NIRMAL BANG
a relationship beyond broking

Institutional Equities

Container Corporation of India

31 March 2021

Reuters: CCRI.NS; Bloomberg: CCRI IN

Initiating Coverage

Best is yet to come!

We initiate coverage on Container Corporation of India (CONCOR) with a Buy rating and a target price (TP) of Rs703, implying an upside of 18% from the current market price (CMP). The TP is based on P/E ratio of 35x on FY23E EPS, which is at the lower end of the trading band for the past five years.

Our optimism stems from the anticipated multifold growth in profitability due to the beneficial impact of following (1) Strong push by the Ministry of Railways to improve freight market share from 28% currently to 44% by improving infrastructure (2) Operationalization of the Dedicated Freight Corridors (DFCs) by **June'22, which is expected to sharply increase asset utilization (3) Focused strategy by CONCOR for** long haul freight and removal of discounts, which have led to improvement in margins (4) Cost cutting through reduction of manpower and other overhead expenses will lead to further improvement in margins (5) Consistently strong balance sheet with net cash position (6) Negative working capital has also helped in maintaining a strong balance sheet (7) Strong operating cash flow and FCF and (8) Improving return ratios.

We recommend Buy with a TP of Rs703. We have valued CONCOR at 35x P/E on FY23E EPS, which is at the lower end of the 5-year band. We derive optimism from (1) Anticipated strong growth in volume with the expected improvement in rail infrastructure (2) Rising demand for rail freight will lead to pricing power (3) Strong cost control, which will help improve and maintain EBITDA margin at ~20% (4). Strong balance sheet with net cash of Rs4.5bn as of 2QFY21.

Railways is increasing focus to improve freight market share; CONCOR to piggy back: Apart from operationalization of the DFCs in India, the Ministry of Railways in the New Rail Plan enunciated recently has devised a strategy to improve its market share in freight from 26% currently to 45% in few years through doubling of speed and cost reduction. One of the key focus areas, as per Government projections is to focus on increasing containerization of freight. CONCOR has a market share of 60-70% of the total container traffic on rail network and is expected to be a key beneficiary.

DFCs – a game changer for CONCOR; will lead to increase in asset utilization at lower cost: There are two DFCs that are being constructed at present. The Eastern DFC (length 1,337kmms) and the Western DFC (1,506kms), both of which are expected to be completed by June'22. This would lead to cost reduction, lower travel time and higher loading per rake, thus increasing the turnround time per container. This is also expected to lead to increase in rail's market share of freight traffic, further reduction in cost vis-a-vis road transport and reduced travel time. We expect CONCOR to be one of the key beneficiaries.

Earnings to clock ~21% CAGR over FY21-FY23 driven by revenue growth and margin expansion: Due to uncertainty of project completion, we have not included the benefits of DFCs or the aggressive push by railways to improve its freight market share (by improving infrastructure to reduce cost and travel time). We expect revenue CAGR of 15.6% over FY21E-FY23E and earnings CAGR of 21.2%. Earnings growth is expected to be driven by: (1) Revenue growth (2) Margin expansion due to cost reduction (3) Marginal interest expense due to net cash on the balance sheet.

Strong balance sheet with net cash: The company has consistently maintained a strong balance sheet with net cash position for most of the years. Most of the capex is managed from the operating cash flow received by the company. The net debt to equity ratio is -0.04x as of 2QFY21.

Negative working capital helps to maintain strong balance sheet: One of the key reasons for the strong balance sheet is the negative working capital. Since this is a service industry, the inventory is minimal and the company takes revenue upfront at the time of booking, thereby reducing the receivables.

Strong cash flows – OCF yield and FCF yield expected to improve: The company has strong operating cash flow and free cash flow. The OCF yield is expected to improve from 1.8% in FY20 to 5.8% in FY23E. The FCF yield is expected to grow from -2.9% in FY20 to 3.6% in FY23E.

Return ratios to improve: We expect RoE to improve from 4.0% in FY20 to 10.4% in FY23E. This improvement is expected to be driven by improvement in net profit margin and asset turnover. The RoCE is expected to improve from 8.0% in FY21E to ~11.5% in FY23E.

Attractive valuation – without impact of higher freight due to strong thrust by railways, impact of DFFCIL: The CONCOR stock is currently trading at 29.8x on FY23E EPS, which is at the lower end of the 5-year trading band. This does not include the sharp impact of the railways' thrust to improve its market share in freight transport and the impact of operationalization of the DFCs – both of which will lead to re-rating of the stock. We derive added comfort due to the strong balance sheet, negative working capital and strong cash flows. We recommend Buy with a TP of Rs703, implying an upside of 18%.

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Revenues	69,561	65,394	62,950	70,644	84,105
YoY (%)	*5.0*	*(6.0)*	*(3.7)*	*12.2*	*19.1*
EBITDA	17,907	16,938	14,379	16,571	20,540
EBITDA Margin (%)	*25.7*	*25.9*	*22.8*	*23.5*	*24.4*
PAT	12,294	4,045	8,326	9,604	12,233
YoY (%)	*14.6*	*(67.1)*	*105.8*	*15.3*	*27.4*
EPS (Rs)	20.2	6.6	13.7	15.8	20.1
RoE (%)	*11.9*	*4.0*	*7.8*	*8.7*	*10.4*
EV/EBITDA (x)	20.7	21.5	25.3	22.0	17.7
P/E (x)	29.61	90.01	43.73	37.91	29.76

Source: Company, Nirmal Bang Institutional Equities Research

BUY

Sector: Building Materials

CMP: Rs598

Target Price: Rs703

Upside: 18%

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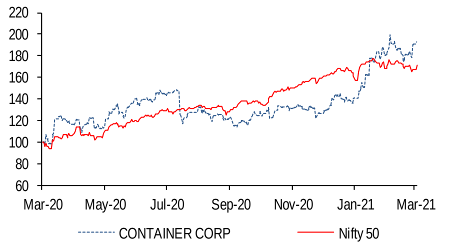
Key Data	
Current Shares O/S (mn)	609.3
Mkt Cap (Rsbn/US$bn)	364.2/5.0
52 Wk H / L (Rs)	644/302
Daily Vol. (3M NSE Avg.)	4,188,006

Share holding (%)	3QFY21	2QFY21	1QFY21
Promoter	54.8	54.8	54.8
Public	45.2	45.2	45.2
Others	-	-	-

One-Year Indexed Stock Performance



Price Performance (%)

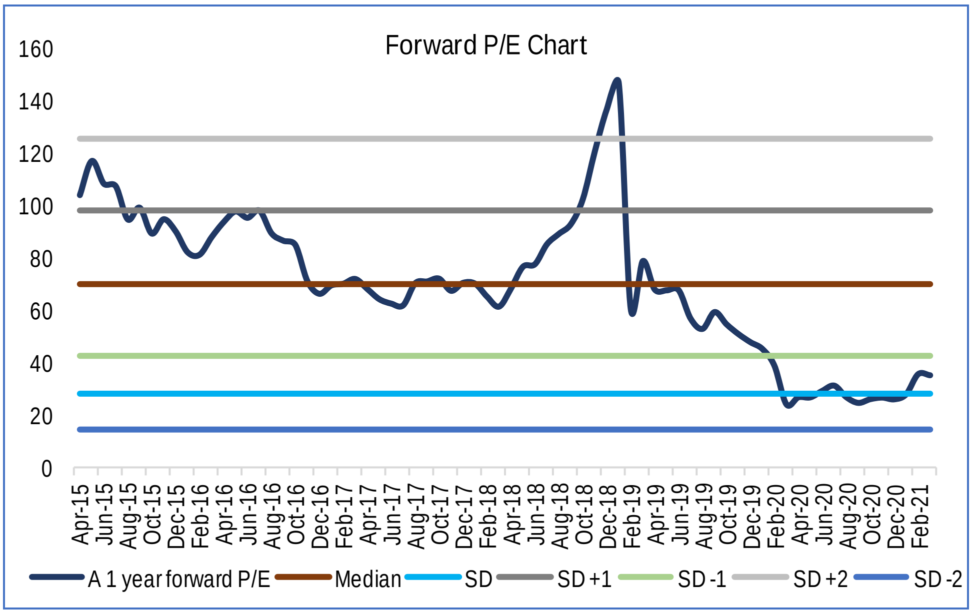
	1 M	6 M	1 Yr
CONCOR	7.2	63.8	80.3
Nifty Index	2.2	32.0	72.7

Source: Bloomberg

Valuation

We have valued CONCOR based on 35x P/E on FY23E EPS to arrive at a TP of Rs703. Historically, the stock has traded at more than 60x one-year forward P/E during FY16-19. During FY19-20, the stock got re-rated and traded at much higher multiple of 1-year forward P/E. This expansion in multiple was driven by strong growth in earnings (FY17-19 CAGR of 13%) due to growth in revenues, supported by expansion in EBITDA margin. However, currently, the stock trades at 29.8x on FY23E EPS due to the impact on profitability in the wake of Covid-19 and lingering concerns about the pace of normalization of the economy.

Exhibit 1: 1-year forward P/E Chart:



Source: BSE India, Company, Nirmal Bang Institutional Equities

The stock price currently continues to reflect pessimism due to the impact of Covid 19. While in the recent past, the stock has rallied, but in our view, it does not reflect the expected growth in revenue post normalization of the economy and the impact of operationalization of the DFCs, which is expected to be completed in about 1-2 years. The DFCs are expected to improve rail transport speed by 3x with higher capacity per rake, thus improving utilization of current assets. Further, the company is expected to benefit from the clear strategy of focusing on only freight transportation for long distances and removal of discounts, which will drive the margins.

<u>Other factors justifying valuation:</u>

1. Revenue is expected to post a 15.6% CAGR over FY21E-FY23E, supported by revival in growth in volume and pricing.
2. Operating expenses are expected to grow at 14.4% CAGR during FY21E-FY23E, leading to EBITDA growing at a CAGR of 19.5%.
3. The company intends to focus on freight for longer distances and pricing of freight for a minimum return.
4. Well positioned brand and strategic partnerships with road carriers for multimodal end-to-end transport.
5. Balance sheet remains comfortable with net cash position.
6. Strong cash flows post normalization.
7. Negative working capital.
8. Strong FCF growth at a CAGR of 13.3% over FY21E-23E with OCF yield of 5.8% in FY23E and FCF yield of 3.6% in FY23E.

Assumptions

Revenue assumptions:

We have assumed strong growth in transportation volume of EXIM and domestic cargo due to the expected normalization of trade both in the domestic as well as international markets. The company is focused on: (1) Transporting cargo with minimum rates to ensure profitability (2) Transporting only long-distance cargo (3) Expects at least part operationalization of DFCs (4) Expanding lines of transportation business to include commodities like cement, coal etc. (5) End-to-end multimodal transport and (6) Entry into 3PL, implying assuming responsibility of transportation of customers' goods.

Exhibit 2: Revenue Assumptions:

Particulars	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
- EXIM Revenues	51,624	48,568	52,641	54,183	49,309	46,873	52,076	61,684
- TEU's Handled	24,75,868	26,41,695	30,01,948	32,45,259	31,54,596	30,59,958	33,65,954	38,70,847
- Growth (%)	-	6.7%	13.6%	8.1%	-2.8%	-3.0%	10.0%	15.0%
- Revenue (Rs/ TEU)	20,851	18,385	17,535	16,696	15,631	15,318	15,471	15,936
- Growth (%)	-	-11.8%	-4.6%	-4.8%	-6.4%	-2.0%	1.0%	3.0%
- Domestic Revenues	11,159	11,179	13,529	15,378	16,083	16,076	18,568	22,421
- TEU's Handled	4,48,178	4,60,516	5,29,952	5,84,160	5,93,162	5,81,299	6,39,429	7,35,343
- Growth (%)	-	2.8%	15.1%	10.2%	1.5%	-2.0%	10.0%	15.0%
- Revenue per TEU	24,897	24,274	25,529	26,324	27,114	27,656	29,039	30,491
- Growth (%)	-	-2.5%	5.2%	3.1%	3.0%	2.0%	5.0%	5.0%
- Unallocated	-	51	55	1	2			
Total Revenue from Operations	62,782	59,797	66,225	69,561	65,394	62,950	70,644	84,105
- TEU's Handled	29,24,046	31,02,211	35,31,900	38,29,419	37,47,758	36,41,257	40,05,383	46,06,190
- Growth (%)	-	6.1%	13.9%	8.4%	-2.1%	-2.8%	10.0%	15.0%
- Revenue per TEU	21,471	19,276	18,750	18,165	17,449	17,288	17,637	18,259
- Growth (%)	-	-10.2%	-2.7%	-3.1%	-3.9%	-0.9%	2.0%	3.5%

Source: Company, Nirmal Bang Institutional Equities Research

Expense assumptions:

In our expense side modelling, we have been conservative and have assumed rise in expense per TEU handled compared to a decline in the expense per TEU handled during FY16-20. Therefore, direct expense as a percentage of revenue is estimated at ~68% for the period FY21-23E compared to 65%-71% during FY17-20.

Exhibit 3: Terminal and other service charges assumptions:

Particulars	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Terminal and other service charges	44,720	42,681	45,417	45,610	42,773	42,804	48,497	57,445
- Growth (%)	-	-4.6%	6.4%	0.4%	-6.2%	0.1%	13.3%	18.5%
- TEU's Handled	29,24,046	31,02,211	35,31,900	38,29,419	37,47,758	36,41,257	40,05,383	46,06,190
- Expense per TEU's Handled	15,294	13,758	12,859	11,910	11,413	11,755	12,108	12,471
- Growth (%)	-	-10.0%	-6.5%	-7.4%	-4.2%	3.0%	3.0%	3.0%
- Total Revenues from operations	62,782	59,797	66,225	69,561	65,394	62,950	70,644	84,105
- Expense as a % of Revenue from operations	71.2%	71.4%	68.6%	65.6%	65.4%	68.0%	68.6%	68.3%

Source: Company, Nirmal Bang Institutional Equities

Employee expense (expense/employee) is fixed in nature for CONCOR, which had risen sharply during FY17-19. FY20 onwards, we note that the company has reduced expense/employee. We also note that CONCOR has, in the recent past, also reduced the number of employees from 1,497 to 1,467. There has been an enhanced focus on multi-tasking, which will help in reducing the need for additional manpower, thus lowering the cost further.

Exhibit 4: Employee Benefit Expenses assumptions:

Particulars	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Employee Benefit Expenses	1,587	1,887	2,794	3,406	3,170	3,561	3,455	3,594
- Growth (%)	-	18.9%	48.1%	21.9%	-7.0%	12.4%	-3.0%	4.0%
- TEU's Handled	29,24,046	31,02,211	35,31,900	38,29,419	37,47,758	36,41,257	40,05,383	46,06,190
- Expense per TEU's Handled	*543*	*608*	*791*	*890*	*846*	*978*	*863*	*780*
- Growth (%)	-	12.1%	30.1%	12.5%	-4.9%	15.6%	-11.8%	-9.5%
- Total Revenues from operations	62,782	59,797	66,225	69,561	65,394	62,950	70,644	84,105
- Expense as a % of Revenue from operations	*2.5%*	*3.2%*	*4.2%*	*4.9%*	*4.8%*	*5.7%*	*4.9%*	*4.3%*
- Total number of Employees	1,332	1,474	1,473	1,463	1,426	1,497	1,467	1,497
- Growth (%)	-	10.7%	-0.1%	-0.7%	-2.5%	5.0%	-2.0%	2.0%
- Expense per Employee (Rs mn)	*1.19*	*1.28*	*1.90*	*2.33*	*2.22*	*2.38*	*2.35*	*2.40*
- Growth (%)	-	7.5%	48.2%	22.8%	-4.5%	7.0%	-1.0%	2.0%

Source: Company, Nirmal Bang Institutional Equities

We have assumed other expense at 3% of revenue. While historically other expense as a % of revenue has ranged between 3.8% and 4.6%, we expect the ratio to decline as most of the other expenses are fixed in nature.

Exhibit 5: Other Expenses assumptions:

Particulars	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Other Expenses	2,734	2,772	3,025	2,637	2,512	2,203	2,119	2,523
- Growth (%)	-	1.4%	9.1%	-12.8%	-4.7%	-12.3%	-3.8%	19.1%
- TEU's Handled	29,24,046	31,02,211	35,31,900	38,29,419	37,47,758	36,41,257	40,05,383	46,06,190
- Expense per TEU's Handled	935	894	857	689	670	605	529	548
- Growth (%)	-	-4.4%	-4.1%	-19.6%	-2.7%	-9.7%	-12.6%	3.5%
- Total Revenues from operations	62,782	59,797	66,225	69,561	65,394	62,950	70,644	84,105
- Expense as a % of Revenue from operations	4.4%	4.6%	4.6%	3.8%	3.8%	3.5%	3.0%	3.0%

Source: Company, Nirmal Bang Institutional Equities

Peer comparison

The tables below indicate that CONCOR is trading at P/E of 29.8x FY23E EPS, which is near the average P/E of its peers (26.8x). However, in terms of EV/EBITDA, it is trading at a premium of 44% to the average multiple of its peers. In our view, the stock should trade at a premium to its peers due to:

1. Relatively better earnings growth.
2. Better EBITDA margin.
3. The market is not factoring in the sharp increase in revenue growth and profitability after the DFCs come into operation. Tripling of train speed and sharp increase in load carried will improve utilization of the company's assets, thus improving the RoE and RoCE also.

Exhibit 6: Peer's P/E Ratio comparison

P/E (x)	FY21	FY22	FY23
CONCOR NBIE	43.73	37.91	29.76
Blue dart express	162.49	59.67	46.95
Allcargo Logistics	17.12	12.88	10.45
Aegis Logistics	34.86	23.83	19.33
Mahindra Logistics	99.37	41.20	30.31
Average	78.46	34.40	26.76

Source: Bloomberg, Company, Nirmal Bang Institutional Equities

Exhibit 7: Peer's EV/EBITDA Ratio comparison

EV/EBITDA (x)	FY21	FY22	FY23
CONCOR NBIE	25.32	21.97	17.72
Blue dart express	19.37	16.25	14.23
Allcargo Logistics	7.72	6.62	5.54
Aegis Logistics	21.99	15.36	13.00
Mahindra Logistics	26.29	16.35	12.94
Average	18.84	13.65	11.43

Source: Bloomberg, Company, Nirmal Bang Institutional Equities

Exhibit 8: Peer's Revenues comparison

Revenues (Rs mn)	FY21	FY22	FY23
CONCOR NBIE	62,950	70,644	84,105
Blue dart express	32,040	36,931	41,248
Allcargo Logistics	93,563	1,02,709	1,16,622
Aegis Logistics	47,581	71,829	85,069
Mahindra Logistics	32,891	40,953	48,395
Average	51,519	63,106	72,834

Source: Bloomberg, Company, Nirmal Bang Institutional Equities

Exhibit 9: Peer's EBITDA comparison

EBITDA (Rs mn)	FY21	FY22	FY23
CONCOR NBIE	14,379	16,571	20,540
Blue dart express	6,443	7,679	8,767
Allcargo Logistics	5,634	6,565	7,851
Aegis Logistics	4,636	6,636	7,841
Mahindra Logistics	1,425	2,291	2,895
Average	4,535	5,793	6,839

Source: Bloomberg, Company, Nirmal Bang Institutional Equities

Exhibit 10: Peer's EBITDA Margin comparison

EBITDA Margin (%)	FY21	FY22	FY23
CONCOR NBIE	22.8%	23.5%	24.4%
Blue dart express	20.1%	20.8%	21.3%
Allcargo Logistics	6.0%	6.4%	6.7%
Aegis Logistics	9.7%	9.2%	9.2%
Mahindra Logistics	4.3%	5.6%	6.0%
Average	10.1%	10.5%	10.8%

Source: Bloomberg, Company, Nirmal Bang Institutional Equities

Exhibit 11: Peer's EPS comparison

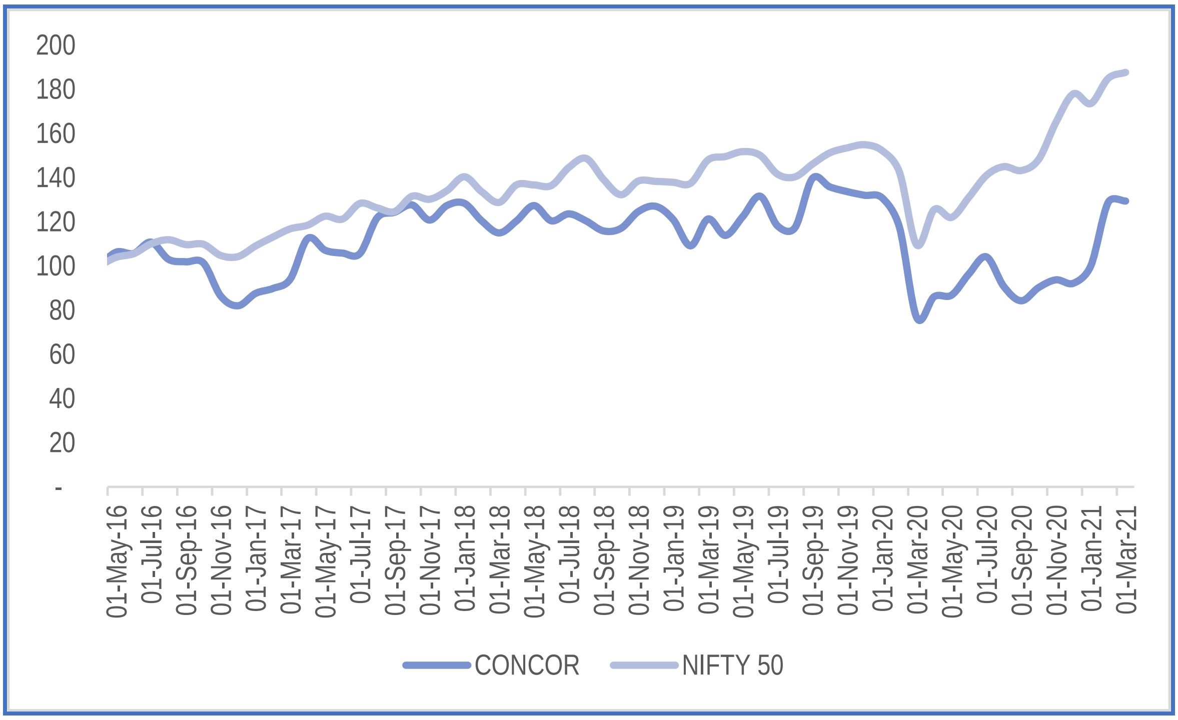
EPS (Rs)	FY21	FY22	FY23	FY22 YoY EPS growth (%)	FY23 YoY EPS growth (%)
CONCOR NBIE	13.7	15.8	20.1	15%	27%
Blue dart express	32.4	88.4	112.3	172%	27%
Allcargo Logistics	7.5	10.0	12.3	33%	23%
Aegis Logistics	8.4	12.2	15.1	46%	23%
Mahindra Logistics	5.3	12.7	17.3	141%	36%
Average	13.4	30.8	39.2	130%	27%

Source: Bloomberg, Company, Nirmal Bang Institutional Equities

Stock price performance

Looking at the 5-year chart below, we note that the stock has underperformed the Nifty 50. The underperformance was accentuated from Mar'20 due to the impact of Covid-19 on trade. There has been an improvement in trade, which the market is still not factoring in. Further, we note that as per the National Rail Plan and due to the commencement of DFCs, we expect further decline in rail charges besides a sharp increase in the speed of freight transportation. With ~60-70% of the total container freight traffic expected to move through railways, CONCOR is best positioned to benefit from it. Further, CONCOR is also moving towards becoming a 3PL operator, which will give the company pricing power and also maintain the company's market share.

Exhibit 12: CONCOR vs NIFTY 50 – 5-year stock price chart:



Source: BSE India, Company, Nirmal Bang Institutional Equities

We recommend BUY

Reasons for optimism:

In our view, the current stock price of CONCOR is not factoring in multiple expansion in the revenue due to improved asset turns post the operationalization of DFCs in the next two years, as per the Government. We expect economies of scale to result in lower expense/TEU, leading to further expansion in margins.

1. Revenue growth is expected to be driven by:
    a. Strong thrust of the Railway Ministry to increase market share in freight transport from 28% to 44%.
    b. Operationalization of the DFCs from June'22 will benefit CONCOR due to a sharp increase in speed of transport and lower costs, thus driving incremental demand.
    c. CONCOR's shift in strategy; focus on minimum pricing and longer distance.
    d. Increase in capacity – purchase of wagons, containers etc., double stacking longer trains' weight capacity.
    e. Increasing the customer base by focusing on commodities like cement, coal etc.
    f. Expanding focus – multimodal to point to point transport.
2. EBITDA drivers:
    a. Lower cost of transport.
    b. Focus on better realizations and removal of low-margin business.
    c. Removal of short distance cargo etc.
    d. Reduce manpower cost.
    e. Reduce selling and administration cost.
3. Other reasons for optimism:
    a. Net cash on balance sheet.
    b. Negative working capital.
    c. Improving ROE and ROCE.
    d. Strong operating cash flow and FCFF.

Key risk:

1. Lease license policy – any further changes in lease pricing rates will impact the profits.
2. Post privatization change in preference policy.
3. Any preference to railways.

Reasons of optimism – Revenue:

CONCOR is being assisted by Government's strategy to improve rail infrastructure and reduce the cost of freight transport on the rail network. Railways is looking to increase market share in freight transport.

Rail strategy to support CONCOR: to piggy back on new rail strategy

In the recent past, the Railways has been worried about its low market share in freight traffic; its market share has fallen steadily from 80% in 1950's to ~27% in FY2019. The national planning body Niti Ayog has given the Railways the target to increase the rail share from 26% in FY2018 to 40%-45% in FY2051.

Exhibit 13: Freight traffic carried in FY2019:

Freight traffic carried in FY2019	Tons (mn)	% share
Rail	1,222	27%
Road	2,912	64%
Coastal Shipping	234	5%
Inland waterway	72	2%
Pipelines (POL)	84	2%
Total	4,523	100%

Source: NRP, Nirmal Bang Institutional Equities

The Indian Railways (IR) is targeting to increase its market share from the current 28% to 44% in the longer term (FY2051), as per the National Rail Plan (NRP) document released recently. The 1,178-page document has set near-term targets of 33% in 2026, 39% in 2031, 43% in 2041 and 44% in 2051. Under the base case of the railways, it proposes to double the speed of trains to 50kmph gradually and reduce tariff on select commodity items by 30%.

Over the years, the Railways has lost market share due to capacity constraints and restricted speeds. It is pertinent to note that the share of rail in freight movement having leads beyond 300km has fallen from 51.5% (765MT) in FY2008 to 32.4% (727MT) in FY2019. While the quantum of freight movement by IR has remained the same, the share has fallen due to limited capacity amid an overall increase in freight generation. Railways can gain share in the long lead segments as capacity increases, claims the NRP report.

Current volume traffic carried- based on National Rail Plan 2020

As can be seen from the data given below, as of FY19, the share of rail in freight transport was only 27% compared to 64% for the road transport. But, IR has devised a new strategy, whereby it plans to increase the share of freight carried over the next three decades. As per the National Rail Plan (Dec 2020), IR is focused on its new strategy for the future to increase its market share in freight transport.
Breaking these details down, the table below shows the freight carried by rail in terms of individual goods/commodities. The current share of rail freight for some of the key items is given in the table below:

Exhibit 14: FY09-FY18 CAGR of goods freight carried:

Freight carried for goods (mn tons)	CAGR (%) FY09-18
Coal	4.62%
Raw material for steel	9.07%
Pig Iron and Finished steel	7.40%
Iron Ore	0.76%
Cement	3.04%
Food grains	2.36%
Fertilizer	1.79%
POL	1.39%
Container- EXIM	7.00%
Container- domestic	5.19%
Balance other goods (BOG)	3.40%
Total	3.74%

Source: NRP, Nirmal Bang Institutional Equities

As per railways, with steady improvement in road network and improving quality of road infrastructure, the current market share of rail freight could reduce from 28% currently to 24% if there is no improvement in the rail infrastructure.

As per the assessment by the National Rail Plan, the market share of railways will increase to 45% if the speed of transportation is doubled from 25kms/hourr to 50kms/hour and cost of transportation is reduced for some commodities.

Exhibit 15: Projected demand for different commodities/goods by FY2051:

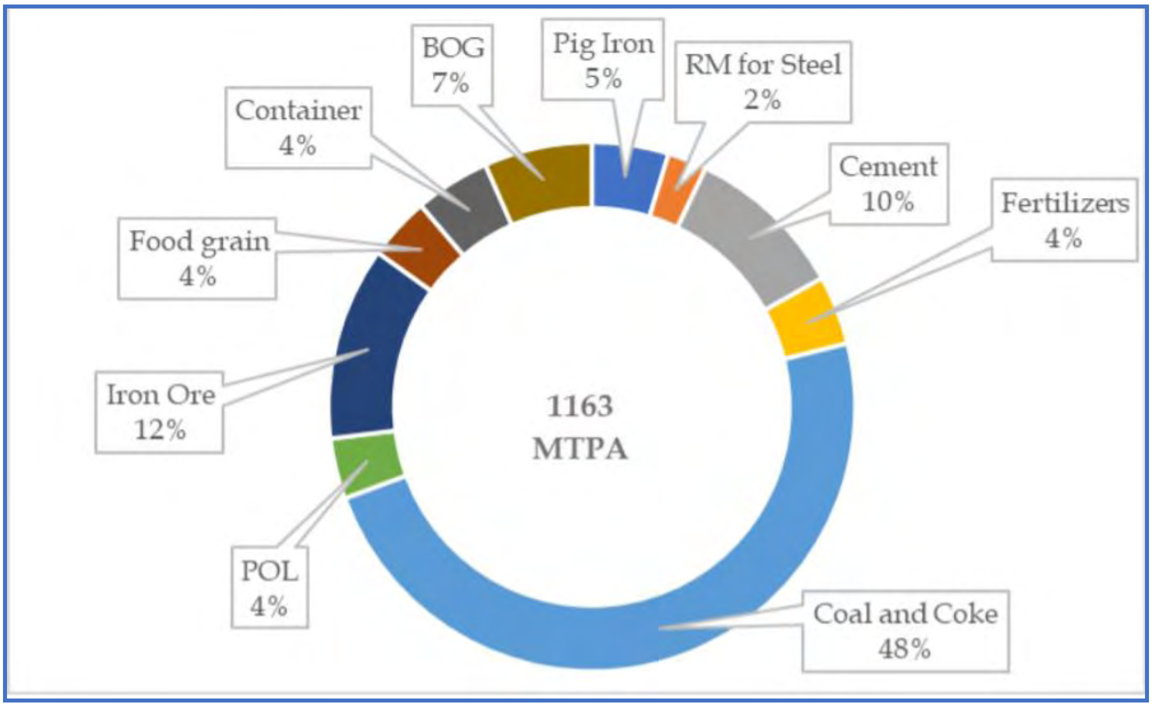
Rail share FY2051	Existing	FY2051
Balance other goods	4%	22%
Cement	37%	51%
Coal	65%	74%
Container	24%	48%
Fertilizer	87%	90%
Food grain	16%	32%
Iron ore	65%	82%
Pig Iron	49%	69%
POL	18%	40%
Steel raw material	56%	59%
Total percentage carried	28%	44%

Source: NRP, Nirmal Bang Institutional Equities

As can be seen in the table below, the maximum change can be seen in other goods, container traffic, foodgrain and POL (mention full form). While POL traffic could increase due to expanding pipelines being carried, railways can focus on other commodities mentioned above to increase its freight market share.

Presently, the modal share of railways (at ~30%) in the national transport system is mainly attributable to the transport of traditional bulk commodities (fertilizers, coal, iron ore and foodgrains), which constitute ~60% of IR's freight business. Going forward, projections for potential freight transport demand in the national transport system suggest that commodity groups like Containers and Balance Other Goods.

Exhibit 16: Commodity Composition of Rail Freight FY18:



Source: NRP, Nirmal Bang Institutional Equities

Exhibit 17: Analysis of key commodity groups in terms of existing rail share/usage, future growth potential for transport demand of such commodity groups, potential rail share/usage:

Commodities	Contribution to Indian Railway traffic 2019 (%)	Rail coefficient 2019 (%)	Expected share 2031 (%)
Fertilizer	4%	87%	89%
Coal	48%	65%	70%
Iron Ore	12%	65%	77%
Raw material for steel	2%	54%	58%
steel	5%	52%	69%
cement	10%	37%	50%
container	5%	24%	43%
POL	4%	18%	28%
Food grains	4%	16%	31%
Balance other goods	7%	4%	16%

Source: NRP, Nirmal Bang Institutional Equities

Commodities which already move substantially through the railway network may not contribute significantly to the enhancement of rail freight share within the national transport system.

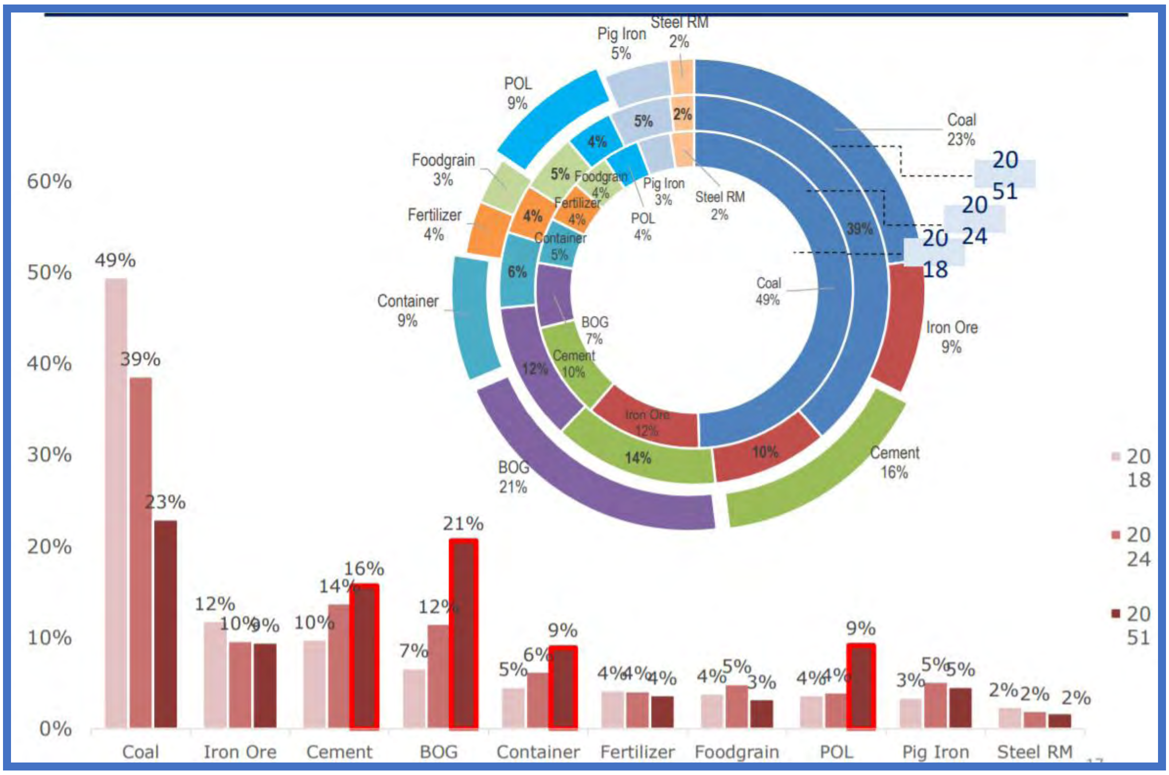
For certain commodities like POL and foodgrains, while the rail modal share is low currently, increase in transport demand for such commodities over the rail system may also remain limited due to the inherent characteristics of such commodities, other developments and competitive position of other modes of transport. For instance, pipelines for movement of POL and road transport for movement of foodgrains (shorter leads/ parcel sizes).

Non-conventional commodities like containers and 'balance other goods' and conventional high-value commodities like steel and cement need to be focused on for enhancing rail share in their transportation over the national system. For containers and 'balance other goods', the overall rail share is low and these would be natural market segments of focus for railways given the projected growth in transport demand for such commodity groups. With substantial potential for increased containerization of 'balance other goods', railways can enhance its competitive positioning for movement of such goods. For steel, while the rail share even presently is sizable, there is further potential for transportation of this commodity group vis-à-vis the MSME sector (almost 45% of the total throughput of the steel sector), which currently predominantly contributes to road transport. For cement, the potential cost advantage in converting bagged transportation to bulk movement could present a significant opportunity for increased transportation by rail.

Sector-wise improvements and timelines:

As per the National Rail Plan (as of Dec 2020), presently, the modal share of railways (at ~30%) in the national transport system is mainly attributable to transport of traditional bulk commodities (fertilizers, coal, iron ore and foodgrains), which constitute ~60% of IR's freight business. Going forward, projections for potential freight transport demand in the national transport system suggest that commodity groups like Containers and Balance Other Goods would contribute a very significant proportion of the total demand (~48% in 2030). As can also be seen from the figure (illustrating the existing rail usage/ share for various commodity groups), for enhancing its modal share, IR will need to cater to freight transport demand of other commodities (non-conventional as well as conventional high-value goods), which presently don't have a high rail coefficient/usage through appropriate interventions, strategies and product offerings.

Exhibit 18: Expected improvement in sectors and the timelines:



Source: NRP, Nirmal Bang Institutional Equities

CONCOR to derive maximum benefits:

As can be seen below, CONCOR carries ~70% of the total rail freight in India. With the recent initiatives by the Railways to increase its market share to 45%, we expect CONCOR to be one of the key beneficiaries of the same. The company is expected to benefit from the following: (1) Planned increase in speed of transport from current 25km/hour to 75kms/hour and (2) The reduction in cost of transportation, which could make railway transport more attractive.

Exhibit 19: CONCOR's market share of rail tonnage:

Rail tonnage (mn MT tons)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Rail Traffic – CONCOR	28	31	33	36	33	35	40	44	40
Total Railways Container	39	41	44	49	46	47	54	60	61
CONCOR – Market share	73%	75%	76%	74%	72%	73%	74%	72%	66%

Source: Company, NRP, Nirmal Bang Institutional Equities

One of the key components for the increase in speed is expected to be operationalization of the DFCs in India.

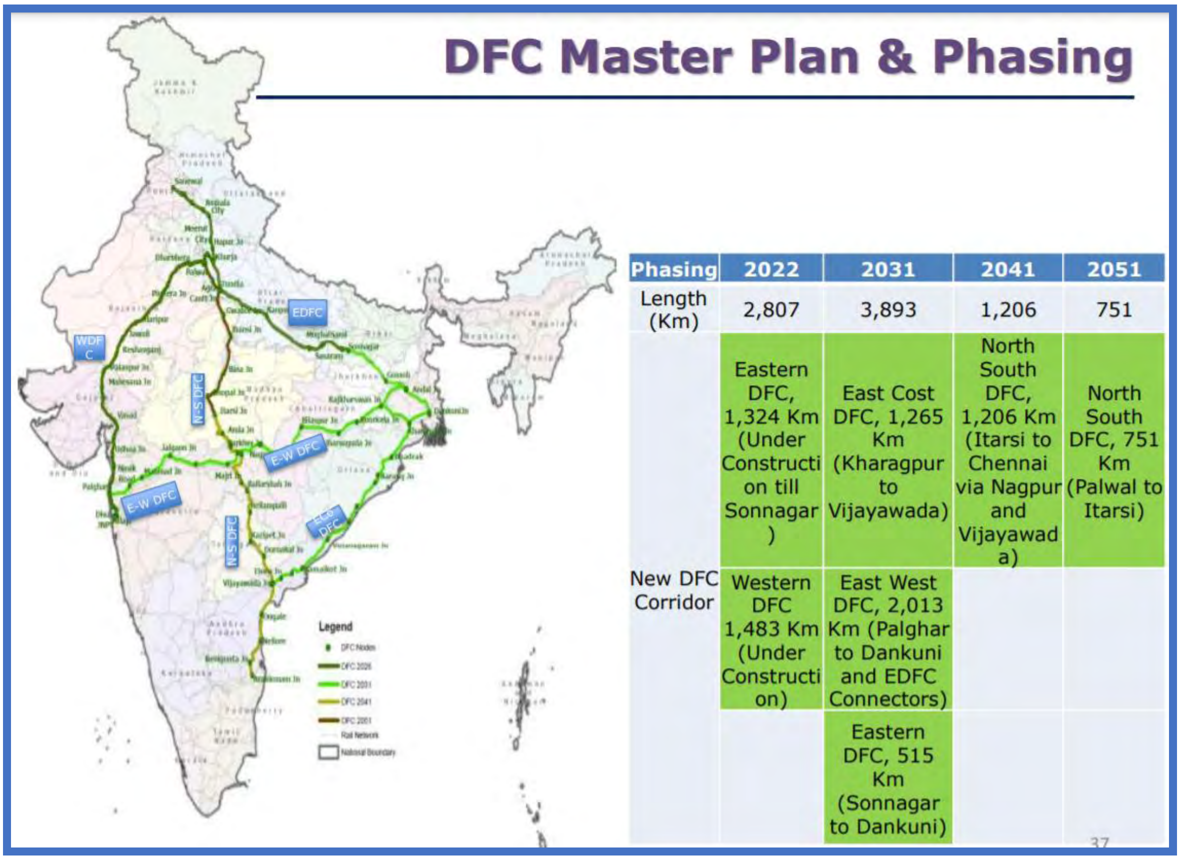
Dedicated Freight Corridors of India

The implementation of DFCs of India will help CONCOR due to:

1. Sharp increase in the speed of transportation from 25kms/hr currently to 75/kms/hr.
2. Double stacking of containers will help in increasing in traffic volume.
3. Reduction of cost will make rail transport more attractive.

The Ministry of Railways has embarked upon a long-term strategic plan to construct high-capacity, high-speed DFCs along the golden quadrilateral and its diagonals. It will not be out of place to mention that the Golden Quadrilateral and its diagonals constituting 10,122 Kms is, in fact, the backbone of IR total Kms because this contributes more than 60% of the freight traffic and 52% of the passenger traffic carried by IR.

Exhibit 20: Master Plan of Dedicated Freight Corridor:



Phasing	2022	2031	2041	2051
Length (Km)	2,807	3,893	1,206	751
	Eastern DFC, 1,324 Km (Under Constructi on till Sonnagar)	East Cost DFC, 1,265 Km (Kharagpur to Vijayawada)	North South DFC, 1,206 Km (Itarsi to Chennai via Nagpur and Vijayawad a)	North South DFC, 751 Km (Palwal to Itarsi)
New DFC Corridor	Western DFC 1,483 Km (Under Constructi on)	East West DFC, 2,013 Km (Palghar to Dankuni and EDFC Connectors)		
		Eastern DFC, 515 Km (Sonnagar to Dankuni)		

Source: NRP, Nirmal Bang Institutional Equities

Benefits of DFCIL

With the DFCs, the IR aims to bring about a paradigm shift in freight operations with a prime objective of reducing unit cost of transportation through higher speed of freight trains, better turnaround of wagons (and thereby much improved wagon productivity in terms of improved tons-km per wagon day), increased payload to tare ratio through introduction of higher axle load wagons on the rail network, improved locomotive utilization and improved specific fuel consumption. The ultimate objective is to reduce the Operation and Maintenance Cost (O&M Cost) significantly and in penultimate analysis, the benefit is passed on to customers in the form of lower Logistics Cost.

Why Eastern and Western Freight Corridors?

The existing trunk routes of Howrah-Delhi on the Eastern Corridor and Mumbai-Delhi on the Western Corridor are highly saturated, with line capacity utilization varying between 115% and 150%. These are also primarily routes dominated by passenger rail service. These also represent high demand freight traffic corridors between the Eastern coal belt of Sonnagar-Garhwa Road-Patratu area with the existing and upcoming Thermal Power Houses in the northern region of Uttar Pradesh, Haryana, Punjab and Rajasthan; and the ports of Maharashtra and Gujarat (like the Jawaharlal Nehru Port, Mumbai Port, Kandla, Mundra, Pipavav etc.) the container hubs at one end and the NCR of Delhi, Haryana and Punjab in the northern region on the other.

Exhibit 21: Key highlights of the sector-wise targets and progress of DFCs of India:

Western Dedicated freight corridor	Length (kms)	Commissioning target	Financial progress
Rewari - Madar	306	commissioned	
Madar - Palanpur	335	Mar-21	
Palanpur - Makarpura	308	Mar-22	
Makarpura - Sachin	135	Jun-22	61%
Sachin - Vaitarna	186	Jun-22	
Vaitarna - JNPT	109	Jun-22	
Dadri - Rewari	127	Mar-22	
Total	1,506		

Source: NRP, Nirmal Bang Institutional Equities

Eastern Freight Corridor	Length (kms)	Commissioning target	Financial progress
Bhaupur - Khurja	351	commissioned	
Bhaupur - Sujatpur	180	Dec-21	
Sujatpur - DDU	222	Jun-22	
DDU - Gankkhwaja	37	Dec-21	64%
Ganjkhwaja - Chirailpathu	100	Mar-21	
Khurja - Dadri	46	Jun-21	
Pilkhani -Ludhiana	179	Jun-21	
Khurja - Pilkhani	222	Jun-22	
Total	1,337		

Source: NRP, Nirmal Bang Institutional Equities

Key details of western freight corridor:

The traffic on the Western Corridor mainly comprises ISO containers from JNPT and Mumbai Port in Maharashtra and ports of Pipavav, Mundra and Kandla in Gujarat destined for ICDs located in northern India, especially at Tughlakabad, Dadri and Dandharikalan.

Besides containers, other commodities moving on the Western DFC are POL, Fertilizers, Foodgrains, Salt, Coal, Iron & Steel and Cement. Further, owing to its faster growth compared to other commodities, the share of container traffic is expected to progressively increase and reach a level of ~70.5mn tons in 2023-24 from 61mn tons in FY20.

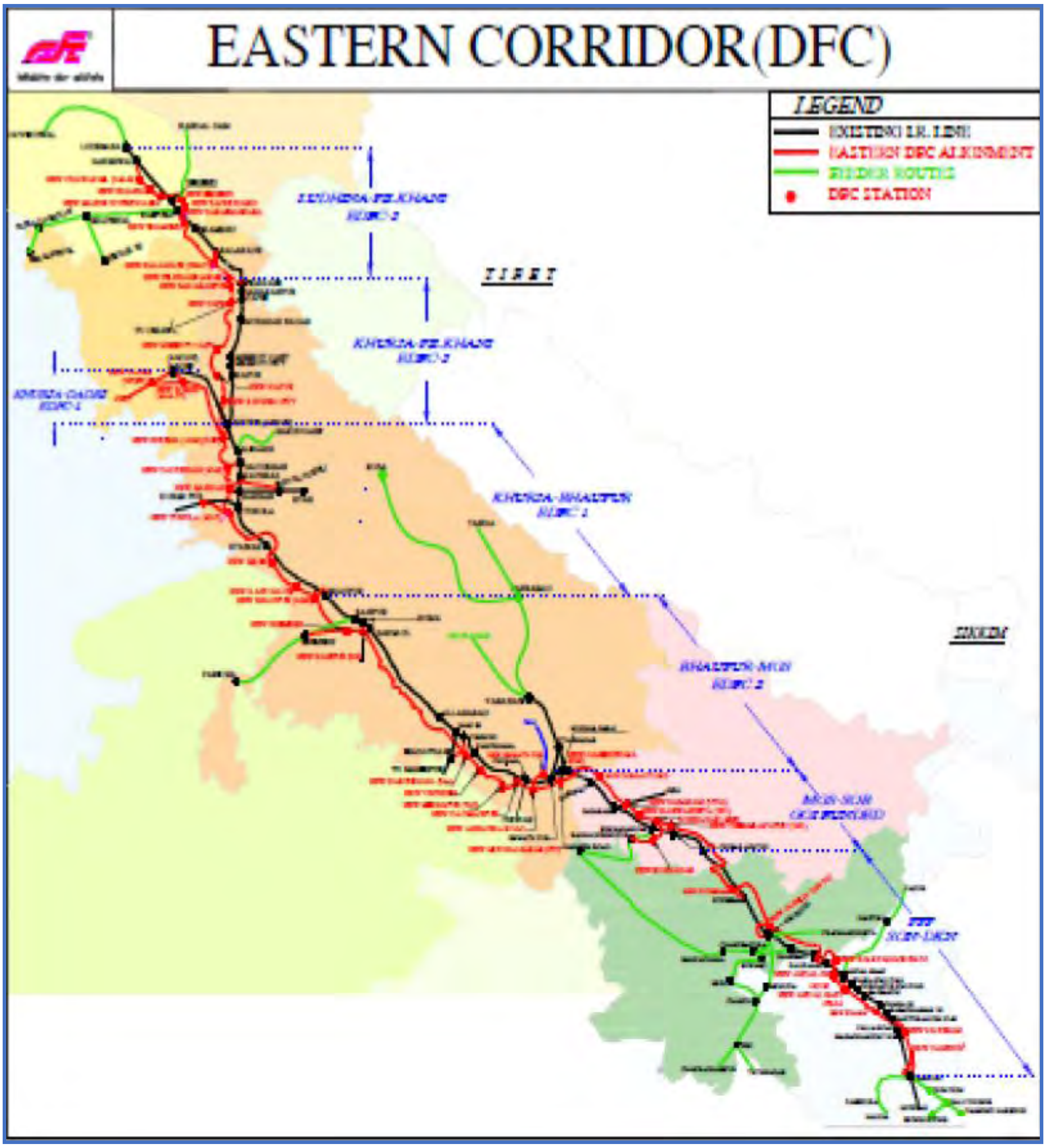
Exhibit 22: Map of Western Freight Corridor:

Source: DFCCIL, Nirmal Bang Institutional Equities

Key details of eastern freight corridor:

The traffic on the Eastern Corridor mainly comprises coal for the power plants in the northern region of UP, Delhi, Haryana, Punjab and parts of Rajasthan from the coal fields situated in the Eastern part of the country, finished steel, foodgrains, cement, fertilizers, limestone to steel plants and general goods. The total traffic in UP direction & DN direction is projected to go up to 224mn tons in 2023-24. The number of trains with 25-ton axle load works out to a maximum of about 163 trains in both UP and DN direction in Sonnagar-Mughalsarai section of the Eastern Corridor.

Exhibit 23: Map of Eastern Freight Corridor:



Source: DFCCIL, Nirmal Bang Institutional Equities

FUTURE DEDICATED FREIGHT CORRIDOR:

The Government plans to add three new DFCs. These are:

1. East –West Corridor (Kolkata – Mumbai) – approx. 2,328 Km.
2. North – South Corridor (Delhi – Chennai) – approx. 2,327Km.
3. East Coast Corridor (Kharagpur – Vijayawada) – approx. 1,114 Km.
4. Southern Corridor (Madgaon – Ankola – Rinigunta) – approx.893kms.

However, planning for these corridors is at preliminary stages.

The DFCL will have the following features:

1. Higher axle load: Axle load is a vital parameter for increasing the payload in wagons, leading to reduction in unit cost of operations and thereby lowering freight tariff for the customer.
2. Double stack container operations: Axle load is a vital parameter for increasing the payload in wagons, leading to reduction in unit cost of operations and thereby lowering freight tariff for the customer. However, it may not be practical to run all container trains as double-stack; the possibility can be applied to only such pairs, which have regular and sufficient traffic. This is so because it may not be practical to hold back traffic at ports or at ICDs for more than a day to form double-stack trains. In light of these considerations, container trains running between Jawaharlal Nehru/Mundra/ Pipavav/Hazira Ports and ICDs in NCR of Delhi/Ludhiana alone have been considered suitable for double-stack operations.
3. Higher speed: The average speed of freight trains on the existing IR network is about 25Kmph. This is so because the freight trains are given low preference over the Mail/Express/Passenger trains and they are stopped quite often during their run to give precedence to the Mail/Express/Passenger trains. Further, there are higher degree curvature and ruling gradient of the existing infrastructure, which also imposes speed restriction on freight trains. Since the corridor being designed is exclusively for freight trains only, there is no question of any train taking precedence over the other and all trains are supposed to move in a convoy. Thus, the corridor is being designed for a maximum permissible speed of 100 Kmph.

Outcome of DFCL:

1. Much needed Rail Transport Capacity: The commissioning of 3,365 Km of Eastern and Western Freight Corridors would provide industry and rail customers relief in terms of additional capacity to run more and more freight trains, which is a more efficient mode of transport compared to road, in a much more environmental friendly manner and one which is suitable for bulk transportation.
2. Increase in rail freight share: The rail freight share, which has fallen from 80% in the 1950s to less than 30% now, would increase. By the year 2021-22, the rail freight share is expected to rise from the present level to 40-45% in the total transport sector.
3. Reduction in O&M Cost: With the commissioning of the state-of-the-art rail infrastructure through the DFCs and the low-cost maintenance regime, it would be possible to reduce the Operational and Maintenance Cost (O&M Cost) drastically to 60% of the existing IR cost. This will give substantial benefits in terms of savings in cost and help in reducing the unit cost of transportation, which is the ultimate objective for the creation of DFCs. It would be possible to pass on the benefit in terms of lower tariffs for the services delivered to the customers.
4. Bring in additional value-added services: Since it would not be a mixed corridor but exclusively for freight trains, it should be possible to run time-tabled trains with guaranteed transit time. Last mile connectivity in terms of door-to-door services can be provided to the customers by DFCCIL by tying up with truck operators. The DFC network would attract setting up of Multimodal Logistics Parks along the corridors to facilitate all kinds of value additions from packaging, retailing, labelling, pelletizing etc. The commissioning of DFCs will open up new vistas in rail transport logistics.

CONCOR's strategy to improve revenue:

1. Increasing capacity: CONCOR has consistently been increasing capacity of its containers to improve its market share in the future container traffic movement. The total numbers of containers owned by CONCOR has increased @ CAGR of 9.3% from FY16 through 9MFY21. This is in line with the focused strategy of the company of being a preferred logistics multimodal company with 3PL ability.

   Exhibit 24: Movable assets:

Particulars	FY16	FY17	FY18	01/01/2021
Container wagons	13,111	13,773	14,489	15,578
Containers	20,247	21,762	18,728	30,969
Gantry cranes	17	16	16	16
Reach stackers	52	72	78	111

   Source: Company, Nirmal Bang Institutional Equities

2. Increasing focus on containerization of commodities like cement and coal: Increasing focus on other commodities like cement, coal and end-to-end transport.

3. Expanding focus - multimodal to 3PL logistics: The company is increasingly shifting to 3PL logistics. For the consignee, the engagement of 3PL logistics firm to transport it's cargo is helpful as the service provider offers a bundle of integrated supply chain services, which include transportation, warehousing, inventory management, packaging and freight forwarding. A 3PL can scale and customize services to meet customers' needs based on their strategic requirements to move, store and fulfill products and materials. Companies turn to 3PLs when their supply chains become too complex to manage internally. They also offer technology solutions — in some cases, proprietary tools — such as transportation and warehouse management systems beyond what the shipper could afford to invest in independently. Long-term relationships with carriers can result in better pricing and service during periods when capacity may come at a premium. Economies of scale can lower prices for everything from packing tape to ocean shipping rates.

4. Coastal shipping: CONCOR has recently entered into coastal shipping of containers. While these are early days, we expect an increase in cargos shipped via rivers/sea as it would reduce the cost of transportation.

EBITDA drivers

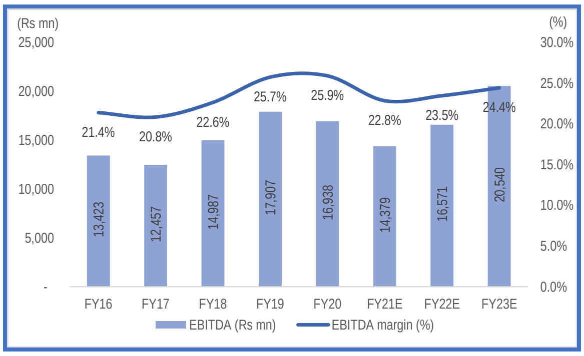
We note that the company witnessed EBITDA margin expansion driven by:

1. Focusing on the long haul business. Therefore, the company had stopped taking goods/consignments for short distances.
2. Consignments with a minimum margin.
3. Reduction in direct expenses and also reduction in fixed expenses like employee and general & administration expenses.

Going forward, EBITDA margin is expected to be driven by:

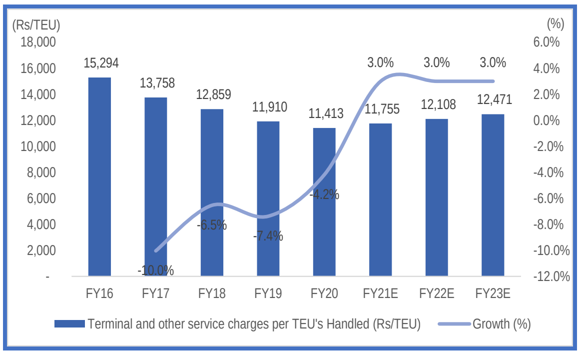
1. Lower cost of transportation.
2. Focus on better realization and removal of low margin business.
3. Removal of short distance cargo etc.
4. Reduction in manpower cost.
5. Reduction in selling & administration cost.

Exhibit 25: EBITDA and EBITDA Margins:



Source: Company, Nirmal Bang Institutional Equities

Exhibit 26: Terminal and other service charges per TEU's Handled:



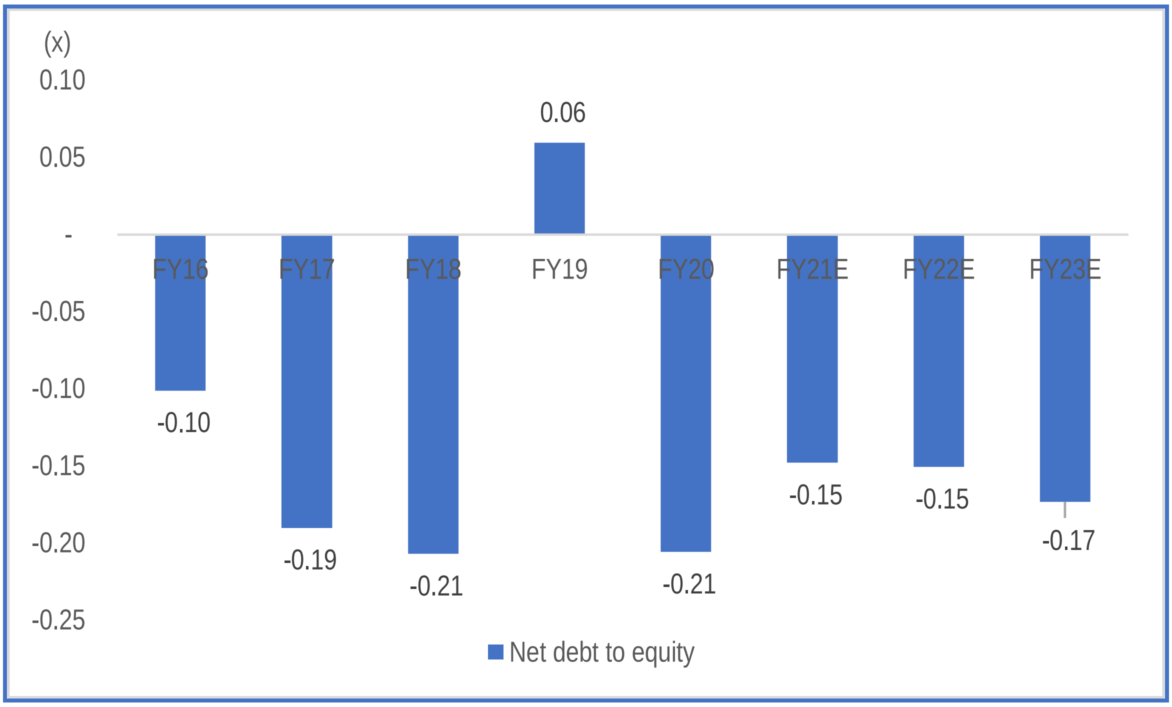
Source: Company, Nirmal Bang Institutional Equities

Strong balance sheet with net cash position

CONCOR has consistently maintained negligible net debt to equity ratio. Most of the capex has been financed from the operating cash flow. Part of the reason for the net cash on the balance sheet is attributable to negative working capital as the payments are collected upfront before the cargo is sent. The rise in DE ratio in FY19 was because of a short-term working capital loan taken from Indian Bank by the company possibly for advance rail freight paid for running container trains during FY20 under the Freight Advance Scheme of IR (Rs30,000mn).

The rise in the net debt to equity ratio going forward will be due to assumed dividend payout of 50% based on the dividend payout ratio of 54% in FY20.

Exhibit 27: Net debt to Equity:

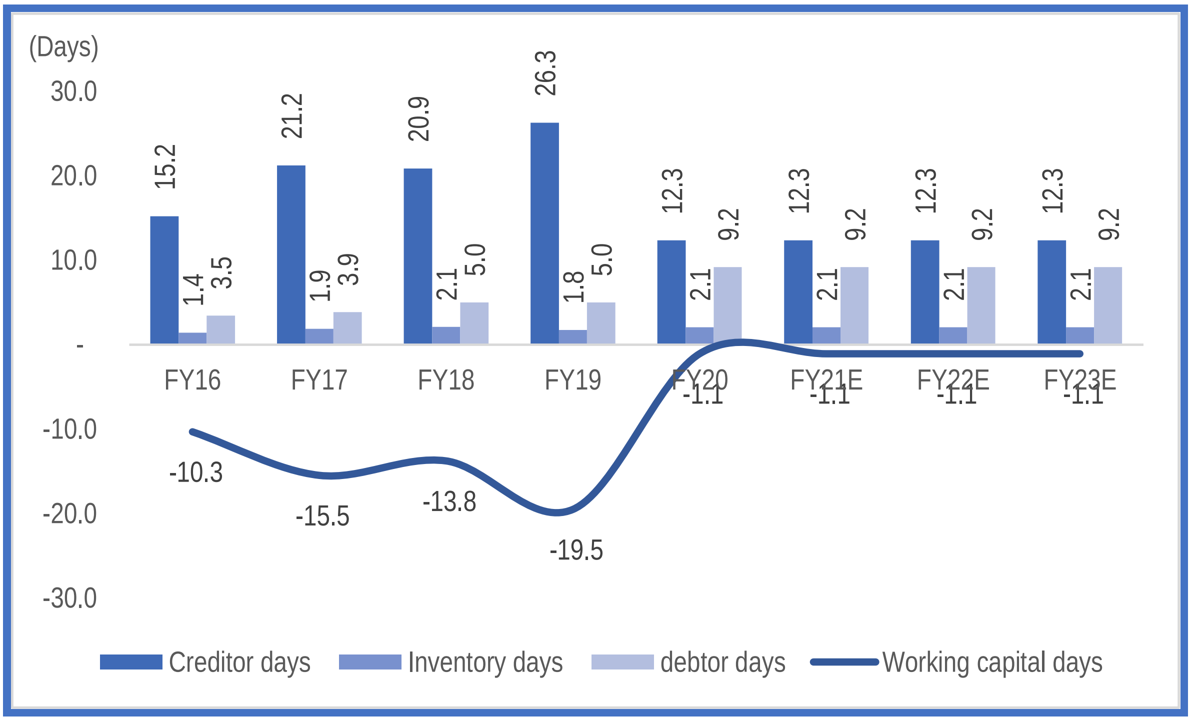


Source: Company, Nirmal Bang Institutional Equities

Negative working capital

As the graph below shows, working capital has consistently been negative due to higher payables relative to receivables and inventory. Since this is a service industry, there is minimal inventory.

Exhibit 28: Working Capital Days:

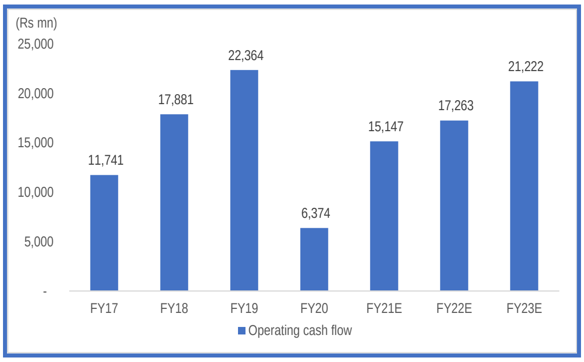


Source: Company, Nirmal Bang Institutional Equities

Strong operating cash flow and FCFF

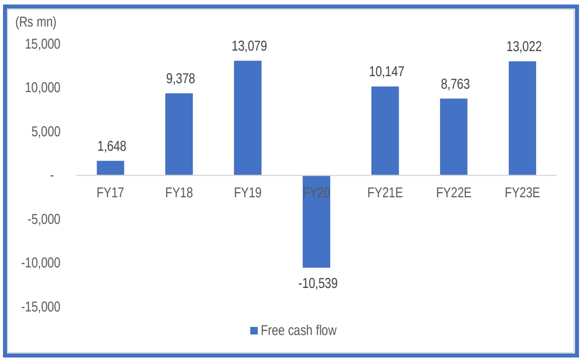
The operating cash flow for CONCOR has remained healthy and any capex is well covered by the operating cash flow. Cash flow in FY20 declined due to an extraordinary expense of Rs8.5bn. The extraordinary expense was driven by the write-back of Rs8.5bn, which has been disallowed by the Director General of Foreign Trade. Further, there was a reduction in trade payables by ~Rs2bn.

Exhibit 29: Operating Cash Flow:



Source: Company, Nirmal Bang Institutional Equities

Exhibit 30: Free Cash Flow:

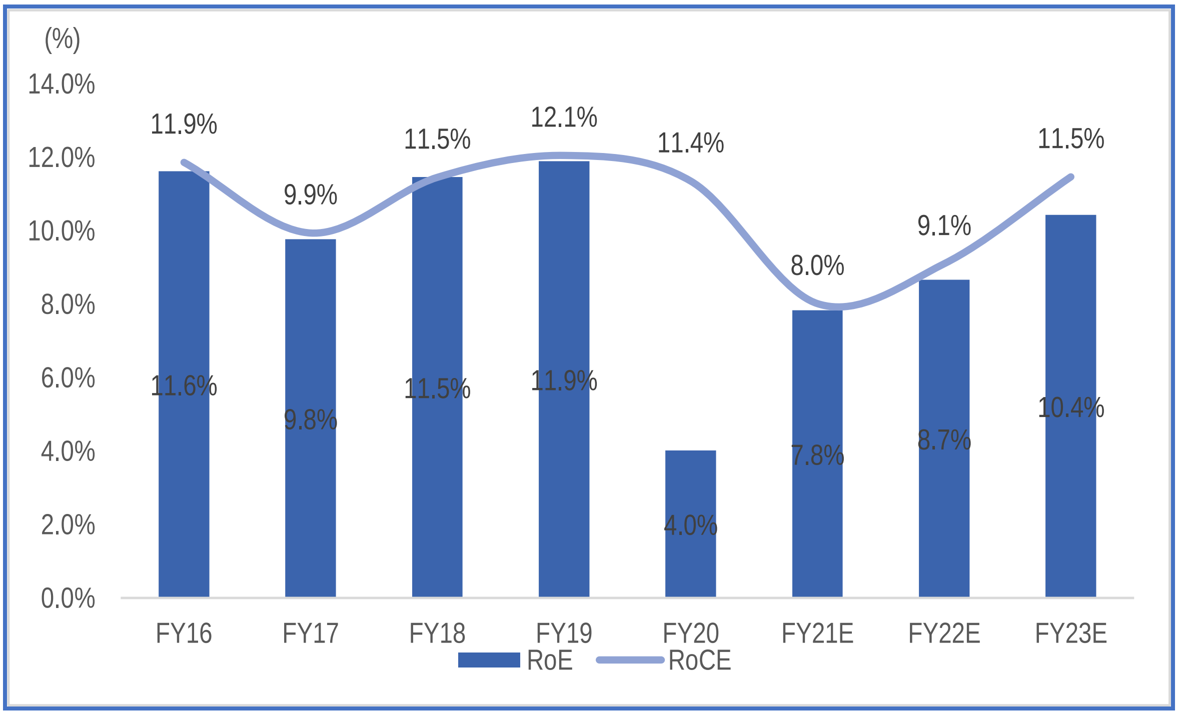


Source: Company, Nirmal Bang Institutional Equities

Improving RoE and RoCE

CONCOR has seen an improving ROE with improvement in realizations and margins during FY17 and FY18. However, the impact of Cocid-19 led to slowdown in trade, resulting in a decline in overall trade and lower profitability impacting ROE. We expect the RoE to improve from the current low level of 4% and trend up to 10.4% by FY23E. RoCE has also shown a similar pattern of decline due to the impact of pandemic and is expected to grow in future. In the growth projections shown below, we have accounted for the expected sharp growth in return ratios post the operationalization of the DFCs.

Exhibit 31: RoE and RoCE:

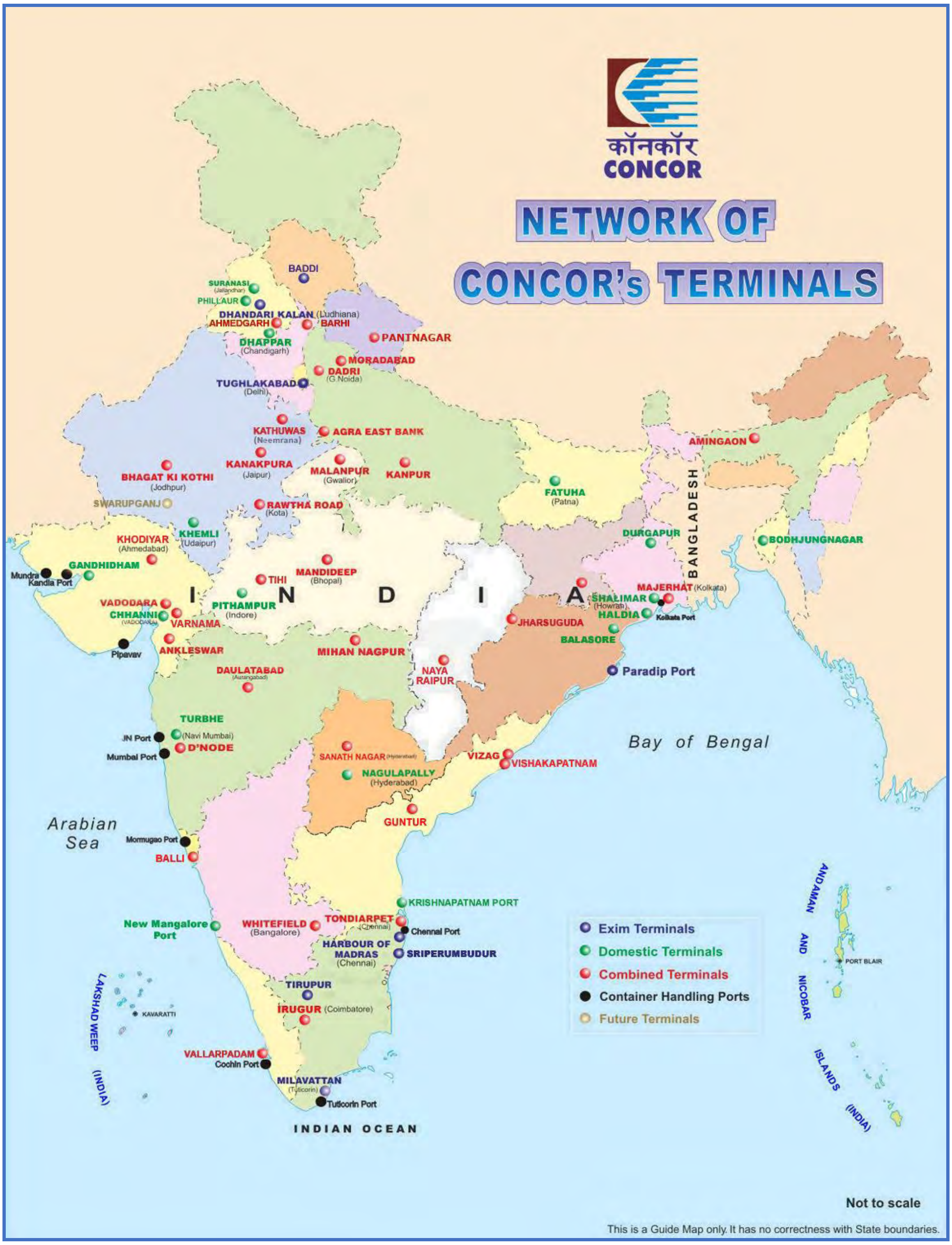


Source: Company, Nirmal Bang Institutional Equities

Key risk

1. Lease license policy – Any further changes will give rise to sensitivity of change in lease pricing rates to profits: CONCOR is expected to be privatized soon. The Government has changed the leave license policy for the ICD and CFT on its land from fixed rate per TEU handled to 6% of land value. Consequently, the leave license cost has risen from Rs1.5bn in FY19 to Rs4.5bn in FY20. Also, this amount is in dispute as according to Railways the amount is Rs13.5bn.
2. Post privatization change in preference policy: CONCOR is expected to be privatized soon. Any change, post privatization, in the preference policy will affect earnings.

Exhibit 32: Map of **CONCOR's** terminals:



Source: Company, Nirmal Bang Institutional Equities

Consolidated Financial statement

Exhibit 33: Income statement

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Net sales	69,561	65,394	62,950	70,644	84,105
Growth YoY (%)	*5.0*	*-6.0*	*-3.7*	*12.2*	*19.1*
Terminal and other service charges	45,610	42,773	42,804	48,497	57,445
Employee Benefit Expenses	3,406	3,170	3,561	3,455	3,594
Other expenses	2,637	2,514	2,205	2,122	2,526
EBITDA	17,907	16,938	14,379	16,571	20,540
EBITDA growth (%)	*19.5*	*(5.4)*	*(15.1)*	*15.2*	*24.0*
EBITDA margin (%)	*25.7*	*25.9*	*22.8*	*23.5*	*24.4*
Depreciation	4,523	5,444	5,805	6,419	7,011
EBIT	13,384	11,494	8,574	10,152	13,529
EBIT (%)	*19.2*	*17.6*	*13.6*	*14.4*	*16.1*
Interest expense	65	461	385	402	419
Other income	3,170	2,534	2,661	2,794	2,934
Others	-	(8,518)	-	-	-
Earnings before tax	16,489	5,050	10,850	12,544	16,043
Tax- total	4,744	1,381	2,806	3,236	4,121
Rate of tax (%)	*28.8*	*27.3*	*25.9*	*25.8*	*25.7*
Net profit	11,745	3,669	8,044	9,308	11,922
Adjusted Net Profit	12,294	4,045	8,326	9,604	12,233
EPS (FD)	20.18	6.64	13.66	15.76	20.08
% growth	*14.6*	*-67.1*	*105.8*	*15.3*	*27.4*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 35: Balance sheet

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Equity Share capital	3,046	3,046	3,046	3,046	3,046
Reserves and surplus	1,00,228	97,423	1,03,105	1,07,690	1,14,134
Net worth	1,03,274	1,00,470	1,06,151	1,10,736	1,17,181
Minority Interest	1,063	1,085	1,085	1,085	1,085
Loans	7,707	700	700	700	700
Other Financial Liabilities:	181	3,510	3,685	3,869	4,063
Provisions	540	380	426	414	430
Other non-current liability	1,809	45	47	49	52
Total capital employed	1,14,573	1,06,189	1,12,095	1,16,854	1,23,511
Property, plant and equipment	51,904	62,909	62,104	64,184	65,373
Non Current Investments	11,688	11,998	12,598	13,228	13,889
Loans	604	754	792	832	873
Other non-current assets	16,338	12,955	24,276	25,490	26,765
Total non-current assets	80,534	88,616	99,770	1,03,734	1,06,900
Trade payables	3,532	1,554	1,568	1,757	2,065
Other current liabilities	9,717	9,839	10,331	10,847	11,390
Provisions (current)	181	314	329	346	363
Total current liabilities	13,430	11,706	12,228	12,950	13,817
Inventories	236	263	265	297	349
Trade receivables	955	1,646	1,585	1,778	2,117
Cash and bank balance	1,556	21,388	16,422	17,400	21,037
Loans and advances	368	135	142	149	156
Other current assets	44,354	5,847	6,140	6,447	6,769
Total current assets	47,469	29,279	24,553	26,070	30,428
Net current assets	34,039	17,573	12,325	13,120	16,611
Total capital employed	1,14,573	1,06,189	1,12,095	1,16,854	1,23,511

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 34: Cash flow

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Profit after tax	12,294	4,045	8,326	9,604	12,233
Depreciation	4,523	5,444	5,805	6,419	7,011
Finance costs	65	461	385	402	419
Other income	(3,170)	(2,534)	(2,661)	(2,794)	(2,934)
Others	4,744	1,381	2,806	3,236	4,121
Working capital changes	3,908	(2,422)	485	396	371
Operating cash flow	22,364	6,374	15,147	17,263	21,222
Capital expenditure	(9,285)	(16,913)	(5,000)	(8,500)	(8,200)
Cash Flow from Investments	(440)	(430)	(650)	(683)	(717)
Other income	3,170	2,534	2,661	2,794	2,934
Net cash after capex	15,808	(8,435)	12,158	10,874	15,239
Issue/(buyback of equity)	-	-	-	-	-
Proceeds/repayment of borrowings	7,087	(7,007)	-	-	-
Finance costs	(65)	(461)	(385)	(402)	(419)
Others	(41,262)	35,734	(16,738)	(9,495)	(11,182)
Cash flow from financing	(34,241)	28,267	(17,124)	(9,897)	(11,602)
Total cash generation	(18,433)	19,832	(4,966)	977	3,637
Opening cash balance	19,989	1,556	21,388	16,422	17,400
Closing cash & bank balance	1,556	21,388	16,422	17,400	21,037

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 36: Key ratios

Y/E March (Rsmn): Consolidated	FY19	FY20	FY21E	FY22E	FY23E
Profitability & return ratios					
EBITDA margin (%)	25.7	25.9	22.8	23.5	24.4
EBIT margin (%)	19.2	17.6	13.6	14.4	16.1
Net profit margin (%)	16.9	5.6	12.8	13.2	14.2
RoE (%)	11.9	4.0	7.8	8.7	10.4
RoCE (%)	12.1	11.4	8.0	9.1	11.5
Working capital & liquidity ratios					
Receivable (days)	5.0	9.2	9.2	9.2	9.2
Inventory (days)	1.8	2.1	2.1	2.1	2.1
Payable (days)	26.3	12.3	12.3	12.3	12.3
Current ratio (x)	3.5	2.5	2.0	2.0	2.2
Valuation ratios					
EV/sales (x)	5.3	5.6	5.8	5.2	4.3
EV/EBITDA (x)	20.7	21.5	25.3	22.0	17.7
P/E (x)	29.6	90.0	43.7	37.9	29.8
P/BV (x)	3.5	3.6	3.4	3.3	3.1

Source: Company, Nirmal Bang Institutional Equities Research

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