June 28, 2022

Ports, rail, surface seeing favourable run…

Logistics continued to report a strong run-rate in April and May, in spite of higher crude oil prices, led by the economic revival and higher pent up demand for manufactured goods and services. Although the quarter began with higher congestion at Chinese ports due to China lockdown and relocation of assets from the Baltic area (due to geo-political issues); global supply chain has started normalising as Chinese companies resumed production output from June 1. 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 continued elevated movement since March (7.8 crore e-way bills compared to 7.5 crore in April and 7.4 crore in May vs. 5.5 crore pre-pandemic levels).

Oil, fertiliser, thermal coal show higher traction

- Bulk commodities have gathered pace on the Exim front, outpacing container growth
- Petroleum oil products (comprise ~30% of major port traffic) have grown 15-16% YoY (up ~4% QoQ), led by higher economic activity (in spite of ~35% YoY jump in Brent crude oil prices)
- Thermal coal (~16% of traffic) has grown more than 40% from March onwards (although significantly costlier than domestic coal) due to domestic coal shortage amid higher power demand. However, coking coal demand remained range bound
- Other segments such as fertiliser (2%) and miscellaneous products (14% of traffic) saw sturdy growth
- Container segment (~22% of traffic), on the other hand, remained largely flattish during April and May. The segment has been facing multiple supply chain headwinds in the medium term, which is expected to ease in a few months

Rail players ramping up on DFC network

Trial train operations have started at the Mehsana-Palanpur section of the DFC in Gujarat, with a speed of 55-65 kmph (double speed of freight trains running on Indian Railways network). DFCCIL expects to commercialise operations up to Sanand in a few months. 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 also help rail players as rail becomes more economical than road to transport freight over longer distances.

Surface players continue to benefit from pent up demand

E-Way bills for April, May arrived at 7.5, 7.4 crore levels (YoY up 28%, 85%, respectively, mainly due to low base), and substantially above pre-Covid levels of 5.5 crore bills. 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.

Sector top picks

Company	CMP	Target	Upside
Adani Ports	680	900	32%
Container Corp	620	750	21%

Key risks

(i) Recession in global economy (ii) Higher crude oil prices

Research Analyst

Bharat Chhoda
bharat.chhoda@icicisecurities.com

Harshal Mehta
harshal.mehta@icicisecurities.com

Valuation and Outlook

As Exim movement continues to stabilise, we expect higher container volumes at Indian ports to provide improved topline and product mix for port companies. We remain optimistic on prospects of Adani Ports and Concor as both are largely dependent on Exim trade. Adani Ports, on the one hand, has embarked on a capex mode, which will build capacity beyond APSEZ stated target of reaching 500 MMT in FY25; Concor privatisation, on the other hand, is in final stages as Government of India is expected to tweak rail land usage policy to ease its strategic sale. We maintain **BUY** rating on Adani Ports and Concor with a target price of ₹ 900/share and ₹ 750/share, respectively.

Top picks in Logistics universe

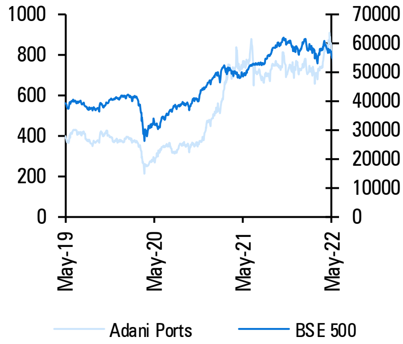
Adani Ports

Adani Ports and Special Economic Zone (APSEZ) is the largest commercial port operator with 25% share of India's port cargo movement. The company has evolved from a single port dealing in a single commodity to an integrated logistics platform

- Total ~70% of APSEZ revenues is contributed by its port operations. Rest is led by harbour (11%), logistics (7%) and others
- Of the total 247 MT cargo volume in FY21, container volumes were at 105 MT (43%), bulk at 110 MT (44%) and rest by liquid at 32 MT (13%)

Diversified cargo mix (38%, 50%, 12% for container, bulk, liquid, respectively in FY22), overall leadership in Indian ports (extended MS among Western Ports, while Eastern side remains competitive) and development of strength in verticals like logistics and warehousing would enable APSEZ to capture loyalty and higher wallet share of its customers. Further, APSEZ is embarking on a capex of ~₹ 23000 crore, which will also address infrastructure requirement post reaching 500 MMT target (on the back of strong double digit volume growth in containers, liquid and bulk cargo (ex-coal: which is expected to grow at lower single digits. **We maintain BUY rating on the stock with a target price of ₹ 900/share.**

Price Chart



Particulars

Particular	Amount
Market Capitalization (₹ cr)	1,38,159
Total Debt (FY22) (₹ cr)	45,453.0
Cash (FY22) (₹ cr)	10,492.1
EV (₹ cr)	1,73,120.1
52 week H/L	924/638
Equity Capital (₹ cr)	408.4

Exhibit 1: Key Financial Summary

₹ crore	FY20	FY21	FY22E	5 Years CAGR % (FY17-22)	FY23E	FY24E	2-Years CAGR (%)
Net Sales	11873.1	12549.6	15934.0	13.6	20064.7	23144.4	20.5
EBITDA	7565.4	7983.4	10078.4	13.2	12981.8	15020.7	22.1
EBITDA margin (%)	63.7	63.6	63.3		64.7	64.9	
PAT	3880.4	4994.3	7610.0	14.3	7322.7	9043.4	9.0
P/E (x)	40.5	30.5	32.4		20.9	16.9	
RoCE (%)	11.2	12.7	9.6		13.7	15.1	
RoE (%)	14.5	16.3	11.3		16.5	17.3	

Source: Company, ICICI Direct Research

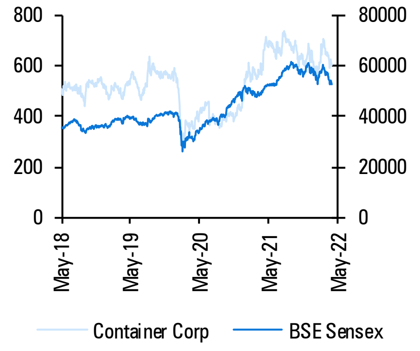
Concor

Concor is the dominant player in the CTO business (65% market share) with ~60 terminals.

- Revenue from rail transportation comprised 75% of total revenues (rest 4% by road, 13% via handling income, 2% warehousing and 4% others)
- Total volumes handled in FY21 were 3.6 million TeU, of which Exim volumes were at 83% of the mix with the rest contributed by domestic containers

Multiple triggers are in place for the stock such as higher double stacking (46% jump in FY22 to 3757 trains), running rakes with higher axle loads, targeting 1 million TeUs container run-rate at Khatuwas (MMLPs), DFC connectivity to Dadri, JNPT and diversification into other logistics verticals. The management has guided for clocking 6.5-7 million TeUs volumes in the next three to four years (currently at 4 million TeUs) and subsequently doubling of revenues. Further, various newer initiatives (3PL, distribution logistics, cement and food grain transport, higher terminal utilisation, etc) are expected to diversify Concor offerings to customers and thereby capture higher wallet share. **We maintain BUY rating on the stock with a target price of ₹ 750/share.**

Price Chart



Particulars

Particular	Amount
Market Capitalisation (₹ cr)	39,604.5
Total Debt (FY22) (₹ cr)	61.8
Cash (FY22) (₹ cr)	2,917.8
EV (₹ Crore)	36,748.5
52 week H/L	754/555
Equity Capital (₹ Crore)	304.7

Exhibit 2: Key Financial Summary

₹ crore	FY20	FY21	FY22P	5 Years CAGR (FY17-22)	FY23E	FY24E	2 Years CAGR
Net Sales	6539.4	6427.1	7652.7	5.1	9164.5	11369.7	21.9
EBITDA	1693.8	1046.8	1747.3	7.0	2254.5	2887.9	28.6
PAT	404.5	505.2	1055.1	4.2	1849.4	2244.2	45.8
P/E (x)	97.9	78.4	37.5		21.4	17.6	
P/B (x)	1.3	1.2	1.2		1.0	0.9	
RoCE (%)	10.9	4.5	10.2		12.2	14.3	
RoE (%)	12.1	5.4	9.6		14.8	15.6	

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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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