

# Container Corporation

**BUY**

## Faith intact

Despite flat volumes, Container Corporation (CCRI) reported a healthy beat in EBITDA margins at 24.6%. Medium term growth drivers are intact as the co will benefit from phased commissioning of the DFC and from margin efficiencies. Reiterate BUY with a revised TP of Rs 660 (at 24x Sep-21 EPS).

### HIGHLIGHTS OF THE QUARTER

- Financials:** EBITDA margins expanded to 24.6% (+330/270bps YoY/QoQ) due to (1) Price hikes (~4%) taken in Mar-19 (2) Lower empty running costs at Rs 489mn vs. Rs 580mn YoY (60bps) (3) Restatement of lease exps of Rs 150mn (90bps) under IND AS 116 and (4) Revenue from new streams. We expect profitability to remain healthy due to operational efficiencies. Reported PAT at Rs 2.3bn is not comparable YoY as SEIS income (Rs 708mn/843mn YoY/QoQ) has not been booked in.
- Market share:** While CCRI has maintained its market share in the long lead container movement, the traffic of Indian Railways has grown on the short haul

### Financial Summary: Standalone

(Rs mn)	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)	FY18	FY19P	FY20E	FY21E	FY22E
Net Sales	16,389	15,683	4.5	18,343	(10.7)	61,672	68,819	75,022	86,380	104,057
EBITDA	4,033	3,902	3.4	4,672	(13.7)	14,829	17,800	20,594	23,236	27,117
APAT	2,278	2,524	(9.7)	3,523	(35.3)	10,491	12,154	13,048	15,158	18,227
Diluted EPS (Rs)	3.7	4.1	(9.7)	5.8	(35.3)	17.2	19.9	21.4	24.9	29.9
P/E (x)						29.9	25.8	24.1	20.7	17.2
EV / EBITDA (x)						18.5	21.7	18.4	15.3	12.3
RoE (%)						11.5	12.6	12.9	14.2	15.9

Source: Company, HDFC sec Inst Research

segment. CCRI has not participated in this segment due to low profitability. The reported market share has come off to 68% in 1Q (vs. 73.6% in FY19). We expect CCRI to maintain its advantage in the long lead segment

- Volume outlook:** Near term volume outlook is tepid due to slowing economic growth. Management's earlier guidance of 10% volume growth will be scaled down. The medium term outlook though remains intact in our view, led by the commissioning of the DFC. CCRI will move bulk commodities in containers on the domestic route, post DFC.

### STANCE

**We reiterate BUY as (1) Volume growth is expected in mid-teens with the commissioning of the DFC. We are building in 6%/14%/18% growth in volumes over FY20/21/22E (2) The medium term growth opportunity post DFC will drive up valuations (3) ROEs are expected to improve to 15.9% in FY22E (from 12.6% in FY19)**

**Key risk: Any increase in charges by Indian railways.**

INDUSTRY	LOGISTICS
<b>CMP (as on 01 Aug 2019)</b>	<b>Rs 515</b>
<b>Target Price</b>	<b>Rs 660</b>
Nifty	10,980
Sensex	37,018

### KEY STOCK DATA

Bloomberg	CCRI IN
No. of Shares (mn)	609
MCap (Rsbm) / (\$ mn)	314/4,548
6m avg traded value (Rsmn)	461

### STOCK PERFORMANCE (%)

52 Week high / low	Rs 583/433		
	3M	6M	12M
Absolute (%)	4.5	(2.2)	(2.7)
Relative (%)	9.7	(3.7)	(1.4)

### SHAREHOLDING PATTERN (%)

	Mar-19	Jun-19
Promoters	54.8	54.8
FIs & Local MFs	12.2	12.3
FPIs	28.5	28.5
Public & Others	4.5	4.4
Pledged Shares	0.0	0.0

Source : BSE

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*Volumes were muted due to weak EXIM activity*

*The realizations increased due to price hikes taken in Mar-19. Also, revenue from coastal shipping is ~Rs 300mn in this quarter*

*Co reported a healthy beat in EBITDA margins at 24.6%*

*Depreciation expenses have risen by Rs 150mn on lease expense treatment under IND AS 116*

*Co has cleared its working capital debt ahead of schedule*

### Quarterly financial snapshot (Rs mn)

Particulars	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)
Volumes (in units TEU)	926,923	935,271	(0.9)	978,930	(5.3)
Realisation/TEU (Rs)	17,681	16,768	5.4	17,877	(1.1)
<b>Net Revenue</b>	<b>16,389</b>	<b>15,683</b>	<b>4.5</b>	<b>18,343</b>	<b>(10.7)</b>
Railway Charges	8,953	8,723	2.6	9,640	(7.1)
Employee Expenses	806	701	14.9	1,097	(26.6)
Other Operating Expenses	2,598	2,357	10.2	2,933	(11.4)
<b>Total Expenses</b>	<b>12,357</b>	<b>11,781</b>	<b>4.9</b>	<b>13,671</b>	<b>(9.6)</b>
<b>EBITDA</b>	<b>4,033</b>	<b>3,902</b>	<b>3.4</b>	<b>4,672</b>	<b>(13.7)</b>
Depreciation	1,253	1,022	22.6	1,117	12.2
<b>EBIT</b>	<b>2,779</b>	<b>2,880</b>	<b>(3.5)</b>	<b>3,555</b>	<b>(21.8)</b>
Other Income (Including EO Items)	583	621	(6.1)	1,288	(54.8)
Interest Cost	112	-	-	7	1,551.5
<b>PBT</b>	<b>3,250</b>	<b>3,500</b>	<b>(7.2)</b>	<b>4,837</b>	<b>(32.8)</b>
Tax	971	977	(0.5)	1,313	(26.0)
<b>RPAT</b>	<b>2,278</b>	<b>2,524</b>	<b>(9.7)</b>	<b>3,523</b>	<b>(35.3)</b>
<b>EPS</b>	<b>3.7</b>	<b>4.1</b>	<b>(9.7)</b>	<b>5.8</b>	<b>(35.3)</b>

Source: Company, HDFC sec Inst Research

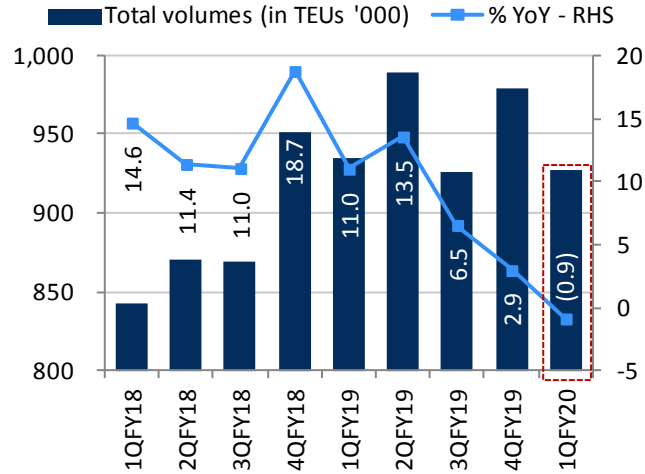
As % of revenue	1QFY20	1QFY19	YoY (bps)	4QFY19	QoQ (bps)
Railway Charges	54.6	55.6	(99)	52.6	207
Employee Expenses	4.9	4.5	45	6.0	(107)
Other Operating Expenses	15.8	15.0	82	16.0	(14)
Total Expenses	75.4	75.1	27	74.5	87
EBITDA	24.6	24.9	(27)	25.5	(87)
APAT Margin (%)	13.9	16.1	(219)	19.2	(531)
Tax Rate (%)	29.9	27.9	200	27.2	274

Source: Company, HDFC sec Inst Research

**Double stack trains were 758 in 1QFY20 compared to 830/780 trains YoY/QoQ**

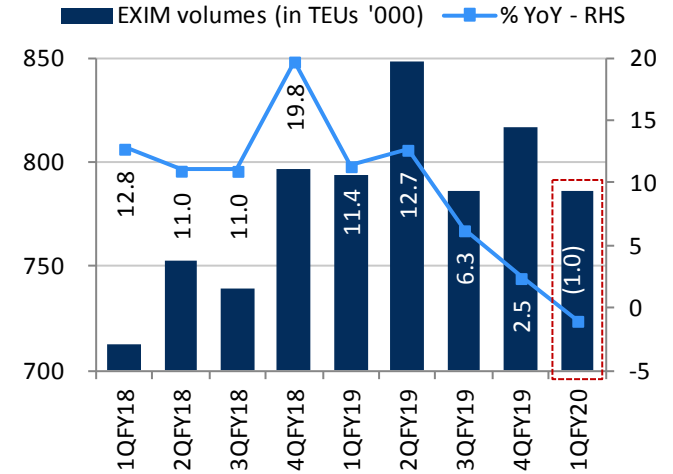
**1QFY20 results are not comparable YoY as the SEIS income has not been booked for the quarter (vs Rs 708mn /843mn YoY/QoQ). The co is awaiting notification from the government on the same**

**Volumes: Impacted due to softened demand**



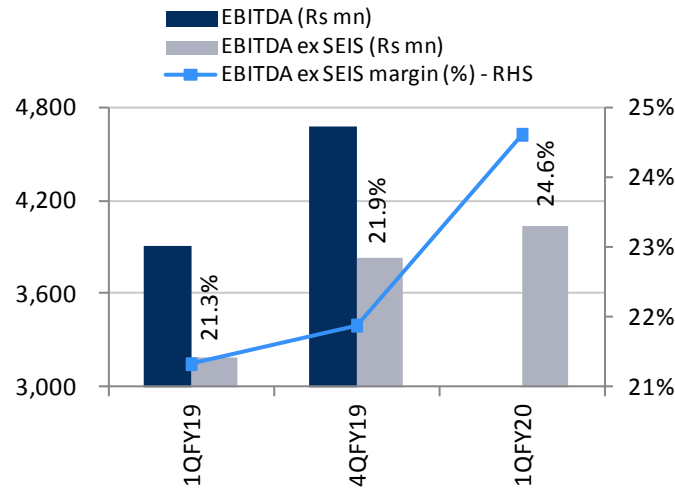
Source: Company, HDFC sec Inst Research

**EXIM Volumes**



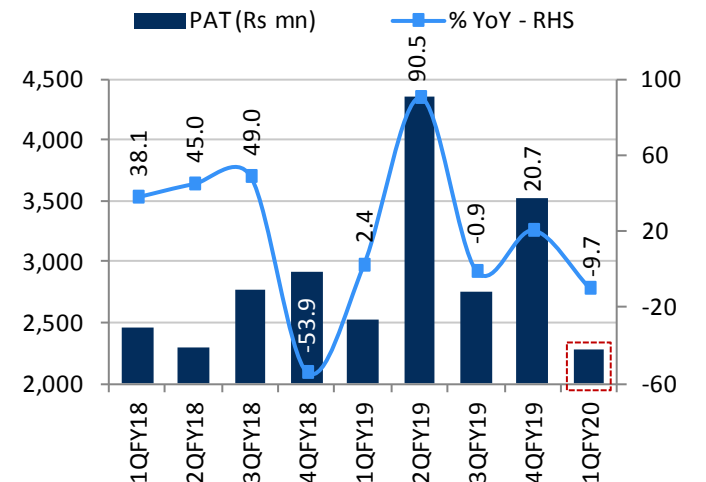
Source: Company, HDFC sec Inst Research

**EBITDA Margin**



Source: Company, HDFC sec Inst Research

**PAT: Not comparable YoY due to SEIS income**

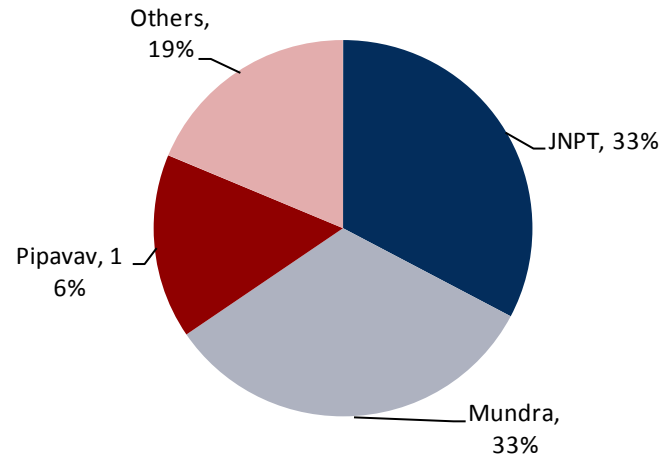


Source: Company, HDFC sec Inst Research

*The market share at the major ports has reduced as the company is not participating in low margin short haul traffic*

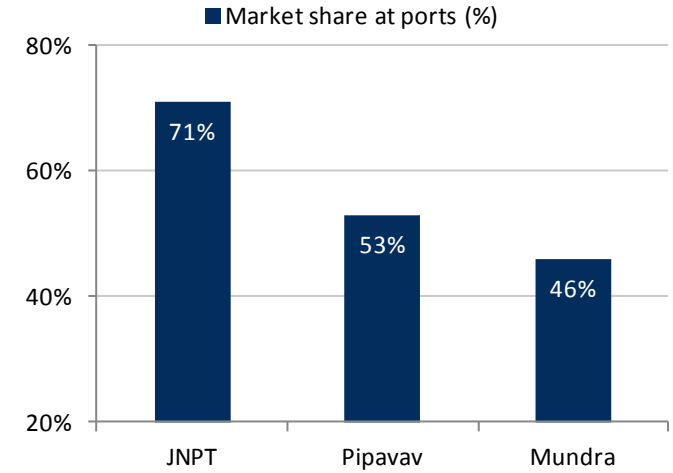
*Rail coefficient remains low at 16% for JNPT and 26% for Mundra.*

**Current port-wise mix (%)**



Source: Company, HDFC sec Inst Research

**Current port wise market share**



Source: Company, HDFC sec Inst Research

*We expect volumes to pick up as the DFC gets commissioned over FY21-22*

*We reduce our FY20 earnings by ~4% to factor in the current industry scenario*

### Key assumptions

	FY18	FY19	FY20E	FY21E	FY22E
Domestic TEU	529,952	584,160	619,210	705,899	818,843
% YoY	15.1	10.2	6.0	14.0	16.0
Exports TEU	3,001,948	3,245,259	3,439,975	3,921,571	4,641,828
% YoY	13.6	8.1	6.0	14.0	18.4
<b>Total TEU</b>	<b>3,531,900</b>	<b>3,829,419</b>	<b>4,059,184</b>	<b>4,627,470</b>	<b>5,460,671</b>
% YoY	13.9	8.4	6.0	14.0	18.0
Realisations (in INR)	17,461	17,971	18,482	18,667	19,056
% Growth	(3.4)	2.9	2.8	1.0	2.1

Source: Company, HDFC sec Inst Research

### Change in estimates

	NEW			OLD			% chg		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Net Revenue	75,022	86,380	104,057	78,277	90,128	108,568	(4)	(4)	(4)
Adj. EBITDA	16,964	20,333	24,794	16,660	19,998	25,351	2	2	(2)
Adj. EBITDA margin (%)	23.8	24.4	24.4	22.3	22.9	23.9	146 bps	146 bps	47 bps
PAT	13,048	15,158	18,227	13,584	15,432	18,757	(4)	(2)	(3)
EPS	21.4	24.9	29.9	22.3	25.3	30.8	(4)	(2)	(3)

Source: HDFC sec Inst Research

**Income Statement (Standalone)**

(Rs mn)	FY18	FY19P	FY20E	FY21E	FY22E
<b>Net Revenues</b>	<b>61,672</b>	<b>68,819</b>	<b>75,022</b>	<b>86,380</b>	<b>104,057</b>
<b>Growth (%)</b>	<b>10.0</b>	<b>11.6</b>	<b>9.0</b>	<b>15.1</b>	<b>20.5</b>
Railway Charges	41,712	45,175	48,539	56,061	67,845
Employee Cost	2,779	3,368	3,376	3,714	4,579
Other Expenses	2,352	2,477	2,513	3,369	4,516
<b>Total Expenditure</b>	<b>46,843</b>	<b>51,019</b>	<b>54,429</b>	<b>63,144</b>	<b>76,940</b>
<b>EBITDA</b>	<b>14,829</b>	<b>17,800</b>	<b>20,594</b>	<b>23,236</b>	<b>27,117</b>
<b>EBITDA Margin (%)</b>	<b>24.0</b>	<b>25.9</b>	<b>27.5</b>	<b>26.9</b>	<b>26.1</b>
<b>Adj. EBITDA</b>	<b>12,150</b>	<b>14,408</b>	<b>16,964</b>	<b>20,333</b>	<b>24,794</b>
<b>Adj. EBITDA Margin (%)</b>	<b>20.6</b>	<b>22.0</b>	<b>23.8</b>	<b>24.4</b>	<b>24.4</b>
<b>EBITDA Growth (%)</b>	<b>17.4</b>	<b>18.6</b>	<b>17.7</b>	<b>19.9</b>	<b>21.9</b>
Depreciation	3,927	4,246	4,954	5,124	5,213
<b>EBIT</b>	<b>10,902</b>	<b>13,554</b>	<b>15,640</b>	<b>18,112</b>	<b>21,904</b>
Other Income (Including EO Items)	3,026	3,342	2,856	3,396	3,823
Interest	1	7	374	398	412
<b>PBT</b>	<b>13,927</b>	<b>16,889</b>	<b>18,122</b>	<b>21,111</b>	<b>25,315</b>
Tax (Incl Deferred)	3,436	4,735	5,074	5,953	7,088
<b>RPAT</b>	<b>10,491</b>	<b>12,154</b>	<b>13,048</b>	<b>15,158</b>	<b>18,227</b>
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-
<b>APAT</b>	<b>10,491</b>	<b>12,154</b>	<b>13,048</b>	<b>15,158</b>	<b>18,227</b>
<b>APAT Growth (%)</b>	<b>22.3</b>	<b>15.8</b>	<b>7.4</b>	<b>16.2</b>	<b>20.3</b>
<b>Adjusted EPS (Rs)</b>	<b>17.2</b>	<b>19.9</b>	<b>21.4</b>	<b>24.9</b>	<b>29.9</b>
<b>EPS Growth (%)</b>	<b>22.3</b>	<b>15.8</b>	<b>7.4</b>	<b>16.2</b>	<b>20.3</b>

Source: Company, HDFC sec Inst Research \*EBITDA adjusted for SIES income

**Balance Sheet (Standalone)**

(Rs mn)	FY18	FY19P	FY20E	FY21E	FY22E
<b>SOURCES OF FUNDS</b>					
Share Capital - Equity	2,437	3,046	3,046	3,046	3,046
Reserves	91,574	95,298	99,644	105,934	114,565
<b>Total Shareholders Funds</b>	<b>94,011</b>	<b>98,344</b>	<b>102,690</b>	<b>108,981</b>	<b>117,611</b>
<b>Total Debt</b>	<b>-</b>	<b>7,000</b>	<b>7,140</b>	<b>7,283</b>	<b>7,428</b>
<b>Deferred Tax Liability</b>	<b>1,877</b>	<b>1,689</b>	<b>1,520</b>	<b>1,368</b>	<b>1,232</b>
<b>TOTAL SOURCES OF FUNDS</b>	<b>95,888</b>	<b>107,034</b>	<b>111,351</b>	<b>117,632</b>	<b>126,271</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	36,484	40,305	43,484	46,490	49,405
CWIP	6,710	6,643	6,510	6,380	6,253
Investments	7,142	7,642	7,893	8,144	8,395
<b>Total Non-current Assets</b>	<b>50,336</b>	<b>54,590</b>	<b>57,887</b>	<b>61,014</b>	<b>64,052</b>
<b>Cash &amp; Equivalents</b>	<b>26,566</b>	<b>7,831</b>	<b>7,624</b>	<b>9,668</b>	<b>14,383</b>
Inventories	274	245	206	237	285
Debtors	604	886	966	1,112	1,340
Other Current Assets	28,699	55,677	57,617	59,630	61,716
<b>Total Current Assets</b>	<b>56,143</b>	<b>64,639</b>	<b>66,413</b>	<b>70,647</b>	<b>77,724</b>
Creditors	9,887	11,351	11,936	12,813	14,046
Other Current Liabilities & Provns	704	845	1,013	1,216	1,459
<b>Total Current Liabilities</b>	<b>10,590</b>	<b>12,195</b>	<b>12,949</b>	<b>14,029</b>	<b>15,505</b>
<b>Net Current Assets</b>	<b>45,552</b>	<b>52,443</b>	<b>53,464</b>	<b>56,618</b>	<b>62,219</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>95,888</b>	<b>107,034</b>	<b>111,351</b>	<b>117,632</b>	<b>126,271</b>

Source: Company, HDFC sec Inst Research

**Cash Flow (Standalone)**

(Rs mn)	FY18	FY19P	FY20E	FY21E	FY22E
Reported PBT	13,927	16,889	18,122	21,111	25,315
Non-operating & EO Items	(3,026)	(3,342)	(2,856)	(3,396)	(3,823)
Interest Expenses	1	7	374	398	412
Depreciation	3,927	4,246	4,954	5,124	5,213
Working Capital Change	2,536	(25,626)	(1,227)	(1,110)	(886)
Tax Paid	(3,961)	(4,922)	(5,243)	(6,105)	(7,225)
<b>OPERATING CASH FLOW ( a )</b>	<b>13,404</b>	<b>(12,749)</b>	<b>14,124</b>	<b>16,021</b>	<b>19,006</b>
Capex	(8,352)	(8,000)	(8,000)	(8,000)	(8,000)
<i>Free Cash Flow (FCF)</i>	<i>5,053</i>	<i>(20,749)</i>	<i>6,124</i>	<i>8,021</i>	<i>11,006</i>
Investments	(153)	(500)	(251)	(251)	(251)
Non-operating Income	3,026	3,342	2,856	3,396	3,823
<b>INVESTING CASH FLOW ( b )</b>	<b>(5,479)</b>	<b>(5,158)</b>	<b>(5,395)</b>	<b>(4,855)</b>	<b>(4,428)</b>
Debt Issuance/(Repaid)	-	7,000	140	143	146
Interest Expenses	(1)	(7)	(374)	(398)	(412)
<i>FCFE</i>	<i>5,052</i>	<i>(13,756)</i>	<i>5,890</i>	<i>7,766</i>	<i>10,740</i>
Share Capital Issuance	56	0	-	-	-
Dividend	(4,998)	(7,821)	(8,701)	(8,867)	(9,596)
<b>FINANCING CASH FLOW ( c )</b>	<b>(4,943)</b>	<b>(828)</b>	<b>(8,935)</b>	<b>(9,122)</b>	<b>(9,863)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>2,983</b>	<b>(18,735)</b>	<b>(207)</b>	<b>2,044</b>	<b>4,715</b>
Closing Cash & Equivalents	26,565	7,830	7,624	9,668	14,383

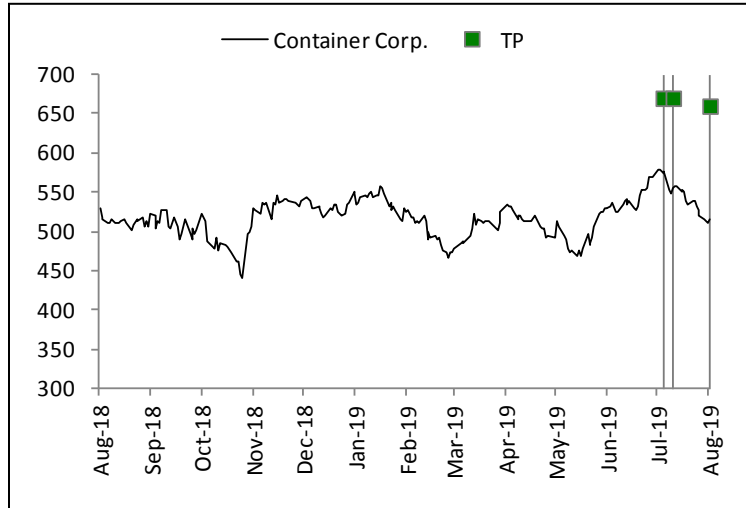
Source: Company, HDFC sec Inst Research

**Key Ratios (Standalone)**

KEY RATIOS	FY18	FY19P	FY20E	FY21E	FY22E
<b>PROFITABILITY (%)</b>					
Adj. GPM	29.3	31.0	32.0	32.8	33.3
Adj. EBITDA Margin	20.6	22.0	23.8	24.4	24.4
EBIT Margin	17.7	19.7	20.8	21.0	21.1
APAT Margin	17.0	17.7	17.4	17.5	17.5
RoE	11.5	12.6	13.0	14.3	16.1
RoIC (or Core RoCE)	12.0	11.6	11.1	12.3	14.3
RoCE	8.8	9.6	10.3	11.4	12.9
<b>EFFICIENCY</b>					
Tax Rate (%)	24.7	28.0	28.0	28.2	28.0
Fixed Asset Turnover (x)	1.7	1.7	1.7	1.9	2.1
<i>Inventory (days)</i>	<i>1.6</i>	<i>1.3</i>	<i>1.0</i>	<i>1.0</i>	<i>1.0</i>
<i>Debtors (days)</i>	<i>3.6</i>	<i>4.7</i>	<i>4.7</i>	<i>4.7</i>	<i>4.7</i>
<i>Other Current Assets (days)</i>	<i>169.9</i>	<i>295.3</i>	<i>280.3</i>	<i>252.0</i>	<i>216.5</i>
<i>Payables (days)</i>	<i>58.5</i>	<i>60.2</i>	<i>58.1</i>	<i>54.1</i>	<i>49.3</i>
<i>Other Current Liab &amp; Provns (days)</i>	<i>4.2</i>	<i>4.5</i>	<i>4.9</i>	<i>5.1</i>	<i>5.1</i>
Cash Conversion Cycle (days)	112.4	236.6	223.0	198.4	167.8
Debt/EBITDA (x)	-	0.4	0.3	0.3	0.3
Net D/E (x)	(0.3)	(0.0)	(0.0)	(0.0)	(0.1)
Interest Coverage (x)	NA	NA	41.8	45.5	53.2
<b>PER SHARE DATA (Rs)</b>					
EPS	17.2	19.9	21.4	24.9	29.9
CEPS	29.6	26.9	29.5	33.3	38.5
Dividend	17.1	12.3	12.2	12.4	13.5
Book Value	193	161	169	179	193
<b>VALUATION</b>					
P/E (x)	29.9	25.8	24.1	20.7	17.2
P/BV (x)	2.7	3.2	3.1	2.9	2.7
EV/EBITDA (x)	18.5	21.7	18.5	15.3	12.4
EV/Revenues (x)	3.6	4.6	4.2	3.6	3.0
OCF/EV (%)	6.0	(4.1)	4.5	5.1	6.2
FCF/EV (%)	2.2	(6.6)	2.0	2.6	3.6
FCFE/Mkt Cap (%)	2.0	(4.4)	1.9	2.5	3.4
Dividend Yield (%)	3.3	2.4	2.4	2.4	2.6

Source: Company, HDFC sec Inst Research

**RECOMMENDATION HISTORY**



Date	CMP	Reco	Target
4-Jul-19	573	BUY	670
10-Jul-19	549	BUY	670
2-Aug-19	515	BUY	660

**Rating Definitions**

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period



**INSTITUTIONAL RESEARCH**
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