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YEARS

# Initiating Coverage Container Corporation of India Ltd.

28-December-2020



# Container Corporation Of India Ltd. (CONCOR)



Industry	LTP	Base Case Fair Value	Bull Case Fair Value	Recommendation	Time Horizon
Logistics	Rs. 392	Rs.393	Rs.435	Buy on dips to Rs.353-355 band and add more in the Rs.319-321 band	2 quarters

HDFC Scrip Code	CONCOREQNR
BSE Code	531344
NSE Code	CONCOR
Bloomberg	CCRI:IN
CMP Dec 24, 2020	392
Equity Capital (cr)	305
Face Value (Rs)	5
Eq- Share O/S(cr)	60.93
Market Cap (Rscr)	23897
Book Value (Rs)	165
Avg.52 Wk Volume	2183052
52 Week High	601.95
52 Week Low	263.20

Share holding Pattern % (Dec, 2020)	
Promoters	54.80
Institutions	40.34
Non Institutions	4.86
Total	100.0

## Fundamental Research Analyst

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### Our Take:

CONCOR is a “Navratna” company with 54.80% GoI holding. The company has carried 43.50 million tons of containerized cargo by rail representing 72.09% of total market size. It has two division - EXIM and domestic terminals. CONCOR is focused on expanding its facilities in coming years which will support volume growth. By focusing on providing complete logistics package to clients, CONCOR can command higher realization.

We expect that Covid-19 led lockdown and slowdown in the economy will lead to degrowth in revenue for FY21E. Volume degrowth will lead to degrowth in revenue and EBIDTA.

Also, Land License Fees (LLF) demanded from April 01, 2020 is much higher than the expectation of CONCOR. This will pressurize profitability going forward if LLF not get revised to downward. Government is working on reducing LLF but still it has no certainty.

### Valuations & Recommendation:

We expect that the company will get benefits from the strong market share, leadership position, strong balance sheet but Covid-19 led lockdown will adversely impact with lower revenue growth, fall in volume; and probable increase in land license fees (LLF) would lead to 10% CAGR in top-line and 2% EPS CAGR over FY20-23E. Any policy decision on LLF is a key variable in the near future and can impact the stock price and divestment timeline. CONCOR remains a structural growth story that will play a pivotal role in the changing Indian logistics landscape (DFC, cargo containerisation). Until clarity on LLF emerges, the stock price will be driven by news flow around the same. Also the fact that LLF could be changed, if there is change in ownership can be a dampener for divestment as the bidder would like to have a clarity on the outgo for some years.

The freight charges have to rise anywhere between 10-14% in case the Railways demand for LLF is met. Also, if Railways raise demand for the balance 15 terminals, then the rates have to be raised further, which in current competitive scenario seems difficult. Also, the 7% annual hike demanded by the Railways seems to be on the higher side given the fact that realization per TEU have risen by 0% over the past 6 years and alternative modes of transport also need to raise freight rates year after year so as to allow CONCOR to raise rates by atleast 3-4% p.a. to offset the 7% annual hike by Railways. All this can be mitigated if the traffic post DFC rises sharply.

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The stock is currently traded at 24.3x FY22E P/E, 13.4x FY22E EV/EBITDA. **We feel the base case fair value of the stock is Rs.393 (24.3x FY22E P/E, 13.4x FY22E EV/EBITDA ) and Bull case the fair value of the stock is Rs.435 (26.9x FY22E P/E, 15.1x FY22E EV/EBITDA). Investors willing to take some risk can look to buy the stock on falls to Rs.353-355 band (21.9x FY22E P/E, 11.9x FY22E EV/EBITDA) and add more on dips to Rs.319-321 band (19.8x FY22E P/E, 10.5x FY22E EV/EBITDA).**

## Financial Summary

Particulars (Rs cr)	Q2FY21	Q2FY20	YoY-%	Q1FY21	QoQ-%	FY19	FY20	FY21E	FY22E	FY23E
Total Operating Income	1503	1739	-14%	1189	26%	6,881.9	6,473.8	5,534.4	6,804.2	8,550.1
EBITDA	313	426	-26%	159	97%	1,780.0	1,674.9	1,095.8	1,513.3	1,949.4
RPAT	188	238	-21%	62	204%	1,215.4	375.8	646.6	984.7	1,318.6
Diluted EPS (Rs)	3.1	3.9	-21%	1	210%	19.9	6.2	10.6	16.2	21.6
RoE-%						12.3	3.7	6.3	9.2	11.7
P/E (x)						19.7	63.6	36.9	24.3	18.1
EV/EBITDA						13.3	12.6	18.8	13.4	10.1

(Source: Company, HDFC sec)

## Q2FY21 Result Update

- Revenue of the company declined by 14% y-o-y to Rs.1503 cr in Q2FY21. Revenue decline was mainly on the back of lower handling volume which declined by 9%YoY while realization declined by 5%YoY. EXIM/domestic volumes fell 10% YoY/2% YoY while EXIM realisation fell 8% YoY(lower lead distance). The net profit of the company came in at Rs.184 cr in Q2FY21 from a PAT of Rs.238 cr in Q2FY20. Higher land license fee during the quarter of Rs 113Cr v/s 25Cr in Q2FY20 impacted profitability. Volumes decreased ~9% YoY, but management highlighted Sep-20 was better YoY, and upped the FY21 guidance (from 20% YoY decline to 10%).

## Segment-wise

- Revenue of the EXIM segment has posted 17% y-o-y degrowth to Rs.1130 cr and EBIT of this segment posted profit of Rs.187 cr from losses in previous year same quarter.
- Revenue of The Domestic segment has posted 5% y-o-y degrowth to Rs.379 cr and EBIT of this segment degrew by 30% y-o-y to Rs.18 cr.

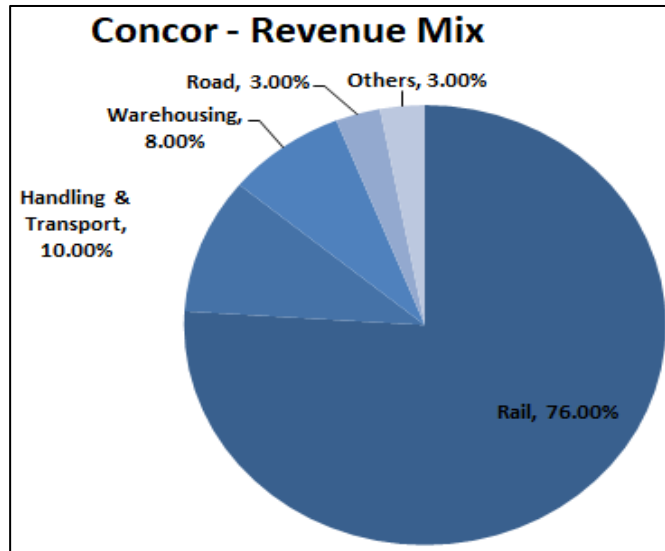
# Container Corporation Of India Ltd. (CONCOR)



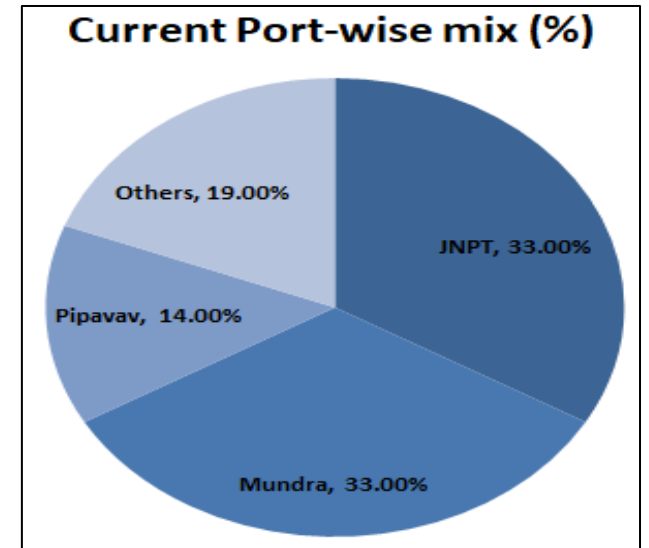
## Long term Triggers

### **Leadership position, a strong infrastructure base with diverse business profile**

CONCOR is India's largest railway container train operator with 68% market share. The Company is also engaged in the operation of logistics facilities, including dry ports, container freight stations and private freight terminals. The company has a strong infrastructure base with total wagons holding at 15,498 and 83 terminals.

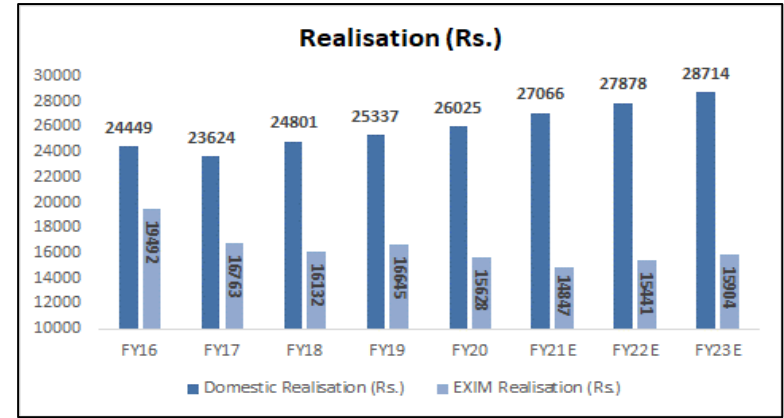
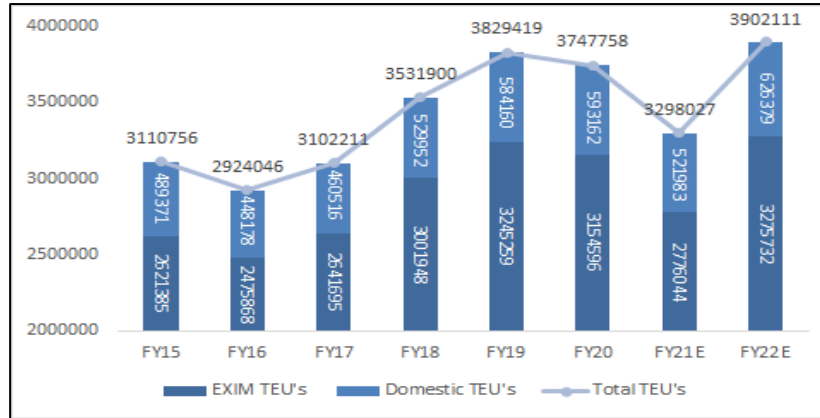


Source – Company, HDFC sec Research



CONCOR's total volume is expected to grow by 8% CAGR in FY20-23E which could be supported by 8% CAGR in EXIM volume and 9% CAGR in domestic volume for FY20-23E. The company has struggled in EXIM realisation but the domestic realisation is expected to remain robust.

# Container Corporation Of India Ltd. (CONCOR)



Source – Company, HDFC sec Research



The company has decided not to participate in less profitable short lead traffic/long lead traffic where competitors are offering deep discounts. In the medium term, it is also looking at moving goods in Bulk – Food grain, Cement, Industrial, Oil etc. It is also focusing on providing end-to-end solutions for customers.

## Carrier

Majority of CONCOR terminals are rail-linked, with rail as the main carrier for haulage. Facilities are, however, provided for first and last-mile transportation by road also. Though rail is the mainstay of CONCOR's transportation plan, some CONCOR terminals are exclusively road-fed as well. Road services are mostly in the form of supplementary services to provide the door to door linkages having carried the bulk of long lead by rail. However, where ever it is operationally or economically a superior option, the road is used as an alternative to rail as well.

## Terminal and CFS Operator

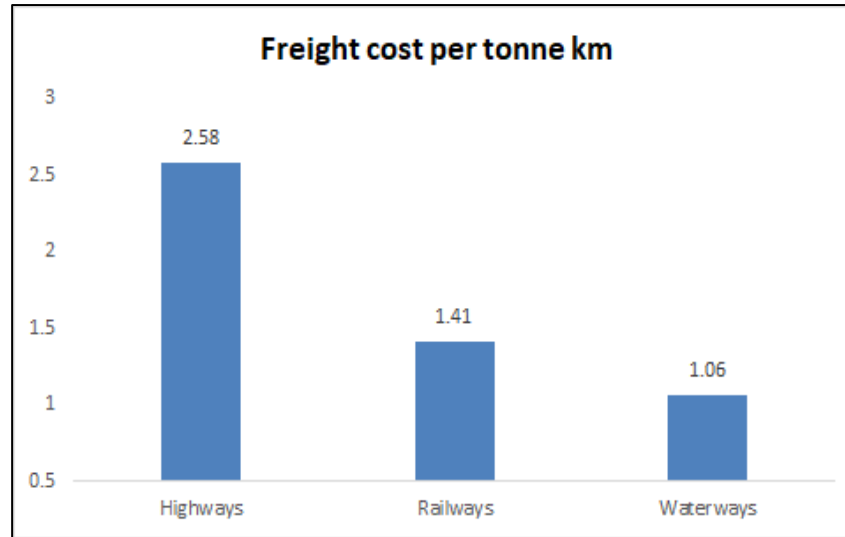
CONCOR has a total of 63 terminals, of which 9 are export-import container depots, 4 strategic tie-ups and 17 exclusive domestic container depots and as many as 33 terminals perform the combined role of domestic as well as international terminals.

CONCOR's customs bonded Inland Container depots are dry ports in the hinterland and serve the purpose of bringing all port facilities including Customs clearance to the customer's doorstep. The terminals are almost always linked by rail to the Indian Railway network unless their size or location dictates that they be linked by road. The rail links enable to the company to facilitate the moving of large volumes over long distances in the most cost-effective manner.

## Expected growth in the Transportation segment specially to rail transport

Despite the benefits of rail-based transport, India's freight transport mix is heavily skewed towards the road, due to the limited investments in the Capex intensive rail and water infrastructure. Amongst the large countries (by landmass), India's share of non-road-based transport is significantly lower.

	Road	Railways	Water	Air
USA	37%	48%	14%	1%
China	22%	47%	30%	1%
India	57%	36%	6%	1%



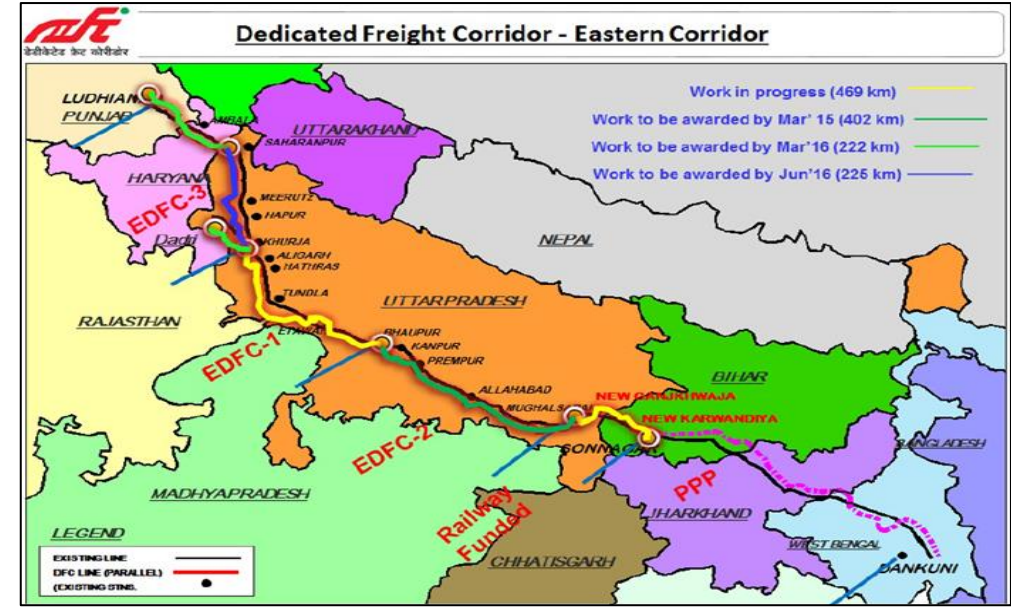
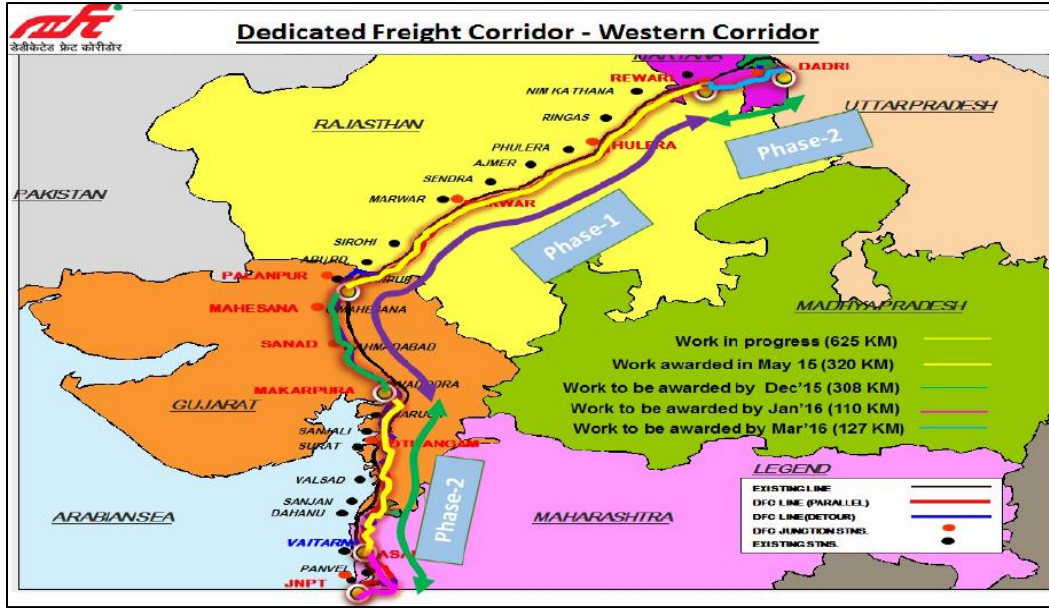
Source – Company, HDFC sec Research

Under the current government, railways are investing aggressively in network expansion. They have increased their CAPEX to Rs 1,587bn in FY20 (\$22.7bn) from Rs 654bn (\$9.3bn) in FY15.

Once the DFC is commissioned, the average speed of the trains will increase 3x to 75kmph and the train height will increase to 7.1m, thus allowing for double stacking. The new rakes of CONCOR have higher payload as they are DFC compliant. The rail coefficient at JNPT has risen to 23% (from 17% earlier) due to faster train movement (turnaround times have reduced to 24-36 hours).

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598.71	685.65	38.56	13.09	203.88	118.92	118.92
(-22.11)	(-14.44)	(-7.74)	(-0.57)	(-11.87)	(-1.46)	(-1.46)
142.09	167.79	154.12	393.13	-62.95	-187.58	-42.88
(3.51)	(17.44)	(7.88)	(7.58)	(-11.88)	(-71.46)	(-1.46)



Source – Company, HDFC sec Research

The DFC connectivity to western ports is expected to be completed towards H1FY22 (CONCOR holds ~72.09% of rail share). Dedicated Freight Corridor's (DFC) commissioning will certainly be a meaningful boost to volumes and efficiency post FY21. CONCOR has a dominant terminal network comprising of over 80 locations pan India. This strength will be difficult for other operators to replicate, particularly as several ICDs are at strategic locations.



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Feature	Existing	On DFC
<b>Moving Dimensions</b>		
Height	4.265 m	7.1 m for Western DFC 5.1 m for Eastern DFC
Width	3200 mm	3660 mm
Container Stack	 Single Stack	 Double Stack
Train length	700 m	1500 m
Train Load	5,000 Ton	13,000 Ton

Source – Company, HDFC sec Research

## Expansion plans

As a part of overall strategy of expansion and entry into new areas of business to complement CONCOR's position as a Multimodal Logistics service provider, CONCOR has entered into coastal shipping operations, Distribution Logistics, warehousing, First Mile Last Mile Logistics, and Bulk movement of Cargo in Containers among other initiatives. CONCOR has opened its first distribution logistics Centre in Chennai in Mar-19. The company has identified 20 different locations for setting up distribution logistic centres. This will vertically integrate its core business. CONCOR will be developing around 50 million sq ft of warehousing in 4-5 years at various centres, which will be structured on a public-private-partnership model.

The management intends to expand its terminal network to 100 facilities pan India over the next two years.

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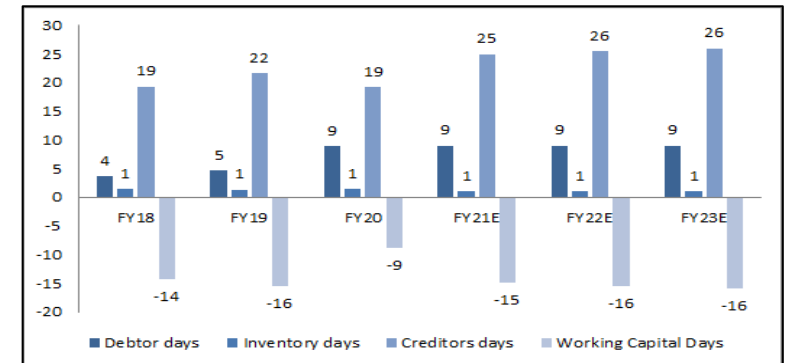
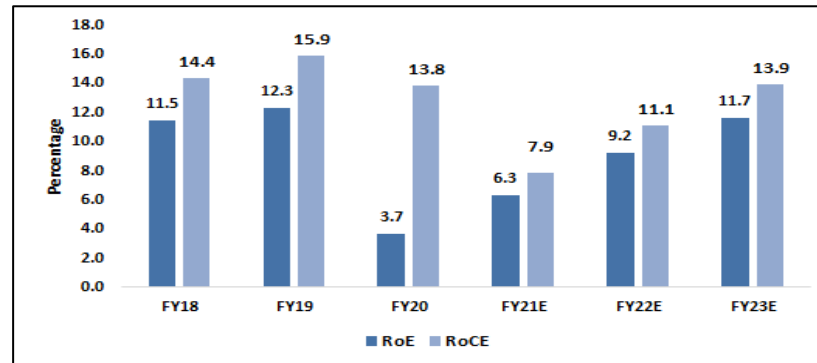
As government is focusing on sea transport, CONCOR has launched its first coastal service in Jan-19 (between Kandla and Tuticorin, deploying two 700-TEU capacity ships). The company will expand services into the east coast and connect Bangladesh as well. The entire expansion will cost ~Rs.800 cr for a year for the next three years.

The company has started to focus on the hub and spoke model. Hub and spoke movements allow for better utilization of transport potential and allow for long lead services to be generated based on short lead traffic collections using road and rail shuttle services. This service can be especially useful for big corporates for whom production centres are concentrated in a single location, but distribution needs are national in scale. CONCOR has already successfully moved white cement as a commodity using this experiment, whereby the product has been distributed over various locations after being picked up from a single production centre.

CONCOR could benefit from shift of northern hinterland volumes from Gujarat ports to JNPT post entire DFC commissioning Post 2HFY22. However, it will have to face intense competition from road and inability to provide scheduled services within the first year of DFC becoming operational.

## Strong balance sheet

CONCOR is a debt-free company with having a negative working capital cycle. It is generating strong cash flow from operating activities which keeps supporting further expansion plans while keeping balance sheet strength intact.



Source – Company, HDFC sec Research



## What could go wrong

### **Competition from private players**

Various private Inland Container Depots (ICDs) have become operational during the past couple of years, which has also resulted in increased competition for the company. However, CONCOR has adopted various marketing activities like special discounts and packages, reduction in prices in case of bulk bookings, online tracking of shipment, focus on double-stack operations to provide cost-effective service etc. to compete in the market. Compared to private logistic companies, CONCOR due to its sheer size and PSU parentage is less efficient/proactive and finds it difficult to arrange return cargo and empty running at times has been a matter of concern.

### **Higher land licensing fees (LLF) norms**

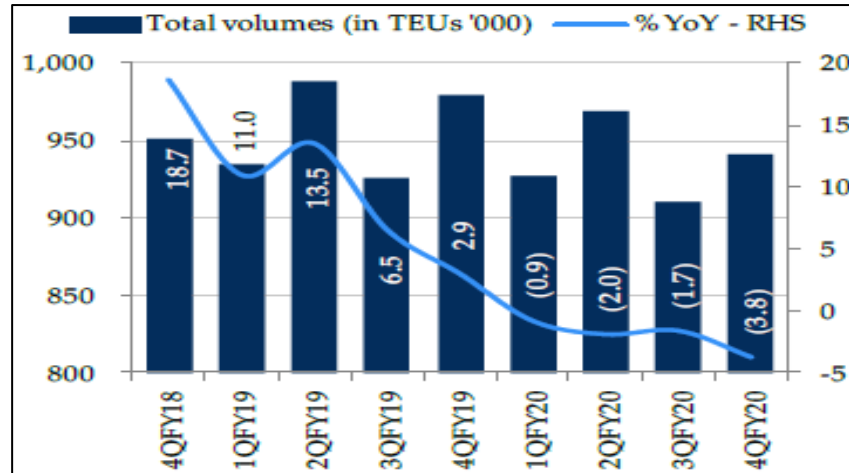
As per the annual land licensing fee (LLF) norms for CONCOR, from April 1, 2020 Indian Railways (on whose land 28 CONCOR terminals operate of its total ~65 terminals) has demanded Rs.1276 cr - annually for 13 terminals (much higher amount when accounted for rest 13 terminals), based on 6% of the value of the land, which will be further increased 7% annually. CONCOR, on the other hand, has estimated and accounted for Rs.450 cr for FY21 as LLF and is actively contesting the excess demand. This demand is for 13 terminals of CONCOR operating on Railways land (out of total 28 terminals). It has provided for Rs.230 cr in H1FY21. Downside risk for CONCOR is if it is forced to pay the higher land licence fee or is compelled to purchase Railway's land at a high price for its divestment to go through. For divestment to proceed, the LLF resolution is key. We don't expect a full pass through of LLF hike given the current competitive situation.

As per media sources, the Finance Ministry has recommended the Railways Ministry lower the LLF calculations from 6% of value of land to 3% and increasing tenure of contract. However, even if they agree with the FM recommendation, the new fee would still be double CONCOR's estimate. In an environment of weak volume growth, the higher fixed nature of expense is expected to create margin pressure for the company.

### **Land Acquisition continues to be a big constraint for CONCOR**

CONCOR's coastal shipping business is temporarily stopped due to the current environment and is expected to resume at the end of CY20 which will impact its revenues adversely. Further, as the DFC commissioning has been delayed to FY22 due to COVID, volumes are expected to decline in double digits in the current fiscal.

# Container Corporation Of India Ltd. (CONCOR)



Source – Company, HDFC sec Research

Large dependence on Railways as a transporter leaves CONCOR vulnerable to increases in haulage charges & policy changes. To overcome the same, CONCOR has to actively evaluate entry into “end-to-end” road transportation segment to augment its basic nature of providing inter modal comprehensive integrated rail-based services.

## About the Company

Container Corporation of India Ltd. (CONCOR), was incorporated in March 1988 as a Public Sector Enterprise under the Ministry of Railways by taking over a network of seven Inland Container Depots (ICDs) of Indian Railways (IR). It is a market leader having the largest network of 84 ICDs/container freight station (CFSs) in India (75 terminals and 9 strategic tie-ups). It has also expanded to cover management of Ports, air cargo complexes and establishing cold-chain. The company developed multimodal logistics support for India's International and Domestic containerization and trade. CONCOR has been upgraded as “Navratna” company as on July-2014.

# Container Corporation Of India Ltd. (CONCOR)

## Financials

### Income Statement

(Rs Cr)	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>Net Revenue</b>	<b>6157</b>	<b>6882</b>	<b>6474</b>	<b>5534</b>	<b>6804</b>	<b>8550</b>
Growth (%)	9.8	11.8	-5.9	-14.5	22.9	25.7
Operating Expenses	4681	5102	4799	4439	5291	6601
<b>EBITDA</b>	<b>1476</b>	<b>1780</b>	<b>1675</b>	<b>1096</b>	<b>1513</b>	<b>1949</b>
<b>Growth (%)</b>	<b>18.4</b>	<b>20.6</b>	<b>-5.9</b>	<b>-34.6</b>	<b>38.1</b>	<b>28.8</b>
<b>EBITDA Margin (%)</b>	<b>24</b>	<b>25.9</b>	<b>25.9</b>	<b>19.8</b>	<b>22.2</b>	<b>22.8</b>
Other Income	302.6	334.2	279.7	298.5	347.4	390.5
Depreciation	392.7	424.6	513	512.4	531.6	567.2
<b>EBIT</b>	<b>1386</b>	<b>1690</b>	<b>1442</b>	<b>882</b>	<b>1329</b>	<b>1773</b>
Interest	0.1	0.7	36.1	19.8	14.4	12.3
Exceptional Items	0	0	-881.6	0	0	0
<b>PBT</b>	<b>1386</b>	<b>1689</b>	<b>524</b>	<b>862</b>	<b>1315</b>	<b>1760.4</b>
Tax	341.2	473.5	148.2	215.5	330	441.9
<b>RPAT</b>	<b>1044</b>	<b>1215</b>	<b>376</b>	<b>647</b>	<b>985</b>	<b>1319</b>
<b>Growth (%)</b>	<b>21.7</b>	<b>16.4</b>	<b>-69.1</b>	<b>72.1</b>	<b>52.3</b>	<b>33.9</b>
EPS	17.1	19.9	6.2	10.6	16.2	21.6

### Balance Sheet

As at March	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>SOURCE OF FUNDS</b>						
Share Capital	<b>243.7</b>	<b>304.7</b>	<b>304.7</b>	<b>304.7</b>	<b>304.7</b>	<b>304.7</b>
Reserves	9130	10063	9760	10083	10625	11353
<b>Shareholders' Funds</b>	<b>9374</b>	<b>10368</b>	<b>10065</b>	<b>10388</b>	<b>10930</b>	<b>11657</b>
Long Term Provisions & Others	252	246	361	836	1010	1072
<b>Total Source of Funds</b>	<b>9626</b>	<b>10614</b>	<b>10426</b>	<b>11224</b>	<b>11940</b>	<b>12730</b>
<b>APPLICATION OF FUNDS</b>						
Net Block	4319	4819	5907	6825	7525	8125
Non-Current Investments	1389	1403	1444	1155	1062	1072
Deferred Tax Assets (net)	0	0	15	15	15	15
Long Term Loans & Advances	1786	1653	1307	1192	1220	1131
<b>Total Non-Current Assets</b>	<b>7495</b>	<b>7876</b>	<b>8673</b>	<b>9186</b>	<b>9821</b>	<b>10343</b>
Inventories	27	23	26	15	19	23
Trade Receivables	60	88	159	136	168	211
Short term Loans & Advances	251	287	245	257	257	270
Cash & Equivalents	1980	168	2167	2623	2961	3494
Other Current Assets	893	4164	297	300	270	278
<b>Total Current Assets</b>	<b>3211</b>	<b>4731</b>	<b>2894</b>	<b>3332</b>	<b>3675</b>	<b>4276</b>
Short-Term Borrowings	0	701	0	0	0	0
Trade Payables	254	351	155	304	370	470
Other Current Liab & Provisions	801	924	954	959	1150	1381
Short-Term Provisions	25	18	31	32	35	39
<b>Total Current Liabilities</b>	<b>1080</b>	<b>1993</b>	<b>1141</b>	<b>1295</b>	<b>1555</b>	<b>1890</b>
Net Current Assets	2131	2738	1753	2038	2119	2387
<b>Total Application of Funds</b>	<b>9626</b>	<b>10614</b>	<b>10426</b>	<b>11224</b>	<b>11940</b>	<b>12730</b>

# Container Corporation Of India Ltd. (CONCOR)

## Cash Flow Statement

(Rs Cr)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Reported PBT	1,386	1,689	524	862	1,315	1,760
Non-operating & EO items	-303	-334	-280	-299	-347	-391
Interest Expenses	0	1	36	20	14	12
Depreciation	393	425	513	512	532	567
Working Capital Change	22	-2,418	2,983	173	256	265
Tax Paid	-341	-473	-148	-216	-330	-442
<b>OPERATING CASH FLOW ( a )</b>	<b>1,156</b>	<b>-1,111</b>	<b>3,628</b>	<b>1,053</b>	<b>1,439</b>	<b>1,773</b>
Capex	-830	-924	-1,647	-1,384	-1,232	-1,167
Free Cash Flow	327	-2,035	1,981	-331	208	606
Investments	269	119	290	405	65	78
Non-operating income	303	334	280	299	347	391
<b>INVESTING CASH FLOW ( b )</b>	<b>-258</b>	<b>-471</b>	<b>-1,077</b>	<b>-681</b>	<b>-819</b>	<b>-699</b>
Debt Issuance / (Repaid)	-75	-7	116	474	175	62
Interest Expenses	0	-1	-36	-20	-14	-12
FCFE	251	-2,043	2,060	123	368	656
Share Capital Issuance	49	61	0	0	0	0
Dividend	-834	-764	-704	-323	-443	-591
<b>FINANCING CASH FLOW ( c )</b>	<b>-860</b>	<b>-711</b>	<b>-625</b>	<b>131</b>	<b>-283</b>	<b>-541</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>38</b>	<b>-2,293</b>	<b>1,926</b>	<b>503</b>	<b>337</b>	<b>533</b>

## Key Ratios

(Rs Cr)	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>Profitability (%)</b>						
EBITDA Margin	24	25.9	25.9	19.8	22.2	22.8
EBIT Margin	22.5	24.6	22.3	15.9	19.5	20.7
APAT Margin	17	17.7	5.8	11.7	14.5	15.4
RoE	11.5	12.3	3.7	6.3	9.2	11.7
RoCE	14.4	15.9	13.8	7.9	11.1	13.9
<b>Solvency Ratio</b>						
D/E	0	0.1	0	0	0	0
Interest Coverage	15397.1	2283.3	40	44.5	92.3	144.1
<b>PER SHARE DATA</b>						
EPS	17.1	19.9	6.2	10.6	16.2	21.6
CEPS	29.5	26.9	14.6	19	24.9	30.9
BV	385	170	165	170	179	191
Dividend	17.1	12.3	9.6	5.3	7.3	9.7
<b>Turnover Ratios (days)</b>						
Debtor days	4	5	9	9	9	9
Inventory days	1	1	1	1	1	1
Creditors days	19	22	19	25	26	26
Working Capital Days	-14	-16	-9	-15	-16	-16
<b>VALUATION</b>						
P/E	22.9	19.7	63.6	36.9	24.3	18.1
P/BV	1	2.3	2.4	2.3	2.2	2
EV/EBITDA	14.4	13.3	12.6	18.8	13.4	10.1
Dividend Yield	4.4	3.1	2.5	1.4	1.9	2.5
Dividend Payout	79.8	61.7	156	50	45	44.8

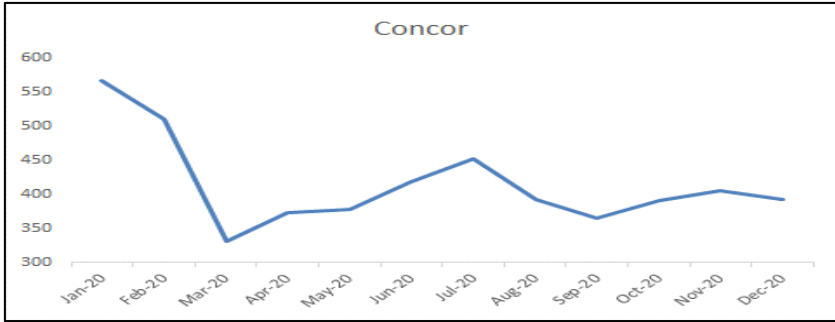
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# Container Corporation Of India Ltd. (CONCOR)



598.71	685.65	685.65	685.65	203.88	118.92	118.92
(-50.01)	(-55.00)	(-0.21)	(-0.21)	(-2.19)	(-120.7)	(-120.7)
142.09	167.22	154.12	393.13	-62.95	-187.58	-42.88
(-35.1)	(-17.4)	(-7.84)	(-7.84)	(-111.88)	(-71.40)	(-111.88)

One Year Price Chart



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