

SELL

TP: Rs 360 | ▼ 12%

**CONTAINER CORP OF
INDIA**

Logistics

06 November 2020

Licensing fee jolt eclipses revival in operating performance

Container Corp's (CCRI) Q2FY21 print was in line with our estimates. Revenue/EBITDA declines eased to 14%/27% YoY (-27%/-61% in Q1), aided by a lower volume drop of 9% (vs. -21%). However, operational resilience was overshadowed by IR's steep LLF claim of Rs 13bn for 13 leased terminals vs. CCRI's assessment of Rs 4.7bn. Though management is confident of its calculation, the uncertainty remains a key overhang till the policy is finalised. We maintain estimates but move to a new Dec'21 TP of Rs 360 (vs. Rs 345) on rollover. Maintain SELL.

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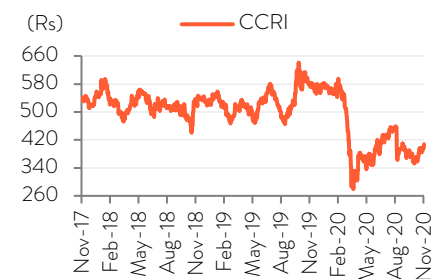
Sharp sequential rise in volumes: Handling volumes declined at a slower pace of 9% YoY in Q2 and rose by a sturdy 21% QoQ. Higher empty share, lower lead and selective discounts dragged realisation down 5% YoY. Per management, container freight has picked up, led by higher exports and domestic demand – CCRI even posted a YoY rise in Sep'20 volumes. Hence, management now expects a volume decline of ~10% in FY21 vs. earlier guidance of a 20% drop.

Ticker/Price	CCRI IN/Rs 407
Market cap	US\$ 3.4bn
Shares o/s	609mn
3M ADV	US\$ 13.0mn
52wk high/low	Rs 603/Rs 263
Promoter/FPI/DII	55%/27%/14%

Source: NSE

In-line EBITDA: EBITDA declined 27% YoY, largely in line with our estimate. Despite IR's recent 5% discount on haulage charges of laden containers, EBITDA margin contracted 365bps YoY to 20.8% (+745bps QoQ), weighed down by realisation decline, higher YoY land licensing fee (LLF: Rs 1.1bn in Q2) and staff cost (+83bps). Volumes are likely to recover in H2FY21 but we expect margins to remain under pressure due to increased LLF and a high base.

STOCK PERFORMANCE



Another LLF jolt: Indian Railways (IR) has claimed LLF of Rs 12.8bn for 13 terminals (out of 28 leased terminals), valuing the underlying land at ~Rs 210bn vs. earlier expectations of a total of Rs 150-160bn. CCRI has made an LLF provision of Rs 2.3bn, as per its internal assessment, and is confident that it will finally prevail in discussions with the IR to be finalised by end-FY21. Till resolved, we believe the higher LLF claim will remain a stock overhang.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	65,098	64,738	58,802	75,697	87,869
EBITDA (Rs mn)	14,078	16,749	13,339	19,457	22,992
Adj. net profit (Rs mn)	12,154	12,574	8,188	12,890	15,255
Adj. EPS (Rs)	19.9	20.6	13.4	21.2	25.0
Adj. EPS growth (%)	14.5	3.5	(34.9)	57.4	18.4
Adj. ROAE (%)	12.3	12.3	7.9	11.6	12.8
Adj. P/E (x)	20.4	19.7	30.3	19.3	16.3
EV/EBITDA (x)	16.3	14.4	18.0	11.5	9.6

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)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Revenues	15,027	17,387	(13.6)	11,891	26.4	26,919	33,776	(20.3)
Rail freight expenses	8,205	9,397	(12.7)	6,523	25.8	14,727	18,350	(19.7)
% of sales	54.6	54.0	55bps	54.9	(25bps)	54.7	54.3	38bps
Other operating expenses	2,443	2,251	8.5	2,266	7.8	4,710	4,333	8.7
% of sales	16.3	12.9	331bps	19.1	(280bps)	17.5	12.8	467bps
Employee expenses	842	829	1.5	796	5.8	1,638	1,635	0.2
% of sales	5.6	4.8	83bps	6.7	(109bps)	6.1	4.8	124bps
Other expenses	408	654	(37.7)	716	(43.1)	1,124	1,171	(4.0)
% of sales	2.7	3.8	(105bps)	6.0	(331bps)	4.2	3.5	71bps
Total expenditure	11,898	13,132	(9.4)	10,301	15.5	22,199	25,488	(12.9)
EBITDA	3,130	4,255	(26.5)	1,590	96.8	4,720	8,288	(43.1)
EBITDA margin (%)	20.8	24.5	(365bps)	13.4	745bps	17.5	24.5	(700bps)
Depreciation	1,272	1,278	(0.5)	1,260	0.9	2,532	2,532	0.0
EBIT	1,858	2,977	(37.6)	330	462.9	2,188	5,756	(62.0)
Interest expenses	85	81	4.8	85	0.5	170	194	(12.2)
Other income	713	637	12.0	588	21.3	1,301	1,219	6.7
PBT	2,486	3,532	(29.6)	833	198.3	3,319	6,782	(51.1)
PBT margin (%)	16.5	20.3	(377bps)	7.0	953bps	12.3	20.1	(775bps)
Exceptional item	-	(8,611)	NM	-	-	-	(8,611)	NM
Tax rate	610	(1,858)	(132.8)	217	181.6	827	(887)	(193.2)
Tax rate (%) – total	24.5	(52.6)	7,715bps	26.0	(146bps)	24.9	(13.1)	3,799bps
Reported PAT	1,876	(3,320)	NM	617	204.2	2,493	(942)	NM
Adjustment	-	8,702	-	-	-	-	8,702	NM
Adjusted PAT	1,876	5,390	(65.2)	617	204.2	2,493	7,669	(67.5)
Adjusted PAT margin (%)	12.5	31.0	(1,852bps)	5.2	730bps	9.3	22.7	(1,345bps)

Source: Company, BOBCAPS Research

FIG 2 – PER UNIT PARAMETERS – STANDALONE

(Rs)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Total sales volume (teu)	8,85,673	9,69,158	(8.6)	7,32,711	20.9	16,18,384	18,96,081	(14.6)
Realisation/teu	16,967	17,940	(5.4)	16,229	4.5	16,633	17,813	(6.6)
Rail freight expenses/teu	9,264	9,696	(4.5)	8,902	4.1	9,100	9,678	(6.0)
Other operating expenses/teu	2,759	2,323	18.8	3,093	(10.8)	2,910	2,285	27.4
Employee expenses/teu	951	856	11.1	1,086	(12.5)	1,012	862	17.4
Other expenses/teu	460	675	(31.8)	978	(52.9)	695	617	12.5
Total expenditure/teu	13,434	13,549	(0.9)	14,059	(4.4)	13,717	13,443	2.0
EBITDA/teu	3,533	4,390	(19.5)	2,170	62.8	2,916	4,371	(33.3)
Depreciation/teu	1,436	1,319	8.8	1,720	(16.5)	1,564	1,335	17.2
EBIT/teu	2,098	3,071	(31.7)	451	365.6	1,352	3,036	(55.5)

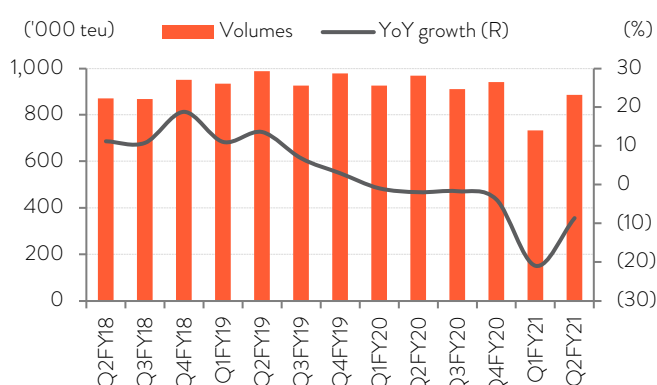
Source: Company, BOBCAPS Research

FIG 3 – SEGMENTAL DATA – STANDALONE

	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
EXIM segment								
Volume (teu)	7,44,788	8,26,013	(9.8)	6,27,905	18.6	13,72,693	16,12,455	(14.9)
Revenue (Rs mn)	11,300	13,577	(16.8)	9,007	25.5	20,307	26,281	(22.7)
Realisation/teu (Rs)	15,172	16,437	(7.7)	14,344	5.8	14,793	16,299	(9.2)
EBIT (Rs mn)	1,883	3,138	(40.0)	770	144.5	2,653	6,064	(56.2)
EBIT margin (%)	16.7	23.1	(645bps)	8.6	811bps	13.1	23.1	(1,001bps)
EBIT/teu (Rs)	2,529	3,799	(33.4)	1,227	106.1	1,933	3,761	(48.6)
Domestic segment								
Volume (teu)	1,40,885	1,43,145	(1.6)	1,04,806	34.4	2,45,691	2,83,626	(13.4)
Revenue (Rs mn)	3,727	3,810	(2.2)	2,885	29.2	6,612	7,495	(11.8)
Realisation/teu (Rs)	26,456	26,614	(0.6)	27,524	(3.9)	26,911	26,425	1.8
EBIT (Rs mn)	215	198	8.7	147	46.5	362	387	(6.3)
EBIT margin (%)	5.8	5.2	58bps	5.1	68bps	5.5	5.2	32bps
EBIT/teu (Rs)	1,528	1,383	10.5	1,403	9.0	1,475	1,363	8.2

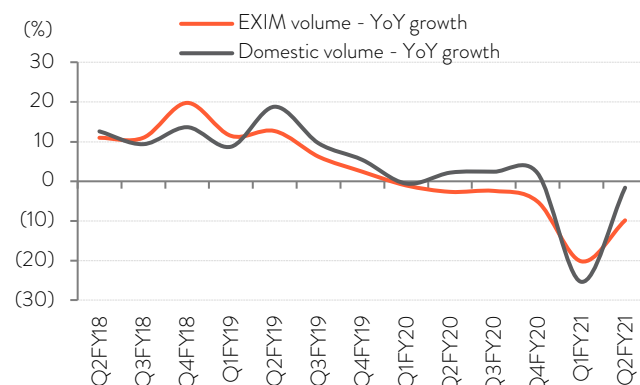
Source: Company, BOBCAPS Research

FIG 4 – HANDLING VOLUMES DECLINED 9% YOY



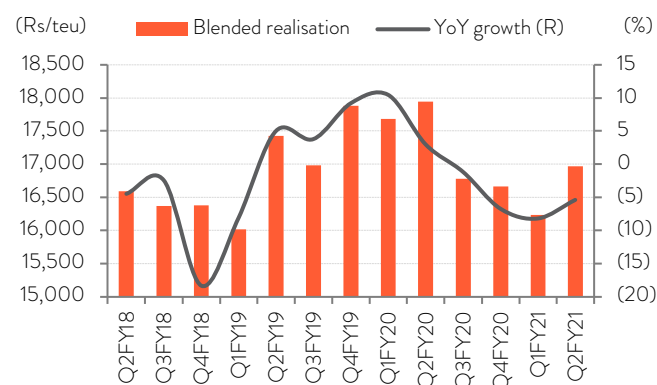
Source: Company, BOBCAPS Research

FIG 5 – EXIM/DOMESTIC VOLUMES DOWN 10%/2% YOY



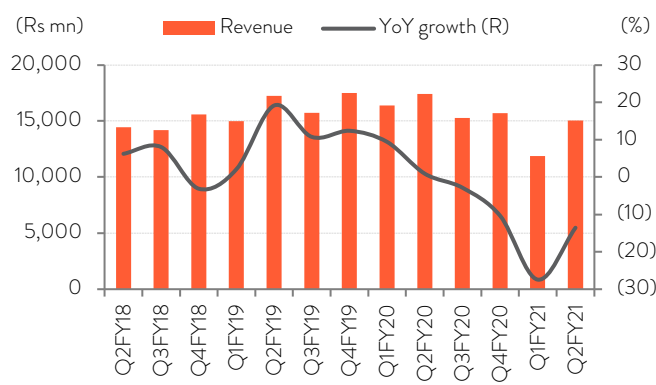
Source: Company, BOBCAPS Research

FIG 6 – REALISATION FELL 5% YOY

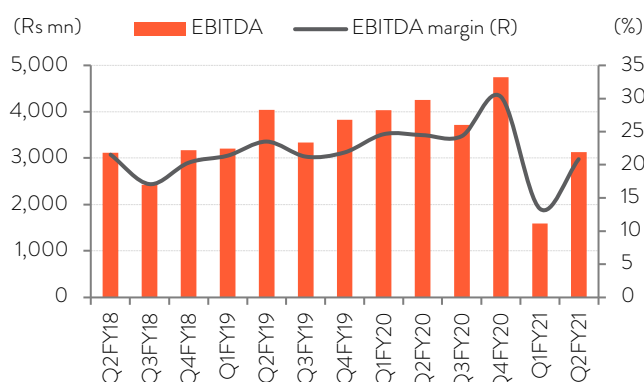


Source: Company, BOBCAPS Research

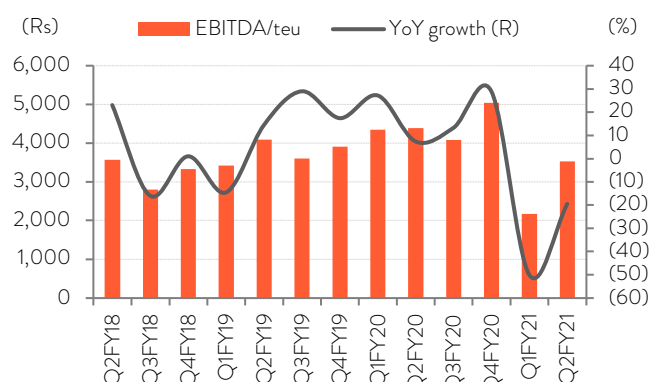
FIG 7 – STANDALONE REVENUE DECLINED 10% YOY



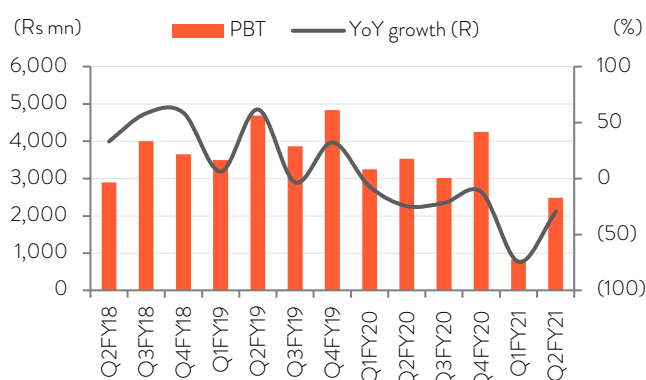
Source: Company, BOBCAPS Research

FIG 8 – EBITDA MARGIN CONTRACTED 365BPS YOY

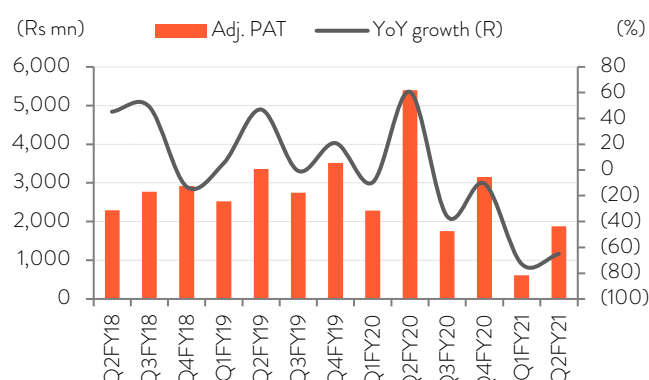
Source: Company, BOBCAPS Research

FIG 9 – EBITDA PER TEU FELL 19.5% YOY

Source: Company, BOBCAPS Research

FIG 10 – PBT DECLINED 30% YOY

Source: Company, BOBCAPS Research

FIG 11 – ADJ. PAT FELL 65% YOY

Source: Company, BOBCAPS Research

Earnings call highlights

- Volumes:** The decline in handling volumes eased to 8.6% YoY in Q2FY21 at 0.9mn teu (EXIM/domestic volumes down 7.7%/0.6% YoY). Originating volumes fell 11.4% YoY (EXIM/domestic down 12.7%/0.9% YoY).
- Outlook and guidance revision:** Sep'20 volumes have improved YoY (IR's container volumes increased 7.5%). Export traction has been encouraging and domestic trade has also ramped up after easing of lockdown restrictions. Considering the faster-than-expected ramp-up in volumes, management now expects a 10% or lower volume decline in FY21 vs. a 20% fall guided earlier.
- Land licensing fee:** As per its revised fee policy, IR had demanded Rs 7.8bn of LLF from CCRI for two terminals in Q1FY21. However, in Q2, the company received a claim of Rs 12.8bn for 13 terminals, out of its 28 terminals on IR land. CCRI estimates the charge at Rs 4.7bn and has made representations to the IR. Management is confident that its method of estimation will eventually prevail and expects the discussions to conclude by end-FY21.

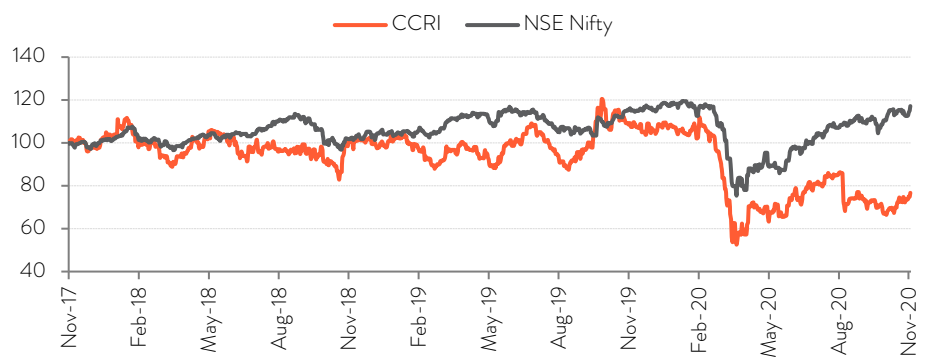
The company will continue to provide LLF on P&L based on its internal calculation (Rs 4.7bn) and to recognise IR demand as a contingent liability on the balance sheet, till clarity on the LLF payment emerges.

- **Pricing and discounts:** CCRI's earlier plan of a 3-5% price hike in Oct'20 has now been shelved, given the demand climate. The 5% discount on haulage charges offered by the IR on laden containers has been passed on to select customers through discounting schemes.
- **Rail freight margin:** Rail freight margin expanded to 29.9% vs. 28.9% in Q2FY20.
- **Lead distance:** EXIM/domestic lead distances for H1FY21 stood at 651km/1,328km vs. 744km/1,356km in H1FY20.
- **Empty running costs:** A higher share of empty containers contributed to the realisation decrease in Q2. But empty running cost was flat at Rs 516mn vs. Rs 526mn in Q2FY20, owing to a 25% discount on empty haulage provided by the IR since Q4FY20.
- **Double-stacking:** EXIM imbalance eased in Q2, enabling CCRI to run 673 double-stacked rakes vs. 674 in Q2FY20 and 338 in Q1FY21.
- **New initiatives:** CCRI has taken steps towards bulk goods movement through container trains, offering short-duration services (such as sharing of boxes) to the Middle East and neighboring countries. It has started running trains to Bangladesh and received an encouraging response. It also sees opportunities in distribution logistics and end-to-end transportation solutions (last-mile delivery included) to customers.

Valuation methodology

Given that the Q2FY21 numbers are in line with our estimates, we largely maintain FY21-FY23 revenue and earnings forecasts. We continue to bake in LLF of Rs 4.7bn – in line with CCRI’s assessment and not as per the IR’s claims – as there is no clarity on the final quantum yet. Considering the regulatory overhang, we keep our target P/E at 15x, a substantial discount to the stock’s long-term multiple of 23-25x. On rolling valuations over to Dec’22, we move to a higher target price of Rs 360 from Rs 345. Maintain SELL on LLF concerns.

FIG 12 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Key upside risks to our estimates are –

- sharper-than-expected recovery in volumes,
- railways shifting back to the volume-based land licensing fee calculation, 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	58,802	75,697	87,869
EBITDA	14,078	16,749	13,339	19,457	22,992
Depreciation	4,246	5,130	5,260	6,156	6,972
EBIT	9,833	11,619	8,080	13,300	16,020
Net interest income/(expenses)	(7)	(361)	(340)	0	0
Other income/(expenses)	7,064	2,797	3,265	3,932	4,375
Exceptional items	0	0	0	0	0
EBT	16,889	14,056	11,005	17,232	20,395
Income taxes	(4,735)	(1,482)	(2,817)	(4,342)	(5,140)
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	12,890	15,255
Adjustments	0	8,816	0	0	0
Adjusted net profit	12,154	12,574	8,188	12,890	15,255

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	3,504	1,553	1,306	1,652	1,924
Other current liabilities	9,241	9,539	8,665	11,154	12,948
Provisions	719	692	666	857	995
Debt funds	7,007	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	100,632	97,601	103,742	111,475	120,629
Shareholders' fund	103,679	100,647	106,788	114,522	123,675
Total liabilities and equities	124,453	115,668	120,661	131,422	142,778
Cash and cash eq.	1,704	21,686	28,084	27,490	29,848
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	7,392
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	12,387	15,946	18,510
Total assets	124,453	115,668	120,661	131,422	142,778

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	16,400	17,704	13,447	19,046	22,228
Interest expenses	7	361	340	0	0
Non-cash adjustments	(117)	(1,761)	0	0	0
Changes in working capital	(29,775)	40,134	(2)	(2,485)	(1,767)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	(13,485)	56,438	13,785	16,561	20,461
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	7,007	(7,007)	0	0	0
Interest expenses	(7)	(361)	(340)	0	0
Dividends paid	(6,280)	(2,281)	(2,047)	(5,156)	(6,102)
Other financing cash flows	3,428	(10,392)	0	0	0
Cash flow from financing	4,756	(20,040)	(2,387)	(5,156)	(6,102)
Changes in cash and cash eq.	(18,113)	19,982	6,398	(595)	2,359
Closing cash and cash eq.	1,704	21,686	28,084	27,490	29,848

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	19.9	6.2	13.4	21.2	25.0
Adjusted EPS	19.9	20.6	13.4	21.2	25.0
Dividend per share	10.3	3.7	3.4	8.5	10.0
Book value per share	170.2	165.2	175.3	188.0	203.0

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	3.5	3.7	4.1	2.9	2.5
EV/EBITDA	16.3	14.4	18.0	11.5	9.6
Adjusted P/E	20.4	19.7	30.3	19.3	16.3
P/BV	2.4	2.5	2.3	2.2	2.0

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	72.0	89.5	74.4	74.8	74.8
Interest burden (PBT/EBIT)	171.8	121.0	136.2	129.6	127.3
EBIT margin (EBIT/Revenue)	15.1	17.9	13.7	17.6	18.2
Asset turnover (Revenue/Avg TA)	62.2	59.6	54.8	66.2	71.5
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)	(9.2)	28.7	16.1
EBITDA	16.7	19.0	(20.4)	45.9	18.2
Adjusted EPS	14.5	3.5	(34.9)	57.4	18.4
Profitability & Return ratios (%)					
EBITDA margin	21.6	25.9	22.7	25.7	26.2
EBIT margin	15.1	17.9	13.7	17.6	18.2
Adjusted profit margin	18.7	19.4	13.9	17.0	17.4
Adjusted ROAE	12.3	12.3	7.9	11.6	12.8
ROCE	9.4	10.7	7.6	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	3.4	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%

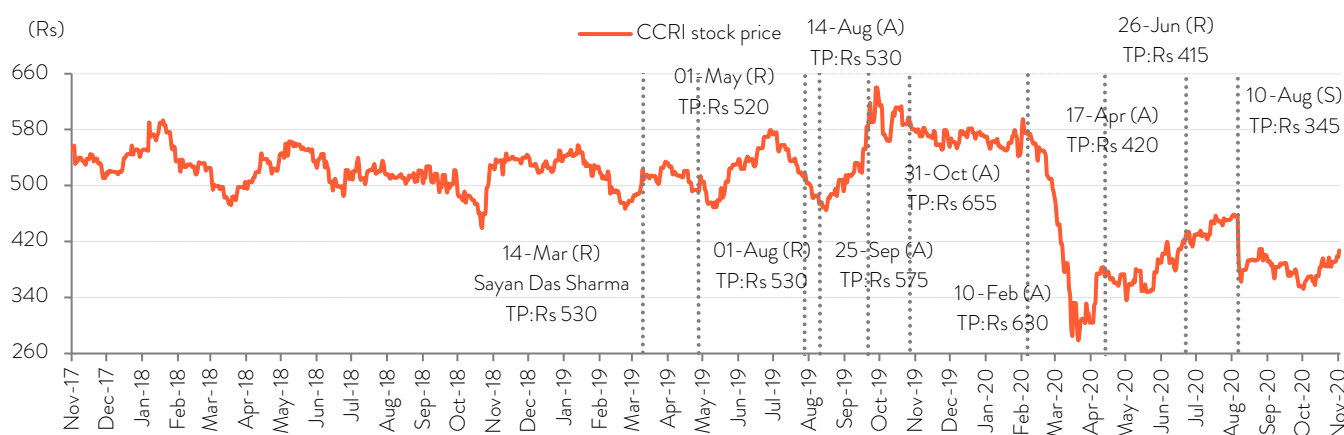
ADD – Expected return from >+5% to +15%

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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