FIRST LIGHT

09 September 2021

RESEARCH

Logistics

Expert call - Knight Frank on warehousing

Metals & Mining

Aluminium - Key takeaways from China aluminium webinar

Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.37	5bps	8bps	69bps
India 10Y yield (%)	6.20	2bps	(4bps)	14bps
USD/INR	73.41	(0.4)	1.0	0.3
Brent Crude (US$/bbl)	71.69	(0.7)	1.4	80.2
Dow	35,100	(0.8)	(0.3)	27.6
Shanghai	3,677	1.5	6.3	10.9
Sensex	58,279	0.0	7.4	51.9
India FII (US$ mn)	**06-Sep**	**MTD**	**CYTD**	**FYTD**
FII-D	31.0	190.8	(1,223.0)	804.2
FII-E	57.5	241.1	7,631.6	305.3

Source: Bank of Baroda Economics Research

SUMMARY

Logistics

- Warehousing additions in India to clock 19% CAGR over FY21-FY26 fuelled by ecommerce, more localised spaces and manufacturing growth
- Share of additions in 13 tier-2 cities up to 23% from 12% in just two years due to growth in ecommerce, but 3PL players still focus on top 10 cities
- Demand for high-quality Grade A space growing rapidly, also due to ecommerce. Land acquisition the key challenge

Click here for the full report.

Metals & Mining

- We attended a webinar hosted by Antaike, a leading Chinese metals information provider
- Aluminium prices are at a decade high with tightening of market balance post additional supply cuts in China in Q3CY21
- Key drivers to watch for are additional supply restrictions and/or restoration of temporary cuts in China

Click here for the full report.

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LOGISTICS

08 September 2021

Expert call: Knight Frank on warehousing

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- **Share of additions in 13 tier-2 cities up to 23% from 12% in just two years due to growth in ecommerce, but 3PL players still focus on top 10 cities**
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We spoke to consultant Knight Frank on the warehousing sector. Key takeaways:

Warehousing transactions to rise at 19% CAGR: FY21-FY26 could see a 19% CAGR in warehouse transactions (from 31.7msf to 76.2msf) driven by ecommerce and 3PL. Demand from the retail sector is unlikely to grow as ecommerce gathers pace. Key drivers include an expected increase in inventory to avoid the stockouts seen during Covid-19, wholesale boxes getting bigger, automation which requires larger and better-quality warehouses, growth in Indian manufacturing, and demand for cold chain and in-city warehousing as ecommerce gains traction in smaller cities.

At 333msf, privately owned warehousing space in India is less than 2% that in the US and 3% that in China even as India's GDP is 16% of the US and 34% of China.

Shift to smaller cities: India's top 10 cities dominate annual warehousing additions though the share of 13 secondary markets has grown to 23% in FY21 from 12% in FY19. Many ecommerce players have already set up or plan to set up warehouses in different states due to a surge in demand. Post GST, companies had planned to consolidate space, but the pandemic has led to a change in thinking as local shutdowns led to disruptions in the supply chain. However, 3PL players remain focused on the top 10 cities. Warehouse rentals in smaller towns are similar to large cities but the risk of finding a new tenant on lease expiry (usually five years) is relatively higher.

Rising demand for Grade A space: Over 65% of demand in FY21 was for better quality Grade A space vs. 53% in FY20. Such warehouses are preferred by ecommerce players as they use advanced machinery and automation tools to manage cargo which requires space and quality. Grade A stock is currently 35% overall but over 70% of the space in Pune and Chennai vs. just 18% in Mumbai and 29% in the NCR where most warehouses are old.

Land procurement a key challenge: Procurement of land is a key bottleneck. Warehouses are not a part of most city or state development plans. Thus, permissions are required from state governments which takes time and adds to costs.

Recommendation snapshot

Ticker	Price	Target	Rating
CCRI IN	724	521	SELL
TCIEXP IN	1,443	1,421	HOLD
TRPC IN	409	431	HOLD
VRLL IN	322	381	BUY

Price & Target in Rupees | Price as of 7 Sep 2021

METALS & MINING

08 September 2021

Aluminium: Key takeaways from China aluminium webinar

- **We attended a webinar hosted by Antaike, a leading Chinese metals information provider**
- **Aluminium prices are at a decade high with tightening of market balance post additional supply cuts in China in Q3CY21**
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Aluminium price rise has surpassed copper since early 2020: The aluminium price rise has been driven by recent supply cuts in China, supporting higher imports by the country since Jun'20. Jan-Jul'21 imports at 1.5mt have risen 15-fold over Jan-Jul'19.

Chinese supply cuts have tightened market balance: Total curtailments in China have increased to 2.3mt YTD (Jan-Aug). This has resulted in a 1mt YTD cut in Chinese operating capacity to 38.6mt. New capacity launches are also running slower at 0.45mt YTD vs. the planned 1.37mt for 2021. This has led to aluminium ingot inventory dropping close to the five-year low. While strategic sales of 0.2mt in three tranches have filled up the gap partially, the supply-demand balance remains tight. Antaike now expects 5% YoY growth in aluminium output to 39.2mt in 2021 vs. 7% YoY growth over Jan-Jul'21.

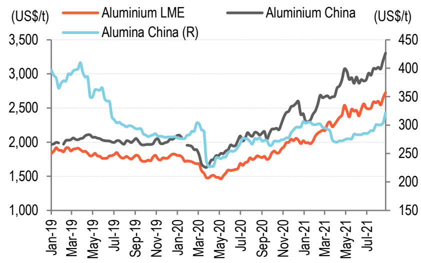
Policy-driven supply restrictions have escalated: There has been a further 0.4mt supply cut in Guangxi and Guangdong in Q3CY21 on top of 0.3mt of cuts in Inner Mongolia in Q1 driven by 'Dual Control' (aims to restrict energy intensity of the economy and total energy consumption at a province level). With nine provinces seeing an increase in energy consumption intensity, we need to watch for additional restrictions in Ningxia, Quinghai and Shaanxi. Besides dual control, there has been another 0.3mt of curtailment in Xinjiang in August to restrict supply at 3.2mtpa.

Restoration of supply to ease balance but pace slow: There have been cuts of 0.95mt in Yunnan (Q2) due to tight electric supply and 0.4mt in Henan (Q3) due to floods, with further reductions in Guanxi and Guizhou owing to tight power supply. Only 0.6mtpa has been restored till August out of a total of 2.3mt of cuts.

Aluminium profit up, offsetting cost escalations: Chinese aluminium profitability surged ~230% in Jul'21 (vs Jan'21) to ~US$ 750/t as higher prices offset the 11% increase in costs. Cost pressure comes from coal (up 65% from Mar'21 lows), electricity, alumina (up 28% YTD) and anode (up 60% from 2020 lows).

Risks to bauxite supply increase post Guinea coup: Bauxite price is up 16% YTD to US$ 50/t, post the military coup in Guinea which forms ~25% of global supply.

Aluminium and alumina prices



Source: Bloomberg, BOBCAPS Research

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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

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