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LOGISTICS | Q1FY21 Preview | 14 July 2020

Management commentary holds key in washout quarter

Q1FY21 will be a non-event as consensus estimates and stock prices already bake in an abysmal quarter. Instead, management commentary on growth recovery and on-the-ground trends would be in focus and will drive earnings revisions, in our view. Revenue for our coverage universe is set to plummet in the range of 16-67% YoY, with only CCRI posting net profits. On the positive side, it appears that Q1 will bear the brunt of the pandemic as lead indicators in June herald gradual demand recovery. TCIEXP remains our top pick.

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Q1FY21 to be a non-event: Q1 will be a peculiar quarter where challenging externalities wreak havoc on the operating performance of all logistics players irrespective of business segments. Logistics companies under our coverage are estimated to witness YoY revenue declines in the range of 16-67%, with all but two companies reporting operating losses. Nonetheless, Q1 is likely to be a non-event as stock prices already reflect the near-term headwinds. Instead, management's commentary on growth outlook, on-ground demand trends, and working capital will take centerstage and determine earnings revisions.

CCRI, TCIEXP to post operating profit: Among our coverage universe, we expect only Container Corp (CCRI) to post operating and net profits, as container rail was the least affected segment. TCI Express (TCIEXP) is likely to just about break even thanks to its low operating leverage and cost cuts. Abysmal auto production numbers will severely dent the performance of Mahindra Logistics (MLL) and Transport Corp's (TPRC) 3PL segment. Road transporters – VRL Logistics (VRLL) and TRPC's freight business – are expected to be the worst hit as the lockdown has exacted the heaviest toll on trucking.

Worst is behind us: Q1 is likely to have seen the worst of the pandemic as lead economic indicators suggest steady recovery. Originating traffic of the Indian Railways dipped only 8% YoY in June, after a 35%/22% plunge in April/May. The downslide in major port cargo has also eased to 15% YoY vs. drops of 21%/ 23% in April/May. E-way bill generation has reached 434mn in June, ~80% of pre-Covid levels. With gradual easing of restrictions, demand for logistics services should rise, though full-fledged recovery is still a few months away.

Prefer companies with strong balance sheets: We retain our preference for companies with strong balance sheets and low operating leverage. TCIEXP remains our top pick in the sector.

RECOMMENDATION SNAPSHOT

Ticker	Rating
AGLL IN	ADD
CCRI IN	REDUCE
MAHLOG IN	BUY
TCIEXP IN	BUY
TPRC IN	BUY
VRLL IN	BUY

MAHLOG = MLL

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FIG 1 – Q1FY21 RESULT PREVIEW

(Rs mn)	Q1FY21E	Q1FY20A	Q4FY20A	YoY (%)	QoQ (%)	Comment
Allcargo Logistics – consolidated						▪ Unprecedented slowdown in global trade to hurt MTO and CFS businesses ▪ P&E segment to post sharp decline in revenue and steep EBIT losses due to lower utilisation stemming from stalled projects ▪ Higher interest cost due to increased leverage levels to dent PBT
Revenue	15,165	18,153	18,710	(16.5)	(18.9)	
EBITDA	(212)	1,406	1,063	NM	NM	
EBITDA margin	(1.4)	7.7	5.7	(914bps)	(708bps)	
PBT	(930)	805	345	NM	NM	
Adj. PAT	(930)	630	267	NM	NM	
Container Corporation – standalone						▪ Provisional volumes down 21% YoY in Q1FY21 ▪ Expect realisation drop of 7% YoY due to 5% decline in lead distance and 2% fall in core realisations ▪ EBITDA to fall 58% YoY and margin to contract to 14.1%
Revenue	11,899	16,389	15,686	(27.4)	(24.1)	
EBITDA	1,679	4,033	4,745	(58.4)	(64.6)	
EBITDA margin	14.1	24.6	30.2	(1,049bps)	(1,613bps)	
PBT	1,219	3,250	4,253	(62.5)	(71.3)	
Adj. PAT	915	2,278	3,151	(59.9)	(71.0)	
Mahindra Logistics – consolidated						▪ Dismal auto production numbers (65% of revenue) will severely impact the Q1 topline ▪ Non-auto vertical should fare better as e-commerce and pharma supply chains were comparatively less affected ▪ Expect steep drop in PTS due to work-from-home policy ▪ We estimate a ~65% YoY fall in Q1 revenue and peg operating and net losses at Rs 345mn and Rs 415mn respectively
Revenue	3,181	8,992	8,137	(64.6)	(60.9)	
EBITDA	(345)	295	215	NM	NM	
EBITDA margin	(10.9)	3.3	2.6	(1,414bps)	(1,350bps)	
PBT	(415)	302	139	NM	NM	
Adj. PAT	(415)	202	103	NM	NM	
TCI Express						▪ Lockdown-induced demand disruptions exacted a heavy toll on revenue generation in Apr-May. Operations improved in June ▪ Expect Q1 revenue to plummet 55% YoY ▪ Low operating leverage and cost control measures – voluntary salary cut by MD, lower travel and stationery expenses – expected to help achieve EBITDA break-even
Revenue	1,153	2,562	2,379	(55.0)	(51.6)	
EBITDA	6	296	267	(98.0)	(97.8)	
EBITDA margin	0.5	11.6	11.2	(1,105bps)	(1,071bps)	
PBT	(11)	283	255	NM	NM	
Adj. PAT	(11)	184	190	NM	NM	
Transport Corporation of India – Consolidated						▪ Freight segment forecast to dip 9% YoY owing to severe disruptions in trucking operations since state lockdowns began ▪ Expect 14% YoY drop in 3PL revenue due to plunge in auto volumes; decline in coastal revenue to be lower at 2% YoY ▪ Higher fixed costs and depreciation post ship addition in Q3 to intensify EBITDA and PAT declines
Revenue	2,210	6,592	6,678	(66.5)	(66.9)	
EBITDA	(194)	584	586	NM	NM	
EBITDA margin	(8.8)	8.9	8.8	(1,766bps)	(1,757bps)	
PBT	(429)	417	418	NM	NM	
Adj. PAT	(429)	344	362	NM	NM	
VRL Logistics						▪ Apr-May were disastrous months as the lockdown dented both demand and supply for the road transportation industry. Operations recovered to 50-60% of pre-Covid levels in June ▪ We factor in a steep 65% YoY decline in topline ▪ High operating leverage to have a pronounced impact on EBITDA – expect operating loss of Rs 362mn in Q1 ▪ Net loss pegged at a higher Rs 896mn owing to financial leverage
Revenue	1,889	5,396	4,978	(65.0)	(62.1)	
EBITDA	(362)	888	566	NM	NM	
EBITDA margin	(19.2)	16.5	11.4	(3,563bps)	(3,056bps)	
PBT	(896)	424	33	NM	NM	
Adj. PAT	(896)	275	21	NM	NM	

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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