

Slowdown continues to take a toll

High frequency indicators for logistics remained dull in Aug'19. Cargo volume growth at major ports softened to 1.2% YoY as a weak EXIM trajectory (-10.6% YoY) took a toll. Container traffic at major ports, however, posted healthy 10.4% YoY growth (TEU terms). Container rail volumes declined 3% YoY (EXIM/domestic down 0.5%/14%), indicating possible market share loss to road. We are cautious on the near-term prospects of logistics companies in light of the deteriorating demand climate.

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Container rail volumes contract after three years: Container rail volumes slipped 3% YoY in Aug'19, contracting for the first time in 34 months as both EXIM/domestic volumes fell 0.5%/14% YoY. While a high base effect of Aug'18 (+15% YoY) and the global trade slowdown hampered growth, railways appears to have also lost market share to road in container trade, as indicated by substantially higher container traffic growth at major ports (+7.7% in tonnage terms). FY20 remains a tepid year, with YTD/Q2 growth at just 3.3%/0.6% YoY. Lead distance was relatively resilient (-0.8% YoY); net tonne-km (NTKM) dipped 3.8%.

Container traffic at major ports healthy: Container traffic at major ports grew 10.4% YoY in Aug'19 (TEU terms). Kandla (+236% YoY), Cochin (+42%) and Tuticorin (+27%) were the key drivers. Growth at JNPT also rebounded to 4.3% YoY from 0.2% in Jul'19. Container volumes at Chennai port fell yet again, by 5% YoY. Overall cargo at major ports inched up a paltry 1.2% YoY.

EXIM trade plunges further, July IIP growth accelerates: Merchandise EXIM trade declined 11% YoY in Aug'19 (US\$ terms) after a 6% decrease in Jul'19. Exports/imports dropped 6%/13% YoY owing to sluggish global and domestic demand. Non-oil, non-gold exports/imports were down 6%/8% YoY. Jul'19 IIP growth accelerated to 4.3% YoY (1.2% in Jun'19), led by higher manufacturing output (+4.2% YoY vs. +0.2% in Jun'19) and mining (+4.9% vs. 1.5% in Jun'19).

No respite in sight: With no improvement on the horizon for either global trade or domestic consumption, demand for logistics services are likely to remain soft in the near term. From November onwards, the base could turn favourable, which may provide some cushion. Recent government measures to boost exports and domestic demand are likely to yield benefits only over the medium term.

KEY RECOMMENDATIONS

Ticker	Price	Target	Rating
AGLL IN	101	125	BUY
CCRI IN	521	530	ADD
FSCS IN	549	715	BUY
MAHLOG IN	343	515	BUY
TCIEXP IN	627	785	BUY
TRPC IN	267	365	BUY

Price & Target in Rupees



Logistics demand barometers – Aug'19

Major port volumes

Cargo volume growth moderates; container traffic inches up

Cargo volumes at major ports slowed to 1.2% YoY in Aug'19

- Cargo volume growth at major ports slowed to +1.2% YoY/–2.9% MoM, coming in at 57.6mn tonnes (mt) in Aug'19, vs. 3.5% YoY growth posted in Jul'19. In FY20 YTD/Q2FY20, cargo volumes grew at a tepid 1.9%/2.4% YoY.
- Among major ports, Tuticorin (+30.9% YoY), Mumbai (+11.4%), Cochin (+6.5%), and Kandla (+4.0%) grew the fastest. New Mangalore (+2.5%) and Kolkata (+0.5%) were the other major ports to register growth. Mormugao (–42% YoY) and Ennore (–6.5%) were the major laggards, with Paradip (–2.6% YoY), Vizag (–2.3%), and JNPT (–0.9%) also registering declines. Chennai (–2.9% YoY) continued to lose market share to other ports on the eastern coast.
- All commodity volumes grew YoY, barring thermal coal (–27.6% YoY), and others (–10.4% incl. other liquids). These, coupled with muted POL volume growth (+0.5% YoY), contributed to the modest growth in overall cargo at major ports. Iron ore volumes shot up yet again (+112% YoY), while fertilisers (+33.5% YoY) and coking coal also moved up (+9.5%). Container traffic growth remained healthy for the second consecutive month, growing by 7.7% YoY to 12.7bn tonnes.

Container traffic growth in August remained healthy at 7.7% YoY/5.8% MoM

- Container traffic grew at a healthy rate in TEU terms as well, at 10.4% YoY to 0.9mn TEU. Most major ports posted healthy growth, led by Kandla (+236% YoY), Cochin (+41.5%), Tuticorin (+27%), and Vizag (4.7%). JNPT grew 4.3% YoY to 435k TEU. Chennai was the only noteworthy container port to have reported a decline in August (–5.4% YoY).

FIG 1 – CARGO VOLUMES AT MAJOR PORTS

('000 tonnes)	Aug-19	Aug-18	YoY (%)	Jul-19	MoM (%)	YTD FY20	YTD FY19	YoY (%)
Chennai	4,283	4,413	(2.9)	4,314	(0.7)	20,715	22,302	(7.1)
Cochin	2,774	2,604	6.5	3,040	(8.8)	14,323	13,140	9.0
Ennore	2,464	2,634	(6.5)	2,345	5.1	13,340	14,161	(5.8)
JNPT	5,683	5,736	(0.9)	5,804	(2.1)	29,118	28,987	0.5
Kandla	10,540	10,135	4.0	9,870	6.8	51,530	48,895	5.4
Kolkata	5,286	5,261	0.5	5,666	(6.7)	27,173	25,460	6.7
Mormugao	817	1,415	(42.3)	1,135	(28.0)	6,426	8,165	(21.3)
Mumbai	5,249	4,711	11.4	4,844	8.4	25,022	24,334	2.8
New Mangalore	2,940	2,867	2.5	3,178	(7.5)	15,058	17,183	(12.4)
Paradip	8,872	9,112	(2.6)	9,886	(10.3)	46,963	44,788	4.9
Tuticorin	3,429	2,619	30.9	2,873	19.4	15,145	14,116	7.3
Vizag	5,287	5,412	(2.3)	6,418	(17.6)	28,991	26,936	7.6
Total major ports	57,624	56,919	1.2	59,373	(2.9)	2,93,804	2,88,467	1.9

Source: Indian Ports Association, BOBCAPS Research

FIG 2 – COMMODITY-WISE VOLUMES AT MAJOR PORTS

('000 tonnes)	Aug-19	Aug-18	YoY (%)	Jul-19	MoM (%)	YTD FY20	YTD FY19	YoY (%)
Coal - Coking	4,756	4,342	9.5	5,079	(6.4)	24,958	21,730	14.9
Coal - Thermal	5,643	7,791	(27.6)	5,983	(5.7)	38,690	44,552	(13.2)
Containers - Tonnage	12,675	11,769	7.7	13,179	(3.8)	63,554	60,060	5.8
Fertilisers - Finished & raw	1,347	1,009	33.5	1,383	(2.6)	6,194	6,286	(1.5)
Iron ore	4,056	1,916	111.7	4,460	(9.1)	21,504	16,200	32.7
POL	20,229	20,136	0.5	20,837	(2.9)	97,580	95,507	2.2
Others	8,918	9,956	(10.4)	8,452	5.5	41,324	44,132	(6.4)
Total major ports	57,624	56,919	1.2	59,373	(2.9)	2,93,804	2,88,467	1.9

Source: Indian Ports Association, BOBCAPS Research

FIG 3 – CONTAINER TRAFFIC AT MAJOR PORTS

('000 teu)	Aug-19	Aug-18	YoY (%)	Jul-19	MoM (%)	YTD FY20	YTD FY19	YoY (%)
Chennai	123	130	(5.4)	134	(8.2)	629	683	(7.9)
Cochin	58	41	41.5	51	13.7	261	228	14.5
Ennore	9	-	NM	13	(30.8)	61	0	NM
JNPT	435	417	4.3	431	0.9	2,173	2,088	4.1
Kandla	37	11	236.4	40	(7.5)	194	88	120.5
Kolkata	76	74	2.7	77	(1.3)	361	360	0.3
Mormugao	3	3	0.0	3	-	14	13	7.7
Mumbai	2	3	(33.3)	2	-	12	12	-
New Mangalore	14	13	7.7	16	(12.5)	64	58	10.3
Paradip	-	1	(100.0)	1	(100.0)	3	5	(40.0)
Tuticorin	80	63	27.0	74	8.1	353	312	13.1
Vizag	45	43	4.7	46	(2.2)	218	193	13.0
Total major ports	882	799	10.4	888	(0.7)	4,343	4,040	7.5

Source: Indian Ports Association, BOBCAPS Research

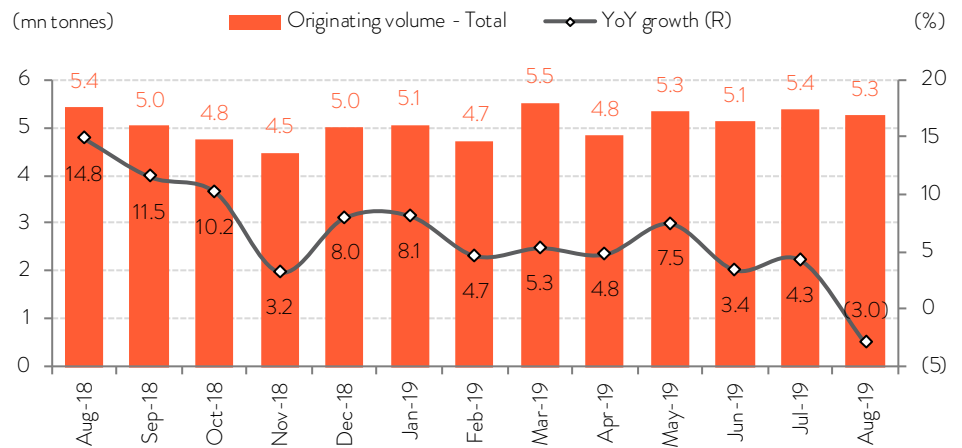
Container rail traffic

Volumes contract for the first time in three years

IR container traffic declined for the first time in 34 months

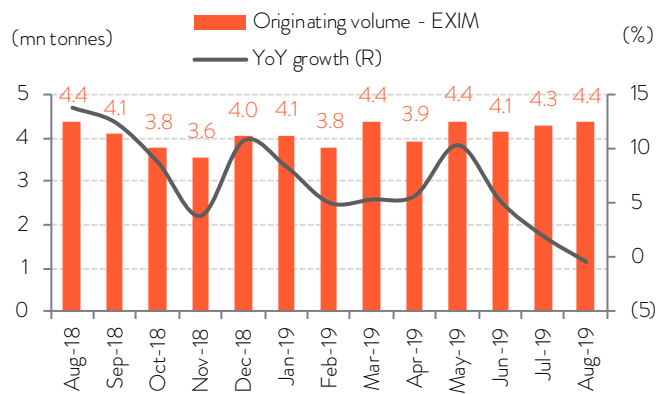
- As per data published by the Indian Railways (IR), container rail volumes declined 3% YoY in Aug'19 to 5.3mt – the first decline in nearly three years, since Nov'16. FY20 YTD/Q2FY20 volumes grew at a meagre 3.3%/0.6% YoY.
- EXIM container volumes declined marginally by 0.5% YoY, another multi-month low (since Dec'16) and significantly below the 7.7% YoY growth in container traffic at major ports (in tonnage terms), indicating a possible market share loss for railways to roads. A high base of 14%/16% YoY in Aug'18/Aug'17 also had an adverse impact.
- Domestic container volumes declined 14% YoY, on the heels of a strong Jul'19 (+15% YoY), likely dented by the domestic consumption slowdown.

FIG 4 – CONTAINER RAIL VOLUMES DECLINED 3% YOY IN AUG'19



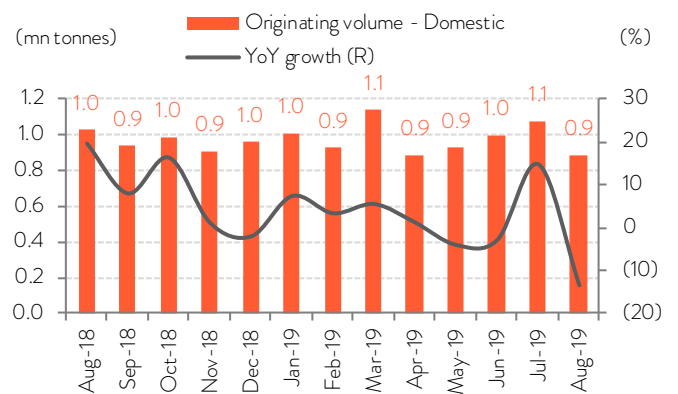
Source: Indian Railways, BOBCAPS Research

FIG 5 – EXIM VOLUMES WERE FLATTISH AT 0.5% YOY



Source: Indian Railways, BOBCAPS Research

FIG 6 – DOMESTIC VOLUMES DROPPED 13.6% YOY



Source: Indian Railways, BOBCAPS Research

Lead distance exhibited resilience

Total lead distance declined marginally by 0.8% YoY to 868km

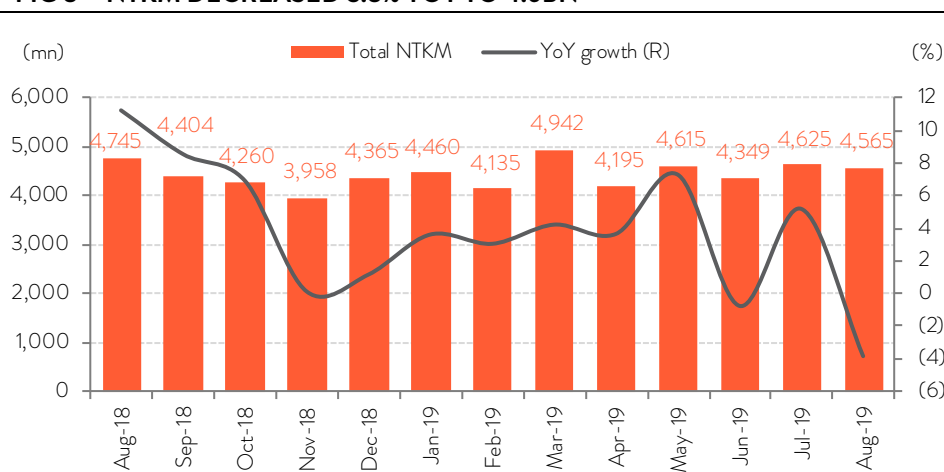
- Amidst weak volumes, lead distances continued to exhibit resilience for the second consecutive month, providing some support to per-kilometre tonnage metrics. Overall lead distance declined marginally by 0.8% YoY, while increasing 0.8% sequentially.
- EXIM lead distance was flat at 782km in Aug'19 vs. 781km in Aug'18. Sequentially, however, it fell to 782km vs. 814km in Jul'19. Domestic lead distance grew 0.8% YoY/23% MoM to 1,287km.
- Consequent to lower volumes and a marginal decline in lead distance, overall NTKM decreased 3.8% YoY to 4.6bn. In FY20 YTD, NTKM grew 2.2% YoY to 22.3bn.

FIG 7 – LEAD DISTANCES FOR IR CONTAINER TRAFFIC

(km)	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19
Domestic lead distance	1,277	1,240	1,287	1,264	1,264	1,241	1,267	1,277	1,204	1,275	1,166	1,050	1,287
YoY growth (%)	(3.8)	(5.8)	(6.6)	(3.4)	(6.3)	(4.8)	(1.4)	(1.3)	(0.5)	4.1	(6.6)	(15.9)	0.8
EXIM lead distance	781	792	794	788	780	792	791	796	793	779	771	814	782
YoY growth (%)	(3.6)	(1.0)	(2.3)	(2.6)	(4.9)	(3.8)	-	(1.0)	(0.9)	(0.1)	(2.2)	6.4	0.1
Total lead distance	875	875	897	885	873	886	876	895	868	866	848	861	868
YoY growth (%)	(3.2)	(2.8)	(3.0)	(3.1)	(6.3)	(3.7)	(1.6)	(1.1)	(1.1)	(0.1)	(4.0)	0.8	(0.8)

Source: Indian Railways, BOBCAPS Research

FIG 8 – NTKM DECREASED 3.8% YOY TO 4.6BN



Source: Indian Railways, BOBCAPS Research

EXIM trade

Hit by poor global and domestic demand

Non-oil, non-gold exports/imports declined 5.6%/8.2% YoY

- EXIM merchandise trade (in US dollar terms) declined for the third consecutive month in August, falling 11% YoY to US\$ 65.7bn after a drop of 6% in Jul'19.
- Exports declined by 6% YoY vs. 2.2% increase in Jul'19. Core exports (non-oil, non-gold) decreased 5.6% YoY (+5.2% in Jul'19) led by textiles (-11.6% vs. +1.3% in Jul'19), engineering goods (-9.4% vs. -1.7%) and organic chemicals (-9.2% vs. +13.4%).
- Imports fell 13.4% YoY vs. a 10.4% decline in July – a 36-month low and the third straight month of slippage. Non-oil, non-gold imports plunged 8.2% YoY vs. -2.2% in Jul'19, representing the tenth month of contraction.

FIG 9 – EXIM TRADE TREND

(US\$ bn)	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19
Total EXIM trade	73.1	69.9	71.1	69.7	68.9	67.5	62.9	76.0	67.5	75.3	65.3	66.1	65.7
YoY growth (%)	23.0	5.0	17.7	2.9	(1.3)	1.4	(2.2)	5.3	2.9	4.1	(9.3)	(5.8)	(10.6)
Total exports	27.8	28.0	27.0	26.5	27.9	26.4	26.7	32.6	26.1	30.0	25.0	26.3	26.1
YoY growth (%)	19.2	(2.2)	17.9	0.8	0.4	3.7	2.5	11.0	0.6	3.9	(9.7)	2.2	(6.0)
Non-oil, non-gold exports	20.7	19.8	18.9	18.6	21.1	19.9	19.9	25.6	19.5	21.4	19.2	19.7	19.6
YoY growth (%)	16.4	(2.5)	14.5	(3.9)	1.1	8.2	5.1	13.4	(1.3)	7.4	(4.9)	5.2	(5.6)
Total imports	45.2	41.9	44.1	43.2	41.0	41.1	36.3	43.4	41.4	45.4	40.3	39.8	39.6
YoY growth (%)	25.4	10.5	17.6	4.3	(2.4)	0.0	(5.4)	1.4	4.5	4.3	(9.1)	(10.4)	(13.4)
Non-oil, non-gold imports	29.8	28.4	28.2	26.9	27.8	27.5	24.3	28.4	26.1	28.3	26.6	28.5	27.3
YoY growth (%)	12.8	1.2	11.8	(5.8)	(1.9)	(0.8)	(3.7)	(2.7)	(2.2)	(0.7)	(9.0)	(2.2)	(8.2)

Source: Ministry of Commerce and Industry, BOBCAPS Research

Jul'19 IIP data

Industrial output improves 4.3% YoY

- Industrial output grew 4.3% in Jul'19 vs. 1.2% in Jun'19, owing to an improvement in manufacturing output (+4.2% YoY vs. +0.2% in Jun'19) and mining (+4.9% vs. 1.5% in Jun'19).
- Within manufacturing, intermediate goods output accelerated to a high of 13.9% (12.6% in Jun'19), led by fragrances, MS slabs and copper bars. FMCG production increased to 8.3% (7.1% in Jun'19), followed by primary goods (3.5%). Capital and consumer durable output contracted by 7.1% and 2.7% YoY respectively in July.

BOBCAPS logistics universe

FIG 10 – VALUATION SUMMARY

Company	Market cap (Rs mn)	CMP (Rs)	TP (Rs)	Rating	Upside (%)	FY19-FY22E					
						Revenue CAGR (%)	EBITDA CAGR (%)	Earnings CAGR (%)	Avg. ROE (%)	Avg. ROCE (%)	Avg. debt-EBITDA (x)
AGLL	24,840	101	125	BUY	23.6%	12.6	15.0	9.5	12.6	12.1	1.3
CCRI	3,17,171	521	530	ADD	1.8%	16.4	21.6	8.2	11.8	12.2	0.1
FSCSL	22,005	549	715	BUY	30.2%	24.8	29.2	16.8	17.0	17.7	1.0
MLL	24,479	343	515	BUY	50.3%	11.6	18.8	22.3	19.9	27.7	0.1
TCIEXP	24,005	627	785	BUY	25.2%	15.8	22.1	23.1	29.0	42.5	0.1
TRPC	20,446	267	365	BUY	36.9%	14.3	17.4	16.8	17.6	13.3	1.7

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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