

CONTAINER CORPORATION

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	630
12 month price target (INR)	780
Market cap (INR bn/USD bn)	384/5.2
Free float/Foreign ownership (%)	45.2/24.5
What's Changed	
Target Price	↑
Rating/Risk Rating	—

QUICK TAKE

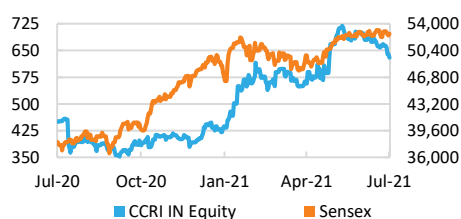
	Above	In line	Below
Profit	●		
Margins	●		
Revenue Growth		●	
Overall	●		

FINANCIALS

(INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Revenue	65,394	64,271	79,857	93,338
EBITDA	16,938	10,468	21,687	29,496
Adjusted profit	10,700	5,838	10,903	14,800
Diluted EPS (INR)	17.6	9.6	17.9	24.3
EPS growth (%)	(16.2)	(45.4)	86.8	35.7
RoAE (%)	10.5	5.8	10.5	13.5
P/E (x)	36.1	66.2	35.4	26.1
EV/EBITDA (x)	21.6	34.6	19.6	14.1
Dividend yield (%)	0.6	0.8	1.3	1.7

PRICE PERFORMANCE



Explore:



Financial model



Podcast



Corporate access



Video

Gaining traction as pieces fall in place

Container Corporation (Concor) reported in-line revenue (down 7% QoQ), but surprised on margin, thereby beating earnings by 20%. With the Land License Fees (LLF) issue already resolved, further lowering of LLF to INR3.75bn for FY22 is quite positive. Concor's likely one-time payment to acquire railway land for 35 years at ~INR70bn should lower costs even further. With part of DFC becoming operational, Q2FY22 should see additional volumes kicking in as well.

After a strong rally post-Q4FY21 result, the stock has corrected ~10%, which is a great opportunity to accumulate stock as there is certainty around LLF and likely positive news flow on DFC. We retain 'BUY' with a DCF-based TP of INR780 (up from INR760).

LLF deal sweetens; DFC volumes to start kicking in

Post-Q4FY21, the stalemate with Railways on LLFs ended with Concor having the option to pay INR4.5bn annually or a lumpsum of ~INR75bn for 35 years. The fact there has been no going back on this settlement is a positive. In Q1FY22 concall, management highlighted that based on land authority valuation, LLFs for FY22 should be INR3.75bn and one-time payment at INR60–70bn—both better than initial expectations. Our base case assumes Concor exercising the one-time option, resulting in lower costs. With DFC connectivity from Kathuwas to Pipavav/Mundra ports (~1,000km) now operational, DFC volumes should start kicking in from Q2FY22—another positive. Following its rally post-Q4FY21 results, the stock has corrected ~10% over the past month, which is a good opportunity to accumulate it, considering the LLF resolution and positive news flow on DFC.

Margin bounces back; previous guidance now a bare minimum

Q1FY22 top line edged down 7% as volumes slid 6% QoQ—in line with expectations. Margin surprised positively and came in at 24% due to better realisations and lower empty running costs. Overall, Q1FY22 profit jumped 156% QoQ—beating our and Street's estimates by ~20%. Management not only confirmed the FY22 PAT guidance of INR10bn, but noted this was the bare minimum Concor will achieve.

Outlook and valuation: Prospects brighten; retain 'BUY'

We anticipate the stock's re-rating to continue as LLF resolution should fast-track divestment as well as create a higher earnings base. We are revising FY22/23E slightly, which yields a DCF-based TP of INR780 (up from INR760), building in a 20% premium for potential divestment (considering a likely volume-focused new owner).

Financials

Year to March	Q1FY22	Q1FY21	% Change	Q4FY21	% Change
Net Revenue	18,075	11,891	52.0	19,393	(6.8)
EBITDA	4,335	1,590	172.6	1,890	129.4
Adjusted Profit	2,549	617	313.3	995	156.0
Diluted EPS (INR)	4.2	1.0	313.3	1.6	156.0

Financial Statements

Income Statement (INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Total operating income	65,394	64,271	79,857	93,338
Gross profit	22,619	17,524	29,193	37,481
Employee costs	3,170	4,287	4,515	4,755
Other expenses	2,512	2,770	2,991	3,230
EBITDA	16,938	10,468	21,687	29,496
Depreciation	5,444	5,534	7,667	8,017
Less: Interest expense	461	429	2,458	3,023
Add: Other income	2,534	2,704	2,767	1,070
Profit before tax	13,966	7,522	14,658	19,871
Prov for tax	1,381	1,730	3,754	5,071
Other adjustments	(8,518)	(787)	0	0
Reported profit	4,045	5,051	10,903	14,800
Less: Excp.item (net)	6,656	787	0	0
Group adjusted profit	10,700	5,838	10,903	14,800
Diluted shares o/s	609	609	609	609
Adjusted diluted EPS	18	10	18	24
DPS (INR)	3.6	5.0	8.1	11.0
Tax rate (%)	9.9	23.0	25.6	25.5

Important Ratios (%)

Year to March	FY20A	FY21E	FY22E	FY23E
EBITDA margin (%)	25.9	16.3	27.2	31.6
EBIT margin (%)	17.6	7.7	17.6	23.0
Net profit margin (%)	16.4	9.1	13.7	15.9
Revenue growth (% YoY)	(6.0)	(1.7)	24.3	16.9
EBITDA growth (% YoY)	(5.4)	(38.2)	107.2	36.0
PBT growth (% YoY)	(17.7)	(46.9)	98.8	36.3
Adj. profit growth (%)	(16.2)	(45.4)	86.8	35.7
Asset turnover (X)	0.6	0.6	0.6	0.6

Assumptions (%)

Year to March	FY20A	FY21E	FY22E	FY23E
GDP (YoY %)	4.8	(6.0)	7.0	6.0
Repo rate (%)	4.4	3.5	3.5	4.0
USD/INR (average)	70.7	75.0	73.0	72.0
EXIM lead km	720	695	710	705
EXIM TEU (% YoY)	(2.8)	(3.8)	25.0	24.2
Dom. lead km	1,356	1,356	1,356	1,356
Dom. TEU (% YoY)	1.5	2.4	10.3	24.2
Capex (INR mn)	(9,958)	(4,400)	(75,000)	(5,000)
Net debt (INR mn)	(21,280)	(24,310)	39,051	28,640

Valuation Metrics

Year to March	FY20A	FY21E	FY22E	FY23E
Diluted P/E (x)	36.1	66.2	35.4	26.1
Price/BV (x)	3.8	3.8	3.6	3.4
EV/EBITDA (x)	21.6	34.6	19.6	14.1
Dividend yield (%)	0.6	0.8	1.3	1.7

Source: Company and Edelweiss estimates

Balance Sheet (INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Share capital	3,047	3,047	3,047	3,047
Reserves	97,423	98,824	1,03,547	1,10,097
Shareholders funds	1,00,470	1,01,870	1,06,593	1,13,144
Minority interest	1,085	1,040	1,040	1,040
Borrowings	636	618	40,618	34,904
Trade payables	1,554	2,693	3,960	4,634
Other liabs & prov	13,883	17,185	14,742	15,143
Total liabilities	1,17,628	1,23,406	1,66,952	1,68,865
Net block	53,431	56,544	1,23,877	1,20,861
Intangible assets	48	83	83	83
Capital WIP	9,431	9,226	9,226	9,226
Total fixed assets	62,909	65,852	1,33,185	1,30,169
Non current inv	11,998	12,111	12,111	12,111
Cash/cash equivalent	21,916	24,928	1,567	6,263
Sundry debtors	1,646	1,608	1,097	1,275
Loans & advances	135	159	159	159
Other assets	19,024	18,748	18,833	18,888
Total assets	1,17,628	1,23,406	1,66,952	1,68,865

Free Cash Flow (INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Reported profit	4,045	5,051	10,903	14,800
Add: Depreciation	5,444	5,534	7,667	8,017
Interest (net of tax)	309	287	1,647	2,025
Others	6,370	(2,137)	(2,284)	(417)
Changes in WC	26,690	1,555	(750)	843
Operating cash flow	42,858	10,291	17,183	25,268
Less: Capex	(9,958)	(4,400)	(75,000)	(5,000)
Free cash flow	32,900	5,890	(57,817)	20,268

Key Ratios

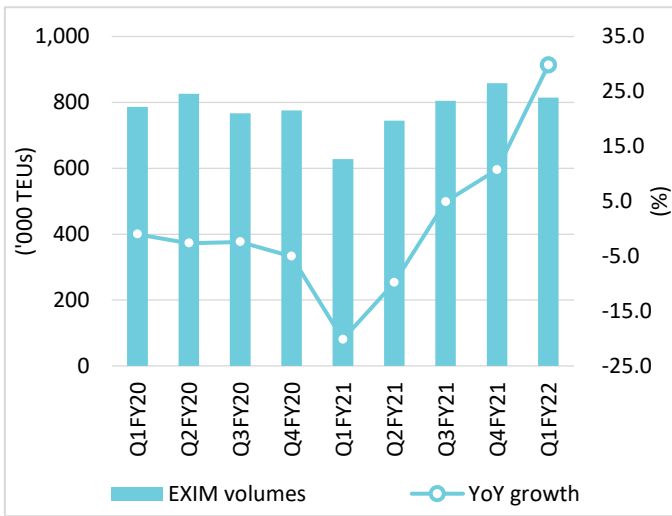
Year to March	FY20A	FY21E	FY22E	FY23E
RoE (%)	10.5	5.8	10.5	13.5
RoCE (%)	13.1	7.4	13.3	15.2
Receivable days	7	9	6	5
Payable days	14	12	15	17
Cash conversion cycle	(6)	(1)	(8)	(11)
Working cap (% sales)	(6.7)	(9.4)	(6.6)	(6.6)
Gross debt/equity (x)	0	0	0.4	0.3
Net debt/equity (x)	(0.2)	(0.2)	0.4	0.3
Interest coverage (x)	25.0	11.5	5.7	7.1

Valuation Drivers

Year to March	FY20A	FY21E	FY22E	FY23E
EPS growth (%)	(16.2)	(45.4)	86.8	35.7
RoE (%)	10.5	5.8	10.5	13.5
EBITDA growth (%)	(5.4)	(38.2)	107.2	36.0
Payout ratio (%)	54.2	60.3	45.5	45.3

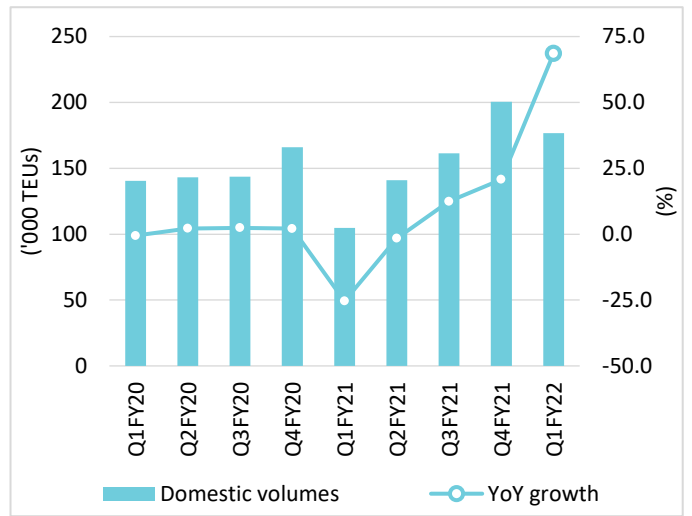
CONTAINER CORPORATION

Exhibit 1: EXIM volume trends



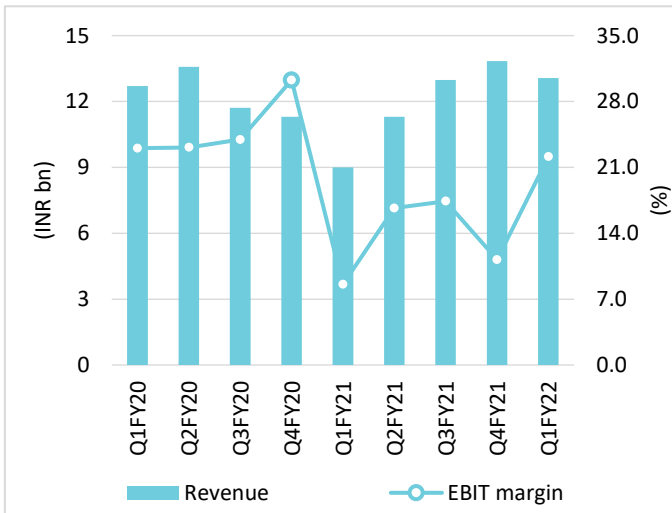
Source: Company, Edelweiss Research

Exhibit 2: Domestic volume trends



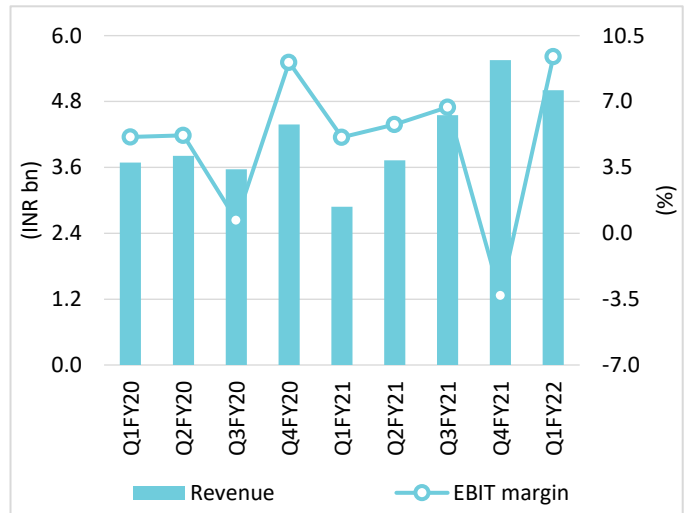
Source: Company, Edelweiss Research

Exhibit 3: EXIM revenue and margin trends



Source: Company, Edelweiss Research

Exhibit 4: Domestic revenue and margin trends



Source: Company, Edelweiss Research

Exhibit 5: Quarterly financial snapshot

INR mn	Q1FY22	Q1FY21	YoY %	Q4FY21	QoQ %	FY21	FY22E	FY23E
Revenue	18,075	11,891	52.0	19,393	(6.8)	63,850	78,870	92,253
Rail freight expenses	9,647	6,523	47.9	10,501	(8.1)	34,551	36,953	41,033
Other operating expenses	2,651	2,266	17.0	4,696	(43.5)	12,064	13,029	14,072
Employee Benefit Expenses	985	796	23.8	1,286	(23.4)	4,251	4,477	4,714
Others	457	716	(36.3)	1,020	(55.2)	2,655	2,867	3,096
Total expenditure	13,740	10,301	33.4	17,503	(21.5)	53,521	57,326	62,915
EBITDA	4,335	1,590	172.6	1,890	129.4	10,329	21,544	29,338
Depreciation	1,303	1,260	3.4	1,324	(1.5)	5,219	7,362	7,712
EBIT	3,032	330	818.5	566	435.3	5,109	14,182	21,626
Interest	139	85	64.2	86	62.1	340	2,346	2,911
Other income	555	588	(5.6)	732	(24.2)	2,855	2,939	1,242
Add: Exceptional items	0	0	N/A	-834	(100.0)	-834	0	0
Profit Before Tax	3,448	833	313.7	379	809.8	6,791	14,774	19,957
Less: Provision for Tax	899	217	315.0	217	314.1	1,758	3,754	5,071
Reported Profit	2,549	617	313.3	162	1,475.2	5,033	11,020	14,886
Adjusted Profit	2,549	617	313.3	995	156.0	5,867	11,020	14,886
No. of Diluted shares outstanding (mn)	609	609		609		609	609	609
Adjusted Diluted EPS	4.2	1.0	313.3	1.6	156.0	9.6	18.1	24.4
P/E (x)							35.4	26.1
EV/EBITDA (x)							19.7	14.1
ROAE(%)							10.5	13.5
As % of net revenues								
Rail freight expenses	53.4	54.9		54.1		54.1	46.9	44.5
Staff expenses	5.4	6.7		6.6		6.7	5.7	5.1
Other expenses	2.5	6.0		5.3		4.2	3.6	3.4
EBITDA	24.0	13.4		9.7		16.2	27.3	31.8
Net profit	14.1	5.2		5.1		9.2	14.0	16.1

Source: Company, Edelweiss Research

Company Description

The Company is engaged in transportation of containers (rail and road), and handling of containers. It is also engaged in the operation of logistics facilities, including dry ports, container freight stations and private freight terminals. Its divisions are EXIM and Domestic. Both EXIM and Domestic divisions of the company are engaged in handling, transportation and warehousing activities. Its International services include train services, road services, air cargo movements, reefer services, and block booking on round trip basis. Its domestic services include train services, volume discount scheme, door delivery/pick ups and terminal handling charges.

Investment Theme

Container Corporation (Concor) is India's largest container train operator. While container tonnage has been growing, consistent fall in lead distances has led to flat net tonne km during FY13- 18. Dedicated Freight Corridor's (DFC) commissioning will certainly be a meaningful boost to volumes and efficiency post FY22. The stalemate and lack of clarity on LLFs was the main hurdle in Concor's divestment process and resolution of the same clears path for the planned divestment. We perceive the LLF settlement and Concor's recent commentary as readying up for the divestment.

Key Risks

We assume DFC to be fully commissioned by June 2022. Any further delay in commissioning will be a downside risk to our fair value target price.

Additional Data

Management

CEO	V K Rama
CFO	Manoj Dubey
COO	
Other	Sanjay Swarup
Auditor	S.N. Nanda & Co.

Holdings – Top 10*

	% Holding		% Holding
LIC	5.10	BlackRock	1.39
Kotak MF	2.08	DSP	1.16
Hermes	1.80	ABSL AMC	1.16
Vanguard	1.53	Calvert Invt.	0.94
Abrdn Plc	1.39	ICICI Pru AMC	0.93

*Latest public data

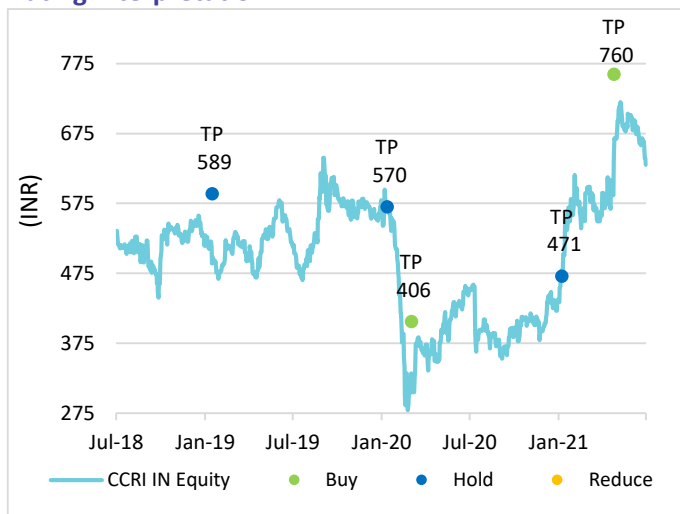
Recent Company Research

Date	Title	Price	Reco
24-May-21	Stalemate ends; re-rating on the cards; <i>Result Update</i>	634	Buy
05-Feb-21	Boils down to the LLF issue; <i>Result Update</i>	479	Hold
06-Nov-20	Land licence fee uncertainty persists; <i>Result Update</i>	407	Hold

Recent Sector Research

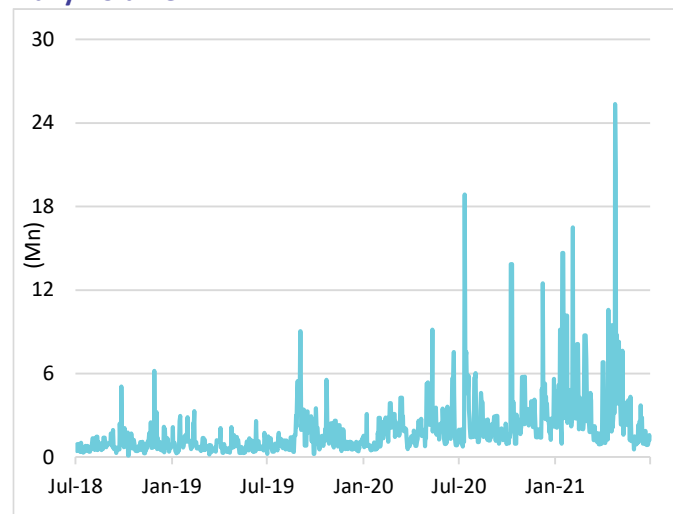
Date	Name of Co./Sector	Title
28-Jul-21	Mahindra Logistics	Absorbing the impact; <i>Result Update</i>
28-Jul-21	TCI Express	Margins stumble; rich valuation ; <i>Result Update</i>
14-Jun-21	VRL Logistics	Rear view: A leaner machine post-covid; <i>Result Update</i>

Rating Interpretation



Source: Bloomberg, Edelweiss research

Daily Volume



Source: Bloomberg

Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	172	54	19	246
	>50bn	>10bn and <50bn	<10bn	Total
Market Cap (INR)	214	40	5	259

*1 stocks under review

Rating Rationale

Rating	Expected absolute returns over 12 months
Buy:	>15%
Hold:	>15% and <-5%
Reduce:	<-5%

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