

## Expect a weak quarter all around

**High frequency indicators (EXIM trade, rail freight and major port traffic), corroborated by industry checks, signal a feeble demand environment for logistics services. We expect median revenue growth for our coverage universe to decelerate to 7% YoY in Q2FY20 vs. 8%/15% in Q1/FY19. FSCSL and MLL are likely to see continued PBT shrinkage, while TCIEXP should report the highest PBT growth, followed by TRPC. EPS growth for select companies could be boosted by the lower corporate tax rate and write-back of excess Q1 provisions.**

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**Industry indicators signal weak demand:** Core EXIM trade (non-oil, non-gold) declined 3% YoY during Jul-Aug'19 (vs. +0.4% in Q1FY20, US\$ terms), Indian Railway's container traffic tapered off to -0.2% YoY (vs. +5% in Q1), while major port traffic growth languished at 1.5% YoY. This is hurting EXIM-focused players such as Container Corp (CCRI) which reported a provisional volume decline of 2% YoY in Q2. The domestic climate isn't much better as auto sales plummet and industrial activity weakens. We thus expect median revenue growth of 7% YoY for our coverage universe vs. 8% in Q1FY19 and 15% in FY19.

## RECOMMENDATION SNAPSHOT

Ticker	Price	Target	Rating
AGLL IN	98	125	BUY
CCRI IN	564	575	ADD
FSCSL IN	509	730	BUY
MAHLOG IN	365	525	BUY
TCIEXP IN	715	840	BUY
TRPC IN	273	365	BUY

Price & Target in Rupees | MAHLOG = MLL

**TCIEXP to outperform on PBT growth:** We expect TCI Express (TCIEXP) to report 9% YoY revenue growth aided by new SME clients; this along with 26bps operating margin expansion should catalyse 14% YoY PBT growth – the highest for our coverage. CCRI's EBITDA is likely to be flat as a realisation hike negates softer volumes, but we forecast 23% lower PBT in the absence of SEIS income (Rs 1bn in Q2FY19). The auto slowdown will continue to weigh on Mahindra Logistics (MLL) despite some cushion from growth in non-auto segments – expect revenue/PBT declines of 6%/19% YoY. Transport Corp's (TRPC) seaways segment should drive 5% YoY topline growth and 40bps margin expansion, aiding a 13% rise in PBT.

**Tax sops a profit booster:** The lower corporate tax rate and write-back of excess Q1 tax provisioning is likely to boost profitability for some companies. TCIEXP could see PAT growth of 50% YoY, while MLL is estimated to grow 6% YoY. Tax benefits should soften the decline in CCRI's PAT to 15% YoY.

**Top picks:** We keep our ratings and earnings estimates unchanged. Our preference for asset-light models within the logistics space continues, and we reiterate TCIEXP, MLL and FSCSL as our top fundamental ideas. TRPC remains a top value pick.



## Q2FY20 Company-wise expectations

**FIG 1 – Q2FY20 RESULT PREVIEW**

(Rs mn)	Q2FY20E	Q2FY19A	Q1FY20A	YoY (%)	QoQ (%)	Comment
<b>Allcargo Logistics – consolidated</b>						
Revenue	19,149	17,373	18,153	10.2	5.5	<ul style="list-style-type: none"> <li>▪ MTO revenue expected to grow 9% YoY led by 6% volume growth</li> <li>▪ CFS to inch up 3% YoY; volumes flattish</li> <li>▪ P&amp;E set to deliver healthy 31% YoY topline growth</li> <li>▪ Lower EBIT in MTO/CFS segments offset by rise in P&amp;E EBIT</li> </ul>
EBITDA	1,263	1,249	1,214	1.1	4.0	
EBITDA margin	6.6	7.2	6.7	(60bps)	(9bps)	
PBT	851	815	813	4.4	4.7	
PAT	679	628	652	8.0	4.0	
<b>Container Corporation – standalone</b>						
Revenue	17,154	17,223	16,389	(0.4)	4.7	<ul style="list-style-type: none"> <li>▪ Provisional volumes down 2% YoY in Q2; EXIM declined 3% YoY</li> <li>▪ Higher double-stacking and lower empty running costs to keep EBITDA margin healthy</li> <li>▪ PBT to fall assuming no SEIS income in Q2FY20 (Rs 1bn in Q2FY19)</li> </ul>
EBITDA	4,061	4,042	4,033	0.5	0.7	
EBITDA margin	23.7	23.5	24.6	21bps	(93bps)	
PBT	3,608	4,686	3,250	(23.0)	11.0	
PAT	2,853	3,361	2,278	(15.1)	25.2	
<b>Future Supply Chain Solutions – standalone*</b>						
Revenue	3,457	2,802	2,989	23.4	15.7	<ul style="list-style-type: none"> <li>▪ Contract logistics to grow at 30% YoY, driving robust topline growth</li> <li>▪ Lower utilisation of new warehousing space would weigh on EBITDA margin</li> <li>▪ YoY increase in depreciation and interest to dent PBT</li> <li>▪ Tax incidence likely to remain nil for the quarter</li> </ul>
EBITDA	378	376	276	0.4	36.9	
EBITDA margin	10.9	13.4	9.2	(250bps)	169bps	
PBT	168	267	66	(37.2)	153.9	
PAT	168	267	66	(37.2)	153.9	
<b>Mahindra Logistics – consolidated</b>						
Revenue	8,764	9,274	8,992	(5.5)	(2.5)	<ul style="list-style-type: none"> <li>▪ Expect SCM revenue to decline 7% YoY led by 12% drop in anchor client revenue</li> <li>▪ Consumer and e-commerce segments should grow in double digits</li> <li>▪ PTS segment likely to post 8% uptick</li> <li>▪ Lower tax rates to drive higher PAT</li> </ul>
EBITDA	286	340	293	(15.7)	(2.4)	
EBITDA margin	3.3	3.7	3.3	(40bps)	(1bps)	
PBT	238	293	300	(18.8)	(20.7)	
PAT	202	191	200	6.0	1.0	
<b>TCI Express</b>						
Revenue	2,694	2,472	2,562	9.0	5.2	<ul style="list-style-type: none"> <li>▪ Topline growth to improve led by new clients (SMEs, an auto OEM) and wallet share gain from existing customers</li> <li>▪ Better truck utilisation and recent price hike to aid margin expansion</li> <li>▪ Tax sops should drive healthy profit growth</li> </ul>
EBITDA	304	273	296	11.6	2.9	
EBITDA margin	11.3	11.0	11.6	26bps	(25bps)	
PBT	288	253	283	13.9	1.8	
PAT	244	163	184	49.9	32.4	
<b>Transport Corporation of India – standalone</b>						
Revenue	6,527	6,203	6,121	5.2	6.6	<ul style="list-style-type: none"> <li>▪ Seaways segment to grow at 12% YoY</li> <li>▪ Freight segment to rise 6% aided by increasing LTL contribution</li> <li>▪ Supply chain revenues to dip 2% YoY as lower auto sales take a toll</li> <li>▪ Uptick by seaway's segment's EBITDA to drive margins</li> </ul>
EBITDA	585	531	562	10.3	4.2	
EBITDA margin	9.0	8.6	9.2	41bps	(21bps)	
PBT	371	329	369	12.8	0.5	
PAT	292	259	297	12.8	(1.9)	

Source: Company, BOBCAPS Research | Note: Our forecasts do not incorporate the impact of Ind-AS 116; \*FSCSL's Q2FY19 reported financials do not include the first-mile operations of erstwhile Vulcan Express; the numbers shown here are derived by deducting numbers for the other three quarters from FY19 financials

## Valuation summary

**FIG 2 – BOBCAPS LOGISTICS UNIVERSE – VALUATION SUMMARY**

Company	Rating	TP (Rs)	Upside (%)	EPS (Rs)			P/E (x)			ROE (%)		
				FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
AGLL	BUY	125	28	10.4	11.8	13.2	9.4	8.3	7.4	12.3%	12.7%	13.1%
CCRI	ADD	575	2	21.3	21.4	26.1	26.5	26.4	21.6	12.0%	11.3%	12.8%
FSCSL	BUY	730	43	23.3	28.5	35.8	21.9	17.8	14.2	14.5%	15.4%	16.6%
MLL	BUY	525	44	13.7	18.4	22.9	26.7	19.9	15.9	18.3%	21.1%	22.9%
TCIEXP	BUY	840	17	24.8	30.5	37.5	28.8	23.4	19.1	31.1%	29.8%	28.8%
TRPC	BUY	365	34	22.1	25.6	30.3	12.4	10.7	9.0	17.5%	17.4%	17.8%

Source: Company, BOBCAPS Research

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### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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