Logistics

July 26, 2012

Institutional Equities

India Research

Container Corporation

QUARTERLY REVIEW

Bloomberg: CCRI IN
Reuters: CCRI.BO

BUY

On Track; Volume Growth to Pick Up

Container Corp of India's (CCRI) Q1FY13 standalone PAT grew 5% YoY to Rs 2.45 Bn (marginally lower than our estimates of Rs 2.55 Bn). Revenues grew 9% YoY to Rs 10.4 Bn driven by EXIM revenue growth of 11% YoY while the domestic revenue remained flat YoY. EBITDA margins contracted 160 bps YoY to 25.8% on account of volume discounts provisioned for during the quarter in the EXIM segment and due to lower volume growth in the domestic segment. EBITDA rose 3% YoY to Rs 2.67 Bn. Other income rose 40% YoY led by higher treasury earnings as well as from disposal of older assets thereby boosting PAT growth to 5% YoY.

Volume growth to benefit as Indian Railways removed Sponge iron & Steel from notified list wef from 1st July 2012 thereby reducing the haulage charges on the same for the container train operators (CTOs). CCRI expects its domestic volume to pick up over the remaining three quarters. Additionally, the management expects the impact of depreciating Rupee on import volume loss to moderate going forward thereby boosting its total volume growth to ~9% during FY13-14E (We have factored in 8% volume growth in FY13-14E.

Re-introduction of telescopic cost benefit should further aid margin expansion for all the CTOs including CCRI as haulage charges under the hub and spoke model should come down for the CTOs.

CCRI plans to add 30 rakes in FY13E (vs. 5 in FY12) and has already added 5 rakes in Q1FY13. The rakes addition should boost its market share which has declined 60 bps YoY to 76.3%. It has a planned capex of Rs 16.5 Bn for FY13 towards rakes, equipments additions and land acquisition for logistics parks.

EBITDA and PAT CAGR of 11% and 7% during FY12-14E: We have lowered FY13-14E PAT estimates to factor in moderation in other income growth and higher tax rates. We estimate revenue, EBITDA and PAT CAGR of 12%, 11% and 7% respectively during FY12-14E. We believe CCRI's EBITDA margin to remain stable at ~26% led by its continued focus on improving the non-Rail handling earnings (22-25% of total revenue).

Re-iterate 'BUY' recommendation with a TP of Rs 1,080 valuing CCRI at 13x (15% discount to its long term median of 15x) its FY14E EPS (earlier Rs 1,115 at 13.2x its FY13-14E avg EPS).

Key Financials (standalone)

Year to Mar (Rs mn)	FY10	FY11	FY12E	FY13E	FY14E
Net Sales	37,057	38,281	41,471	47,111	53,213
EBITDA	9,616	10,014	10,821	12,131	13,862
EBITDA margin (%)	*26.0*	*26.2*	*26.1*	*25.8*	*26.1*
PAT	7,872	8,785	8,878	9,637	10,784
EPS (Rs)	60.6	67.6	68.3	74.1	83.0
RoE (%)	19.4	18.9	16.6	15.8	15.5
RoCE (%)	18.5	18.0	16.0	15.3	15.0
P/E (x)	15.2	13.6	13.5	12.4	11.1
EV/EBITDA (x)	10.4	9.6	8.3	7.8	6.4

Source: Company, Karvy Institutional Research

Recommendation

CMP:	Rs920
Target Price:	Rs1,080
Previous Target Price	Rs1,115
Upside (%)	17%

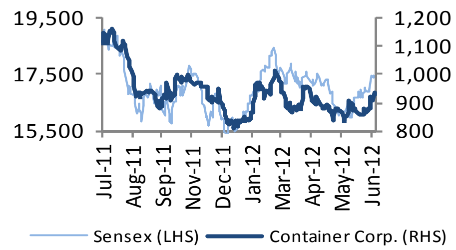
Stock Information

Market Cap. (Rs bn / US$ mn)	122/2,170
52-week High/Low (Rs)	1,175/801
3m ADV (Rs mn /US$ mn)	39/0.7
Beta	0.7
Sensex/ Nifty	16,846/5,110
Share outstanding (mn)	130

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	7.1	6.6	(14.8)	11.7
Rel. to Sensex	7.3	8.6	(4.5)	2.5

Performance



Source: Bloomberg, Karvy Institutional Research

Earnings Revision

(%)	CY12E	CY13E
Sales	↓0.6%	↓1.7%
EBITDA	↓1.5%	↓1.5%
PAT	↓5.4%	↓8.7%

Source: Karvy Institutional Research

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Q1FY13 Results Analysis

Exhibit 1: Standalone quarterly results

(Rs Mn)	Jun-11	Mar-12	Jun-12	YoY %	QoQ%
Net Sales	**9,490**	**10,711**	**10,369**	**9.3**	**(3.2)**
Staff costs	229	293	275	*20.2*	(6.1)
Rail freight expense	5,390	6,161	5,920	9.8	(3.9)
Other expenses	1,275	2,018	1,503	17.9	(25.5)
Total Expenditure	6,894	8,471	7,698	11.7	(9.1)
EBITDA	**2,597**	**2,240**	**2,671**	**2.9**	**19.3**
EBITDA Margins (%)/ bps	***27.4***	***20.9***	***25.8***	***(160)***	***485***
Other Income	588	1,126	823	39.8	(26.9)
Depreciation	402	397	407	1.1	2.3
EBIT	**2,783**	**2,968**	**3,088**	**11.0**	**4.0**
EBIT margins (%)/ bps	***27.6***	***25.1***	***27.6***	***(2)***	***251***
Interest cost	-	-	-		
Total tax	441	697	636	44.3	(8.7)
PAT	**2,342**	**2,271**	**2,451**	**4.7**	**7.9**
NPM (%)/ bps	***24.7***	***21.2***	***23.6***	***(104)***	***244***
EPS (Rs/share)	**18.0**	**17.5**	**18.9**	**4.7**	**7.9**

Source: Company, Karvy Institutional Research

Exhibit 2: Volume and profitability trend

Segmental analysis	Jun-11	Mar-12	Jun-12	YoY%	QoQ%
EXIM Volumes ('000 TEUs)	**502**	**536**	**533**	**6.2**	**(0.6)**
Domestic Volumes ('000 TEUs)	**111**	**125**	**96**	**(13.0)**	**(22.9)**
Total Volumes	**612**	**660**	**629**	**2.7**	**(4.8)**
EXIM Revenues	7,710	8,433	8,583	11.3	1.8
Domestic Revenues	1,780	2,278	1,786	0.3	(21.6)
Total Revenues	**9,490**	**10,711**	**10,369**	**9.3**	**(3.2)**
PBIT					
EXIM	2,147	1,970	2,201	2.5	11.7
Domestic	143	159	214	49.5	34.2
Total	**2,290**	**2,129**	**2,415**	**5.5**	**13.4**
PBIT margins (%)					
EXIM	27.8	23.4	25.6	(220)	229
Domestic	8.0	7.0	12.0	393	497
Total	**24.1**	**19.9**	**23.3**	**(84)**	**341**
Operating Cost (% of Net Sales)					
Staff costs	2.4	2.7	2.7	24	(8)
Rail freight expense	56.8	57.5	57.1	29	(43)
Other expenses	13.4	18.8	14.5	107	(434)

Source: Company, Karvy Institutional Research

Con-call Update and Analysis

Domestic volume growth (flat YoY, down 13% QoQ to 96.4 K TEUs) got impacted because of the freight hike taken by Indian Railways during Mar 2012. However, wef from 1st of July 2012, the Indian Railways has allowed private container operators to carry Grey Cement, Iron & Steel and Pig & Sponge iron (this one now removed from notified list). Pig & sponge iron being removed from the notified list would now attract significantly lower charges which in turn should help CCRi and other private CTOs to gain volume going forward.

EXIM volume (up 6% YoY, down 1% QoQ to 532.5K TEUs) got impacted during the quarter. Due to rupee depreciation, import growth has slowed down thereby increasing the export-import handling gap for the rail operators. However, the management expects things to improve in this segment and has guided for 9% volume growth across both domestic and EXIM handling.

CCRI expands its market share at Mundra port while the same at major ports (JNPT and Chennai declined during the quarter. CCRI's EXIM rail handling is concentrated around the ports of JNPT, Chennai, Mundra and Pipavav. These account for ~95% of CCRI rail handling. CCRI increased its rail services at Mundra to 12 rakes daily (up + down) from 9 rakes in March 2012 Qtr. At the same time, it has cut down its services at JNPT to 24 rakes daily (up + down) from 30 in Q4FY12. At Pipavav, the rakes service has remained flat at 10 rakes daily. Subsequently, while its JNPT and Chennai market share has reduced from 60% and 11% last year to 55% and 8% currently respectively. At Mundra, its market share has grown from 11% to 17%.

Adding 30 new rakes in FY13E: CCRI added 5 new rakes during the quarter thereby increasing its total new rakes to 254. It has sold off one of its old rakes and currently owns 35 old rakes. The management has guided to add 25 more new rakes in FY13E. In our view, CCRI would dispose off some of its old rakes as it adds the new rakes. This should also boost the volume growth for CCRI.

New rakes additions to boost market share: CCRI's market share has dropped marginally from 76.7% in Q1FY12 to 76.3% in Q1FY13. This was on account of lower rake additions in FY12 (added just 5 rakes). In FY13E, with 30 new rakes expected to be added, we expect its market share to remain stable to positive.

Strong capex guidance of Rs 16.5 Bn during FY13E: CCRI plans to incur a capex of Rs 16.5 Bn during FY13E which will used for buying 30 new rakes (~Rs 3-3.5 Bn), land acquisition for logistics parks (Rs 7.5 bn), ~4500 new containers, adding RTGS & replacing old cranes and other maintenance capex. During the five years FY12-17E, it plans to incur capex of ~ Rs 60 Bn.

EXIM segment margins impacted on discount provisioning and lower lead distance: EBIT per TEU declined 3% YoY (up 12% QoQ). This was impacted by Rs 80 mn volume discount provision that CCRI took in the quarter as against earlier practice of provisioning the same on an annual basis in Q4. Additionally, loaded EXIM lead distance reduced 3% YoY 1050 kms which impacted the profitability.

Domestic segment margins expand aided by better empty handling: EBIT per TEU rose 72% YoY and 74% QoQ despite lower volume growth as the management could reduce empty lead distance by 6% YoY (13% QoQ) to 603 Kms. Empty repositioning in case of domestic handling cost is total borne by the operator. Hence, lower empty lead distance positively impacts the profitability.

Profitability to benefit from the re-introduction of telescopic cost benefit by Indian Railways: As per the management, wef from 1st of July 2012, the Indian Railways has allowed to pass on the telescopic cost benefit to the rake operators under the hub and spoke model. This should have a positive impact on CCRI and private operators' profitability as haulage charge rate for large distances would be lower than for shorter distances rate.

EBITDA and PAT CAGR of 11% and 7% during FY12-14E

We believe CCRI's volume growth should benefit from its expanding fleet size, Indian Railways allowing some more commodities to be carried by the Container Train Operators including CCRI, and import recovery (recently impacted due to rupee depreciation). We have factored in ~8-9% volume handled growth during FY13-14E.

We have lowered our FY13-14E PAT estimates by 5% and 9% respectively to factor in lower other income and higher taxes. With the capex of Rs 16.5 Bn being financed through internal accruals (current cash reserves of ~Rs 28 Bn), we have lowered interest and dividend income for FY13E and FY14E by Rs 300mn and Rs 600 mn respectively. We have also modeled in 27% tax rate for each of FY13-14E vs. earlier estimates of 25%.

We estimate revenue, EBITDA and PAT CAGR of 12%, 11% and 7% during FY12-14E period. We believe CCRI's EBITDA margin to remain stable at ~26% led by its continued focus on improving the non-Rail handling earnings (22-25% of total revenue).

Exhibit 3: Revising estimates to factor in lower other income, higher dep & tax

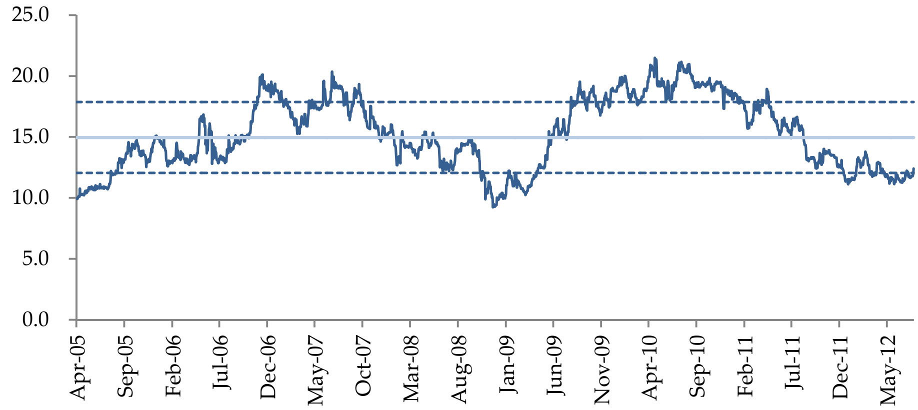
	FY13E			FY14E		
	New	Old	% Change	New	Old	% Change
Revenue	47,111	47,374	(0.6)	53,213	54,129	(1.7)
EBITDA	12,131	12,321	(1.5)	13,862	14,077	(1.5)
PAT	9,637	10,185	(5.4)	10,784	11,813	(8.7)

Source: Karvy Institutional Research

Valuation and Recommendation

Re-iterate 'BUY' recommendation: The stock has traded at a median EPS of ~15x during the last six years. We value the stock at 13x (15% discount to its long term median) its FY14E EPS thereby valuing the stock at Rs1,080 (earlier Rs 1,115 at 13.2x its FY13-14E avg EPS). We re-iterate our 'BUY' recommendation on the stock

Exhibit 4: CCRI trading at the lower end (-1 SD) of its long term median fwd P/E multiple of 15x



Source: Company, Karvy Institutional Research

Financials

Exhibit 5: Profit and Loss (Standalone)

Year to March (Rs mn)	FY10	FY11	FY12	FY13E	FY14E
Net Sales	**37,057**	**38,281**	**41,471**	**47,111**	**53,213**
% growth	*8.4*	*3.3*	*8.3*	*13.6*	*13.0*
Operating expenditure	27,440	28,267	30,649	34,980	39,351
EBITDA	**9,616**	**10,014**	**10,821**	**12,131**	**13,862**
% growth	*3.3*	*4.1*	*8.1*	*12.1*	*14.3*
Depreciation	1,351	1,452	1,597	1,730	1,989
EBIT	10,066	10,583	11,759	13,201	14,773
Interest expenditure	1,801	2,021	2,535	2,800	2,900
Other Income	-	-	-	-	-
Exceptional items	5	26	-	-	-
PBT	10,066	10,583	11,759	13,201	14,773
Tax	2,194	1,798	2,881	3,564	3,989
PAT / Net profit - reported	7,867	8,760	8,878	9,637	10,784
Adjusted PAT / Net profit	**7,872**	**8,785**	**8,878**	**9,637**	**10,784**
% growth	*(1)*	*11.6*	*1.1*	*8.5*	*11.9*

Source: Company, Karvy Institutional Research

Exhibit 6: Balance Sheet (Standalone)

Year to March (Rs mn)	FY10	FY11	FY12P	FY13E	FY14E
Cash & liquid investments	19,895	22,957	29,609	25,070	30,704
Debtors	176	173	187	213	240
Inventory	70	63	68	77	87
Loans & advances	4,798	4,743	5,138	5,837	6,593
Long term investments	2,405	2,440	2,940	3,440	3,940
Gross block	29,889	32,862	36,162	42,462	47,962
Net block	21,639	23,270	24,973	29,543	33,054
CWIP	2,064	3,191	2,000	9,000	8,000
Others assets	784	735	796	904	1,021
Total assets	**51,832**	**57,571**	**65,710**	**74,083**	**83,638**
Current liabilities & provisions	6,359	5,507	6,481	6,930	7,415
Debt	-	-	-	-	-
Other liabilities	2,109	2,286	2,286	2,286	2,286
Total liabilities	**8,468**	**7,793**	**8,767**	**9,216**	**9,700**
Shareholders' equity	1,300	1,300	1,300	1,300	1,300
Reserves & surpluses	42,064	48,478	55,643	63,567	72,638
Total networth	**43,364**	**49,778**	**56,943**	**64,867**	**73,938**
Total equity and liabilities	**51,832**	**57,571**	**65,710**	**74,083**	**83,638**

Source: Company, Karvy Institutional Research

Exhibit 7: Cash Flow Statement (Standalone)

Year to March (Rs mn)	FY10	FY11	FY12P	FY13E	FY14E
PBT	10,066	10,583	11,759	13,201	14,773
Depreciation	1,351	1,452	1,597	1,730	1,989
Interest	(1,484)	(1,527)	(2,535)	(2,800)	(2,900)
Tax	(3,685)	(2,225)	(2,843)	(3,564)	(3,989)
(Incr) / decr in net working capital	170	(216)	200	(392)	(427)
Others	7	16	-	-	-
CF from operating activities	**6,425**	**8,083**	**8,178**	**8,174**	**9,447**
(Incr) / decr in capital expenditure	(3,111)	(4,262)	(2,109)	(13,300)	(4,500)
(Incr) / decr in investments	(375)	(34)	(500)	(500)	(500)
Others	1,428	1,624	2,535	2,800	2,900
CF from investing activities	**(2,058)**	**(2,672)**	**(73)**	**(11,000)**	**(2,100)**
Incr / (decr) in borrowings	-	-	-	-	-
Issuance of equity	-	-	-	-	-
Dividend paid	(2,129)	(2,349)	(1,453)	(1,713)	(1,713)
CF from financing activities	**(2,129)**	**(2,349)**	**(1,453)**	**(1,713)**	**(1,713)**
Net change in cash	2,238	3,062	6,652	(4,539)	5,634

Source: Company, Karvy Institutional Research

Exhibit 8: Ratio Analysis

Year to March (%)	FY10	FY11	FY12P	FY13E	FY14E
EBITDA margin	26.0	26.2	26.1	25.8	26.1
EBIT margin	27.2	27.6	28.4	28.0	27.8
Net profit margin	21.2	22.9	21.4	20.5	20.3
Dividend payout ratio	17.1	15.6	19.3	17.8	15.9
Net debt: equity (x)	(0.5)	(0.5)	(0.5)	(0.4)	(0.4)
RoCE	18.5	18.0	16.0	15.3	15.0
RoIC	36.6	35.2	33.3	29.5	26.9
RoE	19.4	18.9	16.6	15.8	15.5

Source: Company, Karvy Institutional Research

Exhibit 9: Valuation Parameters

Year to March	FY10	FY11	FY12P	FY13E	FY14E
EPS (Rs)	60.6	67.6	68.3	74.1	83.0
DPS (Rs)	8.0	8.0	10.0	10.0	10.0
Book value per share (Rs)	334	383	438	499	569
P/E (x)	15.2	13.6	13.5	12.4	11.1
P/BV (x)	2.8	2.4	2.1	1.8	1.6
EV/EBITDA (x)	10.4	9.6	8.3	7.8	6.4
EV/Sales (x)	2.7	2.5	2.2	2.0	1.7

Source: Company, Karvy Institutional Research

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Stock Ratings		Absolute Returns
Buy	:	> 15%
Hold	:	5-15%
Sell	:	< 5%

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