

Concor

Rs1260
OUTPERFORMER

RESULT NOTE

Mkt Cap: Rs163.8bn; US\$3.5bn

Analyst: Bhoomika Nair (91-22-6622 2561; bhoomika@idfcsski.com)
Result: Q3FY10
Comment: Lower than estimates led by lower than estimated other income; FY10E earnings downgraded by 3%
Last report: 21 December 2009 (Price Rs1227; Recommendation: Outperformer)

Key valuation metrics

Year to March 31 (Rs m)	Net Sales	yoy chg (%)	Net profit	EPS (Rs)	yoy chg (%)	PE (x)
2007	30,373	24.8	6,961	53.6	32.9	23.5
2008	33,473	10.2	7,505	57.7	7.8	21.8
2009	34,172	2.1	7,915	60.9	5.5	20.7
2010E	37,121	8.6	8,169	62.8	3.2	20.1
2011E	43,691	17.7	9,418	72.5	15.3	17.4
2012E	51,647	18.2	11,232	86.4	19.3	14.6

Result Highlights

- ◆ Concor reported a PAT of Rs2bn, fall of 2.8% yoy (below our estimates of Rs2.17bn) primarily due to a sharp fall in other income.
- ◆ Volumes in the exim sector were muted at 1.9% yoy due to the slower trade growth during the quarter. However, volumes have been increasing on a mom basis led by pick up in port volumes, especially at Mundra and Pipavav. Concor was running 12 rakes /day for the exim segment in Jan-Feb 2009, which has reverted to average rakes of 16 rakes/ day in 3QFY10 led by the pick up in import volumes.
- ◆ Over the past 6-7 months, Concor has been witnessing higher volumes in domestic business. The trend has continued into 3QFY10 as well, with domestic volume growth being extremely strong at 31% yoy. We expect the volume growth from the domestic segment to remain strong going forward.
- ◆ Consequently, overall volumes grew by 7.7% yoy to 595,525TEU's in 3QFY10.
- ◆ The realizations have fallen by 2.9% yoy led by fall in exim segment realization by 3.3% yoy. Concor typically charges its clients based on distance and weight, which have fallen in the quarter due to shorter lead distance (1200kms - more volumes and empty repositioning from Mundra) as well as lower tonnage (lower imports of scrap) carried in a container. Similarly, the domestic realizations fell by 1.4% yoy.
- ◆ The fall in realizations muted the revenue growth at 5% yoy to Rs8.85bn in the quarter.
- ◆ EBIT margins in the exim segment fell by 190bps yoy to 28.4% due to a high base effect. However, on a qoq basis, the margins have improved by 140bps as the empty running has been contained in the quarter.
- ◆ EBIT margins in the domestic segment increased sharply by 870bps yoy to 18.5% driven by re-positioning of empty rakes. Further, Concor has selectively passed on the increase in haulage rates to clients, which has further resulted in margin improvement during the quarter.

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- ♦ The empty running has been steadily reducing with import and export volumes being balanced out. Accordingly, the empty running during the quarter has fallen sharply from over 15%+ in 1HFY10 to 4.2% in 3QFY10. The fall in empty running has resulted in overall operating margins being flat on a yoy basis at 28.8%, while improving on a qoq basis by 240bps (margins are higher than our estimates of 27.3%).
- ♦ Other income fell sharply by 25% yoy to Rs382mn despite cash balance of Rs20bn primarily due to lower yield on its free cash, which yielded only 6%. Concor has to compulsorily deploy its cash in public sector deposits, which has adversely impacted its yield.
- ♦ Depreciation increased by 18% yoy to Rs335mn in 3QFY10 led by wagon acquisitions as well as investments in terminal handling equipment. Concor plans to invest Rs4.5bn towards rolling stock, new terminals, handling equipment, IT solutions, etc. in FY10, of which it has already invested Rs4.3bn. Concor has been spending on capex, despite the slower volumes, in view of the long term growth in volumes and ensuing capacity requirement. Further it plans to invest Rs5.5-6bn in FY11 towards rolling stock, etc.
- ♦ Net profit fell by 2.8% yoy to Rs2bn in 3QFY10, below our estimates, primarily led by lower than estimated other income.
- ♦ Indian Railways (IR) has increased its haulage charges effective 1st January 2010, which Concor has passed on to its clients. However, in the exim segment Concor has increased the rates effective 8th January 2010. On an overall basis, Concor has increased its rates by 4.5%.

Valuations & View

We have downgraded our FY10E earnings estimates by 3% led by the lower than other income in the quarter. However, we have maintained our FY11E estimates as we expect a sharp pick up in volumes in the exim segment as also the margins to sustain at current levels. We believe the growth in international trade coupled with higher penetration, will drive volume growth for Concor over the longer term. On the other hand, 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 strategic alliances to garner volumes and offer end to end logistics solutions to clients. Concor currently trades 17.4x FY11E earnings, which we believe is attractive considering the steady earnings growth and high return ratios. We maintain our Outperformer rating on the stock with a target price of Rs1450/share.

Volume and realization trends

Volumes (TEU's)	1QFY09	2QFY09	3QFY09	4QFY09	FY09	1QFY10	2QFY10	3QFY10
Exim	480,179	520,613	444,053	410,114	1,854,959	454,329	484,644	452,623
Domestic	108,934	103,868	108,833	131,638	453,273	120,213	123,421	142,902
Total	589,113	624,481	552,886	541,752	2,308,232	574,542	608,065	595,525
% growth								
Exim	8.4	3.1	(11.4)	(22.4)	(6.2)	(5.4)	(6.9)	1.9
Domestic	(6.6)	(8.8)	(5.6)	5.6	(3.6)	10.4	18.8	31.3
Total	5.2	0.9	(10.3)	(17.0)	(5.7)	(2.5)	(2.6)	7.7
Realisation								
Exim	13,836	14,266	15,350	15,526	14,696	15,943	15,961	14,843
Domestic	14,546	15,463	15,097	15,532	15,246	15,227	15,101	14,879
Average	13,967	14,479	15,300	15,528	14,804	15,793	15,786	14,852
% growth								
Exim	0.5	9.8	15.2	15.6	9.8	15.2	11.9	(3.3)
Domestic	2.5	8.1	(0.9)	(0.1)	2.4	4.7	(2.3)	(1.4)
Average	0.8	9.4	11.8	12.2	8.3	13.1	9.0	(2.9)

Segmental trends

(Rs m)	1QFY09	2QFY09	3QFY09	4QFY09	FY09	1QFY10	2QFY10	3QFY10	
Revenues									
Exim	6,644	7,427	6,816	6,368	27,261	7,243	7,735	6,718	
Domestic	1,585	1,606	1,643	2,045	6,911	1,831	1,864	2,126	
% growth									
Exim	8.9	13.2	2.1	(10.3)	326.0	9.0	4.2	(1.4)	
Domestic	(4.3)	(1.4)	(6.4)	5.6	(1.4)	15.5	16.0	29.4	
EBIT									
Exim	1,976	2,324	2,068	1,719	7,819	1,961	2,086	1,911	
Domestic	242	226	162	325	866	307	239	392	
EBIT Margins									
Exim	29.7	31.3	30.3	27.0	28.7	27.1	27.0	28.4	
Domestic	15.3	14.1	9.8	15.9	12.5	16.8	12.8	18.5	

Quarterly results

(Rs m)	1QFY09	2QFY09	3QFY09	4QFY09	FY09P	1QFY10	2QFY10	3QFY10	FY10E	Remarks
Net Sales	8,228	9,042	8,459	8,412	34,172	9,074	9,599	8,845	37,121	Revenue growth led by jump in domestic volumes
Total Expenditure	5,839	6,339	6,017	6,159	24,861	6,595	7,065	6,295	26,801	
EBITDA	2,389	2,703	2,442	2,253	9,311	2,478	2,534	2,550	10,320	
OPM (%)	29.0	29.9	28.9	26.8	27.2	27.3	26.4	28.8	27.8	Margins improve by 240bps qoq led by sharp reduction in empty running (4.2%)
Other Income	453	465	506	482	2,111	413	439	382	1,606	Lower yield of 6% impacts other income; Cash of Rs20bn
Interest	-	-	-	-	-	-	-	-	-	
Depreciation	275	275	283	313	1,159	316	328	335	1,330	Capex of Rs4.3bn YTD
PBT	2,568	2,893	2,665	2,422	10,262	2,575	2,646	2,596	10,595	
Tax	549	654	601	540	2,347	566	602	590	2,426	
Tax Rate (%)	21.4	22.6	22.5	22.3	22.9	22.0	22.8	22.7	22.9	
PAT	2,018	2,239	2,064	1,882	7,915	2,009	2,044	2,006	8,169	
Extraordinary items	(0)	(2)	(1)	(5)	(8)	-	(0)	-	-	
Reported PAT	2,018	2,237	2,063	1,877	7,907	2,009	2,043	2,006	8,169	
Growth (%)										
Sales	6.0	10.4	0.3	(6.9)	2.1	10.3	6.2	4.6	8.6	
Expenses	6.6	4.5	(1.9)	(8.3)	1.2	13.0	11.4	4.6	7.8	
EBITDA	4.7	27.3	6.1	(3.0)	4.6	3.7	(6.2)	4.4	10.8	
Other Income	29.1	43.4	21.4	(2.6)	28.3	(8.9)	(5.5)	(24.5)	(23.9)	
Depreciation	6.4	5.6	2.9	17.2	9.0	15.0	19.1	18.3	14.7	
PBT	8.2	32.3	9.1	(5.0)	8.2	0.3	(8.5)	(2.6)	3.2	
PAT	7.9	28.5	6.9	(7.3)	5.5	(0.5)	(8.7)	(2.8)	3.2	

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

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