January 6, 2021

# Healthy volume uptick in road, rail, ports…

Q3 ended on a strong note for the logistics sector, with growth returning to its fold. Each month (October, November, and December) saw continued momentum due to normalisation of the economy and festivities generated demand. While the vaccine related movement is yet to be strategised by companies (the management expects further clarity from the Government of India via the tender process towards mid-January), other core segments such as auto, pharma, e-commerce, MSMEs saw a good pick-up in demand. The warehousing segment also saw innovative application (by Mahindra Logistics) during the quarter (on-demand flex-warehouse), which could cater to seasonal festive demand.

## Improved trends seen in container segment

India's major ports container traffic volumes for October-December 2020 has grown 10% while rail Exim container volumes have grown 11% for the same period, indicating no loss of market share for rail from road players. The strong performance has been in spite of the shortage of containers (for exports) seen during the quarter (although it may impact realisation for Concor, due to higher empty container relocation from hinterlands). Domestic containers saw a surge in volumes (up 23% YoY), thereby impacting the product mix for Concor positively. Overall cargo at Adani Mundra and GPPL saw growth of 28% and 4%, respectively.

## Road freight also sees timely revival in volumes

E-Way bill generation for October, November and December saw growth of 17%, 4% and 17%, respectively, from the usual pre-Covid 5.5 crore run-rate, indicating higher utilisation of the existing trucking fleet. The strong pick-up in freight is also visible in the express market, mainly due to greater movement related to inventory stocking ahead of the festive season and revival seen in the MSME sector. The supply chain management segment also saw normalisation during the quarter primarily due to a revival in the auto sector for most of the quarter.

## Financial performance expected to return to normalcy

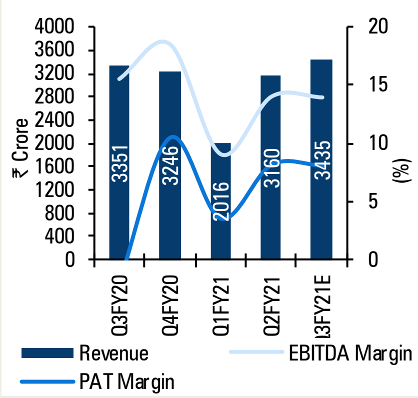
TCI Express is expected to a report healthy set of numbers due to good festive demand while TCI and Mahindra Logistics are expected to report a recovery in the SCM segment (freight, shipping segment for TCI to do well). Concor is expected to report a mixed operational performance YoY due to continued pressure on its margins led by higher LLF expense. Overall, revenues of our logistics coverage universe are expected to grow 3% YoY to ₹ 3435 crore. However, the operational performance is expected to decline 7%, mainly due to LLF issue in Concor. Subsequently, PAT is expected to grow 12% (due to higher tax rate of 42% for Concor in the base quarter).

Exhibit 1: Estimates for Q3FY21E (₹ crore)

| Company | Revenue | Change (%) | | EBITDA | Change (%) | | PAT | Change (%) | |
|---|---|---|---|---|---|---|---|---|---|
| | Q3FY21 | YoY | QoQ | Q3FY21 | YoY | QoQ | Q3FY21 | YoY | QoQ |
| Container Corp | 1,630.6 | 6.7 | 8.5 | 337.5 | -9.2 | 7.9 | 200.1 | 14.0 | 6.7 |
| TCI Express | 281.8 | 5.0 | 32.3 | 40.9 | 19.1 | 25.5 | 29.9 | 17.1 | 27.3 |
| Transport Corp | 645.9 | -0.2 | 5.5 | 60.7 | -3.2 | 2.9 | 33.2 | 3.3 | 3.7 |
| Mahindra Log | 876.7 | -3.4 | 5.3 | 38.6 | -9.1 | 3.4 | 14.5 | -7.6 | -2.5 |
| **Total** | **3,434.9** | **2.5** | **8.7** | **477.7** | **-6.5** | **8.1** | **277.6** | **11.6** | **7.6** |

*Source: Company, ICICI Direct Research*

**Topline & profitability (Coverage Universe)**




**Top Picks**

United Spirits

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## Exhibit 2: Estimates for Q3FY21E (₹ crore)

| Company | Revenue | Change (%) | | EBITDA | Change (%) | | PAT | Change (%) | |
|---|---|---|---|---|---|---|---|---|---|
| | Q3FY21 | YoY | QoQ | Q3FY21 | YoY | QoQ | Q3FY21 | YoY | QoQ |
| United Spirits | 2,501.6 | -3.1 | 16.6 | 355.2 | -16.2 | 31.7 | 192.4 | -25.6 | 49.7 |
| United Brewerie | 1,144.5 | -21.3 | 27.1 | 103.0 | -53.3 | 154.8 | 52.9 | -50.3 | 1,218.3 |
| **Total** | **3,646.1** | **-9.7** | **19.7** | **458.2** | **-28.9** | **47.7** | **245.3** | **-32.8** | **85.1** |

*Source: Company, ICICI Direct Research*

## Exhibit 3: Company Specific view

| Company | Remarks |
|---|---|
| Container Corporation | Core revenues are expected to grow 7% YoY to ₹ 1631 crore due to 5% YoY growth in Exim volumes and 12% growth in domestic volumes. EBITDA margins are expected to contract 363 bps YoY to 20.7% (mainly due to higher land license fee). Absolute EBITDA is expected to de-grow 9% YoY to ₹ 338 crore. Subsequently, PAT is expected to grow 14% to ₹ 200 crore, mainly due to higher tax rate (42%) in the base quarter |
| Transport Corporation of India | Freight segment is expected to de-grow mere 5% YoY in Q3FY21E as operations normalised in Q3 (however, December was slower than usual). Supply chain and shipping segment revenues are expected to grow 5% and remain flat YoY, respectively. Hence, resultant revenues are expected to remain flat YoY at ₹ 646 crore. Subsequently, EBITDA and PAT are also expected to remain largely flat at ₹ 61 crore and ₹ 33 crore, respectively |
| TCI Express | Revenue is expected to grow 5% YoY to ₹ 282 crore amid normalisation of various MSME operations in Q3. Subsequently, EBITDA is expected to grow 19% to ₹ 41 crore (EBITDA margins expected to expand 172 bps due to greater operational efficiencies). Further, PAT is expected to grow 17% to ₹ 30 crore |
| Mahindra Logistics | Revenue is expected to de-grow 3% YoY to ₹ 877 crore, mainly due to continued weakness in the PTS/EM segment, amid normalisation in the core segment (transportation and warehousing). Due to the negative operating leverage, EBITDA is expected to de-grow 9% to ₹ 39 crore (EBITDA margins expected to contract 30 bps to 4.4%). Further, PAT is expected to de-grow 8% to ₹ 15 crore |
| United Spirits | Overall volumes are expected to de-grow 3% YoY to 21 million cases. We expect 3% de-growth in net revenues to ₹ 2502 crore, mainly due to presence of higher on premise trade and festive related sales (marriage season) in the base quarter. Hence, due to negative operating leverage, EBITDA margin is expected to contract 222 bps to 14.2%, leading to absolute EBITDA de-growth of 16% to ₹ 355 crore. Subsequently, PAT is expected to de-grow 26% to ₹ 192 crore |
| United Breweries | Volumes are expected to de-grow 25% to 27.5 million cases while net revenues are expected to de-grow 21% YoY to ₹ 1145 crore. Subsequently, absolute EBITDA is likely to decline 53% to ₹ 103 crore, mainly due to low operating leverage (margins expected to contract 620 bps to 9%). PAT is expected to arrive at a profit of ₹ 53 crore vs. a profit of ₹ 106 crore in Q3FY20 |

*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) | FY20 | FY21E | FY22E | FY20 | FY21E | FY22E | FY20 | FY21E | FY22E | FY20 | FY21E | FY22E | FY20 | FY21E | FY22E |
| Container Corporation | 400 | 450 | BUY | 21,935 | 6.6 | 11.6 | 18.2 | 60.3 | 34.5 | 22.0 | 3.3 | 4.7 | 3.2 | 10.9 | 5.6 | 8.4 | 12.1 | 6.4 | 9.4 |
| Transport Corp. of India | 250 | 280 | BUY | 1,824 | 18.6 | 18.5 | 23.8 | 13.5 | 13.5 | 10.5 | 9.0 | 8.9 | 7.1 | 12.4 | 11.1 | 12.8 | 14.0 | 12.3 | 13.8 |
| TCI Express | 920 | 900 | BUY | 3,522 | 23.3 | 22.4 | 27.3 | 39.5 | 41.0 | 33.7 | 28.9 | 29.8 | 24.9 | 36.3 | 28.6 | 28.4 | 29.5 | 23.0 | 23.1 |
| Mahindra Logistics | 420 | 430 | BUY | 2,997 | 7.7 | 4.4 | 10.0 | 54.4 | 94.7 | 42.1 | 18.5 | 25.1 | 16.7 | 24.6 | 17.0 | 23.5 | 10.1 | 5.7 | 11.7 |
| United Spirits | 580 | 650 | BUY | 42,146 | 8.7 | 5.8 | 15.9 | 67.0 | 100.7 | 36.5 | 27.8 | 41.2 | 23.0 | 23.8 | 14.7 | 27.0 | 16.9 | 10.1 | 21.8 |
| United Breweries | 1,165 | 1,120 | BUY | 30,803 | 16.2 | 4.5 | 20.2 | 72.0 | 260.6 | 57.6 | 35.3 | 78.3 | 29.4 | 15.9 | 4.4 | 16.9 | 12.2 | 3.3 | 13.3 |

*Source: Company, ICICI Direct Research*

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