

LOGISTICS

31 March 2020

Channel check takeaways – lockdown wreaking havoc

We recently interacted with a number of logistics companies – listed and unlisted – as well as industry experts. Key takeaways below.

Severe disruption in operations: Barring essential commodities (food, groceries, healthcare, FMCG), all transportation and warehousing activities have come to a standstill across India since the national lockdown began on 25 March. As per companies we spoke to, law enforcement authorities have been obstructing even transport of essential goods due to a lack of clarity. Hindrances have eased in recent days as the government implemented a system of movement passes for essential goods. But in the absence of return loads and adequate volumes, most players are at 20-30% capacity. Our checks suggest rail freight is relatively less affected.

Acute manpower shortage hints at prolonged disruptions: After the lockdown, a large number of drivers and porters have left for their hometowns, leading to acute labour constraints for the logistics industry. Industry experts believe that even once the lockdown is lifted, operations will take at least a few weeks to recover as labour issues are gradually resolved.

Industry consolidation likely: Small freight operators (SFOs owing 1-5 trucks) form 80-85% of the industry. Already reeling from the consumption slowdown over the past few quarters, they are the hardest hit by the shutdown. Some of these SFOs may default on their vehicle loans owing to acute volume/realisation pressures, as per our checks. This may usher in an era of consolidation, with larger players acquiring some of these companies or their assets.

Global container trade to contract: Global container trade is likely to contract over 5% in CY20 amid a coronavirus-fuelled recession, as per a large global shipping association. Container demand may see a short-lived recovery as Chinese manufacturing has resumed in March, but lockdowns in the US and Europe are likely to weigh on volumes in the medium term. Among our coverage, Container Corp and Allcargo Logistics have the highest dependence on container trade from India and globally.

Asset-light, unlevered companies better insulated: Though the impact of Covid-19 is difficult to ascertain at present, we expect all logistics companies to witness sluggish earnings for 1-2 quarters, even in an optimistic scenario. We believe asset-light companies with strong balance sheets can tide over the difficult phase and emerge stronger. **TCI Express** is our top pick in the sector.

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Ticker	Rating
AGLL IN	ADD
CCRI IN	ADD
FSCSL IN	REDUCE
MAHLOG IN	BUY
TCIEXP IN	BUY
TRPC IN	BUY
VRLL IN	BUY

Price & Target in Rupees



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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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