

Inspid quarter beckons

Logistics companies in our coverage are expected to report a tepid Q3 as domestic and EXIM trade headwinds continue unabated. TCIEXP is likely to remain the outperformer with double digit rise in revenue and EBITDA (+10% YoY each). CCRI to also post healthy EBITDA growth (+11% YoY), notwithstanding muted topline (+3%). Three companies in our coverage are likely to post EBITDA decline – MLL (-18% YoY), FSCSL (-9%), and VRLL (-7%) – owing to muted demand from key client segments.

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Weak trade to impact topline growth: Both EXIM and domestic trade remained tepid in Q3FY20. Core EXIM trade (non-oil, non-gold) fell -5% YoY in Oct-Nov'19. Indian Railway's container traffic grew +3% YoY in Q3 (-0.2% in Q2), but NTKM growth was flat (+0.2%) due to lower leads (-2.7%). Container volume at major ports was also down (-2.2% YoY). This is expected to weigh on the topline growth of logistics companies – we forecast median revenue growth of +8% YoY for our coverage universe (+5%/+14% in H1/FY19).

TCIEXP to be the outperformer: TCI Express (TCIEXP) is likely to be the only company to post double digit growth in both revenue and EBITDA (+10% YoY) in our coverage. Despite muted volume from existing customers, addition to SME clients to aid the company's topline. Though CCRI has reported volumes dip (-1.7% YoY) in Q3, EBITDA growth is likely to be decent (+11% YoY) led by higher realisation, lower empty running charges, and controlled costs.

3PL companies to remain in doldrums: Battered by plunging auto sales, Mahindra Logistics' (MLL) revenue/EBITDA is forecast to fall -2%/-18% YoY in Q3. Future Supply Chain Solutions' (FSCSL) revenue growth is likely to be decent at +12% YoY, but steeper increases in fixed costs, depreciation, and interest stemming from commissioning of new warehouses is likely to mar profitability – its EBITDA/PBT is estimated to decline by -9%/-47% YoY.

TRPC, AGLL to post steady performance: Strong growth in the seaways division (+25% YoY), led by the addition of a new ship in Oct'19, is likely to drive +8% uptick in topline. AGLL's revenue is also forecast to rise by +8% YoY, led by the MTO segment (+9%) while the CFS segment languishes (-5%). VRL Logistics (VRLL) is estimated to print sedate revenue increase of +2% YoY due to moderate growth in both GT (+4%) and PT (-6%) segments. Despite stable fuel costs, higher employee expenses can dent EBITDA growth (-7% YoY).

RECOMMENDATION SNAPSHOT

Ticker	Price	Target	Rating
AGLL IN	99	120	BUY
CCRI IN	561	655	ADD
FSCSL IN	464	680	BUY
MAHLOG IN	409	460	BUY
TCIEXP IN	727	855	ADD
TPRC IN	269	365	BUY
VRLL IN	270	330	BUY

Price & Target in Rupees | MAHLOG = MLL



Q3FY20 Company-wise expectations

FIG 1 – Q3FY20 RESULT PREVIEW

(Rs mn)	Q3FY20E	Q3FY19A	Q2FY20A	YoY (%)	QoQ (%)	Comment
Allcargo Logistics – consolidated						
Revenue	19,522	18,038	18,372	8.2	6.3	<ul style="list-style-type: none"> MTO revenue expected to grow 9% YoY led by 6% volume growth CFS revenue estimated to decline by 5%, due to a 3% fall in volumes, consequent to lower container traffic at key major ports P&E expected to post a ~5% growth Higher MTO/P&E EBIT is likely to offset lower CFS EBIT
EBITDA	1,230	1,129	1,153	9.0	6.7	
EBITDA margin	6.3	6.3	6.3	4bps	3bps	
PBT	820	806	793	1.8	3.5	
Adj. PAT	526	504	682	4.3	(22.9)	
Container Corporation – standalone						
Revenue	16,127	15,726	17,154	2.5	-6.0	<ul style="list-style-type: none"> Provisional volumes down 1.7% YoY in Q3; EXIM declined 2.4% YoY 4% YoY increase in realisation (flat QoQ) to drive revenue growth EBITDA margin to expand YoY led by lower empty running charges, controlled costs Absence of SEIS income (Rs 845mn in Q3FY19) to dent PBT growth
EBITDA	3,715	3,339	4,085	11.3	-9.1	
EBITDA margin	23.0	21.2	23.8	180bps	-78bps	
PBT	3,465	3,866	3,740	(10.4)	(7.3)	
Adj. PAT	2,577	2,747	2,639	(6.2)	(2.4)	
Future Supply Chain Solutions – standalone						
Revenue	3,344	2,983	3,125	12.1	7.0	<ul style="list-style-type: none"> Contract logistics to grow at 17% YoY, driving topline growth of 12% Lower utilisation of new warehousing space would continue to weigh on EBITDA margin, though may improve sequentially YoY increase in depreciation and interest (excl. IND AS 116 impact) stemming from addition to fixed assets to dent PBT
EBITDA	356	390	329	(8.5)	8.4	
EBITDA margin	10.7	13.1	10.5	(240bps)	14bps	
PBT	132	249	97	(46.8)	35.8	
Adj. PAT	132	249	97	(46.8)	35.8	
Mahindra Logistics – consolidated						
Revenue	9,599	9,811	8,764	(2.2)	9.5	<ul style="list-style-type: none"> Forecast a 2.5% YoY dip in SCM revenue (vs. -9% in Q2). Anchor client revenue estimated to decline by 10%, while non-anchor to grow at 8% YoY driven by 13% YoY increase in non-auto segment Consumer, e-com, retail segments to continue healthy growth PBT expected to decline by 19%; lower corporate tax rate to cushion the fall in adj. PAT to 25%
EBITDA	295	359	245	(17.8)	20.5	
EBITDA margin	3.1	3.7	2.8	(59bps)	28bps	
PBT	250	309	196	(19.0)	27.5	
Adj. PAT	186	191	202	(2.5)	(8.0)	
TCI Express						
Revenue	2,895	2,632	2,695	10.0	7.4	<ul style="list-style-type: none"> Addition of new clients to continue to augment revenue growth; growth in business volume from existing clients to be muted Expect EBITDA margin to improve QoQ but remain flat on YoY basis Lower corporate tax rate to aid hefty profit growth
EBITDA	342	310	307	10.3	11.3	
EBITDA margin	11.8	11.8	11.4	4bps	41bps	
PBT	327	289	302	13.0	8.1	
Adj. PAT	243	187	261	29.9	(6.9)	
Transport Corporation of India – standalone						
Revenue	7,184	6,630	6,282	8.3	14.3	<ul style="list-style-type: none"> Addition of a new ship in Q3FY20 is likely to drive to a ~25% YoY growth in the seaways segment Expect freight to grow by ~5% YoY, while SCS is likely to remain flat EBITDA margin to remain flat YoY despite higher contribution from seaways fixed costs may increase post addition of the ship
EBITDA	661	611	566	8.3	16.9	
EBITDA margin	9.2	9.2	9.0	(1bps)	20bps	
PBT	406	380	382	6.9	6.3	
Adj. PAT	321	300	333	7.1	(3.5)	
VRL Logistics						
Revenue	5,622	5,512	5,238	2.0	7.3	<ul style="list-style-type: none"> Expect the GT segment to grow at 4% YoY while the PT segment may decline by 6% YoY In GT, commissioning of Surat transshipment hub in Q2FY20 to aid high single digit volume growth. However, lower realisation due to its strategy to offer competitive pricing is likely to dent growth While gross margin is estimated to expand ~20bps YoY due to lower diesel prices, higher employee costs is likely to dent EBITDA margin
EBITDA	651	697	530	(6.5)	22.8	
EBITDA margin	11.6	12.6	10.1	(106bps)	146bps	
PBT	371	420	278	(11.5)	33.4	
Adj. PAT	276	266	362	4.0	(23.8)	

Source: Company, BOBCAPS Research | Note: Our forecasts are excluding the impact of IND AS 116

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	120	22	10.3	11.6	13.0	9.6	8.5	7.6	12.1	12.5	12.9
CCRI	ADD	655	17	17.5	21.0	25.8	32.1	26.7	21.8	10.2	11.9	13.4
FSCSL	BUY	680	47	12.9	20.9	30.8	36.1	22.2	15.0	8.2	12.1	15.7
MLL	BUY	460	13	10.4	14.4	18.5	39.2	28.4	22.1	14.1	17.3	19.8
TCIEXP	ADD	855	18	24.6	30.2	37.2	29.6	24.1	19.6	30.7	29.1	28.3
TRPC	BUY	365	36	21.5	24.8	30.3	12.5	10.9	8.9	17.1	17.0	17.9
VRLL	BUY	330	22	12.2	13.2	15.0	22.1	20.5	18.0	16.5	16.5	17.3

Source: Company, BOBCAPS Research

Disclaimer

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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