

Major ports, container rail volumes improve; EXIM sluggish

High frequency indicators exhibited a mixed trend in Jul'19. Despite slowing manufacturing output (1.2% YoY vs. 4.5% in Jun'19) and weak EXIM trade (-6% YoY), cargo volumes at major ports were more resilient, growing 3.5% YoY after two months of decline. Container traffic at major ports also grew at a decent 6% YoY. Container rail volumes held steady at 4% YoY, but a surprise uptick in EXIM lead distance (+6%) led to better NTKM growth of 5%. We expect the next few months to be sluggish owing to a weak trade outlook and soft consumption.

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Container traffic at major ports ticks up: Container traffic growth at major ports accelerated to 6% YoY in Jul'19. Kandla (+90% YoY, in TEUs) and Vizag (+21%) drove this growth, supported by Tuticorin (+12%) and New Mangalore (+33%). Container volumes at Chennai dipped 5% YoY. JNPT volumes (+0.2% YoY) languished for the second consecutive month. Overall cargo traffic grew 3.5% YoY, after two consecutive months of decline (0.5% YoY dip in both May-Jun'19).

Container rail volumes – EXIM NTKM growth a positive: Container rail volumes inched up 4.3% YoY in July vs 3.4% in June. This was lower than the 6% growth in container traffic at major ports, indicating possible market share loss for rail. Despite sedate volume growth of 1.9%, EXIM net tonne-km (NTKM) grew at a decent 8% YoY as EXIM lead distance increased 6%, reversing a long declining trend. Domestic NTKMs, however, declined 3.4% YoY as a 16% plunge in lead distance negated healthy volume growth of 15%. Container rail volumes are likely to remain tepid for the next couple of months, barring a material uptick in India's EXIM trade, as the base over Aug-Oct'18 is unfavourable.

EXIM trade remains weak, IIP growth softens: Merchandise EXIM trade declined 5.8% YoY in Jul'19 (US\$ terms) after a 9% decrease in Jun'19. While exports rose 2.2% YoY led by a 5.2% uptick in non-oil and non-gold exports, imports declined 10.4% YoY amidst a domestic consumption slowdown. Non-oil, non-gold imports declined 2.2% YoY. Jun'19 IIP growth decelerated to 2% YoY (4.5% in May'19), with manufacturing output growth slowing to 1.2%.

Headwinds to persist in near term: We expect most high frequency indicators to remain subdued over the next 2-3 months, given a weak global trade outlook and domestic consumption slowdown.

KEY RECOMMENDATIONS

Ticker	Price	Target	Rating
AGLL IN	94	125	BUY
CCRI IN	476	530	ADD
FSCS IN	516	715	BUY
MAHLOG IN	370	515	BUY
TCIEXP IN	612	785	BUY
TRPC IN	264	365	BUY

Price & Target in Rupees



Logistics demand barometers – Jul'19

Major port volumes

Cargo volumes and container traffic growth improve

Total cargo volumes at major ports grew by 3.5% YoY

- After declining for two consecutive months, cargo volumes at major ports bounced back, growing at 3.5% YoY/3.2% MoM to 59.4mn tonnes (mt) in Jul'19.
- Among major ports, Vizag (+21% YoY) and Kolkata (+14% YoY) continued to gain market share on the eastern coast from Ennore (-10% YoY) and Chennai (-7% YoY). Paradip (+9% YoY), Cochin (+9% YoY) and Tuticorin (+7% YoY) were the other major ports to register growth, while Mormugao (-18% YoY), New Mangalore (-13% YoY) and JNPT (-1% YoY) were the laggards.
- All commodities posted YoY growth, barring thermal coal (-29% YoY). Iron ore (+48% YoY), coking coal (+14% YoY), fertilisers (+12.6% YoY), and POL (+7% YoY) grew the fastest. Container traffic, in tonnage terms, accelerated to 6% YoY/7% MoM after a weak Jun'19.
- Container traffic growth at major ports accelerated in Jul'19, growing at 6.2% YoY/5.8% MoM in TEU terms. Kandla/Vizag grew 90%/21% YoY, followed by Tuticorin (+12%), Cochin (+6%) and Kolkata (+4%). New Mangalore posted ~33% YoY growth albeit from a low base. Chennai was the only port to report a decline in container traffic (-5% YoY). JNPT reported flat volumes at 431k TEU.

Container traffic growth in July improved to 6.2% YoY/5.8% MoM

FIG 1 – CARGO VOLUMES AT MAJOR PORTS

('000 tonnes)	Jul-19	Jul-18	YoY (%)	Jun-19	MoM (%)
Chennai	4,314	4,643	(7.1)	3,939	9.5
Cochin	3,040	2,802	8.5	2,811	8.1
Ennore	2,345	2,607	(10.0)	2,546	(7.9)
JNPT	5,804	5,888	(1.4)	5,627	3.1
Kandla	9,870	9,632	2.5	10,061	-1.9
Kolkata	5,666	4,970	14.0	5,542	2.2
Mormugao	1,135	1,382	(17.9)	1,204	(5.7)
Mumbai	4,844	4,748	2.0	4,568	6.0
New Mangalore	3,178	3,652	(13.0)	2,823	12.6
Paradip	9,886	9,041	9.3	9,716	1.7
Tuticorin	2,873	2,692	6.7	2,809	2.3
Vizag	6,418	5,323	20.6	5,907	8.7
Total major ports	59,373	57,380	3.5	57,553	3.2

Source: Indian Ports Association, BOBCAPS Research

FIG 2 – COMMODITY-WISE VOLUMES AT MAJOR PORTS

('000 tonnes)	Jul-19	Jul-18	YoY (%)	Jun-19	MoM (%)
Coal - Coking	5,079	4,449	14.2	5,156	(1.5)
Coal - Thermal	5,983	8,367	(28.5)	7,529	(20.5)
Containers - Tonnage	13,179	12,391	6.4	12,272	7.4
Fertilisers - Finished & raw	1,383	1,228	12.6	1,471	(6.0)
Iron ore	4,460	3,022	47.6	4,422	0.9
POL	20,837	19,481	7.0	18,588	12.1
Others	8,452	8,442	0.1	8,115	4.2
Total major ports	59,373	57,380	3.5	57,553	3.2

Source: Indian Ports Association, BOBCAPS Research

FIG 3 – CONTAINER TRAFFIC AT MAJOR PORTS

('000 TEU)	Jul-19	Jul-18	YoY (%)	Jun-19	MoM (%)
Chennai	134	141	(5.0)	122	9.8
Cochin	51	48	6.3	54	(5.6)
Ennore	13	-	NM	13	-
JNPT	431	430	0.2	410	5.1
Kandla	40	21	90.5	40	-
Kolkata	77	74	4.1	74	4.1
Mormugao	3	3	0.0	2	50.0
Mumbai	2	2	0.0	3	(33.3)
New Mangalore	16	12	33.3	13	23.1
Paradip	1	1	0.0	1	-
Tuticorin	74	66	12.1	65	13.8
Vizag	46	38	21.1	42	9.5
Total major ports	888	836	6.2	839	5.8

Source: Indian Ports Association, BOBCAPS Research

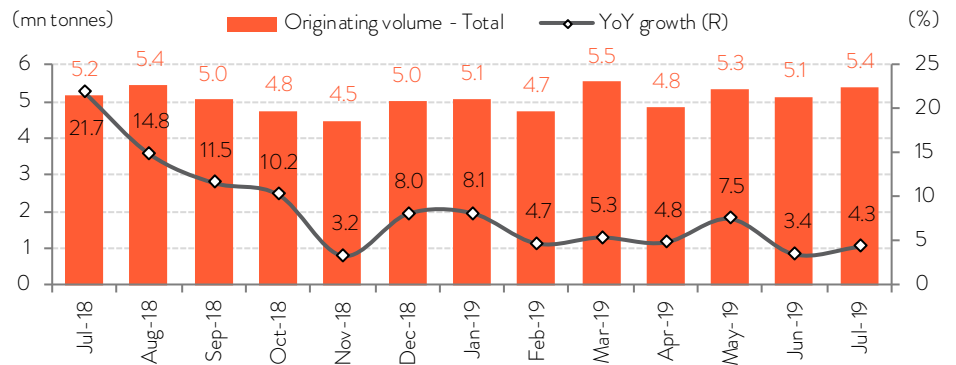
Container rail traffic

Domestic growth bounces back, EXIM sluggish

IR container traffic continues to grow in mid-single digits

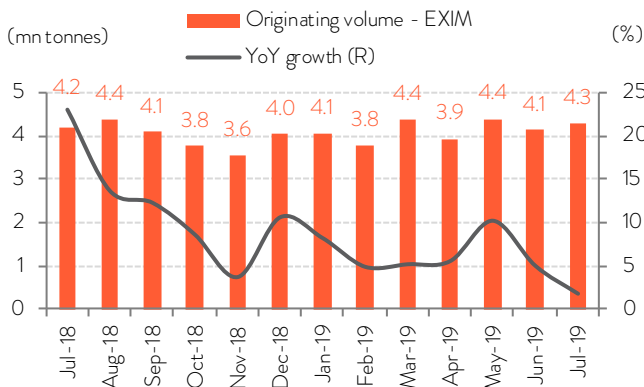
- As per data published by the Indian Railways (IR), container rail volumes grew 4.3% YoY in Jul'19 to 5.4mt. This marks the ninth consecutive month of single-digit growth in container traffic for the IR since the 10% YoY growth posted in Oct'18.
- EXIM container volumes decelerated to 2% YoY, the slowest since May'17, owing to a strong base of Jul'18 (+23% YoY). However, domestic volumes surprised positively by posting strong 15% YoY growth.
- Lower growth in container rail volumes than container traffic at major ports (6.4% YoY in tonnage terms) indicates possible market share loss for the railways.

FIG 4 – CONTAINER RAIL VOLUMES GREW 4.3% YOY IN JUL'19



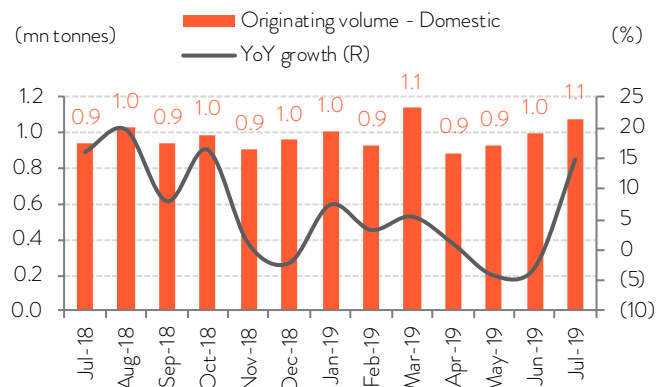
Source: Indian Railways, BOBCAPS Research

FIG 5 – EXIM GROWTH MUTED AT 1.9% YOY



Source: Indian Railways, BOBCAPS Research

FIG 6 – DOMESTIC HIT A MULTI-MONTH HIGH AT 15%



Source: Indian Railways, BOBCAPS Research

EXIM lead distance improves – a positive surprise

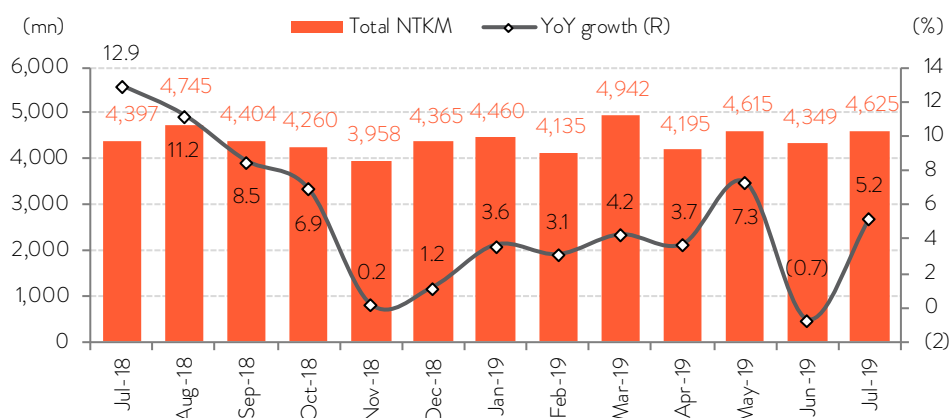
Total lead distance rose 0.8% to 861km – first instance of growth in three years

- Lead distance reversed the declining trend seen over several months now, growing 0.8% YoY to 861km, led by a surprise 6% YoY uptick in EXIM lead distance to 814km (surpassed 800km for the first time since Apr'18).
- Consequent to volume and lead distance growth, overall NTKM grew 5.2% YoY to 4.6bn. Despite muted volume growth, EXIM NTKM was lifted to 8.3% by the lead distance improvement.
- Domestic lead distance, however, plunged 16% YoY to 1,050km. This negated the impact of strong volume growth, leading to a 3.4% dip in domestic NTKM.

FIG 7 – LEAD DISTANCES FOR IR CONTAINER TRAFFIC

(km)	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19
Domestic lead distance	1,249	1,277	1,240	1,287	1,264	1,264	1,241	1,267	1,277	1,204	1,275	1,166	1,050
YoY growth (%)	(7.1)	(3.8)	(5.8)	(6.6)	(3.4)	(6.3)	(4.8)	(1.4)	(1.3)	(0.5)	4.1	(6.6)	(15.9)
EXIM lead distance	765	781	792	794	788	780	792	791	796	793	779	771	814
YoY growth (%)	(6.7)	(3.6)	(1.0)	(2.3)	(2.6)	(4.9)	(3.8)	-	(1.0)	(0.9)	(0.1)	(2.2)	6.4
Total lead distance	854	875	875	897	885	873	886	876	895	868	866	848	861
YoY growth (%)	(7.3)	(3.2)	(2.8)	(3.0)	(3.1)	(6.3)	(3.7)	(1.6)	(1.1)	(1.1)	(0.1)	(4.0)	0.8

Source: Indian Railways, BOBCAPS Research

FIG 8 – NTKM GREW 5.2% YOY TO 4.6BN

Source: Indian Railways, BOBCAPS Research

EXIM trade

Core exports tick up; imports continue to fall

Non-oil, non-gold exports rose 5.2% YoY; core imports declined 2.2% in Jul'19

- EXIM trade (merchandise trade in US dollar terms) continued to decline for the second consecutive month in July, falling 5.8% YoY to US\$ 66.1bn after a decline of 9.3% in Jun'19.
- Exports rose marginally by 2.2% YoY vs. a 10% drop in Jun'19. Core exports (non-oil, non-gold) increased 5% YoY (-5% in Jun'19) led by pharma products (+22% vs. +16% in Jun'19), organic chemicals (+13% vs. -8%), and textiles (+1.3% vs. -12.3%).
- Imports fell 10.4% YoY vs. a 9% decline in Jun'19. The ongoing domestic consumption slowdown led to a 2% YoY decline in non-oil, non-gold imports, representing the ninth consecutive month of contraction, although this was an improvement from the steep 9% drop in Jun'19.

FIG 9 – EXIM TRADE TREND

(US\$ bn)	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19
Total EXIM trade	72.0	73.1	69.9	71.1	69.7	68.9	67.5	62.9	76.0	67.5	75.3	65.3	66.1
YoY growth (%)	19.7	23.0	5.0	17.7	2.9	(1.3)	1.4	(2.2)	5.3	2.9	4.1	(9.3)	(5.8)
Total exports	27.7	27.8	28.0	27.0	26.5	27.9	26.4	26.7	32.6	26.1	30.0	25.0	26.3
YoY growth (%)	17.1	19.2	(2.2)	17.9	0.8	0.4	3.7	2.5	11.0	0.6	3.9	(9.7)	2.2
Non-oil, non-gold exports	20.1	20.7	19.8	18.9	18.6	21.1	19.9	19.9	25.6	19.5	21.4	19.2	19.7
YoY growth (%)	15.2	16.4	(2.5)	14.5	(3.9)	1.1	8.2	5.1	13.4	(1.3)	7.4	(4.9)	5.2
Total imports	44.3	45.2	41.9	44.1	43.2	41.0	41.1	36.3	43.4	41.4	45.4	40.3	39.8
YoY growth (%)	21.3	25.4	10.5	17.6	4.3	(2.4)	0.0	(5.4)	1.4	4.5	4.3	(9.1)	(10.4)
Non-oil, non-gold imports	29.2	29.8	28.4	28.2	26.9	27.8	27.5	24.3	28.4	26.1	28.3	26.6	28.5
YoY growth (%)	12.5	12.8	1.2	11.8	(5.8)	(1.9)	(0.8)	(3.7)	(2.7)	(2.2)	(0.7)	(9.0)	(2.2)

Source: Ministry of Commerce and Industry, BOBCAPS Research

Jun'19 IIP data

Manufacturing output moderates to 1.2% YoY

- Industry output growth softened to 2% in Jun'19 from 4.6% in May'19, owing to moderation in manufacturing output (+1.2% YoY vs. +4.5% in May) and mining (+1.6% vs. +2.4% in May).
- Within manufacturing, capital goods declined 6.5% YoY, followed by consumer durables (-5.5% YoY) and infrastructure/construction goods (-1.8% YoY). Intermediate goods increased 12.4% YoY, followed by consumer non-durables (+7.8% YoY). Primary goods grew at a meagre 0.5% YoY.

BOBCAPS logistics universe: Valuation summary

FIG 10 – VALUATION SUMMARY

Company	Market cap (Rs mn)	CMP (Rs)	TP (Rs)	Rating	Upside (%)	FY19-FY22E					
						Revenue CAGR (%)	EBITDA CAGR (%)	Earnings CAGR (%)	Avg. ROE (%)	Avg. ROCE (%)	Avg. debt-EBITDA (x)
AGLL	23,108	94	125	BUY	32.9	12.6	15.0	9.5	12.6	12.1	1.3
CCRI	2,89,966	476	530	ADD	11.4	16.4	21.6	8.2	11.8	12.2	0.1
FSCSL	20,692	516	715	BUY	38.5	24.8	29.2	16.8	17.0	17.7	1.0
MLL	26,401	370	515	BUY	39.4	11.6	18.8	22.3	19.9	27.7	0.1
TCIEXP	23,442	612	785	BUY	28.3	15.8	22.1	23.1	29.0	42.5	0.1
TRPC	20,243	264	365	BUY	38.2	14.3	17.4	16.8	17.6	13.3	1.7

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

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

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

SELL – Expected return <-5%

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

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