January 10, 2022

# Port performance dampens festive spirit…

Q3 presented a mixed bag. While the surface transporters saw a healthy run (up 10% YoY), ports on the other side continued to see pressure on the commodity import front. Exim rail, on the other hand, remained largely flattish (up 3% YoY) and domestic rail on the other front is expected to report strong growth numbers (up 39%). Air cargo segment continues to remain a beneficiary of continued strong growth in sectors like e-commerce, pharmaceuticals, etc.

## Surface logistics continues their strong run

MoM surface logistics movement saw a volatile run, peaking in October (7.4 crore e-way bills), then falling in November (6.1) and then again peaking in December (6.9). Overall, freight players saw higher fleet utilisation, due to higher stocking of inventory and increased trucking movement. Warehousing volumes (higher value added activities such as sorting, bill generation, etc) typically peaks in Q3, led by favourable volumes from segments such as e-commerce. Increased digitisation of customers is also leading to greater D2C volumes for logistics firms. Higher crude oil prices are expected to be largely passed on to customers thereby preventing a contraction in margins.

## Lower coal imports impact overall port performance

Major ports posted a decline of 12-13% in overall volumes in Q3FY22, mainly impacted due to a decline of 55-60% in the iron ore, 40% in coking coal and 13% in thermal coal. However, on the container side, in spite of the Exim challenges (unavailability of containers, higher ocean freight charges), volumes grew 8-9%. The greater trans-shipment volumes at Indian ports, may impact the container product mix for ports (while easing congestion at major transhipment ports such as Colombo and Singapore port). Adani Ports posted a 12% decline in overall volumes while JNPT reported 14% growth in volumes (amid a lower base).

## Expect muted performance on profitability front

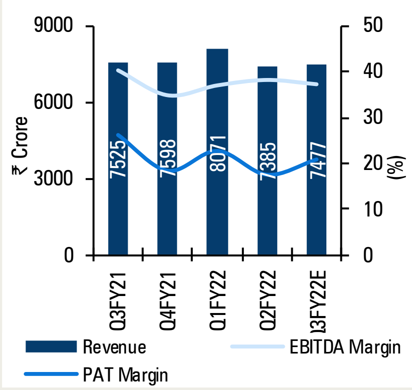
In our logistics coverage universe, we expect flattish topline due to laggard performance from Adani Ports (ex-Adani ports the universe is expected to grow 7%). However, on the operational front, we expect EBITDA and PAT to report de-growth to the tune of 8% and 18%, respectively, led by lower operating leverage and forex gain in the base quarter for Adani Ports (ex-Adani Ports the universe is expected to grow 22% and 21%, respectively). On the flip side, warehousing is expected to continue its strong run due to higher underlying demand.

Exhibit 1: Estimates for Q3FY22E (₹ crore)

| Company | Revenue | Change (%) | | EBITDA | Change (%) | | PAT | Change (%) | |
|---|---|---|---|---|---|---|---|---|---|
| | Q3FY22E | YoY | QoQ | Q3FY22E | YoY | QoQ | Q3FY22E | YoY | QoQ |
| APSEZ | 3,445.5 | -8.0 | -2.5 | 2,129.3 | -14.4 | -3.5 | 1,172.2 | -25.8 | 25.7 |
| Container Corp | 1,978.6 | 12.8 | 8.5 | 467.0 | 25.6 | 9.5 | 288.2 | 21.1 | 9.1 |
| TCI Express | 289.8 | 10.4 | 6.0 | 48.4 | 6.8 | 6.9 | 35.8 | 6.6 | 5.3 |
| Transport Corp | 747.9 | 4.6 | 1.5 | 98.7 | 30.9 | -0.1 | 65.7 | 64.0 | -3.9 |
| Mahindra Log | 1,014.8 | -3.1 | -0.4 | 50.7 | -4.2 | 1.4 | 10.1 | -45.3 | 8.3 |
| **Total** | **7,476.7** | **-0.6** | **1.2** | **2,794.2** | **-7.9** | **-1.2** | **1,571.9** | **-17.7** | **20.1** |

*Source: Company, ICICI Direct Research*

**Topline & profitability (Coverage Universe)**




**Top Picks**

Adani Ports, TCI

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Result Preview

ICICI Securities – Retail Equity Research

Exhibit 2: Estimates for Q3FY22E (₹ crore)

| Company | Revenue | Change (%) | | EBITDA | Change (%) | | PAT | Change (%) | |
|---|---|---|---|---|---|---|---|---|---|
| | Q3FY22E | YoY | QoQ | Q3FY22E | YoY | QoQ | Q3FY22E | YoY | QoQ |
| United Spirits | 2,766.3 | 11.2 | 13.1 | 414.9 | 8.3 | -2.5 | 248.2 | 8.3 | -9.2 |
| United Brewerie | 1,415.6 | 9.8 | -0.7 | 198.2 | 14.3 | 19.7 | 104.3 | NA | 29.3 |
| **Total** | **4,181.9** | **10.7** | **8.0** | **613.1** | **10.2** | **3.7** | **352.5** | **17.3** | **-0.4** |

*Source: Company, ICICI Direct Research*

Exhibit 3: Company Specific view

| Company | Remarks |
|---|---|
| Adani Ports and SEZ | Revenues are expected to de-grow 8% YoY to ₹ 3446 crore, led by lower coal offtake (elevated international prices and higher supply of domestic coal). Similarly, EBITDA is expected to de-grow 14% YoY (higher than topline de-growth) due to adverse product mix (EBITDA margins expected to contract 461 bps to 61.8%). Further PAT is expected to de-grow 26% YoY due to presence of a ₹ 206 crore foreign exchange gain in the base quarter, which further lowers PAT growth vis-a-vis EBITDA |
| Container Corporation | Revenues are expected to grow 13% YoY to ₹ 1979 crore due to 2% and 25% YoY growth in Exim and domestic volumes, respectively (global trade remains impacted but domestic rebound due to festivities and low base). However, EBITDA margins are expected to expand 240 bps to 23.6% (due to recent price hikes). Absolute EBITDA is expected to grow 26% to ₹ 467 crore. Subsequently, PAT is expected to grow 21% to ₹ 288 crore |
| TCI Express | TCI Express revenue is expected to grow 10% YoY to ₹ 290 crore, due to higher MSME activity and contribution from newer offerings. Subsequently, EBITDA is expected to grow 7% to ₹ 48 crore (EBITDA margins expected to remain range bound at 16-17% levels). Further, PAT is expected to grow 7% to ₹ 36 crore |
| Transport Corporation of India | TCI's freight segment is expected to grow 10% YoY in Q3FY22E amid higher utilisation of trucking fleet (led by festive related higher trucking movement). However, supply chain segment is expected to de-grow 10% YoY due to lower auto sales. Shipping segment revenues are expected to grow 25% due to elevated realisation on the coastal shipping front. Resultant revenues are thereby expected to grow 5% YoY to ₹ 748 crore. Subsequently, EBITDA is expected to grow 31% (EBITDA margins expected at 13.2% vs 10.5% in Q3FY21, mainly due to higher realisation from shipping side) |
| Mahindra Logistics | Mahindra Logistics' revenue is expected to remain YoY flat at ₹ 1015 crore, mainly due to continued slump in auto sales. However, higher warehousing component (higher festive related movement) reduced the revenue impact, to a certain extent. PTS/EM segment showed better traction during the quarter (up 50% to ₹ 55 crore) due to opening of offices. Similarly, EBITDA is expected to remain flat at ₹ 51 crore (EBITDA margins expected to hover at 5% levels). Further, PAT is expected to de-grow 45% YoY to ₹ 10 crore, as subdued operating performance is further impacted by higher depreciation and interest expense |
| United Spirits | Overall volumes are expected to grow 8% YoY to 22.9 million cases (due to higher footfalls in on-trade channels) while the net revenues are expected to grow 11% to ₹ 2766 crore, mainly due to better product mix. Absolute EBITDA is expected to grow 8% to ₹ 415 crore (EBITDA margins at 15% vs 15.4% in Q3FY21, mainly due to higher ENA and glass prices). Subsequently, PAT is expected to grow at a similar 8-9% range to ₹ 248 crore |
| United Breweries | UBL's volumes are expected to grow 12% YoY to 35 million cases while net revenues are expected to grow 10% YoY to ₹ 1416 crore, due to low base and better sales from off-trade channels. Absolute EBITDA is expected to grow 14% to ₹ 198 crore (14% EBITDA margins, led by gross margins at 52% vs 53.9% in Q3FY21). Subsequently, PAT is expected to grow 46% to ₹ 104 crore due to a better operational performance and exceptional expense of ₹ 55 crore in the base quarter |

*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) | FY21 | FY22E | FY23E | FY21 | FY22E | FY23E | FY21 | FY22E | FY23E | FY21 | FY22E | FY23E | FY21 | FY22E | FY23E |
| APSEZ | 740 | 900 | BUY | 1,50,350 | 24.6 | 27.0 | 37.4 | 30.1 | 25.5 | 19.8 | 20.4 | 15.9 | 13.1 | 12.7 | 12.6 | 14.2 | 16.3 | 13.6 | 16.4 |
| Container Corporation | 635 | 810 | BUY | 39,483 | 8.3 | 22.1 | 30.7 | 76.6 | 28.7 | 20.7 | 9.5 | 5.3 | 3.6 | 4.5 | 10.6 | 12.7 | 5.4 | 11.5 | 14.0 |
| Transport Corp. of India | 790 | 700 | Hold | 5,763 | 18.9 | 28.2 | 35.3 | 41.7 | 28.0 | 22.4 | 22.8 | 17.6 | 14.3 | 13.3 | 16.0 | 17.4 | 12.9 | 16.3 | 17.1 |
| TCI Express | 2,120 | 1,950 | BUY | 8,115 | 26.2 | 40.1 | 52.7 | 81.0 | 52.9 | 40.2 | 60.5 | 39.2 | 30.1 | 31.9 | 38.2 | 37.7 | 26.1 | 30.6 | 30.4 |
| Mahindra Logistics | 710 | 750 | BUY | 5,092 | 4.2 | 8.0 | 15.2 | 169.0 | 89.0 | 46.7 | 36.2 | 23.3 | 17.3 | 18.8 | 26.4 | 34.9 | 5.8 | 9.5 | 15.7 |
| BlueDart Express | 6,750 | 6,300 | BUY | 16,038 | 43.1 | 91.6 | 123.2 | 156.7 | 73.7 | 54.8 | 22.9 | 18.8 | 16.0 | 50.2 | 63.4 | 63.5 | 13.1 | 29.4 | 29.4 |
| Gateway Distriparks | 285 | 350 | BUY | 3,558 | 7.6 | 9.9 | 15.3 | 37.7 | 28.7 | 18.7 | 12.5 | 10.8 | 8.5 | 12.2 | 14.4 | 18.3 | 6.4 | 8.1 | 11.6 |

*Source: Company, ICICI Direct Research*

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Reduce: -15% to -5%;

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