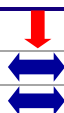


Container Corporation

Estimate change

TP change

Rating change



Motilal Oswal values your support in the Asiamoney Brokers Poll 2020 for India Research, Sales and Trading team. We [request your ballot](#).



Bloomberg	CCRI IN
Equity Shares (m)	609
M.Cap.(INRb)/(USDb)	264.2 / 3.4
52-Week Range (INR)	665 / 263
1, 6, 12 Rel. Per (%)	9/-9/-13
12M Avg Val (INR M)	760

Financial Snapshot (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	64.7	54.3	72.0
EBITDA	16.7	13.0	18.7
Adj. PAT	10.1	7.5	11.2
EBITDA Margin (%)	25.9	24.0	25.9
Adj. EPS (INR)	16.6	12.3	18.4
EPS Gr. (%)	(16.7)	(25.7)	49.0
BV/Sh. (INR)	165	173	184

Ratios

Net D:E	(0.4)	(0.3)	(0.4)
RoE (%)	9.9	7.3	10.3
RoCE (%)	9.7	7.3	10.3
Payout (%)	166.5	40.0	40.0

Valuations

P/E (x)	26.1	35.2	23.6
P/BV (x)	2.6	2.5	2.4
EV/EBITDA(x)	13.6	17.5	12.0
Div. Yield (%)	2.0	1.1	1.7
FCF Yield (%)	12.4	0.1	2.9

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	54.8	54.8	54.8
DII	13.7	13.5	12.1
FII	26.8	27.2	28.5
Others	4.7	4.5	4.5

FII Includes depository receipts

CMP: INR434

TP: INR510 (+18%)

Buy

Margin surprises positively

DFC commissioning remains key

- Container Corporation's (CCRI) 4QFY20 results highlight loss of market share from 73% last year to ~67% as the company exited short-haul freight market, which had low profitability. EBITDA margin, thus, improved by 4pp YoY in FY20 to 25.9%.
- We have cut our FY21/FY22 estimates on weaker volume outlook and sharp increase in land license fee by the Railways. We maintain **Buy** rating on the expected longer-term volume and margin benefits from the commissioning of the Dedicated Freight Corridor (DFC) project by end-FY21.

EBITDA beats estimates on lower costs

- Total volumes were down 4% YoY to 941,270 TEUs (in-line). EXIM volumes came in at 775,319 TEUs (-5% YoY) and domestic volumes at 165,951 TEUs (+2% YoY).
- CCRI's 4QFY20 reported revenues came in at INR15.7b (-10% YoY, +3% QoQ), below est. INR17.3b. EXIM revenues stood at INR11.3b (-14% YoY, -3% QoQ) while domestic revenues came in at INR4.4b (+1% YoY, +23% QoQ).
- Realization per TEU for EXIM stood at INR14,583 (-10% YoY, -5% QoQ) while that for domestic, it was INR26,390 (-1% YoY, +6% QoQ).
- Total expenditure was lower than expected at INR10.9b (v/s est. INR13.2b) due to lower staff cost and other expenses.
- EBITDA stood at INR4.7b (+24% YoY, +28% QoQ) above est. INR4.1b. EBITDA margins stood at 30.2% (+8.37pp YoY, +5.91pp QoQ).
- CCRI provisioned INR206m toward impairment of investment in wholly-owned subsidiary Fresh & Healthy Enterprises Limited (FHEL). Hence, reported PAT declined 16% YoY to INR2.9b (v/s est. INR2.6b). 4QFY20 Adj. PAT declined 13.1% YoY to INR3.1b.
- FY20 revenue/EBITDA/PAT came in at INR64.7b/INR16.7b/INR3.8b with YoY change of -1%/+16%/-69%. FY20 Adj. PAT stood at INR10.1, down 16.7% YoY.

Highlights from management commentary

- FY21 guidance: (i) Volume -20% YoY to 3.0m TEU (v/s 3.7m TEU in FY20), (ii) Operating margin of 32-34%, (iii) Capex INR5.0b (INR10.5b in FY20).**
- During FY20, CCRI lost 6% market share as it chose not to match the aggressive pricing of private companies in short-haul freight.
- Land Licensing Fee (LLF) has been sharply increased by the Indian Railways to INR4.5b for FY21 as against INR1.4b paid in FY20.
- CCRI had announced a price hike earlier but has deferred it to 1st Oct'20 due to demand weakness from COVID-19.
- DFC commissioning has been delayed to end-FY21 (v/s Jul'20 expected earlier). This is expected to delaying the likely volume benefit to CCRI.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Valuation and view

- CCRI is a direct play on the upcoming large rail freight infrastructure (DFC).
- While FY21 would be weak due to COVID-19, we expect 18% EBITDA CAGR in FY20-25E, led by healthy volume growth and margin improvement due to operating leverage benefits.
- The stock trades at 12x FY22E EV/EBITDA. We derive a DCF-based target price of INR510/share.

Container Corp of India

(INR m)

Y/E March	FY19				FY20				FY19	FY20	FY20	Variance
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	vs Est
Net Sales	14,983	17,223	15,726	17,499	16,389	17,387	15,276	15,686	65,427	64,738	17,290	-9.3%
YoY Change (%)	2.8	19.2	10.8	12.3	9.4	1.0	-2.9	-10.4	11.1	-1.1	-1.2	
EBITDA	3,202	4,042	3,339	3,828	4,033	4,255	3,717	4,744	14,408	16,749	4,090	16.0%
Margins (%)	21.4	23.5	21.2	21.9	24.6	24.5	24.3	30.2	22.0	25.9	23.7	
YoY Change (%)	-2.0	29.9	37.7	10.5	25.9	5.3	11.3	23.9	19.3	16.2	6.8	
Depreciation	1,022	1,048	1,059	1,117	1,253	1,278	1,263	1,336	4,246	5,130	1,260	6.0%
Interest	0	0	0	7	112	81	60	108	7	361	40	
Other Income	1,321	1,692	1,586	2,132	583	637	626	952	6,735	2,797	626	51.9%
PBT before EO expense	3,500	4,686	3,866	4,836	3,250	3,532	3,021	4,253	16,889	14,055	3,417	24.5%
Extra-Ord expense	0	0	0	0	0	8,611	0	206	0	8,816	0	
PBT	3,500	4,686	3,866	4,836	3,250	-5,079	3,021	4,047	16,889	5,239	3,417	
Tax	977	1,326	1,119	1,313	971	-1,858	1,266	1,102	4,735	1,482	861	
Rate (%)	27.9	28.3	29.0	27.2	29.9	36.6	41.9	27.2	28.0	28.3	25.2	
Reported PAT	2,524	3,361	2,747	3,523	2,278	-3,220	1,755	2,945	12,154	3,757	2,556	15.2%
Adj PAT	2,524	3,361	2,747	3,523	2,340	2,543	2,175	3,062	12,154	10,120	2,556	19.8%
YoY Change (%)	3.7	46.8	-0.9	14.9	-7.3	-24.3	-20.8	-13.1	14.9	-16.7	-27.5	
Margins (%)	16.8	19.5	17.5	20.1	14.3	14.6	14.2	19.5	18.6	15.6	14.8	

**Highlights of management commentary**

- During FY20, CCRI lost 6% market share as it was focussed on maintaining margins. Hence, it exited short-haul freight, which saw heightened price competition from private players. The company has taken a conscious decision to not participate in the pricing war or chase negative margin businesses.
- CCRI has temporarily discontinued coastal freight services and expects resumption by end-CY20. It expects normalization in this business by 4QFY21.
- Empty running charges for FY20 was down 11% YoY to INR2,030m (EXIM – INR1,070m and Domestic – INR960m).
- Number of double-stacking trains in 4QFY20 stood at 497 (v/s 780 in 4QFY19) and in FY20 at 2,528.
- Originating volumes in 4QFY20 – EXIM at 451,007 TEUs (-13% YoY); Domestic – at 80,267 TEUs (+1% YoY).
- Lead distance in 4QFY20 – EXIM at 738kms (722kms in 4QFY19); Domestic – at 1,367kms (1,373kms in 4QFY19). FY20 lead distance for EXIM stood at 725km (714kms in FY19) and that for Domestic stood at 1,356kms (1,402kms in FY19).
- Port-wise volume split for CCRI in FY20 – JNPT 33%, Mundra 31%, Pipavav 14%, Chennai 6%, Vizag 7%, and others 6%.
- CCRI's market share at key ports – JNPT 66%; Mundra 44%, Pipavav 49%.
- Of the INR10.4b SEIS income claimed by CCRI, INR1.82b has been allowed by the DGFT and scrips have been received for the same. While CCRI has not booked income for the balance INR8.6b, it is in discussion for the same with authorities.

- Indian Railways has changed the Land Licensing Fee (LLF) formula for FY21 to make it a fixed payment v/s earlier method of volume-linked charges. This would result in a sharp increase in LLF outgo to INR4.5b for FY21 as against INR1.4b in FY20. However, CCRI has requested Railways to defer implementation of the same given the weak demand environment currently.
- CCRI had announced a price hike earlier but has deferred it to 1st Oct'20 due to demand weakness from COVID-19.
- Dedicated Freight Corridor (DFC) commissioning has been delayed to end-FY21 (v/s Jul'20 expected earlier), delaying the likely benefit from the project to CCRI.
- Employee count at end-FY20 stood at 1,421. CCRI is curtailing costs by not replacing employees who are retiring and reskilling the existing workforce.
- **The company has guided FY21 capex spend at INR5.0b (INR10.5b in FY20).**
- **CCRI has guided for maintaining operating margins in the range of 32-34%.**
- **It expects volumes to decline ~20% YoY to 3.0 MTEUs in FY21 (v/s 3.7 MTEUs in FY20).**

Key exhibits

Exhibit 1: Container Corp – 4QFY20 Financial Summary (INR m)

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY (%)	QoQ (%)
Net Sales	14,983	17,223	15,726	17,499	16,389	17,387	15,276	15,686	-10%	3%
Terminal & Service Charges	8,723	9,714	9,237	9,640	8,953	9,397	8,514	8,120	-16%	-5%
Employee Expenses	701	802	768	1,097	806	829	898	602	-45%	-33%
Other Expenses	2,357	2,666	2,382	2,933	2,598	2,905	2,147	2,220	-24%	3%
EBITDA	3,202	4,042	3,339	3,828	4,033	4,255	3,717	4,744	24%	28%
<i>EBITDA margin (%)</i>	21%	23%	21%	22%	25%	24%	24%	30%	38%	24%
Depreciation	1,022	1,048	1,059	1,117	1,253	1,278	1,263	1,336	20%	6%
EBIT	2,180	2,994	2,280	2,711	2,779	2,977	2,454	3,409	26%	39%
Interest	0	0	0	7	112	81	60	108	1482%	81%
Other Income	1,321	1,692	1,586	2,132	583	637	626	952	-55%	52%
PBT	3,500	4,686	3,866	4,836	3,250	3,532	3,021	4,253	-12%	41%
Total Tax	977	1,326	1,119	1,313	971	(1,858)	1,266	1,102	-16%	-13%
<i>Tax rate (%)</i>	28%	28%	29%	27%	30%	-53%	42%	26%	-5%	-38%
PAT	2,524	3,360	2,747	3,523	2,340	2,543	2,175	3,062	-13%	41%
EPS (INR)	4.1	5.5	4.5	5.8	3.8	4.2	3.6	5.0	-13%	41%

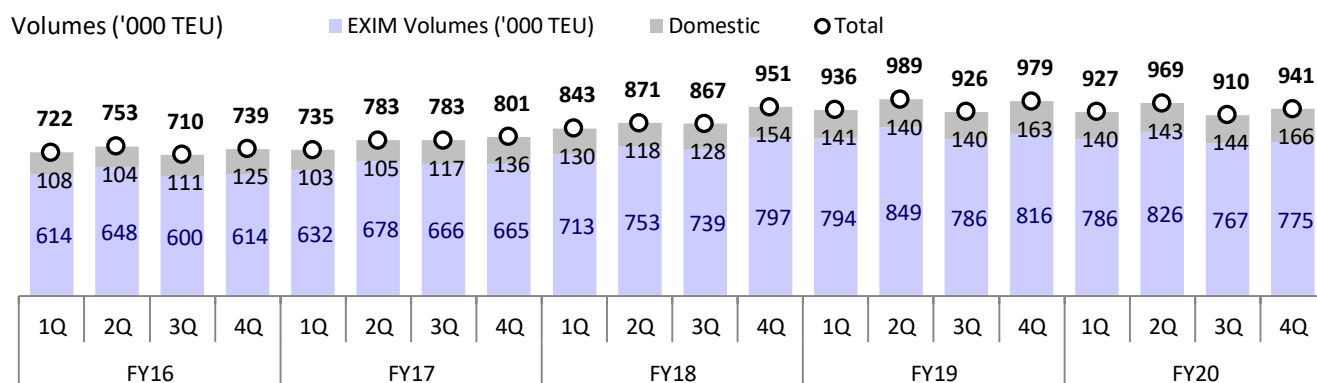
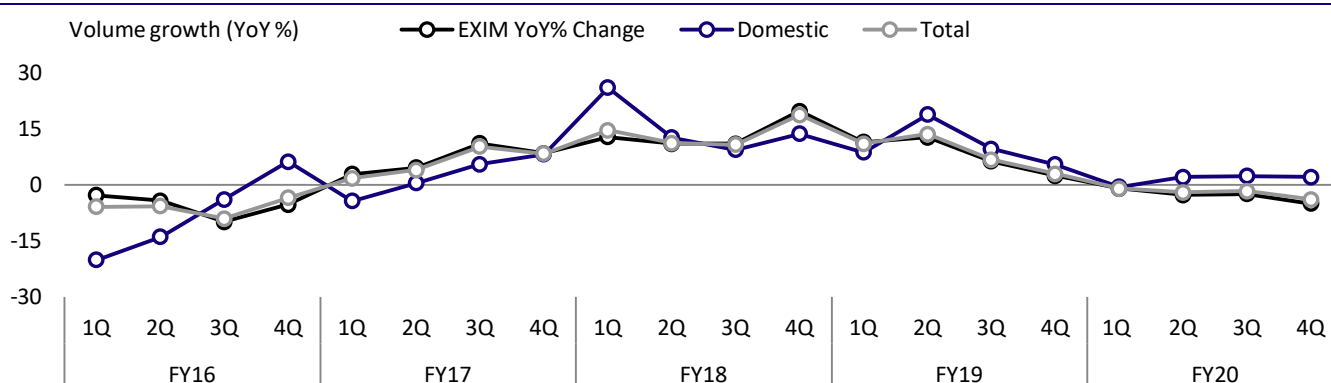
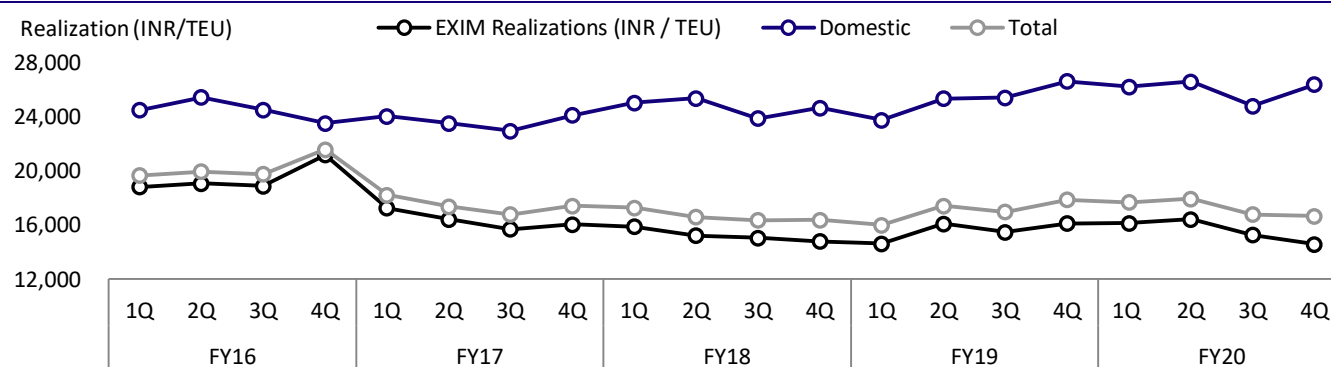
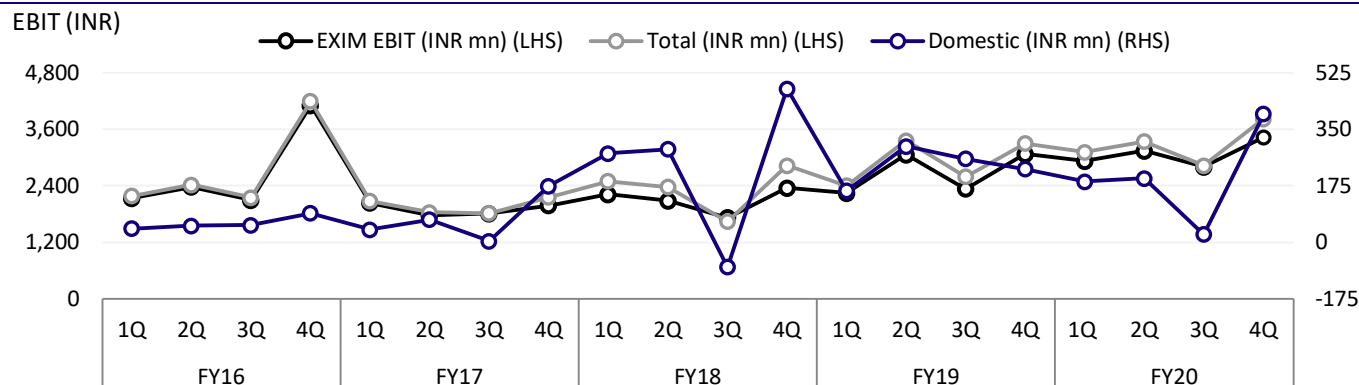
Exhibit 2: Container Corp – 4QFY20 Segmental Revenue and Profitability

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY (%)	QoQ (%)
Revenue (INRM)										
EXIM	11,627	13,670	12,161	13,171	12,704	13,577	11,713	11,307	-14%	-3%
Domestic	3,356	3,552	3,566	4,328	3,685	3,810	3,562	4,380	1%	23%
Total Segment Revenue	14,983	17,223	15,726	17,499	16,389	17,387	15,276	15,686	-10%	3%
Segmental EBIT										
EXIM	2,242	3,060	2,331	3,073	2,926	3,139	2,805	3,425	11%	22%
Domestic	159	297	258	227	189	198	25	397	75%	1515%
Total	2,401	3,358	2,589	3,300	3,114	3,337	2,830	3,822	16%	35%
EBIT Margin (%)										
EXIM	19.3%	22.4%	19.2%	23.3%	23.0%	23.1%	23.9%	30.3%		
Domestic	4.7%	8.4%	7.2%	5.2%	5.1%	5.2%	0.7%	9.1%		
Total	16.0%	19.5%	16.5%	18.9%	19.0%	19.2%	18.5%	24.4%		

Exhibit 3: Container Corp – Realization Snapshot

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY (%)	QoQ (%)
Volumes (TEU)										
EXIM	794,405	848,585	785,873	816,396	786,442	826,013	766,822	775,319	-5%	1%
Domestic	141,251	140,142	140,233	162,534	140,481	143,145	143,585	165,951	2%	16%
Total	935,656	988,727	926,106	978,930	926,923	969,158	910,407	941,270	-4%	3%
Realizations (INR / TEU)										
EXIM	14,636	16,110	15,474	16,134	16,154	16,437	15,275	14,583	-10%	-5%
Domestic	23,756	25,349	25,426	26,627	26,232	26,614	24,810	26,390	-1%	6%
Total	16,013	17,419	16,981	17,876	17,681	17,940	16,779	16,665	-7%	-1%
EBIT (INR/TEU)										
EXIM	2,822	3,606	2,966	3,764	3,720	3,800	3,658	4,417		
Domestic	1,125	2,122	1,840	1,397	1,342	1,383	171	2,395		
Total	2,566	3,396	2,796	3,371	3,360	3,443	3,108	4,060		

Source: MOFSL, Company

Exhibit 4: Container Corp – Quarterly domestic and EXIM volume trend ('000 TEU)**Exhibit 5: Container Corp – Quarterly domestic and EXIM volume YoY growth ('000 TEU)****Exhibit 6: Container Corp – Quarterly domestic and EXIM per TEU realization trend (INR/TEU)****Exhibit 7: Container Corp – Quarterly domestic and EXIM EBIT trend (INR m)**

Source: MOFSL, Company

Financials and valuations

Standalone - Income Statement

	(INR M)							
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Total Income from Operations	61,493	59,217	53,946	58,893	65,427	64,738	54,251	71,956
Change (%)	15.7	-3.7	-8.9	9.2	11.1	-1.1	-16.2	32.6
Total Expenditure	47,474	45,834	43,593	46,814	51,019	47,989	41,211	53,299
% of Sales	77.2	77.4	80.8	79.5	78.0	74.1	76.0	74.1
EBITDA	14,019	13,384	10,354	12,079	14,408	16,749	13,040	18,657
Margin (%)	22.8	22.6	19.2	20.5	22.0	25.9	24.0	25.9
Depreciation	4,108	3,478	3,518	3,927	4,246	5,130	5,456	6,148
EBIT	9,911	9,906	6,835	8,152	10,162	11,619	7,584	12,509
Int. and Finance Charges	183	2	37	1	7	361	30	30
Other Income	3,470	3,175	2,892	5,705	6,735	2,797	2,500	2,500
PBT bef. EO Exp.	13,198	13,080	9,691	13,856	16,889	14,056	10,054	14,979
EO Items	0	0	1,250	-129	0	-8,816	0	0
PBT	13,198	13,080	10,941	13,727	16,889	5,240	10,054	14,979
Current Tax	3,189	2,843	3,206	3,862	4,841	3,208	2,534	3,775
Deferred Tax	-551	728	-845	-579	-107	-1,726	0	0
Tax	2,638	3,571	2,361	3,283	4,735	1,482	2,534	3,775
Tax Rate (%)	20.0	27.3	21.6	23.9	28.0	28.3	25.2	25.2
Reported PAT	10,546	9,508	8,580	10,445	12,154	3,758	7,521	11,204
Adjusted PAT	10,546	9,508	7,331	10,574	12,154	10,120	7,521	11,204
Change (%)	11.7	-9.8	-22.9	44.2	14.9	-16.7	-25.7	49.0
Margin (%)	17.1	16.1	13.6	18.0	18.6	15.6	13.9	15.6

Standalone - Balance Sheet

	(INR M)							
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	1,950	1,950	1,950	2,437	3,047	3,047	3,047	3,047
Total Reserves	74,407	81,507	86,512	91,574	1,00,632	97,601	102,113	108,836
Net Worth	76,357	83,457	88,462	94,011	1,03,679	100,647	105,160	111,882
Deferred Liabilities	2,292	3,546	2,769	2,533	1,616	0	0	0
Total Loans	0	0	0	0	7,007	0	0	0
Capital Employed	78,649	87,002	91,231	96,544	1,12,301	100,647	105,160	111,882
Gross Block	51,918	31,473	40,676	47,332	57,041	69,918	78,793	88,793
Less: Accum. Deprn.	19,499	3,474	6,978	10,848	15,094	20,224	25,680	31,828
Net Fixed Assets	32,419	28,000	33,698	36,484	41,947	49,694	53,113	56,965
Capital WIP	3,006	5,133	5,071	6,710	6,247	9,375	7,000	7,000
Total Investments	11,548	13,576	13,737	13,890	14,029	14,441	14,441	14,441
Curr. Assets, Loans&Adv.	39,935	47,591	46,904	49,395	63,845	42,013	40,623	46,541
Inventory	176	180	229	275	233	261	224	290
Account Receivables	366	493	425	604	884	1,591	743	986
Cash and Bank Balance	25,879	7,999	16,835	19,817	1,704	21,686	21,181	26,790
Loans and Advances	13,514	38,921	29,415	28,699	61,025	18,475	18,475	18,475
Curr. Liability & Prov.	8,483	7,579	8,546	10,592	13,767	15,020	10,163	13,210
Account Payables	2,065	1,868	2,415	2,542	3,504	1,553	1,334	1,725
Other Current Liabilities	4,614	5,202	5,441	7,344	9,544	12,776	8,138	10,793
Provisions	1,804	510	690	705	719	692	692	692
Net Current Assets	31,452	40,012	38,357	38,804	50,078	26,992	30,460	33,331
Appl. of Funds	78,649	87,002	91,231	96,544	1,12,301	100,647	105,159	111,882

E: MOFSL Estimates

Financials and valuations

Ratios								
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Basic (INR)								
EPS	17.3	15.6	12.0	17.4	19.9	16.6	12.3	18.4
Cash EPS	24.1	21.3	17.8	23.8	26.9	25.0	21.3	28.5
BV/Share	125.3	137.0	145.2	154.3	170.2	165.2	172.6	183.6
DPS	4.3	4.3	6.3	6.9	8.5	8.6	4.9	7.4
Payout (%)	30.2	33.3	51.9	48.0	51.4	166.5	40.0	40.0
Valuation (x)								
P/E						26.1	35.2	23.6
Cash P/E						17.3	20.4	15.2
P/BV						2.6	2.5	2.4
EV/Sales						3.7	4.5	3.3
EV/EBITDA						13.6	17.5	12.0
Dividend Yield (%)						2.0	1.1	1.7
FCF per share						53.8	0.1	12.5
Return Ratios (%)								
RoE	14.4	11.9	8.5	11.6	12.3	9.9	7.3	10.3
RoCE	14.1	11.5	8.6	11.2	11.6	9.7	7.3	10.3
RoIC	21.2	14.6	9.3	11.1	10.0	11.5	9.6	14.8
Working Capital Ratios								
Asset Turnover (x)	0.8	0.7	0.6	0.6	0.6	0.6	0.5	0.6
Inventory (Days)	1	1	2	2	1	1	2	1
Debtor (Days)	2	3	3	4	5	9	5	5
Creditor (Days)	18	19	26	26	34	16	17	16
Working Cap. Turnover (Days)	33	197	146	118	270	30	62	33
Leverage Ratio (x)								
Current Ratio	4.7	6.3	5.5	4.7	4.6	2.8	4.0	3.5
Net Debt/Equity	-0.3	-0.1	-0.2	-0.2	0.1	-0.2	-0.2	-0.2

Standalone - Cash Flow Statement

(INR M)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
OP/(Loss) before Tax	12,946	13,080	11,806	13,857	16,889	5,240	10,054	14,979
Depreciation	3,727	3,627	3,650	3,927	4,246	5,130	5,456	6,148
Interest & Finance Charges	0	-2,914	-2,514	-2,332	-2,247	-2,039	-2,470	-2,470
Direct Taxes Paid	-3,425	-3,192	-3,868	-3,360	-5,404	-1,382	-2,534	-3,775
(Inc)/Dec in WC	1,108	-21,026	9,575	1,169	-33,386	26,758	-3,972	2,739
CF from Operations	14,356	-10,426	18,650	13,260	-19,902	33,707	6,534	17,621
Others	-3,292	-27	-69	19	15	8,982	0	0
CF from Operating incl EO	11,064	-10,453	18,581	13,279	-19,887	42,689	6,534	17,621
(inc)/dec in FA	-8,011	-5,818	-9,143	-8,595	-7,040	-9,888	-6,500	-10,000
Free Cash Flow	3,054	-16,271	9,438	4,684	-26,927	32,801	34	7,621
(Pur)/Sale of Investments	-2,905	0	0	-153	-139	-618	0	0
Others	3,360	1,537	2,978	3,451	4,147	-15,227	2,500	2,500
CF from Investments	-7,556	-4,281	-6,165	-5,297	-3,031	-25,733	-4,000	-7,500
Issue of Shares	0	0	0	0	0	0	0	0
(Inc)/Dec in Debt	0	0	0	0	7,007	-7,007	0	0
Interest Paid	0	-2	-37	-1	-7	-81	-30	-30
Dividend Paid	-3,081	-2,613	-2,944	-4,168	-1,828	-5,666	-3,008	-4,482
Others	0	-532	-599	-831	-366	-1,714	0	0
CF from Fin. Activity	-3,081	-3,146	-3,580	-4,999	4,805	-14,467	-3,038	-4,512
Inc/Dec of Cash	428	-17,881	8,836	2,983	-18,113	2,489	-504	5,609
Opening Balance	25,451	25,879	7,999	16,835	19,817	19,196	21,685	21,181
Closing Balance	25,879	7,999	16,835	19,817	1,704	21,685	21,181	26,790

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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