BOBCAPS
TRUST | INNOVATION | EXCELLENCE

LOGISTICS | Q2FY21 Preview | 12 October 2020

# Early signs of earnings recovery

**Aggregate revenue of our logistics coverage universe is expected to decline by 5% YoY in Q2FY21, a marked improvement from the 25% drop in Q1, aided by a gradual easing of lockdown restrictions. Apart from VRLL, all other companies in our coverage are likely to post profit, though none are expected to post earnings growth as yet. After the robust trends heralded by high frequency indicators in Sep'20, we are hopeful of a faster-than-anticipated earnings recovery from Q3 on. TCIEXP remains our top pick in the sector.**

Sayan Das Sharma
research@bobcaps.in

**Earnings cycle to start normalising:** We forecast an aggregate revenue/ EBITDA decline of 5%/24% YoY for our coverage universe in Q2, considerably slower than the dismal 25%/62% fall in Q1. Most lead industry indicators clocked marked improvement in Sep'20 – e-way bills hit record highs, rail freight volume rose 16%, container rail volume was up 7.5%, and the decline in major port volumes eased to 2% – implying recovery in domestic and EXIM trade. If sustained, this should drive normalisation of the logistics earnings cycle.

**Easing supply-side issues to aid road transporters:** After an abysmal Q1, easing supply-side challenges should usher in an improved Q2 for road logistics players – TCI Express (TCIEXP), VRL Logistics (VRLL), Transport Corp (TRPC, freight). YoY flattish e-way bill numbers in Q2 (~2x vs. Q1FY21) also signal a demand uptick. We forecast a 15-20% revenue drop for road transporters owing to a sedate July/August (vs. –58% in Q1), but estimate flat EBITDA margins for TCIEXP and TRPC (freight) thanks to their asset-light models. Higher diesel prices (+14% YoY) and operating leverage may affect VRLL's margin (–700bps).

**Better show likely from rail transporters…:** Container volumes carried by rail dipped 5% YoY in Q2 vs. a 17% YoY drop in Q1, improving steadily through the quarter and culminating in 7.5% growth in Sep'20. Accordingly, Container Corp's (CCRI) provisional volume decline has eased to 9% vs. a 21% fall in Q1. We expect CCRI's revenue/EBITDA to decline 13%/29% YoY (–27%/–61% in Q1).

**…and auto-focused 3PL players:** An uptick in auto production should aid Mahindra Logistics (MLL) and TRPC's supply chain segment. MLL is forecast to post a 14% YoY revenue decline vs. –54% in Q1 as the auto segment is likely to benefit from sturdy tractor sale volumes (+31% YoY) of its anchor customer, while the non-auto segment would be boosted by e-commerce volumes. TRPC's SCS segment is forecast to post a 25% topline decline (–53% YoY in Q1).

**RECOMMENDATION SNAPSHOT**

| Ticker | Rating |
|---|---|
| AGLL IN | ADD |
| CCRI IN | SELL |
| MAHLOG IN | BUY |
| TCIEXP IN | BUY |
| TPRC IN | BUY |
| VRLL IN | BUY |

MAHLOG = MLL

FIG 1 – Q2FY21 RESULT PREVIEW

| (Rs mn) | Q2FY21E | Q2FY20A | Q1FY21A | YoY (%) | QoQ (%) | Comment |
|---|---|---|---|---|---|---|
| **Allcargo Logistics – consolidated** | | | | | | |
| Revenue | 21,510 | 18,732 | 20,776 | 14.8 | 3.5 | ▪ Consolidated revenue expected to increase 15% YoY, aided by Gati consolidation and steady MTO performance<br>▪ EBITDA margin to contract 42bps YoY as Gati's profitability is comparatively weaker than AGLL's core operations<br>▪ Higher depreciation and interest expenses from Gati consolidation to also weigh on PBT/PAT (–43%/–41% YoY) |
| EBITDA | 1,402 | 1,300 | 1,311 | 7.8 | 6.9 | |
| EBITDA margin | 6.5 | 6.9 | 6.3 | (42bps) | 21bps | |
| PBT | 432 | 755 | 359 | (42.8) | 20.3 | |
| Adj. PAT | 391 | 668 | 333 | (41.4) | 17.5 | |
| **Container Corporation – standalone** | | | | | | |
| Revenue | 15,094 | 17,387 | 11,891 | (13.2) | 26.9 | ▪ Provisional volume for Q2FY21 down 8.6% YoY<br>▪ Expect 5% YoY decline in realisation led by discounts provided to attract volumes and slight fall in lead distance<br>▪ EBITDA margin to contract YoY due to higher land licensing fee<br>▪ Adj. PAT (adj. for exceptional item in base quarter) to decline sharply owing to higher tax incidence vis-à-vis Q2FY20 |
| EBITDA | 3,018 | 4,255 | 1,590 | (29.1) | 89.8 | |
| EBITDA margin | 20.0 | 24.5 | 13.4 | (448bps) | 662bps | |
| PBT | 2,433 | 3,532 | 833 | (31.1) | 192.0 | |
| Adj. PAT | 1,810 | 5,390 | 617 | (66.4) | 193.6 | |
| **Mahindra Logistics – consolidated** | | | | | | |
| Revenue | 7,362 | 8,524 | 4,105 | (13.6) | 79.4 | ▪ Revenue expected to fall 14% YoY<br>▪ Non-Mahindra auto segment likely to post steep decline but healthy tractor sales (+31% YoY) of anchor customer should cushion revenue decline<br>▪ EBITDA margin to be flattish YoY as cost reduction measures remain in place. Higher warehousing share to also aid margin<br>▪ Expect a 33% YoY decline in PAT |
| EBITDA | 317 | 378 | (22) | (16.2) | NM | |
| EBITDA margin | 4.3 | 4.4 | (0.5) | (13bps) | 484bps | |
| PBT | 102 | 178 | (224) | (42.8) | NM | |
| Adj. PAT | 75 | 112 | (158) | (32.9) | NM | |
| **TCI Express** | | | | | | ▪ Despite sequential improvement, Q2 volumes likely to tumble ~20% YoY as Jul-Aug were tepid months<br>▪ Expect revenue to contract 15% YoY, cushioned by realisation increase of 6% YoY stemming from the company's ability to pass on higher diesel prices to SME customers<br>▪ EBITDA margin likely to remain stable at 11.5% aided by cost cutting measures<br>▪ Fall in PAT estimated to be steeper than PBT decline owing to higher YoY tax rate |
| Revenue | 2,292 | 2,695 | 887 | (15.0) | 158.3 | |
| EBITDA | 265 | 307 | 20 | (13.8) | 1,203.6 | |
| EBITDA margin | 11.5 | 11.4 | 2.3 | 15bps | 926bps | |
| PBT | 258 | 302 | 13 | (14.5) | 1,951.1 | |
| Adj. PAT | 194 | 261 | 9 | (25.7) | 2,006.8 | |
| **Transport Corporation of India – Consolidated** | | | | | | ▪ Freight segment forecast to decline 15% YoY<br>▪ Supply chain revenue contraction to be steeper at 25% YoY as key auto client's production figures continue to languish<br>▪ Coastal shipping revenue slated to grow 10% YoY driven by the addition of a ship in Q3FY20<br>▪ PBT to drop 39% YoY. Decline in PAT to be sharper at 64% owing to sharp fall in share of profit from associates and higher YoY tax outgo |
| Revenue | 5,730 | 6,846 | 4,057 | (16.3) | 41.2 | |
| EBITDA | 457 | 587 | 306 | (22.1) | 49.3 | |
| EBITDA margin | 8.0 | 8.6 | 7.5 | (60bps) | 43bps | |
| PBT | 210 | 343 | 57 | (38.6) | 269.5 | |
| Adj. PAT | 176 | 481 | 47 | (63.5) | 272.0 | |
| **VRL Logistics** | | | | | | |
| Revenue | 4,191 | 5,238 | 1,601 | (20.0) | 161.8 | ▪ Revenue decline estimated to ease to 20% YoY<br>▪ Expect EBITDA margin to contract ~700bps YoY to 6.9% owing to higher diesel prices (pass-along difficult in a muted demand climate)<br>▪ Negative operating leverage could also weigh on profitability<br>▪ Expect a net loss after accounting for depreciation and interest expenses |
| EBITDA | 288 | 732 | (339) | (60.6) | NM | |
| EBITDA margin | 6.9 | 14.0 | (21.2) | (709bps) | 2804bps | |
| PBT | (207) | 260 | (838) | NM | NM | |
| Adj. PAT | (155) | 347 | (627) | NM | NM | |

Source: Company, BOBCAPS Research

# Disclaimer

### 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)

### Rating distribution

As of 30 September 2020, out of 104 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 54 have BUY ratings, 18 have ADD ratings, 10 are rated REDUCE and 22 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

### Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

### General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2020. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities —that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

**Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014**

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.