

## Expect an anaemic quarter

Already reeling under a domestic consumption slowdown, the Indian logistics industry has now taken a severe blow from Covid-19-led trade disruptions. We forecast revenue and EBITDA declines for all our coverage companies in Q4FY20, with TCIEXP being the only player expected to post earnings growth (3.5% YoY) due to reduced taxes. The sharp plunge in auto volumes would hurt auto-focused 3PL companies (MLL, TRPC). We reiterate our preference for companies with strong balance sheets; TCIEXP is our top pick.

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**Unprecedented trade slowdown:** Coming on the heels of soft EXIM trade and a prolonged domestic consumption slowdown, the Covid-19 outbreak has aggravated the woes of Indian logistics companies. The national lockdown from 25 March has ushered in an unprecedented slowdown in domestic trade, as corroborated by high frequency indicators for the month – (1) EXIM trade has plunged 31% YoY in Mar'20 – the steepest fall on record, and (2) major port traffic has slipped 5% YoY. Upcoming trade indicators are likely to be even worse.

### RECOMMENDATION SNAPSHOT

Ticker	Rating
AGLL IN	ADD
CCRI IN	ADD
MAHLOG IN	BUY
TCIEXP IN	BUY
TRPC IN	BUY
VRLL IN	BUY

MAHLOG = MLL

**Anaemic earnings...:** We expect our logistics coverage to report revenue/EBITDA declines in Q4FY20, consequent to the sharp plunge in domestic and EXIM trade. Economic activity typically picks up in March, and hence the pandemic-related disruptions in the last two weeks of the month are likely to have a significant impact on growth and profitability. We forecast a median revenue decline of 7% YoY for our logistics coverage in Q4 vs. a 2% increase in 9MFY20.

**...barring TCIEXP:** TCI Express (TCIEXP) is likely to be the only company to post higher YoY earnings, led by a lower corporate tax rate. Auto-focused players – Mahindra Logistics (MLL) and Transport Corp (TRPC, SCS division) – could see a sharp dip in revenue after a steep plunge in auto OEM sale volumes in Mar'20. Restrictions on vehicle movement have hurt road freight operators (TRPC's freight vertical and VRL Logistics). Soft global container trade will hit EXIM-oriented players – Container Corp has reported a 4% drop in Q4 volumes.

**Prefer companies with strong balance sheets:** With sustained growth recovery at least a couple of quarters away, we continue to recommend that investors stay with companies which have quality balance sheets and established market positions. We reiterate TCIEXP as our top pick, followed by VRLL, MLL and TRPC. We revise our FY20-FY22 earnings estimates down for MLL and AGLL, factoring in the Covid-19 impact on near-term growth prospects and profitability.



**FIG 1 – Q4FY20 RESULT PREVIEW**

(Rs mn)	Q4FY20E	Q4FY19A	Q3FY20A	YoY (%)	QoQ (%)	Comment
<b>Allcargo Logistics – consolidated</b>						
Revenue	16,118	17,273	17,868	(6.7)	(9.8)	▪ Volatile global container trade in wake of Covid-19 likely to weigh on MTO segment's performance
EBITDA	1,013	1,072	1,095	(5.5)	(7.5)	▪ Container traffic in addressable ports (ex. Mundra) down 7.5% YoY in Q4. AGLL's CFS volume expected to fall 5% YoY
EBITDA margin	6.3	6.2	6.1	8bps	16bps	▪ Warehousing lease rentals to cushion revenue decline and aid margins
PBT	657	752	604	(12.6)	8.6	
Adj. PAT	605	802	339	(24.6)	78.7	
<b>Container Corporation – standalone</b>						
Revenue	16,320	17,498	15,276	(6.7)	6.8	▪ Provisional volumes down 3.8% YoY
EBITDA	3,494	3,828	3,312	(8.7)	5.5	▪ Lower absorption of fixed expenses to translate into 47bps YoY contraction in EBITDA margin
EBITDA margin	21.4	21.9	21.7	(47bps)	(27bps)	▪ Absence of SEIS income (Rs 845mn in Q4FY19) and tax refund (Rs 225mn) to dent PBT growth
PBT	3,061	4,837	3,187	(36.7)	(4.0)	
Adj. PAT	2,277	3,523	1,755	(35.4)	29.7	
<b>Future Supply Chain Solution</b>						
Revenue	2,810	3,021	2,831	(7.0)	(0.7)	▪ Contract logistics revenue to fall 7% YoY owing to scale back of operations by anchor client and Covid-19 impact on non-anchor client portfolio
EBITDA	334	430	332	(22.4)	0.6	▪ Express revenue estimated to fall 12% YoY due to trade disruption
EBITDA margin	11.9	14.2	11.7	(236bps)	16bps	▪ YoY increase in depreciation to exacerbate PBT drop
PBT	104	266	102	(60.8)	2.4	
Adj. PAT	104	266	102	(60.8)	2.4	
<b>Mahindra Logistics – consolidated</b>						
Revenue	9,278	10,147	9,081	(8.6)	2.2	▪ Expect 15% YoY decline in revenue from anchor and non-anchor auto segments, given plunging sale volumes of these customers
EBITDA	269	409	286	(34.3)	(6.0)	▪ Marginal revenue growth in non-auto, non-Mahindra segment to cushion fall in SCM revenue to 9%
EBITDA margin	2.9	4.0	3.1	(113bps)	(25bps)	
PBT	213	357	230	(40.4)	(7.5)	
Adj. PAT	159	235	172	(32.6)	(8.0)	
<b>TCI Express</b>						
Revenue	2,503	2,658	2,684	(5.8)	(6.7)	▪ Business activity healthy in Jan-Feb'20 but operations affected since mid-March, the most critical month of the year, as states implemented shutdown measures
EBITDA	318	338	343	(5.8)	(7.2)	▪ Low operating leverage to protect EBITDA margin
EBITDA margin	12.7	12.7	12.8	0bps	(7bps)	▪ Lower tax rate to translate into YoY growth in adj. PAT
PBT	302	328	329	(7.9)	(8.1)	
Adj. PAT	225	217	255	3.5	(11.9)	
<b>Transport Corporation of India – Consolidated</b>						
Revenue	6,795	7,427	7,063	(8.5)	(3.8)	▪ Freight segment forecast to dip 9% YoY owing to severe disruptions in trucking operations since state lockdowns began
EBITDA	602	787	648	(23.4)	(7.1)	▪ Expect 14% YoY drop in 3PL revenue due to plunge in auto volumes; decline in coastal revenue to be lower at 2% YoY
EBITDA margin	8.9	10.6	9.2	(173bps)	(31bps)	▪ Higher fixed costs and depreciation post ship addition in Q3 to intensify EBITDA and PAT declines
PBT	324	539	401	(39.9)	(19.2)	
Adj. PAT	266	484	344	(45.1)	(22.7)	
<b>VRL Logistics</b>						
Revenue	4,905	5,129	5,573	(4.4)	(12.0)	▪ State and national lockdowns have impacted goods and passenger transport operations – expect volume declines in both segments
EBITDA	490	600	595	(18.3)	(17.7)	▪ Lower absorption of fixed expenses to translate into EBITDA margin contraction of 170bps YoY
EBITDA margin	10.0	11.7	10.7	(171bps)	(69bps)	▪ PBT estimated to drop 37% YoY. Lower PAT to cushion fall in adj. PAT to 26% YoY
PBT	205	326	335	(37.3)	(38.9)	
Adj. PAT	152	205	264	(25.8)	(42.4)	

Source: Company, BOBCAPS Research | Note: Our forecasts exclude the impact of Ind-AS 116

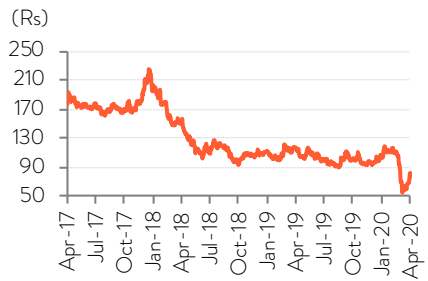
**FIG 2 – REVISED ESTIMATES AND TARGET PRICES**

Company	Old TP (Rs)	New TP	Old EPS (Rs)			New EPS (x)			Change (%)		
			FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
AGLL	117	100	9.6	11.2	12.6	8.7	8.2	10.5	(8.8)	(27.4)	(16.5)
CCRI	420	420	16.2	16.3	21.7	16.2	16.3	21.7	0.0	0.0	0.0
MLL	460	365	10.0	13.7	17.6	9.2	9.7	14.0	(7.6)	(28.9)	(20.7)
TCIEXP	770	770	23.8	23.0	32.0	23.8	23.0	32.0	0.0	0.0	0.0
TRPC	255	255	18.1	13.1	19.5	18.1	13.1	19.5	0.0	0.0	0.0
VRL	230	230	11.4	6.6	11.6	11.4	6.6	11.6	0.0	0.0	0.0

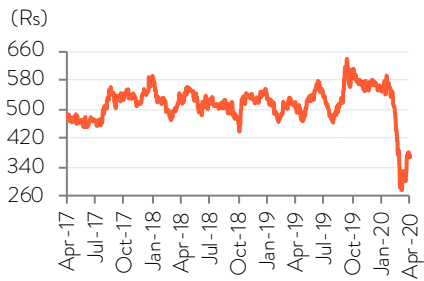
Source: Company, BOBCAPS Research | Note: We have recently updated our estimates for [CCRI](#), [TCIEXP](#), [TRPC](#), and [VRL](#)

## Stock performance

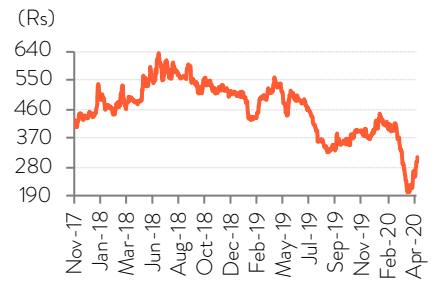
**FIG 3 – ALLCARGO LOGISTICS**



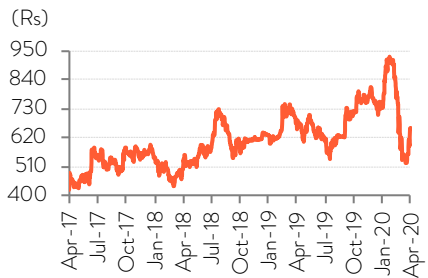
**FIG 4 – CONTAINER CORP**



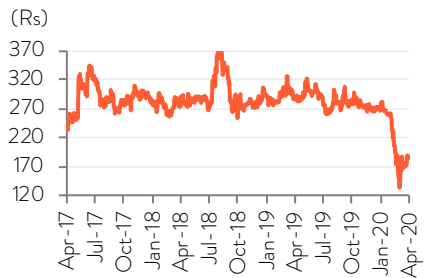
**FIG 5 – MAHINDRA LOGISTICS**



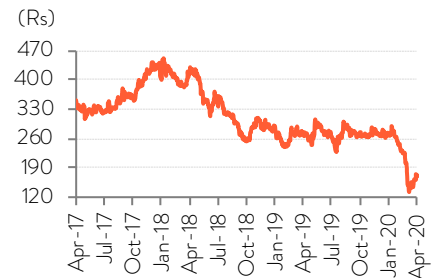
**FIG 6 – TCI EXPRESS**



**FIG 7 – TRANSPORT CORP**



**FIG 8 – VRL LOGISTICS**



Source: NSE

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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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