

Container Corporation

BUY

CMP Rs467

Target Rs558

Upside 19%

Strong Operational performance to sustain – BUY

Conference call takeaways

- ✓ **Land License Fee (LLF):** As per CONCOR calculations, the company's LLF stands at Rs 4.5 bn for FY21 for entire land (as against Railways demand of Rs.13.4 bn for 21 terminals). The Company has presented the case with the Railways Ministry and expects resolution in Company's favor soon.
- ✓ **Realization:** The rise in realization was on account of 1) more loaded trains 2) higher lead distance.
- ✓ **Guidance:** Volume guidance improved from -20% at the beginning of the year to -5% now for FY21.
- ✓ **Lead Distance:** Exim at 709km (681 km in Q2 FY21), domestic at 1401 km (1328 km in Q2 FY21) and total at 790 km (752 km in Q2 FY21).
- ✓ **Originating volumes:** Exim volumes at 536,563 TEUs, Domestic at 77,076 TEUs
- ✓ **Double stack trains:** 777 trains operated during the quarter
- ✓ **Empty running cost:** Exim Rs 328 mn and Domestic Rs.341.5 mn. Total: ~670 mn
- ✓ **New business:** The rail transport business in Middle east, Iran, Iraq is doing well. Demand for train service in Bangladesh and Nepal has picked up well.
- ✓ **Capex:** The capex for the year stands at Rs5 bn of which Rs2 bn spent till now. The company has ordered 60 rakes of 25 axle ton and may add 4 new rakes next year in addition to 4 this year. No rolling stocks will retire even after new rakes procured.
- ✓ **CONCOR Rail share for Q3:** JNPT: imports at 63% vs 62% yoy and exports at 64% vs 63%yoy; Mundra: imports at 47% from 41% yoy and Exports at 47% from 45% yoy, Pipavav: imports at 58% vs 52% yoy and exports at 50% vs 43% yoy.
- ✓ **Market share at ports:** JNPT: 36% vs 33% yoy, Mundra: 33% vs 31% yoy, Pipavav: 15% vs 11% yoy
- ✓ **DFC:** It will benefit the company with improvement in turnaround time and jump in volumes. Time table based train on DFC will start soon which would shift some volumes from Road to Rail. The management believes that market share for CONCOR will improve with DFC.
- ✓ **Other Details:** 1) will provide 1% of PBT in the employee trust fund 2) Other expenses were lower as security arrangements (TKD: down 50%) has been optimized. Surrendering of the terminals has also helped over the time. Impact of these measures are on sustainable basis. 3) The company has suspended the coastal shipping during the pandemic and will reassess the situation. 4) MMLP will get delayed to FY23, may add 1-2 new MMLP in FY21 and FY22. 5) started with bulk transport with Food Corporation of India, trial runs underway. 6) Rail freight margins at 33.9% vs 27.3% yoy. 7) The disinvestment by the Government is targeted to take place in FY22 as mentioned in the Union budget recently.

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Our view: The Q3 performance has been much better than estimates. While the volumes have picked up with opening up of the economy and trade, the margins have improved with focus on longer distance transportation and letting go off certain low profit routes. The Management has also increased the volume guidance for FY21 considering the traction witnessed in recent months. We increase our estimates for FY21 and FY22 to incorporate the Q3 performance and improved outlook. We roll forward our estimates to FY23 and upgrade the stock from ADD to BUY for target price of Rs.558/share (22x FY23E). The outcome of the LLF issue however remains a key monitorable.

Container Corporation Q3 FY21 results:

- ✓ Container Corporation (Concor) reported topline growth of ~14% yoy (to Rs.17.7 bn) led by ~6% volume growth and 8% growth in realization.
- ✓ Domestic revenues witnessed strong growth (+25% yoy; contribution: 27%) as compared to the EXIM revenues (+11% yoy).
- ✓ CONCOR reported volumes of 966,015 TEUs in Q3 FY21 of which 804,557 TEUs were of EXIM and balance Domestic. Overall volumes grew by 6.1% yoy led by 5% yoy growth in EXIM and 12.5% yoy growth in Domestic volumes.
- ✓ Operating margin improved to 21% (up 1,126 bps qoq) and almost back towards Pre-COVID levels.
- ✓ Strong operating performance saw PAT grow 30% yoy to Rs 2.3 bn.
- ✓ During the quarter, the company has decided to surrender its ICD, Mulund (NGSM) terminal which was built on Railway land. The impact of surrendering this terminal is negligible.
- ✓ During 9M FY21, the company has provided ~Rs 3.5 bn towards Land License Fee (LLF) for all terminals on Railway Land. The Company has received a demand of Rs.13.36 bn from Ministry of Railways as the LLF for FY21 for 21 terminals of CONCOR. As per company's assessment, the above demand is not as per Railway's extant policy and has represented the matter to the Ministry of Railways.

Exhibit 1: Result table (Consolidated)

Y/e 31 Mar (Rs mn)	Q3 FY21	Q3 FY20	yoy(%)	Q2 FY21	qoq (%)
Revenue*	17,669	15,447	14.4	13,263	33.2
Operating Profit	3,761	3,762	(0.0)	1,330	182.8
OPM (%)	21.3	24.4	(307 bps)	10.0	1126 bps
Other Income	752	656	14.7	647	16.3
Depreciation	(1,444)	(1,342)	7.6	(1,350)	7.0
Interest	(106)	(84)	25.6	(108)	(2.0)
Exceptional item	0	0	0.0	0	0.0
PBT	2,963	2,991	(0.9)	519	471.4
Tax	(707)	(1,271)	(44.4)	(23)	2,911.7
PAT	2,257	1,720	31.2	495	355.8
Minority Interest	74	74	0.1	85	(13.2)
Reported PAT	2,331	1,794	29.9	581	301.5
Adjusted PAT	2,331	1,794	29.9	581	301.5

*Q2 FY21 Revenues Adj of SEIS income of Rs.1.8 bn

Exhibit 2: Segmental results (Consolidated)

Particular	Q3 FY21	Q3 FY20	yoy(%)	Q2 FY21	qoq (%)
Revenue (Rs. mn)*	17,669	15,447	14.4	13,263	33.2
EXIM	12,989	11,715	10.9	9,475	37.1
Domestic	4,680	3,733	25.4	3,789	23.5
Revenues Mix (%)					
EXIM	73.5	75.8		74.9	
Domestic	26.5	24.2		25.1	
EBIT (Rs. mn)					
EXIM	2,529	2,795	(9.5)	220	1,047.4
Domestic	2,259	2,808	(19.6)	43	5,116.9
Domestic	270	(13)	NA	177	52.5
EBIT Margin (%)					
EXIM	14.3	18.1		1.7	
Domestic	17.4	24.0		0.5	
Domestic	17.4	(0.3)		4.7	
Volumes (TEUs)					
EXIM	966,015	910,407	6.1	885,673	9.1
Domestic	804,557	766,822	4.9	744,788	8.0
Domestic	161,458	143,585	12.4	140,885	14.6
Volume Mix (%)					
EXIM	83.3	84.2		84.1	
Domestic	16.7	15.8		15.9	

*Q2 FY21 Revenues Adj of SEIS income of Rs.1.8 bn

Exhibit 3: Financial summary (Cons)

Y/e 31 Mar (Rs m)	FY20	FY21E	FY22E	FY23E
Revenues	65,394	62,228	75,444	86,187
yoy growth (%)	(6.0)	(4.8)	21.2	14.2
Operating profit	16,938	13,180	19,547	22,644
OPM (%)	25.9	21.2	25.9	26.3
Reported PAT	4,067	8,578	13,465	15,453
Adjusted PAT	12,585	8,578	13,465	15,453
yoy growth (%)	3.0	(31.8)	57.0	14.8
EPS (Rs)	20.7	14.1	22.1	25.4
P/E (x)	18.4	33.2	21.1	18.4
EV/EBITDA (x)	12.4	2.7	2.4	2.2
Debt/Equity (x)	0.0	19.4	12.8	10.6
RoE (%)	12.4	8.3	12.0	12.5

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