

Logistics

KEY MILESTONES/TRIGGERS

- e-way bill rollout
- GST implementation
- Infra development
- e-commerce boom
- Technology adoption

FIVE YEAR GROWTH OUTLOOK

OVERALL LOGISTICS

10-12% CAGR

EXPRESS AND 3PL LOGISTICS

16-18% CAGR

ACCELERATING FORMALIZATION

On the cusp of a transformation

Research analyst: [Alok Deora](mailto:Alok.Deora@motilaloswal.com) (Alok.Deora@motilaloswal.com) | [Dhirendra Patro](mailto:Dhirendra.Patro@motilaloswal.com) (Dhirendra.Patro@motilaloswal.com)

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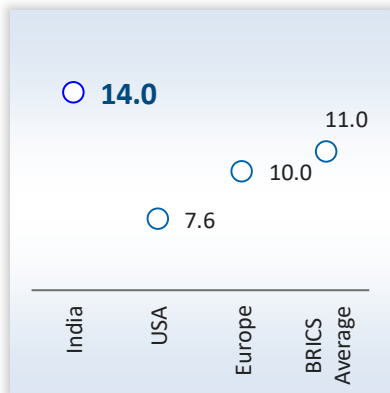
Delhivery: Riding the e-commerce wave

DELHIVERY

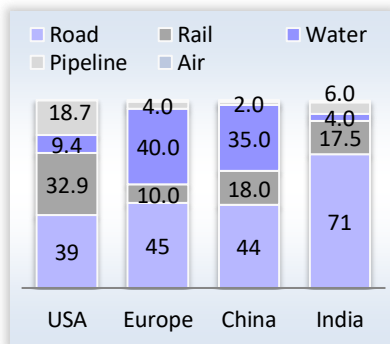
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Logistics

Huge Logistics cost, as a percentage of GDP, impacts India's competitiveness (%)...



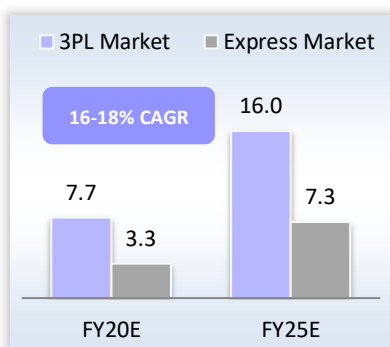
...due to inefficient modal mix (led by a higher share of Road transport)



With reforms (GST, e-way bill, etc.) and Infra development, industry to see robust growth (USD b)



Value added segments to outpace overall industry growth (USD b)



On the cusp of a transformation

Initiating coverage with a positive outlook

- The Indian Logistics sector is set to witness a transformation, led by: 1) reforms like GST and e-way bill ushering in a sea change in transparency and consolidation; 2) development of support Infrastructure that improves connectivity and leads to a faster turnaround time; 3) change in the perception of Logistics being more than just Transportation and Warehousing, but as a specialized function; 4) evolving consumer demands, where the speed of delivery is of utmost importance; and 5) emergence of tech driven operators in this space, who are fast capturing market share.
- The Logistics market, pegged ~USD250b, is expected to grow at 10-12% CAGR, with a pick-up in demand. The shift to organized from the unorganized sector (~90% currently) would be an additional kicker. The demand for value added services is on the rise.
- We expect the 3PL segment to witness a strong pick-up as more companies outsource a large part of their Logistics to 3PL operators. Express cargo would benefit from a pickup in Manufacturing and exponential growth in e-commerce. We expect the Rail Container operators to gain traction with the commissioning of the Dedicated Freight Corridor (DFC).
- In this sector initiation report, we set forth our views on six companies in India's Logistics space: TCI Express (TCIE), Transport Corporation of India (TCI), VRL Logistics (VRL), Blue Dart Express (BDE), Mahindra Logistics (MLL), and Container Corporation of India (CCRI). We assign a Buy rating to TCIE, TCI, VRL, and CCRI, and a Neutral rating to BDE and MLL. TCI is our top pick in this space.

Reforms changing the face of the Logistics industry

The Logistics industry has seen a massive change in the last few years, with the introduction of reforms like GST and e-way bill. With the abolishment of state-level taxation through GST, the industry is heading towards consolidation and efficiency. Transportation is now much faster, and smaller inefficient warehouses have made way for larger centralized warehouses. e-way bill has improved transparency in the Road Freight industry, which has been traditionally dominated by the unorganized segment. These reforms are propelling higher growth and formalization.

Infra development takes center stage, to reduce Logistics costs

The high cost of Logistics in India has been due to an inefficient modal mix, driven by a relatively inefficient Road segment. While Road Infra has massively improved over the last few years, Rail and Waterways are catching up now. The Road segment has always benefited as it could provide last-mile connectivity. With a dedicated Rail network for freight getting operationalized in phases, the market share for Rail would increase in the modal mix, which would benefit companies like CCRI.

Value added services like 3PL and Express businesses are well placed

Increasing need for integrated Logistics solutions and higher adoption of 3PL by end-use sectors would usher strong demand for 3PL (to benefit companies like TCI and MLL). In Express, a pick-up in Manufacturing (B2B) and exponential growth in the e-commerce space (B2C) will benefit companies like TCIE and BDE. **We expect 3PL and Express to grow at 16-18% CAGR over the next five years.**



Emergence of new age tech and PE funded Logistics operators

Over the last decade, several new age tech and PE funded Logistics operators (Delhivery, Ecom Express, etc.) have made a strong penetration in this space, especially in the Express industry. Starting with B2C Express (driven by e-commerce), some are now attempting to capture market share in the B2B segment, led by Manufacturing. This has increased competition in selected areas for traditional operators. The massive usage of technology to save on costs and create efficiency is providing an edge to some of these players.

Initiate coverage with a positive outlook

The reforms undertaken in the Logistics space, along with a flurry of investments in infrastructure in the recent years, have created a solid base for sustainable growth. While traditional Logistics segments like FTL/LTL would grow well, driven by a pick-up in overall economic activity, we expect the niche value added services segments like 3PL and Express to grow at a faster pace. With strong industry growth, coupled with a shift to the organized from the unorganized sector, the outlook for the organized players seems extremely bright. We initiate coverage on this space with a positive outlook.



- TCI Express (BUY) – Delivering with speed:** TCIE is one of the better placed Express players, with: a) a robust position in the Express industry, b) higher contribution from B2B clients, and c) focus on the growing SME sector. We expect TCIE to clock a revenue/EBITDA/PAT CAGR of ~19%/26%/24% over FY21-24E. We value TCIE at 38x FY24E EPS to arrive at our TP of INR1,900.



- Transport Corporation (BUY) – A multi-modal play:** TCI is a long-term play, backed by: a) a diversified clientele base (with no reliance on anchor customers), b) improving share of high margin Less than Truck Load (LTL) business in the Road Freight division, and c) strong presence in the high growth 3PL segment. We expect the company to clock a revenue/EBITDA/PAT CAGR of ~17%/21%/26% over FY21-24E. We value TCI at 15x FY24E EPS to arrive at our TP of INR620.



- Blue Dart Express (Neutral) – In the Express lane:** Key triggers include: a) expected pickup in the overall Express industry driven by e-commerce and the Manufacturing segment, b) increasing share of the high growth Ground Express business, and c) focus on new initiatives like tie-ups for distribution of certain packages via drones. We expect BDE to clock a revenue/EBITDA/PAT CAGR of ~15%/16%/28% over FY21-24E. We initiate coverage with a Neutral rating on the stock with a TP of INR7,010 (27x FY24E EV/EBITDA).



- Mahindra Logistics (Neutral) – Established player in the high growth 3PL space:** Robust industry growth, asset light business model, and strong parentage of the Mahindra group are key triggers for MLL. We expect a revenue/EBITDA/PAT CAGR of ~18%/34%/63% over FY21-24E. We value MLL at 40x FY24E EPS to arrive at our TP of INR795 and assign a Neutral rating. At the CMP, most of the positives are priced in.



- VRL Logistics (BUY) – Asset ownership at play:** We expect robust demand from the LTL segment over the next couple of years (driven by reforms like GST and e-way bill), which would result in 16% revenue CAGR over FY21-24E. We expect the healthy margin profile to continue, leading to 15% EBITDA CAGR. With a low growth in depreciation due to the limited capex requirement, we expect 37%



PAT CAGR over FY21-24E, with a RoE of ~17% in FY24E. We initiate coverage with a Buy rating on the stock with a TP of INR460 (35x FY24E EPS).

- **Container Corporation of India (BUY) – Largest beneficiary of DFC:** CCRI is the undisputed market leader in Rail freight Logistics, benefitting from the commissioning of DFCs, leading to higher margin and volume. We expect CCRI to clock a revenue/EBITDA/PAT CAGR of ~22%/37%/44% over FY21-24E. The stock trades at 13x FY24E EV/EBITDA. We derive a DCF-based TP of INR800 and assign a Buy rating on the stock.
- **Delhivery (not rated) – Riding the e-commerce wave:** Delhivery has become one of India's leading supply chain service companies since its inception in CY11. It provides a range of services, which includes Express services, LTL and FTL freight, reverse Logistics, and B2B and B2C Warehousing, with B2C contributing ~65% of the business for Delhivery. It operates 20 automated sorting centers, over 67 fulfillment centers, and more than 68 hubs, catering to over 17,000 pin codes spread across more than 2,825 towns.

Key risks

- Players have managed to pass on the fuel cost increase, albeit with a lag. Any major increase in fuel costs may hurt the margins of Logistics operators, if they fail to pass on the same entirely.
- If there are any new transport restrictions imposed due to a fresh COVID wave, then it could have negative implications on the near term performance.

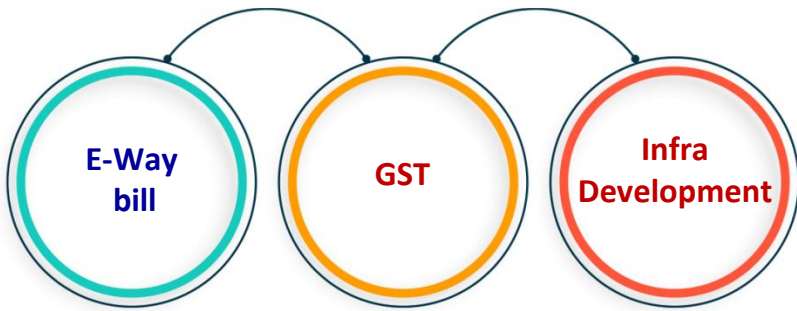
Exhibit 1: Business landscape

	Transportation				Storage			Value added services	
	Road	Rail	Coastal/ Inland	Air	Warehousing	CFS/ICD	Cold chain	Express Cargo	Supply chain/3PL
TCI Express	✓			✓				✓	
Transport Corp.	✓	✓	✓				✓		✓
Mahindra Logistics	✓				✓				✓
Blue Dart	✓			✓				✓	
VRL Logistics	✓								
Gati	✓			✓				✓	✓
Gateway Distriparks		✓				✓			
Container Corp.		✓	✓			✓			

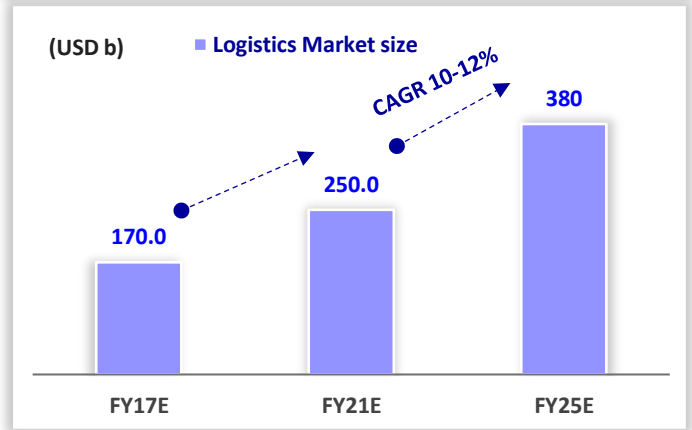
Source: Company, MOFSL



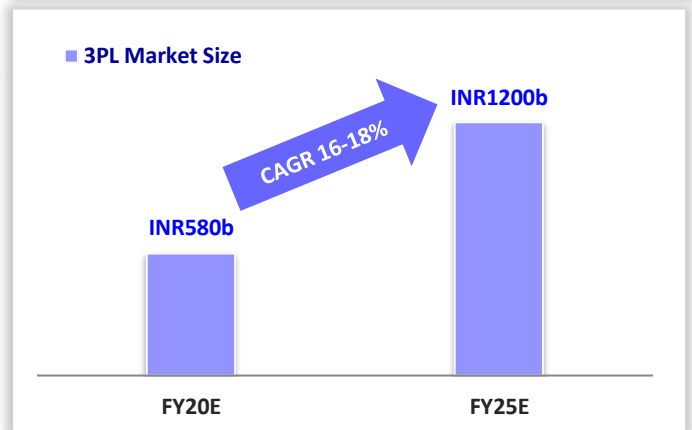
RECENT REFORMS



Logistics market to grow after the recent reforms

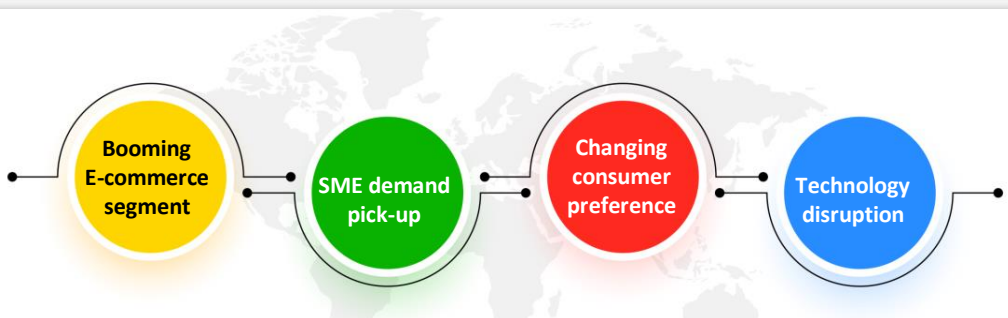


3PL to outpace industry growth

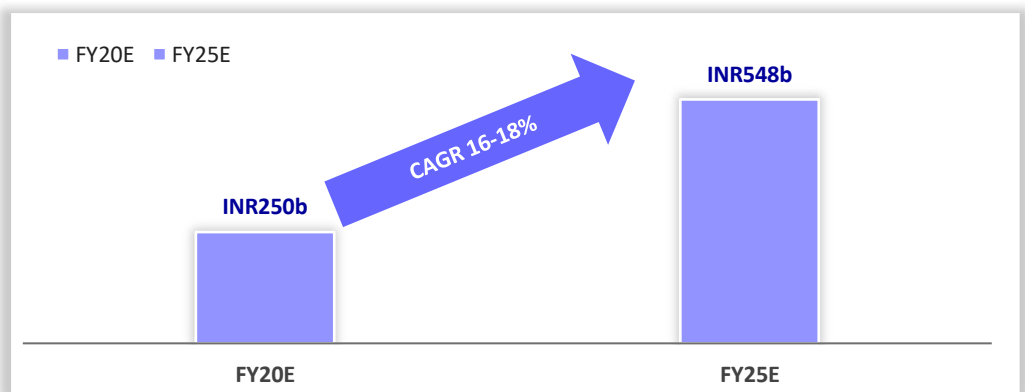


Increasing 3PL adoption

Sector moving towards formalization

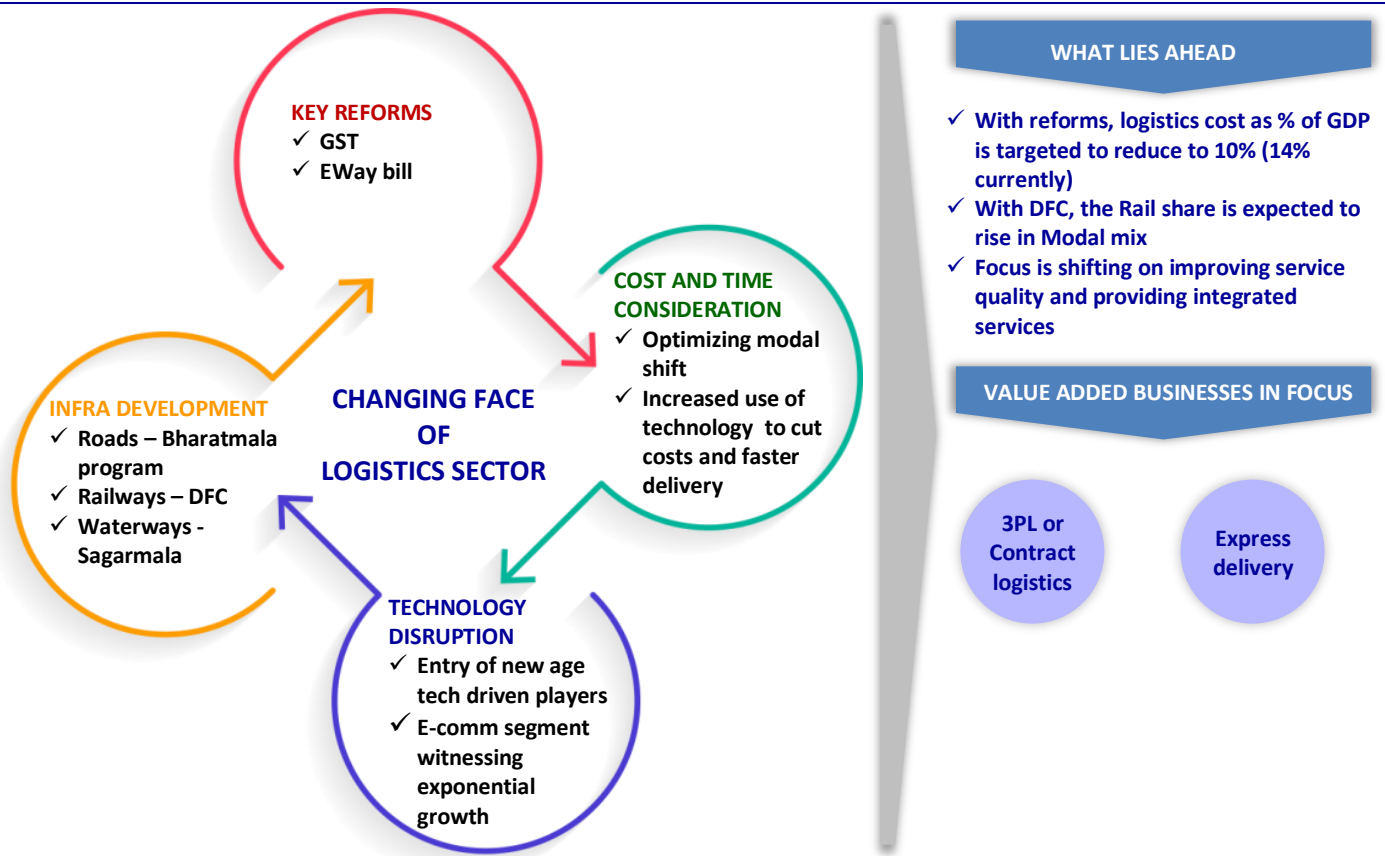


Express industry to witness robust growth (~17% CAGR)





OVERALL LOGISTICS INDUSTRY



GST IMPACT AND OPPORTUNITIES FOR SERVICE PROVIDERS

01

TRANSPORTATION

- ❖ Increased vehicle capacity requirements as business changes to Hub and Spoke model.
- ❖ Reduce transportation costs through optimum usage of fleet. Higher demand for different types of fleet for secondary distribution

02

WAREHOUSING

- ❖ Post GST, the customer warehousing requirements is consolidated and moving to centralized location closer to the demand market.
- ❖ Demand for Grade A warehousing of larger scale is taking off.
- ❖ Focus on cost rationalization and technology.

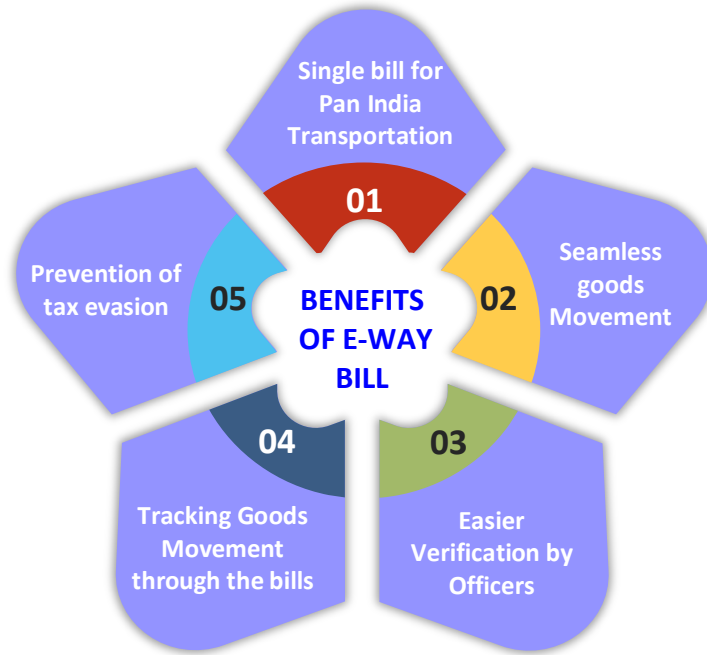
03

OPPORTUNITY FOR LOGISTICS OPERATORS

- ❖ This benefits the logistics industry as demand for heavy duty trucks and warehousing moves higher thereby increasing utilization levels
- ❖ Focus on technology driven services shoots up as cost control is on priority
- ❖ Increased requirements for 3PL type of blended solutions.

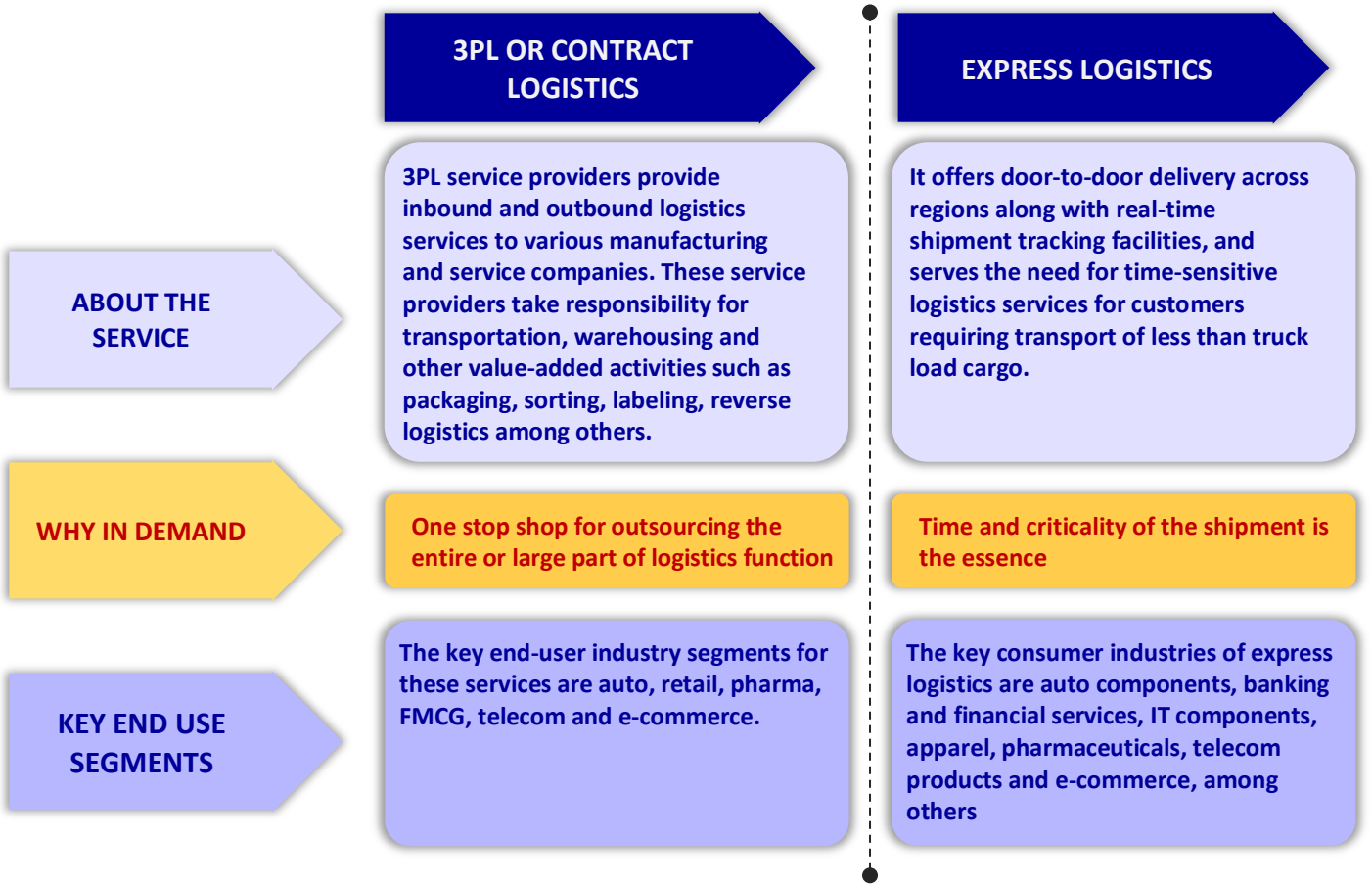


BENEFITS OF E-WAY BILL



Source: MOFSL

VALUE ADDED SERVICES – 3PL AND EXPRESS SEGMENTS



COMPANY SNAPSHOT



- ❖ Its asset light model (leases requirement for trucks and warehouses) enables greater operational flexibilities, helps manage the business slowdown better, and deliver robust returns
- ❖ With no single client contributing significantly to revenue, the business is very well diversified. A higher share of the B2B business (95%) reduces volatility in operations
- ❖ While the segment has seen the emergence of new age technology-backed players, TCIE has maintained its growth momentum with its sheer size and widespread network



- ❖ It has developed a robust business model, with multi-modal capabilities, via its presence across major modes of transportation
- ❖ It has a well-diversified portfolio, with major contribution from freight services and supply chain (3PL) solutions. The 3PL segment is expected to pick up sharply as clients demand more integrated solutions
- ❖ TCI is a decent long-term play, backed by: a) a diversified clientele base, b) improving share of the high margin LTL business, and c) rising contribution to the overall pie from the Seaways segment



- ❖ The company is in the high growth 3PL segment, with over 50% contribution from its anchor client: the Mahindra group. It is continuously increasing business from non-M&M clients
- ❖ MLL's largest end-use segment of Automotive (~60% share) is expected to pick-up Even the non-Auto verticals like Pharma and Consumer continue to gain strong traction
- ❖ With strong group support, increasing share of non-M&M customers, and an asset light business model, the company is well placed to capitalize on this opportunity



- ❖ The company has an unparalleled network, covering over 35,000 locations, and catering to more than 220 countries and territories worldwide through its group company DHL - the premier global brand name in Express distribution services
- ❖ The B2B segment constitutes majority of BDE's revenue (~80%). The B2B segment is more stable as compared to B2C, with a sticky clientele and demand emanating from the Manufacturing segment
- ❖ The management is focusing on increasing its presence in Tier II and III regions and on the fast growing Ground Express segment



- ❖ An established Logistics operator in the LTL business, with a 90% contribution (~10% business from FTL), supported by a fleet of 4,588 owned trucks, catering to 884 locations, and focusing on the higher margin LTL business
- ❖ VRL is primarily focused on the B2B segment, which is considered to be more stable as compared to B2C. It is well-diversified in terms of the end-use segment and customer base, with the top 10 customers contributing only 3% revenue to the Goods Transport business
- ❖ The company uses bio-diesel (23% of its fuel requirement in FY21), which helps it reduce fuel costs. Being the owner of a large fleet, the company is better able to negotiate spare parts and maintenance-related costs








- ❖ It started as a hyperlocal food-delivery startup, ferrying food from Restaurants to customers. It has now diversified into areas such as cross-border, B2B Logistics, and integrated distribution solutions to enterprises
- ❖ The company, which disrupted the B2C market, has diversified into the B2B segment. At present, the B2C segment contributes ~65% of the business. It expects to have an equal share of B2B and B2C going forward
- ❖ Delhivery uses artificial intelligence (AI) and machine learning (ML) optimization tools, which helps assess the best route, time, etc. for delivery. This helps it offer a cost-effective service, with the highest quality. The company also has a proprietary system, which undertakes geocoding and helps connect last-mile riders with end-consignees in an efficient way. Delhivery recently acquired a software as a service (SaaS) platform Primaseller, which would help bolster the technical capabilities of Delhivery



- ❖ CCRI is the undisputed market leader in Rail freight Logistics, with the largest network of 84 Inland Container Depots (ICDs)/Container Freight Stations (CFSs), and commanding a 65-70% share in the Rail container traffic in India.
- ❖ It would be the biggest beneficiary of the commissioning of the dedicated freight corridors (DFCs), which enables: a) double stacking, b) higher load capacities, and c) reduced turnaround time.
- ❖ EXIM business volume share stands at 80% and rest is from the domestic business. It is targeting 40% volume share from the domestic business over the next 3-4 years.







Exhibit 2: Valuation assessment

	 TCI EXPRESS LEADER IN EXPRESS	 TCI LEADERS IN LOGISTICS	 BLUE DART	 Mahindra LOGISTICS	 VRL VRL LOGISTICS	 कॉनकोर CONCOR
M-cap (INR b)	61.5	36.5	154.6	54.0	34.0	413.2
Rating	BUY	BUY	NEUTRAL	NEUTRAL	BUY	BUY
CMP	1,598	472	6,515	753	385	678
EPS FY24E	50.1	41.3	108.5	19.9	13.2	29.0
P/E FY24E	31.9	11.4	60.0	37.9	29.2	23.4
Target multiple (x)	38	15	NA*	40	35	NA*
Target	1,900	620	7,010	795	460	800
Upside (%)	19	31	8	6	19	18

*BDE has been valued using EV/EBITDA and CCRI valued using DCF

Source: Company, MOFSL

Exhibit 3: Relative performance comparison

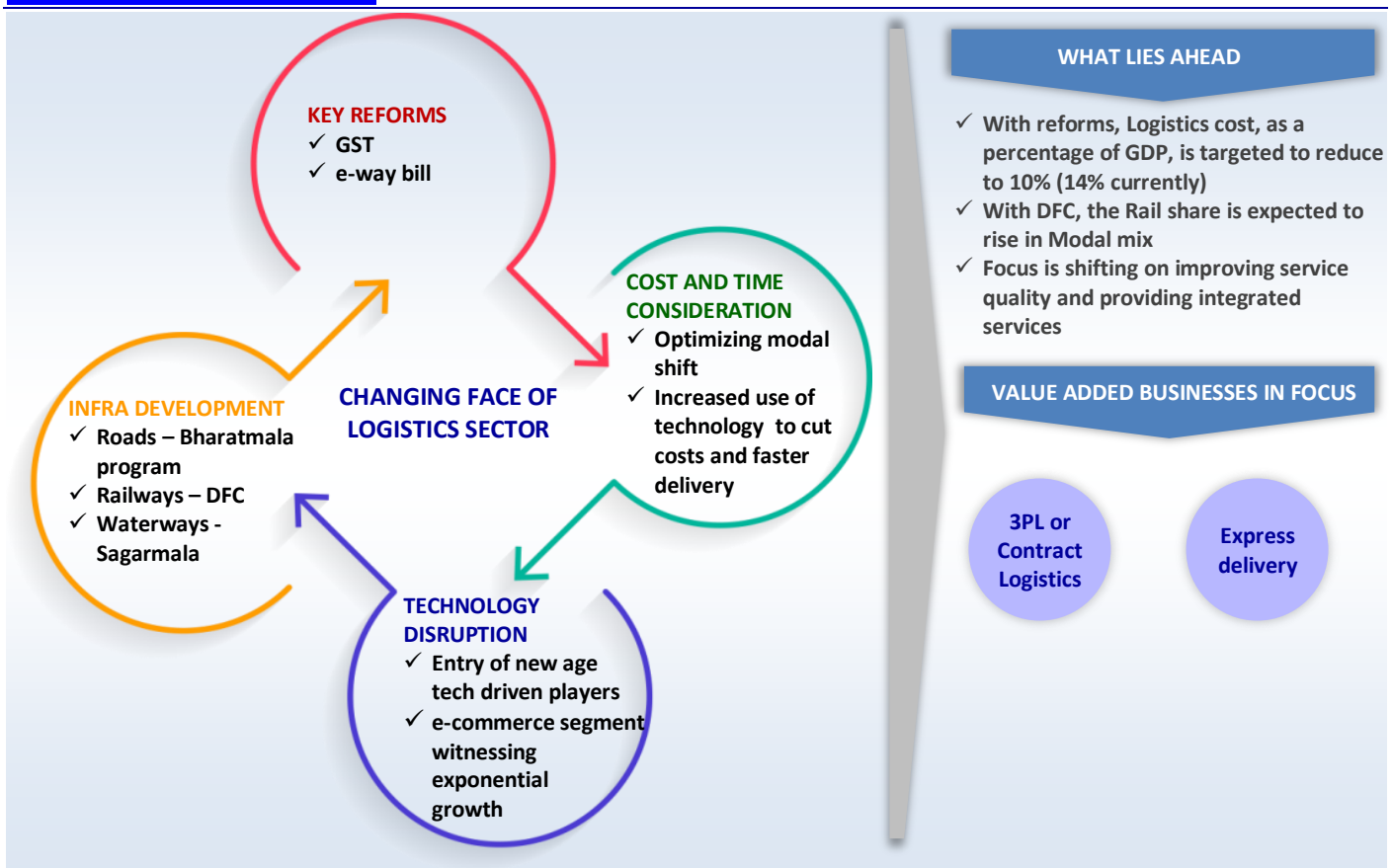
	 TCI EXPRESS LEADER IN EXPRESS	 TCI LEADERS IN LOGISTICS	 BLUE DART	 Mahindra LOGISTICS	 VRL VRL LOGISTICS	 कॉनकोर CONCOR
Revenue CAGR (FY21-24E, %)	19	17	15	18	16	22
EBITDA CAGR (FY21-24E, %)	26	21	16	34	15	37
PAT CAGR (FY21-24E, %)	24	26	28	63	37	44
Average RoE (FY22-24E)	26.8	17.0	23.6	14.7	15.0	13.0
Average RoCE (FY22-24E)	26.5	15.1	25.5	17.3	15.8	13.3
EV/EBITDA FY24E	22.5	7.7	25.0	16.0	8.6	12.9

Indian Logistics industry: Transforming through reforms

Government reforms and increased use of technology is leading the transformation way. Organized players to benefit

Over the last few years, the government has undertaken several major reforms (GST and e-way bill), which has led to higher formalization of the sector, greater transparency, and faster turnaround time. The industry is consolidating, with smaller unorganized players moving out of the market and businesses shifting to organized players. We have seen massive developments in the Road segment, leading to improved connectivity and speed of transportation. We are also seeing investments in Railways and Water transport. The DFC is expected to result in a change in the modal mix towards the cost-efficient Railways segment. Logistics costs in India are among the highest at 14% of GDP, due to the inefficient modal mix, which is tilted towards the Road segment. Greater share of the unorganized sector leads to inefficiency and higher costs. Logistics costs are expected to fall, with increased technology usage and higher share of other transport modes. Several new age players are making their presence felt in the market, with massive use of technology. They have managed to gain market share from traditional players. Segments like e-commerce are growing exponentially. Significant technology usage is being seen in these segments.

OVERALL LOGISTICS INDUSTRY



Reforms in Logistics

GST – Formalization on its way

GST is leading to more formalization in the industry. This is helping in better compliance, faster turnaround time, and industry consolidation

Implementation of the Goods & Services Tax (GST) in FY18 is ushering formalization in the Logistics industry. The turnaround time for Transportation has improved drastically (down by ~20% due to fewer stoppages during transit). There has also been a surge in demand for centralized A-grade warehouses. With the implementation of GST, state check posts and taxes have been removed. Consolidation of warehouses is leading to reduction in excess inventory, thus saving on costs. Logistics players have now moved to a Hub and Spoke model and business is shifting to organized from unorganized players.

GST IMPACT AND OPPORTUNITIES FOR SERVICE PROVIDERS



Source: MOFSL

GST rates on Logistics

- 5% GST on transport in case input tax credit (ITC) is not availed
- 12% GST on transport in case ITC is availed
- 18% on Warehousing

Consolidation in the industry

The Transport industry is highly unorganized with several small local fleet operators. With GST taxing all levels of value added, the industry would gradually move towards formalization. The higher levels of compliance with GST, along with the reduction in cost competitiveness, would result in smaller players moving out of the system and market share moving towards organized players.

With the rollout of GST, smaller, localized, and inefficient warehouses will be unable to sustain as they are becoming uncompetitive. As highlighted previously, demand would shift towards owning larger Grade A kind of warehouse space in select demand hubs. Large organized players, with large Warehousing capacity in place and the ability to invest more in warehouses would see strong market share gains going forward.

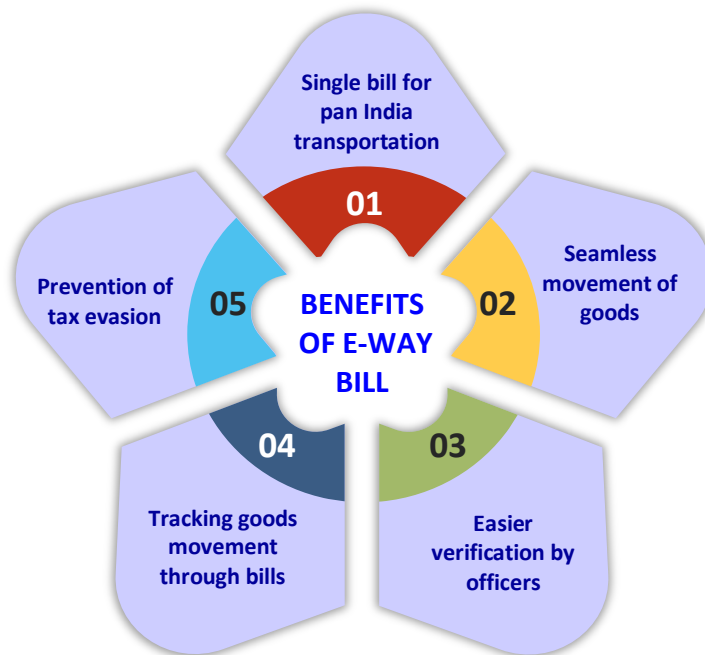
e-way bill implementation has led to better transparency and compliance, aiding the organized sector

e-way bill key to transparency

The e-way bill was implemented across India in Apr’18, starting with inter-state e-way bills. This is an electronic bill for movement of goods within a state or interstate to be generated on the e-way bill portal for a value exceeding INR50,000. The physical copy of the e-way bill must be present with the transporter and includes information about the transporter, the consignor, and recipient.

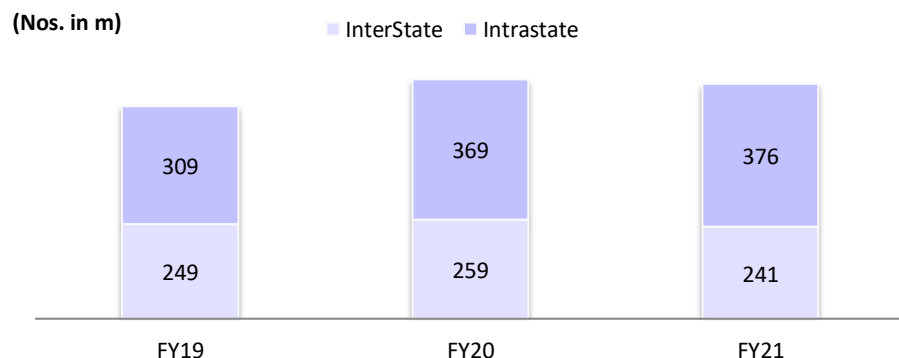
The validity of e-way bill depends on the distance to be traveled by the goods. For a distance of up to 200km, the e-way bill would be valid for a day from the time the e-way bill has been generated. For every 200km thereof, the validity will be an additional day from the date of e-way bill generation.

BENEFITS OF THE E-WAY BILL



Source: MOFSL

Exhibit 4: e-way bill generation since implementation



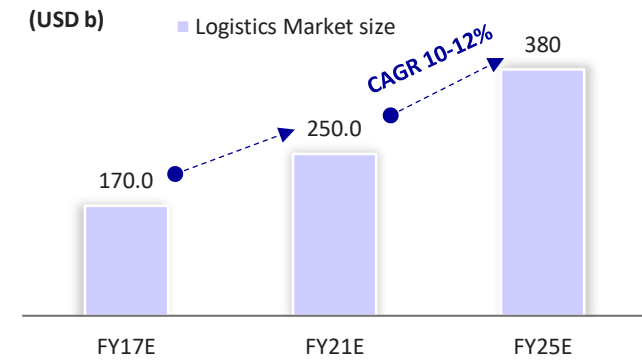
Source: GSTN, MOFSL

e-way bill generation has seen strong growth in FY20, despite the pandemic impacting operations in Mar’20. FY21 saw a decline on a YoY basis as the Road network was under lockdown during the first few months of the fiscal.

Based on the reforms detailed above, the sector is all set to see robust growth over the next few years

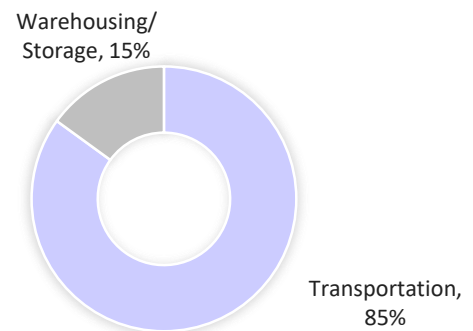
The Logistics sector is estimated to have clocked 10% CAGR during the last few years, despite several inefficiencies in the system. Most Logistics spends are towards transportation, followed by Warehousing. Based on the reforms undertaken over the last few years, the industry is expected to grow faster over the next few years. Some new business models like 3PL and Express Logistics would grow faster than the overall sector.

Exhibit 5: Logistics market to grow after the recent reforms



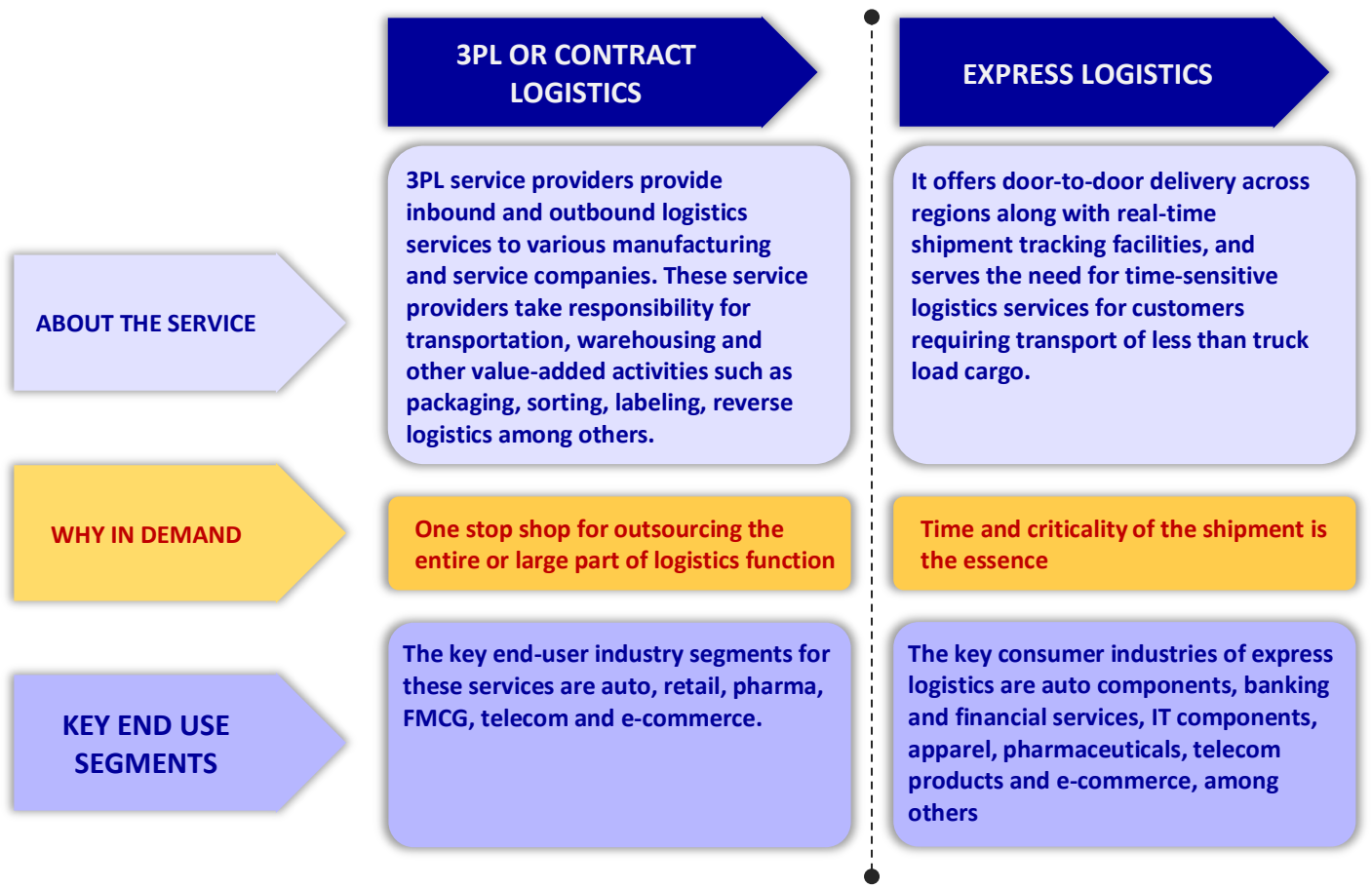
Source: Industry reports, MOFSL

Exhibit 6: Transportation constitutes bulk portion of the cost



Source: Industry reports, MOFSL

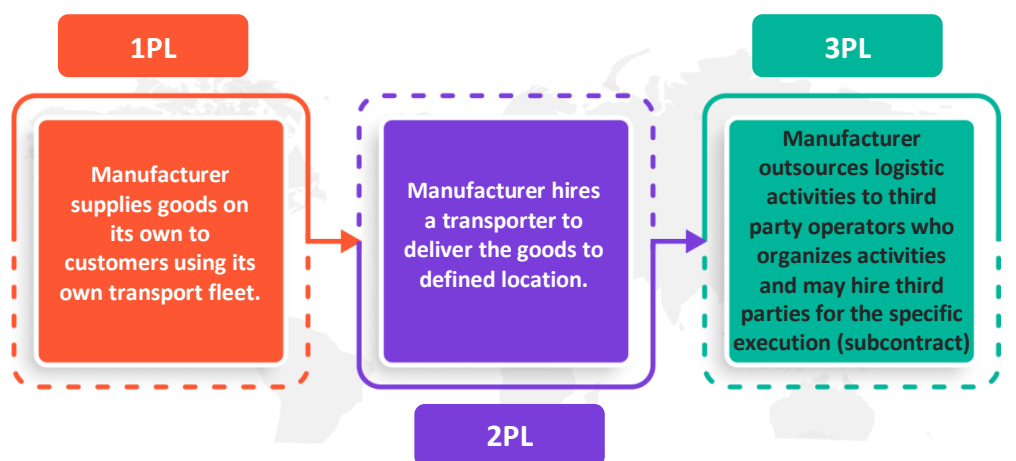
Value added services – 3PL and express segments



3PL Logistics or contract Logistics

Better adoption of 3PL in India would drive growth for the 3PL business

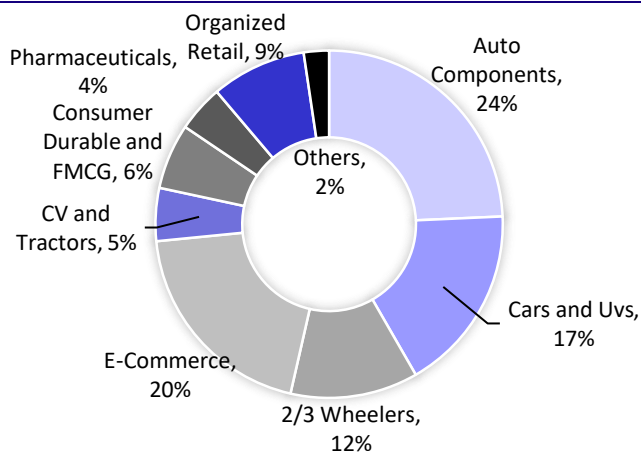
The dynamics of Logistics have evolved drastically in some sectors, where manufacturers/suppliers no longer want to deal with multiple stakeholders like transporters and warehouse operators, and want to assign professional Logistics operators to handle their entire Logistics function. This has given rise to the 3PL business model, where almost the entire Logistics function, including transportation, Warehousing, and managing of inventory, is now in the hands of the Logistics operator.



Auto sector drives demand in the 3PL market

- The 3PL market in India is largely dominated by the Automotive sector, where there is a heavy requirement for Warehousing and transportation. In the past few years, the 3PL segment is estimated to have clocked over 20% CAGR, with increasing customer adoption and more players entering this space. Of this, significant growth has been seen for 3PL from fast growing segments like e-commerce and Organized Retail. Large segments like Automotive have mirrored industry growth, while still growing at 15-20% CAGR.

Exhibit 7: Auto/Auto Components drives more than half of 3PL business in FY20



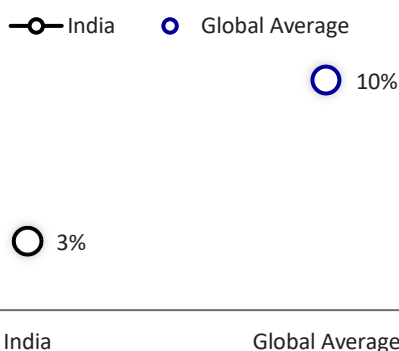
3PL growth across sectors	FY17-20E CAGR
Auto Components	15%
Cars and UVs	21%
2/3 Wheelers	14%
e-commerce	31%
CV and Tractors	9%
Consumer Durable and FMCG	26%
Pharmaceuticals	9%
Organized Retail	30%
Others	13%

Source: Industry reports, MOFSL

Outlook for the 3PL Logistics segment

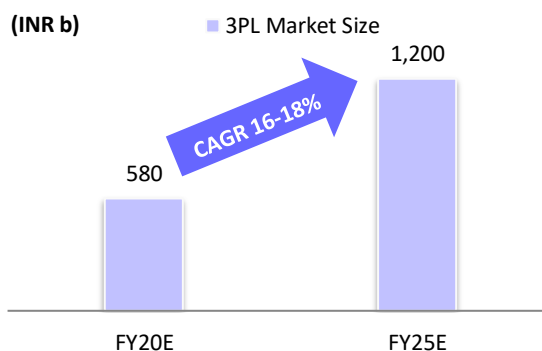
- While the Logistics sector is estimated to grow by 10-12% during the next five years, the 3PL segment is expected to well outpace that and grow at 16-18% CAGR during the same period. The reason for the high growth is attributable to low penetration of 3PL in the Indian Logistics sector and increasing adoption of 3PL services post the pandemic.

Exhibit 8: Penetration of 3PL in overall Logistics is low in India



Source: MLL Annual Report, MOFSL

Exhibit 9: 3PL to outpace industry growth



Source: MLL Annual Report, MOFSL

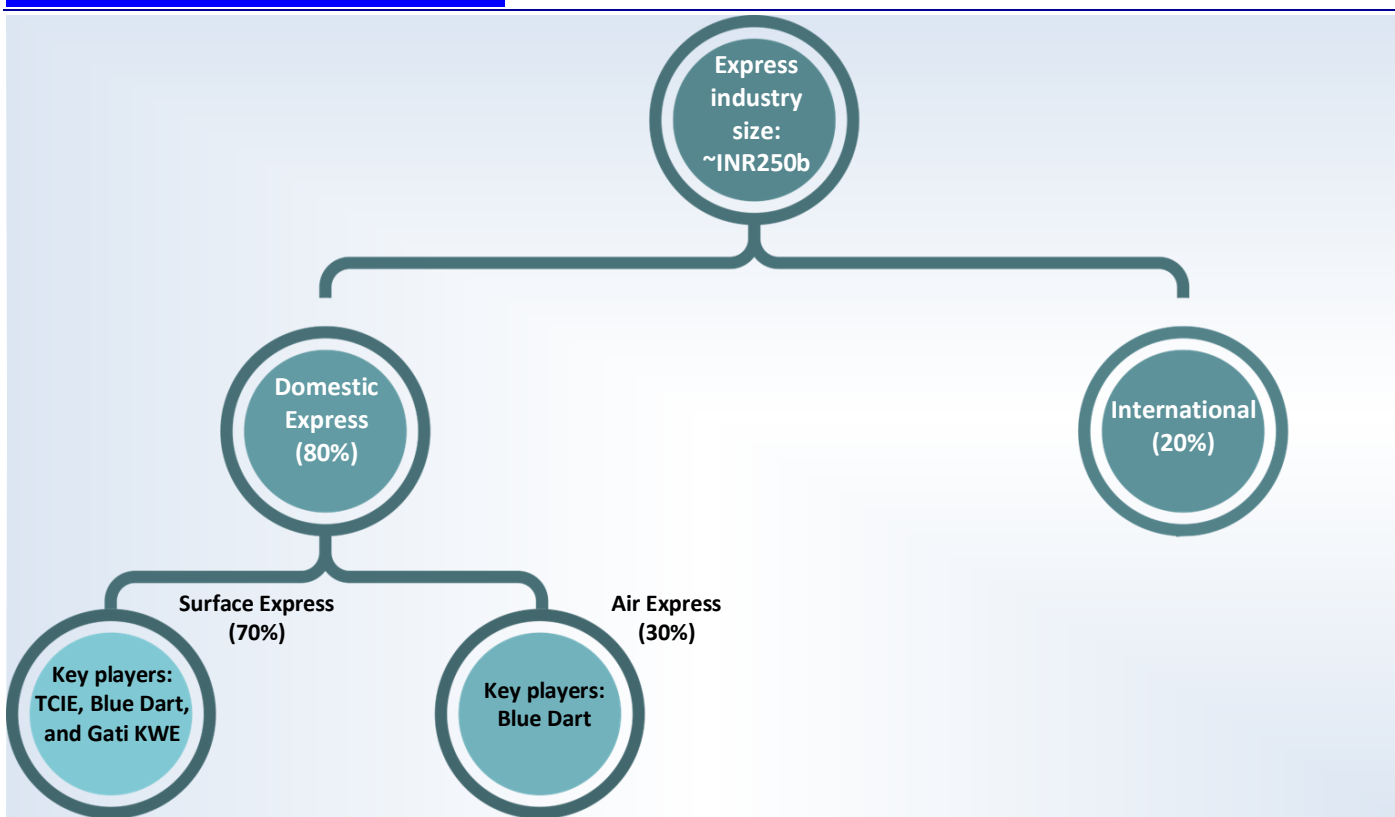
Express Logistics – Well placed for growth

e-commerce boom and pick-up in the SME segment to drive demand for Express Logistics

Express Logistics offer door-to-door delivery across regions, along with real-time shipment tracking facilities. It serves the need for time-sensitive Logistics services to customers requiring transport of less than truckload cargo. Express Logistics services customers for whom the speed to the market is crucial for converting sales across regions, meeting customer expectations, and maintaining business competitiveness. The industry, which started with urgent document delivery a couple of decades ago, has evolved to cater to several different industries, with SME customers being the major clients. In recent times, the e-commerce segment has come to the fore with the sharp rise in e-commerce shipments, which are transported under the Express category. The INR250b industry is niche and fast growing, with changing consumer preferences and entry of new age tech driven operators.

The key consumer industries of Express Logistics today are Auto components, Banking, and Financial Services, IT components, Apparel, Pharmaceuticals, Telecom products, e-commerce, among others.

MARKET SIZE OF THE EXPRESS INDUSTRY



Source: Industry reports, MOFSL

Express Logistics: How it stands out against normal freight providers

The biggest point that stands out between Express and usual freight providers is the time guarantee of delivering the cargo. The industry is driven by high value and low volume cargo, where the delivery time is critical. The model is typically asset light, with a tie-up with several small operators. The asset light model reflects in the RoE of operators in this space, who operate at 25-30% RoE. Express providers charge a premium for this service and focus more on reach and network building.

Exhibit 10: Industry dynamics

Parameter	Express	FTL
Operating model	Plying on key routes	Catering to towns/rural locations
Key presence	Metro and Tier I cities	Tier II to IV cities
Key industrial sectors	IT and Mobile, FMCG, Apparel, Pharma	Textiles (Yarn/Fabric), Agro, Auto
Pricing	High	Low
Cash conversion cycle	High	Low
Time sensitive	Yes	No
Truck fill factor	Low	High
Competition	Route specific	Regional

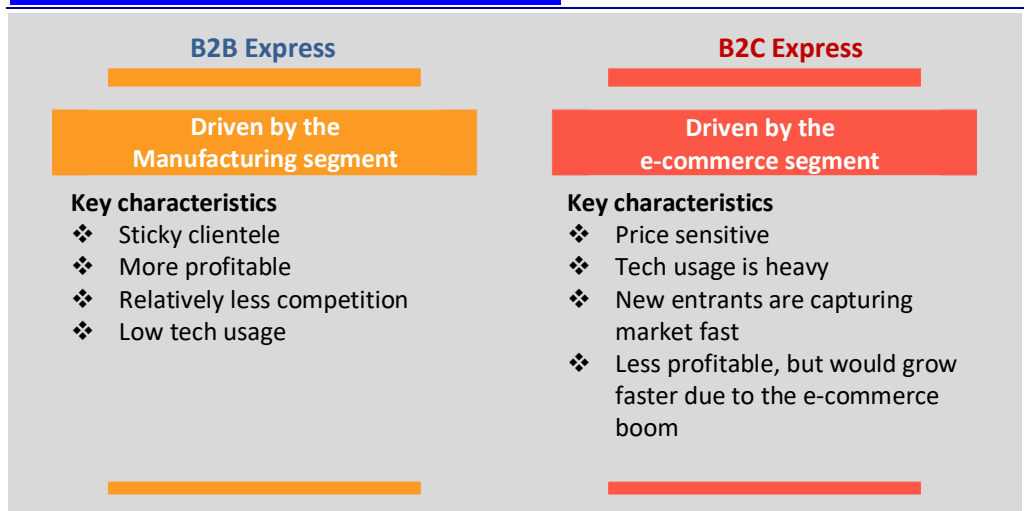
Source: TCIE presentation, MOFSL

B2B against B2C players – B2C likely to grow faster, while B2B players are more stable and profitable

Expect B2C market to outpace B2B market in the Express business on the back of an e-commerce boom

In India, the share of the Express business is almost equally split between B2B and B2C segments. While B2B is driven by the Manufacturing segment, the B2C segment is driven by the e-commerce space. Segments like Auto and Consumer Apparels form part of the B2B segment.

B2B IS MORE STABLE THAN THE B2C MARKET



Source: MOFSL

Assessing the cost dynamics of Surface v/s Air Express

The cost of Road Express is significantly cheaper than Air Express. With a higher weight, the cost of shipments via Air Express increases further as compared to Surface. With an increasing proportion of heavy shipments (as against lighter shipments a few years ago), Surface Express would continue to gain market share from Air Express.

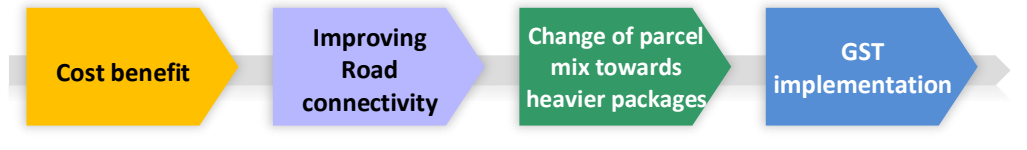
Exhibit 11: Cost dynamics

Mumbai-Delhi (Non-document transportation costs)	10 kg	20 kg	30 kg
Air Package (In INR)	2,312	4,064	5,815
Ground Package (Surface) (In INR)	907	1,253	1,599
Air Express Cost/Surface Cost	2.5	3.2	3.6

Source: BDE, MOFSL

What is making Surface Express so lucrative against Air Express?

WHY IS ROAD EXPRESS SET TO OUTGROW AIR EXPRESS?

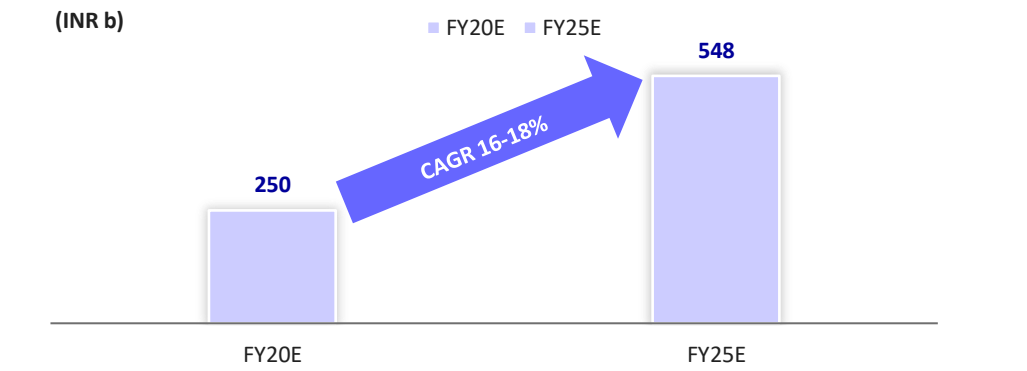


Competition from new age players – expect lesser pressure in the B2B space

Tech driven entrants in the market like Delhivery, Ecom Express, Safexpress, etc. have made their presence felt in the B2B and B2C segments. Some are more dominant in the B2C space and are now trying to enter/increase their presence in the relatively stable B2B segment.

Based on the growth in Manufacturing and e-commerce, the Express industry is expected to clock 16-18% CAGR over the next few years. The B2C segment would outpace growth over B2B as demand for e-commerce grows exponentially in Tier III and IV cities.

Exhibit 12: Expect Express industry to witness robust growth



Source: Industry reports, MOFSL

Infra development key to the growth of the Logistics sector

As indicated, the high cost of Logistics in India has been due to an inefficient modal mix, driven by the relatively inefficient Road segment. While Road Infra has massively improved over the last few years, Rail and Waterways are catching up now. The DFC is nearing completion in phases (Western DFC). The strong development of the Infra sector has significantly aided sectors like Logistics in improving reach, network, and the pace of service execution.

Exhibit 13: Road construction has seen a massive traction in the last few years

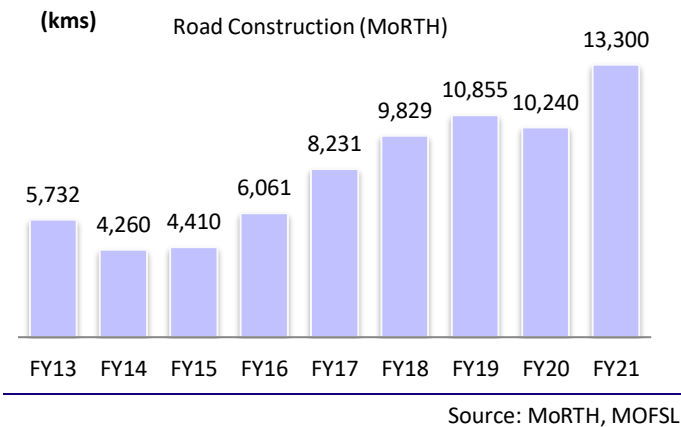


Exhibit 14: Investments in the Roads sector continue to remain robust as a large network is yet to be developed

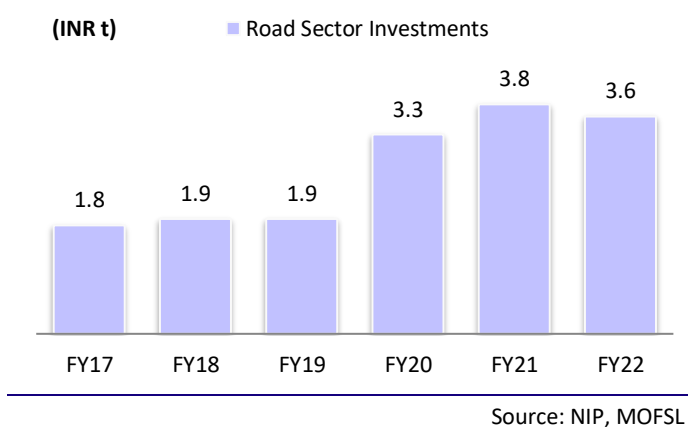


Exhibit 15: Investments in the Railway sector to be driven by the DFC, which would in a way transform Rail Logistics

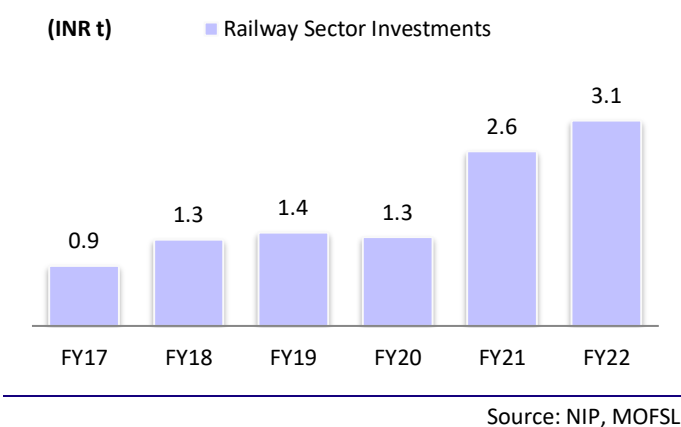
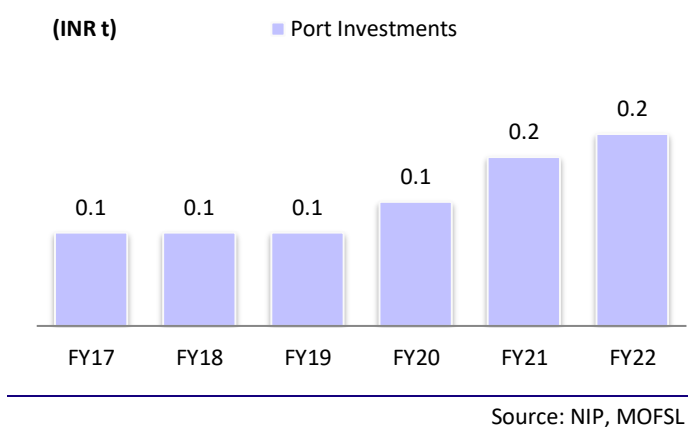


Exhibit 16: Port investments picked up pace; Road and Rail would continue to constitute a large chunk of the modal mix



Technology evolution in Logistics: Changing industry dynamics

Emergence of internet-based freight booking

Over the last few years, we have seen the emergence of App-based freight booking providers, which has proved to be highly successful, as it connected several unorganized suppliers to customers. This is a win-win kind of mechanism for small fleet owners as it enables them to link their trucks to these platforms and witness higher demand than what they would have seen by just remaining offline. This has led to improved utilization levels and more business for fleet operators. From a customer stand point, it means strong fleet availability and fair pricing.

Exhibit 17: Internet-based freight booking; connecting operators to customers



Technology in Logistics operations

Usage of technologies like Data Analytics, Automation, Blockchain, and Cloud Computing has ushered in improved efficiency and led to a faster turnaround time

New age technology has revolutionized the Logistics sector by adding a strong differentiating factor. To minimize human intervention and to compete with peers, extensive use of technologies is being undertaken. Some of these technologies include Internet of Things (IoT), Data Analytics, Automation, Blockchain, Cloud Computing, AI, and robotics. Players are constantly focusing on innovation and implementing newer technologies to reduce costs and remain competitive.

CLOUD COMPUTING	BLOCKCHAIN	IOT	ARTIFICIAL INTELLIGENCE	ROBOTICS
<ul style="list-style-type: none"> ❖ A virtualized pool of computing resources that enables data storage, retrieval, networking, software, analytics, and intelligence over the internet. ❖ It is also used in activities like fleet management and order management 	<ul style="list-style-type: none"> ❖ Used in Logistics software that deals with payments, fleet management, and tracking of shipments 	<ul style="list-style-type: none"> ❖ Helps in remote tracking of products and shipments. ❖ It helps streamline and optimize delivery operations based on real-time data availability 	<ul style="list-style-type: none"> ❖ Used by new age companies to optimize costs and ensure that the task is complete in the shortest possible time. ❖ It also helps in last-mile delivery optimization, returns handling, and smart batching of shipments 	<ul style="list-style-type: none"> ❖ Extensively used in warehouse management, which reduces the costs of manpower and ushers in efficiency

COVID-19 has just accelerated the pace of technology adoption

In recent times, we have seen significant usage of technology in the Logistics space. Logistics companies, which were late adopters of technology, have seen an impact on their business as they face difficulties in managing the demand variation due to changes in the COVID environment. This has led to inefficiency and operational issues. Companies engaged in the setting up of technologies for fleet operators have seen a sharp rise in inquiries during the pandemic.

BDE has formed Med-Express for vaccine distribution through drones

BDE is working with the Telangana government to operate an experimental Unmanned Aircraft System (UAS) for delivery of vaccines and emergency medical supplies. These Med-Express Drone flights will deploy an immersive delivery model to optimize current Healthcare Logistics within Telangana. The model will enable deliveries from district medical stores and blood banks to health centers.

The government is also using technology to ensure compliance and better tracking

Integration of the e-way bill (EWB) system with FASTag and RFID will help in the live vigilance of vehicles. With the linking of RFID and EWB, authorities would know the vehicles that pass toll booths and do not have EWB, which would help ensure strict compliance. This would ensure no tax leakages and better tracking of fleet movement across the country.

Our channel checks suggest tech adoption would be on the rise as the focus remains on efficiency

Our channel checks suggest that while basic level technology has been in place for some years, companies are constantly upgrading their technology-based offerings to create value for customers. Even old established companies have upgraded themselves to the changing industry dynamics and are constantly focusing on adopting the latest technologies. They are focusing on using technology support in areas of route optimization, creating efficiency through the micro tracking of the fleet, and reducing costs.

Within the Express segment, technology is required in the B2C space and involves massive last mile distribution. The B2C segment is plagued by issues like:

- Distorted demand (highly unpredictable demand),
- Distorted supply (several small sellers), and
- Reverse Logistics (return of products).

B2C involves supply of small parcels to different corners, whereas B2B involves higher volumes at select centralized locations. In B2C, the technology aspect becomes extremely critical to ensure efficient operations, with minimal impact, due to the return of goods, etc. This is one area which would see significant technology developments over the next few years.



ANNEXURE

Indian Logistics industry

Greater the inefficiency in the system, the higher the Logistics costs

The Logistics sector has been plagued by inefficiencies, which has led to India's Logistics costs being higher (~14% of GDP) than several nations (average 8-10%). This impacts India's competitiveness in global markets.

Exhibit 18: Higher Logistics cost, as a percentage of India's GDP, is impacting competitiveness



Source: NITI Aayog, MOFSL

KEY REASONS FOR THE HIGHER COST OF LOGISTICS INCLUDE

Modal mix tilted towards Roads

- ❖ Indians use Roadways as a major transport mode, which is costlier v/s Rail or Water
- ❖ Other countries have a better modal mix, leading to cost savings

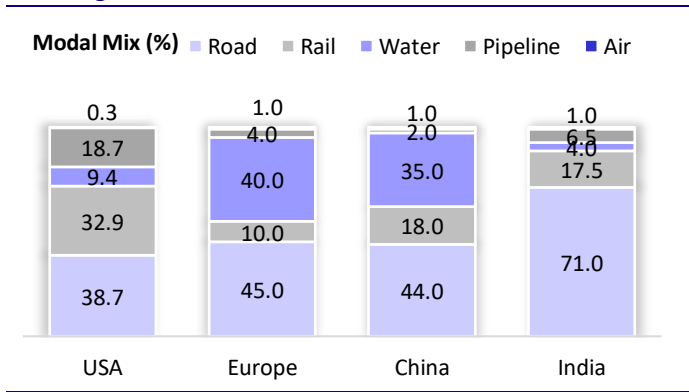
Higher fuel consumption

- ❖ Trucks used in India are not as fuel efficient as those used in other countries
- ❖ This increases transportation cost per km

The sector is highly unorganized

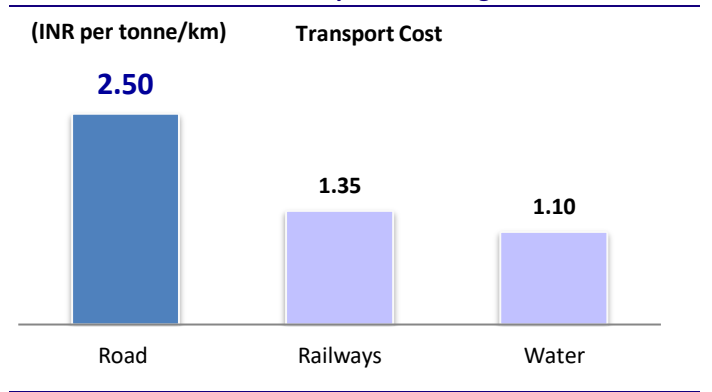
- ❖ Nearly 90% of the sector is driven by unorganized players
- ❖ This impacts operational efficiency, leading to higher costs

Exhibit 19: Modal mix in India skewed towards the inefficient Road segment



Source: NITI Aayog, MOFSL

Exhibit 20: Cost of Road transport much higher than others

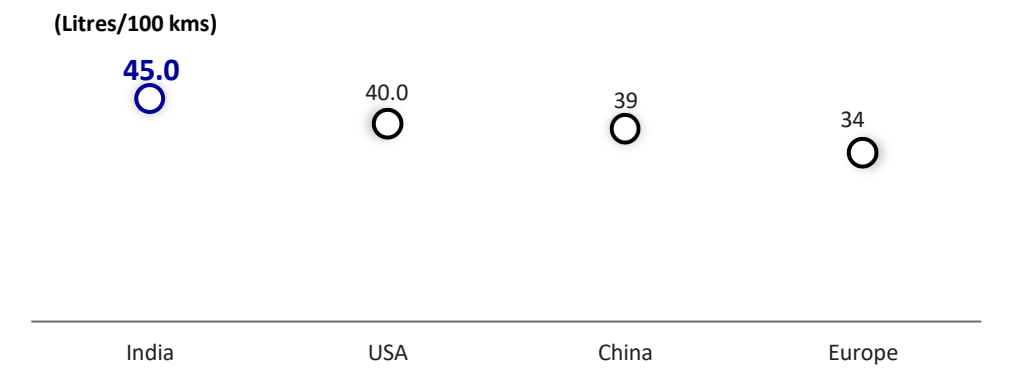


Source: NITI Aayog, MOFSL

Poor mileage of heavy trucks, leading to higher costs per km

As compared to other countries, India’s heavy truck mileage is less, leading to higher transportation costs. This could be attributable to Road conditions and multiple stoppages reducing truck speeds. This leads to a higher cost of transportation, increasing overall Logistics costs. As a lion’s share of transportation happens through Roadways, there is a big impact on the cost structure for the industry.

Exhibit 21: India’s truck fuel efficiency is lower, thereby increasing costs

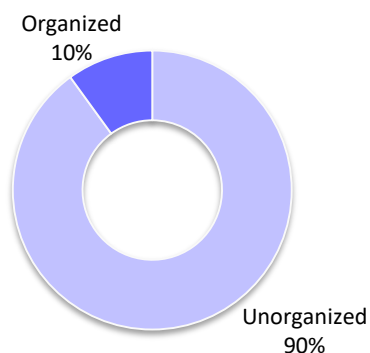


Source: NITI Aayog, MOFSL

The fragmented nature of the industry impacts efficiency

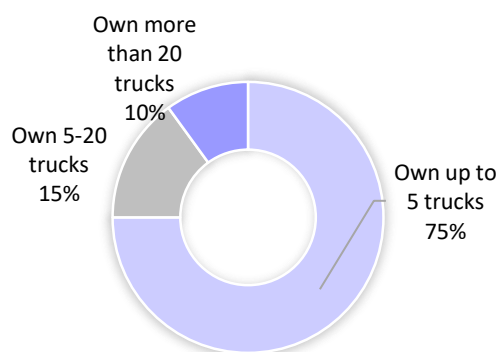
The Indian Logistics industry is highly unorganized and significantly fragmented. With the presence of several small unorganized players in the system, organized players account for a mere 10% of the total market. Unorganized players consist of small players having less than five trucks, local warehouse owners/operators, agents, etc. Nearly three-fourth of fleet owners are small operators, owning less than five trucks, which indicates the fragmented nature of the industry.

Exhibit 22: The unorganized sector dominates the industry



Source: Industry reports, MOFSL

Exhibit 23: A highly fragmented industry

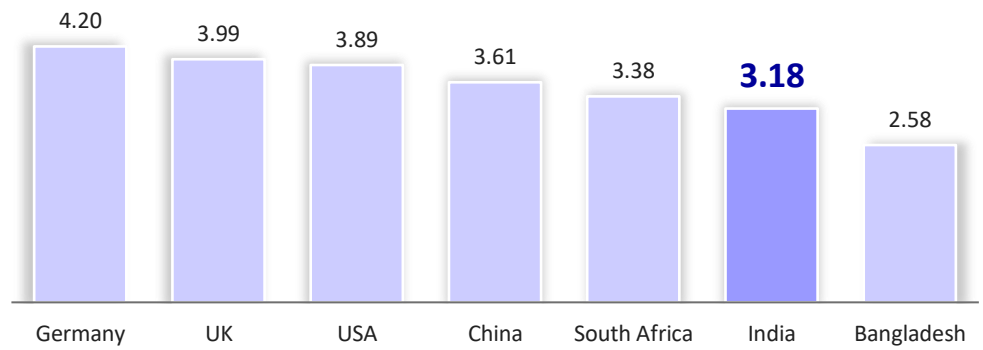


Source: NITI Aayog, MOFSL

India ranks low in Logistics performance

The Logistics Performance Index (LPI) by the World Bank is a benchmarking tool to help countries identify the challenges and opportunities they face in their performance on trade Logistics. India’s ranking has been below some of the key developed as well as developing nations, and has scope to improve. While reforms like GST and e-way bills would help, proper implementation of those measures is extremely critical.

Exhibit 24: India lags several regions in terms of performance of its Logistics sector

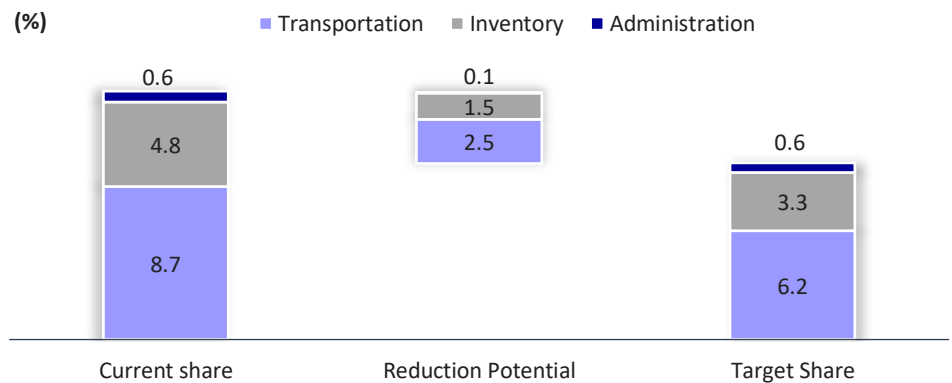


Source: World Bank, MOFSL

India is targeting to bring down Logistics costs to 10%; transportation as well as inventory management crucial

If we break down Logistics costs, then ~30% is due to inventory (Warehousing as well as in-transit inventory) and the balance from transportation. With reforms like GST and e-way bill (which we have detailed in other sections), the government is looking to reduce Logistics cost to ~10% of GDP, with an almost equal reduction in transport and inventory costs. The reduction in cost is essential to improve competitiveness and improve exports. As the industry consolidates and turns more organized, it would help in better customer reach and service quality, leading to sustainable export growth.

Exhibit 25: The Government of India is targeting a reduction in Logistics cost to 10% of GDP



Source: NITI Aayog, MOFSL

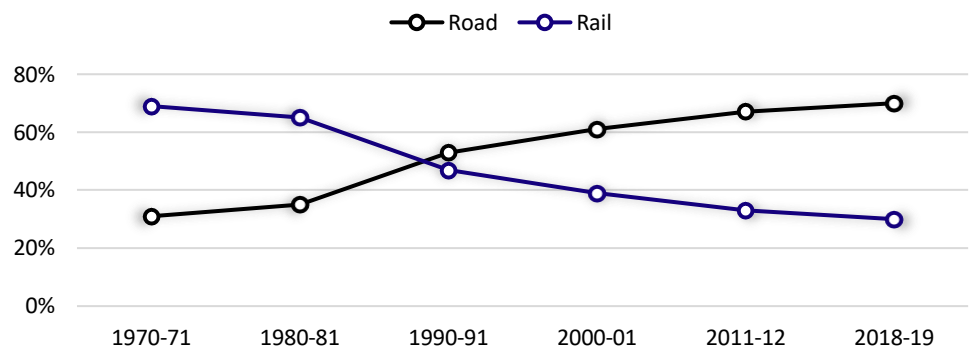
Infrastructure development in focus

DFC could be a game changer for the Indian Railways

Why the need for DFC?

Over the past several decades, Indian Railways haven't been able to capitalize on the growth opportunity in the Freight segment. This is significantly evident from the reducing share of Rail freight as against the Road segment. Despite better cost economics, Rail freight has lost market share over the last several years. The market share of Railways has fallen to ~30% in CY19 from 40% in CY01.

Exhibit 26: Railways have continuously lost share to Roads



Source: Industry reports, MOFSL

The loss in market share for the Railways has been due to multiple factors:

KEY REASONS FOR RAIL LOSING SHARE TO ROADWAYS

Track sharing with passenger Rail and capacity constraints

- ❖ Passenger and freight trains share the same tracks, with the former given higher priority. This leads to increasing lead times for rail-based freight and reduces reliability

Inability to provide end-to-end delivery

- ❖ Unlike Roads, the Railways are unable to provide last mile delivery. This creates an additional burden on the consigner

Lower speed of trains

- ❖ Freight trains in India usually travel at lower speeds than global standards. This increases lead times of goods and impacts demand

Lack of arrangement to aggregate smaller loads

- ❖ There is a lack of standardized processes to aggregate smaller loads for contracting individual or partial wagons. That's why non-bulk items like Electronics are transported via Road

Source: MOFSL

DFC – The solution to long pending issues

Exhibit 27: DFC v/s the existing Railway line

Feature	Existing on IR	On DFC
Moving Dimensions		
Height	4.265 m	 Double Stack (WC) Single Stack (EC)
Width	3200 mm	3660 mm
Container Stack	Single Stack	Double Stack (WC) Single Stack (EC)
Train Length	700 m	1500 m
Train Load	5400 T	 13000 T

Source: DFCCIL, MOFSL

Exhibit 28: Eastern and Western DFC



Source: DFCCIL, MOFSL

Commissioning of WDFC in the near to medium term

As per the latest timelines, WDFC would be fully commissioned by CY22. While commercial trial runs have already started on the Rewari-Madar stretch, the Madar-Palanpur section is expected to start commercial operations soon.

Exhibit 29: Completion status

Section/ Packages	Length	Commissioning Target	Financial Progress	
WDFC				
Rewari-Palanpur	Rewari-Madar	306 km	Commissioned	
	Madar-Palanpur	335 km	Completed	
Palanpur-Makarpura	308 Km	Mar 2022	71 %	
Makarpura-Sachin	135 Km			
Sachin-Vaitarna	186 Km	June 2022		
Vaitarna-JNPT	109 Km			
Dadri-Rewari	127 Km	March 2022		
EDFC				
Bhaupur-Khurja	351 km	Commissioned		72 %
Bhaupur - DDU	Bhaupur-Sujatpur	180 Km	Dec 2021	
	Sujatpur-DDU	222 Km	June 2022	
DDU -Sonnagar	DDU-Ganjkhwaja	37 km	Dec 2021	
	Ganjkhwaja-Chirailpathu	100 km	Completed	
Khurja-Dadri	46 km	June 2021		
Pilkhani-Ludhiana	179 km	June 2022		
Khurja-Pilkhani	222 km			

Source: DFCCIL, MOFSL

What lies ahead?

Railways have lost volumes to Road despite being better positioned in terms of costs. As mentioned above, the primary reasons have been the lack of a guarantee on delivering goods on time. With DFC, this crucial hurdle is expected to be cleared, as Railways can provide a time guarantee. This will lead to a decline in Logistics costs for the industry. The share of Railways could increase drastically as more DFC lines turn operational. Investments on the existing Rail network are expected to be robust over the next five years, with DFC investments coming through. The annual run-rate of over INR2t is expected to continue over FY20-25E.

In line with this, and as per Industry interactions, we expect EXIM container volumes to clock ~20% CAGR post the commissioning of the WDFC.

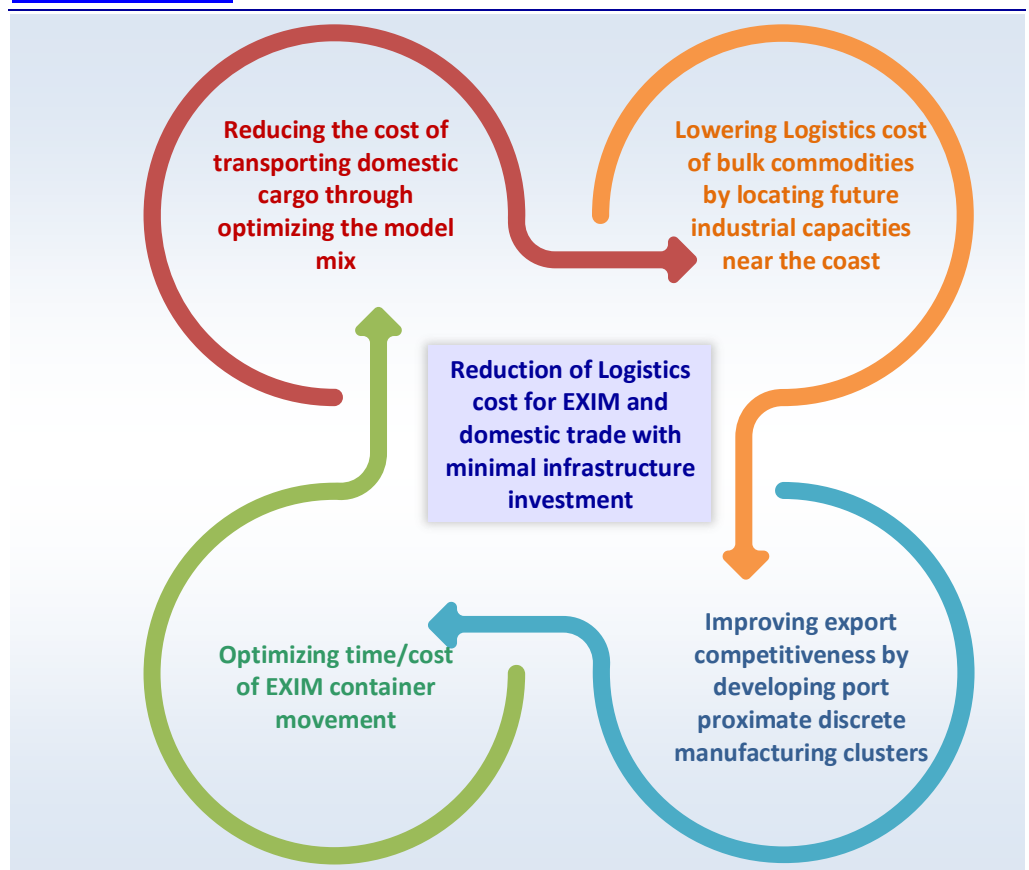
Development of Waterways - Sagarmala program

The Sagarmala initiative was conceived to address the challenges and comprehensively and holistically capture the opportunity of port-led development. It is a national program aimed at accelerating economic development in the country by harnessing the potential of India's coastline and river network. As part of this program, more than 574 projects worth INR6t have been identified for implementation during CY15-35. At the end of Sep'19, 121 projects worth INR302b have been completed and 201 projects worth INR3t are under implementation.

Some of the key components of Sagarmala:

- **Port modernization and development of new ports:** Debottlenecking and capacity expansion of existing ports and development of new Greenfield ports.
- **Port connectivity enhancement:** Enhancing the connectivity of ports to the hinterland, optimizing cost, and time of cargo movement through multimodal Logistics solutions, including domestic Waterways (inland water transport and coastal shipping).
- **Port-linked industrialization:** Developing port-proximate industrial clusters and Coastal Economic Zones to reduce Logistics cost and time of EXIM and domestic cargo.
- **Coastal Community Development:** Promoting sustainable development of coastal communities through skill development and livelihood generation activities, fisheries development, coastal tourism, etc.
- **Coastal shipping and inland Waterways transport:** Impetus to move cargo through sustainable and environmentally-friendly coastal and inland waterways.

KEY FOCUS AREAS



Source: MOFSL

Sagarmala is aimed at reducing Logistics costs for EXIM and domestic cargo, leading to overall cost savings of INR350-400b. Some of this will be direct cost savings, while others are savings from inventory-handling costs, resulting from time and reduced variability in the transportation of goods, particularly containers.

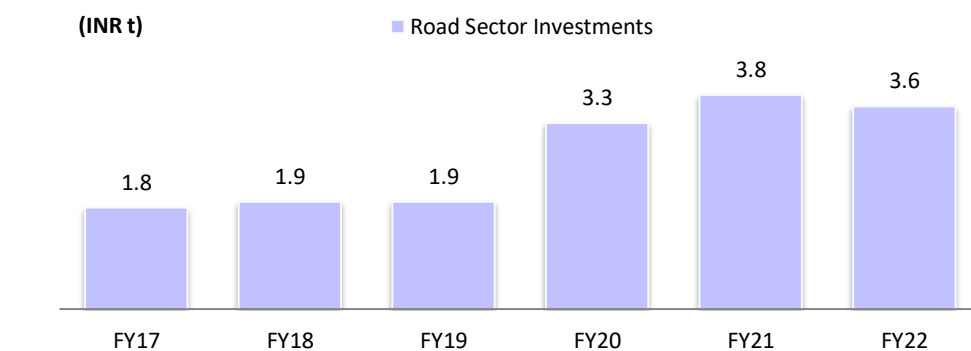
National Infrastructure Pipeline (NIP) - Roads

The Roads sector has attracted significant investment over the past 10 years. Several innovative public-private partnership (PPP) models, along with a strong contractual framework, have helped gain significant investments from private players too. There is a significant need to boost connectivity as national and state highways constitute only ~5% of India's Road network. This makes it imperative to strengthen hinterland connectivity with ports and other key locations, including consumption centers, metros, Tier II cities, and places of strategic importance so that people and goods can move at a faster pace.

However, several challenges plague the sector

- **Private investments began to fall post FY17:** Private sector participation declined towards the end of the 12th Plan owing to land acquisition and regulatory issues. The allocation of central government funds to the Roads sector has increased as EPC and Hybrid Annuity (HAM) were preferred modes of project awards.
- **Delays witnessed in achieving financial closure:** Banks turned conservative in lending to private players in this sector. The issue is visible in mid-sized players.
- **Delayed award of contracts owing to delays in approvals and clearances:** The land acquisition cost has tripled to ~INR23.8m/hectare from ~INR8m/hectare. To avoid project delays, the NHAI only issues tenders for projects that have achieved 80% land acquisition. The lengthy land acquisition process has led to a slowdown in project awards as limited tenders are getting issued.

Exhibit 30: Road sector investments to witness massive traction



Source: NIP, MOFSL

In the Roads sector, total capital expenditure of INR20t by both the Centre and states is targeted over FY20-25. Around 1,820 projects have been identified for implementation during this period. The projects include construction of new expressways such as the Delhi-Mumbai Expressway, Bengaluru-Chennai Expressway, etc. Several projects being implemented include four/two laning or widening of existing highways. Investments towards the Road segment would strengthen connectivity and improve average truck speed, thereby improving the cost structure of Road transport Logistics.

COMPANIES COVERED IN THE REPORT

TCI EXPRESS

LEADER IN EXPRESS

Delivering with speed

Pg33

DELHIVERY

Riding the e-commerce wave

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TCI
LEADERS IN LOGISTICS

Robust business model

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LOGISTICS: On the cusp of a transformation

**कॉनकोर
CONCOR**

Largest beneficiary of DFC

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VRL LOGISTICS

Asset ownership at play

Pg51

Mahindra LOGISTICS

Present in the right place

Pg68

Pg59

BLUE DART

In the Express lane



TCI Express

BSE SENSEX 61,716 S&P CNX 18,419



Stock Info

Bloomberg	TCIEXP IN
Equity Shares (m)	38.5
M.Cap.(INRb)/(USDb)	61.5 / 0.8
52-Week Range (INR)	1747 / 761
1, 6, 12 Rel. Per (%)	0/57/58
12M Avg Val (INR M)	98
Free float (%)	33.3

Financials Snapshot (INR b)

Y/E March	2021	2022E	2023E
Net Sales	8.4	11.2	12.5
EBITDA	1.3	2.0	2.3
Adj. PAT	1.0	1.4	1.7
Adj. EPS (INR)	26.2	37.7	43.7
EPS Gr. (%)	12.9	44.1	15.9
BV/Sh. (INR)	112.8	145.0	182.8

Ratios

Net D/E (x)	-0.1	0.0	-0.1
RoE (%)	26.1	29.2	26.7
RoCE (%)	25.7	28.9	26.4
Payout (%)	15.3	14.6	13.7

Valuations

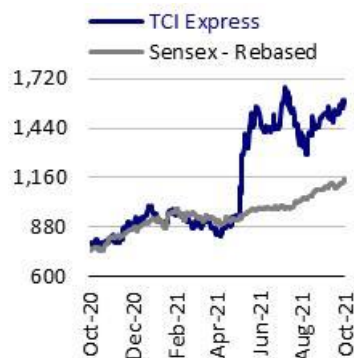
P/E (x)	61.1	42.4	36.6
P/BV (x)	14.2	11.0	8.7
EV/EBITDA (x)	45.5	30.9	26.2
Div. Yield (%)	0.3	0.3	0.4
FCF Yield (%)	1.0	0.2	0.9

Shareholding pattern (%)

As On	Sep-21	Jun-21	Sep-20
Promoter	66.7	66.8	66.8
DII	10.8	10.5	9.8
FII	1.5	1.9	2.1
Others	21.1	20.8	21.4

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR1,598 TP: INR1,900 (+19%)

Buy

Delivering with speed

- TCIE, with its focus on the Express business after its demerger from TCI, has accelerated (revenue grew at 16.8% CAGR during FY17-19, flat in FY20, but down 18% in FY21 due to the COVID-19 pandemic) and has almost doubled its operating margin (up ~750bp during FY17-21 to 15.9%), backed by a higher share from B2B clients.
- The adoption of a lease-based model for most of its required assets enables greater operational flexibilities and generates a better return on assets. TCIE is one of the better placed Express players in the industry with: a) its robust position in the Express industry, b) higher contribution from B2B clients, and c) focus on growing in the SME space. Its return ratios remain best among the industry (average RoE of ~30% over FY18-21).
- We expect TCIE to clock a revenue/EBITDA/PAT CAGR of ~19%/26%/24% over FY21-24E. We value TCIE at 38x FY24E EPS to arrive at our TP of INR1,900. We initiate coverage with a Buy rating.

Well established network and asset light business model

TCIE has an enviable and difficult to replicate network presence, with over 800 branches, tie-ups with vendors for 5,000 containerized trucks, 28 sorting centers, and caters to a whopping 40,000 locations. The company operates on an asset light model, where it ties up with multiple small truckers for its fleet requirements. This allows the company to generate higher return ratios by investing in technologies and other critical value-added areas.

Higher share of business from the stable and profitable B2B segment

Given the low competition and better margin profile in the B2B segment, complemented by TCIE's capabilities in handling large volumes across multiple locations/verticals, the company has strategically focused on B2B clients (~95% of revenue). Going forward, the management's focus is likely to remain skewed towards the addition of B2B clients (while servicing its existing B2C clients). Despite the jump in fuel costs, TCIE has been able to maintain its margin profile in the B2B segment. EBITDA margin of over 15% is expected to sustain, with a superior client mix.

Well diversified client base and spread across industries

TCIE's business is well spread across SME (50%), Automotive (13%), Pharmaceutical (13%), Engineering (10%), and Lifestyle (8%). No single client contributes significantly to revenue, which provides comfort. The company has been targeting SME clients, where it is able to offer differentiated offerings and charge premium pricing.

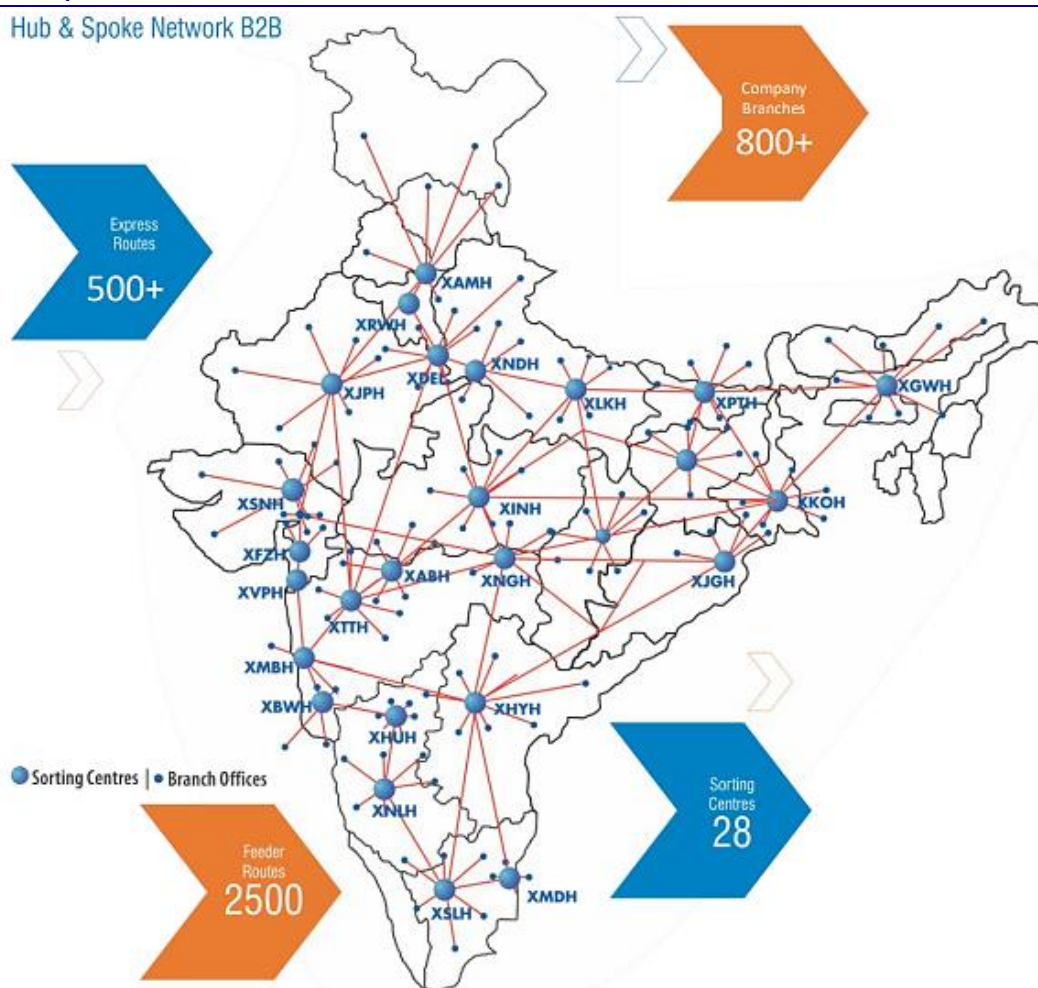
Investing at the right place for sustainable growth

TCIE has planned a capex of INR4b over five years (~INR2b already incurred) towards sorting centers, automation, and enhancing its tech capabilities. This would help the company compete better and provide clients with a superior service. As against owning its fleet, which is easily available from small unorganized players, investment in sorting centers would provide better control over its operations and enhance efficiency. The management would continue to lease new branch offices in existing regions to increase its depth in those markets. These investments would pave the way for a sustainable long-term profitable growth.

Valuation and view: Initiating coverage with a Buy rating

Over the next three years, we expect volumes to pick up as manufacturing activity improves, thereby leading to 19% revenue CAGR over FY21-24E. With a pickup in volume and efficiency improvements on the back of investments towards sorting centers and automation, we expect EBITDA margin to touch ~19% in FY24E from ~16% in FY21, resulting in 26% EBITDA CAGR over FY21-24E. We expect return ratios to remain robust ~25%. We value TCIE at 38x FY24E EPS to arrive at our TP of INR1,900. We initiate coverage with a Buy rating.

Exhibit 31: Pan India presence



Source: Company, MOFSL

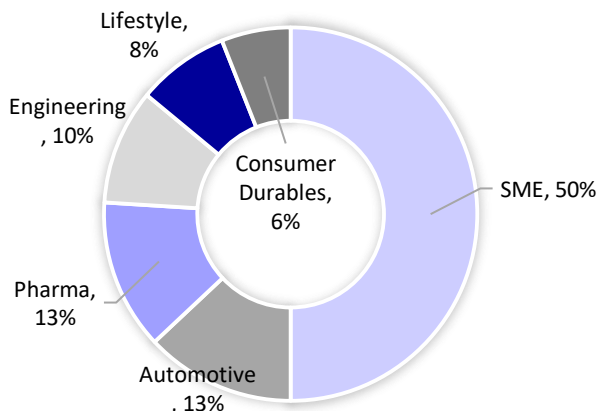
Business is driven by the profitable B2B Express. The majority of the business is from the Surface Express segment

Exhibit 32: Wide range of TCIE’s offerings

Solutions	Details
B2B Solutions (95% contribution to TCIE’s revenue)	Key characteristics of the B2B segment: a) driven by the Manufacturing sector, b) sticky clientele, c) more profitable than B2C, d) relatively less competition, and e) relatively low-tech usage
Segments under B2B	
Surface Express	❖ Offers customized solutions across 40,000 locations through ~800 branches and ~5,000 containerized vehicles
Air Express	❖ Domestic: Connects 24 Airports, provides 24 hours delivery in Tier I cities, and multimodal options for smaller towns
International Air Express	❖ Provides services to more than 200 countries globally. Additionally provides options for third country billing
Reverse Express	❖ Offers Reverse Logistics in a cost effective manner, with effective return management
B2C Solutions (5% contribution to TCIE’s revenue)	Key characteristics of the B2C segment: a) driven by e-commerce, b) price sensitive, c) new entrants capturing market fast, and d) heavy-tech usage
Segments under B2C	
e-commerce Express	❖ Offers solutions in multi-model distribution for optimum timely delivery, with value added services such as cash on delivery and definite time deliveries. The focus is on Tier II and III cities

Source: Company, MOFSL

Exhibit 33: A well-diversified client base (FY21)

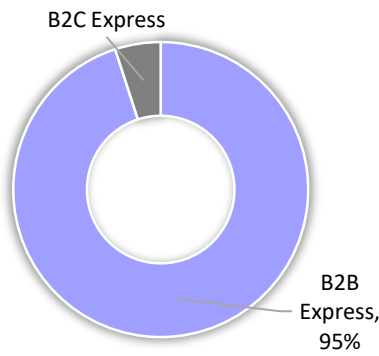


Source: Company, MOFSL

Well diversified client mix

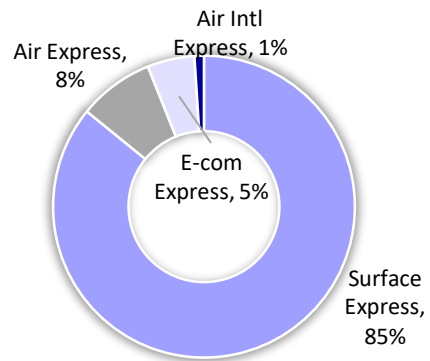
Its client mix is very well diversified, which highlights the experience TCIE has in dealing with a different set of industries, where the Logistics requirements would be very different in terms of packaging, handling, etc. This provides scope to scale up and helps protect its business during downturns. Around 50% of revenue is from the SME segment, with no single client contributing significantly to revenue, which is a big positive.

Exhibit 34: B2B constitutes the bulk portion of the business...



Source: Company, MOFSL

Exhibit 35: ...driven by the high growth Surface segment

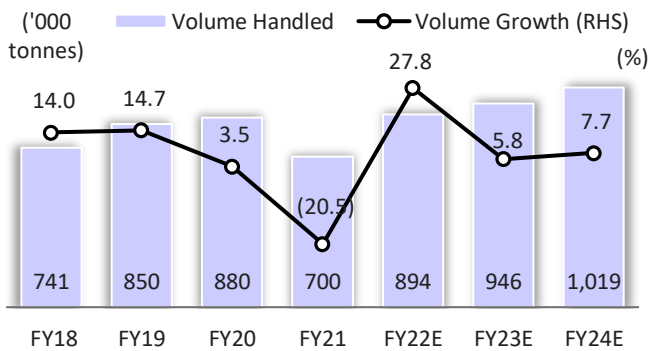


Source: Company, MOFSL

Business driven by high growth B2B segment

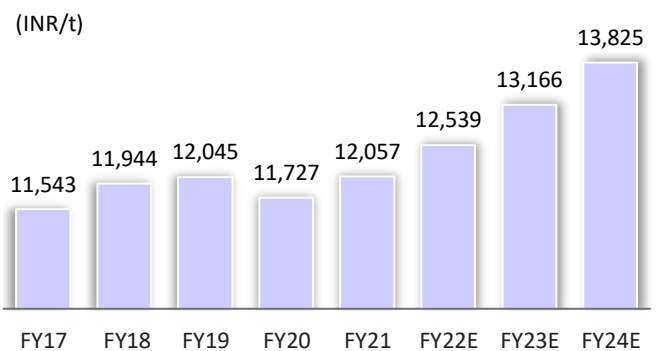
Almost the entire business of TCIE caters to B2B customers. The latter, especially SMEs, are sticky customers and don't change Logistics providers quickly, based on low pricing. This would ensure volume growth, while maintaining a margin profile. In the B2C segment, the company would focus on e-commerce customers, but would ensure no major margin dilution to gain business. The share of B2B is expected to remain at similar levels in the next few years, which would ensure stability in performance. TCIE is present in the high growth surface segment, which is the most cost effective and is expected to grow faster than Air Express. It is present in the right sub-segments, and is well placed to capitalize on the upcoming opportunity.

Exhibit 36: Robust volumes to drive revenue



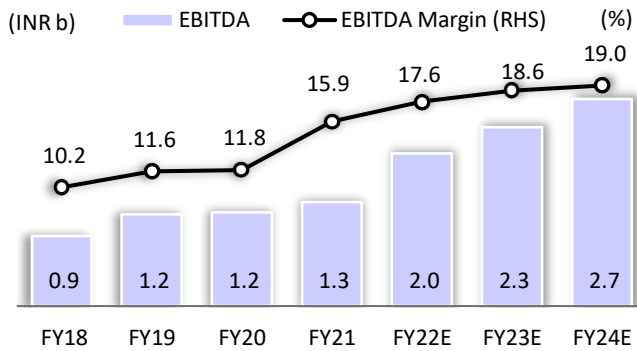
Source: Company, MOFSL

Exhibit 37: Realization to pick up with regular price increases



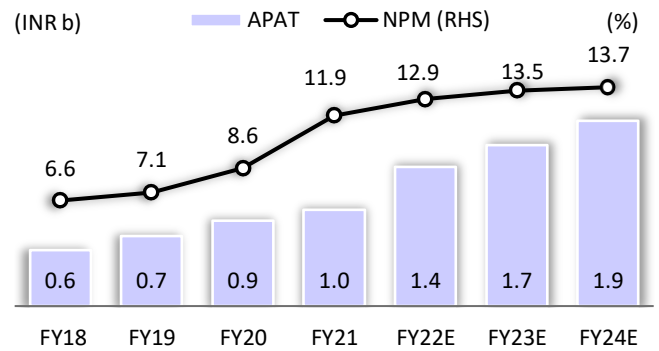
Source: Company, MOFSL

Exhibit 38: Margin to remain strong



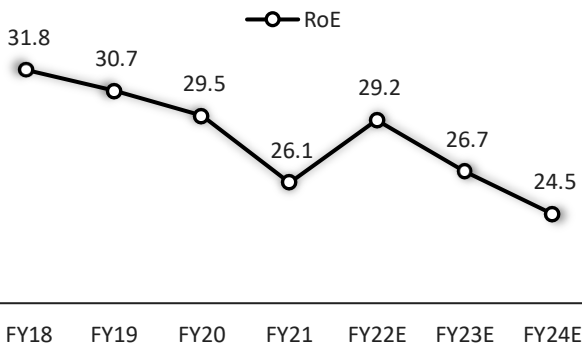
Source: Company, MOFSL

Exhibit 39: APAT to grow with a strong operating performance



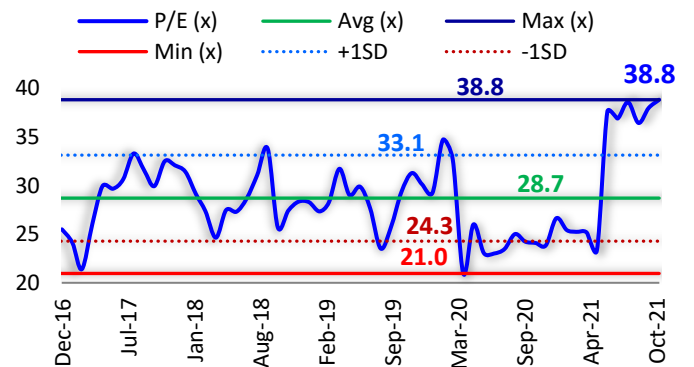
Source: Company, MOFSL

Exhibit 40: RoE to remain robust ~25% levels



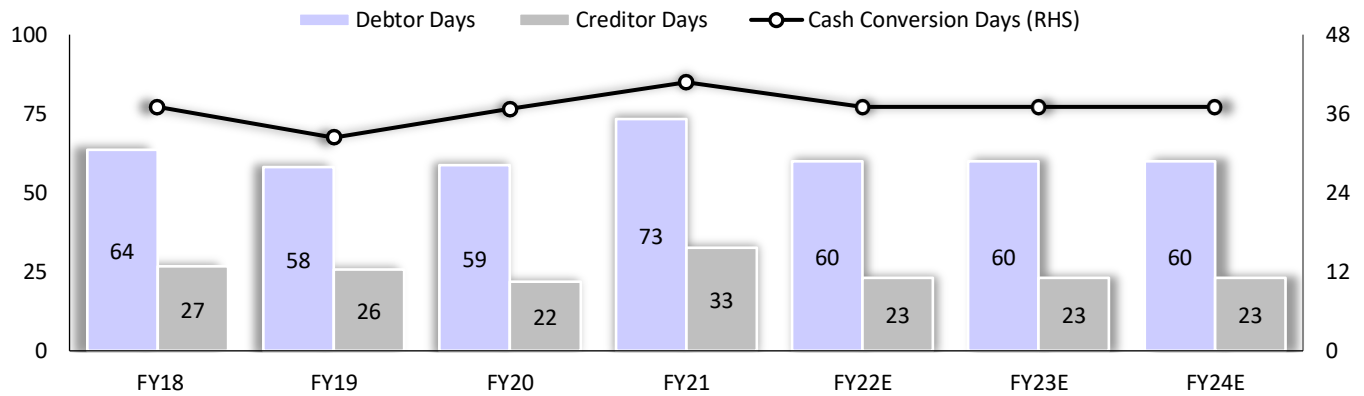
Source: Company, MOFSL

Exhibit 41: Trades at one year forward P/E of 39x



Source: Company, MOFSL

Exhibit 42: Comfortable working capital position



Source: Company, MOFSL

Initiating coverage with a BUY rating

- The company has operations across India, with a presence in 40,000 locations through its network of over 800 branches. It has tie-ups with vendors for 5,000 containerized trucks and has nearly 28 sorting centers for its operations.
- The management is investing INR4b over the next five years (INR2b already spent) towards automation, IT Infrastructure, and adding sorting centers. These investments are more value added in nature and would help the company in ushering efficiency and be further competitive.
- Over the last few quarters, the Express segment has picked up well as the economy began to unlock. The Express segment is likely to do well as demand from key end-use segments picks up further.
- Margin is likely to stay robust, despite the sharp increase in fuel costs. Even during 4QFY21, the company saw a sharp jump in profitability (19% EBITDA). Investments being undertaken in automation and sorting centers would also help in retaining strong margin.
- As manufacturing picks up, we expect demand for B2B Express to improve, leading to 19% revenue CAGR over FY21-24E. We also expect its healthy margin profile to continue, leading to 26% EBITDA CAGR. The asset light and debt free nature of the business provides significant comfort. It has one of the best RoE in this space (~25%).
- We value TCIE at 38x FY24E EPS to arrive at our TP of INR1,900. We initiate coverage on TCIE with a Buy rating.

SWOT analysis

STRENGTH

Pan India presence in the high growth B2B segment. It follows an asset light business model, where its fleet requirement is leased out. It invests only in value added areas like automation and sorting centers. TCIE caters to multiple industries, which will help it scale up as demand improves.


 S

WEAKNESS

Extreme volatility in freight rates (due to increase in fuel costs) can impact profitability if the company isn't able to pass on the same completely. Nearly half of business is from the SME segment. Any extended delays in the recovery of the SME segment could impact TCIE's volume/margin performance.


 W

OPPORTUNITY

As the business activity recovers, higher volumes are expected from the Corporate and SME space. With reforms like GST and e-way bill, there will be a greater shift in business to the organized segment, and TCIE is well placed to capitalize on this opportunity.


 O

THREAT

Fluctuating fuel prices and irregular movement in freight charges can negatively impact profitability.


 T

Exhibit 43: TP at 38x FY24E EPS

	(INR m)	FY21	FY22E	FY23E	FY24E	CAGR (FY21-24E)	Thesis	
Bear Case	Revenue	8,440	10,433	11,091	13,161	16.0%	❖ A slower than expected pickup in the economic activity can impact logistics demand and growth could be lower than estimated	
	EBITDA	1,343	1,692	1,811	2,337	20.3%		
TP: INR1,650	EPS	26.2	32.2	33.9	43.5	18.4%		
Base Case	Revenue	8,440	11,215	12,461	14,090	18.6%		❖ Expect recovery to be swift from 2QFY22 onwards. Margin is likely to remain strong as volumes improve
	EBITDA	1,343	1,977	2,318	2,680	25.9%		
TP: INR1,900	EPS	26.2	37.7	43.7	50.1	24.2%		
Bull Case	Revenue	8,440	11,476	13,419	15,019	21.2%	❖ If SME demand picks up faster than expected, then capacity utilization could be better than expected	
	EBITDA	1,343	2,073	2,673	3,024	31.1%		
TP: INR2,160	EPS	26.2	39.6	50.6	56.8	29.5%		

Source: Company, MOFSL

Management overview



Mr. DP Agarwal – Chairman and Director

Mr. Agarwal has been associated with the Transport industry for more than 50 years. He has been contributing in developing the unorganized Logistics sector into an organized one. Mr. Agarwal is a Commerce graduate and has been associated with various Chambers of Commerce including CII, FICCI, and PHDCCI. He actively participates in many social and philanthropic activities.



Mr. Chander Agarwal – Managing Director and CEO

Mr. Agarwal is a B.Sc. graduate in business administration from Bryant College, USA. He did a stint with Transfreight USA, a 3PL specializing in lean Logistics in the American Auto industry. He was Joint Managing Director of TCI Group and was responsible for establishing TCIE's leadership in the Express industry. He has been involved with the Council of Supply Chain Management Professionals since CY04 and is on the board of Express Council of India as a committee member to lobby with the government to bring about relevant improvements needed in the Logistics industry in India. Mr. Agarwal is currently serving as the Managing Director. He is responsible for expanding TCIE's global footprint by steering conceptualization and execution of key strategies related to management and operational needs of the company.



Mr. Mukti Lal – CFO

Mr. Lal is a Chartered Accountant. Earlier, he was associated with TCI (the demerged company) in various capacities for ~13 years. He was working as CFO XPS, a division of TCI. The board has appointed Mr. Lal as CFO with effect from 18th Aug'16.

Financials and valuations

Income Statement

Y/E March (INR m)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	8,851	10,238	10,320	8,440	11,215	12,461	14,090
Change (%)	18.0	15.7	0.8	-18.2	32.9	11.1	13.1
Gross Margin (%)	24.9	26.4	28.9	32.9	33.5	33.9	34.0
EBITDA	907	1,190	1,213	1,343	1,977	2,318	2,680
Margin (%)	10.2	11.6	11.8	15.9	17.6	18.6	19.0
Depreciation	52	65	78	90	118	156	194
EBIT	855	1,125	1,135	1,254	1,859	2,162	2,486
Int. and Finance Charges	38	38	9	8	3	3	2
Other Income	21	32	44	77	82	88	94
PBT	838	1,119	1,170	1,322	1,938	2,247	2,578
Tax	254	390	279	316	488	566	650
Effective Tax Rate (%)	30.3	34.9	23.9	23.9	25.2	25.2	25.2
Reported PAT	584	728	891	1,006	1,450	1,681	1,928
Change (%)	55.8	24.7	22.3	12.9	44.1	15.9	14.7
Margin (%)	6.6	7.1	8.6	11.9	12.9	13.5	13.7

Balance Sheet

Y/E March (INR m)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	77	77	77	77	77	77	77
Total Reserves	1,992	2,595	3,296	4,262	5,500	6,950	8,628
Net Worth	2,068	2,672	3,373	4,339	5,577	7,027	8,705
Deferred Tax Liabilities	43	55	41	54	54	54	54
Total Loans	407	98	40	22	20	19	17
Capital Employed	2,518	2,825	3,454	4,415	5,651	7,099	8,776
Gross Block	1,798	1,961	2,126	2,629	3,629	4,629	5,629
Less: Accum. Deprn.	179	230	272	345	464	620	814
Net Fixed Assets	1,620	1,731	1,854	2,284	3,166	4,009	4,815
Capital WIP	0	14	230	278	278	278	278
Total Investments	0	13	9	10	10	10	10
Curr. Assets, Loans, and Adv.	1,818	2,033	2,222	2,865	3,264	3,986	5,012
Inventory	0	0	0	0	0	0	0
Account Receivables	1,544	1,631	1,658	1,695	1,844	2,048	2,316
Cash and Bank Balances	122	171	126	272	285	677	1,269
Loans and Advances	71	85	92	109	145	161	182
Others	82	145	346	789	990	1,100	1,244
Current Liab. and Prov.	921	964	861	1,022	1,066	1,184	1,339
Account Payables	646	724	620	752	707	785	888
Other Current Liabilities	242	200	195	228	302	336	380
Provisions	33	41	47	43	57	63	71
Net Current Assets	898	1,069	1,360	1,843	2,198	2,802	3,673
Application of Funds	2,518	2,825	3,454	4,415	5,651	7,099	8,776

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Basic (INR)							
EPS	15.2	18.9	23.2	26.2	37.7	43.7	50.1
EPS growth (%)	55.8	24.7	22.3	12.9	44.1	15.9	14.7
Cash EPS	16.5	20.6	25.2	28.5	40.8	47.8	55.2
BV/Share	53.8	69.5	87.7	112.8	145.0	182.8	226.4
DPS	2.5	3.0	4.0	4.0	5.5	6.0	6.5
Payout (incl. Div. Tax, %)	22.1	18.4	23.9	15.3	14.6	13.7	13.0
Valuation (x)							
P/E	105.2	84.4	69.0	61.1	42.4	36.6	31.9
Cash P/E	96.6	77.4	63.4	56.1	39.2	33.5	29.0
EV/EBITDA	68.1	51.6	50.6	45.5	30.9	26.2	22.5
EV/Sales	7.0	6.0	5.9	7.2	5.5	4.9	4.3
P/BV	29.7	23.0	18.2	14.2	11.0	8.7	7.1
Dividend Yield (%)	0.2	0.2	0.3	0.3	0.3	0.4	0.4
Return Ratios (%)							
RoE	31.8	30.7	29.5	26.1	29.2	26.7	24.5
RoCE	27.3	28.2	28.6	25.7	28.9	26.4	24.3
RoIC	28.5	29.2	30.2	27.5	31.1	28.8	27.9
Working Capital Ratios							
Fixed Asset Turnover (x)	6.0	5.4	5.1	3.5	3.6	3.0	2.7
Asset Turnover (x)	3.5	3.6	3.0	1.9	2.0	1.8	1.6
Inventory (Days)	0	0	0	0	0	0	0
Debtors (Days)	64	58	59	73	60	60	60
Creditors (Days)	27	26	22	33	23	23	23
Leverage Ratio (x)							
Net Debt/Equity	0.1	0.0	0.0	-0.1	0.0	-0.1	-0.1

Cash Flow Statement

Y/E March (INR m)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(Loss) before Tax	838	1,119	1,170	1,322	1,938	2,247	2,578
Depreciation	52	65	78	90	118	156	194
Direct Taxes Paid	-241	-388	-317	-284	-488	-566	-650
(Inc.)/Dec. in WC	41	-50	-125	-249	-356	-199	-260
Other Items	48	29	2	310	-79	-85	-91
CF from Operations	739	775	808	1,189	1,133	1,553	1,771
(Inc.)/Dec. in FA	-627	-193	-188	-545	-1,000	-1,000	-1,000
Free Cash Flow	112	582	620	644	133	553	771
Change in Investments	0	-13	-283	-439	0	0	0
Others	-1	-51	-124	24	95	74	76
CF from Investments	-628	-256	-595	-960	-905	-926	-924
Inc./(Dec.) in Debt	91	-299	-36	2	-2	-2	-2
Dividends Paid	-129	-134	-213	-77	-211	-231	-250
Others	-38	-38	-9	-8	-2	-2	-2
CF from Fin. Activity	-76	-470	-258	-83	-216	-235	-254
Inc./(Dec.) in Cash	34	49	-45	146	13	392	593
Opening Balance	88	122	171	126	272	285	677
Closing Balance	122	171	126	272	285	677	1,269

Transport Corporation of India

BSE SENSEX

61,716

S&P CNX

18,419



Stock Info

Bloomberg	TRPC IN
Equity Shares (m)	77.3
M.Cap.(INRb)/(USDb)	36.5 / 0.5
52-Week Range (INR)	510 / 222
1, 6, 12 Rel. Per (%)	4/58/51
12M Avg Val (INR M)	62
Free float (%)	33.3

Financials Snapshot (INR b)

Y/E March	2021	2022E	2023E
Net Sales	28.0	32.4	38.4
EBITDA	2.6	3.2	3.8
Adj. PAT	1.6	2.0	2.4
Adj. EPS (INR)	20.8	25.5	31.7
EPS Gr. (%)	5.2	23.0	24.2
BV/Sh. (INR)	151.7	174.3	202.5

Ratios

Net D/E (x)	0.2	0.2	0.1
RoE (%)	14.5	15.6	16.7
RoCE (%)	12.4	13.7	14.8
Payout (%)	13.1	11.7	11.0

Valuations

P/E (x)	22.7	18.5	14.9
P/BV (x)	3.1	2.7	2.3
EV/EBITDA (x)	14.3	12.0	9.7
Div. Yield (%)	0.5	0.6	0.7
FCF Yield (%)	5.0	-1.1	2.3

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	66.7	66.7	66.9
DII	12.4	12.2	10.2
FII	2.4	1.7	1.7
Others	18.5	19.4	21.2

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR472

TP: INR620 (+31%)

Buy

Robust business model

- TCI has developed robust multimodal Logistics capabilities via its presence across major modes of transportation. Despite supply and demand disruptions (owing to the COVID-19 pandemic), it has managed to grow in FY21.
- It is a long-term play, backed by: a) a diversified clientele base (with no reliance on anchor customer), b) improving share in the high-margin Less than Truck Load (LTL) business in the Road Freight division, c) strong presence in the high growth 3PL segment, and d) rising contribution from the high margin Seaways segment.
- We expect TCI to clock a revenue/EBITDA/PAT CAGR of ~17%/21%/26% over FY21-24E. TCI currently trades at 11x FY24E EPS. We value the stock at 15x FY24E EPS to arrive at our TP of INR620. We initiate coverage with a Buy rating.

Integrated solution provider, clients benefit with multimodal capabilities

Backed by its experience of over six-decades in providing end-to-end integrated Logistics solutions, TCI has built its presence across Road Freight, Rail, and Coastal Shipping. TCI has a unique proposition with: a) an access to ~4,500 trucks and ~700 branches in the Road Freight business, b) JV with CCRI for container Rail connectivity, and c) cargo ships in the Seaways business. Through its divisions, TCI offers: a) FTL and LTL services, b) 3PL services through the supply chain division, and c) transportation via Seaways and Rail. These diversified and competitive Logistics solutions benefit clients and places TCI in a sweet spot.

Improving LTL's share aiding growth in the Road Freight division

TCI has a strong market position in the FTL business of the Road Freight segment (contributes majorly to segmental revenue), backed by its strong relationship with a diversified loyal clientele (customer base of more than 0.2m). Over the past two years, its focus has shifted towards acquiring a large number of SME customers and has been aiding company with: a) its improved growth prospects (LTL business growing faster than the FTL segment), b) better margin (8-10% in LTL vis-à-vis 3-4% in FTL), and c) lower receivable days (smaller clientele get a lesser credit period). Over the longer term, the addition of SME clients and a growing LTL share is likely to drive revenue growth and margin expansion.

Early mover advantage in the supply chain business, well-placed to capitalize

In 3PL Logistics, TCI is in a sweet spot backed by: a) its early-mover advantage in the 3PL industry; b) wide-service offerings, with an established execution track record; and c) strong clientele in the domestic industry (Auto, Retail, Consumer products, Chemicals, and e-commerce). It manages ~12m sq. ft. of Warehousing space and has a fleet of over 4,000 trucks across India. With the addition of clients and an increasing trend towards outsourcing Logistics activities, especially once the pandemic ends, we expect the company's 3PL business to do well.

Seaways segment to grow well; most profitable of all

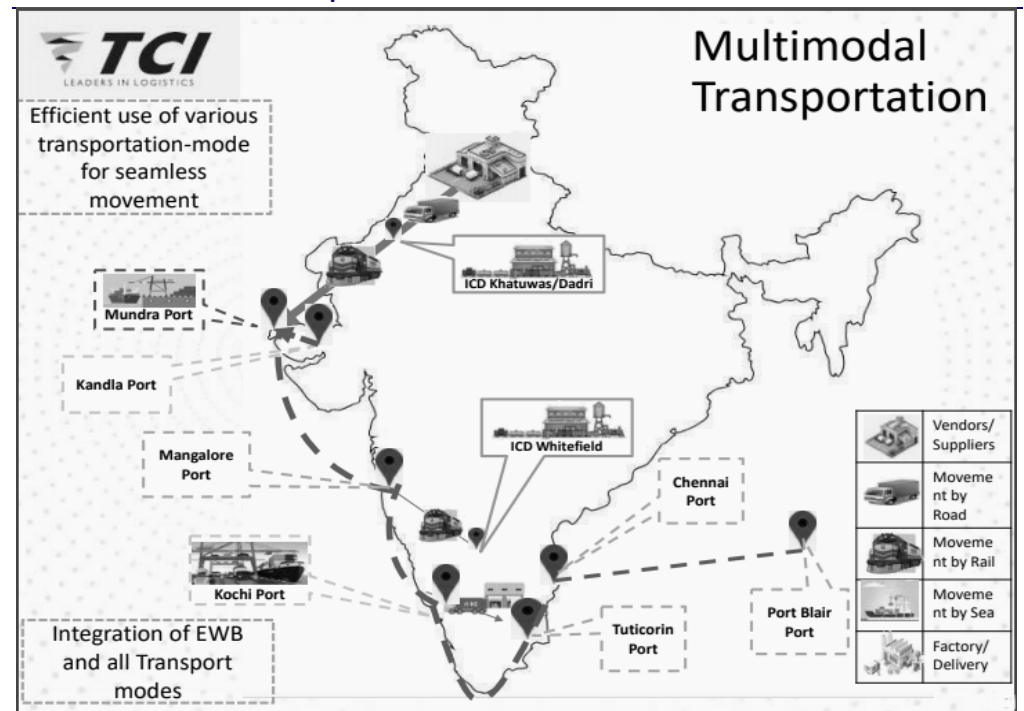
TCI mainly carries container cargo along the western coast between Kochi and Mundra, and bulk cargo on the eastern coast. Additional ships and higher utilization of the existing fleet (55-60% at present) would aid its growth prospects. Going forward, its plan to add more ships, coupled with better utilization of existing ships, would drive revenue growth.

Valuation and view: Initiate coverage with a Buy rating

Over the next three years, all key segments like the Freight and 3PL are expected to grow well, thereby leading to 17% revenue CAGR over FY21-24E. With a pickup in volumes and higher contribution from the Seaways segment, we expect EBITDA margin to touch ~10.3% in FY24E from ~9.3% in FY21, resulting in 21% EBITDA CAGR over FY21-24E. Return on Equity to remain robust at ~19%. We initiate coverage on TCI with a TP of INR 620 (15x FY24E EPS) and a BUY rating.

Exhibit 44: Multimodal transportation network

One of the very few companies present across segments. Its multimodal business model provides it an edge over peers



Source: Company, MOFSL

Key segments

Road Freight (52% of revenue)

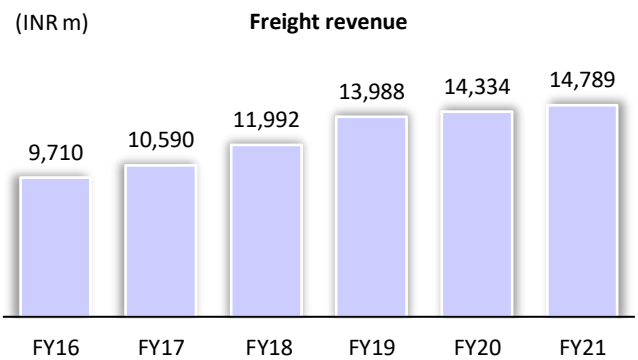
- TCI provides integrated surface transport solutions such as FTL, LTL, small packages and consignments, over dimensional cargoes, and project heavy haul.
- TCI Freight has a network of 700 company-owned branches, 25 hubs and a dedicated fleet of trucks, and hydraulic axles and trailers in operation. It also provides storage facilities for traders and manufacturers, with its infrastructure spread across key markets.

Exhibit 45: TCI Freight’s business



Source: Company, MOFSL

Exhibit 46: Freight business saw steady growth over the years



Source: Company, MOFSL

Supply chain (34% of revenue)

TCI provides Logistics and supply chain solutions to meet varied business needs. Its offerings include supply chain design and reengineering, Logistics support to third parties, warehousing management, and other similar services. It delivers services through assets that include ownership and lease of all modern warehouse storage and handling equipment, aggregating to 12m sq. ft.; and a customized fleet of over 4,000 trucks and trailers (of which 1,020 are self-owned), including refrigerated trucks.

Exhibit 47: TCI Supply Chain’s business (end-to-end solutions)

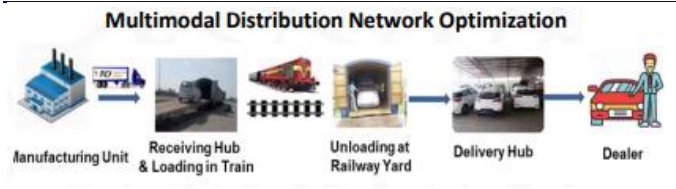
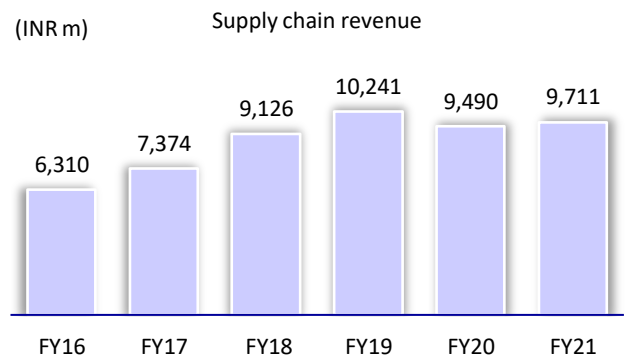


Exhibit 48: Supply Chain’s business performance



Source: Company, MOFSL

Exhibit 49: Services offered by other divisions

TCI Seaways (14% of revenue)	❖ TCI has expertise in coastal shipping, container cargo movements, and transportation services. It has six cargo ships, with a total capacity of 77,957 dead weight tonnage (DWT). The division is equipped with 10,000 containers (of which ~8,000 are self-owned)
JV with CCRI	❖ TCI (51% equity) has a JV with CCRI (49% equity) to provide bulk multi-modal logistics solutions by Rail and Road. The first and last-mile needs are addressed through Road transportation, with a fleet at all terminals
Transystem Logistics	❖ TCI's (49% equity) JV with Mitsui & Co. (51% equity). Transystem Logistics is a Logistics partner for Toyota Kirloskar and other Japanese companies in India
Cold chain solutions	❖ Offers integrated cold chain services to meet the needs of temperature-controlled warehousing and distribution services. Key industries catered to include Agriculture products, Processed Foods, Life Sciences, Healthcare, and Specialty Chemicals

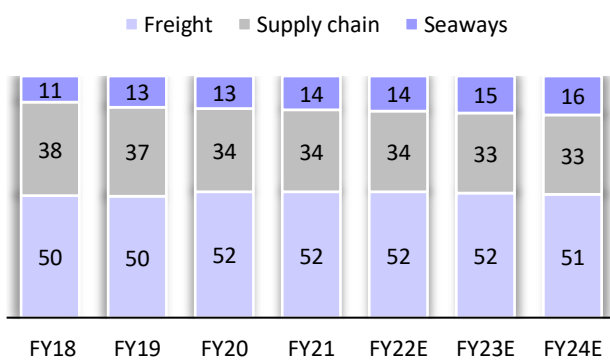
Source: Company, MOFSL

Exhibit 50: TCI caters to several industry segments

Industry	Solutions
Automobile	❖ Offers solutions for complex Logistics requirements that cover the entire supply chain from production to the aftermarket
Chemical	❖ Offers Logistics solutions for all bulk liquid transport requirements of the Chemical industry, including movement of hazardous and non-hazardous Chemicals
Omni-channel Retail	❖ Provides Logistics services to supply the production process, and delivery of products to the distributor's warehouse of industry players
Engineering	❖ Offers solutions for lightweight or heavy-duty consignments, and ensure professional handling of goods
e-commerce	❖ Provides fulfilment services and middle mile transportation
Pharma and Healthcare	❖ Offers convenient transportation, C&F, and warehousing facility for hi-tech equipment, including MRI machines and CT scanners
Textile	❖ Extends transportation, Warehousing, consolidating and de-consolidating services

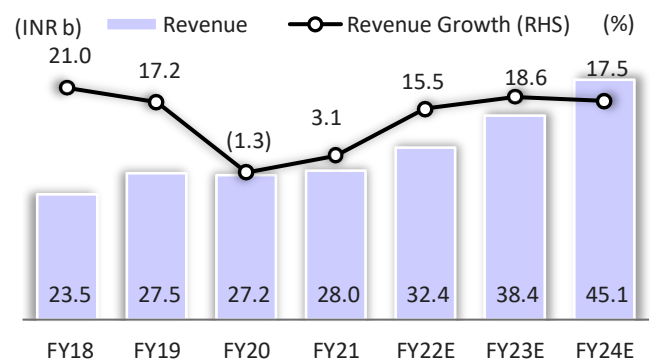
Source: Company, MOFSL

Exhibit 51: Freight and 3PL to dominate; Seaways share to rise marginally



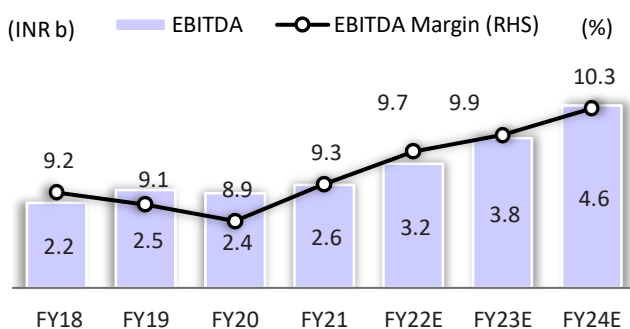
Source: Company, MOFSL

Exhibit 52: Revenue growth to remain strong



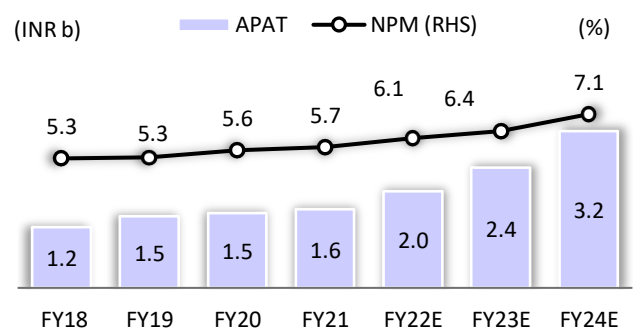
Source: Company, MOFSL

Exhibit 53: Margin to remain stable



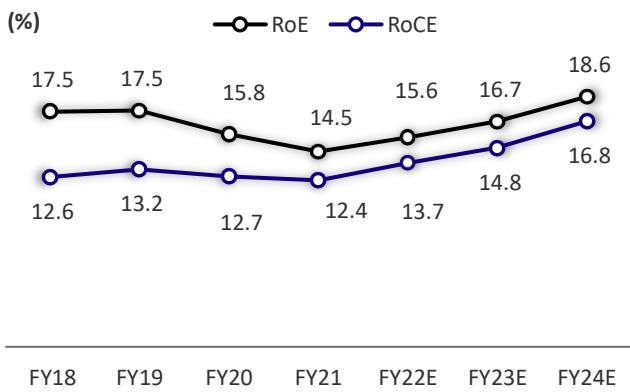
Source: Company, MOFSL

Exhibit 54: Strong operating performance to drive PAT



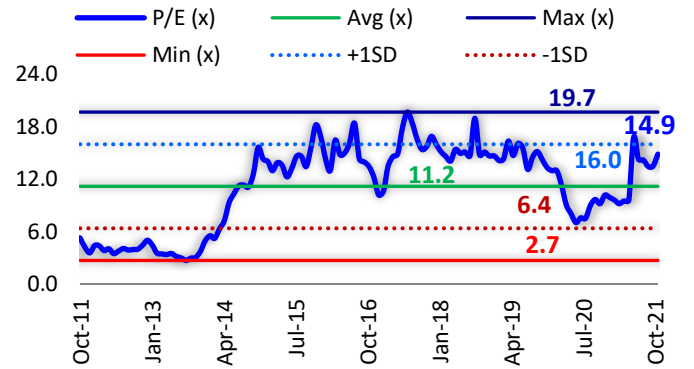
Source: Company, MOFSL

Exhibit 55: Return ratios to remain elevated



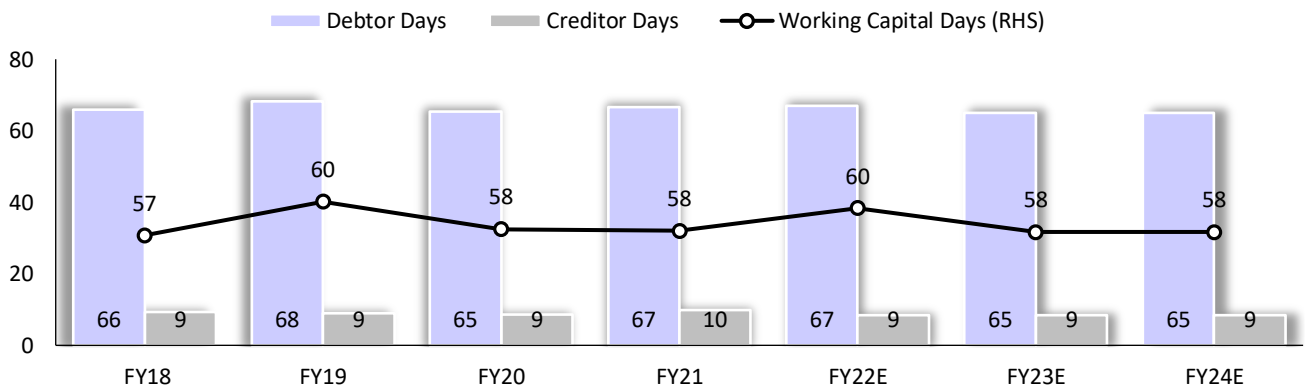
Source: Company, MOFSL

Exhibit 56: Trades at one year forward P/E of 15x



Source: Company, MOFSL

Exhibit 57: Comfortable working capital position



Source: Company, MOFSL

Initiating coverage with a BUY rating

- TCI is one of the few companies providing a multimodal service, which allows it to be ambitious while addressing a larger market size. The company has a fleet of equipment/trucks (owned and leased), which allows it stability in operations. It is relatively less dependent on external suppliers.
- The company is looking to add one ship in FY22 to its six existing ships. This capex would help increase the share of the high margin Seaways business. The outlook for Seaways is extremely positive as the government focuses on increasing the share of the Seaways segment in the modal mix.
- The Freight segment has picked up well as demand from key end-use segments have started to improve post the lockdown. Reforms like GST and e-way bill will support growth.
- We expect the 3PL segment to clock robust growth as companies increasingly look to outsource their Logistics requirements. The company has already seen an increase in inquiries in this space, and the outlook looks bright. Even a ramp-up from existing clients would support performance.
- We expect margin to stay robust, despite the sharp increase in fuel costs. Even during 4QFY21, the company saw a sharp jump in profitability (~10% EBITDA).
- With a strong growth across freight services and 3PL, we expect TCI to deliver 17% revenue CAGR over FY21-24E. We expect the margin profile to be strong (~10%), leading to 21% EBITDA CAGR. With a strong operational performance and no significant capex, we expect RoE to improve to ~19% in FY24E.
- We value TCI at 15x FY24E EPS to arrive at our TP of INR.620. We initiate coverage on TCI with a Buy rating.

SWOT analysis

STRENGTH

One of the few multimodal operators in India, which provides it an edge over the competition. It has a balanced asset holding strategy, with some assets leased and some purchased. This balances the dependence on third-party suppliers. It provides a blend of services from the volume driven freight business to the value-added 3PL services and the high margin Sea business.


 S

WEAKNESS

A sharp rise in fuel costs could impact profitability as the company may not be able to pass on the same in a weak demand environment. More than half of business is from low margin freight business. Any demand slowdown or cost pressure there can impact overall performance.


 W

OPPORTUNITY

Business activity is set to improve as the impact of the pandemic abates in the next few months. With reforms like GST and e-way bill, business would shift to the organized from the unorganized segment. Value added segments like 3PL are set to gain traction with greater outsourcing of the Logistics function by companies.


 O

THREAT

Fluctuating fuel prices and irregular movement in freight charges can negatively impact profitability. Changing rules and regulations at the state level can impact business performance.


 T

Exhibit 58: TP at 15x FY24E EPS

	(INR m)	FY21	FY22E	FY23E	FY24E	CAGR (FY21-24E)	Thesis
Bear Case	Revenue	28,024	31,634	36,816	42,669	15.0%	❖ A slower than expected pickup in the economic activity can impact logistics demand and growth could be lower than estimated
	EBITDA	2,612	3,029	3,557	4,223	17.4%	
	TP: INR550	EPS	20.8	24.1	28.7	36.5	
Base Case	Revenue	28,024	32,362	38,379	45,113	17.2%	❖ Expect a swift recovery from 2QFY22 onwards. Margin is likely to remain strong as volumes improve
	EBITDA	2,612	3,150	3,816	4,638	21.1%	
	TP: INR620	EPS	20.8	25.5	31.7	41.3	
Bull Case	Revenue	28,024	33,090	40,148	48,487	20.1%	❖ A faster than expected pickup in demand could result in better than expected growth
	EBITDA	2,612	3,271	4,110	5,212	25.9%	
	TP: INR720	EPS	20.8	27.0	35.2	48.1	

Source: Company, MOFSL

Management overview



Mr. DP Agarwal – Chairman and Director

Mr. DP Agarwal has been associated with the Transport industry for more than 50 years. He has been contributing to the development of the unorganized Logistics sector into an organized one. A commerce graduate, he is associated with various Chambers of Commerce including CII, FICCI, and PHDCCI. He has actively participated in many social and philanthropic activities for the common good.



Mr. Vineet Agarwal – Managing Director and CEO

Mr. Vineet Agarwal is the Managing Director of TCI and the Chairman of Transystem Logistics International Pvt. (a JV of TCI and Mitsui & Co., Japan). He graduated from Carnegie Mellon University and the Owner President Management Program from the Harvard Business School. He joined TCI in CY96 as the Executive Director, and has held various finance and management roles within the company. He has been active in transforming the organization towards value-added services in the supply chain management and multimodal logistics. Mr. Vineet Agarwal has played a pivotal role in orienting TCI to move from being a mere trucking company to evolve itself as one of India's foremost integrated supply chain solutions provider. He is currently serving as the Senior Vice President of ASSOCHAM, a leading Chamber of Commerce in India. He is also the founding National President of the Young Leaders Council (YLC) at the All India Management Association (AIMA). He has served as an elected director on the Young President Organization's (YPO) international board and has been involved with many other leading institutions and industry forums.



Mr. Ashish Tiwari – CFO

Mr. Ashish Tiwari is the Group CFO of TCI Group since CY14. Prior to this, he was Head of Accounts and Taxation at the TCI Group.

Financials and valuations

Consolidated – Income Statement

Y/E March (INR m)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	23,499	27,536	27,178	28,024	32,362	38,379	45,113
Change (%)	21.0	17.2	-1.3	3.1	15.5	18.6	17.5
Gross Margin (%)	18.9	18.2	18.5	18.0	18.4	18.3	18.7
EBITDA	2,165	2,495	2,405	2,612	3,150	3,816	4,638
Margin (%)	9.2	9.1	8.9	9.3	9.7	9.9	10.3
Depreciation	686	774	825	928	942	1,120	1,243
EBIT	1,478	1,721	1,580	1,684	2,208	2,697	3,396
Int. and Finance Charges	322	374	343	267	268	277	252
Other Income	144	195	201	255	285	348	452
PBT	1,301	1,542	1,438	1,672	2,225	2,768	3,596
Tax	287	333	159	238	445	554	719
Effective Tax Rate (%)	22.0	21.6	11.1	14.3	20.0	20.0	20.0
PAT before MI, Associates, and EO Items	1,014	1,209	1,279	1,434	1,780	2,214	2,877
Share of profit/(loss) of Associates and JVs	224	251	252	201	231	288	374
Minority Interest	0	0	-8	-33	-42	-56	-63
Extraordinary Items	0	7	99	131	0	0	0
Reported PAT	1,238	1,453	1,424	1,471	1,970	2,446	3,188
Adjusted PAT	1,238	1,460	1,522	1,602	1,970	2,446	3,188
Change (%)	52.4	17.9	4.3	5.2	23.0	24.2	30.3
Margin (%)	5.3	5.3	5.6	5.7	6.1	6.4	7.1

Consolidated – Balance Sheet

Y/E March (INR m)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	153	153	154	154	154	154	154
Total Reserves	7,465	8,766	10,085	11,543	13,281	15,458	18,376
Net Worth	7,618	8,920	10,239	11,697	13,436	15,612	18,530
Minority Interest	47	52	57	86	86	86	86
Deferred Tax Liabilities	445	390	302	273	273	273	273
Total Loans	4,396	4,703	4,186	2,767	3,317	2,972	2,627
Capital Employed	12,505	14,065	14,784	14,823	17,112	18,943	21,517
Gross Block	7,873	9,503	10,595	10,684	12,934	14,434	15,934
Less: Accum. Deprn.	1,615	2,235	3,111	3,275	4,217	5,337	6,579
Net Fixed Assets	6,258	7,268	7,483	7,409	8,716	9,097	9,354
Capital WIP	563	40	450	690	700	650	620
Total Investments	1,044	1,168	1,354	1,500	1,500	1,500	1,500
Curr. Assets, Loans, and Adv.	6,113	7,683	7,547	7,790	9,034	10,846	13,744
Inventory	33	53	66	71	89	105	124
Account Receivables	4,249	5,151	4,873	5,110	5,940	6,835	8,034
Cash and Bank Balances	142	155	259	395	539	981	1,902
Cash	127	101	132	341	484	927	1,847
Bank Balance	15	55	128	55	55	55	55
Loans and Advances	235	268	268	124	143	170	200
Others	1,453	2,056	2,081	2,089	2,323	2,755	3,486
Current Liab. and Prov.	1,472	2,095	2,050	2,565	2,838	3,149	3,702
Account Payables	597	674	639	759	754	894	1,051
Other Current Liabilities	820	1,355	1,309	1,719	1,986	2,138	2,513
Provisions	55	65	102	86	99	118	138
Net Current Assets	4,641	5,589	5,497	5,225	6,196	7,697	10,043
Application of Funds	12,505	14,065	14,784	14,823	17,112	18,943	21,517

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Basic (INR)							
EPS	16.1	18.9	19.7	20.8	25.5	31.7	41.3
EPS growth (%)	52.4	17.9	4.3	5.2	23.0	24.2	30.3
Cash EPS	25.0	29.0	30.4	32.8	37.8	46.3	57.5
BV/Share	98.8	115.7	132.8	151.7	174.3	202.5	240.3
DPS	1.6	1.8	2.0	2.5	3.0	3.5	3.5
Payout (Incl. Div. Tax, %)	13.2	12.6	14.1	13.1	11.7	11.0	8.5
Valuation (x)							
P/E	29.4	24.9	23.9	22.7	18.5	14.9	11.4
Cash P/E	18.9	16.3	15.5	14.4	12.5	10.2	8.2
EV/EBITDA	18.3	15.9	16.2	14.3	12.0	9.7	7.7
EV/Sales	1.7	1.4	1.4	1.3	1.2	1.0	0.8
P/BV	4.8	4.1	3.6	3.1	2.7	2.3	2.0
Dividend Yield (%)	0.3	0.4	0.4	0.5	0.6	0.7	0.7
Return Ratios (%)							
RoE	17.5	17.5	15.8	14.5	15.6	16.7	18.6
RoCE	12.6	13.2	12.7	12.4	13.7	14.8	16.8
RoIC	11.4	11.5	11.1	11.6	13.3	14.3	16.3
Working Capital Ratios							
Fixed Asset Turnover (x)	3.3	3.2	2.7	2.6	2.7	2.8	3.0
Asset Turnover (x)	1.9	2.0	1.8	1.9	1.9	2.0	2.1
Inventory (Days)	1	1	1	1	1	1	1
Debtors (Days)	66	68	65	67	67	65	65
Creditors (Days)	9	9	9	10	9	9	9
Leverage Ratio (x)							
Net Debt/Equity	0.6	0.5	0.4	0.2	0.2	0.1	0.0

Consolidated – Cash Flow Statement

Y/E March (INR m)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(Loss) before Tax	1,525	1,786	1,591	1,743	2,225	2,768	3,596
Depreciation	686	774	825	928	942	1,120	1,243
Direct Taxes Paid	-368	-342	-410	52	-445	-554	-719
(Inc.)/Dec. in WC	-576	-758	181	232	-840	-989	-1,347
Other Items	301	331	242	93	-18	-71	-200
CF from Operations	1,568	1,791	2,428	3,047	1,865	2,274	2,572
(Inc.)/Dec. in FA	-1,511	-1,259	-1,321	-1,241	-2,260	-1,450	-1,470
Free Cash Flow	57	532	1,108	1,807	-395	824	1,102
Change in Investments	-8	-49	-55	-17	0	0	0
Others	209	-268	22	196	277	249	342
CF from Investments	-1,309	-1,576	-1,353	-1,062	-1,983	-1,201	-1,128
Change in Equity	0	12	24	40	0	0	0
Inc./(Dec.) in Debt	184	307	-523	-1,419	550	-345	-345
Dividends Paid	-163	-182	-201	-96	-231	-270	-270
Others	-323	-338	-343	-302	-57	-16	92
CF from Fin. Activity	-303	-202	-1,044	-1,776	262	-630	-523
Inc./(Dec.) in Cash	-44	13	31	209	144	443	920
Opening Balance	187	142	101	132	341	484	927
Closing Balance	142	155	132	341	484	927	1,847

VRL Logistics

BSE SENSEX	S&P CNX
61,716	18,419

CMP: INR385 TP: INR460 (+19%) Buy

VRL LOGISTICS LTD

Stock Info

Bloomberg	VRLL IN
Equity Shares (m)	88.3
M.Cap.(INRb)/(USDb)	34 / 0.5
52-Week Range (INR)	429 / 149
1, 6, 12 Rel. Per (%)	7/37/98
12M Avg Val (INR M)	109
Free float (%)	100.0

Financials Snapshot (INR b)

Y/E March	2021	2022E	2023E
Net Sales	17.6	20.8	24.3
EBITDA	2.5	3.0	3.4
Adj. PAT	0.5	0.8	1.0
Adj. EPS (INR)	5.1	9.0	11.4
EPS Gr. (%)	-48.9	77	26
BV/Sh. (INR)	67.6	71.1	76.5

Ratios

Net D/E (x)	0.2	0.1	0.0
RoE (%)	7.4	13.0	15.4
RoCE (%)	8.8	13.9	16.2
Payout (%)	78.4	60.9	52.7

Valuations

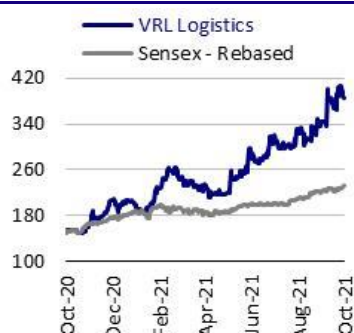
P/E (x)	75.5	42.6	33.8
P/BV (x)	5.7	5.4	5.0
EV/EBITDA (x)	14.2	11.5	9.8
Div. Yield (%)	1.0	1.4	1.6
FCF Yield (%)	7.0	3.5	4.6

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	69.6	69.6	68.1
DII	18.5	18.7	21.1
FII	2.2	3.1	4.1
Others	9.7	8.7	6.8

FII Includes depository receipts

Stock Performance (1-year)



Asset ownership at play

- VRL has a long history of operations (~40 years), primarily focusing on the LTL segment. It derives nearly 90% business from Goods Transportation, followed by a 7% contribution from the Passenger Bus Service segment. Unlike several other players, it operates its own fleet of 4,588 trucks (capacity: 68,000t) and 291 buses.
- The company would benefit significantly from operating leverage as Logistics activity picks up. It uses biodiesel (23% of its fuel requirement in FY21), which helps it reduce fuel costs. Being the owner of a large fleet, it is better able to negotiate for spare parts and maintenance-related costs. VRL majorly caters to the LTL segment (90% of revenue from the Goods Transport segment). With the rollout of GST, the share of FTL is shifting towards LTL, which would benefit VRL.
- The management's focus is on: a) the high margin LTL business, b) building its network further, and c) the B2B segment, particularly the SME space. At the CMP, VRL trades at a valuation of 29x FY24E EPS. We initiate coverage with a Buy rating on the stock, with a TP of INR460 (35x FY24E EPS).

Established player in the LTL freight business, reforms to benefit

VRL is an established Logistics operator in the LTL business, with a 90% contribution (~10% business from FTL). It is supported by a fleet of 4,588 owned trucks, and caters to 884 locations. It is focusing on the higher margin LTL business. Reforms like GST and e-way bill benefits organized large players like VRL. The reforms are expected to lead to an increase in the share of LTL as against FTL. Demand for faster transportation would see LTL being deployed more, unlike the traditional approach of waiting for FTL to deliver.

Well diversified end-use segment; focus is on the B2B space

VRL is primarily focused on the B2B segment, which is considered to be more stable as compared to B2C. It is well diversified in terms of its end-use segment and customer base, with the top 10 customers contributing only 3% revenue of the Goods Transport business. It caters to a wide range of industries, which includes Plastics, Food products, Rubber, Agri products, Pharma, FMCG, Metals, etc. Its presence across so many segments and a wider customer base helps significantly during times of a slowdown.

Large asset ownership – operating leverage at play

VRL operates its own fleet. These vehicles are customized, taking into account the market dynamics. It leads to a higher payload, which would mean higher earnings per km. The company uses biodiesel (23% of its FY21 fuel demand met through biodiesel), which reduces fuel costs. If need be, the company hires vehicles to meet a short-term spike in demand. Currently, almost all (93%) of its owned trucks are debt free, with no associated financial costs. The company is able to bargain on costs like maintenance, given its fleet size and scale of operations, and is able to save on cost, which is not possible for those operating with hired vehicles. As activity improves and capacity utilization increases, operating leverage would play a significant role for VRL. The company would be one of the key beneficiaries of a pickup in demand in this space.

Valuation and view: Initiating coverage with a Buy rating

We expect robust demand from the LTL segment over the next couple of years, which would result in 16% revenue CAGR over FY21-24E. We expect the healthy margin profile to continue, leading to 15% EBITDA CAGR. With low growth in Depreciation due to limited capex requirement, we expect 37% PAT CAGR over FY21-24E, with a RoE of ~17% in FY24E. We value VRL at 35x FY24E EPS to arrive at our TP of INR460. We initiate coverage with a Buy rating.

Exhibit 59: Goods Transport and Bus operations drive majority of VRL's revenue

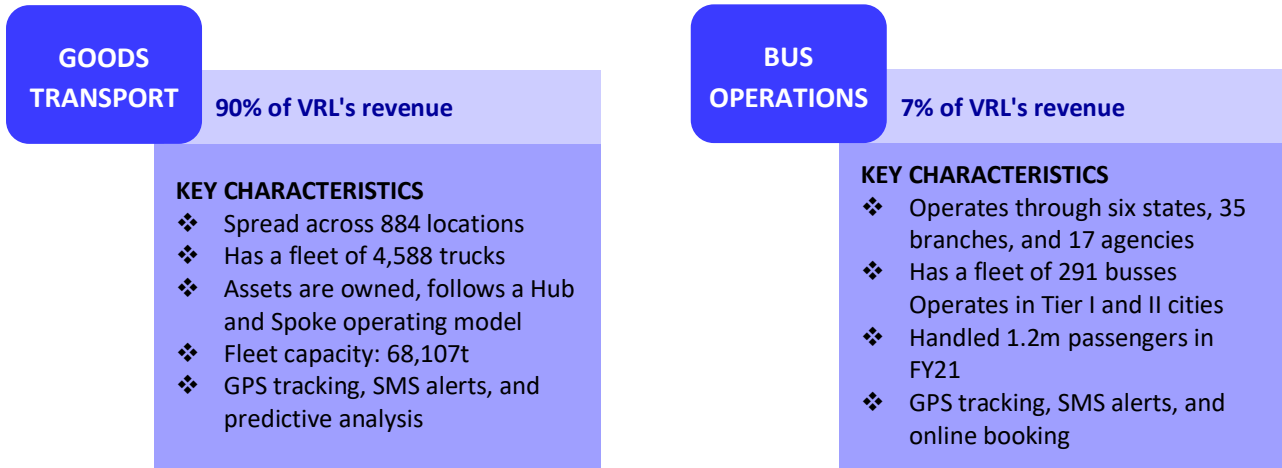
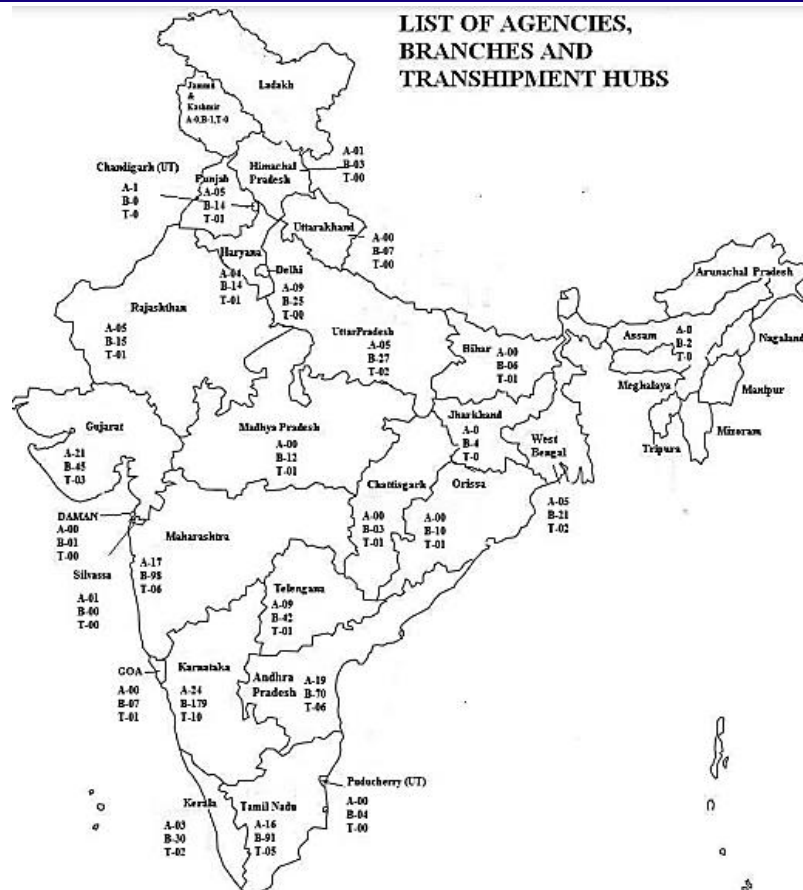
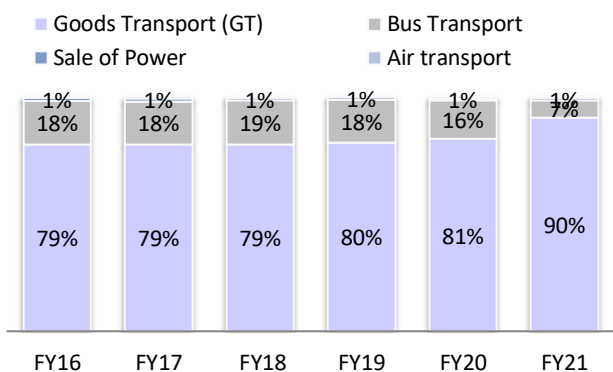


Exhibit 60: One of the largest surface network transportation companies



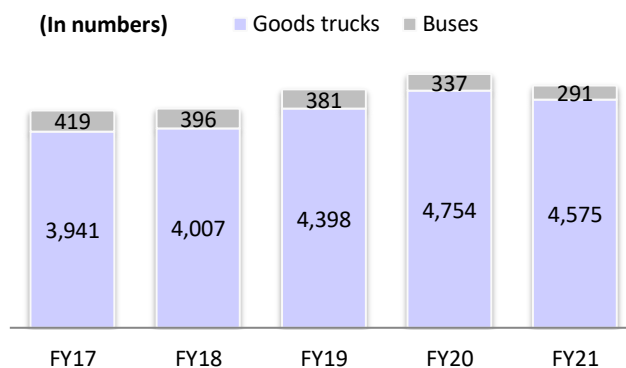
Source: Company; Note: A = agencies, B = branches and T = transshipment hubs

Exhibit 61: Share of GT has increased over the last few years



Source: Company, MOFSL

Exhibit 62: VRL continues to add capacity

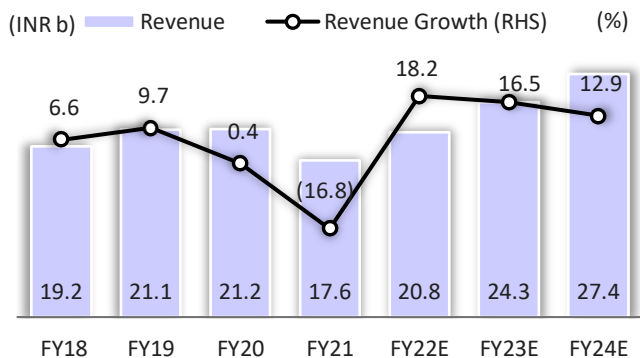


Source: Company, MOFSL

Vehicle scrappage policy to help VRL

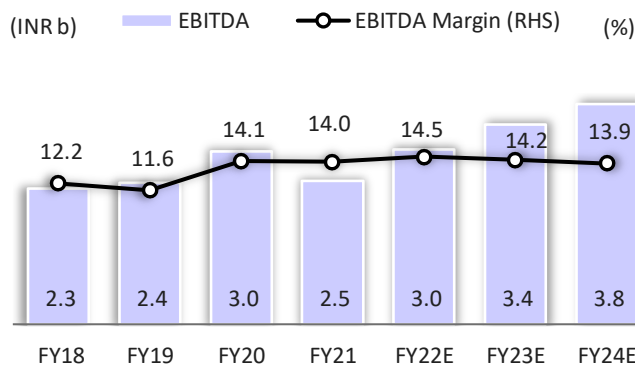
- The government’s vehicle scrappage policy is aimed at replacing older vehicles on Indian roads. As per the policy, commercial/passenger vehicles over 15/20 years will have to be mandatorily scrapped if they do not pass the fitness and emission tests from 1st Apr’23.
- VRL has 841 vehicles, with a total capacity of 8,407t, which are more than 15 years old. This is ~12% of its total capacity.
- This benefits VRL as competitors would be forced to increase prices as fleet charges would increase.

Exhibit 63: Pick-up in economic activity to drive revenue



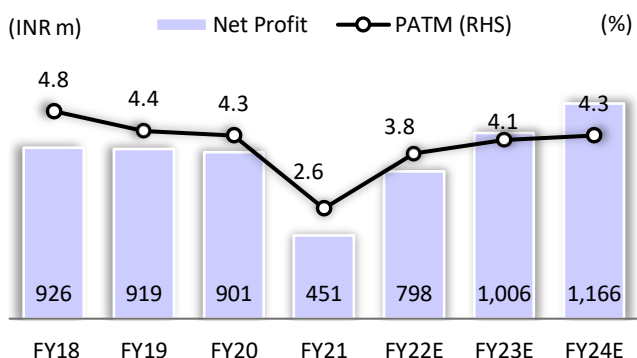
Source: Company, MOFSL

Exhibit 64: Margin to remain stable



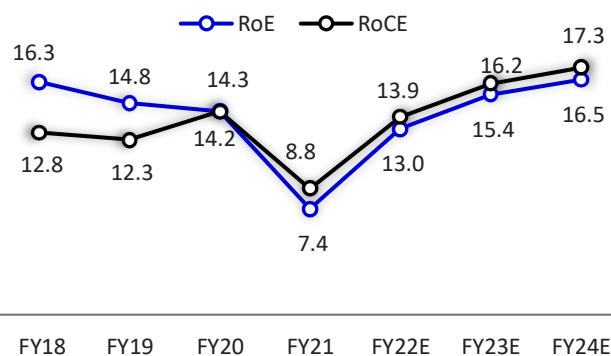
Source: Company, MOFSL

Exhibit 65: Strong operating performance to flow to PAT



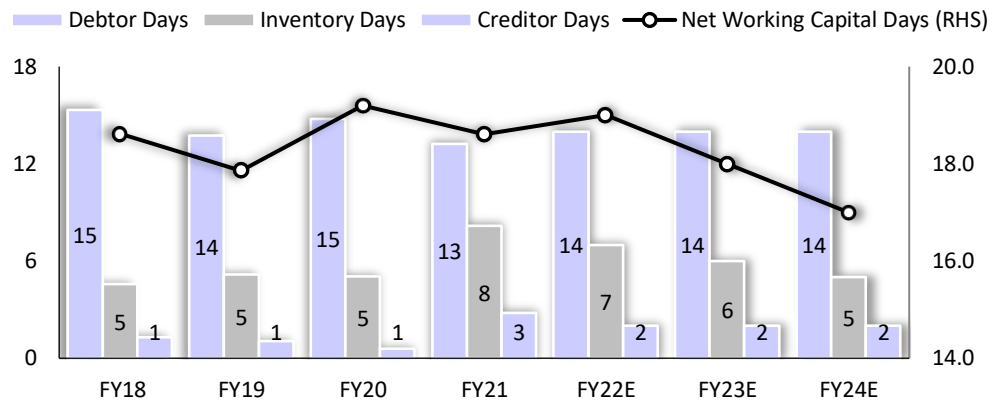
Source: Company, MOFSL

Exhibit 66: Return ratios to return back to over 15%



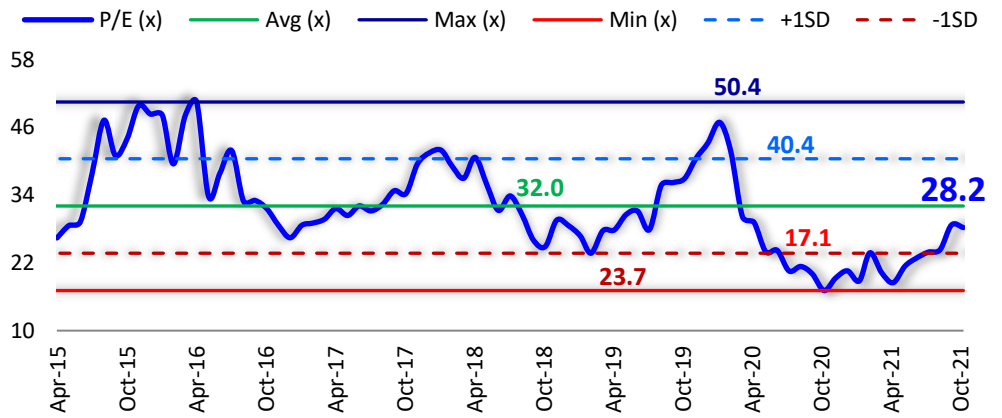
Source: Company, MOFSL

Exhibit 67: Comfortable working capital position



Source: Company, MOFSL

Exhibit 68: Trades at one year forward P/E of 28x



Source: Company, MOFSL

Initiating coverage with a Buy stance

- VRL derives majority of its business from the Goods Transport segment in the B2B segment. It has a high share of SME customers, which is the more stable end-use segment. It caters to various end-use industries like Plastics, Food products, Rubber, Agri Products, Pharma, FMCG, and Metals.
- Margin has been steady ~14% as VRL owns the assets and is able to save on certain costs like maintenance and spare parts through better negotiations. Margin is likely to remain stable at current levels going forward.
- We expect robust demand for Goods Transport over the next couple of years, which would lead to 16% revenue CAGR over FY21-24E. We expect its healthy margin profile to continue, leading to 15% EBITDA CAGR. With strong earnings and no major debt, we expect 37% PAT CAGR, with a strong RoE (over 15%).
- At the CMP, VRL trades at a valuation of 29x FY24E EPS. We initiate coverage with a Buy rating on the stock, with a TP of INR460 (35x FY24E EPS).

SWOT analysis

STRENGTH

It has established a pan India presence in the LTL segment, with its own large fleet. It is able to save on costs, with a better bargaining power on aspects like maintenance and spare parts. It uses biodiesel (23% of its FY21 fuel demand), which helps save costs. Being the asset owner, it is in better control of its operations.


 S

WEAKNESS

VRL has a large fleet of owned assets, which could impact negatively when business activity slows down.


 W

OPPORTUNITY

With reforms like GST and e-way bill, business would shift to the organized segment, and VRL stands to benefit from that transition. It would also benefit from the shift to LTL from FTL.


 O

THREAT

Volatile fuel prices and erratic freight charges can negatively impact profitability. Increase in competition from new age tech driven operators.


 T

Exhibit 69: TP at 35x FY24E EPS

	(INR m)	FY21	FY22E	FY23E	FY24E	CAGR (FY21-24E)	Thesis
Bear Case TP: INR380	Revenue	17,629	20,290	23,549	26,490	14.5%	❖ Longer than expected recovery or increase in competition can impact performance
	EBITDA	2,475	2,847	3,224	3,525	12.5%	
	EPS	5.1	7.6	9.5	10.8	28.4%	
Base Case TP: INR460	Revenue	17,629	20,833	24,263	27,404	15.8%	❖ Expect a swift recovery from 2QFY22 onwards. Margin is likely to remain stable
	EBITDA	2,475	3,017	3,444	3,807	15.4%	
	EPS	5.1	9.0	11.4	13.2	37.3%	
Bull Case TP: INR600	Revenue	17,629	21,151	25,014	28,923	17.9%	❖ If Economy normalizes faster than expected, volumes growth to outpace expectations.
	EBITDA	2,475	3,117	3,677	4,276	20.0%	
	EPS	5.1	9.9	13.4	17.2	49.9%	

Management overview



Dr. Vijay Sankeshwar – Chairman and Managing Director

Dr. Sankeshwar is actively involved in the day-to-day affairs of the company as a Whole Time Director. He has over three decades of experience in the Transport industry. He holds a Bachelor's Degree in Commerce from Karnataka University, Dharwad. He was a former Member of Parliament and was elected from the Dharwad (North) constituency in the 11th, 12th and 13th Lok Sabha elections. He was also a member of Karnataka legislature. He was a member of central government committees such as the Committee of Finance between CY96 and CY97; the Consultative Committee, Ministry of Surface Transport, between CY96 and CY00; and the Committee of Transport and Tourism between CY98 and CY00. He has received various awards including the 'Udyog Ratna' in CY94 by the Institute of Economic Studies, New Delhi; Aaryabhat Award in CY02; Sir M. Visvesvaraya Memorial Award in CY07; and the Transport Samrat in CY08. He was selected as 'Transport Personality of the year' during the recently concluded India Road Transportation Awards CY12 (IRTA).



Mr. Anand Sankeshwar – Managing Director

Mr. Sankeshwar supervises the marketing operations and is actively involved in the day-to-day affairs of the company as a Whole Time Director. He holds a Bachelor's Degree in Commerce from Karnataka University, Dharwad. He has 19 years of experience in the Transport industry. He bagged the 'Youth Icon' award in CY04 by the Annual Business Communicators of India and 'Marketing Professional of the Year' in CY05 by the Indira Group of Companies. He was also awarded the Best 2nd Generation Entrepreneur by TiE Global, US in CY10. He was honored as 'Inspirational leader of New India' at a recently concluded ceremony in Las Vegas, US.



Mr. Sunil Nalavadi -CFO

Mr. Sunil Sambhaji Nalavadi occupies the position of Chief Financial Officer for VRL Logistics Ltd. He has been with VRL for the last 19 years. Mr. Nalavadi is also an Associate for The Institute of Chartered Accountants of India.

Financials and valuations

Income Statement

Y/E March (INR m)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	19,223	21,095	21,185	17,629	20,833	24,263	27,404
Change (%)	6.6	9.7	0.4	-16.8	18.2	16.5	12.9
Gross Margin (%)	31.4	30.1	33.4	33.0	32.5	32.0	32.0
EBITDA	2,342	2,440	2,983	2,475	3,017	3,444	3,807
Margin (%)	12.2	11.6	14.1	14.0	14.5	14.2	13.9
Depreciation	976	1,006	1,675	1,598	1,738	1,885	2,032
EBIT	1,366	1,434	1,307	877	1,280	1,560	1,775
Int. and Finance Charges	114	109	367	368	347	356	365
Other Income	142	79	103	129	135	142	149
PBT	1,394	1,405	1,043	637	1,067	1,345	1,559
Tax	468	486	142	187	269	339	393
Effective Tax Rate (%)	33.6	34.6	13.6	29.3	25.2	25.2	25.2
Reported PAT	926	919	901	451	798	1,006	1,166
Change (%)	31.3	-0.7	-2.0	-50.0	77.1	26.0	15.9
Margin (%)	4.8	4.4	4.3	2.6	3.8	4.1	4.3

Balance Sheet

Y/E March (INR m)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	903	903	903	883	883	883	883
Total Reserves	5,029	5,556	5,265	5,088	5,400	5,876	6,512
Net Worth	5,932	6,459	6,169	5,971	6,284	6,760	7,396
Deferred Tax Liabilities	808	738	440	440	440	440	440
Total Loans	812	1,407	1,893	1,196	946	846	746
Capital Employed	7,552	8,604	8,502	7,607	7,670	8,046	8,582
Gross Block	9,044	10,835	15,105	15,850	17,250	18,650	20,050
Less: Accum. Deprn.	2,795	3,785	5,202	6,307	8,044	9,929	11,961
Net Fixed Assets	6,250	7,051	9,903	9,544	9,206	8,721	8,089
Capital WIP	76	416	44	61	61	61	61
Total Investments	1	1	1	1	1	1	1
Curr. Assets, Loans, and Adv.	2,296	2,311	2,304	2,381	2,904	3,908	5,077
Inventory	241	298	293	395	400	399	375
Account Receivables	807	795	856	639	799	931	1,051
Cash and Bank Balances	194	131	134	185	322	967	1,830
Cash	185	126	129	183	321	966	1,829
Bank Balance	8	5	5	1	1	1	1
Others	1,054	1,086	1,021	1,162	1,384	1,612	1,820
Current Liab. and Prov.	1,071	1,174	3,750	4,379	4,502	4,645	4,645
Account Payables	68	61	35	136	114	133	150
Other Current Liabilities	800	849	3,368	3,911	3,995	4,055	3,979
Provisions	203	264	347	332	392	457	516
Net Current Assets	1,225	1,136	-1,445	-1,998	-1,597	-737	431
Application of Funds	7,552	8,604	8,502	7,607	7,670	8,046	8,582

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Basic (INR)							
EPS	10.2	10.2	10.0	5.1	9.0	11.4	13.2
EPS growth (%)	28.4	-0.7	-2.0	-48.9	77.1	26.0	15.9
Cash EPS	21.1	21.3	28.5	23.2	28.7	32.7	36.2
BV/Share	65.7	71.5	68.3	67.6	71.1	76.5	83.7
DPS	0.0	5.5	7.0	4.0	5.5	6.0	6.0
Payout (Incl. Div. Tax, %)	0.0	65.2	84.6	78.4	60.9	52.7	45.5
Valuation (x)							
P/E	37.6	37.8	38.6	75.5	42.6	33.8	29.2
Cash P/E	18.3	18.1	13.5	16.6	13.4	11.8	10.6
EV/EBITDA	14.8	14.5	12.0	14.2	11.5	9.8	8.6
EV/Sales	1.8	1.7	1.7	2.0	1.7	1.4	1.2
P/BV	5.9	5.4	5.6	5.7	5.4	5.0	4.6
Dividend Yield (%)	0.0	1.4	1.8	1.0	1.4	1.6	1.6
Return Ratios (%)							
RoE	16.3	14.8	14.3	7.4	13.0	15.4	16.5
RoCE	12.8	12.3	14.2	8.8	13.9	16.2	17.3
RoIC	11.9	12.2	13.8	7.9	13.1	16.3	19.4
Working Capital Ratios							
Fixed Asset Turnover (x)	2.2	2.1	1.6	1.1	1.3	1.4	1.4
Asset Turnover (x)	2.5	2.5	2.5	2.3	2.7	3.0	3.2
Inventory (Days)	5	5	5	8	7	6	5
Debtors (Days)	15	14	15	13	14	14	14
Creditors (Days)	1	1	1	3	2	2	2
Leverage Ratio (x)							
Net Debt/Equity	0.1	0.2	0.3	0.2	0.1	0.0	-0.1

Cash Flow Statement

Y/E March (INR m)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(Loss) before Tax	1,394	1,405	1,043	637	1,067	1,345	1,559
Depreciation	976	1,006	1,675	1,598	1,738	1,885	2,032
Direct Taxes Paid	-510	-523	-431	-148	-269	-339	-393
(Inc.)/Dec. in WC	97	-64	-94	294	-150	-156	-211
Other Items	98	98	380	330	212	215	216
CF from Operations	2,055	1,922	2,573	2,711	2,598	2,949	3,203
(Inc.)/Dec. in FA	-455	-2,109	-1,200	-330	-1,400	-1,400	-1,400
Free Cash Flow	1,600	-187	1,373	2,381	1,198	1,549	1,803
Change in Investments	12	3	14	15	0	0	0
Others	0	15	0	1	12	20	37
CF from Investments	-442	-2,091	-1,185	-313	-1,388	-1,380	-1,363
Inc./Dec. in net worth	-387	0	0	-632	0	0	0
Inc./Dec. in Debt	-1,036	596	485	-697	-250	-100	-100
Dividends Paid	0	-381	-980	0	-486	-530	-530
Others	-120	-104	-889	-1,014	-337	-294	-347
CF from Fin. Activity	-1,543	110	-1,384	-2,344	-1,073	-924	-977
Inc./Dec. in Cash	70	-59	3	54	137	645	863
Opening Balance	116	185	126	129	183	321	966
Closing Balance	185	126	129	183	321	966	1,829

Bluedart Express

BSE SENSEX 61,716 S&P CNX 18,419

CMP: INR6,515 TP: INR7,010 (+8%)

Neutral

BLUE DART

Stock Info

Bloomberg	BDE IN
Equity Shares (m)	23.7
M.Cap.(INRb)/(USD\$b)	154.6 / 2.1
52-Week Range (INR)	6600 / 2926
1, 6, 12 Rel. Per (%)	-3/-2/68
12M Avg Val (INR M)	208
Free float (%)	25.0

Financials Snapshot (INR b)

Y/E March	2021	2022E	2023E
Net Sales	32.8	38.6	44.5
EBITDA	3.8	4.5	5.3
Adj. PAT	1.2	1.7	2.2
Adj. EPS (INR)	51.5	73.0	94.5
EPS Gr. (%)	373.1	41.8	29.4
BV/Sh. (INR)	286.2	344.2	423.7

Ratios

Net D/E (x)	-0.2	-0.2	-0.4
RoE (%)	19.3	23.2	24.6
RoCE (%)	20.6	24.3	27.1
Payout (%)	37.0	20.5	15.9

Valuations

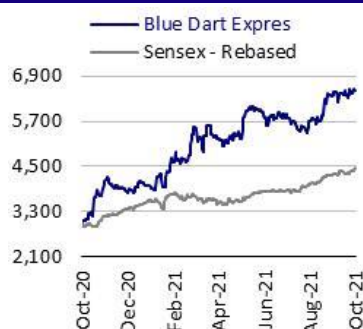
P/E (x)	126.6	89.3	69.0
P/BV (x)	22.8	18.9	15.4
EV/EBITDA (x)	39.8	33.4	28.0
Div. Yield (%)	0.2	0.2	0.2
FCF Yield (%)	2.7	0.4	1.4

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	75.0	75.0	75.0
DII	10.2	11.3	11.1
FII	2.5	2.0	2.4
Others	12.4	11.7	11.5

FII Includes depository receipts

Stock Performance (1-year)



In the Express lane

- BDE has an unparalleled network covering over 35,000 locations. It caters to more than 220 countries and territories worldwide through its group company, DHL, the premier global brand in Express distribution services.
- It commands ~50% market share in the air express segment and ~17% market share in the Surface Express business. With a fleet of six Boeing 757 freighters (offering a payload of over 500t per flight) and a fleet of 11,122 vehicles, the company handled shipments of 0.72mt in FY21.
- The management is focusing on increasing its presence in Tier II and III regions and in the fast growing Surface Express segment. While the last few years have been challenging for BDE, with respect to Air Express volumes shifting to Surface Express, the outlook looks promising.
- The management's focus on the a) high growth Surface Express, b) premium pricing on some critical Air Express routes, and c) new initiatives like tie-ups for vaccine distribution would aid volume growth. At the CMP, BDE trades at a valuation of 25x FY24E EV/EBITDA. We initiate coverage with an NEUTRAL rating on the stock, with a TP of INR7,010 (27x FY24E EV/EBITDA).

Unparalleled network presence which is critical to the Express business

BDE dominates the organized domestic Air Express market in India, with ~50% share (up from 45.6% in CY15). It has a fleet of six Boeing 757-200 freighters, which allows it to cover more than 35,000 locations in over 220 countries worldwide. It also enjoys strong support from parent DHL. Its market share in the organized Surface Express segment has improved to ~17%, backed by fleet size of over 11,000 vehicles, 2,113 facilities, and hubs. The management is looking to increase its presence in Tier II and III cities, and is focusing on the high growth Surface Express.

Caters majorly to the more stable and profitable B2B segment

The B2B segment commands a lion's share of BDE's revenue (~80%). The segment is more stable as compared to B2C, with a sticky clientele and demand emanating from the Manufacturing segment. The mix would likely be at similar levels going forward. The B2B segment is driven by SME clients and corporates, with formal price contracts. BDE is able to pass on a major portion of the cost increase linked to fuel. We expect the EBITDA margin of 11-12% to sustain going forward.

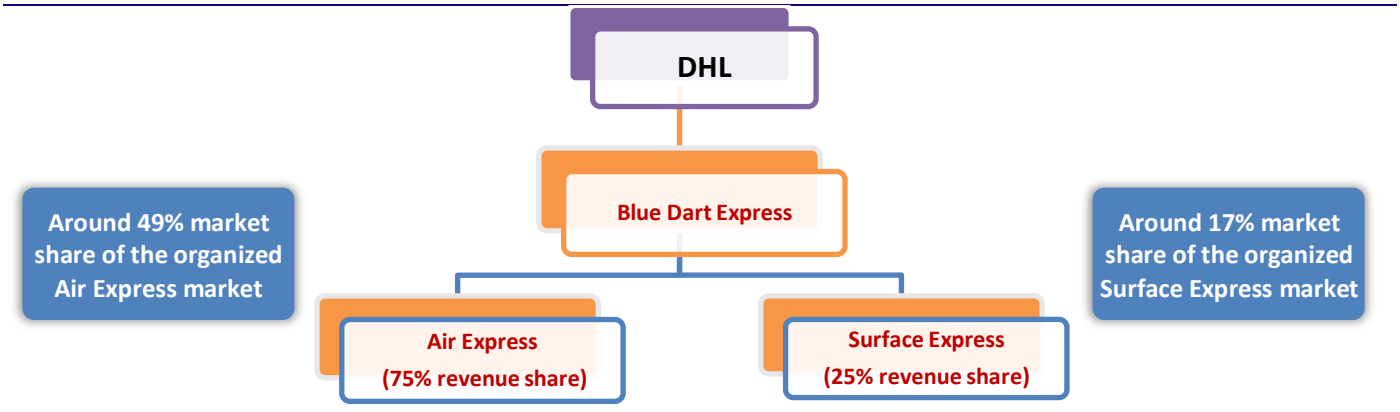
Outlook bright for the Express business

The outlook for the Express business is bright as it is currently at a very niche stage, and demand for faster shipment is on the rise. With changing consumer preferences and reforms like GST, the Express segment is witnessing multiple tailwinds. With a growth in Manufacturing and e-commerce (two key end-users of Express services), the Express industry is pegged to grow by 16-18% CAGR over the next few years. This would be much higher than the 10-12% growth expected in the overall Logistics sector. This would benefit large organized players like BDE. While new age tech enabled players are increasingly gaining share in Express, BDE, with its wide reach, strong brand image, and long standing presence, would be able to tackle competition and largely maintain its market share

Valuation and view – initiate coverage with NEUTRAL rating

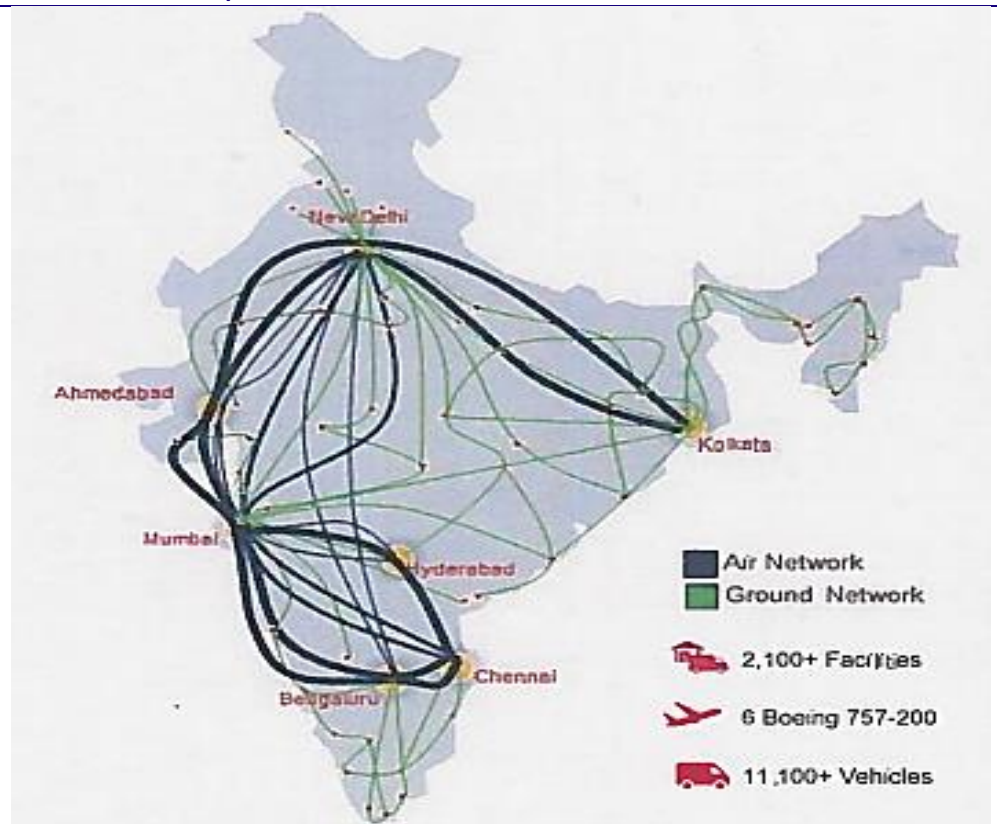
We expect robust demand for BDE’s Express segment (both Air and Surface) over the next couple of years, which would lead to 15% revenue CAGR over FY21-24E. We expect the healthy margin profile to continue, leading to 16% EBITDA CAGR. With no major capex and negligible debt, we expect 28% PAT CAGR, with a RoE of ~23%. We value BDE at 27x EV/EBITDA to arrive at our TP of INR7,010. We initiate coverage on BDE with a Neutral rating.

Exhibit 70: BDE’s business structure



Source: Company, MOFSL

Exhibit 71: Network presence



Source: Company, MOFSL

FULL SUITE OF INTEGRATED SOLUTIONS

CORE SERVICE OFFERINGS

Express Services Offerings Value-Added Services Air Freight Services

<p>Domestic Priority Domestic door-to-door delivery service for documents and small shipments under 32 kgs per piece</p>	<p>GOGREEN Carbon Neutral Services Environmentally responsible shipping option to neutralize carbon emissions</p>	<p>Airport-to-Airport Air freight service between Ahmedabad, Kolkata, Delhi, Mumbai, Bengaluru, Hyderabad and Chennai</p>
<p>Dart Apex Door-to-door day definite delivery solution for commercial shipments</p>	<p>Time Definite Delivery (TDD) Services Guaranteed door-to-door TDD of shipments by specified time with full money back guarantee</p>	<p>Interline Services Agreements with major international airlines for interline trans-shipment of cargo</p>
<p>Dart Surfaceline Premium ground express service providing door-to-door ground distribution solutions</p>	<p>Cash on Delivery (COD) (E-TAIL) Value of the shipment will be collected from the consignee at the time of delivery</p>	<p>Charter Services Charter flights for distribution of large cargo volumes supported by ground-handling facilities</p>
<p>Dart Surfaceline Plus Multimodal, door-to-door, distribution for less time-sensitive bulk shipments</p>	<p>Demand Draft on Delivery (DOD) Collection of demand draft from consignee for shipper Freight on Delivery (FOD) Collection of freight charge from consignee Freight On Value (FOV) Facilitate transit insurance of consignment</p>	<p>Co-Load Domestic air network for leading International express operators</p>
<p>Smart Box -Air/ Ground Packaging unit sized 10 kgs and 25 kgs</p>	<p>Temperature Controlled Logistics Movement in frozen, chilled and ambient conditions for temperature ranging from -20°C, 2-8°C and 15-25°C</p>	<p>India Post Support for Express Mail Service (EMS) service of India Post</p>
<p>Express Pallet -Air/ Ground Packaging unit sized 50 kgs, 75 kgs and 100 kgs</p>	<p>Ground Point to Point Ground express solutions wherein entire truck is contracted to a single customer from origin to destination</p>	<p>Recently introduced Value-Added Services</p>
<p>International Services Door-to-door delivery of international documents and packages. Reach to 220 countries and territories worldwide through DHL</p>	<p>Customized Solutions Customized offerings for students, festivals and Small Medium Enterprises (SMEs)</p>	<p>Critical Express An express solution to move any critical items (like passport, tenders, original papers/ certificates, property documents etc.) in Blue Dart network in a more secure</p>
<p>Reverse Logistics Simplified Return to Origin (RTO) process where the shipment is returned before delivery to the end consumer due to Wrong Address, Shipment Refused, Unavailability</p>	<p>International Time Definite Express (TDX) Guaranteed door-to-door International service for Time Definite Delivery with full money back guarantee</p>	<p>Time Definite Delivery (TDD) for E-tailing Guaranteed door-to-door TDD of E-tailing shipments by specified time with full money-back guarantee.</p>
<p>Reverse Logistics Simplified Return to Origin (RTO) process where the shipment is returned before delivery to the end consumer due to Wrong Address, Shipment Refused, Unavailability</p>	<p>International Time Definite Express (TDX) Guaranteed door-to-door International service for Time Definite Delivery with full money back guarantee</p>	<p>Mobile Wallet Payment Delivery Value added service to strengthen the last mile Services. This service is currently available in Mumbai.</p>

Exhibit 72: Operational trend

Particular	FY18	FY19	FY20	FY21
Shipment handled ('000t)	697	755	769	718
Pin codes	17,767	14,000	14,000	14,000+
Locations covered	35,420	35,423	35,000+	35,000+
Employees	13,500+	13,000+	12,000+	12,000+
Vehicles	11,122	11,122	11,122	11,122

Source: Company, MOFSL

Exhibit 73: B2B constitutes a major portion of this business...

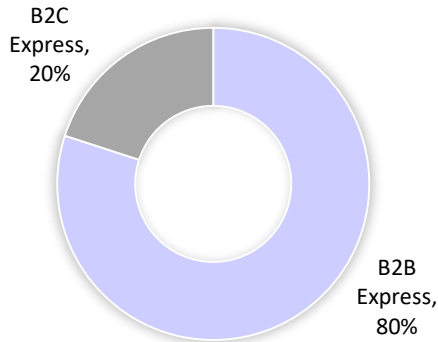
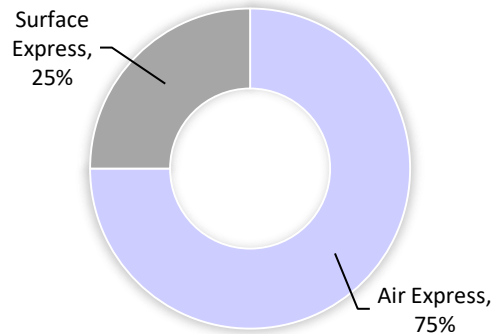


Exhibit 74: ...driven by the Air Express segment



Source: Company, MOFSL

Air express dominates revenue, majorly caters to the B2B segment

- BDE has been a leader in Air Express and generates ~75% of revenue from Air Express. Over the last few years, it has managed to increase its market share in Air and Surface Express cargo.
- It is increasing its focus on the Surface segment. The mix is unlikely to change materially in the near to medium term, as the Air Express segment is growing well and penetration in Surface would be gradual, with increased competition.

Exhibit 75: Commands half the market share in Air Express

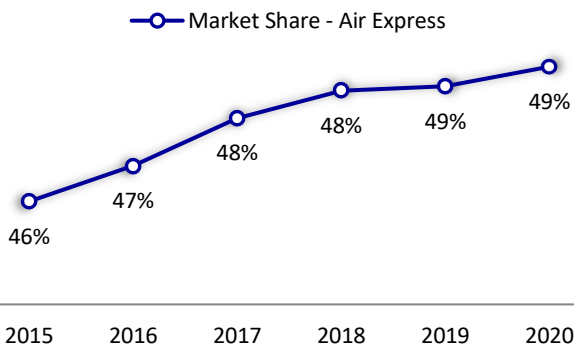
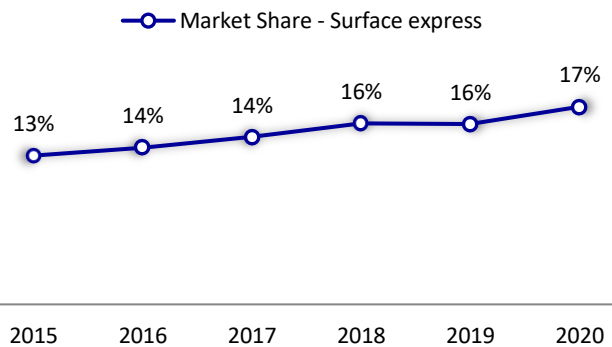


Exhibit 76: Growing focus on the Surface Express segment



Source: Company, MOFSL

Exhibit 77: Volume growth to remain steady

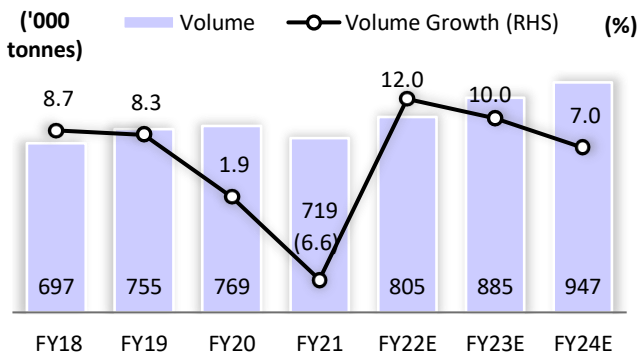
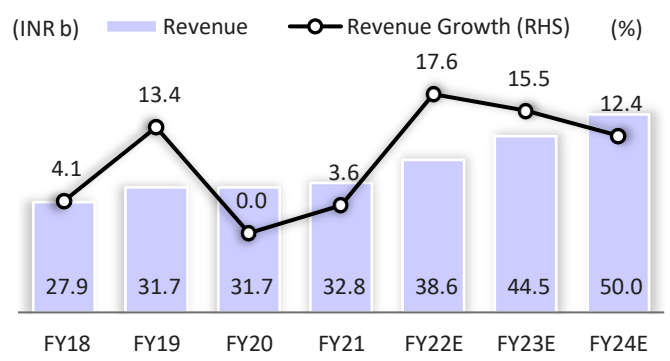


Exhibit 78: Revenue to witness traction as restrictions ease



Source: Company, MOFSL

Exhibit 79: Margin to remain stable

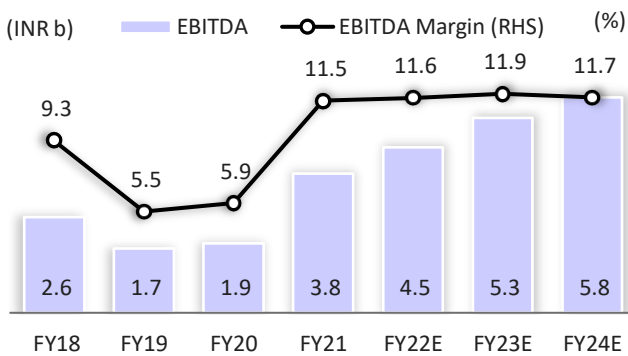
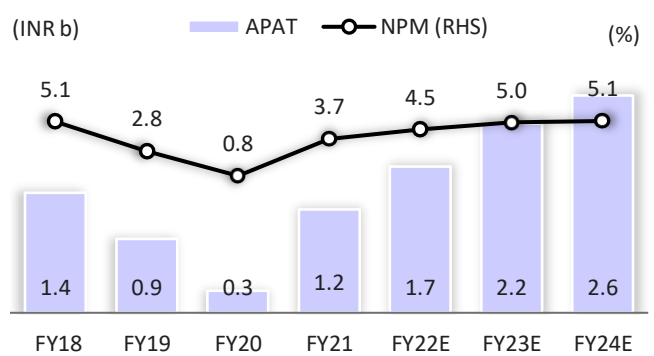


Exhibit 80: PAT to double over the next three years



Source: Company, MOFSL

Exhibit 81: Return ratios to stay elevated

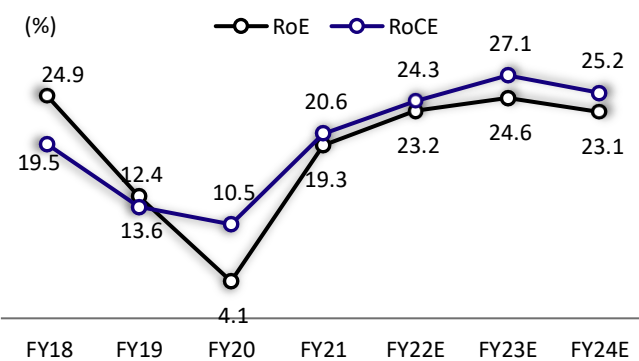
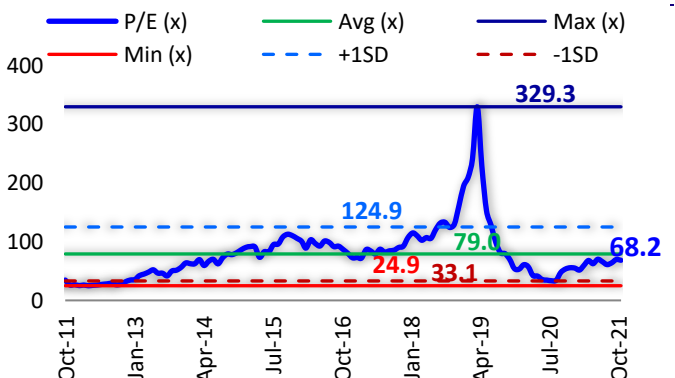
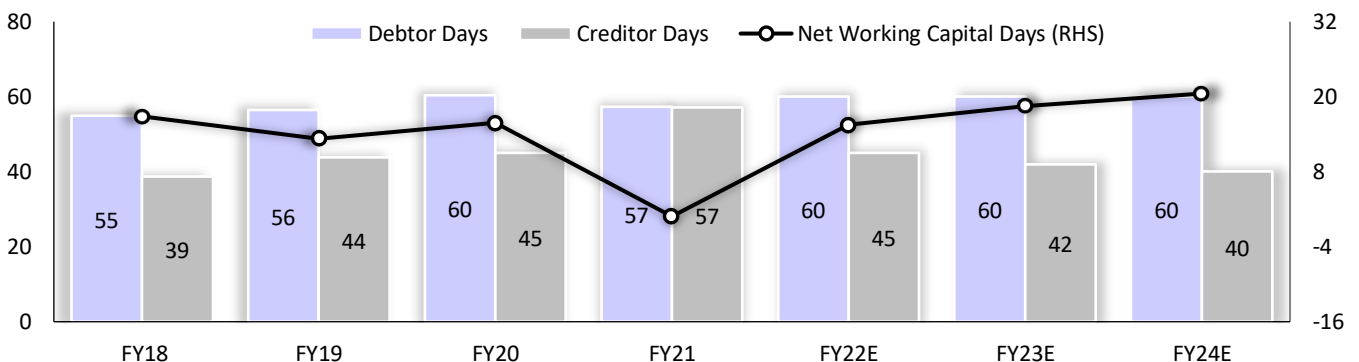


Exhibit 82: Trades at one year forward P/E of 68x



Source: Company, MOFSL

Exhibit 83: Comfortable working capital position



Source: Company, MOFSL

Initiating coverage with a Neutral rating

- The company has a strong parentage and an enviable network, catering to over 35,000 locations. It has a fleet of six aircraft and 11,000 vehicles. BDE enjoys ~50%/~17% market share in the Air/Surface Express segment. The company is well placed to capitalize on opportunities in the Express business.
- Margin has been improving over the last few quarters as BDE has hiked prices. With demand picking up, it has been able to charge a premium in select segments, which has aided profitability.
- Despite FY21 being an extremely challenging year, BDE has managed to grow its topline through improved realizations, while volumes remained marginally lower YoY. Through its dedicated aircraft fleet service, its operations were less impacted as compared to a pure Road transporter.
- Margin is likely to stabilize in the 11-12% range as BDE, with its strong brand image and established clientele, would be able to initiate price hikes to pass on the increase in costs.
- We expect robust demand for BDE in the Express segment (both Air and Surface) over the next couple of years, which would lead to 15% revenue CAGR over FY21-24E. We expect the healthy margin profile to continue, leading to 16% EBITDA CAGR. With no major capex and negligible debt, we expect 28% PAT CAGR, with a RoE of ~23%.
- We value BDE at 27x EV/EBITDA to arrive at our TP of INR7,010. We initiate coverage on BDE with a Neutral rating.

SWOT analysis

STRENGTH

Strong parentage, with a pan India presence in the high growth B2B segment. It commands nearly 50%/17% share in the organized Air/Surface Express segment. With a reputed brand, the company commands pricing power and is able to charge premium pricing in certain segments.


 S

WEAKNESS

Majority of its business is from Air Express, which is expected to grow slower than the Surface Express segment. Increase pricing pressure from funded new age tech driven Logistics service providers could impact BDE's pricing power.


 W

OPPORTUNITY

With the opening up of the economy and need for urgent shipments, demand for Air/Surface Express is expected to remain strong. With the rollout of reforms like GST and e-way bill, additional business will shift to the organized from the unorganized segment. BDE, with its huge network, can capitalize here.


 O

THREAT

Fluctuating fuel prices and irregular movement in freight charges can negatively impact profitability.


 T

Management overview



Mr. Balfour Manuel – Managing Director

Mr. Manuel, a BDE veteran of over 35 years, has been instrumental in its success since inception. Prior to his appointment as Managing Director, he was CEO of the company with effect from 23rd Jan'19. He was also Senior Vice-President in charge of BDE's B2B customers, a cornerstone of the company's customer base. He also held a key general management position, where he was responsible for growth and development of BDE's business in the Western region of India.



Mr. Aneel Gambhir – CFO

Mr. Gambhir has been with BDE for nearly 25 years. He rose the ranks and was appointed as CFO in CY17. He featured in 'The CFO Power List 2020' by the CORE Media Group. He also won the Top 100 CFO Role of Honor Award organized by CFO India in the 'Digital Transformation' category.

Exhibit 84: TP at 27x FY24E EV/EBITDA

	(INR m)	FY21	FY22E	FY23E	FY24E	CAGR (FY21-24E)	Thesis
Bear Case	Revenue	32,797	37,881	42,957	48,262	13.7%	❖ Longer than expected recovery or increase in competition can impact performance
	EBITDA	3,766	4,295	4,849	5,352	12.4%	
	TP: INR6,430	EPS	51.5	67.0	80.8	93.3	
Base Case	Revenue	32,797	38,569	44,548	50,049	15.1%	❖ Expect recovery to be swift from 2QFY22. Margin is likely to remain strong as volumes improve
	EBITDA	3,766	4,485	5,283	5,834	15.7%	
	TP: INR7,010	EPS	51.5	73.0	94.5	108.5	
Bull Case	Revenue	32,797	39,602	46,572	53,791	17.9%	❖ If demand for Air Express picks up faster than expected, then capacity utilization could be even better than expected
	EBITDA	3,766	4,769	5,835	6,844	22.0%	
	TP: INR8,200	EPS	51.5	82.0	111.9	140.4	

Financials and valuations

Standalone – Income Statement

Y/E March (INR m)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	27,909	31,655	31,664	32,797	38,569	44,548	50,049
Change (%)	4.1	13.4	0.0	3.6	17.6	15.5	12.4
Gross Margin (%)	36.2	33.4	31.8	36.2	35.5	35.5	35.5
EBITDA	2,598	1,735	1,878	3,766	4,485	5,283	5,834
Margin (%)	9.3	5.5	5.9	11.5	11.6	11.9	11.7
Depreciation	450	480	1,528	2,007	2,023	2,162	2,300
EBIT	2,148	1,255	350	1,760	2,462	3,121	3,534
Int. and Finance Charges	256	154	321	317	286	277	259
Other Income	225	182	140	127	139	153	169
PBT	2,118	1,284	169	1,569	2,316	2,997	3,443
Tax	697	408	-89	347	584	755	868
Effective Tax Rate (%)	32.9	31.7	-52.7	22.1	25.2	25.2	25.2
PAT before EO. Items	1,421	876	258	1,222	1,732	2,242	2,576
Extraordinary Items	0	0	641	259	0	0	0
Reported PAT	1,421	876	-383	963	1,732	2,242	2,576
Adjusted PAT	1,421	876	258	1,222	1,732	2,242	2,576
Change (%)	1.8	-38.4	-70.5	373.1	41.8	29.4	14.9
Margin (%)	5.1	2.8	0.8	3.7	4.5	5.0	5.1

Standalone – Balance Sheet

Y/E March (INR m)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	238	238	238	238	238	238	238
Total Reserves	5,975	6,410	5,597	6,554	7,930	9,816	12,036
Net Worth	6,213	6,648	5,835	6,792	8,168	10,054	12,274
Deferred Tax Liabilities	-51	-156	-269	-284	-284	-284	-284
Total Loans	1,661	1,462	750	1,425	225	175	75
Capital Employed	7,822	7,954	6,316	7,933	8,109	9,945	12,065
Gross Block	3,858	4,538	7,998	8,071	9,571	11,071	12,571
Less: Accum. Deprn.	1,264	1,685	2,362	3,100	5,122	7,284	9,584
Net Fixed Assets	2,594	2,853	5,636	4,972	4,449	3,787	2,987
Capital WIP	68	76	22	5	5	5	5
Total Investments	1,441	1,441	1,441	2,941	2,941	2,941	2,941
Curr. Assets, Loans, and Adv.	8,111	9,179	8,244	10,164	10,650	13,686	17,119
Inventory	45	59	37	58	53	61	69
Account Receivables	4,200	4,890	5,245	5,149	6,340	7,323	8,227
Cash and Bank Balances	2,273	2,670	985	3,077	2,046	3,749	5,954
Loans and Advances	310	119	8	0	0	0	0
Others	1,283	1,442	1,969	1,880	2,210	2,553	2,868
Current Liab. and Prov.	4,391	5,595	9,027	10,149	9,936	10,475	10,988
Account Payables	2,959	3,795	3,911	5,131	4,755	5,126	5,485
Other Current Liabilities	755	924	3,933	3,808	3,970	4,138	4,292
Provisions	677	877	1,183	1,211	1,211	1,211	1,211
Net Current Assets	3,720	3,584	-783	15	714	3,212	6,131
Application of Funds	7,822	7,954	6,316	7,933	8,109	9,945	12,065

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Basic (INR)							
EPS	59.9	36.9	10.9	51.5	73.0	94.5	108.5
EPS growth (%)	1.8	-38.4	-70.5	373.1	41.8	29.4	14.9
Cash EPS	78.8	57.1	75.3	136.0	158.2	185.6	205.5
BV/Share	261.8	280.1	245.9	286.2	344.2	423.7	517.2
DPS	12.5	12.5	0.0	15.0	15.0	15.0	15.0
Payout (Incl. Div. Tax, %)	25.2	40.8	0.0	37.0	20.5	15.9	13.8
Valuation (x)							
P/E	108.8	176.5	598.8	126.6	89.3	69.0	60.0
Cash P/E	82.6	114.0	86.6	47.9	41.2	35.1	31.7
EV/EBITDA	58.7	87.6	81.4	39.8	33.4	28.0	25.0
EV/Sales	5.5	4.8	4.8	4.6	3.9	3.3	2.9
P/BV	24.9	23.3	26.5	22.8	18.9	15.4	12.6
Dividend Yield (%)	0.2	0.2	0.0	0.2	0.2	0.2	0.2
Return Ratios (%)							
RoE	24.9	13.6	4.1	19.3	23.2	24.6	23.1
RoCE	19.5	12.4	10.5	20.6	24.3	27.1	25.2
RoIC	33.6	21.9	14.0	47.4	73.3	73.3	82.4
Working Capital Ratios							
Fixed Asset Turnover (x)	7.6	7.5	5.1	4.1	4.4	4.3	4.2
Asset Turnover (x)	3.6	4.0	5.0	4.1	4.8	4.5	4.1
Inventory (Days)	1	1	0	1	1	1	1
Debtors (Days)	55	56	60	57	60	60	60
Creditors (Days)	39	44	45	57	45	42	40
Leverage Ratio (x)							
Net Debt/Equity	-0.1	-0.2	0.0	-0.2	-0.2	-0.4	-0.5

Standalone – Cash Flow Statement

Y/E March (INR m)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(Loss) before Tax	2,118	1,284	-472	1,311	2,316	2,997	3,443
Depreciation	450	480	1,678	2,007	2,023	2,162	2,300
Direct Taxes Paid	-719	-655	-551	-276	-584	-755	-868
(Inc.)/Dec. in WC	196	472	77	1,219	-1,730	-795	-714
Other Items	54	-11	205	229	146	124	91
CF from Operations	2,099	1,570	937	4,489	2,171	3,733	4,252
(Inc.)/Dec. in FA	-424	-756	-558	-258	-1,500	-1,500	-1,500
Free Cash Flow	1,674	814	379	4,230	671	2,233	2,752
Change in Investments	3	4	34	-3,710	0	0	0
Others	373	288	129	25	139	153	169
CF from Investments	-49	-464	-395	-3,944	-1,361	-1,347	-1,331
Inc./(Dec.) in Debt	-1,661	-199	-712	675	-1,200	-50	-100
Dividends Paid	-428	-358	-358	0	-356	-356	-356
Others	-256	-154	-1,155	-1,373	-286	-277	-259
CF from Fin. Activity	-2,345	-710	-2,225	-698	-1,842	-683	-715
Inc./(Dec.) in Cash	-296	395	-1,683	-153	-1,031	1,703	2,206
Opening Balance (includes Bank Bal.)	2,554	2,273	2,670	985	3,077	2,046	3,749
Closing Balance (includes Bank Bal.)	2,273	2,670	985	3,077	2,046	3,749	5,954

Mahindra Logistics

BSE SENSEX 61,766
S&P CNX 18,477

CMP: INR753

TP: INR795 (+6%)

Neutral



Stock Info

Bloomberg	MAHLOG IN
Equity Shares (m)	71.7
M.Cap.(INRb)/(USDb)	54 / 0.7
52-Week Range (INR)	819 / 325
1, 6, 12 Rel. Per (%)	2/17/72
12M Avg Val (INR M)	116
Free float (%)	41.7

Financials Snapshot (INR b)

Y/E March	2021	2022E	2023E
Net Sales	32.6	38.7	46.4
EBITDA	1.3	1.9	2.6
Adj. PAT	0.3	0.6	1.0
Adj. EPS (INR)	4.6	7.7	14.5
EPS Gr. (%)	-40.7	68.0	88.2
BV/Sh. (INR)	79.4	84.6	96.5

Ratios

Net D/E (x)	-0.3	-0.1	-0.2
RoE (%)	5.8	9.3	15.9
RoCE (%)	8.2	12.5	18.4
Payout (%)	59.8	32.5	17.3

Valuations

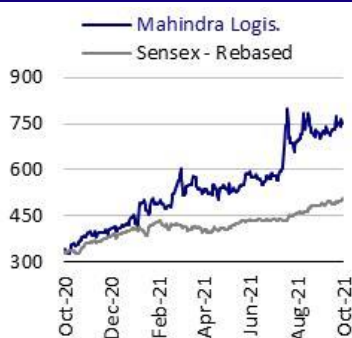
P/E (x)	164.6	97.9	52.0
P/BV (x)	9.5	8.9	7.8
EV/EBITDA (x)	38.9	27.5	19.8
Div. Yield (%)	0.3	0.3	0.3
FCF Yield (%)	4.2	-1.9	2.2

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	58.3	58.3	58.4
DII	11.3	11.9	11.5
FII	21.0	20.9	19.3
Others	9.4	8.8	10.8

FII Includes depository receipts

Stock Performance (1-year)



Present in the right place

- MLL is one of the largest players in the organized 3PL segment, and is well positioned to capitalize on upcoming opportunities. Its largest end-use segment of Automotive (~60% share) is expected to pick-up going forward.
- Even the non-Auto verticals like Pharma and Consumer continue to show strong traction. MLL is adding space in its Warehousing segment, where strong demand is expected over the next few years. MLL has seen a few more positive developments in recent times, which include: a) partnership with Flipkart for deployment of its electric vehicles (EdeI) for last mile delivery, b) an INR10b contract (for the next five years) to provide integrated Logistics services to Bajaj Electricals.
- Robust industry growth, an asset light business model, strong parentage of the Mahindra group are the key triggers for MLL. We expect MLL to clock a revenue/EBITDA/PAT CAGR of ~18%/34%/63% over FY21-24E. The stock currently trades at 38x FY24E EPS. We value MLL at 40x FY24E EPS to arrive at our TP of INR795. We initiate coverage with a Neutral rating.

Value added solutions with an asset light business model

MLL operates an asset light business model, where the assets (vehicles and warehouses) are provided by a large network of business associates (~1,450). This asset light approach allows scalability of services as well as flexibility to develop and offer customized Logistics solutions across a diverse set of industries. Through this, MLL provides scalable and customized solutions in cross-border Logistics, Warehousing, fulfilment, stores and linefeed, yard management, contractual workforce management, just-in time services, aftermarket Logistics, layout, process design support, returns processing, and distribution.

Strong parentage and business from MM's AFS business

MLL currently caters to four of MM's group companies. It handles a lion's share of (over 95%) of MM's Auto and Farm Segment (AFS) requirements. In AFS (~55% of MLL's revenue), growth is dependent on: a) vehicle volumes and type, b) manufacturing locations, and c) lead travel distance. Being a part of the USD20b Mahindra group, MLL has scope to explore various opportunities within group companies and has the ability to widen its presence, given its vast experience in handling the supply chain across multiple industries.

Robust industry outlook for the 3PL segment

The Indian 3PL market is expected to grow at 16-18% annually over the next few years due to GST and as most companies are looking to outsource more of their Logistics functions to professional entities post the outbreak of COVID-19.

All key sectors of 3PL like Auto, Pharma, and Consumer Durables are expected to sharply pick up from a very low base. Demand for value added services would be on the rise, and the consolidation in the industry would lead to higher business for organized 3PL operators.

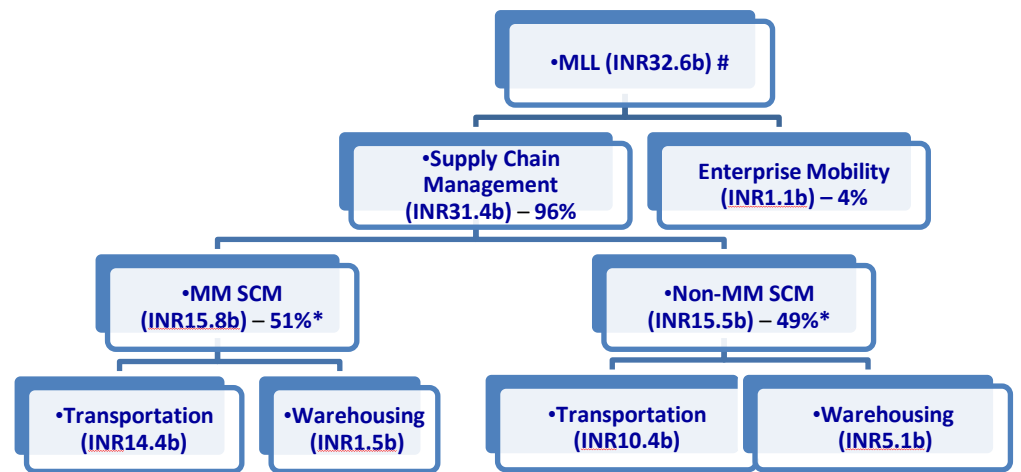
Increasing share of non-MM clients; return ratios to improve

Non-MM share in overall supply chain business has improved to 45-50% in FY21 from 40% in FY17. EBITDA margin has been steady and improving, despite the challenges. The new initiatives and tie-ups are expected to yield results over the next few years. We expect 34% EBITDA CAGR, with an improvement in RoE to 19% in FY24E from ~6% in FY21.

Valuation and view – initiating coverage with a Neutral rating

The prospects are extremely bright for MLL as it would be able to scale up fast (with its asset light model) as demand picks up. Key triggers for MLL include: a) strong parentage, b) improved outlook for the end-user segment, which would increase the demand for 3PL services, and c) industry consolidation. While the Enterprise Mobility segment has been hit due to COVID-19, it is a very small contributor to the overall business. We value the stock at 40x FY24E EPS to arrive at our TP of INR795. We believe the company would significantly benefit from its presence in the value added 3PL segment, which would outpace growth in the overall Logistics space.

Exhibit 85: MLL’s business structure



Source: Company, MOFSL; all numbers are for FY21

Exhibit 86: Summary of business verticals and associates/joint venture

Business segments, subsidiaries, and JVs	Details
Supply Chain Management	<ul style="list-style-type: none"> ❖ Offers customized end-to-end Logistics solutions, including transportation and distribution, Warehousing, in-factory Logistics, and value-added services ❖ Operates through a pan-India network comprising 16 offices ❖ The company has a large network of more than 1,450 business partners, providing vehicles, warehouses, and other assets. In addition, it manages over 18m sq. ft. of Warehousing space (multi-user warehouses, built-to-suit warehouses, stockyards, network hubs, and cross-docks) ❖ Its asset-light business model, with solution design capabilities, enables the company to serve over 300 domestic and multinational companies operating in several industry verticals in India, including Automotive, Engineering, Consumer Goods, Pharmaceuticals, e-commerce, and bulk ❖ Key clients include Volkswagen, Vodafone Idea, Thermax, JSW Steel, Ashok Leyland, Siemens, Bosch, BMW, 3M, and Mercedes-Benz
Enterprise Mobility Service	<ul style="list-style-type: none"> ❖ Provides technology-enabled people transportation solutions and services across India to more than 100 domestic and multinational companies operating in the IT, ITeS, Business Process Outsourcing, Financial Services, Consulting, and Manufacturing ❖ Offers a fleet of vehicles provided by a large network of more than 350 business partners across 12 cities ❖ Key clients include Tech Mahindra, AXISCADES Engineering Technologies, and ANZ Support Services
Lords Freight (India)	<ul style="list-style-type: none"> ❖ A 99% subsidiary of the company ❖ Provides international freight forwarding services for export and import, custom brokerage operations, project cargo services, and charters
2x2 Logistics	<ul style="list-style-type: none"> ❖ A 55% subsidiary of the company ❖ Provides Logistics and transportation services to OEMs to carry finished Automobiles from their manufacturing locations to stockyards or directly to distributors through specially designed vehicles
Transtech Logistics	<ul style="list-style-type: none"> ❖ A joint venture company, acquired a strategic stake (40%) in Transtech Logistics in FY19 ❖ Offers ShipX, a SaaS (software as a service) based transport management solutions (TMS) platform to 3PLs, shippers, and transporters

New initiatives and recent tie-ups

EDel – last mile delivery

MLL introduced 'EDel' a last-mile cargo delivery service, entirely operated on EVs, with an aim to streamline B2C deliveries across major cities in India. EDel is aimed at catering to the growing demand for e-commerce from Consumer Goods, Pharma, and Retail clients. Currently, EDel operates in six major Indian cities: Mumbai, Pune, Bengaluru, New Delhi, Kolkata, and Hyderabad. MLL plans to scale its fleet to over 1,000 EVs across 14 Indian cities.

MLL has tied up with Flipkart to deploy a large fleet of EVs and manage its operations across India. This includes building supporting infrastructure and technology such as charging stations and parking lots, training the workforce, route planning, and even battery swapping stations in the near future. MLL will, under its electric delivery brand EDel, be procuring different types and classes of EVs from OEMs as it establishes a pan India EV presence.

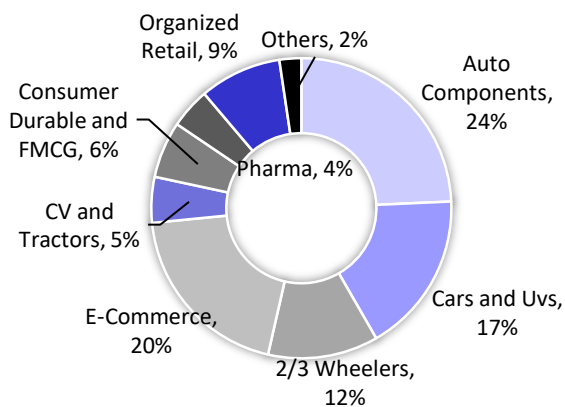
Tie-up with Bajaj Electricals

Bajaj Electricals (BEL) and MLL recently entered into an INR10b agreement for Logistics optimization and outsourcing. The contract is to be executed over a five-year period. The deal is an end-to-end redesign and outsourcing of BEL's entire Logistics by MLL, which is expected to reduce Logistics cost for the former by more than 25%.

Improved industry outlook for 3PL providers – a key trigger for MLL

The 3PL market in India is largely dominated by the Automotive sector, where there is a heavy requirement for Warehousing as well as transportation. In the past few years, the 3PL segment is estimated to have grown by over 20% CAGR, with increasing customer adoption and more players entering this space. Of this, significant growth has been seen for 3PL from fast growing segments like e-commerce and Organized retail. Large segments like Automotive have mirrored the industry growth, while still growing at 15-20% CAGR.

Exhibit 87: Auto/Auto Comps drives more than half of 3PL business in FY20



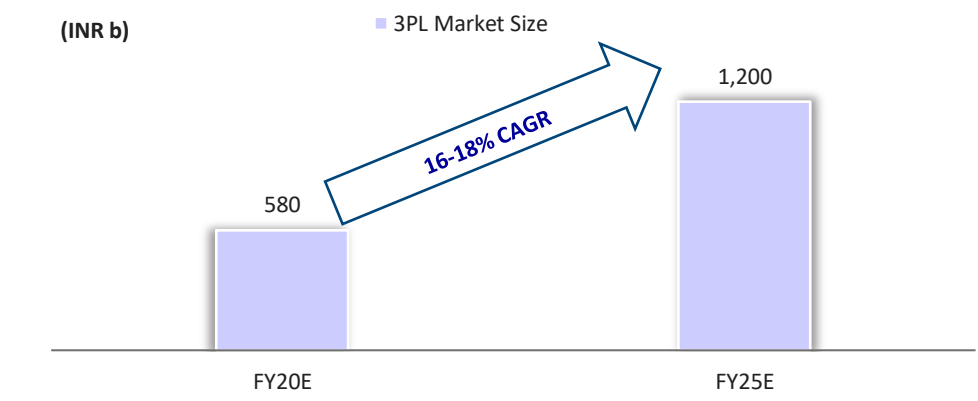
3PL growth across sectors	FY17-20E CAGR
Auto components	15%
Cars and UVs	21%
2/3 Wheelers	14%
e-commerce	31%
CVs and Tractors	9%
Consumer Durables and FMCG	26%
Pharmaceuticals	9%
Organized Retail	30%
Others	13%

Source: Industry Reports, MOFSL

Growth momentum to continue over the next few years

While the Logistics sector is expected to grow by 10-12% during the next five years, the 3PL segment is expected to outpace that growth (16-18% CAGR). The higher growth is attributable to low penetration of 3PL in the Indian Logistics sector and increasing adoption of 3PL services post the pandemic.

Exhibit 88: 3PL to outpace overall industry growth



Source: Company, MOFSL

Revenue growth to be driven by broad-based growth across segments

Supply Chain Management

Over the last few years, growth in non-MM SCM has been higher than growth in MM SCM due to new client additions on a regular basis. While the Auto segment struggled due to lockdowns, other segments like Pharma and Consumers performed well. This resulted in the share of the business from MM fall to 50-55% at present from 60% in FY17. Going forward, no major shift is expected as the business from MM is itself expected to grow, backed by an improved outlook in the Auto and Farm verticals. We expect the SCM segment to grow at 18% CAGR over FY21-24E.

Enterprise Mobility

This segment continues to be severely impacted as most companies are following a work from home (WFH) policy in the wake of COVID-19 outbreak. Going forward, we expect this segment to continue to struggle as WFH continues for some more time. Growth in this segment would take time to recover materially. We expect this segment to grow at 10% CAGR over FY21-24E, despite the lower base.

Exhibit 89: Key revenue assumptions

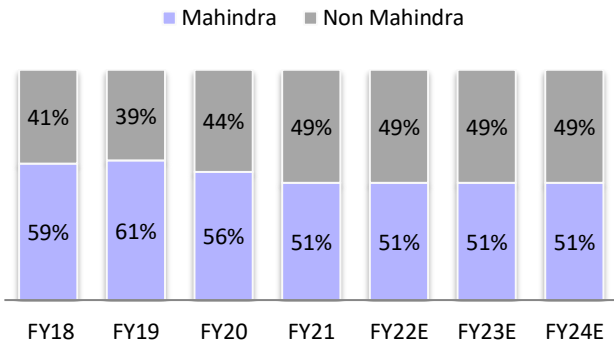
Particulars (INR m)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenue breakup								
Supply Chain Management	23,716	30,761	34,663	31,035	31,447	37,427	44,912	51,649
MM	14,186	18,201	21,003	17,294	15,972	19,166	23,000	26,450
Non-MM	9,530	12,560	13,660	13,741	15,475	18,261	21,913	25,199
Enterprise Mobility	2,950	3,400	3,850	3,676	1,191	1,310	1,441	1,585
Total Revenue	26,666	34,161	38,513	34,711	32,638	38,737	46,353	53,234

Source: Company, MOFSL

Operating performance to remain strong, return ratios set to improve

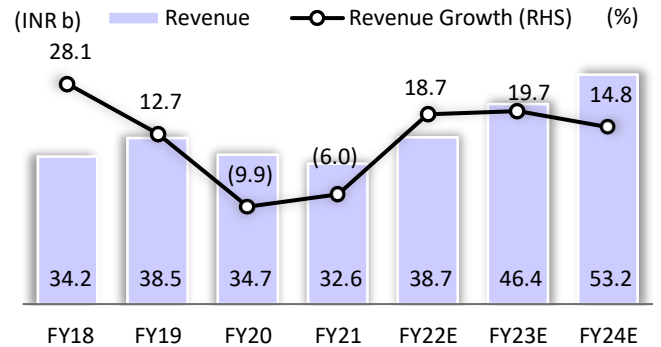
Its operating margin in FY20 was supported by ~160bp YoY improvement in profitability, due to lease adjustments related to Ind AS 116 accounting. Going forward, we expect operating margin to improve to 6% by FY24E. This would be due to better product mix, which would be driven by increasing contribution from the high margin Warehousing segment. The focus on integrated offerings and improved scale of operations would support its margin performance. With strong earnings performance and limited capex requirements, we expect return ratios to improve to nearly 19% in FY24E from 6% at present. We believe MLL is well placed to capitalize on the 3PL opportunity.

Exhibit 90: MM's share to stabilize at 50%



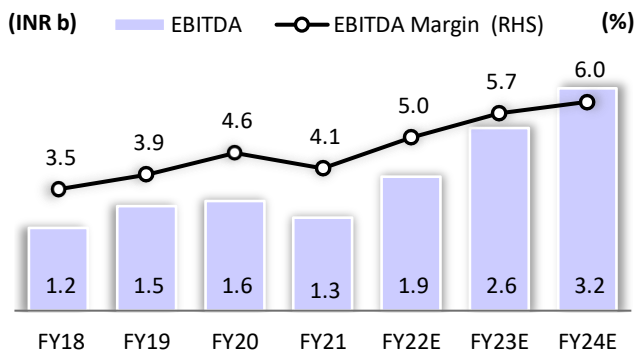
Source: Company, MOFSL

Exhibit 91: Revenue growth to be driven by the SCM segment



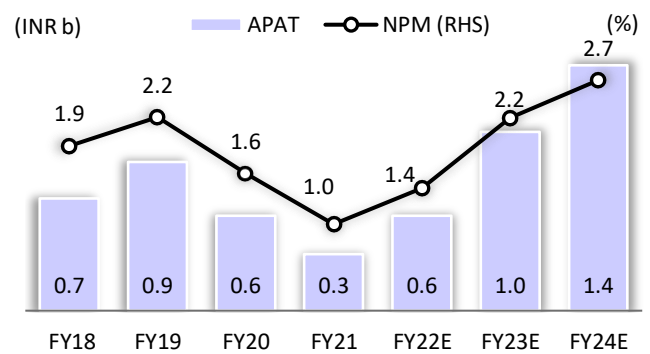
Source: Company, MOFSL

Exhibit 92: Margin to remain strong



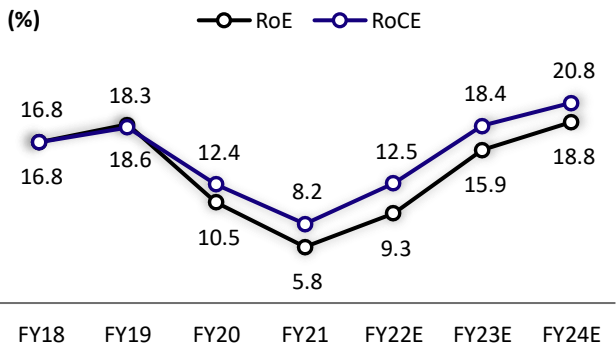
Source: Company, MOFSL

Exhibit 93: Strong operating performance to drive PAT growth



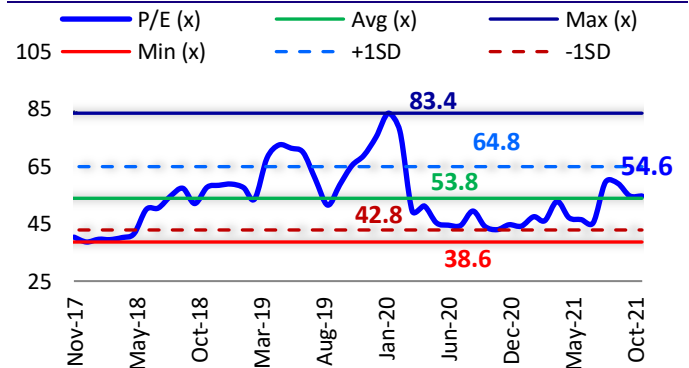
Source: Company, MOFSL

Exhibit 94: Return ratios to improve with strong earnings



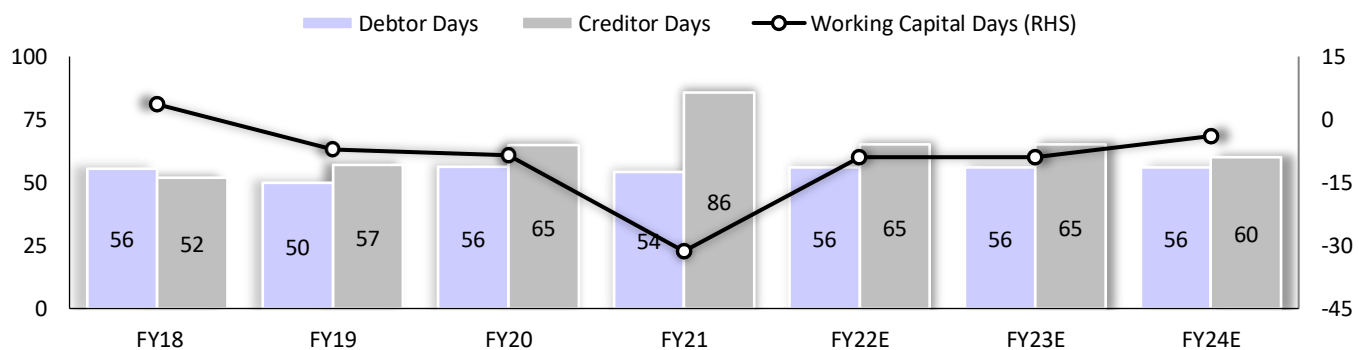
Source: Company, MOFSL

Exhibit 95: Trades at one year forward P/E of 55x



Source: Company, MOFSL

Exhibit 96: Comfortable working capital position



Source: Company, MOFSL

Initiating coverage with a Neutral rating

- One of the biggest organized players in the value-added 3PL segment, providing an array of services from Transportation, Warehousing, Freight forwarding, etc. The company operates on an asset light basis and has tie-ups with nearly 1,700 business associates for hiring of trucks and warehouses for its operations.
- Over the years, the company has added new clients and reduced exposure to the Mahindra group to ~50% (from 60% earlier). The end-user segments are well spread across Auto and non-Auto verticals.
- Reforms like GST and e-way bill are transforming the Logistics industry. Consolidation in the industry is resulting in a shift in business to organized from the unorganized players and would help players like MLL.
- The 3PL industry is expected to grow higher than the overall Logistics industry due to the value added proposition and integrated solutions that it offers and the low base. Client inquiries have increased post-pandemic as companies are now looking to outsource most of their Logistics requirements.
- We expect margin to stay robust, despite the sharp increase in fuel costs. Its long-term relations with clients ensure a smooth pass on of fuel price increase. The increasing scale of operations would also aid margin.
- With a strong growth expected in 3PL, we expect MLL to deliver 18% revenue CAGR over FY21-24E. We expect margin profile to improve to ~6%, driven by a pickup in volumes and premium service proposition. With a strong operational performance and no significant capex, we expect RoE to improve to ~19% in FY24E.
- We value MLL at 40x FY24E EPS to arrive at our TP of INR795. We initiate coverage on MLL with a Neutral rating.

SWOT analysis

STRENGTH

One of the established players in the high growth 3PL segment. In 3PL, MLL provides integrated solutions, which increase its addressable market, as against being a pure-play transporter. Its asset light business model is a key positive and allows scaling up.


 S

WEAKNESS

The Company is highly dependent on the Mahindra group (50-55%) and could be impacted by this high client concentration. The business is focused on only one segment, which is 3PL. A slower than expected industry growth could impact performance.


 W

OPPORTUNITY

Value added segments, like 3PL, are set to gain traction, with greater outsourcing of the Logistics function by companies. With the rollout of reforms like GST and e-way bill, additional business will shift to the organized segment.


 O

THREAT

New age funded startups are willing to provide services to customers at very low prices, which could impact some business. The pandemic has resulted in customers focusing on cost rationalization and reduction, and this has led to increased pricing pressure on Logistics operators.


 T

Exhibit 97: TP at 40x FY24E EPS

	(INR m)	FY21	FY22E	FY23E	FY24E	CAGR (FY21-24E)	Thesis
Bear Case TP: INR650	Revenue	32,637	37,474	44,114	50,660	15.8%	❖ Longer than expected economic recovery can lead to the key segments of SCM to recover slower.
	EBITDA	1,342	1,765	2,335	2,858	28.7%	
	EPS	4.6	5.9	11.3	16.2	52.5%	
Base Case TP: INR795	Revenue	32,637	38,737	46,353	53,234	17.7%	❖ Expect recovery to be strong from 2QFY22. Key segments like Auto to see a strong pickup
	EBITDA	1,342	1,937	2,639	3,209	33.7%	
	EPS	4.6	7.7	14.5	19.9	63.2%	
Bull Case TP: INR895	Revenue	32,637	39,366	47,869	54,977	19.0%	❖ Sharp increase in adoption of 3PL by new clients could result in a better than expected performance
	EBITDA	1,342	2,022	2,845	3,446	36.9%	
	EPS	4.6	8.6	16.6	22.4	69.7%	

Management overview



Mr. Rampraveen Swaminathan – Managing Director and CEO

Mr. Swaminathan has two decades of global business leadership experience, spanning the Automotive, Energy, and Paper sectors. He started his career with the Tata group. His other stints include positions with Cummins, International Paper Co., and Schneider Electric. He was Chairman and Managing Director of International Paper APPM, a listed company. His areas of expertise include strategy and planning, business management, international operations, and operations transformation. He was appointed to the board of MLL, effective 4th Feb'20, and is also a member of the Corporate Social Responsibility and Risk Management Committee of the board. He holds an MBA degree in Finance and Strategy from T.A. Pai Management Institute, India, and a Bachelors' degree in Commerce from Bangalore University. He is an alumnus of the Harvard Business School's Executive Strategy Program (CY07).



Mr. Yogesh Patel – CFO

Mr. Patel has over 20 years of experience across the finance function, which includes FP&A, accounting and controllership, pricing and commercial structuring, procurement, contracting, treasury and fund management, auditing, and statutory compliances. A Chartered Accountant and a Commerce graduate from the Kolkata University, he was associated with HCG as CFO, E&Y as Director – Finance, Wipro as Vice President – Finance, IBM as Country Finance Planning Manager, among others. He joined MLL in CY18.



Mr. Sushil Rathi – COO, Transportation and Procurement, MLL and CEO, Lords Freight

Mr. Rathi graduated with a Bachelor's degree in Mechanical Engineering from Maulana Azad College of Technology, Bhopal University and has a Post Graduate Diploma in Industrial Engineering from the National Institute for Training Industrial Engineering. Prior to joining MLL, he worked with Anantara Solutions Pvt., Premier Automobiles, and Satyam Computer Services. He was awarded with the supply chain visionary of the year award by Kami Kaze. Mr. Rathi joined MLL in CY11.

Financials and valuations

Consolidated – Income Statement

Y/E March (INR m)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	34,161	38,513	34,711	32,637	38,737	46,353	53,234
Change (%)	28.1	12.7	-9.9	-6.0	18.7	19.7	14.8
Gross Margin (%)	12.2	12.4	15.5	15.3	15.3	15.3	15.3
EBITDA	1,197	1,512	1,583	1,342	1,937	2,639	3,209
Margin (%)	3.5	3.9	4.6	4.1	5.0	5.7	6.0
Depreciation	197	220	734	897	1,094	1,164	1,234
EBIT	1,000	1,293	848	446	843	1,475	1,975
Int. and Finance Charges	38	35	176	201	299	302	305
Other Income	59	76	140	175	192	211	233
PBT	1,021	1,334	812	420	735	1,384	1,902
Tax	368	468	257	100	185	348	479
Effective Tax Rate (%)	36.1	35.1	31.7	23.9	25.2	25.2	25.2
PAT before MI, Associates, and EO Items	653	867	555	319	550	1,036	1,423
Share of profit/(loss) of Associates and JVs	0	-3	-3	8	0	0	0
Extraordinary Items	0	0	0	28	0	0	0
Reported PAT	653	864	552	300	550	1,036	1,423
Adjusted PAT	653	864	552	328	550	1,036	1,423
Change (%)	41.5	32.4	-36.1	-40.7	68.0	88.2	37.4
Margin (%)	1.9	2.2	1.6	1.0	1.4	2.2	2.7

Consolidated – Balance Sheet

Y/E March (INR m)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	711	715	715	717	717	717	717
Total Reserves	3,485	4,268	4,731	4,964	5,335	6,192	7,437
Net Worth	4,196	4,982	5,447	5,681	6,052	6,909	8,153
Minority Interest	70	57	54	28	28	28	28
Deferred Tax Liabilities	-141	-187	-200	0	0	0	0
Total Loans	346	377	359	292	322	353	384
Capital Employed	4,471	5,229	5,660	6,000	6,402	7,290	8,565
Gross Block	1,126	1,361	3,594	5,520	5,870	6,220	6,570
Less: Accum. Deprn.	467	648	1,285	1,903	2,996	4,160	5,394
Net Fixed Assets	659	713	2,310	3,617	2,873	2,059	1,175
Capital WIP	6	26	150	21	21	21	21
Total Investments	501	813	31	0	75	150	225
Curr. Assets, Loans, and Adv.	8,554	10,312	11,527	13,149	14,203	17,925	21,178
Inventory	0	0	0	0	0	0	0
Account Receivables	5,200	5,251	5,356	4,856	5,943	7,112	8,167
Cash and Bank Balances	660	700	995	1,978	804	1,891	2,763
Cash	660	550	995	1,978	804	1,891	2,763
Bank Balance	0	150	0	0	0	0	0
Loans and Advances	0	150	150	0	0	0	0
Others	2,693	4,212	5,026	6,315	7,456	8,922	10,247
Current Liab. and Prov.	5,248	6,635	8,359	10,787	10,770	12,865	14,033
Account Payables	4,863	6,001	6,172	7,661	6,898	8,255	8,751
Other Current Liabilities	205	419	1,974	3,065	3,638	4,353	4,999
Provisions	180	215	213	61	234	257	283
Net Current Assets	3,306	3,677	3,169	2,362	3,433	5,060	7,144
Application of Funds	4,471	5,229	5,660	6,000	6,402	7,290	8,565

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Basic (INR)							
EPS	9.1	12.1	7.7	4.6	7.7	14.5	19.9
EPS growth (%)	41.5	32.4	-36.1	-40.7	68.0	88.2	37.4
Cash EPS	11.9	15.1	18.0	17.1	23.0	30.7	37.1
BV/Share	58.6	69.6	76.1	79.4	84.6	96.5	113.9
DPS	1.5	1.8	1.5	2.5	2.5	2.5	2.5
Payout (incl. Div. Tax, %)	19.7	17.9	19.5	59.8	32.5	17.3	12.6
Valuation (x)							
P/E	82.6	62.4	97.6	164.6	97.9	52.0	37.9
Cash P/E	63.4	49.7	41.9	44.0	32.8	24.5	20.3
EV/EBITDA	44.3	34.9	33.6	38.9	27.5	19.8	16.0
EV/Sales	1.6	1.4	1.5	1.6	1.4	1.1	1.0
P/BV	12.8	10.8	9.9	9.5	8.9	7.8	6.6
Dividend Yield (%)	0.2	0.2	0.2	0.3	0.3	0.3	0.3
Return Ratios (%)							
RoE	16.8	18.6	10.5	5.8	9.3	15.9	18.8
RoCE	16.8	18.3	12.4	8.2	12.5	18.4	20.8
RoIC	21.5	24.0	14.2	8.0	13.3	20.6	27.4
Working Capital Ratios							
Fixed Asset Turnover (x)	33.6	31.0	14.0	7.2	6.8	7.7	8.3
Asset Turnover (x)	7.6	7.4	6.1	5.4	6.1	6.4	6.2
Inventory (Days)	0	0	0	0	0	0	0
Debtors (Days)	56	50	56	54	56	56	56
Creditors (Days)	52	57	65	86	65	65	60
Leverage Ratio (x)							
Net Debt/Equity	-0.1	-0.1	-0.1	-0.3	-0.1	-0.2	-0.3

Consolidated – Cash Flow Statement

Y/E March (INR m)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(Loss) before Tax	1,021	1,334	812	392	735	1,384	1,902
Depreciation	197	220	734	897	1,094	1,164	1,234
Direct Taxes Paid	-701	-419	-325	515	-185	-348	-479
(Inc.)/Dec. in WC	-483	-265	-653	838	-2,442	-745	-1,398
Other Items	85	80	285	295	107	91	73
CF from Operations	119	950	854	2,937	-691	1,546	1,332
(Inc.)/Dec. in FA	-372	-342	-617	-690	-350	-350	-350
Free Cash Flow	-253	608	237	2,247	-1,041	1,196	982
Change in Investments	86	-258	786	-588	-75	-75	-75
Others	287	-347	186	198	25	-39	6
CF from Investments	1	-947	355	-1,080	-400	-464	-419
Change in Equity	72	27	4	2	0	0	0
Inc./(Dec.) in Debt	3	23	-18	-67	30	31	31
Dividends Paid	0	-129	-155	-107	-179	-179	-179
Others	-37	-35	-594	-702	66	154	107
CF from Fin. Activity	39	-113	-763	-875	-83	6	-42
Inc./(Dec.) in Cash	159	-111	446	982	-1,174	1,088	872
Opening Balance	502	660	550	995	1,978	804	1,891
Closing Balance	660	550	995	1,978	804	1,891	2,763

Container Corporation

BSE SENSEX 61,716 S&P CNX 18,419



Stock Info

Bloomberg	CCRI IN
Equity Shares (m)	609
M.Cap.(INRb)/(USDb)	413.2 / 5.5
52-Week Range (INR)	754 / 355
1, 6, 12 Rel. Per (%)	-12/-8/35
12M Avg Val (INR M)	1734
Free float (%)	45.2

Financials Snapshot (INR b)

Y/E March	2021	2022E	2023E
Net Sales	63.8	76.0	94.4
EBITDA	10.3	17.6	22.1
Adj. PAT	5.9	11.0	14.3
Adj. EPS (INR)	9.6	18.1	23.5
EPS Gr. (%)	-42.0	88.0	29.9
BV/Sh. (INR)	167.5	174.7	184.1

Ratios

Net D/E (x)	-0.2	-0.3	-0.4
RoE (%)	5.8	10.6	13.1
RoCE (%)	5.8	10.9	13.4
Payout (%)	60.0	60.0	60.0

Valuations

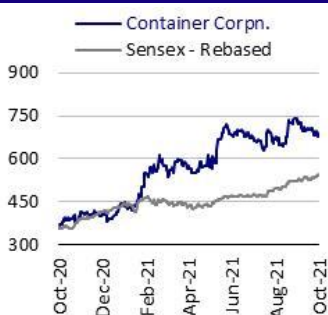
P/E (x)	70.4	37.5	28.8
P/BV (x)	4.0	3.9	3.7
EV/EBITDA (x)	36.2	20.8	16.1
Div. Yield (%)	0.7	1.6	2.1
FCF Yield (%)	1.4	3.0	3.8

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	54.8	54.8	54.8
DII	16.3	16.5	14.4
FII	24.9	24.0	26.7
Others	4.0	4.7	4.2

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR678

TP: INR800 (+18%)

Buy

Largest beneficiary of DFC

- Container Corporation of India (CCRI) is the undisputed market leader in Rail freight Logistics and is the biggest beneficiary of the commissioning of the dedicated freight corridor (DFC), which enables: a) double stacking, b) higher load capacities, and c) reduced turnaround time.
- The recent rationalization of land licensing fee (LLF), after consultation with the Land Revenue Department, has brought down the LLF liability for FY22 to INR3.8b (v/s INR4.5b as guided earlier). Nearly 40% of CCRI's container terminals are running on land leased from the Indian Railways.
- On the back of benefits from DFCs, leading to higher volumes and lower LLF, we expect CCRI to clock a revenue/EBITDA/PAT CAGR of ~22%/37%/44% over FY21-24E. The management's focus on profitable routes and investments in containers would support its earnings profile. The stock trades at 13x FY24E EV/EBITDA. We derive a DCF-based TP of INR800 and maintain our Buy rating on the stock.

Commissioning of the DFC to drive earnings growth

- The Rewari-Palanpur section of the DFC has commenced operations from Jul'21, improving the turnaround time and leading to better profitability.
- As more routes get commissioned, the Railway is expected to attract more traffic, driving the shift in volumes from Road to Rail.
- CCRI, which holds 65-70% share in Rail container traffic, is expected to be the largest beneficiary of this commissioning.

Base revised lower for LLF

- LLF liability for FY22 has been pegged at INR3.8b (v/s its earlier guidance of INR4.5b). This is after discussion with the Land Revenue Department, where the land value for LLF calculation has been lowered.
- Almost 40% of CCRI's container terminals are running on land leased from the Indian Railways.
- CCRI plans to enter a 35-year lease agreement with the Railways for its 24 terminals by making an upfront payment of 99% of the market value of the land, which should be in the INR60-70b range. The upfront payment would be financed through debt (~INR35b) and cash on its books.

Capex in Infrastructure and IT to increase domestic market share

- The management's capex guidance stands at INR5b for FY22 (INR4.5b in FY21). Of this, INR3b would be used for the procurement of equipment and rakes, and INR2b would be used to enhance IT and Infrastructure and on land acquisitions.
- It plans to procure 8,000 containers annually during FY22-26, which would aid growth in the domestic business. It has procured 24k containers in the last three years and has a total of 37k containers.
- It plans to procure 270 rakes (25t axle load) over FY22-26, of which 48 would be procured in FY22. It currently has 12 such rakes.
- It expects to improve volume share in the domestic business to 30% by FY22 end v/s 20% in 1QFY22, and targets 40% share over the next 3-4 years.

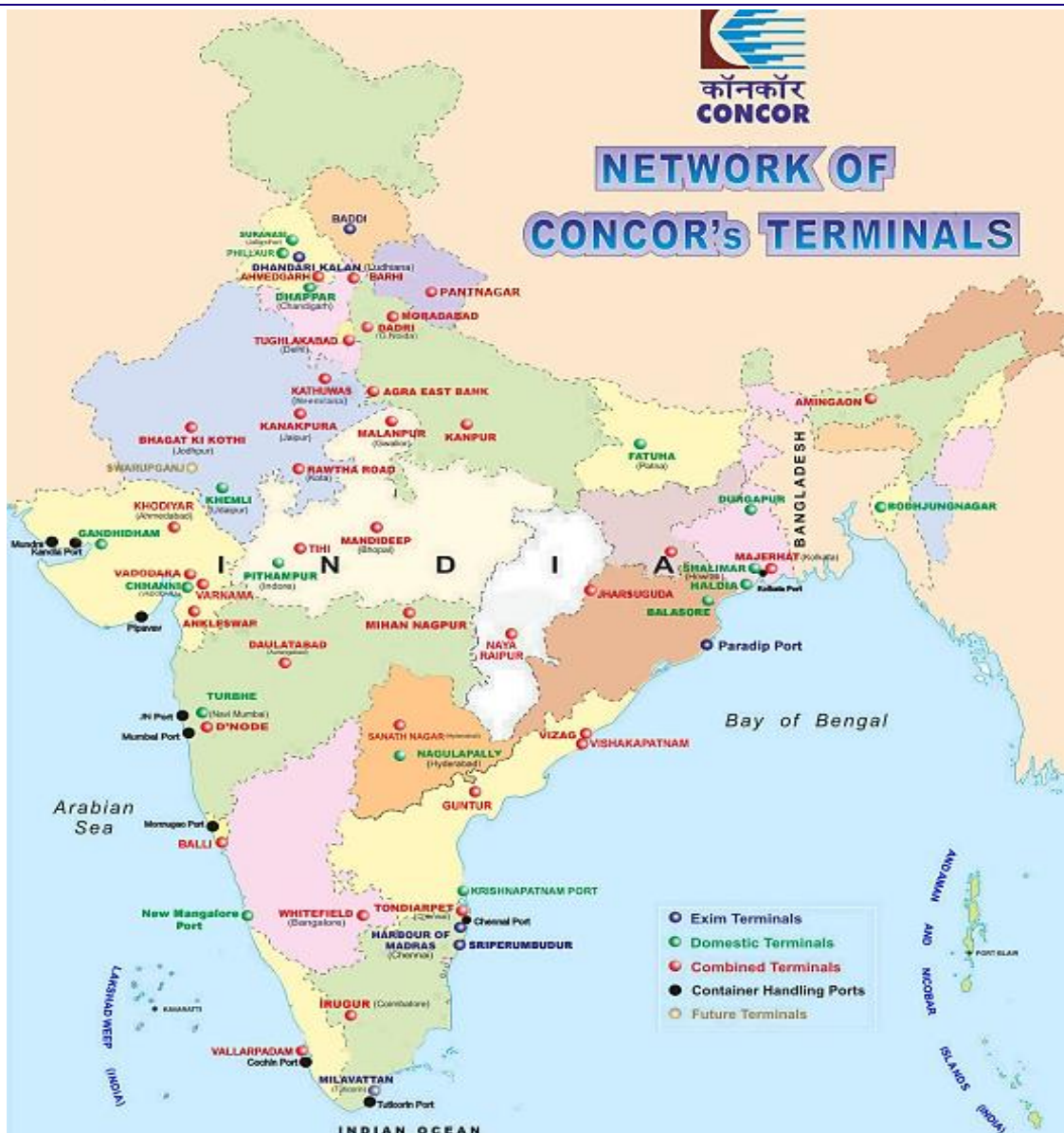
Exploring bulk transportation opportunities

- CCRI undertook bulk transportation of 300KT of food grains in FY21 and plans to ramp this up further. The management has identified plenty of opportunities for transportation of commodities such as sugar, cement, salt, oil, etc., and is working on a plan for the same.
- It would commence operations for bulk transportation of cement in 1QFY23.

Valuation and view: Maintain Buy

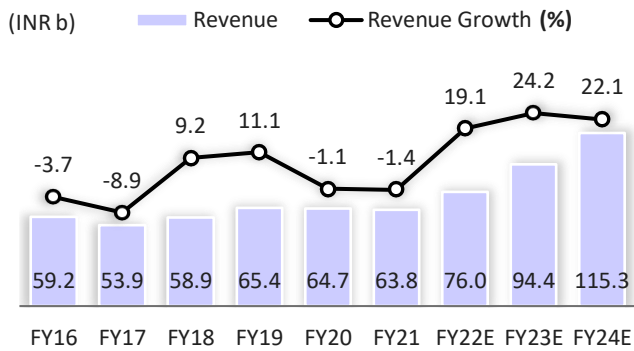
Over the next three years, we expect volumes to pick up with the phase-wise commissioning of DFCs, thereby leading to 22% revenue CAGR over FY21-24E. With a pickup in volumes and efficiency improvements from the commissioning of DFC, we expect EBITDA margin to touch ~23% in FY24E from ~16% in FY21, resulting in 37% EBITDA CAGR over FY21-24E. Currently, the stock trades at 13x FY24E EV/EBITDA. We derive a DCF-based TP of INR800/share, based on a WACC of 11.5%, and maintain our coverage with a Buy rating.

Exhibit 98: Pan India presence



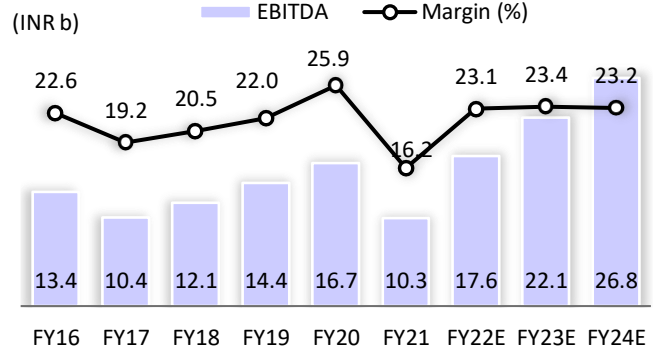
Source: Company, MOFSL

Exhibit 99: Revenue to increase with the easing of restrictions



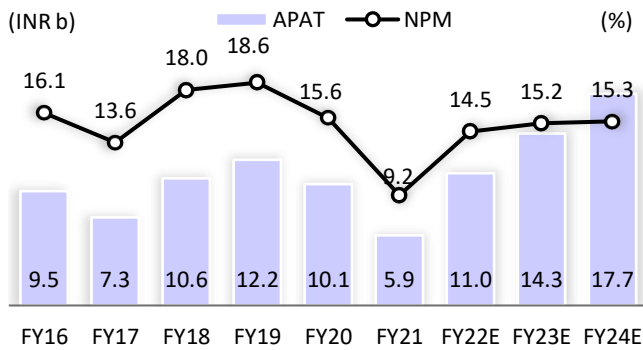
Source: Company, MOFSL

Exhibit 100: Margin to improve with the commissioning of the DFC



Source: Company, MOFSL

Exhibit 101: PAT to more than double by FY23E



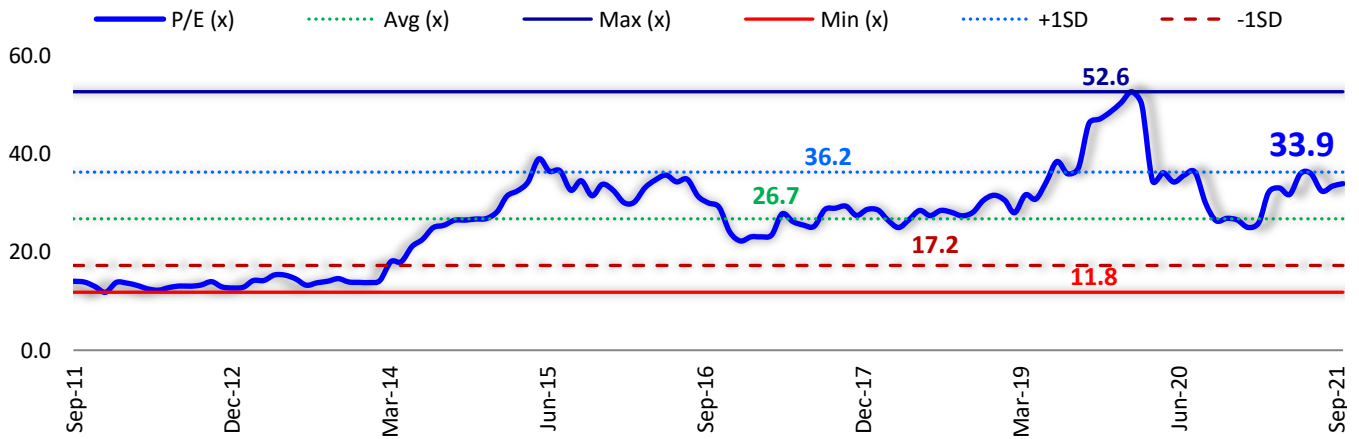
Source: Company, MOFSL

Exhibit 102: Return ratio to follow stronger earnings



Source: Company, MOFSL

Exhibit 103: Trades at one year forward P/E of 34x



Source: Company, MOFSL

Exhibit 104: Quarterly domestic and EXIM volume trend

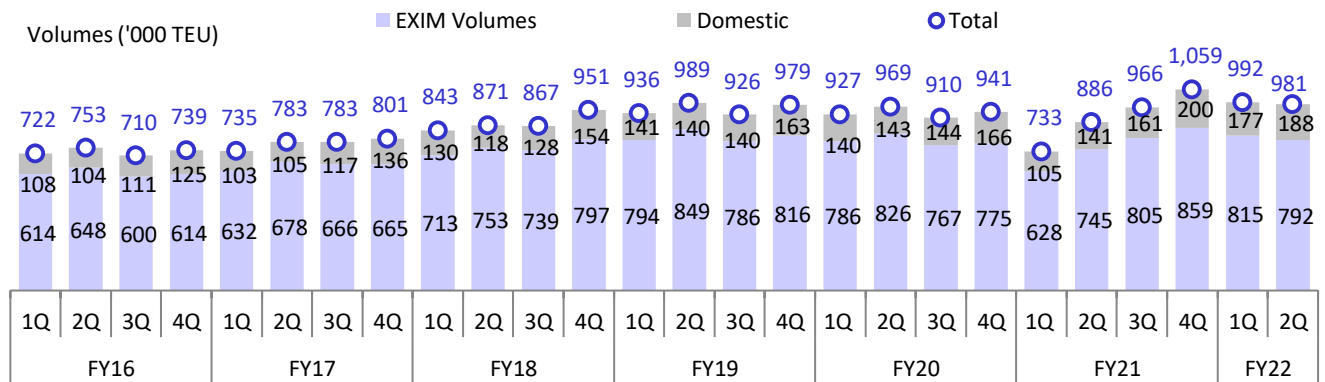


Exhibit 105: Quarterly domestic and EXIM volume growth YoY

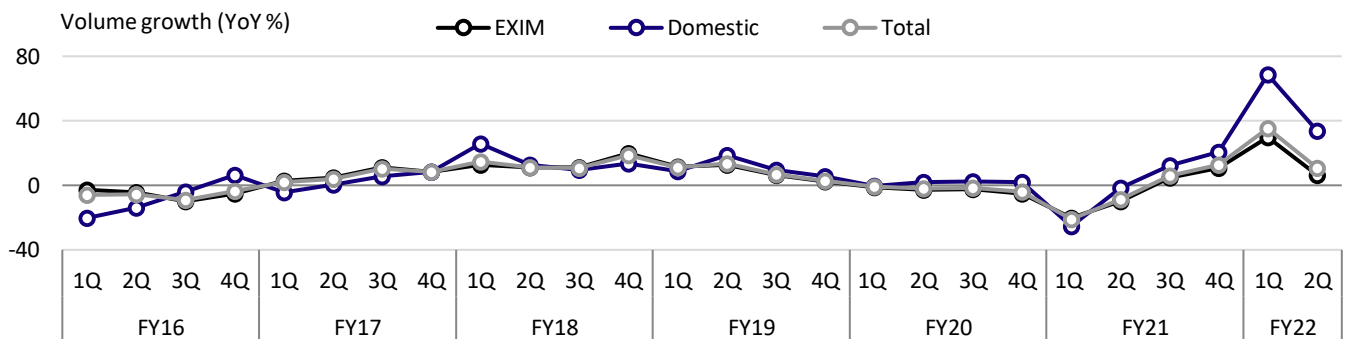


Exhibit 106: Quarterly domestic and EXIM per TEU realization trend

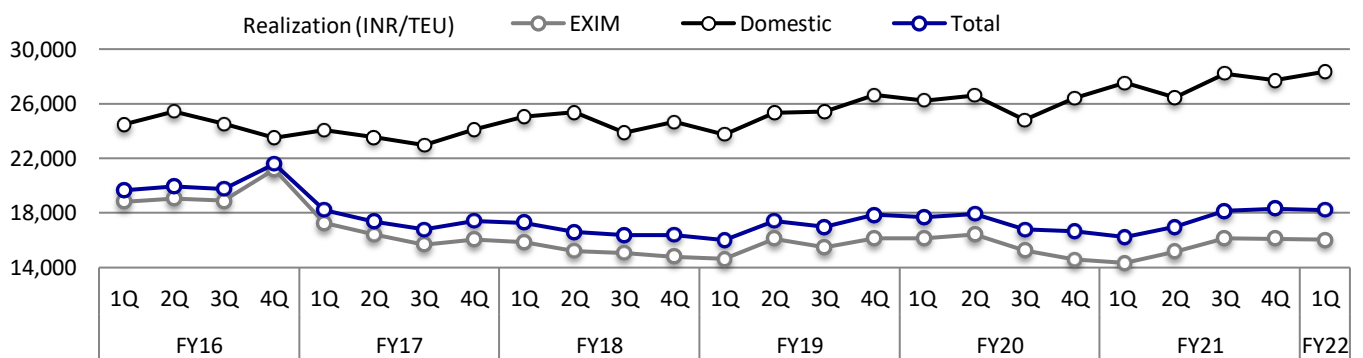
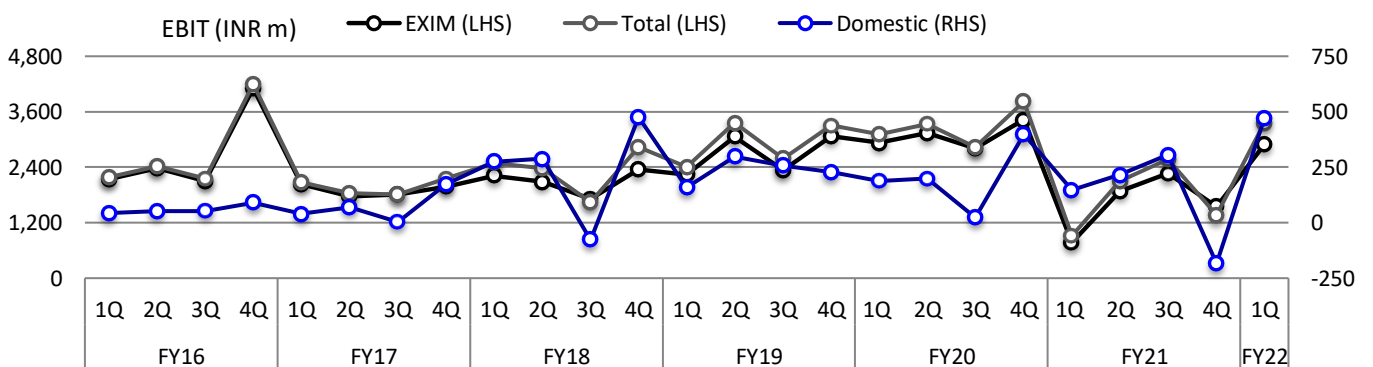


Exhibit 107: Quarterly domestic and EXIM EBIT trend



Source: Company, MOFSL

Maintain coverage with a Buy rating

- Commissioning of the DFCs would aid margin as double stack container trains can be run with faster turnaround times, which in turn improves asset utilization.
- To utilize the DFCs, the management plans to procure 270 rakes (25t axle load) over FY22-26 for handling double stack container trains, of which 48 would be procured in FY22. It currently has 12 such rakes.
- Margin is expected to surge in FY22 from FY21 levels, as the LLF charge is now lower after a reduction in the land value used for calculation. Almost 40% of its container terminals are running on land leased from the Indian Railways.
- To increase its domestic market share, CCRI plans to procure 8,000 containers annually over FY22-26, which would be in addition to the 37k containers it possesses currently.
- As manufacturing picks up and DFC-related benefits flow in, we expect EXIM revenue to grow at a 21% CAGR over FY21-24E. We expect EBITDA margin to improve with lower LLF, DFC benefits, and higher volumes, leading to an EBITDA/PAT CAGR of 37%/44% over FY21-24E.
- The stock trades at 13x FY24E EV/EBITDA. We derive a DCF-based TP of INR800/share and maintain our coverage with a Buy rating.

SWOT analysis

STRENGTH

CCRI has a pan India presence in the movement of containers via Railways and management of terminals for warehousing purposes. It has three decades of experience in the multi-modal Logistics business. It has 65-70% market share in container cargo.


 S

WEAKNESS

Extreme volatility in input costs (fuel costs and haulage charges) can impact profitability, if the company isn't able to pass on the same completely.


 W

OPPORTUNITY

Commencement of DFCs would increase volumes and reduce the turnaround time. There are opportunities for transportation of commodities such as sugar, cement, salt, oil, etc.


 O

THREAT

The regular changes in government policies towards exports and imports pose a threat to its business.


 T

Management overview



Mr. V. Kalyana Rama – Chairman and Managing Director

Mr. Rama is a Mechanical Engineer and has completed his ICWAI (Inter). He is an Indian Railway Traffic Service (IRTS) officer from the CY87 batch. He has worked in BHPV and BHEL before joining the Indian Railways. Prior to joining the board of directors of CCRI as Director (Projects and Services), he held various assignments such as Executive Director and Chief General Manager. He was also CEO at Infinite Logistics Solutions Pvt., a joint venture of CCRI. He has wide experience in the field of Engineering, System design, Railway and multi-modal Logistics operations, and Project planning and commissioning.



Mr. Pradip K. Agrawal – Director (Domestic Division)

Mr. Agrawal worked for the Indian Railways for more than 17 years on various important assignments. He joined CCRI in CY06 as GGM (Operations)/Western Region, and thereafter worked as Chief General Manager, Western Region for four years. He started a host of new initiatives, which include Coastal Services, distribution Logistics, and First Mile Last Mile services. He has worked as CEO for APM Terminals, Mumbai (GTIPL) for five years before joining as Director, CCRI.



Mr. Sanjay Swarup – Director (International Marketing and Operations)

Mr. Swarup has done his B.E. (Hons.) from IIT Roorkee and PGDM from IIM Bangalore. He belongs to the CY90 batch of Indian Railway Traffic Service (IRTS). He started his career in BHEL and worked there for more than four years. At CCRI, he has worked in various capacities in Operations and Management of Dry Ports, International Marketing, Commercial, and Operations at the pan India level. He has presented a number of papers at leading national and international conferences in the areas of multi-modal Logistics, dry Ports, and supply chain management.



Mr. Rahul Mithal – Director (Projects and Services)

Mr. Mithal is from the Indian Railways Service of Mechanical Engineers (SCRA CY85 batch). He has had a long stint of more than 20 years in key positions in the Indian Railways. In the last nine years in CCRI, he has been associated with Planning, Execution, and Monitoring of various mega Projects, and has played a key role in drafting the company's strategic plan: Vision 2020. He holds an MBA (Finance) from JBIMS, Mumbai and is a Fellow of the Institution of Mechanical Engineers (UK).



Mr. Manoj Kumar Dubey – Director (Finance)

A recipient of National Award for outstanding service at the Ministry of Railways level in CY11, Mr. Dubey has been associated with many prestigious projects like setting up of loco factories through PPP/FDI for the Indian Railways at Madhepura and Mahrora. He has been a key financial advisor to the Infrastructure Directorate for the Railways' DFC project.

Financial and valuations

Standalone – Income Statement

Y/E March (INR m)	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Total Income from Operations	59,217	53,946	58,893	65,427	64,738	63,850	76,027	94,399	1,15,273
Change (%)	-3.7	-8.9	9.2	11.1	-1.1	-1.4	19.1	24.2	22.1
Total Expenditure	45,834	43,593	46,814	51,019	47,989	53,521	58,451	72,309	88,486
As a percentage of Sales	77.4	80.8	79.5	78.0	74.1	83.8	76.9	76.6	76.8
EBITDA	13,384	10,354	12,079	14,408	16,749	10,329	17,576	22,090	26,787
Margin (%)	22.6	19.2	20.5	22.0	25.9	16.2	23.1	23.4	23.2
Depreciation	3,478	3,518	3,927	4,246	5,130	5,219	5,380	5,734	6,169
EBIT	9,906	6,835	8,152	10,162	11,619	5,109	12,196	16,356	20,618
Int. and Finance Charges	2	37	1	7	361	340	450	400	400
Other Income	3,175	2,892	5,705	6,735	2,797	2,855	3,000	3,200	3,400
PBT bef. EO Exp.	13,080	9,691	13,856	16,889	14,056	7,625	14,746	19,156	23,618
EO Items	0	1,250	-129	0	-8,816	-834	0	0	0
PBT	13,080	10,941	13,727	16,889	5,240	6,791	14,746	19,156	23,618
Current Tax	2,843	3,206	3,862	4,841	3,208	2,129	3,716	4,827	5,952
Deferred Tax	728	-845	-579	-107	-1,726	-371	0	0	0
Tax	3,571	2,361	3,283	4,735	1,482	1,758	3,716	4,827	5,952
Tax Rate (%)	27.3	21.6	23.9	28.0	28.3	25.9	25.2	25.2	25.2
Reported PAT	9,508	8,580	10,445	12,154	3,758	5,033	11,030	14,328	17,666
Adjusted PAT	9,508	7,331	10,574	12,154	10,120	5,867	11,030	14,328	17,666
Change (%)	-9.8	-22.9	44.2	14.9	-16.7	-42.0	88.0	29.9	23.3
Margin (%)	16.1	13.6	18.0	18.6	15.6	9.2	14.5	15.2	15.3

Standalone – Balance Sheet

Y/E March (INR m)	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	1,950	1,950	2,437	3,047	3,047	3,047	3,047	3,047	3,047
Total Reserves	81,507	86,512	91,574	1,00,632	97,601	98,991	1,03,403	1,09,134	1,16,201
Net Worth	83,457	88,462	94,011	1,03,679	1,00,647	1,02,037	1,06,449	1,12,181	1,19,247
Deferred Liabilities	3,546	2,769	2,533	1,616	0	0	0	0	0
Total Loans	0	0	0	7,007	0	0	0	0	0
Capital Employed	87,002	91,231	96,544	1,12,301	1,00,647	1,02,037	1,06,449	1,12,181	1,19,247
Gross Block	31,473	40,676	47,332	57,038	70,379	81,028	86,028	92,028	99,528
Less: Accum. Deprn.	3,474	6,978	10,848	15,091	20,686	28,011	33,391	39,126	45,295
Net Fixed Assets	28,000	33,698	36,484	41,947	49,694	53,018	52,637	52,903	54,233
Capital WIP	5,133	5,071	6,710	6,247	9,375	9,198	9,198	9,198	9,198
Total Investments	13,576	13,737	13,890	14,029	14,441	14,452	14,452	14,452	14,452
Curr. Assets, Loans, and Adv.	47,591	46,904	49,395	63,845	42,013	44,735	52,733	63,360	74,982
Inventory	180	229	275	233	261	239	261	323	396
Account Receivables	493	425	604	884	1,591	1,555	1,041	1,552	2,211
Cash and Bank Balance	7,999	16,835	19,817	1,704	21,686	24,732	33,221	43,276	54,167
Loans and Advances	38,921	29,415	28,699	61,025	18,475	18,209	18,209	18,209	18,209
Curr. Liability and Prov.	7,579	8,546	10,592	13,767	15,020	19,908	23,114	28,275	34,161
Account Payables	1,868	2,415	2,542	3,504	1,553	2,709	2,958	3,660	4,478
Other Current Liabilities	5,202	5,441	7,344	9,544	12,776	15,500	18,456	22,916	27,984
Provisions	510	690	705	719	692	1,699	1,699	1,699	1,699
Net Current Assets	40,012	38,357	38,804	50,078	26,992	24,827	29,619	35,085	40,821
Appl. of Funds	87,002	91,231	96,544	1,12,301	1,00,647	1,02,037	1,06,449	1,12,181	1,19,247

Financial and valuations

Ratio analysis

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Basic (INR)									
EPS	15.6	12.0	17.4	19.9	16.6	9.6	18.1	23.5	29.0
Cash EPS	21.3	17.8	23.8	26.9	25.0	18.2	26.9	32.9	39.1
BV/Share	137.0	145.2	154.3	170.2	165.2	167.5	174.7	184.1	195.7
DPS	4.3	6.3	6.9	8.5	3.6	5.0	10.9	14.1	17.4
Payout (%)	33.3	51.9	48.0	51.4	60.7	60.5	60.0	60.0	60.0
Valuation (x)									
P/E					40.8	70.4	37.5	28.8	23.4
Cash P/E					27.1	37.3	25.2	20.6	17.3
P/BV					4.1	4.0	3.9	3.7	3.5
EV/Sales					5.8	5.9	4.8	3.8	3.0
EV/EBITDA					22.5	36.2	20.8	16.1	12.9
Dividend Yield (%)					0.5	0.7	1.6	2.1	2.6
FCF per share					53.8	9.4	20.6	26.0	30.3
Return Ratios (%)									
RoE	11.9	8.5	11.6	12.3	9.9	5.8	10.6	13.1	15.3
RoCE	11.5	8.6	11.2	11.6	9.7	5.8	10.9	13.4	15.5
RoIC	14.6	9.3	11.1	10.0	11.5	7.0	17.7	25.8	35.6
Working Capital Ratios									
Asset Turnover (x)	0.7	0.6	0.6	0.6	0.6	0.6	0.7	0.8	1.0
Inventory (Days)	1	2	2	1	1	1	1	1	1
Debtor (Days)	3	3	4	5	9	9	5	6	7
Creditor (Days)	19	26	26	34	16	29	27	27	27
Leverage Ratio (x)									
Current Ratio	6.3	5.5	4.7	4.6	2.8	2.2	2.3	2.2	2.2
Net Debt/Equity	-0.1	-0.2	-0.2	0.1	-0.2	-0.2	-0.3	-0.4	-0.5

Standalone – Cash Flow Statement

Y/E March (INR m)	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(Loss) before Tax	13,080	11,806	13,857	16,889	5,240	6,791	14,746	19,156	23,618
Depreciation	3,627	3,650	3,927	4,246	5,130	5,219	5,380	5,734	6,169
Interest and Finance Charges	-2,914	-2,514	-2,332	-2,247	-1,678	-1,648	-2,550	-2,800	-3,000
Direct Taxes Paid	-3,192	-3,868	-3,360	-5,404	-1,382	-2,444	-3,716	-4,827	-5,952
(Inc.)/Dec. in WC	-21,026	9,575	1,169	-33,386	26,758	1,691	3,697	4,589	5,155
CF from Operations	-10,426	18,650	13,260	-19,902	34,067	9,610	17,557	21,852	25,990
Others	-27	-69	19	15	8,621	633	0	0	0
CF from Operations incl. EO	-10,453	18,581	13,279	-19,887	42,689	10,243	17,557	21,852	25,990
(inc.)/dec. in FA	-5,818	-9,143	-8,595	-7,040	-9,888	-4,501	-5,000	-6,000	-7,500
Free Cash Flow	-16,271	9,438	4,684	-26,927	32,801	5,741	12,557	15,852	18,490
(Pur.)/Sale of Investments	0	0	-153	-139	-618	-570	0	0	0
Others	1,537	2,978	3,451	21,639	-15,227	2,310	3,000	3,200	3,400
CF from Investments	-4,281	-6,165	-5,297	14,461	-25,733	-2,761	-2,000	-2,800	-4,100
Issue of Shares	0	0	0	0	0	0	0	0	0
(Inc.)/Dec. in Debt	0	0	0	7,007	-7,007	0	0	0	0
Interest Paid	-2	-37	-1	-7	-81	-1	-450	-400	-400
Dividend Paid	-2,613	-2,944	-4,168	-1,828	-5,666	-3,564	-6,618	-8,597	-10,600
Others	-532	-599	-831	-366	-1,714	-869	0	0	0
CF from Fin. Activity	-3,146	-3,580	-4,999	4,805	-14,467	-4,434	-7,068	-8,997	-11,000
Inc./Dec. in Cash	-17,881	8,836	2,983	-621	2,489	3,047	8,489	10,055	10,890
Opening Balance	25,879	7,999	16,835	19,817	19,196	21,685	24,732	33,221	43,276
Closing Balance	7,999	16,835	19,817	19,196	21,685	24,732	33,221	43,276	54,167

Delhivery

BSE SENSEX

S&P CNX

61,716

18,419

Not Rated**Financials Snapshot (INR b)**

Y/E March	2018	2019	2020
Net Sales	10.2	16.5	27.8
EBITDA	-6.8	-17.0	-1.5
Adj. PAT	-6.9	-17.7	-2.7

Riding the e-commerce wave

In no time scaled new highs in the Express business

- Delhivery has become one of India's leading supply chain services companies since its inception in CY11.
- In nearly a decade, the company has fulfilled over a billion orders across India. It operates 20 automated sorting centers, over 67 fulfilment centers, and more than 68 hubs catering to over 17,000 pin codes across more than 2,825 towns. It provides a range of services, which include Express services, LTL and FTL freight, reverse Logistics, and B2B and B2C Warehousing.
- Over FY17-20, revenue has risen by ~4x to INR27.8b in FY20.

Started with food delivery, now into multiple aspects of the supply chain

- The company started as a hyperlocal food-delivery startup, focusing on food deliveries from restaurants to customers. Later it moved from local food delivery to e-commerce fulfilment.
- Delhivery has now diversified into areas such as cross-border Logistics, B2B Logistics, and integrated distribution solutions to enterprises.

Has presence in B2C and B2B Express segments

- Delhivery, which started with the B2C market, has diversified into the B2B segment. While B2C currently contributes ~65% of the business for Delhivery, it expects to have an equal share of B2B and B2C going forward.
- While B2C is a high growth segment, B2B is more stable and profitable, driven by the SME segment.
- The Company recently acquired Spoton Logistics which would help it increase presence in the B2B segment.

Enhances fleet with 25 Volvo truck additions in CY20

- In CY20, Delhivery procured 25 Volvo FM 4x2 solutions for its business. The tractor-trailer combination is meant for Express operations and is expected to usher efficiency and reduce the turnaround time.
- These types of trucks operate in European markets and have been customized for Indian conditions. The trailers are of higher capacity (~93 cum), maintaining an average running of over 20 hours a day and 300,000 km in a year.

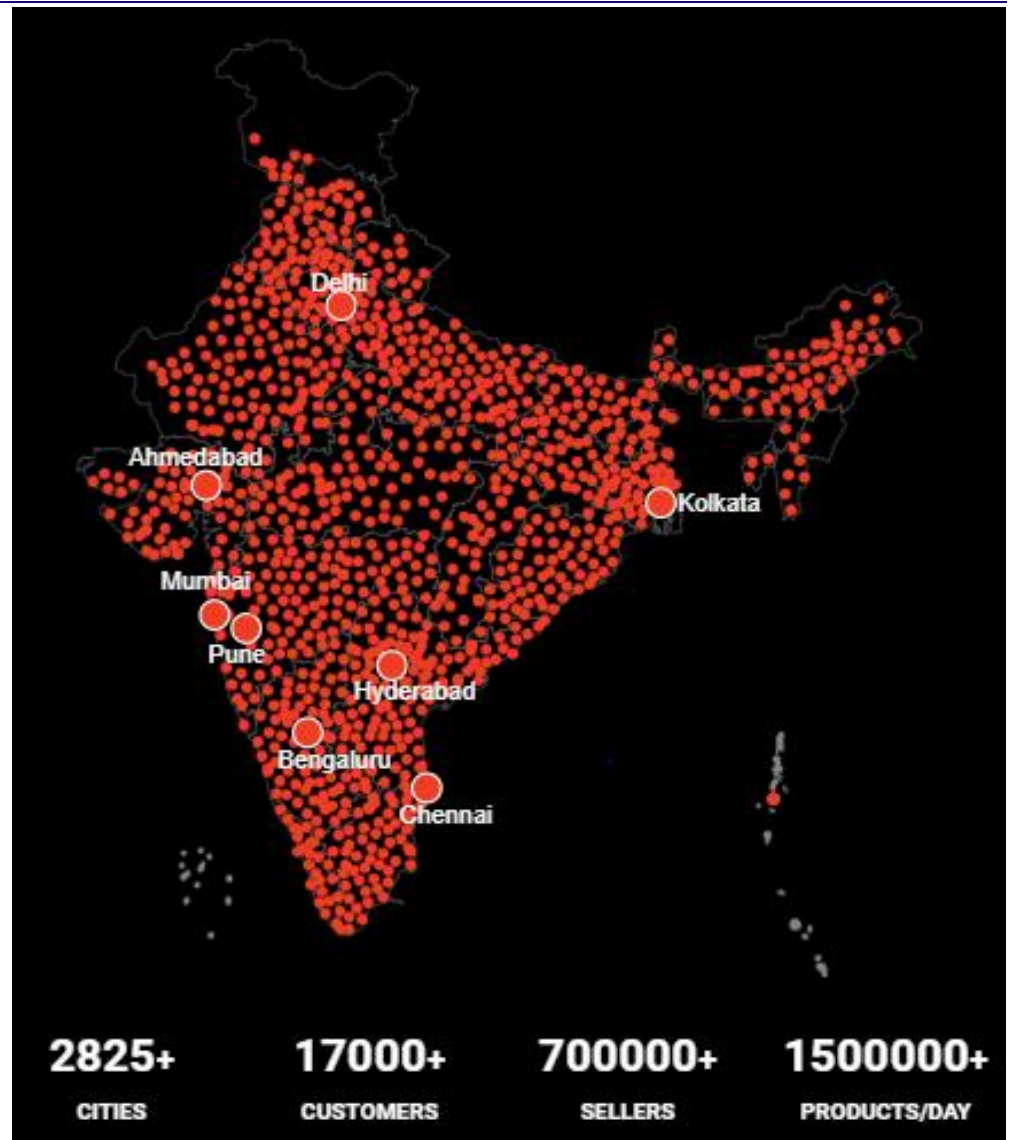
The tech driven approach provides an edge

- Delhivery uses artificial intelligence (AI) and machine learning (ML) optimization tools, which helps assess the best route, time, etc. for delivery. This helps it offer a cost effective service, with high quality. The company also has a proprietary system, which undertakes geocoding and helps connect last mile riders with end consignees in an efficient way.
- It recently acquired a software-as-a-service (SaaS) platform Primaseller, which would help bolster its technical capabilities. It continues to scout for companies, especially startups, working in the areas of data, AI, and ML.
- During the COVID-related lockdown, Delhivery implemented algorithms to identify regulations on what classifies as essential and non-essential. This allowed it to move shipments through its network and helped business development teams to proactively reach out to clients.

Network coverage

Delhivery, which started coverage with the Delhi NCR region in CY11, has now spread its operations across India as can be seen from the image below. The company caters to a whopping ~17,000 pin codes, which allows it to garner volumes. The company currently caters to more than 2,825 towns from over 350 towns in FY15, which highlights the exponential expansion in coverage.

Exhibit 108: Robust network coverage



Source: Company

Exhibit 109: Funding over the years

Period	Amount (USD m)	Investors
Apr'12	1.2	❖ Times Internet
Aug'13	5.4	❖ Times Internet and Nexus Venture Partners
Aug'14	34.6	❖ Multiples Alternate Asset Mgmt., Time Internet, and Nexus Venture
Apr'15	80.4	❖ Tiger Global, Times Internet, and Nexus Venture
Oct'16	7.3	❖ Times Internet, Multiples Private Equity Fund, Tiger Global, and Nexus Opportunity fund
Mar'17	134.6	❖ Carlyle Group, Tiger Global, and Fosun International
Dec'18	408.8	❖ SoftBank Vision Fund, Carlyle Group, and Fosun International
Aug'19	115.0	❖ CPP Investment Board
Sep'19	220.0	❖ SoftBank Vision Fund
Dec'20	25.0	❖ Steadview Capital, Malabar Investment Managers, and Aventus Future Leaders
May'21	277.0	❖ Baillie Gifford, Fidelity Investments, GIC, and Chimera Investments
Jul'21	100.0	❖ Federal Express Corporation
Sep'21	125.0	❖ Lee Fixel Addition

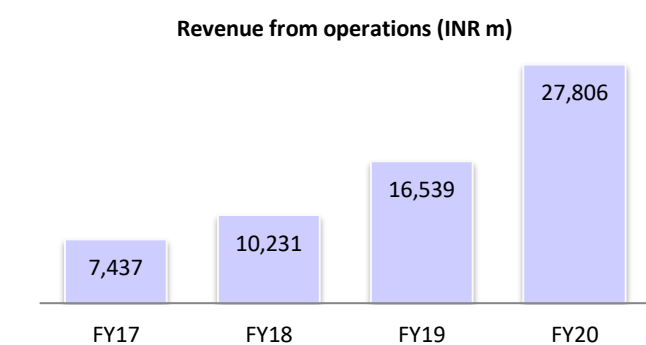
Source: VCC Edge; Media Reports; Includes secondary stake sale

Huge network and scale of operations

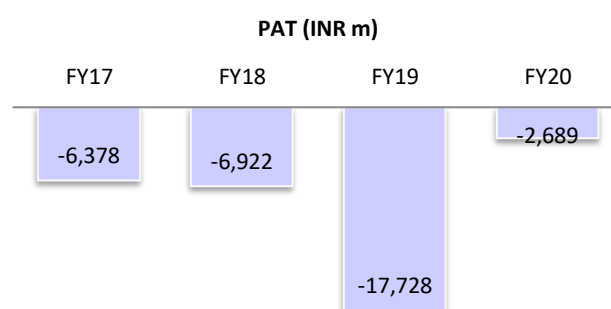
Automated sorting centers	❖	20
Fulfilment centers	❖	Over 67
Hubs	❖	More than 68
Pin codes	❖	Over 17,000
No. of towns catered to	❖	More than 2,825
Segments catered	❖	Automotive, Consumer products, Retail, Pharma, Electronics, Industrial products, and Healthcare

Business performance

Revenue growth was extremely robust for Delhivery, with revenue multiplying by 4x in last 3 years to reach INR28b in FY20. The company clocked over 50% growth in FY20, despite the pandemic impacting in the 4QFY20. In FY20, losses narrowed drastically as expenses have come off, which was initially growing at a fast pace. Total expenses, including depreciation and finance costs, declined ~6% YoY during FY20.

Key exhibits**Exhibit 110: Revenue has multiplied in no time**

Source: ROC filings

Exhibit 111: Cuts losses in FY20

Source: ROC filings

Key business segments

- **Delhivery Express** operates one of India's fastest express parcel transportation networks with a fully integrated and self-owned pickup, mid-mile, and delivery operations that cater to 30 households every second across India. The in-house transport management platform enables clients to schedule pickups, track real time orders, and manage returns and replacements with ease. It offers flexibility to clients through delivery time choices and flexible payment options.



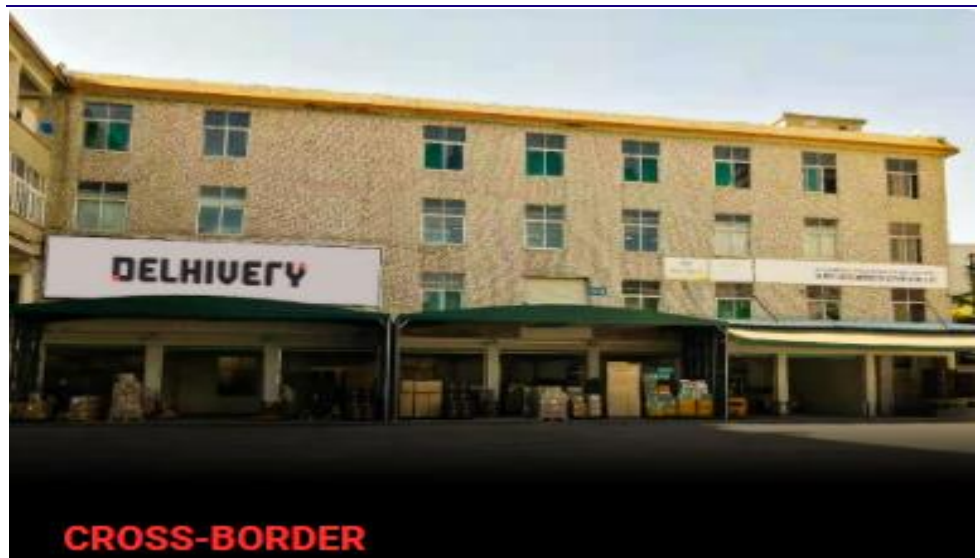
- **Delhivery Fulfilment:** Delhivery operates over 67 fulfilment centers across India, with over 5m sq. ft. of storage and processing space. Its proprietary warehouse management system is integrated with all the major demand channels and courier partners. It is designed to enable efficient multi-tenant, multi-location Warehousing that allows clients to quickly and flexibly scale operations across India at zero fixed costs. It also offers integrated distribution solutions to enterprises by combining its Warehousing and freight solutions. This facilitates fast and cost-efficient offline distribution.



- **Delhivery Freight:** Delhivery provides partial as well as full truckload services to meet customer's freight requirements. Its services are designed to meet regular as well as seasonal requirements across the country. Customers' freight requirements are serviced at competitive costs, with a combination of its own fleet and its network of pan-India professional truckload partners. All of this is done through Optimus and Orion – a simple freight booking and management interfaces of PTL and FTL freight exchanges.



- **Delhivery Cross-border:** Delhivery helps customers simplify their supply chains by offering end-to-end logistic support through a network of global partners. Its capabilities include an integrated network of express and freight solutions, coupled with supplementary solutions from tech enabled tracking, in-house regulatory team for proactive clearance support, and a dedicated customer service team.



- **Delhivery E2E** provides end-to-end supply chain solutions for enterprises using its integrated fulfilment platform. It builds custom solutions to cater to business requirements using core warehousing and transportation services, powered by in-house technology products. These solutions can be tailored for various uses and are appropriately designed based on key supply chain optimization considerations and desired service levels.

**Exhibit 112: Subsidiary details**

Name	Type	Shareholding	Country of incorporation	Reporting currency	FY20 (in m)		
					Net worth	Turnover (net)	PAT
Skynet Logistics Pvt.	Subsidiary	100%	India	INR	-64.28	0.00	19.39
Delhivery USA LLC	Subsidiary	100%	US	USD	0.96	0.00	-0.01
Delhivery Corp.	Subsidiary	100%	UK	GBP	0.22	0.00	-0.42
Delhivery HK Pte	Subsidiary	100%	Hong Kong	HKD	3.76	13.21	1.54
Orion Supply Chain Pvt.	Subsidiary	100%	India	INR	6.55	10.42	6.45

Source: FY20 ROC filings

Exhibit 113: Shareholding pattern

Shareholders	Equity shares held	Shareholding
Mr. Suraj Saharan	1,19,500	2.3%
Mr. Mohit Tandon	1,22,142	2.4%
Mr. Kapil Bharati	50,752	1.0%
Mr. Sahil Barua	1,27,285	2.5%
Multiples Private Equity Fund I	1,45,159	2.8%
Internet Fund III Pte	1,80,448	3.5%
Canada Pension Plan Investment Board	93,304	1.8%
Alpine Opportunity Fund II LP	62,904	1.2%
Others	73,458	1.4%
Compulsorily Convertible Preference Share (CCPS)	41,79,735	81.1%
Total	51,54,687	100%

Source: FY20 ROC filings

Financials and valuations

Consolidated – Income Statement				(INR m)
Y/E March	FY17	FY18	FY19	FY20
Net Sales	7,437	10,231	16,539	27,806
Change (%)		37.6	61.7	68.1
Employee Benefit Expenses	2,029	2,845	3,591	5,090
Other Operating Expenses	11,242	14,214	29,958	24,265
Total Expenditure	13,271	17,059	33,548	29,355
As a percentage of Sales	178.5	166.8	202.8	105.6
EBITDA	-5,834	-6,829	-17,009	-1,549
Change (%)		-17.0	-149.1	90.9
Margin (%)	-78.5	-66.8	-102.8	-5.6
Depreciation	538	480	933	2,556
EBIT	-6,372	-7,308	-17,942	-4,105
Interest	126	118	188	664
Other Income	123	506	403	2,081
PBT	-6,375	-6,921	-17,728	-2,688
Current Tax	0	0	0	1
Tax Rate (%)	0.0	0.0	0.0	0.0
PAT before Share of Associates and JVs	-6,375	-6,921	-17,728	-2,689
Share of profit of Associates and JVs	-3	-1	0	0
Reported PAT	-6,378	-6,922	-17,728	-2,689
Change (%)		-8.5	-156.1	84.8
Margin (%)	-86	-68	-107	-10

Consolidated – Balance Sheet

Y/E March	FY17	FY18	FY19	FY20
Equity Share Capital	10	10	401	401
Total Reserves	-15,543	-21,938	33,727	31,304
Net Worth	-15,533	-21,929	34,128	31,705
Loans	119	472	940	3,684
Other Liability	23,450	29,465	-521	3,137
Capital Employed	8,035	8,008	34,547	38,526
Net Fixed Assets	642	1,032	1,742	7,302
Capital WIP	3	57	9	267
Total Investments	2,035	2,707	11,551	11,877
Curr. Assets	7,215	7,078	23,674	22,884
Inventory	0	170	226	178
Account Receivables	972	1,661	2,147	6,013
Cash and Bank Bal.	1,574	63	16,634	4,086
Others	4,668	5,184	4,667	12,606
Curr. Liability and Prov.	1,859	2,866	2,592	3,990
Account Payables	1,348	1,885	1,581	2,671
Other Current Liabilities	434	863	835	1,049
Provisions	77	118	177	270
Net Current Assets	5,356	4,212	21,082	18,894
Goodwill on Cons.	0	0	164	186
Appl. of Funds	8,035	8,008	34,547	38,526



Financials and valuations

Consolidated – Cash Flow Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20
OP/(Loss) before Tax	-6,375	-6,921	-17,728	-2,688
Depreciation	538	480	933	2,556
Interest and Finance Charges	-84	-346	-222	-968
Others	4,079	4,889	15,639	535
Direct Taxes Paid	-152	-64	-228	-453
(Inc.)/Dec. in WC	-2,318	-570	-1,699	-5,322
CF from Operations	-4,311	-2,531	-3,305	-6,340
(Inc.)/Dec. in FA	-201	-934	-1,566	-2,136
Free Cash Flow	-4,512	-3,465	-4,871	-8,476
Others	-803	-101	-7,829	-7,190
CF from Investments	-1,005	-1,035	-9,395	-9,326
Issue of Equity Instruments	7,440	1,744	28,901	15
Inc./(Dec.) in Debt	-517	353	464	1,632
Interest Paid	-81	-34	-94	-109
Others	0	0	0	-1,299
CF from Fin. Activity	6,842	2,063	29,272	239
Inc./Dec. in Cash	1,526	-1,503	16,573	-15,427
Opening Balance	30	1,556	54	16,626
Closing Balance	1,556	54	16,626	1,200

REPORT GALLERY

RECENT SECTOR THEMATIC REPORTS

MOTILAL OSWAL Theme: July 2021
Automobiles: Tyres

Ready to roll

High Imports High Capex Weak demand

Shashank Mishra - Research Analyst (Shashank.Mishra@MotilalOswal.com)
Research Analyst - Vipul Agrawal, CFA - (Vipul.Agrawal@MotilalOswal.com), Akshay Desai (Akshay.Desai@MotilalOswal.com)
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MOTILAL OSWAL June 2021 Sector: Chemicals
Specialty Chemicals

Genie is out!

Swaminanda Bhushan - Research Analyst (Swaminanda.Bhushan@MotilalOswal.com)
Research Analyst - Sarthak Bhimani (Sarthak.Bhimani@MotilalOswal.com)
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MOTILAL OSWAL 30 May 2021
Financials

Model Portfolio

Introducing the MOSL BFSI Model Portfolio

Overweight on banks and non-banking financials

- The financial sector is the largest constituent of all the benchmarks with weights of 16-18% in Nifty 50 and 25-30% in India. However, the divergent stock performance of Indian financials over the last few financials has led to the need for an active stock selection strategy. This becomes even more important owing to (a) existing liquidity constraints, (b) fast-changing interest rates, and (c) asset quality / growth outlook. In this endeavor, we introduce the MOSL BFSI Model Portfolio with the objective of outperforming the sector's risk-adjusted returns through a holistic approach to sector positioning.
- While the near-term outlook remains cautious due to COVID-2.0 threat and ongoing challenges in loan status, valuation does across the sector would still be quick. We are positive on the BFSI space given strengthening economic recovery and the progress being made in improving asset quality. This would allow the strong rebound in earnings on the credit cost moderation.
- The RBI's accommodative stance, along with the recent measures announced for impacted sectors, should help financials to grow. The sector has underperformed the Nifty over past few months, which presents an attractive opportunity for active stock selection given the reasonable valuations. In our first edition of the MOSL BFSI Model Portfolio, we are overweight on ICICI, SBI, and ANI among the leading large cap financials. Within the mid-cap space, we like MUTHU, CFC, SIFY, and AUBANK. Among the non-leading financials, we like MAFI and IFIL within life insurance and LIC, SBICARD, and IFL within other financials. We believe that as the recovery momentum picks pace the valuation re-rating will play an important role in stock return. We are underweight on NIFTY in general due to the looming uncertainty surrounding the second wave and rising inflation levels.

Benchmarks underperform Nifty over past three months; stock performance remains divergent

- In YTD CY21, the BFSI sector index (Nifty Financial Services) has performed in line with the Nifty, with returns of 1% vs 1% for the Nifty. This was initially driven by (a) a progressive budget, (b) a sharp improvement in collection trends, (c) lower restructuring reported by lending entities, (d) the launch of vaccination drive against COVID, and (e) economic activity reviving to pre-COVID levels. However, over the past three months, the sector has underperformed the Nifty due to a rise in the number of COVID-19 cases and consequent lockdown in key states/territories. The sector achieved 3% returns vs 1% by the Nifty.
- Further analysis indicates stronger performance from stocks such as ICICFASIT (+53%), SBI (+48%), CFC (+47%), SIFY (+38%), MAFI (+47%), IFL (+28%), and AUBANK (+27%). We believe most entities, having recovered from the lows of Mar-Apr 2021, are trading at reasonable valuations.
- Due to financial entities' exposure to various segments of the economy and the difference in their liquidity situations, we see an opportunity to generate alpha by actively playing underweight product-specific themes (such as gold financing and capital market plays) and the evolving growth and cost scenario.

Company	Weight	1M	3M	YTD	Nifty
ICICI	15.0%	12.0%	15.0%	15.0%	15.0%
SBI	15.0%	12.0%	15.0%	15.0%	15.0%
ANIL	10.0%	12.0%	15.0%	15.0%	15.0%
MUTHU	10.0%	12.0%	15.0%	15.0%	15.0%
CFC	10.0%	12.0%	15.0%	15.0%	15.0%
SIFY	10.0%	12.0%	15.0%	15.0%	15.0%
MAFI	10.0%	12.0%	15.0%	15.0%	15.0%
IFIL	10.0%	12.0%	15.0%	15.0%	15.0%
LIC	10.0%	12.0%	15.0%	15.0%	15.0%
NIFTY	10.0%	12.0%	15.0%	15.0%	15.0%

Research Analyst - Vinit Agrawal (Vinit.Agrawal@MotilalOswal.com) | Research Analyst - Himanshu Talya (Himanshu.Talya@MotilalOswal.com)
Research Analyst - Kishan Sambamurti (Kishan.Sambamurti@MotilalOswal.com) / Kameshaji Olla (Kameshaji.Olla@MotilalOswal.com)
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Novel chemistry at play

Swaminanda Bhushan - Research Analyst (Swaminanda.Bhushan@MotilalOswal.com)
Research Analyst - Sarthak Bhimani (Sarthak.Bhimani@MotilalOswal.com)
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MOTILAL OSWAL 7 September 2021 Initiating Coverage | Sector: Others
APL Apollo Tubes

The New Normal

Santosh Kumar - Research Analyst (Santosh.Kumar@MotilalOswal.com)
Research Analyst - Yusuf Kameer (Yusuf.Kameer@MotilalOswal.com) | Sarthak Bhimani (Sarthak.Bhimani@MotilalOswal.com)
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MOTILAL OSWAL 24 July 2021 Initiating Coverage | Sector: Retail
Burger King India

Whopper of an Opportunity

Dhruv Dhir - Research Analyst (Dhruv.Dhir@MotilalOswal.com)
Research Analyst - Kishan Sambamurti (Kishan.Sambamurti@MotilalOswal.com) / Kameshaji Olla (Kameshaji.Olla@MotilalOswal.com)
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MOTILAL OSWAL 30 May 2021 Initiating Coverage | Sector: Healthcare
Solara Active Pharma Sciences

'Partner of Choice' in API/CRAMS space

Tushar Manuhande - Research Analyst (Tushar.Manuhande@MotilalOswal.com)
Research Analyst - Bharat Hegde (Bharat.Hegde@MotilalOswal.com)
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MOTILAL OSWAL 13 March 2021 Initiating Coverage | Sector: Consumer Durables
Orient Electric

Reinventing through innovation

Nilesh Bhalla - Research Analyst (Nilesh.Bhalla@MotilalOswal.com)
Research Analyst - Pratik Singh (Pratik.Singh@MotilalOswal.com)
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MOTILAL OSWAL 1 March 2021 Initiating Coverage | Sector: Financials
SBI Cards and Payment Services

Cashing in on the cashless surge!

Research Analyst - Vinit Agrawal (Vinit.Agrawal@MotilalOswal.com) | Himanshu Talya (Himanshu.Talya@MotilalOswal.com)
Research Analyst - Kishan Sambamurti (Kishan.Sambamurti@MotilalOswal.com) / Kameshaji Olla (Kameshaji.Olla@MotilalOswal.com)
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