

Subdued start to FY20

Most industry indicators remained muted in Apr'19, opening FY20 on a subdued note. Container rail volumes grew 4.8% YoY, yet another month of mid-single-digit growth. While rail appears to have maintained market share in EXIM container trade (+5.6% YoY – in line with container cargo tonnage growth at major ports), domestic volumes disappointed (+1.1%). Container traffic at major ports grew at a steady 6.7% YoY (TEU terms), with JNPT's growth easing to 3.7%. EXIM trade growth was muted at 2.9% YoY.

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Container rail continues to grow in single digits: Container rail volumes grew at a steady 4.8% YoY in Apr'19. EXIM container volumes grew 5.6% YoY, in line with the 5.7% growth in container cargo at major ports (in tonnage), which possibly indicates stable market share for rail in the segment. Domestic container growth eased to 1.1% YoY (vs. +5.6% in Mar'19), dampened by weak domestic consumption demand.

Container traffic growth dips at major ports: Container cargo handled by major ports grew 6.7% YoY (in TEU) during Apr'19, dipping marginally from the 8% growth registered in Mar'19. This growth was led by Kandla (+85% YoY) and Vizag (+24% YoY). JNPT decelerated to 3.7% YoY, the slowest since Aug'18. Chennai/Kolkata witnessed volume dips of 4% each. Overall cargo volumes grew 5.7% YoY, an improvement over the 4% YoY growth posted in Mar'19, driven by coking coal (+31%), thermal coal (+13%), and POL (+11%).

Macros remain sluggish: Overall EXIM growth remained muted at 2.9% YoY in Apr'19. Export growth decelerated to 0.6% from a five-month high in Mar'19 (+11%), while import growth rose to 4.5% led by higher oil and gold imports. Non-oil, non-gold imports and exports fell by 2.2% and 1.3% respectively. Mar'19 IIP contracted 0.1% YoY, marred by subdued manufacturing activity (manufacturing IIP down 0.4% YoY).

Near-term outlook gloomy: Headwinds in the form of an escalating trade war in conjunction with decelerating domestic economic growth may continue to weigh on both EXIM trade and domestic demand over the next couple of months. Accordingly, demand for logistics services could remain muted during the same period.

KEY RECOMMENDATIONS

Ticker	Price	Target	Rating
AGLL IN	102	130	BUY
CCRI IN	469	520	REDUCE
FSCS IN	620	780	BUY
MAHLOG IN	453	600	BUY
TCIEXP IN	633	880	BUY
TRPC IN	289	365	BUY

Price & Target in Rupees



Logistics demand barometers – Apr'19

Major port volumes

Cargo volumes grew 5.7% YoY; containers up 6.7%

Total cargo volumes at major ports grew at 5.7% YoY in Apr'19

- Aggregate cargo volumes at major ports remained resilient in Apr'19, growing 5.7% YoY (–7.8% MoM, albeit on a high base) to 60mn tonnes (mt), an improvement over the 4% YoY growth witnessed in Mar'19. This uptick was catalysed by robust growth in coking coal (+31% YoY), thermal coal (+13% YoY) and POL (+11% YoY).
- Fertiliser volumes, both finished and raw, declined sharply (–25%/–41% YoY), while iron ore also declined (–4%).
- Among major ports, Kandla reported strong growth of 21% YoY in cargo volumes, followed by Cochin (+18%), Paradip (+17%), and Vizag (+11%). However, this was partially offset by muted volumes at all other major ports. Mormugao (–36% YoY), New Mangalore (–8%), and Chennai (–7%) were the biggest laggards.
- Container traffic at major ports grew 6.7% YoY (–4.7% MoM) to 861k TEU in Apr'19, led by sharp growth at Kandla (+85% YoY) and Vizag (+24%). Ennore port handled 12k TEU vs. nil in Apr'18, which also aided growth.
- Container traffic growth at JNPT eased to 3.7% YoY, the lowest since Aug'18. Both Tuticorin/Cochin grew at a steady 6% YoY, while container volumes at Chennai/Kolkata ports fell 4% YoY each.

Container traffic at major ports held steady at 6.7% YoY, in TEU terms

FIG 1 – CARGO VOLUMES AT MAJOR PORTS

('000 tonnes)	Apr-19	Apr-18	YoY (%)	Mar-19	MoM (%)
Chennai	3,948	4,233	(6.7)	4,525	(12.8)
Cochin	2,828	2,402	17.7	2,923	(3.3)
Ennore	2,977	2,931	1.6	3,071	(3.1)
JNPT	5,992	5,894	1.7	6,531	(8.3)
Kandla	11,301	9,323	21.2	11,230	0.6
Kolkata	4,952	4,894	1.2	6,129	(19.2)
Mormugao	1,480	2,327	(36.4)	1,404	5.4
Mumbai	5,003	4,977	0.5	5,608	(10.8)
New Mangalore	3,267	3,563	(8.3)	4,021	(18.8)
Paradip	9,552	8,151	17.2	10,546	(9.4)
Tuticorin	3,084	3,034	1.6	3,081	0.1
Vizag	5,690	5,131	10.9	6,108	(6.8)
Total major ports	60,074	56,860	5.7	65,177	(7.8)

Source: Indian Ports Association, BOBCAPS Research

FIG 2 – COMMODITY-WISE VOLUMES AT MAJOR PORTS

('000 tonnes)	Apr-19	Apr-18	YoY (%)	Mar-19	MoM (%)
Coal - Coking	5,516	4,223	30.6	5,276	4.5
Coal - Thermal	10,917	9,691	12.7	9,101	20.0
Containers - Tonnage	12,544	11,863	5.7	13,427	(6.6)
Fertilisers - Finished	468	623	(24.9)	698	(33.0)
Fertilisers - Raw	275	464	(40.7)	703	(60.9)
Iron ore	3,809	3,964	(3.9)	4,512	(15.6)
POL	18,992	17,110	11.0	21,131	(10.1)
Others	7,553	8,922	(15.3)	10,329	(26.9)
Total	60,074	56,860	5.7	65,177	(7.8)

Source: Indian Ports Association, BOBCAPS Research

FIG 3 – CONTAINER TRAFFIC AT MAJOR PORTS

('000 teu)	Apr-19	Apr-18	YoY (%)	Mar-19	MoM (%)
Chennai	123	128	(3.9)	133	(7.5)
Cochin	50	47	6.4	57	(12.3)
Ennore	12	-	NM	10	20.0
JNPT	448	432	3.7	471	(4.9)
Kandla	37	20	85.0	31	19.4
Kolkata	66	69	(4.3)	71	(7.0)
Mormugao	3	3	-	3	-
Mumbai	3	2	50.0	1	200.0
New Mangalore	11	10	10.0	15	(26.7)
Paradip	1	1	0.0	2	(50.0)
Tuticorin	66	62	6.5	69	(4.3)
Vizag	41	33	24.2	40	2.5
Total	861	807	6.7	903	(4.7)

Source: Indian Ports Association, BOBCAPS Research

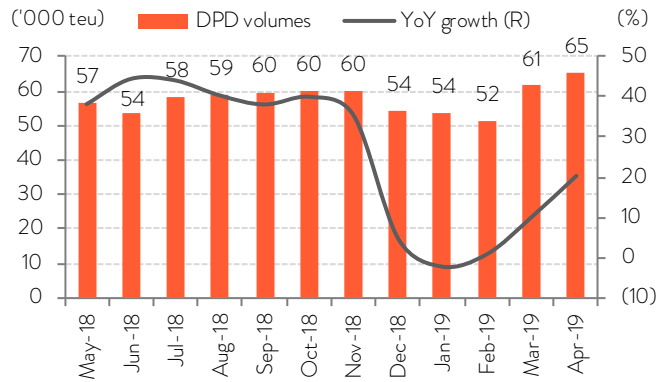
Share of DPD in total import-laden containers carried by road stable MoM at 51.1%

DPD share remains >50% of total roadbound import containers

- Share of direct port delivery (DPD) in total import-laden containers carried by road was flat MoM at 51.1%, the second consecutive quarter of 50%+ levels. In volume terms, total DPD containers increased at a strong 20.4% YoY to 65k containers for the month of April.
- The total number of importers registered for DPD increased to 2,270 from 2,243 in FY19.
- During the month, total import-laden containers carried by road declined by 8.6% YoY to 128k. Consequent to the lower number of import containers and higher DPD share, non-DPD CFS volumes continued to nosedive (-27% YoY). However, we note that a majority of the DPD cargo (65-70%) is also handled by the CFSs.

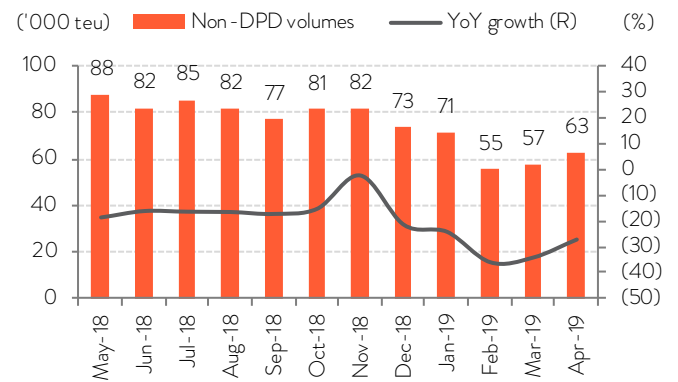
- The sharp decline in non-DPD CFS cargo is negative for CFS operators (Allcargo Logistics in our coverage). While volumes may not be impacted materially, especially for those CFS operators handling DPD-CFS cargo, realisations and per-unit profitability are likely to remain under pressure.

FIG 4 – DPD VOLUMES ROSE SHARPLY



Source: JNPT, BOBCAPS Research

FIG 5 – NON-DPD VOLUMES PLUNGED 27% YOY



Source: JNPT, BOBCAPS Research

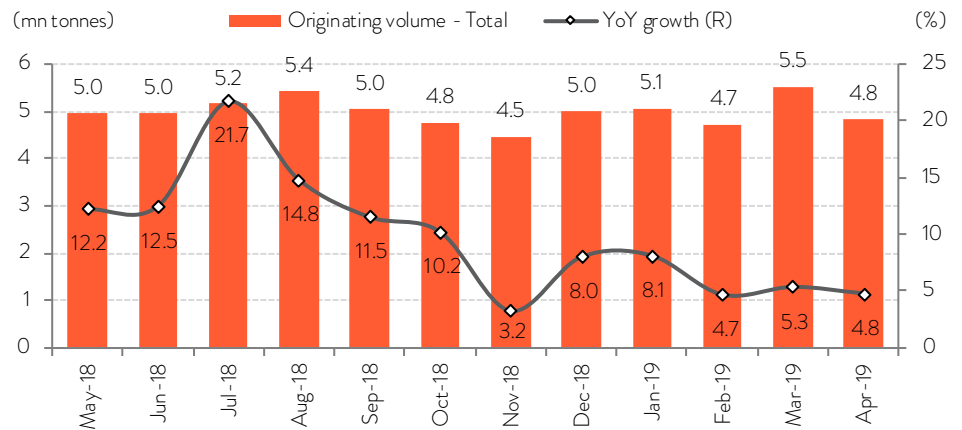
Container rail traffic

EXIM market share appears steady; Domestic volumes disappoint

EXIM/domestic container volumes grew 5.6%/1.1% YoY during Apr'19

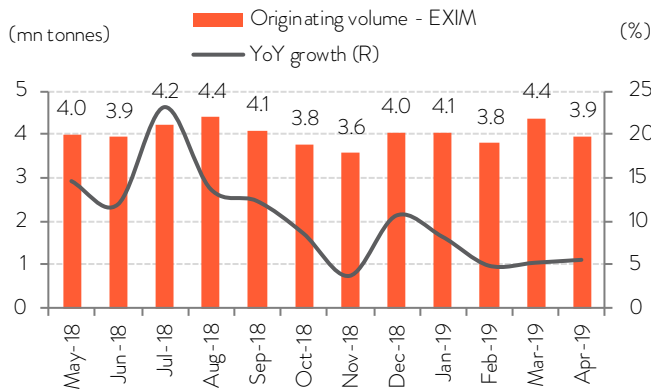
- As per data published by the Indian Railways (IR), total container rail volume growth remained steady at 4.8% YoY to 4.8mt. This comes on the heels of two months of mid-single-digit growth – 4.7%/5.3% YoY in Feb/Mar – and is the sixth consecutive month of single-digit growth.
- Although container rail growth remained steady in April, FY20 starts on a comparatively weaker note vis-à-vis the 10% growth seen in FY19.
- Container rail EXIM volumes grew at 5.6% YoY, in line with the 5.7% growth in container traffic at major ports (in tonnage terms). This suggests rail is likely to have maintained market share in EXIM container traffic. Domestic container volumes registered meagre 1.1% YoY growth, as the slowdown in consumption played spoilsport.
- Considering the high base –volumes were strong during May-Oct'18 with consistent double-digit growth – and sluggish EXIM outlook, growth in the coming months is likely to be subdued, barring a material uptick in EXIM activity and/or significant market share gains for rail.
- We have baked in 11% volume growth for Container Corp of India (CCRI) in FY20, which could see some downside risk if container rail volumes remain in mid-single-digits over the next few months. However, we note that the container volume data published by IR is in tonnes and companies report volumes in TEU terms, and hence the two may not be strictly comparable.

FIG 6 – CONTAINER RAIL VOLUMES GREW 4.8% YOY IN APR'19



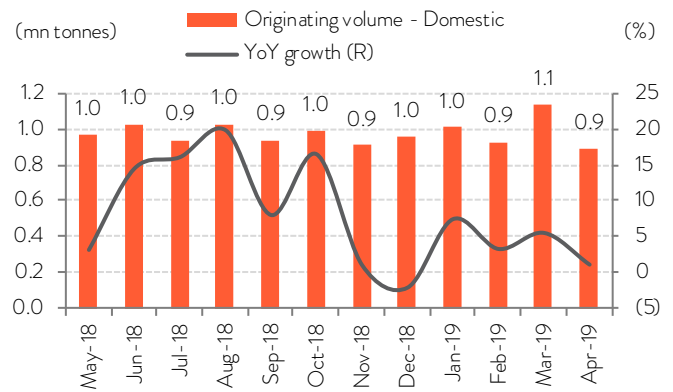
Source: Indian Railways, BOBCAPS Research

FIG 7 – EXIM VOLUMES GREW AT 5.6% YOY



Source: Indian Railways, BOBCAPS Research

FIG 8 – DOMESTIC VOLUMES MODERATED TO 1.1%



Source: Indian Railways, BOBCAPS Research

EXIM Lead distance stable, domestic fall MoM

Total lead distance stood at 868km in Apr'19, -3% MoM and -1% YoY

- EXIM lead distance for container traffic was stable at 793km in Apr'19 (-0.4% MoM; -0.9% YoY). But domestic lead distance declined 5.7% MoM (-0.5% YoY) to 1,204km. Overall lead distance fell 3% MoM (-1.1% YoY) to 868km.
- Total net tonne kilometres (NTKM) grew at 3.7% YoY in Apr'19, slower than volume growth led by a YoY dip in lead distances. EXIM/domestic NTKM grew 0.8%/4.7% YoY.

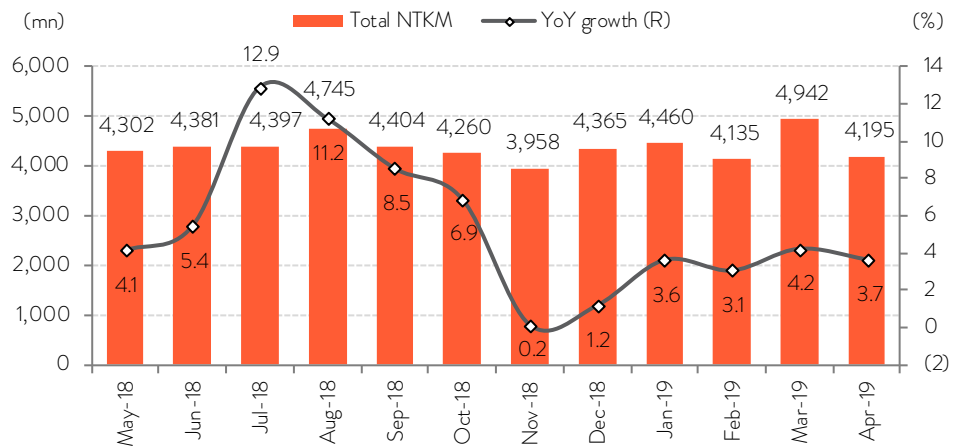
FIG 9 – LEAD DISTANCES FOR IR CONTAINER TRAFFIC

(km)	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19
Domestic lead distance	1,210	1,225	1,248	1,249	1,277	1,240	1,287	1,264	1,264	1,241	1,267	1,277	1,204
YoY growth (%)	(10.8)	(12.0)	(9.2)	(7.1)	(3.8)	(5.8)	(6.6)	(3.4)	(6.3)	(4.8)	(1.4)	(1.3)	(0.5)
EXIM lead distance	800	780	788	765	781	792	794	788	780	792	791	796	793
YoY growth (%)	(0.5)	(3.8)	(5.3)	(6.7)	(3.6)	(1.0)	(2.3)	(2.6)	(4.9)	(3.8)	-	(1.0)	(0.9)
Total lead distance	878	867	883	854	875	875	897	885	873	886	876	895	868
YoY growth (%)	(5.2)	(7.3)	(6.3)	(7.3)	(3.2)	(2.8)	(3.0)	(3.1)	(6.3)	(3.7)	(1.6)	(1.1)	(1.1)

Source: Indian Railways, BOBCAPS Research

NTKM growth in container traffic at low single digits over past six months

FIG 10 – NTKM GREW 3.7% YOY IN APR'19



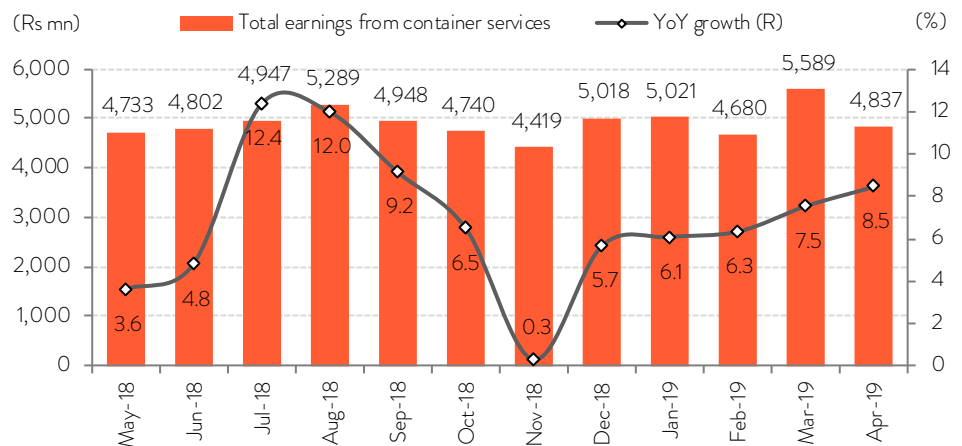
Source: Indian Railways, BOBCAPS Research

Higher earnings per NTKM led to healthy 8.5% YoY growth in Apr'19

IR posts healthy growth in earnings from container services

- IR's earnings from container services posted healthy growth of 8.5% YoY in Apr'19, led by NTKM growth of 3.7% YoY and an increase in per NTKM earnings of 4.6% YoY.
- After declining for several months due to falling lead distances, earnings per NTKM have started improving from Dec'18, post the ~5% increase in haulage charges by IR.
- Domestic earnings grew 2.6% YoY while EXIM earnings grew at a healthy 10.3% YoY.

FIG 11 – IR'S EARNINGS FROM CONTAINER SERVICES POSTED HEALTHY GROWTH OF 8.5% YOY



Source: Indian Railways, BOBCAPS Research

EXIM trade

Non-oil, non-gold exports and imports decreased in April

Non-oil, non-gold exports declined 1.3% YoY, while imports dipped 2.2% YoY

- Total EXIM trade (merchandise trade in US\$ terms) grew 2.9% YoY in Apr'19, marking the sixth consecutive month of low mid-single-digit growth or decline.
- Export growth decelerated to 0.6% YoY, from 11% in Mar'19, to US\$ 26.1bn in Apr'19. This was mainly owing to lower exports of gems and jewellery (-13.4%) and engineering goods (-7%).
- Import growth improved to 4.5% YoY in Apr'19 (1.4% in Mar'19) led mainly by an uptick in oil and gold imports (18.1% YoY).
- Non-oil, non-gold exports dipped 1.3% YoY to US\$ 19.5bn, after healthy 14.1% YoY growth in March. Non-oil, non-gold imports also decreased 2.2% YoY to US\$ 26.1bn, led by lower capital goods and agri imports.

FIG 12 – EXIM TRADE TREND

(US\$ bn)	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19
Total EXIM trade	65.5	72.3	72.0	69.6	73.1	69.9	71.1	69.7	68.9	67.5	62.9	76.0	67.5
YoY growth (%)	4.8	16.9	19.7	23.0	23.0	5.0	17.7	2.9	(1.3)	1.4	(2.2)	5.3	2.9
Total exports	25.9	28.9	27.7	25.8	27.8	28.0	27.0	26.5	27.9	26.4	26.7	32.6	26.1
YoY growth (%)	5.2	20.2	17.1	14.3	19.2	(2.2)	17.9	0.8	0.4	3.7	2.5	11.0	0.6
Non-oil, non-gold exports	19.8	19.9	20.1	18.7	20.7	19.8	18.9	18.6	21.1	19.9	19.9	25.6	19.5
YoY growth (%)	11.7	13.9	15.2	10.0	16.4	(2.5)	14.5	(3.9)	1.1	8.2	5.1	13.4	(1.3)
Oil and gold exports	6.1	8.9	7.6	7.1	7.1	8.2	8.0	7.9	6.8	6.5	6.8	7.0	6.5
YoY growth (%)	(11.7)	37.2	22.7	27.5	28.0	(1.3)	26.6	13.8	(1.9)	(7.8)	(4.6)	3.1	6.9
Total imports	39.6	43.5	44.3	43.8	45.2	41.9	44.1	43.2	41.0	41.1	36.3	43.4	41.4
YoY growth (%)	4.6	14.8	21.3	28.8	25.4	10.5	17.6	4.3	(2.4)	0.0	(5.4)	1.4	4.5
Non-oil, non-gold imports	26.1	28.5	29.2	28.5	29.8	28.4	28.2	26.9	27.8	27.5	24.3	28.4	26.1
YoY growth (%)	(0.7)	13.1	12.5	18.4	12.8	1.2	11.8	(5.8)	(1.9)	(0.8)	(3.7)	(2.7)	(2.2)
Oil and gold imports	13.5	15.0	15.1	15.3	15.5	13.5	15.9	16.3	13.3	13.6	12.0	15.0	15.4
YoY growth (%)	16.7	18.3	42.8	54.0	59.7	36.7	29.7	26.8	(3.6)	1.7	(8.7)	10.3	18.1

Source: Ministry of Commerce and Industry, BOBCAPS Research

Mar'19 IIP data

At a seven-quarter low

IIP declined 0.1% YoY led by 0.4% fall in manufacturing

- IIP declined 0.1% YoY in March, the lowest in 21 months, owing to a slowdown in the manufacturing (-0.4%) and mining (+0.8%) sectors. For FY19, IIP growth eased to 3.6% from 4.4% in FY18, constrained by slow manufacturing activity.
- Manufacturing output (-0.4%), a critical lead indicator for logistics demand, saw the second consecutive month of decline. Within manufacturing, capital goods (-8.7%) and consumer durables (-5.1%) slowed the most, while FMCG also fell -0.3%.
- As exhibited in the chart below, manufacturing activity started easing off from Nov'18 onwards, led by a dip in export growth. Subsequent moderation in domestic consumption accentuated the slowdown.
- The weakness in manufacturing may continue into H1FY20, especially as export growth is unlikely to revive soon amidst an escalating trade war between the US and China. A domestic consumption uptick hinges on several triggers, such as timely onset of the monsoon and its spatial distribution, a stable government, and easing liquidity. Against this backdrop, we expect logistics demand to remain subdued over the next few months.

FIG 13 – MANUFACTURING SECTOR DECLINED FOR SECOND CONSECUTIVE MONTH



Source: MOSPI, CSO, BOBCAPS Research

BOBCAPS logistics universe: Valuation summary

FIG 14 – VALUATION SUMMARY

Company	Rating	Target (Rs)	Upside (%)	EPS (Rs)			P/E (x)			ROE (%)		
				FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
AGLL	BUY	130	28	8.5	9.9	11.4	11.9	10.3	8.9	10.3	11.1	11.7
CCRI	REDUCE	520	11	19.9	21.2	20.5	23.5	22.1	22.9	12.3	11.9	10.6
FSCS	BUY	780	26	24.0	30.0	31.0	25.8	20.7	20.0	17.0	18.3	16.1
MAHLOG	BUY	600	32	12.0	15.6	19.9	37.8	29.1	22.8	18.7	20.7	22.7
TCIEXP	BUY	880	39	18.9	23.5	29.4	33.5	26.9	21.6	30.9	30.3	30.1
TRPC	BUY	365	26	19.5	22.9	26.1	14.8	12.6	11.1	18.0	18.2	17.9

Source: 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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