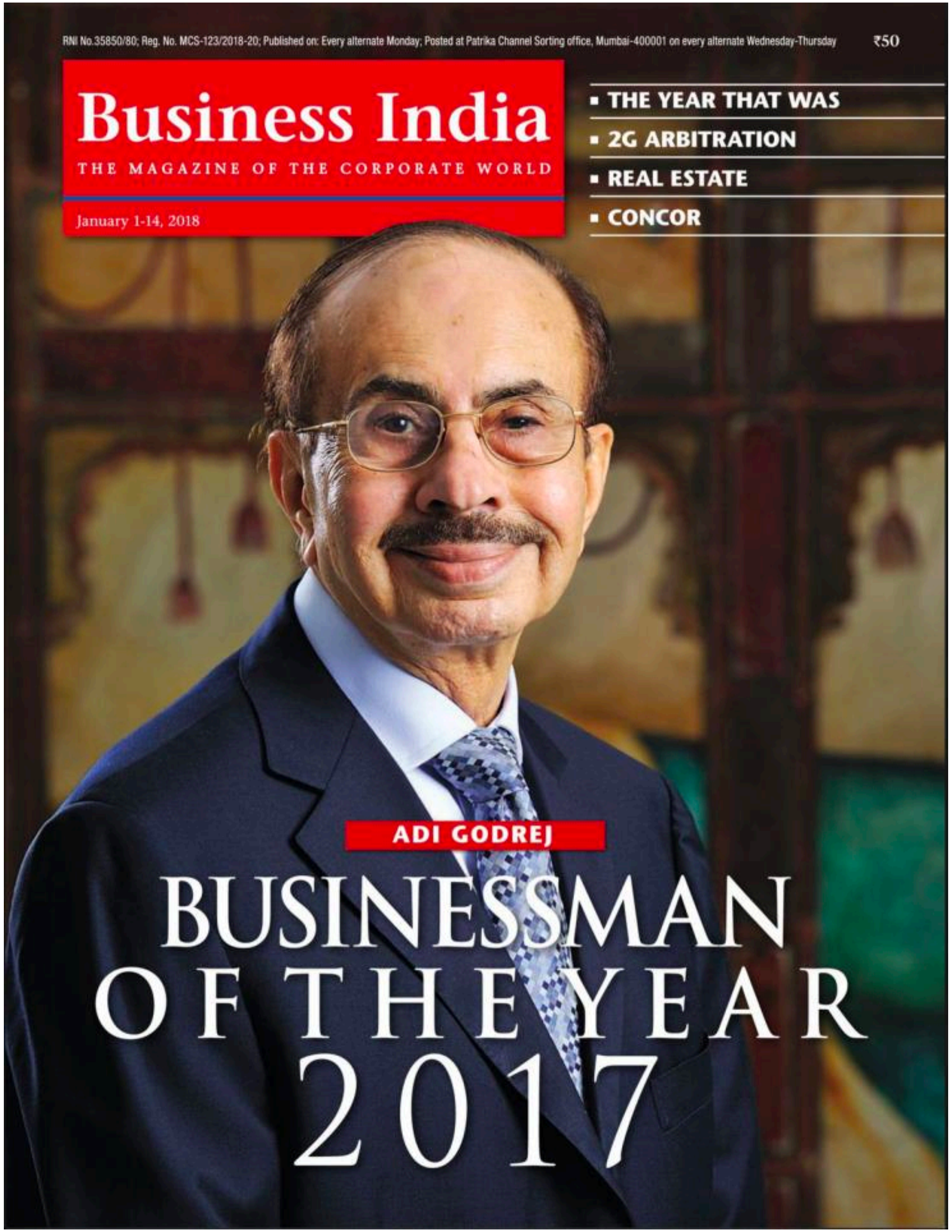
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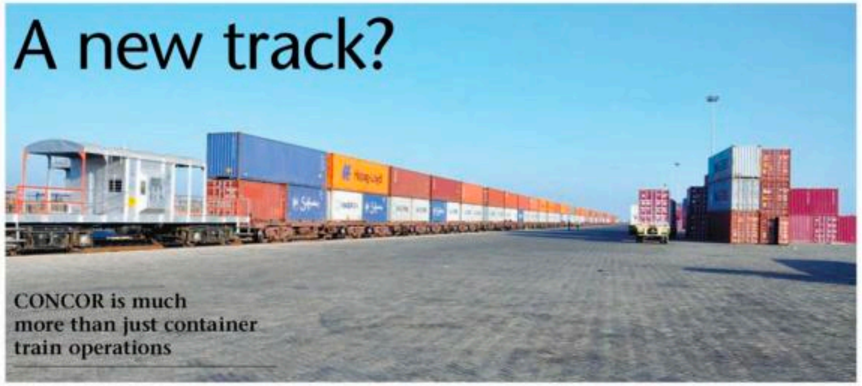
A new track?



CONCOR is much more than just container train operations

Going by popular perception, the nearly three-decade-old, state-run, Container Corporation of India (CONCOR; market cap: ₹33,267 crore) has a singular identity: it is India's largest container train operator. Even as the segment was opened for private participation way back in 2006 – resulting in over 15 players bagging the licence to operate container trains like CONCOR – the public sector entity has hardly faced any competition. In fact, competitors will tell you that CONCOR has almost enjoyed a prolonged monopoly with protection doled out to it in several forms. The strength of CONCOR in its respective space is well-defined by Shamsher Dewan, vice-president and sector head, corporate ratings, ICRA. "Of the total container freight trains being operated in the country today, 80-85 per cent of them belong to CONCOR," he says.

In this highly capital-intensive business, only a select few private players have shown the grit to chug along, even as CONCOR has shown consistent growth on most of the key parameters of the business. "CONCOR has done well, primarily because it has existed in a protective environment," says Kamlesh Gupta, president, Association of Container Train Operators (ACTO). "A majority of its terminals are on railways land. It did not have to shell out exorbitant sums to procure land for terminals. There has been no level playing field in the business. That is why even 10 years after licences were awarded to private players they have not managed to put up more than 90-100 rakes, as against nearly 300 for CONCOR, which commands a hefty 75-80 per cent of the business." Barring Gateways Freight Train, which is making marginal profits, no other player has made major headway and about ₹4,500 crore of investments so far has not produced desired result, despite the Model Concession Agreement signed in 2005, specifying that players would be allowed to operate in a non-discriminatory environment, adds Gupta.

But CONCOR's top management refuses to be drawn in the debate of having made hay in a favourable environment. "As much as I know, there has been a level playing field for everyone since this business was opened up for private sector participation," says V. Kalyana Rama, a mechanical engineer, CMD (since 2016), CONCOR, almost in a dismissive style. He is also the youngest CMD and officer of the Indian Railways Traffic Services. It is easier to get him talking when you pose questions on the future course of the company and you would find him in an animated state explaining serious undercurrents of transformation within the organisation which may not be readily visible from the outside. There are several layers to these undercurrents which include developing new verticals or future growth dynamos for the company. But they all converge to one singular point – the quest for a new identity. "Since inception, we have been primarily known as India's leading container train operator," adds Kalyana Rama. "Now, without diluting our stronghold, we would like to assume a new identity by becoming India's largest multi-modal operator." An aspiration that market observers believe is quite possible given the current positioning of CONCOR in the marketplace.

Recent growth pattern

The company had originated in 1989 when Indian Railways decided to have a dedicated unit to encash the opportunity in the emerging container cargo segment. Since the early 1980s containers had started becoming quite a rage globally due to convenience in shipment. And mandarins in the railways ministry then seem to have well envisaged that container cargo would be a big business in the country as well, especially when it comes to catering to the EXIM trade wherein boxes could be easily loaded or unloaded from the ships. At that time, Indian Railways had transferred seven inland container depots (ICDs) to CONCOR to commence its inning. "CONCOR had arrived at the right time. The writing was on the wall: container movement would define future trade – especially EXIM – and the government had done well to put up a dedicated unit. Though it was slow in the beginning in terms of spreading out with more ICDs, it has been quite agile in the last 10 years," recalls the head of railways unit of a major infrastructure conglomerate (he did not wish to be named) who has been a former Indian Railways Services official and had served at CONCOR for three years in the early 1990s.

An analysis of CONCOR's performance report card, especially in the early parts of this decade, makes it clear that the company has made rapid strides. Statistics tell the story. The company, which had notched a topline level of about ₹4,700 crore in 2012-13, saw its annual revenue breaching ₹6,200 crore mark in 2015-16 (*see chart:* Steady growth). It however moderated a bit in the previous fiscal which company officials attribute to a slight downturn in economic trends. In the present fiscal, CONCOR has reported an earning of over ₹3,000 crore in the first six months with profits in the second quarter shooting up to over 40 per cent. The company is expecting a revenue growth of 12 per cent at the end of the present fiscal. EXIM container trade continues to drive the show for the company with nearly four-fifth of the revenue contribution. Between 2007-08 and 2016-17, the volume of cargo handled has also gone up modestly – from 2.4 million TEUs to 3.1 million TEUs.

In terms of movable assets, the company has an unmatched list of attributes – once again proving the point that it has no competition. With over 14,000 container wagons, 285 high-speed rakes and over 20,000 containers in its own kitty, all private players combined together do not even get anywhere close to it. And the most decisive punch comes from its enlarged network of terminals or ICDs. At the beginning of the current fiscal, the company had an expansive network of as many as 68 terminals across the country and this number is growing every year with the addition of nearly half a dozen units. "If you have to ask me, the biggest calling card of CONCOR would be its terminal networks, which are mostly at prominent locations," Dewan of ICRA emphasises. "In its space, CONCOR is even more powerful than the Airport Authority of India (AAI) since it is in command of container terminals mostly developed on railways land at strategically important locations. Even some private players are using their own terminals on a rental basis since they can't afford to set up their terminals from scratch," commented a senior official of a private rival firm.

Kalyana Rama: CONCORE to assume a new identity

In addition, CONCOR has also forged a spate of strategic PPP alliances to bolster its business. These include: four JVs for ICD/CFS operation at Dadri with shipping lines and NVOCCs like Maersk, CMA-CGM, Transworld and AllCargo; JVs for port operations at JNPT (Gateway Terminals India) with APM Terminals Mauritius and at Vallarpadam with DP World; agreement with Kribhco Infrastructure and Continental Warehousing Corporation (Nhava Seva; CWCNSL) for access to their rail connected terminals, etc.

And some of their prominent JV partners vouch that joining hands with CONCOR has been a win-win proposition. "CWCNSL is proud to be a partner in CONCOR's vast terminal network and its wide reach in the logistics arena. With our terminal at Jakhwada, near Ahmedabad, we have been able to put JNPT on the Double Stack Container movement route, even before DFC coming in," says N.A.K. Reddy, CMD, CWCNSL. "We are complementing each other's strengths and capabilities and providing enhanced value to our customers. With Double Stack Operations at Pali, we have brought down overall logistics costs," adds Ranadhir P. Reddy, CEO, Kribhco Infrastructure.

Quest for a new identity

Talk to anybody in the market and ask them to show a chink in CONCOR's operational armour and chances are they will not have much to offer. One shortcoming pointed out: is in terms of throughput, the majority of its terminals are operating far below their optimal capacity. And secondly CONCOR has not paid much attention to domestic trade. But here the answer comes from within industry circles – with roadways commanding an over 60 per cent share in the domestic generic cargo movement (it is the cheapest mode), it would not have been pragmatic on CONCOR's part to lay an equal emphasis on domestic cargo. According to a Niti Ayog paper, when it comes to domestic containerised movement, roadways, in fact, have a far heftier share – 82 per cent as against railways' 18 per cent.

The point is: CONCOR today seems to be quite comfortable in its space and that begs the moot point. What is that larger picture which the top management has in its mind to catapult the company to the next growth orbit? "We want to become the largest multi-modal operator in the country," says Kalyana Rama, while adding that the company, in the past, has been taking steps to align more with larger logistics play including warehousing, reefer facilities, 3PL services, assistance to coastal shipping companies or even air cargo handling. And now is the time to step on the accelerator.

The larger multi-modal or logistics play has several components to it. As the company management admits: in the past the ICDs operated by it have primarily been transit points. But subtly their character is being given the required tweak now. "Earlier, we were just focussing on basic ICD functions with a customs clearance facility," says Kalyana Rama. "Then we started bonded warehousing. Post 2006, we started increasing our land area and opted for bigger units – Dadri is almost 200 acres. All our new units are 100-plus acres. And from ICD, we moved on to ICD plus (bonded warehousing, palletisation) and now we are graduating to MMLP (multi-modal logistics park). MMLPs inherently have ICDs but they look at additional streams of traffic by offering the facility of a private freight terminal (PFT), automobile hub, distribution hub and commodity hub (this varies from place to place)," he underlines.

Going by the claims of the company management, MMLP is the segment where CONCOR is betting big with 60 per cent of its near- to medium-run investment (for the operational expansion, the company has earmarked an investment of ₹5,000-6,000 crore during 2016-20) being routed to it. The company has a pipeline of 15 such units which are scheduled to get up and running by the end of next year. At present, these units are under different stages of development. But CONCOR's appetite for large-scale advanced distribution hubs does not end here. In association with private industrial parks and distribution hub developers, it is eyeing bringing a staggering 50 million sq ft of warehousing space (as against 2 million sq ft at present) under its command in the next five to six years. "We have made up our mind to enter distribution logistics. 3PL today in India is available only in the consumer space – more in courier cargo. In the industrial space, there is no 3PL. We want to emerge as a formidable force here and thus larger distribution hubs will be needed for which we will be partnering with private developers."

That CONCOR's top management is utterly serious in its intent to develop a new stronghold in the storage and distribution space became clear last month when the company signed an MoU, with the Andhra Pradesh government to develop the country's first Integrated Logistics & Manufacturing Zone (ILMZ) unit in the proposed Machilipatnam Industrial Corridor. Going by industry buzz, Andhra CM Chandra Babu Naidu is backing the 1,000-acre project where CONCOR, as a lead partner, will offer the specialised service of managing the entire inward and outward logistics requirements for raw materials and finished goods, enabling companies to focus on their core competency of manufacturing. Among its chosen list of big projects is the existing 108-acre Vizag unit where the company is spending nearly ₹425 crore to transform it into a modern Container Freight Station (CFS).

The new catalyst

More than anything else, CONCOR seems to be fuelled by big ticket opportunity offered by the opening of the Dedicated Freight Corridor (DFC) project in 2019. One of the largest infrastructure projects undertaken in the country, it is slated to bring a tectonic shift to the railways freight movement regime – from a time probability delivery model to a guaranteed schedule delivery one. Presently, the delays in delivery via rail is a serious bottleneck (since freight trains have to use the same track as passenger trains where the latter is the priority), but with the DFC, operators can ensure scheduled delivery helping their customers immensely in their forward planning and inventory management. "When the western (1,483 km) and eastern (1,856 km) stretches become completely operational, they can take care of 32 per cent of the freight traffic of Indian railways. Sixty-five per cent of the country's container EXIM cargo moves through JNPT, Mundra and Pipavav and anybody who has a network here will benefit. CONCOR is poised to benefit," points out Dewan of ICRA.

CONCOR's CMD makes no bones about DFC being a major catalyst for the company and most of its medium-run plans have been mooted considering the new adjustments to be made. It also includes the challenges of matching capacity with adequate terminal infrastructure and resorting to an efficient hub-and-spoke model. "The DFC will facilitate double-stacking of trains and the length of trains will increase from 720 m to 1,500 m. This will help us transport 400 TEUs from the current 180 TEUs. But demand will be an issue. Running 400 TEUs from JNPT to Tuglaqabad ICD may not happen," he points at the possible challenge. But in the same breath he explains the solution: "Post-DFC, an effective hub-and-spoke model will be required and we are taking steps. We have created a hub at Swarupganj, near Palanpur; the first point where three DFC lines from three ports – JNPT, Pipavav and Mundra – converge. All the traffic from Rajasthan, Haryana, Western UP and Uttrahand will be brought to Swarupganj. The Rajasthan and Haryana cargo will be distributed from there, while the remaining cargo will be brought to Katuwas for distribution in other zones." The Katuwas multi-modal logistics park, a sparkling infrastructure asset for CONCOR, has emerged as India's third largest ICD unit. A major hub, it is slated to touch 300,000 TEUs this year.

In CONCOR's quest for a new identity, in recent years the company has also forayed into areas like air cargo handling, coastal shipping or even providing a plug in reefer services at some of its ICDs like Tuglaqabad. Though small components of its expansive operational profile at this stage, they are meant to aid the company's efforts to have a more holistic portfolio when it comes to logistics deliverables. "We have been handling cargo at the Mumbai airport for the last three years. We are talking to other airports and eventually may also look into ground handling. Similarly, we have also forayed into coastal shipping, wherein we assist with the container traffic of players in the segment without competing with them. All these efforts are meant to fill the gaps in becoming India's largest integrated multi-modal operator."

Steady growth

(₹ crore)	March '14	March '15	March '16	March '17
Sales	5,317	6,122	6,278	5,971
OPM (%)	22	23	21	21
Other Income	358	355	347	309
Net Profit	944	1,054	966	856
EPS* (₹)	46.29	51.33	49.54	43.91
Share Capital	195	195	195	195
Reserves	6,663	7,322	8,112	8,611

*Unaudited

IT push

"For any integrated logistics or multi-modal operator, adoption of advanced technology applications is a pre-requisite now. That entails going beyond the common track-and-trace service, which is so readily available and making use of artificial intelligence (AI), big data and machine learning to achieve higher efficiency in customer service," points out Amit Kumar, lead consultant, logistics, Ernst & Young India. And this is precisely what CONCOR has planned. Though in the near run it would not be going to the extent of using AI, it is working to launch a dedicated app which, as a senior official claims, will be a significantly improved version of its existing IT interface platform for its customers which facilitates tracking different legs of their containers journey even beyond Indian shores.

"CONCOR has been in the forefront of adopting advanced IT applications in the past too. And the process has been further expedited in recent years. We realised that with DFC coming up and our infrastructure expanding at a fast pace, we need to ramp up our IT base. We are unifying all our apps – cargo management ERP, employee management, finance, and payment systems which will give a decisive edge to our operations," says Rahul Mittal, director, projects & services, CONCOR, while adding that IT biggies like Oracle, IBM and TCS have been associated with CONCOR in the past and the company has been adding new IT processes quite swiftly. For instance, its e-tendering system was launched five years ago and, for the last one year, all reverse auction processes are conducted online. And digital payments are now the preferred mode for all transactions with its customers.

According to Mittal, the unified app platform will be a game changer for CONCOR, as it will be aiming to kill two birds with one stone. Firstly, it will provide plenty of choices to the customer much like any popular app in the B2C space. For instance, customers will get quotes immediately for their container consignment. It will also help the company provide end-to-end services by integrating first and last mile delivery offerings, something which has not been a stronghold of the company in the past – probably more because it did not need it. But now, it will be an imperative since the company is gunning for a larger logistics play. Once the unified app becomes a reality, the customer will have the freedom to choose from a list of registered trucking service providers for their shipment. The customer will fill in the dimensions of the cargo and the pick-up and destination points (first and the last mile) and the app will immediately put it to reverse auction for the transportation partners to provide their quotes.

There will also be an in-built grading system of transportation partners, much like what happens in Ola or Über to ensure guaranteed quality service. "This app which is likely to become functional by the end of this fiscal will be the bridge to integrate us with roadways," says Mittal, while adding that in the coming years, 10 per cent of company's investment would be directed to spruce up its IT infrastructure.

The moot question now is: on the basis of these new initiatives and a more focussed approach on advanced multi-modal facilities, what are those critical milestones the management would be aiming to achieve in the near- to medium-run? "Out of every ₹100 which we earn, ₹78 comes from the container business. About 10 years back, it was, say, ₹90. We have to further reduce it," responds the chairman, while adding that the move is also aimed at de-risking the company from relying on one specific segment. In terms of top-line, he hints the company would be looking at the ₹10,000 crore mark by 2020 – a significant jump from the present trajectory of ₹6,000 crore. And the company would be looking at touching three-digit mark (100) for distribution hubs – adding roughly 30 more units over its current existing base. "Investment is not an issue. If we need over and above the earmarked investment quantum for the next five years, it can be easily provisioned for – either through internal accruals or the borrowing route. The only point of interest for us is to tell the world that CONCOR is much more than just container train operations," says Kalyana Rama. An exciting spell in the container train major's journey and, as he emphasises, the market too would be keenly watching how this episode eventually unfolds.

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