (Rs B)	168,974
EPS (Rs)	60.9	59.9	73.1	87.4	Market cap (US\$ M)	3,572
Net sales growth (%)	2	8	16	16	Shrs outsting (MM)	130
EPS growth (%)	5	-2	22	20	Free float (%)	37
ROE (%)	21.0	18.0	18.8	19.1	Avg daily value (US\$ MM)	1.3
BVPS (Rs)	289	333	389	457	Avg dly volume (MM shs)	0.1
P/E (x)	21.4	21.7	17.8	14.9	BSE sensex	17,118
EV/EBITDA (%)	16.3	15.2	12.6	10.3	Exchange rate (Rs/US\$)	47.3

Source: Company, J.P. Morgan estimates, Bloomberg. Priced as of 4 June 2010.

See page 9 for analyst certification and important disclosures, including non-US analyst disclosures.

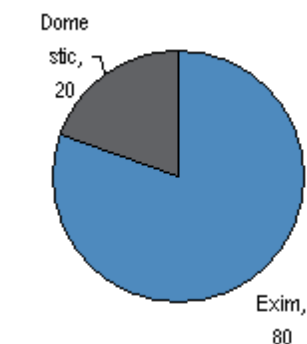
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Company Description

Concor is India's largest railway container freight operator with more than 90% market share. It transports containerized cargo on its owned rakes (wagons).

While Concor owns the wagons and terminals, it operates trains on the Indian railways network, for which it pays haulage charges to the railways. The company derives 80% of its revenues from the EXIM (export import) segment and the balance from the domestic segment.

Revenue customer chart (%)



EPS: J.P. Morgan vs consensus

	J. P. Morgan	Consensus
FY10	59.9	59.9
FY11E	73.1	71.5
FY12E	87.4	80

Source: Bloomberg

P&L sensitivity metrics

	EBITDA impact (%)	EPS impact (%)
Sales volume growth assumption	5%	5%
Impact of each 3%		
Gross margin assumption	4%	4%
Impact of each 1%		

Source: J.P. Morgan Estimates

Price target and valuation analysis

We are lowering our EPS estimates by 7% in FY11E and 3% in FY12E to factor in a lower margin outlook and are revising our PT to Rs.1,310.

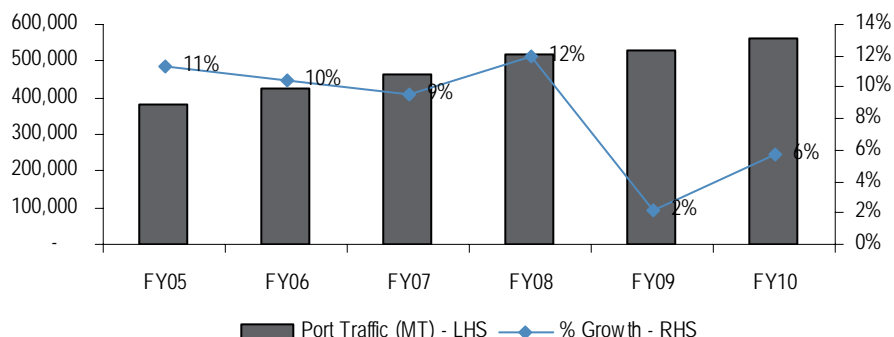
Risk free rate:	7.5
Market risk premium:	7
Beta:	0.8
Debt/equity:	0
Cost of debt:	NA
Terminal "g":	4.5

On our current target price, the stock trades at a 10% premium to our DCF based value. At this price, the stock is valued at a one year forward PE of 15x on FY12E EPS, which is at a 10% premium to the company's average five year trading multiple.

Volume outlook:

EXIM segment: Port traffic in India has risen over FY10, driven by a global recovery.

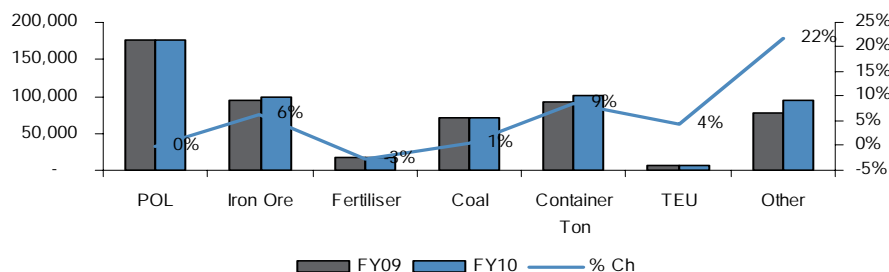
Figure 1: Port Traffic (in '000 Tons)



Source: Indian Port Association

While port volume at 561MT grew at 6% yoy in FY10, the container tonnage grew at 9%, while TEUs grew at 4%. In this light, Container Corporation's TEU volumes on the EXIM side were up +1% yoy. Concor benefited from strong growth in the import segment, given a healthy local economy.

Figure 2: Commodity wise break down of Port Traffic (in '000 Tons)



Source: Indian Port Association

While there are concerns about growth rates emanating from the Euro zone, growth in the rest of the world is likely to hold up.

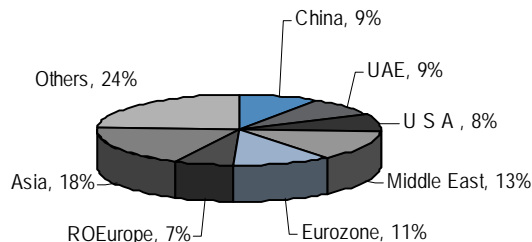
Table 1: JP Morgan Global GDP Growth Forecasts (%)

	CY09	CY10E	CY11E
Global	-2.5	3.6	3.3
USA	-2.4	3.5	3.1
EU	-4.0	1.3	1.9
UK	-4.9	1.5	3
Japan	-5.2	3.5	2.2
China	8.7	10.8	9.4
India	7.2	8.3	8.5

Source: J.P. Morgan Global Economics

The breakdown of India's foreign trade (as of Apr-Dec 2009) by value indicates that China, UAE and the US are the largest trading partners. The Euro Zone is c.11% of value while Asia (ex China) is 18%.

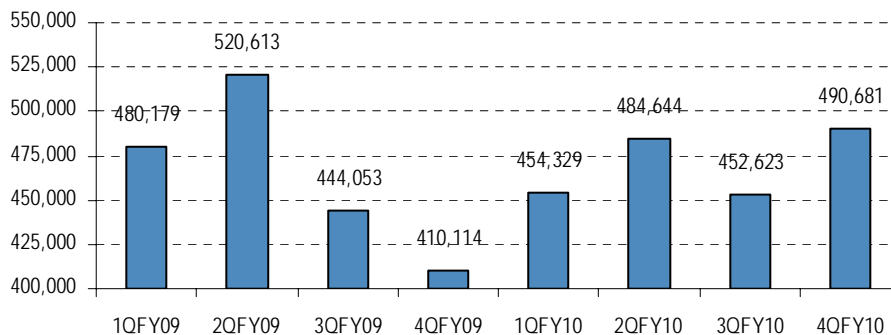
Figure 3: India's Foreign Trade – Country wise share (%)



Source: Government of India

Concor's EXIM volumes revived in the latter half of FY10. While import shipments picked up earlier, export volumes revived only over 4Q.

Figure 4: Container Corporation of India EXIM Volumes (in TEU's)

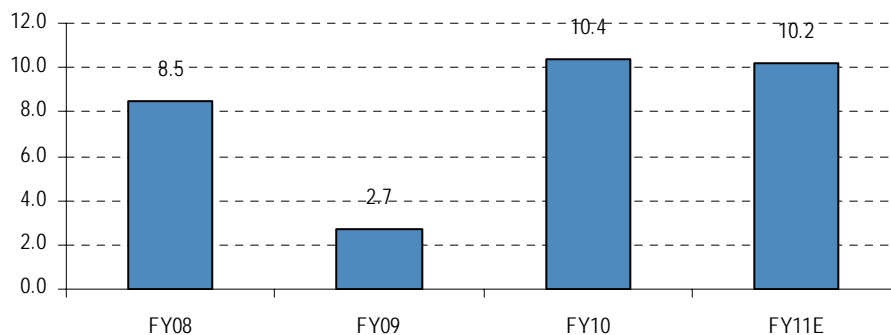


Source: Company

Domestic Segment Outlook

Given that growth rates in the local economy are expected to remain healthy, management highlighted that they expect domestic business to be a growth driver over FY11E.

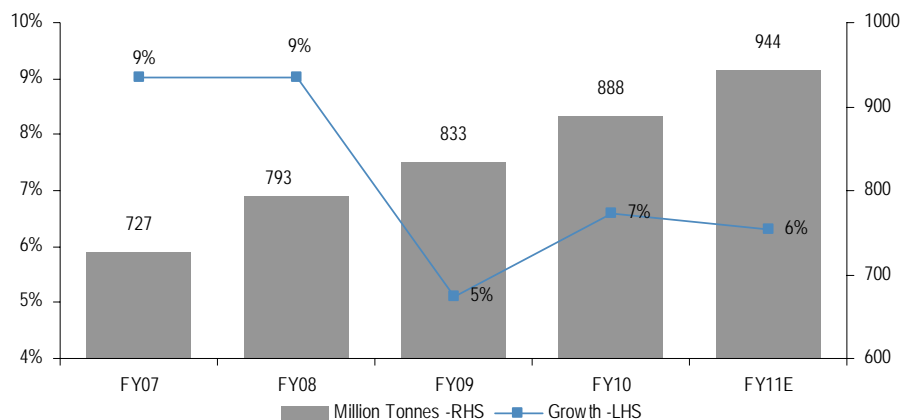
Figure 5: Index of Industrial Production (%)



Source: J.P. Morgan Economics

Further, the Indian railway has set a loading growth target of 6% in FY11E, generally in line with FY10.

Figure 6: Indian Railways Freight loading target (in MT)



Source: Indian Railways

We expect Container Corporation to benefit from a revival in Exim trade as well as sustained growth in the domestic segment.

Table 2: Container Corporation of India Volumes (in TEUs)

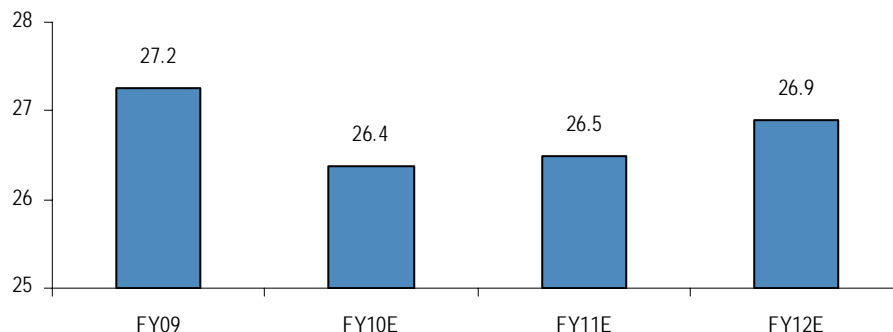
	FY09	FY10	FY11E	FY12E
EXIM TEU's	1,854,959	1,882,277	2,108,150	2,382,210
Volume growth%	-6%	1%	12%	13%
DOMESTIC TEU's	453,273	538,970	603,646	664,011
Volume growth%	-4%	19%	12%	10%
TEU's TOTAL	2,308,232	2,421,247	2,711,797	3,046,221
Volume growth%	-6%	5%	12%	12%

Source: Company, J.P. Morgan Estimates

Margin Outlook

The management expects margins to remain range bound at FY10 levels given: a) continued growth in the lower margin domestic segment, b) management expects that empty running would remain high as the product mix is skewed towards imports, c) inability of the company to pass on the entire price hikes from railways – Concor could only pass on c.85% of the last price hike taken by the railways (tariffs are expected to rise further).

Figure 7: Container Corporation of India's EBITDA Margin (%)



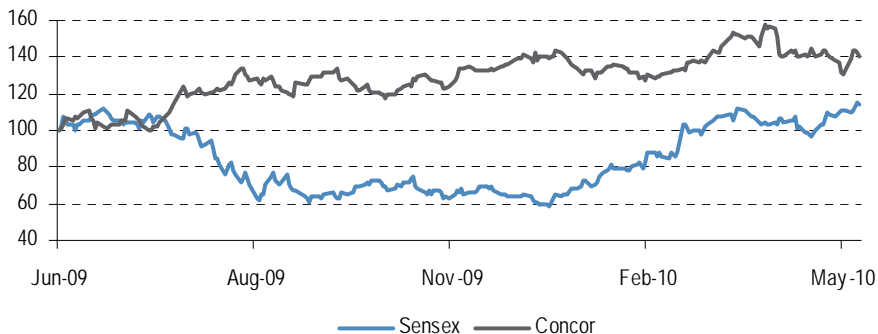
Source: Company, J.P. Morgan Estimates

Lowering forecasts: We are consequently lowering our EPS forecasts for FY11E and FY12E by 7% and 3% respectively to factor in the above.

Valuation and View:

The stock has outperformed the broader Sensex (by over 20%) over the past year, as the stock re-rated from trough levels – following the revival in global economic growth.

Figure 8: Concor vs. SENSEX (Based to 100)



Source: Bloomberg

While we expect Concor to benefit from economic growth, we now expect the margin expansion to be restricted to c.50bps (vs our earlier expectations of c.100 bps increase) over FY11-12E. We are consequently lowering our EPS estimates by 7% in FY11E and by 3% in FY12E to factor in the above and are revising our PT to Rs.1,310. We downgrade our recommendation to Neutral.

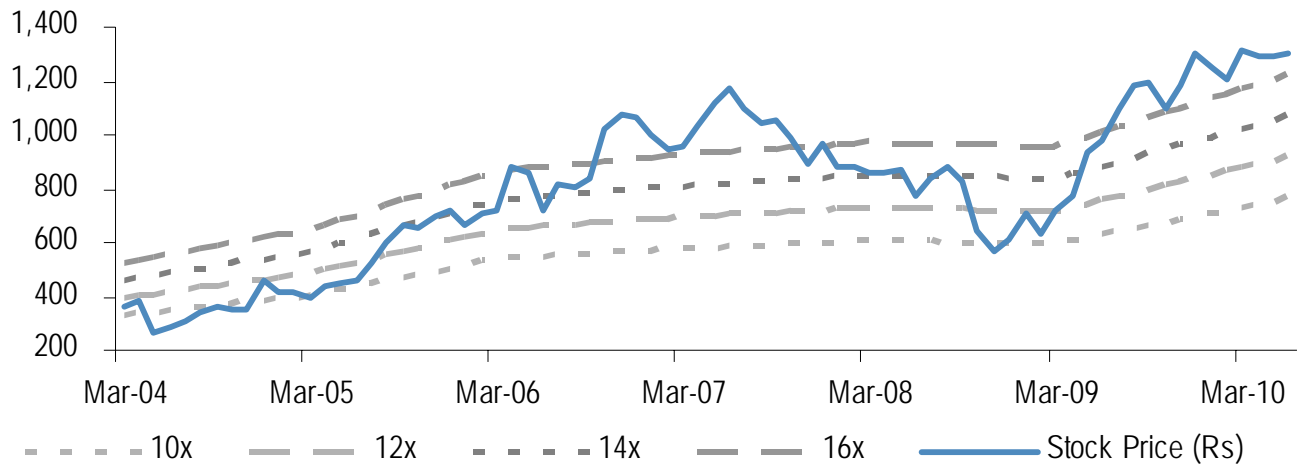
We continue to value the stock at a 10% premium to the DCF based value. We have assumed a WACC of 13.5% in our valuation. At this price, the stock is valued at a one year forward PE of 15x on FY12E EPS, which is at a 10% premium to the companies' historic five year trading multiple.

Table 3: Concor's NPV

Sum of Free Cash Flow	62,574
Terminal Value	67,955
Enterprise Value	130,528
Add: Cash & Cash Equivalent	20,496
Net Present Value-equity	151,024
Shares o/s	130
NPV/share	1,162

Source: J.P. Morgan estimates.

Figure 9: Concor Rolling Forward PE Band Chart (x)



Source: Bloomberg, J.P. Morgan estimates.

Risks to our investment thesis: on the upside – higher than expected operating margins. On the downside: growth rates in foreign trade may be impacted by an uncertain outlook at the Eurozone.

Container Corporation of India: Summary of Financials

Rs in millions, year-end Mar						Rs in millions, year-end Mar					
Profit and Loss statement						Cash flow statement					
	FY08A	FY09A	FY10E	FY11E	FY12E		FY08A	FY09A	FY10E	FY11E	FY12E
Revenues	33,473	34,172	37,023	43,124	49,902	EBIT	7,840	8,151	8,420	9,870	11,654
% change Y/Y	10%	2%	8%	16%	16%	Depreciation & amortisation	1,063	1,159	1,343	1,558	1,770
EBITDA	8,904	9,311	9,763	11,428	13,424	Dec/(Inc) in Working Capital	(379)	336	163	73	285
% change Y/Y	0%	5%	5%	17%	17%	Taxes	(1,856)	(2,147)	(2,052)	(2,467)	(2,968)
EBITDA Margin (%)	26.6%	27.2%	26.4%	26.5%	26.9%	Cash flow from operations	6,668	7,500	7,874	9,034	10,740
Depreciation	1,063	1,159	1,343	1,558	1,770	Extra ordinary Items	17	-3	0	0	0
Other Income	1,645	2,111	1,616	2,312	2,904	Net Capex	-1,892	-4,733	-4,000	-4,500	-4,500
Interest Expense	0	0	0	0	0	(Pur)/Sale of Invest.	-237	-477	-500	-500	-500
Earnings before tax	9,485	10,262	10,036	12,181	14,558	Free cash flow	4,556	2,286	3,374	4,034	5,740
Tax	1,980	2,347	2,245	2,680	3,203	Equity raised/ (repaid)	40	0	0	0	0
as % of EBT	20.9	22.9	22.4	22.0	22.0	Debt raised/ (repaid)	0	0	0	0	0
Net Income (Adjusted)	7,505	7,915	7,790	9,501	11,355	Dividends paid	-1,652	-1,977	-2,129	-2,124	-2,223
Change (%)	8%	5%	-2%	22%	20%	Net Interest (Paid)/ Recd	1,645	2,111	1,616	2,312	2,904
Prior Period adjustments	17	(3)	-	-	-	CF from financing activity	33	134	-513	188	681
Net Income (Reported)	7,522	7,912	7,790	9,501	11,355	Cash generated during the year	4,589	2,420	2,861	4,222	6,421
Shares Outstanding (in M)	65	130	130	130	130	Beginning cash & equivalents	10,626	15,215	17,635	20,496	24,718
EPS (Adjusted)	57.9	60.9	59.9	73.1	87.4	Ending cash & equivalents	15,215	17,635	20,496	24,718	31,140
% change Y/Y	8%	5%	-2%	22%	20%						
DPS (Rs)	13	14	14	15	16						
Div Payout Ratio(%)	22%	23%	23%	20%	19%						

Rs in millions, year-end Mar						Ratio Analysis					
Balance sheet											
	FY08A	FY09A	FY10E	FY11E	FY12E		FY08A	FY09A	FY10E	FY11E	FY12E
Net fixed assets	16,652	19,490	22,638	25,580	28,311	EBITDA margin(%)	26.6	27.2	26.4	26.5	26.9
Capital WIP	1,721	2,457	1,966	1,966	1,966	Sales growth(%)	10	2	8	16	16
Trade investments	1,554	2,031	2,531	3,031	3,531	Net profit growth(%)	8	5	(2)	22	20
Cash	15,215	17,635	20,496	24,718	31,140	EPS growth(%)	8	5	(2)	22	20
Accounts receivable	137	157	170	198	230	Dividend Payout (%)	22	23	23	20	19
Inventories	48	51	101	118	137	P/E (x)	22.5	21.4	21.7	17.8	14.9
Loans & Advances	3,621	3,936	4,023	4,144	4,235	Cash P/E (x)	19.7	18.6	18.5	15.3	12.9
Current assets	19,021	21,780	24,790	29,178	35,740	EV/EBITDA (x)	17.3	16.3	15.2	12.6	10.3
Payables	4,144	4,802	5,294	5,590	6,150	EV/Sales (x)	4.6	4.4	4.0	3.3	2.8
Others	1,227	1,395	1,211	1,254	1,354	Price to Book Value (x)	5.3	4.5	3.9	3.3	2.8
Total current liabilities	5,371	6,197	6,505	6,843	7,504	Dividend Yield(%)	1.0	1.1	1.1	1.1	1.2
Net Current Assets	13,650	15,582	18,285	22,335	28,237	Debt to equity (x)	0.0	0.0	0.0	0.0	0.0
Total Assets	33,576	39,560	45,420	52,911	62,044	Net profit margin(%)	22.4	23.2	21.0	22.0	22.8
Debt	-	-	-	-	-	Sales/assets (x)	1.0	0.9	0.8	0.8	0.8
Deferred Tax	1,737	1,938	2,131	2,344	2,579	Assets/equity (x)	1.1	1.1	1.0	1.0	1.0
Share Capital	650	1,300	1,300	1,300	1,300	ROE (%)	23.6	21.0	18.0	18.8	19.1
Networth	31,839	37,622	43,289	50,567	59,465	ROCE (%)	28.2	25.9	22.1	23.0	23.5
Liabilities	33,576	39,560	45,420	52,911	62,044	ROIC(%)	42.7	37.2	33.8	35.0	37.7
BVPS (Rs per share)	245	289	333	389	457						

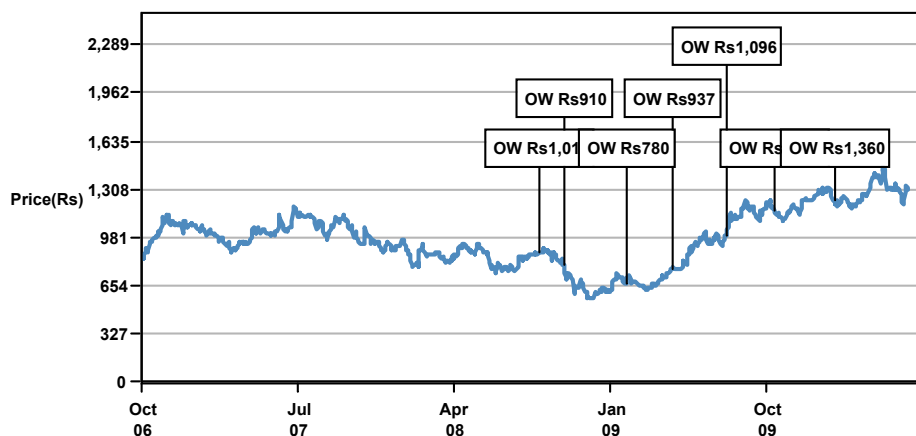
Source: Company, J.P. Morgan

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Important Disclosures

Container Corporation of India Ltd (CCRI.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
27-Aug-08	OW	871.20	1010.00
10-Oct-08	OW	792.30	910.00
28-Jan-09	OW	663.20	780.00
17-Apr-09	OW	759.95	937.00
21-Jul-09	OW	995.70	1096.00
15-Oct-09	OW	1160.25	1260.00
26-Jan-10	OW	1232.40	1360.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 Initiated coverage Aug 27, 2008. This chart shows J.P. Morgan’s continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
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IB clients*	48%	46%	32%
JPM SI Equity Research Coverage	42%	49%	10%
IB clients*	70%	58%	48%

*Percentage of investment banking clients in each rating category.

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