



ICRA RESEARCH SERVICES



Domestic Freight Transportation Services

Logistics sector commences FY2019 on strong note, supported by improved industrial activity and freight rates

Contacts:

Subrata Ray
+91 22 6169 3385
subrata@icraindia.com

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

Sruthi Thomas
+91 124 4545 822
sruthi.thomas@icraindia.com

Sreejan Dutta
+91 124 4545 396
sreejan.dutta@icraindia.com

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Economic activity stabilizes post GST-related disruptions providing support to logistics sector growth

Logistics sector commences FY2019 with healthy growth of 7.4%, buoyed by pickup in manufacturing activity and firming up of freight rates

Economic growth and infrastructure development to lead logistics sector growth over the medium term

Low base and revival in economic activity supports logistics sector growth

Post a volatile year for the Indian economy in FY2018, with GST implementation and related disruptions slowing down industrial and manufacturing activity during the first few months of the fiscal, the economy recovered over recent quarters, with growth picking up to 8.2% during Q1 FY2019. Aided by stabilization of economy post GST implementation, healthy demand from consumption-driven sectors like Automobiles, Consumer Durables and FMCG, and from bulk materials like steel and cement, the logistics sector also reported growth of 7.4% during Q1 FY 2019. However, with few sectors like Automobiles starting to report slow-down in growth and imports likely to decline given the continued rupee depreciation and recent import duty hike, growth in freight demand is likely to moderate in upcoming months.

Twin levers of improved freight availability and firming up of freight rates provide fillip to logistics operators

The pickup in economic and manufacturing activity bolstered the freight activity within the country, with a positive trend in freight volumes and freight rates since H2 FY2018. While the pickup in manufacturing activity and industrial output supported growth in freight demand, the revenue growth of logistic companies gained further impetus from firming up of freight rates as the year progressed. Consequently, ICRA's sample of 12 leading logistics companies reported an aggregate revenue growth of 7.4% during Q1 FY2019 as compared to 7.1% in FY2018. With many of the large organised fleet operators having built-in fuel pass through clauses in their agreements with customers, and the pickup in freight demand since H2 FY2018, the firming up of diesel prices have been passed on by the transporters to a large extent. This has helped the logistics companies to maintain their profitability to a large extent despite the steadily rising fuel prices.

Within the logistics sector, the demand for FTL, LTL and express operators has picked up on the back of healthy demand from bulk materials and consumption-driven sectors. Similarly, with companies increasingly looking at consolidating their warehouses post E-way bill implementation, demand for warehousing services and integrated logistics players have also increased. On the other hand, the e-commerce logistics sector continues to face high competitive intensity and pricing pressure. During recent months, the impact of DPD has also been visible among port logistics operators, with volumes increasing but realizations pressurized due to the same.

Indian logistics industry to grow at 8-10% over the medium term buoyed by demand and supply side positives

With buoyancy in industrial activity and consumption-led sectors expected to continue to support freight demand over the medium term and rising freight rates, ICRA expects the Indian logistics industry to grow by 8-10% going forward. The growth would be further supported by supply-side positives including emergence of integrated logistics players, investments in infrastructure development, and capacity augmentation being undertaken by large logistics players. In addition to the increasing preference in the country for organized logistics players, on account of increased compliance requirements with GST and E-way bill implementation, the industry, over the long term, would also be shaped by ongoing trends including focus on multi-modal offerings, increased PE interest in the space, emergence of e-commerce logistics requirements, focus on warehousing and cold chain services, and increased adoption of technology to improve service offerings.



Business Contacts

Mr. L. Shivakumar
E-mail: shivakumar@icraindia.com
Tel: +91 22 6114 3406 / +91 98210 86490

Mr. Jayanta Chatterjee
E-mail: jayantac@icraindia.com
Tel: +91 80 4332 6401/ +91 98450 22459

Media and Public Relations

Ms. Naznin Prodhani
E-mail: naznin.prodhani@icraindia.com
Tel: +91 124 4545 860

Ms. Malika Munjal
E-mail: malika.munjal@icraindia.com
Tel: +91 124 4545 840

Branches

Registered Office:

1105, Kailash Building, 11th Floor,
26, Kasturba Gandhi Marg,
New Delhi - 110 001
Tel: + 91 11 2335 7940-45

Corporate Office:

Building No.8, 2nd Floor,
Tower A, DLF Cyber City Phase II,
Gurgaon- 122 002
Tel: +91 124 4545300

Ahmedabad

907 & 908, Sakar – II,
Ellisbridge, Opp. Town Hall,
Ahmedabad - 380 006
Tel: +91 79 4027 1500/01

Bengaluru 1

'The Millenia', Tower- B,
Unit No. 1004, 10th Floor, 1 & 2 Murphy
Road,
Bengaluru - 560 008
Tel: +91 80 4332 6400

Bengaluru 2

2nd Floor, Vayudooth Chamber,
15-16, Trinity Circle, M.G. Road,
Bengaluru - 560 001
Tel: +91 80 4922 5500

Chennai

5th Floor, Karumuttu Centre,
634, Anna Salai, Nandanam
Chennai - 600 035
Tel: +91 44 4596 4300

Kolkata

A-10 & 11, 3rd Floor, FMC Fortuna 234/3A,
A.J.C. Bose Road,
Kolkata -700 0202
Tel: +91 33 7150 1100/01

Hyderabad 1

No. 7-1-58, 301, 3rd Floor, 'CONCOURSE',
Above SBI-HPS Branch,
Ameerpet,
Hyderabad - 500 016
Tel: +91 40 4920 0200

Mumbai

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi,
Mumbai - 400 025
Tel: +91 22 6169 3300

Hyderabad 2

4A, 4th Floor, SHOBHAN,
6-3-927, A&B Somajiguda,
Raj Bhavan Road,
Hyderabad – 500082
Tel: +91 40 40676500

Pune

5A, 5th Floor, Symphony, S. No. 210
CTS 3202 Range Hills Road, Shivajinagar,
Pune - 411 020
Tel: +91 20 2556 1194

Email: info@icraindia.com

Helpdesk: 124 3341580

Website: www.icra.in/ www.icraresearch.in

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