

INDIAN PORT LOGISTICS SECTOR

Container volumes likely to report
12-15% YoY growth in FY2022

DECEMBER 2021



Highlights

Container volumes witnessed a steep recovery of 22% on a YoY basis in 8M FY2022 despite the second wave of the pandemic in the initial few months of the current fiscal and due to the low base effect. The recovery is expected to be sustained and the container volumes are expected to grow by 12-15% on a YoY basis in FY2022. However, the impact of any subsequent wave of the pandemic and the related containment measures remain a sensitivity factor.



- The container volumes at the Indian ports witnessed a healthy growth in 8M FY2022 despite the second wave of the Covid-19 pandemic, and were higher than the levels reported in the corresponding period of FY2020 (pre-Covid). The trend is expected to continue for full year FY2022 and the volumes are likely to witness YoY growth of 12-15%. However, any subsequent waves of the pandemic and the consequent containment measures will remain a monitorable. The growth level is expected to be in the range of 7-10% for FY2023-FY2024.



- Recovery in container volumes also resulted in improved throughput for the CFS/ICD segment in H1 FY2022. However, the profit margin witnessed some moderation on a YoY basis due to the lower ground rental income, which had increased during the first wave due to disruptions caused by the stringent containment measures related to the pandemic.



- The container train operators (CTO) segment also witnessed a volume improvement YoY in H1 FY2022, although there was a marginal sequential moderation in Q1 FY2022 compared to the previous quarter. Going forward, the commencement of the direct freight corridor (DFC) is likely to improve rail volumes, although the DFC commencement targets may witness some slippage due to the impact of the second wave .



- The National Logistics Policy may be approved in the current fiscal. The policy aims to reduce the cost of logistics from ~13% of GDP to ~8% over a five-year period. ICRA believes that the policy is aimed at integrating and optimising the various elements of the logistics value chain to ensure a seamless, multi-modal growth of an efficient logistics sector in the country



- The long-term outlook for the container segment remains favourable. However, consolidation in the CFS/inland container depots (ICD) and CTO segments is expected during the growth phase.

CFS/ICD segment

- Volumes are expected to increase in FY2022 in line with the expectations on container trends in Indian ports
- However, in H1 FY2022, there has been some moderation in the profit margins in the CFS segment as it witnessed extraordinary income from ground rentals in H1 FY2021 due to the high dwell time caused by pandemic-related containment measures.
- The segment, however, remains exposed to the uncertainty pertaining to the resurgence of Covid-19 infections and the consequent containment measures
- Volumes are likely to improve in the medium term with sustained recovery in economic activity. However, direct port delivery is expected to have an impact on the performance of the CFS segment, especially on margins
- The inland container depots (ICD) segment has not been impacted by DPD, but direct inland delivery (DID) implementation may have an impact
- Hence, only entities which can provide integrated logistics services will be able to mitigate the impact. This is expected to result in rationalisation/consolidation in the segment

CTO segment

- The CTO segment grew in Q2 FY2022 on YoY basis, but there was some sequential decline in volumes in Q2 FY2022 compared to the previous quarter. However, the segment is expected to witness growth in FY2022, in line with container volume trends.
- Competition from road carriers, which provide better last mile connectivity, continues. However, in the backdrop of Covid-19, when road transportation was disrupted, the CTOs witnessed an increase in share, although the gains may not be sustainable once the situation normalises
- Commencement of DFC likely to aid growth in the sector in the medium term

Positive Outlook

Container volume growth $> 10\%$
(vis-à-vis the pre-Covid period)

Stable Outlook

Container volume growth : $0\% - 10\%$
(vis-à-vis the pre-Covid period)

Negative Outlook

Container volume growth $< 0\%$
(vis-à-vis the pre-Covid period)

Agenda

1 Container Cargo Trends



2 Port Logistics – Key Updates



3 Aggregate Industry Financials and Projections



4 Peer Comparison



5 Rating Distribution





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