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Logistics

Full throttle ahead

November 2022

Aseem Madan
research@bobcaps.in

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LOGISTICS

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Full throttle ahead

- **Government-led manufacturing push, fast-growing consumer demand and boom in 3PL to bolster logistics sector topline**
- **Structural tailwinds ahead from steady sector formalisation, conducive policies and anticipated DFC-led shift in freight mix toward rail**
- **Initiate with BUY on MAHLOG (rising 3PL and e-commerce penetration), and HOLD on TCIEXP and CCRI (positives in the price)**

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Healthy industry outlook: According to RedSeer, direct logistics spends in India are expected to log a 9.1% CAGR from US$ 216bn to US$ 365bn by FY26, fuelled by the government's manufacturing push and rising consumer demand. Rail is forecast to lead the way at 14% CAGR, with the revenue share of freight transport improving from 14% to 19%. Warehousing is likely to follow at 9% backed by rising 3PL adoption and e-commerce penetration. Given a conducive demand and policy climate, we model for a 20%/31% revenue/PAT CAGR for our coverage over FY22-FY25.

Logistics a historically underinvested sector…: India's logistics cost is high at ~14% of GDP vs. 11% on average for BRICS countries and 8-10% for developed markets such as Europe and the US (Niti Aayog). The sector has been historically under-invested, lagging behind on both policy and infrastructure fronts. This has giving rise to an unfavourable modal mix skewed towards roads, which is expensive, slow, inefficient, technologically weak and carbon unfriendly.

…but slew of policies to usher in efficiencies: The government is committed to bringing logistics cost to sub-10% of GDP (vs. 14% currently) by curbing infrastructure inefficiencies and improving India's road-heavy modal mix. Measures such as the DFC (phased operations underway) will allow for greater speed and productivity from the railways, making it suitable for non-bulk goods. The Gati Shakti scheme targets faster, cost-optimised infrastructure project completion and is buttressed by the new National Logistics Policy. As efficiencies rise, we expect average ROCE/ROIC for our coverage to improve 645bps/465bps over FY22-FY25.

BUY MAHLOG; HOLD TCIEXP, CCRI: We initiate coverage on MAHLOG with a BUY rating (TP Rs 630) as we expect the company to deliver a robust revenue/PAT CAGR of 21%/70% over FY22-FY25 through strategic acquisitions and service extension across the logistics chain. For CCRI (HOLD, TP Rs 825), the DFC, LLF and privatisation are key stock triggers, but a ~24% stock rally since Jun'22 has taken current valuations to 24.6x FY24E EPS, pricing in the positives. TCIEXP (HOLD, TP Rs 2,010) offers B2B express delivery in key industry verticals, a model that carries high ROCE/ ROIC, but upsides appear capped at current valuations of 37.1x FY24E EPS.

Recommendation snapshot

Ticker	Price	Target	Rating
CCRI IN	733	825	HOLD
MAHLOG IN	491	630	BUY
TCIEXP IN	1,907	2,010	HOLD

Price & Target in Rupees | Price as of 21 Nov 2022

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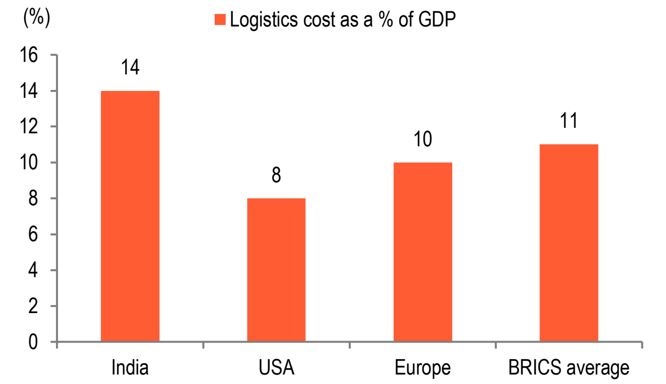
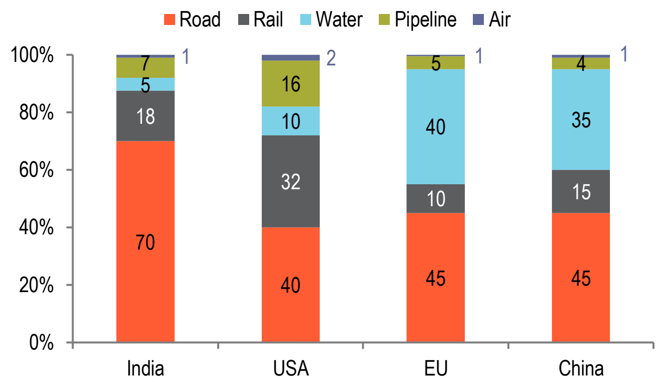
Focus charts

Fig 1 – India's logistics cost is high…



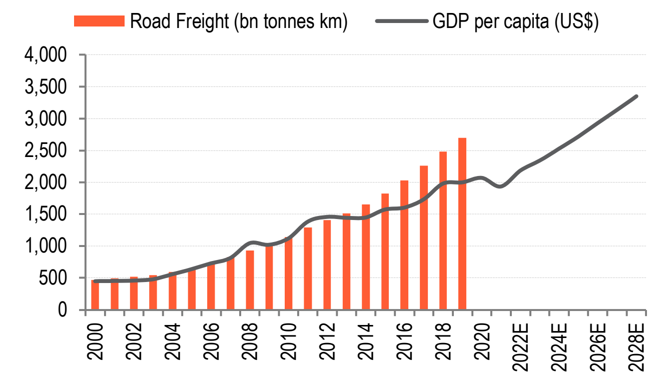
Source: Niti Aayog, RMI, BOBCAPS Research

Fig 2 – …driven by an inefficient modal mix



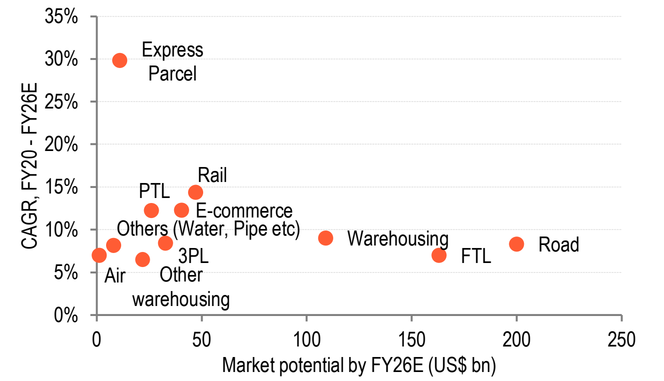
Source: Niti Aayog, RMI, BOBCAPS Research

Fig 3 – Concrete policy steps leading to acceleration in freight vis-à-vis GDP



Source: Road Transport Yearbook 2018-19, BOBCAPS Research

Fig 4 – Express, PTL and rail expected to lead market growth in logistics sector



Source: TVS Supply Chain Solutions DRHP, Pristine Logistics and Infraprojects DRHP, Delivery RHP, BOBCAPS Research

Fig 5 – Key financials: TCIEXP, MAHLOG, CCRI

Parameter	TCIEXP		MAHLOG		CCRI	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue (Rs mn)	12880	15073	50817	60808	90900	108312
Revenue growth (%)	18.2	17.0	24.1	19.7	18.8	19.2
EBITDA (Rs mn)	2196	2796	2942	3764	21503	27284
EBITDA growth (%)	20.1	27.3	40.2	27.9	23.1	26.9
EBITDA margin (%)	17.0	18.6	5.8	6.2	23.7	25.2
Profit (Rs mn)	1550	1981	730	1186	14725	18646
EPS growth (%)	20.3	27.7	97.0	62.6	35.9	26.9
Profit margin (%)	12.0	13.1	1.4	2.0	16.2	17.2
ROCE (%)	31.0	31.6	13.1	16.9	13.1	15.3
ROIC (%)	23.3	23.7	6.3	8.8	9.6	11.3
Price to Earnings (P/E) (x)	47.4	37.1	48.5	29.8	31.2	24.6
Price to Sales (P/S) (x)	5.7	4.9	0.9	0.7	4.9	4.1

Source: Company, BOBCAPS Research

Stock recommendations

MAHLOG is rated BUY whereas we have HOLD ratings on CCRI & TCIEXP given high valuations

Mahindra Logistics | BUY, TP Rs 630

MAHLOG is expanding across the logistics chain via acquisitions and service extension. Recent purchases of Rivigo (B2B express), Whizzard and Meru are intended to broaden offerings in transport, last-mile delivery and mobility respectively. Given the company's solid positioning in third-party logistics (3PL) coupled with the boom in logistics outsourcing across the auto, retail, durables, pharma and e-commerce sectors, we model for a revenue/PAT CAGR of 20.8%/69.5% over FY22-FY25 with EBITDA margin expansion of 140bps to 6.5%.

In our view, earnings will rebound off a low Covid-hit base as MAHLOG expands operations on an asset-light model, propelling a surge in ROCE from 8.6% in FY22 to 19.4% by FY25. The stock is trading at a 12M fwd P/E of 39.2x, ~2.5% higher than the 3Y mean. Stock offers 24% upside – we initiate with BUY and a DCF-based TP of Rs 630 (implied 38.3x FY24E P/E).

Container Corp | HOLD, TP Rs 825

CCRI leads the rail container logistics segment in India with over 70% market share. Given phased commissioning of dedicated freight corridors (DFC), the Indian Railway's focus on augmenting rail's share in freight transport from less than a fourth at present, and the industry shift toward rail containerisation, we see a structural volume opportunity for CCRI and model for a 14% CAGR in tonnage over FY22-FY25 (vs. 5% over FY13-FY22) and a 19.5%/28.4% revenue/PAT CAGR. ROCE is forecast to rise 700bps to 17.3% by FY25 aided by DFC-led efficiency gains.

However, the stock has moved up ~24% since end-Jun'22 and largely prices in the positives at current valuations of 27.9x 12M fwd P/E (in-line with 3Y mean) – we thus initiate coverage with HOLD. Our DCF-based TP of Rs 825 implies a P/E of 27.7x on FY24E.

TCI Express | HOLD, TP Rs 2,010

TCIEXP has a strong volume outlook as (i) demand rises amid the government-led infrastructure and manufacturing push, (ii) supply chain dynamics continue to evolve in favour of 3PL, and (iii) stronger regulations (GST, e-way bill) boost organised sector share. We model for a 15% volume CAGR over FY22-FY25, in turn spurring an 18.7%/26.5% revenue/PAT CAGR over FY22-FY25. The company's asset-light model has lifted EBITDA margin from 8% to 17% over five years despite modest topline growth. Planned capex of Rs 5bn over FY23-FY28 towards new sorting centres and technology should prove further margin accretive.

While we like TCIEXP's business model, we see limited upside potential as the stock has run up 20% since Jun'22 and is currently trading at a 12M fwd P/E of 42.2x, ~21% premium to the 3Y mean. We accordingly initiate coverage with HOLD. Our DCF-based TP of Rs 2,010 implies 39.1x FY24E P/E.

India's logistics market – Where we stand

Relatively better placed amongst EM peers

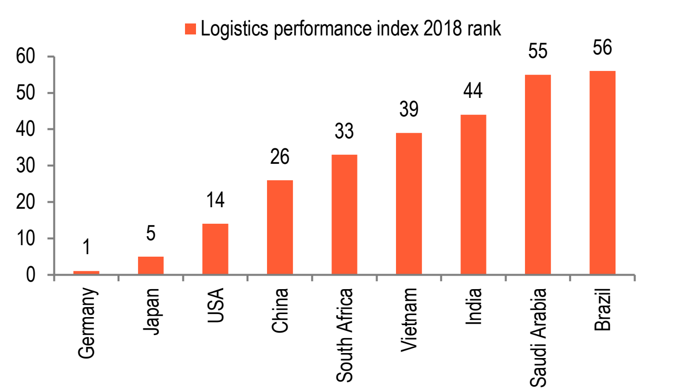
India was ranked 44th on the World Bank's logistics performance index in 2018 and was already one of the top performers amongst its lower-to-middle income counterparts. The country fares relatively better on customs, tracking and tracing, whereas logistics quality, infrastructure and timeliness remain relatively poor.

Agility EM Logistics Index 2022 ranks India as #2 among EMs

Over the last few years, the Indian government has focused on the development of both policy as well as infrastructure to improve logistics sector efficiency. On the policy front, implementation of the goods and services tax (GST) has been a groundbreaking reform, substantially easing bottlenecks to interstate movement of goods. Other policy reforms such as a National Logistics Policy, Logistics Efficiency Enhancement Programme (LEEP), infrastructure status for the sector, and e-way bill rollout have set the stage for further improvement.

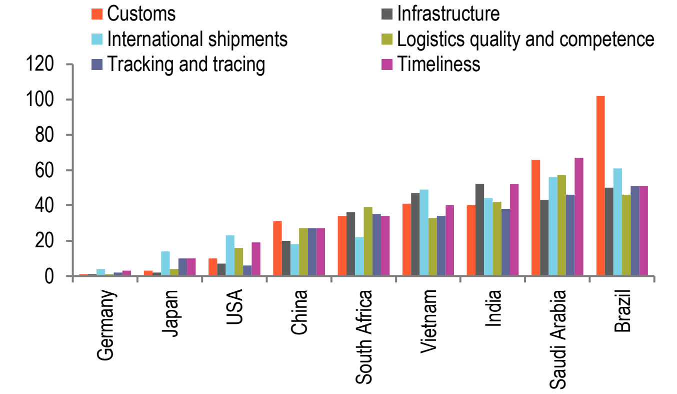
Indeed, green shoots of a sector-wide transformation are already visible. In a more recent report – the Agility Emerging Markets Logistics Index 2022 – published in February by logistics research consultant Agility, India has been ranked #2 among emerging markets (EM) and, along with China, is expected to grow the most in future.

Fig 6 – World Bank's logistics performance index, 2018



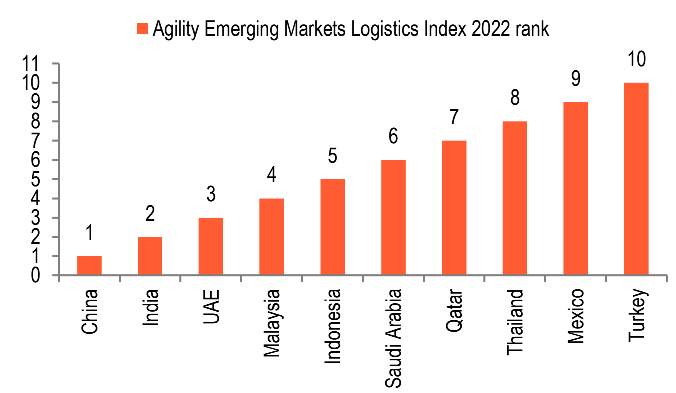
Source: World Bank, BOBCAPS Research

Fig 7 – Logistics performance index rank by parameter



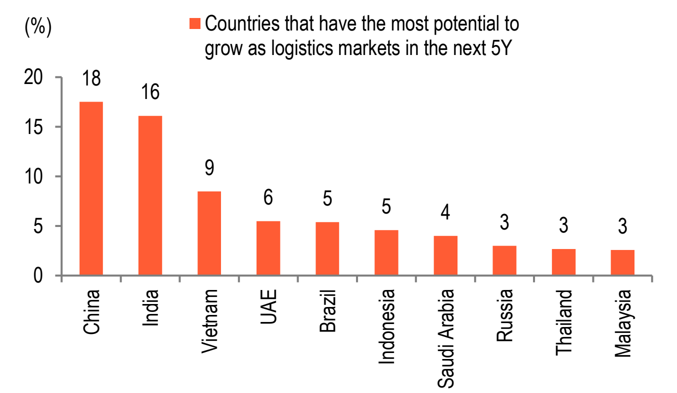
Source: World Bank, BOBCAPS Research

Fig 8 – Agility EM logistics index, 2022



Source: Agility, BOBCAPS Research

Fig 9 – 5Y growth expectation in logistics markets



Source: Agility, BOBCAPS Research

What's holding India's logistics sector back?

India's logistics cost at 14% of GDP is higher than 11% for BRICS and 8-10% for DMs (avg)

India's share of logistics cost in GDP is high at ~14% vs. 11% on average for BRICS countries and 8-10% for developed markets (DM) such as Europe and the US. Historically, logistics has been an underinvested sector in India that has lagged behind on both policy and infrastructure fronts. This has given rise to an unfavourable modal mix which is expensive, slow, inefficient, technologically weak and carbon unfriendly.

Policy missteps

On the policy front, prior to GST, it is estimated that ~60% of productive time was lost handling paperwork and compliance procedures to facilitate the interstate movement of goods (Source: Delhivery RHP, May'22). To avoid this, companies were compelled to maintain small warehouses in each state, pushing up demand for intrastate logistics which is primarily short haul and highly dependent on road transport. This demand wasn't scalable and hence the market fragmented into a large number of unorganised small players – forming the crux of India's inefficient modal mix.

64% of India's freight transport uses roads – 2x more expensive than rail

According to a 2021 report titled 'Fast-tracking Freight in India' by government think tank Niti Aayog, 71% of India's freight transport uses roads which is more than twice as expensive as rail, especially over long distances (as of 2020). Lead times and carbon emissions are also higher. Per the report, the average lead distance (from origin to destination) of freight transport in India is ~550km, well above the EU (130km) and the US (~400km). Carbon emissions are 9x of rail or water routes. Having said that, road transport is necessary in select instances as it is suitable for movement over shorter distances and for first- and last-mile connectivity.

The rail (18% share in freight) and water modes (5% share) have a similar cost of transportation. The extent of their use depends upon the policies and geography of a country. For instance, water routes are more suitable for Europe where the coastal length to landmass ratio is high. Rail transport is better suited for India as it has a low coast to landmass ratio, as in the US. However, unlike India, the US has railroads almost entirely dedicated to freight.

Creaky road infrastructure

Road infrastructure in India is relatively underdeveloped and exhibits a large disparity between states. As a result, Indian trucks travel only 325km per day compared to the global average of 500km for BRICS nations and 700-800km for Europe/US, according to Niti Aayog. Short-distance travel on poor roads increases the cost of maintenance and diminishes fuel efficiency. India also has a high proportion of empty runs at ~35% as compared to 20-25% for Europe/US. In addition, trucks in India are usually overloaded, which makes transportation more hazardous.

All these factors increase the cost of ownership for fleet owners. As a result, old and low-capacity trucks make up a majority of the fleet. Markets are also highly fragmented, with the think tank estimating that 75% of fleet owners own less than five trucks. Small operators are unable to invest in technology that can optimise driving patterns, or upgrade vehicles.

Overburdened rail capacity

In India, the share of rail in freight has been steadily decreasing since 1951 and stood at just 18% as of 2020. Rail in India has an imbalanced capacity distribution with 60% of revenue-earning freight traffic using only 16% of the rail route network, per Dedicated Freight Corridor Corporation of India (DFCCIL). Two-thirds of the Indian railway line is already overutilised as passenger and freight trains share the same tracks. In addition, passenger trains are often given priority which increases the lead time for freight and reduces transport reliability. Train services are also hampered by low capacity and low speeds, besides lacking arrangements to aggregate and move small loads.

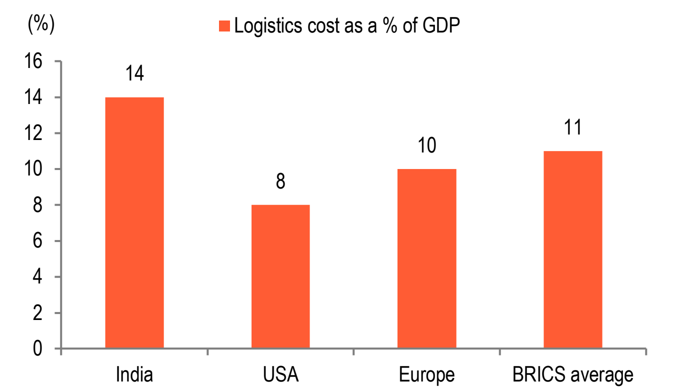
Unfavourable intermodal mix and inefficient spends

Top 10 logistics companies account for just 1.5% market share, impeding sector upgrades

India's weak intermodal mix skewed towards road transport has kept logistics spending elevated. Current spending is also highly inefficient. Indirect spending on logistics forms up to 46% of India's total spends on the sector vs. 31% in China and just 8.2% in the US. Slow turnaround and high inventory cost have contributed the most to indirect costs.

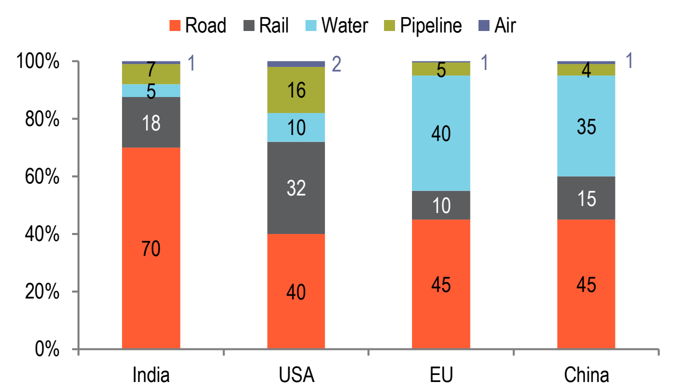
Inefficient spends also stem from a vastly fragmented market where the top 10 organised players account for just 1.5% share vs. 7-10% in China and 15% in the US. These are the incumbents with the resources to lead infrastructure upgrades, technological advancements and innovation in the industry. Large logistics companies in the US and China are 20-30x and 10x the size of Indian companies respectively, with country GDP at just 8x and 5x (Delhivery RHP).

Fig 10 – India's logistics cost high…



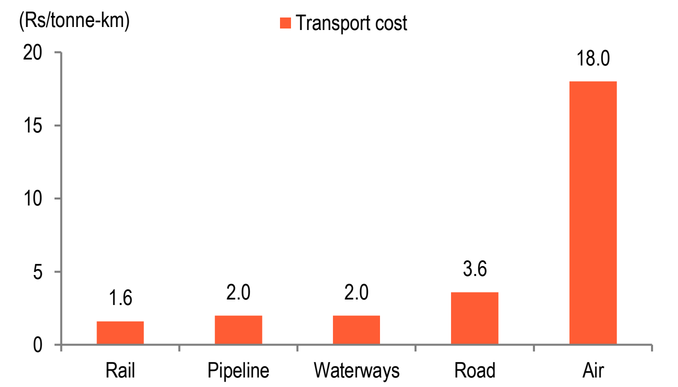
Source: Niti Aayog, RMI, BOBCAPS Research

Fig 11 – …led by an inefficient modal mix, 2020



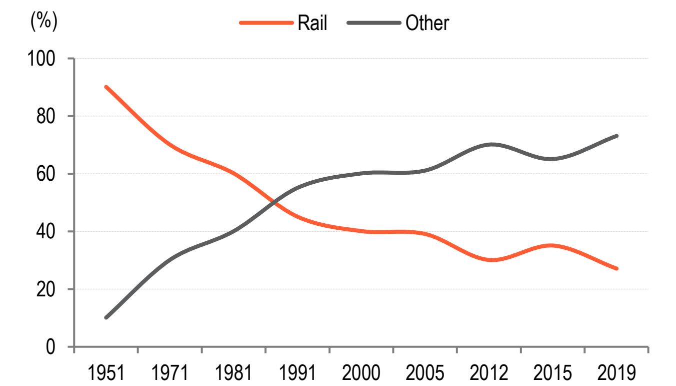
Source: Niti Aayog, RMI, BOBCAPS Research

Fig 12 – Road transport more expensive, 2020



Source: Niti Aayog, RMI, BOBCAPS Research

Fig 13 – Share of rail in India freight decreasing steadily



Source: Niti Aayog, RMI, KPMG, National Rail Plan, BOBCAPS Research

Slow turnaround, high inventory cost and fragmented market behind India's high indirect spends

Fig 14 – Logistics market in China, India and the US

Parameter	US	China	India
GDP	US$ 21tn	US$ 14.7tn	US$ 2.7tn
Logistics market spend	US$ 1.6tn	US$ 2.2tn	US$ 390bn
Total logistics spend as a % of GDP	~8	~15	~14
Direct spends as % of GDP	~7	~10	~8
Indirect spends as % of GDP	~1	~5	~6
Per capita logistics spend	~US$ 4,860	~US$ 1,540	~US$ 280
Per capita direct logistics spend	~US$ 4,460	~US$ 1,050	~US$ 150
Per capita indirect logistics spend	~US$ 400	~US$ 490	~US$ 130
Share of top 10 organised players (%)	~15	7-10	~1.5
Average size of warehouse (sq ft)	100-200k	20-50k	8-12k
Average size of truck (ft)	48	45	24-32
Average daily distance travelled by trucks (km)	500+	423	325

Source: Delhivery RHP, BOBCAPS Research

Government initiatives to strengthen the sector

In a bid to strengthen India's logistics sector, the government has initiated key policy reforms in recent years, such as GST, infrastructure status, LEEP, National Logistics Policy and Gati Shakti. While improvements are already visible, we expect these measures to further pave the way for enhanced logistical efficiencies, cost reductions, technological upgrades and a better modal mix.

GST has considerably debottlenecked the interstate movement of goods

- **GST:** The implementation of GST in Jul'17 has removed major bottlenecks to the interstate movement of goods, substantially boosted logistical efficiency and reduced transportation cost. Post GST, the industry is moving towards consolidation of transport operations and warehousing, in turn fuelling the outsourcing of logistics operations, especially to organised, pan-India players.
- **Infrastructure status and LEADS:** In Nov'17, the government awarded the logistics sector infrastructure status which allows for better credit availability at easier terms, larger funding limits, increased loan amounts and longer loan tenures. At around the same time, it added a logistics division to the Department of Commerce to bring in inter-ministerial coordination and expedite the logistics

development process by way of policy changes, streamlining existing procedures, identifying bottlenecks and gaps, and introducing technology in the sector.

In 2018, the government launched a Logistics Ease Across Different States (LEADS) survey, which assesses the viewpoints of various users and stakeholders across the value chain (shippers, terminal infrastructure service providers, logistics service providers, transporters and government agencies) to understand the enablers and impediments to India's logistics ecosystem. It encourages states to establish institutional mechanisms to facilitates ease of logistics access via coordination with private players and amongst themselves.

- **Gati Shakti:** To improve coordination amongst infrastructure projects, expedite execution and reduce costs, the government of India launched the PM Gati Shakti scheme in Nov'21 as a national master plan for multimodal connectivity to economic zones. The master plan will integrate 16 ministries in a joint committee to oversee investments of Rs 100tn budgeted by the government toward the scheme.

- **National Logistics Policy:** In Sep'22, the government launched the National Logistics Policy (backed by Gati Shakti) as a comprehensive measure to further improve sector productivity by:

India's logistics policy aims to cut costs from the current 14% of GDP to 8-10%

  - integrating multiple stakeholders at the national and state level,
  - developing multimodal logistics parks (MMLP),
  - modernising warehousing using technology,
  - promoting the start-up ecosystem,
  - bringing in a transparent regime for freight charges,
  - improving trucking and road transport,
  - attracting freight for railways, and
  - promoting other means of transport.

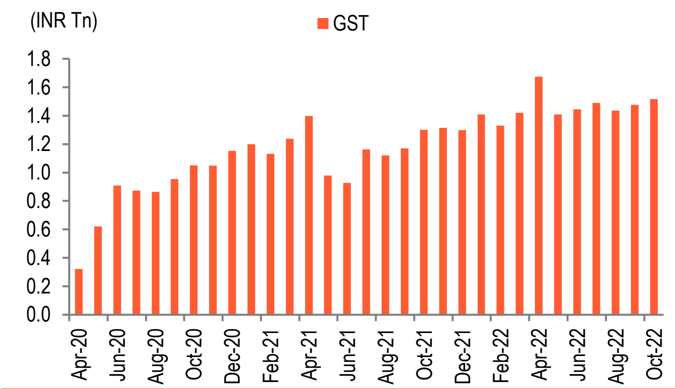
The government's overarching target is to draw down logistics cost from the current 14% of GDP to 8-10%, with the cuts equally distributed between transportation and inventory cost. This will help streamline the sector and consequently boost job creation, exports, ease of doing business and capital flows into the country.

Fig 15 – Major logistics-related infrastructure projects in India

Project	Description	Targets under PM Gati Shakti
Dedicated freight corridors (DFC)	▪ A network of broad-gauge railway lines dedicated to freight which is aimed at reducing congestion and improving the reliability of railway freight	▪ Decongestion of Indian Railways by 51% by 2024-25 via the completion of critical projects ▪ Increase in cargo handled by Indian Railways to 1,600mn tonnes from 1,210mt in 2020 ▪ Completion of western and eastern DFCs
Sagarmala	▪ Aims to reduce logistics cost for export-import and domestic trade with minimal infrastructure investment	▪ Increase in cargo capacity at ports to 1,759mmtpa by 2024-25 from 1,282mmtpa in 2020 ▪ Increase cargo movement on all national waterways to 95mmt by 2024-25 from 74mmt in 2020
Bharatmala	▪ Focused on enhancing effectiveness of already-built infrastructure, multimodal integration, bridging infrastructure gaps for seamless movement, and integrating national and economic corridors	▪ Achieve 200,000km of national highway network by 2024-25 ▪ Ensure completion of 5,590km of four- & six-lane national highways along coastal areas by 2024-25
UDAN	▪ Regional airport development programme of the government of India and part of the Regional Connectivity Scheme to upgrade under-serviced air routes	▪ Expand civil aviation footprint globally through the development of 220 airports, heliports and water aerodromes by 2026, with 1,000 routes to provide air connectivity to unconnected destinations in the country
Jal Marg Vikas Project	▪ Aims to enhance transport efficiency and reliability of National Waterway-1 and augment institutional capacity for the development and management of India's inland waterway transport system in an environmentally sustainable manner	▪ NA – Not covered under Gati Shakti

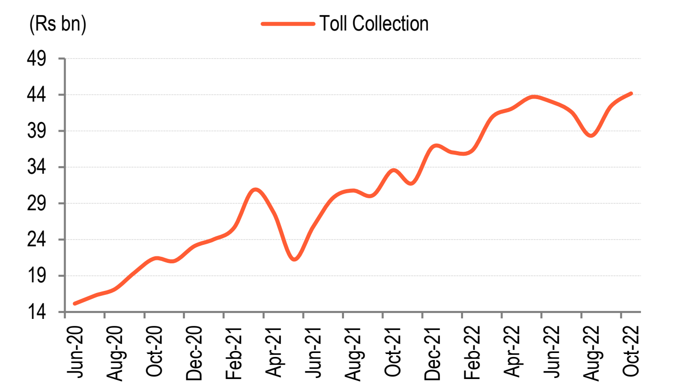
Source: Niti Aayog, PM Gati Shakti, BOBCAPS Research | National Waterway-1: The 1,620km Ganga-Bhagirathi-Hooghly river system between Haldia (West Bengal) and Prayagraj (Uttar Pradesh)

Fig 16 – GST collections continue to scale up



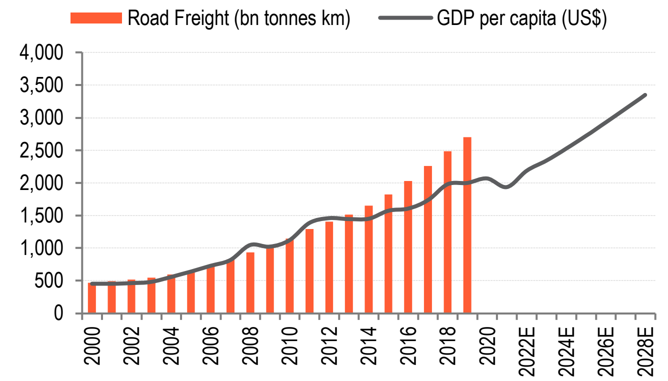
Source: National Rail Plan, BOBCAPS Research

Fig 17 – Road toll collection on the rise



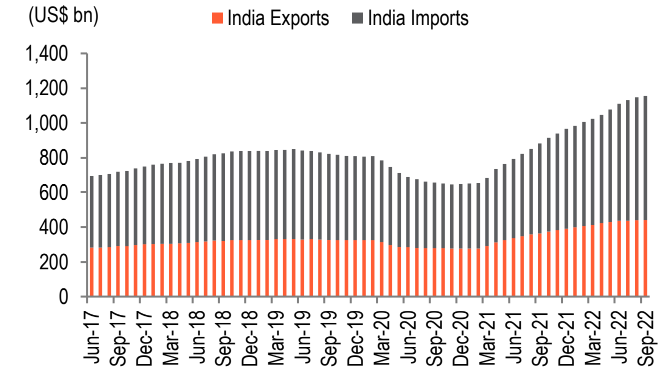
Source: RBI, BOBCAPS Research

Fig 18 – Freight movement now rising faster than GDP



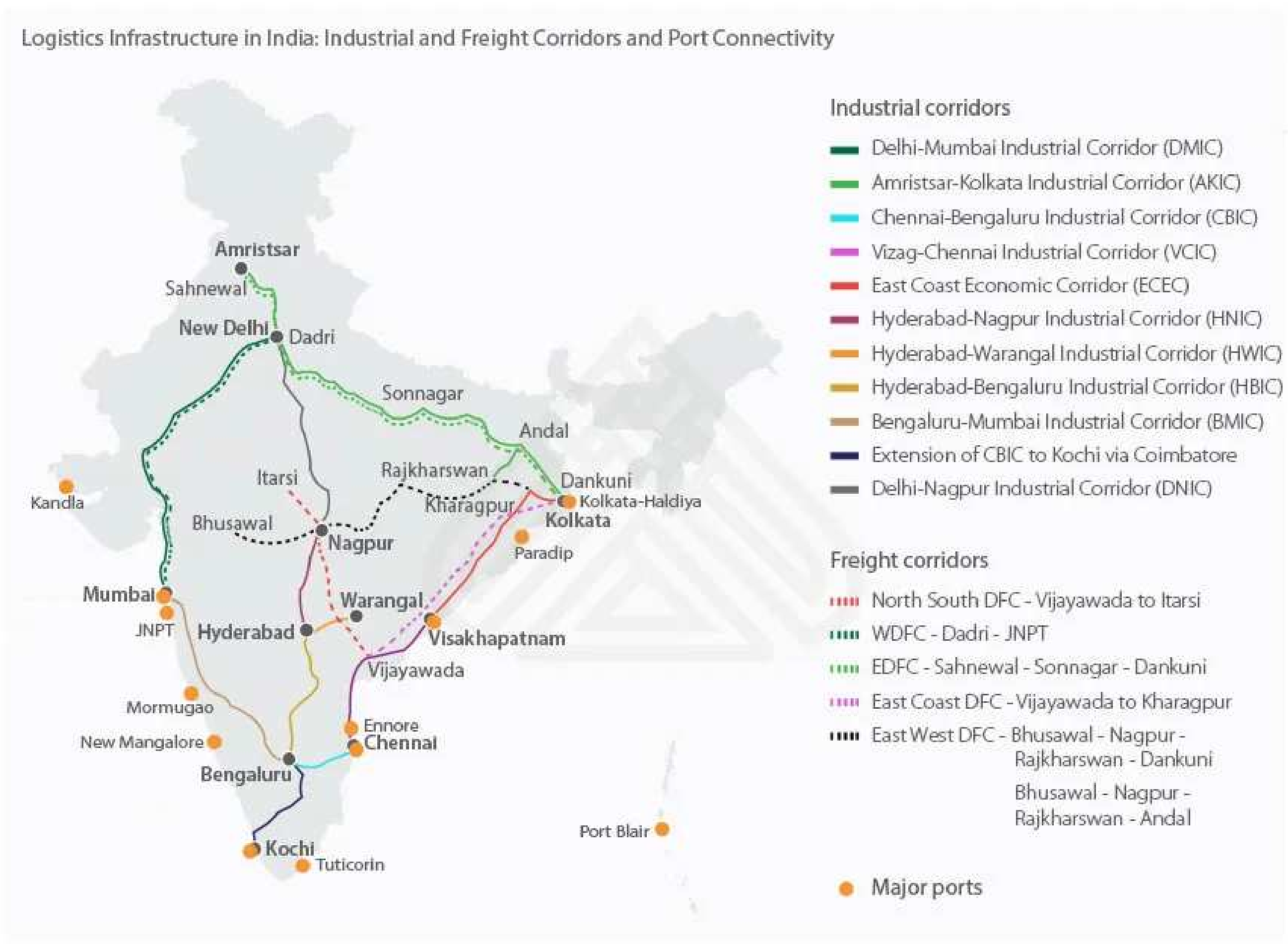
Source: Road Transport Yearbook 2018-19, BOBCAPS Research

Fig 19 – Export-import trade in India at all-time high



Source: Bloomberg, BOBCAPS Research

Fig 20 – Logistics infrastructure in India



Source: India Briefing, BOBCAPS Research

Attractive growth prospects

US$ 216bn logistics market forecast to grow at 9%

Logistics currently accounts for 14% of India's GDP and has a total addressable market of US$ 390bn (direct and indirect spends). Of this, the direct logistics market totals ~US$ 216bn, which RedSeer estimates will grow to US$ 365bn by FY26, a 9.1% CAGR. The market is divided into transportation (70%) and warehousing (30%).

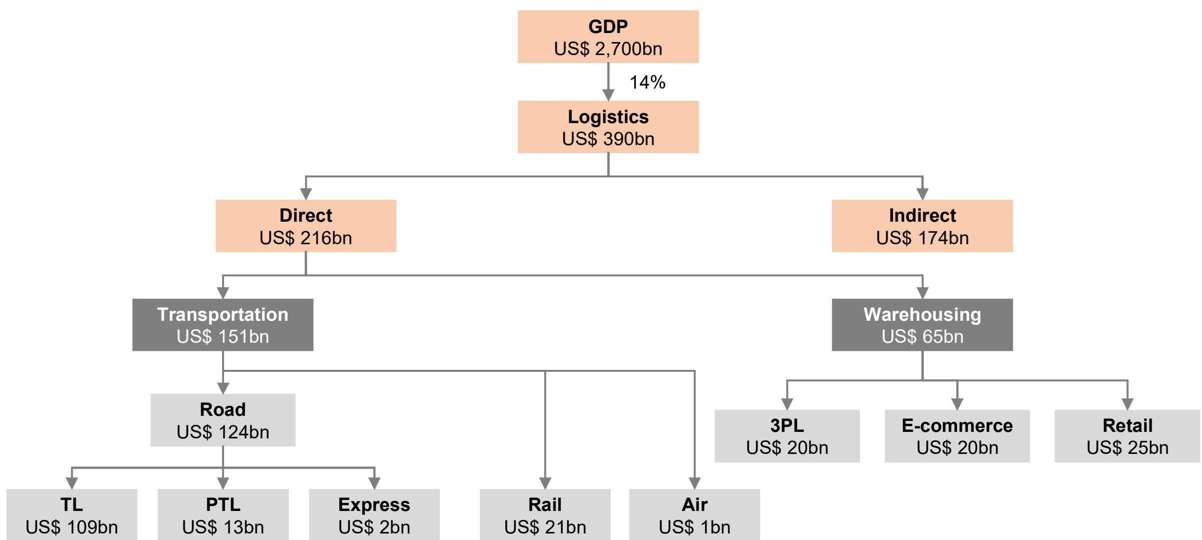
Road transport – the biggest logistics segment – set to grow at 8% led by PTL and express

Road is by far the biggest segment in transportation with 82% market share by revenue. Rail accounts for 14% and the balance is distributed amongst air, water, and pipelines. Road transportation is expected to log an 8.3% CAGR through to FY26. Within this, the share of the FTL (full truck load) segment is forecast to decline from 88% to 82%. Instead, RedSeer foresees higher demand for PTL (part truck load) and express parcel shipments, which are projected to grow at 12% and 30% respectively on the back of efficient supply chain management, the internet economy, rising direct-to-consumer models, lower costs and e-commerce.

We expect rail transport to rise substantially in the logistics mix given that the government's National Rail Plan aims to increase the share of railways in freight volume to 44% by 2050 from 25% in 2020. This will be achieved by large-scale infrastructure improvements such as dedicated freight corridors and multimodal logistics parks intended to make rail fast, reliable and efficient.

In the warehousing space, an unfavourable pre-GST tax structure translated to under-penetration in the Indian market. However, with the advent of GST, companies are looking to consolidate smaller warehouses in different states in favour of large-scale, technology-enabled warehouses for efficient supply chain operations. This is also lending an impetus to 3PL operations where the entire logistics function of a business is outsourced to a third party for better reach, scale and efficiency.

Fig 21 – India's logistics market size by direct logistics spends, FY20



Source: Delhivery RHP, RedSeer Research, BOBCAPS Research

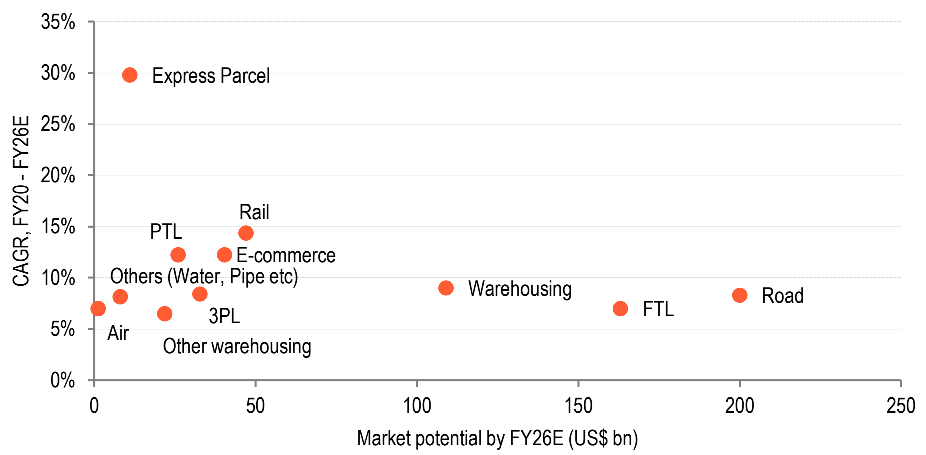
Fig 22 – Logistics market opportunity and strengths (on a scale of 1 to 5; 1 being the most favourable)

Segment	Market size in FY20 (US$ bn)	Potential by FY26E (US$ bn)	CAGR (%)	Product mix	Entry barriers	Customer Stickiness	Capital Intensity	Ability to fend off external risks	Premium -isation
Road	**124**	**200**	**8**		Moderate	Moderate	Moderate	Low	Moderate
FTL	109	163	7	FMCG, agriculture, raw materials, automotive and spare parts, manufacturing, retail, pharmaceuticals	Low	Low	Moderate	Very low	Low
PTL	13	26	12	Oil and gas, food and beverage, construction	High	High	Moderate	Low	Moderate
Express Parcel	2	11	30	D2C parcels, social commerce, e-commerce, durables	High	Moderate	Low	High	Very high
Warehousing and Supply Chain Services	**65**	**109**	**9**		High	High	Low	High	High
3PL	20	33	8	Inbound and (or) outbound logistics management of automotive, e-commerce, retail, pharmaceuticals, etc.	Very high	Very high	Very low	Very high	Very high
E-commerce	20	40	12	E-commerce shipments using Grade A warehouses	High	High	Moderate	Moderate	High
Others	15	22	6	Storage, EXIM load and traditional warehousing	Low	Moderate	Moderate	Moderate	Moderate
Rail	**21**	**47**	**14**	Coal, iron ore, cement	Very high	Moderate	High	Very low	Low
Air	**1**	**1**	**7**	High value/timebound shipments in healthcare and electronics, documents	Very high	Moderate	High	Moderate	Very high
Others	**5**	**8**	**8**	Petroleum, coal, iron ore	High	High	High	Low	Low

Source: TVS Supply Chain Solutions DRHP, Pristine Logistics and Infraprojects DRHP, Delivery RHP, BOBCAPS Research | FTL: Full Truck Load, PTL: Part Truck Load, 3PL: Third-Party Logistics, EXIM: Export-Import

Very high High Moderate Low Very low

Fig 23 – Market potential vs. Growth expected by FY26E (domestic market)



Source: TVS Supply Chain Solutions DRHP, Pristine Logistics and Infraprojects DRHP, Delivery RHP, BOBCAPS Research

Fig 24 – Key operating segments* for logistics players

Companies	Transportation					Storage		Aggregators/ Service providers	
	Road (FTL & PTL)	Container rail	Coastal shipping/inland waterways	Surface express	Air express	Warehousing	CFS/ICD	3PL/Contract logistics	NVOCC/ Freight forwarding
CCRI		✓					✓		
DELHIVER				✓				✓	
BDE				✓	✓				
TCIEXP				✓	✓				
AGLL			✓			✓	✓	✓	✓
MAHLOG								✓	✓
VRLL	✓								
TRPC	✓		✓					✓	
GRFL		✓				✓	✓		

Source: Industry data, BOBCAPS Research | *We have considered only major operating segments/focus areas for companies | CFS: Container Freight Station, ICD: Inland Container Depot, NVOCC: Non-Vessel Owning Common Carrier

Fig 25 – Revenue contribution from operating segments, FY22

Company (%)	Rail Freight	Road Freight	Air Freight	Coastal	Warehousing and SCM	Other	Market opportunity
CCRI	73	3	-	-	2	21	Modal shift from Road to Rail using DFC
DELHIVER	-	85	-	-	8	5	E-Commerce will drive express parcel and Supply chain
BDE	-	22	67	-	-	11	E-Commerce will drive express parcel
TCIEXP	-	100	-	-	-	-	Diversified, new services will contribute more
AGLL	-	7	-	85	8	-	Demerger to unlock value
MAHLOG	-	73	-	-	23	4	E-commerce will drive 3PL; growth in Auto positive
VRLL	-	89	-	-	-	11	Asset ownership and aggressive CAPEX plans
TRPC	-	42	-	16	31	11	Diverse portfolio and aggressive CAPEX plans
GRFL	75	-	-	-	25	-	Modal shift from Road to Rail using DFC

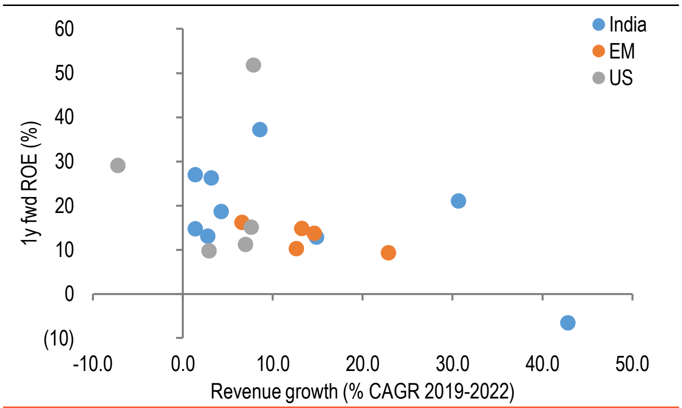
Source: BOBCAPS Research | SCM: Supply Chain Management

Fig 26 – Global logistics companies: Key operating metrics, 1Y forward

Ticker	Company	Revenue growth (%)	EBITDA growth (%)	EPS growth (%)	ROE (%)	P/E (x)	EV/EBITDA (x)	Net Debt to EBITDA (x)
CCRI IN	Container Corp	2.8	(0.6)	(3.7)	13.07	30	19	(1.2)
DELHIVER IN	Delhivery	42.8	NM	NM	(6.48)	NM	118	NM
BDE IN	Blue Dart Express	8.6	35.9	43.6	37.21	35	16	0.7
TCIEXP IN	TCI Express	1.4	10.5	15.3	27.00	40	28	(0.6)
AGLL IN	Allcargo Logistics	30.7	37.3	39.9	21.11	11	8	0.8
MAHLOG IN	Mahindra Logistics	1.4	6.9	(18.9)	14.80	36	12	0.8
VRLL IN	VRL Logistics	3.2	13.4	14.9	26.26	23	10	1.3
TRPC IN	Transport Corp	4.3	13.1	19.0	18.68	14	11	0.0
GRFL IN	Gateway Distriparks	14.9	23.2	28.1	12.92	16	9	1.2
Median		**4.3**	**13.3**	**17.2**	**18.7**	**26.6**	**12.0**	**0.7**
EM								
ZTO US	ZTO Express - ADR	14.6	10.9	2.1	13.75	15	8	(0.8)
086280 KS	Hyundai Glovis	6.6	14.8	15.7	16.26	6	4	0.3
598 HK	Sinotrans-H	12.6	8.0	8.3	10.27	4	5	NA
002352 CH	S F Holding Co-A	22.9	23.0	(1.6)	9.37	30	11	NA
600233 CH	YTO Express Gr-A	13.2	12.8	2.5	14.83	16	8	NA
Median		**13.2**	**12.8**	**2.5**	**13.8**	**15.1**	**8.0**	**(0.2)**
US								
FDX US	Fedex Corp	7.6	14.2	63.2	15.10	10.4	6	3.1
UPS US	United Parcel-B	7.9	15.6	28.1	51.87	13.9	10	0.7
XPO US	XPO Logistics	(7.2)	(1.7)	(5.5)	29.11	7.7	5	1.9
GXO US	GXO Logistic	7.0	29.7	21.6	11.22	15.4	9	3.4
KNX US	Knight-Swift Transportation	2.9	12.3	15.4	9.79	12.0	6	0.9
Median		**7.0**	**14.2**	**21.6**	**15.1**	**12.0**	**6.3**	**1.9**

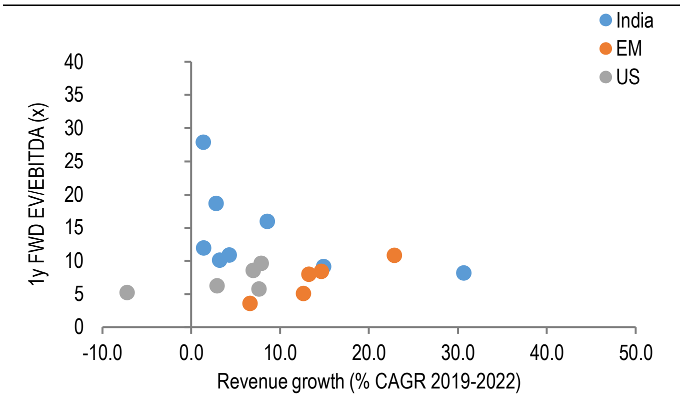
Source: Bloomberg, BOBCAPS Research

Fig 27 – Logistics stocks: Growth vs. ROE



Source: Bloomberg, BOBCAPS Research

Fig 28 – Logistics stocks: Growth vs. Valuations



Source: Bloomberg, BOBCAPS Research

Road transport – 8% CAGR by FY26E

Indian road logistics market to grow at 8% by FY26E, with express delivery rising at 29%

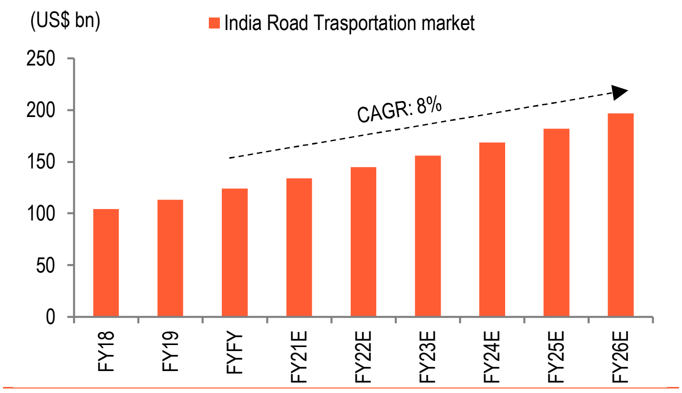
India has one of the largest road networks in the world, transporting over 64% of its freight traffic and 90% of passenger traffic. The country's national highways cover 150,000km, and 70-80% of freight movement consists of short-to-medium haulage. India's road logistics market, which is dominated by FTL and PTL, is forecast to grow at an 8.3% CAGR to ~US$ 200bn by FY26. The boom in e-commerce and hyperlocal delivery has also created an express parcel delivery segment (~2% of the road logistics market), which is estimated will clock a 30% CAGR till FY26 and garner 5% market share (Fig 22).

- **Full truck load (FTL):** FTL is the largest segment of the road logistics market and refers to the hiring of one full truck (10,000kg) to carry one dedicated shipment. According to the Delhivery RHP, the market for direct FTL spends is projected to rise from US$ 109bn in FY20 to US$ 163bn by FY26, a CAGR of 7% which is less than the logistics industry. Within this, the share of organised players is estimated to rise from the current 1% to 3%.
- **Part truck load (PTL):** PTL refers to a shipping mode where an operator consolidates and deconsolidates relatively smaller loads (typically 10kg to 2,000kg) from a network of pickup and delivery points onto a terminal. Typically, these goods travel in a similar direction or the route is optimised using technology. The PTL market is estimated at US$ 13bn with a 13% CAGR expected over FY20-26. Organised players typically have a higher share in PTL where delivery time is quicker. Time-insensitive delivery typically goes to the unorganised sector. Organised players are forecast to triple market share in PTL from the current 11% to 33% by FY26, with their express PTL share rising to 70% (Fig 22).
- **Express parcel:** This refers to a parcel weighing less than 40kg. Rising customer preference for speedy delivery and the e-commerce boom in India are propelling growth in the express parcel segment. Although forming just 2% of overall logistics expenditure in India, this segment is expected to grow at 28-32% through to FY26, in line with the anticipated growth in e-commerce volumes, per the Delhivery RHP.
- **Intracity logistics:** Over the last few years, consumption patterns have undergone a sea change. Consumers are not only shopping for durables and fashion-related products online but also buying food, groceries and gifts from app-based aggregators. Delivery wait time for these products is in the range of a few minutes to a few hours, fuelling the advancement of intracity logistics.

  Intracity logistics could become a US$ 50bn market by FY26

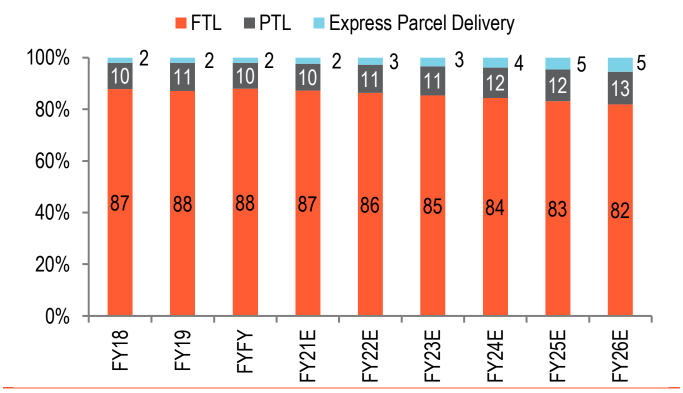
  According to consulting firm Redseer, intracity logistics currently accounts for 13% of road logistics in India. Fast-moving consumer goods (FMCG) and e-commerce volumes form 70% of the market, with the total addressable market for non-inhouse logistics operations estimated at close to US$ 20bn. Given booming e-commerce shipments and the growing use of technology to shrink delivery times, the scope for intracity logistics is increasing and Redseer believes it could become a total addressable market of US$ 50bn market by FY26.

Fig 29 – Road logistics market set to grow at 8%



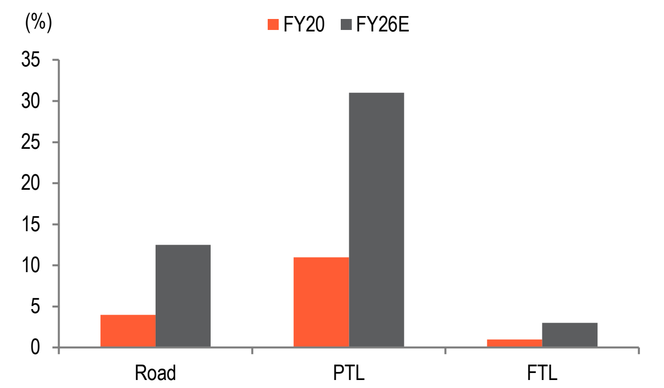
Source: Delhivery RHP, BOBCAPS Research

Fig 30 – PTL and express delivery to rise faster…



Source: Delhivery RHP, BOBCAPS Research

Fig 31 – …increasing the share of organised players

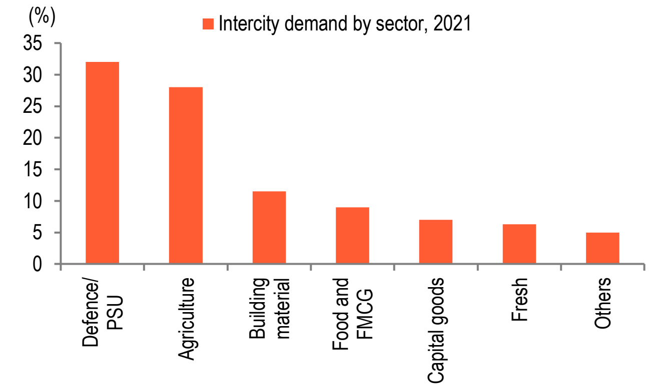


Source: Delhivery RHP, BOBCAPS Research

Fig 32 – E-commerce shipments to fuel express market

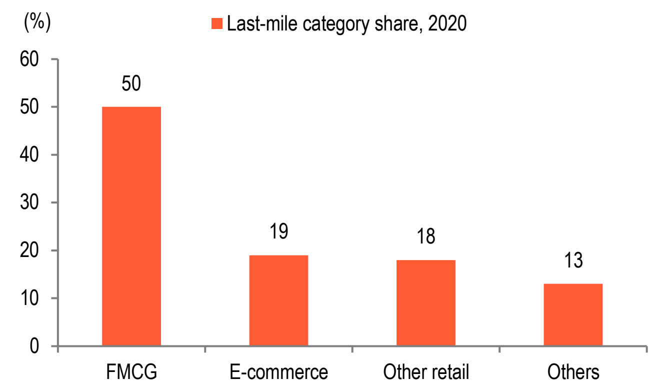
Source: Delhivery RHP, BOBCAPS Research

Fig 33 – Intercity demand is driven by defense and agriculture…



Source: Redseer, BOBCAPS Research

Fig 34 – …while last mile logistics demand is dominated by FMCG and e-commerce



Source: Redseer, BOBCAPS Research

Rail transport – Mega ramp-up ahead

India's domestic rail transport market expected to clock 17% CAGR to US$ 47bn by FY26

India's US$ 21bn domestic rail transportation market is expected to clock a 14% CAGR to US$ 47bn by FY26 (Source: Delhivery RHP). Traditionally, rail is a cost-effective, time-efficient and low-polluting means of transport. The Indian government is committed to increasing the share of rail in freight movement from the current 25% to 44% by 2050. Construction of dedicated freight corridors and multimodal logistics parks will be the key enablers to shifting freight movement from road to rail. Additionally, industry trends such as containerisation, double stacking, rising export-import (EXIM) trade, and high oil prices will accelerate the push towards rail.

- **Dedicated freight corridor (DFC):** The rail route along India's golden quadrilateral national highway network and its two diagonals constitutes just 16% of the total route length. However, rail carries 52% of the passenger traffic and 58% of revenue-earning freight traffic on this route. Further, the eastern and western corridors are operating at 115-150% capacity utilisation.

  Freight contributes ~76% of the Indian Railways' revenue and the tariff is one of the highest in the world. Although freight is a key source of revenue, passenger trains along busier routes take precedence, making rail a high-cost and less reliable means of transport. Hence, the government proposes to build dedicated railway lines for freight movement along busy routes. Howrah-Delhi and Mumbai-Delhi represent high-demand freight traffic corridors and will be the first to receive DFCs (scheduled for completion by Dec'24).

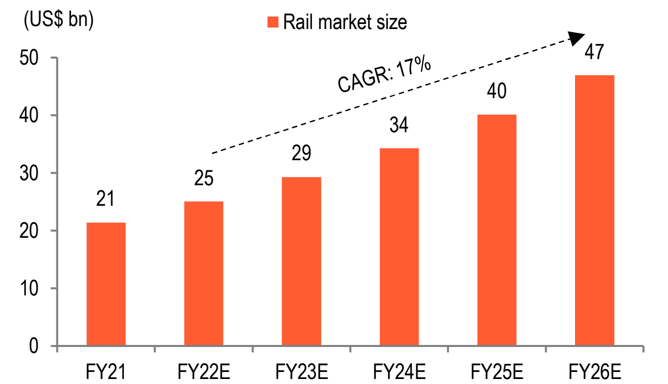
- **Multimodal logistics parks (MMLP):** The government proposes to develop 35 MMLPs at strategic locations accounting for 50% of India's road freight. MMLPs are intended to support seamless movement by contributing to freight aggregation and distribution, multimodal transport, integrated storage and warehousing, technology and other value-added services. They will also encourage the hub-and-spoke model over point-to-point movement, which implies the use of railways for long-haul freight movement and road for short hauls.

- **Containerisation, double stacking and EXIM trade:** Containerisation (transporting freight by placing it in large containers) is increasing in the logistics industry as it helps hasten cargo movement, saves on inventory and packaging costs, increases automated handling, reduces freight rates, and cuts storage costs as containers are standardised for different modes of transportation. Non-bulk commodities accounting for 75% of road freight have scope for containerisation.

  Double stacking of trains will further decrease logistics cost and improve efficiency at ports by way of faster decongestion. As India moves towards becoming a self-reliant economy, EXIM trade is expected to move up. By increasing the share of rail, containerisation at major ports can be ramped up from 20-22% currently.

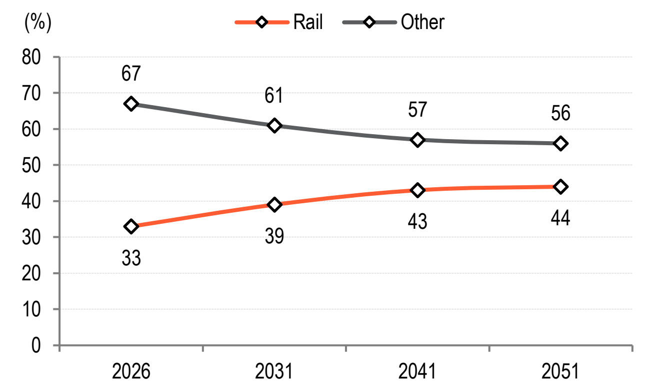
  In terms of cargo mix, the National Railway Plan estimates that by 2051, the share of coal in rail freight is likely to halve, while cement, POL (petroleum, oils and lubricants) and other non-bulk goods will rise. Overall volume is expected to triple from ~5,000mt in 2020 to ~15,000mt.

Fig 35 – Rail freight market to grow at 17%



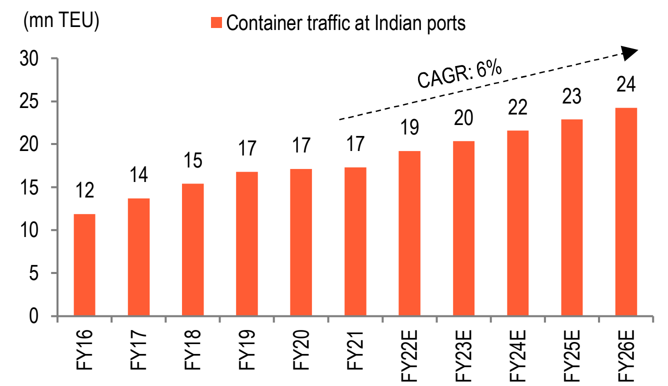
Source: Delhivery RHP, BOBCAPS Research

Fig 36 – Railways projected to be almost at par with road in freight transport mix by 2050



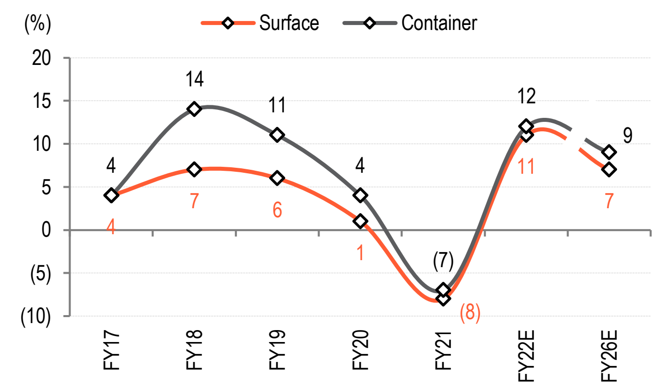
Source: National Rail Plan, BOBCAPS Research

Fig 37 – Container traffic at Indian ports rising



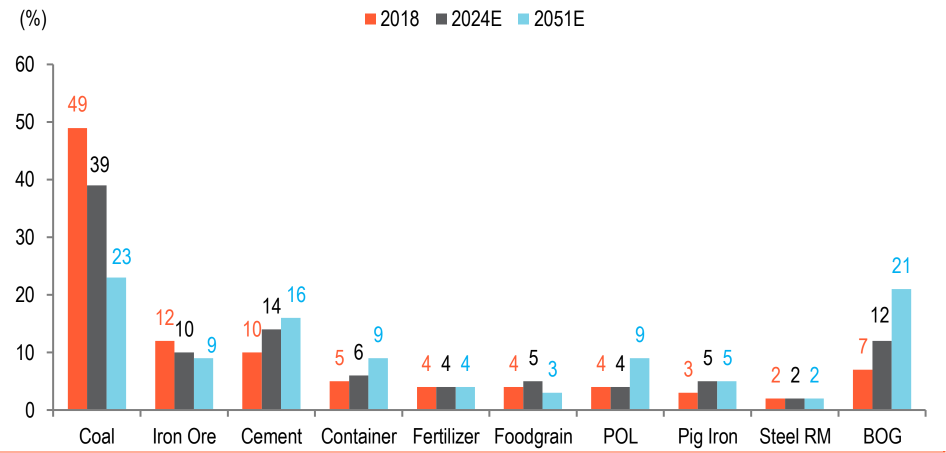
Source: Pristine Logistics DRHP, BOBCAPS Research

Fig 38 – Containerised and surface freight volumes move in line



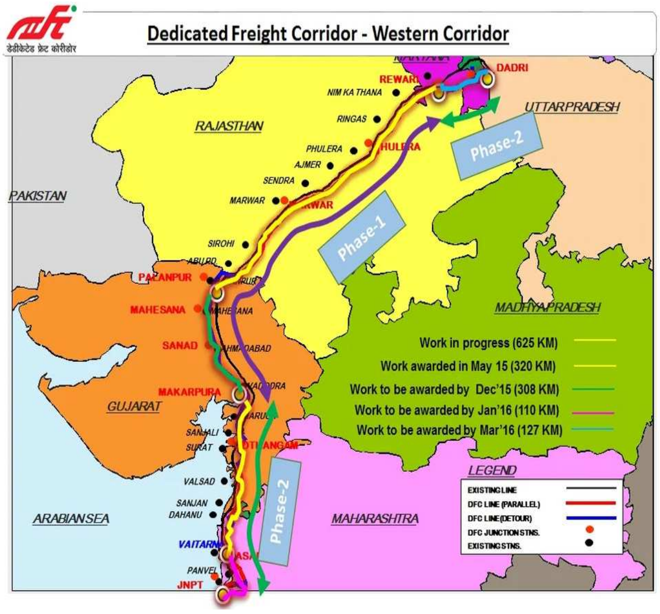
Source: Pristine Logistics DRHP, BOBCAPS Research

Fig 39 – Commodity-wise rail share projections



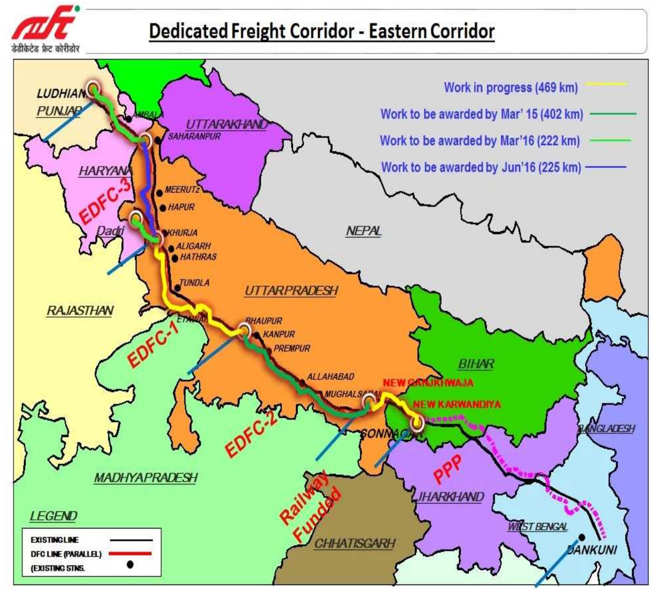
Source: National Rail Plan, BOBCAPS Research | POL: Petroleum, Oil and Lubricants, BOG: Balance of Other Goods

Fig 40 – Western DFC corridor



Source: DFCCIL, BOBCAPS Research

Fig 41 – Eastern DFC corridor



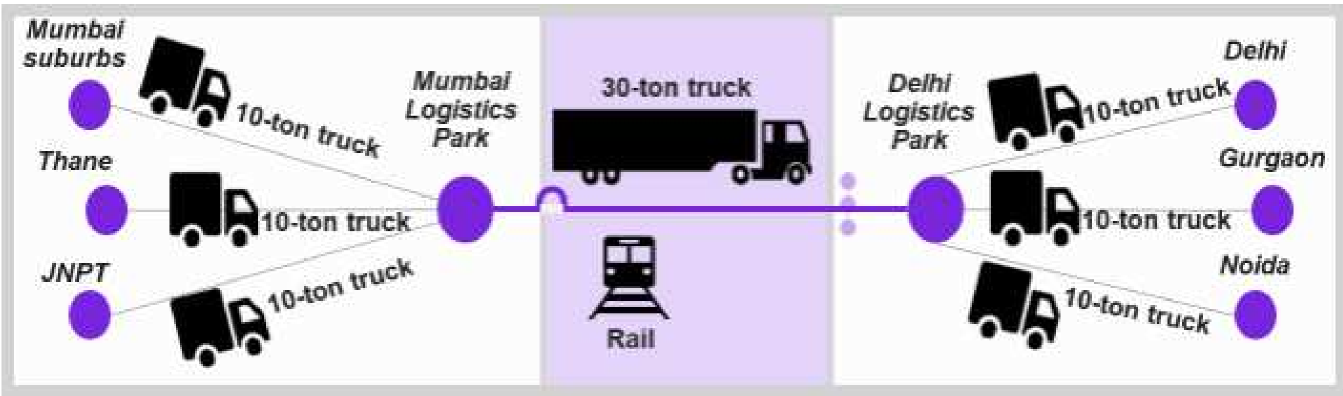
Source: DFCCIL, BOBCAPS Research

Fig 42 – Current status of DFC

Section/Packages	Route	Length (km)	Commissioning Target	Financial Progress
WDFC				
Rewari - Palanpur	Rewari - Madar	306	Commissioned	
	Madar - Palanpur	353	Commissioned	
	Palanpur - Mahesana	62	Completed	
Palanpur – Makarpura (Vadodara)	Mahesana - Sanand	93	Jun/Jul-22	
	Sanand-Makarpura	147.5	Jun/Dec-23	83%
Makarpura (Vadodara) – Sachin (Surat)		135	Jun-23	
Sachin (Surat) - Vaitarna		186	Jun-23	
Vaitarna - JNPT (Mumbai)		109	Mar/Dec-24	
Dadri - Rewari		127	Jun-23	
EDFC				
Bhaupur (Kanpur) - Khurja		351	Commissioned	
DDU - Sonnagar		137	Commissioned	
	Rooma - Sujatpur	130	Commissioned	
	Cheoki - Chunar	110	Sep-23	
Bhaupur (Kanpur) -DDU	Bhaupur-Rooma	50	Mar-23	86%
	Shujatpur-Chheoki	73	Dec-22	
	Chunar-DDU	39	Mar-23	
Khurja-Dadri		46	Oct-22	
Khurja – Pilkhani (Saharanpur)		222	Jun-23	
Pilkhani (Saharanpur) – Sahnewal (Ludhiana)		179	Jun-23	

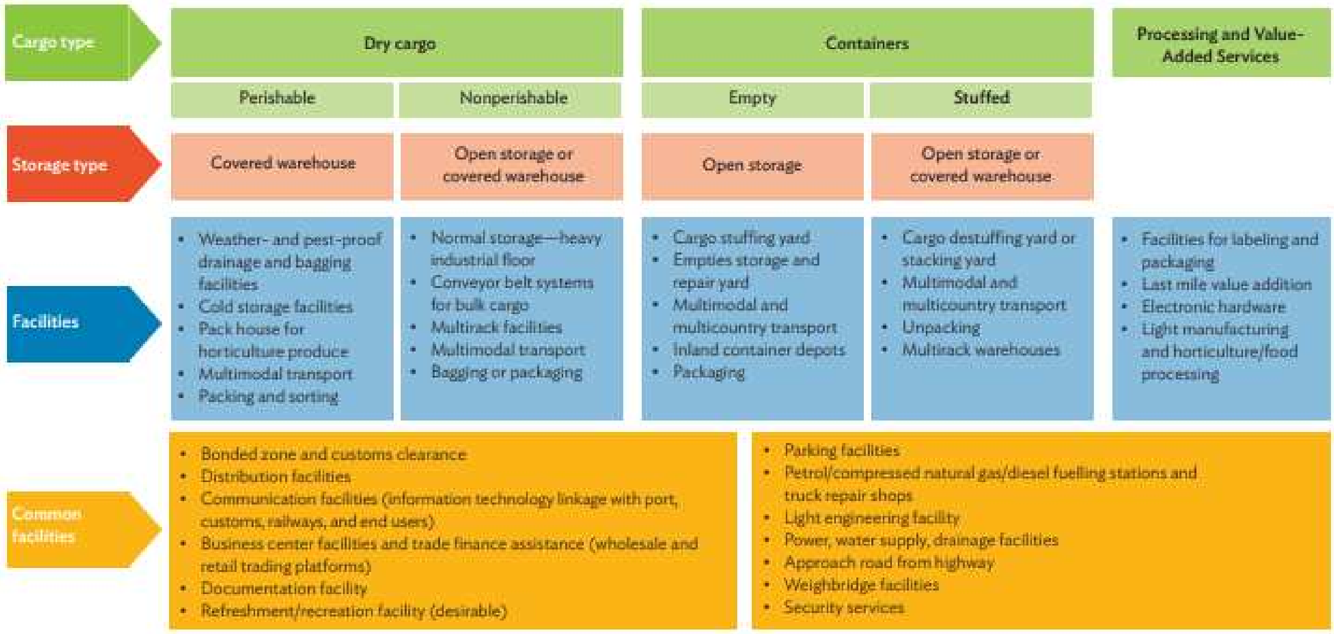
Source: DFCCL, BOBCAPS Research

Fig 43 – Connectivity through MMLPs



Source: Government publications, BOBCAPS Research

Fig 44 – Key MMLP facilities by cargo type



Source: Asian Development Bank, BOBCAPS Research

Warehousing and Supply chain services – 3PL to the fore

Companies increasingly looking to outsource logistics operations and focus on core competencies

Supply chain services refer to integrated solutions for warehousing, transportation and technology. These services cater to specific industry needs and sometimes to individual customers as well. Warehousing constitutes a bulk of the cost in supply chain services. However, this could change as companies are increasingly looking to outsource their entire logistics operations in order to focus on their core competency. This has created a large market for 3PL or third-party logistics services, wherein a third party is responsible for distribution, storage, transport and fulfilment.

The warehousing and supply chain services market is estimated at ~US$ 65bn (FY20) and expected to post a 9% CAGR to US$ 109bn by FY26. Consequently, organised players could grow from the current 2.5% of the industry to 12-13%. (Source: Delivery RHP)

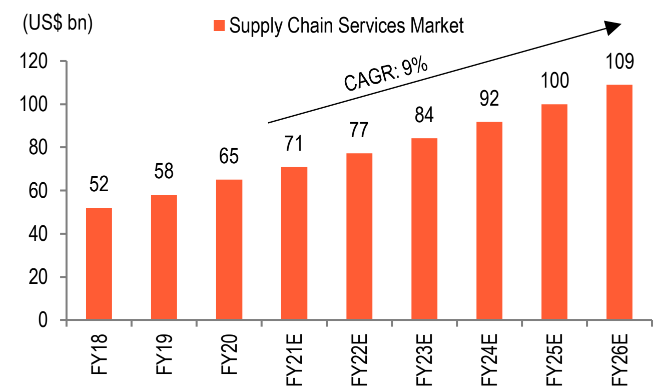
Demand for integrated supply chain solutions is currently led by the automotive industry which is ~30% of the market (Fig 42). However, its market share is expected to decline amid the surge in e-commerce and organised brick-and-mortar retail. According to Redseer, the number of shipments from the e-commerce industry is expected to rise 4x from 2bn in FY21 to 8-9bn by FY26. Hyperlocal deliveries such as food, pharmaceuticals, grocery, customer-to-customer (C2C) pick-and-drop, and other micro deliveries are likely to increase at a faster rate. The ratio of hyperlocal delivery to e-tailing is forecast to climb from the current one-third to half.

- **Warehousing:** As demand for integrated solutions grows, companies will look for more sophisticated warehouses with large spaces that allow for storage, facilitate efficient operations of the supply chain, and have state-of-the-art infrastructure with the latest technology and modern amenities. According to Knight Frank, India's per capita warehousing stock is just 0.02sq m, whereas China and the US are 40x and 54x of India whereas their per capita GDP is 4x and 25x respectively.

  Knight Frank expects e-commerce players along with 3PL service providers to manage 67% of warehousing real estate in India by FY26. Given the changing consumption patterns and government initiatives to promote digitalisation, the share of e-commerce in the Indian retail sector is expected to rise. India is still relatively underpenetrated with the e-commerce share in retail at just 4.3% vs. 15.9% for China and 19.2% for the UK (2019).

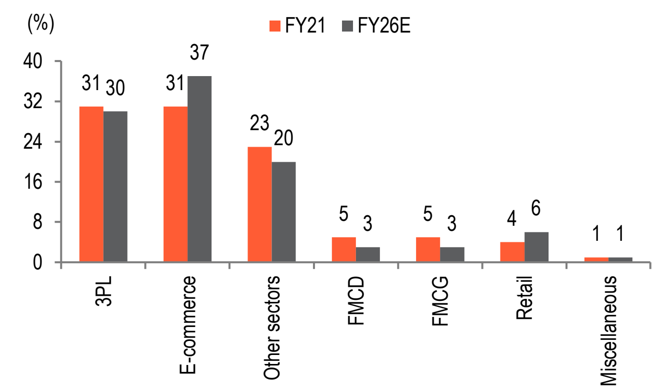
  Following the implementation of GST and reforms on ease of interstate movement of goods, a number of companies are increasingly consolidating smaller warehouses to derive benefits of scale. This increases their dependence on 3PL players even more as managing the supply chain through a large centralised warehouse demands broader expertise.

Fig 45 – Supply chain services market



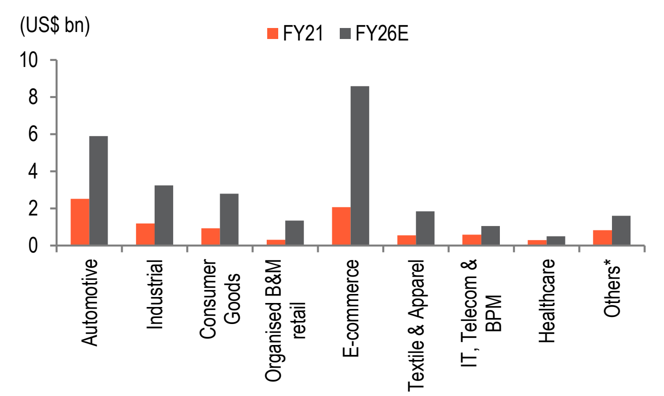
Source: Delhivery RHP, BOBCAPS Research

Fig 46 – Sector split of warehousing demand



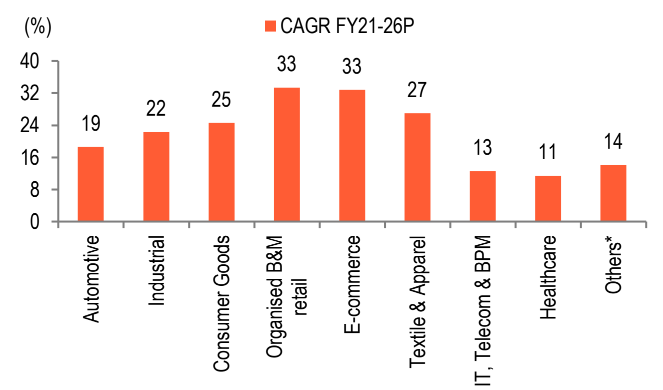
Source: Knight Frank Research, BOBCAPS Research | FMCD: Fast Moving Consumer Durables, FMCG: Fast Moving Consumer Goods | Note: Miscellaneous includes automobiles, electronics, pharmaceuticals, etc.

Fig 47 – Supply chain solutions market by sector



Source: TVS Supply Chain Solutions DRHP, RedSeer Analysis, BOBCAPS Research | B&M: Brick and Mortar, BPM: Business Process Management | *Others include Telecom, IT & BPM, Metals & Minerals, etc.

Fig 48 – Growth in supply chain solution solutions market



Source: TVS Supply Chain Solutions DRHP, RedSeer Analysis, BOBCAPS Research | B&M: Brick and Mortar, BPM: Business Process Management | *Others include Telecom, IT & BPM, Metals & Minerals, etc.

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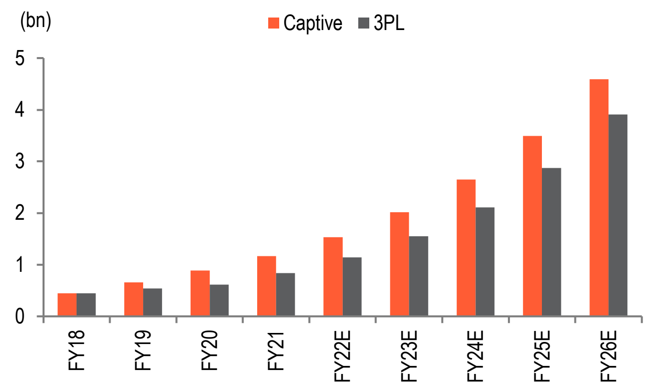
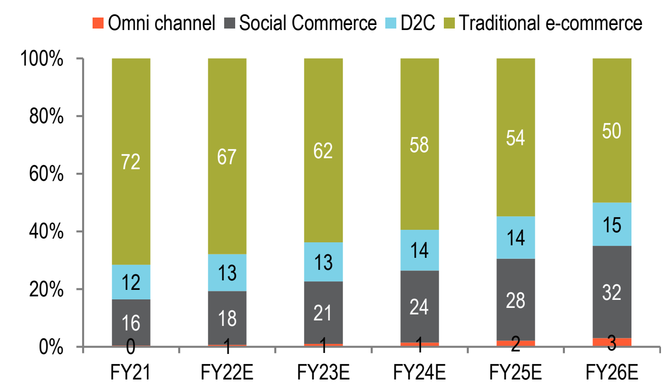
Fig 49 – E-commerce shipments set to grow rapidly



Source: Delhivery RHP, BOBCAPS Research

Fig 50 – 3PL e-commerce shipments by e-comm model



Source: Delhivery RHP, BOBCAPS Research

Companies

HOLD

TP: Rs 825 | ⮝ 13%

CONTAINER CORP OF INDIA | Logistics | 21 November 2022

Multimodal push a boon for rail freight; HOLD

- **Undisputed leadership in rail logistics (+70% share) and capex drive to aid above-industry growth for CCRI; expect 20% topline CAGR to FY25**
- **DFC, containerisation and policy-led multimodal transport push to open up sizeable growth opportunities in rail freight**
- **Recent 24% stock rally bakes in the positives; initiate with HOLD and a DCF-based TP of Rs 825**

Aseem Madan
research@bobcaps.in

Market leader in rail logistics: CCRI leads the rail container logistics segment in India with over 70% market share, supported by the largest network of 61 ICDs and CFSs among peers (across 59 terminals and 2 strategic tie-ups). Given phased commissioning of the DFC, the Indian Railway's focus on enhancing the share of rail in freight transport from less than a fourth at present, and the industry shift toward rail containerisation, we see a structural volume opportunity for CCRI and model for a 14% CAGR in tonnage over FY22-FY25 (vs. a 5.2% CAGR over FY13-FY22).

DFC, LLF, infrastructure development key positive triggers: The dedicated freight corridor, where commissioning has begun in parts, is expected to accelerate train speeds and enhance payloads, in turn boosting utilisation and shrinking per-tonne cost. Further, the government's emphasis on multimodal parks and the Gati Shakti master plan are likely to fuel efficiencies in the logistics sector. Lastly, a reasonable land licence (LLF) policy with long-term visibility on land-use charges (the government proposes an annual fee of 1.5% of land value payable by network operators to the Indian Railways vs. 6% earlier) will raise the company's appeal for privatisation and trigger a rerating.

Expanding across the value chain: CCRI is planning capex worth Rs 80bn-100bn over 3-4 years towards infrastructure, rolling stock, containers and equipment. These investments will complement a foray into new cargo types, expansion in domestic capabilities and the addition of new solutions such as end-to-end delivery, 3PL and domestic distribution. End-to-end connectivity, in particular, will augment business for the rail segment by overcoming the challenges of first- and last-mile delivery.

Positives in the price; initiate with HOLD: In our view, key policy initiatives in the logistics sector coupled with CCRI's capacity expansion drive and investments to diversify the business should support structural growth above the market average for the company. We model for a 14% CAGR in volumes over FY22-FY25, resulting in a 19.5%/28.4% revenue/PAT CAGR. However, the stock has moved up ~24% since end-Jun'22 and largely prices in the positives at current valuations of 27.9x 12M fwd P/E (in-line with 3Y mean) – we thus initiate coverage with HOLD. Our DCF-based TP of Rs 825 implies a P/E of 27.7x on FY24E.

Ticker/Price	CCRI IN/Rs 733
Market cap	US$ 5.5bn
Free float	45%
3M ADV	US$ 20.5mn
52wk high/low	Rs 829/Rs 554
Promoter/FPI/DII	55%/24%/18%

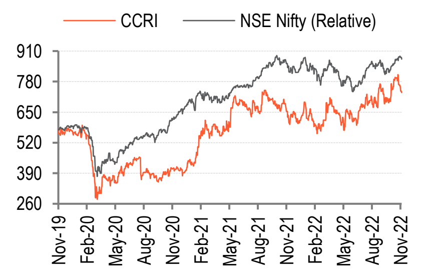
Source: NSE | Price as of 21 Nov 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	76,527	90,900	1,08,312
EBITDA (Rs mn)	17,473	21,503	27,284
Adj. net profit (Rs mn)	10,529	14,725	18,646
Adj. EPS (Rs)	17.3	23.5	29.8
Consensus EPS (Rs)	17.3	21.6	28.0
Adj. ROAE (%)	9.7	12.7	14.7
Adj. P/E (x)	42.4	31.3	24.6
EV/EBITDA (x)	25.2	20.4	16.1
Adj. EPS growth (%)	110.2	35.9	26.9

Source: Company, Bloomberg, BOBCAPS Research

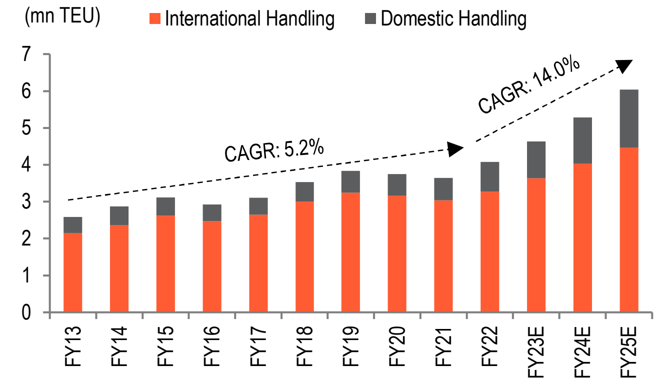
Stock performance



Source: NSE

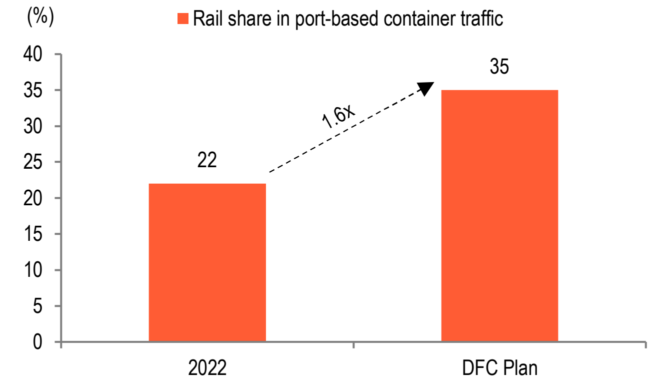
Focus charts

Fig 1 – Expect CCRI to maintain above-average volume growth aided by shift in modal mix from road to rail



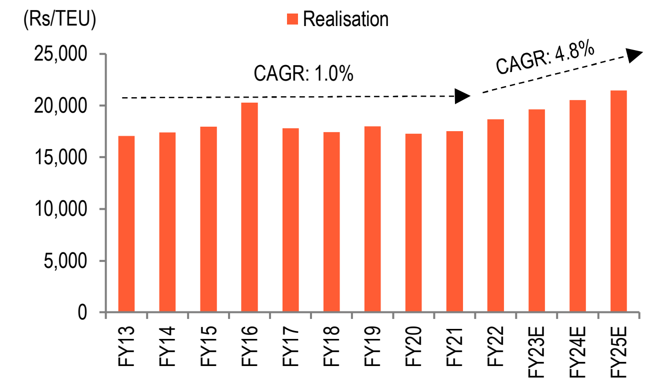
Source: Company, BOBCAPS Research

Fig 2 – Rail share in port-based container traffic expected to increase as DFC commissioning progresses



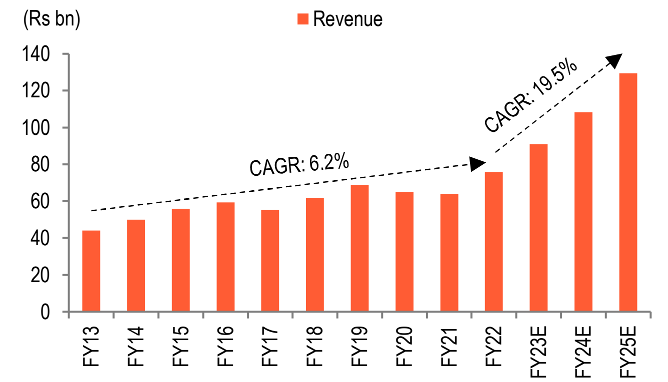
Source: DFCCIL, BOBCAPS Research

Fig 3 – Infrastructure development and focus on per unit cost expected to improve CCRI's realisations…



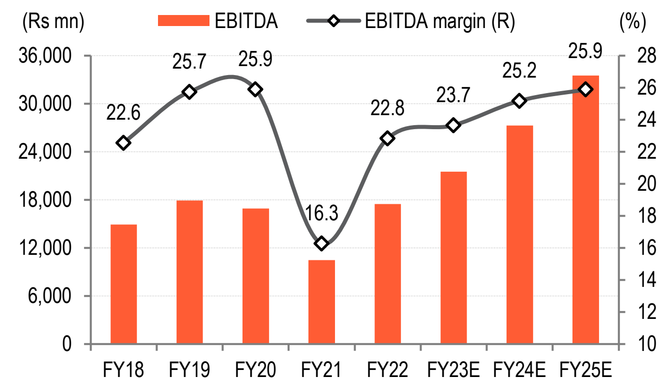
Source: Company, BOBCAPS Research

Fig 4 – …accelerating the company's revenue growth profile



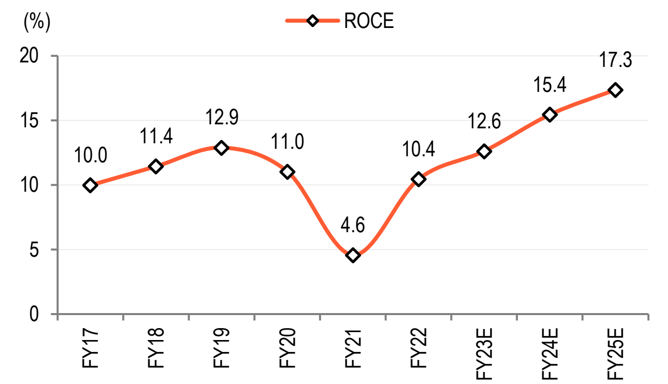
Source: Company, BOBCAPS Research

Fig 5 – DFC gains will be more about volumes and less about margins…



Source: Company, BOBCAPS Research

Fig 6 – …but expect CCRI's ROCE to improve on operational efficiency gains



Source: Company, BOBCAPS Research

Key growth drivers

DFC to reduce unit cost of rail transport and boost wagon productivity

- **Efficiency gains due to DFC:** India's dedicated freight corridor, has begun phased operations, with the eastern and western DFCs scheduled to become fully operational by end-2024. These corridors are expected to reduce the unit cost of rail transportation primarily by way of higher train speeds (from 30kmph to +50kmph). Wagon productivity will also improve on the back of lower per-tonne costs and increased payloads as higher-axle load wagons are introduced and double stacking of trains increases, in turn driving up utilisation and curtailing operation and maintenance cost.

- **Privatisation post LLF clearance:** The Indian government plans to divest close to 30% stake in CCRI, which will lend an impetus to growth by way of greater business synergies. Land license fee (LLF) is a key operational cost for CCRI, comprising payment to the Indian Railways for the use of railway land for its terminals. Prior to 2020, the Indian Railways charged LLF on a per TEU (cargo capacity) basis, but thereafter revised the fee to 6% of annual land value – which amounted to a 2.6x rise in LLF for CCRI over FY19-FY22.

  Recently, however, the government notified lower LLF at 1.5% p.a. (plus terminal access charges) and increased the lease period up to 35 years, but stated that "existing entities can switch to the new LLF regime only after a transparent and competitive bidding process". We await a final policy document, but do expect the lower rate to come through in order to rekindle investor interest and pave the way for divestment.

- **Growing share of railway in freight:** According to the National Rail Plan, the Indian Railways aims to increase the volume share of rail in India's freight traffic to 44% by 2050 from 27% in 2017-18. In terms of cargo mix, the plan is to reduce the share of coal, iron ore and food grain while increasing that of POL (petroleum, oil and lubricants), BOG (balance of goods) and cement, so as to diversify services to more industries and hence expand rail volume and revenue share. A shift towards containerisation will further reduce rail logistics cost, with container traffic in India at just 25% vs. 40-45% for other large countries.

Rs 80bn-100bn capex drive over the next 3-4 years to tap growth opportunities

- **Capacity expansion:** CCRI is planning capex of Rs 80bn-100bn over the next 3-4 years towards infrastructure, rolling stock, containers and equipment. These investments will enhance its ability to foray into new cargo types (ex-cement), expand its domestic capabilities, and spur the addition of new business solutions such as end-to-end delivery, third-party logistics (3PL) and domestic distribution. End-to-end connectivity, in particular, will increase business for the railways by overcoming the challenge of first- and last-mile delivery.

Outlook

Over the past decade, CCRI has increased its tonnage at a 5.2% CAGR, with domestic volumes rising at 7.1% and international tonnage climbing at a slower rate of 4.8%. Realisations have been muted, keeping revenue growth at 6.2% over FY13-FY22. Both operating margins and return ratios have declined as competition from road transport intensified.

The emergence of e-commerce in India has led to a preference for road logistics primarily due to its end-to-end delivery capabilities and high market share. Road logistics also gained efficiency due to structural reforms (GST, e-way bills), further capturing share away from rail. Competition from private container train operators (PCTO) further challenged CCRI's dominant business line.

Expect CCRI to post above-market growth

Going forward, we expect the ongoing phased DFC commissioning to bolster rail share in overall freight, benefiting market leader CCRI. In the near term, DFC rollout should translate to an increase in container port traffic share in India due to the strategically located corridors. Over the longer term, the development of multimodal logistics parks in conjunction with freight corridors would drive up demand for rail in domestic freight, especially for loads with a lead distance of over 300km.

In our view, policy initiatives in the logistics sector, coupled with CCRI's capacity expansion drive and investments to diversify the business as well as fortify infrastructure, should enable the company to grow above the market average. We model for a 14% CAGR in volumes over FY22-FY25, resulting in a 19.5%/28.5% revenue/PAT CAGR. ROCE is forecast to rise 700bps to 17.3% by FY25 aided by DFC-led efficiency gains.

Valuation methodology

We value CCRI using 10 years of expected discounted cash flows (DCF) to arrive at a TP of Rs 825, assuming WACC of 12.0%, a risk-free rate of 7.4% and terminal growth rate of 5%. Our DCF forecast incorporates management growth guidance for the company in the short term (25% domestic and 10-12% EXIM volume growth for FY23) as well as India's long-term GDP growth expectations.

Initiate with BUY for a TP of Rs 825

The stock is currently trading at a 12-month forward P/E of 27.9x, in-line with the three-year mean. Our TP implies 27.7x FY24E P/E and 4.6x price-to-sales. While we believe CCRI's market leadership coupled with timely capex makes it a prime beneficiary of the expected structural growth in rail freight, the ~24% rally in stock price since end-Jun'22 largely prices in the positives – we thus initiate coverage with HOLD. Any further clarity on LLF and privatisation would serve as key rerating triggers.

Fig 7 – DCF assumptions

Variable	Assumption	Basis
Risk Free Rate (%) (A)	7.4	Indian 10Y treasury bill yield
Market returns (%)	12.0	Average market returns in the long run
Market risk premium (B)	4.6	
Beta (C)	1.09	Slope of 3Y weekly returns vs. Sensex
Cost of Equity (%) (D)= A + B x C	12.4	
Cost of Debt (%) (E)	8.5	Income statement
Marginal Tax Rate (%) (F)	25.0	Income statement
Post-Tax Cost of Debt (%) (G) = E x (1-F)	6.4	
Current Debt to Equity (%) (2022) (H)	6.4	
WACC (%) (I) = (D x (1-G)) + (G x H)	12.0	

Source: Bloomberg, Company, BOBCAPS Research

Fig 8 – Valuation multiples

Parameter (x)	FY23E	FY24E	FY25E
Price to Sales (P/S)	4.9	4.1	3.4
Price to Earnings (P/E)	31.2	24.6	19.8
Price to Book (P/B)	3.9	3.6	3.2
Enterprise value to EBITDA (EV/EBITDA)	23.4	18.4	15.0
Dividend Yield (DY)	1.5	1.8	2.1

Source: BOBCAPS Research

Fig 9 – Estimates vs. Consensus

(Rs mn)	BOBCAPS		Consensus		Difference (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	90,900	1,08,312	88,934	1,03,428	2.2	4.7
EBITDA	21,503	27,284	21,133	25,143	1.8	8.5
Pretax Income	19,063	24,182	19,329	23,247	(1.4)	4.0
Net Income	14,298	18,137	13,770	16,773	3.8	8.1

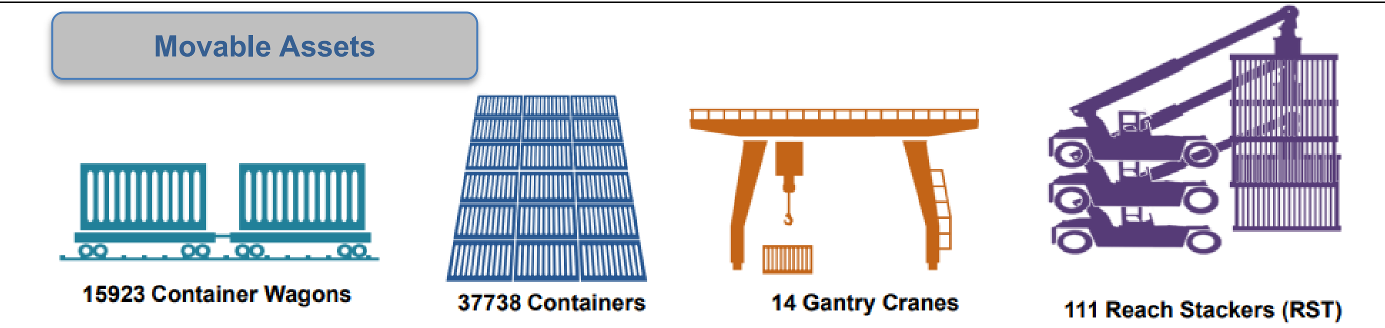
Source: Bloomberg, BOBCAPS Research

Annexure: Company overview

CCRI commenced operations in 1989, taking over the existing network of seven inland container depots (ICD) from the Indian Railways. The Indian government currently holds 54.8% in the company. With over 70% market share, CCRI is the undisputed leader in India's rail logistics space, supported by the largest network of 61 ICDs and container freight stations (CFS) among peers, across 59 terminals and 2 strategic tie-ups.

In addition to providing inland transport by rail for containers, the company has also expanded into the management of ports and air cargo complexes, besides establishing cold chain facilities. Moreover, it has developed multimodal logistics support for India's international and domestic containerisation and trade.

Fig 10 – CCRI's asset base



Source: Company

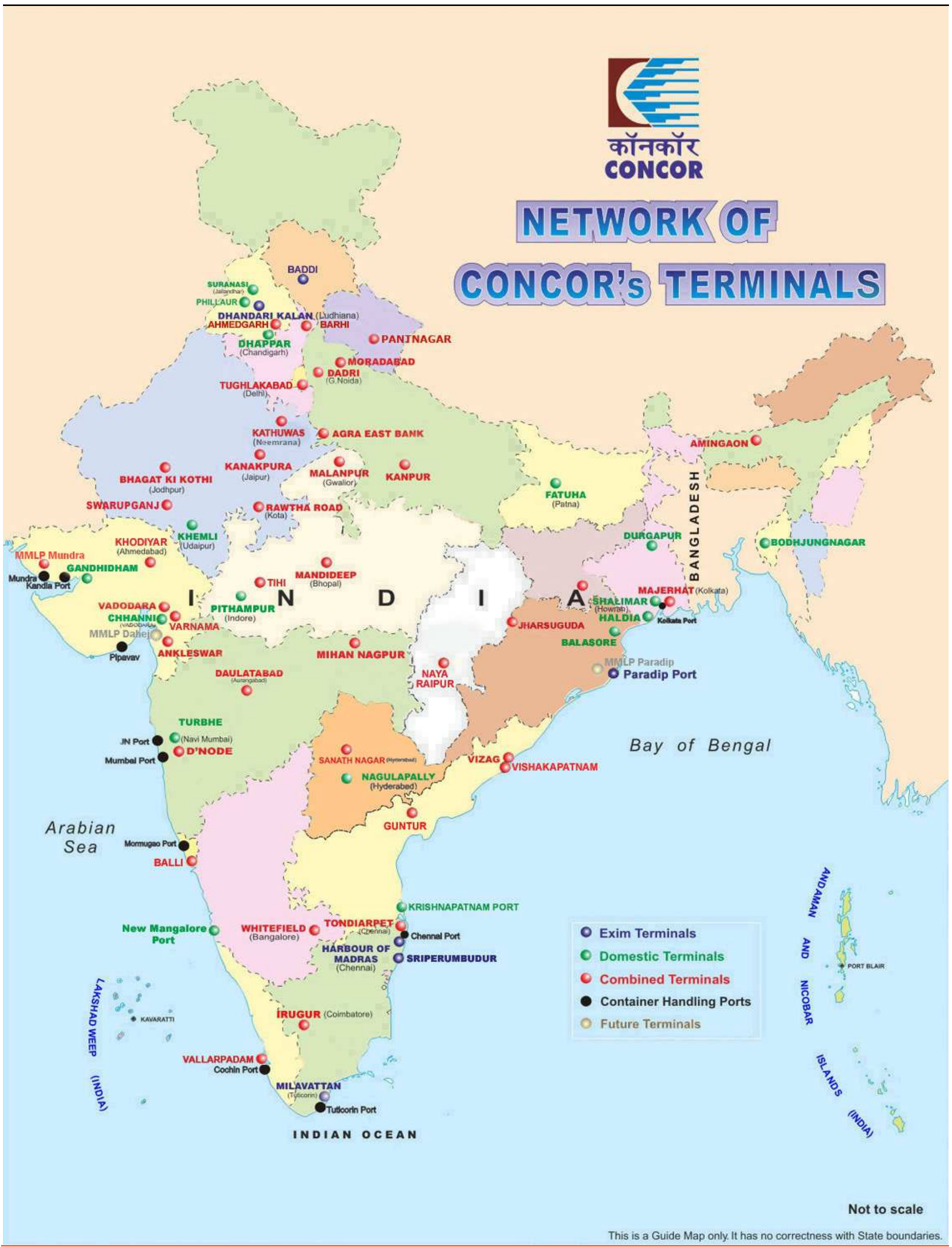
Operates as a carrier, terminal operator and warehouse operator

CCRI has three business activities in logistics – operating as a carrier, terminal operator and warehouse operator.

- As a carrier, the company uses rail as the primary medium of haulage, besides extending services to road transport for door-to-door and last-mile connectivity to supplement its rail business.
- As a terminal operator, CCRI brings all port facilities, including customs clearance, to dry ports (ICD) located in the hinterland. The terminals are mostly linked by the rail network to facilitate cost-effective movement of large volumes over long distances.
- As a CFS operator, CCRI provides facilities through its terminals, such as warehousing, container parking, repairs, and even space for office complexes.

The company's key service offering is a single-window facility for coordinating with all the different agencies and services involved in containerised cargo trade – from customs, gateway ports and railways to road haulers, consolidators, forwarders, custom house agents and shipping lines.

Fig 11 – CCRI's terminal network



Source: Company

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Total revenue	**64,271**	**76,527**	**90,900**	**1,08,312**	**1,29,480**
EBITDA	10,468	17,473	21,503	27,284	33,526
Depreciation	5,534	5,614	5,513	6,774	7,925
EBIT	4,934	11,859	15,990	20,511	25,602
Net interest inc./(exp.)	(429)	(624)	(710)	(836)	(990)
Other inc./(exp.)	2,704	2,471	3,783	4,508	5,389
Exceptional items	(787)	0	0	0	0
EBT	6,422	13,706	19,063	24,182	30,001
Income taxes	1,730	3,422	4,766	6,046	7,500
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	315	239	427	509	609
Reported net profit	**5,007**	**10,523**	**14,725**	**18,646**	**23,109**
Adjustments	(77)	6	0	0	0
Adjusted net profit	**4,930**	**10,529**	**14,725**	**18,646**	**23,109**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	2,693	4,223	4,412	5,257	6,285
Other current liabilities	4,942	4,366	5,251	6,257	7,480
Provisions	2,122	1,581	1,581	1,581	1,581
Debt funds	7,229	7,350	8,606	10,136	11,996
Other liabilities	4,204	3,928	4,635	5,492	6,534
Equity capital	4,086	4,058	4,058	4,058	4,058
Reserves & surplus	98,826	1,04,509	1,12,226	1,22,466	1,35,491
Shareholders' fund	1,02,912	1,08,567	1,16,284	1,26,524	1,39,549
Total liab. and equities	**1,24,103**	**1,30,015**	**1,40,769**	**1,55,247**	**1,73,425**
Cash and cash eq.	25,428	29,178	35,038	31,617	31,961
Accounts receivables	1,610	1,817	2,218	2,607	3,138
Inventories	240	307	356	424	507
Other current assets	4,891	5,438	6,963	8,277	9,893
Investments	12,113	12,070	12,070	12,070	12,070
Net fixed assets	56,544	57,162	57,849	71,075	83,151
CWIP	9,193	7,447	7,447	7,447	7,447
Intangible assets	115	172	172	172	172
Deferred tax assets, net	695	1,082	1,082	1,082	1,082
Other assets	13,274	15,340	17,573	20,474	24,002
Total assets	**1,24,103**	**1,30,015**	**1,40,769**	**1,55,247**	**1,73,425**

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash flow from operations	**11,345**	**10,698**	**15,835**	**20,869**	**25,392**
Capital expenditures	(7,977)	(6,290)	(6,200)	(20,000)	(20,000)
Change in investments	2,435	(6,665)	0	0	0
Other investing cash flows	5,880	2,253	0	0	0
Cash flow from investing	**337**	**(10,702)**	**(6,200)**	**(20,000)**	**(20,000)**
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	2,770	121	1,255	1,530	1,860
Interest expenses	(429)	(624)	(710)	(836)	(990)
Dividends paid	(3,047)	(5,484)	(6,580)	(7,897)	(9,476)
Other financing cash flows	(3,861)	37	0	0	0
Cash flow from financing	**(4,566)**	**(5,950)**	**(6,035)**	**(7,203)**	**(8,605)**
Chg in cash & cash eq.	**7,116**	**(5,954)**	**3,600**	**(6,334)**	**(3,213)**
Closing cash & cash eq.	**25,428**	**29,178**	**35,038**	**31,617**	**31,961**

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	8.2	17.3	23.5	29.8	36.9
Adjusted EPS	8.1	17.3	23.5	29.8	36.9
Dividend per share	5.0	9.0	10.8	13.0	15.6
Book value per share	167.2	176.5	189.2	206.0	227.4

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	6.9	5.7	4.8	4.0	3.4
EV/EBITDA	42.3	25.2	20.4	16.1	13.0
Adjusted P/E	90.6	42.4	31.3	24.6	19.9
P/BV	4.4	4.2	3.9	3.6	3.2

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Tax burden (Net profit/PBT)	76.8	76.8	77.2	77.1	77.0
Interest burden (PBT/EBIT)	130.2	115.6	119.2	117.9	117.2
EBIT margin (EBIT/Revenue)	7.7	15.5	17.6	18.9	19.8
Asset turnover (Rev./Avg TA)	53.1	60.2	67.1	73.2	78.8
Leverage (Avg TA/Avg Equity)	1.2	1.1	1.1	1.1	1.1
Adjusted ROAE	4.8	9.7	12.7	14.7	16.6

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
Revenue	(1.7)	19.1	18.8	19.2	19.5
EBITDA	(38.2)	66.9	23.1	26.9	22.9
Adjusted EPS	23.1	110.2	35.9	26.9	24.1
Profitability & Return ratios (%)					
EBITDA margin	16.3	22.8	23.7	25.2	25.9
EBIT margin	7.7	15.5	17.6	18.9	19.8
Adjusted profit margin	7.7	13.8	16.2	17.2	17.8
Adjusted ROAE	4.8	9.7	12.7	14.7	16.6
ROCE	4.6	10.4	13.1	15.3	17.3
Working capital days (days)					
Receivables	9	9	9	9	9
Inventory	1	1	1	1	1
Payables	15	20	18	18	18
Ratios (x)					
Gross asset turnover	0.8	0.9	1.0	1.0	1.0
Current ratio	2.4	2.6	2.7	2.2	2.0
Net interest coverage ratio	11.5	19.0	22.5	24.5	25.9
Adjusted debt/equity	0.1	0.1	0.1	0.1	0.1

Source: Company, BOBCAPS Research | Note: TA = Total Assets

BUY

TP: Rs 630 | ⮝ 28%

MAHINDRA LOGISTICS | Logistics | 21 November 2022

Riding the 3PL boom – BUY

- **Strong 3PL player primed to tap demand boom from consumer, e-commerce and pharma verticals, backed by strategic acquisitions**
- **Asset-light model and service expansion across the logistics chain expected to lift ROCE 11ppt to 19.4% by FY25**
- **Earnings forecast to log 70% CAGR over FY22-FY25 on post-Covid rebound; initiate with BUY, DCF TP at Rs 630**

Aseem Madan
research@bobcaps.in

Strategic expansion to leverage asset-light model: MAHLOG is a third-party logistics (3PL) provider that follows an asset-light strategy, where transportation is carried out through network partners and warehousing through leased spaces, lending flexibility to operations. The company is expanding across the logistics chain via acquisitions and service extension. Recent purchases of Rivigo (B2B express), Whizzard and Meru are intended to broaden offerings in transport, last-mile delivery and mobility respectively. In our view, the company's growing operational scale on an asset-light base will propel a surge in ROCE from 8.6% in FY22 to 18.9% by FY25.

Buoyant business outlook: MAHLOG's supply chain management (SCM) business (~90% revenue share) covers transportation and warehousing. The company is raising focus on non-auto verticals such as consumer, e-commerce and pharma, where 3PL is underpenetrated but expected to grow the most as clients look for scale, reach and efficiency. Per Redseer, hyperlocal deliveries using 3PL can grow 10x over CY20-CY24. Growth in 3PL logistics will also raise demand for warehousing, especially large grade-A spaces where MAHLOG leases 18mn sq ft. We expect its warehousing revenue to log a 22.6% CAGR and transportation a 19% CAGR over FY22-FY25.

Lower dependence on parent: MAHLOG has reduced the revenue share of parent Mahindra & Mahindra (MM) in SCM business from 61% to 49% over FY19-FY22. Its clientele is now well diversified with marquee names. Further, 3PL customers are typically sticky due to high switching costs and enter into contracts only after due diligence, ensuring stable revenue for the company. We model for an 18.9% CAGR in revenue from MM (~48% share) and a 20.8% CAGR in non-MM revenue through FY25.

Initiate at BUY: Given MAHLOG's solid positioning and the boom in 3PL across auto, retail, durables, pharma and e-commerce, we model for revenue/PAT growth of 20.8%/ 69.5% for the company over FY22-FY25 with EBITDA margin expansion of 140bps to 6.5%. We expect earnings to rebound off a low Covid-hit base as MAHLOG expands operations on an asset-light base. The stock is trading at a 12M fwd P/E of 39.2x, ~2.5% higher than the 3Y mean. Stock offers 28% upside – we initiate with BUY and a DCF-based TP of Rs 630 (implied 38.3x FY24E P/E).

Ticker/Price	MAHLOG IN/Rs 491
Market cap	US$ 429.3mn
Free float	39%
3M ADV	US$ 1.6mn
52wk high/low	Rs 814/Rs 391
Promoter/FPI/DII	58%/20%/8%

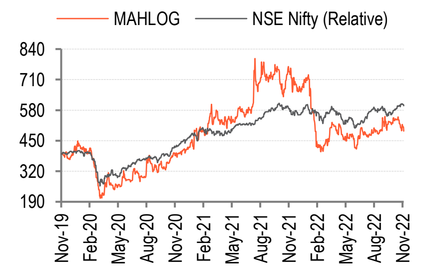
Source: NSE | Price as of 21 Nov 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	40,952	50,817	60,808
EBITDA (Rs mn)	2,099	2,942	3,764
Adj. net profit (Rs mn)	364	730	1,186
Adj. EPS (Rs)	5.1	10.1	16.5
Consensus EPS (Rs)	5.1	10.0	15.9
Adj. ROAE (%)	6.2	11.3	15.9
Adj. P/E (x)	95.5	48.5	29.8
EV/EBITDA (x)	16.6	11.8	9.2
Adj. EPS growth (%)	12.8	97.0	62.6

Source: Company, Bloomberg, BOBCAPS Research

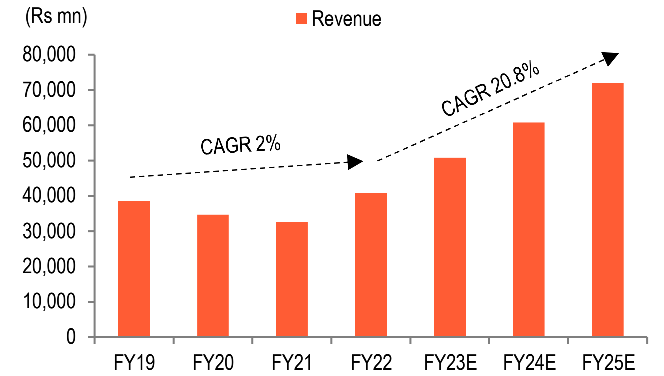
Stock performance



Source: NSE

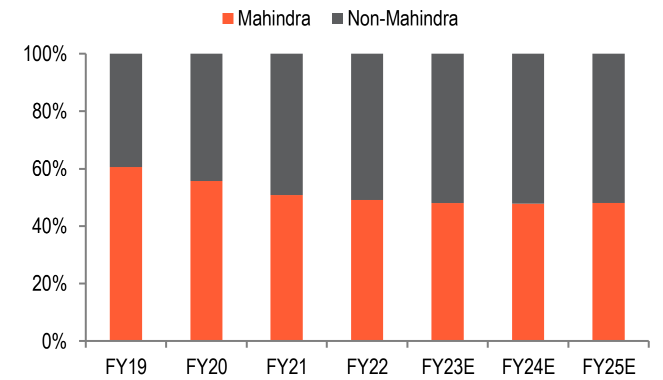
Focus charts

Fig 1 – Revenue expected to rise at 20.8% over FY22-FY25E as new services ramp up



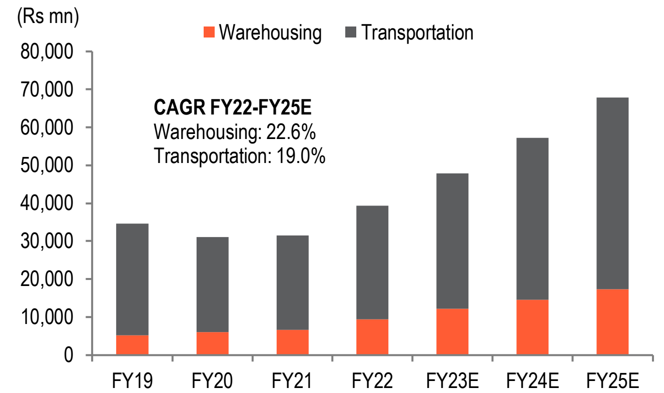
Source: Company, BOBCAPS Research

Fig 2 – Non-parent revenue share projected to grow to >50%, derisking the business



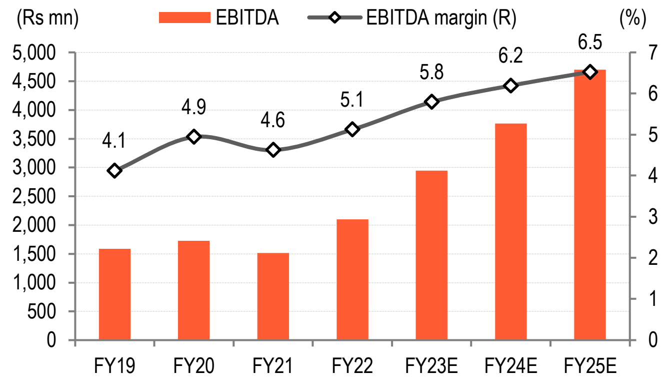
Source: Company, BOBCAPS Research

Fig 3 – Warehousing set to grow ahead of transportation…



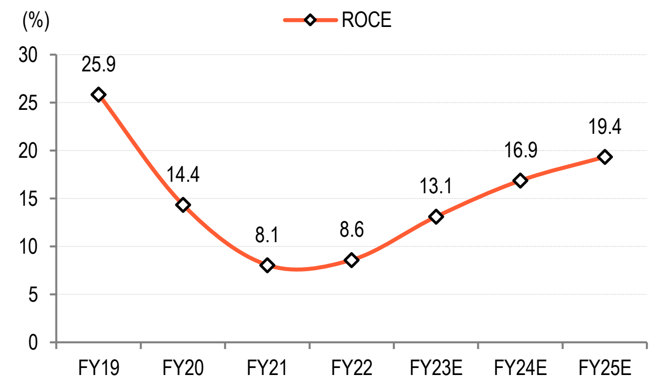
Source: Company, BOBCAPS Research

Fig 4 – …aiding stronger margins



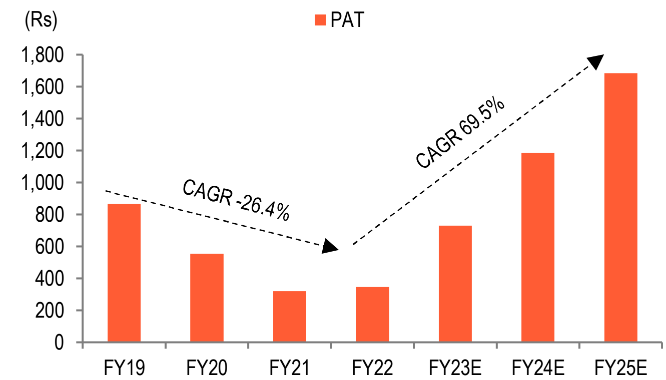
Source: Company, BOBCAPS Research

Fig 5 – ROCE expected to surge 11ppt by FY25E as operations expand on an asset-light base



Source: Company, BOBCAPS Research

Fig 6 – PAT forecast to log 70% CAGR through FY25E on post-Covid rebound



Source: Company, BOBCAPS Research

Key growth drivers

- **Expansion of network service portfolio:** MAHLOG recently acquired Rivigo's B2B express delivery business for Rs 2.25bn. With this deal, the company expects to triple its revenue from B2B express in a year, from ~Rs 1.5bn (4% of sales) in FY22. Management is positive on Rivigo's service quality metrics, margins and yields per kilo, and intends to turn the business around via a mix of scale and cost improvements. We view this acquisition as a move in the right direction, enabling MAHLOG to broaden its service portfolio in the B2B express space.

Well placed to capitalise on the rising demand for integrated supply chains

- **Increasing penetration of 3PL in non-auto verticals:** The company is raising its focus on non-auto verticals such as consumer, e-commerce and pharmaceuticals – industries where the use of 3PL is underpenetrated but expected to grow the most over the next few years. For instance, strategy consultancy Redseer estimates that hyperlocal deliveries using 3PL have the potential to grow 10-fold over CY20-CY24. We expect the rise of omnichannel retail, direct-to-consumer (D2C) brands, e-commerce and intracity logistics to propel growth in fulfilment and forward logistics solutions.
- **Demand for quality warehouses:** Growth in 3PL will raise demand for quality warehousing, especially large grade-A spaces. As the penetration of e-commerce, white goods and cold storage rises in India, companies will need sizeable, technology-enabled warehouses for logistics, storage, reverse pickup and servicing. Multimodal parks proposed under the government's Gati Shakti scheme will further improve the unit cost of these warehouses, making them more attractive. MAHLOG leases 18mn sq ft of Grade-A space, and we expect its warehousing revenue growth momentum to outpace that of its transportation business.
- **Growing customer base:** MAHLOG's non-parent business now forms 51% of revenue vs. 39% in FY19 and its client base is well diversified across sectors. 3PL customers are generally sticky due to high switching costs and established relationships, which ensures a stable revenue stream for the company.

Outlook

Covid-19 has trained a spotlight on the importance of efficient supply chain management. Companies in sectors such as retail, FMCG, e-commerce and pharma are increasingly adopting an integrated end-to-end supply chain model that calls for 3PL solutions. Further, the evolution of e-commerce has propelled growth in D2C brands which look to outsource logistics to 3PL providers for scale, reach and efficiency. In warehousing, we expect the government's favourable policies and thrust on infrastructure development to encourage the consolidation of smaller spaces into large, technology-enabled warehouses.

Expect 22.6%/19% CAGR in warehousing/transportation revenue

Given MAHLOG's solid positioning and the boom in 3PL demand, we model for revenue growth of 20.8% but a stronger 69.5% PAT CAGR over FY22-FY25 as (1) profits retrace to pre-Covid levels (after dropping by a third during the pandemic), and (2) margins improve as the company improves asset utilisation. Within SCM (90% of revenue), we expect warehousing revenue share to rise as it clocks an estimated 22.6% CAGR through to FY25 vs. 19.0% for transportation. In enterprise mobility services (EMS: 10% of revenue), which entails people transportation solutions, we model for a 42% CAGR off a low Covid-hit base but no material rise in revenue share.

Valuation methodology

Initiate with BUY for a TP of Rs 630

We value MAHLOG using 10 years of expected discounted cash flows (DCF) to arrive at a TP of Rs 630, assuming WACC of 12.3%, a risk-free rate of 7.4% and terminal growth rate of 5%. The stock is currently trading at a 12-month forward P/E of 39.2x, which is ~2.5% higher than the three-year mean. Our TP implies 38.3x FY24E P/E and 0.75x price-to-sales.

In our view, CCRI is well placed to capitalise on the rising demand for integrated supply chains, boom in omnichannel retail and ecommerce – especially D2C brands, and growth in intracity logistics which offers opportunities in last-mile operations, both warehousing and delivery. Initiate with BUY.

Fig 7 – DCF assumptions

Variable	Assumption	Basis
Risk Free Rate (%) (A)	7.4	Indian 10Y treasury bill yield
Market returns (%)	12.0	Average market returns in the long run
Market risk premium (B) (%)	4.6	
Beta (C)	1.11	Slope of 3Y weekly returns vs. Sensex
Cost of Equity (%) (D)= A + B x C	12.5	
Cost of Debt (%) (E)	6.25	Annual report
Marginal Tax Rate (%) (F)	25	Income statement
Post-Tax Cost of Debt (%) (G) = E x (1-F)	10.3	
Current Debt to Equity (2022) (%) (H)	6.0	
WACC (%) (I) = (D x (1-G)) + (G x H)	12.4	

Source: Bloomberg, Company, BOBCAPS Research

Fig 8 – Valuation multiples

Parameter (x)	FY23E	FY24E	FY25E
Price to Sales (P/S)	0.9	0.7	0.6
Price to Earnings (P/E)	48.5	29.8	21.0
Price to Book (P/B)	5.5	4.8	4.0
Enterprise value to EBITDA (EV/EBITDA)	15.2	11.9	9.5
Dividend Yield (DY)	0.5	0.6	0.7

Source: BOBCAPS Research

Fig 9 – Estimates vs. Consensus

(Rs mn)	BOBCAPS		Consensus		Difference (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	50,817	60,808	50,964	61,428	(0.3)	(1.0)
EBITDA	2,942	3,764	2,841	3,618	3.6	4.0
Pretax Income	967	1,572	955	1,515	1.3	3.8
Net Income	730	1,186	729	1,170	0.1	1.4

Source: Bloomberg, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

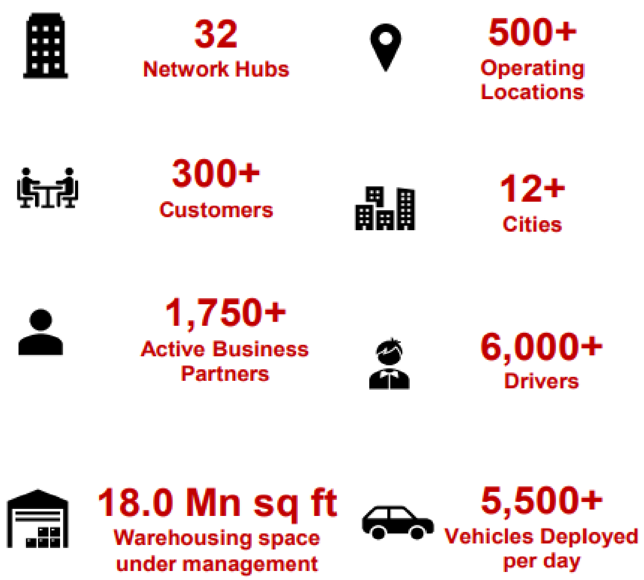
- slowdown in e-commerce sales,
- expansion by traditional logistics providers into the 3PL space, and
- delays in government infrastructure projects.

Annexure: Company overview

MAHLOG is a leading integrated logistics and mobility solutions provider with over a decade of experience. The company offers supply chain solutions to diverse industries such as automotive, engineering, consumer goods, pharmaceuticals, telecom, commodities and e-commerce, besides integrated employee transportation solutions to enterprises across IT, ITeS, manufacturing, banking, financial services, insurance and consulting businesses.

MAHLOG operates under three business verticals – 3PL integrated solutions, network transportation services, and mobility services (EMS). The company follows an asset-light model which is technology-enabled and customer-centric. Under 3PL solutions, it offers end-to-end logistics solutions and services for business, including transportation and distribution, warehousing, in-factory logistics and other value-added services. In network transportation services, the company offers express B2B, freight forwarding, last-mile delivery, micro fulfilment and electric cargo delivery.

Fig 10 – MAHLOG's operations



Source: BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Total revenue	**32,812**	**40,952**	**50,817**	**60,808**	**72,024**
EBITDA	1,517	2,099	2,942	3,764	4,700
Depreciation	897	1,345	1,611	1,763	1,965
EBIT	620	753	1,331	2,001	2,735
Net interest inc./(exp.)	(201)	(295)	(364)	(428)	(505)
Other inc./(exp.)	(4)	0	0	0	0
Exceptional items	0	0	0	0	0
EBT	416	458	967	1,572	2,230
Income taxes	(100)	(113)	(237)	(386)	(548)
Extraordinary items	28	0	0	0	0
Min. int./Inc. from assoc.	13	18	0	0	0
Reported net profit	**356**	**364**	**730**	**1,186**	**1,683**
Adjustments	(28)	0	0	0	0
Adjusted net profit	**328**	**364**	**730**	**1,186**	**1,683**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	7,661	8,588	10,589	12,670	15,008
Other current liabilities	1,045	1,361	1,689	2,021	2,408
Provisions	220	228	311	372	428
Debt funds	292	376	415	436	444
Other liabilities	1,944	2,852	3,670	4,390	5,240
Equity capital	717	719	719	719	719
Reserves & surplus	4,992	5,188	5,744	6,723	8,156
Shareholders' fund	5,708	5,906	6,463	7,441	8,875
Total liab. and equities	**16,869**	**19,310**	**23,136**	**27,330**	**32,403**
Cash and cash eq.	1,978	1,322	617	1,008	1,668
Accounts receivables	4,856	4,794	5,949	7,119	8,432
Inventories	0	14	14	14	14
Other current assets	4,659	5,030	6,172	7,386	8,748
Investments	738	1,622	2,246	2,517	2,788
Net fixed assets	3,392	4,707	6,067	6,942	8,102
CWIP	21	4	4	4	4
Intangible assets	172	104	104	104	104
Deferred tax assets, net	221	269	269	269	269
Other assets	834	1,444	1,695	1,968	2,275
Total assets	**16,869**	**19,310**	**23,136**	**27,330**	**32,403**

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash flow from operations	**2,937**	**1,997**	**2,324**	**2,998**	**3,712**
Capital expenditures	(1,768)	(2,714)	(3,595)	(2,909)	(3,396)
Change in investments	(551)	(610)	0	0	0
Other investing cash flows	1,239	1,827	0	0	0
Cash flow from investing	**(1,080)**	**(1,498)**	**(3,595)**	**(2,909)**	**(3,396)**
Equities issued/Others	(25)	(23)	0	0	0
Debt raised/repaid	748	1,300	1,103	939	1,097
Interest expenses	(201)	(295)	(364)	(428)	(505)
Dividends paid	(180)	(144)	(173)	(208)	(249)
Other financing cash flows	(1,216)	(1,993)	0	0	0
Cash flow from financing	**(875)**	**(1,156)**	**566**	**303**	**344**
Chg in cash & cash eq.	**982**	**(656)**	**(705)**	**392**	**660**
Closing cash & cash eq.	**1,978**	**1,322**	**617**	**1,008**	**1,668**

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	4.6	5.2	10.2	16.5	23.4
Adjusted EPS	4.5	5.1	10.1	16.5	23.3
Dividend per share	2.5	2.0	2.4	2.9	3.5
Book value per share	79.2	81.9	89.7	103.2	123.1

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	1.1	0.8	0.7	0.6	0.5
EV/EBITDA	22.9	16.6	11.8	9.2	7.4
Adjusted P/E	108.0	95.5	48.5	29.8	21.0
P/BV	6.2	6.0	5.5	4.8	4.0

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Tax burden (Net profit/PBT)	78.9	79.4	75.4	75.4	75.4
Interest burden (PBT/EBIT)	67.0	60.8	72.7	78.6	81.5
EBIT margin (EBIT/Revenue)	1.9	1.8	2.6	3.3	3.8
Asset turnover (Rev./Avg TA)	211.1	226.4	239.4	241.0	241.1
Leverage (Avg TA/Avg Equity)	2.8	3.1	3.4	3.6	3.7
Adjusted ROAE	5.7	6.2	11.3	15.9	19.0

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
Revenue	(5.9)	24.8	24.1	19.7	18.4
EBITDA	(11.9)	38.3	40.2	27.9	24.9
Adjusted EPS	(40.7)	12.8	97.0	62.6	41.9
Profitability & Return ratios (%)					
EBITDA margin	4.6	5.1	5.8	6.2	6.5
EBIT margin	1.9	1.8	2.6	3.3	3.8
Adjusted profit margin	1.0	0.9	1.4	2.0	2.3
Adjusted ROAE	5.7	6.2	11.3	15.9	19.0
ROCE	8.1	8.6	13.1	16.9	19.4
Working capital days (days)					
Receivables	54	43	43	43	43
Inventory	0	0	0	0	0
Payables	85	77	76	76	76
Ratios (x)					
Gross asset turnover	15.9	15.0	14.2	13.2	12.4
Current ratio	1.1	0.9	0.9	0.9	0.9
Net interest coverage ratio	3.1	2.6	3.7	4.7	5.4
Adjusted debt/equity	0.1	0.1	0.1	0.1	0.1

Source: Company, BOBCAPS Research | Note: TA = Total Assets

HOLD

TP: Rs 2,010 | ⮝ 5%

TCI EXPRESS | Logistics | 21 November 2022

Strong express play but upside capped – HOLD

- **Key player in surface express logistics for diverse sectors, with access to most pin codes across India**
- **Brisk volumes and asset-light model expected to spur EBITDA margin gains of +300bps and a 27% PAT CAGR over FY22-FY25**
- **Stock holds limited upside post 20% rally since June; initiate with HOLD for a DCF-based TP of Rs 2,010**

Aseem Madan
research@bobcaps.in

Focused on B2B surface express delivery: TCIEXP is a key player in express road logistics with 5% share in a highly fragmented market that has 85% unorganised sector share. The company is connected to most districts in India and runs an asset-light model, where efficiency gains have lifted EBITDA margin from 8% to 17% over five years despite modest topline growth. We expect further margin improvement from 17% to ~20% by FY25, aided by planned capex of Rs 5bn over FY23-FY28 towards new sorting centres and technology. The company is expanding service offerings and aims to double revenue to Rs 20bn by 2025 via branch additions, besides stepping up new service contribution from 15% to 25%.

Strong volume outlook: TCIEXP caters to diverse sectors including automobiles, pharmaceuticals, retail, e-commerce and telecom, besides recently launching value-added services in pharma, cold chain, customer-to-customer (C2C) express and rail express. The company is focused on high-value parcel size where even low volumes generate higher revenue. We model for a 15% volume CAGR over FY22-FY25 as new services gain traction, demand rises amid the government-led infrastructure and manufacturing push, supply chain dynamics continue to evolve in favour of third-party logistics, and stronger regulations (GST, e-way bill) boost organised sector share.

Diversified clientele limits revenue volatility: About 95% of TCIEXP's clients are in the business (B2B) category with an equal split between corporate and small & medium enterprises (SME). The company's clientele is well diversified across key sectors and includes industry-leading names, making for contracts that are stable and less sensitive to price volatility. This has helped it maintain margins and return ratios even during turbulent times (ROCE of 29% during Covid-19).

Upside capped; initiate at HOLD: We model for an 18.7%/26.5% revenue/PAT CAGR over FY22-FY25 largely backed by additional volumes. EBITDA margin is forecast to expand 330bps to 20% by FY25 (ROCE: +170bps to 31%) on best-in-class operational efficiency. While we like TCIEXP's business model, we see limited upside potential as the stock has run up 20% since Jun'22 and is currently trading at a 12M fwd P/E of 42.2x, ~21% premium to the 3Y mean. We accordingly initiate coverage with HOLD. Our DCF-based TP of Rs 2,010 implies 39.1x FY24E P/E.

Ticker/Price	TCIEXP IN/Rs 1,907
Market cap	US$ 898.3mn
Free float	33%
3M ADV	US$ 0.8mn
52wk high/low	Rs 2,572/Rs 1,442
Promoter/FPI/DII	67%/2%/9%

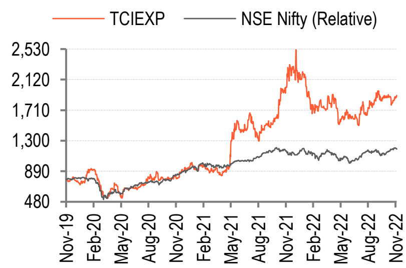
Source: NSE | Price as of 21 Nov 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	10,896	12,880	15,073
EBITDA (Rs mn)	1,829	2,196	2,796
Adj. net profit (Rs mn)	1,307	1,550	1,981
Adj. EPS (Rs)	33.5	40.3	51.4
Consensus EPS (Rs)	33.5	41.0	51.6
Adj. ROAE (%)	24.4	23.3	23.7
Adj. P/E (x)	57.0	47.4	37.1
EV/EBITDA (x)	40.1	33.4	26.3
Adj. EPS growth (%)	27.8	20.3	27.7

Source: Company, Bloomberg, BOBCAPS Research

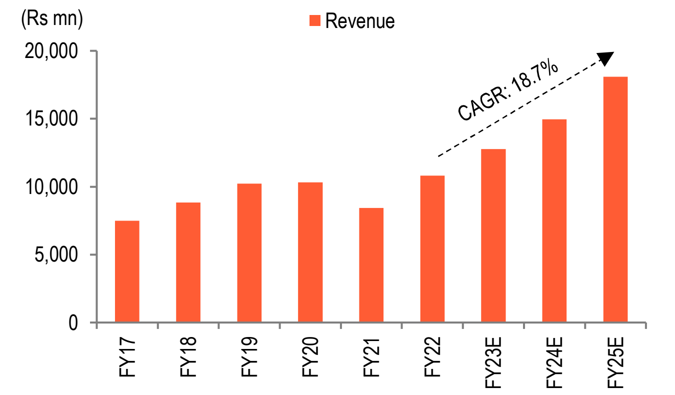
Stock performance



Source: NSE

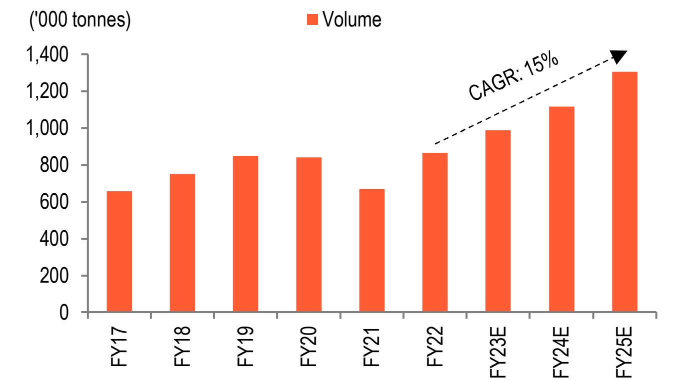
Focus charts

Fig 1 – Revenue expected to log 19% CAGR, FY22-FY25E…



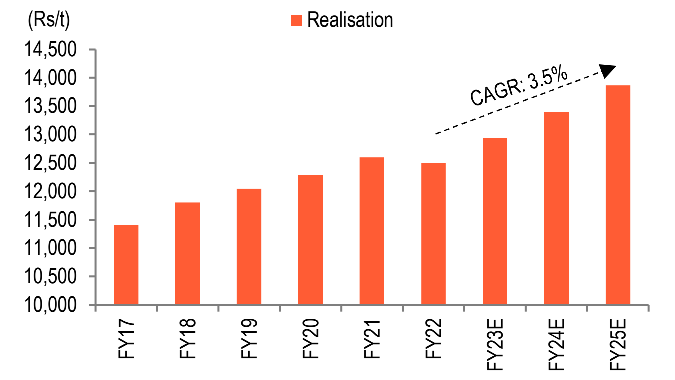
Source: Company, BOBCAPS Research

Fig 2 – …driven primarily by volume growth



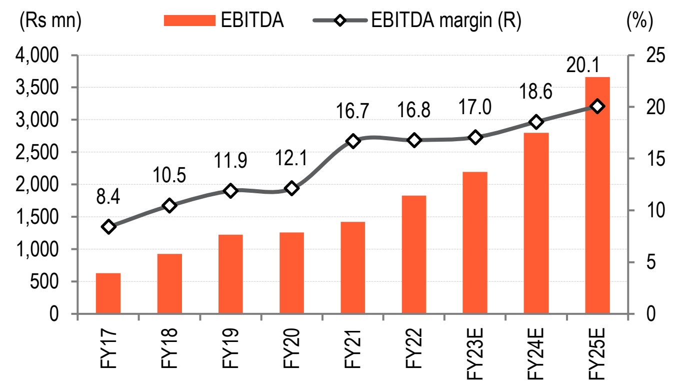
Source: Company, BOBCAPS Research

Fig 3 – Realisations likely to improve as demand for large logistics players grows



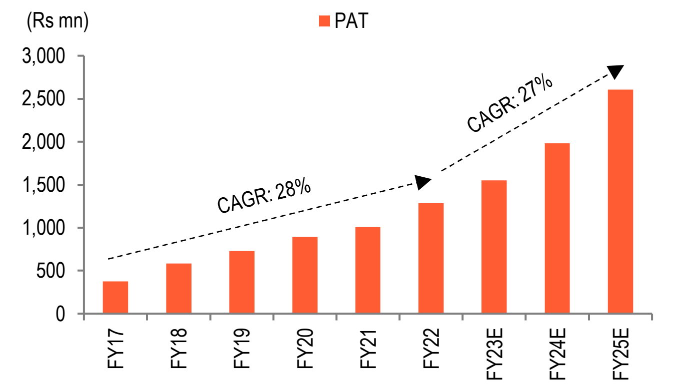
Source: Company, BOBCAPS Research

Fig 4 – Best-in-class EBITDA margin expected to further expand by 330bps through to FY25E



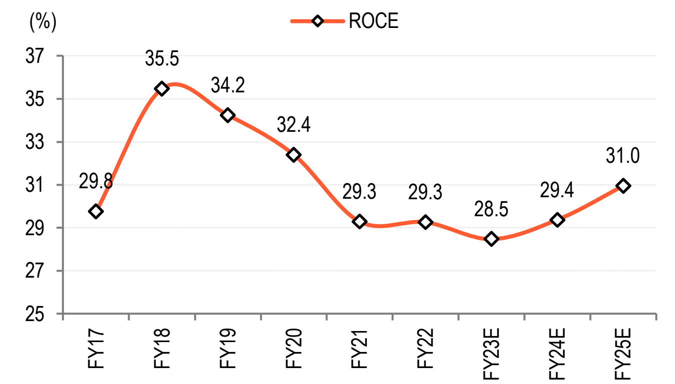
Source: Company, BOBCAPS Research

Fig 5 – PAT expected to log 27% CAGR



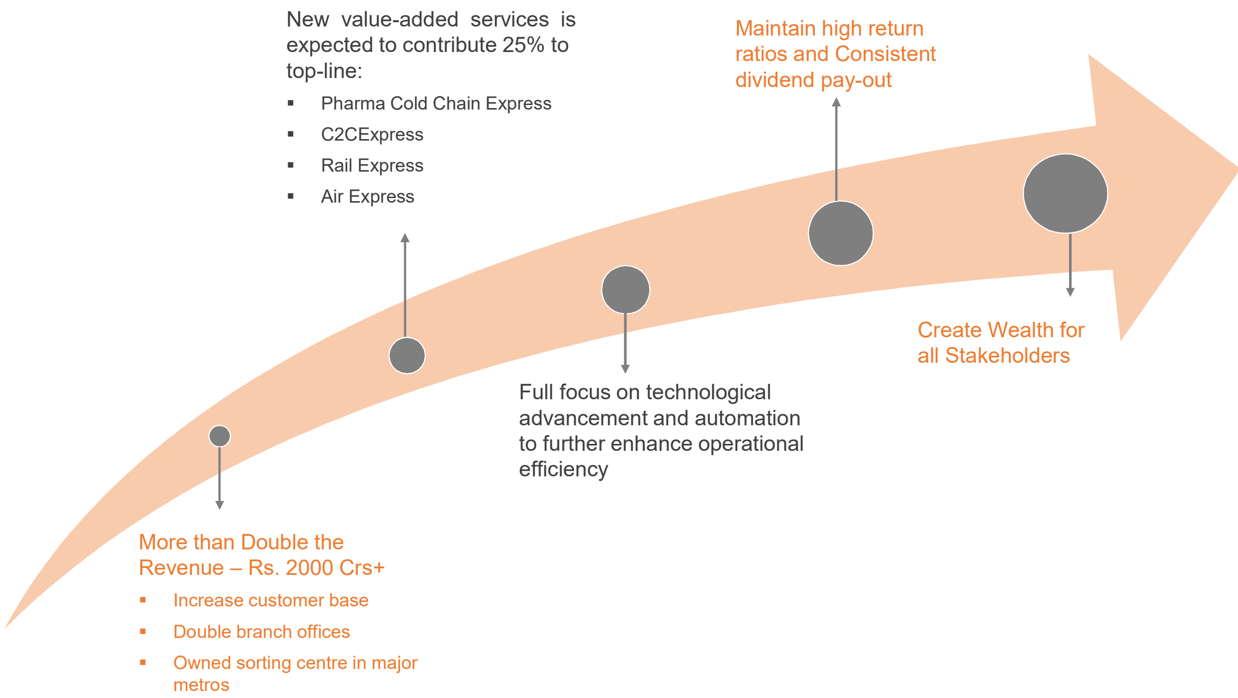
Source: Company, BOBCAPS Research

Fig 6 – High ROCE reflects operational efficiency that's amongst best-in-industry



Source: Company, BOBCAPS Research

Fig 7 – TCIEXP's strategic priorities by 2025



Source: Company

Key growth drivers

Management aims to double revenue by 2025 via aggressive capacity expansion

- **Capacity expansion:** TCIEXP has aggressive capacity expansion plans over FY23-FY28 which entail the addition of new sorting centres, automation and enhancing technological capabilities at a capex of Rs 5bn. By 2025, management aims to (1) more than double revenue by enlarging the customer base through branch additions, and (2) raise new service contribution 10ppt to 25%. Investments are also being made in sorting centres and technology that will improve operational efficiency in terms of lead time and costs.

- **Presence across key industries:** TCIEXP offers services across important manufacturing industries such as auto, pharma, retail, e-commerce and telecom. The company has also started new value-added services in pharma, cold chain, C2C express and rail express (~15% of FY22 revenue). This apart, the government envisages a rising share of India's manufacturing sector from the current 16-18% to 25% of GDP, which offers an incremental volume opportunity for logistics players.

Fig 8 – TCIEXP's services

Express service	Solution offered
Surface express	Express solutions to over 40,000 locations via a fully containerised fleet of vehicles. Customised value-added services to meet customer needs
Domestic air express	Round-the-clock services and time-sensitive express delivery (within 24 hours in all major metros and 48 hours in mini metros and A class cities
International air express	Services to ~208 countries across the globe (commercial/non-commercial) from over 3,000 pickup points in India
Rail express	Cost-effective, multimodal, door-to-door rail express services which help in efficient handling of bulk shipments
E-commerce	B2B multimodal distribution for optimum on-time delivery with value-added feature of Cash on Delivery
C2C Express	Full truck load (FTL) with single and milk run options; vehicle placement within 12 hours of order confirmation
Cold chain express	Temperature-controlled transportation through FTL and milk runs

Source: Company

B2B segment, which is typically sticky in nature, contributes ~95% of revenue

- **Diverse client base:** TCIEXP is focused on the B2B (business-to-business) segment which contributes ~95% of revenue (>80% from surface express) – equally split between large corporates and SMEs. The balance 5% is from the B2C (business-to-consumer) segment, primarily e-commerce. The company has well diversified clients across industries, and no single client or business segment contributes significantly to revenue, reducing concentration risk. Further, the B2B segment in general and SME customers in particular are sticky and cannot easily change logistics partners.

- **Structural tailwinds:** The implementation of policies such as goods & services tax (GST) and e-way bills has removed bottlenecks in the interstate movement of goods. In order for long-distance, interstate road transport to be efficient and compliant, manufacturers are increasingly moving business from the unorganised sector to large players, given the latter's high freight availability, national presence, technological capabilities and shorter turnaround times. This apart, government-led infrastructure development initiatives are expected to lend a further impetus to the road logistics sector by way of better accessibility to remote locations, decreased lead times, lower costs and higher delivery predictability.

Outlook

After the implementation of GST in 2017, demand for large logistics players with a nationwide footprint increased dramatically, and TCIEXP registered healthy revenue growth in FY18-FY19. However, with the onset of Covid-19, revenue was flattish-to-lower in FY20-FY21, before recovering past the pre-Covid peak in FY22.

Overall, the company has registered a revenue CAGR of 7.6% for the past five years ending FY22. However, operating efficiency more than doubled its EBITDA margin from 8% to 16.8% over this period. Management aims to take revenue to Rs 20bn by 2025 from Rs 10.8bn in FY22 and further raise margins.

Expect topline CAGR of 19% through FY25 driven largely by volumes

We model for a 15% volume CAGR over FY22-FY25 as branch presence is stepped up, new services gain traction, supply chain dynamics continue to evolve in favour of third-party logistics, and stronger regulations (GST, e-way bill) boost organised sector share. Robust volumes are expected to support an 18.7%/26.5% revenue/PAT CAGR, with EBITDA margin expanding 330bps to 20% and ROCE rising 170bps to 31% by FY25.

Valuation methodology

Initiate with HOLD for a TP of Rs 2,010

We value TCIEXP using a three-stage discounted cash flow (DCF) model to arrive at a TP of Rs 2,010, assuming WACC of 11.5%, a risk-free rate of 7.4% and terminal growth rate of 5%. For our DCF forecast, we have incorporated management's growth guidance for the company in the short term as well as long-term GDP growth expectations for India.

The stock is currently trading at a 12-month forward P/E of 42.2x, which is ~21% higher than the three-year mean. Our TP implies 39.1x FY24E P/E and 5.2x price-to-sales. In our view, the higher sector valuations seen post Covid-19 are in keeping with the demand outlook. However, the stock offers limited upside, having run up 20% since Jun'22 – we thus initiate coverage with HOLD.

Fig 9 – DCF assumptions

Variable	Assumption	Basis
Risk Free Rate (%) (A)	7.4	Indian 10Y treasury bill yield
Market returns (%)	12.0	Average market returns in the long run
Market risk premium (B) (%)	4.6	
Beta (C)	0.90	Slope of 3Y weekly returns vs. Sensex
Cost of Equity (%) (D)= A + B x C	11.5	
Cost of Debt (%) (E)	0	Annual report
Marginal Tax Rate (%) (F)	25	Income statement
Post-Tax Cost of Debt (%) (G)= E x (1-F)	0	
Current Debt to Equity (2022) (%) (H)	0	
WACC (%) (I)= (D x (1-G)) + (G x H)	11.5	

Source: Bloomberg, Company, BOBCAPS Research

Fig 10 – Valuation multiples

Parameter (x)	FY23E	FY24E	FY25E
Price to Sales (P/S)	5.7	4.9	4.1
Price to Earnings (P/E)	47.4	37.1	28.2
Price to Book (P/B)	11.0	8.8	6.9
Enterprise value to EBITDA (EV/EBITDA)	34.6	27.2	20.8
Dividend Yield (DY)	0.3	0.4	0.5

Source: BOBCAPS Research

Fig 11 – Estimates vs. Consensus

(Rs mn)	BOBCAPS		Consensus		Difference (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	12,784	14,960	12,803	15,077	(0.1)	(0.8)
EBITDA	2,196	2,796	2,118	2,666	3.7	4.9
Pretax Income	2,067	2,641	2,091	2,621	(1.1)	0.8
Net Income	1,550	1,981	1,562	1,967	(0.7)	0.7

Source: Bloomberg, BOBCAPS Research

Key risks

Upside risks to our estimates include:

- receding inflationary pressures, and
- a more optimistic outlook for global growth.

Downside risks include:

- a further increase in competition from PE funded players,
- decline in market share for road logistics, and
- delay in implementation of relevant policies and initiatives.

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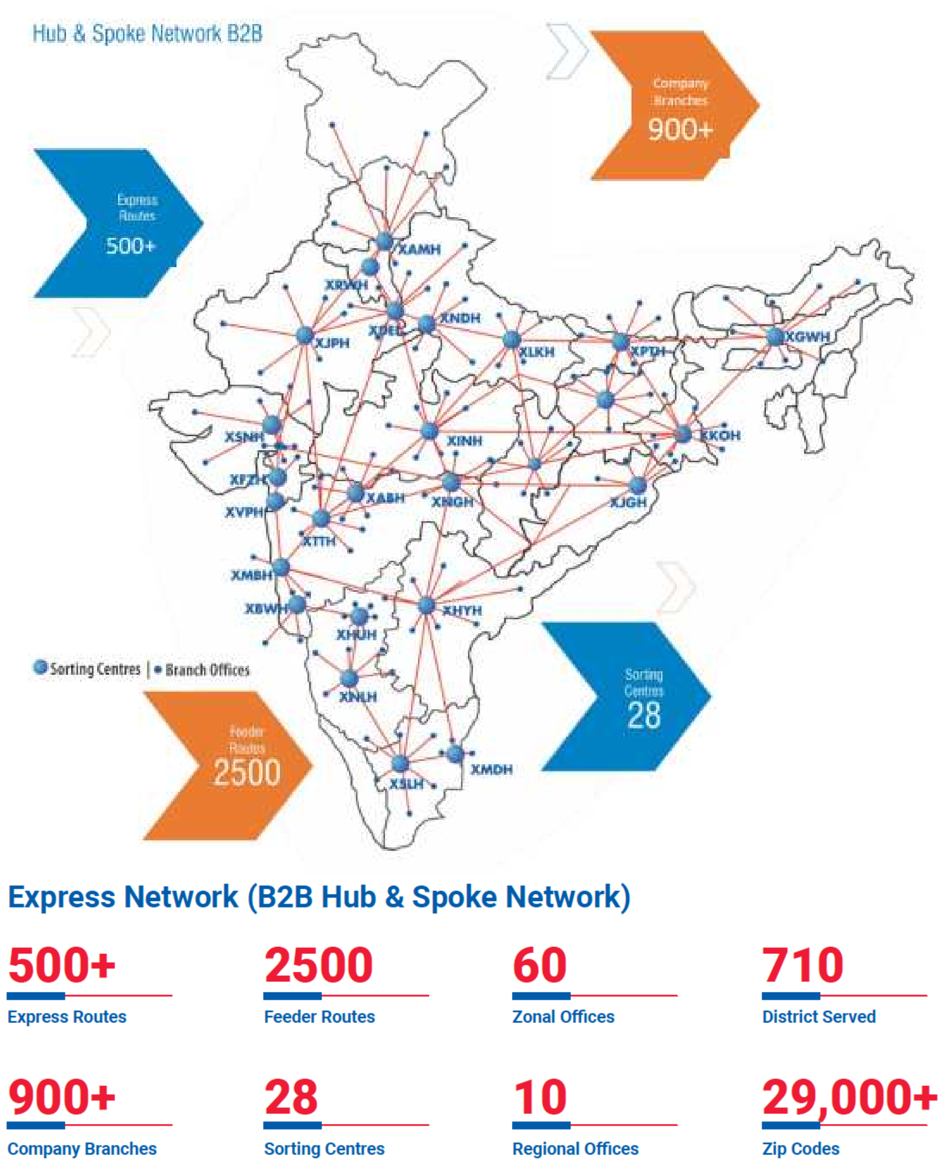
Annexure: Company overview

TCIEXP is a leading player in India's B2B express distribution market. The company derives most of its revenue from surface logistics and also offers a range of express services across the logistics spectrum, such as air, rail, C2C and reverse logistics. It has access to 40,000 pickup and 50,000 delivery locations in India as well as 208 markets worldwide.

The company follows an asset-light model to maintain high operational efficiency. It has a fleet of 5,000+ fully containerised vendor-managed vehicles and 28 sorting centres, backed by a staff of 3500+ professionals. Branch offices are directly managed by the company and have risen from 500 in 2017 to 900+ branches currently, with the number of customers growing from 160,000 to 220,000 over the same period. TCIEXP plans to double its revenue and branch offices by 2025.

Fig 12 – TCIEXP's network



Source: Company

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Total revenue	**8,516**	**10,896**	**12,880**	**15,073**	**18,238**
EBITDA	1,420	1,829	2,196	2,796	3,658
Depreciation	90	100	129	155	181
EBIT	1,330	1,729	2,067	2,641	3,477
Net interest inc./(exp.)	(8)	(9)	0	0	0
Other inc./(exp.)	0	0	0	0	0
Exceptional items	0	0	0	0	0
EBT	1,338	1,738	2,067	2,641	3,477
Income taxes	316	432	517	660	869
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	**1,022**	**1,307**	**1,550**	**1,981**	**2,608**
Adjustments	0	0	0	0	0
Adjusted net profit	**1,022**	**1,307**	**1,550**	**1,981**	**2,608**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	752	737	920	1,077	1,303
Other current liabilities	168	164	170	198	240
Provisions	43	56	60	70	85
Debt funds	20	10	0	0	0
Other liabilities	145	241	233	259	297
Equity capital	77	77	77	77	77
Reserves & surplus	4,262	5,285	6,586	8,267	10,515
Shareholders' fund	4,339	5,362	6,663	8,344	10,592
Total liab. and equities	**5,465**	**6,570**	**8,046**	**9,948**	**12,517**
Cash and cash eq.	272	180	536	1,175	2,321
Accounts receivables	1,695	1,895	2,224	2,603	3,150
Inventories	0	0	0	0	0
Other current assets	203	356	275	314	372
Investments	587	870	870	870	870
Net fixed assets	2,266	3,168	4,100	4,945	5,764
CWIP	278	61	0	0	0
Intangible assets	18	30	30	30	30
Deferred tax assets, net	0	0	0	0	0
Other assets	147	11	11	11	11
Total assets	**5,465**	**6,570**	**8,046**	**9,948**	**12,517**

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash flow from operations	**1,189**	**1,108**	**1,615**	**1,939**	**2,505**
Capital expenditures	(573)	(817)	(1,000)	(1,000)	(1,000)
Change in investments	(302)	(283)	0	0	0
Other investing cash flows	(85)	207	0	0	0
Cash flow from investing	**(960)**	**(893)**	**(1,000)**	**(1,000)**	**(1,000)**
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(7)	(11)	(10)	0	0
Interest expenses	(8)	(9)	0	0	0
Dividends paid	(77)	(308)	(250)	(299)	(359)
Other financing cash flows	10	21	0	0	0
Cash flow from financing	**(82)**	**(307)**	**(260)**	**(299)**	**(359)**
Chg in cash & cash eq.	**146**	**(92)**	**356**	**640**	**1,146**
Closing cash & cash eq.	**272**	**180**	**536**	**1,175**	**2,321**

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	26.2	33.5	40.3	51.4	67.7
Adjusted EPS	26.2	33.5	40.3	51.4	67.7
Dividend per share	2.0	8.0	6.5	7.8	9.3
Book value per share	112.8	139.3	173.1	216.7	275.1

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	8.6	6.7	5.7	4.9	4.0
EV/EBITDA	51.7	40.1	33.4	26.3	20.1
Adjusted P/E	72.9	57.0	47.4	37.1	28.2
P/BV	16.9	13.7	11.0	8.8	6.9

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Tax burden (Net profit/PBT)	76.4	75.2	75.0	75.0	75.0
Interest burden (PBT/EBIT)	100.6	100.5	100.0	100.0	100.0
EBIT margin (EBIT/Revenue)	15.6	15.9	16.0	17.5	19.1
Asset turnover (Rev./Avg TA)	174.1	181.1	176.3	167.5	162.4
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	0.9
Adjusted ROAE	23.5	24.4	23.3	23.7	24.6

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
Revenue	(17.8)	27.9	18.2	17.0	21.0
EBITDA	13.0	28.8	20.1	27.3	30.8
Adjusted EPS	12.7	27.8	20.3	27.7	31.7
Profitability & Return ratios (%)					
EBITDA margin	16.7	16.8	17.0	18.6	20.1
EBIT margin	15.6	15.9	16.0	17.5	19.1
Adjusted profit margin	12.0	12.0	12.0	13.1	14.3
Adjusted ROAE	23.5	24.4	23.3	23.7	24.6
ROCE	30.6	32.2	31.0	31.6	32.8
Working capital days (days)					
Receivables	73	63	63	63	63
Inventory	0	0	0	0	0
Payables	32	25	26	26	26
Ratios (x)					
Gross asset turnover	3.6	3.5	3.1	2.9	3.0
Current ratio	2.4	2.7	2.8	3.1	3.5
Net interest coverage ratio	170.5	190.0			
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Disclaimer

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

BUY – Expected return >+15%

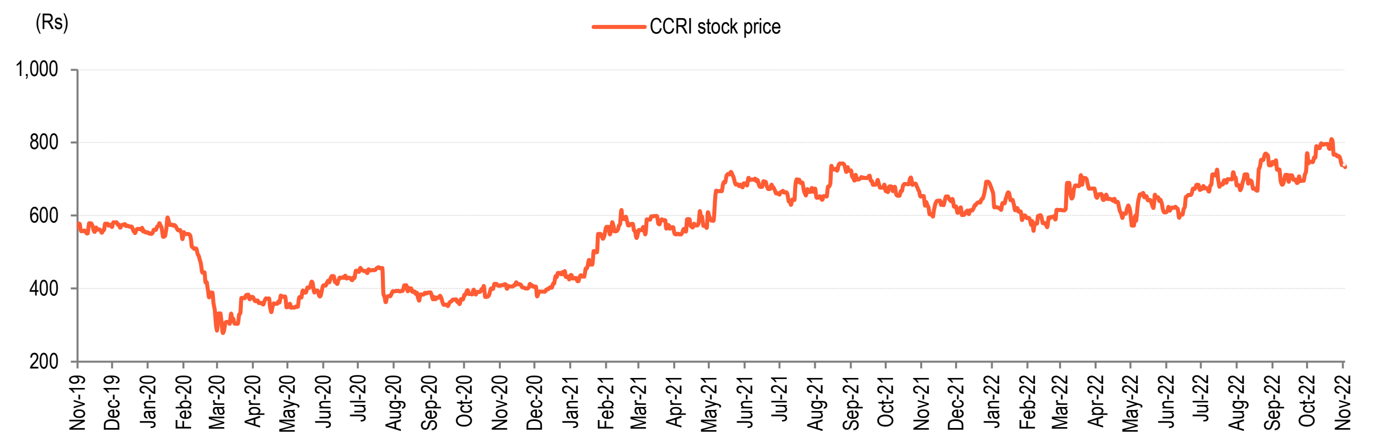
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

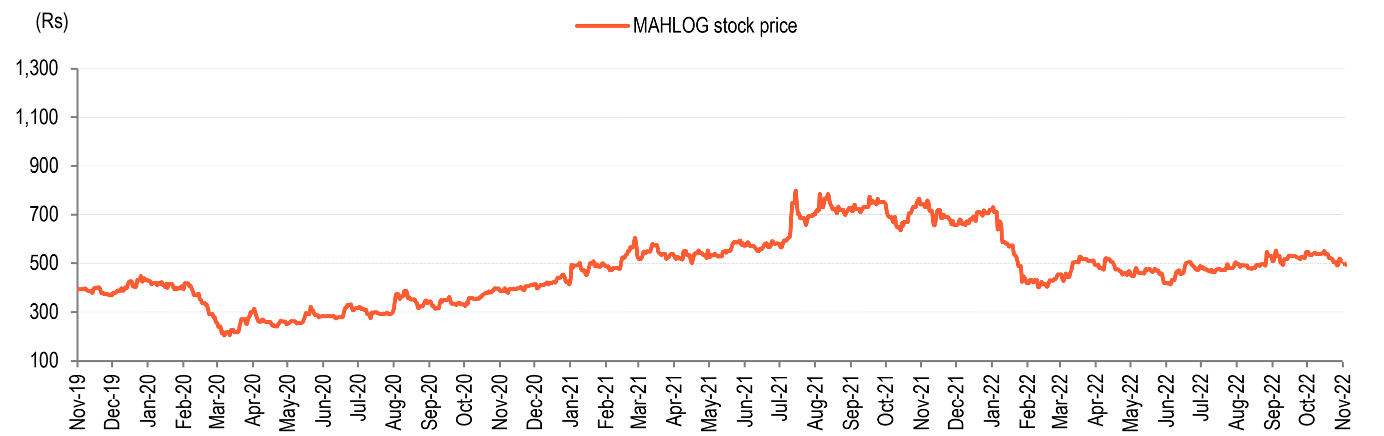
Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): CONTAINER CORP OF INDIA (CCRI IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

Ratings and Target Price (3-year history): MAHINDRA LOGISTICS (MAHLOG IN)



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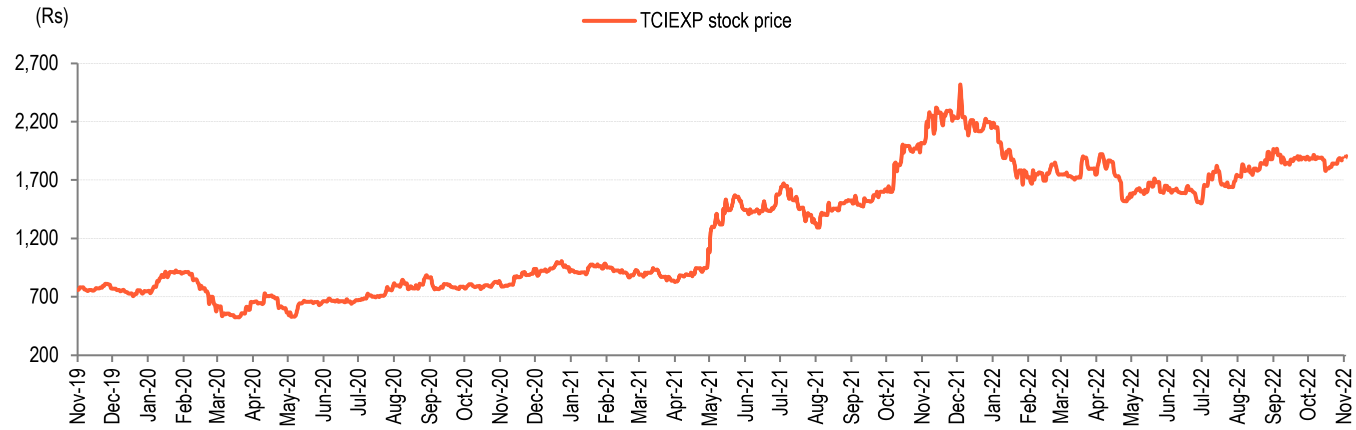
Ratings and Target Price (3-year history): TCI EXPRESS (TCIEXP IN)



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