ADD
TP: Rs 530 | ▲ 12%

CONTAINER CORP OF INDIA | Logistics | 14 August 2019

Annual report analysis: Well-rounded FY19 – raise to ADD

Container Corp (CCRI) posted a well-rounded performance in FY19. Steady volume growth, healthy core realisation gains and secular margin improvement were key positives, albeit tempered by EXIM market share losses and negative OCF/FCF generation. While FY20 is likely to be a challenging year in a slowing economy, we are upbeat on long-term prospects aided by an impending DFC boost. Post the recent stock correction, we are more comfortable on valuations – raise from REDUCE to ADD with an unchanged Jun'20 TP of Rs 530 (25x P/E).

Sayan Das Sharma
research@bobcaps.in

Bolstering multi-modal capabilities: Management's commentary in the FY19 Annual Report clearly reflects CCRI's commitment towards bolstering its multi-modal capabilities. In FY19, the company started coastal shipping operations, identified strategic locations for launching distribution logistics centres, and also embarked on international ventures. Further, it launched proactive initiatives such as extension of free storage in ICDs, timely increases in freight/service charges, and development of terminals along the DFC route.

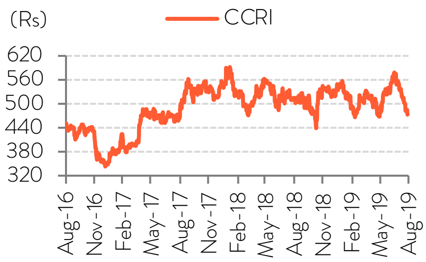
FY19 – more hits than misses: The annual report points to improvement on most fronts for CCRI – (1) volume growth at a steady 8% on the heels of a healthy FY18; (2) core realisation (per TEU-km) gains of 4%, (3) 110bps expansion in EBITDA margin led by 200bps/90bps increase in EXIM/domestic margins, and (4) improvement in ROE/ROCE by 60bps/70bps. Key negatives included (1) 210bps/170bps dip in EXIM market share in tonnage/tkm terms, and (2) negative OCF/FCF due to advance freight payment of Rs 30bn to the IR.

Upgrade to ADD: A subdued demand climate notwithstanding, CCRI is well placed to capitalise on DFC-led opportunities. After the recent correction in stock price, valuations appear more appealing at ~21x one-year forward P/E, prompting us to upgrade the stock to ADD.

Ticker/Price	CCRI IN/Rs 474
Market cap	US$ 4.1bn
Shares o/s	609mn
3M ADV	US$ 5.8mn
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	12,384	12,467	15,372
Adj. EPS (Rs)	17.4	19.9	20.3	20.5	25.2
Adj. EPS growth (%)	12.4	14.5	1.9	0.7	23.3
Adj. ROAE (%)	11.7	12.3	11.5	10.8	12.3
Adj. P/E (x)	27.2	23.8	23.3	23.2	18.8
EV/EBITDA (x)	22.6	19.1	17.5	13.8	11.2

Source: Company, BOBCAPS Research

Management commentary: Key highlights

Coastal shipping attains full utilisation; generated ~Rs 380mn in Q1FY20

- **Bolstering multi-modal capabilities:** Management commentary in CCRI's FY19 annual report clearly reflects its focus on augmenting multi-modal capabilities, as under –
  - Coastal shipping operations were launched from Jan'19 on the West coast route of Kandla-Mangalore-Cochin-Tuticorin-Kandla by chartering two ships of 700teu capacity each. CCRI will also provide hinterland connectivity from these ports by rail and road, thus offering truly multi-modal service to customers. Operations from the East coast to Bangladesh will start soon.
  - Twenty nodes have been identified for new distribution logistics centres. CCRI intends to offer integrated 3PL/distribution logistics services to customers and has already set up a distribution centre at Ennore, Chennai.
  - Plans are underway to enter the inland waterways space.
- **Expanding geographic presence:** Geographic expansion appears to be another cornerstone of CCRI's future strategy –
  - Aims to develop ICDs in Egypt in consortium with PSA of Singapore and a local partner, namely Hassan Alam of Egypt.
  - Exploring possibilities for extending logistics services to Russia, for which an MOU has been signed between CCRI and JSC RZD Logistics of Russia.
  - Started providing container train services to Bangladesh. Plans to also start a new route to carry the transit cargo of Nepal (Batnaha-Jogbani-Biratnagar) through India's gateway ports.

Plans to add 8-10 terminals in FY20 and have ~100 terminals in next 2-3 years

- **Gearing up further for DFC:** CCRI continues to strengthen its terminal and rolling stock infrastructure to fully gear up for the dedicated freight corridor (DFC). It aims to add 8-10 terminals to its existing infrastructure of 83 terminals, taking the count to 100 within the next 2-3 years, besides adding higher capacity rakes and wagons.
- **Emphasis on technology:** To complement its service offerings, management is heavily emphasising technology adoption and has moved to a new terminal management system, "know your container location" service for customers, and e-payments of contractor bills. A mobile app for first-mile/last-mile connectivity will be launched shortly.

- **Demand climate challenging:** The demand climate is difficult, underpinned by slower global growth, escalating trade wars and a widening import-export gap – the latter marked by slower import growth – which affected logistics services for EXIM trade. As per management, despite these adversities CCRI has performed well in FY19 due to its innovative, dynamic approach and committed team.

- **Participation in IR's advance freight scheme:** In FY19, CCRI participated in the advance freight scheme of the Indian Railways (IR). Under the scheme, CCRI paid an advance fee of Rs 30bn to the IR in Mar'19 (with another Rs 15bn scheduled for Sep'19), which insulates it from any haulage charge increase by the IR during FY20. CCRI has extended this benefit to its customers, along with the assurance of no increase in handling/warehousing charges as well. This has garnered a positive customer response, as per the company.

MOU with Kandla Port provides CCRI with exclusive rail access

- **Exclusive access MOU with Kandla port:** CCRI has signed an MOU with Kandla port in Aug'18 giving it exclusive rail access to run container rakes between Kandla and various ICDs for EXIM movement.

- **Terminal expansion progressing well:** Three terminals have been completed during FY19, namely CFS Bodhjungnagar (Tripura), MMLP Krishnapatnam (Andhra Pradesh), and MMLP Barhi (Haryana).

- **Long-term opportunities across the spectrum:** CCRI believes that the long-term potential of the logistics industry is intact and sees opportunities for providing logistics services for air cargo, bulk transportation of commodities, food supply chain management, distribution logistics, and integrated logistics and manufacturing zones.

Analysis of annual financial statements

We have analysed CCRI's standalone annual report and present the key takeaways in this section.

Volume analysis

Growth softened in H2FY19 after a strong H1

Handling volume growth slowed to 5% in H2, from 12% in H1

- During FY19, CCRI reported an 8.4%/4.5% increase in handling/originating volumes, in TEU terms. This was lower than FY18 growth of 14%/10% as the macro slowdown deepened in H2FY19.
- Domestic volumes continued to outpace EXIM for the second consecutive year, buoyed by management's focus on the segment. EXIM/domestic handling volumes grew 8.1%/10.2% in FY19; originating volumes grew 4.1%/7.4%.
- CCRI has witnessed a surge in export of commodities such as stainless steel, soybean, paper, furniture, coir products and fabric. Import of commodities such as solar modules, waste paper, aluminum scraps, auto parts, plastic goods and polyester goods increased during the year.
- Imports declined for teak logs, furniture, float glass, printing paper and heavy metal scraps.

FIG 1 – HANDLING AND ORIGINATING VOLUMES

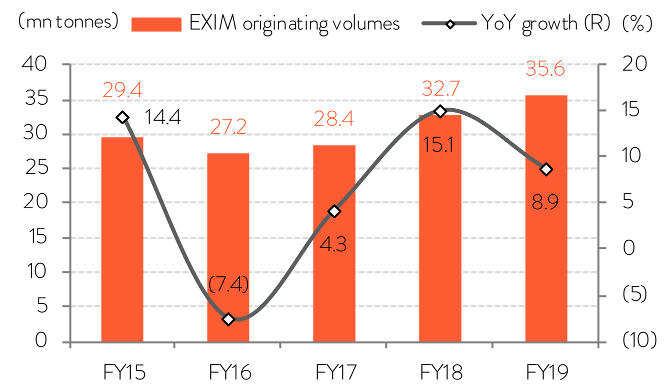
(mn teu)	FY15	FY16	FY17	FY18	FY19
Handling volumes					
EXIM	2.62	2.48	2.64	3.00	3.25
YoY growth (%)	11.0	(5.6)	6.7	13.6	8.1
Domestic	0.49	0.45	0.46	0.53	0.58
YoY growth (%)	(3.5)	(8.4)	2.8	15.1	10.2
Total	**3.11**	**2.92**	**3.10**	**3.53**	**3.83**
YoY growth (%)	8.4	(6.0)	6.1	13.9	8.4
Originating volumes					
EXIM	1.94	1.80	1.85	2.03	2.11
YoY growth (%)	-	(7.3)	2.9	9.5	4.1
Domestic	0.24	0.22	0.23	0.27	0.29
YoY growth (%)	-	(9.3)	3.2	17.0	7.4
Total	**2.18**	**2.02**	**2.08**	**2.29**	**2.39**
YoY growth (%)	-	(7.5)	2.9	10.3	4.5

Source: Company, BOBCAPS Research

Originating volume grew 8.8% YoY in tonnage terms

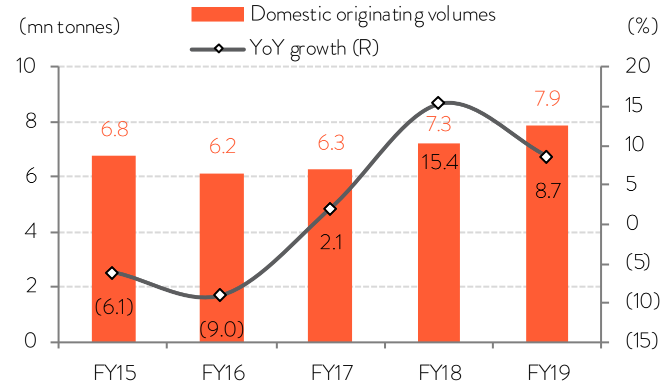
- In tonnage terms, total originating volume growth slowed to 8.8% YoY in FY19 from 15.2% in FY18. CCRI carried a total of 43.5mn tonnes (mt) of container cargo, up from 40mt in FY18.
- EXIM/domestic originating volumes grew 8.9%/8.7% in tonnage terms.

FIG 2 – EXIM ORIGINATING VOLUMES GREW 8.9% TO 35.6MN TONNES



Source: Company, BOBCAPS Research

FIG 3 – DOMESTIC VOLUMES POSTED SIMILAR GROWTH OF 8.7% YOY TO 7.9MN TONNES



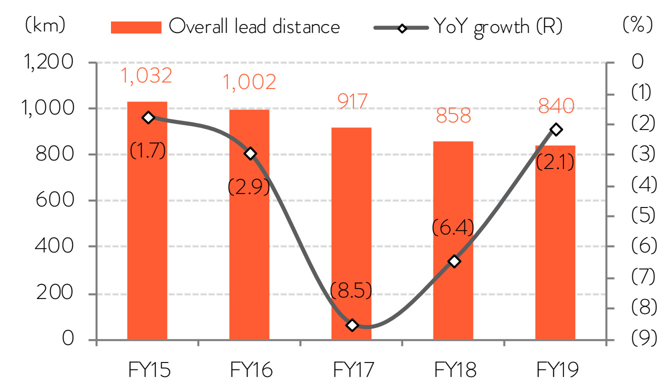
Source: Company, BOBCAPS Research

Resilient lead distance supports steady NTKM growth

Lead distance declined less than the previous two years

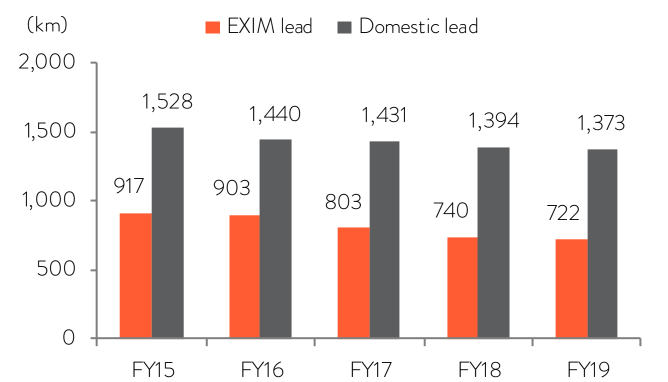
- After two consecutive years of sharp decline (–9%/–6% in FY17/FY18), CCRI's average lead distance showed higher resilience in FY19, declining by a comparatively moderate 2% to 840km.
- Average EXIM/domestic lead distances reduced to 722km/1,373km from 740km/ 1,394km.
- Higher volumes aided originating net-tonne-kilometre (NTKM) growth of 6.5% YoY to 36.5bn. EXIM/domestic NTKM grew 6%/7%.

FIG 4 – LEAD DISTANCE DECLINE EASED



Source: Company, BOBCAPS Research

FIG 5 – EXIM AND DOMESTIC LEAD DISTANCE WERE COMPARATIVELY MORE RESILIENT



Source: Company, BOBCAPS Research

FIG 6 – NTKM AND TEU KM

	FY15	FY16	FY17	FY18	FY19
NTKM (mn) – on originating volumes					
EXIM	26,978	24,598	22,813	24,198	25,703
YoY growth (%)	7.0	(8.8)	(7.3)	6.1	6.2
Domestic	10,345	8,870	9,001	10,120	10,833
YoY growth (%)	(8.1)	(14.3)	1.5	12.4	7.0
Total	**37,323**	**33,468**	**31,814**	**34,318**	**36,536**
YoY growth (%)	7.9	(10.3)	(4.9)	7.9	6.5
TEU kms (mn) – on handling volumes					
EXIM	2,404	2,236	2,121	2,221	2,343
YoY growth (%)	3.9	(7.0)	(5.1)	4.7	5.5
Domestic	748	645	659	739	802
YoY growth (%)	(5.6)	(13.7)	2.1	12.1	8.6
Total	**3,152**	**2,881**	**2,780**	**2,960**	**3,145**
YoY growth (%)	4.6	(8.6)	(3.5)	6.5	6.2

Source: Company, BOBCAPS Research

Market share analysis

EXIM share dips; domestic rises

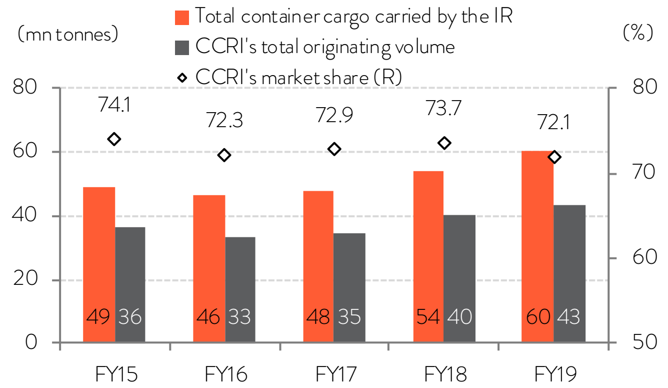
Volume market share dipped 160bps to 72.1% owing to decline in EXIM share

- CCRI' market share in container traffic carried by the Indian Railways (originating volumes) dipped to 72.1% from 73.7% in FY18. This stemmed from a 190bps market share loss in the EXIM segment, while the company gained 20bps share in the domestic segment.
- This market share loss was more pronounced in Q1FY20, where total share dipped further to 67.6% (EXIM/domestic down to 68.3%/64.2%).
- As clarified by management in the Q1 earnings call, the company lost ground mainly due to (1) the aggressive pricing strategy adopted by some private container train operators (PCTO) on particular routes, (2) CCRI's conscious decision not to pursue this low-margin business, and (3) an increase in short-haul demand which it does not cater to owing to unfavourable dynamics.

Higher price differential could have played a role in market share loss

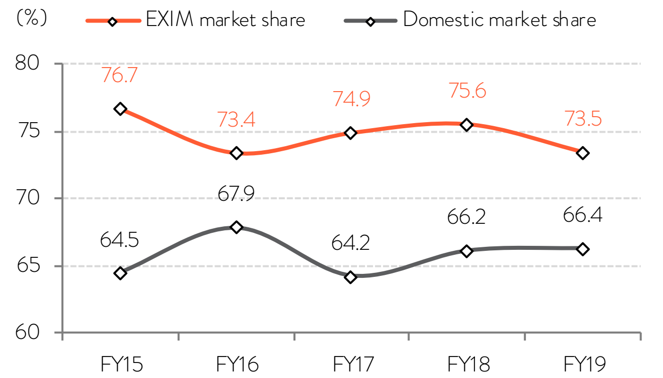
- We believe another contributing factor is the higher pricing differential between CCRI and the PCTOs, after the two price hikes taken by the former in FY19.
- Q1 volumes were muted (–1% YoY) and we expect subdued growth for Q2 as well, but improvement from Q3 onwards.

FIG 7 – LOST MARKET SHARE IN TOTAL CONTAINER TRAFFIC CARRIED BY INDIAN RAILWAYS



Source: Company, Indian Railways, BOBCAPS Research

FIG 8 – DOMESTIC MARKET SHARE STEADY, EXIM FALLS

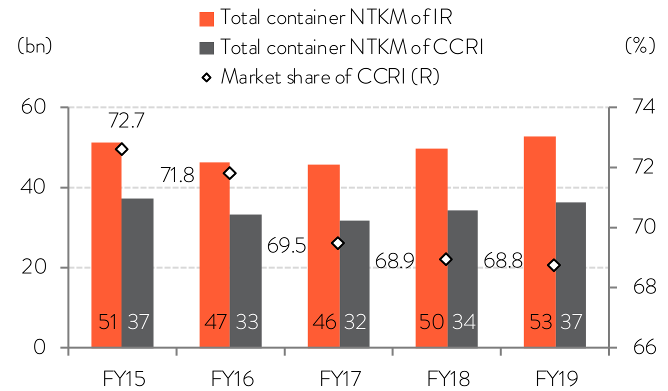


Source: Company, Indian Railways, BOBCAPS Research

FY19 NTKM share more resilient – domestic gained 3.7% share; EXIM lost 1.5%

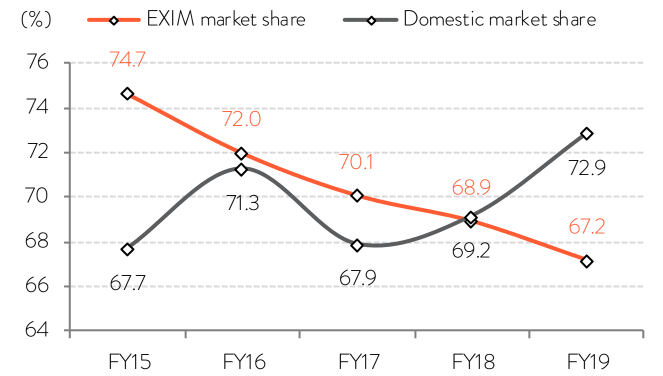
- Market share was more resilient in NTKM terms for FY19, at 68.8% vs. 68.9% in FY18, as the decline in lead distance for CCRI was lower than that for IR (–2% vs. –4%).
- EXIM NTKM share continued to decline, reaching 67.2% in FY19. Domestic market share leaped to 72.9% (+370bps YoY), led by a smaller drop in lead distance (–1.5% vs. –6% for IR) and higher volume share.

FIG 9 – MARKET SHARE STEADY IN NTKM TERMS AT 68.8%



Source: Company, Indian Railways, BOBCAPS Research

FIG 10 – EXIM NTKM MARKET SHARE CONTINUES TO DIP; DOMESTIC SHARE LEAPED 370BPS



Source: Company, Indian Railways, BOBCAPS Research

Revenue analysis

Core realisation maintains upward trajectory

Core realisation (adj. for lead distance) grew 4.4%/2.6% for EXIM/domestic segments

- CCRI's per TEU realisation continued to improve, growing at 2.1% YoY in FY19. This was aided by two rounds of price hikes – freight rate increase of Rs 1,000/teu in May'18 and service charge hike of Rs 1,500/teu in Aug'18.
- EXIM/domestic realisations scaled up 1.9%/2.2% in FY19.
- The upward trend is more pronounced in core realisations (TEU/km adjusted for lead distance) which rose 4.3% YoY, with increases of 4.4%/2.6% for the EXIM/domestic segments.
- The company has participated in IR's advance freight scheme in FY20, which insulates it from any haulage charge increase for the year. CCRI has passed on the benefit to customers by offering them price stability for the year, after an initial price increase of ~4%. Accordingly, we expect a similar increase in core realisation in FY20.

FIG 11 – FIG 11 – SERVICE-WISE REVENUE MIX

(Rs)	FY15	FY16	FY17	FY18	FY19
Per TEU					
Overall realisation/teu	**17,954**	**19,397**	**17,320**	**16,651**	**16,999**
YoY growth (%)	3.3	8.0	(10.7)	(3.9)	2.1
EXIM realisation/teu	16,986	18,482	16,019	15,212	15,498
YoY growth (%)	3.8	8.8	(13.3)	(5.0)	1.9
Domestic realisation/teu	23,141	24,449	22,831	24,801	25,338
YoY growth (%)	4.9	5.6	(6.6)	8.6	2.2
Per TEU km					
Overall realisation/teu/km	**17.4**	**19.4**	**18.9**	**19.4**	**20.2**
YoY growth (%)	5.1	11.3	(2.4)	2.8	4.3
EXIM realisation/teu/km	18.5	20.5	19.9	20.6	21.5
YoY growth (%)	10.9	10.5	(2.5)	3.1	4.4
Domestic realisation/teu/km	15.1	17.0	16.0	17.8	18.5
YoY growth (%)	5.9	6.8	(7.9)	10.4	2.6

Source: Company, BOBCAPS Research

Revenue mix largely stable ex-warehousing

- Standalone revenue (ex-SEIS income) increased 10.5% to Rs 65bn in FY19.
- The revenue mix was largely stable with rail freight income growing 9.1%. Road freight/handling income grew faster at 16%/13%, albeit off a lower base.

Warehousing revenue fell due to extension in free storage period to 45 days at terminals

- Warehousing revenue decreased to Rs 1.6bn from Rs 2.5bn in FY18 after CCRI started offering 45 days of free storage at its EXIM terminals from Sep'19 onwards.
- Other operating income (ex-SEIS) increased to Rs 3.3bn from Rs 1.5bn in FY18.

FIG 12 – SERVICE WISE REVENUE MIX

(Rs mn)	FY15	FY16	FY17	FY18	FY19
Rail freight income	43,479	45,587	42,818	47,348	51,656
Road income	1,697	1,588	1,490	1,774	2,063
Handling income	6,089	5,774	5,920	6,642	7,519
Storage/Warehousing	3,576	3,398	3,129	2,534	1,620
Total sale of service	54,841	56,347	53,356	58,298	62,858
Other operating income	896	1,080	1,064	1,508	3,277
Discounts/rebates	-	(709)	(690)	(896)	(1,038)
Standalone revenue	**55,737**	**56,717**	**53,730**	**58,910**	**65,098**
YoY growth (%)					
Rail freight income	11.9	4.8	(6.1)	10.6	9.1
Road income	3.5	(6.5)	(6.2)	19.0	16.3
Handling income	12.7	(5.2)	2.5	12.2	13.2
Storage/Warehousing	11.6	(5.0)	(7.9)	(19.0)	(36.1)
Total sale of service	11.7	2.7	(5.3)	9.3	7.8
Other operating income	17.7	20.5	(1.5)	41.8	117.3
Discounts/rebates	-	NM	NM	NM	NM
Standalone revenue	**11.8**	**1.8**	**(5.3)**	**9.6**	**10.5**

Source: Company, BOBCAPS Research

Cost and margin analysis

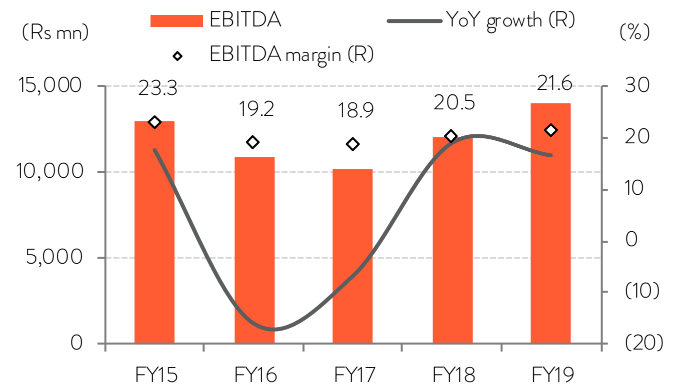
EBITDA margin expansion continues

- CCRI's EBITDA margin expanded 110bps to 21.6% (ex-SEIS income) in FY19, supported by higher volumes and lower terminal and service charges (down 140bps YoY). Rail freight margin expanded 220bps YoY to 27.8%.

Higher number of double-stacked trains contributed to EBITDA margin expansion

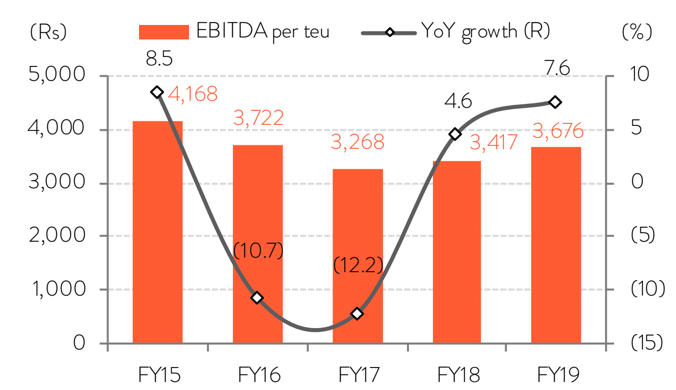
- Higher double stacking (~3,120 trains run vs. ~2,300 trains in FY18) and flat empty running costs at Rs 2.5bn are likely to have contributed to EBITDA margin gains as well.
- EBITDA per TEU also increased 7.6% YoY to Rs 3,676, driven by the factors mentioned above.

FIG 13 – EBITDA GREW 16.7% YOY TO RS 14BN



Source: Company, Indian Railways, BOBCAPS Research

FIG 14 – EBITDA/TEU IMPROVED BY ~8% YOY



Source: Company, Indian Railways, BOBCAPS Research

EXIM/domestic EBITDA margins expanded 200bps/ 90bps

- EXIM segment EBITDA (adjusted for SEIS income) increased 27% YoY to Rs 13.4bn. EBITDA margin expanded ~200bps to 26.6%.
- Domestic segment EBITDA grew 20% YoY to Rs 2.1bn. EBITDA margin for the segment expanded 90bps to 14.3%.

Rail freight margin expands, terminal and service charges dip as % of sales

- Total terminal and service charges increased 8.3% in FY19, translating into a 140bps dip as a percentage of total sales. The cost item was flat on a per TEU basis.

Rail freight margin expanded 220bps to 27.8%

- Rail freight expenses grew 5.9%, lower than the 9% growth in rail freight income, leading to 220bps expansion in rail freight margin to 27.8%. On a per TEU basis, rail freight expenses fell 2.3%, the second consecutive year of decline.
- Road and handling margins were down 30bps and 20bps respectively in FY19.

FIG 15 – BREAKUP OF TERMINAL AND OTHER SERVICE CHARGES

(Rs mn)	FY15	FY16	FY17	FY18	FY19
Rail freight expenses	32,397	36,443	33,381	35,220	37,314
Road freight expenses	1,344	1,210	1,177	1,348	1,574
Handling expenses	2,151	2,057	2,152	2,270	2,583
Land licence fee	1,178	1,035	1,716	1,572	1,833
Others	1,238	1,239	1,163	1,302	1,871
Total terminal and service charges	**38,308**	**41,984**	**39,588**	**41,712**	**45,175**
YoY growth (%)					
Rail freight expenses	9.7	12.5	(8.4)	5.5	5.9
Road freight expenses	4.6	(10.0)	(2.7)	14.5	16.8
Handling expenses	7.2	(4.3)	4.6	5.5	13.8
Land licence fee	3.9	(12.1)	65.7	(8.4)	16.6
Others	5.0	0.0	(6.1)	12.0	43.7
Total terminal and service charges	**9.1**	**9.6**	**(5.7)**	**5.4**	**8.3**

Source: Company, BOBCAPS Research

FIG 16 – SERVICE-WISE MARGINS

(%)	FY15	FY16	FY17	FY18	FY19
Rail freight margin	25.5	20.1	22.0	25.6	27.8
Road freight margin	20.8	23.8	21.0	24.0	23.7
Handling margin	64.7	64.4	63.6	65.8	65.6
Terminal and service charges as % of revenue	**68.7**	**74.0**	**73.7**	**70.8**	**69.4**

Source: Company, BOBCAPS Research

Employee expenses shoot up

Per employee cost increased 22% in FY19

- Employee expenses increased 21% in FY19, substantially higher than revenue growth, leading to a ~45bps YoY jump as a percentage of sales.
- While the employee count was marginally lower, per employee cost shot up by 22% which CCRI attributed to annual increments, promotions, increase in dearness allowance, provision of employee benefits, and performance-related pay on revised basis.
- This increase was also due to implementation of the third pay commission in H1FY19 (implemented from Q3FY18 onwards), along with higher provisions made in Q4FY19.

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FIG 17 – EMPLOYEE EXPENSES

Particulars	FY15	FY16	FY17	FY18	FY19
Total employee costs (Rs mn)	**1,579**	**1,568**	**1,869**	**2,779**	**3,368**
YoY growth (%)	27.9	(0.7)	19.2	48.7	21.2
As % of sales (%)	2.8	2.8	3.5	4.7	5.2
Total no. of employees	1,335	1,332	1,474	1,473	1,464
Addition/(reduction)	11	(3)	142	(1)	(9)
Cost per employee (Rs mn)	**1.2**	**1.2**	**1.3**	**1.9**	**2.3**
YoY growth (%)	26.8	(0.5)	7.7	48.8	21.9
Revenue per employee (Rs mn)	**41.8**	**42.6**	**36.5**	**40.0**	**44.5**
YoY growth (%)	10.9	2.0	(14.4)	9.7	11.2

Source: Company, BOBCAPS Research

SEIS income increases to Rs 3.7bn

- Income from the Service Export from India Scheme (SEIS) increased to Rs 3.7bn from Rs 2.8bn in FY18. However, CCRI is yet to receive any refund towards the SEIS income recognised over FY16-FY19. Total assets against the SEIS claim have swelled to Rs 10.5bn. Management remains confident of recovering this amount.
- Total other income (including SEIS) has increased to Rs 7bn. High non-operating income is attributable to miscellaneous income.

FIG 18 – OTHER INCOME INCLUDING SEIS

(Rs mn)	FY15	FY16	FY17	FY18	FY19
Interest income					
On loans given to employees	16	28	24	43	183
On loans given to wholly owned subsidiaries	183	147	133	129	70
On bank deposits	3,032	2,202	1,855	1,626	1,466
On tax free bonds	-	535	535	535	535
On security deposits given	-	3	3	0	0
Total interest income	**3,231**	**2,916**	**2,550**	**2,333**	**2,255**
Other non-operating income	362	259	342	693	1,088
Total non-operating income	**3,592**	**3,175**	**2,892**	**3,026**	**3,342**
SEIS income	**-**	**2,500**	**2,331**	**2,761**	**3,721**
Total other income	**3,592**	**5,675**	**5,223**	**5,787**	**7,064**

Source: Company, BOBCAPS Research

Unit dynamics: P&L on per TEU-km basis

FIG 19 – PER TEU-KM P&L

(Rs per TEU-km)	FY15	FY16	FY17	FY18	FY19	FY16	FY17	FY18	FY19
Volume (mn TEU)	**3.1**	**2.9**	**3.1**	**3.5**	**3.8**	-	-	-	-
Overall lead distance (km)	1,032	1,002	917	858	840	-	-	-	-
	(Rs/TEU-km)					YoY growth (%)			
Revenue	**17.4**	**19.4**	**18.9**	**19.4**	**20.2**	**11.5**	**(2.4)**	**2.9**	**4.1**
Terminal and service charges	11.9	14.3	13.9	13.8	14.0	20.1	(2.9)	(1.1)	2.0
Gross profit	**5.4**	**5.0**	**5.0**	**5.7**	**6.2**	**(7.4)**	**(1.1)**	**14.2**	**9.1**
Employee expenses	0.5	0.5	0.7	0.9	1.0	8.8	22.7	39.6	14.2
Other expenses	0.9	0.8	0.8	0.8	0.8	(13.4)	(3.6)	3.4	(0.8)
Total expenses	13.3	15.6	15.3	15.5	15.9	17.4	(2.0)	0.9	2.6
EBITDA	**4.0**	**3.7**	**3.6**	**4.0**	**4.4**	**(8.0)**	**(4.1)**	**11.7**	**9.9**
Depreciation	1.2	1.2	1.2	1.3	1.3	2.2	4.2	4.8	1.9
EBIT	**2.9**	**2.5**	**2.3**	**2.7**	**3.1**	**(12.2)**	**(7.9)**	**15.4**	**13.8**
Interest	-	0.0	0.0	0.0	0.0	-	NM	NM	NM
Other income	1.1	1.9	1.8	1.9	2.2	73.1	(5.2)	4.0	15.0
PBT	**4.0**	**4.5**	**4.2**	**4.6**	**5.3**	**11.7**	**(7.0)**	**10.7**	**14.2**
Tax	0.9	1.0	0.8	1.1	1.5	3.5	(14.5)	31.5	34.9
PAT	**3.1**	**3.5**	**3.3**	**3.5**	**3.8**	**14.2**	**(5.0)**	**5.5**	**7.8**

Source: Company, BOBCAPS Research

Balance sheet analysis

Core working capital cycle well managed

Core working capital cycle remains negative

- CCRI improved its already strong cash conversion cycle even further in FY19. While receivables/inventory remained under control at 5 days/1 day, payable days increased to 20 from 16 days, aiding an improvement in core working capital.

FIG 20 – CORE WORKING CAPITAL CYCLE FIRMLY UNDER CONTROL

Days	FY15	FY16	FY17	FY18	FY19
Debtor days	3	3	3	4	5
Payable days	13	12	16	16	20
Inventory days	1	1	2	2	1
Cash conversion cycle	**(9)**	**(8)**	**(12)**	**(10)**	**(13)**
Core working capital (Rs mn)	**(1,316)**	**(1,198)**	**(1,765)**	**(1,664)**	**(2,388)**

Source: Company, BOBCAPS Research

Advance payment to IR derails operating and free cash flow

Advance payment of Rs 30bn to IR dented operating and free cash flow generation

- CCRI's operating cash flow was dented by its decision to participate in the IR's advance freight scheme.
- The advance payment of Rs 30bn for this scheme has been recognised as a current asset on the balance sheet, depleting working capital. Consequently, despite better core working capital, operating cash flow was negative at Rs 13.5bn and free cash flow was also in the red at Rs 22.7bn.
- Adjusted for the advance payment, EBITDA to OCF conversion remains strong at ~120%, similar to FY18 levels (~140%).

FIG 21 – CASH FLOW ANALYSIS

(Rs mn)	FY15	FY16	FY17	FY18	FY19
Change in core working capital	39	(118)	567	(101)	724
Change in other current liabilities	421	312	1,234	2,041	1,231
Change in provisions	(1,142)	(22)	179	18	16
Change in current assets	4,731	(1,883)	(4,916)	(2,152)	(33,073)
Change in loans/adv and others	(9,149)	(2,727)	(2,502)	2,838	1,327
Changes in total working capital	**(5,101)**	**(4,438)**	**(5,438)**	**2,645**	**(29,775)**
Adjusted PAT	9,819	10,237	9,445	10,619	12,154
Depreciation	3,727	3,478	3,518	3,927	4,246
Interest expenses	0	2	37	1	7
Other non-cash adjustments	(522)	735	(983)	(549)	(117)
Operating cash flow	**7,924**	**10,013**	**6,580**	**16,643**	**(13,485)**
Capital expenditure	(2,037)	(5,892)	(9,155)	(8,352)	(9,245)
Free cash flow	**5,887**	**4,121**	**(2,575)**	**8,291**	**(22,730)**

Source: Company, BOBCAPS Research

DuPont analysis: Margin gains led to ROE improvement

Better margins drove ROE improvement to 12.3% from 11.7% in FY18

- In FY19, CCRI's ROE improved to 12.3% from 11.7% in FY18. As depicted below, this ROE uptick stemmed from margin improvement and a slight increase in leverage.
- These gains were marginally offset by higher tax outgo – the effective tax rate increased to 28% from 24% a year ago.

FIG 22 – DUPONT ANALYSIS BREAKDOWN

	FY15	FY16	FY17	FY18	FY19
EBIT margin (%)	16.6	13.1	12.3	13.8	15.1
Interest/other income (PBT/EBIT) (x)	1.4	1.8	1.8	1.7	1.7
Tax burden (PAT/PBT) (x)	0.8	0.8	0.8	0.8	0.7
Total asset turnover (revenue/assets) (x)	0.7	0.7	0.6	0.6	0.6
Equity multiplier (assets/equity) (x)	1.0	1.0	1.0	1.0	1.1
ROE (%)	**13.4**	**12.8**	**11.0**	**11.7**	**12.3**

Source: Company, BOBCAPS Research

Leverage rises but balance sheet quality intact

Repaid the FY19 short-term debt of Rs 7bn in Q1FY20

- Notwithstanding a temporary increase in debt, CCRI's balance sheet quality remains firmly intact.
- The decision to participate in IR's advance freight scheme fuelled an increase in short-term debt. CCRI thus turned net debt positive for the first time in many years.
- The company has repaid the short-term debt in Q1FY20 from cash flows generated by the business during the quarter. But if it decides to participate in the freight scheme in FY21 as well, it may require debt depending on the amount of advance paid.

FIG 23 – LEVERAGE POSITION REMAINS COMFORTABLE

(Rs mn)	FY15	FY16	FY17	FY18	FY19
Gross debt	230	467	373	334	7,310
Cash and cash equivalents	25,879	24,371	16,835	19,817	1,704
Net debt	(25,649)	(23,903)	(16,462)	(19,483)	5,606
Net debt-EBITDA (x)	**(2.0)**	**(2.2)**	**(1.6)**	**(1.6)**	**0.4**

Source: Company, BOBCAPS Research

FIG 24 – GROSS BLOCK SCHEDULE

(Rs mn)	FY16	FY17	FY18	FY19
Leasehold land	130	130	130	130
Freehold land	253	2,106	2,765	4,482
Buildings	7,768	11,151	13,694	16,864
Plant & machinery	21,226	24,288	26,511	30,594
Furniture and fixtures	415	572	950	1,039
Office equipment	825	959	1,192	1,408
Vehicles	18	2	3	3
Others	655	1,275	1,871	2,297
Total	**31,289**	**40,483**	**47,116**	**56,818**

Source: Company, BOBCAPS Research

Other key aspects

- CCRI's related party transactions are mostly with IR/JVs, as part of the normal course of its business. Hence, we do not see anything of consequence in the related party transactions.

FIG 25 – MATERIAL RELATED PARTY TRANSACTIONS

(Rs mn)	FY17	FY18	FY19
Transaction with JVs	1,349	2,207	2,218
Transactions with employee trusts	233	394	449
Transactions with Govt. entities	34,640	36,688	39,086
Indian Railways	34,638	36,688	39,078
Others	2	-	8
Total	**36,222**	**39,289**	**41,752**

Source: Company, BOBCAPS Research

FIG 26 – CONTINGENT LIABILITY REMAINS SUBSTANTIAL

(Rs mn)	FY15	FY16	FY17	FY18	FY19
Outstanding letter of credit and bank guarantees	696	972	1,740	2,523	524
Bank guarantees/bid bonds for JVs and subsidiaries	1,676	955	-	-	150
Claims against the company not acknowledged	13,877	12,980	4,741	4,408	6,264
Disputed income tax liabilities	4,277	6,080	3,450	7,115	7,115
Service tax disputes	3,212	3,320		18	18
Others			3,658	7	7
Total	**23,737**	**24,305**	**13,589**	**14,070**	**14,077**

Source: Company, BOBCAPS Research

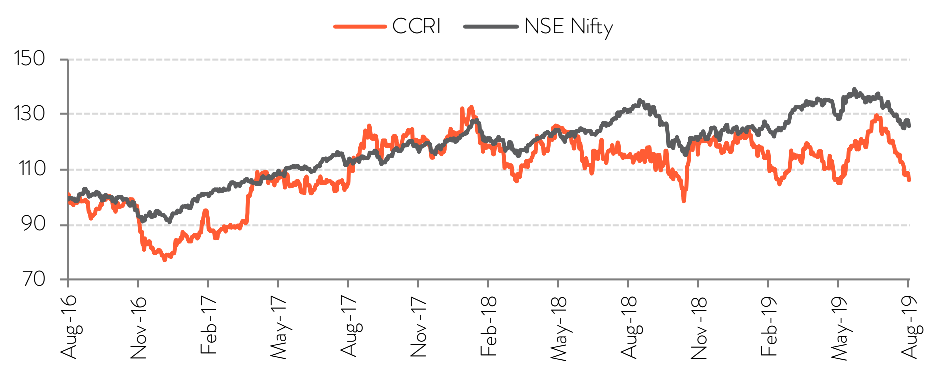
Valuation methodology

Broadly maintaining our earnings estimate, we continue to value CCRI's core operations using the P/E methodology. We retain our Jun'20 target price at Rs 530 which values (a) the core business at 24x P/E, slightly below its past five-year average of ~25x given the challenging near-term demand climate, and (b) investments in JVs and subsidiaries at Rs 10/sh (0.8x FY19 book value of investments).

The stock has been trading at premium valuations over the past five years – at an average one-year forward P/E multiple of ~25x – due to the anticipated boost from the upcoming western dedicated freight corridor. However, the recent ~20% correction in the stock over the past couple of months means that CCRI now trades at 21.3x one-year forward P/E. At current levels, valuations appear to be more comfortable, which prompts us to upgrade our rating to ADD from REDUCE.

While FY20 could be a challenging year, we believe CCRI remains the best placed to capitalise on DFC-related benefits due to its strong market positioning and superior asset portfolio.

FIG 27 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Key downside risks to our thesis are –

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

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	**58,910**	**65,098**	**72,872**	**84,723**	**99,721**
EBITDA	12,067	14,078	16,852	20,669	25,314
EBIT	8,141	9,833	12,241	15,529	19,395
Net interest income/(expenses)	(1)	(7)	(350)	0	0
Other income/(expenses)	5,787	7,064	5,308	1,786	1,955
Exceptional items	0	0	0	0	0
EBT	13,926	16,889	17,200	17,316	21,350
Income taxes	(3,307)	(4,735)	(4,816)	(4,848)	(5,978)
Extraordinary items	(129)	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	**10,490**	**12,154**	**12,384**	**12,467**	**15,372**
Adjustments	129	0	0	0	0
Adjusted net profit	**10,619**	**12,154**	**12,384**	**12,467**	**15,372**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	2,542	3,504	3,843	4,409	5,142
Other current liabilities	8,010	9,241	9,982	11,606	13,660
Provisions	704	719	803	933	1,099
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	1,08,682	1,16,785	1,26,777
Shareholders' fund	93,737	1,03,679	1,11,728	1,19,832	1,29,824
Total liabilities and equities	**1,05,327**	**1,24,453**	**1,26,356**	**1,36,781**	**1,49,725**
Cash and cash eq.	19,817	1,704	4,343	4,571	7,213
Accounts receivables	604	884	989	1,150	1,354
Inventories	274	233	260	303	356
Other current assets	11,418	44,491	36,258	36,381	36,536
Investments	13,890	14,029	14,029	14,029	14,029
Net fixed assets	36,384	41,879	53,515	60,376	66,457
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	18,509	21,519	25,328
Total assets	**1,05,327**	**1,24,453**	**1,26,356**	**1,36,781**	**1,49,725**

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	14,546	16,400	16,995	17,607	21,291
Interest expenses	1	7	350	0	0
Non-cash adjustments	(549)	(117)	0	0	0
Changes in working capital	2,645	(29,775)	7,289	(1,015)	(1,270)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	**16,643**	**(13,485)**	**24,633**	**16,592**	**20,022**
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)	(350)	0	0
Dividends paid	(4,992)	(6,280)	(4,334)	(4,364)	(5,380)
Other financing cash flows	(611)	3,458	0	0	0
Cash flow from financing	**(5,156)**	**4,756**	**(11,994)**	**(4,364)**	**(5,380)**
Changes in cash and cash eq.	**2,982**	**(18,113)**	**2,639**	**228**	**2,641**
Closing cash and cash eq.	**19,817**	**1,704**	**4,343**	**4,571**	**7,213**

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	17.2	19.9	20.3	20.5	25.2
Adjusted EPS	17.4	19.9	20.3	20.5	25.2
Dividend per share	8.2	10.3	7.1	7.2	8.8
Book value per share	153.8	170.2	183.4	196.7	213.1

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	4.6	4.1	4.0	3.4	2.9
EV/EBITDA	22.6	19.1	17.5	13.8	11.2
Adjusted P/E	27.2	23.8	23.3	23.2	18.8
P/BV	3.1	2.8	2.6	2.4	2.2

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	171.8	140.5	111.5	110.1
EBIT margin (EBIT/Revenue)	13.8	15.1	16.8	18.3	19.4
Asset turnover (Revenue/Avg TA)	62.8	62.2	64.2	71.8	78.4
Leverage (Avg TA/Avg Equity)	1.0	1.1	1.1	1.0	1.0
Adjusted ROAE	11.7	12.3	11.5	10.8	12.3

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	11.9	16.3	17.7
EBITDA	19.0	16.7	19.7	22.6	22.5
Adjusted EPS	12.4	14.5	1.9	0.7	23.3
Profitability & Return ratios (%)					
EBITDA margin	20.5	21.6	23.1	24.4	25.4
EBIT margin	13.8	15.1	16.8	18.3	19.4
Adjusted profit margin	18.0	18.7	17.0	14.7	15.4
Adjusted ROAE	11.7	12.3	11.5	10.8	12.3
ROCE	8.7	9.4	10.8	13.2	15.3
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	1.1	1.1	1.1
Current ratio	3.0	3.7	3.0	2.6	2.4
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

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

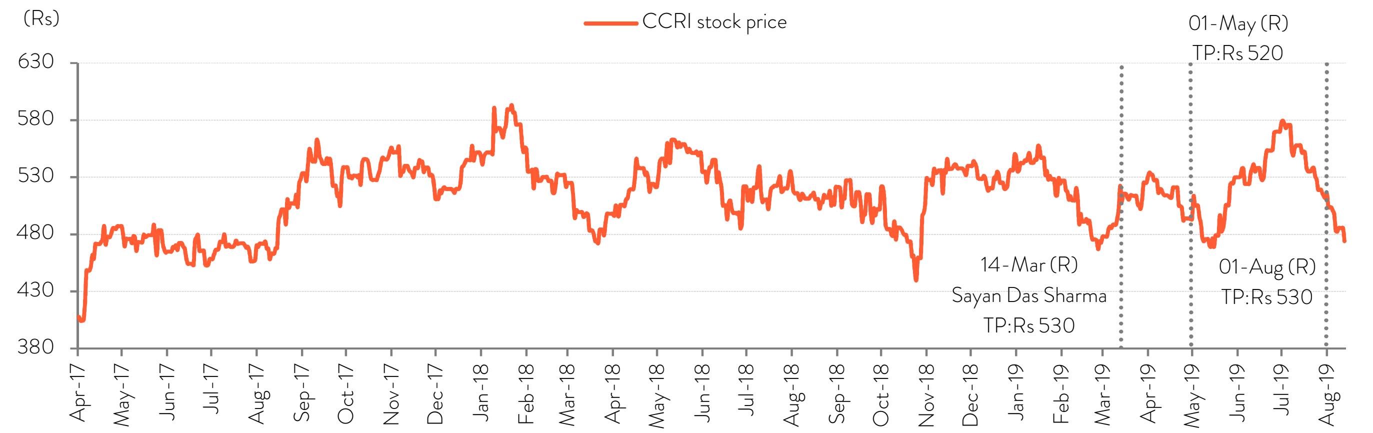
ADD – Expected return from >+5% to +15%

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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