



Mixed quarter for logistics sector as healthy revenue growth was offset by rise in fuel costs



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Gati Limited

Mahindra Logistics Limited

Snowman Logistics Limited

Transport Corporation of India Limited

TCI Express Limited

TVS Logistics Limited

VRL Logistics Limited

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Executive Summary



HIGHLIGHTS

- The domestic freight transportation sector reported another quarter of strong revenue growth of 19% supported by increase in freight rates and volume growth.
- However, the EBITDA margins of the sector declined on a YoY basis to 7.3% in Q3 FY2019 from 8.3% in Q3 FY2018 because of increase in diesel prices, which could not be completely passed on due to surplus capacity in the trucking system, partly contributed by the revision in axle load norms.
- The revision in axle load norms helped enhance the load bearing capacity of several trucks which helped them reduce cost of operations by carrying more load per truck. The increase in capacity increased by 10-20% post revision of the axle norms. The increased load bearing capacity led to a decline in purchase of new fleet.
- Among the several transportation segments, the volume growth in the express cargo segment was especially strong.

EXECUTIVE SUMMARY

Hike in freight rates and moderate volume growth supports logistics sector growth

The logistics sector (as represented by a sample of 12 companies) reported strong revenue growth of 19.2% during Q3 FY 2019 supported by a mix of higher freight rates and modest volume growth. In Q3 FY 2019, the real GDP growth declined to 6.6% from 7.1% in Q2 FY 2019 because of subdued performance in several sectors such as automobile sector, non-oil merchandise exports, mining and overall manufacturing. On average, the road transportation sector has grown 1.3x the real GDP growth and accordingly, ICRA estimates the volume growth to have partially moderated on a QoQ basis. However, the elevated diesel prices in Q3 FY 2019 led to a 10-11% hike in freight rates which supported the revenue growth for logistics companies during the quarter. With the moderation in diesel prices in Q4 FY2019, the benefit from higher fuel prices will moderate and accordingly, the revenue growth in Q4 FY 2019 will be mostly driven by volume growth.

Revision in axle load norms and fuel pass through clauses have moderated the adverse impact of higher fuel prices on profitability indicators

The axle load norms were revised in July 2018, leading to higher load carrying capacity of heavy commercial vehicles by 20-25%. The fleet operators in the road logistics sector has benefitted from revision in load carrying capacity as they are able to carry higher load and thereby improve average billing per trip and asset utilisation. As a result, the fleet operators have benefitted by carrying additional load using the same fleet size which has helped them defer purchase of new trucks and bring down cost of operations. In addition, many of the large organized fleet operators have built-in fuel pass through clauses in their agreements with customers which moderated the impact of fuel costs (40-50% of the cost structure) on the profitability of the sector. Accordingly, the sector's OPM declined by only 70 bps to 7.4% in Q3 FY 2019 on a YoY basis. The interest coverage ratio continues to remain at healthy levels at 9.2x in the quarter.

Within the logistics sector, the demand for Full-Truck Load (FTL), Less-Than Truck Load (LTL) and Express Cargo 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 implementation of E-way bill, 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.

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

The logistics sector's growth is expected to moderate in Q4 FY 2019 because of weakness in several indicators such as weakness in cargo handles at ports, decline in automobile sales and modest growth in rail freight, and moderation in freight rate growth to ~4% in Q4 FY 2019. ICRA expects the Indian logistics industry to grow by 8-10% p.a. going forward which will be supported by buoyancy in industrial activity and consumption-led sectors, supply-side positives including emergence of integrated logistics players, investments in infrastructure development, and capacity augmentation being undertaken by large logistics players. ICRA expects the growth to be higher for the organized logistics players, because of increased compliance requirements with GST and E-way bill implementation, 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.

ABOUT ICRA

ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange.

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The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder. The participation of Moody's is supported by a Technical Services Agreement, which entails Moody's providing certain high-value technical services to ICRA. Specifically, the agreement is aimed at benefiting ICRA's in-house research capabilities, and providing it with access to Moody's global research base. The agreement also envisages Moody's conducting regular training and business seminars for ICRA analysts on various subjects to help them better understand and manage concepts and issues relating to the development of the capital markets in India. Besides this formal training programme, the agreement provides for Moody's advising ICRA on Rating-products strategy, and the Ratings business in general.

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- Assist the regulators in promoting transparency in the financial markets;
- Provide intermediaries with a tool to improve efficiency in the funds raising process.

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