

Slump in port volumes and container rail lead distance

High frequency indicators, a harbinger of the logistics industry's performance, worsened further in Oct'19, indicating a deepening slowdown. Major port volumes declined 5% YoY, a multi-year low, due to a broad-based drop across ports and commodities. Container rail volume ticked up (+2% YoY) but NTKM fell 5% due to a sharp 7% drop in lead distance. EXIM trade continued its double-digit slide, plunging 11% YoY. While demand for logistics services is likely to remain weak, a benign base from Nov'19 may provide some cushion.

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Container rail volumes tick up but NTKM drops: After two consecutive months of decline, container rail volumes increased 2% YoY in Oct'19 led by EXIM (+6% YoY). Domestic volumes, however, fell 14% as the consumption slowdown deepened. EXIM volume growth outpaced container traffic at major ports (flat YoY in tonnage terms), indicating possible market share gains for rail. However, NTKM fell 5% YoY (EXIM/domestic +0.1%/ -17%) as a sharp fall in lead distance (-7% YoY) negated the impact of higher volumes.

RECOMMENDATION SNAPSHOT

| Ticker | Price | Target | Rating |
|-----------|-------|--------|--------|
| AGLL IN | 95 | 120 | BUY |
| CCRI IN | 571 | 655 | ADD |
| FSCS IN | 500 | 680 | BUY |
| MAHLOG IN | 397 | 460 | BUY |
| TCIEXP IN | 758 | 855 | ADD |
| TRPC IN | 280 | 365 | BUY |

Price & Target in Rupees

Volumes at major ports sink: Total cargo at major ports dropped 5% YoY to 56.9mt in Oct'19, the worst decline since Apr'13, indicating a deepening slowdown in global trade and domestic demand. All but three major ports posted declines, led by New Mangalore (-33% YoY), Ennore (-22%) and Chennai (-10%). Vizag (+8% YoY), Kandla (+2%) and Cochin (+5%) were resilient.

Container movement at major ports was flat YoY in tonnage terms (-0.1%) in Oct'19, but plunged 12% in TEU terms. Key container ports of JNPT (-23% YoY) and Chennai (-12%) reported steep volume declines.

EXIM trade continues to slide, Sep industrial output slumps: Merchandise EXIM trade declined 11% YoY in Oct'19 (US\$ terms) after a similar decline in Sep'19. Exports/imports dropped 1%/16% YoY owing to sluggish global and domestic demand. Sep'19 industrial output slumped -4.3% YoY (-1.4% in Aug'19), owing to a broad-based slowdown across the manufacturing (-4%) and mining (-9%) sectors.

Benign base to lend support: The near-term outlook for EXIM and domestic trade, and therefore logistics services, remains soft. That said, the base effect for most high frequency indicators turns benign starting November, which may lend some support to growth going ahead.



Logistics demand barometers – Oct'19

Major port volumes

Steepest volume decline in over six years

Overall cargo at major ports declined 5% YoY, the steepest fall since Apr'13

- Total cargo volumes at major ports plummeted 5.4% YoY to 56.9mn tonnes (mt) in Oct'19, registering the worst decline in 6.5 years, as weak global trade and sluggish domestic consumption continued to take a toll. FY20 YTD volume growth now stands at a meagre 0.4%.
- All but three major ports reported a YoY decline in volumes, with New Mangalore (–33% YoY), Mormugao (–23%), and Ennore (–22%) witnessing the steepest fall. Chennai (–10% YoY), Kolkata (–8%), JNPT (–5%), and Mumbai (–3%) also reported lower volumes. Vizag (+8% YoY) was the only port to report an uptick for two consecutive months; Cochin (+5%) and Kandla (+2%) also showed resilience.
- Fertilisers (+104% YoY) and other miscellaneous cargo (+29%, incl. other liquids) were the only commodities to witness an uptick in volume. Thermal coal (–40% YoY) and coking coal (–29%) volumes plunged, whereas iron ore (–1.2%), POL (–0.6%) and containers (–0.1% in tonnage terms) reported slight volume dips.

Container volumes plunged 12% YoY in TEU terms

- Although flat in tonnage terms, container volumes at major ports in TEU terms nosedived 12% YoY to 800k TEU, as per data shared by the Indian Port Association (IPA). However, we note a discrepancy in previous period figures for JNPT (521k TEU as per IPA data vs. 424k TEU as disclosed by the port itself). Factoring in JNPT data, total container volumes for October last year would stand at 815k TEUs, implying a 1.8% YoY drop in Oct'19.
- Among notable container ports, volumes shrank at JNPT (–23% YoY as per IPA data; –5% as per JNPT data) and Chennai (–12%). Container volumes were resilient at Kandla (+67% YoY on a low base), Kolkata (+10% YoY), Cochin (+4%) and Tuticorin (+3%).

FIG 1 – CARGO VOLUMES AT MAJOR PORTS

| ('000 tonnes) | Oct-19 | Oct-18 | YoY (%) | Sep-19 | MoM (%) | YTD FY20 | YTD FY19 | YoY (%) |
|--------------------------|---------------|---------------|--------------|---------------|------------|-----------------|-----------------|------------|
| Chennai | 3,848 | 4,295 | (10.4) | 4,025 | (4.4) | 28,588 | 31,432 | (9.0) |
| Cochin | 2,821 | 2,682 | 5.2 | 2,322 | 21.5 | 19,466 | 18,588 | 4.7 |
| Ennore | 2,282 | 2,916 | (21.7) | 2,422 | (5.8) | 18,044 | 19,486 | (7.4) |
| JNPT | 5,438 | 5,735 | (5.2) | 5,292 | 2.8 | 39,848 | 40,547 | (1.7) |
| Kandla | 10,046 | 9,841 | 2.1 | 9,517 | 5.6 | 71,093 | 68,471 | 3.8 |
| Kolkata | 4,796 | 5,208 | (7.9) | 4,501 | 6.6 | 36,470 | 35,237 | 3.5 |
| Mormugao | 1,103 | 1,427 | (22.7) | 1,206 | (8.5) | 8,735 | 10,656 | (18.0) |
| Mumbai | 5,527 | 5,720 | (3.4) | 5,081 | 8.8 | 35,630 | 35,168 | 1.3 |
| New Mangalore | 2,723 | 4,081 | (33.3) | 2,806 | (3.0) | 20,587 | 24,260 | (15.1) |
| Paradip | 8,916 | 9,141 | (2.5) | 8,589 | 3.8 | 64,468 | 62,039 | 3.9 |
| Tuticorin | 3,011 | 3,207 | (6.1) | 3,121 | (3.5) | 21,277 | 19,985 | 6.5 |
| Vizag | 6,435 | 5,974 | 7.7 | 5,759 | 11.7 | 41,185 | 37,736 | 9.1 |
| Total major ports | 56,946 | 60,227 | (5.4) | 54,641 | 4.2 | 4,05,391 | 4,03,605 | 0.4 |

Source: Indian Ports Association, BOBCAPS Research

FIG 2 – COMMODITY-WISE VOLUMES AT MAJOR PORTS

| ('000 tonnes) | Oct-19 | Oct-18 | YoY (%) | Sep-19 | MoM (%) | YTD FY20 | YTD FY19 | YoY (%) |
|------------------------------|---------------|---------------|--------------|---------------|------------|-----------------|-----------------|------------|
| Coal - Coking | 4,147 | 5,871 | (29.4) | 4,332 | (4.3) | 33,437 | 31,286 | 6.9 |
| Coal - Thermal | 6,227 | 10,386 | (40.0) | 6,183 | 0.7 | 51,100 | 62,083 | (17.7) |
| Containers - Tonnage | 11,863 | 11,880 | (0.1) | 11,450 | 3.6 | 86,867 | 83,920 | 3.5 |
| Fertilisers - Finished & raw | 1,902 | 931 | 104.3 | 1,173 | 62.1 | 9,269 | 8,399 | 10.4 |
| Iron ore | 4,062 | 4,113 | (1.2) | 3,256 | 24.8 | 28,822 | 22,503 | 28.1 |
| POL | 20,623 | 20,749 | (0.6) | 19,539 | 5.5 | 1,37,742 | 1,35,435 | 1.7 |
| Others | 8,122 | 6,297 | 29.0 | 8,708 | (6.7) | 58,154 | 59,979 | (3.0) |
| Total major ports | 56,946 | 60,227 | (5.4) | 54,641 | 4.2 | 4,05,391 | 4,03,605 | 0.4 |

Source: Indian Ports Association, BOBCAPS Research

FIG 3 – CONTAINER TRAFFIC AT MAJOR PORTS

| ('000 teu) | Oct-19 | Oct-18 | YoY (%) | Sep-19 | MoM (%) | YTD FY20 | YTD FY19 | YoY (%) |
|--------------------------|------------|------------|---------------|------------|------------|--------------|--------------|------------|
| Chennai | 123 | 140 | (12.1) | 107 | 15.0 | 859 | 974 | (11.8) |
| Cochin | 52 | 50 | 4.0 | 51 | 2.0 | 364 | 329 | 10.6 |
| Ennore | 6 | 1 | 500.0 | 9 | (33.3) | 76 | 1 | NM |
| JNPT | 402 | 521* | (22.8) | 400 | 0.5 | 2,975 | 3,040 | (2.1) |
| Kandla | 25 | 15 | 66.7 | 20 | 25.0 | 239 | 118 | 102.5 |
| Kolkata | 75 | 68 | 10.3 | 74 | 1.4 | 510 | 496 | 2.8 |
| Mormugao | 2 | 4 | (50.0) | 2 | - | 18 | 22 | (18.2) |
| Mumbai | 2 | 3 | (33.3) | 3 | (33.3) | 17 | 17 | - |
| New Mangalore | 11 | 13 | (15.4) | 14 | (21.4) | 89 | 81 | 9.9 |
| Paradip | 1 | (1) | (200.0) | 2 | (50.0) | 6 | 5 | 20.0 |
| Tuticorin | 61 | 59 | 3.4 | 72 | (15.3) | 486 | 430 | 13.0 |
| Vizag | 40 | 39 | 2.6 | 43 | (7.0) | 301 | 266 | 13.2 |
| Total major ports | 800 | 912 | (12.3) | 797 | 0.4 | 5,940 | 5,779 | 2.8 |

Source: Indian Ports Association, BOBCAPS Research | *424k TEU as per data reported by JNPT

Direct-port-delivery volumes at JNPT

Stable DPD share a silver lining for CFSs amidst volume woes

Share of DPD in total import-laden containers at JNPT stable MoM at 43.2%

- Share of direct-port-delivery (DPD) cargo at JNPT declined marginally to 43.2% at 62k TEU (-2% YoY) out of a total of 143k TEU of import-laden containers.
- After rising rapidly and peaking at 47.5% in May'19, DPD share has been trending downwards.
- More importantly, DPD-DPD cargo (where delivery is taken directly by the importers) continues to plunge (-44% YoY), with its share in total DPD volumes declining to 13.5% in Oct'19 (14.8% in Sep'19 and 23.6% in Oct'18). Speedy CFSs moved 3.3% of total direct delivery containers.
- DPD cargoes moved by CFSs increased 17% YoY to 51.5K TEU, translating to a higher 83% share of total direct deliveries.
- Stable DPD share (at 40-45%) and a majority of this cargo being moved by CFSs are positives for freight stations operating at JNPT amidst weak overall container volumes. However, since DPD-CFS cargoes have lower realisations, CFSs engaged in handling these volumes may see lower realisations and profitability per unit.

FIG 4 – DPD CARGO AT JNPT

| (TEU) | Oct-18 | Nov-18 | Dec-18 | Jan-19 | Feb-19 | Mar-19 | Apr-19 | May-19 | Jun-19 | Jul-19 | Aug-19 | Sep-19 | Oct-19 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| DPD-DPD (direct delivery taken by importers) | 14.9 | 12.7 | 12.6 | 12.9 | 11.5 | 10.4 | 9.9 | 9.6 | 10.3 | 11.2 | 11.2 | 9.5 | 8.3 |
| YoY growth (%) | 6.1 | (12.2) | (20.0) | (23.6) | (25.7) | (46.9) | (41.2) | (35.5) | (26.0) | (14.1) | (22.7) | (36.3) | (44.1) |
| Share in total DPD (%) | 23.6 | 20.8 | 22.1 | 23.0 | 17.8 | 14.0 | 12.1 | 12.1 | 14.8 | 15.2 | 15.2 | 14.8 | 13.5 |
| Speedy CFS | 4.4 | 3.7 | 3.0 | 2.6 | 2.6 | 3.6 | 4.1 | 3.7 | 2.6 | 3.1 | 2.6 | 2.4 | 2.0 |
| YoY growth (%) | (36.7) | (30.9) | (34.3) | (47.8) | (30.6) | (17.8) | (12.8) | (8.0) | 2.3 | (35.9) | (32.6) | (37.5) | (53.3) |
| Share in total DPD (%) | 6.9 | 6.0 | 5.2 | 4.6 | 4.0 | 4.8 | 5.1 | 4.7 | 3.8 | 4.2 | 3.6 | 3.7 | 3.3 |
| DPD-CFS | 43.9 | 44.8 | 41.2 | 40.6 | 50.2 | 60.6 | 67.7 | 65.8 | 56.8 | 59.6 | 59.9 | 52.0 | 51.5 |
| YoY growth (%) | 96.4 | 76.5 | 27.5 | 22.5 | 57.3 | 87.5 | 91.0 | 66.8 | 51.3 | 39.4 | 40.8 | 20.7 | 17.4 |
| Share in total DPD (%) | 69.5 | 73.2 | 72.6 | 72.3 | 78.1 | 81.2 | 82.9 | 83.2 | 81.4 | 80.6 | 81.3 | 81.5 | 83.2 |
| Total DPD | 63.1 | 61.1 | 56.8 | 56.1 | 64.3 | 74.6 | 81.7 | 79.1 | 69.7 | 73.9 | 73.7 | 63.8 | 61.9 |
| Share in total laden containers (%) | 41.1 | 41.2 | 40.0 | 38.1 | 44.9 | 44.7 | 47.4 | 47.5 | 46.6 | 45.9 | 44.9 | 43.5 | 43.2 |
| YoY growth | 45.8 | 35.4 | 8.0 | 2.0 | 25.8 | 32.4 | 43.5 | 35.6 | 29.0 | 21.9 | 21.0 | 3.4 | (2.0) |

Source: JNPT, Jawaharlal Nehru Custom House, BOBCAPS Research

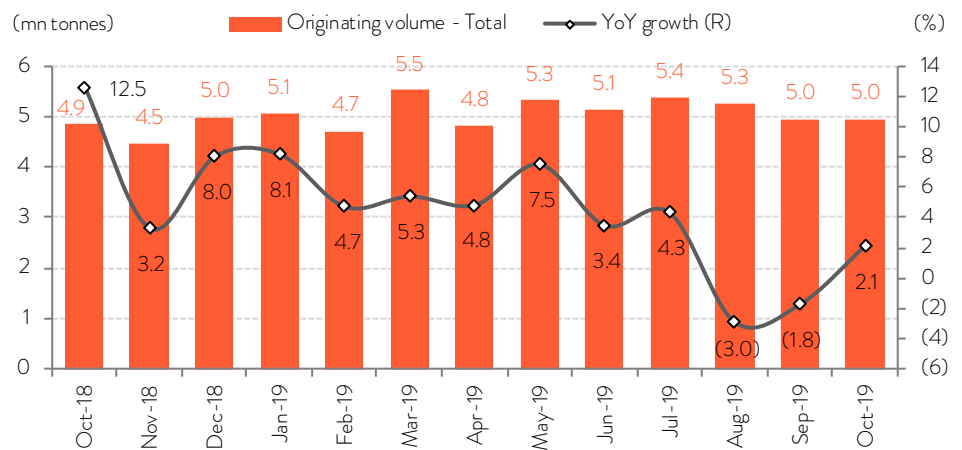
Container rail traffic

EXIM volume ticks up but declining leads drag down NTKM

IR container traffic increased 2% YoY in Oct'19

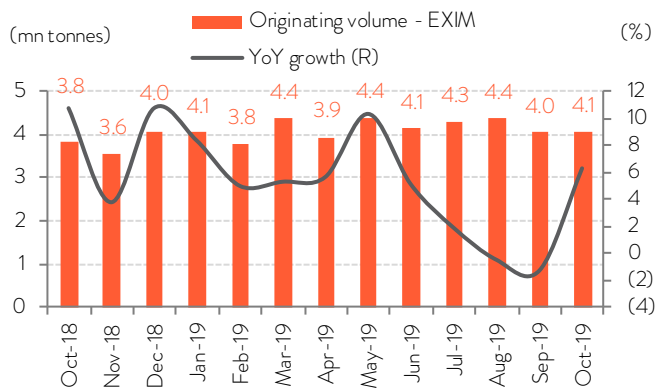
- As per data published by the Indian Railways (IR), container rail volumes ticked up 2% YoY in Oct'19, after two successive months of YoY decline.
- EXIM volumes grew at a healthy 6% YoY, but domestic container volumes plummeted 14% YoY. Apart from the challenging domestic and global trade environment, a high base of Oct'18 (EXIM/domestic volume growth of +20%/+11% YoY) also restricted growth. The base becomes more favourable from next month, which should lend some support to YoY growth.
- Volume growth in the EXIM segment was faster than container traffic at major ports (flat YoY), indicating possible market share gains by rail from road.

FIG 5 – CONTAINER RAIL VOLUMES INCREASED BY 2% YOY IN OCT'19



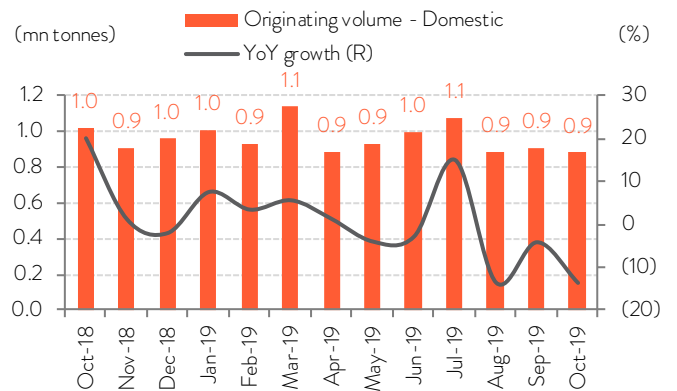
Source: Indian Railways, BOBCAPS Research

FIG 6 – EXIM VOLUMES INCREASED BY 6% YOY



Source: Indian Railways, BOBCAPS Research

FIG 7 – DOMESTIC VOLUMES DROPPED 14% YOY



Source: Indian Railways, BOBCAPS Research

NTKM growth impacted by lower leads

7% decline in lead distances catalysed a 5% decrease in NTKM

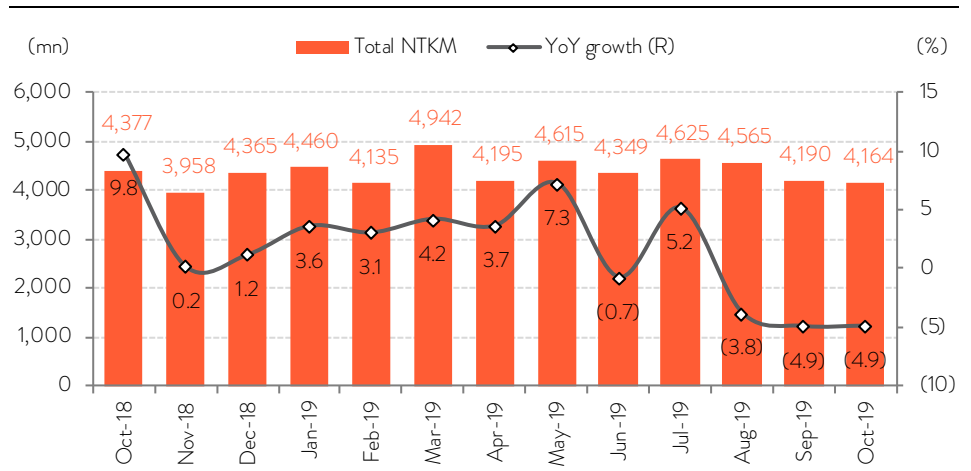
- Despite volumes growing 2% YoY, NTKM (net-tonne km) declined 5% YoY owing to lower lead distances. FY20 YTD NTKM growth stands at a paltry 0.2% YoY.
- EXIM NTKM was flat (+0.1%), whereas domestic NTKM plunged 17% YoY.
- Overall lead distance declined sharply by 7% in Oct'19 to 841km from 903km in Oct'18. EXIM/domestic lead distances declined 6%/3% YoY.

FIG 8 – LEAD DISTANCES FOR IR CONTAINER TRAFFIC

| (km) | Oct-18 | Nov-18 | Dec-18 | Jan-19 | Feb-19 | Mar-19 | Apr-19 | May-19 | Jun-19 | Jul-19 | Aug-19 | Sep-19 | Oct-19 |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Domestic lead distance | 1,275 | 1,264 | 1,264 | 1,241 | 1,267 | 1,277 | 1,204 | 1,275 | 1,166 | 1,050 | 1,287 | 1,169 | 1,232 |
| YoY growth (%) | (7.5) | (3.4) | (6.3) | (4.8) | (1.4) | (1.3) | (0.5) | 4.1 | (6.6) | (15.9) | 0.8 | (4.8) | (3.4) |
| EXIM lead distance | 803 | 788 | 780 | 792 | 791 | 796 | 793 | 779 | 771 | 814 | 782 | 774 | 757 |
| YoY growth (%) | (1.2) | (2.6) | (4.9) | (3.8) | - | (1.0) | (0.9) | (0.1) | (2.2) | 6.4 | 0.1 | (2.3) | (5.7) |
| Total lead distance | 903 | 885 | 873 | 886 | 876 | 895 | 868 | 866 | 848 | 861 | 868 | 846 | 841 |
| YoY growth (%) | (2.4) | (3.1) | (6.3) | (3.7) | (1.6) | (1.1) | (1.1) | (0.1) | (4.0) | 0.8 | (0.8) | (3.2) | (6.9) |

Source: Indian Railways, BOBCAPS Research

FIG 9 – NTKM DECREASED 5% YOY TO 4.2BN



Source: Indian Railways, BOBCAPS Research

EXIM trade

Exports contraction decelerates, imports slide further

Exports declined 1.1% YoY; imports slid 16.3%

- EXIM merchandise trade (in US dollar terms) declined for the fifth consecutive month in Oct'19, falling 11% YoY to US\$ 63.8bn.
- Contraction in exports decelerated to 1.1% YoY vs. a 6.6% decline in Sep'19. Core exports (non-oil, non-gold) increased marginally by 0.6% YoY (-4.2% in Sep'19) led by pharma (+12.6% vs. +8.7% in Sep'19) and engineering goods (+1.2% vs. -6.2%).

- The double-digit slide in imports continued with a 16.3% YoY drop in Oct'19 (–13.4% in Sep'19), the lowest levels in the past 39 months. Non-oil, non-gold imports fell 10% YoY, contracting for the twelfth consecutive month.

FIG 10 – EXIM TRADE TREND

| (US\$ bn) | Oct-18 | Nov-18 | Dec-18 | Jan-19 | Feb-19 | Mar-19 | Apr-19 | May-19 | Jun-19 | Jul-19 | Aug-19 | Sep-19 | Oct-19 |
|----------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Total EXIM trade | 71.4 | 69.7 | 68.9 | 67.5 | 62.9 | 76.0 | 67.5 | 75.3 | 65.3 | 66.1 | 65.7 | 62.9 | 63.8 |
| YoY growth (%) | 18.1 | 2.9 | (1.3) | 1.4 | (2.2) | 5.3 | 2.9 | 4.1 | (9.3) | (5.8) | (10.6) | (11.0) | (10.6) |
| Total exports | 26.7 | 26.5 | 27.9 | 26.4 | 26.7 | 32.6 | 26.1 | 30.0 | 25.0 | 26.3 | 26.1 | 26.0 | 26.4 |
| YoY growth (%) | 16.5 | 0.8 | 0.4 | 3.7 | 2.5 | 11.0 | 0.6 | 3.9 | (9.7) | 2.2 | (6.0) | (6.6) | (1.1) |
| Non-oil, non-gold exports | 18.9 | 18.6 | 21.1 | 19.9 | 19.9 | 25.6 | 19.5 | 21.4 | 19.2 | 19.7 | 19.6 | 19.0 | 19.0 |
| YoY growth (%) | 14.4 | (3.9) | 1.1 | 8.2 | 5.1 | 13.4 | (1.3) | 7.4 | (4.9) | 5.2 | (5.6) | (4.2) | 0.6 |
| Total imports | 44.7 | 43.2 | 41.0 | 41.1 | 36.3 | 43.4 | 41.4 | 45.4 | 40.3 | 39.8 | 39.6 | 36.9 | 37.4 |
| YoY growth (%) | 19.1 | 4.3 | (2.4) | 0.0 | (5.4) | 1.4 | 4.5 | 4.3 | (9.1) | (10.4) | (13.4) | (13.8) | (16.3) |
| Non-oil, non-gold imports | 28.8 | 26.9 | 27.8 | 27.5 | 24.3 | 28.4 | 26.1 | 28.3 | 26.6 | 28.5 | 27.3 | 26.6 | 25.9 |
| YoY growth (%) | 11.8 | (5.8) | (1.9) | (0.8) | (3.7) | (2.7) | (2.2) | (0.7) | (9.0) | (2.2) | (8.2) | (8.9) | (10.1) |

Source: Ministry of Commerce and Industry, BOBCAPS Research

Sep'19 IIP data

Industrial output at multi-year low

- Industrial output nosedived 4.3% YoY in Sep'19 (–1.4% in Aug'19), led by a slowdown across sectors. Mining output declined 8.5% YoY, while manufacturing output plummeted 3.9% YoY (–1.6% in Aug'19) as the slowdown became more broad-based.
- Within manufacturing, the decline was led by motor vehicles (–24.8% YoY), furniture (–23.6% YoY) and fabricated metals (–22% YoY). Weak industrial and manufacturing activity is likely to remain a major overhang on demand for logistics services.

BOBCAPS logistics universe

FIG 11 – 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 | 95 | 120 | 27 | 10.3 | 11.6 | 13.0 | 9.2 | 8.2 | 7.3 | 12.1 | 12.5 | 12.9 |
| CCRI | ADD | 571 | 655 | 15 | 17.5 | 21.0 | 25.8 | 32.7 | 27.1 | 22.2 | 10.2 | 11.9 | 13.4 |
| FSCSL | BUY | 500 | 680 | 36 | 12.9 | 20.9 | 30.8 | 38.9 | 23.9 | 16.2 | 8.2 | 12.1 | 15.7 |
| MLL | BUY | 397 | 460 | 16 | 10.5 | 14.3 | 18.4 | 38.0 | 27.8 | 21.6 | 14.2 | 17.1 | 19.7 |
| TCIEXP | ADD | 758 | 855 | 13 | 24.6 | 30.2 | 37.2 | 30.8 | 25.1 | 20.4 | 30.7 | 29.1 | 28.3 |
| TRPC | BUY | 280 | 365 | 30 | 21.5 | 24.8 | 30.3 | 13.0 | 11.3 | 9.2 | 17.1 | 17.0 | 17.9 |

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)

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