

# Logistics

## Sound performance amid lofty expectations

Sector Report

Quarterly Preview

January 7, 2024

NIFTY 50: 21,711

We expect healthy top-line growth for our coverage companies in Q3FY24 buoyed by festive season demand (the entire season captured in Q3 this year against being spread across Q2-Q3 in last FY) with integrated logistics players like Delhivery benefitting from sector tailwinds in both B2C and B2B express markets. Data on freight movement via road was supported by channel checks; however, it tempers down expectations laid by the managements after an uptick seen in volumes in Oct-23 for >15% YoY volume growth in Q3. Margins should see a sequential uptick in a benign fuel price environment and operating leverage kicking in. Management commentary on volume recovery remains critical post a muted H1FY24 performance. We roll forward our target prices to Dec-24 and retain our previous ratings on Delhivery (BUY; TP: Rs470/share), VRL Logistics (BUY; TP: Rs 875/share), TCI Express (ADD; TP: Rs1,550/share), and Blue Dart Express (REDUCE; TP: Rs7,350/share).

### Q3 Preview: Festive demand to spruce volumes, sustainability of the same remains a concern

**Delhivery:** We expect 19% YoY/12% QoQ growth in revenue, with the B2C express segment witnessing 18% YoY volume growth, slightly ahead of the industry's. The PTL segment should sustain its volume ramp-up (>35% YoY) as the company regains lost volumes during the SpotOn integration incident. Incremental gross margins from transport businesses owing to operating leverage and frontloading of network investments during H1 should result in the company turning EBITDA positive in Q3 (margins at 2.3%). Marginal changes in the long-term growth trajectory for the B2C express segment along with roll-forward to Dec-24 result in a 4% cut to our TP of Rs470.

**VRL Logistics:** We pencil volume growth of 12% YoY, below management's guidance of >15% growth in H2FY24 owing to muted demand trends visible post buoyancy in Oct-23. Nov-23 e-way bills (proxy for freight movement via road) were down 13% MoM/>9% YoY, suggesting the peaking of demand during the pre-festive season. We expect realizations to inch up 1% QoQ due to the company's decision to hike rates by 5-10% for contractual customers from Dec-23. Higher depreciation owing to the introduction of the new fleet and scrapping old vehicles is likely to limit growth in EBIT YoY, while higher interest expenses would impact PAT (-10% YoY).

**TCI Express:** We expect volume growth of 10% YoY/QoQ due to the bunching of festive demand in Q3 as well as seasonality (H2 is stronger for B2B express players). While management had indicated improved utilizations for Oct-23, channel checks suggest muted trends for the remaining months post festivities to weigh on Q3 performance. Sequential margin expansion should continue on account of automation investments and higher scale (24bps QoQ/135bps YoY). Superior cost management in addition to improved utilization due to automation investments will lead to a 22% YoY growth in EPS in Q3.

**Blue Dart Express:** Higher utilization of new freighters and a dip in ATF prices (average prices in Q3 were down 5% YoY) are likely to propel margins by 127bps YoY/151bps QoQ. Volume growth, aided by seasonality in the B2C industry, is likely to stand at 10% QoQ/12% YoY. Commentary on the pricing strategy in surface and the share of high-yield express loads on new freighters remain key observables before we turn constructive on Blue Dart Express.

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### Rating, Target Price and Valuation

	Rating	CMP (Rs)	TP (Rs)	Upside (%)	P/E (x)		EV/EBITDA (x)	
					FY24	FY25	FY24	FY25
Delhivery	BUY	403	470	17	(92.1)	(342.8)	236.8	51.8
VRL Logistics	BUY	731	875	20	48.4	30.9	15.2	11.5
TCI Express	ADD	1,410	1,550	10	36.1	31.0	25.0	21.1
Blue Dart Express	REDUCE	7,410	7,350	(1)	51.6	40.5	19.0	15.9

Source: Company, Emkay Research

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**Exhibit 1 : Logistics companies – Earnings snapshot (Q3FY24E)**

Name		Q3FY23	Q2FY24	Q3FY24E	YoY	QoQ	Comments	
<b>Delhivery</b>								
CMP (Rs)	403	Net Sales (Rs mn)	18,238	19,417	21,676	19%	12%	We anticipate sales growth of 19% YoY driven by B2C/PTL volumes growing by 18%/35% YoY respectively. Incremental gross margins in transportation business and operating leverage arising from network investments made largely during H1is likely to drive EBITDA into positive territory. Key observables – Pricing pressures in B2C market, road to profitability.
Mkt. Cap (Rs bn)	296	EBITDA (Rs mn)	-732	-156	499	-168%	-420%	
Rating	Buy	EBITDA Margin (%)	-4.0%	-0.8%	2.3%	632	311	
		PAT (Rs mn)	-1,956	-1,029	-811	-59%	-21%	
		EPS (Rs)	-2.7	-1.4	-1.1	-59%	-21%	
<b>VRL Logistics</b>								
CMP (Rs)	731	Net Sales (Rs mn)	6,815	7,093	7,697	13%	9%	We expect 12% YoY volume growth on back of festive season demand coupled with rate hike of 5-10% for contractual customers to drive top line growth of 13% YoY in Q3. Higher D&A on back of new vehicle additions (+29% YoY) and increased interest expenses (+34% YoY) will lead to a 10% YoY decline in PAT. Key observables – Indicators of sustenance of volume recovery
Mkt. Cap (Rs bn)	65	EBITDA (Rs mn)	1,033	918	1,155	12%	26%	
Rating	BUY	EBITDA Margin (%)	15.2%	12.9%	15.0%	-14	206	
		PAT (Rs mn)	378	194	339	-10%	74%	
		EPS (Rs)	4.3	2.2	3.8	-10%	74%	
<b>TCI Express</b>								
CMP (Rs)	1,410	Net Sales (Rs mn)	3,144	3,200	3,493	11%	9%	Increased competitive intensity in the B2B express segment is likely to cap volume growth to 10% YoY in Q3. Higher contribution via new services and automation of sorting facilities is likely to improve gross & operating margins. We anticipate PAT to grow by 22% YoY on back of top line growth and higher utilizations. Key observables – Update on automated sorting centers and growth plan for new services
Mkt. Cap (Rs bn)	54	EBITDA (Rs mn)	461	505	559	21%	11%	
Rating	ADD	EBITDA Margin (%)	14.7%	15.8%	16.0%	135	24	
		PAT (Rs mn)	320	356	389	22%	9%	
		EPS (Rs)	8.3	9.3	10.1	22%	9%	
<b>Blue Dart Express</b>								
CMP (Rs)	7,410	Net Sales (Rs mn)	13,371	13,245	14,526	9%	10%	Despite festive season uptick, dip in ATF prices will lead to only 9% YoY growth in sales. However, increased capacity utilization of new freighters with increased contribution of express load will improve gross and operating margins for BDE. This should drive improvement in EPS by 20% YoY. Key observables – Uptick in surface volumes and express contribution in new freighters
Mkt. Cap (Rs bn)	176	EBITDA (Rs mn)	2,281	2,227	2,662	17%	20%	
Rating	REDUCE	EBITDA Margin (%)	17.1%	16.8%	18.3%	127	151	
		PAT (Rs mn)	887	731	1,061	20%	45%	
		EPS (Rs)	37.4	30.8	44.7	20%	45%	

Source: Company, Emkay Research

**Exhibit 2: Change in consensus estimates**

Consensus EPS (Rs)	As of Q2FY24			As of Q3FY24			3M Change		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Delhivery	-5.6	-1.7	3.1	-5.2	-1.3	2.9	-7%	-20%	-5%
VRL Logistics	22.1	29.6	-	20.5	29.6	-	-7%	0%	-
TCI Express	44.0	51.0	59.3	41.6	48.4	55.6	-5%	-5%	-6%
Blue Dart Express	153.1	200.7	330.7	147.6	197.9	315.8	-4%	-1%	-5%

Source: Company, Emkay Research

**Exhibit 3: Valuations of our coverage universe**

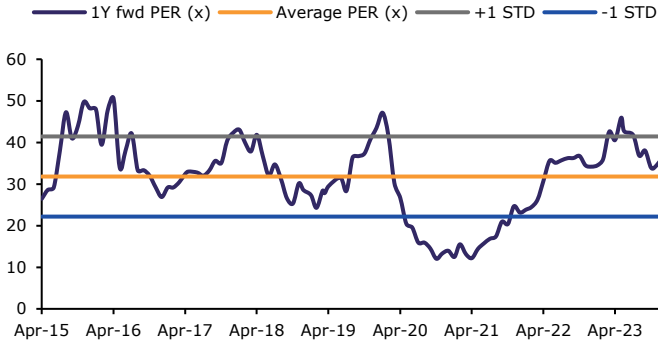
Companies	Currency	CMP (Rs)	Target (Rs)	Rating	MCap (INR mn)	EV (INR mn)	EV/EBITDA (x)			P/E (x)			ROE (%)			EBITDAM (%)		
							FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
<b>India</b>																		
Delhivery	INR	403	470	BUY	2,95,921	2,74,768	237	52	27	(92)	(343)	125	-4%	-1%	3%	1%	5%	8%
VRL Logistics	INR	731	875	BUY	64,577	66,730	15	11	9	48	31	22	13%	18%	22%	15%	17%	18%
TCI Express	INR	1,410	1,550	ADD	54,003	53,433	25	21	18	36	31	26	23%	23%	23%	16%	17%	17%
Blue Dart Express	INR	7,410	7,350	REDUCE	1,75,850	1,78,149	19	16	14	52	40	34	26%	27%	27%	17%	18%	19%
Average (ex-Delhivery)							20	16	13	45	34	27	21%	23%	24%	16%	17%	18%

Source: Company, Emkay Research

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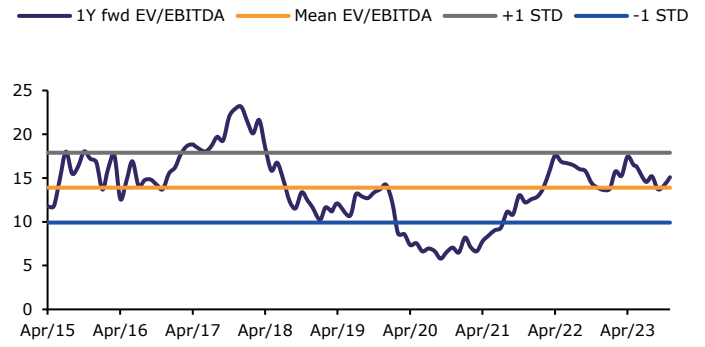
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**Exhibit 4: VRL is trading marginally above its long-term P/E**



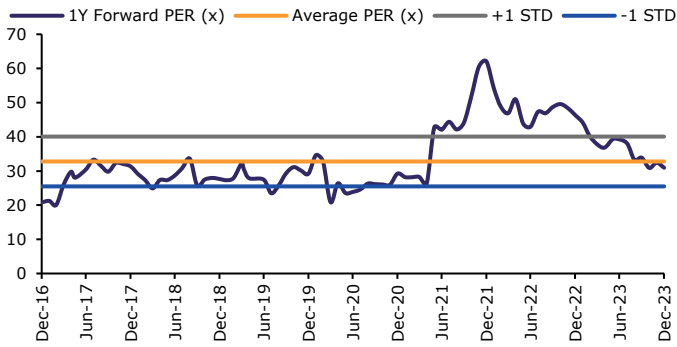
Source: Emkay Research, Company, Emkay Research

**Exhibit 5: But, it is trading at its long-term EV/EBITDA average**



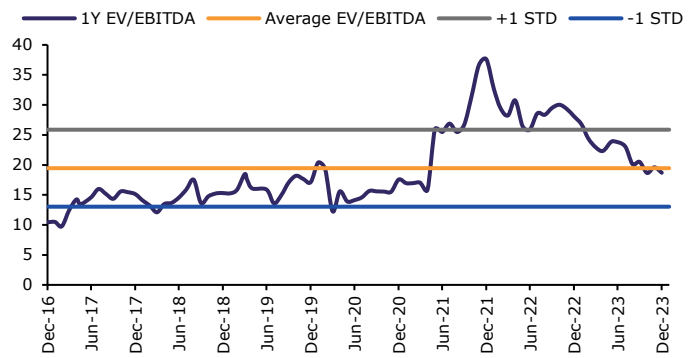
Source: Emkay Research, Company, Emkay Research

**Exhibit 6: TCIE is trading around its long-term P/E average**



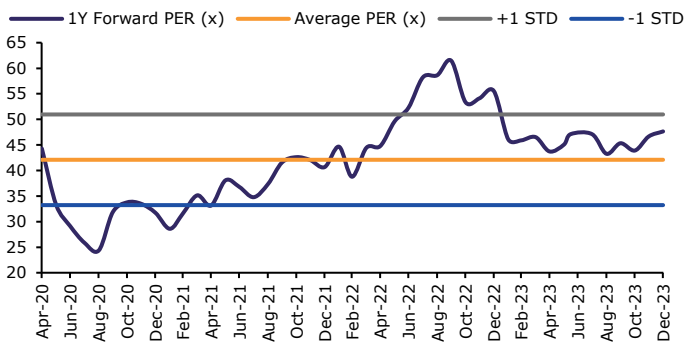
Source: Company, Emkay Research

**Exhibit 7: And around its long-term EV/EBITDA average**



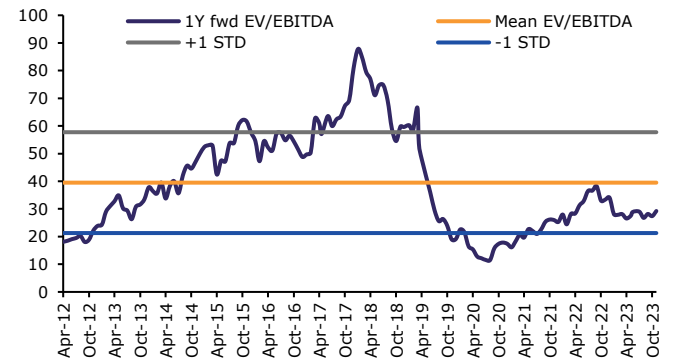
Source: Company, Emkay Research

**Exhibit 8: BDE trades above the last 3Y P/E average**



Source: Company, Emkay Research

**Exhibit 9: BDE trades below its long-term EV/EBITDA average**



Source: Company, Emkay Research

**Exhibit 10: Change in estimates for Delhivery**

Particulars	FY24E			FY25E			FY26E		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	84,810	84,830	0.0%	1,08,696	1,08,115	-0.5%	1,36,378	1,33,693	-2.0%
EBITDA	1,107	1,257	13.6%	5,681	5,714	0.6%	11,189	10,690	-4.5%
EBITDA Margin (%)	1.3	1.5	18 bps	5.2	5.3	6 bps	8.2	8.0	-21 bps
EBIT	(6,473)	(6,322)	-2.3%	(3,857)	(3,825)	-0.8%	736	237	-67.9%
PAT	(3,362)	(3,212)	-4.5%	(896)	(863)	-3.6%	2,735	2,361	-13.6%
EPS (Rs)	(4.6)	(4.4)	-4.5%	(1.2)	(1.2)	-3.6%	3.7	3.2	-13.6%

Source: Company, Emkay Research

**Exhibit 11: Change in estimates for VRL Logistics**

Particulars	FY24E			FY25E			FY26E		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	29,982	29,746	-0.8%	34,804	34,489	-0.9%	40,764	40,394	-0.9%
EBITDA	4,418	4,416	0.0%	5,927	5,787	-2.4%	7,386	7,219	-2.3%
EBITDA Margin (%)	14.7	14.8	11 bps	17.0	16.8	-25 bps	18.1	17.9	-25 bps
EBIT	2,273	2,314	1.8%	3,249	3,147	-3.1%	4,424	4,257	-3.8%
PAT	1,312	1,339	2.0%	2,145	2,088	-2.7%	3,101	2,974	-4.1%
EPS (Rs)	14.9	15.2	2.0%	24.3	23.6	-2.7%	35.1	33.7	-4.1%

Source: Company, Emkay Research

**Exhibit 12: Change in estimates for TCI Express**

Particulars	FY24E			FY25E			FY26E		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	13,664	13,469	-1.4%	15,256	15,038	-1.4%	17,117	16,873	-1.4%
EBITDA	2,140	2,134	-0.3%	2,540	2,510	-1.2%	2,945	2,934	-0.4%
EBITDA Margin (%)	15.7	15.8	18 bps	16.6	16.7	4 bps	17.2	17.4	18 bps
EBIT	1,951	1,941	-0.5%	2,268	2,238	-1.3%	2,646	2,634	-0.4%
PAT	1,512	1,497	-1.0%	1,763	1,741	-1.3%	2,092	2,083	-0.4%
EPS (Rs)	39.5	39.1	-1.0%	46.0	45.4	-1.3%	54.6	54.4	-0.4%

Source: Company, Emkay Research

**Exhibit 13: Change in estimates for Blue Dart Express**

Particulars	FY24E			FY25E			FY26E		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	54,662	53,857	-1.5%	60,609	59,716	-1.5%	66,003	65,031	-1.5%
EBITDA	9,542	9,228	-3.3%	10,918	10,826	-0.8%	12,214	12,168	-0.4%
EBITDA Margin (%)	17.5	17.1	-32 bps	18.0	18.1	12 bps	18.5	18.7	21 bps
EBIT	5,340	5,016	-6.1%	6,446	6,343	-1.6%	7,520	7,463	-0.8%
PAT	3,621	3,407	-5.9%	4,421	4,344	-1.7%	5,237	5,194	-0.8%
EPS (Rs)	152.6	143.6	-5.9%	186.3	183.1	-1.7%	220.7	218.9	-0.8%

Source: Company, Emkay Research

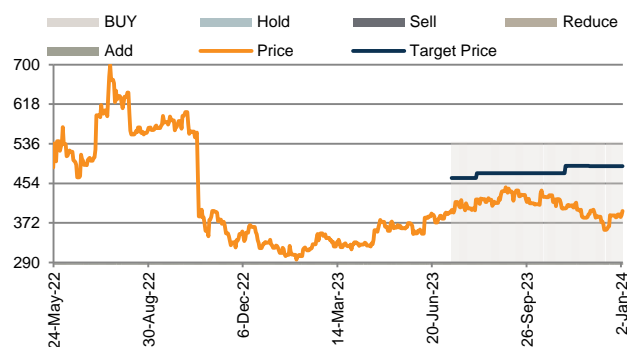
**DELHIVERY**

**RECOMMENDATION HISTORY - DETAILS**

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
30-Nov-23	391	490	Buy	Anshul Agrawal
05-Nov-23	402	490	Buy	Anshul Agrawal
05-Aug-23	421	475	Buy	Anshul Agrawal
10-Jul-23	399	465	Buy	Anshul Agrawal

Source: Company, Emkay Research

**RECOMMENDATION HISTORY - TREND**



Source: Bloomberg, Company, Emkay Research

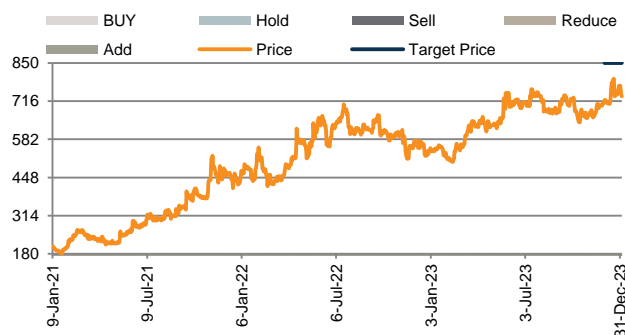
**VRL LOGISTICS**

**RECOMMENDATION HISTORY - DETAILS**

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
24-Dec-23	739	850	Buy	Anshul Agrawal
01-Dec-23	720	850	Buy	Anshul Agrawal

Source: Company, Emkay Research

**RECOMMENDATION HISTORY - TREND**



Source: Bloomberg, Company, Emkay Research

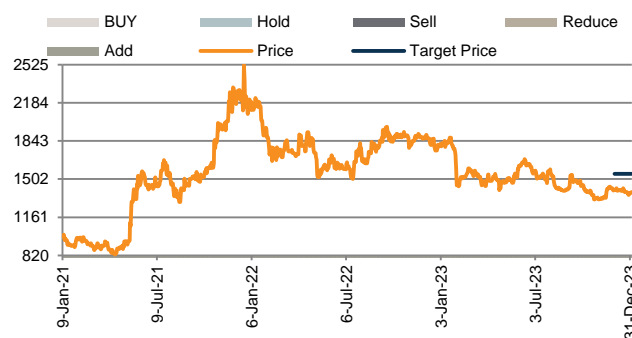
**TCI EXPRESS**

**RECOMMENDATION HISTORY - DETAILS**

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
01-Dec-23	1,404	1,550	Add	Anshul Agrawal

Source: Company, Emkay Research

**RECOMMENDATION HISTORY - TREND**



Source: Bloomberg, Company, Emkay Research

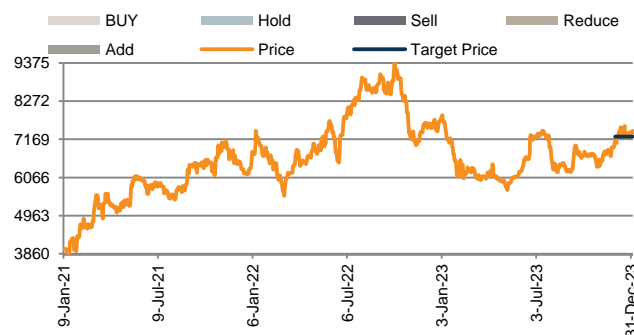
**BLUE DART EXPRESS**

**RECOMMENDATION HISTORY - DETAILS**

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
24-Dec-23	7,342	7,250	Reduce	Anshul Agrawal
01-Dec-23	7,061	7,250	Reduce	Anshul Agrawal

Source: Company, Emkay Research

**RECOMMENDATION HISTORY - TREND**



Source: Bloomberg, Company, Emkay Research

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