



Indian Port Logistics Sector

Consolidation trends picking up as large players see growth opportunities

Trends & Outlook

October 2019

Agenda

01

**Executive
Summary**

02

**Container
Volumes at Indian
Ports**

03

**Update on
Container Freight
Stations (CFS) /
Inland Container
Depot (ICD)**

04

**Update on
Container Train
Operators (CTO)**

05

**Draft Logistics
Policy February
2019**

06

Industry Outlook

07

**Aggregate
Industry
Financials and
Projections**

08

**Industry Peer
Comparison**

09

**ICRA Ratings for
Indian Port
Logistics
Companies**

10

**Company Section
– Quarterly Result
Analysis**

*Consolidation trends
picking up as large players
see growth opportunities*

- Due to pressure on profitability and need for better and wider network, the port logistics industry has witnessed consolidation trend in last one year
 - DP World has formed a JV with NIIF – Hindustan Infralog Pvt Ltd., which has acquired Continental Warehousing Corporation (Nhava Sheva) and ~76% stake in Kribhco Infrastructure Limited
 - Adani Logistics bought Innovative B2B Logistics Solutions Pvt Ltd, a Northern and Eastern India focused CTO
 - Several private equity investments have happened in warehousing segment

*CTO volumes growth
witness some
improvement in Q1
FY2020. DFC continues to
witness delays*

- DPD volumes remain stable at about 50% of total containers moving by road at JNPT for the last few months. Significant proportion of this volume still moving through the existing CFSs although their average storage days have come down thus impacting average realisations and thus margins of CFS players
- During Q1 FY2020, the overall CTO volumes witnessed some improvement, although the market leader CONCOR witnessed some moderation in market share as it focused on profitable cargo. Going forward, the commencement of DFC and improved circuit building by players with ICD/PFT network are expected to provide boost to CTO volumes.
- DFC implementation is progressing at slower than expected pace and while some sections have been completed, the overall project continues to witness delays and the Eastern and Western Corridor is now expected to be completed by 2021.

Stable outlook in the near term; Volumes expected to see muted growth in FY2020;

Favorable growth outlook over the medium term, driven by increasing containerisation, new terminals/ ports, DFC and DMIC

- **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). Trade volume growth has remained muted in H1FY2020 as compared to FY2019 on the back of slowdown economic activity in many key industries like automobiles, capital goods, etc.
- 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.
- The port logistics industry should also benefit from a favourable demand environment over the long term due to ongoing projects such as DFC and 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.

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