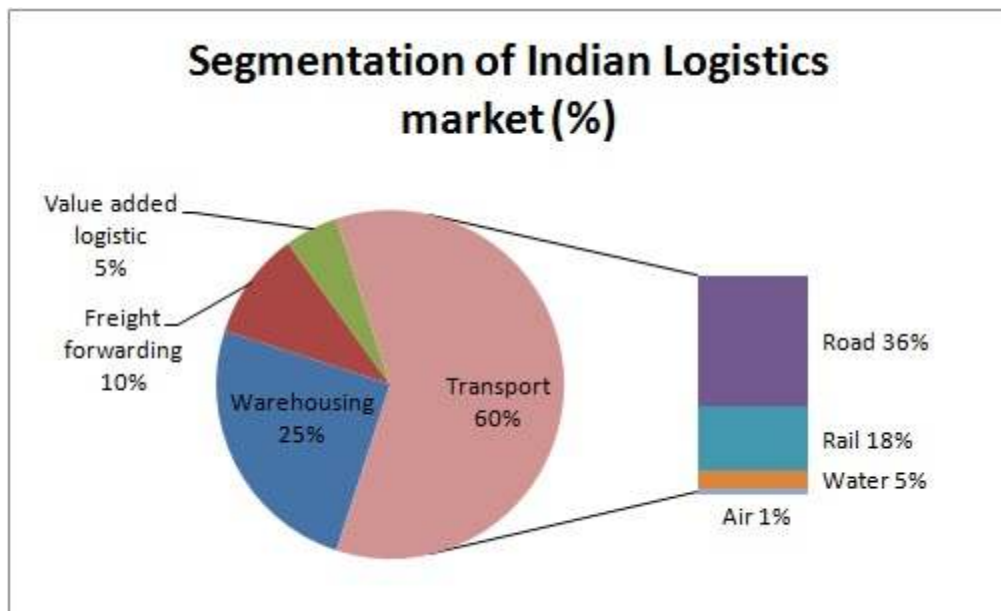


Logistics infrastructure covering the road, rail, waterways and air network is regarded as the backbone of the economy, providing efficient and cost effective flow of goods on which other commercial sectors depend. It is a vital linkage between consumer and producer with India spending around 14.4% of its Gross Domestic Product (GDP) on logistics and transportation as compared to less than 8% by the other developing countries. The growth of logistics sector is directly proportional to overall economic growth of India. Enabling effective and timely movement of goods from one place to another for industrial or private purpose with minimum use of resources is the prime intention of logistics industry. Transport is most crucial function of the logistics industry accounting for 50-60% followed by warehousing & storage, which accounts for another 25% of the total market. The rest of the market constitutes value added and freight forwarding services.



A good logistics sector can be characterized by the following features:

- Excellent storage facilities to store goods in transit, protect them from environment as well as theft/pilferage,
- Provision of value-added services such as packing/labeling/sorting for customers
- Quick transportation of goods from production centers to their consumption regions, with the option of multiple modes of transport
- Efficient handling of goods by minimizing losses during storage and transportation
- Technology-based service delivery, through features such as real-time updates and tracking of goods in transit

Segment Analysis

Roads freight transportation: The road transport is most favored form of transportation in the logistics industry, accounting for around 60% total freight movement. The country has the second largest road network across the world at 4.7 million km. The value of roads and bridges infrastructure in India is projected to grow at a CAGR of 17.4% over FY12-17. The country's roads and bridges infrastructure, which was valued at \$ 6.9 billion in 2009, is expected to touch \$ 19.2 billion by this year (2017). The construction of highways had reached an all-time high of 6,029 km during FY 2015-16, and the increased pace of construction is expected to continue for the coming years. Under the Pradhan Mantri Gram Sadak Yojana (PMGSY), 133-km roads per day in 2016-17 were constructed as against a 2011-14 average of 73-km per day.

Railways: Indian rail network is among the world's largest rail networks but it has suffered from considerable under investment during the last several years. Railways' share in the goods movement of the country has come down to around 30% from 65% in 1987. Cargo movement by train is more cost competitive than movements by road, but containers are moved by road even for a distance of more than 1,000 km, due to poor rail infrastructure. The Indian Railways is spread across 6,853 stations, the 108,706-km network enables the running of 11,000 trains on a daily basis. India's railway network is recognized as one of the largest railway systems in the world under single management. The revenue generated by the Railways is expected to grow at 10% in the next fiscal year 2017-18 with major contribution from freight handling.

Costal shipping: Coastal shipping accounts for around 6% of total domestic freight movement, though this mode of transport is approximately 60% more economical, safer, and cleaner compared to road transport. Shipping routes through coasts and inland waterways are primarily used for transportation of bulk freight and it plays a vital role in sustaining growth in the country's trade and commerce. India is the sixteenth largest maritime country in the world, with a coastline of about 7,517 km. India has 12 major and 200 notified minor and intermediate ports. Cargo traffic, which recorded 1,052 Million Metric Tonnes (MMT) in 2015, is expected to reach 1,758 MMT by 2017. Cargo traffic handled by India's major ports increased 5.1% year-on-year to 315.4 million tonnes (MT) during April-September 2016.

Airways: Air cargo logistics plays an important role in the economic development of a country and it accounted for around 1% of total good movement. Speedier services in the Air Cargo supply chain facilitate large number of business entities to become more competitive. Air cargo represents about 10% of the airline industry's revenues. The demand for air cargo transportation has assumed significant importance over the last few years, because product life cycles have shortened and demand for rapid delivery has increased. Air cargo traffic is expected to grow as India builds new airports and improves existing ones in tier 1 and tier 2 cities. The entry into the market of third-party logistics companies such as FedEx should help to maintain the momentum in India to continue to upgrade and invest in air cargo terminals. Further, Airports Authority of India (AAI) has

launched an air cargo and logistics subsidiary, which is projected to fetch annual turnover of Rs 380 crore in two years.

Warehousing Segment: Warehousing has progressed significantly in India over recent years and become one of the major sub-sectors, accounting for around 20% of Indian logistics market. Modern warehousing in India now forms a vital linkage with the overall logistics value chain and includes storage and handling points where raw material, intermediate and manufactured goods are collected, mixed, stored and circulated to the point of consumption/sale. With the introduction of GST the key advantage for logistics companies will be merging of small warehouses to one productive warehouse. In a bid to provide better services and customization by minimizing turnaround time, logistics companies look towards modern techniques and data management systems to attain more efficiency. Use of advanced technology, warehouse management systems, material handling equipment's, automated pallet racking, forklift trucks; efficient storage systems etc. will determine the modernization and functioning level of a warehouse in the near future.

Cold Chain segment: Cold chain logistics system may be defined as a series of inter-related facilities for maintaining ideal storage conditions for perishables from the point of origin to the point of consumption in the food supply chain. India's cold chain industry is still evolving, not well organized. The chain starts at the farm level (e.g. harvest methods, post-harvest and pre-cooling) and continues till the consumer level or the retail level. A well organized cold chain reduces spoilage, retains the quality of the harvested products and guarantees a cost efficient delivery to the consumer.

Due to lack of proper cold storage facilities, India has wastage of more than 450MMT every year which leads to a huge amount of loss, and leads to shortage in the overall generation capability. Also, it acts like a backbone for pharma industry and helps to maintain the efficacy of the drug throughout the supply chain by providing temperature controlled environment to sensitive pharma products. Meat and fish cold storage market in India has largest revenue share of entire cold storage market in India. With increased demand for consumption in processed foods, cold chain segment has a huge scope to develop and grow in coming years.

Third Party Logistics

Apart from transportation and warehousing, logistics industry comprises of other related services such as packaging, labeling and assembling, production process alignment, invoicing and spare parts management provided by the third party logistics (3PL). As compared to the developed nations such as Japan and US, 3PL contribution in overall logistics activity in India is still at a nascent stage. The Indian 3PL market is geared for a robust growth during 2014-2019. It is anticipated to grow at a CAGR of 21% to touch Rs 48,000 crore over the period 2014-2019. The 3PL market growth is fuelled by factors like the inclined outsourcing by Indian companies and many MNCs particularly in retail, pharmaceutical, automobile and FMCG sectors.

Majority of overall market of 3PL is organized and it has been observed that it is utilized mainly in industrial and automobile sectors followed by pharmaceutical, consumer products and retail. Further, the concept of 4PL is expected to catch momentum over the coming years and it is

expected to address the strategic failures of 3PL services and proposes the opportunity to achieve incremental benefits. As of now, the 3PL activity is limited to only few industries like automotive, IT hardware, telecom and infrastructure equipment.

Growth Drivers

E-commerce: E-commerce, more specifically, e-retail, is playing a major role in increasing the demand for warehousing in India, especially retail warehousing. As more customers rely on online portals for buying goods, the demand shifts from traditional retail space to warehouse. It increases warehousing space demand, as the products are delivered to the customers' doorstep directly from the warehouses. The government's decision to allow 100% FDI in marketplace e-retailing will lead to a pick-up in demand for office space, warehousing and logistic spaces as there will be new entrants in the market. As e-commerce gathers momentum and moves to the tier-II and tier-III cities, there will be increasing demand of expanding air cargo connectivity to smaller towns. The e-commerce companies are expected to invest close to \$6-8 billion in logistics, infrastructure and warehousing in the next few years.

Implementation of GST: The Goods and Services Tax (GST) will be the most important reform in modern India's history. The tax will have positive implications on the warehousing and logistics sector in India. It will lead to emergence of more than a dozen new warehousing hubs apart from an increase in warehousing supply within the existing eight hubs. Under the new tax structure, focus would shift from saving tax by having smaller warehouses, to improving overall efficiency. Further, GST can trim the logistics cost by 20% and will help faster and cheaper movement of goods across the country with a uniform taxation structure.

Foreign and private equity investment: The growth story of the Indian warehousing and logistics sector has indeed lured foreign investors and private equity firms in recent times. Conducive policy environment-such as allowance of 100% FDI in warehouses and food storage facilities under automatic routes and tax-free zones such as free trade warehousing zones (FTWZs) has attracted many foreign and private equity investments in the sector in the last few years. Private equity investments in logistics climbed 9% in 2016-17 to \$501.71 million from \$460.30 million a year ago.

Infrastructure investment: Increase in infrastructure spending will give a thrust to the manufacturing sector and allied sectors. This will automatically translate into higher demand for logistics and warehousing.

Logistics Performance Index

In the World Bank's global logistics performance, India's performance improved in 2016 as compared to the previous years. As per the Logistics Performance Index (LPI), in 2016, India stood at 35th rank with score of 3.42 amongst 160 countries around the world, from 54th rank in 2014 and 46th rank in 2012 with score of 3.08 in both the years, while in 2010 India ranked 47th with score of 3.12. In the 2016, the country picked up space mainly on the back of good score of 3.74 in timeliness of shipments in reaching destination within the scheduled or expected delivery time. Also, programmes such as Make in India, and improvements in infrastructure has helped India to improve its logistical performance.

LPI is an interactive benchmarking tool created to help countries identify the challenges and opportunities they face in their performance on trade logistics and what they can do to improve their performance. For the third time, Germany with 4.23 points tops the ranking, followed by Luxembourg (4.22), Sweden (4.20), Netherlands (4.19) and Singapore (4.14).



Government initiatives

- In order to deal with the issues of logistics, including rising costs that are impacting global competitiveness of exports, the Commerce ministry is working on a proposal to set up a separate logistic department. This department is expected to deal with logistic issues faced by various industries across different mode of transport such as sea, roads and railways. At present, there is no single department or ministry to look at all the aspects related to logistics. This department would consist of 20 experts who can deal with logistics issues across sectors. Exporters too have demanded for a specific department to deal with the issues related to logistics.
- India has firmed up the contours of its ambitious multi-modal programme, to reduce the logistics costs and make the economy competitive. The strategy involves a reset of India's logistics sector from a 'point-to-point' model to a 'hub-and-spoke' model and involves railways, highways, inland waterways and airports to put in place an effective transportation grid. This includes setting up 35 multi-modal logistics parks at an investment of Rs 50,000 crore, development of 50 economic corridors and an investment template which involves roping in the states and the private sector for setting up special vehicles for implementation.
- The commerce ministry is seeking infrastructure status for logistic parks. This move will help logistic companies to easily avail loans from banks to boost infrastructure and economy. This is also important for the development of multi-modal hubs in the country which is part of government's infra push. The ministry has identified thirty-five points for the development of logistics parks. Moreover, the ministry has already developed a draft policy for the development of logistics parks.
- India's Sagar Mala infrastructure program aims to reduce logistics costs as a percentage of GDP to around 10% from 18% in a bid to transform India's economy into one led by exports and fueled by private domestic and foreign investment. Sagar Mala is centered on

the modernization of the country's ports and development of infrastructure that can move goods to and from ports quickly, efficiently and cost effectively to increase the competitiveness of the country's export sector by cutting logistics costs. As per the shipping ministry study, it has a potential to save around Rs 35,000-40,000 crore per annum by optimizing logistics inflows for key commodities by 2025. Some of the key drivers identified for this are promoting coastal shipping of bulk commodities like coal, setting-up coastal clusters for bulk commodities like cement & steel and providing last-mile connectivity of ports with national highways and railway network.

- Bharatmala Project is going to build approximately 25000 kilometers of roads (and also bridges) with an estimated cost of Rs 2,67,200. The target of project completion is in 2022. It is aimed at improving the percentage of better quality roads in the huge road network of India. The government's ambitious Bharatmala project connecting eastern and western India through 7,000 km of national highways to improve road connectivity. It is biggest ever road and highways development program taken by India. Meanwhile, the government has approved 16 national highway projects worth Rs 7,456 crore.

Outlook

The logistics industry is likely to grow at 8.6% annually during 2015-2020 after having grown at 9.7% annually during 2010-2015. It is likely to clip at compound annual growth rate (CAGR) of 15-20% during 2015-16-2019-20. The outlook for the Indian logistics sector looks promising in near future on the back of growing economy, government initiatives, implantation of GST and boom in E-commerce sector. To support India's fast-paced economy growth of logistics industry is very essential. The GST implementation will be a game changing event for Indian logistics players, as it would open up significant opportunity for the industry. Increasing government's focus on infrastructure development is also expected to provide impetus to logistics industry. Further, FDI regulations, private sector participation, increasing number of multi-modal logistics service providers, growing trend of outsourcing logistics to third party service providers and entry of global players have become key growth drivers for the industry. However, India lags behind several other countries in the global setup in terms of logistics infrastructure and services.

Companies Financial Data In Industry

Company Name	CMP	MCAP	BOOK VALUE	DIV. YEILD %	TTM EPS	TTM PE
Container Corporation Of India Ltd.	1176.30	28668.52	355.80	0.92	27.22	43.22
Transport Corporation Of India Ltd.	231.25	1770.85	73.52	0.65	9.90	23.35
Tiger Logistics (India) Ltd.	218.95	231.48	41.58	0.00	8.59	25.49
VRL Logistics Ltd.	335.45	3060.76	63.08	1.49	8.52	39.37
Sical Logistics Ltd.	260.90	1450.65	95.66	0.00	7.53	34.64
Navkar Corporation Ltd.	202.60	2889.24	84.98	0.00	7.09	28.58
Agarwal Industrial Corporation Ltd.	728.10	739.66	101.67	0.21	7.01	103.87
Gateway Distriparks Ltd.	278.60	3029.16	72.47	2.51	5.28	52.77
Patel Integrated Logistics Ltd.	87.75	139.41	71.24	0.57	4.95	17.75
Maheshwari Logistics Ltd.	92.50	136.89	60.32	0.00	4.68	19.78
Allcargo Logistics Ltd.	171.55	4324.70	57.35	1.17	4.36	39.31
GATI Ltd.	137.65	1213.83	72.52	0.73	3.18	43.26

Sorted with TTM EPS (High to Low)

Source – Ace Equity

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