

India

Neutral (no change)

Highlighted Companies
Container Corp of India Ltd
ADD, TP Rs900, Rs558 close

We expect 86% volume growth over FY21-24F, driven by the shift of cargo from road to rail after the start of the DFC. We believe that post-DFC, higher asset sweating can double Concor's volume.

Adani Ports & Special Economic Zone Ltd
HOLD, TP Rs742, Rs655 close

Excluding acquisitions, we expect a 12% EBITDA CAGR over FY20-24F. Our TP implies an EV/EBITDA of 11.7x FY24F (10% discount to five-year average). We believe that the discount is warranted.

InterGlobe Aviation Ltd
REDUCE, TP Rs1354, Rs1831 close

We expect IndiGo's FY24F RPK to be 14% higher than in FY20 and 42% higher than the 3QFY22 run-rate. We factor in a 6% decline in EBITDAR/ASK in FY24F (vs. FY20) due to intense competition and a decline in business travel segment.

Summary Valuation Metrics

| P/E (x) | Mar22-F | Mar23-F | Mar24-F |
|---|---------|---------|---------|
| Container Corp of India Ltd | 28.36 | 20.01 | 11.64 |
| Adani Ports & Special Economic Zone Ltd | 26.32 | 18.55 | 15.26 |
| InterGlobe Aviation Ltd | -14.31 | -23.64 | -91.08 |
| P/BV (x) | Mar22-F | Mar23-F | Mar24-F |
| Container Corp of India Ltd | 3.11 | 2.85 | 2.48 |
| Adani Ports & Special Economic Zone Ltd | 3.49 | 3.04 | 2.58 |
| InterGlobe Aviation Ltd | -14.52 | -9 | -8.19 |
| Dividend Yield | Mar22-F | Mar23-F | Mar24-F |
| Container Corp of India Ltd | 1.41% | 2% | 3.44% |
| Adani Ports & Special Economic Zone Ltd | 0.79% | 1.12% | 0.75% |
| InterGlobe Aviation Ltd | 0% | 0% | 0% |

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Transport Infra - Overall

Ports, Logistics & Aviation - 3QFY22 review

- Major ports (MPs) + APSEZ cargo dipped 2% yoy in 3QFY22. We have ADD rating on Gujarat Pipavav (GPPV) and HOLD on Adani Ports (APSEZ).
- Rail cargo (TKM) grew 14% yoy and container cargo (TKM) rose 11% yoy. We have ADD rating on Concor and REDUCE on VRL Logistics (VRL) & Blue Dart.
- Dec 2021 domestic air traffic grew 53% yoy because of the low-base effect - Dec 2020 domestic air traffic fell 43% yoy. We have REDUCE rating on IndiGo.

Ports: Weak volume due to APSEZ – Add GPPV, Hold APSEZ

Major ports (MPs) + APSEZ cargo dipped 2% yoy as MP cargo grew 2% yoy while APSEZ cargo declined 12% yoy. For APSEZ, excluding acquisitions, we expect a 12% EBITDA CAGR over FY20-24F. Our TP implies an EV/EBITDA of 11.7x FY24F (10% discount to five-year avg.). We believe that the discount is warranted as recent volume CAGR (7% over FY19-3QFY22) is lower than 10% CAGR over FY17-20. Going ahead, connectivity to the Dedicated Freight Corridor (DFC) is likely to boost GPPV in FY23-24F, while JNPT could be connected in two years. Of the three main ports on the west coast (JNPT, Mundra, GPPV), GPPV has the highest proportion of cargo using rail (~57%) vs. JNPT (13%) and Mundra (~30%). Over FY22-24F, we factor in 39% growth for GPPV's cargo.

Logistics: Rail cargo grew 14% yoy – Add Concor, Reduce VRL, BDE

Rail cargo (TKM) grew 14% yoy and container cargo (TKM) rose 11% yoy. However, just 4% yoy growth in EXIM (export-import) containers is dismal, especially after the start of the DFC (Mundra and GPPV connected). We believe this is due to (a) teething problems of the DFC, and (b) weak 3QFY22 container cargo of GPPV (21% yoy decline). We expect 86% volume growth for Concor over FY21-24F, driven by the shift of cargo from road to rail after the start of DFC. We believe that for Blue Dart or BDE (a) competition in air express is low (48-49% market share), and (b) air cargo EBT margin is higher than in surface cargo. We expect BDE's EBITDA margin to taper down to 18% as normalcy returns (vs. 20.9% in FY21). For VRL, we expect EBITDA margin to decline from 19% in 3QFY22 to 14% in FY24F (like that in FY20) due to (a) complete commissioning of the DFC in FY24F which could dent road logistics industry's volume and EBITDA margin, and (b) VRL's employee cost is expected to rise in FY23-24F after a 16% yoy decline in FY21. Salaries account for ~20% of VRL's sales. A 10% rise in salary cost dents its EBITDA margin by ~200bp.

Aviation: Weak volume in Dec 2021 – Reduce IndiGo, Hold SpiceJet

India's domestic air traffic in Dec 2021 grew 53% yoy because of the low base effect – Dec 2020 domestic air traffic declined 43% yoy. Thus, Dec 2021 domestic air traffic was 88% of pre-Covid (Dec 2019) level. Please note domestic traffic as at 19 Feb 2022-end was 78% of the run-rate in Feb 2020. We expect the industry's margins to be muted due to (a) increased competition as the gap in CASK ex-fuel between Air India and other players is expected to reduce, and (b) a decline in the lucrative business travel segment. Business travel (~45% of domestic passenger traffic in FY20) is likely to be depleted in FY23F-24F. The Covid-19 pandemic has driven a shift to online meetings, from air travel for meetings earlier, and has lasted long enough to alter the entrenched habit of air travel for meetings.

Figure 1: Stock recommendations

| Company | Rating | Target Price | Upside (%) |
|-------------------|--------|--------------|------------|
| Adani Ports | Hold | 742 | 11 |
| Gujarat Pipavav | Add | 140 | 70 |
| Concor | Add | 900 | 60 |
| VRL Logistics | Reduce | 387 | -11 |
| Blue Dart Express | Reduce | 4,793 | -20 |
| IndiGo | Reduce | 1,354 | -27 |
| SpiceJet | Hold | 60 | 7 |

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Ports, Logistics & Aviation - 3QFY22 review

Ports (Jan 2022): 2% yoy decline due to weak cargo volume for APSEZ

- Major ports (MPs) + APSEZ cargo dipped 5% yoy in Jan 2022 (vs. 2% yoy decline in 3QFY22) and was flat mom. MP cargo declined 3% yoy in Jan 2022 and was flat mom (vs. 2% yoy growth in 3QFY22).
- In Jan 2022, containers at MPs grew 7% yoy while coal volume declined 18% yoy mainly due to lower coking coal imports (down 40% yoy). Among ports, JNPT grew 7% yoy (vs. 11% yoy growth in 3QFY22).
- When compared with 4QFY20/19, Jan 2021/2020 port cargo was 9%/ 5% higher, respectively. Thus, we believe that Jan 2022 port cargo (5% below 4QFY21 run-rate) is still below the pre-Covid level (MPs + APSEZ).**
- APSEZ's Jan 2022 volume of 24.7mt declined 5% yoy. This includes Gangavaram (GPL: consolidated from Apr 2021). Excluding GPL, we estimate Jan 2022 volume at 22.2mt (down 15% yoy). Note: APSEZ's 3QFY22 volume ex-GPL was 68mt (down 11% yoy).

Figure 2: Volume at major ports and Adani Ports (ex-KPCL) – 3QFY22 and Jan 2022

| | Volume (MT) | | Growth % | | | |
|--|-------------|-----------|-------------|-----------|-------------|------------|
| | 3QFY22 | Jan 22 | 3QFY22 | | Jan 22 | |
| | | | (yoy) | (qoq) | (yoy) | (mom) |
| Major Ports | 182 | 63 | 2 | 10 | (3) | (0) |
| POL | 59 | 20 | 10 | 13 | (1) | (1) |
| Iron Ore | 10 | 4 | (45) | 1 | (33) | 26 |
| Fertilizer | 4 | 2 | (25) | 6 | (14) | 1 |
| Coal Thermal | 24 | 7 | 15 | 11 | 0 | (11) |
| Coal Coking | 13 | 4 | (21) | 6 | (40) | 5 |
| Container | 43 | 15 | 9 | 5 | 7 | (3) |
| Others | 31 | 11 | 14 | 14 | 27 | 3 |
| Adani Ports (ex kpcl & GPL) | 59 | 19 | (12) | 0 | (13) | (0) |
| Container | 29 | | (0) | (2) | | |
| Crude | 9 | | (6) | 6 | | |
| Coal | 13 | | (39) | (5) | | |
| Others | 9 | | 18 | 19 | | |
| Major Ports + Adani Ports | 241 | 82 | (2) | 7 | (5) | (0) |

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Railways: Growth momentum continued in Jan 2022

- In Jan 2022, rail cargo (TKM) grew 11% yoy (vs. 14% yoy growth in 3QFY22) and container cargo (TKM) rose 7% yoy (vs. 11% yoy growth in 3QFY22). On mom basis, rail cargo (TKM)/container cargo grew 2% each.
- Jan 2022, rail cargo/containers (TKM) was 11%/ 8% higher than 4QFY21 run-rate (pre-Covid run-rate). Jan 2022 rail cargo is strong, especially as this is on the back of a 11% yoy growth in Jan 2021.
- However, just 1% yoy growth in EXIM (export-import) container cargo (4% yoy growth in 3QFY22) is disappointing, especially after the start of the western DFC (Mundra and GPPV connected). We believe this is due to (a) teething problems of the DFC, and (b) weak 3QFY22 container cargo of GPPV (21% yoy decline).

Figure 3: Railway cargo and Concor volume – 3QFY22 and Jan 2022

| | 3QFY22 | QoQ growth % | Jan 22 | Jan 22 MoM growth % |
|--------------------------------|----------------|--------------|---------------|---------------------|
| Total Rail Cargo (MT) | 361 | 10 | 129 | 2 |
| YoY growth % | 7 | | 8 | |
| Total Rail Cargo (MTKM) | 213,339 | 12 | 74,987 | 2 |
| YoY growth % | 14 | | 11 | |
| Rail Container (MT) | 19 | 4 | 7 | 2 |
| YoY growth % | 10 | | 7 | |
| Rail Container - EXIM (MT) | 14 | 0 | 5 | 3 |
| YoY growth % | 3 | | 4 | |
| Rail Container (MTKM) | 15,722 | 6 | 5,688 | 2 |
| YoY growth % | 11 | | 7 | |
| Rail Container - EXIM (MTKM) | 10,103 | 2 | 3,672 | 3 |
| YoY growth % | 4 | | 1 | |
| Concor (MTEU) originating | 0.65 | 6 | | |
| YoY growth % | 5 | | | |
| Concor EXIM (MTEU) originating | 0.55 | 6 | | |
| YoY growth % | 2 | | | |

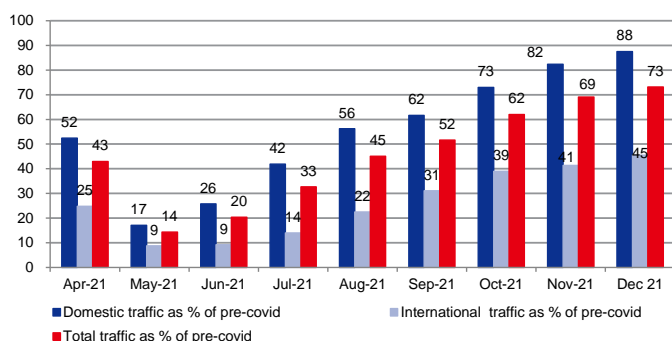
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Aviation: Domestic volume in Dec 2021 was 88% of pre-Covid level ➤

India's domestic air traffic in Dec 2021 grew 53% yoy because of the low base effect – Dec 2020 domestic air traffic declined 43% yoy. Thus, Dec 2021 domestic air traffic was still just 88% of pre-Covid level (Dec 2019). **Note:** Domestic/international traffic as at 19 Feb 2022-end was 78%/49% of the run-rate, respectively, in Feb 2020.

We estimate that Dec 2021 Indian carriers' revenue passenger kilometer (RPK) is lower (72% of Dec 2019) as (a) international traffic is 45% of Dec 2019, and (b) while Dec 2019 international air traffic was 16% of Indian carriers' traffic, international RPK was 37% of Indian carriers' RPK as the average international flight distance is ~3.2x longer than domestic one's.

In FY20, international RPK was 21%/ 25% of IndiGo/SpiceJet's RPK, respectively. IndiGo's 3QFY22 RPK was 81% of 3QFY20 (higher than that of total Indian carriers: 72%), driven by an increase in domestic market share from 47.7% (FY20) to 52.8% (Oct 2021). SpiceJet's 3QFY22 RPK was 48% of 3QFY20 (lower than Indian carriers) due to a decrease in domestic market share from 15.8% (FY20) to 9.5% (Oct 2021).

Figure 4: India air traffic as a percentage of pre-Covid traffic


SOURCES: INCRED RESEARCH, AIRPORTS AUTHORITY OF INDIA,

Figure 5: Passenger traffic and RPK for Indian carriers in Dec 2021 and Dec 2019

| | Dec 19 | Dec 21 | Growth % |
|--|-------------|-------------|-------------|
| Domestic tickets mn | 12.6 | 11.1 | (12) |
| International tickets mn | 6.6 | 3.0 | (55) |
| International tickets (Indian carriers) mn | 2.3 | 1.1 * | (55) |
| Total tickets (Indian carriers) mn | 15.0 | 12.1 | (19) |
| Domestic RPK bn | 12.6 | 11.0 * | (12) |
| International RPK bn (Indian carriers) | 7.5 | 3.4 * | (55) |
| Total RPK bn (Indian carriers) | 20.1 | 14.5 | (28) |

Note: * IncredCapital estimates

SOURCES: INCRED RESEARCH, DIRECTORATE GENERAL OF CIVIL AVIATION,

Salient features of 3QFY22 results

Figure 6: 3QFY22 result summary

| (Rs m) | Revenue | yoy % | qoq % | EBITDA | yoy % | qoq % | Adj. PAT | yoy % | qoq % |
|-------------------|---------|-------|-------|--------|-------|-------|----------|-------|-------|
| Adani Ports | 37,971 | 1 | 5 | 24,306 | (2) | 7 | 14,421 | 1 | 19 |
| Gujarat Pipavav | 1,686 | (15) | (13) | 925 | (22) | (15) | 413 | (31) | (19) |
| Concor | 19,200 | 9 | 5 | 4,556 | 8 | 7 | 2,865 | 4 | 8 |
| VRL Logistics | 6,784 | 20 | 7 | 1,290 | 31 | 14 | 605 | 52 | 22 |
| Blue Dart Express | 12,548 | 21 | 12 | 2,737 | 9 | (1) | 1,173 | 32 | 0 |
| IndiGo | 92,948 | 89 | 66 | 17,734 | 179 | 1,065 | 1,238 | na | na |
| SpiceJet | 22,593 | 34 | 68 | 867 | (53) | na | (2,735) | na | na |

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Adani Ports: Sharp decline in coal imports leads to a 11% yoy port EBITDA decline: EBITDA declined 2% yoy despite being boosted by (a) SEZ EBITDA of Rs0.9bn (vs. Rs30m yoy) and (b) Sarguja EBITDA of Rs1.1bn consolidated from Apr 2021. Ports EBITDA declined 11% yoy, in line with volume. Blended ports' EBITDA/t was flat yoy. 9MFY22 volume (ex-Gangavaram) was 212MT. As a result, we factor in 292MT cargo in FY22F.

GPPV: Sharp volume recovery likely in FY23F: EBITDA fell 22% yoy, lower than cargo volume decline (17% yoy). Container cargo (157 KTEU; 71% of total cargo) fell 21% yoy due to the logjam at ports globally. Despite a 5% tariff hike in 1QFY22, EBITDA/t (Rs288) fell 6% yoy due to the impact of fixed overheads on scaled-down operations. GPPV is optimistic of a recovery in container volume to 1MTEU by FY24F from 659KTEU last year.

Concor: Awaiting a pick-up in EXIM cargo: Concor's originating EXIM/ domestic cargo (TEU km) was flat/up 26% yoy, respectively, similar to Indian Railways. The weak growth in EXIM container cargo after the start of the DFC (Mundra and GPPV were connected in 3QFY22) is disappointing. Concor has made inroads in transporting cement in containers. EBITDA grew just 8% yoy (in line with sales), despite the tariff hike in Oct 2021 as the proportion of low PBIT margin domestic cargo (7% vs. 23% in EXIM) increased yoy from 12.5% to 15%.

VRL Logistics: Goods segment tariff hike drives results: Sales grew 20% yoy, similar to the growth in its goods transport (GT) sales. Despite a 13% yoy rise in fuel cost/L, EBITDA grew 31% yoy aided by (a) 12% yoy tariff hike in GT segment, and (b) recovery in BT segment (EBITDA up 134% yoy).

Blue Dart: Strong sales growth, but margin dip is a dampener: Sales grew 21% yoy/12% qoq (in line with 9% qoq volume growth). EBITDA grew lower than sales (9% yoy/-1% qoq). EBITDA margin (21.8%) was lower yoy and qoq. We observe that while ATF price has risen 10% QoQ, ATF comprises just 9% of BDE's sales. Thus, bulk of the 270bp qoq dip in EBITDA margin is not due to the rise in ATF price.

IndiGo: Marginal profit in a seasonally strong quarter: EBITDAR rose 101% yoy due to (a) a 50% yoy ASK growth, and (b) 79.7% PLF vs. 72% yoy. Despite the 66% yoy rise in RPK and salary cost being 32% lower than in 3QFY20 (pre-Covid), adjusted PAT was just Rs1.2bn vs. average 3Q profit of Rs4.7bn over FY17-20 as (a) ASK is still 11% below 3QFY20 (pre-Covid), (b) PLF (79.7%) was below that in 3QFY20 (87.6%), and (c) ownership cost rose 15% since 3QFY20, broadly in line with fleet addition (up 10% since 3QFY20). IndiGo mentioned that the earlier salary level (pre-Covid) is likely to be reinstated, which could raise cost by Rs4bn/quarter.

SpiceJet: Weak volume and rise in fuel cost dents results: Reported PAT was boosted by (a) higher other income (Rs4.2bn vs. Rs0.5bn qoq), and (b) lower interest cost due to negotiations with lessors. EBITDAR declined 12% yoy despite a 13% yoy rise in ASK, strong PLF (85.2% vs. 77.5% yoy) and 7% yoy rise in revenue/pax km due to a 113% yoy rise in fuel cost. Cargo revenue (up 39% yoy) was 26% of sales (same yoy).

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| | | | | | |
|---------------------|-----------|-----------|---------|----------|------------------|
| Score Range: | 90 - 100 | 80 - 89 | 70 - 79 | Below 70 | No Survey Result |
| Description: | Excellent | Very Good | Good | N/A | N/A |

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| | |
|--------|---|
| Add | The stock's total return is expected to exceed 10% over the next 12 months. |
| Hold | The stock's total return is expected to be between 0% and positive 10% over the next 12 months. |
| Reduce | The stock's total return is expected to fall below 0% or more over the next 12 months. |

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

| | |
|-------------|--|
| Overweight | An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation. |
| Neutral | A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation. |
| Underweight | An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation. |

Country Ratings

Definition:

| | |
|-------------|--|
| Overweight | An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark. |
| Neutral | A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark. |
| Underweight | An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark. |