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FIRST LIGHT

11 September 2020

RESEARCH

Container Corp of India | Target: Rs 345 | –8% | SELL

Annual report analysis: FY20 a mixed bag

Best Agrolife | (NOT RATED)

Up-and-coming agrochem player

SUMMARY

Container Corp of India

Container Corp's (CCRI) FY20 annual report reveals a mixed year with some hits and some misses. Lower volumes (–2%) amidst tough externalities, 600bps market share loss and tepid adj. PAT growth (+3.5%) due to weaker other income (–60%) were key negatives. On the other hand, stable realisation (+2%), secular margin gains (+425bps YoY) and strong OCF (Rs 47bn) were encouraging. CCRI is focused on expanding services and bolstering its tech architecture. Maintain SELL with a Sep'21 TP of Rs 345 given concerns over LLF concerns.

Click here for the full report.

Best Agrolife

Best Agrolife (BAL, Not Rated) is a midsized crop-protection chemical company (FY20 sales Rs 6.1bn), with diversified products across insecticides, fungicides and herbicides, a strong pack-to-pack (P2P) presence and fast-growing brand business. A focus on specialty molecules and market reach has led to above-industry growth (17%/49% sales/EBITDA CAGR, FY16-FY20). BAL claims to have maximum registrations in India (300+ formulations). It expects to triple FY20 profits in three years with mid-teen ROCE. The stock trades at 36x Q1 annualised EBITDA.

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	4,000
Cipla	Buy	850
GAIL	Buy	155
Petronet LNG	Buy	310
Tech Mahindra	Buy	910

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,600
Chola Investment	Buy	280
Laurus Labs	Buy	1,200
Transport Corp	Buy	270
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.70	2bps	14bps	(104bps)
India 10Y yield (%)	5.99	(7bps)	15bps	(69bps)
USD/INR	73.54	0.1	1.9	(2.6)
Brent Crude (US$/bbl)	40.79	2.5	(8.1)	(32.9)
Dow	27,940	1.6	1.8	3.0
Shanghai	3,255	(1.9)	(3.0)	8.2
Sensex	38,194	(0.4)	0.4	2.5
India FII (US$ mn)	**8 Sep**	**MTD**	**CYTD**	**FYTD**
FII-D	22.4	156.4	(14,933.6)	(5,174.1)
FII-E	23.1	(150.4)	4,657.0	11,260.0

Source: Bank of Baroda Economics Research

BOBCAPS Research
research@bobcaps.in

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SELL
TP: Rs 345 | ⮟ 8%

CONTAINER CORP OF INDIA | Logistics | 10 September 2020

Annual report analysis: FY20 a mixed bag

Container Corp's (CCRI) FY20 annual report reveals a mixed year with some hits and some misses. Lower volumes (–2%) amidst tough externalities, 600bps market share loss and tepid adj. PAT growth (+3.5%) due to weaker other income (–60%) were key negatives. On the other hand, stable realisation (+2%), secular margin gains (+425bps YoY) and strong OCF (Rs 47bn) were encouraging. CCRI is focused on expanding services and bolstering its tech architecture. Maintain SELL with a Sep'21 TP of Rs 345 given concerns over LLF concerns.

Sayan Das Sharma
research@bobcaps.in

Volume decline, market share loss key negatives…: After three successive years of growth, CCRI's handling/originating volumes declined 2%/6% (TEU terms) in FY20 amidst a tough demand climate. The company's decision to avoid a discount-led volume strategy translated into a 600bps market share loss for the year (–800bps/+215bps in EXIM/domestic). The near-term outlook remains muted – after CCRI's handling volumes plunged 21% YoY in Q1FY21, Indian Railways' container volumes in Q2 YTD have declined a further 11%.

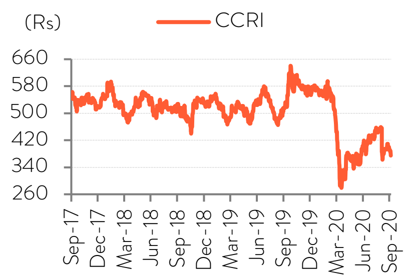
…but margin juggernaut rolls on: Notwithstanding a flat topline (–0.6%), operating margins continued to improve for the third consecutive year in FY20. EBITDA margin expanded 425bps YoY to 25.9%, aided by lower empty running charges, higher rail freight gross margin and lower employee costs. But despite 19% growth in EBITDA, adj. PAT grew by a meagre 3.5% YoY as other income dropped 60% owing to the absence of SEIS income.

Diversifying revenue base: CCRI remains committed to offering end-to-end logistics services to customers, and retains focus on expanding into new areas. After coastal shipping and distribution logistics, it has recently forayed into first-mile and last-mile connectivity solutions, coal transportation, and movement of bulk, cement and liquid cargo.

Ticker/Price	CCRI IN/Rs 375
Market cap	US$ 3.1bn
Shares o/s	609mn
3M ADV	US$ 14.9mn
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	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	65,098	64,738	58,802	75,695	87,863
EBITDA (Rs mn)	14,079	16,749	13,339	19,457	22,992
Adj. net profit (Rs mn)	12,154	12,574	8,187	12,889	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)	18.8	18.2	27.9	17.7	15.0
EV/EBITDA (x)	14.9	13.2	16.5	10.5	8.7

Source: Company, BOBCAPS Research

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NOT RATED

BEST AGROLIFE | Agrochemicals | 10 September 2020

Up-and-coming agrochem player

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Vivek Kumar
research@bobcaps.in

Growing agrochem player: BAL has 2.3% market share in the US$ 3.5bn domestic agrochem market and aims to become a significant player in the next three years. Established in 1992 and listed in Apr'18 (under a merger scheme), the company has two key segments: P2P (85% of FY20 agrochem sales) and branded. It also has a technical unit under a separate private entity (Best Crop Science LLP), which is being made a subsidiary of BAL via amalgamation.

Broad portfolio: In FY20, insecticide, herbicide, fungicide, and plant growth products formed 65%, 25%, 8%, 2% of sales respectively. The brand business was started in FY16 and contributed 15% (47% CAGR, FY16-FY20). BAL has a 700+ distributor network with a good presence in the north, west and south.

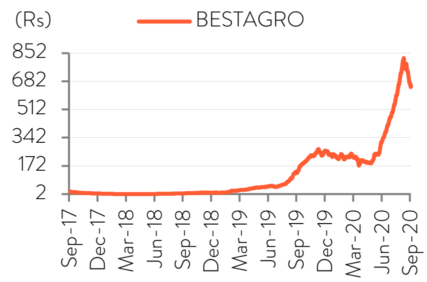
Potential >40% topline growth in next three years: BAL expects new generation molecules and specialty business to aid >40% growth in the next three years. In B2C, it launched two impactful brands (Pydon, Diron) in the last 12 months and has planned two more launches for early-FY22 – per the company, these can add potential revenue of Rs 3bn by FY23 vs. FY20 sales of Rs 0.9bn. Calibrated expansion in distributor reach and targeted penetration in the southern market would offer support. BAL is aiming for FY23 sales of Rs 17bn (vs. Rs 7bn in FY20). Export markets (semi-regulated, developed) could contribute from FY23.

Mix shift to support margin expansion: BAL has logged a 17% revenue CAGR in the last five years (13% in last two years). EBITDA margins have risen from 1.1% in FY18 to 2.2% in FY20. Revenue/EBITDA surged 82%/179% YoY in Q1FY21 with margins of 2.7%. Growing B2C sales and technical unit integration can significantly elevate the margin profile (+500bps by FY23, per management) and return ratios. The stock trades at 36x Q1FY21 annualised EBITDA and 65x annualised EPS.

Ticker/Price	BESTAGRO IN/ Rs 655
Market cap	US$ 196mn
Shares o/s	22mn
3M ADV	US$ 0.15mn
52wk high/low	Rs 837/Rs 124
Promoter/FPI/DII	38%/7%/0%

Source: Bloomberg

STOCK PERFORMANCE



Source: Bloomberg

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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)

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