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India | Equity Research | Q2FY24 preview

Logistics

Q2FY24 preview: Volume uptick and margin improvement in store

We expect slight margin improvement and volume growth for companies under our coverage in Q2FY24E. Containerised rail volumes grew 15.3% YoY (EXIM: 18.3%, domestic: 5.9%) in Q2FY24. Key points: 1) Expect volume uptick across surface express companies; 2) CONCOR's reported volume (handling) was up 7.6% YoY, 3) margins may show improvement, primarily driven by volume uptick. We would keep a tab on the following aspects of management commentaries: 1) Price/volume outlook during festive season (Q3); and 2) extent of cost efficiencies realised from digitisation/automation initiatives. We prefer VRL (TP: INR 900; **BUY**), GDL (TP: INR 94; **BUY**) and TCI Express (TP: INR 1,775; **BUY**) as our key picks in the space.

Expect volume improvement in Q2FY24 across segments

Indian Railways' monthly freight data suggests volume improvement of 15.3% YoY (refer Exhibit 6). However, CONCOR reported volume (handling) growth of mere 7.6% YoY and we might see better performance by other ICD/CTO companies. Key points: 1) Expect GDL to report blended volume growth of ~5-6% (CTO business to report higher volume growth), contingent to market share changes and ramp-up of Kashipur ICD; 2) for VRL, we envisage volume growth of 10% YoY and for TCI (E) we expect volume growth of 5-6% YoY; and 3) in case of Blue Dart Express (BDE), we estimate parcel volumes to increase to ~86mn. On average, we expect volume growth of 6% YoY in Q2FY24E.

Margins may be largely stable across players

For both CONCOR and GDL, we expect EBITDA/teu to improve on QoQ basis. For BDE, we expect slight improvement in EBITDA margin due to volume growth and better amortisation of fixed costs, though ATF price has increased in Q2FY24 on QoQ basis. For surface express companies, however, we expect margins to remain broadly stable for both TCI Express and VRL. Nevertheless, we would watch out for any realisation uptick. In case of Mahindra Logistics (MLL), we would watch out for Rivigo's (B2B express business) performance at EBITDA level as it is key to company's margin improvement.

Outlook – Will track margin improvement

We believe management commentaries pertaining to the ongoing cost-efficiency initiatives – notably automation of sorting centres and digitisation – are key for tracking the margin trajectory. Besides, we would keep a tab on the realisation progression, which thus far has remained static. Furthermore, we would also watch out for volume guidance, including the opening of new branches/ICDs. In case of BDE, we would also watch out margin contribution of two new aircraft as Q2 will be the first full quarter of operations. We remain positive on GDL (TP: INR 94; **BUY**), VRL (TP: INR 900; **BUY**) and TCI Express (TP: INR 1,775; **BUY**) in the space.

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Gateway Distriparks (BUY)**TCI Express (BUY)****VRL Logistics (BUY)****Mahindra Logistics (ADD)****CONCOR (REDUCE)****Blue Dart Express (SELL)**

Exhibit 1: Logistics Q2FY24E preview

(INR mn)	Sales			EBITDA			PAT		
Company	Q2FY24E	%YoY	%QoQ	Q2FY24E	%YoY	%QoQ	Q2FY24E	%YoY	%QoQ
Blue Dart	13,016	(1.8)	5.2	2,039	(16.1)	7.0	700	(25.3)	14.2
Concor	20,885	6.0	8.8	4,466	(10.4)	14.0	2,802	(7.5)	14.8
Gateway Distriparks	3,870	7.8	4.7	1,008	5.1	5.6	675	13.5	6.0
Mahindra Logistics	13,514	1.9	4.5	703	4.0	5.5	23	(80.9)	NM
TCI Express	3,242	4.6	6.3	506	(1.8)	9.0	353	(6.6)	9.1
VRL Logistics	7,127	(2.5)	5.7	1,140	14.9	11.9	581	84.7	71.2

Source: Company data, I-Sec research

Exhibit 2: Target price and ratings

Stock	TP	Recommendation	Methodology
Blue Dart Express Ltd	5,795	SELL	30x FY25E EPS
Container Corp Of India Ltd	590	REDUCE	24x FY25E EPS
Gateway Distriparks Ltd	94	BUY	11x FY25E EBITDA
TCI Express Ltd	1,775	BUY	34x FY25E EPS
Mahindra Logistics Ltd	410	ADD	32x FY25E EPS
VRL Logistics Ltd	900	BUY	27x FY25E EPS

Source: I-Sec research

Exhibit 3: Profitability parameters

(INR)	Q2FY24E	Q2FY23	Q1FY24	% growth (YoY)	% growth (QoQ)
Blue Dart (EBITDA/shipment)	24	30	23	(20.8)	4.6
CONCOR (EBITDA/TEU)	3,628	4,359	3,581	(16.8)	1.3
Gateway (EBITDA/TEU)	5,350	5,241	5,302	2.1	0.9
TCI E (EBITDA/te)	1,950	2,084	1,933	(6.4)	0.9
VRL - GT (EBITDA/te)	1,072	1,046	1,106	2.5	(3.1)

Source: I-Sec research, Company data

Exhibit 4: Operating details

	Q2FY24E	Q2FY23	Q1FY24	% growth (YoY)	% growth (QoQ)
Blue Dart (mn-shipment)	85.9	81.0	84.0	6.0	2.2
CONCOR (mn-TEU)	1.2	1.1	1.1	7.6	12.5
Gateway (mn-TEU)	0.2	0.2	0.2	2.9	4.7
VRL - GT (Kte)	1,063.7	967.0	1,002.0	10.0	6.2
TCI E (Kte)	259.4	247.0	240.0	5.0	8.1

Source: I-Sec research, Company data

Exhibit 5: Performance snapshot

(INR mn)		Q2FY24E	Q2FY23	Q1FY24	% growth (YoY)	% growth (QoQ)	Comments
Blue Dart	Revenues	13,016	13,253	12,376	(1.8)	5.2	In BDE, we expect overall shipments to improve to ~86mn. Further, we expect EBITDA margin to decline on YoY basis, but may improve on QoQ basis.
	EBITDA	2,039	2,430	1,907	(16.1)	7.0	
	PAT	700	936	613	(25.3)	14.2	
	EPS	29.5	39.5	25.8	(25.3)	14.2	
Concor	Revenues	20,885	19,707	19,193	6.0	8.8	CONCOR has reported volume growth of 7.6% YoY. We expect EBITDA/teu to improve on QoQ basis.
	EBITDA	4,466	4,987	3,916	(10.4)	14.0	
	PAT	2,802	3,028	2,441	(7.5)	14.8	
	EPS	4.0	5.0	18.9	(19.4)	(78.8)	
Gateway Distriparks	Revenues	3,870	3,591	3,697	7.8	4.7	We expect muted volume growth for CFS business and ~14% volume growth in rail business. We also expect improvement in EBITDA/teu QoQ.
	EBITDA	1,008	959	954	5.1	5.6	
	PAT	675	595	637	13.5	6.0	
	EPS	1.3	1.2	1.3	13.4	6.1	
Mahindra Logistics	Revenues	13,514	13,263	12,932	1.9	4.5	In MLL, we expect revenue to improve QoQ due to additional revenue from Rivigo business, EBITDA margin may remain at similar level on QoQ basis due to the impact of Rivigo business, which was incurring losses at EBITDA level earlier.
	EBITDA	703	676	666	4.0	5.5	
	PAT	23	119	(83)	(80.9)	NM	
	EPS	0.3	1.7	(1.2)	(80.9)	NM	
TCI Express	Revenues	3,242	3,099	3,049	4.6	6.3	In TCI, we expect some improvement in volume and EBITDA margin on both QoQ and YoY basis.
	EBITDA	506	515	464	(1.8)	9.0	
	PAT	353	378	323	(6.6)	9.1	
	EPS	9	10	8	(6.6)	9.1	
VRL Logistics	Revenues	7,127	7,307	6,742	(2.5)	5.7	We expect volume growth of 10% YoY in GT segment and a slight improvement in EBITDA margin.
	EBITDA	1,140	992	1,019	14.9	11.9	
	PAT	581	315	339	84.7	71.2	
	EPS	6.6	3.6	3.8	84.7	71.2	

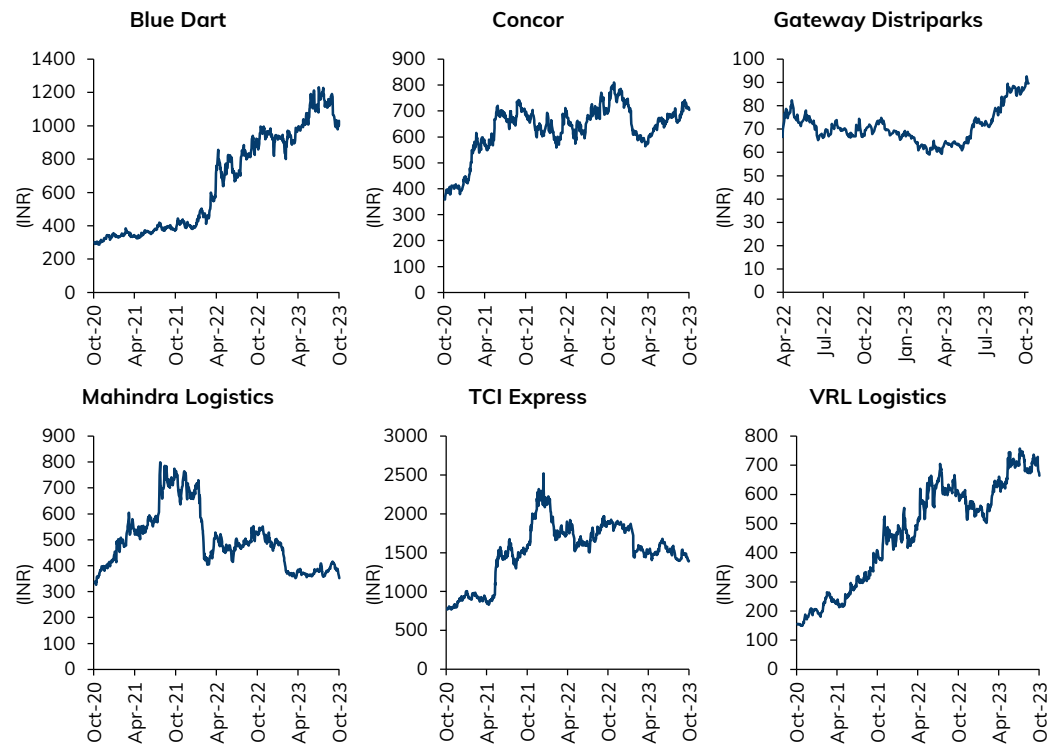
Source: I-Sec research, Company data

Exhibit 6: Railway containerize volume

(INR mn)	Q2FY24	Q2FY23	Q1FY24	Chg. YoY (%)	Chg. QoQ (%)	FY22	FY23	Chg. YoY (%)
Tonnage (mn-te)	22.10	19.17	19.50	15.3%	13.3%	74.25	79.40	6.9%
Domestic	4.88	4.61	4.63	5.9%	5.4%	17.60	19.47	10.6%
EXIM	17.22	14.56	14.87	18.3%	15.8%	56.65	59.92	5.8%

Source: I-Sec research, Company data

Price charts



Source: Bloomberg

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