

RESEARCH

[Sector Report] Logistics

Pandemic redefining industry landscape – BUY MLL, TCIEXP, VRLL

BOB Economics Research | April MPC Minutes

MPC steadfast on growth

SUMMARY

Logistics

Our logistics coverage has rebounded from the black swan Covid event of H1FY21. Though recovery is threatened by a second pandemic wave, industry sources indicate supply chains are more resilient this time around. Our ground checks also reveal four key themes – multimodal transport, logistics outsourcing, tech adoption, and trucking consolidation – that could shape Indian logistics in a post-pandemic era. We estimate a median revenue/PAT CAGR of 17%/36% for our coverage over FY21-FY23 and reiterate our preference for MLL, TCIEXP and VRLL.

[Click here for the full report.](#)

India Economics: MPC Minutes

MPC believes that recovery will be impacted by second wave. Thus members voted to keep accommodative stance for as long as necessary to sustain growth on durable basis even as time based guidance was removed. While inflationary pressures from increase in international commodity prices will be seen in core CPI, impact on headline will be limited due to benign demand side environment. We continue to expect RBI to reduce the rate corridor in H2 before raising repo rate in early FY23 as second wave ebbs in Q2FY22.

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TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	1,000
TCS	Buy	3,780
Tech Mahindra	Buy	1,130

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,750
Greenply Industries	Buy	195
Laurus Labs	Buy	480
Transport Corp	Buy	320

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.56	0bps	(17bps)	94bps
India 10Y yield (%)	6.07	0bps	(12bps)	(15bps)
USD/INR	74.89	0	(3.3)	2.3
Brent Crude (US\$/bbl)	65.32	(1.9)	1.2	220.7
Dow	34,137	0.9	4.6	45.4
Shanghai	3,473	0	2.0	22.1
Sensex	47,706	(0.5)	(4.3)	52.0
India FII (US\$ mn)	19 Apr	MTD	CYTD	MTD
FII-D	113.3	91.8	(1,935.5)	91.8
FII-E	(220.9)	(716.0)	6,610.3	(716.0)

Source: Bank of Baroda Economics Research

BOBCAPS Research

research@bobcaps.in



LOGISTICS

22 April 2021

Pandemic redefining industry landscape

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Sayan Das Sharma
 research@bobcaps.in

Strong recovery from H1FY21 trough...: After the pandemic-induced shock in H1, high frequency economic indicators show a resurgence in manufacturing activity in H2FY21. The IMF has also raised its FY22 GDP growth forecast for India to 12.5%. As the macro climate improved, median revenue growth for the logistics sector scripted a 14% YoY uptick in Q3FY21, after a steep 47% drop in Q1. We expect 22% YoY growth in Q4 and a healthy 15% EBITDA margin.

...but second wave poses a risk: The sharp rise in coronavirus infections in recent weeks may halt recovery trends. Our discussions with various logistics companies indicate that the impact on the supply chain is likely to be milder than last year, owing to higher levels of preparedness at both clients and logistic service providers. That said, we take cognizance of the disruption and lower FY22 earnings estimates for most of our coverage companies by 2-8%.

Key industry themes over next five years: We interacted with logistics players across segments to identify evolving long-term industry trends. Four key themes stand out – (1) demand for multimodal transport, (2) rise in logistics outsourcing, (3) swifter adoption of technology, and (4) consolidation in trucking. We believe Mahindra Logistics (MLL), Transport Corp (TRPC), and VRL Logistics (VRLL) will be key beneficiaries of these trends.

Top picks: We forecast a median revenue/PAT CAGR of 17%/36% for our logistics universe over FY21-FY23, a sharp bounce-back from the 8%/18% decline posted over FY19-FY21E. As highlighted in our [sector initiation report](#), we reiterate our preference for asset-light companies – MLL and TCI Express (TCIEXP) – from a long-term perspective owing to the scalability of their business models and structural tailwinds. We also like VRLL as a quality cyclical play and believe its asset-intensive model can outperform the industry in a cyclical upturn.

RECOMMENDATION SNAPSHOT

Ticker	Price	Target	Rating
CCRI IN	549	505	SELL
MAHLOG IN	520	630	BUY
TCIEXP IN	833	1,140	BUY
TRPC IN	272	320	BUY
VRLL IN	213	285	BUY

Price & Target in Rupees | Price as of 21 Apr 2021
 MAHLOG = MLL



APRIL MPC MINUTES

22 April 2021

MPC steadfast on growth

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Sameer Narang

Aditi Gupta | Sonal Badhan

chief.economist@bankofbaroda.com

Recovery losing steam and away from potential: MPC members noted that while economic momentum was seen in Q3 and Q4FY21, recent surge in Covid-19 infections pose a considerable risk to recovery. Dr. Goyal pointed out that growth uncertainty has increased with second wave in some states. She further stated that even with the high rate of growth estimated for FY22, GDP will be barely at level seen in Mar'19. It does not imply sustained growth at potential. Dr. Saggiar said that the high growth in FY22 implies an average growth of 0.85% over two years. Shri Shaktikanta Das, RBI Governor, said that learnings of last one year should help us in managing the crisis as it unfolds.

Pressure on inflation: Rising global commodity and food prices pose a risk to inflation. Dr. Saggiar pointed out that imported commodities form 22% of CPI. A rise in global non-food commodity prices by 10% is expected to increase CPI core goods inflation up to 50bps. Even so, pass-through to headline is low. Demand pull inflation is more or less absent. While food inflation outlook is better on account of large cereal stocks and expectation of normal monsoon, 5 out of 12 food sub-groups recorded double digit inflation in Feb'21. Shri Das said that both upside and downside pressures are embedded in RBI's baseline of CPI inflation at 5% in FY22 comprising of 5.2% in H1 and 4.8% in H2.

Normalisation of monetary policy: All members agreed that supporting growth takes priority. While MPC members have moved away from time-based guidance to state based guidance, Dr. Saggiar pointed out that considerable adjustments have been made in exit dates for extra-ordinary supportive measures. With second wave likely to ebb in Q2, we expect RBI to move towards recalibrating the width of rate corridor (difference between repo and reverse repo rate) in H2FY22 before raising repo rate in early FY23. Sector specific relief measures may be announced to tide over second wave.

KEY HIGHLIGHTS

- MPC members to keep rates on hold and maintain accommodative stance.
- Risks to growth from a resurgence of Covid-19 cases.
- Core inflation likely to remain elevated with upside risks.



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BUY – Expected return >+15%

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

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

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

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