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State border controls impact supply chain...

According to our conversation with various managements of logistics companies in our coverage universe, the adverse ground situation due to Covid-19 led lockdown has brought the logistics business to a halt (only supply of essential commodities is being allowed). This is expected to continue till further clarity and coordination emerges between the Centre and various state governments (e.g. relaxation of the supply chain movement between state borders). On the positive side, if China emerges strongly from the infection and ramps up its container ports, it would lead to an unclogging of the global supply chain (as containers remain stranded at Chinese ports due to unavailability of staff, equipment and slower shipping movements) and improvement in the Exim trade (positive for players like Concor and various ports). We build in a base case scenario of a disruption of two months to our coverage universe and then expect the situation to slowly improve, going forward. However, risks remain on Covid-19 spreading unabated beyond the base case (leading to increased working capital and deferred capex plans including the impact on future volume growth) along with a slowdown in Exim trade in western countries, which can further impact our base case assumptions.

Key pointers to our conversation with managements of some players in our coverage universe (TCI Express, TCI, BlueDart express, Mahindra Logistics):

- While business had continued as usual till last week, events ensuing post Janata curfew have been detrimental to freight movement
- Vehicles are being halted at various checkpoints, leading to a challenge towards optimisation of available resources and delivery timing
- Few companies are resorting to transport of essential products like pharmaceutical products while others have largely halted the trucking movement
- Some segments like e-commerce and consumption were bucking the trend till last week and showing increased sales (due to upstocking of products and restricted movements leading to preference for doorstep delivery). However, with the continued ambiguity (different circulars) and miscommunication between various state governments, the segment was also impacted (due to lower staff and vendor closure), despite burgeoning demand
- Sorting centres and warehouses are operating at excess capacities due to lowered volumes

Valuation & Outlook

The managements remain cautiously optimistic and are actively monitoring the constantly changing environment. Although the auto sector continues to remain impacted (the biggest pie of 3pl segment), the companies are seeing greater opportunities in the e-commerce and consumption sector, leading to a favourable product mix and greater role of warehousing (amid required clarity and coordination on its inter-state unhindered movement). However, overall volumes moved remain low. We build in disruption for two months into our estimates. We believe that an efficient supply chain and movement of goods remains crucially important for the Government of India at this juncture. With greater clarity and communication between states, the logjam would be resolved. Technology backed organised players could, thus, be a beneficiary of the changed industry dynamics post the disruption.

Recommend BUY on organised technology backed logistics players in our universe, mainly due to attractive valuations. We have BUY on CONCOR, Mahindra Logistics, TCI Express, TCI, BlueDart and Gujarat Pipavav

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Key pointers (continued...)

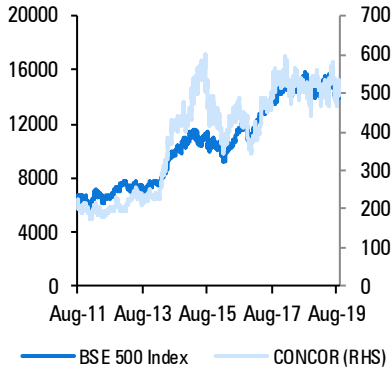
- The supply side (truck providers) are also feeling the heat of the situation due to shortage of drivers (moving towards hometown). However, with the lowered sales, logistics companies still have ample availability of trucks and drivers
- Freight forwarding operations had started to feel the impact of Covid-19 from February onwards due to the slowdown in Exim trade and increased lower sulphur marine fuel prices (IMO compliance). While the Exim slowdown continues, fuel prices have steadily declined (bringing about a certain relief)
- Companies are currently functioning with minimal staff at their offices and headquarters
- Shipping, transportation and ancillary activities like road/rail movement towards port have been declared as essential services

Exhibit 1: Logistics coverage universe summary

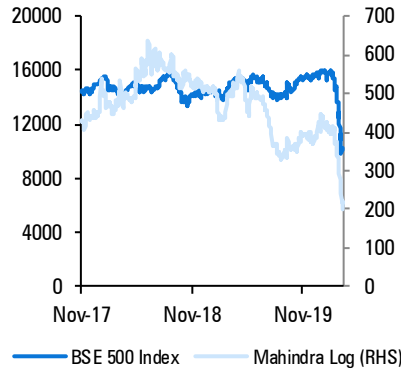
Logistics companies	CMP	FY22E EPS		Change	Target		Rating	Upside/Downside	Remarks
		Old	New		Old	New			
Container Corporation of India	270	32.7	29.9	-8.6%	660	360	Buy	33.3%	Near and medium term headwinds include slowdown in EXIM trade (FY 21E/FY 22E volume estimates lowered by 6%), higher competition from road players (lower crude prices) and an expected payout in the range of ~8000-17000 crore to buy ICDs from Indian Railways (currently not factored in). However, an improved sentiments due to DFC connectivity (Gujarat ports expected to be connected by H2FY 21E) and a new private strategic promoter is not captured by the current market price
Mahindra Logistic	200	16.0	12.5	-21.9%	480	270	Buy	35.0%	Continued slowdown in the auto sector (~65% of the revenue mix) and MLL parent M&M Ltd (~54% of the revenue mix), has impacted inbound, outbound and in-factory leg of 3PL players. However, the company continues to gain momentum in the warehousing segment (~25% of the SCM segment), leading to an improvement in the overall product mix (which stands to benefit the company in the long term)
TCI Express	600	36.6	35.3	-3.6%	1020	850	Buy	41.7%	Segments expected to be impacted the most due to the current coronavirus crisis include MSME sector which constitutes ~50% of the TCI express pie. In the medium to long term, TCI express continues to remain a key beneficiary due to the formalisation of the Indian economy.
TCI	158	22.6*	24.9*	-9.2%	330	200	Buy	26.6%	High margin SCS segment continues to remain impacted due to auto slowdown. FTL and Shipping segment impacted in the near term due to the expected GDP slow down
Bluedart	2100	72.2	59.3	-17.9%	3200	2500	Buy	19.0%	Lower air and surface volumes would negate the cost optimisation and employee rationalisation initiative by the management in the near term
Gujarat Pipavav	60	8.5	7.7	-9.4%	105	70	Buy	16.7%	Impacted due to EXIM trade slow down esp to Far East. Although FCF yield continues to stay very attractive

Source: Company, ICICI Direct Research, *FY21E estimates

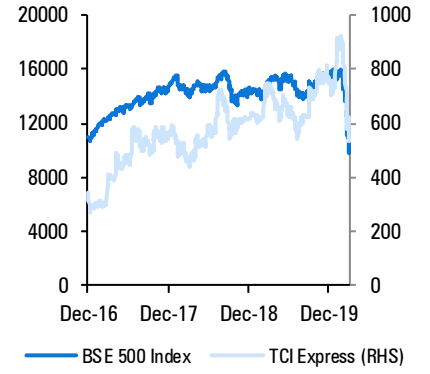
Concor price chart



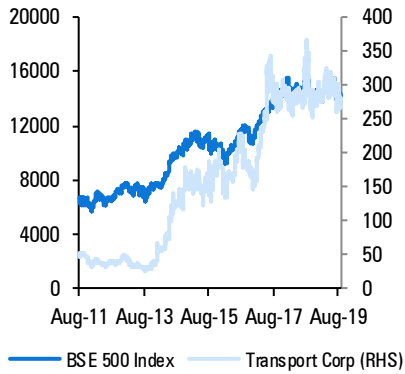
Mahindra Logistics price chart



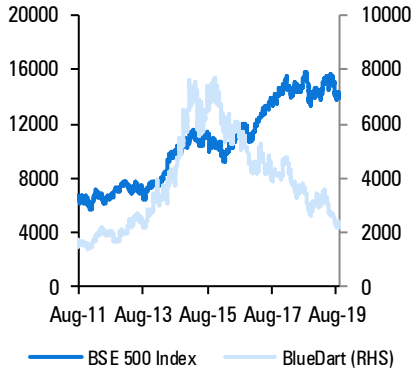
TCI Express price chart



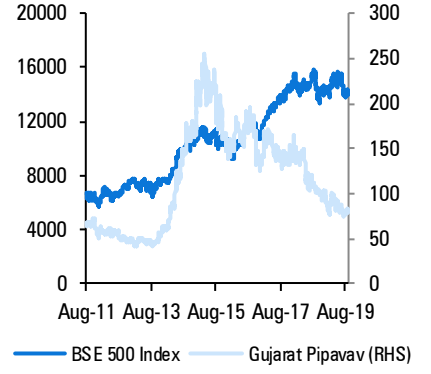
TCI price chart



BlueDart price chart



Gujarat Pipavav price chart



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Buy: >15%;

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Reduce: -5% to -15%;

Sell: <-15%



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