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**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

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INDIA

 **ICICI Securities**

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 | Year to Mar | FY22 | FY23 | FY24E | FY25E |
| Reuters/Bloomberg | CCRI.BO / CCRI IN | Revenue (Rs mn) | 76,527 | 81,691 | 91,989 | 1,03,606 |
| Shares Outstanding (mn) | 609.3 | EBITDA (Rs mn) | 17,473 | 18,656 | 20,517 | 23,422 |
| 52-week Range (Rs) | 810/563 | Net Income (Rs mn) | 9,901 | 11,580 | 12,662 | 14,971 |
| Free Float (%) | 45.2 | EPS (Rs) | 17.3 | 18.9 | 20.8 | 24.6 |
| FII (%) | 24.3 | P/E (x) | 36.1 | 33.1 | 30.1 | 25.5 |
| Daily Volume (US\$'000) | 10,691 | CEPS (Rs) | 26.5 | 28.3 | 30.7 | 35.0 |
| Absolute Return 3m (%) | 3.1 | EV/E (x) | 20.2 | 18.8 | 16.7 | 14.4 |
| Absolute Return 12m (%) | 5.1 | Dividend Yield | 0.8 | 1.3 | 1.3 | 1.3 |
| Sensex Return 3m (%) | 1.5 | RoCE (%) | 10.0 | 11.0 | 12.3 | 13.9 |
| Sensex Return 12m (%) | 18.5 | RoE (%) | 9.8 | 10.3 | 10.5 | 11.5 |

Please refer to important disclosures at the end of this report

- **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).

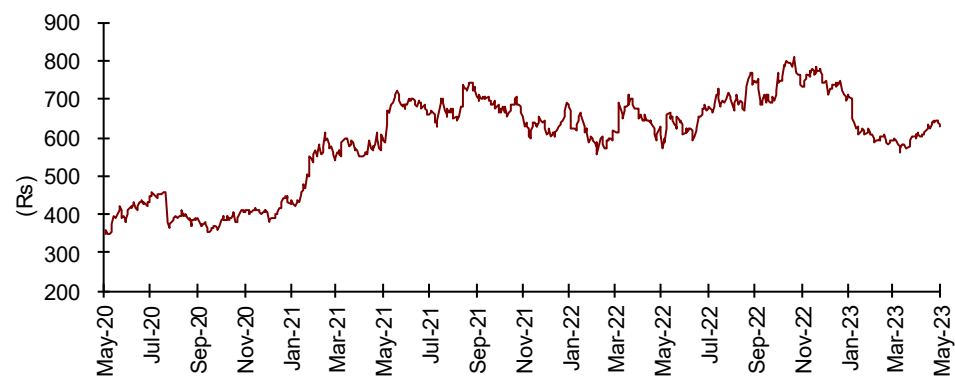
Valuations

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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