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## Indian Port Logistics Industry – CFS/ICD/CTO **July 2019**

**Direct Port Delivery (DPD) volumes at JNPT continue to rise; CFSs continue to handle similar volumes but at reduced margins**

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# CONTENTS

<b>1. Executive Summary</b>	<b>03</b>
<b>2. Container Volumes at Indian Ports</b>	<b>07</b>
<b>3. Update on Container Freight Stations (CFS) / Inland Container Depot (ICD)</b>	<b>10</b>
Industry CFS/ICD volumes	13
Impact of DPD volumes at JNPT	15
Impact of Direct Inland delivery (DID)	18
<b>4. Update on Container Train Operators (CTO)</b>	<b>19</b>
<b>5. Draft Logistics Policy February 2019</b>	<b>28</b>
<b>6. Industry Outlook</b>	<b>29</b>
<b>7. Aggregate Industry Financials</b>	<b>30</b>
<b>8. Aggregate Industry Projections</b>	<b>33</b>
<b>9. Industry Peer Comparison</b>	<b>35</b>
<b>10. ICRA Ratings for Indian Port Logistics Companies</b>	<b>39</b>
<b>11. Company Section</b>	<b>41</b>
Container Corporation of India Limited	42
Gateway Distriparks Limited	47
Allcargo Logistics Limited	52
Navkar Corporation Limited	56





## Executive Summary

## Overview

*DPD continues to be a long-term concern for the CFS model;*

*Implementation of DID could put pressure on margins of ICDs*

### DPD volumes at JNPT continue to rise; CFSs continue to handle similar volumes but at reduced margins

Data for Q4FY2019 from JNPT and for April-May 2019 indicates that over the last few months, the proportion of DPD volumes has seen a continuing increase to 51% in May 2019 from 38% in May 2018. On an absolute basis, volumes imported through DPD have increased to 65,000 containers per month from 55,000 containers per month during this time, thus impacting the average realisations of CFS players. Consequently, the impact on their profit margin is beginning to become more pronounced. Many CFS players had been reporting pressure on operating margins since the start of DPD in February 2017, however, in Q1-Q4FY2019, some CFS players have reported a sharp drop in performance. Other CFS players who are generally end-to-end logistics players and have a competitive advantage over others have been able to retain volumes along with some moderation in profitability as a significant proportion of the DPD cargo is still being routed through the CFSs. Going forward, ICRA believes that unless the CFS players tweak their business models to offer an alternate value-addition to their customers, it is unlikely for them to deliver their earlier EBITDA margins from their businesses. While ICRA believes that there could be limitations to possibilities for DPD proportion moving above a certain level as all importers may not be positioned to transition to it, going forward, given the continued push for more DPD and possibilities of introduction of Direct Inland Delivery (DID), there could be increased pressure on average realisations of integrated port logistics players. Trade continues to be a beneficiary of the scheme as users have witnessed a decline in logistics cost.

### Direct Inland delivery (DID) to further improve the ease of business

The government of India plans another reform - a new import handling plan to supplement the DPD program. Authorities have called on various stakeholders to examine the last touch logistics plan for inland container depots (ICDs) - Direct Inland Delivery (DID). This should be another positive for hinterland shippers striving to reduce logistics costs in a hyper-competitive market environment. This is largely on the back of the success achieved by DPD which has reduced the dwell times and overall cost for importers in order to extend the same benefit to users of ICDs. The same is being implemented by the Central Board of Indirect Taxes & Customs (CBIC). The board has suggested that importers registered under DID will have to complete documentation and duty payments prior to goods arrival at their designated ICDs and that stakeholders should consider offering tariff incentives for DID containers, in lieu of free storage days that apply under the normal delivery practice. There will be a need to devise a tariff structure [which acts as a financial incentive] where importers voluntarily opt for DID clearance for pre-identified containers, rather than avail the free period at ICD as non-DID containers. Further, the board has asked stakeholders to take into account cases where all containers manifested on the bill of lading do not arrive in a single shipment, which happens frequently at ICDs, and suggested that custodians extend DID to all manifested containers, including those yet to arrive, subject to other compliances.

At this point, the actual savings that can be achieved, the extent to which the importers are willing to accept this program and the real advantage of DID remain to be seen. ICRA believes, that while this is a positive development for importers and could help in reducing the transit time, thereby easing

**CTO volumes growth witness slowdown in FY2019**

**Stable outlook in the near term as trade volume growth revives; favourable growth outlook over the medium term, driven by increasing containerisation, new terminals/ ports, DFC and DMIC**

business, similar to the impact on CFS players on account of DPD, there could be an impact on the business model of ICDs. There would be an impact on the overall revenues earned from imported containers thereby affecting margins.

**CTO volumes growth witness slowdown in FY2019 due to weakness in EXIM volumes:** The CTO volumes growth witnessed slowdown during FY2019, with YoY growth of ~8% compared to ~14% in FY2018 mainly on account of subdued EXIM volume growth in H2 FY2019, partly mitigated by relatively better growth in domestic volumes. However, the impact of volume growth slowdown was moderated by improved realization following price increase implemented by market leader CONCOR, leading to better revenue growth. The timely completion of infrastructure projects like dedicated freight corridor in a timely manner will also be crucial to drive growth in this segment in the medium term.

**Stable near-term outlook; favourable long-term prospects:** In terms of the near-term outlook for the container logistics sector – the CFS, ICDs and CTOs segments are expected to display moderate growth in the current fiscal (FY2020) as the international trade volumes have shown a revival in FY2019. Notwithstanding the moderation in economic growth, the industry's long-term prospects remain highly favourable as containerisation witnesses a renewed focus with new capacities coming up online and providing the necessary environment for increased usage of containers. On account of the country's growing external trade and increased orientation towards containerisation, container traffic volumes should grow at a 10-12% CAGR over the next decade. The growth in the port logistics segment is expected to be mainly led by benefits arising out of GST implementation and volume growth in containerisation/new terminals at ports leading to incremental growth in volumes. Besides, the port logistics industry should benefit from a favourable demand environment over the long term due to ongoing projects such as a dedicated freight corridor (DFC) and the Delhi-Mumbai industrial Corridor (DMIC), as well as the opening up of new business segments like 3PL and cold chains.

**Credit issues for the CFS/CTO operators**

ICRA Research believes that CFS players at JNPT could face pressure on margins in the near term on account of diversion of volumes to DPD and lower storage incomes resulting from it. Players who are able to retain volumes and offer value added services may stand to fare better than other players. At all ports handling containers, large number of CFS operators results in high competition for incremental volumes and could result in some consolidation going forward. Credit profiles of CTO players are susceptible to increase in haulage charges and also face competition from road carriers. Further, the business remains highly capital intensive as players have to set up new terminals in order to expand operations.



## 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.

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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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