

Demand climate deteriorates further

High frequency indicators, a harbinger of the logistics industry's performance, worsened in Sep'19, marking the end of a sedate Q2FY20. Container rail reported a second month of volume decline (-2% YoY), whereas container traffic at major ports slumped 4% YoY, the lowest since Feb'17. EXIM trade, too, continued to plunge (-11% YoY in Sep'19). The sluggish demand climate has taken a toll on CCRI's business (provisional volume down 2% YoY in Q2), and we expect a weak showing across our logistics coverage during the quarter.

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Container rail volumes continue to decline: After contracting for the first time in nearly three years in Aug'19 (-3% YoY), container rail volumes slipped again in Sep'19 (-2% YoY to 5mn tonnes). EXIM/domestic volumes both fell -1%/-4% YoY. However, the decline in EXIM container rail volumes was lower than that in container traffic at major ports (-4% YoY in tonnage terms), indicating possible market share gain for railways in Sep'19. Lead distance and net tonne-km (NTKM) dipped 3% and 5% YoY respectively.

Q2FY20 ended on a flat note with total volumes down 0.2% YoY. Container Corp (CCRI) reported a 2% YoY decline in Q2 provisional volumes (in TEU terms) due to lower EXIM traffic (-3% while domestic business grew +2%).

Container traffic at major ports slumps: Container movement at major ports dropped 4% YoY in Sep'19 (in TEU terms) after a strong showing in Aug'19 (+10% YoY). This was the first decline in volumes since Feb'17 and was led by a slowdown at key container ports - JNPT (-7% YoY) and Chennai (-29%). Vizag (+27%), Tuticorin (+22% YoY), and Kolkata (9%) provided some cushion. Overall cargo traffic at major ports dipped marginally by 0.5% YoY.

EXIM trade slides again, Aug industrial output slumps: Merchandise exports/imports declined 7%/14% YoY in Sep'19 (US\$ terms), on the heels of a similar 6%/13% YoY decline in Aug'19, due to subdued domestic consumption and tepid global trade. Non-oil, non-gold exports/imports were down 4%/9% YoY. Aug'19 industrial output slumped to -1.1% YoY (+4.6% in Jul'19), owing to lower manufacturing output (-1.2% YoY) which slumped to near five-year low.

Expect poor Q2: Lead indicators and channel checks all point to tepid demand for logistics services. Consequently, we expect logistics companies under our coverage to report a weak Q2FY20 (see our [quarterly preview](#) for details).

RECOMMENDATION SNAPSHOT

Ticker	Price	Target	Rating
AGLL IN	100	125	BUY
CCRI IN	595	575	ADD
FSCS IN	506	730	BUY
MAHLOG IN	365	525	BUY
TCIEXP IN	719	840	BUY
TRPC IN	279	365	BUY

Price & Target in Rupees



Logistics demand barometers – Sep'19

Major port volumes

Container traffic slumps; overall cargo volumes dip slightly

Container traffic at major ports fell 4% YoY (TEU) due to drop in JNPT and Chennai

- After a couple of months of steady growth (+6%/+10% YoY in Jul'19/Aug'19), container traffic at major ports plunged 4% YoY in Sep'19 to 797k TEU – the steepest fall in past 30 months. Container traffic has grown at 4%/6% YoY in Q2/FY20 YTD.
- Two major ports – JNPT and Chennai – reported a sharp decline in container volumes, catalysing the fall in overall container traffic. Container volumes at Chennai nosedived 29% YoY in Sep'19 due to a week-long strike by trailer operators. At JNPT, traffic declined 7% YoY to 400k TEU. Vizag (+27% YoY), Tuticorin (+22% YoY) and Kolkata (+9% YoY) posted a healthy performance.

Overall cargo volumes at major ports declined 0.5% YoY

- Overall cargo volumes at major ports declined by 0.5% YoY/5% MoM to 54.6mn tonnes (mt) in Sep'19 vs. +1% YoY growth in Aug'19. During both Q2/FY20 YTD, cargo volumes grew 1% YoY.
- Among major ports, Vizag (+19% YoY), Tuticorin (+17% YoY), Mormugao (+13% YoY), and Paradip (+6% YoY) posted sturdy growth in total cargo. Chennai (–17% YoY) continued to lose market share to other eastern coast ports, while Cochin (–16%), JNPT (–9%), New Mangalore (–6%), Kandla (–2%), and Kolkata (–2%) were the other major laggards.
- Among major commodities, iron ore (+49% YoY) and coking coal (+18%) reported a healthy uptick; POL cargo also increased by 2% YoY. However, this was negated by sharp decreases in container tonnage (–4% YoY), thermal coal (–13%) and other cargo (–9%).

FIG 1 – CARGO VOLUMES AT MAJOR PORTS

('000 tonnes)	Sep-19	Sep-18	YoY (%)	Aug-19	MoM (%)	YTD FY20	YTD FY19	YoY (%)
Chennai	4,025	4,835	(16.8)	4,283	(6.0)	24,740	27,137	(8.8)
Cochin	2,322	2,766	(16.1)	2,774	(16.3)	16,645	15,906	4.6
Ennore	2,422	2,409	0.5	2,464	(1.7)	15,762	16,570	(4.9)
JNPT	5,292	5,825	(9.2)	5,683	(6.9)	34,410	34,812	(1.2)
Kandla	9,517	9,735	(2.2)	10,540	(9.7)	61,047	58,630	4.1
Kolkata	4,501	4,569	(1.5)	5,286	(14.9)	31,674	30,029	5.5
Mormugao	1,206	1,064	13.3	817	47.6	7,632	9,229	(17.3)
Mumbai	5,081	5,114	(0.6)	5,249	(3.2)	30,103	29,448	2.2
New Mangalore	2,806	2,996	(6.3)	2,940	(4.6)	17,864	20,179	(11.5)
Paradip	8,589	8,110	5.9	8,872	(3.2)	55,552	52,898	5.0
Tuticorin	3,121	2,662	17.2	3,429	(9.0)	18,266	16,778	8.9
Vizag	5,759	4,826	19.3	5,287	8.9	34,750	31,762	9.4
Total major ports	54,641	54,911	(0.5)	57,624	(5.2)	3,48,445	3,43,378	1.5

Source: Indian Ports Association, BOBCAPS Research

FIG 2 – COMMODITY-WISE VOLUMES AT MAJOR PORTS

('000 tonnes)	Sep-19	Sep-18	YoY (%)	Aug-19	MoM (%)	YTD FY20	YTD FY19	YoY (%)
Coal - Coking	4,332	3,685	17.6	4,756	(8.9)	29,290	25,415	15.2
Coal - Thermal	6,183	7,145	(13.5)	5,643	9.6	44,873	51,697	(13.2)
Containers - Tonnage	11,450	11,980	(4.4)	12,675	(9.7)	75,004	72,040	4.1
Fertilisers - Finished & raw	1,173	1,182	(0.8)	1,347	(12.9)	7,367	7,468	(1.4)
Iron ore	3,256	2,190	48.7	4,056	(19.7)	24,760	18,390	34.6
POL	19,539	19,179	1.9	20,229	(3.4)	1,17,119	1,14,686	2.1
Others	8,708	9,550	(8.8)	8,918	(2.4)	50,032	53,682	(6.8)
Total major ports	54,641	54,911	(0.5)	57,624	(5.2)	3,48,445	3,43,378	1.5

Source: Indian Ports Association, BOBCAPS Research

FIG 3 – CONTAINER TRAFFIC AT MAJOR PORTS

('000 teu)	Sep-19	Sep-18	YoY (%)	Aug-19	MoM (%)	YTD FY20	YTD FY19	YoY (%)
Chennai	107	151	(29.1)	123	(13.0)	736	834	(11.8)
Cochin	51	51	-	58	(12.1)	312	279	11.8
Ennore	9	-	NM	9	-	70	0	NM
JNPT	400	431	(7.2)	435	(8.0)	2,573	2,519	2.1
Kandla	20	15	33.3	37	(45.9)	214	103	107.8
Kolkata	74	68	8.8	76	(2.6)	435	428	1.6
Mormugao	2	5	(60.0)	3	(33.3)	16	18	(11.1)
Mumbai	3	2	50.0	2	50.0	15	14	7.1
New Mangalore	14	10	40.0	14	-	78	68	14.7
Paradip	2	1	100.0	0	NM	5	6	(16.7)
Tuticorin	72	59	22.0	80	(10.0)	425	371	14.6
Vizag	43	34	26.5	45	(4.4)	261	227	15.0
Total major ports	797	827	(3.6)	882	(9.6)	5,140	4,867	5.6

Source: Indian Ports Association, BOBCAPS Research

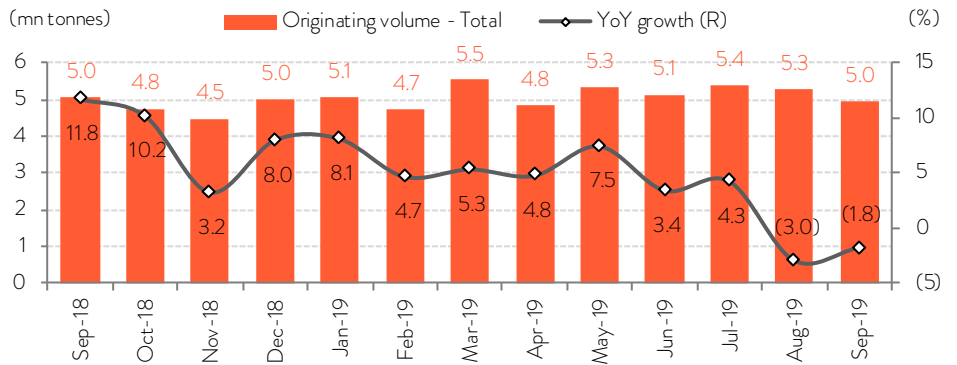
Container rail traffic

Second consecutive month of volume decline

IR container traffic declined YoY for the second month

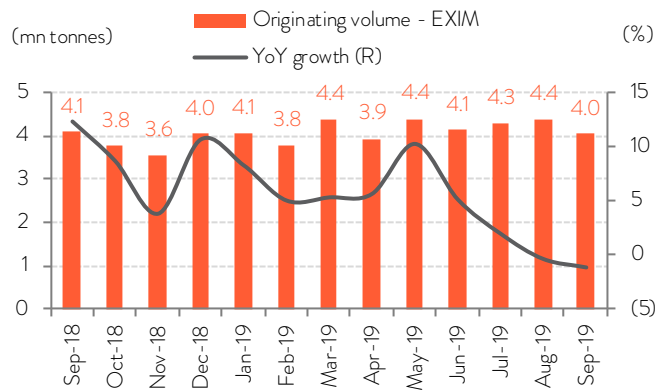
- Weak global trade and sluggish domestic demand continue to exert pressure on container rail traffic. As per data published by the Indian Railways (IR), container rail volumes declined 2% YoY in Sep'19 to 5mt, the second consecutive month of slippage after a 3% YoY fall in Aug'19.
- EXIM volumes decreased 1% YoY, the lowest since Dec'16, while domestic volumes fell 4% in Sep'19.
- However, EXIM traffic declined at a slower pace than container traffic at major ports (-4% YoY in tonnage terms), indicating possible market share gains for IR from roads. As per industry sources, IR has (1) gained modal share in JNPT after inter-terminal transfer of rail containers began in Aug'19, and (2) potentially also gained share in Chennai port after IR/CCRI helped evacuate containers during the week-long strike by trailer operators.

FIG 4 – CONTAINER RAIL VOLUMES DECLINED 1.8% YOY IN SEP'19



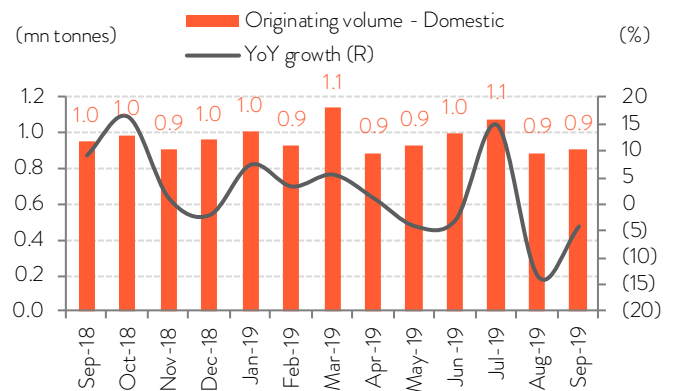
Source: Indian Railways, BOBCAPS Research

FIG 5 – EXIM VOLUMES DECLINED 1.2% YOY



Source: Indian Railways, BOBCAPS Research

FIG 6 – DOMESTIC VOLUMES DROPPED 4.2% YOY



Source: Indian Railways, BOBCAPS Research

Lead distance reduces

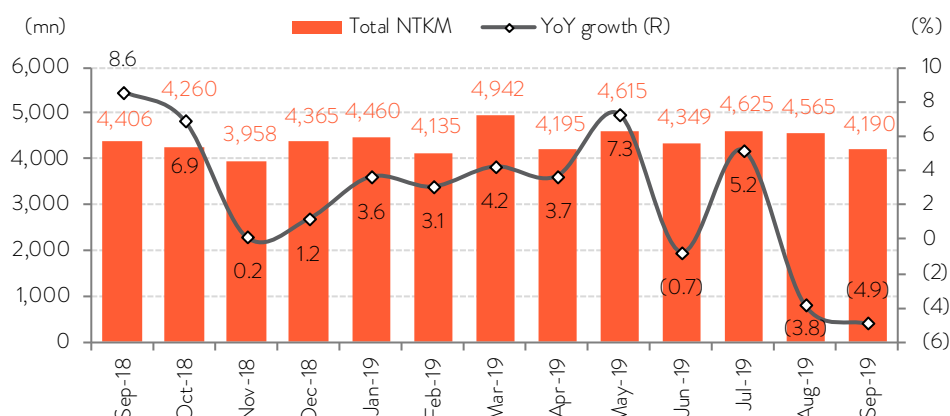
Lead distance dipped 0.8% YoY to 868km

- After exhibiting resilience over the past two months, lead distance fell 3% YoY in Sep'19 to 846km from 875km in Sep'18.
- EXIM lead distance slipped 2% YoY to 774km vs. 792km in Sep'18 and 1% MoM vs. 782km in Aug'19. Domestic lead distance fell 5% YoY/9% MoM to 1,169km.
- Consequent to lower volumes and lead distances, overall NTKM decreased 5% YoY to 4.2bn. In Q2/FY20 YTD, NTKM grew -1%/+1% YoY.

FIG 7 – LEAD DISTANCES FOR IR CONTAINER TRAFFIC

(km)	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19
Domestic lead distance	1,240	1,287	1,264	1,264	1,241	1,267	1,277	1,204	1,275	1,166	1,050	1,287	1,169
YoY growth (%)	(5.8)	(6.6)	(3.4)	(6.3)	(4.8)	(1.4)	(1.3)	(0.5)	4.1	(6.6)	(15.9)	0.8	(4.8)
EXIM lead distance	792	794	788	780	792	791	796	793	779	771	814	782	774
YoY growth (%)	(1.0)	(2.3)	(2.6)	(4.9)	(3.8)	-	(1.0)	(0.9)	(0.1)	(2.2)	6.4	0.1	(2.3)
Total lead distance	875	897	885	873	886	876	895	868	866	848	861	868	846
YoY growth (%)	(2.8)	(3.0)	(3.1)	(6.3)	(3.7)	(1.6)	(1.1)	(1.1)	(0.1)	(4.0)	0.8	(0.8)	(3.2)

Source: Indian Railways, BOBCAPS Research

FIG 8 – NTKM DECREASED 4.9% YOY TO 4.2BN

Source: Indian Railways, BOBCAPS Research

EXIM trade

Slump continues

Non-oil, non-gold exports/imports declined 4%/9% YoY

- EXIM merchandise trade (in US dollar terms) decreased for the fourth consecutive month in Sep'19, falling 11% YoY to US\$ 62.9bn, after a similar decline in Aug'19.
- Exports slipped 7% YoY vs. a 6% decrease in Aug'19. Core exports (non-oil, non-gold) fell 4% YoY (-6% in Aug'19).
- Imports dropped 14% YoY in Sep'19 following a 13% decline in Aug'19. Non-oil, non-gold imports slumped 9% YoY vs. an 8% fall in Aug'19, marking the 11th successive month of contraction.

FIG 9 – EXIM TRADE TREND

(US\$ bn)	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19
Total EXIM trade	69.9	71.1	69.7	68.9	67.5	62.9	76.0	67.5	75.3	65.3	66.1	65.7	62.9
YoY growth (%)	5.0	17.7	2.9	(1.3)	1.4	(2.2)	5.3	2.9	4.1	(9.3)	(5.8)	(10.6)	(11.0)
Total exports	28.0	27.0	26.5	27.9	26.4	26.7	32.6	26.1	30.0	25.0	26.3	26.1	26.0
YoY growth (%)	(2.2)	17.9	0.8	0.4	3.7	2.5	11.0	0.6	3.9	(9.7)	2.2	(6.0)	(6.6)
Non-oil, non-gold exports	19.8	18.9	18.6	21.1	19.9	19.9	25.6	19.5	21.4	19.2	19.7	19.6	19.0
YoY growth (%)	(2.5)	14.5	(3.9)	1.1	8.2	5.1	13.4	(1.3)	7.4	(4.9)	5.2	(5.6)	(4.2)
Total imports	41.9	44.1	43.2	41.0	41.1	36.3	43.4	41.4	45.4	40.3	39.8	39.6	36.9
YoY growth (%)	10.5	17.6	4.3	(2.4)	0.0	(5.4)	1.4	4.5	4.3	(9.1)	(10.4)	(13.4)	(13.8)
Non-oil, non-gold imports	28.4	28.2	26.9	27.8	27.5	24.3	28.4	26.1	28.3	26.6	28.5	27.3	26.6
YoY growth (%)	1.2	11.8	(5.8)	(1.9)	(0.8)	(3.7)	(2.7)	(2.2)	(0.7)	(9.0)	(2.2)	(8.2)	(8.9)

Source: Ministry of Commerce and Industry, BOBCAPS Research

Aug'19 IIP data

Manufacturing output plunges to a near five-year low

- Industrial output plummeted 1.1% YoY in Aug'19 vs. 4.6% growth in Jul'19, led by a steep drop-off in manufacturing output (-1.2% YoY vs. +4.5%) and electricity generation (-0.9% vs. +4.8%). Industrial output growth has decelerated to 1.8% YoY in Jul-Aug'19 vs. 2.9% in Q1FY20.
- Manufacturing output plunged to a near five-year low in August as the consumption slowdown continued to take a toll on the capital goods (-21% YoY vs. -7% in Jul'19) and consumer durables (-9.1% YoY vs. -2.7%) sectors. Infrastructure and construction goods output also weakened (-4.5% vs. +3.5% YoY). IIP may improve in H2FY20 aided by a benign base.

BOBCAPS logistics universe

FIG 10 – BOBCAPS LOGISTICS UNIVERSE – VALUATION SUMMARY

Company	Rating	CMP (Rs)	TP (Rs)	Upside (%)	EPS (Rs)			P/E (x)			ROE (%)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
AGLL	BUY	100	125	25	10.4	11.8	13.2	9.6	8.5	7.5	12.3	12.7	13.1
CCRI	ADD	595	575	(3)	21.3	21.4	26.1	28.0	27.8	22.8	12.0	11.3	12.8
FSCSL	BUY	506	730	44	23.3	28.5	35.8	21.8	17.7	14.2	14.5	15.4	16.6
MLL	BUY	365	525	44	13.7	18.4	22.9	26.6	19.8	15.9	18.3	21.1	22.9
TCIEXP	BUY	719	840	17	24.8	30.5	37.5	29.0	23.6	19.2	31.1	29.8	28.8
TRPC	BUY	279	365	31	22.1	25.6	30.3	12.6	10.9	9.2	17.5	17.4	17.8

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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