

**ADD**

TP: Rs 420 | ▲ 13%

**CONTAINER CORP OF  
INDIA**

| Logistics

| 17 April 2020

## Trade slowdown, ICD land purchase to remain overhangs

The unprecedented trade slowdown triggered by Covid-19 clouds Container Corp's (CCRI) near-term prospects and has fuelled a 4% YoY drop in Q4FY20 volumes. Additionally, purchase of ICD land from Indian Railways remains an overhang on the stock till clarity emerges. We cut FY20-FY22 EPS by 4-21% baking in the Covid impact. Though we are yet to factor the land deal into estimates, we lower our target FY22E P/E multiple from 25x to 19x to reflect the business challenges. Our Mar'21 TP stands revised to Rs 420 (vs. Rs 630).

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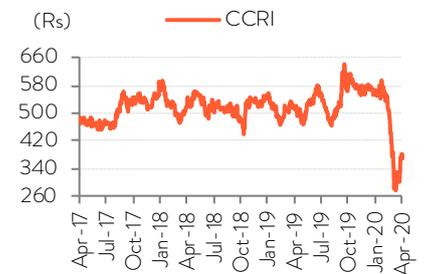
**Near-term growth visibility shrouded:** After a weak FY20 where volumes slipped 2%, CCRI's near-term prospects remain uncertain. The global spread of Covid-19 and the ensuing lockdown across major economies is likely to fuel a decline in container trade in CY20. India's EXIM trade has also nosedived 31% YoY in March, with April likely to be worse. Factoring in trade headwinds, we model for a 3% volume decline for CCRI in FY21.

Ticker/Price	CCRI IN/Rs 371
Market cap	US\$ 2.9bn
Shares o/s	609mn
3M ADV	US\$ 8.4mn
52wk high/low	Rs 666/Rs 263
Promoter/FPI/DII	55%/27%/13%

Source: NSE

**ICD land purchase a concern:** Purchase of inland container depot (ICD) land currently leased from rail authorities could put pressure on CCRI's fundamentals. Though finer details of the deal are awaited, media sources suggest the transaction could be at the circle rate (~Rs 80bn) or market rate (~Rs 165bn). In our view, the deal would be negative for CCRI in many ways as it could reduce return ratios, dilute balance sheet quality, and limit pricing flexibility. It can also potentially offset DFC benefits and remain an overhang on the stock.

## STOCK PERFORMANCE



**Moats intact, maintain ADD:** Despite the headwinds, CCRI's competitive edge – strategic network of terminals, market leadership and vast asset base – remains intact. It is also primed to benefit from the shift to rail from road catalysed by the DFC. Thus, we maintain ADD at our revised TP of Rs 420. Unfavourable land purchase price and delay in privatisation are key downside risks.

## KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	58,910	65,098	65,372	65,763	81,212
EBITDA (Rs mn)	12,067	14,078	14,773	15,582	20,412
Adj. net profit (Rs mn)	10,619	12,154	9,847	9,950	13,204
Adj. EPS (Rs)	17.4	19.9	16.2	16.3	21.7
Adj. EPS growth (%)	12.4	14.5	(19.0)	1.0	32.7
Adj. ROAE (%)	11.7	12.3	9.5	9.4	11.7
Adj. P/E (x)	21.3	18.6	23.0	22.7	17.1
EV/EBITDA (x)	17.1	14.8	14.8	14.5	10.5

Source: Company, BOBCAPS Research

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**FIG 1 – VOLUME DROP LIKELY IN FY21E, BEFORE BOUNCING BACK IN FY22E**



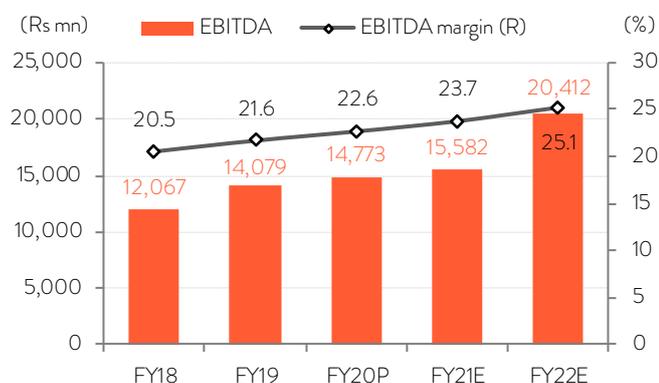
Source: Company, BOBCAPS Research

**FIG 2 – REVENUE GROWTH TO BE TEPID, REALISATION GROWTH KEY**



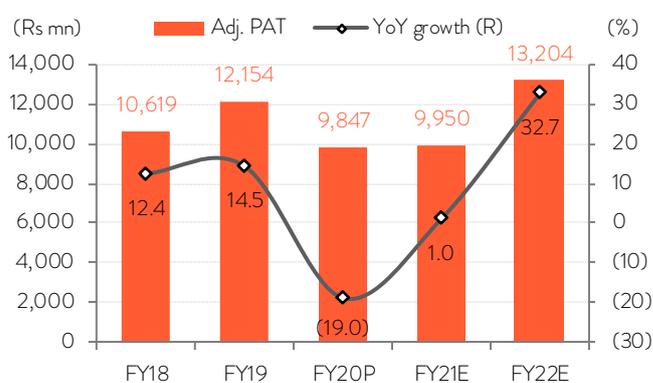
Source: Company, BOBCAPS Research

**FIG 3 – EBITDA MARGIN EXPECTED TO BE STEADY**



Source: Company, BOBCAPS Research

**FIG 4 – PAT GROWTH TO BE MUTED IN FY21E**



Source: Company, BOBCAPS Research

**FIG 5 – ICD LAND PURCHASE DEAL TO HAVE MATERIALLY ADVERSE IMPACT ON EARNINGS GROWTH, RETURN RATIOS, AND BALANCE SHEET QUALITY**

(Rs mn)	Without ICD land purchase		ICD land purchase – at circle rate		ICD land purchase – at market rate	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
<b>Land purchase price</b>	-		<b>80,000</b>		<b>165,000</b>	
Revenue	65,763	81,212	65,763	81,212	65,763	81,212
EBITDA	15,582	20,412	17,226	22,443	17,226	22,443
Interest	-	-	5,600	5,600	11,550	11,550
PBT	13,376	17,751	7,776	12,151	1,826	6,201
<b>PAT</b>	<b>9,950</b>	<b>13,204</b>	<b>5,786</b>	<b>9,040</b>	<b>1,359</b>	<b>4,614</b>
Net debt/EBITDA (x)	<b>Unlevered</b>		3.5	2.8	8.4	6.5
ROCE (%)	9.9	12.8	6.6	8.7	4.5	6.0
ROIC (%)	13.8	17.4	7.8	10.2	5.1	6.7

Source: Company, BOBCAPS Research | Assumed borrowing cost to be 7% | Circle rate and market rate as per media report

## Valuation methodology

Considering the lasting impact that Covid-19 is likely to have on global and Indian container trade, we reduce our FY20/FY21/FY22 earnings estimates by 4%/21%/14%. We have not built the proposed ICD land purchase into our estimates due to the lack of clarity on transaction value.

**FIG 6 – REVISED ESTIMATES – STANDALONE**

(Rs mn)	FY20E			FY21E			FY22E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenues	66,417	65,372	(1.6)	78,961	65,763	(16.7)	94,699	81,212	(14.2)
EBITDA	15,284	14,773	(3.3)	19,789	15,582	(21.3)	24,286	20,412	(15.9)
EBITDA margin (%)	23.0	22.6	(41bps)	25.1	23.7	(137bps)	25.6	25.1	(51bps)
PAT	10,227	9,847	(3.7)	12,523	9,950	(20.6)	15,370	13,204	(14.1)
EPS	16.8	16.2	(3.7)	20.6	16.3	(20.6)	25.2	21.7	(14.1)

Source: Company, BOBCAPS Research

Per media reports, Indian Railways was mulling sale of the ICD land parcels to CCRI at the circle rate (Rs 80bn), but concerns raised by private container train operators may compel it to sell the land at closer to market value (~Rs 165bn as per the railway's internal evaluation, quoted in media reports). We cut our target FY22E P/E multiple to 19x from 25x to bake in limited near-term growth visibility and also a high probability of the land deal going through which will remain an overhang on the stock till further clarity emerges. Consequently, our Mar'21 target price reduces to Rs 420 vs. Rs 630 earlier.

Despite these headwinds, CCRI maintains its edge over peers in terms of its market standing, client base, terminal network and vast rolling stock. These factors also position the company to be the primary beneficiary of a shift from road to rail post commissioning of the DFC. We thus maintain our ADD rating on the stock. Our estimates and TP are, however, contingent on the ICD land purchase price – any value higher than the circle rate will have an adverse impact on our fair value.

Though we continue to value CCRI using the P/E multiple, we provide a discounted cash flow analysis across three scenarios – no land purchase, purchase at circle rate, and at market rate – as a supporting argument for our valuation of the company (Fig 7). Discount rates for the two scenarios that factor in land purchase are 100bps higher as the risk profile of the business changes in these instances. Our target P/E closely reflects the DCF scenario of land purchase at circle rates while a sensitivity analysis suggests that every Rs 10bn increase in purchase price would lower our fair value by Rs 16.

**FIG 7 – DCF ANALYSIS – OUR TARGET P/E MULTIPLE REFLECTS THE DCF SCENARIO OF LAND PURCHASE AT CIRCLE RATES**

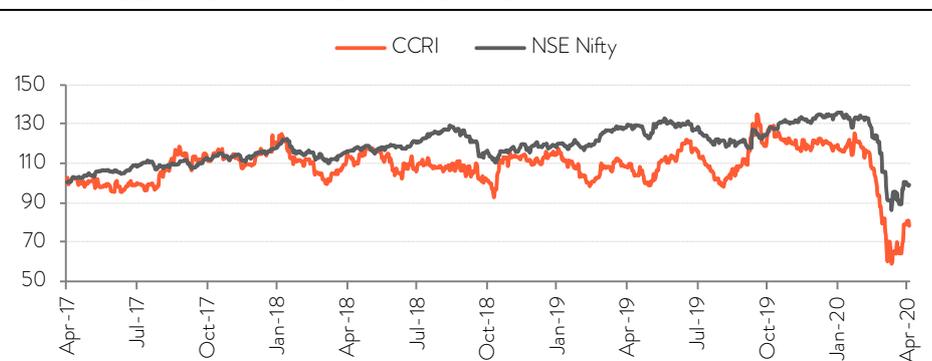
(Rs mn)	Without land purchase	Land purchase at circle rate	Land purchase at market rate
<b>Land purchase price</b>	-	<b>80,000</b>	<b>1,65,000</b>
Weighted average cost of capital (%)	12.5	13.5	13.5
Terminal growth rate (%)	3.0	3.0	3.0
NPV of cash flows - ex. land license fees	1,71,654	1,43,416	1,43,416
NPV of terminal value	1,32,118	1,26,185	1,26,185
NPV of land license fee	-	37,338	37,338
Total EV	3,03,772	3,06,940	3,06,940
Net debt - FY21E	(26,400)	53,600	1,38,600
Equity value	3,30,172	2,53,340	1,68,340
<b>Fair value per share (Rs)</b>	<b>542</b>	<b>416</b>	<b>276</b>

Source: Company, BOBCAPS Research

**FIG 8 – SENSITIVITY ANALYSIS – LAND PURCHASE PRICE AND DCF-BASED FAIR VALUE**

Land purchase price (Rs bn)	80	90	100	110	120
Enterprise value	3,06,940	3,06,940	3,06,940	3,06,940	3,06,940
Net debt	53,600	63,600	73,600	83,600	93,600
Equity value	2,53,340	2,43,340	2,33,340	2,23,340	2,13,340
<b>Fair value per share</b>	<b>416</b>	<b>399</b>	<b>383</b>	<b>367</b>	<b>350</b>

Source: Company, BOBCAPS Research

**FIG 9 – RELATIVE STOCK PERFORMANCE**


Source: NSE

### Key risks

- Land purchase value significantly higher than the circle rate
- Substantial delay in DFC commissioning
- Prolonged economic and trade slowdown stemming from lingering impact of Covid-19

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Total revenue</b>	<b>58,910</b>	<b>65,098</b>	<b>65,372</b>	<b>65,763</b>	<b>81,212</b>
EBITDA	12,067	14,078	14,773	15,582	20,412
Depreciation	3,927	4,246	4,059	4,942	5,692
EBIT	8,141	9,833	10,715	10,640	14,721
Net interest income/(expenses)	(1)	(7)	(115)	0	0
Other income/(expenses)	5,787	7,064	2,638	2,736	3,030
Exceptional items	0	0	0	0	0
EBT	13,926	16,889	13,238	13,376	17,751
Income taxes	(3,307)	(4,735)	(1,164)	(3,427)	(4,547)
Extraordinary items	(129)	0	(8,702)	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>3,372</b>	<b>9,950</b>	<b>13,204</b>
Adjustments	129	0	6,474	0	0
<b>Adjusted net profit</b>	<b>10,619</b>	<b>12,154</b>	<b>9,847</b>	<b>9,950</b>	<b>13,204</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	2,542	3,504	3,450	3,403	4,177
Other current liabilities	8,010	9,241	8,955	9,009	11,125
Provisions	704	719	720	724	895
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	1,00,066	1,06,036	1,13,958
Shareholders' fund	93,737	1,03,679	1,03,112	1,09,082	1,17,004
<b>Total liabilities and equities</b>	<b>1,05,327</b>	<b>1,24,453</b>	<b>1,16,238</b>	<b>1,22,218</b>	<b>1,33,201</b>
Cash and cash eq.	19,817	1,704	5,618	19,651	17,523
Accounts receivables	604	884	887	893	1,102
Inventories	274	233	233	235	290
Other current assets	11,418	44,491	26,706	11,491	14,190
Investments	13,890	14,029	14,029	14,029	14,029
Net fixed assets	36,384	41,879	54,067	61,126	67,434
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	16,244	16,341	20,180
<b>Total assets</b>	<b>1,05,327</b>	<b>1,24,453</b>	<b>1,16,238</b>	<b>1,22,218</b>	<b>1,33,201</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	13,905	14,891	18,895
Interest expenses	1	7	115	0	0
Non-cash adjustments	(549)	(117)	0	0	0
Changes in working capital	2,645	(29,775)	17,731	15,122	(3,742)
Other operating cash flows	0	0	0	0	0
<b>Cash flow from operations</b>	<b>16,643</b>	<b>(13,485)</b>	<b>31,752</b>	<b>30,013</b>	<b>15,153</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)	(115)	0	0
Dividends paid	(4,992)	(6,280)	(3,939)	(3,980)	(5,281)
Other financing cash flows	(611)	3,458	(6,474)	0	0
<b>Cash flow from financing</b>	<b>(5,156)</b>	<b>4,756</b>	<b>(17,838)</b>	<b>(3,980)</b>	<b>(5,281)</b>
<b>Changes in cash and cash eq.</b>	<b>2,982</b>	<b>(18,113)</b>	<b>3,914</b>	<b>14,033</b>	<b>(2,129)</b>
<b>Closing cash and cash eq.</b>	<b>19,817</b>	<b>1,704</b>	<b>5,618</b>	<b>19,651</b>	<b>17,523</b>

**Per Share**

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	17.2	19.9	5.5	16.3	21.7
Adjusted EPS	17.4	19.9	16.2	16.3	21.7
Dividend per share	8.2	10.3	6.5	6.5	8.7
Book value per share	153.8	170.2	169.2	179.0	192.0

**Valuations Ratios**

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	3.5	3.2	3.4	3.4	2.6
EV/EBITDA	17.1	14.8	14.8	14.5	10.5
Adjusted P/E	21.3	18.6	23.0	22.7	17.1
P/BV	2.4	2.2	2.2	2.1	1.9

**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	123.6	125.7	120.6
EBIT margin (EBIT/Revenue)	13.8	15.1	16.4	16.2	18.1
Asset turnover (Revenue/Avg TA)	62.8	62.2	59.9	60.7	70.5
Leverage (Avg TA/Avg Equity)	1.0	1.1	1.1	1.0	1.0
Adjusted ROAE	11.7	12.3	9.5	9.4	11.7

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	10.5	0.4	0.6	23.5
EBITDA	19.0	16.7	4.9	5.5	31.0
Adjusted EPS	12.4	14.5	(19.0)	1.0	32.7
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	20.5	21.6	22.6	23.7	25.1
EBIT margin	13.8	15.1	16.4	16.2	18.1
Adjusted profit margin	18.0	18.7	15.1	15.1	16.3
Adjusted ROAE	11.7	12.3	9.5	9.4	11.7
ROCE	8.7	9.4	9.9	9.9	12.8
<b>Working capital days (days)</b>					
Receivables	4	5	5	5	5
Inventory	2	1	1	1	1
Payables	16	20	19	19	19
<b>Ratios (x)</b>					
Gross asset turnover	1.3	1.3	1.0	0.8	0.9
Current ratio	3.0	3.7	2.7	2.6	2.1
Net interest coverage ratio	NM	NM	NM	NM	NM
Adjusted debt/equity	(0.2)	0.1	(0.1)	(0.2)	(0.1)

Source: Company, BOBCAPS Research

## Disclaimer

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

**BUY** – Expected return >+15%

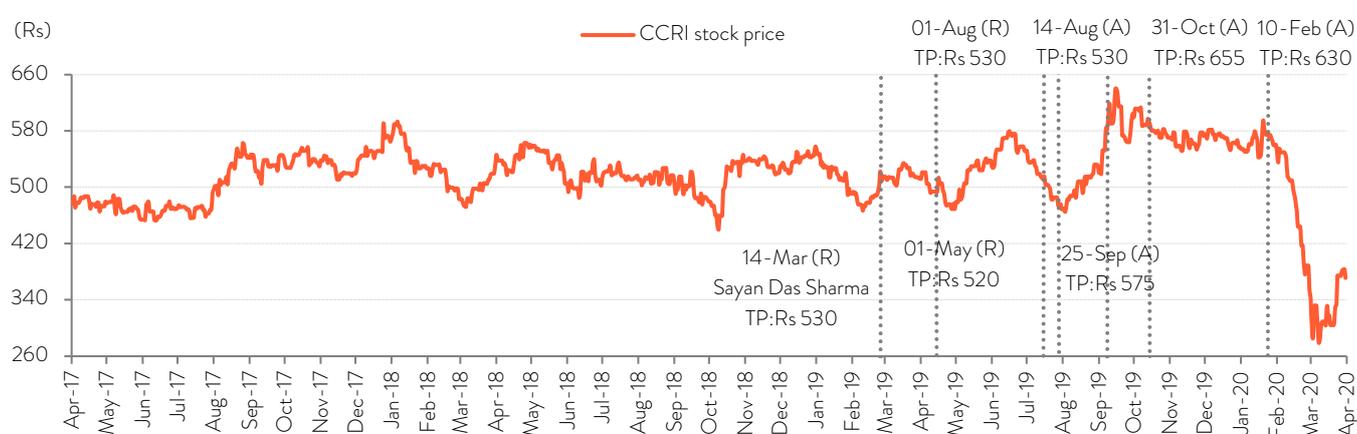
**ADD** – Expected return from >+5% to +15%

**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)

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

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