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Surface continues to show higher traction…

In Q2, while crude oil continued to stay high, we saw QoQ higher surface movement and flattish rail volumes. Port volumes, however, lagged behind. Higher demand led by festive related customer purchases and inventory filling, steered higher domestic movement (MSME, e-commerce, FMCG, consumer durable, auto, etc). Chinese port volumes also saw positive signs of revival as Covid-19 lockdowns eased in China, leading to lower port congestion, lower US-China transit time and thereby lowering of ocean freight charges. **Drewry World Container Index de-grew from US$7066/per 40 feet container on June 30 to US$4014 on September 29, signalling strength in underlying global supply chains. The overall idle container fleet share also grew in Q2FY23 to 4.5-5% levels from earlier 4% levels.** On the rail front, Dedicated Freight Corridor commercialisation has led to improved turnaround times and more double stacking for our coverage container train operators, benefiting both on the topline and EBITDA front. Surface logistics on the other hand, continued to see its elevated movement continued since March (7.8 crore E-Way bills compared to 7.6 crore in July and 7.8 crore in August and September vs. 5.5 crore pre-pandemic levels)

QoQ coal, fertiliser grow while container, oil, iron ore lag

- Bulk commodities that had gathered pace in Q1, appeared to showcase mix trends in Q2, while container continues to lag behind
- Petroleum oil products (comprise ~30% of major port traffic) have de-grown 5% QoQ (up ~11-12% YoY), in spite of ~12-13% QoQ decline in Brent crude oil prices), led by windfall taxes on export of petroleum products and lower domestic sales volume (cyclicality)
- Thermal coal (~16% of traffic), on the other hand, has grown 11% from July onwards (that itself sits on a high 40% growth base), due to domestic coal shortage amid higher power demand. However, coking coal demand remained range bound
- Other segments such as fertiliser (2%) and other products (5% of traffic) saw sturdy growth whereas miscellaneous products (14% of traffic) declined sharply, 21%
- Container segment (~22% of traffic), on the other hand, remained largely flattish in Q2. The segment had been facing multiple supply chain headwinds in the medium term, which has shown signs of revival

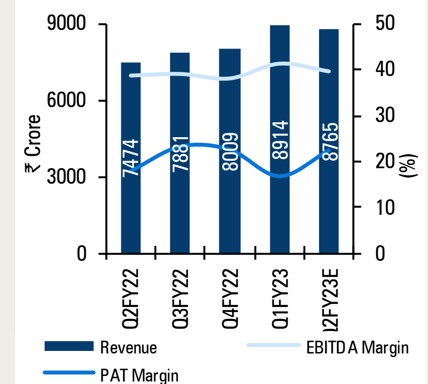
Mehsana-Palanpur stretch almost ready on WDFC route

Both domestic and Exim volumes plateaued during the quarter (QoQ) while on a YoY basis domestic continued to beat Exim volumes (13% vs. 6%). As per the management of DFCCIL, the route from Mehsana to Palanpur in Gujarat would be added to the already commercialised 735 km Western DFC route, by the year end. CTOs such as Concor, GDL and also Adani Ports (logistics segment) and newer entrants like GPPL expect to run higher double stack trains on the network, with an improved turnaround time, thereby improving market share over road players in the medium to long term. Higher crude oil prices too help rail players, as rail becomes more economical than road to transport freight over longer distances

Festive season leads to higher surface volumes

Overall, freight players saw higher fleet utilisation, due to higher stocking of inventory and increased trucking movement. Retail petrol/diesel prices also remained largely range bound (in spite of rising crude oil prices), which will likely result in stable margins for logistics companies (pass through of petrol/diesel prices). Warehousing volumes (higher value added activities such as sorting, bill generation, etc) is also expected to show positive traction, led by favourable volumes from segments such as e-commerce. Increased digitisation of customers is also leading to greater D2C volumes for logistics firms

Topline & profitability (Coverage Universe)



Top Picks

Adani Ports, Mahindra Logistics

Research Analyst

Bharat Chhoda
bharat.chhoda@icicisecurities.com

Harshal Mehta
harshal.mehta@icicisecurities.com

Exhibit 1: Estimates for Q2FY23E (₹ crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q2FY23E	YoY	QoQ	Q2FY23E	YoY	QoQ	Q2FY23E	YoY	QoQ
APSEZ	4,414.8	21.9	-4.8	2,816.6	23.4	-6.3	1,564.3	64.0	45.9
Container Corp	1,998.1	9.6	1.0	451.6	5.9	-4.4	278.8	5.6	-4.3
TCI Express	310.8	13.7	7.0	46.6	3.0	8.9	33.6	-1.3	8.3
Transport Corp	806.8	9.6	0.0	104.1	5.3	4.9	70.2	2.7	-8.4
Mahindra Log	1,234.0	21.1	2.8	62.9	25.8	-4.2	11.7	25.9	-14.3
Total	**8,764.5**	**17.3**	**-1.7**	**3,481.8**	**20.0**	**-5.5**	**1,958.5**	**47.3**	**31.9**

Source: Company, ICICI Direct Research

Exhibit 2: Estimates for Q2FY23E (₹ crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q2FY23E	YoY	QoQ	Q2FY23E	YoY	QoQ	Q2FY23E	YoY	QoQ
United Spirits	2,610.7	6.7	20.4	326.3	-23.3	19.1	201.6	-26.3	-4.0
United Brewerie	1,818.4	27.5	-25.4	181.8	9.8	-31.4	102.5	27.1	-36.6
Total	**4,429.1**	**14.4**	**-3.8**	**508.2**	**-14.0**	**-5.7**	**304.1**	**-14.1**	**-18.2**

Source: Company, ICICI Direct Research

Exhibit 3: Company Specific view

Company	Remarks
Adani Ports and SEZ	Port revenues are expected to de-grow 5% QoQ, led by MoM weakness in overall volumes (subdued container and weak dry cargo volumes). Overall, consolidated revenues are expected to also decline 5% QoQ to ₹ 4415 crore, as port revenues would be aided by single digit growth in logistics segment performance QoQ. Similarly, EBITDA is likely decline 6% as EBITDA margins are expected to remain range bound in 63-64% (ex-forex). However, PAT is expected to grow 46% to ₹ 1564 crore (forex loss of ₹ 1201 crore in base quarter)
Container Corporation	Revenues are expected to increase 10% YoY to ₹ 1998 crore due to 8% and 26% YoY growth in Exim and domestic volumes respectively (MoM gradual recovery in global container trade but domestic volumes remain strong due to newer initiatives). Subsequently, absolute EBITDA is expected to grow 6% to ₹ 452 crore (EBITDA margins at 22.6% vs. 23.4% in Q2FY22). Hence, PAT is expected to grow 6% to ₹ 279 crore
TCI Express	TCI Express revenue will likely rise 7% QoQ to ₹ 311 crore, due to likely strong growth in the MSME segment, higher utilisation in newly developed Gurgaon and Pune facility and overall economy in general, led by festive demand. EBITDA is expected to grow 9% to ₹ 47 crore (EBITDA margins expected to remain at 15% levels, higher opex led by newer facilities). Further, PAT is also expected to grow 8% to ₹ 34 crore
Transport Corporation of India	Consolidated revenues are expected to grow 10% YoY (on a normalised base), led by a 10% growth in freight and SCM segment (festive season and rebound in auto sector), while seaways is expected to grow single digit (utilisation continues at higher levels). EBITDA is expected to grow 5% to ₹ 104 crore (EBITDA margins to remain range bound at 13-14% levels). Subsequently, PAT is expected to remain flat at ₹ 70 crore (lower tax rate in base quarter)
Mahindra Logistics	Mahindra Logistics revenue is expected to soar 21% YoY to ₹ 1234 crore, led by strong growth in auto segment and festive demand (leading to growth in warehousing segment). EBITDA margins are expected to remain at mere 5% levels (due to higher transportation component led by rebound in auto segment). Subsequently, both absolute EBITDA and PAT is expected to grow 26% respectively (base operating margins too remained subdued at 4.9% levels)
United Spirits	Overall, USL volumes are expected to remain flattish YoY at 20.8 million cases (4% premium segment growth over a normal base), while net revenues are expected to grow 7% YoY, mainly due to better product mix. However, absolute EBITDA is expected to decline 23%, mainly due to 490 bps contraction in EBITDA margins to 12.5% (led by likely 420 bps contraction in gross margins to 40%). Subsequently, PAT is expected to de-grow 26% to ₹ 202 crore
United Breweries	UBL volumes will likely rise 25% YoY to 44 million cases and net revenues are expected to grow 28% YoY to ₹ 1818 crore, due to strong pick-up in off and on-trade channels. However, absolute EBITDA is expected to grow mere 10% to ₹ 182 crore, due to double digit inflation in raw material prices i.e. barley, glass (10% EBITDA margins vs, 11.7% in Q2FY22, and gross margins at 44% vs. 51.7% in Q2FY22). PAT, on the other hand, is expected to grow 27% to ₹ 103 crore, mainly due to higher other income and lower interest charges

Source: Company, ICICI Direct Research

Exhibit 3: Valuation Summary

Sector / Company	CMP			M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Cr)	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
APSEZ	797	1,150	BUY	1,61,931	21.2	34.4	42.7	32.4	34.4	23.2	21.8	22.2	15.9	12.7	9.6	13.3	16.3	11.3	15.9
Container Corporation	690	890	BUY	43,382	17.3	30.2	36.6	83.2	39.8	22.9	10.5	6.1	4.7	4.5	10.2	12.1	5.4	9.6	14.7
Transport Corp. of India	750	890	Buy	5,471	37.3	42.4	50.8	39.6	20.1	17.7	21.7	13.4	11.9	13.3	20.3	20.2	12.9	20.5	19.1
Gujarat Pipavav	86	110	BUY	4,158	4.1	5.6	6.7	21.1	15.4	12.9	8.0	6.7	5.7	12.1	15.7	18.6	8.6	11.7	13.8
TCI Express	1,860	2,250	BUY	7,120	26.2	33.5	37.5	79.9	71.1	55.6	58.6	53.0	40.9	36.3	31.9	33.4	29.5	26.1	26.6
Mahindra Logistics	522	610	BUY	3,743	5.2	9.0	14.9	101.0	58.3	35.1	17.9	13.4	10.2	12.2	33.1	38.4	6.3	10.1	14.6
BlueDart Express	8,870	8,000	Reduce	21,075	135.3	211.0	275.7	199.9	65.6	42.0	30.2	21.4	16.5	50.5	69.7	68.8	13.5	38.0	38.2
Gateway Distriparks	71	85	BUY	3,547	4.5	3.5	4.4	37.6	15.9	20.2	12.8	10.5	9.0	11.7	15.4	16.2	6.4	13.7	10.2

Source: Company, ICICI Direct Research

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Pankaj Pandey **Head – Research** **pankaj.pandey@icicisecurities.com**

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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