

SELL

TP: Rs 425 | ▼ 9%

**CONTAINER CORP OF
INDIA**

Logistics

06 February 2021

Earnings in line; LLF remains a key monitorable

Container Corp's (CCRI) Q3FY21 revenue was a beat but EBITDA met our estimates. Revenue growth of 15% YoY was led by both volumes (+6%) and realisation (+8%). EBITDA was flat YoY due to a staff benefit provision (+13% ex-provision). A potentially favourable land licensing policy and renewed privatisation buzz are near-term triggers. Given the improved earnings outlook, we raise our target P/E to 17x (vs. 15x) and our Mar'22 TP to Rs 425 (vs. Rs 360). Maintain SELL as we await clarity on final land fees.

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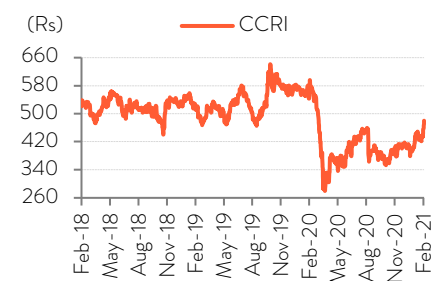
Volume growth returns, realisation healthy: After six successive quarters of YoY decline, handling volumes rose 6% YoY (+9% QoQ) in Q3. Originating volumes also increased 11% YoY. Lower empty share, a Rs 5,000/teu surcharge at the TKD terminal, and a slight rise in lead distance lifted realisation by 8% YoY. Given the faster-than-anticipated volume revival, CCRI has now guided for a volume drop of 5% or less in FY21 vs. 10% earlier. The company's market share among CTOs stands at 66.7% in 9MFY21, up from 66% in FY20.

Ticker/Price	CCRI IN/Rs 467
Market cap	US\$ 3.9bn
Shares o/s	609mn
3M ADV	US\$ 17.8mn
52wk high/low	Rs 602/Rs 263
Promoter/FPI/DII	55%/23%/16%

Source: NSE

Staff costs, higher LLF cramp margin: Though rail freight (-260bps YoY) and other expenses (-70bps) were lower, a rise in employee (+170bps) and other operating costs (+470bps) depleted EBITDA margin by 315bps YoY to 21.2%. Staff cost included a Rs 496mn provision for retirement medical benefit liability, while higher land license fee (LLF) inflated other operating cost. Despite flat YoY EBITDA, PAT rose 36% YoY propelled by lower tax and higher other income.

STOCK PERFORMANCE



LLF policy awaited: Per media articles, the Indian Railways may soon lower the LLF to 3% from 6% of underlying land value, though the final amount may still be higher than CCRI's assessment. This could pave the way for privatisation and serve as a potential rerating trigger. Completion of the first stretch of DFC also bodes well. We await clarity on the LLF before revisiting our SELL rating.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	65,098	64,738	62,770	75,688	87,858
EBITDA (Rs mn)	14,079	16,749	13,311	19,445	22,979
Adj. net profit (Rs mn)	12,154	12,574	8,188	12,823	15,243
Adj. EPS (Rs)	19.9	20.6	13.4	21.0	25.0
Adj. EPS growth (%)	14.5	3.5	(34.9)	56.6	18.9
Adj. ROAE (%)	12.3	12.3	7.9	11.6	12.8
Adj. P/E (x)	23.4	22.6	34.7	22.2	18.7
EV/EBITDA (x)	18.9	16.5	20.8	13.4	11.2

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

Y/E Mar (Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Revenues	17,538	15,276	14.8	15,027	16.7	44,457	49,052	(9.4)
Rail freight expenses	9,323	8,514	9.5	8,205	13.6	24,050	26,864	(10.5)
% of sales	53.2	55.7	(258bps)	54.6	(144bps)	54.1	54.8	(67bps)
Other operating expenses	2,659	1,597	66.5	2,443	8.8	7,368	5,930	24.3
% of sales	15.2	10.5	470bps	16.3	(110bps)	16.6	12.1	448bps
Employee expenses	1,327	898	47.9	842	57.7	2,965	2,533	17.1
% of sales	7.6	5.9	169bps	5.6	197bps	6.7	5.2	151bps
Other expenses	511	550	(7.2)	408	25.2	1,635	1,721	(5.0)
% of sales	2.9	3.6	(69bps)	2.7	20bps	3.7	3.5	17bps
Total expenditure	13,819	11,559	19.6	11,898	16.2	36,018	37,047	(2.8)
EBITDA	3,719	3,717	0.0	3,130	18.8	8,439	12,005	(29.7)
EBITDA margin (%)	21.2	24.3	(313bps)	20.8	38bps	19.0	24.5	(549bps)
Depreciation	1,364	1,263	8.0	1,272	7.3	3,896	3,794	2.7
EBIT	2,355	2,454	(4.1)	1,858	26.7	4,543	8,211	(44.7)
Interest expenses	84	60	40.9	85	(1.3)	254	253	0.3
Other income	822	626	31.2	713	15.2	2,123	1,846	15.0
PBT	3,093	3,021	2.4	2,486	24.4	6,412	9,803	(34.6)
PBT margin (%)	17.6	19.8	(214bps)	16.5	109bps	14.4	20.0	(556bps)
Exceptional item	-	-	-	-	-	-	(8,611)	-
Tax rate	714	1,266	(43.6)	610	16.9	1,541	380	305.9
Tax rate (%) – total	23.1	41.9	(1,884bps)	24.5	(147bps)	24.0	3.9	2,015bps
Reported PAT	2,379	1,755	35.6	1,876	26.8	4,872	813	499.2
Adjustment	-	-	-	-	-	-	8,611	NM
Adjusted PAT	2,379	1,755	35.6	1,876	26.8	4,872	9,424	(48.3)
Adjusted PAT margin (%)	13.6	11.5	208bps	12.5	108bps	11.0	19.2	(825bps)

Source: Company, BOBCAPS Research

FIG 2 – PER UNIT PARAMETERS – STANDALONE

(Rs)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Total sales volume (teu)	9,66,015	9,10,407	6.1	8,85,673	9.1	25,84,399	28,06,488	(7.9)
Realisation/teu	18,155	16,779	8.2	16,967	7.0	17,202	17,478	(1.6)
Rail freight expenses/teu	9,651	9,352	3.2	9,264	4.2	9,306	9,572	(2.8)
Other operating expenses/teu	2,752	1,754	56.9	2,759	(0.2)	2,851	2,113	34.9
Employee expenses/teu	1,374	986	39.3	951	44.6	1,147	902	27.1
Other expenses/teu	528	604	(12.5)	460	14.8	633	613	3.2
Total expenditure/teu	14,306	12,696	12.7	13,434	6.5	13,937	13,200	5.6
EBITDA/teu	3,850	4,083	(5.7)	3,533	8.9	3,265	4,277	(23.7)
Depreciation/teu	1,412	1,387	1.8	1,436	(1.7)	1,507	1,352	11.5
EBIT/teu	2,438	2,696	(9.6)	2,098	16.2	1,758	2,926	(39.9)

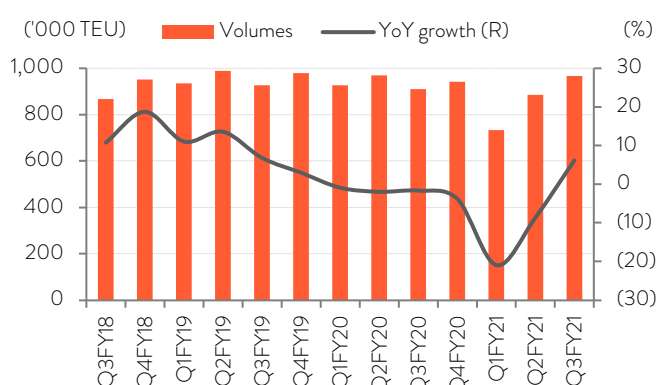
Source: Company, BOBCAPS Research

FIG 3 – SEGMENTAL DATA – STANDALONE

	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
EXIM segment								
Volume (teu)	8,04,557	7,66,822	4.9	7,44,788	8.0	21,77,250	23,79,277	(8.5)
Revenue (Rs mn)	12,986	11,713	10.9	11,300	14.9	33,292	37,995	(12.4)
Realisation/teu (Rs)	16,140	15,275	5.7	15,172	6.4	15,291	15,969	(4.2)
EBIT (Rs mn)	2,261	2,805	(19.4)	1,883	20.0	4,914	8,869	(44.6)
EBIT margin (%)	17.4	23.9	(654bps)	16.7	74bps	14.8	23.3	(858bps)
EBIT/teu (Rs)	2,810	3,658	(23.2)	2,529	11.1	2,257	3,728	(39.5)
Domestic segment								
Volume (teu)	1,61,458	1,43,585	12.4	1,40,885	14.6	4,07,149	4,27,211	(4.7)
Revenue (Rs mn)	4,553	3,562	27.8	3,727	22.1	11,165	11,057	1.0
Realisation/teu (Rs)	28,197	24,810	13.6	26,456	6.6	27,421	25,882	5.9
EBIT (Rs mn)	305	25	1,139.4	215	41.6	667	411	62.3
EBIT margin (%)	6.7	0.7	601bps	5.8	92bps	6.0	3.7	226bps
EBIT/teu (Rs)	1,888	171	1,002.2	1,528	23.6	1,639	962	70.3

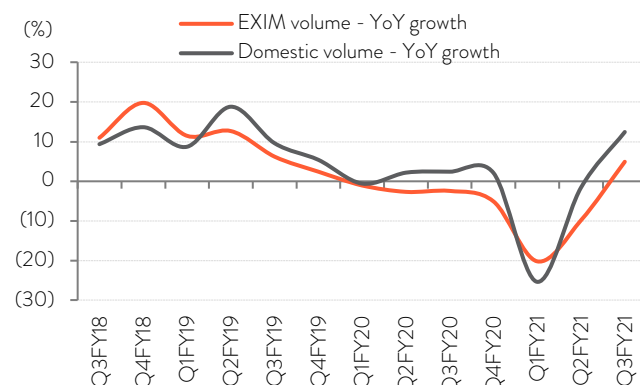
Source: Company, BOBCAPS Research

FIG 4 – HANDLING VOLUMES GREW 6% YOY



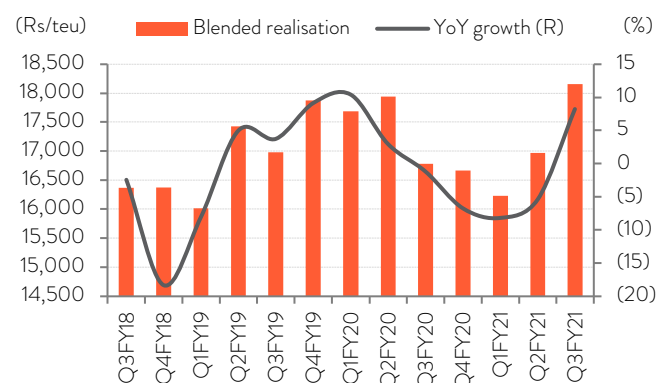
Source: Company, BOBCAPS Research

FIG 5 – EXIM VOLUMES UP 5%; DOMESTIC UP 12% YOY



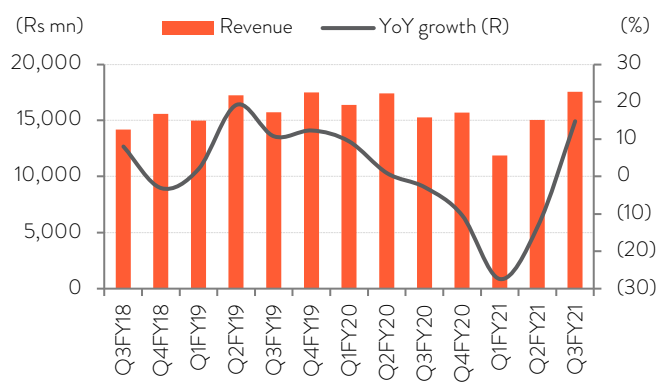
Source: Company, BOBCAPS Research

FIG 6 – REALISATION INCREASED 8% YOY



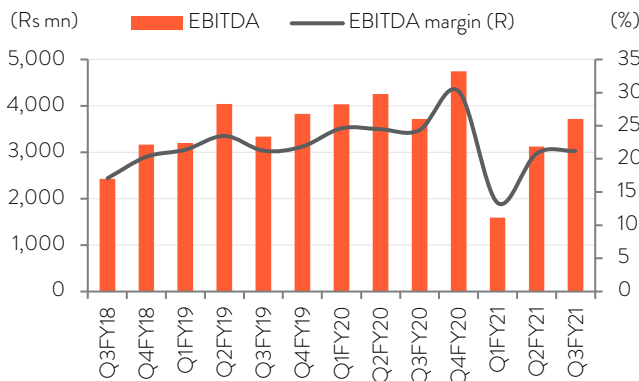
Source: Company, BOBCAPS Research

FIG 7 – STANDALONE REVENUE UP 14.8% YOY



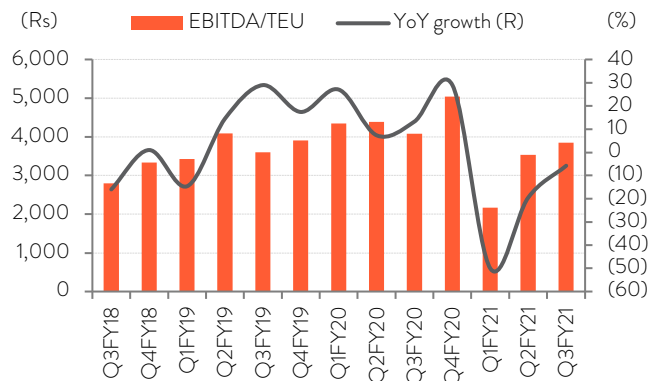
Source: Company, BOBCAPS Research

FIG 8 – EBITDA MARGIN PULLED DOWN BY HIGHER STAFF COSTS



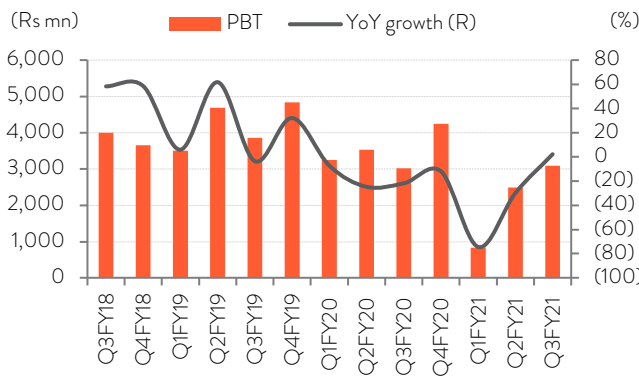
Source: Company, BOBCAPS Research

FIG 9 – EBITDA PER TEU FELL 6% YOY



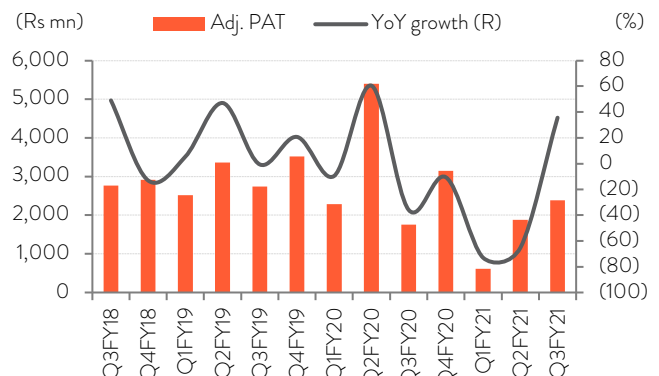
Source: Company, BOBCAPS Research

FIG 10 – PBT ROSE 2% DRIVEN BY OTHER INCOME



Source: Company, BOBCAPS Research

FIG 11 – LOWER TAXES PROPELLED ADJ. PAT



Source: Company, BOBCAPS Research

Earnings call highlights

- Volumes:** After six consecutive quarters of decline, handling volumes rose by 6.1% YoY to 1mn teu in Q3FY21 (EXIM/domestic volumes up 4.9%/12.4% YoY). Originating volumes grew 10.5% YoY (EXIM/domestic increased 10.7%/9.2% YoY).
- Revision in guidance:** Considering the faster-than-expected volume revival, management now expects a 5% or lower volume decline in FY21 vs. the 10% fall expected earlier.
- Pricing:** CCRI has not taken any price hikes during 9MFY21 in view of the market conditions. However, it has introduced land usage surcharges of Rs 5,000/teu and Rs 10,000/feu at the Tughlakabad terminal.
- Realisation:** Lower share of empties in total volumes, surcharge in the Tughlakabad terminal, and a slight increase in overall lead distances aided realisation growth of 8% YoY in Q3.

- **Lead distance:** EXIM/domestic lead distances for Q3 stood at 709km/1,401km vs. 721km/1,352km in the year-ago quarter. Overall lead distances went up to 790km vs. 785km.
- **Empty running costs:** Empty running costs rose to Rs 669mn from Rs 512mn in the same quarter last year.
- **Double-stacking:** An easing EXIM imbalance enabled CCRI to run 777 double-stacked rakes vs. 602 in Q3FY20 and 673 in Q2FY21.
- **Staff cost:** During the quarter, CCRI conducted an actuarial valuation for the expected liability arising from retirement medical benefits for all employees. It has provided Rs 692mn towards this (Rs 496mn under staff costs in P&L and Rs 196mn under other comprehensive income) and expects to continue to provide not more than 1% of total PBT for the next few quarters.
- **Land licensing fee:** Indian Railways (IR) has now demanded Rs 13.4bn of LLF for 21 terminals in Q3 (vs. Rs 12.8bn for 13 terminals in Q2), out of the 27 terminals on IR land. CCRI continues to provide LLF in P&L based on its internal assessment (Rs 4.5bn in FY21) and has provided for Rs 3.5bn in 9MFY21. Per media articles, IR is working on a revised LLF policy under which it can lower the licensing fee charged to 3% of underlying land value vs. 6% currently.
- **New initiatives:** The company has started providing its services for rice exports to Iran and is also providing services to Bangladesh and Nepal. It has begun transportation of bulk goods in containers, which were earlier transported in specialised wagons.
- **Capex:** CCRI has incurred Rs 2bn of capex in 9MFY21 but plans to incur another Rs 3bn in Q4FY21. It may commission 1-2 multi-modal logistics parks (MMLP) in FY21-FY22 as a majority of planned launches have now been shifted to FY23 owing to the Covid-19 disruptions.

Valuation methodology

Baking in the Q3FY21 revenue beat, we raise our FY21 revenue estimate by 7% YoY but broadly maintain profit estimates and also keep FY22/FY23 forecasts intact. We had lowered our target P/E multiple gradually from 25x to 15x over Apr'20-Aug'20 due to a series of negative developments – the spread of Covid-19 and ensuing lockdowns, increase in LLF charged by the IR, and delays in DFC commissioning.

We note that CCRI's volume ramp-up in FY21 has been much faster than anticipated, which increases our confidence on FY22/FY23 forecasts. We therefore raise our target P/E multiple to 17x from 15x earlier. This coupled with rollover yields a higher Mar'22 target price of Rs 425 from Rs 360.

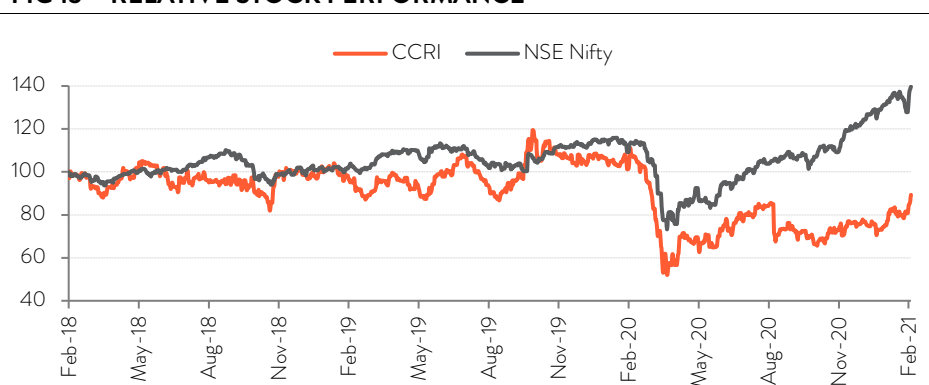
We continue to factor in LLF of Rs 4.5bn – in line with CCRI's assessment and not as per IR's claims as there is no update on the final quantum yet and media articles suggest a new, more favourable policy in the works. Clarity on IR's LLF policy is expected soon and would be a positive event as the uncertainty gets alleviated, paving the way for the company's potential privatisation. Thus, this event remains a key monitorable and we will revisit our rating once clarity emerges. Meanwhile, we retain our SELL rating.

FIG 12 – REVISED ESTIMATES – STANDALONE

(Rs mn)	FY21E			FY22E			FY23E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenue	58,802	62,770	6.7	75,697	75,688	0.0	87,869	87,858	0.0
EBITDA	13,339	13,311	(0.2)	19,457	19,445	(0.1)	22,992	22,979	(0.1)
EBITDA Margin (%)	22.7	21.2	(148bps)	25.7	25.7	0bps	26.2	26.2	0bps
PAT	8,188	8,188	0.0	12,890	12,823	(0.5)	15,255	15,243	(0.1)
PAT Margin (%)	13.9	13.0	(88bps)	17.0	16.9	(9bps)	17.4	17.3	(1bps)

Source: BOBCAPS Research

FIG 13 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Key upside risks to our estimates are –

- sharper-than-expected recovery in volumes and/or realisation,
- favourable final LLF policy, and
- above-expected operating margin achieved through cost control measures.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	65,098	64,738	62,770	75,688	87,858
EBITDA	14,079	16,749	13,311	19,445	22,979
Depreciation	4,246	5,130	5,260	6,156	6,972
EBIT	9,833	11,619	8,051	13,289	16,007
Net interest income/(expenses)	(7)	(361)	(340)	0	0
Other income/(expenses)	7,064	2,797	3,265	3,854	4,372
Exceptional items	0	0	0	0	0
EBT	16,889	14,056	10,976	17,144	20,378
Income taxes	(4,735)	(1,482)	(2,788)	(4,320)	(5,135)
Extraordinary items	0	(8,816)	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	12,154	3,758	8,188	12,823	15,243
Adjustments	0	8,816	0	0	0
Adjusted net profit	12,154	12,574	8,188	12,823	15,243

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	3,504	1,553	1,418	1,652	1,924
Other current liabilities	9,241	9,539	9,249	11,153	12,946
Provisions	719	692	711	857	995
Debt funds	7,006	0	0	0	0
Other liabilities	303	3,236	3,236	3,236	3,236
Equity capital	3,047	3,047	3,047	3,047	3,047
Reserves & surplus	1,00,632	97,601	1,03,742	1,11,436	1,20,582
Shareholders' fund	1,03,679	1,00,647	1,06,789	1,14,483	1,23,628
Total liabilities and equities	1,24,453	1,15,668	1,21,403	1,31,381	1,42,730
Cash and cash eq.	1,704	21,686	27,532	27,452	29,804
Accounts receivables	884	1,591	1,720	2,074	2,407
Inventories	233	261	253	305	354
Other current assets	44,491	5,402	5,280	6,367	7,391
Investments	14,029	14,441	14,441	14,441	14,441
Net fixed assets	41,879	49,656	58,772	64,615	69,643
CWIP	6,247	9,375	0	0	0
Intangible assets	68	38	38	38	38
Deferred tax assets, net	(1,616)	145	145	145	145
Other assets	16,534	13,073	13,223	15,944	18,508
Total assets	1,24,453	1,15,668	1,21,403	1,31,381	1,42,730

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	16,400	17,704	13,448	18,980	22,215
Interest expenses	7	361	340	0	0
Non-cash adjustments	(117)	(1,761)	0	0	0
Changes in working capital	(29,775)	40,134	(555)	(1,930)	(1,767)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	(13,485)	56,438	13,233	17,050	20,449
Capital expenditures	(9,245)	(16,005)	(5,000)	(12,000)	(12,000)
Change in investments	(139)	(412)	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(9,384)	(16,417)	(5,000)	(12,000)	(12,000)
Equities issued/Others	609	0	0	0	0
Debt raised/repaid	7,006	(7,006)	0	0	0
Interest expenses	(7)	(361)	(340)	0	0
Dividends paid	(6,280)	(2,281)	(2,047)	(5,129)	(6,097)
Other financing cash flows	3,428	(10,392)	0	0	0
Cash flow from financing	4,756	(20,040)	(2,387)	(5,129)	(6,097)
Changes in cash and cash eq.	(18,113)	19,982	5,846	(80)	2,352
Closing cash and cash eq.	1,704	21,686	27,532	27,452	29,804

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	19.9	6.2	13.4	21.0	25.0
Adjusted EPS	19.9	20.6	13.4	21.0	25.0
Dividend per share	10.3	3.7	3.4	8.4	10.0
Book value per share	170.2	165.2	175.3	187.9	202.9

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	4.1	4.3	4.4	3.4	2.9
EV/EBITDA	18.9	16.5	20.8	13.4	11.2
Adjusted P/E	23.4	22.6	34.7	22.2	18.7
P/BV	2.7	2.8	2.7	2.5	2.3

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	72.0	89.5	74.6	74.8	74.8
Interest burden (PBT/EBIT)	171.8	121.0	136.3	129.0	127.3
EBIT margin (EBIT/Revenue)	15.1	17.9	12.8	17.6	18.2
Asset turnover (Revenue/Avg TA)	62.2	59.6	58.5	66.2	71.6
Leverage (Avg TA/Avg Equity)	1.1	1.1	1.0	1.0	1.0
Adjusted ROAE	12.3	12.3	7.9	11.6	12.8

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	10.5	(0.6)	(3.0)	20.6	16.1
EBITDA	16.7	19.0	(20.5)	46.1	18.2
Adjusted EPS	14.5	3.5	(34.9)	56.6	18.9
Profitability & Return ratios (%)					
EBITDA margin	21.6	25.9	21.2	25.7	26.2
EBIT margin	15.1	17.9	12.8	17.6	18.2
Adjusted profit margin	18.7	19.4	13.0	16.9	17.3
Adjusted ROAE	12.3	12.3	7.9	11.6	12.8
ROCE	9.4	10.7	7.5	11.7	13.1
Working capital days (days)					
Receivables	5	9	10	10	10
Inventory	1	1	1	1	1
Payables	20	9	8	8	8
Ratios (x)					
Gross asset turnover	1.3	1.0	0.8	0.8	0.9
Current ratio	3.7	2.5	3.2	2.7	2.6
Net interest coverage ratio	NM	NM	NM	NM	NM
Adjusted debt/equity	0.1	(0.2)	(0.3)	(0.2)	(0.2)

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

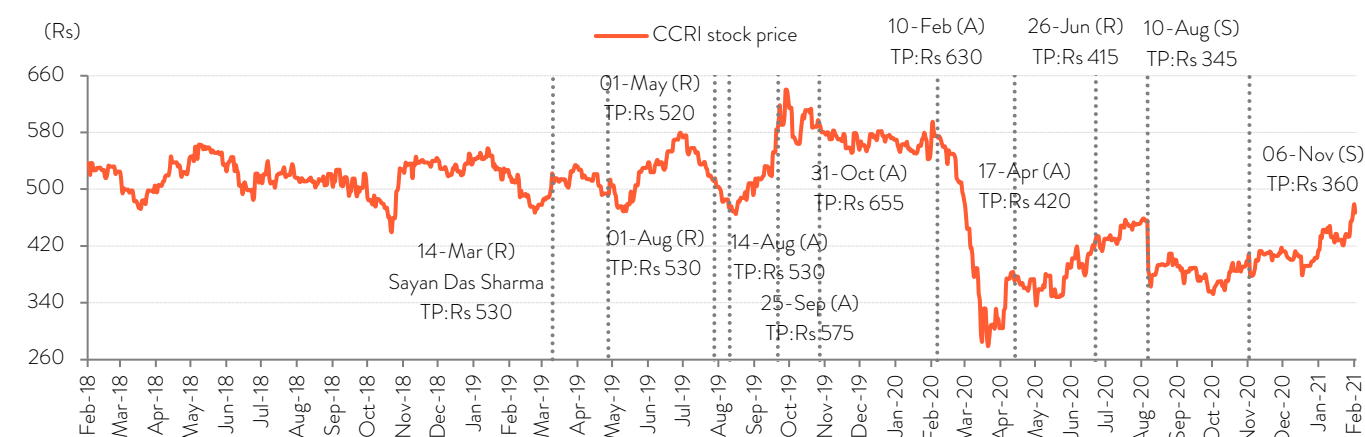
ADD – Expected return from >+5% to +15%

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)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): CONTAINER CORP OF INDIA (CCRI IN)



B – Buy, A – Add, R – Reduce, S – Sell

Rating distribution

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