

RESEARCH
Logistics

Mid-term outlook improving; startups not yet a threat

SUMMARY
Logistics

- Growth has continued: e-way bills are up 12%, FASTag up 54%, trade up 36% and rail container traffic up 13% in last three months on YoY basis
- Threat from logistics startups still some time away as the few that compete directly are ecommerce focused; some offer complementary services
- Retain MAHLOG and VRLI at BUY; upgrade CCRI to HOLD and downgrade TCIEXP, TRPC and AGLL to SELL

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Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.48	(2bps)	(7bps)	59bps
India 10Y yield (%)	6.37	2bps	0bps	47bps
USD/INR	75.79	(0.4)	(1.7)	(2.9)
Brent Crude (US\$/bbl)	75.15	1.0	(9.3)	50.4
Dow	35,971	0.6	0.1	19.7
Shanghai	3,666	(0.2)	3.8	9.5
Sensex	58,787	0.0	(1.9)	27.5
India FII (US\$ mn)	09-Dec	MTD	CYTD	FYTD
FII-D	(50.8)	(230.3)	(146.9)	1,880.3
FII-E	1,052.7	(301.5)	5,201.0	(2,125.3)

Source: Bloomberg

BOBCAPS Research

researchreport@bobcaps.in



LOGISTICS

13 December 2021

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Tarun Bhatnagar | Someel Shah
 researchreport@bobcaps.in

Medium-term outlook strong: Logistics indicators have all delivered double-digit YoY growth in recent months. The demand shift from the unorganised to organised sector continues, as per recent company commentary. However, auto – a key client segment for the industry – is facing temporary production cuts due to chip shortages.

Startups may not pose an immediate threat: In our view, technology-led logistics firms such as Delhivery and Rivigo could emerge as a threat to logistics players only over the long term as (1) they are focused on ecommerce which is not serviced in a big way by current players, (2) customer migration to new players will be gradual and will occur only if they derive tangible value, (3) servicing industries which are less tech savvy than ecommerce companies may be a challenge, (4) many new-age companies are involved in providing software-related services which do not compete directly with existing players and may, in some cases, help them offer better services.

Retain BUY on MAHLOG and VRLL; upgrade CCRI to HOLD: Given an improving outlook on growth and core earnings, we retain BUY on MAHLOG (TP Rs 821 vs. Rs 711 earlier) and VRLL (TP Rs 611 vs. Rs 511). We increase our TP for CCRI from Rs 521 to Rs 641 and raise our rating from SELL to HOLD due to a 14% fall in stock price from Sep'21 peaks and an improving outlook on trade and rail container traffic.

Downgrade TCIEXP, TRPC and AGLL to SELL: We cut TCIEXP from HOLD to SELL (TP Rs 1,841 vs. Rs 1,531 earlier) as the stock has risen 39% since its Q2FY22 results and 141% YTD to trade at 42x FY23E P/E. Our reverse DCF implies a 32% 10-year FCF CAGR compared with our 30% estimate.

TRPC has been demoted from HOLD to SELL (TP Rs 561 vs. Rs 431) as it has risen 60% since October. Q2FY22 results beat estimates due to exceptionally high shipping income which the company admitted is unlikely to recur. The stock now trades at peak multiples vs. history and implies a 10-year FCF CAGR of 22% vs. our 15% estimate and the 14% reported over FY16-FY21. We cut AGLL from ADD to SELL (TP Rs 281 vs. Rs 135) as the stock continues to attract a premium valuation despite putting off its plans to privatise.

Recommendation snapshot

Ticker	Price	Target	Rating
AGLL IN	350	281	SELL
CCRI IN	652	641	HOLD
MAHLOG IN	690	821	BUY
TCIEXP IN	2,293	1,841	SELL
TRPC IN	675	561	SELL
VRLL IN	459	611	BUY

Price & Target in Rupees | Price as of 10 Dec 2021



Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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