

LOGISTICS

Q3FY21 Preview

13 January 2021

Revenue and earnings growth set for recovery in Q3

Aggregate revenue of our logistics coverage universe is forecast to grow 11% YoY in Q3FY21 vs. a 1% uptick in Q2. Further, we expect all companies under our coverage to post higher YoY EBITDA and earnings. The revival in domestic and EXIM trade has been much faster than anticipated, as evident from the steadily improving high frequency indicators – rail freight (+11% YoY in Q3), major port cargo (+2%) and e-way bills (+15%) – which may drive earnings surprises for our coverage companies. VRL Logistics is our preferred pick.

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Growth set to rebound: We forecast an aggregate revenue increase of 11% YoY (+6% QoQ) for our coverage universe in Q3FY21 vs. 1% YoY growth in Q2, as most lead industry indicators point to a strong demand revival. In Q3, total e-way bills generated leaped 15% YoY, rail freight volume rose 11%, container rail volume increased 13%, and major port volumes moved up 2% – all implying a sustained recovery in domestic and EXIM trade.

RECOMMENDATION SNAPSHOT

Ticker	Rating
AGLL IN	ADD
CCRI IN	SELL
MAHLOG IN	BUY
TCIEXP IN	BUY
TPRC IN	BUY
VRL IN	BUY

MAHLOG = MLL

Gati consolidation to boost AGLL's financials; TCIEXP steady: Allcargo Logistics (AGLL) is likely to post the highest revenue/EBITDA growth in our coverage universe at 26%/24% YoY, led mainly by the consolidation of Gati and an uptick in global container trade. We expect TCI Express's (TCIEXP) revenue to rise 5% YoY, but fixed cost savings and operational efficiency gains should propel EBITDA up a higher 10% YoY.

Auto volume recovery bodes well for MLL and TRPC: Strong auto production volumes augur well for Mahindra Logistics (MLL) and Transport Corp's (TRPC) supply chain segment. We expect MLL's revenue to grow by 4% YoY (-2% in Q2), aided by 15% growth in the non-anchor client segment and a 6% increase in anchor customer revenue. Higher warehousing share should drive 13% growth in MLL's EBITDA. TRPC's SCS segment (~80% auto) is projected to grow by 3% YoY; this coupled with a 9% YoY rise in the seaways vertical is forecast to drive a 5%/6% increase in consolidated revenue/EBITDA.

Land license fee could mar CCRI's EBITDA: Container volumes carried by rail surged 13% YoY in Q3 (-5% YoY in Q2). Accordingly, Container Corp's (CCRI) provisional volume has also ticked up 6% vs. 9% contraction in Q2. We expect CCRI's revenue to increase 4% YoY after a 14% decline in Q2. EBITDA is likely to be flat YoY owing to a sharp increase in land licensing fee in Q3FY21.



FIG 1 – Q3FY21 RESULT PREVIEW

(Rs mn)	Q3FY21E	Q3FY20A	Q2FY21A	YoY (%)	QoQ (%)	Comment
Allcargo Logistics – consolidated						
Revenue	22,496	17,868	23,366	25.9	(3.7)	<ul style="list-style-type: none"> Consolidated revenue expected to increase 26% YoY aided by Gati integration (+4% growth ex-Gati) and steady MTO performance (+5% YoY)
EBITDA	1,574	1,265	1,621	24.4	(2.9)	<ul style="list-style-type: none"> We bake in slight YoY EBITDA margin contraction given Gati's relatively weaker margin profile vs. AGLL's core operations
EBITDA margin	7.0	7.1	6.9	(8bps)	6bps	<ul style="list-style-type: none"> Higher depreciation and interest expenses from Gati consolidation to weigh on PBT (+16%), but lower income tax YoY should drive 140% YoY growth in adj. PAT
PBT	629	541	679	16.1	(7.4)	
Adj. PAT	517	216	580	138.9	(10.9)	
Container Corporation – standalone						
Revenue	15,885	15,276	15,027	4.0	5.7	<ul style="list-style-type: none"> Provisional volumes for Q3FY21 up 6.1% YoY
EBITDA	3,722	3,717	3,130	0.1	18.9	<ul style="list-style-type: none"> Expect 2% YoY decline in realisation due to discounts provided to attract volumes, capping topline growth at 4% YoY
EBITDA margin	23.4	24.3	20.8	(90bps)	261bps	<ul style="list-style-type: none"> EBITDA margin to contract 90bps YoY as higher land licensing fee negates positive impact of haulage charge discounts
PBT	3,087	3,021	2,486	2.2	24.2	<ul style="list-style-type: none"> Adj. PAT projected to grow much faster than PBT owing to lower YoY tax rate
Adj. PAT	2,330	1,755	1,876	32.7	24.2	
Mahindra Logistics – consolidated						
Revenue	9,442	9,079	8,325	4.0	13.4	<ul style="list-style-type: none"> After six successive quarters of decline, consolidated revenue to expand 4% YoY led by SCM segment (+10%)
EBITDA	480	424	373	13.2	28.7	<ul style="list-style-type: none"> Within SCM, Mahindra Group revenue likely to increase 6% YoY aided by 4% growth in anchor client's sales volume
EBITDA margin	5.1	4.7	4.5	41bps	60bps	<ul style="list-style-type: none"> Non-Mahindra segment expected to tick up 15% YoY
PBT	255	213	202	19.6	26.1	<ul style="list-style-type: none"> EBITDA margin forecast to expand 41bps YoY owing to higher share of warehousing business
Adj. PAT	190	155	150	22.5	27.1	<ul style="list-style-type: none"> Adj. PAT to grow 22.5% YoY
TCI Express						
Revenue	2,818	2,684	2,130	5.0	32.3	<ul style="list-style-type: none"> Low-single-digit volume uptick (~3%) expected in Q3, driven by healthy festive season sales in Oct'20
EBITDA	379	343	326	10.4	16.3	<ul style="list-style-type: none"> Express revenue likely to grow 5% YoY, also aided by ~2% realisation increase
EBITDA margin	13.4	12.8	15.3	66bps	(185bps)	<ul style="list-style-type: none"> EBITDA margin to expand 66bps YoY to 13.4% but to moderate by 185bps QoQ as gross margins revert to normalcy from Q2 highs
PBT	374	329	315	13.7	18.5	
Adj. PAT	278	255	235	9.0	18.5	<ul style="list-style-type: none"> Expect 9% YoY increase in adj. PAT
Transport Corporation of India – consolidated						
Revenue	7,420	7,063	6,969	5.1	6.5	<ul style="list-style-type: none"> Consolidated revenue forecast to grow 5% YoY led by seaways segment (+9% YoY)
EBITDA	685	648	622	5.7	10.0	<ul style="list-style-type: none"> Freight segment estimated to rise 2% YoY; supply chain segment should grow 3% YoY led by the auto vertical
EBITDA margin	9.2	9.2	8.9	5bps	30bps	<ul style="list-style-type: none"> EBITDA margin projected at 9.2%, flat YoY
PBT	485	420	457	15.4	6.2	<ul style="list-style-type: none"> Adj. PAT slated to grow 13% YoY backed by higher share of profit of associates and lower interest
Adj. PAT	389	344	373	13.3	4.4	
VRL Logistics						
Revenue	6,018	5,573	4,393	8.0	37.0	<ul style="list-style-type: none"> GT segment to fuel Q3 revenue growth of 8% YoY
EBITDA	876	797	869	9.9	0.7	<ul style="list-style-type: none"> Expect EBITDA margin to expand 25bps YoY to 14.5% aided by continued reduction in fixed costs. Higher diesel prices YoY likely to constrain margin expansion
EBITDA margin	14.5	14.3	19.8	25bps	(524bps)	<ul style="list-style-type: none"> Despite higher YoY tax rate, expect a solid 18% increase in adj. PAT
PBT	406	326	417	24.3	(2.8)	
Adj. PAT	304	258	309	17.9	(1.5)	

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

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

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

SELL – Expected return <-5%

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

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