

**REDUCE**

TP: Rs 530 | ▲ 3%

**CONTAINER CORP OF INDIA**

| Logistics

| 01 August 2019

**Volume concerns overshadow otherwise decent quarter**

**Container Corp (CCRI) reported a healthy operating performance in Q1FY20. Despite volumes dipping 1% YoY, higher realisations yielded in-line revenue of Rs 16.4bn. EBITDA at Rs 4bn (Rs 3.9bn adj. for Ind-AS 116 impact vs. Rs 3.8bn estimated) increased 26% YoY. But this resilience was overshadowed by a ~300bps market share loss in the EXIM segment, near-term volume growth concerns and a weaker realisation growth outlook. We maintain estimates while rolling over to a revised Jun'20 TP of Rs 530 (vs. Rs 520).**

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**Realisation gains offset weak volumes:** Q1 handling/originating volumes slipped 1%/6% YoY amidst a soft trade environment, but a healthy YoY uptick in realisation (10%+) drove topline growth of 9% YoY. Realisations fell sequentially despite a price hike of 4% in Mar'19, due to lower lead distances and a higher share of empties. Double-stacking trains declined to 758 vs. 829 in Q1FY19.

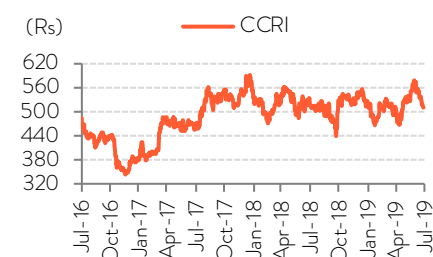
**EBITDA growth strong:** Led by a 360bps YoY decline in rail freight expenses, CCRI posted EBITDA margin expansion of 324bps YoY to 24.6% (~23.7% after Ind-AS adjustments). In the absence of a DGFT notification, no SEIS income was booked during the quarter vs. Rs 708mn in Q1FY19. This coupled with higher depreciation/interest cost dragged PAT down 10% YoY to Rs 2.3bn.

**Market share loss a concern:** CCRI has lost market share in the EXIM segment (~300bps to 68%) and in key ports such as JNPT and Mundra, as it didn't pursue low-margin and short lead distance business opportunities. Revenue growth now hinges on volume revival, with realisation gains seen ebbing in Q2.

**Maintain REDUCE:** Although Q1 EBITDA beat our estimate, we maintain our FY20/FY21 forecasts as volume growth is likely to remain sedate in the near term. We roll over valuations and marginally increase our Jun'20 TP to Rs 530.

Ticker/Price	CCRI IN/Rs 515
Market cap	US\$ 4.5bn
Shares o/s	609mn
3M ADV	US\$ 5.9mn
52wk high/low	Rs 583/Rs 461
Promoter/FPI/DII	55%/28%/12%

Source: NSE

**STOCK PERFORMANCE**

Source: NSE

**KEY FINANCIALS**

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	10,619	12,154	12,517	12,556	15,269
Adj. EPS (Rs)	17.4	19.9	20.5	20.6	25.1
Adj. EPS growth (%)	12.4	14.5	3.0	0.3	21.6
Adj. ROAE (%)	11.6	12.3	11.7	11.0	12.5
Adj. P/E (x)	29.6	25.8	25.1	25.0	20.6
EV/EBITDA (x)	24.7	20.4	18.7	14.8	12.1

Source: Company, BOBCAPS Research

**BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda**

Important disclosures, including any required research certifications, are provided at the end of this report.



**FIG 1 – QUARTERLY PERFORMANCE – STANDALONE**

Y/E Mar (Rs mn)	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
<b>Revenues</b>	<b>16,389</b>	<b>14,983</b>	<b>9.4</b>	<b>17,498</b>	<b>(6.3)</b>
Rail freight expenses	8,953	8,723	2.6	9,640	(7.1)
% of sales	54.6	58.2	(359bps)	55.1	(46bps)
Other operating expenses	2,082	1,852	12.4	2,130	(2.3)
% of sales	12.7	12.4	34bps	12.2	53bps
Employee expenses	806	701	14.9	1,097	(26.6)
% of sales	4.9	4.7	24bps	6.3	(135bps)
Other expenses	516	504	2.3	803	(35.8)
% of sales	3.1	3.4	(22bps)	4.6	(144bps)
Total expenditure	12,357	11,781	4.9	13,671	(9.6)
<b>EBITDA</b>	<b>4,033</b>	<b>3,202</b>	<b>25.9</b>	<b>3,828</b>	<b>5.4</b>
EBITDA margin (%)	24.6	21.4	324bps	21.9	273bps
Depreciation	1,253	1,022	22.6	1,117	12.2
<b>EBIT</b>	<b>2,779</b>	<b>2,180</b>	<b>27.5</b>	<b>2,711</b>	<b>2.5</b>
Interest expenses	112	0	NM	7	NM
Other income	583	1,321	(55.9)	2,133	(72.7)
Extraordinary income/(expense)	-	-	-	-	-
<b>PBT</b>	<b>3,250</b>	<b>3,500</b>	<b>(7.2)</b>	<b>4,837</b>	<b>(32.8)</b>
PBT margin (%)	19.8	23.4	(353bps)	27.6	(781bps)
Tax rate	971	977	(0.5)	1,313	(26.0)
Tax rate (%) – total	29.9	27.9	199bps	27.2	274bps
<b>Reported PAT</b>	<b>2,278</b>	<b>2,524</b>	<b>(9.7)</b>	<b>3,523</b>	<b>(35.3)</b>
Adjustment	-	-	-	-	-
<b>Adjusted PAT</b>	<b>2,278</b>	<b>2,524</b>	<b>(9.7)</b>	<b>3,523</b>	<b>(35.3)</b>
Adjusted PAT margin (%)	13.9	16.8	(294bps)	20.1	(623bps)

Source: Company, BOBCAPS Research | Note: We have classified SEIS income as part of Other income

**FIG 2 – PER UNIT PARAMETERS – STANDALONE**

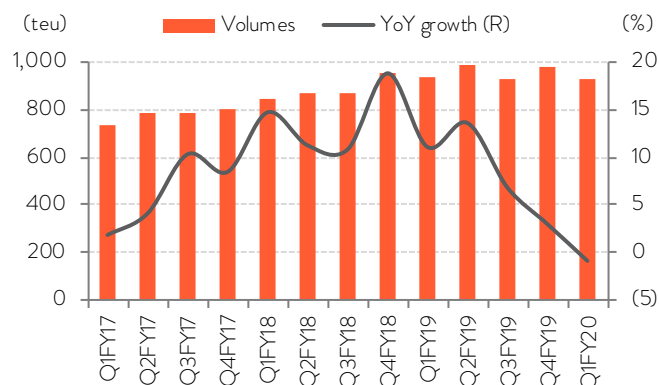
(Rs)	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
<b>Total sales volume (teu)</b>	<b>9,26,923</b>	<b>9,35,656</b>	<b>(0.9)</b>	<b>9,78,930</b>	<b>(5.3)</b>
Realisation/teu	17,681	16,013	10.4	17,875	(1.1)
Rail freight expenses/teu	9,659	9,323	3.6	9,848	(1.9)
Other operating expenses/teu	2,246	1,980	13.4	2,176	3.2
Employee expenses/teu	869	749	16.0	1,121	(22.4)
Other expenses/teu	557	539	3.3	821	(32.2)
<b>Total expenditure/teu</b>	<b>13,331</b>	<b>12,591</b>	<b>5.9</b>	<b>13,965</b>	<b>(4.5)</b>
<b>EBITDA/teu</b>	<b>4,351</b>	<b>3,422</b>	<b>27.1</b>	<b>3,910</b>	<b>11.3</b>
Depreciation/teu	1,352	1,092	23.8	1,141	18.5
<b>EBIT/teu</b>	<b>2,999</b>	<b>2,330</b>	<b>28.7</b>	<b>2,769</b>	<b>8.3</b>

Source: Company, BOBCAPS Research | Note: Revenue and EBITDA do not include SEIS income, which forms part of Other income

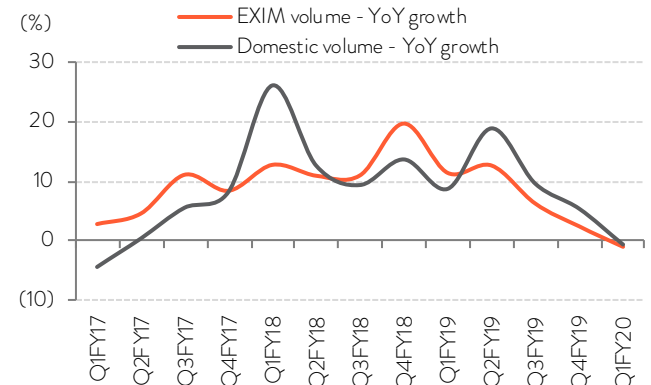
**FIG 3 – SEGMENTAL DATA – STANDALONE**

	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
<b>EXIM segment (adjusted for SEIS income)</b>					
Volume (teu)	7,86,442	7,94,405	(1.0)	8,16,396	(3.7)
Revenue (Rs mn)	12,704	11,627	9.3	13,171	(3.5)
Realisation/teu (Rs)	16,154	14,636	10.4	16,133	0.1
EBIT (Rs mn)	2,926	2,242	30.5	3,072	(4.8)
EBIT margin (%)	23.0	19.3	375bps	23.3	(29bps)
EBIT/teu (Rs)	3,720	2,822	31.8	3,763	(1.1)
<b>Domestic segment</b>					
Volume (teu)	1,40,481	1,41,251	(0.5)	1,62,534	(13.6)
Revenue (Rs mn)	3,685	3,356	9.8	4,328	(14.9)
Realisation/teu (Rs)	26,232	23,756	10.4	26,627	(1.5)
EBIT (Rs mn)	189	159	18.6	227	(17.0)
EBIT margin (%)	5.1	4.7	38bps	5.2	(13bps)
EBIT/teu (Rs)	1,342	1,125	19.3	1,397	(4.0)

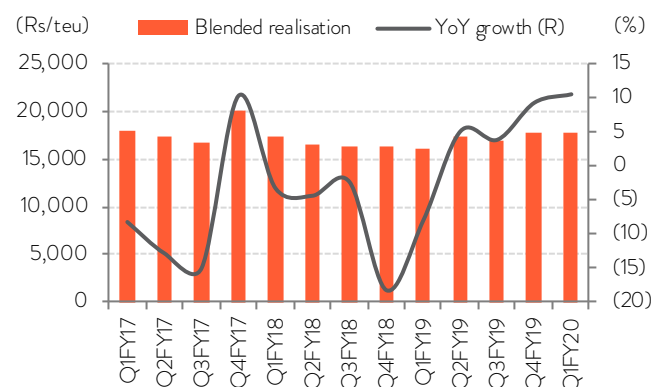
Source: Company, BOBCAPS Research

**FIG 4 – HANDLING VOLUMES DECLINED 0.9% YOY AND 5% QOQ**


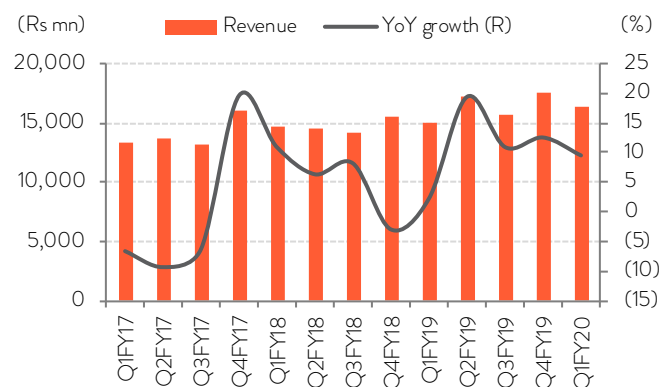
Source: Company, BOBCAPS Research

**FIG 5 – EXIM/DOMESTIC VOLUMES DECLINED 1%/0.5% YOY**


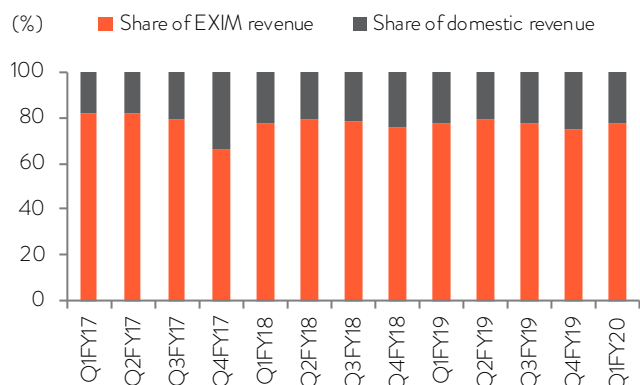
Source: Company, BOBCAPS Research

**FIG 6 – HEALTHY REALISATION GROWTH OF 10% YOY...**


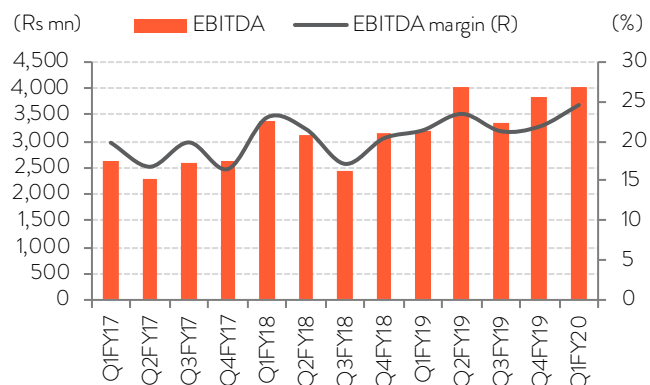
Source: Company, BOBCAPS Research

**FIG 7 – ...LED TO 9.4% GROWTH IN STANDALONE REVENUE**


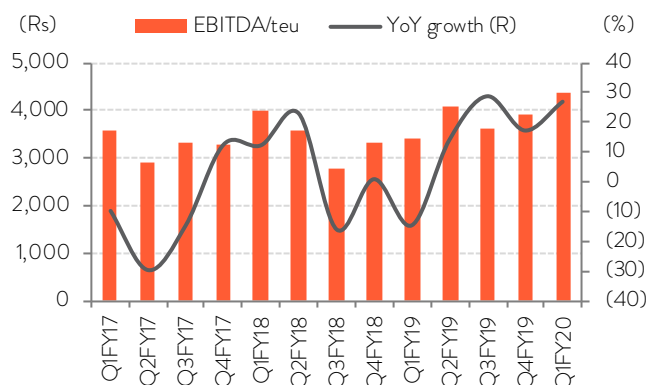
Source: Company, BOBCAPS Research

**FIG 8 – SHARE OF EXIM INCREASED IN REVENUE MIX**

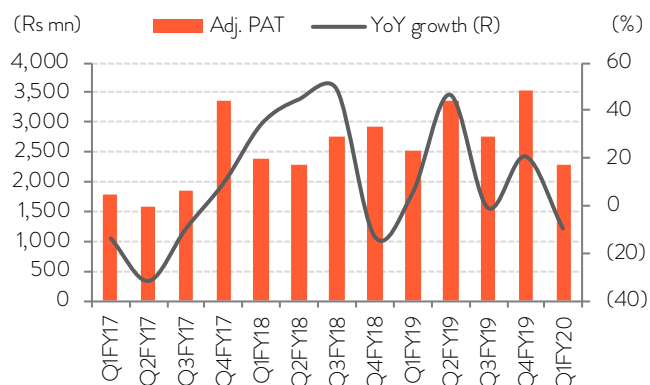
Source: Company, BOBCAPS Research

**FIG 9 – EBITDA MARGIN EXPANDED 324BPS YOY**

Source: Company, BOBCAPS Research

**FIG 10 – EBITDA/TEU GROWTH WAS IMPRESSIVE**

Source: Company, BOBCAPS Research

**FIG 11 – LOWER OTHER INCOME DRAGGED DOWN STANDALONE ADJ. PAT BY 10% YOY**

Source: Company, BOBCAPS Research

## Earnings call highlights

- **Originating volumes:** Handling volumes declined 0.9% YoY in Q1FY20 (EXIM/domestic decreased 1%/0.5% YoY); originating volumes fell 5.7% YoY (EXIM/domestic down 5.8%/4.5%).
- **Market share loss:** CCRI's market share in the EXIM segment has declined ~300bps to ~68%, while domestic market share is stable. It has also lost share in key ports – JNPT (71% market share), Mundra (46%) – while Pipavav was stable at ~53%. As per management, the reasons are its conscious decision not to pursue low-margin businesses and the rise in short lead distance cargo which the company does not cater to.
- **Lead distance:** Total lead distance declined to 777km as against 824km in Q1FY19 and 789km in Q4FY19. The EXIM/domestic average stood at 712km/1,366km in Q1.
- **FY20 volume growth outlook:** Management is confident of achieving its FY20 volume growth guidance of 10-12% if economic growth revives to ~7% for the year.
- **Ind-AS 116 impact:** As per the requirement under new lease accounting standard Ind-AS 116, CCRI has recognised some equipment and rakes from operating leases as financial lease on the balance sheet, amounting to right-to-use assets of Rs 8.5bn. Depreciation has accordingly gone up by Rs 150mn for the quarter. However, a similar impact on EBITDA has nullified the effect on PAT.
- **Double stacking:** Double-stacked trains came down to 758 from 829 in Q1FY19 and 780 in Q4FY19.
- **Empty running charges:** Empty costs decreased to Rs 489mn from Rs 580mn in Q1FY19 following a 25% reduction in empty running by the Indian Railways effective from Jan'19.
- **SEIS income:** As the DGFT did not notify any SEIS benefit in YTD FY20, the company has not booked SEIS income during the quarter, as compared with Rs 708mn in Q1FY19 and Rs 844mn in Q4FY19. Going ahead, SEIS income recognition will continue to be determined based on DGFT notification. Management has filed the claim pertaining to SEIS income of Rs 10.4bn booked over FY16-FY19 with the relevant government authorities and is confident of receiving the amount.
- **Capex target:** While capex was negligible in Q1, the full-year capex target has been maintained. CCRI plans to add 8-10 multi-modal logistics parks (MMLP) in FY20, depending on approvals.

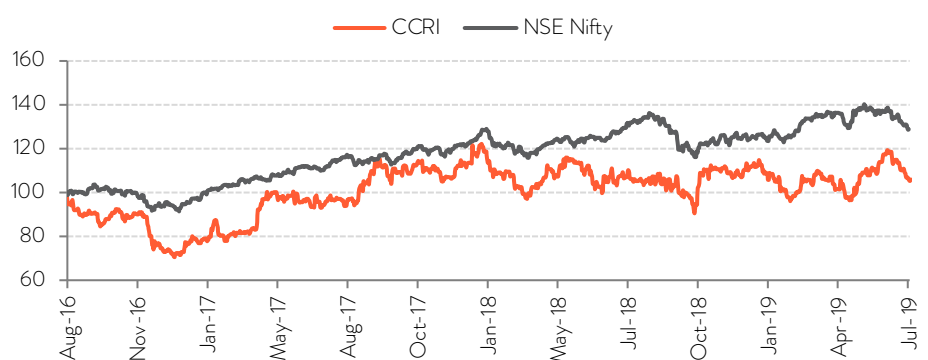
- **Coastal shipping business:** The coastal shipping business has been shaping up well over the past couple of months. Q1 revenues stood at Rs 375mn, with FY20 guidance of Rs 1.5bn. The west coast has attained near full utilisation from west to south, but reverse leg cargo is yet to pick up meaningfully. CCRI is soon to start east coast operations.
- **Distribution logistics business:** The company is currently in the process of setting up operational procedures at the Chennai distribution centre and has plans to open four more centres in FY20. The business is on an asset-light model where a business partner owns, builds, and operates the asset, and CCRI shares a part of gross revenue with the partner. Management expects the segment to start contributing to revenue from FY21 onwards.

## Valuation methodology

Although Q1FY20 EBITDA/PAT (adjusted for SEIS income) was higher than forecast, we maintain our FY20/FY21 estimates as we expect near-term growth challenges to persist. Volume growth is likely to be muted given the soft global trade outlook and relatively higher base of Q2FY19. We also expect realisation gains to taper off from Q2FY20 onwards as (1) the base effect catches up – CCRI increased prices in H1FY19, and (2) falling lead distances partially negate the impact of the ~4% price hike in Q1FY20. We have assumed SEIS income of ~Rs 4bn in FY20 – if the DGFT notification does not come through, there could be significant downside to our estimates.

We roll forward to Jun'21 valuations and marginally increase our target price to Rs 530 from Rs 520 earlier, set at a target P/E multiple of 24x. Maintain REDUCE.

**FIG 12 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## Key risks

Key upside risks to our thesis are:

- higher-than-expected revenue contribution from new business segments – coastal shipping and distribution logistics, and
- above-expected shift in container traffic from road to rail after commissioning of the DFC

## FINANCIALS

## Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Total revenue</b>	<b>58,910</b>	<b>65,427</b>	<b>73,241</b>	<b>85,152</b>	<b>1,00,230</b>
EBITDA	12,067	14,408	17,096	20,957	25,661
EBIT	8,141	10,162	12,483	15,815	19,739
Net interest income/(expenses)	(1)	(7)	(350)	0	0
Other income/(expenses)	5,787	6,735	5,252	1,624	1,467
Exceptional items	0	0	0	0	0
EBT	13,926	16,889	17,385	17,440	21,206
Income taxes	(3,307)	(4,735)	(4,868)	(4,883)	(5,938)
Extraordinary items	(129)	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
<b>Reported net profit</b>	<b>10,490</b>	<b>12,154</b>	<b>12,517</b>	<b>12,556</b>	<b>15,269</b>
Adjustments	129	0	0	0	0
<b>Adjusted net profit</b>	<b>10,619</b>	<b>12,154</b>	<b>12,517</b>	<b>12,556</b>	<b>15,269</b>

## Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	2,542	3,504	3,849	4,416	5,150
Other current liabilities	7,010	9,241	10,033	11,665	13,730
Provisions	704	719	804	935	1,100
Debt funds	334	7,310	0	0	0
Other liabilities	0	0	0	0	0
Equity capital	2,437	3,046	3,046	3,046	3,046
Reserves & surplus	91,574	1,00,632	1,07,868	1,15,126	1,23,952
Shareholders' fund	94,011	1,03,679	1,10,914	1,18,172	1,26,998
<b>Total liabilities and equities</b>	<b>1,04,601</b>	<b>1,24,452</b>	<b>1,25,599</b>	<b>1,35,188</b>	<b>1,46,978</b>
Cash and cash eq.	19,817	1,704	3,260	2,655	4,144
Accounts receivables	604	884	989	1,150	1,354
Inventories	274	233	260	303	356
Other current assets	10,838	44,491	36,587	36,710	36,865
Investments	13,890	14,029	14,029	14,029	14,029
Net fixed assets	36,384	41,879	53,512	60,371	66,449
CWIP	6,710	6,247	0	0	0
Intangible assets	100	68	68	68	68
Deferred tax assets, net	(1,877)	(1,616)	(1,616)	(1,616)	(1,616)
Other assets	17,861	16,534	18,509	21,519	25,329
<b>Total assets</b>	<b>1,04,601</b>	<b>1,24,452</b>	<b>1,25,599</b>	<b>1,35,188</b>	<b>1,46,978</b>

Source: Company, BOBCAPS Research



**Cash Flows**

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	14,546	16,400	17,131	17,698	21,190
Interest expenses	1	7	350	0	0
Non-cash adjustments	(525)	(262)	0	0	0
Changes in working capital	2,575	(29,356)	7,017	(1,006)	(1,258)
Other operating cash flows	0	0	0	0	0
<b>Cash flow from operations</b>	<b>16,597</b>	<b>(13,211)</b>	<b>24,498</b>	<b>16,692</b>	<b>19,932</b>
Capital expenditures	(8,352)	(9,245)	(10,000)	(12,000)	(12,000)
Change in investments	(153)	(139)	0	0	0
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(8,505)</b>	<b>(9,384)</b>	<b>(10,000)</b>	<b>(12,000)</b>	<b>(12,000)</b>
Equities issued/Others	488	609	0	0	0
Debt raised/repaid	(39)	6,976	(7,310)	0	0
Interest expenses	(1)	(7)	(350)	0	0
Dividends paid	(4,168)	(5,210)	(5,282)	(5,298)	(6,443)
Other financing cash flows	(1,390)	2,114	0	0	0
<b>Cash flow from financing</b>	<b>(5,110)</b>	<b>4,482</b>	<b>(12,941)</b>	<b>(5,298)</b>	<b>(6,443)</b>
<b>Changes in cash and cash eq.</b>	<b>2,982</b>	<b>(18,113)</b>	<b>1,556</b>	<b>(606)</b>	<b>1,489</b>
<b>Closing cash and cash eq.</b>	<b>19,817</b>	<b>1,704</b>	<b>3,260</b>	<b>2,655</b>	<b>4,144</b>

**Per Share**

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	17.2	19.9	20.5	20.6	25.1
Adjusted EPS	17.4	19.9	20.5	20.6	25.1
Dividend per share	6.8	8.5	8.7	8.7	10.6
Book value per share	154.3	170.2	182.0	193.9	208.4

**Valuations Ratios**

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	5.1	4.5	4.4	3.6	3.1
EV/EBITDA	24.7	20.4	18.7	14.8	12.1
Adjusted P/E	29.6	25.8	25.1	25.0	20.6
P/BV	3.3	3.0	2.8	2.7	2.5

**DuPont Analysis**

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	76.3	72.0	72.0	72.0	72.0
Interest burden (PBT/EBIT)	171.1	166.2	139.3	110.3	107.4
EBIT margin (EBIT/Revenue)	13.8	15.5	17.0	18.6	19.7
Asset turnover (Revenue/Avg TA)	62.5	62.4	64.7	72.9	80.2
Leverage (Avg TA/Avg Equity)	1.0	1.1	1.1	1.0	1.0
Adjusted ROAE	11.6	12.3	11.7	11.0	12.5

Source: Company, BOBCAPS Research | Note: TA = Total Assets

**Ratio Analysis**

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
<b>YoY growth (%)</b>					
Revenue	9.6	11.1	11.9	16.3	17.7
EBITDA	19.0	19.4	18.7	22.6	22.4
Adjusted EPS	12.4	14.5	3.0	0.3	21.6
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	20.5	22.0	23.3	24.6	25.6
EBIT margin	13.8	15.5	17.0	18.6	19.7
Adjusted profit margin	18.0	18.6	17.1	14.7	15.2
Adjusted ROAE	11.6	12.3	11.7	11.0	12.5
ROCE	8.7	9.7	11.1	13.6	15.9
<b>Working capital days (days)</b>					
Receivables	4	5	5	5	5
Inventory	2	1	1	1	1
Payables	20	25	25	25	25
<b>Ratios (x)</b>					
Gross asset turnover	1.3	1.3	1.1	1.1	1.1
Current ratio	3.2	3.7	2.9	2.5	2.2
Net interest coverage ratio	NM	NM	NM	NM	NM
Adjusted debt/equity	(0.2)	0.1	0.0	0.0	0.0

Source: Company, BOBCAPS Research

## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

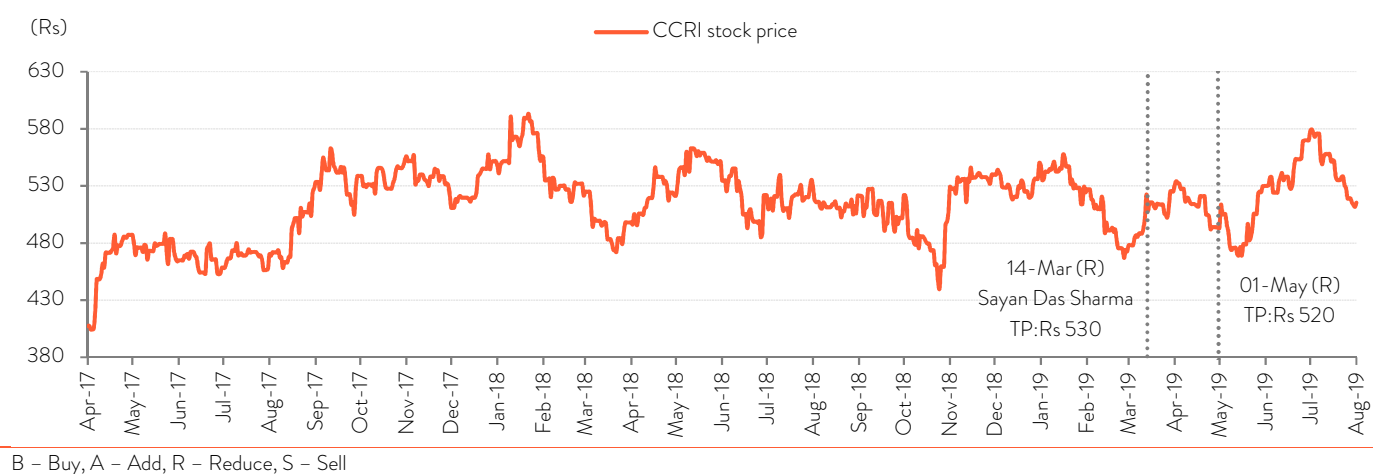
**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

### HISTORICAL RATINGS AND TARGET PRICE: CONTAINER CORP OF INDIA (CCRI IN)



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