

Container Corporation of India (CCRI IN)

Right-sizing the cost structure

INDIA | LOGISTICS | Company Update

7 May 2020

Event: Surrender / handing over of 15 terminals on Indian Railways (IR) land as lease payments are now market linked.

Concor had 83 terminals (March 2019 annual report) across India, and 41 terminals were built on land leased from the Indian Railways (IR). The company was getting a concessional rate for the land lease and lease amount was paid to IR based on volume handled and not on the area of land. IR has now discontinued the concessional rate to Concor, and started charging based on market rate for land use.

Is it to facilitate the divestment? In November 2019, the government approved a strategic sale of 30.8% out of its equity stake of 54.8% in Concor, along with management control; it would retain 24% stake after the sale, but without any veto powers. In view of the divestment process, the government has decided to move to free-market pricing for the land leased to Concor. Other private container terminal operators have bought land at market prices and the concession rate given to Concor was a bone of contention.

No material impact from closure of 15 terminals; accounted for 4% of revenue in FY19

Concor will give back the land to IR for 15 terminals and close them. The impact of this action will be insignificant, as these terminals contributed to only c.4% of Concor's total revenue and 7 were not even profitable. Cargo volume from the other terminals has already been shifted to nearby terminals so the revenue impact would be less than 1% (see table on page 2).

Land lease cost will increase for remaining terminals – moving from variable to fixed

Concor will continue operations at its remaining 26 terminals. Earlier, there were media reports that Concor may buy out the land from IR before the divestment process, but with market-driven pricing for lease payments, the company may not do this, and will continue on an asset-light model. Concor will pay market rates, i.e., reference to a uniform rate of 6% of the market value of the land, as assessed by local revenue authorities. IR-leased terminals account for 40-45% volume for Concor. It paid land licence fees of Rs 1.8bn in FY19, which is c.2.8% of its revenue. With market rate, the annual lease cost will increase (estimated additional c.Rs 2bn annually) and it will be fixed-cost based on land area compared to the earlier variable-cost method (c.Rs 1,175 per container) linked to volumes handled.

Strong balance sheet will help gain market share in current challenging times

The government has disallowed a claim worth Rs 8.6bn out of a total claim of Rs 10.4 under the SEIS (Service Exports from India Scheme) export incentive until FY16-19, and Concor has not accounted for any SEIS income in FY20. It is hopeful of receiving SEIS income of c.Rs 1.7bn, and is waiting for clarity on the disallowed claim. Concor is debt-free, with a cash balance of c.Rs 25bn, which will help it to grow in these challenging times, while most other players have leveraged balance sheets. Due to the COVID-19 outbreak, long-distance cargo booking has shifted to IR, and Concor, with its storage facilities, is able to manage de-congestion at ports by evacuating cargo and storing it at its warehouses/ICDs – thereby gaining market share. The government has removed haulage charges for movement of empty containers and empty flat wagons from 24 March 2020 to 8 May 2020, which will help Concor to reduce costs and gain market share from road movement, particularly in the domestic market.

Outlook and valuation: We have cut our earnings by 22%/5% for FY21/22, considering: (1) increase in land-lease costs from FY21 and (2) further decline of 4% in container volumes estimate for FY21. EBITDA should fall 29% to Rs 10.9bn in FY21, and recover by 51% from a low base to Rs 16.5bn in FY22. We continue to value the company on DCF with a target of Rs 500 (earlier Rs 520). Maintain BUY.

BUY (Maintain)

CMP RS 355

TARGET RS 500 (+40%)

SEBI CATEGORY: LARGE CAP

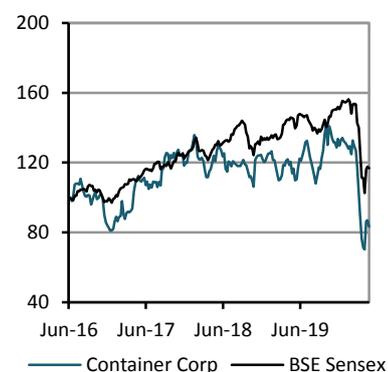
COMPANY DATA

O/S SHARES (MN) :	609
MARKET CAP (RSBN) :	214
MARKET CAP (USDBN) :	2.8
52 - WK HI/LO (RS) :	665 / 263
LIQUIDITY 3M (USDMMN) :	8.8
PAR VALUE (RS) :	10

SHARE HOLDING PATTERN, %

	Mar 20	Dec 19	Sep 19
PROMOTERS :	54.8	54.8	54.8
FII / NRI :	27.2	27.5	28.7
FI / MF :	12.7	13.2	12.2
NON PRO :	1.0	1.3	1.4
PUBLIC & OTHERS :	3.3	3.2	2.9

PRICE VS. SENSEX



Source: Phillip Capital India Research

KEY FINANCIALS

Rs mn	FY19	FY20E	FY21E
Net Sales	65,098	64,001	58,028
EBIDTA	14,079	15,413	10,918
Net Profit	12,154	9,069	6,113
EPS, Rs	19.9	14.9	10.0
PER, x	18.0	24.2	35.9
EV/EBIDTA, x	16.0	14.0	19.7
P/BV, x	2.1	2.1	2.1
ROE, %	11.7	8.8	5.8
Debt/Equity (%)	7.1	0.3	0.3

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Revenue impact will in insignificant with volume shift to nearby terminals

Sr No	Terminal Name	Turnover (FY19)Rs mn	Net Block Rs mn	Remark
1	Rewari	74	2	Rail handling facility is closed and land handed over to IR. Road-based terminal will continue and traffic will be cleared from Khatuwas railhead.
2	Ballabgarh	17	31	Business shifted to TKD/Delhi.
3	Babarpur	266	64	The existing traffic was diverted to newly developed MMLP Barhi.
4	Madhosingh	9	19	Not viable for business.
5	Desur	7	18	Railways have demanded land back.
6	Vishakhapatnam (CFCV)	12	23	The existing traffic of CFCV shifted to MMLP/Vishakhapatnam.
7	Raipur	219	141	The existing traffic of Raipur shifted to MMLP/Naya Raipur.
8	Sabarmati	514	38	The terminal handed over to IR on demand for development of National High Speed Rail Corridor (NHRCL). All traffic has been shifted to nearby MMLP Khodiyar.
9	Rourkela	78	21	Not viable for business.
10	Tata Nagar	22	7	Not viable for business.
11	Chinchwad	131	9	Not viable for business.
12	Miraj	1	3	Not viable for business.
13	Ratlam	9	36	Traffic has been shifted to newly developed nearby MMLP at TIHI/Indore.
14	Nagpur	1267	188	Nagpur traffic shifted to CONCOR's newly developed MMLP/MIHAN in Nagpur.
15	Bhusawal	149	48	Not viable for business.
Total		2775	648	
Out of total 15 terminals:				
Revenue of Rs mn		396	14%	Not viable for business / closed
Revenue of Rs mn		2378	86%	Shifted to other terminals

Source: Company, PhillipCapital

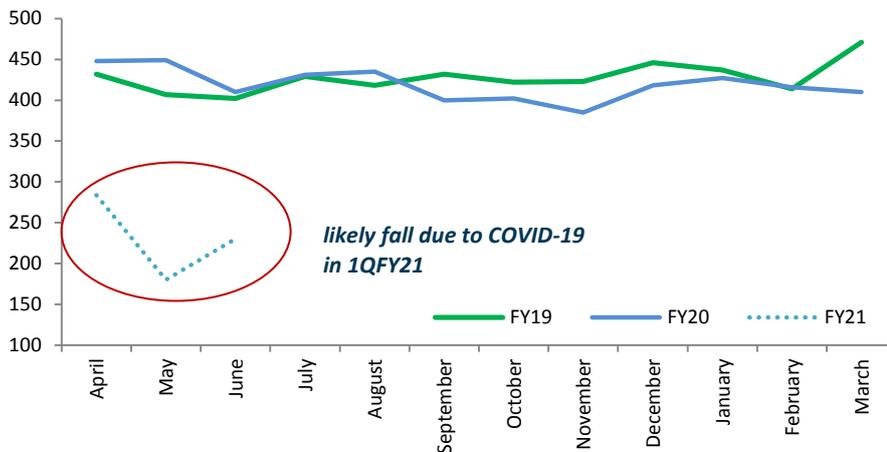
Declining volumes at JNPT and in global trade remain a concern

JNPT's container volumes fell 2% to 5mn TEU in FY20 (down c.13% in March 2020) vs. growth of c.2% in container volumes at all major ports. Losing market share is a concern, particularly after its capacity expansion and the rollout of its user-friendly DPD policy. The volume decline in April for JNPT was 37% with major impact on exports with a decline of 55%. The lead time in exports is very less compared to imports, so there was immediate impact on export volumes. As per our industry interaction, impact on imports was very less in April and was -5% to -20% while exports were down by -50% to -85%. As per our industry interaction, we believe fall in port container volumes will be in higher double digits and could be more than 50% in May 2020.

JNPT April 2020 volume update			yoy change
No of vessels	No	124	-15.6%
Import	TEU	186220	-20.2%
Export	TEU	97580	-54.6%
Total container	TEU	283800	-36.7%

Source: JNPT port, PhillipCapital

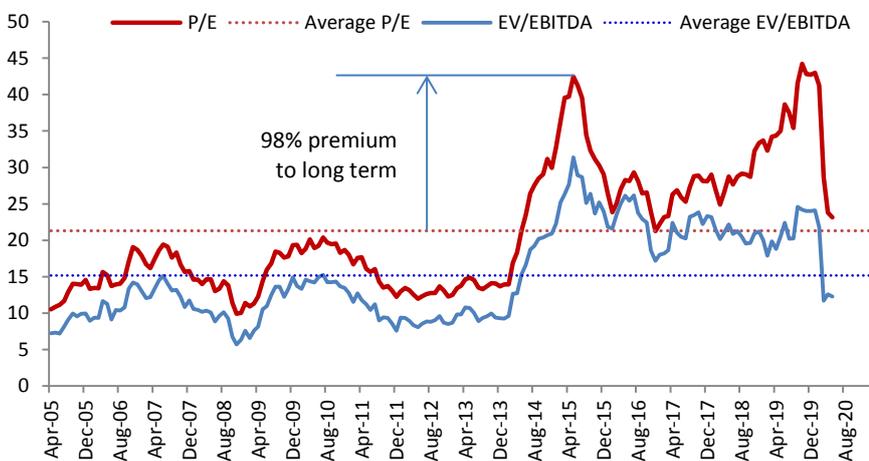
Concor has c.67% market share at JNPT container rail volume and it contributes c.33% to total volumes of the company.

Monthly container volume trend at JNPT ('000 TEU)


Source: JNPT port, PhillipCapital

Outlook and valuation

We have cut our earnings by 22% / 5% for FY21 / 22 considering: (1) increase in land lease cost from FY21 and (2) further decline of 4% in container volume estimate for FY21. We have assumed volume fall of 8.8% in in FY21 (earlier estimate of 4.8%) while we maintain volume estimates for FY22. EBITDA should fall 29% to Rs 11bn in FY21 and recover by 51% from a low base to Rs 16.5bn in FY22. We continue to value the company on DCF with a target of Rs 500 (Rs 520 earlier).

Concor valuation trend (one-year forward)


Source: PhillipCapital

Financials

Income Statement

Y/E Mar, Rs mn	FY19	FY20e	FY21e	FY22e
Net sales	65,098	64,001	58,028	70,734
Growth, %	10	-2	-9	22
Total income	65,098	64,001	58,028	70,734
Terminal and Service Charges	-37,314	-35,262	-31,736	-37,131
Employee expenses	-3,368	-3,452	-3,590	-3,949
Other Operating expenses	-10,337	-9,874	-11,784	-13,151
EBITDA (Core)	14,079	15,413	10,918	16,503
Growth, %	15.9	9.5	(29.2)	51.2
Margin, %	21.6	24.1	18.8	23.3
Depreciation	-4,246	-5,024	-5,264	-5,768
EBIT	9,833	10,389	5,654	10,735
Growth, %	19.6	5.7	(45.6)	89.9
Margin, %	15.1	16.2	9.7	15.2
Interest paid	-7	-330	-237	-244
Other Non-Operating Income	7,063	2,539	2,734	2,789
Pre-tax profit	16,888	12,598	8,151	13,279
Tax provided	-4,735	-3,530	-2,038	-3,320
Profit after tax	12,154	9,069	6,113	9,959
Net Profit	12,154	9,069	6,113	9,959
Growth, %	15.9	(25.4)	(32.6)	62.9
Net Profit (adjusted)	12,154	9,069	6,113	9,959
Unadj. shares (m)	609	609	609	609

Balance Sheet

Y/E Mar, Rs mn	FY19	FY20e	FY21e	FY22e
Cash & bank	1,704	3,623	4,126	1,699
Debtors	884	972	1,069	1,176
Inventory	233	256	281	309
Loans & advances	1,226	1,275	1,326	1,380
Other current assets	43,817	35,930	37,726	39,613
Total current assets	47,864	42,056	44,530	44,177
Investments	25,854	22,654	22,654	27,654
Gross fixed assets	75,293	83,698	91,198	98,698
Less: Depreciation	-33,346	-38,370	-43,634	-49,402
Add: Capital WIP	6,247	4,997	3,998	3,198
Net fixed assets	48,194	50,325	51,562	52,494
Total assets	1,21,911	1,15,035	1,18,746	1,24,325
Current liabilities	12,745	13,452	14,200	14,990
Provisions	719	777	839	906
Total current liabilities	13,464	14,229	15,039	15,896
Non-current liabilities	4,769	-1,852	-1,846	-1,839
Total liabilities	18,233	12,377	13,193	14,057
Paid-up capital	3,047	3,047	3,047	3,047
Reserves & surplus	1,00,633	99,611	1,02,506	1,07,227
Shareholders' equity	1,03,679	1,02,658	1,05,553	1,10,273
Total equity & liabilities	1,21,911	1,15,035	1,18,746	1,24,325

Source: Company, PhillipCapital India Research Estimates

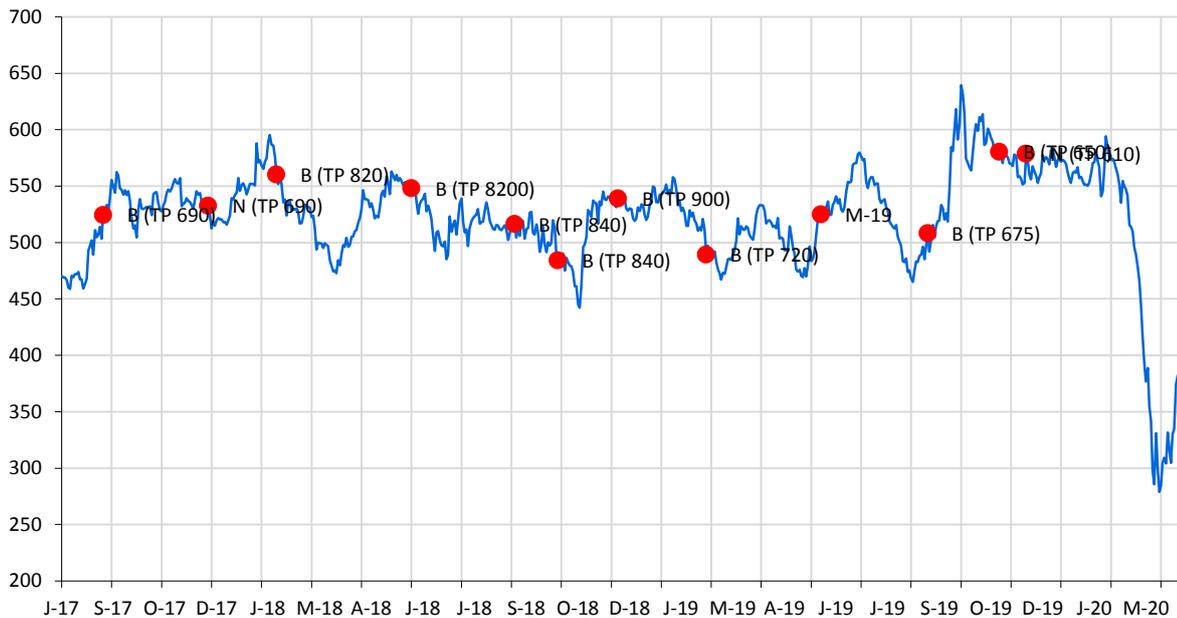
Cash Flow

Y/E Mar, Rs mn	FY19	FY20e	FY21e	FY22e
Pre-tax profit	16,888	12,598	8,151	13,279
Depreciation	4,246	5,024	5,264	5,768
Chg in working capital	-28,604	8,491	-1,161	-1,217
Total tax paid	-9,153	-3,150	-2,038	-3,320
Cash flow from operating activities	-16,623	22,964	10,216	14,511
Capital expenditure	-9,342	-7,156	-6,501	-6,700
Chg in investments	1,469	3,200	0	-5,000
Other investing activities	0	0	0	0
Cash flow from investing activities	-7,873	-3,956	-6,501	-11,700
Free cash flow	-24,496	19,009	3,716	2,810
Debt raised/(repaid)	7,097	-7,000	6	6
Dividend (incl. tax)	-6,131	-1,552	-3,219	-5,244
Cash flow from financing activities	1,576	-8,552	-3,212	-5,232
Net chg in cash	-22,920	10,456	503	-2,422

Valuation Ratios

	FY19	FY20e	FY21e	FY22e
Per Share data				
EPS (INR)	19.9	14.9	10.0	16.3
Growth, %	15.9	(25.4)	(32.6)	62.9
Book NAV/share (INR)	170.2	168.5	173.2	181.0
FDEPS (INR)	19.9	14.9	10.0	16.3
CEPS (INR)	26.9	23.1	18.7	25.8
CFPS (INR)	(38.9)	33.5	12.3	19.2
DPS (INR)	8.6	2.2	4.5	7.4
Return ratios				
Return on assets (%)	10.8	7.8	5.3	8.3
Return on equity (%)	11.7	8.8	5.8	9.0
Return on capital employed (%)	15.6	12.8	8.1	12.5
Turnover ratios				
Asset turnover (x)	1.0	0.8	0.8	0.9
Sales/Total assets (x)	0.6	0.5	0.5	0.6
Sales/Net FA (x)	1.4	1.3	1.1	1.4
Working capital/Sales (x)	0.5	0.4	0.5	0.4
Receivable days	5.0	5.5	6.7	6.1
Inventory days	1.3	1.5	1.8	1.6
Payable days	25.1	28.2	31.1	28.9
Working capital days	187.4	142.5	164.8	141.8
Liquidity ratios				
Current ratio (x)	3.8	3.1	3.1	2.9
Quick ratio (x)	3.7	3.1	3.1	2.9
Dividend cover (x)	2.3	6.8	2.2	2.2
Total debt/Equity (%)	7.1	0.3	0.3	0.3
Net debt/Equity (%)	5.4	(3.2)	(3.6)	(1.2)
Valuation				
PER (x)	18.0	24.2	35.9	22.0
PEG (x) - y-o-y growth	1.1	(1.0)	(1.1)	0.4
Price/Book (x)	2.1	2.1	2.1	2.0
Yield (%)	2.4	0.6	1.3	2.0
EV/Net sales (x)	3.5	3.4	3.7	3.1
EV/EBITDA (x)	16.0	14.0	19.7	13.2
EV/EBIT (x)	22.9	20.8	38.1	20.3

Stock Price, Price Target and Rating History



Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year. We have different threshold for large market capitalisation stock and Mid/small market capitalisation stock. The categorisation of stock based on market capitalisation is as per the SEBI requirement.

Large cap stocks

Rating	Criteria	Definition
BUY	$\geq +10\%$	Target price is equal to or more than 10% of current market price
NEUTRAL	$-10\% > \text{to} < +10\%$	Target price is less than +10% but more than -10%
SELL	$\leq -10\%$	Target price is less than or equal to -10%.

Mid cap and Small cap stocks

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$-15\% > \text{to} < +15\%$	Target price is less than +15% but more than -15%
SELL	$\leq -15\%$	Target price is less than or equal to -15%.

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