



Indian Port Logistics Sector
*COVID-19 to have a significant impact on
capacity utilization levels of players in the
near term*

Trends & Outlook

April 2020

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**



1. Executive Summary

COVID-19 to have a significant impact on capacity utilization levels in the near term

Executive Summary

COVID-19 to have a significant impact on capacity utilization levels of port logistics players in the near term

- Cargo volumes at the Indian ports were already witnessing some slowdown in FY2020 on the back of various factors like the US-China trade war and the ongoing economic slowdown. ICRA believes that the COVID-19 pandemic and the resulting government restrictions will further exacerbate the woes for cargo movement at Indian ports in the near term, as it will lead to further economic slowdown. Moreover, bottlenecks in shipping and logistics part of the supply chain, which are critical for timely movement and evacuation from ports, could also be an aggravating factor.
- Over the last 2 weeks, most port companies have declared a force majeure event to ensure that they don't face commercial liabilities that arise out of disruptions caused by the coronavirus. On March 24, 2020, the MoS has issued an order to all states declaring all port and related logistics movements as essential services so that these operations are not restricted in any way. Nonetheless, operations have slowed down because several staff may be reluctant to come to work fearing health issues.
- While all bulk commodities will be affected to a certain extent, depending on whether they are essential or non-essential, ICRA believes that container terminals and port logistics players handling containers – CFS, CTO and ICDs, which have limited diversification of revenue streams would be affected more. The extent of the impact will be dependent on the duration of the lockdowns for consumers and industrial activities due to Covid-19 as well as the pace of subsequent recovery.
- Even when the lockdown ends, it is likely that the pace of recovery will remain slow as many industries would continue to reel under the effects of the slowdown. As a result, despite the 3-month moratorium announced by the RBI for debt servicing, pickup in container movement could be slow and cash flows of port logistics entities who have recently commenced operations or concluded debt funded capacity expansions could come under severe pressure. Nonetheless, entities having strong sponsors and low leveraging, should have the financial flexibility to weather this downturn and their debt servicing is unlikely to be materially impacted.

Near Term Outlook:

- The growth in FY2020 for CFS, ICDs and CTOs segment has been muted due to impact of slowdown in exim trade. The throughput volumes are expected to decline during FY2021 due to the impact of Covid-19 on global trade and also due to impact of shutdown on domestic industrial hinterland. While, the port sector is not directly facing shutdown due to it being classified as an essential services, nevertheless due to impact on exim trade, disruption caused in labour and logistics availability due to the lockdown and non essential nature of certain container cargo, the overall volumes for the container segment is expected to witness pressure in the near term. The full impact and recovery will be dependent on extent of Covid-19 pandemic impact, which is still evolving and the subsequent pace of recovery.
- The credit profile of the CFSs, located near ports and witnessing low volume growth, were already witnessing some pressure due to DPD. The credit profile is expected to continue to witness pressure in the near term due to Covid-19 impact. Once the situation stabilizes, these players will still have to differentiate, based on service quality, and diversify their operations by setting up facilities at other ports, in the medium term to improve their performance.
- The overall volume growth for CTO segment in FY2020 is expected to be moderate, with exim volumes witnessing steep slowdown. The segment is also expected to be adversely impacted in FY2021 due to impact of Covid-19 on overall container volumes.

Long-term prospects:

- Notwithstanding the current adverse economic situation, the industry's long-term prospects remain favourable as containerisation witnesses a renewed focus. Post recovery from the Covid-19 issues, Container traffic volumes should grow at 5-7% CAGR beyond the medium term and has the potential to grow by 10-12% over the long term.
- Upswing in volumes should lead to better operating profit margins and return on capital employed for CFS/ ICDs. Amidst threat of DPD, differentiation would be key. Besides, DFC and DMIC would be facilitators for port logistics players through new businesses segments like 3PL and cold chains. DFCs would significantly benefit CTOs as it would improve the efficiency of train operations by way of double stacking, higher speed and load carrying capacity and increase in the length of trains. These benefits would only be realised over the next decade, as DFC is expected to commence only in 2021 and would take another two to three years to stabilise
- Overall, though the long-term potential remains favourable, several challenges need to be overcome to achieve the same.

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