

ADD

TP: Rs 630 | ▲ 10%

**CONTAINER CORP OF
INDIA**

| Logistics

| 10 February 2020

Weak quarter; DFC trigger awaited

Container Corp's (CCRI IN) standalone Q3FY20 revenue declined 3% YoY on lower volumes and realisations. Operating margin resilience led to stable EBITDA but the absence of SEIS income (Rs 0.8bn in Q3FY19) dragged reported PAT down 36% YoY. While weak macro conditions will continue to weigh on growth, we see the DFC as a key trigger for the rail logistics business and expect CCRI to be the chief beneficiary by dint of its wide network and strong positioning. We trim FY20-FY22 EPS by 3-4% and move to a lower TP of Rs 630 vs. Rs 655.

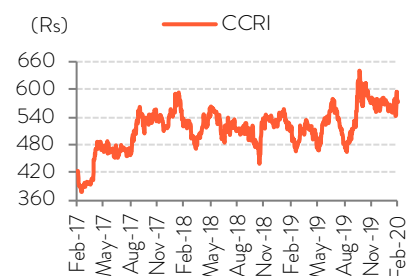
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Market share slump continues: Handling/originating volumes fell 1.7%/3.5% YoY amidst weak EXIM trade and domestic consumption. More disappointingly, realisations also fell 1.2% YoY/6.5% QoQ due to a higher share of empty containers and sequential decline in lead distance (-1.4%). CCRI has lost substantial market share in Q3/9M (~570/~630bps YoY per our estimate) due to its conscious decision to stay away from low-margin, short-haul business.

Ticker/Price	CCRI IN/Rs 572
Market cap	US\$ 4.9bn
Shares o/s	609mn
3M ADV	US\$ 9.6mn
52wk high/low	Rs 666/Rs 460
Promoter/FPI/DII	55%/27%/13%

Source: NSE

EBITDA margin resilient: Volume headwinds and lower double stacking notwithstanding, CCRI's EBITDA margin (adj. for Ind-AS 116) rose 44bps YoY to 21.7%, aided by lower rail freight and empty running costs. EXIM EBIT margin expanded 480bps YoY, but the domestic margin contracted sharply (-650bps) due to losses in the coastal shipping operations.

STOCK PERFORMANCE

Source: NSE

DFC trigger awaited: Per CCRI, the first DFC stretch connecting Gujarat ports is to come online by Jun'20, enabling it to offer transit time guarantee. From its experience running time-bound trains, management believes many manufacturers will shift to rail from road. We expect CCRI to be a key beneficiary of this shift.

Maintain ADD: We trim our FY20-FY22 earnings estimate by 3-4% each, translating to a revised Mar'21 TP of Rs 630 (Rs 655 earlier). Maintain ADD.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	58,910	65,098	66,417	78,961	94,699
EBITDA (Rs mn)	12,067	14,078	15,284	19,789	24,286
Adj. net profit (Rs mn)	10,619	12,154	10,227	12,469	15,153
Adj. EPS (Rs)	17.4	19.9	16.8	20.5	24.9
Adj. EPS growth (%)	12.4	14.5	(15.9)	21.9	21.5
Adj. ROAE (%)	11.7	12.3	9.9	11.6	13.1
Adj. P/E (x)	32.8	28.7	34.1	28.0	23.0
EV/EBITDA (x)	27.2	23.5	22.4	17.6	14.2

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 (EXCL. IND-AS 116 IMPACT)

Y/E Mar (Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Revenues	15,276	15,726	(2.9)	17,387	(12.1)	49,052	47,935	2.3
Rail freight expenses	8,514	9,237	(7.8)	9,397	(9.4)	26,864	27,674	(2.9)
% of sales	55.7	58.7	(300bps)	54.0	169bps	54.8	57.7	(296bps)
Other operating expenses	1,597	1,807	(11.6)	2,251	(29.0)	5,930	5,731	3.5
% of sales	10.5	11.5	(103bps)	12.9	(249bps)	12.1	12.0	13bps
Employee expenses	898	768	16.9	829	8.3	2,533	2,271	11.5
% of sales	5.9	4.9	99bps	4.8	111bps	5.2	4.7	43bps
Other expenses	955	575	66.1	824	15.9	2,446	1,673	46.2
% of sales	6.3	3.7	260bps	4.7	151bps	5.0	3.5	150bps
Total expenditure	11,964	12,387	(3.4)	13,302	(10.1)	37,772	37,349	1.1
EBITDA	3,312	3,339	(0.8)	4,085	(18.9)	11,279	10,587	6.5
EBITDA margin (%)	21.7	21.2	44bps	23.5	(182bps)	23.0	22.1	91bps
Depreciation	864	1,059	(18.4)	1,014	(4.8)	2,981	3,129	(4.7)
EBIT	2,448	2,281	7.3	3,071	(20.3)	8,298	7,458	11.3
Other income	626	1,586	(60.5)	637	(1.6)	1,846	4,595	(59.8)
PBT	3,187	3,866	(17.6)	3,740	(14.8)	10,177	12,052	(15.6)
PBT margin	20.9	24.6	(372bps)	21.5	(65bps)	20.7	25.1	(440bps)

Source: Company, BOBCAPS Research | Note: SEIS clubbed under other income

FIG 2 – QUARTERLY PERFORMANCE – STANDALONE (AS REPORTED, INCL. IND-AS 116 IMPACT)

Y/E Mar (Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Revenues	15,276	15,726	(2.9)	17,387	(12.1)	49,052	47,935	2.3
Rail freight expenses	8,514	9,237	(7.8)	9,397	(9.4)	26,864	27,674	(2.9)
% of sales	55.7	58.7	(300bps)	54.0	169bps	54.8	57.7	(296bps)
Other operating expenses	1,597	1,807	(11.6)	2,251	(29.0)	5,930	5,731	3.5
% of sales	10.5	11.5	(103bps)	12.9	(249bps)	12.1	12.0	13bps
Employee expenses	898	768	16.9	829	8.3	2,533	2,271	11.5
% of sales	5.9	4.9	99bps	4.8	111bps	5.2	4.7	43bps
Other expenses	550	575	(4.4)	563	(2.3)	1,629	1,673	(2.6)
% of sales	3.6	3.7	(6bps)	3.2	36bps	3.3	3.5	(17bps)
Total expenditure	11,559	12,387	(6.7)	13,040	(11.4)	36,955	37,349	(1.1)
EBITDA	3,717	3,339	11.3	4,347	(14.5)	12,096	10,587	14.3
EBITDA margin (%)	24.3	21.2	310bps	25.0	(67bps)	24.7	22.1	258bps
Depreciation	1,263	1,059	19.2	1,278	(1.2)	3,794	3,129	21.3
EBIT	2,454	2,281	7.6	3,068	(20.0)	8,302	7,458	11.3
Interest expenses	60	0	NM	81	(26.6)	253	1	NM
Other income	626	1,586	(60.5)	637	(1.6)	1,846	4,595	(59.8)
PBT	3,021	3,866	(21.9)	3,624	(16.6)	9,895	12,052	(17.9)
PBT margin (%)	19.8	24.6	(481bps)	20.8	(106bps)	20.2	25.1	(497bps)
Exceptional item	-	-	-	(8,702)	-	(8,702)	-	-
Tax rate	1,266	1,119	13.1	(1,858)	(168.1)	(887)	2,302	(138.5)
Tax rate (%) – total	41.9	28.9	1,296bps	(51.3)	9,319bps	(9.0)	19.1	(2,806bps)
Reported PAT	1,755	2,747	(36.1)	(3,220)	(154.5)	813	8,631	(90.6)
Adjustment	-	-	NM	5,743	-	5,743	-	NM
Adjusted PAT	1,755	2,747	(36.1)	2,523	(30.4)	6,556	8,631	(24.0)
Adjusted PAT margin (%)	11.5	17.5	(598bps)	14.5	(302bps)	13.4	18.0	(464bps)

Source: Company, BOBCAPS Research | Note: SEIS clubbed under other income

FIG 3 – PER UNIT PARAMETERS – STANDALONE (EXCLUDING IND-AS 116 IMPACT)

(Rs)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Total sales volume (teu)	9,10,407	9,26,106	(1.7)	9,69,158	(6.1)	28,06,488	28,50,489	(1.5)
Realisation/teu	16,779	16,981	(1.2)	17,940	(6.5)	17,478	16,817	3.9
Rail freight expenses/teu	9,352	9,974	(6.2)	9,696	(3.5)	9,572	9,708	(1.4)
Other operating expenses/teu	1,754	1,951	(10.1)	2,323	(24.5)	2,113	2,011	5.1
Employee expenses/teu	986	829	18.9	856	15.3	902	797	13.3
Other expenses/teu	604	621	(2.7)	581	4.0	580	587	(1.1)
Total expenditure/teu	12,696	13,375	(5.1)	13,455	(5.6)	13,168	13,103	0.5
EBITDA/teu	4,083	3,606	13.2	4,485	(9.0)	4,310	3,714	16.1
Depreciation/teu	1,387	1,143	21.3	1,319	5.1	1,352	1,098	23.2
EBIT/teu	2,696	2,462	9.5	3,166	(14.8)	2,958	2,616	13.1

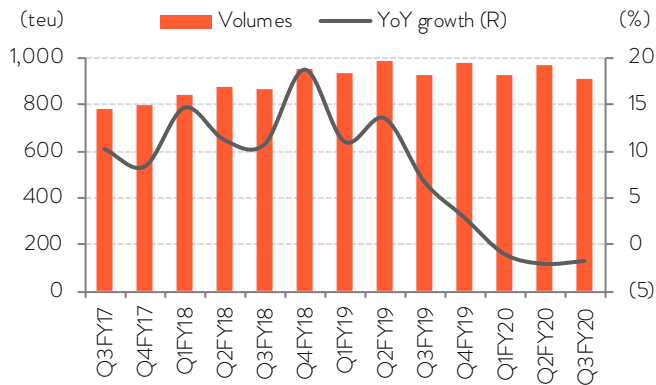
Source: Company, BOBCAPS Research

FIG 4 – SEGMENTAL DATA – STANDALONE

	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
EXIM segment								
Volume (teu)	7,66,822	7,85,873	(2.4)	8,26,013	(7.2)	16,12,455	16,42,990	(1.9)
Revenue (Rs mn)	11,713	12,161	(3.7)	13,577	(13.7)	26,281	25,301	3.9
Realisation/teu (Rs)	15,275	15,474	(1.3)	16,437	(7.1)	16,299	15,399	5.8
EBIT (Rs mn)	2,805	2,331	20.3	3,138	(10.6)	8,869	7,637	16.1
EBIT margin (%)	23.9	19.2	478bps	23.1	83bps	33.7	30.2	356bps
EBIT/teu (Rs)	3,658	2,966	23.3	3,799	(3.7)	5,500	4,648	18.3
Domestic segment								
Volume (teu)	1,43,585	1,40,233	2.4	1,43,145	0.3	2,83,626	2,81,393	0.8
Revenue (Rs mn)	3,562	3,566	(0.1)	3,810	(6.5)	7,495	6,908	8.5
Realisation/teu (Rs)	24,810	25,426	(2.4)	26,614	(6.8)	26,425	24,549	7.6
EBIT (Rs mn)	25	258	(90.5)	198	(87.6)	411	714	(42.4)
EBIT margin (%)	0.7	7.2	(655bps)	5.2	(451bps)	5.5	10.3	(485bps)
EBIT/teu (Rs)	171	1,840	(90.7)	1,383	(87.6)	1,449	2,538	(42.9)

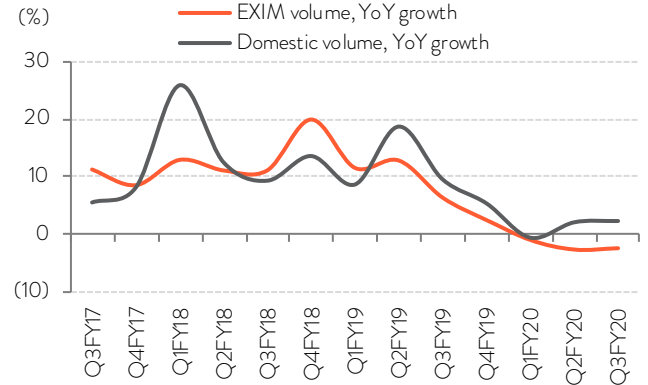
Source: Company, BOBCAPS Research

FIG 5 – HANDLING VOLUMES DECLINED 2% YOY



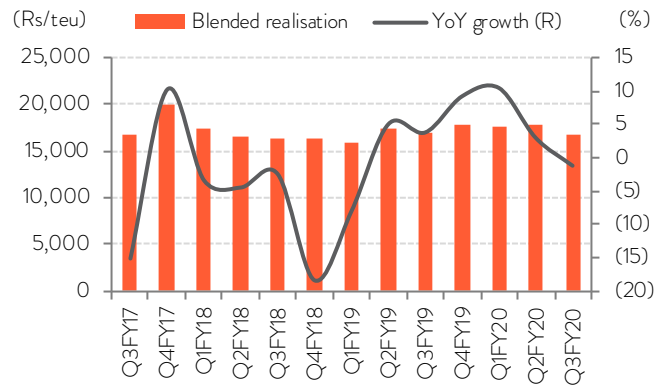
Source: Company, BOBCAPS Research

FIG 6 – EXIM VOLUME DOWN 2.4%; DOMESTIC UP 2.4%



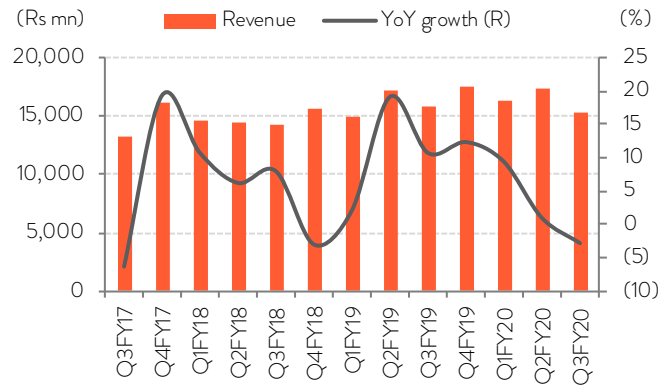
Source: Company, BOBCAPS Research

FIG 7 – REALISATION FELL BOTH YOY AND SEQUENTIALLY



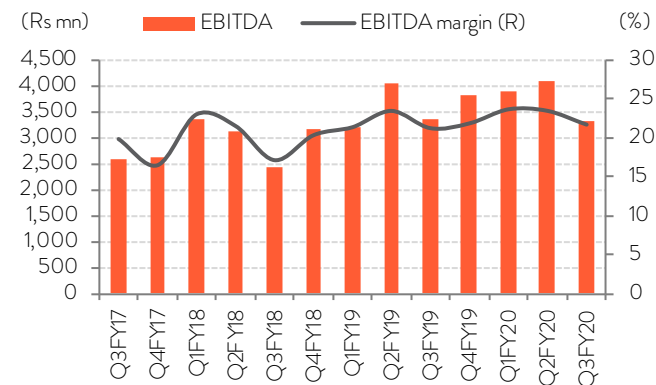
Source: Company, BOBCAPS Research

FIG 8 – STANDALONE REVENUE DECLINED 2.9% YOY



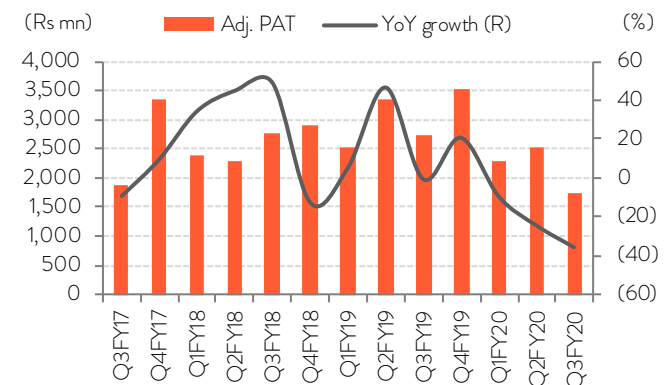
Source: Company, BOBCAPS Research

FIG 9 – EBITDA MARGIN EXPANDED 44BPS YOY TO 21.7% DUE TO LOWER FREIGHT EXPENSES



Source: Company, BOBCAPS Research

FIG 10 – ABSENCE OF SEIS INCOME DRAGGED ADJ. PAT DOWN 36% YOY



Source: Company, BOBCAPS Research

Earnings call highlights

- Q3 was a weak quarter fraught with macroeconomic challenges. CCRI continues to lose market share mainly due to its conscious decision not to pursue low-margin, short-haul business. Overall market share has declined to ~67% in 9MFY20 from ~73% in 9MFY19.
- Handling volumes dipped 1.7% YoY in Q3FY20 to 0.9mn teu (EXIM volumes down 2.4% YoY, domestic up 2.4%); originating volumes fell 3.5% YoY (EXIM/domestic down 4.5%/3.9%). For 9MFY20, handling/originating volumes decreased 1.5%/3.9% YoY.
- JNPT market share stands at ~67% in 9MFY20 vs. ~78.5% in 9MFY19, Mundra at ~45% vs. ~52.5% and Pipavav at ~51% vs. ~54%.
- EXIM realisation has declined as the share of empty containers in total handling volumes has risen due to lower volumes and EXIM imbalances.
- Overall lead distance was at ~784km in Q3FY20 vs. 786km in Q3FY19, and ~795km in Q2FY20. Double-stacked trains came down to 602 from 708 in Q3FY19 and 674 in Q2FY20.
- Coastal shipping is facing stiff competition. CCRI has adopted a discount-led strategy to gain market share as it is a new entrant, which is dampening profitability in the interim. It expects to start east coast operations soon.
- Management is taking several steps to boost performance in the domestic business – transportation of bulk commodities in containers (trial commercial run started), cement transportation (expects trial runs to begin next quarter), and container-as-a-warehouse concept. CCRI expects good traction in these areas and plans to scale them up gradually over the next five years.
- Management expects time-sensitive customers to shift to rail from road once the DFC is commissioned, as CCRI will be able to provide transit time assurance. The company has run trains with specific transit time assurance during Oct'17-Jan'18, when it witnessed interest from clients (such as exporters catering to US retail companies). Its network of terminals and rolling stock are DFC-compliant and the company expects to readily start operations on the first DFC stretch to be commissioned by Jun'20.
- No incremental amount has been paid under the advance freight scheme after Mar'19; CCRI is yet to take a decision on participating in the scheme in FY21.
- Capex in 9MFY20 has been Rs 2.6bn. Management remains confident of spending Rs 10bn in FY20, led by delivery of high-speed, DFC-compliant rakes in Q4FY20. It plans to add 8-9 terminals in FY20.

Valuation methodology

We prune our FY20-FY22 earnings estimates by 3-4% each to factor in the below-expected Q3FY20 performance. Consequently, we lower our Mar'21 target price to Rs 630 vs. Rs 655 earlier, set at an unchanged FY22E EPS multiple of 25x. Reiterate ADD.

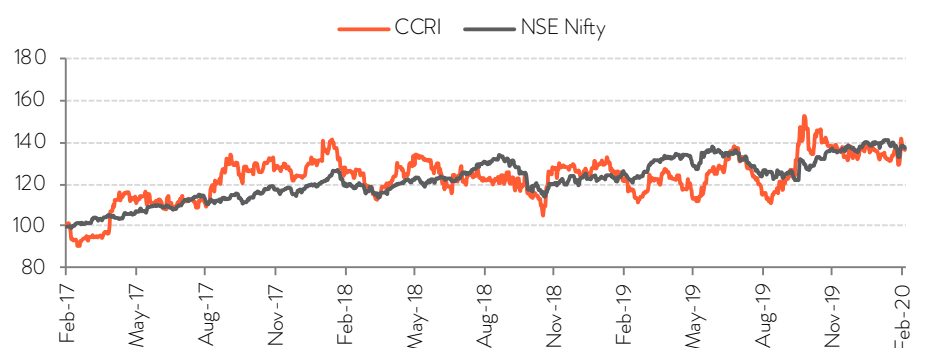
A tepid EXIM outlook and subdued domestic consumption are likely to remain near-term growth overhangs. However, we stay positive on CCRI's long-term prospects as it remains best placed to capitalise on DFC-related benefits due to its strong market positioning and superior asset portfolio.

FIG 11 – REVISED ESTIMATES – STANDALONE

(Rs mn)	FY20E			FY21E			FY22E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenues	68,691	66,417	(3.3)	81,668	78,961	(3.3)	97,951	94,699	(3.3)
EBITDA	16,409	15,284	(6.9)	20,513	19,789	(3.5)	25,171	24,286	(3.5)
EBITDA margin (%)	23.9	23.0	(87)	25.1	25.1	(6)	25.7	25.6	(5)
PAT	10,648	10,227	(4.0)	12,825	12,469	(2.8)	15,692	15,153	(3.4)
PAT margin (%)	15.5	15.4	(10)	15.7	15.8	9	16.0	16.0	(2)

Source: Company, BOBCAPS Research

FIG 12 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Key downside risks to our estimates are:

- delay in commencement of the dedicated freight corridor,
- prolonged slowdown in global trade and/or domestic consumption, and
- sharp increase in haulage charges by Indian Railways in the DFC.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	58,910	65,098	66,417	78,961	94,699
EBITDA	12,067	14,078	15,284	19,789	24,286
Depreciation	3,927	4,246	4,059	5,139	5,919
EBIT	8,141	9,833	11,225	14,650	18,366
Net interest income/(expenses)	(1)	(7)	(115)	0	0
Other income/(expenses)	5,787	7,064	2,638	2,114	2,005
Exceptional items	0	0	0	0	0
EBT	13,926	16,889	13,749	16,763	20,372
Income taxes	(3,307)	(4,735)	(1,294)	(4,294)	(5,219)
Extraordinary items	(129)	0	(8,702)	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	10,490	12,154	3,752	12,469	15,153
Adjustments	129	0	6,474	0	0
Adjusted net profit	10,619	12,154	10,227	12,469	15,153

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	2,542	3,504	3,482	4,041	4,834
Other current liabilities	8,010	9,241	9,098	10,817	12,972
Provisions	704	719	732	870	1,043
Debt funds	334	7,310	0	0	0
Other liabilities	0	0	0	0	0
Equity capital	2,437	3,047	3,047	3,047	3,047
Reserves & surplus	91,300	1,00,632	1,00,294	1,07,775	1,16,867
Shareholders' fund	93,737	1,03,679	1,03,340	1,10,822	1,19,913
Total liabilities and equities	1,05,327	1,24,453	1,16,652	1,26,549	1,38,763
Cash and cash eq.	19,817	1,704	5,013	4,588	6,377
Accounts receivables	604	884	902	1,072	1,285
Inventories	274	233	237	282	338
Other current assets	11,418	44,491	26,717	26,847	27,010
Investments	13,890	14,029	14,029	14,029	14,029
Net fixed assets	36,384	41,879	54,067	60,928	67,009
CWIP	6,710	6,247	0	0	0
Intangible assets	100	68	68	68	68
Deferred tax assets, net	(1,732)	(1,616)	(1,616)	(1,616)	(1,616)
Other assets	17,861	16,534	16,504	19,621	23,532
Total assets	1,05,327	1,24,453	1,15,921	1,25,818	1,38,032

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	14,546	16,400	14,285	17,608	21,072
Interest expenses	1	7	115	0	0
Non-cash adjustments	(549)	(117)	0	0	0
Changes in working capital	2,645	(29,775)	17,629	(1,046)	(1,222)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	16,643	(13,485)	32,030	16,562	19,851
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
Cash flow from investing	(8,505)	(9,384)	(10,000)	(12,000)	(12,000)
Equities issued/Others	488	609	0	0	0
Debt raised/repaid	(39)	6,976	(7,310)	0	0
Interest expenses	(1)	(7)	(115)	0	0
Dividends paid	(4,992)	(6,280)	(4,091)	(4,988)	(6,061)
Other financing cash flows	(611)	3,458	(6,474)	0	0
Cash flow from financing	(5,156)	4,756	(17,990)	(4,988)	(6,061)
Changes in cash and cash eq.	2,982	(18,113)	4,040	(426)	1,789
Closing cash and cash eq.	19,817	1,704	5,013	4,588	6,377

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	17.2	19.9	6.2	20.5	24.9
Adjusted EPS	17.4	19.9	16.8	20.5	24.9
Dividend per share	8.2	10.3	6.7	8.2	9.9
Book value per share	153.8	170.2	169.6	181.9	196.8

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	5.6	5.1	5.1	4.4	3.6
EV/EBITDA	27.2	23.5	22.4	17.6	14.2
Adjusted P/E	32.8	28.7	34.1	28.0	23.0
P/BV	3.7	3.4	3.4	3.1	2.9

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	76.3	72.0	74.4	74.4	74.4
Interest burden (PBT/EBIT)	171.1	171.8	122.5	114.4	110.9
EBIT margin (EBIT/Revenue)	13.8	15.1	16.9	18.6	19.4
Asset turnover (Revenue/Avg TA)	62.8	62.2	61.0	72.7	81.0
Leverage (Avg TA/Avg Equity)	1.0	1.1	1.1	1.0	1.0
Adjusted ROAE	11.7	12.3	9.9	11.6	13.1

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	9.6	10.5	2.0	18.9	19.9
EBITDA	19.0	16.7	8.6	29.5	22.7
Adjusted EPS	12.4	14.5	(15.9)	21.9	21.5
Profitability & Return ratios (%)					
EBITDA margin	20.5	21.6	23.0	25.1	25.6
EBIT margin	13.8	15.1	16.9	18.6	19.4
Adjusted profit margin	18.0	18.7	15.4	15.8	16.0
Adjusted ROAE	11.7	12.3	9.9	11.6	13.1
ROCE	8.7	9.4	10.3	13.5	15.7
Working capital days (days)					
Receivables	4	5	5	5	5
Inventory	2	1	1	1	1
Payables	16	20	19	19	19
Ratios (x)					
Gross asset turnover	1.3	1.3	1.0	1.0	1.0
Current ratio	3.0	3.7	2.6	2.2	1.9
Net interest coverage ratio	NM	NM	NM	NM	NM
Adjusted debt/equity	(0.2)	0.1	0.0	0.0	(0.1)

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

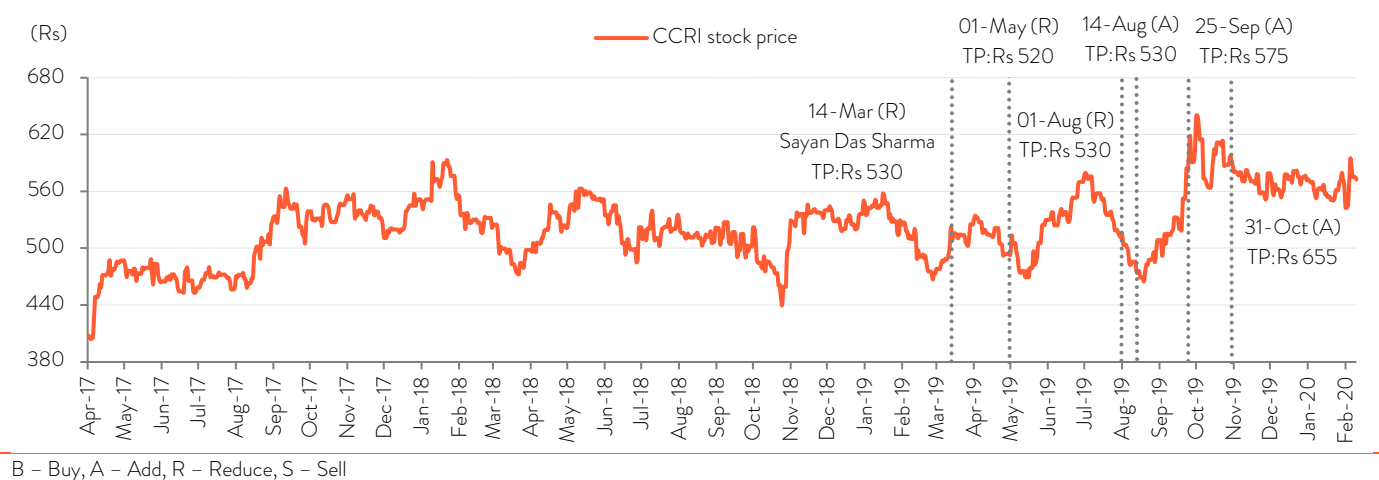
ADD – Expected return from >+5% to +15%

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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