

Container Corporation | BUY



New LLF policy: Devil lies in the detail?

The Union Cabinet today approved the policy on leasing of railways land for Gati Shakti terminals, cutting the annual Land Licence Fee (LLF) to 1.5% (earlier 6%) of market value of land while also extending the term for up to a period of 35 years (earlier 5 years). Although this new policy will be applicable on new terminals, it provides existing entities an option to switch to the new regime post a transparent and competitive bidding process (most likely on revenue sharing parameter, similar to the Gati Shakti Cargo Policy) where the incumbent will possess the right of first refusal. However, there is no clarity yet about recovery of the investments the incumbent operator has made in the infrastructure at those terminals. We keenly await the fine print, expected to be released within the next 90 days. We broadly maintain our estimates at present and will revisit our LLF assumption only post clarity on the policy and Concor's strategy on renewal of its terminals. We provide sensitivity to EPS and TP in Exhibit 6 and Exhibit 7 (1% lower LLF rate implies 5% increase in EPS and 3% increase in our TP). We introduce FY25 and roll forward to Sept'23TP of INR 860 (earlier Mar'23TP of INR770). Buy stays. Key risks to recommendation are a) unfavourable outcome in the fine print of the policy and b) sub-par capital allocation decisions.

- **New LLF policy cuts rate from 6% to 1.5% of market value of land for Gati Shakti Terminals:** The Union Cabinet today approved the policy on leasing of railways land for Gati Shakti Cargo terminals. The policy will enable **a)** integrated development of infrastructure, **b)** development of more cargo terminals, and **c)** increase modal share of rail in freight transportation, thereby reducing the country's logistics cost. Key points are:
 - The policy provides for long-term leasing of railway land for Gati Shakti cargo related activities for a period of up to 35 years (earlier 5 years) at 1.5% (earlier 6%) of market value of land per annum. There exists an annual escalation clause of 6%.
 - The existing entities using railway land for cargo terminals (paying 6% LLF) will have the option to switch to the new policy regime after a transparent and competitive bidding process. They will possess the first right of refusal for the existing terminals. As per the Gati Shakti Policy, the competitive bidding and award of tender will be based on revenue share basis. We await more clarity on the same from the fine print.
 - Over the next 5 years, 300 new PM Gati Shakti Cargo Terminals are likely to be developed, which could generate 1.2 lakh jobs.
 - A comprehensive policy document will be framed and implemented within 90 days of Cabinet approval.
- **What does it mean for Concor?:** On the face of it, it appears that the policy is aimed at the Gati Shakti terminal. However, it provides Concor and other players the option to adopt/ switch to this new regime through a competitive bidding process. Although rules/ conditions are yet to be spelled out clearly, as per Gati Shakti Policy Cargo terminal policy, if Concor is to take the option of moving to the new regime, it is likely to have to win the

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	860
Upside/(Downside)	18.4%
Previous Price Target	770
Change	11.7%

Key Data – CCRI IN

Current Market Price	INR727
Market cap (bn)	INR442.7/US\$5.5
Free Float	42%
Shares in issue (mn)	609.3
Diluted share (mn)	609.3
3-mon avg daily val (mn)	INR962.4/US\$12.0
52-week range	767/554
Sensex/Nifty	59,029/17,624
INR/US\$	79.9

Price Performance

%	1M	6M	12M
Absolute	5.9	26.7	0.4
Relative*	5.6	14.6	-0.9

* To the BSE Sensex

Financial Summary	(INR mn)				
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Sales	63,850	75,945	87,088	1,02,514	1,21,566
Sales Growth (%)	-1.4	18.9	14.7	17.7	18.6
EBITDA	11,002	17,284	18,803	22,891	28,802
EBITDA Margin (%)	17.2	22.8	21.6	22.3	23.7
Adjusted Net Profit	6,150	10,624	11,619	14,668	19,091
Diluted EPS (INR)	10.1	17.4	19.1	24.1	31.3
Diluted EPS Growth (%)	-39.4	72.7	9.4	26.2	30.2
ROIC (%)	7.2	14.3	15.3	20.5	28.8
ROE (%)	6.1	10.1	10.5	12.6	15.6
P/E (x)	72.0	41.7	38.1	30.2	23.2
P/B (x)	4.3	4.1	3.9	3.7	3.5
EV/EBITDA (x)	37.4	23.6	21.3	17.1	13.3
Dividend Yield (%)	0.8	1.0	1.3	2.0	3.0

Source: Company data, JM Financial. Note: Valuations as of 07/Sep/2022

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terminal back basis revenue share model via a competitive bidding process. We await more clarity on this from the fine print as the scenario remains hazy. We have included EPS sensitivity to LLF (Exhibit 7) and Gross spread on haulage charge (INR/ TEU) and fair value (Exhibit 6) in this report.

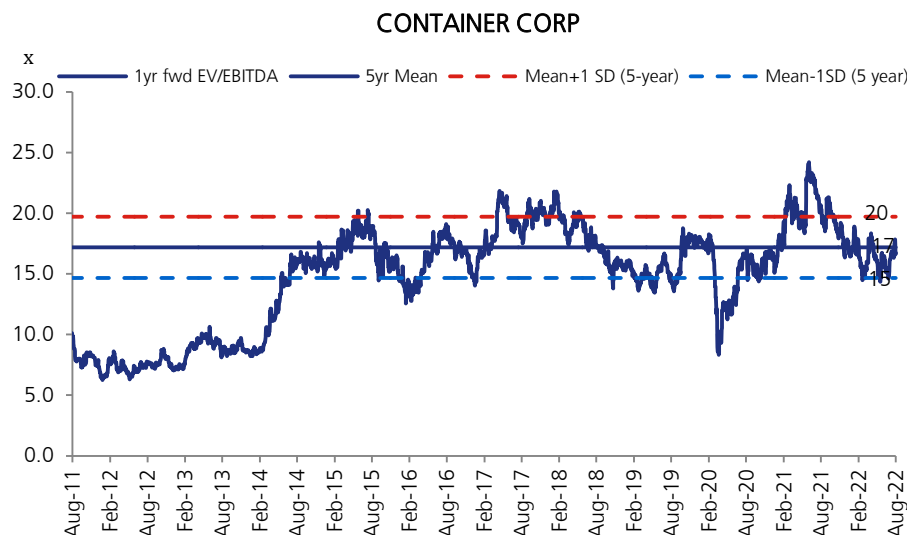
- **Concor sets INR 80-100bn capex target over the next 3-4 years; double-digit volume growth in FY23:** In its 4QFY22 earnings call, Concor had announced a capex target of INR 80-100bn over the next 3-4 years, which will be spent on infrastructure development, rolling stock, containers and equipment, most of which is likely to be funded through internal accruals. Having said that, the company in its 1QFY23 earnings call highlighted the likelihood of substantially lower capex outlay of INR 5-6bn in FY23. Moreover, in a recent media interaction, the CMD highlighted that around INR 40bn will be spent on procuring 230 rakes. The company is looking to increase its owned containers from current 37k TEU to 1.5-2 lakh TEU. We note that Concor has already spent about INR 35-40bn in the past 5 years on new terminal developments. In addition, the CMD remains optimistic of demand trends, and the company has maintained its annual guidance of achieving 10-12% volume growth.
- **Maintain estimates and BUY:** We broadly maintain our FY23-24 EPS estimates and introduce FY25 estimates in this report. We roll forward to Sep'23TP of INR 860. We value **a)** Concor at 16x Sep'24EV/EBITDA, and **b)** MMLP at 1.3x investment to arrive at a Sep'23TP of INR 860 (INR 770 earlier). We maintain **BUY**. Key risks to recommendation are a) unfavourable outcome in the fine print of the policy and b) sub-par capital allocation decisions.

Exhibit 1. SoTP Valuation (Sep'23)

Target Price date	30-Sep-23
EBITDA (1yr forward)	25,847
EV/EBITDA (x)	16
Enterprise Value	4,13,544
Add: Cash & Liquid Investment	46,636
Less: Debt	0
Less: Net Debt	-46,636
Add: Value towards MMLPs (1.3x of investment)	61,145
Equity Value	5,21,326
# of shares (mn)	609
TP	860

Source: JM Financial

Exhibit 2. Concor: 1-Year forward EV/EBITDA

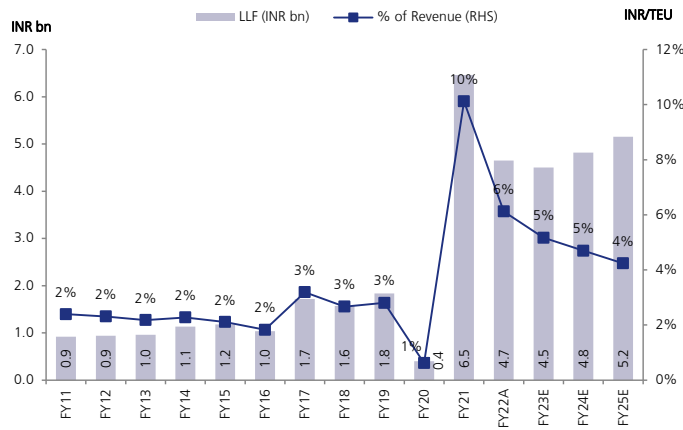


Source: Bloomberg

1 yr Median	3 yr Median	5 yr Median	10 yr Median
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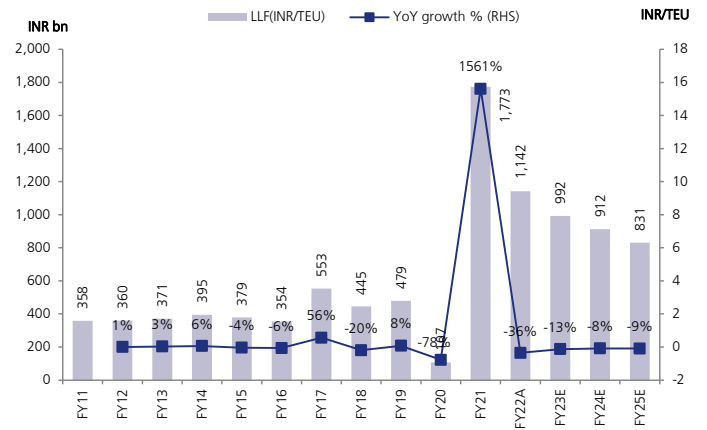
17.1	17.0	17.1	16.2
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Exhibit 3. LLF over the years



Source: Company, JM Financial

Exhibit 4. LLF paid on per TEU basis



Source: Company, JM Financial

Exhibit 5. LLF Terms over the years

Period	LLF Terms
Till FY19	on per TEU basis
FY20-FY22	6% of market value
FY23 onwards	1.5% of market value (Gati Shakti)

Source: Company, JM Financial

Exhibit 6. Fair Value sensitivity to LLF (FY24 Basis)

	770	12.0	14.0	16.0	18.0	20.0
1.5%		690	770	860	950	1040
4.0%		650	730	810	890	970
6.0%		620	690	770	840	920
7.5%		590	660	740	810	880
9.0%		570	640	700	770	840

Source: Company, JM Financial

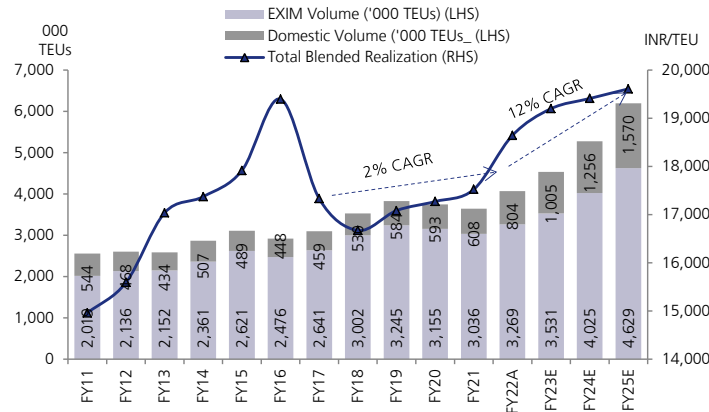
Exhibit 7. EPS sensitivity to LLF and Gross spread on haulage (INR/TEU)

	24	7900	8100	8300	8500	8700
1.5%		25.9	27.2	28.5	29.8	31.1
4.0%		23.5	24.7	26.0	27.3	28.6
6.0%		21.5	22.8	24.1	25.4	26.7
7.5%		20.0	21.3	22.6	23.9	25.2
9.0%		18.5	19.8	21.1	22.4	23.7

Source: Company, JM Financial

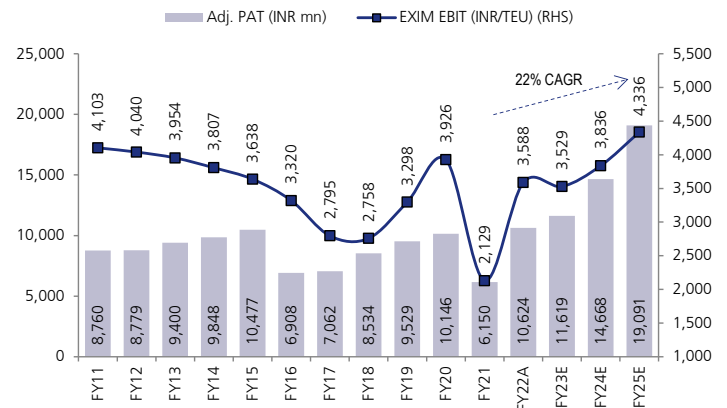
Annual charts

Exhibit 8. Volumes trend



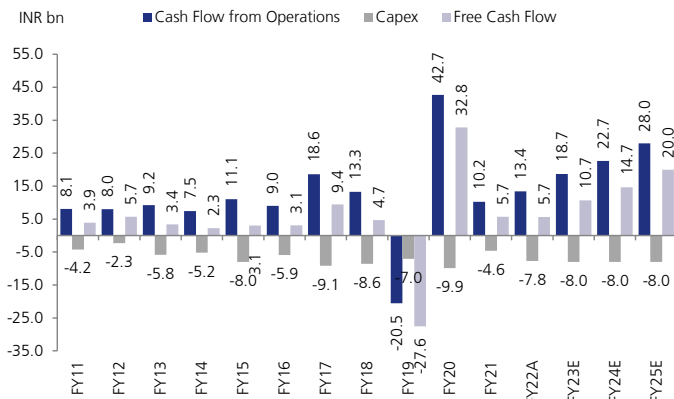
Source: Company, Bloomberg, JM Financial

Exhibit 9. Adj. PAT trend



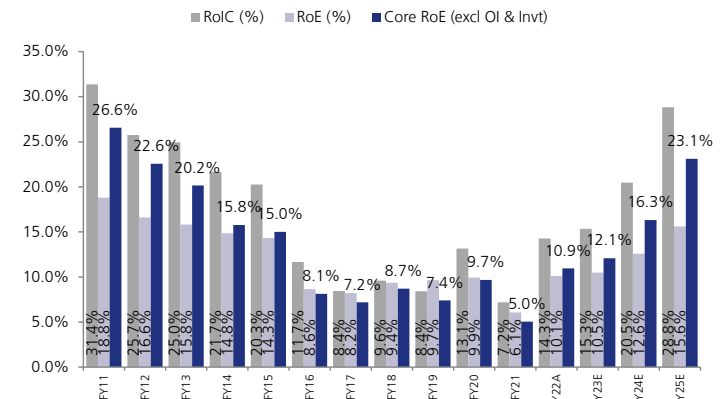
Source: Company, Bloomberg, JM Financial

Exhibit 10. Cash flow trend



Source: Company, JM Financial

Exhibit 11. Return ratios



Source: Company, JM Financial

Financial Tables (Standalone)

Income Statement		(INR mn)				
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E	
Net Sales	63,850	75,945	87,088	1,02,514	1,21,566	
Sales Growth	-1.4%	18.9%	14.7%	17.7%	18.6%	
Other Operating Income	0	0	0	0	0	
Total Revenue	63,850	75,945	87,088	1,02,514	1,21,566	
Cost of Goods Sold/Op. Exp	46,615	52,317	61,306	71,899	84,313	
Personnel Cost	3,578	4,156	4,572	5,029	5,431	
Other Expenses	2,655	2,188	2,407	2,695	3,019	
EBITDA	11,002	17,284	18,803	22,891	28,802	
EBITDA Margin	17.2%	22.8%	21.6%	22.3%	23.7%	
EBITDA Growth	-34.7%	57.1%	8.8%	21.7%	25.8%	
Depn. & Amort.	5,219	5,298	5,722	6,008	6,309	
EBIT	5,783	11,986	13,081	16,883	22,494	
Other Income	2,855	2,631	3,026	3,329	3,661	
Finance Cost	340	546	573	602	632	
PBT before Excep. & Forex	8,298	14,071	15,534	19,609	25,523	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	8,298	14,071	15,534	19,609	25,523	
Taxes	1,758	3,447	3,915	4,942	6,432	
Extraordinary Inc./Loss(-)	-1,507	-1	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	5,033	10,623	11,619	14,668	19,091	
Adjusted Net Profit	6,150	10,624	11,619	14,668	19,091	
Net Margin	9.6%	14.0%	13.3%	14.3%	15.7%	
Diluted Share Cap. (mn)	609.3	609.3	609.3	609.3	609.3	
Diluted EPS (INR)	10.1	17.4	19.1	24.1	31.3	
Diluted EPS Growth	-39.4%	72.7%	9.4%	26.2%	30.2%	
Total Dividend + Tax	3,564	4,249	5,810	8,801	13,364	
Dividend Per Share (INR)	5.8	7.0	9.5	14.4	21.9	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E	
Profit before Tax	8,298	14,071	15,534	19,609	25,523	
Depn. & Amort.	5,272	5,351	5,722	6,008	6,309	
Net Interest Exp. / Inc. (-)	-1,648	-1,302	-2,453	-2,727	-3,030	
Inc (-) / Dec in WCap.	1,691	-1,003	3,780	4,712	5,584	
Others	580	-143	0	0	0	
Taxes Paid	-2,444	-3,568	-3,915	-4,942	-6,432	
Operating Cash Flow	11,749	13,406	18,668	22,661	27,955	
Capex	-4,578	-7,751	-8,000	-8,000	-8,000	
Free Cash Flow	7,171	5,656	10,668	14,661	19,955	
Inc (-) / Dec in Investments	2,467	-6,509	0	0	0	
Others	2,386	3,664	3,026	3,329	3,661	
Investing Cash Flow	275	-10,596	-4,974	-4,671	-4,339	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	-3,564	-4,874	-5,810	-8,801	-13,364	
Inc / Dec (-) in Loans	0	0	0	0	0	
Others	-870	-893	-573	-602	-632	
Financing Cash Flow	-4,434	-5,767	-6,383	-9,402	-13,996	
Inc / Dec (-) in Cash	7,590	-2,957	7,312	8,587	9,620	
Opening Cash Balance	563	6,646	28,879	36,190	44,777	
Closing Cash Balance	8,153	3,689	36,190	44,777	54,398	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E	
Shareholders' Fund	1,02,037	1,07,773	1,13,583	1,19,450	1,25,177	
Share Capital	3,047	3,047	3,047	3,047	3,047	
Reserves & Surplus	98,991	1,04,727	1,10,536	1,16,403	1,22,131	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	0	0	0	0	0	
Def. Tax Liab. / Assets (-)	-543	-906	-906	-906	-906	
Total - Equity & Liab.	1,01,495	1,06,867	1,12,677	1,18,544	1,24,272	
Net Fixed Assets	62,216	61,390	63,668	65,660	67,351	
Gross Fixed Assets	78,227	84,415	96,898	99,898	1,07,898	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	25,209	30,508	36,230	42,238	48,546	
Capital WIP	9,198	7,482	3,000	8,000	8,000	
Investments	14,952	14,356	14,356	14,356	14,356	
Current Assets	44,235	51,365	57,867	65,855	74,969	
Inventories	239	307	239	281	333	
Sundry Debtors	1,555	1,761	2,020	2,378	2,820	
Cash & Bank Balances	24,732	28,879	36,190	44,777	54,398	
Loans & Advances	17,709	20,419	19,419	18,419	17,419	
Other Current Assets	0	0	0	0	0	
Current Liab. & Prov.	19,908	20,244	23,214	27,326	32,405	
Current Liabilities	2,709	4,236	4,858	5,718	6,781	
Provisions & Others	17,199	16,008	18,356	21,608	25,623	
Net Current Assets	24,327	31,122	34,653	38,529	42,565	
Total - Assets	1,01,495	1,06,867	1,12,677	1,18,544	1,24,272	

Source: Company, JM Financial

Dupont Analysis		FY21A	FY22A	FY23E	FY24E	FY25E
Y/E March						
Net Margin		9.6%	14.0%	13.3%	14.3%	15.7%
Asset Turnover (x)		0.6	0.7	0.8	0.9	1.0
Leverage Factor (x)		1.0	1.0	1.0	1.0	1.0
RoE		6.1%	10.1%	10.5%	12.6%	15.6%

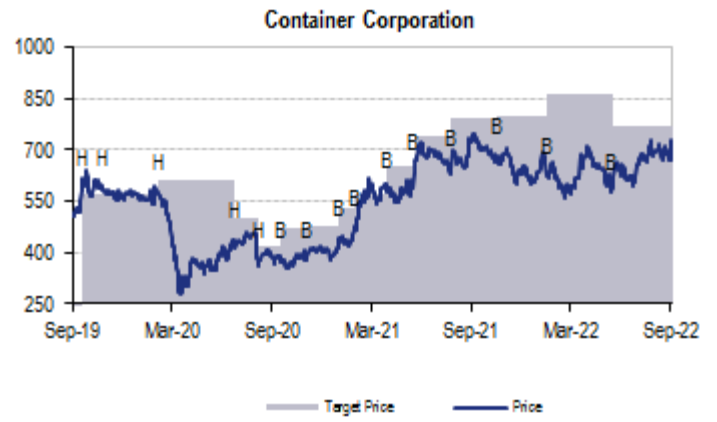
Key Ratios		FY21A	FY22A	FY23E	FY24E	FY25E
Y/E March						
BV/Share (INR)		167.5	176.9	186.4	196.0	205.4
ROIC		7.2%	14.3%	15.3%	20.5%	28.8%
ROE		6.1%	10.1%	10.5%	12.6%	15.6%
Net Debt/Equity (x)		-0.3	-0.3	-0.4	-0.4	-0.5
P/E (x)		72.0	41.7	38.1	30.2	23.2
P/B (x)		4.3	4.1	3.9	3.7	3.5
EV/EBITDA (x)		37.4	23.6	21.3	17.1	13.3
EV/Sales (x)		6.4	5.4	4.6	3.8	3.1
Debtor days		9	8	8	8	8
Inventory days		1	1	1	1	1
Creditor days		19	26	26	26	27

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
23-Sep-19	Hold	570	
31-Oct-19	Hold	570	0.0
10-Feb-20	Hold	610	7.0
28-Jun-20	Hold	500	-18.0
11-Aug-20	Hold	420	-16.0
21-Sep-20	Buy	470	11.9
7-Nov-20	Buy	475	1.1
8-Jan-21	Buy	530	11.6
5-Feb-21	Buy	570	7.5
5-Apr-21	Buy	650	14.0
24-May-21	Buy	740	13.8
30-Jul-21	Buy	790	6.8
22-Oct-21	Buy	800	1.3
22-Jan-22	Buy	860	7.5
20-May-22	Buy	770	-10.5

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081
 Member of BSE Ltd., National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.
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Rating	Meaning
Buy	Total expected returns of more than 10% for large-cap stocks* and REITs and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for large-cap* stocks and REITs and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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