

India

Neutral (no change)**Highlighted Companies****Blue Dart Express Ltd****REDUCE, TP Rs6000, Rs5903 close**

Over FY24F-26F, we factor in sales/volume/EBITDA CAGR of 10% each, similar to the growth in FY19-24F.

Container Corp of India Ltd**ADD, TP Rs1083, Rs965 close**

We factor in sales/ originating cargo/ EBITDA growth of 51%/ 47%/ 61%, respectively, over FY24F-26F.

VRL Logistics Ltd**REDUCE, TP Rs500, Rs527 close**

We expect its EBITDA margin to remain muted over FY25F-26F (~13% vs. 17.6% goods transport margin in FY23), similar to 2-3QFY24, due to the shift in cargo from road to railways after the commencement of the Dedicated Freight Corridor (DFC).

Summary Valuation Metrics

P/E (x)	Mar24-F	Mar25-F	Mar26-F
Blue Dart Express Ltd	52.47	47.05	42.94
Container Corp of India Ltd	43.76	34.62	24.73
VRL Logistics Ltd	53.57	56.56	50.47
P/BV (x)	Mar24-F	Mar25-F	Mar26-F
Blue Dart Express Ltd	10.4	9.14	8.1
Container Corp of India Ltd	4.82	4.23	3.78
VRL Logistics Ltd	4.82	4.67	4.54
Dividend Yield	Mar24-F	Mar25-F	Mar26-F
Blue Dart Express Ltd	0.58%	0.67%	0.77%
Container Corp of India Ltd	0.69%	0%	1.21%
VRL Logistics Ltd	0.95%	1.14%	1.33%

Transport Infra - Overall

Logistics cost: India versus other nations

- Logistics cost is relevant only for goods that are transported.
- Developing nations are at a disadvantage vs. developed ones in terms of the ratio of logistics cost to the value of goods transported.
- India's logistics cost/tkm is the lowest among our sample set.
- Unravelling the divergent road haulage rates (India vs. other nations).

Logistics cost is relevant only for goods that are transported

The ratio of logistics cost to GDP for a country is used as an indicator of the effectiveness of logistics infrastructure. We believe there are several flaws in using this ratio. Logistics cost is relevant for transportable GDP (ex-services). Countries with high transportable GDP/ total GDP would likely have a high logistics cost/GDP. Secondly, we should add the value of imported goods to transportable GDP, as the movement of imported goods is a part of total logistics cost. We have compared the numbers for India, China, USA, UK, Germany, Japan and Russia. India's logistics cost, as a percentage of GDP (13%), is higher (worse) than that of USA/ UK/ Germany/ Japan (8-9%) and slightly lower (better) than that of China (15%). However, when we look at logistics cost as a percentage of the value of goods transported, India fares much better.

Logistics cost to value of goods transported - developing nations hit

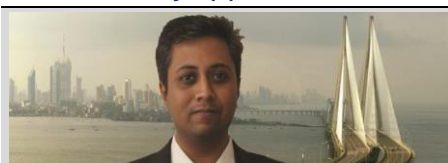
A developing nation's average value/t is expected to be lower than that for developed ones. Logistics cost depends on volume (t), not value. Whether one moves 1t iron ore, or 1t car, logistics cost is broadly the same, but logistics cost/value of goods transported is different (low for high-value goods). Geography too has an impact. Size of the country, terrain (plain/hilly), distance between production & consumption centres, and the proportion of rail transport (cheaper vs. road) impacts logistics cost. The value of goods transported in USA is 3.8x of India, but tkm of cargo is just 1.3x, despite USA's land area being 3.1x of India.

India's logistics cost / tkm is the lowest among our sample set

When logistics cost/tkm of different nations is compared with India, UK & Japan are at 14-15x, Germany at 7x, USA at 3.5x and China at 2.4x. Russia's logistics cost/ tkm is close to India. Storage accounts for ~ 65-75% of logistics cost. India's storage cost, as a percentage of total logistics cost (65%), is like that of other countries we have analyzed.

Unravelling the divergent road haulage rates (India vs. other nations)

Road haulage rate in India is the lowest among the countries we have analyzed. It depends on the following: **(a) The cost of diesel:** In India, it is like that in China, USA and Japan. **(b) Driver's salary:** As a multiple of India, for China it stands at 2.4x, Japan at 4.4x, UK at 6.2x, USA at 8x and Germany at 7.7x – the key reason for the divergence in haulage rates. **(c) High speed:** It results in a driver accomplishing a higher distance p.a. Adjusted for the higher speed, the gap in driver salary of countries with India reduces a tad. **(d) Distance of travel and size of truck:** If the total distance is short, the cost of last-mile delivery becomes significant. The last-mile delivery is also more manpower-intensive as it is via smaller trucks/two-wheelers. This is the probable reason for the extremely high road haulage rates in small countries like the UK and Japan.

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Logistics cost: India versus other nations

Logistics cost is relevant only for goods that are transported ➤

The ratio of logistics cost to gross domestic product or GDP for a country is used as an indicator of the effectiveness of logistics infrastructure (a lower number is better). We believe there are several flaws in using this ratio and it provides an incomplete picture.

Logistics cost is relevant only for transportable GDP (GDP ex-services). Countries with a higher transportable GDP/total GDP would likely have a higher logistics cost/GDP than countries with a lower transportable GDP/total GDP. Secondly, we should add the value of imported goods to transportable GDP, as the movement of imported goods is a part of total logistics cost.

Figure 1: Logistics cost as a percentage of transportable GDP + goods imports

		India	China	USA	UK	Germany	Japan	Russia
Nominal GDP (USD tr) - 2022	A	3.4	18.0	25.4	3.1	4.1	4.3	2.2
Services as a % of GDP	B	56	53	80	78	71	71	60
GDP ex Services as % GDP	C= 100-B	44	47	20	22	29	29	40
Goods imports as % GDP	D	21	15	13	26	39	21	9
GDP ex Services + Goods imports as % GDP	E= C+D	65	62	34	48	67	50	49
Logistics cost as % GDP - 2020	F	13	15	8	9	8	9	16
Logistics cost as % of E - 2020	G=F/E*100	20	23	24	18	12	17	33

SOURCE: INCRED RESEARCH, WORLD BANK, ARMSTRONG AND ASSOCIATES

We have compared the numbers for India, China, USA, UK, Germany, Japan and Russia. The value of goods transported (GDP ex-services + goods imports), as a percentage of GDP, is higher for Germany (67%), India (65%) and China (62%) while it is lower for USA (34%). The number for the UK, Japan and Russia is 48-50%.

India's logistics cost, as a percentage of GDP (13%), is higher (worse) than that of USA (8%), UK (9%), Germany (8%) and Japan (9%) and slightly lower (better) than that of Russia (16%) and China (15%).

However, when we look at logistics cost as a percentage of value of goods transported, India fares better. The number for India (20%) is lower (better) than China (23%), USA (24%) and Russia (33%) and similar to the UK (18%) and Japan (17%). Only Germany has a substantially lower (better) number (12%).

Developing nations are at a disadvantage vs. developed ones in terms of the ratio of logistics cost to the value of goods transported ➤

The value of goods transported depends on the volume (t) and the average value/t (USD). Developing nations' average value/t is expected to be lower than that of developed ones. Logistics cost depends on volume (t), not value. Whether one moves 1t iron ore, or 1t car, logistics cost is broadly the same, but logistics cost/value of goods transported is different (low for high-value goods). Developing nations are at a disadvantage in terms of logistics cost/ value of goods transported vs. developed ones.

Secondly, geography has an impact. Size of the country, the terrain (plain/hilly), distance between production and consumption centres, and the proportion of rail transport (significantly cheaper vs. road) have an impact on logistics cost.

Figure 2: Comparing India's value of goods transported, area and tkm of cargo with China, USA, UK, Germany, Japan and Russia

	India	China	USA	UK	Germany	Japan	Russia
GDP ex-services + Goods imports (USD tr)	2.2	11.2	8.5	1.5	2.8	2.1	1.1
TKM Total (tr) CY22	4.3	10.4	5.6	0.2	0.4	0.2	3.1
Land area (km2) m	3.0	9.4	9.1	0.2	0.3	0.4	16.4
As a percentage of India							
GDP ex-services + Goods imports	100	502	383	67	123	95	49
TKM Total CY22	100	241	131	4	10	6	72
Land area	100	316	308	8	12	12	551

SOURCE: INCRED RESEARCH, WORLD BANK, OECD

China vs. India: The value of goods transported is 5x that of India, but tkm of cargo is just 2.4x. This is despite China's land area being 3.2x that of India.

USA vs. India: The value of goods transported is 3.8x that of India, but tkm of cargo is just 1.3x. This is despite USA's land area being 3.1x that of India.

UK vs. India: The value of goods transported is 67% that of India, but tkm of cargo is just 4%. This is partly because the UK's land area is just 8% that of India.

Germany vs. India: The value of goods transported is 1.2x that of India, but tkm of cargo is just 10%. This is partly because Germany's land area is just 12% that of India.

Japan vs. India: The value of goods transported is 95% that of India, but tkm of cargo is just 6%. This is partly because Japan's land area is just 12% that of India.

Russia vs. India: The value of goods transported is 49% that of India, but tkm of cargo is 71%. This is partly because Russia's land area is 5.5x that of India.

Note: A large area does not automatically translate to a higher average travel distance for goods. If the population is concentrated in a part of the country or if production and consumption centres are nearby, then despite a large land area, the average travel distance for goods could be relatively small.

India's logistics cost/tkm is the lowest among China, USA, UK, Germany, Japan, Russia and India ➤

When logistics cost/ tkm of different countries is compared with India (10 cents/tkm), UK and Japan are at 14x to 15x, Germany at 7x, USA at 3.5x and China at 2.4x. Russia's logistics cost/tkm is close to India. This is despite 90% of Russia's logistics being moved via rail (lower cost vs. road) while the corresponding number for India is 21%. Small countries like Japan and the UK use minimal rail transport while large countries like Russia use rail for a major portion of the logistics.

Figure 3: Comparison of India's logistics cost/tkm with China, USA, UK, Germany, Japan and Russia

	India	China	USA	UK	Germany	Japan	Russia
Logistics cost (USD tr)	0.4	2.6	2.0	0.3	0.3	0.4	0.4
TKM Total (tr) CY22	4.3	10.4	5.6	0.2	0.4	0.2	3.1
% Logistics via rail CY22	21	34	40	9	31	7	91
Logistics cost / TKM (cents)	10	25	36	156	75	147	12
As a percentage of India							
Logistics cost	100	586	458	59	74	81	81
TKM Total (tr)	100	241	131	4	10	6	72
Logistics cost / TKM	100	243	350	1,508	730	1,421	113

SOURCE: INCRED RESEARCH, ARMSTRONG AND ASSOCIATES, OECD

Storage accounts for a major portion of logistics cost. It accounts for 65-75% of the total logistics cost for India, China, USA, UK, Germany and Japan. India's storage cost, as a percentage of total logistics cost (65%), is similar to that of other countries we have analyzed in this report. However, the spending on storage (per tkm) of China/ USA is 3x that of India, in the case of Germany it is 8.4x of India while the UK / Japan are at ~15x.

Unravelling the divergent road haulage rates: Analyzing fuel cost, salary of truck drivers and speed of travel across countries ➤

Excluding Russia, an average 76% of cargo movement in India, China, USA, UK, Germany and Japan is via road. We have analyzed the difference in road haulage cost across countries.

VRL Logistics is a part truckload company in India. Out of its total cost in FY23, 37% was accounted for by fuel, 26% comprised salary and 16% was ownership and maintenance cost. We have used the cost structure of VRL Logistics as a proxy for India's road haulage industry.

Figure 4: Cost breakdown of VRL Logistics in FY23

(Rs bn)	FY23	% of overall
Total cost ex-lorry hire	22.1	100
Diesel cost	8.1	37
Employee cost	5.8	26
Ownership and maintenance	3.4	16
Toll	1.9	9
Others	2.8	13

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Road haulage rate in India (3.7 cents/ tkm) is the lowest among the countries we have analyzed. The corresponding rates (as a multiple of India) for China is 1.5x, Russia is 2x, USA is 4x, Germany is 5.3x, UK is 11x and Japan is 14x.

Road haulage cost depends on the following factors:

- **Cost of diesel – 37% of VRL’s total cost:** The price of diesel in India is similar to that in China, USA and Japan. The price of diesel in Germany and the UK is 1.7x the price in India while Russia’s diesel price is 63% of the price in India.
- **Driver salary (key reason for divergence in haulage rates) – 26% of VRL’s total cost:** Salary (as a multiple of India) for Russia stands at 1.2x, China at 2.4x, Japan at 4.4x, UK at 6.2x, USA at 8x and Germany at 7.7x. On a purchasing power parity (PPP) adjusted basis, driver salary (as a multiple of India) stands at 1.2x for China, ~2.2x for USA/ UK, 3.1x for Germany and 1.9x for Japan.
- **High speed of travel:** It results in a driver accomplishing a higher distance p.a. Adjusted for the higher speed, the gap in driver salary of countries with India reduces a tad. Driver salary, adjusted for travel speed (as a multiple of India), for Russia stands at 0.9x, China at 1.6x, Japan at 3.2x, UK at 4.1x, USA at 4.3x and Germany at 4.6x.

Figure 5: Road haulage rate, fuel cost and average driver salary

	India	China	USA	UK	Germany	Japan	Russia
Road haulage rate (cents/ tkm)	3.7	5.7	14.8	42.7	19.8	51.4	7.4
Diesel Price (USD/ L)	1.1	1.0	1.1	2.0	1.9	1.0	0.7
Driver salary (USD 000 pa)	6.9	16.7	54.7	42.6	53.0	30.3	8.2
Driver salary (USD 000 pa) PPP exchange rate	24.9	30.2	54.7	53.0	78.6	48.0	25.0
Mean speed score	58	90	107	87	97	81	76
As a percentage of India							
Road haulage rate / tkm	100	153	397	1,146	532	1,381	199
Diesel Price	100	92	94	174	167	91	63
Driver salary	100	243	797	620	772	441	120
Driver salary - PPP exchange rate	100	121	220	213	315	193	100
Mean speed score	100	155	184	150	167	140	131
Driver salary adjusted for speed of travel	100	157	432	413	461	315	91

SOURCE: INCRED RESEARCH, COMPANY REPORTS, MORDORINTELLIGENCE, GLOBALPETROLPRICES.COM, SALARYEXPERT.COM, INTERNATIONAL MONETARY FUND

- **Distance of travel and size of truck:** In case the total distance is short, the cost of last-mile delivery becomes significant. The last-mile delivery is also more manpower-intensive as it is via smaller trucks/two-wheelers. We believe this is the probable reason for the extremely high road haulage rates in small countries like the UK and Japan.

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