

Q4FY23 result review;
Target price and rating
change

Logistics

Target price: Rs590

Target price revision
Rs590 from Rs575

Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	54.8	54.8	54.8
Institutional investors	40.9	39.8	41.4
MFs and other	13.2	12.6	12.4
Banks & FIs	0.0	0.0	0.0
Insurance Cos.	3.2	3.0	4.7
FII	23.5	24.2	24.3
Others	4.3	5.4	3.8

ESG disclosure score

Year	2020	2021	Chg
ESG score	35.3	35.6	0.3
Environment	0.4	1.3	0.9
Social	29.3	29.3	0.0
Governance	76.1	76.1	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

INDIA



Container Corporation of India

REDUCE

Upgrade from SELL

Misses estimates; downside likely to be limited

Rs626

Container Corporation of India's (CONCOR) Q4FY23 performance missed consensus estimates. Key points: 1) EBITDA margin declined further sequentially to 20.5% in Q4FY23 (vs 21.4% in Q3FY23); 2) EBITDA/teu rose slightly owing to better profitability of the domestic segment; 3) on origination basis, EXIM volumes fell 9.3% YoY while domestic volumes rose 9.5% YoY; 4) capex of Rs4.9bn was incurred in FY22 mainly for procuring rolling stock and opening new terminals; 5) Board has recommended the final dividend of Rs2/share, taking the FY23 dividend to Rs11/share.

Going ahead, management expects headwinds to persist in the (profitable) EXIM segment. That said, it expressed confidence that CONCOR would strive to recoup its lost market share and maintain EBITDA margin at FY23 levels. We estimate volume growth of 10% p.a. (FY23: 7.1% YoY) and EBITDA margin improvement to 21-22% (Q4FY23: 20.5%). We introduce FY25E numbers at this stage and roll over to FY25E EPS. We value the stock at 24x (corresponding to 1-SD above mean) FY25E EPS (earlier 26x). Our downward revision of multiple is due to headwinds persisting in EXIM. Our revised target price works out to Rs590 (earlier: Rs575) on 24x FY25E EPS. We upgrade the stock to REDUCE (from Sell) as we expect further downside to be limited owing to possible improvement in margins.

► **Performance misses estimates.** CONCOR reported EBITDA of Rs4.44bn (up 7.7% YoY, 4.3% QoQ) primarily on better realisation. Key points: 1) EXIM volumes (origination) declined 9.3% YoY to 484.5k-teu as external trade volumes were impacted by ongoing global trade distortions; 2) domestic volumes (origination) rose 9.5% YoY to 124k-teu as the company maintained its market share; 3) 'other expenses' increased significantly (~38.6% YoY, 73.1% QoQ) owing to one-off costs of Rs450mn; 5) operating margin was impacted by higher proportion of domestic volumes; 5) rail freight margin improved to ~26% (Q3FY23: 25.2%). Management mentioned that, going ahead, focus will be on regaining the lost market share in EXIM segment along with volume growth (~10% growth expected in FY24) while maintaining margins at existing levels.

► **Headwinds persist though downside limited.** The commencement of double-stack container trains from ICD Dadri to Mundra Port, and various schemes introduced to boost volumes, are likely to be earnings-accretive. However, we see the following risks: 1) EXIM volumes may remain subdued due to weak global environment; 2) domestic volumes typically fetch lower margins (18% vs 26% for EXIM); 3) EXIM market share continues to decline. Hence, in the near term, stock performance is likely to languish. That said, the current stock price reflects some of these risks, hence we expect the downside to be limited.

Market Cap	Rs382bn/US\$4.6bn
Reuters/Bloomberg	CCRI.BO / CCRI IN
Shares Outstanding (mn)	609.3
52-week Range (Rs)	810/563
Free Float (%)	45.2
FII (%)	24.3
Daily Volume (US\$'000)	10,691
Absolute Return 3m (%)	3.1
Absolute Return 12m (%)	5.1
Sensex Return 3m (%)	1.5
Sensex Return 12m (%)	18.5

Year to Mar	FY22	FY23	FY24E	FY25E
Revenue (Rs mn)	76,527	81,691	91,989	1,03,606
EBITDA (Rs mn)	17,473	18,656	20,517	23,422
Net Income (Rs mn)	9,901	11,580	12,662	14,971
EPS (Rs)	17.3	18.9	20.8	24.6
P/E (x)	36.1	33.1	30.1	25.5
CEPS (Rs)	26.5	28.3	30.7	35.0
EV/E (x)	20.2	18.8	16.7	14.4
Dividend Yield	0.8	1.3	1.3	1.3
RoCE (%)	10.0	11.0	12.3	13.9
RoE (%)	9.8	10.3	10.5	11.5

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► **Outlook: Margin decline is the key concern.** We believe CONCOR's EBITDA margin is likely to remain constrained between 21-22% through to FY25E amidst headwinds on the EXIM business. We introduce FY25E numbers at this stage and value the company at 24x FY25E EPS (earlier: 26x) resulting in a revised target price of Rs590 (earlier: Rs575). We upgrade the stock to **REDUCE** (from **Sell**).

Table 1: Q4FY23 result review

(Rs.mn)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Chg QoQ	Chg YoY
Net income	20,430	19,783	19,707	19,884	21,660	8.9	6.0
Rail Freight expense	11,138	10,875	10,679	11,356	12,133	6.8	8.9
Other operating expense	3,206	2,687	2,620	2,590	2,804	8.3	(12.5)
Employee wages	1,212	1,034	923	1,077	1,241	15.3	2.4
Other expense	746	464	499	598	1,035	73.1	38.6
Total Expense	16,303	15,060	14,720	15,621	17,213	10.2	5.6
EBITDA	4,128	4,723	4,987	4,264	4,447	4.3	7.7
<i>EBITDA margin (%)</i>	20.2	23.9	25.3	21.4	20.5		
Depreciation	1,309	1,312	1,341	1,357	1,531	12.9	16.9
Other income	694	629	520	1,136	955	(15.9)	37.7
Finance Cost	140	139	143	142	146	2.5	4.1
Exceptional	-	-	-	-	13		
PBT	3,372	3,901	4,022	3,901	3,713	(4.8)	10.1
Tax	804	988	994	936	928	(0.8)	15.5
PAT	2,569	2,913	3,028	2,965	2,785	(6.1)	8.4

Source: I-Sec research

Table 2: Q4FY23 key operating parameters

(Rs.mn)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Chg QoQ	Chg YoY
TEU Handled	10,68,721	10,13,048	11,43,895	10,85,154	11,19,034	3.1	4.7
-EXIM	8,32,863	7,84,857	9,36,950	8,33,796	8,51,261	2.1	2.2
-Domestic	2,35,858	2,28,191	2,06,945	2,51,358	2,67,773	6.5	13.5
TEU Originated	6,47,691	6,03,493	5,72,378	5,74,586	6,08,500	5.9	(6.1)
-EXIM	5,34,438	4,97,222	4,71,256	4,65,107	4,84,494	4.2	(9.3)
-Domestic	1,13,253	1,06,271	1,01,122	1,09,479	1,24,006	13.3	9.5
Revenue							
EXIM (Rs in mn)	13,599	13,007	13,186	12,697	13,239	4.3	(2.6)
<i>EXIM (Realisation/TEU)(Rs)</i>	16,327	16,572	14,073	15,228	15,553	2.1	(4.7)
Domestic (Rs in mn)	6,832	6,777	6,521	7,187	8,421	17.2	23.3
<i>Domestic (Realisation/TEU)(Rs)</i>	28,965	29,697	31,511	28,593	31,446	10.0	8.6
EBIT							
EXIM (Rs in mn)	2,978	3,171	3,321	2,953	3,176	7.5	6.6
<i>EXIM (EBIT/TEU)(Rs)</i>	3,576	4,041	3,544	3,542	3,730	5.3	4.3
Domestic (Rs in mn)	309	586	627	428	752	75.8	143.2
<i>Domestic (EBIT/TEU)(Rs)</i>	1,311	2,567	3,029	1,702	2,808	65.0	114.2
<i>Blended Realisation/TEU (Rs)</i>	19,116	19,528	17,228	18,324	19,356	5.6	1.3
<i>Blended EBITDA/TEU (Rs)</i>	3,862	4,662	4,359	3,929	3,974	1.1	2.9

Source: I-Sec research

Q4FY23 concall takeaways

- Domestic volumes continue to do well though EXIM volume growth was subdued during the quarter. CONCOR is losing its market share mainly in the western market (Mundra) and NCR segment. It is losing its market share due to the competition's pricing strategy as well as competition from road transport segment.
- Direct connection to Dadri for DFC has enabled CONCOR to run double-stack trains from ICD Dadri to Mundra and Pipavav, completing the journey in a mere 24 hours. Management expects volumes to improve as a result. Besides, the trend of shift from road to rail is expected to intensify. However, industry-level headwinds persist for EXIM volumes. CONCOR is trying to regain its lost market share.
- Company expects ~10% volume growth in FY24 while maintaining margins at existing levels.
- Container and rake availability still remains an issue.
- Empty running cost for Q4FY23 in EXIM is Rs70mn, and for domestic it is Rs870mn (total: Rs940mn).
- Originating volumes for FY23 in EXIM was 191,8079teu, and in domestic was 440,878teu.
- Lead distance for Q4FY23 in EXIM was 567km, and in domestic 1,382km.
- Rail freight margin in Q4FY23 was ~26%.
- To improve margins in the domestic volumes, CONCOR has introduced value-added services, which include distribution logistics, last-mile logistics, etc.
- In FY23, CONCOR transported ~3,800 containers of cement; however, due to container availability issues, company is not pushing too much in this segment.
- Land Licences Fee (LLF) in FY23 was Rs3.92bn and the same is expected to increase by 7% every year. Company has already made additional provision Rs700mn and no adjustment is required now.
- Doubling stacking was ~4,100 in FY23 vs 3,700 in FY22 and CONCOR targets 5,000 double stacks in FY24.
- Company plans to add five new terminals in FY24, which includes Jajpur, one terminal south of Delhi and one in Punjab, among others.
- In domestic markets, ~60% of the business is through business associates (all businesses except for corporate customers).
- CONCOR maintains its capex guidance of ~Rs70bn-80bn over next 4-5 years. It will cover inter alia 260-270 rakes to be acquired in next 3-4 years (till now only 33 rakes has been acquired). Each rake costs ~Rs140-150mn. Further, CONCOR plans to add ~100,000-200,000 containers (each container cost Rs400,000).

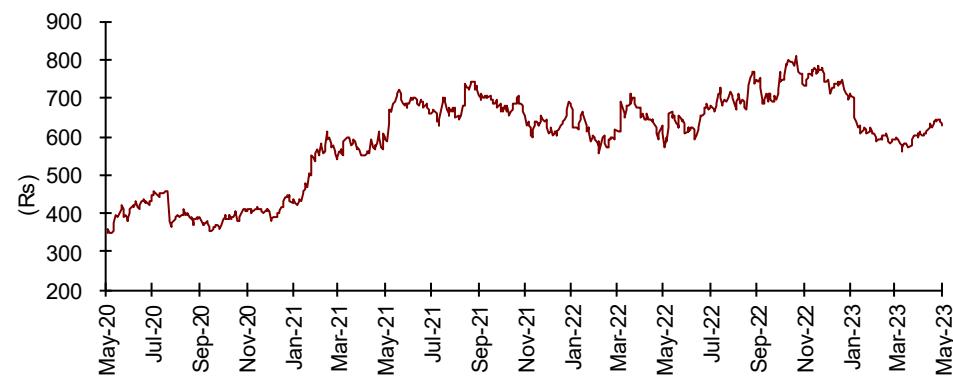
Valuations

In our view, at CMP, the stock does not offer a substantial upside due to near-term industry headwinds. Factoring-in the potential benefits from DFC and CONCOR's better-than-industry margins, we introduce FY25E numbers and value the company at 24x FY25E EPS (1-SD above 10-year historical mean average) (earlier 26x), taking cognisance of industry headwinds in the EXIM segment. Our revised target price works out to Rs590 (earlier: Rs575) on a multiple of 24x FY25E EPS. Upgrade the stock to **REDUCE** (from **Sell**).

Risks

Upside risks: 1) Volume surprise post commissioning of DFC can lead to higher-than-expected earnings; 2) premium offered during divestment process; and 3) increase in EXIM volumes.

Price chart



Source: Bloomberg

Financial summary

Table 3: Profit and Loss statement

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Net Sales	76,527	81,691	91,989	1,03,606
Other Income	2,471	3,134	3,000	3,500
Total Income	78,998	84,825	94,989	1,07,106
Operating Expenses	61,525	66,170	74,472	83,684
EBITDA	17,473	18,656	20,517	23,422
% margins	22.1%	22.0%	21.6%	21.9%
Depreciation & Amortisation	5,614	5,730	6,041	6,370
Gross Interest	624	639	600	600
Recurring PBT	13,706	15,421	16,876	19,952
Extraordinary income				
Less: Taxes	3,422	3,897	4,213	4,982
Less: Minority Int. & Asso. Profit				
Net Income (Reported)	10,284	11,523	12,662	14,971

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Assets				
Total Current Assets	36,741	41,214	48,795	55,697
of which cash & cash eqv.	29,178	31,021	38,489	45,057
Total Current Liabilities & Provisions	14,169	13,438	13,190	13,626
Net Current Assets	22,572	27,776	35,605	42,071
Investments	12,070	10,915	10,915	10,915
Net Fixed Assets (Including CWIP)	64,782	64,574	64,533	68,163
Intangible Assets	-	-	-	-
Long term loans & advances	1,327	1,401	1,401	1,401
Other non-current assets	14,013	15,620	15,620	15,620
Total Assets	1,14,764	1,20,286	1,28,074	1,38,170
Liabilities				
Borrowings	618	555	555	555
Deferred Tax Liability	(1,082)	(925)	(925)	(925)
Other Long term liabilities	5,794	6,630	6,630	6,630
Long-term provisions	867	748	748	748
Minority Interest	1,011	1,018	1,018	1,018
Equity Share Capital	3,047	3,047	3,047	3,047
Reserves & Surplus	1,04,509	1,09,214	1,17,001	1,27,098
Net Worth	1,07,556	1,12,260	1,20,048	1,30,144
Total Liabilities	1,14,764	1,20,286	1,28,074	1,38,170

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Net Profit before tax & extraordinary items	13,945	15,632	16,876	19,952
Operating Cashflow	13,694	14,058	18,942	22,042
Capital Commitments	(6,047)	(4,938)	(6,000)	(10,000)
Free Cashflow	7,648	9,121	12,942	12,042
Other investing cashflow	(4,684)	743	-	-
Cashflow from Investing				
Activities	(10,702)	(5,934)	(6,000)	(10,000)
Inc (Dec) in Borrowings	(110)	(110)	(600)	(600)
Dividend paid	(3,047)	(4,874)	(4,874)	(4,874)
Cashflow from Financing				
Activities	(5,950)	(8,536)	(5,474)	(5,474)
Chg. in Cash & Bank balance	(2,958)	(412)	7,468	6,568

Source: Company data, I-Sec research,

Table 6: Key ratios

(Year ending March 31)

	FY21	FY22	FY23E	FY24E
Per Share data (Rs)				
EPS	17.3	18.9	20.8	24.6
Cash EPS	26.5	28.3	30.7	35.0
OCF per share	22.5	23.1	31.1	36.2
Dividend per share (DPS)	5.0	8.0	8.0	8.0
Book Value per share (BV)	177	184	197	214
Growth (%)				
Net Sales	19.1	6.7	12.6	12.6
EBITDA	66.9	6.8	10.0	14.2
PAT	108.8	9.2	9.9	18.2
Valuation Ratios (x)				
P/E	36.1	33.1	30.1	25.5
P/BV	3.5	3.4	3.2	2.9
EV / EBITDA	20.2	18.8	16.7	14.4
Return/Profitability Ratios (%)				
EBITDA Margins	22.8	22.8	22.3	22.6
Net Income Margins	13.8	14.1	13.8	14.4
RoCE	10.0	11.0	12.3	13.9
RoE	9.8	10.3	10.5	11.5
Other Key Ratios				
Effective Tax Rate (%)	25.0	25.3	25.0	25.0
Total D/E Ratio (x)	0.0	0.0	0.0	0.0
Net D/E Ratio (x)	(0.3)	(0.3)	(0.3)	(0.3)

Source: Company data, I-Sec research

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