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Festive channel filling by trade to aid revenue growth

Q2 has seen a revival in logistics activity on a YoY basis, driven by a pick-up in trade activity across a spectrum of industries. However, on a QoQ basis, a mixed trend emerges, with the road sector leading the march with 25-30% growth in E-Way bills and ports & rail Exim segment showing a muted performance (-2% to -4% QoQ range on MMT basis). Exim container trade continues to face challenges (September saw a further dip), due to rising manufacturing consumption in the west and container shortages in the east (container imbalance due to uneven macro trade) leading to higher ocean freight charges. Air cargo segment continues to remain a beneficiary of continued strong growth in sectors like e-commerce, pharmaceuticals, etc.

Festive season brings cheer for surface logistics

Surface logistics saw higher fleet utilisation, mainly due to re-opening of the economy and higher stocking of inventory ahead of upcoming festive season. E-commerce segment typically needs higher warehousing component (higher value added services) compared to retail trade via shops and is beneficial for 3PL companies, as existing companies reorganise their supply chains to align to the evolved buying behaviour. Surface express companies are also expected to report strong volume growth led by revival in the SME and MSME sector. Higher crude oil prices are expected to be largely passed on to customers, thereby preventing contraction in margins.

Gangavaram, Krishnapatnam port numbers push Adani performance

In spite of the Exim challenges (unavailability of containers, higher charges), Adani Ports posted 64% YoY growth in volumes (7% QoQ) due to acquisition of KPCL, GPL ports and continued strong performance of flagship Mundra port. JNPT and Gujarat Pipavav posted volume growth of 24% (9% QoQ) and -7% (5% QoQ), respectively. The greater trans-shipment volumes at Indian ports, may impact the container product mix for ports (due to congestion at major transshipment ports like Colombo and Singapore port). Rail CTOs are also expected to see 2% to -4% QoQ growth in Exim and 10-12% growth in domestic trade.

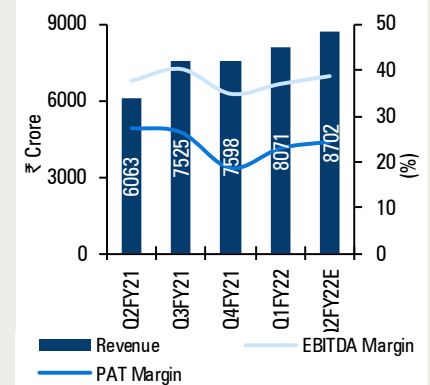
Financial performance expected to remain mixed

In our logistics coverage universe, we expect ~8% QoQ growth in topline due to the strong performance of surface players. On the operational front, we expect higher operating leverage to propel EBITDA and, thereby, PAT to post 13% and 15% growth, respectively. Warehousing is expected to continue its strong run, due to higher underlying demand. On a YoY basis, the entire logistics pack is expected to report a strong performance (mainly due to a weak base and a partial lockdown in the current quarter).

Company	Revenue			EBITDA			PAT		
	Q2FY22E	YoY	QoQ	Q2FY22E	YoY	QoQ	Q2FY22E	YoY	QoQ
APSEZ	4,867.2	67.7	6.8	2,774.3	49.9	14.8	1,763.4	26.5	18.2
Container Corp	1,876.5	24.9	3.8	422.2	34.9	-2.6	257.3	37.2	1.0
TCL Express	267.5	25.6	20.0	44.7	37.2	39.3	33.3	41.7	40.1
Transport Corp	730.7	19.4	19.6	81.8	38.7	15.1	50.1	56.5	3.5
Mahindra Log	960.3	15.3	10.0	53.8	44.1	19.5	16.0	7.8	75.9
Total	8,702.2	43.5	7.8	3,376.8	47.3	12.7	2,120.1	28.4	16.0

Source: Company, ICICI Direct Research

Topline & profitability (Coverage Universe)



Top Picks

Adani Ports, TCI

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Exhibit 2: Estimates for Q2FY22E (₹ crore)

Company	Revenue			Change (%)			EBITDA			Change (%)			PAT			Change (%)		
	Q2FY22E	YoY	QoQ	Q2FY22E	YoY	QoQ	Q2FY22E	YoY	QoQ	Q2FY22E	YoY	QoQ	Q2FY22E	YoY	QoQ	Q2FY22E	YoY	QoQ
United Spirits	2,255.7	5.1	39.7	338.4	25.4	101.9	202.1	57.3	192.9									
United Breweries	1,418.5	57.5	26.9	219.9	443.8	130.4	120.1	NA	289.4									
Total	3,674.2	20.6	34.4	558.2	79.9	112.2	322.2	143.1	222.7									

Source: Company, ICICI Direct Research

Exhibit 3: Company Specific view

Company	Remarks
Adani Ports and SEZ	Revenues are expected to grow 68% YoY to ₹ 4867 crore, led by a strong overall performance by Mundra port and consolidation of Gangavaram and Krishnapatnam port into Adani fold. Similarly, EBITDA is expected to grow 50% YoY (lower than topline growth) due to an adverse product mix (EBITDA margins expected to contract 680 bps to 57%). Further, PAT is expected to grow 27% YoY due to presence of a ₹ 448 crore forex gain in the base quarter, which further lowers PAT growth vis-a-vis EBITDA
Container Corporation	Revenues are expected to grow 4% QoQ (25% YoY) to ₹ 1877 crore due to 2% and 40% QoQ growth in Exim and domestic volumes, respectively (global trade remains impacted but domestic rebound due to festivities and low base). However, EBITDA margins are expected to contract 148 bps QoQ to 22.5% (higher empty running cost). Absolute EBITDA is expected remain muted at ₹ 422 crore. Subsequently, PAT is expected to remain flat at ₹ 257 crore
TCI Express	TCI Express' revenue is expected to grow 20% QoQ to ₹ 268 crore amid a rebound in MSME activity. Subsequently, EBITDA is expected to grow 39% to ₹ 45 crore (EBITDA margins expected to expand 231 bps to 16.7% as higher volumes will lead to better operating leverage). Further, PAT is expected to grow 40% QoQ to ₹ 33 crore
Transport Corporation of India	TCI's freight segment is expected to grow 16% QoQ in Q2FY22E amid higher utilisation of trucking fleet (led by festive related higher inventory stocking) and in spite of higher crude oil prices. Supply chain segment is expected to grow 32% QoQ due to higher 2-W and 4-W sales and a low base. However, shipping segment revenues are expected to remain flat QoQ. Resultant revenues are thereby expected to grow 20% QoQ to ₹ 731 crore. Subsequently, EBITDA and PBT are expected to grow 15% and 12% to ₹ 82 crore and ₹ 61 crore, respectively (EBITDA margins expected at 11.2% vs 11.6% in Q1FY22)
Mahindra Logistics	Mahindra Logistics' revenue is expected to grow 10% QoQ to ₹ 960 crore, mainly due to revival in the auto sector, weak base and higher warehousing (higher festive related movement). However, PTS/EM segment continued to remain impacted. Due to higher operating leverage, EBITDA is expected to grow 20% to ₹ 54 crore (EBITDA margins expected to expand 45 bps to 5.6%). Further, PAT is expected to grow 76% QoQ to ₹ 16 crore, as the strong operating performance is further supported by lower interest expense and higher other income
United Spirits	Overall volumes are expected to remain flat YoY (impact of West Bengal excise hike, lower footfalls in on-trade channels) to 20 million cases while net revenues are expected to grow 5% to ₹ 1546 crore, mainly due to a better product mix. Absolute EBITDA is expected to grow 25% to ₹ 338 crore (EBITDA margins at 15% vs. 12.6% in Q2FY22). Subsequently, PAT is expected at ₹ 202 crore vs. ₹ 129 crore in Q2FY21
United Breweries	Volumes are expected to grow 50% YoY to 36 million cases while net revenues are expected to grow 58% YoY to ₹ 1419 crore, due to better sales from off-trade channels. Absolute EBITDA is expected at ₹ 220 crore (15.5% EBITDA margins) vs. ₹ 40 crore in Q2FY21 (gross margins at 52% vs. 55.3% in Q2FY21). Subsequently, PAT is expected at ₹ 120 crore vs. ₹ 4 crore mainly due to a better operational performance

Source: Company, ICICI Direct Research

Exhibit 3: Valuation Summary

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
APSEZ	740	900	BUY	1,50,350	24.7	29.3	37.1	29.9	25.4	19.9	20.4	16.8	13.4	12.7	12.4	14.2	16.4	14.7	16.3
Container Corporation	690	750	BUY	36,558	8.3	21.8	29.6	83.2	31.6	23.3	10.5	6.0	4.4	4.5	10.5	12.8	5.4	11.5	14.0
Transport Corp. of India	450	520	BUY	3,283	18.9	27.7	34.7	23.8	16.3	13.0	13.3	10.5	8.4	13.3	16.0	17.4	12.9	16.0	16.9
TCI Express	1,605	1,850	BUY	6,144	26.2	38.9	52.1	61.3	41.2	30.8	45.7	30.6	23.0	31.9	37.2	37.6	26.1	29.9	30.3
Mahindra Logistics	740	710	BUY	5,307	4.6	9.5	14.5	176.1	78.1	51.2	37.8	23.5	18.4	18.8	28.2	33.6	5.8	11.0	14.8
BlueDart Express	6,410	6,300	BUY	15,230	43.1	91.6	123.2	148.8	70.0	52.0	21.8	17.8	15.1	50.2	63.4	63.5	13.1	29.4	29.4
Gateway Distriparks	250	340	BUY	3,121	7.6	9.0	13.0	33.1	27.9	19.2	11.1	10.0	8.2	12.1	13.7	17.0	6.4	7.4	10.1

Source: Company, ICICI Direct Research

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