

REDUCE

TP: Rs 415 | ▼ 4%

**CONTAINER CORP OF
INDIA**

| Logistics

| 26 June 2020

Decent quarter but headwinds ahead – downgrade to REDUCE

Container Corp's (CCRI) Q4 topline plunged 10% YoY as volumes/realisation fell 4%/7%. But stringent cost control scripted an impressive 24% YoY rise in EBITDA. Absence of SEIS income dragged adj. PAT down 11% YoY. A subdued demand outlook – 20% volume drop guided for FY21 – and rise in land licensing fee are near-term headwinds. We cut FY21/FY22 earnings 18%/2% and pare our Mar'21 TP to Rs 415 (vs. Rs 420). After a 20%+ rally in the past month, CCRI is trading at 20x FY22E EPS. Cut from ADD to REDUCE on limited valuation comfort.

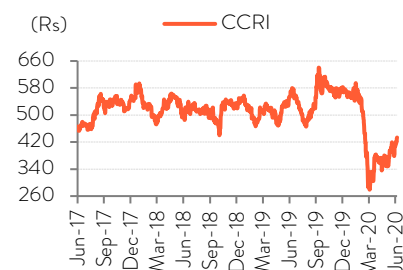
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Volumes under pressure: Handling/originating volumes dropped 4%/12% amid weak EXIM trade. Realisations also fell 7% YoY/1% QoQ. CCRI's decision to not pursue low-margin, short-lead cargo and its aversion to discounts yielded ~600bps market share loss in FY20, but seems to have steadied lead distance. The company aims to regain market share through better service levels vs. rivals.

Ticker/Price	CCRI IN/Rs 434
Market cap	US\$ 3.5bn
Shares o/s	609mn
3M ADV	US\$ 10.4mn
52wk high/low	Rs 666/Rs 263
Promoter/FPI/DII	55%/27%/13%

Source: NSE

Strong margin print: EBITDA margin expanded 840bps YoY to 30% despite tepid volumes. Lower originating volumes and empty costs aided a 16% YoY decline in freight expense, while a write-back of Rs 300mn catalysed a 27% YoY drop in other operating expense. Staff cost was lower YoY and QoQ as higher provisions were made in 9M but actual cost in FY20 was lower due to attrition.

STOCK PERFORMANCE

Source: NSE

Headwinds ahead: Management expects a sharp 20% decline in FY21 volumes as EXIM trade is sluggish and gradual normalcy in truck operation is likely to enhance competition. Further, under the new land license fee regime, CCRI will now have to pay Rs 4.5bn p.a. to the Indian Railways vs. Rs 1.4bn in FY20. Though CCRI is confident of maintaining margins, passing on the cost rise in the current weak climate looks difficult. We bake in a lower volume decline of 13% YoY, but also forecast 320bps margin contraction in FY21. Volumes are expected to rebound strongly (+22%) in FY22 boosted by DFC commissioning.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	58,910	65,427	64,738	58,807	75,689
EBITDA (Rs mn)	12,067	14,408	16,749	13,331	19,457
Adj. net profit (Rs mn)	10,619	12,154	10,317	8,172	12,986
Adj. EPS (Rs)	17.4	19.9	20.6	13.4	21.3
Adj. EPS growth (%)	12.4	14.5	3.5	(35.0)	58.9
Adj. ROAE (%)	11.7	12.3	12.3	7.9	11.7
Adj. P/E (x)	24.9	21.7	21.0	32.3	20.4
EV/EBITDA (x)	20.2	17.1	15.3	19.2	12.3

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)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Revenues	15,686	17,498	(10.4)	15,276	2.7	64,738	65,427	(1.1)
Rail freight expenses	8,120	9,640	(15.8)	8,514	(4.6)	34,984	37,314	(6.2)
% of sales	51.8	55.1	(333bps)	55.7	(397bps)	54.0	57.0	(299bps)
Other operating expenses	1,554	2,130	(27.0)	1,597	(2.7)	7,484	7,861	(4.8)
% of sales	9.9	12.2	(226bps)	10.5	(55bps)	11.6	12.0	(45bps)
Employee expenses	602	1,097	(45.1)	898	(32.9)	3,135	3,368	(6.9)
% of sales	3.8	6.3	(243bps)	5.9	(204bps)	4.8	5.1	(30bps)
Other expenses	665	803	(17.2)	550	21.0	2,386	2,477	(3.7)
% of sales	4.2	4.6	(35bps)	3.6	64bps	3.7	3.8	(10bps)
Total expenditure	10,942	13,671	(20.0)	11,559	(5.3)	47,989	51,019	(5.9)
EBITDA	4,745	3,828	24.0	3,717	27.6	16,749	14,408	16.3
EBITDA margin (%)	30.2	21.9	837bps	24.3	591bps	25.9	22.0	385bps
Depreciation	1,336	1,117	19.6	1,263	5.8	5,130	4,246	20.8
EBIT	3,409	2,711	25.8	2,454	38.9	11,619	10,162	14.3
Interest expenses	108	7	1,482.4	60	80.5	361	7	4,774.3
Other income	952	2,133	(55.4)	626	51.9	2,797	6,735	(58.5)
PBT	4,253	4,837	(12.1)	3,021	40.8	14,056	16,889	(16.8)
PBT margin (%)	27.1	27.6	(53bps)	19.8	733bps	21.7	25.8	(410bps)
Exceptional item	206	-	-	-	-	(8,816)	-	-
Tax rate	1,102	1,313	(16.1)	1,266	(13.0)	1,482	4,735	(68.7)
Tax rate (%) – total	25.9	27.2	(124bps)	41.9	(1,600bps)	10.5	28.0	(1,749bps)
Reported PAT	3,356	3,523	(4.7)	1,755	91.3	3,758	12,154	(69.1)
Adjustment	(206)	-	-	-	-	8,816	-	NM
Adjusted PAT	3,151	3,523	(10.6)	1,755	79.5	12,574	12,154	3.5
Adjusted PAT margin (%)	20.1	20.1	(5bps)	11.5	860bps	19.4	18.6	85bps

Source: Company, BOBCAPS Research | Note: SEIS in Q4FY19/FY19 clubbed under other income

FIG 2 – PER UNIT PARAMETERS – STANDALONE

(Rs)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Total sales volume (teu)	9,41,270	9,78,930	(3.8)	9,10,407	3.4	37,47,758	38,29,419	(2.1)
Realisation/teu	16,665	17,875	(6.8)	16,779	(0.7)	17,274	17,085	1.1
Rail freight expenses/teu	8,626	9,848	(12.4)	9,352	(7.8)	9,335	9,744	(4.2)
Other operating expenses/teu	1,651	2,176	(24.1)	1,754	(5.9)	1,997	2,053	(2.7)
Employee expenses/teu	640	1,121	(42.9)	986	(35.1)	837	879	(4.9)
Other expenses/teu	707	821	(13.9)	604	17.0	637	647	(1.6)
Total expenditure/teu	11,624	13,965	(16.8)	12,696	(8.4)	12,805	13,323	(3.9)
EBITDA/teu	5,041	3,910	28.9	4,083	23.5	4,469	3,762	18.8
Depreciation/teu	1,419	1,141	24.4	1,387	2.3	1,369	1,109	23.5
EBIT/teu	3,621	2,769	30.8	2,696	34.3	3,100	2,654	16.8

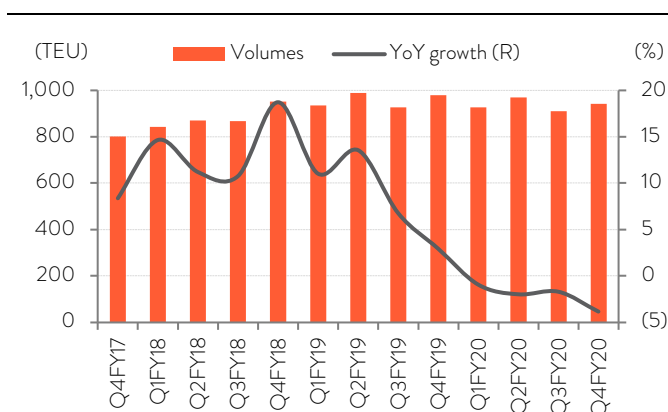
Source: Company, BOBCAPS Research

FIG 3 – SEGMENTAL DATA – STANDALONE

	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
EXIM segment								
Volume (teu)	7,75,319	8,16,396	(5.0)	7,66,822	1.1	31,54,596	32,45,259	(2.8)
Revenue (Rs mn)	11,307	13,171	(14.2)	11,713	(3.5)	49,301	50,633	(2.6)
Realisation/teu (Rs)	14,583	16,133	(9.6)	15,275	(4.5)	15,628	15,602	0.2
EBIT (Rs mn)	3,425	3,072	11.5	2,805	22.1	12,294	10,709	14.8
EBIT margin (%)	30.3	23.3	696bps	23.9	634bps	24.9	21.2	379bps
EBIT/teu (Rs)	4,417	3,763	17.4	3,658	20.7	3,897	3,300	18.1
Domestic segment								
Volume (teu)	1,65,951	1,62,534	2.1	1,43,585	15.6	5,93,162	5,84,160	1.5
Revenue (Rs mn)	4,380	4,328	1.2	3,562	22.9	15,437	14,801	4.3
Realisation/teu (Rs)	26,390	26,627	(0.9)	24,810	6.4	26,024	25,338	2.7
EBIT (Rs mn)	397	227	75.0	25	1,515.4	809	941	(14.1)
EBIT margin (%)	9.1	5.2	383bps	0.7	838bps	5.2	6.4	(112bps)
EBIT/teu (Rs)	2,395	1,397	71.4	171	1,297.7	1,363	1,612	(15.4)

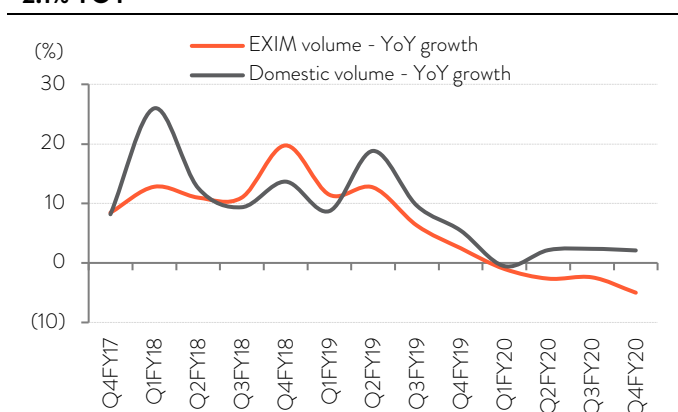
Source: Company, BOBCAPS Research

FIG 4 – HANDLING VOLUMES DECLINED 4% YOY



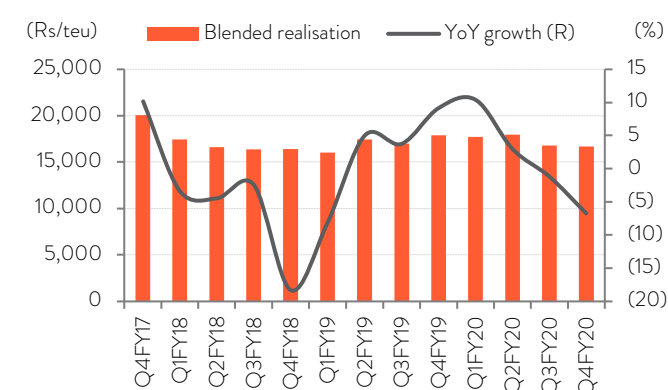
Source: Company, BOBCAPS Research

FIG 5 – EXIM VOLUMES DECLINED 5%; DOMESTIC UP 2.1% YOY



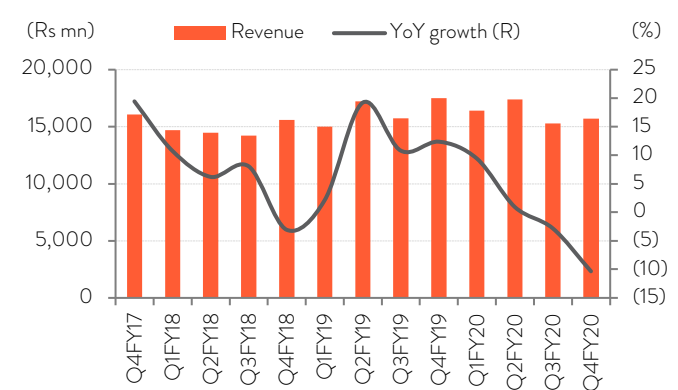
Source: Company, BOBCAPS Research

FIG 6 – REALISATION FELL 7% YOY



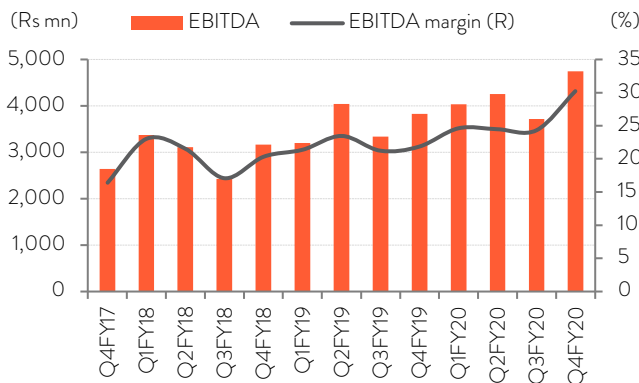
Source: Company, BOBCAPS Research

FIG 7 – STANDALONE REVENUE DECLINED 10% YOY



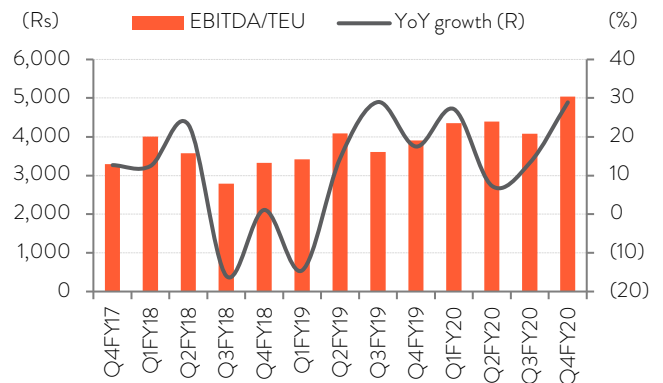
Source: Company, BOBCAPS Research

FIG 8 – STRONG EBITDA MARGIN EXPANSION CATALYSED BY LOWER EXPENSES



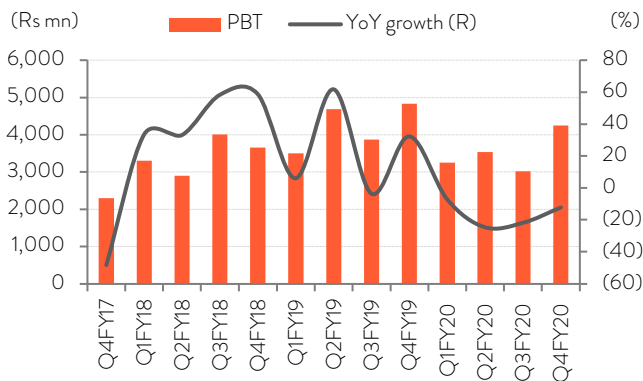
Source: Company, BOBCAPS Research

FIG 9 – EBITDA PER TEU GREW 29% YOY



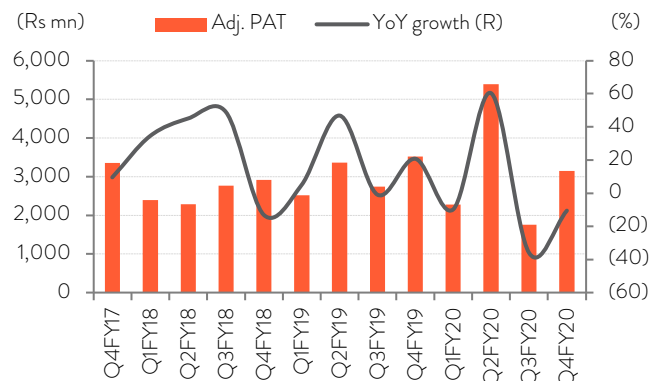
Source: Company, BOBCAPS Research

FIG 10 – ABSENCE OF SEIS INCOME LED TO 12% YOY DECLINE IN PBT



Source: Company, BOBCAPS Research

FIG 11 – ADJ. PAT DECLINED 11% YOY



Source: Company, BOBCAPS Research

Earnings call highlights

- Handling volumes dipped 4% YoY in Q4FY20 to 0.9mn teu (EXIM volumes down 5% YoY, domestic up 2%). Originating volumes fell 12% YoY (EXIM down 13% YoY, domestic up 1%). For FY20, handling/originating volumes decreased 2%/6% YoY.
- Covid has severely affected export-import trade, dampening the outlook on FY21 volumes. Though rail has garnered share from road during the lockdown, full resumption of trucking operations will take some share back from rail. Accordingly, management has guided for 3mn TEU of volumes in FY21, which implies a 20% YoY decline.
- CCRI has lost ~600bps market share in FY20 (-800bps in EXIM/+260bps in domestic) due to its decision not to pursue (1) short-lead distance business where margins are low/negative, and (2) long-lead volumes through steep discounting.

- Rail freight expenses were lower YoY in Q4 owing to the decline in originating volumes and reduced empty running costs. Other operating expenses had a write-back of Rs 300mn.
- Staff costs decreased in Q4 as CCRI had provided for higher employee costs in 9MFY20, computed based on employee numbers at the beginning of FY20. However, higher attrition for the year resulted in lower actual costs.
- Per management, the Indian Railways (IR) has changed the land licensing fee policy from FY21, which would require CCRI to pay Rs 4.5bn in FY21 vs. Rs 1.4bn in FY20 – an increase of Rs 1,000/TEU, +8% over FY20. The company has made a representation to the IR and the decision to hike this fee is under discussion. We have assumed the revised land licensing fee in our forecast.
- Empty repositioning has led to higher empty running – up 11% YoY in volumes, which impacted overall realisations. But IR offered discounts, resulting in a decline in empty running costs to Rs 2bn in FY20 (EXIM at Rs 1.1bn) vs. Rs 2.5bn in FY19.
- CCRI is not participating in the IR's advanced freight scheme in FY21 vs. Rs 30bn in advances paid in FY20.
- Double-stacking trains came down sharply to 494 in Q4 vs. 789 trains in Q4FY19 and 602 in Q3FY20. FY20 double-stack trains reduced to 2,528 vs. 3,126 in FY19.
- Market share across key ports has declined marginally – JNPT share stands at 66% in FY20 vs. 67% in 9MFY20, Mundra at 44% vs. 45%, and Pipavav at 49% vs. ~51%.
- The DFC has been delayed further as construction work was impeded by Covid. The Gujarat ports are now expected to be connected by Dec'20 or Mar'21.
- CCRI has incurred capex of Rs 1.1bn in FY20 but plans to incur a lower Rs 0.5bn in FY21 towards new terminals, rolling stock and material handling equipment, as well as a digitisation push.
- New business initiatives include offering of first-mile and last-mile logistics to customers across 15 terminals, which will be rolled out across other terminals in FY21. Despite slow progress, distribution logistics remains a core focus. The company will start coal logistics management for state electricity boards.

Valuation methodology

We cut our FY21/FY22 revenue estimates by 11%/7% to factor in the weak EXIM and domestic trade environment. Even after building in a stronger operating performance, we expect a lower EBITDA margin in FY21 as land licensing fees are likely to go up sharply (~Rs 1,000/teu) amidst tepid volumes. However, we have raised our FY22 margin estimate as the higher fee will likely get apportioned across higher volumes following an expected volume recovery. We cut FY21/FY22 earnings estimates 18%/2% – FY22 earnings fall to a lesser extent as we alter our other income and depreciation assumptions.

Consequent to the earnings cut, we lower our Mar'21 target price to Rs 415 vs. Rs 420 earlier, set at an unchanged FY22E P/E multiple of 19x (23x on ex. other income EPS, valuing cash on book value). We value CCRI's long-term investments at Rs 10/sh. Our P/E multiple is lower than the stock's average forward trading multiple of 23-24x in the past five years as we are circumspect on the near-term growth and margin outlook. Also, ICD land purchase remains an overhang on valuations.

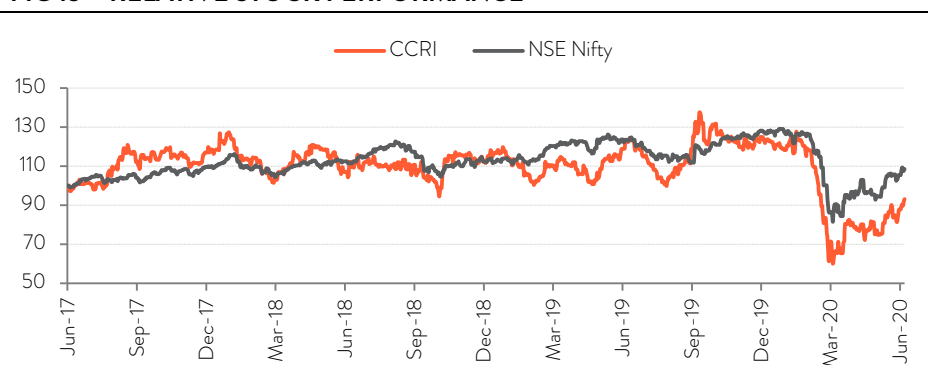
The stock has rallied 20%+ over the past month even though the business outlook has not improved. Lack of valuation comfort compels us to downgrade our rating on CCRI to REDUCE from ADD, though we do expect the company's operating metrics to structurally improve once the DFC is operational.

FIG 12 – REVISED ESTIMATES – STANDALONE

(Rs mn)	FY21E			FY22E		
	Old	New	Change (%)	Old	New	Change (%)
Revenues	65,763	58,807	(10.6)	81,212	75,689	(6.8)
EBITDA	15,582	13,331	(14.4)	20,412	19,457	(4.7)
EBITDA margin (%)	23.7	22.7	(102bps)	25.1	25.7	57bps
PAT	9,950	8,172	(17.9)	13,204	12,986	(1.6)
PAT margin (%)	15.1	13.9	(123bps)	16.3	17.2	90bps

Source: Company, BOBCAPS Research

FIG 13 – 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)	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue	58,910	65,427	64,738	58,807	75,689
EBITDA	12,067	14,408	16,749	13,331	19,457
Depreciation	3,927	4,246	5,130	5,768	6,307
EBIT	8,141	10,162	11,619	7,563	13,150
Net interest income/(expenses)	(1)	(7)	(361)	0	0
Other income/(expenses)	5,787	6,735	2,797	3,333	4,165
Exceptional items	0	0	0	0	0
EBT	13,926	16,889	14,056	10,896	17,315
Income taxes	(3,307)	(4,735)	(1,482)	(2,724)	(4,329)
Extraordinary items	(129)	0	(8,816)	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	10,490	12,154	3,758	8,172	12,986
Adjustments	129	0	6,559	0	0
Adjusted net profit	10,619	12,154	10,317	8,172	12,986

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Accounts payables	2,542	3,504	1,553	1,450	1,812
Other current liabilities	8,010	9,241	9,539	8,665	11,153
Provisions	704	719	692	666	857
Debt funds	0	7,007	0	0	0
Other liabilities	334	303	3,236	3,236	3,236
Equity capital	2,437	3,047	3,047	3,047	3,047
Reserves & surplus	91,300	1,00,632	97,601	1,03,730	1,11,522
Shareholders' fund	93,737	1,03,679	1,00,647	1,06,776	1,14,568
Total liabilities and equities	1,05,327	1,24,453	1,15,668	1,20,794	1,31,626
Cash and cash eq.	19,817	1,704	21,686	28,724	28,356
Accounts receivables	604	884	1,591	1,611	2,074
Inventories	274	233	261	237	305
Other current assets	11,418	44,491	5,402	4,947	6,367
Investments	13,890	14,029	14,441	14,441	14,441
Net fixed assets	36,384	41,879	49,656	58,263	63,956
CWIP	6,710	6,247	9,375	0	0
Intangible assets	100	68	38	38	38
Deferred tax assets, net	(1,732)	(1,616)	145	145	145
Other assets	17,861	16,534	13,073	12,388	15,945
Total assets	1,05,327	1,24,453	1,15,668	1,20,794	1,31,626

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Net income + Depreciation	14,546	16,400	15,447	13,940	19,293
Interest expenses	1	7	361	0	0
Non-cash adjustments	(549)	(117)	(1,761)	0	0
Changes in working capital	2,645	(29,775)	40,134	141	(2,467)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	16,643	(13,485)	54,181	14,081	16,826
Capital expenditures	(8,352)	(9,245)	(16,005)	(5,000)	(12,000)
Change in investments	(153)	(139)	(412)	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(8,505)	(9,384)	(16,417)	(5,000)	(12,000)
Equities issued/Others	488	609	0	0	0
Debt raised/repaid	0	7,007	(7,007)	0	0
Interest expenses	(1)	(7)	(361)	0	0
Dividends paid	(4,992)	(6,280)	(2,644)	(2,043)	(5,195)
Other financing cash flows	(650)	3,427	(10,028)	0	0
Cash flow from financing	(5,156)	4,756	(20,040)	(2,043)	(5,195)
Changes in cash and cash eq.	2,982	(18,113)	17,725	7,039	(368)
Closing cash and cash eq.	19,817	1,704	21,686	28,724	28,356

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20P	FY21E	FY22E
Reported EPS	17.2	19.9	6.2	13.4	21.3
Adjusted EPS	17.4	19.9	20.6	13.4	21.3
Dividend per share	8.2	10.3	4.3	3.4	8.5
Book value per share	153.8	170.2	165.2	175.2	188.0

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20P	FY21E	FY22E
EV/Sales	4.1	3.8	4.0	4.4	3.2
EV/EBITDA	20.2	17.1	15.3	19.2	12.3
Adjusted P/E	24.9	21.7	21.0	32.3	20.4
P/BV	2.8	2.5	2.6	2.5	2.3

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20P	FY21E	FY22E
Tax burden (Net profit/PBT)	76.3	72.0	73.4	75.0	75.0
Interest burden (PBT/EBIT)	171.1	166.2	121.0	144.1	131.7
EBIT margin (EBIT/Revenue)	13.8	15.5	17.9	12.9	17.4
Asset turnover (Revenue/Avg TA)	62.8	62.5	59.6	54.8	66.2
Leverage (Avg TA/Avg Equity)	1.0	1.1	1.1	1.0	1.0
Adjusted ROAE	11.7	12.3	12.3	7.9	11.7

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
YoY growth (%)					
Revenue	9.6	11.1	(1.1)	(9.2)	28.7
EBITDA	19.0	19.4	16.3	(20.4)	46.0
Adjusted EPS	12.4	14.5	3.5	(35.0)	58.9
Profitability & Return ratios (%)					
EBITDA margin	20.5	22.0	25.9	22.7	25.7
EBIT margin	13.8	15.5	17.9	12.9	17.4
Adjusted profit margin	18.0	18.6	15.9	13.9	17.2
Adjusted ROAE	11.7	12.3	12.3	7.9	11.7
ROCE	8.7	9.8	10.7	7.1	11.5
Working capital days (days)					
Receivables	4	5	9	10	10
Inventory	2	1	1	1	1
Payables	16	20	9	9	9
Ratios (x)					
Gross asset turnover	1.3	1.3	1.0	0.8	0.8
Current ratio	3.0	3.7	2.5	3.4	2.8
Net interest coverage ratio	NM	NM	NM	NM	NM
Adjusted debt/equity	(0.2)	0.1	(0.2)	(0.3)	(0.2)

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

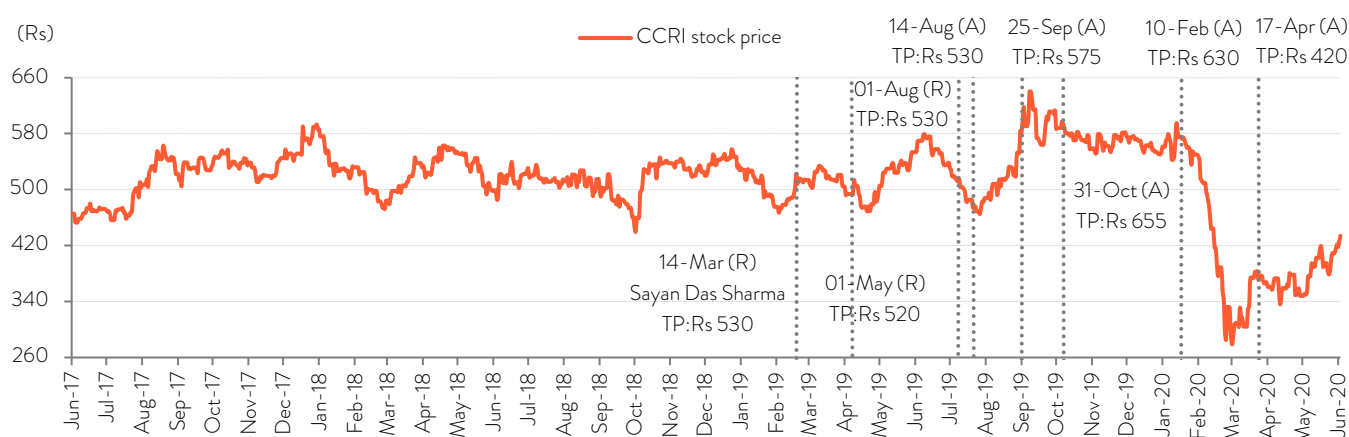
ADD – Expected return from >+5% to +15%

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)

HISTORICAL RATINGS AND TARGET PRICE: CONTAINER CORP OF INDIA (CCRI IN)



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

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