

Container Corporation of India

BSE Sensex 20,005	S&P CNX 6,056
Bloomberg	CCRI IN
Equity Shares (m)	130.0
M.Cap. (INR b)/(USD b)	121.0/2.3
52-Week Range (INR)	1,097/830
1,6,12 Rel. Perf. (%)	-1/-19/-22

Financials & Valuation (INR b)

Y/E March	2013E	2014E	2015E
Sales	43.6	50.7	57.0
EBITDA	10.5	12.0	14.3
Adj NP	9.3	9.6	10.6
EPS (INR)	71.6	73.7	81.9
EPS Gr. (%)	7.5	2.9	11.1
BV/Sh. (INR)	477.5	528.0	583.8
RoE (%)	15.8	14.7	14.7
RoCE (%)	20.1	18.8	19.4
Payout (%)	30.0	31.5	31.9
Valuations			
P/E (x)	13.0	12.6	11.4
P/BV (x)	1.9	1.8	1.6
EV/EBITDA (x)	9.4	8.3	7.1
Div. Yield	2.3	2.5	2.8

CMP: INR931
TP: INR1,322
Buy

- Results in line:** CCRI's 3QFY13 results were in line with our expectations, with EBITDA down 5% YoY at INR2.6b (our estimate: INR2.8b). Revenue grew 3.5% YoY to INR10.8b (our estimate: INR11.7b), while net profit declined 1.8% YoY to INR2.4b (our estimate: INR2.3b).
- Volumes remain under pressure:** Volumes in TEU terms remained under pressure. EXIM volumes declined 5.8% YoY to 0.52m TEU while domestic volumes declined ~5.2% YoY to 0.1m TEU. Overall volumes declined 5.7% to 0.64m TEU. While volumes declined in TEU terms, in tonnage terms, YTD volumes grew ~7.5% YoY, implying higher share of bulk goods in the cargo.
- EBITDA margin under pressure:** EBITDA margin was 24.3%, down 219bp YoY and 11bp QoQ. Margins were negatively impacted on account of higher empties cost (up 20% YoY at INR570m) and CCRI's inability to pass on the entire haulage charge increase (70% passed on) by Indian Railways. CCRI has managed to successfully pass on ~70% of the price hike (~12.5% fare hike v/s cost hike of 18%); it is hopeful of passing on the remaining cost hike in a phased manner over the next few quarters.
- Valuation and view:** We are revising our revenue estimates by -3.9%/-7.8%/-7.6% for FY13/FY14/FY15 and net profit estimates by 0.2/-6%/-5% for FY13/FY14/FY15. CCRI trades at 12.6x/11.4x FY14E/FY15E earnings. We maintain **Buy** with a revised DCF-based target price of INR1,322 (upside of 42%).

Quarterly Performance - Standalone

Y/E March	FY12				FY13				(INR Million)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE	FY12	FY13E
Net Sales	9,490	9,946	10,463	10,711	10,370	10,549	10,828	11,820	40,609	43,566
YoY Change (%)	3.6	5.3	7.7	6.9	9.3	6.1	3.5	10.4	5.9	7.3
Terminal & Other Service Charge	5,390	5,630	5,985	6,161	5,920	6,124	6,255	7,208	23,166	25,506
Employee Expenses	229	230	247	293	275	279	299	236	999	1,089
Other Operating Expenses	1,275	1,458	1,457	2,018	1,503	1,570	1,642	1,763	6,207	6,479
Total Expenditure	6,894	7,318	7,689	8,471	7,698	7,973	8,195	9,208	30,372	33,074
EBITDA	2,597	2,628	2,773	2,240	2,672	2,576	2,632	2,612	10,237	10,492
Margins (%)	27.4	26.4	26.5	20.9	25.8	24.4	24.3	22.1	25.2	24.1
Depreciation	402	373	413	397	407	423	442	531	1,585	1,802
Interest	0	0	0	0	0	0	0	29	0	29
Other Income	588	753	698	1,126	823	810	840	720	3,166	3,193
PBT before EO Item	2,783	3,008	3,059	2,968	3,088	2,962	3,031	2,772	11,818	11,853
Extraordinary Inc/(Exp)	0	0	0	0	0	0	0	0	0	0
PBT after EO Exp/(Inc)	2,783	3,008	3,059	2,968	3,088	2,962	3,031	2,772	11,818	11,853
Tax	441	1,254	647	697	636	638	663	612	3,039	2,548
Rate (%)	15.9	41.7	21.1	23.5	20.6	21.5	21.9	22	25.7	21.5
Reported Profit	2,342	1,754	2,412	2,271	2,451	2,325	2,368	2,161	8,779	9,305
Adj PAT	2,342	2,222	2,412	2,271	2,451	2,325	2,368	2,161	8,779	9,305
YoY Change (%)	21.0	7.5	5.6	-8.1	4.7	4.6	-1.8	-4.9	0.2	6.0
Margins (%)	24.7	22.3	23.1	21.2	23.6	22.0	21.9	18.3	21.6	21.4

E: MOSL Estimates

Volumes under pressure across EXIM and domestic segments

- Volumes in TEU terms remained under pressure. EXIM volumes declined 5.8% YoY to 0.52m TEU while domestic volumes declined ~5.2% YoY to 0.1m TEU. Overall volumes declined 5.7% to 0.64m TEU. While volumes declined in TEU terms, in tonnage terms, YTD volumes grew ~7.5% YoY, implying higher share of bulk goods in the cargo.
- EBIT margin contracted 155bp YoY in the EXIM segment and 263bp YoY in the domestic segment.

Segmental analysis: Domestic performance improving (INR m)

	FY12				FY13			FY12	FY13E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q		
Revenue from Operations									
EXIM	7,710	7,999	8,513	8,433	8,583	8,531	8,611	32,656	34,765
Domestic	1,780	1,946	1,949	2,278	1,786	2,018	2,216	7,954	8,801
Total Segment Revenue	9,490	9,946	10,462	10,711	10,370	10,549	10,827	40,609	43,566
EBIT									
EXIM	2,147	2,241	2,273	1,970	2,201	2,129	2,166	8,631	8,100
Domestic	143	148	215	159	214	140	186	665	590
Total	2,290	2,389	2,487	2,129	2,415	2,269	2,351	9,295	8,690
EBIT (%)									
EXIM	27.8	28.0	26.7	23.4	25.6	25.0	25.1	26.4	23.3
Domestic	8.0	7.6	11.0	7.0	12.0	6.9	8.4	8.4	6.7
Total	24.1	24.0	23.8	19.9	23.3	21.5	21.7	22.9	19.9
Growth in Revenues (%)									
EXIM	-	9.1	11.8	8.3	11.3	6.6	1.1	9.1	6.5
Domestic	-	-7.7	-7.0	2.0	0.3	3.7	13.7	-5.3	10.7
Total	-	5.3	7.7	6.9	9.3	6.1	3.5	5.9	7.3

Source: Company, MOSL

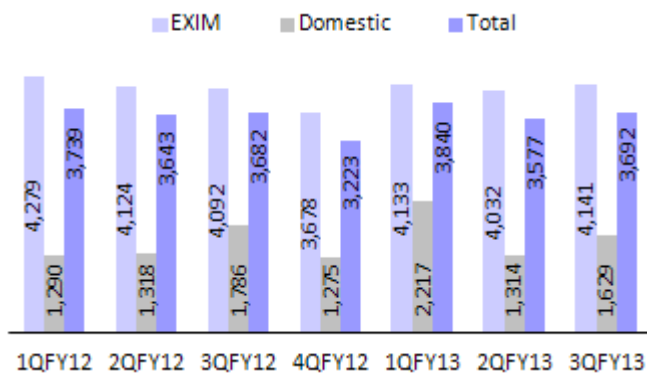
Volumes remain under pressure

	FY12				FY13			FY12	FY13E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q		
Volumes (TEU)									
EXIM	501,672	543,354	555,399	535,575	532,539	528,148	522,926	2,136,000	2,114,640
Domestic	110,775	112,521	120,108	124,907	96,346	106,175	113,894	468,311	462,691
Total	612,447	655,875	675,507	660,482	628,885	634,323	636,820	2,604,311	2,577,331
% Growth in Volumes (%)									
EXIM	2.5	10.1	7.3	3.4	6.2	-2.8	-5.8	5.8	-1.0
Domestic	-13.0	-14.5	-17.4	-10.4	-13.0	-5.6	-5.2	-13.9	-1.2
Total	-0.7	4.9	1.9	0.4	2.7	-3.3	-5.7	1.6	-1.0
Realizations (INR / TEU)									
EXIM	15,368	14,722	15,328	15,746	16,118	16,152	16,467	15,293	16,440
Domestic	16,072	17,296	16,227	18,238	18,540	19,004	19,457	16,983	19,021
Total	15,496	15,164	15,488	16,217	16,489	16,630	17,002	15,597	16,903
EBIT/ TEU (INR/ TEU)									
EXIM	4,279	4,124	4,092	3,678	4,133	4,032	4,141	4,040	3,831
Domestic	1,290	1,318	1,786	1,275	2,217	1,314	1,629	1,420	1,274
Total	3,739	3,643	3,682	3,223	3,840	3,577	3,692	3,569	3,372

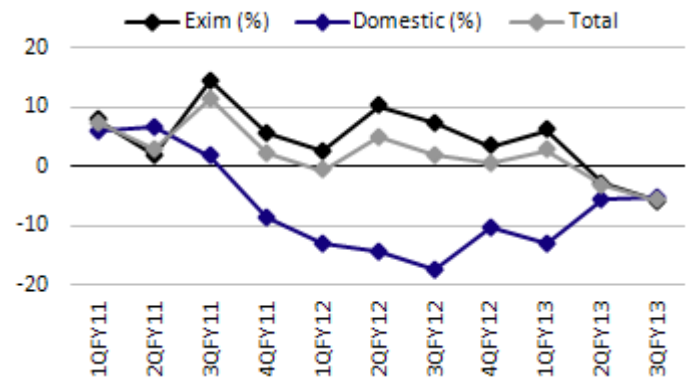
Source: Company, MOSL

- Indian Railways' CTO industry data indicate that in 3QFY13, volume growth in tonnage terms was 2% YoY in the domestic segment, 3% YoY in the EXIM segment and 2% YoY overall. Volumes were negatively impacted by 1.1% decline in EXIM volumes in December 2012 (overall volumes down 0.9%).
- Empties cost for CCRI increased 20% YoY to INR570m primarily due to (1) imbalance in export-import mix, and (2) sharp increase in haulage charges for empties by Indian Railways.

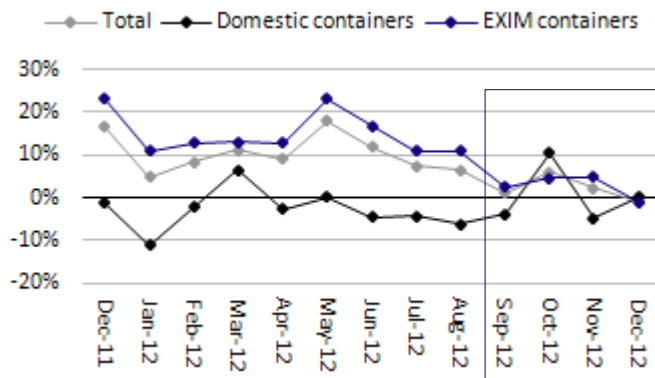
Revenue break-up between EXIM and domestic



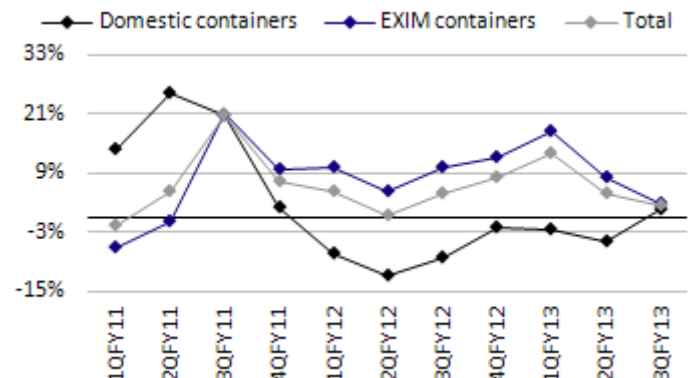
CCRI volumes under pressure



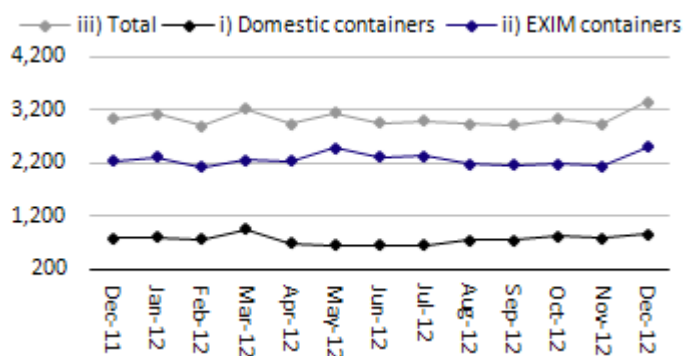
Month-wise growth across domestic and EXIM for CTO industry: Sharp fall in December 2012



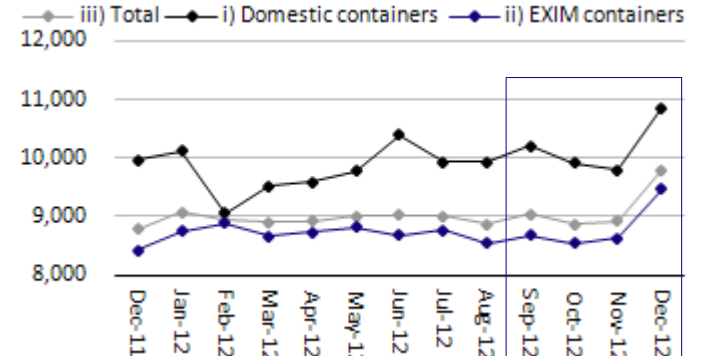
Muted quarterly growth rates for EXIM and domestic CTO industry



IR earnings from CTO industry up in December 2012 due to increase in haulage charges



Realization across EXIM and domestic verticals spiked by 9-12% YoY in December 2012



Source: Company, MOSL

Indian Railways (IR) increased haulage charges sharply in 3QFY13

- In 3QFY13, Indian Railways (IR) increased haulage charges by 16-31% across segments in two stages (22% by 1 December 2012 and ~7% by 1 February 2013). In its 2QFY13 conference call, CCRI's management had mentioned that a ~20% hike in haulage charges could be round the corner. This increase in haulage charge is incrementally negative for the industry.
- The hike in haulage charge is ~31% (22% in December 2012 and 7% in February 2013) for freight up to 20 tons and ~16% (9% in December 2012 and 7% in February 2013) for freight above 20 tons. Almost 75% of industry traffic falls within the 14-15 ton range. Hence, we expect freight hike to impact ~75% of users by ~31% in two stages and the remaining by ~16%.
- CCRI has managed to successfully pass on ~70% of the price hike (~12.5% fare hike v/s cost hike of 18%). It is hopeful of passing on the remaining cost hike in a phased manner over the next few quarters.

Change in haulage charges (INR/ TEU for 1,000km)

	Jan'11	Dec'12	Chg (%)	Feb'13	Chg (%)	Total Chg (%)
Loaded						
- Upto 10tons*		10,158		10,890	7	
- 10tons to 20 tons	11,099	13,554	22	14,530	7	31
- 20tons to 26tons	14,280	15,515	9	16,633	7	16
- Above 26tons	15,981	17,329	8	18,577	7	16
Empty	7,215	8,810	22	9,445	7	31
Empty Flat Wagon	6,660	8,133	22	8,718	7	31

* New category introduced

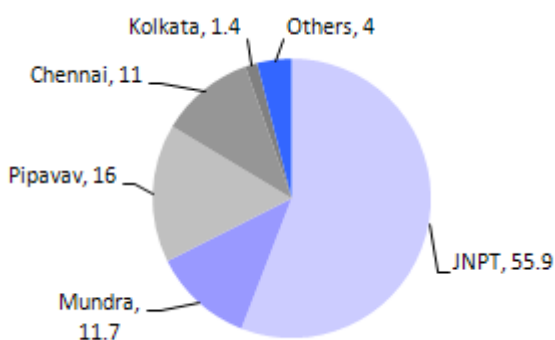
Source: Company, MOSL

Share of JNPT declined further

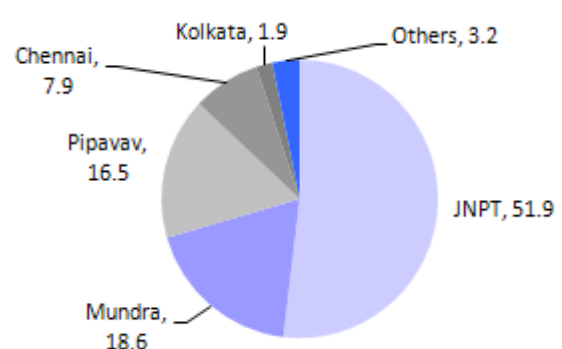
- CCRI's port-wise share was as follows: ~51.9% from JNPT, ~18.6% from Mundra, ~16.5% from Pipavav and ~7.9% from Chennai. CCRI's dependence on JNPT over the last few quarters has been steadily declining from ~74% in 1QFY11 to ~51.9% in 3QFY13, while the share of Mundra Port has been increasing from ~8% in 1QFY11 to ~18.6% in 2QFY13.
- CCRI's market share in JNPT stands ~68%, while its market share in other ports is higher. Though the expansion plans for JNPT have been delayed, the current share of rail transport at JNPT is low at ~23% due to rail network constraints. Hence, JNPT volumes for container train operators (CTOs) like CCRI could still move up sharply post the implementation of the Dedicated Freight Corridor (DFC).

Port-wise share of CCRI's EXIM business (%)

3QFY12



3QFY13



Four ports account for bulk of container rail traffic

	% container handling as % of total capacity	% of total container industry trade	% traffic transported by Rail	Total Rails deployed /Day	Trains deployed by Concor	Export/ Import Mix
JNPT	90	42	23-30	~20*	12	50% /50%
Chennai	26	22	5	~2	~2	49% /51%
Mundra	28	11	20-25	~10	5	54% / 46%
Pipavav	70	12	30-35	~9	4	50% /50%
Total		87				

*27 trains possible

Source: Company, MOSL

Capex plans scaled down for FY13, maintained for FY13-17

- Capex commitment till 9MFY13 was ~INR5.8b. The management has pruned its capex target for FY13 from INR13b to INR9.4b, while it maintains its capex plans of ~INR60b over FY12-17.
- The management has attributed the delay in capex to issues relating to land acquisition. We believe CCRI's capex plan will closely follow the progress in DFC. The management mentioned that the DFC project seemed to be on schedule for completion by FY17.
- The management mentioned that while its capex plan is for INR60b, it does not expect to invest more than INR40b from internal sources. For the balance financing, CCRI intends to (1) enter into equity partnerships with state governments, (2) form strategic JVs and raise debt in these JVs, and (3) create other innovative infrastructure finance deals.
- CCRI is undertaking preemptive capex of ~INR62b over FY13-17, which is aimed at increasing its competitive advantage in the CTO industry and establishing itself as a multi-modal player. The break-up of its capex is as follows: ~INR20b for new wagons, INR12b for land, INR5b for strategic JVs and INR20b for equipment and others.
- These investments would open up several new business opportunities for CCRI, which are currently not captured in our estimates.

Revising estimates for FY13-15

- We are revising our revenue estimates by -3.9%/-7.8%/-7.6% for FY13/FY14/FY15 and net profit estimates by 0.2/-6%/-5% for FY13/FY14/FY15.
- We are also revising our overall volume growth estimates from 3%/8.2%/9.3% for FY13/ FY14/FY15 to -1%/6.7%/9.6%.

Snapshot of revision in key estimates (INR m)

	New			Old			Chg (%)		
	FY13	FY14	FY15	FY13	FY14	FY15	FY13	FY14	FY15
Sales	43,566	50,669	57,036	45,323	54,980	61,759	(3.9)	(7.8)	(7.6)
Volume Gr. (%)									
- EXIM	-1.0	6.5	9.5	3.7	8.5	9.0	-	(23.5)	5.6
- Domestic	-1.2	7.5	10.0	0.0	6.5	11.0	-	15.4	(9.1)
- Total	-1.0	6.7	9.6	3.0	8.2	9.3	-	(18.1)	2.6
EBITDA	10,492	12,014	14,265	10,956	13,075	15,596	(4.2)	(8.1)	(8.5)
EBITDA (%)	24.1	23.7	25.0	24.2	23.8	25.3	(0.4)	(0.3)	(1.0)
PAT	9,305	9,578	10,646	9,285	10,192	11,206	0.2	(6.0)	(5.0)

Source: MOSL

Valuation and view

- Since 2006, ~15 new players have entered the container train operation (CTO) business. However, none of them have been able to mimic CCRI's success. By virtue of its legacy pan India strategic assets, CCRI enjoys an inimitable resource advantage, which is steadily increasing with time.
- Over FY13-17, CCRI would be a big beneficiary of (1) the government's focus on Indian Railways to correct freight transport modal mix, (2) infrastructure projects like the Dedicated Freight Corridor (DFC) and container port capacity expansions, and (3) key reforms such as Goods and Services Tax (GST) and Foreign Direct Investment (FDI) in retail.
- While concerns such as high empties cost and muted near-term growth outlook remain, the long-term prospects are favorable for CCRI and outweigh near-term concerns.
- CCRI's inimitable pan India network provides it with a significant moat, which coupled with positive long-term industry prospects, will allow it to enjoy a prolonged period of growth. We believe DCF is the best way to capture the intrinsic value of CCRI, given its stable cash flow, consistent payout ratio, robust operational RoCE and low reinvestment requirements.
- CCRI trades at 12.6x/11.4x FY14E/FY15E earnings. We maintain **Buy** with a revised DCF-based target price of INR1,322 (upside of 42%).

Container Corporation of India: an investment profile

Company description

Container Corporation of India (CONCOR; Bloomberg Code: CCRI) is a state-owned company incorporated in March 1988. It was set up with the intent to develop multi-modal transport and logistics support for domestic and international containerized cargo. Post the commencement of its operations, Indian Railways' container freight service is being handled by CCRI through yearly MoUs.

Key investment arguments

- Over FY13-17, CCRI would be a big beneficiary of (1) the government's focus on Indian Railways to correct freight transport modal mix, (2) infrastructure projects like the Dedicated Freight Corridor (DFC) and container port capacity expansions, and (3) key reforms such as Goods and Services Tax (GST) and Foreign Direct Investment (FDI) in retail.
- By virtue of its legacy pan India strategic assets, CCRI enjoys an inimitable resource advantage over its peers, which is steadily increasing with time.

Key investment risk

- Execution risk / possible delays in DFC implementation.
- Unfavorable EXIM trade mix leading to high empties cost.

- Risks related with economic slowdown.
- Challenges with regard to JNPT expansion plans.

Recent developments

- CCRI added 15 new rakes in 2QFY13. Its market share in the EXIM segment increased from 76% in 2QFY12 to 79% in 2QFY13.
- It committed capex of INR8.5b till 9MFY13, while it guided for lower capex for FY13 at INR9.4b compared to earlier plan of INR11.5b.

Valuation and view

- We are revising our revenue estimates by -3.9%/-7.8%/-7.6% for FY13/FY14/FY15 and net profit estimates by 0.2%/-6%/-5% for FY13/FY14/FY15.
- CCRI trades at 12.6x/11.4x FY14E/FY15E earnings.
- We maintain **Buy** with a revised DCF-based target price of INR1,322 (upside of 42%).

Sector view

- Reforms such as GST and FDI in Retail are likely to be key growth drivers for CTOs like CCRI.
- Completion of DFC project could significantly boost modal share of rail transport.

EPS: MOSL forecast v/s Consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY13	71.6	74.2	-3.5
FY14	73.7	79.6	-7.4

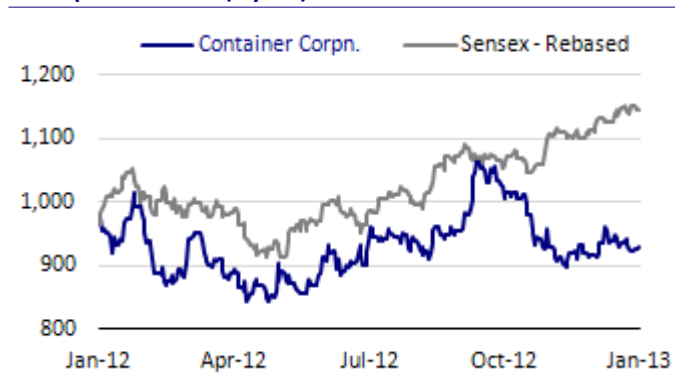
Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
931	1,322	42.0	Buy

Shareholding Pattern (%)

	Dec-12	Sep-12	Dec-11
Promoter	63.1	63.1	63.1
Domestic Inst	7.6	7.3	7.2
Foreign	25.4	26.2	26.3
Others	3.9	3.4	3.4

Stock performance (1 year)



Financials and Valuation

Income Statement		(INR Million)			
Y/E March	2012	2013E	2014E	2015E	
Net Sales	41,009	43,566	50,669	57,036	
Change (%)	5.2	6.2	16.3	12.6	
EBITDA	10,234	10,492	12,014	14,265	
Margin (%)	25.0	24.1	23.7	25.0	
Depreciation	1,621	1,802	2,212	2,600	
EBIT	8,613	8,690	9,802	11,666	
Margin (%)	21.0	19.9	19.3	20.5	
Int. and Finance Charges	54	29	32	34	
Other Income - Rec.	3,135	3,193	2,557	2,376	
PBT after EO Exp.	11,693	11,853	12,327	14,007	
Current Tax	2,885	2,370	2,556	3,126	
Deferred Tax	152	178	192	235	
Tax Rate (%)	26.0	21.5	22.3	24.0	
Reported PAT	8,656	9,305	9,578	10,646	
Change (%)	-1.2	7.5	2.9	11.1	
Margin (%)	21.1	21.4	18.9	18.7	

Balance Sheet		(INR Million)			
Y/E March	2012	2013E	2014E	2015E	
Equity Share Capital	1,300	1,300	1,300	1,300	
Total Reserves	54,252	60,768	67,330	74,583	
Net Worth	55,552	62,067	68,630	75,883	
Deferred Liabilities	2,438	2,438	2,438	2,438	
Other Liabilities	449	494	543	598	
Total Loans	234	254	274	294	
Capital Employed	58,673	65,253	71,885	79,212	
Gross Block	35,856	48,106	58,306	68,806	
Less: Accum. Deprn.	11,268	13,070	15,282	17,881	
Net Fixed Assets	24,588	35,036	43,024	50,925	
Capital WIP	1,151	1,151	1,151	1,151	
Total Investments	2,447	2,447	2,447	2,447	
Other Assets	3,903	3,921	4,054	4,278	
Curr. Assets, Loans&Adv.	32,989	28,990	28,299	28,403	
Inventory	360	395	464	513	
Account Receivables	303	305	355	399	
Cash and Bank Balance	27,616	23,062	21,399	20,647	
Loans and Advances	4,710	5,228	6,080	6,844	
Curr. Liability & Prov.	6,406	6,293	7,090	7,991	
Current Liabilities	4,865	5,019	5,715	6,310	
Provisions	1,540	1,274	1,374	1,681	
Net Current Assets	26,583	22,697	21,209	20,412	
Appl. of Funds	58,673	65,253	71,885	79,212	

E: MOSL Estimates; * Adjusted for treasury stocks

Ratios		(INR Million)			
Y/E March	2012	2013E	2014E	2015E	
Basic (INR) *					
Consol EPS	66.6	71.6	73.7	81.9	
Cash EPS	79.1	85.5	90.7	101.9	
BV/Share	427.4	477.5	528.0	583.8	
DPS	19.2	21.5	23.2	26.1	
Payout (%)	28.8	30.0	31.5	31.9	
Valuation (x) *					
P/E	14.0	13.0	12.6	11.4	
Cash P/E	11.8	10.9	10.3	9.1	
P/BV	2.2	1.9	1.8	1.6	
EV/Sales	2.3	2.3	2.0	1.8	
EV/EBITDA	9.1	9.4	8.3	7.1	
Dividend Yield (%)	2.1	2.3	2.5	2.8	
FCF per share	58.5	-13.5	10.5	20.4	
Return Ratios (%)					
EBITDA Margins (%)	25.0	24.1	23.7	25.0	
Net Profit Margins (%)	21.1	21.4	18.9	18.7	
RoE	16.5	15.8	14.7	14.7	
RoCE	22.3	20.1	18.8	19.4	
Working Capital Ratios					
Fixed Asset Turnover (x)	1.1	0.9	0.9	0.8	
Asset Turnover (x)	0.7	0.7	0.7	0.7	
Inventory (Days)	4.6	4.7	4.7	4.7	
Debtor (Days)	2.7	2.5	2.5	2.5	
Creditor (Days)	62.2	59.4	57.6	57.6	
Leverage Ratio (x)					
Current Ratio	5.1	4.6	4.0	3.6	
Interest Cover Ratio	160	297	309	342	

* Adjusted for treasury stocks

Cash Flow Statement		(INR Million)			
Y/E March	2012	2013E	2014E	2015E	
EBIT	8,613	8,690	9,802	11,666	
Depreciation	1,621	1,802	2,212	2,600	
Direct Taxes Paid	2,259	1,756	2,115	2,772	
(Inc)/Dec in WC	-395	-642	-257	-125	
CF from Operations	7,579	8,094	9,642	11,368	
(inc)/dec in FA	-2,331	-12,250	-10,200	-10,500	
FCF	5,248	-4,156	-558	868	
Investment Income	2,357	2,401	1,922	1,786	
CF from investments	-465	-9,849	-8,278	-8,714	
(Inc)/Dec in Debt	-62	20	20	20	
Interest Paid	54	29	32	34	
Dividend Paid	2,493	2,789	3,016	3,392	
CF from Fin. Activity	-2,459	-2,799	-3,027	-3,407	
Inc/Dec of Cash	4,655	-4,554	-1,663	-753	
Add: Beginning Bal	22,961	27,616	23,062	21,399	
Closing Balance	27,616	23,062	21,399	20,647	

N O T E S

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In respect of any matter arising from or in connection with the research you could contact the following representatives of Motilal Oswal Capital Markets Singapore Pte Limited:

Nihar Oza

Email: niharoza.sg@motilaloswal.com

Contact: (+65) 68189232

Kadambari Balachandran

Email: kadambari.balachandran@motilaloswal.com

Contact: (+65) 68189233 / 65249115

Office address: 21 (Suite 31), 16 Collyer Quay, Singapore 049318



Motilal Oswal Securities Ltd

Motilal Oswal Tower, Level 9, Sayani Road, Prabhadevi, Mumbai 400 025

Phone: +91 22 3982 5500 E-mail: reports@motilaloswal.com