

Margins higher – Volumes decline

27 January 2009

BUY

Price	Target Price
Rs.663	Rs.800

Sensex – 9,004

Price Performance

(%)	1M	3M	6M	12M
Absolute	9	11	(20)	(18)
Rel. to Sensex	13	4	23	66

Source: Bloomberg

Stock Details

Sector	Logistics
Reuters	CCRI.BO
Bloomberg	CCRI@IN
Equity Capital (Rs mn)	1300
Face Value (Rs)	10
No of shares o/s (mn)	130
52 Week H/L (Rs)	967/540
Market Cap (Rs bn/USD mn)	86/1,758
Daily Avg Vol (No of shares)	51788
Daily Avg Turnover (US\$ mn)	0.7

Shareholding Pattern (%)

	31/12/08	30/9/08	30/6/08
Promoters	63.1	63.1	63.1
FII/NRI	25.9	26.7	27.7
Institutions	8.9	7.7	6.2
Private Corp	0.9	1.0	1.2
Public	1.2	1.6	1.8

Source: Capitaline

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Concor reported Q3FY09 results which were in-line with our estimates on the topline and bottomline. The company reported a marginal increase in revenues of 0.3% to Rs.8.5bn in Q3FY09. Exim segment revenue increased by 2.1% to Rs.6.8bn. Domestic segment reported revenue of Rs.1.6 bn, de-growth of 6.4%. EBITDA during the quarter increased by 6.1% to Rs.2.4bn. EBITDA margins increased by 160bps to 28.9%. EBITDA margins improvement was due to a) increase in the freight rates on the Exim route w.e.f August 2008 b) cost reduction measures in its container handling segment. Driven by higher other income (due to strong cash position), net profit for the company increased by 6.9% to Rs.2.0bn. The company is on the expansion spree and has already spent Rs.3.6bn on capex as of 9MFY09 out of the total planned capex of Rs.5bn for FY09.

Driven by a drop in volumes in both the exim and domestic segment we are downgrading our revenue and net profit estimates for FY10. We expect the company to report revenue and net profit of Rs.39.2bn and of Rs.8.2bn in FY09, respectively. For FY10, we expect the company to report revenue of Rs.40.8bn (earlier Rs.43.5bn) and net profit of Rs.8.6bn (earlier Rs.9.3bn). The stock trades at 10x FY10 earnings, which we believe is attractive given Concor's dominant position in the railway haulage business. We maintain our BUY rating on the stock with a revised target price of Rs.800 (Earlier Rs.1065). At our target price the stock would trade at 12x FY10 earnings.

Exim business volume decline, however realisation increase

Exim segment reported a decline in volume growth of 11.4% during the quarter. The company attributed this to significant slowdown across industries, drop in global demand and decline in port volumes across the country. However, realisation increased by 15.2% to Rs. 15,350 per TEU as the company increased its freight rates from August 2008 onwards. Revenue in the Exim segment has increased by 2.1% to Rs.6.8 Bn.

Domestic business – volume decline, realisation stable

Domestic segment reported 5.6% decline in volume to 108,338 TEUs. We believe the decline was driven by general slowdown in the economy and private players gaining market share. Private players are more aggressive on the domestic route which is also impacting Concor's domestic business. However, realisation have remained stable with only a 0.9% decline to Rs.15,097 per TEU. Revenue in the domestic segment has declined by 6.4% to Rs.1.6 Bn.

Margins expansion due to improving realisation

Concor reported EBITDA margin of 28.9% in Q3FY09, an expansion of 160 bps over Q3FY08. Improvement in margins was driven by higher realization and aggressive cost reduction. With huge cash position, the company is adding larger equipment for handling containers in order to reduce costs significantly.

Revenue growth to be driven by realisation rather than volumes

Indian railways increased its railway haulage charges w.e.f from August 2008. The increase has been in the range of 14-16%. However, since then, Indian Railways have rolled back the increase in haulage charges in November 2008 in the domestic segment while the increase in the exim segment continues to hold. Concor consequently increased its freight charges by similar proportion. With increase in rate per TEU, we expect the company to post stronger revenue growth.

Maintain BUY with target price of Rs.800

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Strong infrastructure network – Key for the logistic business

We believe Concor has unmatched infrastructure network through 58 terminals, ~8000 wagons and ~1200 containers. We expect the company to be a key beneficiary of the strong growth to be witnessed in the logistics space, driven by massive port capacity addition.

Capex of Rs.50bn in the next five years

The management has indicated that the company proposes to undertake capex of Rs.50bn in the next five years to pursue its growth plans. The company has already spent Rs.3.6 bn up to 9MFY09 and is expected to spend Rs.5.0 bn by the end of FY09. 80% of the capex is expected to be towards rolling stock, while 10% each for new terminals and other equipments.

Financials

Rs. Mn	Q3FY09	Q3FY08	Q2FY09	YoY %	QoQ%
Gross Sales	8,459.1	8,432.3	9,033.6	0.3%	-6.4%
Total Expenditure	6,017.0	6,131.3	6,345.7	-1.9%	-5.2%
PBIDT	2,442.2	2,301.0	2,687.9	6.1%	-9.1%
PBIDT %	28.9%	27.3%	29.8%		
Other Income	505.6	416.5	480.1	21.4%	5.3%
PBDT	2,947.7	2,717.5	3,168.0	8.5%	-7.0%
Depreciation	283.2	275.2	275.0	2.9%	3.0%
PBT	2,664.6	2,442.3	2,893.0	9.1%	-7.9%
Tax	600.9	512.1	654.4	17.3%	-8.2%
Tax rate	22.5%	21.0%	22.6%		
RPAT	2,063.7	1,930.2	2,238.6	6.9%	-7.8%
% Margin	24.4%	22.9%	24.8%		
E/O	0.8	-	-		
APAT	2,063.0	1,930.2	2,238.6	6.9%	-7.8%
% Margin	24.4%	22.9%	24.8%		
EPS	15.9	14.8	17.2	6.9%	-7.8%

	Q3FY08	Q4FY08	Q1FY09	Q2FY09	Q3FY09
Volume TEUs					
Exim	501,070	528,434	480,179	521,613	444,053
% growth	19.5%	20.1%	8.4%	3.3%	-11.4%
Domestic	115,236	124,621	108,934	103,868	108,833
% growth	24.6%	3.7%	-6.6%	-8.8%	-5.6%
Realisation per TEU					
Exim	13,324	13,434	13,836	14,238	15,350
% growth	-3.8%	-8.6%	0.5%	9.6%	15.2%
Domestic	15,237	15,543	14,546	15,469	15,097
% growth	-15.3%	15.5%	2.5%	8.1%	-0.9%

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