

## Container Corporation of India Limited

November 13, 2019

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities – Non fund based	462.00	<b>CARE AAA; Stable</b> <b>[Triple A; Outlook: Stable]</b>	Reaffirmed
<b>Total</b>	<b>462.00</b> <b>(Rupees Four Hundred Sixty</b> <b>Two Crore Only)</b>		
<b>Issuer Rating*</b>	-	<b>CARE AAA (Is); Stable [Triple A</b> <b>(Issuer Rating); Outlook: Stable</b>	Reaffirmed

\*The rating is subject to the company maintaining overall gearing not exceeding 0.05x (expected level as on March 31, 2020).

Details of instruments/facilities in Annexure-1

### Detailed Rationale r& Key Rating Drivers

The reaffirmation of the ratings assigned to Container Corporation of India Limited (CONCOR) takes into account CONCOR's position as India's dominant container railroad player, its majority ownership by Government of India (GoI), zero fund-based debt position, comfortable liquidity and profitability profile and healthy operational performance of the company. The ratings also factor in the company's wide network of terminals spread across the country and its established client base.

### Rating Sensitivities

#### Negative Factors

- Significant decline in the government's shareholding in the company
- Increase in the overall gearing ratio beyond 0.05x
- De-growth in the scale of operations and deterioration in the profitability margins significantly as against envisaged by the company.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### **Government of India ownership**

CONCOR is a public sector enterprise under the Ministry of Railways and is the sole container freight subsidiary of Indian Railways. As on March 31, 2019, the Government of India held 54.80% stake in the company while the balance is held by financial institutions and banks, foreign institutional investors and public.

##### **Market leader in the segment with strong infrastructure base**

CONCOR is India's largest railway container freight operator. The company has carried 43.50 million tons of containerized cargo by rail in FY19 (refers to the period April 01 to March 31) representing 72.09% of total market size (PY: 39.97 million tons, 73.60%). It operates in two segments – EXIM and domestic. The company has strong infrastructure base with total wagons holding at 15,498 and 83 terminals as on March 31, 2019.

##### **Zero-debt, comfortable liquidity and profitability profile**

During FY19, CONCOR participated in Freight Advance Scheme (FAS) of the Indian Railways (IR) and agreed to pay an amount of Rs. 4,500 cr towards advance rail freight to IR for the FY20, out of which CONCOR paid an advance rail freight of Rs. 3,000 cr in March 2019 towards the first installment. In order to make the payment of the same, CONCOR availed a short term working capital loan of Rs. 700.65 cr with the remaining amount being financed through the liquidation of the fixed deposits and other free cash balances investments of the company. The overall gearing of the company stood at 0.07x as on March 31, 2019. However, CONCOR repaid the entire working capital loan of Rs. 700.65 cr along with the interest outstanding on the same as on May 30, 2019 out of the internal accruals of the company. Thus, CONCOR stands debt-free as on September 30, 2019. The liquidity profile of the company remained comfortable with current ratio of 2.33x (PY: 2.95x) as on March 31, 2019. CONCOR had free cash and bank balances of Rs. 1,274.61 cr (including Fixed Deposits) (PY: Rs. 2,257.57 cr) as on September 30, 2019.

During FY19, CONCOR achieved growth rate of 10.98% in its total operating income to Rs. 7,137.55 crore as against Rs. 6,431.32 crore in FY18 largely attributable to higher Twenty-foot equivalent units (TEUs) handled by the company in FY19

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

vis-à-vis FY18. The apportionment of overhead costs due to handling of higher TEUS led to improvement in the PBILDT margin of the company to 28.53% in FY19 as against 27.18% in FY18. However, during H1FY20 (prov.), on account of ~2% lower TEUs handled in the EXIM segment at 1.61 million (PY: 1.64 million), CONCOR reported a contraction in PBILDT margin to 27.17% as compared to 29.12% during H1FY19. During Q2FY20, the company provided for Rs. 861.05 cr subsequent to the intimation from Directorate General of Foreign Trade (DGFT) regarding such income rendered ineligible under Service from Export India Scheme (SEIS), resulting in net losses for H1FY20. However, as discussed with the management, the company is in the process of contesting the above decision of DGFT in line with the legal advice.

### **Healthy operational performance**

During FY19, CONCOR's total throughput witnessed an increase of 8.42% to 3.83 million Twenty-foot Equivalent Units (TEUs) as against 3.53 million TEUs handled in FY18. The EXIM container traffic handled increased to 3.24 million TEUs in FY19 (PY: 3.00 million) and domestic handling improved to 0.58 million TEUs in FY19 (PY: 0.53 million). The improvement was on account of growth of 8.39% in domestic containerized loading of Indian Railways. CONCOR also experienced a rise in export of commodities such as buffalo meat, aluminum ingots, cotton yarn, stone, medicines, and food items etc. while increased, import of commodities such as waste paper, news print, auto parts and machines etc.

### **Liquidity: Strong**

The liquidity of the company is marked by strong gross cash accruals of Rs. 1,629.33 cr during FY19 against nil debt repayment obligations. CONCOR had cash and cash equivalents of Rs. 115.29 cr (PY: 177.38 cr) as on March 31, 2019. Further, the company had Rs. 8.05 cr (PY: Rs. 1,772.10 cr) in the form of fixed deposits as on March 31, 2019. CONCOR had free cash and bank balances of Rs. 1,274.61 cr (including FD) (PY: Rs. 2,257.57 cr) as on September 30, 2019. The overall gearing of the company stood low at 0.07x with comfortable current ratio of 2.33x (PY: 2.95x) as on March 31, 2019.

### **Key Rating Weaknesses**

#### **Competition from Private players**

Numerous private container train operators (besides CONCOR) have entered in the segment and have signed long-term Concession Agreements with Indian Railways for running of container trains. Further, various private Inland Container Depots (ICDs) have become operational during past couple of years, which has also resulted in increased competition for the company. However, CONCOR has adopted various marketing activities like special discounts and packages, reduction in prices in case of bulk bookings, online tracking of shipment, focus on double stack operations to provide cost effective service etc. to compete in the market. The participation of CONCOR in the Freight Advance Scheme of IR would further yield competitive advantage, by enabling it to offer price stability to its customers.

### **Industry Scenario**

The logistics value chain consists of key links or segments – transportation, storage and distribution. The Indian multimodal logistics industry has witnessed the advent of multiple container train operators since 2006. With the emergence of a number of new ports, viz., Mundra, Pipavav, Vizag, Tuticorin, Vallarpadam and a few other ports on the west coast, the hinterland connectivity in the country is expected to increase resulting in increased levels of hinterland penetration of container traffic in the years to come.

However, the current containerization level in India is still low as compared to international levels. Going forward, with the developments in the logistics industry, requirement for services such as handling, sorting, stuffing and de-stuffing (with respect to containers), and temporary storage of goods is expected to increase further which augurs well for CONCOR.

**Analytical Approach:** Standalone. The ratings of CONCOR also factors in the strong parentage of the company (Govt Ownership).

### **Applicable Criteria**

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial Ratios - Non-Financial Sector](#)

[CARE's criteria on Issuer Rating](#)

[Rating Methodology - Service Sector Companies](#)

[CARE's Methodology for factoring linkages in ratings](#)

### **About the Company**

Container Corporation of India Ltd (CONCOR) was incorporated in March 1988 as a Public Sector Enterprise under the Ministry of Railways by taking over network of seven Inland Container Depots (ICDs) of Indian Railways (IR). The company was formed in order to have a separate organization for promoting and managing the growth of containerization in India as well as developing multi-modal (surface, rail, water and air) transport logistics and infrastructure to support India's

growing inland as well as international trade. CONCOR's core business is characterized by three distinct activities, that of a carrier, a terminal operator and a warehouse operator.

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	6,431.32	7,137.55
PBILD	1,747.94	2,036.15
PAT	1,049.04	1,215.41
Overall gearing (times)	0.00	0.07
Interest coverage (times)	NM	NM

A: Audited; NM- Not Meaningful

**Status of non-cooperation with previous CRA:** NA

**Any other information:** NA

**Rating History for last three years:** Please refer Annexure-2

#### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT-BG/LC	-	-	-	462.00	CARE AAA; Stable
Issuer Rating-Issuer Ratings	-	-	-	0.00	CARE AAA (Is); Stable

#### Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Issuer Rating-Issuer Ratings	Issuer rat	0.00	CARE AAA (Is); Stable	-	1)CARE AAA (Is); Stable (09-Nov-18)	1)CARE AAA (Is); Stable (05-Oct-17)	1)CARE AAA (Is) (18-Oct-16)
2.	Non-fund-based - LT-BG/LC	LT	462.00	CARE AAA; Stable	-	1)CARE AAA; Stable (09-Nov-18)	1)CARE AAA; Stable (05-Oct-17)	1)CARE AAA (18-Oct-16)

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities**

Name of the Instrument	Detailed explanation
<b>A. Non-financial covenants</b>	
1. Letter of credit/ bank guarantees	The bank reserves an unconditional right to cancel/terminate the right to avail of or make any draws from the unavailed portion of the facilities sanctioned at any time, without any prior notice.

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

### Contact us

#### Media Contact

Name: Mr. Mradul Mishra

Contact no. – +91-22-6837 4424

Email ID – [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)

#### Analyst Contact

Name: Mr. Gaurav Dixit

Tel: 011 – 4533 3235

Email ID: [gaurav.dixit@careratings.com](mailto:gaurav.dixit@careratings.com)

#### Relationship Contact

Name: Ms. Swati Agrawal

Contact no.: 011 – 4533 3237

Email ID: [swati.agarwal@careratings.com](mailto:swati.agarwal@careratings.com)

#### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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