Equity Research

December 11, 2020

BSE Sensex: 45960

ICICI Securities Limited is the author and distributor of this report

Sector update

- TCI Express (BUY)
- Concor (BUY)
- Allcargo Logistic (HOLD)
- Gateway Distriparks (BUY)
- VRL Logistics (BUY)
- Mahindra Logistics (HOLD)
- Blue Dart (SELL)

Research Analysts:

Abhijit Mitra
abhijit.mitra@icicisecurities.com
+91 22 6637 7289

Udaykiran Paluri
udaykiran.paluri@icicisecurities.com
+91 22 6637 7510

INDIA

ICICISecurities

Logistics

Outlook 2021: Road-to-rail intermodal shift will drive CY21 discourse

We believe road-to-rail intermodal shift, given renewed Indian Railways' (IR) thrust to capture road traffic, will drive CY21 discourse. Given so much investment (per annum spend has been augmented from Rs450bn to Rs1,600bn) in freight intensive corridors for IR definitely warrants a look at rail-based players like Concor (upgrade to BUY from HOLD: 19.2% upside) and Gateway Distriparks (maintain BUY: 74.0% upside). Road consolidation theme didn't play out as expected in CY20. Yet the pressure on road will intensify once DFC commissions (expected on June 22). We maintain BUY on TCI Express (efficient express player) and VRL Logistics (normalisation of earnings and consequentially value).

What happened in CY20

- **Rail gained share from road in CY20.** Covid-19 pandemic has allowed Indian Railways to be significantly active in creating an intermodal (road to rail) shift. Rail freight has been showing substantial YoY growth in revenue and loading (YTD rail freight volumes down only 3.6%YoY). While rail was already gaining market share in autos, the same has been witnessed in FMCG and ecommerce with the start of parcel trains. There are trends of road traffic having shifted with the start of RoRo operations (e.g from Karnataka to Maharashtra).

- **Continued thrust on road capex was the counterbalancing factor for road to rail intermodal shift.** Even in the year of the pandemic, MoRTH YTD capex has increased by 5% YoY, while IR capital spend is actually down 3% YoY. Continued thrust on road construction continues to support road freight.

- **Organised road transport gains limited as moratorium extension limits stress on unorganised leveraged road operators.** As the stress of intermodal shift (road to rail) intensified (e-way bill generation for road transporters ~ 10-15% below pre pandemic), allowing market economics could have led to consolidation in the market and higher pricing power for debt free organised sector players. Yet, we see supply returning and increased pricing pressure starting to impact road operators as diesel prices increase.

- **Institutionalisation of warehousing segment continues to accelerate.** There has been a 44% CAGR increase in annual warehousing transaction from FY17-20. Mumbai (69%), Bengaluru (50%), NCR (45%) and Ahmedabad (43%) lead in terms of warehousing transactions. 3PL contributed ~35%, ecommerce ~23% and manufacturing ~23%. FMCG still contributed ~3% of the total transactions during this period and has just started to gather steam.

- **Increase in global air freight and container shipping freight rates.** Global container (shipping) freight rates spiked, driven by years of capacity rationalisation (ships), reduction in belly cargo as passenger aircraft were grounded. The increase in air freight rate was witnessed in India, though since then commercial carriers have introduced significant domestic freight capacity. Also, the imbalance in EXIM trade have led to a reduction in inflow of containers, causing a shortage and an increase in container rental rates.

Please refer to important disclosures at the end of this report

Expectations from CY21

- **The trend of intermodal shift (road to rail) will only intensify.** This trend is will only intensify with the commissioning of DFC, now expected in June 22. The three Gujarat-based ports will be connected to DFC first. This may lead to permanent shift in container cargo away from JNPT to Mundra and will perhaps help in NCR utilisation of ICDs a bit better than expected. One thing is certain, the intermodal shift, given so much investment in freight intensive corridors for Indian Railways definitely warrants a look at rail-based players like Concor (upgrade to BUY from HOLD) and Gateway Distriparks (maintain BUY). Express players will do well by collaborating with Indian Railways to increase i) business sustainability/ESG score and ii) thwart competition.
- **Distribution of Covid-19 vaccine -- what kind of opportunity is it?** Snowman Logistics (associate of Gateway Distriparks) highlighted the uncertainty in our Fireside Chat series (link) on sustained demand and profitability of vaccine distribution as well as cold chain. Investments are being undertaken in a cautious manner. While players like Mahindra Logistics (MLL), TCI Express (TCIE) and Blue Dart Express (BDE) are equipped to capture any business uptick possibility on account of vaccine distribution – initial interactions suggest limited excitement.
- **Warehousing consolidation to continue; 3PL players will be key beneficiaries.** NH development continues to define new warehousing clusters as more outsourcing is observed from FMCG and FMCD (still very nascent) spaces – both having contributed only 3% to last three years' warehousing transactions. MLL will be a key beneficiary of the same.

Table 1: Valuation summary

	Reco		Target Price		P/E(x)			EV/EBITDA (x)			
	NEW	OLD	NEW	OLD	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	Comment
Concor	**BUY**	**HOLD**	489	424	29.3	28.8	19.7	18.4	16.2	10.1	Upgrade to BUY from HOLD, DCF rolled over to FY23E. Target price of Rs 489/share from Rs 424/share.
Allcargo	HOLD	HOLD	141	126	11.8	10.2	8.2	5.9	5.1	4.6	Maintain HOLD. Rollover to FY23E. Target price to 141/share
VRL logistics	BUY	BUY	266	216	99.2	15.3	12.4	9.1	6.1	5.4	Roll over to FY23E. Target at 20x PE of FY23E. Target price of Rs 266/share.
Gateway Distriparks	BUY	BUY	195	134	39.7	41.2	21.4	7.3	8.0	6.9	Rollover to FY23E. Increase in target price from Rs 134/share to Rs 195/share. FY21E earnings have been increased to factor in a H1FY21 performance. Also the capex has been increased to factor in possible investments in the satellite NCR terminal as DFC gets commissioned.
Bluedart	SELL	SELL	3130	2241	61.0	121.5	51.5	12.4	13.8	11.0	Maintain SELL on Blue Dart with a revised target price of Rs3,130/share. We continue to factor in an alternate lower volume estimate scenario, assuming 3% p.a. volume growth in the foreseeable future.
Mahindra Logistics	HOLD	HOLD	425	354	132.9	35.2	26.3	22.9	14.2	11.6	– FY23E PE of 25x (earlier) to 30x (Now). Target price changes from Rs 354/share to Rs 425/share. Maintain HOLD.
TCI Express	BUY	BUY	1007	1007	32.7	26.3	22.9	23.4	18.9	16.3	Target price maintained at Rs 1007/share. 30x FY23E PE. Maintain BUY

Source: Company data, I-Sec research

Table 2: Earnings change for the sector

	FY21E			FY22E		
	Sales	EBITDA	PAT	Sales	EBITDA	PAT
Concor	58,856	11,285	7,641	70,978	12,704	7,768
% Chg	-	-	-	-	-	(17)
Gateway Distriparks	10,684	2,857	352	12,829	2,527	340
% Chg	6.3	101.3	NM	0.0	11.3	131.3

Source: Company data, I-Sec research

Blue Dart Express (BDE) stock returned 82% in CY20 led by Q2FY21 performance; outperformance is difficult to sustain

Table 3: Blue Dart Express is the standout performer in CY20

	CY20 Stock return (%)	Topline Growth (%)		Volume Growth (%)		EBITDA Margins (%)		Reco	Expected Upside (1-year)
		FY20	H1FY21	FY20	H1FY21	FY20	H1FY21		
Concor – Exim	(28.3)	(9.0)	(22.7)	(2.8)	(14.9)	32.0	22.5	BUY	19.2
Concor - Domestic		4.8	(11.6)	1.5	(13.4)	10.0	13.0		
Gateway Distriparks –CFS	**6.4**	**(0.9)**	**(28.4)**	**(12.1)**	**(33.0)**	**32.3**	**31.1**	**BUY**	**74**
Gateway Distriparks - Rail		**0.1**	**(23.8)**	**8.5**	**(18.8)**	**21.6**	**25.1**		
Allcargo Logistics - MTO	32.8	17.2	9.0	7.7	(4.1)	6.8	6	HOLD	8.4
Allcargo Logistics - CFS		(2.4)	4.3	(3.0)	(38.0)	31	42		
Allcargo Logistics - P&E		4	(31)						
VRL Logistics - GT	(28.6)	6	(35)					BUY	37
VRL Logistics – PT		(12)	(88)						
Blue Dart Express	81.5	0.02	(19)	3		14.9	33.5	SELL	(20)
TCI Express	21.8	0.8	(43.0)	4	(47.0)	12	11.5	BUY	15
Mahindra Logistics - SCM	(0.7)	(17.7)	(36.0)					HOLD	7
Mahindra Logistics - PTS		(4.6)	(76.0)						

Source: Company data, I-Sec research

Two events in CY20 generated significant interest for air express players

- Global belly cargo capacity has remarkably reduced and, on some routes, air freight rates have increased by 30-60%. Due diligence suggests rates have gone up in India by 7-15% -- a hope-inducing factor for Blue Dart Express (BDE) given its operating leverage. Higher rates reflected an impressive margin performance for BDE in Q2FY21. In Indian context, we see higher supply from conventional carriers namely Spice Express.
- DHL commentary highlights the Covid-19 vaccine distribution opportunity that may open up for air express industry. Reseachers have also estimated that 15,000 flights will be required to ensure global distribution of the vaccine over the next two years. This presents an opportunity for the Indian express and 3PL players.

These two events have resulted in salience for Indian air express, particularly BDE. Reiterate SELL on BDE as structural headwinds of the model will sustain.

We are more confident on road to rail intermodal shift as a theme for CY21, which reflects in our rating rationale. **We project ~74% upside for Gateway Distriparks and have upgraded Container Corporation of India (Concor) to BUY from HOLD.**

We also maintain BUY on TCI Express and VRL Logistics.

Branch metrics and employee costs continue to remain two most important moniterable for express

The extent of branch addition that BDE has undertaken over the past two years will be tested, as revenue is not ramping up commensurately. While that is being highlighted in the conventional discourse as a positive trigger, we see the same as a constraint to effectively move into a more sustainable road express business. In the interim, there can be a bulge in revenue driven by pricing in air, as vaccine delivery picks up pace. There are concerns on the economics of distribution –private procurement of these vaccines will be remunerative for express providers. We haven't seen much excitement from players like Snowman in terms of additional capacity creation in cold storage. Transportation solutions will have to be multimodal with Air express contributing a substantial part.

Recent developments on augmentation of vaccine distribution in the country

Centre has been ramping up cold storage preparation at airports for Covid-19 vaccine. More than cold storage inside the aircraft, the challenge is to set up cold storage at the point of disembarkation and embarkation at the airport, setting up the cold storage chain.

To cater to 1.3bn people of India there are initial estimates for requirement of 2000 Boeing 747 freighters, 3000 Airbus A320s, 1000 ATR 42s and 400 Twin Otters or the Grand Caravan aircraft … To be able to distribute it across the world, it will require at least 15,000 freighters.

SpiceJet has announced that it will offer logistical support for the delivery of Covid-19 vaccine. The airline's dedicated cargo arm, SpiceXpress will use a special service called Spice Pharma Pro and the company has the capacity to transport drugs and vaccines in temperatures ranging from -40°C to +25°C. **Spice Express has inducted Q400 freighters for regional freight connectivity.**

Table 4: Profitable branch expansion is the key for express logistics – demand/pricing bulge in air-express is difficult to sustain

	FY16	FY17	FY18	FY19	FY20
Number of branches					
TCI Express		550	650	700	770
VRL Logistics	1,024	884	911	892	860
Blue Dart Express	515	608	1,025	1,665	2173
Employee/ Branch					
TCI Express		4	4	4	4
VRL Logistics	19	24	22	24	23
Blue Dart Express	19	18	13	8	6
Employee cost as a % of sales					
TCI Express		7.8	8.2	8.4	9.9
VRL Logistics	14.3	14.8	18	17.4	18
Blue Dart Express	15.5	15.9	16.1	17.4	18.13

Source: Company data, I-Sec research

Road to rail intermodal shift – Can DFC commissioning accelerate the same?

Indian railway's 2024 vision to double freight loading (2024mnte by 2024 from 1250mnte at present) has an underbelly of some dedicated work undertaken

Of the total track length of 64k km in Indian Railways, 34k km (11 track routes) carry 96% of the freight traffic. Of that, 11.5k high density network (16% of network) carries 60% of freight traffic and witnesses 130-140% utilisation.

Of 34k km, 11k is still single line. While asset allocation hasn't been as expected, IR has chalked upon definite infrastructure plans to increase freight traffic from 1250mnte at present to 2400mnte by 2024. Funds for infra augmentation projects have been tied up. Per annum spend has been augmented from Rs450bn to Rs1,600bn. The key elements of capex as envisaged in *vision 2024* document include signalling and telecom, electrification, modernisation etc. Nearly 90% of the budget and extra budget resource will be spent on these prioritised items. **IR plans to spend Rs2.5trn over the next 4 years.**

Focus is on multi signalling (increased speed of train to free up more capacity), electrification (reduced operational costs, increasing profitability), doubling and quadrupling of lines (14k km within the broader ambit of 34k km which carries 96% of freight traffic will be quadrupled by 2024).

IR expects to rationalise freight tariff with quantum jump in freight. The target is clearly to move into new sectors like autos, ecommerce (parcel trains started in lockdown), white goods, FMCG etc. We have seen dedicated parcel trains, Kissan Rails, RoRo services all leading to a sustained YoY growth in freight loading (domestic) for H2CY20.

Both Gateway and Concor will benefit on account of intermodal shift in traffic from road to rail.

- As we roll over our valuations to FY23, we see 74% upside for Gateway.
- We also upgrade Container Corporation to BUY from HOLD with ~20% upside.
- These two listed entities are the only avenues of playing the theme of market share gain by Indian Railways.

DFC is an integral part of achieving the intermodal shift and the freight targets

The selected corridors ran through 16% of rail/km but 52% of passenger traffic. **The two sections of DFC should be commissioned by June 22. By Mar 21, Rewari and Palanpur sections will complete and by June 21, Rewari, Khurja, Palanpur connectivity will complete. CY22 should see quantum jump in freight loading on account of DFC. (As per latest interaction with rail ministry).**

In the next phase of infrastructure development, 4 additional corridors are planned till 2030. IR expects private players to set up logistics hubs along the DFC.

Some salient points to consider while allowing an intermodal shift on account of DFC – the risks that we see

- With the introduction of 120 trains, **will there be enough demand** in the system to cater to the capacity? Attracting freight traffic will require a significant amount of coordination and joint working with freight forwarders, truckers, terminal operators etc to allow an intermodal shift.

- Savings from double stacked trains should have been 50% but accrues much lower (on an average at 10%) as there are additional handling costs at terminals, aggregation disaggregation at terminals leads to additional train costs.
- **Oversupply of terminals in areas like NCR.** Whether the recent notifications on restrictions of setting up ICDs can be implemented keeping the oversupply of NCR in mind.
- Also, while running double stacked trains, any incoming cargo trains need to have the right kind of loading so that there is no shuffling. Also, first in first out rule at the ports may delay double stacking of containers
- While time table operations and transit guarantees are necessary, in the absence of train load how much viable can timetable operations be?

Exim volumes on downtrend, in-line with slowing domestic consumption

Indian exports (Non-oil) have stagnated from FY13 to FY20, down 12% in 7 years while imports have grown by 37% during the same period. FY21 has seen 11.5% decline in imports in Oct, ’20, 13.3% in Nov, ’20, **the ninth straight month of decline**. Exports fell 9.7% in November, second straight month of decline. Non-oil, non-gold related imports declined 0.84%. The prevailing EXIM environment is impacting rail container movement.

Exporters are facing multiple headwinds. Facing an almost 60% hike in freight cost since July, exporters have been urging for government intervention and regulate operations of shipping companies. Apex exporters’ body Federation of Indian Export Organisations (FIEO) has informed the government of an estimated US$40bn export loss in the current fiscal year. **This was due to unavailability of containers, high freight cost and containers held up in Punjab due to farmers’ agitation. The freight rates for 20 ft container have shot up to over US$1,200 per vessel up from just US$400 a few months ago.**

There is a shortage of containers due to fall in imports as shipping companies are unwilling to bring empty containers to India for export shipments.

Table 5: Container traffic at major Indian ports

'000te	April-Oct’20	April-Oct’21	% Chg
Kolkata	36,278	31,171	(14.1)
Paradip	64,467	61,967	(3.9)
Visakhapatnam	41,185	38,807	(5.8)
Kamarajar (Ennore)	18,044	12,530	(30.6)
Chennai	28,588	22,385	(21.7)
V.O. Chidambaranar	21,277	18,960	(10.9)
Cochin	19,465	15,122	(22.3)
New Mangalore	20,587	19,474	(5.4)
Mormugao	8,737	10,176	16.5
Mumbai	35,631	28,631	(19.6)
JNPT	39,849	32,669	(18.0)
Kandla	7,103	62,926	785.9
Total	**3,41,211**	**3,54,818**	**4.0**

Source: Company data, I-Sec research

The subdued performance of EXIM has impacted container freight movement. While November has seen a sharp improvement, which is reflecting in YTD Q3FY21 increase for the EXIM container movement, still EXIM freight is underperforming all other freight loading by a margin. There has been a decline in EXIM lead as well.

Table 6: Railway data – EXIM container freight has been subdued

	Tonnage (mnte)			Average Lead Km	
(mnte)	**Domestic containers**	**Exim containers**	**Total**	**Domestic containers**	**Exim containers**
YTDFY21 container	**7.04**	**31.34**	**38.38**	**1239**	**719**
YTDFY21 (All Goods)			752		541
YTD Q3FY21	2.13	8.63	10.76		
Q2FY21	2.84	12.02	14.86	1,243	716
Q1FY21	2.07	10.69	12.76	1,178	717
YTDFY20 container	**7.3**	**33.37**	**40.67**	**1,225**	**772**
YTDFY20 (All Goods)			782	559	
YTD Q3FY20	1.77	7.97	9.74		
Q2FY20	2.74	12.88	15.62	1,220	775
Q1FY20	2.79	12.52	15.31	1,227	778
YTD YoY Chg (%) – Container	**(3.6)**	**(6.1)**	**(5.6)**	**1.1**	**(6.9)**
YTD YoY Chg (%) -- All goods			(3.8)	(3.2)	
YTD Q3FY21 Chg (%)	20.3	8.3	10.5		

Source: Company data, I-Sec research

Warehousing consolidation to continue; 3PL players will be key beneficiaries

FY19 witnessed 77% YoY growth in transaction volumes that followed an even higher 87% YoY growth in transactions during FY18. FY20 transactions were slower due to slower economic activity. **While warehousing space taken in FY20 has fallen by 11% YoY, it has still grown by 44% CAGR between FY17-20**. Limited supply of Grade A warehouses in right locations has also been a contributing factor to subdued transaction levels in FY20, especially in Bengaluru and Hyderabad.

3PL and ecommerce continue to be the biggest adopters of organised warehousing. FMCG and retail sector are also increasingly outsourcing their warehousing requirements to 3PL operators. The trend has also caught up with ecommerce industry.

Warehousing lease tenures are getting longer (6-9 years); with increasing interest from global holders, size of investment per deal has also increased to US$282mn per deal from US$225mn 4 years back. The trend is expanding beyond the top 8 cities now to markets like Ludhiana, Coimbatore, Vapi, Guwahati, Bhubaneshwar, Surat, Lucknow and Patna. **Of ~300mn sq ft total warehousing space in India, activity is mainly concentrated in top 30mn sq ft which forms the crux of Grade A+/++ warehouses.**

However, it's becoming clearer, as average yields gravitate towards 8-9%, Indian cost of capital is not suited for such construction to earn decent IRR and it shows in current developer composition – 19% developer, 29% sovereign/pension fund and 52% PE (foreign cost of capital).

Valuation changes introduced in the report

Concor (upgrade to BUY from HOLD)

Table 7: DCF rolled over to FY23

Rs 10bn of land license fee in FY22	
(Rs mn)	**FY23E**
Terminal growth %	3,53,876
Terminal Value (Rs mn)	7
# of years to Terminal Value	1,45,783
PV of Terminal value	1,22,692
PV of FCFF	2,68,475
Total FCFF	(38,919)
Net Debt	3,07,394
Total Equity value	609
Total o/s # of shares	
Fair value per share	**505**
Discount Factor	(3)
Target price	489

Source: Company data, I-Sec research

Table 8: Old valuation

Rs 10bn of land license fee in FY22	
(Rs mn)	**FY22E**
Terminal growth %	3%
Terminal Value (Rs mn)	297,040
# of years to Terminal Value	3
PV of Terminal value	194,437
PV of FCFF	41,111
Total FCFF	235,548
Net Debt	(30.987)
Total Equity value	266,535
Total o/s # of shares	609
Fair value per share	**437**
Discount Factor	(3)
Effective Target price	**424**

Source: Company data, I-Sec research

Allcargo (HOLD): One of the key beneficiaries of container freight rate

Table 9: SoTP valuation (new)

		FY23E
Business	Valuation Multiple	Implied EV (IRs mn)
MTO	7x FY23E EV/EBITDA	27,996
CFS/ ICD	6x FY23E EV/EBITDA	12,082
P&E	6x FY23E EV/EBITDA	2,046
Logistic Park	7x FY23E EV/EBITDA	1,822
Express	25x FY23E PAT	1,786
Elimination	7x FY23E EV/EBITDA	(2,800)
Total		**42,932**
Less: Net Debt		9,255
Equity		33,678
No of Share		246
Equity/share (Rs/share)		137
Business of JV (15x PE)		4
Total business value		141

Source: Company data, I-Sec research

Table 10: SoTP valuation (old)

		FY22E
Business	Valuation Multiple	Implied EV (IRs mn)
MTO	7x FY2E EV/EBITDA	25,451
CFS/ ICD	6x FY2E EV/EBITDA	11,307
P&E	6x FY2E EV/EBITDA	1,959
Logistic Park	7x FY2E EV/EBITDA	1,610
Express	25x FY22E PAT	1,500
Elimination	7x FY22E EV/EBITDA	(2,800)
Total		**39,027**
Less: Net Debt		8,956
Equity		30,071
No of Share		246
Equity/share (Rs/share)		122
Business of JV (15x PE)		4
Total business value		**126**

Source: Company data, I-Sec research

Gateway Distriparks (BUY): Rail + cold chain + deleveraging = Maximum upside potential

Table 11: SoTP valuation New

	Methodology	Enterprise Value (Rs mn)	Valuation (Rs/share)
Gateway Rail Freight	EV/EBITDA,10x FY23E	20,717	
CFS business	EV/EBITDA, 6x FY23E	4,356	
Total Enterprise value		25,073	
Total Debt		3,318	
Equity Value			174
Snowman Logistics (40% Associate)	Market value adjusted for stake and Holdco discount		21
Total			**195**

Source: Company data, I-Sec research

Table 12: SoTP valuation old

	Methodology	Enterprise Value (Rs mn)	Valuation (Rs/share)
Gateway Rail Freight	EV/EBITDA,10x FY22E	15,441	
CFS business	EV/EBITDA, 6x FY22E	4,356	
Total Enterprise value		19,797	
Total Debt		4,919	
Equity Value			119
Snowman Logistics (40% Associate)	Market value adjusted for stake and Holdco discount		14
Total			**134**

Source: Company data, I-Sec research

Blue Dart Express (SELL): Best case scenario continues to get factored in

We maintain **SELL** on Blue Dart with a revised target price of Rs3,130/share. (Earlier: Rs2,241/share) We continue to factor in a lower volume estimate scenario, assuming 3% p.a. volume growth in the foreseeable future. We also follow a reduced capex assumption in this scenario as we do not see any aircraft addition in foreseeable future. Employee cost assumptions are also different in both the scenarios. We rollover our DCF valuation to FY23E from FY22E earlier. There is no change in earnings.

DCF tenure extended to FY30E with terminal growth assumptions moderated to 2% from 3% earlier.

Further increase in yield or maintaining yields in FY22E are key risks to our thesis (maintaining/increasing yields along with 10% volume growth).

Table 13: DCF valuation of Blue Dart Express (new) – scenario 1 (low growth) (new)

	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
EBIT	2,541	2,412	2,934	4,337	5,434	6,057	6,588	7,146	7,644	8,162
NOPAT	5,513	5,220	5,467	5,510	5,649	5,927	6,248	6,582	7,051	7,535
Capex	(3,281)	(2,622)	(2,456)	(1,777)	(1,533)	(1,364)	(1,190)	(1,009)	(1,008)	(1,007)
Change in WC	142	(1)	(81)	(117)	(131)	(127)	(132)	(138)	(99)	(102)
FCFF	2,375	2,596	2,929	3,617	3,986	4,436	4,926	5,435	5,944	6,426
Terminal value										81,928
Total	2,375	2,596	2,929	3,617	3,986	4,436	4,926	5,435	5,944	88,354
NPV of FCFF	62,072									
Net debt	9,621									
NPV of FCFE	52,451									

Source: Company data, I-Sec research

Table 14: DCF valuation of Blue Dart Express (new) – scenario 2 (10% p.a. growth) (new)

	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
EBIT	2,523	1,877	3,075	5,158	7,283	9,060	10,905	12,967	15,165	17,623
NOPAT	5,518	4,915	5,729	6,312	7,193	8,339	9,662	11,141	12,820	14,687
Capex	(3,540)	(3,182)	(3,016)	(1,978)	(1,734)	(1,565)	(1,391)	(1,210)	(2,323)	(2,130)
Change in WC	142	33	(258)	(286)	(359)	(385)	(405)	(446)	(491)	(550)
FCFF	2,120	1,766	2,455	4,047	5,101	6,389	7,866	9,485	10,006	12,008
Terminal value										153,096
Total	2,120	1,766	2,455	4,047	5,101	6,389	7,866	9,485	10,006	165,104
NPV of FCFF	106,168									
Net debt	9,876									
NPV of FCFE	96,292									
Value per share	**4,053**									

Source: Company data, I-Sec research

Table 15: DCF valuation of Blue Dart Express (new) – scenario 1 (low growth) (old)

(Rs mn)	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E
EBIT	2,541	2,412	2,934	4,337	5,434	6,057
NOPAT	5,513	5,220	5,467	5,510	5,649	5,927
Capex	(3,281)	(2,622)	(2,456)	(1,777)	(1,533)	(1,364)
Change in WC	142	(1)	(81)	(117)	(131)	(127)
FCFF	2,375	2,596	2,929	3,617	3,986	4,436
Terminal value						65,278
Total	2,375	2,596	2,929	3,617	3,986	69,715
NPV of FCFF	53,509					
Net debt	9,621					
NPV of FCFE	43,887					
Value per share	**1,847**					

Source: Company data, I-Sec research

Table 16: DCF valuation of Blue Dart Express (new) – scenario 2 (10% p.a. growth) (old)

(Rs mn)	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E
EBIT	2,523	1,877	3,075	5,158	7,283	9,060
NOPAT	5,518	4,915	5,729	6,312	7,193	8,339
Capex	(3,540)	(3,182)	(3,016)	(1,978)	(1,734)	(1,565)
Change in WC	142	33	(258)	(286)	(359)	(385)
FCFF	2,120	1,766	2,455	4,047	5,101	6,389
Terminal value						94,009
Total	2,120	1,766	2,455	4,047	5,101	100,398
NPV of FCFF	72,499					
Net debt	9,876					
NPV of FCFE	62,623					
Value per share	**2,636**					

Source: Company data, I-Sec research

How Chinese express market and express players have fared during the same timeframe

In China, a bulging ecommerce market translates into a profitable express business due to the density of purchase. ***More importantly, the market continues to grow ~38% YoY.***
In India, we are yet to see ecommerce delivery turning into a profitable express model.

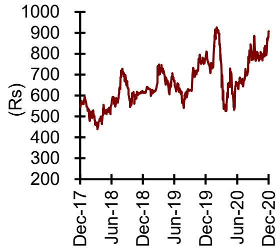
Table 17: Volume growth for Chinese players continues to remain substantially higher than Indian peers

	Q1CY20	Q2CY20	Q3CY20
Volumes (mn parcels)			
ZTO	2,374	4,595	4,623
% Chg YoY	*4.9*	*47.9*	*51.2*
Best Inc	1,316	2,300	2,360
% Chg YoY	*-1.8*	*20.6*	*24.9*
Market growth (%)	*3.2*	*37.5*	*37.8*
TCI Express (mnte)	*0.2*	*0.1*	*0.14*
% Chg YoY	*(23.1)*	*(68.2)*	*(22.2)*
Revenue per parcel (RMB)			
ZTO	1.6	1.4	1.4
% Chg YoY	*(8.0)*	*(9.1)*	*(6.1)*
Best Inc	2.6	2.3	2.2
% Chg YoY	*(19.5)*	*(21.0)*	*(21.9)*
TCI Express (Rs/te)	11,897	12,156	15,375
% Chg YoY	*14.5*	*2.0*	*3.2*
Margin per parcel (RMB)			
ZTO (EBITDA)	0.49	0.48	0.36
% Chg YoY	*(22.4)*	*(24.7)*	*(41.3)*
Best Inc (Gross Margin)	(0.09)	0.12	(0.06)
% Chg YoY	*200.0*	*(27.8)*	*NM*
TCI Express (Rs/te)	3,573	4,234	4,946
% Chg YoY	*4.2*	*31.9*	*16.9*

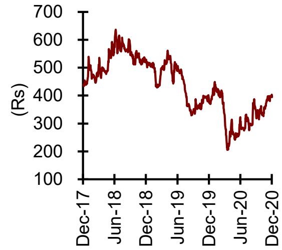
Source: Company data, I-Sec research

Price chart

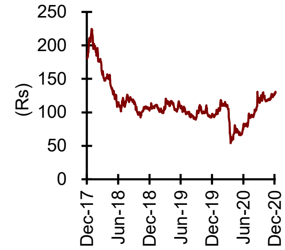
TCI Express



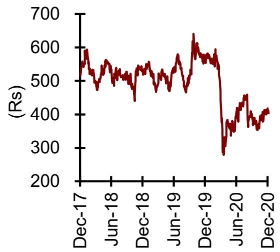
Mahindra Logistics



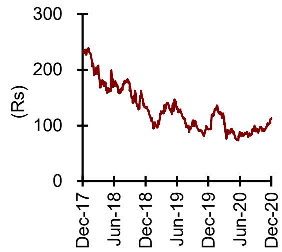
Allcargo



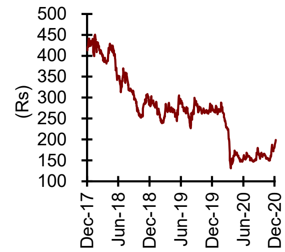
Concor



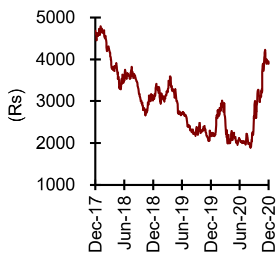
Gateway Distriparks



VRL Logistics



Blue Dart



Source: Bloomberg

In case of industry/sector reports or a report containing multiple stocks, the rating/recommendation for a particular stock may be based on the last released stock specific report for that company.

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #37-16 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION
/We, *Abhijit Mitra, MBA (Finance), BE; Udaykiran Paluri, MBA, B. Tech;* authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:
ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.