

**SELL**

TP: Rs 345 | ▼ 11%

**CONTAINER CORP OF  
INDIA**

Logistics

10 August 2020

## Increased land licence fee a massive blow; downgrade to SELL

**Container Corp's (CCRI) Q1FY21 revenue/EBITDA dropped 27%/61% YoY, in line with estimates. The Q1 print was eclipsed by a sharp rise in LLF claim by the Railways at Rs 7.8bn for two terminals vs. CCRI's total estimate of Rs 4.8bn. If implemented, this new LLF policy will erode CCRI's earnings and mar the stake sale process. We have not accounted for the disputed amount in our estimates, but lower our target P/E to 15x (vs. 19x) to factor in the risk. On rollover, we cut our TP to Rs 345 (vs. Rs 415). Downgrade to SELL from REDUCE.**

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**In-line quarter:** The sharp revenue plunge in Q1 was catalysed by volume/realisation declines of 21%/8% YoY. Higher land licensing fee (LLF) and operating leverage dragged EBITDA margin down 11ppt YoY to 13.4%. PAT fell 73% YoY to Rs 617mn. CCRI sees headwinds continuing in Q2/Q3, with recovery from Q4FY21, and maintains its guidance of a 20% volume decline in FY21.

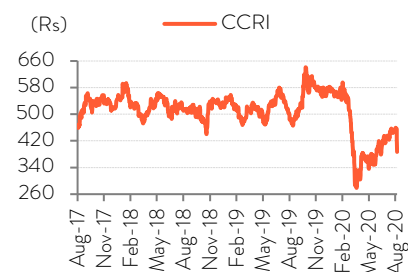
**Land licence fee jolt:** CCRI received an LLF claim of Rs 7.8bn from the Indian Railways (IR) for its Okhla and Tughlakabad terminals, much higher than its estimate of Rs 4.8bn for all 26 terminals. IR seems to have valued land at ~2x the circle rate, resulting in the steep divergence. CCRI is discussing the matter with the IR and will continue to make LLF provisions as per its own estimations, recognising the claim as a contingent liability till clarity emerges.

**Earnings profile could be structurally altered:** Though a final decision on LLF is pending, if implemented, this policy will not only erode CCRI's earnings (~30%/20% impact on our FY21/FY22 EPS), but also make the long-term earnings trajectory volatile by adding operating leverage in a cyclical company. Further, the strategic stake sale may not fetch expected gains as CCRI's appeal as a highly profitable, strategic asset wanes. Akin to CCRI, we have not baked the LLF claim into our forecast, but cut our target multiple to factor in the risk.

Ticker/Price	CCRI IN/Rs 386
Market cap	US\$ 3.1bn
Shares o/s	609mn
3M ADV	US\$ 12.1mn
52wk high/low	Rs 666/Rs 263
Promoter/FPI/DII	55%/27%/14%

Source: NSE

## STOCK PERFORMANCE



Source: NSE

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue (Rs mn)	65,427	64,738	58,802	75,695	87,863
EBITDA (Rs mn)	14,408	16,749	13,335	19,460	22,988
Adj. net profit (Rs mn)	12,154	12,574	8,146	12,904	15,267
Adj. EPS (Rs)	19.9	20.6	13.4	21.2	25.1
Adj. EPS growth (%)	14.5	3.5	(35.2)	58.4	18.3
Adj. ROAE (%)	12.3	12.3	7.9	11.7	12.8
Adj. P/E (x)	19.4	18.7	28.9	18.2	15.4
EV/EBITDA (x)	15.1	13.6	17.0	10.8	9.0

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)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
<b>Revenues</b>	<b>11,891</b>	<b>16,389</b>	<b>(27.4)</b>	<b>15,686</b>	<b>(24.2)</b>
Rail freight expenses	6,523	8,953	(27.1)	8,120	(19.7)
% of sales	54.9	54.6	22bps	51.8	309bps
Other operating expenses	2,266	2,082	8.9	1,554	45.8
% of sales	19.1	12.7	636bps	9.9	915bps
Employee expenses	796	806	(1.2)	602	32.2
% of sales	6.7	4.9	178bps	3.8	285bps
Other expenses	716	516	38.8	665	7.7
% of sales	6.0	3.1	288bps	4.2	178bps
Total expenditure	10,301	12,357	(16.6)	10,942	(5.9)
<b>EBITDA</b>	<b>1,590</b>	<b>4,033</b>	<b>(60.6)</b>	<b>4,745</b>	<b>(66.5)</b>
EBITDA margin (%)	13.4	24.6	(1,123bps)	30.2	(1,687bps)
Depreciation	1,260	1,253	0.6	1,336	(5.7)
<b>EBIT</b>	<b>330</b>	<b>2,779</b>	<b>(88.1)</b>	<b>3,409</b>	<b>(90.3)</b>
Interest expenses	85	112	(24.6)	108	(21.3)
Other income	588	583	0.9	952	(38.2)
<b>PBT</b>	<b>833</b>	<b>3,250</b>	<b>(74.4)</b>	<b>4,253</b>	<b>(80.4)</b>
PBT margin (%)	7.0	19.8	(1,282bps)	27.1	(2,010bps)
Exceptional item	-	-	-	206	-
Tax rate	217	971	(77.7)	1,102	(80.3)
Tax rate (%) – total	26.0	29.9	(389bps)	25.9	8bps
<b>Reported PAT</b>	<b>617</b>	<b>2,278</b>	<b>(72.9)</b>	<b>2,945</b>	<b>(79.1)</b>
Adjustment	-	-	-	(206)	-
<b>Adjusted PAT</b>	<b>617</b>	<b>2,278</b>	<b>(72.9)</b>	<b>3,151</b>	<b>(80.4)</b>
Adjusted PAT margin (%)	5.2	13.9	(872bps)	20.1	(1,490bps)

Source: Company, BOBCAPS Research

**FIG 2 – PER UNIT PARAMETERS – STANDALONE**

(Rs)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
<b>Total sales volume (teu)</b>	<b>7,32,711</b>	<b>9,26,923</b>	<b>(21.0)</b>	<b>9,41,270</b>	<b>(22.2)</b>
Realisation/teu	16,229	17,681	(8.2)	16,665	(2.6)
Rail freight expenses/teu	8,902	9,659	(7.8)	8,626	3.2
Other operating expenses/teu	3,093	2,246	37.7	1,651	87.3
Employee expenses/teu	1,086	869	25.0	640	69.8
Other expenses/teu	978	557	75.6	707	38.3
<b>Total expenditure/teu</b>	<b>14,059</b>	<b>13,331</b>	<b>5.5</b>	<b>11,624</b>	<b>20.9</b>
<b>EBITDA/teu</b>	<b>2,170</b>	<b>4,351</b>	<b>(50.1)</b>	<b>5,041</b>	<b>(56.9)</b>
Depreciation/teu	1,720	1,352	27.2	1,419	21.2
<b>EBIT/teu</b>	<b>451</b>	<b>2,999</b>	<b>(85.0)</b>	<b>3,621</b>	<b>(87.6)</b>

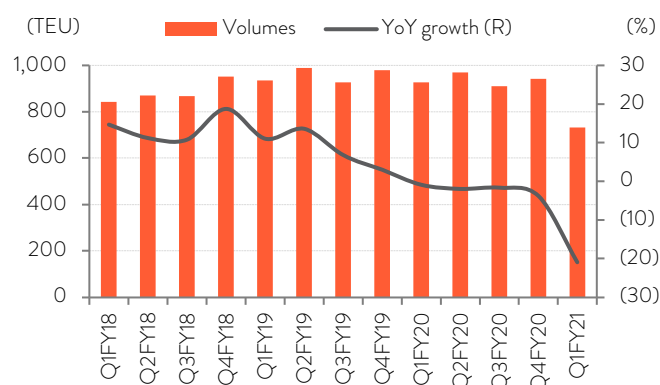
Source: Company, BOBCAPS Research

**FIG 3 – SEGMENTAL DATA – STANDALONE**

	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
<b>EXIM segment</b>	<b>6,27,905</b>	<b>8,16,396</b>	<b>(23.1)</b>	<b>7,66,822</b>	<b>(18.1)</b>
Volume (teu)	9,007	13,171	(31.6)	11,713	(23.1)
<b>Revenue (Rs mn)</b>	<b>14,344</b>	<b>16,133</b>	<b>(11.1)</b>	<b>15,275</b>	<b>(6.1)</b>
Realisation/teu (Rs)	770	3,072	(74.9)	2,805	(72.5)
EBIT (Rs mn)	8.6	23.3	(1,477bps)	23.9	(1,540bps)
EBIT margin (%)	1,227	3,763	(67.4)	3,658	(66.5)
<b>EBIT/teu (Rs)</b>	<b>6,27,905</b>	<b>8,16,396</b>	<b>(23.1)</b>	<b>7,66,822</b>	<b>(18.1)</b>
<b>Domestic segment</b>	<b>1,04,806</b>	<b>1,62,534</b>	<b>(35.5)</b>	<b>1,43,585</b>	<b>(27.0)</b>
Volume (teu)	2,885	4,328	(33.3)	3,562	(19.0)
<b>Revenue (Rs mn)</b>	<b>27,524</b>	<b>26,627</b>	<b>3.4</b>	<b>24,810</b>	<b>10.9</b>
Realisation/teu (Rs)	147	227	(35.3)	25	497.6
EBIT (Rs mn)	5.1	5.2	(15bps)	0.7	441bps
EBIT margin (%)	1,403	1,397	0.4	171	718.7
<b>EBIT/teu (Rs)</b>	<b>1,04,806</b>	<b>1,62,534</b>	<b>(35.5)</b>	<b>1,43,585</b>	<b>(27.0)</b>

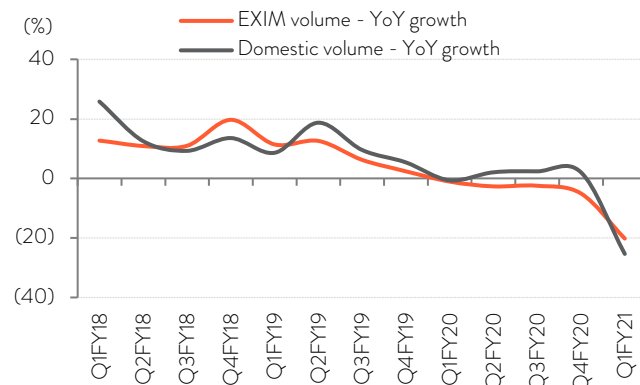
Source: Company, BOBCAPS Research

**FIG 4 – HANDLING VOLUMES DECLINED 21% YOY IN Q1FY21**



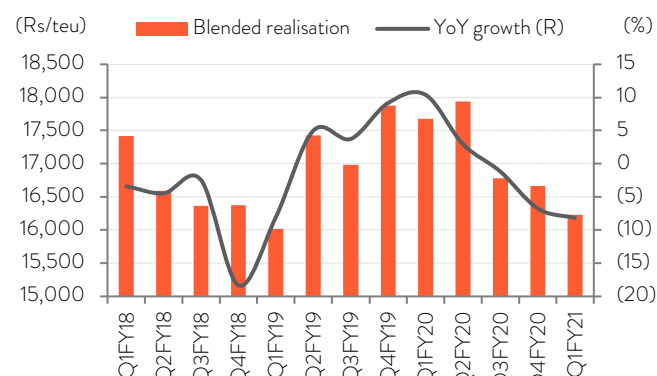
Source: Company, BOBCAPS Research

**FIG 5 – EXIM/DOMESTIC VOLUMES DECLINED 20%/25% YOY**



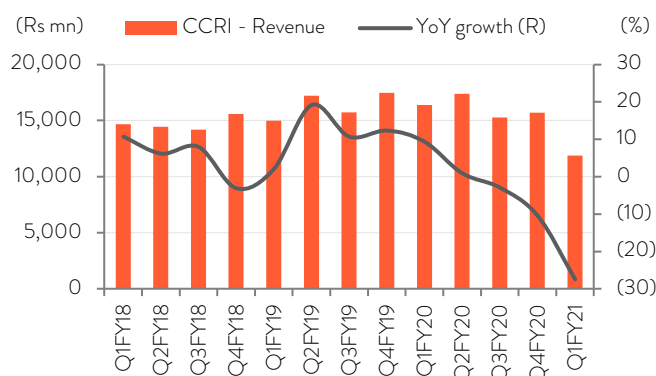
Source: Company, BOBCAPS Research

**FIG 6 – REALISATION FELL 8% YOY**



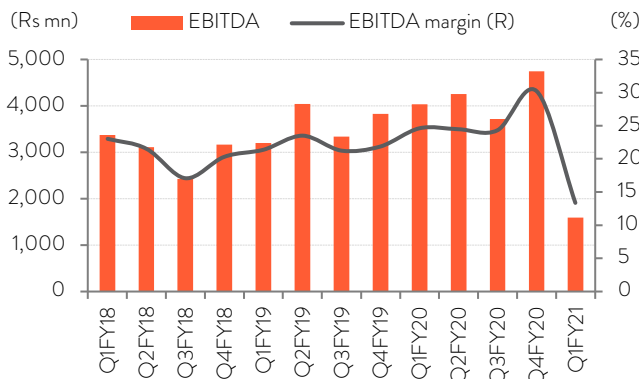
Source: Company, BOBCAPS Research

**FIG 7 – STANDALONE REVENUE PLUNGED 27% YOY**



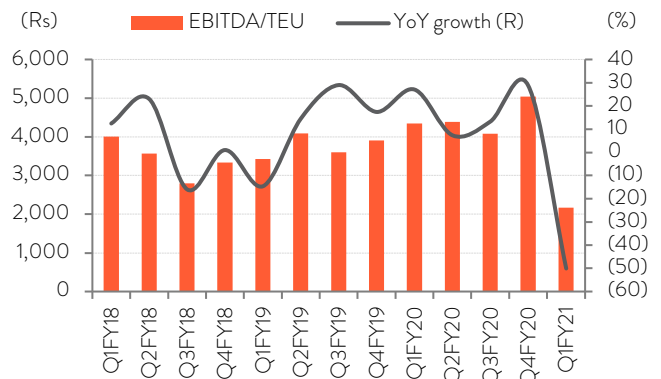
Source: Company, BOBCAPS Research

**FIG 8 – EBITDA MARGIN CONTRACTED 1,100BPS YOY TO 13.4% FOLLOWING A SHARP PLUNGE IN TOPLINE**



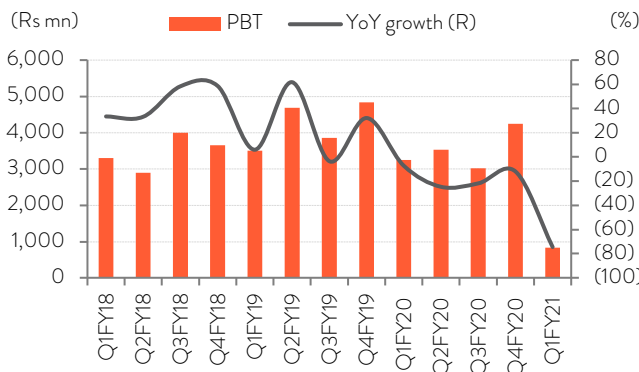
Source: Company, BOBCAPS Research

**FIG 9 – EBITDA PER TEU HALVED YOY, HIT BY NEGATIVE OPERATING LEVERAGE**



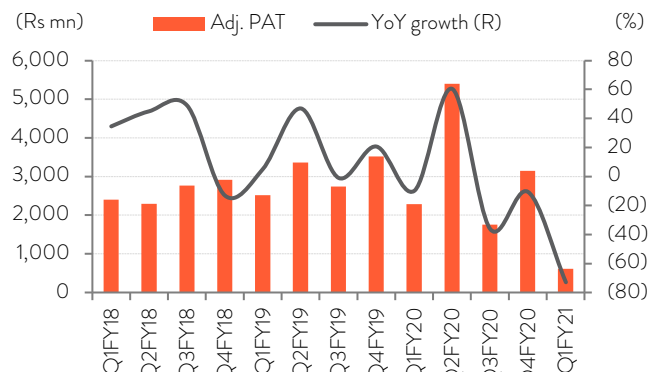
Source: Company, BOBCAPS Research

**FIG 10 – PBT NOSEDIVED 74% YOY**



Source: Company, BOBCAPS Research

**FIG 11 – ADJ. PAT FELL 73% YOY**



Source: Company, BOBCAPS Research

**FIG 12 – IR'S CALCULATION OF LLF IS ~2X OF CIRCLE RATE**

	Tughlakabad	Okhla
Est. total area (hectares)	44	10*
Total area (sq. m)	4,40,000	1,00,000
Circle rate (Rs/sq. m)	56,640	56,640
Multiplier for industrial land (x)	2	2
Total circle rate (Rs mn)	49,843	11,328
LLF rate (%)	6.0	6.0
Est. LLF payment to be made (Rs mn)	2,991	680
<b>Total est. LLF as per circle rate (Rs mn)</b>	<b>3,670</b>	-
<b>Total est. LLF as per IR (Rs mn)</b>	<b>7,769</b>	-

Source: Government of Delhi, BOBCAPS Research | \*Note: Assumed Okhla domestic terminal's area to be ~25% of Tughlakabad, proportionate to capacity

## Earnings call highlights

- **Volumes:** Handling volumes declined 21% YoY in Q1FY21 to 0.7mn teu (EXIM/domestic volumes down 20%/25% YoY). Originating volumes fell 17% YoY (EXIM/domestic down 16%/24% YoY).
- **FY21 outlook:** The pandemic-induced lockdown has severely impacted the EXIM trade. Management maintains its guidance of a 20% volume decline in FY21. Volumes are expected to remain subdued in Q2-Q3FY21 and uptick is likely only in Q4FY21.
- **Pricing:** CCRI has offered some discounts to shipping lines, especially to attract export volumes. Depending on market conditions, it may dole out more discounts going forward. The company does not expect any price rises in the near future due to competitive pressure.
- **Land licensing fee:** Indian Railways revised its land licensing fee policy through a circular dated 19 Mar 2020. Per this, CCRI will have to pay LLF based on 6% of the market value of the underlying land, with annual escalation of 7%. CCRI estimated a total outgo of Rs 4.8bn for FY21, based on its internal calculation.

However, the company recently received a claim of Rs 7.8bn from IR for only two of its terminals in Tughlakabad and Okhla, far higher than its estimate for all 26 terminals. CCRI has made a representation to the IR and is confident of its method of estimation. It will continue to provide for LLF on the P&L based on its internal calculation (Rs 4.8bn) and recognise the IR's demand as a contingent liability on the balance sheet, till clarity on the payment emerges.

- **Haulage charge discount:** IR has recently announced a 5% discount on laden containers between Aug'20 to Apr'21. CCRI may pass on this benefit to customers, on a case-to-case basis.
- **Rail freight margin:** Rail freight margin was stable at 28.7% vs. 28.2% in Q1FY20.
- **Lead distance:** Lead distances stood at 683km/1,262km for EXIM/domestic vs. 712km/1,366km in Q1FY20.
- **Empty running costs:** Higher share of empty containers contributed to the realisation decrease. But empty running costs declined 23% YoY to Rs 377mn in Q1FY21, as IR waived off empty charges till 8 May.
- **Double-stacking:** EXIM imbalance led to a sharp 55% YoY decline in double-stack trains to 338 vs. 758 in Q1FY20 and 494 trains in Q4FY20.

## Valuation methodology

Considering that the Q1FY21 numbers are in line with our estimates, we largely maintain FY21/FY22 revenue and earnings forecasts. We have not factored the increased LLF into our estimates due to the uncertainty over the final quantum of fees. However, the regulatory overhang is likely to weigh on the stock and we, therefore, lower our target P/E multiple to 15x (vs. 19x earlier). On rolling valuations over to Sep'22, we move to a reduced target price of Rs 345 from Rs 415. Downgrade to SELL from REDUCE on LLF concerns.

The LLF development gives rise to multiple concerns, in our view. Even if we only incorporate the Rs 7.8bn LLF claim for the two terminals into our estimates (instead of Rs 4.8bn), our FY21/FY22 EPS forecasts would be impacted by ~30%/~20%. Added operating leverage in a cyclical business, exacerbated by the 7% annual escalation clause, would make the long-term earnings profile volatile. The sharper-than-anticipated rise in LLF under the new policy also raises questions on the haulage charges that can apply to CTOs operating on the DFC – a sharp rise in haulage charges can largely offset the DFC benefits and jeopardise CCRI's long-term growth narrative.

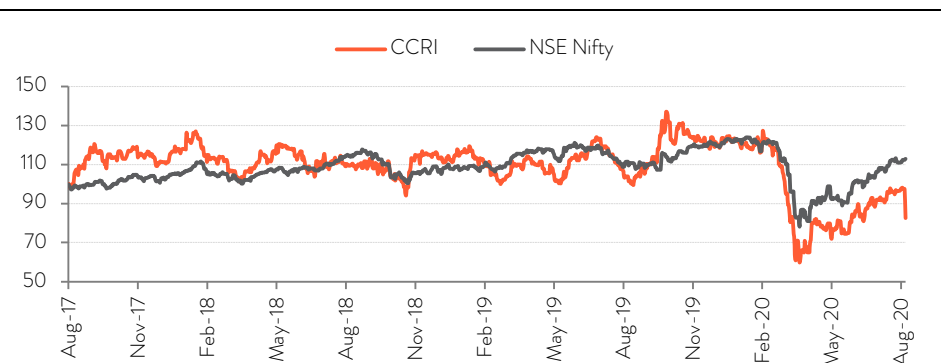
Lastly, this move may hinder the strategic stake sale process as bidders are unlikely to have the same interest in CCRI without one of its key competitive advantages – access to IR's terminals at subsidised rates, which partially explains its superior ROCE profile vis-à-vis private CTOs. Thus, the LLF dispute will remain an overhang on the stock price, in our view.

**FIG 13 – REVISED ESTIMATES – STANDALONE**

(Rs mn)	FY21E			FY22E			FY23E
	Old	New	Change (%)	Old	New	Change (%)	Introduced
Revenues	58,807	58,802	(0.0)	75,689	75,695	0.0	87,863
EBITDA	13,331	13,335	0.0	19,457	19,460	0.0	22,988
EBITDA margin (%)	22.7	22.7	0bps	25.7	25.7	0bps	26.2
PAT	8,172	8,146	(0.3)	12,986	12,904	(0.6)	15,267
PAT margin (%)	13.9	13.9	0bps	17.2	17.0	(11bps)	17.4

Source: Company, BOBCAPS Research

**FIG 14 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## Key risks

Key upside risks to our estimates are:

- downward revision in land licensing fee calculation by Indian Railways
- sharper-than-expected recovery in volumes,
- above-expected operating margin achieved through cost control measures.

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
<b>Total revenue</b>	<b>65,427</b>	<b>64,738</b>	<b>58,802</b>	<b>75,695</b>	<b>87,863</b>
EBITDA	14,408	16,749	13,335	19,460	22,988
Depreciation	4,246	5,130	5,230	6,127	6,943
EBIT	10,162	11,619	8,105	13,333	16,045
Net interest income/(expenses)	(7)	(361)	(340)	0	0
Other income/(expenses)	6,734	2,797	3,183	3,919	4,365
Exceptional items	0	0	0	0	0
EBT	16,889	14,056	10,948	17,252	20,410
Income taxes	(4,735)	(1,482)	(2,803)	(4,347)	(5,143)
Extraordinary items	0	(8,816)	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
<b>Reported net profit</b>	<b>12,154</b>	<b>3,758</b>	<b>8,146</b>	<b>12,904</b>	<b>15,267</b>
Adjustments	0	8,816	0	0	0
<b>Adjusted net profit</b>	<b>12,154</b>	<b>12,574</b>	<b>8,146</b>	<b>12,904</b>	<b>15,267</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Accounts payables	3,504	1,553	1,274	1,617	1,885
Other current liabilities	9,241	9,539	8,665	11,154	12,947
Provisions	719	692	666	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	1,03,710	1,11,453	1,20,613
Shareholders' fund	1,03,679	1,00,647	1,06,757	1,14,499	1,23,659
<b>Total liabilities and equities</b>	<b>1,24,453</b>	<b>1,15,668</b>	<b>1,20,598</b>	<b>1,31,364</b>	<b>1,42,722</b>
Cash and cash eq.	1,704	21,686	27,992	27,374	29,705
Accounts receivables	884	1,591	1,611	2,074	2,407
Inventories	233	261	237	305	354
Other current assets	44,491	5,402	4,946	6,368	7,391
Investments	14,029	14,441	14,441	14,441	14,441
Net fixed assets	41,879	49,656	58,801	64,674	69,732
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	12,387	15,946	18,509
<b>Total assets</b>	<b>1,24,453</b>	<b>1,15,668</b>	<b>1,20,598</b>	<b>1,31,364</b>	<b>1,42,722</b>

Source: Company, BOBCAPS Research



**Cash Flows**

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Net income + Depreciation	16,400	17,704	13,376	19,031	22,209
Interest expenses	7	361	340	0	0
Non-cash adjustments	(117)	(1,761)	0	0	0
Changes in working capital	(29,775)	40,134	(34)	(2,487)	(1,771)
Other operating cash flows	0	0	0	0	0
<b>Cash flow from operations</b>	<b>(13,485)</b>	<b>56,438</b>	<b>13,682</b>	<b>16,544</b>	<b>20,439</b>
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
<b>Cash flow from investing</b>	<b>(9,384)</b>	<b>(16,417)</b>	<b>(5,000)</b>	<b>(12,000)</b>	<b>(12,000)</b>
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)	(2,644)	(2,036)	(5,162)	(6,107)
Other financing cash flows	3,427	(10,028)	0	0	0
<b>Cash flow from financing</b>	<b>4,756</b>	<b>(20,040)</b>	<b>(2,376)</b>	<b>(5,162)</b>	<b>(6,107)</b>
<b>Changes in cash and cash eq.</b>	<b>(18,113)</b>	<b>19,982</b>	<b>6,306</b>	<b>(618)</b>	<b>2,332</b>
<b>Closing cash and cash eq.</b>	<b>1,704</b>	<b>21,686</b>	<b>27,992</b>	<b>27,374</b>	<b>29,705</b>

**Per Share**

Y/E 31 Mar (Rs)	FY19A	FY20P	FY21E	FY22E	FY23E
Reported EPS	19.9	6.2	13.4	21.2	25.1
Adjusted EPS	19.9	20.6	13.4	21.2	25.1
Dividend per share	10.3	4.3	3.3	8.5	10.0
Book value per share	170.2	165.2	175.2	187.9	203.0

**Valuations Ratios**

Y/E 31 Mar (x)	FY19A	FY20P	FY21E	FY22E	FY23E
EV/Sales	3.3	3.5	3.9	2.8	2.4
EV/EBITDA	15.1	13.6	17.0	10.8	9.0
Adjusted P/E	19.4	18.7	28.9	18.2	15.4
P/BV	2.3	2.3	2.2	2.1	1.9

**DuPont Analysis**

Y/E 31 Mar (%)	FY19A	FY20P	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	72.0	89.5	74.4	74.8	74.8
Interest burden (PBT/EBIT)	166.2	121.0	135.1	129.4	127.2
EBIT margin (EBIT/Revenue)	15.5	17.9	13.8	17.6	18.3
Asset turnover (Revenue/Avg TA)	62.5	59.6	54.8	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	11.7	12.8

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

**Ratio Analysis**

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
<b>YoY growth (%)</b>					
Revenue	11.1	(1.1)	(9.2)	28.7	16.1
EBITDA	19.4	16.3	(20.4)	45.9	18.1
Adjusted EPS	14.5	3.5	(35.2)	58.4	18.3
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	22.0	25.9	22.7	25.7	26.2
EBIT margin	15.5	17.9	13.8	17.6	18.3
Adjusted profit margin	18.6	19.4	13.9	17.0	17.4
Adjusted ROAE	12.3	12.3	7.9	11.7	12.8
ROCE	9.8	10.7	7.6	11.7	13.1
<b>Working capital days (days)</b>					
Receivables	5	9	10	10	10
Inventory	1	1	1	1	1
Payables	20	9	8	8	8
<b>Ratios (x)</b>					
Gross asset turnover	1.3	1.0	0.8	0.8	0.9
Current ratio	3.7	2.5	3.4	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%

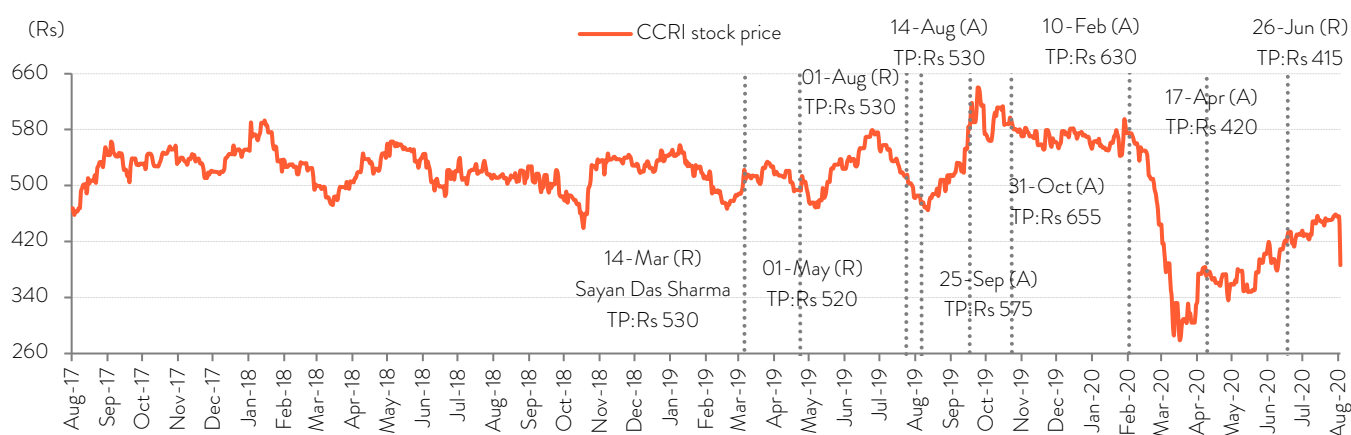
**ADD** – Expected return from >+5% to +15%

**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

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