JM FINANCIAL

Container Corporation | HOLD

Below estimates on higher LLF

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Container Corporation (Concor)'s 1QFY19 adjusted PAT declined 8% YoY/5% QoQ (15% below JMFe/18% Bloomberg consensus; adjusted for export incentives of INR 700mn) as higher Land License Fees (LLFs) and wage revisions offset the benefits from double stacking, price increases and efficiency gains. EXIM handling volume grew 11% YoY (originating volume +8%), while domestic was up 9%. Concor maintains its earlier 10-12% volume growth guidance and hopes to improve profitability in coming quarters on the back of double stacking and price increases (to pass on higher costs). We maintain HOLD with a Mar'19 TP of INR 680. While we like Concor's market leadership (biggest beneficiary of upcoming DFC), we are constrained by its expensive valuation and await a better price point for entry (currently trades at 19.6x FY19E EV/EBITDA). Key risk to our call is better than expected EXIM volume growth and a sharp haulage charge increase by Indian Railways.

- **1QFY19 Summary:** Concor booked SEIS income of INR 700mn (c.6% of revenues; clubbed under EXIM Revenue). Adjusted for this, Revenue /EBITDA grew 5%/8% YoY, but Net income declined 8% (-4%/-8%/-5% QoQ). EBIT/TEU rose 3% YoY on (-14% QoQ) on higher volumes and double stacking gains (+52% YoY), partly offset by lower lead distances, higher employee costs and increase in land license fees.

- **EXIM/Domestic volumes see a sustained pick-up:** EXIM/domestic handling volumes were up 11%/9% YoY (Originating vol 8%/10%) in 1QFY19 (1%/9% below JMFe). Management maintain its earlier guidance of 10-12% EXIM volume growth for FY19.

- **Land License fee impact profitability:** Indian Railways hiked LLFs w.e.f. 1QFY19 (last revision in 2QFY17; INR 1.75bn in FY18 vs. INR 0.90bn in FY17). This impacted Concor's EXIM/Domestic EBIT (-5%/-67% QoQ). On YoY basis, EXIM reported Adjusted EBIT of INR 2.24bn, +23% YoY (6% below JMFe) on price increase, double stacking gains, low empty running cost and low base, though partially offset by higher wages and LLFs. Absolute EBITDA (adj) was up 8% YoY (-8% QoQ) to INR 3.2bn while adj. PAT declined 8% YoY (-5% QoQ; 15% below JMFe).

- **Other Highlights:** a) DFC may commission Ateli - Phulera leg of western DFC (169km) in Aug'18, though no material benefit may accrue to Concor. It expects Mundra/Pipavav ports to connect on DFC (including Palanpur connection) in CY19, which augurs well for Concor, b) New initiative on coastal shipping front in 2 phases (Phase1: Connecting west coast to south and Phase 2: connecting West coast with East, c) Foray into distribution logistics over next 3-5 year including warehousing (aims for 50.0mn sqft; 4.5mn sqft currently), though it may consider JV routes for this initiative.

- **Tweak estimates; maintain HOLD:** We tweak our estimates to reflect Concor's 1QFY19 performance and outlook. While it remains structurally well-placed to benefit from the upcoming DFC due to market leadership and investments in MMLPs, we are concerned about the valuation, especially a) structural risks on operating margins on lower lead distance/high land license fee (2nd hike in past 2 years), b) its past track record of earnings

Recommendation and Price Target	
Current Reco.	HOLD
Previous Reco.	HOLD
Current Price Target (12M)	680
Upside/(Downside)	4.5%
Previous Price Target	645
Change	5.4%

Key Data – CCRI IN	
Current Market Price	INR650
Market cap (bn)	INR317.1/US$4.6
Free Float	39%
Shares in issue (mn)	487.4
Diluted share (mn)	487.4
3-mon avg daily val (mn)	INR586.6/US$8.5
52-week range	750/540
Sensex/Nifty	37,337/11,278
INR/US$	68.7

Price Performance			
%	1M	6M	12M
Absolute	7.3	-9.7	11.7
Relative*	1.2	-12.8	-3.1

* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Net Sales	56,727	53,731	58,592	66,275	76,216
Sales Growth (%)	1.6	-5.3	9.0	13.1	15.0
EBITDA	10,900	10,139	11,749	14,269	16,687
EBITDA Margin (%)	19.2	18.9	20.1	21.5	21.9
Adjusted Net Profit	6,908	7,062	8,204	9,529	11,250
Diluted EPS (INR)	14.2	14.5	16.8	19.5	23.1
Diluted EPS Growth (%)	-34.1	2.2	16.2	16.2	18.1
ROIC (%)	11.7	8.8	9.4	10.7	12.3
ROE (%)	8.6	8.2	9.0	9.8	10.7
P/E (x)	45.7	44.7	38.5	33.1	28.1
P/B (x)	3.8	3.6	3.4	3.1	2.9
EV/EBITDA (x)	26.7	29.1	25.2	20.5	17.3
Dividend Yield (%)	0.8	2.6	1.0	1.2	1.4

Source: Company data, JM Financial. Note: Valuations as of 27/Jul/2018 growth (FY18 adjusted profit is almost similar to FY11), c) low return ratios (ROIC/ROCE/ROE <13%). We await a better price for entry/addition and assign a Mar'19 TP of INR 680; we maintain HOLD.

Exhibit 1. 1QFY19 Performance

INR mn	1Q18A	1Q19A	YoY	4Q18A	QoQ	1Q19E	Var
Net Revenue	**14,275**	**14,983**	**5%**	**15,587**	**-4%**	**15,726**	**-5%**
Rail Freight Charges	8,725	8,723	0%	9,149	-5%	9,118	-4%
% of Net Revenue	61.1%	58.2%		58.7%		58.0%	
Operating Expenses	1,658	1,852	12%	1,440	29%	1,847	0%
% of Net Revenue	11.6%	12.4%	70 bps	9.2%	310 bps	11.7%	60 bps
Gross Profit (post operating exp)	3,892	4,407	13%	4,998	-12%	4,761	-7%
Gross margin (%)	**27.3%**	**29.4%**	**220 bps**	**32.1%**	**-270 bps**	**30.3%**	**-90 bps**
Employee Costs	448	701	56%	808	-13%	659	6%
% of Net Revenue	3.1%	4.7%	150 bps	5.2%	-50 bps	4.2%	50 bps
Other Expenses	467	504	8%	725	-30%	539	-6%
% of Net Revenue	3.3%	3.4%	10 bps	4.6%	-130 bps	3.4%	-10 bps
Total Expenditure	11,298	11,781	4%	12,121	-3%	12,163	-3%
% of Net Revenue	79.1%	78.6%		77.8%		77.3%	
EBITDA	**2,977**	**3,202**	**8%**	**3,466**	**-8%**	**3,563**	**-10%**
EBITDA Margin (%)	20.9%	21.4%	50 bps	22.2%	-90 bps	22.7%	-130 bps
Depreciation	953	1,022	7%	1,010	1%	1,050	-3%
EBIT	**2,024**	**2,180**	**8%**	**2,455**	**-11%**	**2,513**	**-13%**
Other Income	875	621	-29%	409	52%	650	-5%
Finance Costs	0	0		0		0	
Extra-ordinary Exp./-Inc.	-400	-700		-819		-604	
Profit Before Tax	**3,299**	**3,500**	**6%**	**3,683**	**-5%**	**3,767**	**-7%**
Tax Expense	834	977	17%	747	31%	980	0%
Tax Rate (%)	28.8%	34.9%	610 bps	26.1%	880 bps	31.0%	390 bps
Reported Net Profit	**2,465**	**2,524**	**2%**	**2,936**	**-14%**	**2,788**	**-9%**
Reported EPS	5.06	5.18	2%	6.02	-14%	5.72	-9%
Adjusted Net Profit	**2,201**	**2,019**	**-8%**	**2,119**	**-5%**	**2,389**	**-15%**
Adjusted EPS	4.52	4.14	-8%	4.35	-5%	4.90	-15%

Source: Company, JM Financial

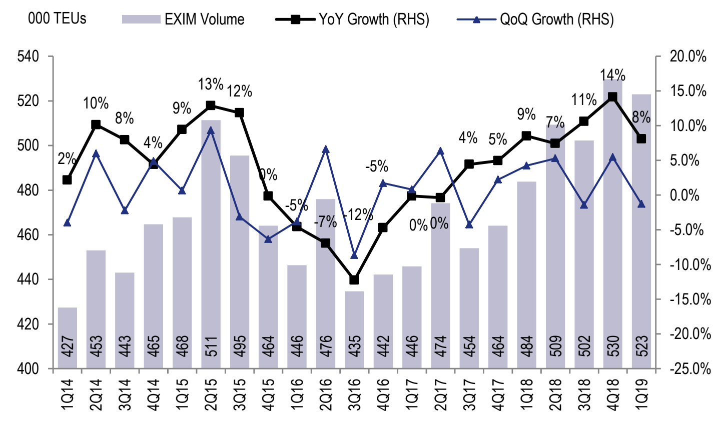
Exhibit 2.

INR mn	1Q18A	1Q19A	YoY	4Q18A	QoQ	1Q19E	Var
Handling Volume (000 TEUs)	**843**	**936**	**11%**	**951**	**-2%**	**952**	**-2%**
EXIM	713	794	11%	797	0%	805	-1%
Domestic	130	141	9%	154	-8%	147	-4%
Revenue (INR mn)	**14,168**	**14,983**	**6%**	**15,587**	**-4%**	**15,726**	**-5%**
EXIM	10,916	11,627	7%	11,786	-1%	12,088	-4%
Domestic	3,252	3,356	3%	3,801	-12%	3,638	-8%
Realisation (INR/Handled TEU)	**16,812**	**16,013**	**-5%**	**16,391**	**-2%**	**16,515**	**-3%**
EXIM	15,314	14,636	-4%	14,791	-1%	15,008	-2%
Domestic	25,033	23,756	-5%	24,660	-4%	24,782	-4%
EBIT	**2,094**	**2,401**	**15%**	**2,832**	**-15%**	**2,710**	**-11%**
EXIM	1,818	2,242	23%	2,356	-5%	2,416	-7%
Domestic	276	159	-42%	476	-67%	294	-46%
EBIT Margin (%)	**14.8%**	**16.0%**	**120 bps**	**18.2%**	**-210 bps**	**17.2%**	**-120 bps**
EXIM Margin (%)	16.7%	19.3%	260 bps	20.0%	-70 bps	20.0%	-70 bps
Domestic Margin (%)	8.5%	4.7%	-370 bps	12.5%	-780 bps	8.1%	-330 bps
EBIT Margin (INR/TEU)- Handling	**2,484**	**2,566**	**3%**	**2,978**	**-14%**	**2,846**	**-10%**
EXIM	2,551	2,822	11%	2,957	-5%	3,000	-6%
Domestic	2,121	1,125	-47%	3,085	-64%	2,000	-44%
Originating Volume (000 TEUs)	**548**	**594**	**8%**	**608**	**-2%**	**610**	**-3%**
EXIM	484	523	8%	530	-1%	535	-2%
Domestic	65	71	10%	78	-9%	74	-4%
Realisation (INR/originating TEU)	**16,812**	**16,013**	**-5%**	**16,391**	**-2%**	**16,515**	**-3%**
EXIM	22,564	22,234	-1%	22,249	0%	22,575	-2%
Domestic	50,415	47,245	-6%	48,798	-3%	49,041	-4%
EBIT Margin (INR/originating TEU)	**3,819**	**4,042**	**6%**	**4,661**	**-13%**	**4,445**	**-9%**
EXIM	3,758	4,287	14%	4,448	-4%	4,513	-5%
Domestic	4,272	2,237	-48%	6,105	-63%	3,958	-43%

Source: Company, JM Financial

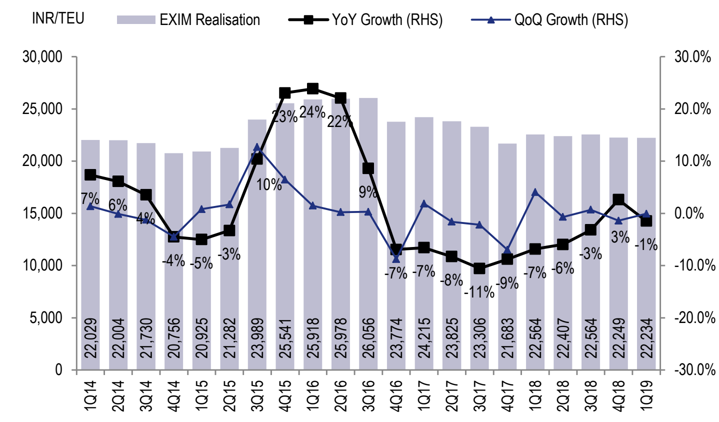
Quarterly Charts

Exhibit 3. EXIM originating volumes improving



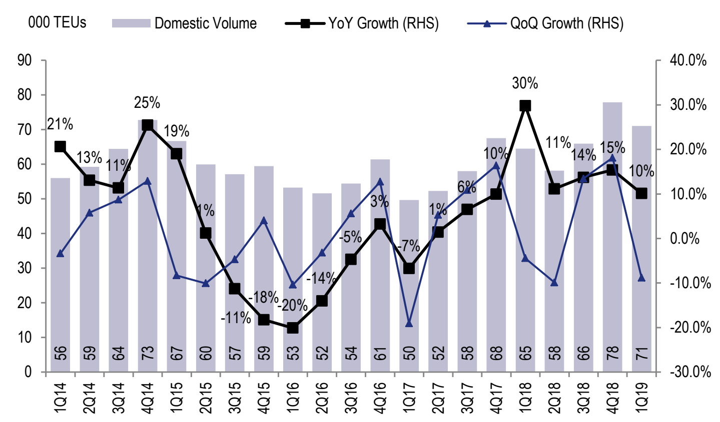
Source: Company, JM Financial

Exhibit 4. EXIM realisation trend



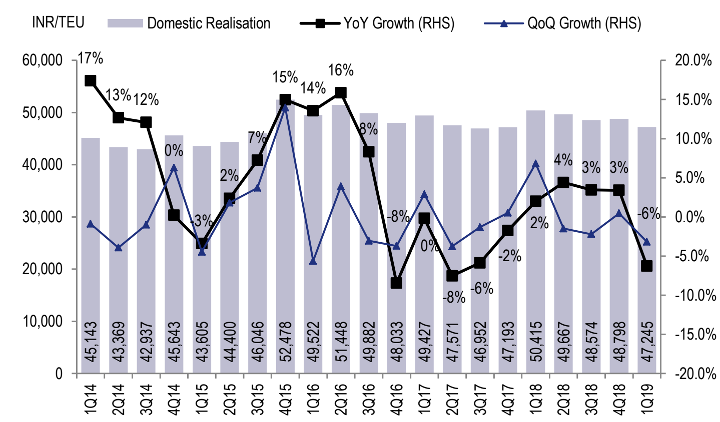
Source: Company, JM Financial

Exhibit 5. Domestic originating volumes improving off-late



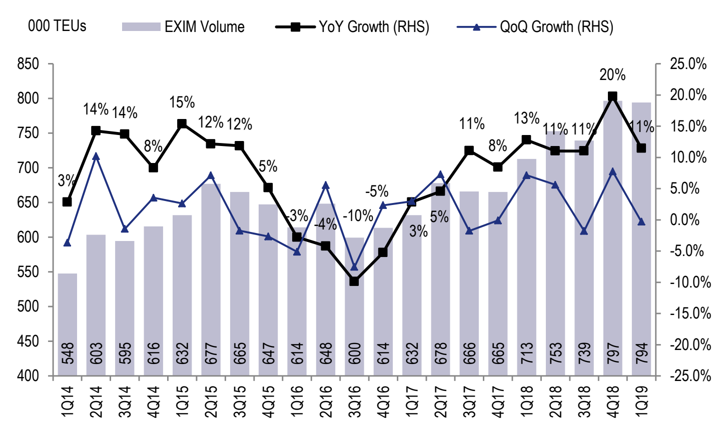
Source: Company, JM Financial

Exhibit 6. Domestic realisation trend



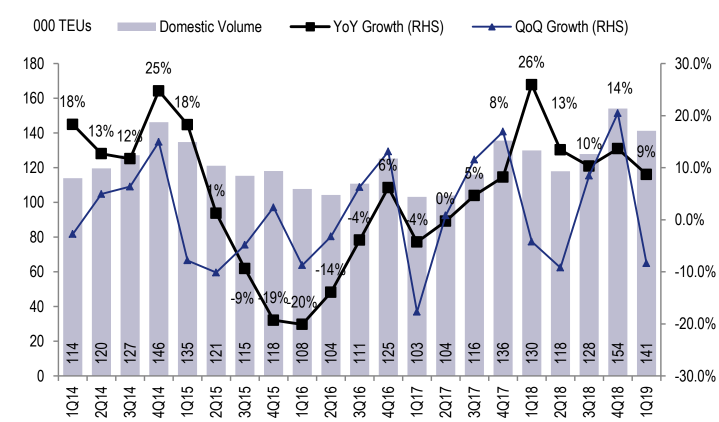
Source: Company, JM Financial

Exhibit 7. EXIM handling volumes improving



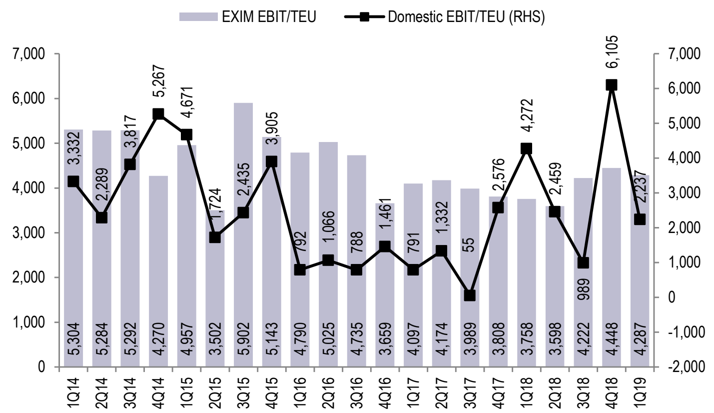
Source: Company, JM Financial

Exhibit 8. Domestic handling volumes trend



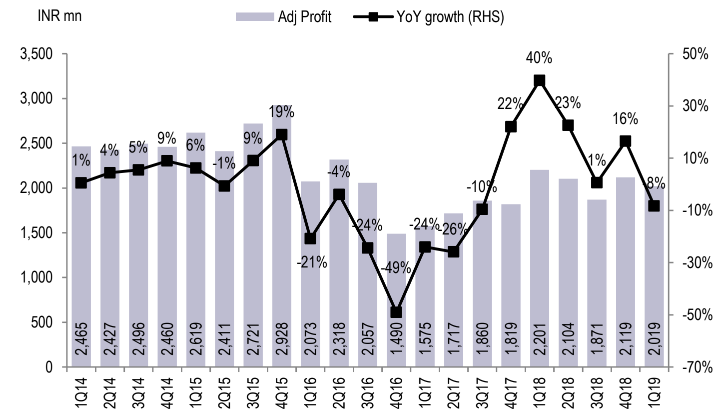
Source: Company, JM Financial

Exhibit 9. EXIM Margins improving



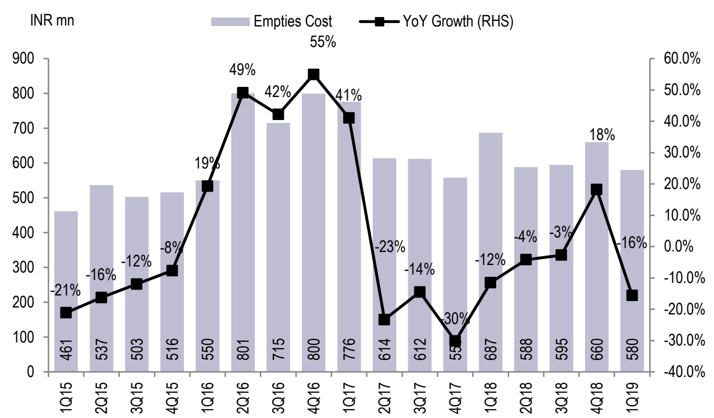
Source: Company, JM Financial

Exhibit 10. Profitability trend improving on low base



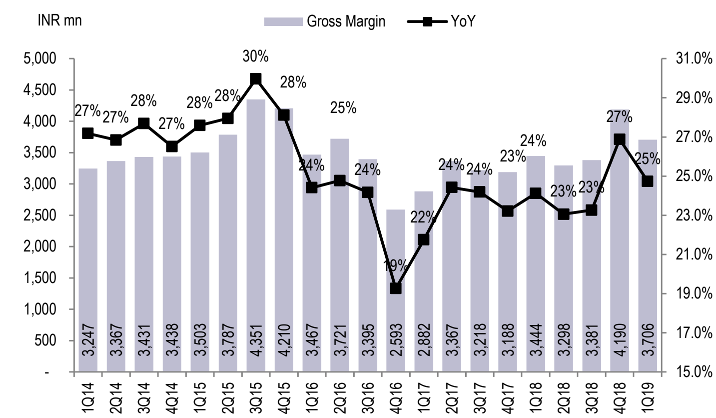
Source: Company, JM Financial

Exhibit 11. Empties cost declining



Source: Company, JM Financial

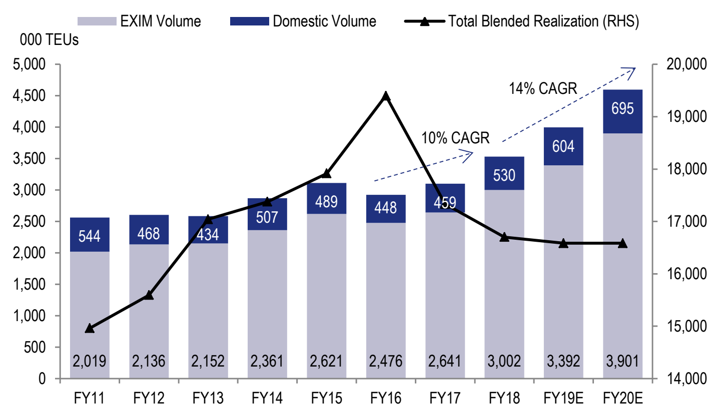
Exhibit 12. Gross Rail Freight margin



Source: Company, JM Financial
Calculated post opex and employee costs

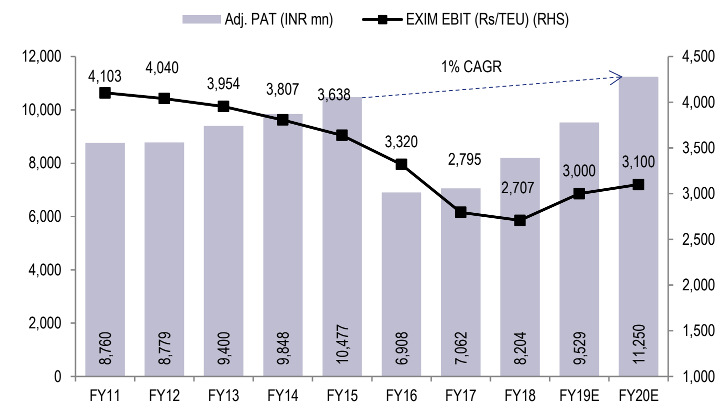
Annual Charts

Exhibit 1. Volumes are expected to recover over FY18-20E…



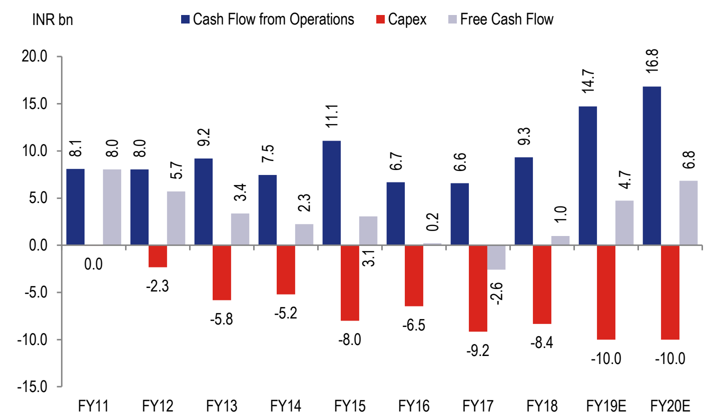
Source: Company, Bloomberg, JM Financial

Exhibit 2. …along with margins and profits



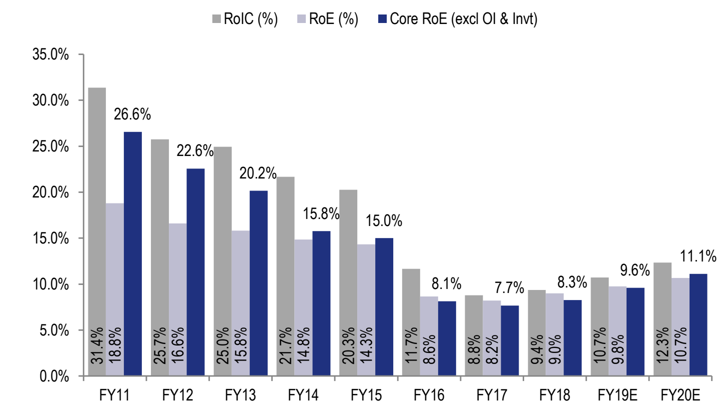
Source: Company, Bloomberg, JM Financial

Exhibit 3. However, capex to continue over MMLPs…



Source: Company, JM Financial

Exhibit 4. … and return ratios expected to remain lower



Source: Company, JM Financial

Financial Tables (Standalone)

Income Statement					(INR mn)
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Net Sales	56,727	53,731	58,592	66,275	76,216
Sales Growth	1.6%	-5.3%	9.0%	13.1%	15.0%
Other Operating Income	0	0	0	0	0
Total Revenue	**56,727**	**53,731**	**58,592**	**66,275**	**76,216**
Cost of Goods Sold/Op. Exp	41,978	39,588	41,712	46,071	52,938
Personnel Cost	1,568	1,869	2,779	3,112	3,486
Other Expenses	2,281	2,136	2,352	2,823	3,105
EBITDA	**10,900**	**10,139**	**11,749**	**14,269**	**16,687**
EBITDA Margin	19.2%	18.9%	20.1%	21.5%	21.9%
EBITDA Growth	-16.7%	-7.0%	15.9%	21.4%	16.9%
Depn. & Amort.	3,478	3,518	3,927	4,241	4,453
EBIT	7,423	6,620	7,823	10,028	12,234
Other Income	3,175	2,856	3,025	3,025	3,176
Finance Cost	2	37	1	0	0
PBT before Excep. & Forex	10,596	9,440	10,847	13,053	15,410
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	10,596	9,440	10,847	13,053	15,410
Taxes	3,571	3,226	3,436	4,358	5,120
Extraordinary Inc./Loss(-)	2,484	2,330	3,079	3,088	3,551
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	9,508	8,544	10,490	11,783	13,842
Adjusted Net Profit	**6,908**	**7,062**	**8,204**	**9,529**	**11,250**
Net Margin	12.2%	13.1%	14.0%	14.4%	14.8%
Diluted Share Cap. (mn)	487.4	487.4	487.4	487.4	487.4
Diluted EPS (INR)	**14.2**	**14.5**	**16.8**	**19.5**	**23.1**
Diluted EPS Growth	-34.1%	2.2%	16.2%	16.2%	18.1%
Total Dividend + Tax	3,168	10,032	3,949	4,587	5,416
Dividend Per Share (INR)	5.4	17.1	6.7	7.8	9.2

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Shareholders' Fund	83,457	88,462	94,011	1,01,207	1,09,633
Share Capital	1,950	1,950	2,437	2,437	2,437
Reserves & Surplus	81,507	86,512	91,574	98,770	1,07,196
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 (-)	3,264	2,402	1,877	1,877	1,877
Total - Equity & Liab.	**86,720**	**90,864**	**95,888**	**1,03,084**	**1,11,510**
Net Fixed Assets	33,132	38,769	43,194	48,954	54,501
Gross Fixed Assets	50,977	60,193	66,905	76,905	86,905
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	22,977	26,495	30,422	34,662	39,115
Capital WIP	5,133	5,071	6,710	6,710	6,710
Investments	13,576	13,737	13,890	13,890	13,890
Current Assets	47,589	46,809	49,394	52,219	56,894
Inventories	177	225	274	182	209
Sundry Debtors	493	425	604	363	418
Cash & Bank Balances	24,371	20,913	19,817	22,975	27,569
Loans & Advances	22,548	25,246	28,699	28,699	28,699
Other Current Assets	0	0	0	0	0
Current Liab. & Prov.	7,577	8,452	10,590	11,979	13,776
Current Liabilities	1,868	2,415	2,542	2,876	3,307
Provisions & Others	5,709	6,037	8,048	9,103	10,469
Net Current Assets	40,012	38,357	38,804	40,240	43,119
Total – Assets	**86,720**	**90,864**	**95,888**	**1,03,084**	**1,11,510**

Source: Company, JM Financial

Cash Flow Statement					(INR mn)
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Profit before Tax	10,596	9,440	10,847	13,053	15,410
Depn. & Amort.	3,646	3,518	3,927	4,241	4,453
Net Interest Exp. / Inc. (-)	-2,982	-3,681	-3,549	-3,025	-3,176
Inc (-) / Dec in WCap.	-1,663	-1,803	-1,542	1,722	1,715
Others	43	2,330	3,079	3,088	3,551
Taxes Paid	-2,948	-3,226	-3,436	-4,358	-5,120
Operating Cash Flow	**6,693**	**6,577**	**9,325**	**14,721**	**16,833**
Capex	-6,473	-9,155	-8,352	-10,000	-10,000
Free Cash Flow	219	-2,578	974	4,721	6,833
Inc (-) / Dec in Investments	-2,003	-161	-153	0	0
Others	2,661	2,856	3,025	3,025	3,176
Investing Cash Flow	**-5,815**	**-6,461**	**-5,480**	**-6,975**	**-6,824**
Inc / Dec (-) in Capital	759	6,494	-991	0	0
Dividend + Tax thereon	-3,145	-10,032	-3,949	-4,587	-5,416
Inc / Dec (-) in Loans	0	0	0	0	0
Others	-2	-37	-1	0	0
Financing Cash Flow	**-2,387**	**-3,575**	**-4,941**	**-4,587**	**-5,416**
Inc / Dec (-) in Cash	**-1,509**	**-3,458**	**-1,096**	**3,158**	**4,594**
Opening Cash Balance	25,879	24,371	20,913	19,817	22,975
Closing Cash Balance	24,371	20,913	19,817	22,975	27,569

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Net Margin	12.2%	13.1%	14.0%	14.4%	14.8%
Asset Turnover (x)	0.7	0.6	0.6	0.7	0.7
Leverage Factor (x)	1.0	1.0	1.0	1.0	1.0
RoE	8.6%	8.2%	9.0%	9.8%	10.7%

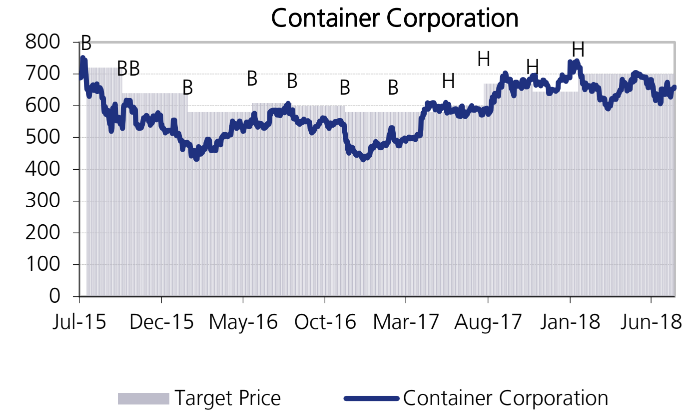
Key Ratios					
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
BV/Share (INR)	171.2	181.5	192.9	207.6	224.9
ROIC	11.7%	8.8%	9.4%	10.7%	12.3%
ROE	8.6%	8.2%	9.0%	9.8%	10.7%
Net Debt/Equity (x)	-0.3	-0.2	-0.2	-0.2	-0.3
P/E (x)	45.7	44.7	38.5	33.1	28.1
P/B (x)	3.8	3.6	3.4	3.1	2.9
EV/EBITDA (x)	26.7	29.1	25.2	20.5	17.3
EV/Sales (x)	5.1	5.5	5.0	4.4	3.8
Debtor days	3	3	4	2	2
Inventory days	1	2	2	1	1
Creditor days	15	20	20	20	20

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	Recommendation	Target Price	% Chg.
23-Jul-15	Buy	720	
28-Sep-15	Buy	640	-11.1
21-Oct-15	Buy	640	0.0
28-Jan-16	Buy	580	-9.4
27-May-16	Buy	608	4.8
10-Aug-16	Buy	600	-1.3
16-Nov-16	Buy	580	-3.3
14-Feb-17	Buy	580	0.0
28-May-17	Hold	600	3.4
2-Aug-17	Hold	670	11.7
1-Nov-17	Hold	645	-3.7
25-Jan-18	Hold	700	8.5

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

(formerly known as JM Financial Securities Limited)

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd., National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst – INH000000610

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Compliance Officer: Mr. Sunny Shah | Tel: +91 22 6630 3383 | Email: sunny.shah@jmfl.com

Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 15%. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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