ICICI direct Research

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While Exim stays subdued, domestic shines

Q3 saw continued higher retail diesel and petrol prices. However, that had no bearing on strong festive related domestic surface movement (higher customer purchases and inventory filling at retail store level). The quarter also likely saw higher cyclical e-com volumes as well as higher warehouse utilisation along-with growing footprint of ONDC network (Delhivery went live on ONDC during the quarter). While PV auto volumes (sales) grew 8-9% during the quarter and tractor grew 14%, sales included volumes from inventory de-stocking (that requires lower logistics element). On the Exim side, ocean freight rates saw substantial cooling during the quarter, down 30-35% to US$3150/40 feet container from May 2022 levels (FIEO estimates for India-US, Europe, Far East trade routes), mainly due to recessionary fears (also leading to lower port congestion). 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 continuing since March (8.4 crore e-way bills in December compared to 8.1 crore and 7.7 crore in November and October, respectively, vs. 5.5 crore pre-pandemic levels).

QoQ iron ore, fertiliser grow while thermal coal lags

- Petroleum oil products (comprise ~30% of major port traffic) have remained flattish QoQ in spite of ~11% QoQ decline in Brent crude oil prices), led by windfall taxes on export of petroleum products
- Thermal coal (~16% of traffic), on the other hand, has de-grown 10% in Q3 but still remains high (sits on a high 40-50% growth base), due to domestic coal shortage amid higher power demand. However, coking coal demand remained range bound
- Other segments like fertiliser (2%), other products (5% of traffic) and miscellaneous products (14% of traffic) saw sturdy growth of 10-12%, 5% and 10%, respectively
- Container segment (~22% of traffic), on the other hand, remained largely flattish in Q3. The segment had been facing multiple supply chain headwinds in the medium term, which has shown signs of revival

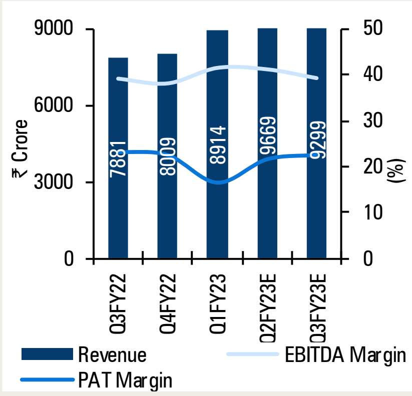
More double stacked trains on WDFC to support CTO margins

Concor crossed 2000 double stack trains mark in H1 (32% YoY growth) and expects to comfortably cross the 4000 mark in FY23. It has seen transit times halving between Delhi and the NCR and Western UP. GDL also expects 40-50% reduction in transit times between major routes by FY25. As per the management of GDL, the route from Mehsana to Ahmedabad (77 km) has been commissioned. Now the next sections towards Maharashtra (Ahmedabad to Vadodara, Surat to Vaitarna and Vaitarna to JNPT) is expected over CY23-24. CTOs such as Concor, GDL and Adani Ports (logistics segment) and newer entrants like GPPL, with an improved turnaround time, could likely improve market share over road players in the medium to long term. Higher crude oil prices also help rail players as rail becomes more economical than road to transport freight over longer distances.

Surface volumes grow unabated

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 (passthrough 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, TCI Express

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Exhibit 1: Estimates for Q3FY23E (₹ crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q3FY23E	YoY	QoQ	Q3FY23E	YoY	QoQ	Q3FY23E	YoY	QoQ
APSEZ	4,724.7	24.4	-9.3	2,929.3	20.5	-10.2	1,668.0	13.3	-0.6
Container Corp	2,024.4	5.4	2.7	500.0	9.7	0.3	307.2	7.2	1.5
TCI Express	319.2	11.2	3.0	51.1	8.2	-0.8	36.8	4.8	-2.6
Transport Corp	886.5	16.7	4.2	106.4	-0.5	16.1	71.1	-8.4	23.8
Mahindra Log	1,344.4	20.3	1.4	67.2	41.0	-0.5	11.8	107.3	-7.9
Total	**9,299.3**	**18.0**	**-3.8**	**3,654.0**	**18.3**	**-7.9**	**2,094.8**	**11.6**	**0.3**

Source: Company, ICICI Direct Research

Exhibit 2: Estimates for Q3FY23E (₹ crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q3FY23E	YoY	QoQ	Q3FY23E	YoY	QoQ	Q3FY23E	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	2,018.1	27.5	20.2	282.5	62.2	28.9	179.5	97.2	33.8
Total	**4,628.8**	**14.9**	**20.3**	**608.9**	**1.5**	**23.5**	**381.1**	**4.6**	**10.7**

Source: Company, ICICI Direct Research

Exhibit 3: Company Specific view

Company	Remarks
Adani Ports and SEZ	Port revenues are expected to de-grow in double digits QoQ, led by MoM weakness in overall volumes (subdued container and weak dry cargo volumes). Overall, consolidated revenues are expected to decline 9% QoQ to ₹ 4725 crore, as port revenues would be aided by better logistics segment performance QoQ. Similarly, EBITDA is likely decline 10% as EBITDA margins are expected to remain range bound in 62-63% (ex-forex). However, PAT is expected to remain flat QoQ at ₹ 1668 crore (forex loss of ₹ 370 crore in base quarter)
Container Corporation	Revenues are expected to increase 5% YoY to ₹ 2024 crore due to flattish and 18% YoY growth in Exim and domestic revenues respectively (MoM gradual recovery in global container trade but domestic volumes remains strong due to newer initiatives). Subsequently, absolute EBITDA is expected to grow 10% to ₹ 500 crore (EBITDA margins at 24.7% vs. 23.7% in Q3FY22). Hence, PAT is expected to grow 7% to ₹ 307 crore
TCI Express	TCI Express' revenue will likely rise 11% YoY to ₹ 319 crore due to likely strong growth in the MSME segment, higher utilisation in newly developed Gurgaon and Pune facility and higher E-Way bill generation, led by festive demand. EBITDA is expected to grow 8% to ₹ 51 crore (EBITDA margins expected to remain at 16% levels). Further, PAT is expected to grow 5% to ₹ 37 crore
Transport Corporation of India	Consolidated revenues are expected to grow 17% YoY, led by a 12% growth in freight and seaways segment (festive season and all six ships were available for business), while SCM is expected to grow 25% (rebound in auto, low base effect). However, EBITDA is expected to remain flat at ₹ 106 crore as higher volume growth would likely be negated by correction in ocean freight charges (EBITDA margins to remain range bound at 12% levels vs. 14% in base quarter). Subsequently, PAT is expected to de-grow 8% to ₹ 71 crore (lower tax rate in base quarter)
Mahindra Logistics	Mahindra Logistics' revenue is expected to grow 20% YoY to ₹ 1344 crore, led by strong growth in the auto segment (however, with an element of inventory destocking) and festive demand (leading to growth in warehousing segment). EBITDA margins are expected to remain range bound at 5% (due to higher transportation component led by rebound in auto segment and higher contractual labour charges). Subsequently, absolute EBITDA and PAT is expected to grow 41% and 107%, respectively, (base operating margins was weaker at 4.3% levels)
United Spirits	USL's volumes are expected to de-grow 26% YoY to 16.5 million cases, mainly on the back of divestment of popular portfolio. P&A volumes are expected to remain flattish YoY at 12.6 million cases. Similarly, net revenues are expected to de-grow 13% YoY. However, absolute EBITDA is expected to decline 39%, as better product mix was likely negated by reversal in Delhi RTM, temporary disruption in BIO sales in a few states whereas promotion expenses remained high in Q3. Subsequently, PAT is expected to de-grow 36% to ₹ 185 crore
United Breweries	UBL's volumes are expected to grow 25% YoY to 46 million cases while net revenues are expected to grow 28% YoY to ₹ 2018 crore, due to a strong pick-up in off and on-trade channels. Absolute EBITDA is expected to grow 62% to ₹ 283 crore due to low base effect, better product mix and higher operating leverage. Subsequently, PAT is expected to double to ₹ 180 crore, mainly due to a strong operating performance

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	800	1,000	BUY	1,62,540	21.9	28.7	43.2	32.5	33.4	27.9	21.8	20.5	17.8	12.7	9.5	11.5	16.3	10.7	12.5
Container Corporation	725	890	BUY	43,382	17.3	27.5	30.5	87.4	41.9	26.4	11.2	6.5	5.7	4.5	10.2	10.5	5.4	9.6	13.6
Transport Corp. of India	610	810	BUY	4,450	37.3	41.6	49.8	32.2	16.4	14.7	17.8	10.9	9.8	13.3	20.3	19.9	12.9	20.5	18.8
Gujarat Pipavav	94	110	BUY	4,544	4.1	5.6	6.7	23.0	16.8	14.1	8.9	7.5	6.4	12.1	15.7	18.6	8.6	11.7	13.8
TCI Express	1,840	2,195	BUY	7,043	26.2	33.5	40.0	79.1	70.3	55.0	58.0	52.5	40.4	36.3	31.9	33.4	29.5	26.1	26.6
Mahindra Logistics	490	610	BUY	3,514	5.2	9.5	16.9	94.8	51.6	29.0	16.7	12.3	9.0	12.2	33.7	40.0	6.3	10.6	16.2
BlueDart Express	7,420	8,000	HOLD	16,822	160.9	202.8	246.8	165.2	44.0	34.9	23.9	16.0	14.2	40.7	77.5	71.2	12.8	39.7	40.8
Gateway Distriparks	69	85	BUY	3,448	4.5	3.5	4.4	36.5	15.4	19.7	12.5	10.2	8.8	11.7	15.4	16.2	6.4	13.7	10.2

Source: Company, ICICI Direct Research

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