

April 22, 2016

Sector

Shipping - Neutral

Logistics - Overweight

Freight rates/Indices & container volumes - Mar 2016

VLCC	↑
Suezmax	↓
Aframax	↑
Capesize	↓
Panamax	↑
Supramax	↑
Handysize	↑
Container Volume (YoY)	↑
Railway Earnings (YoY)	↑

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Shipping & Logistics Monthly Report: April 2016

- Post attaining historic low levels of 290 in February, indices for dry bulk carriers rebounded during the month. Since then, BDI has improved 48% to end the month at 429. The improvement could be attributed to the rising demand from China, as buyers of dry bulk commodities have returned from Chinese New Year celebrations. In addition to the same, the beginning of the South American grains season has lifted all ship sizes except Capesizes. Despite recovery, BDI continues to remain far below its breakeven levels
- Post a decline in February, the Baltic Dirty Tanker (BDTI) remained flattish during March at 800 levels. Correspondingly, the YTD average (January to March) for BDTI de-grew 3% YoY to an average of 835. Conversely, the Baltic Clean Tanker Index (BCTI) continued to de-grow for the second consecutive month. For March, BCTI de-grew 9% MoM to 502 as compared to 551 in February. A rebound in each asset classes was experienced, except VLCC that declined 10% MoM
- For February, container volumes at major ports grew 10% YoY to 673000 TEUs, which was highest during the year. YTD growth at JNPT continues to remain at sub 1%, currently at 4.10 million TEUs. Chennai, which was affected by bad weather in December, continues to recover for a second consecutive month with growth of 4% YoY. Following this, YTD FY16 (April-February) volumes for Chennai grew 8.7% to 1.42 million TEUs

Outlook

Recovery in dry bulk blessing in disguise; tanker remains eminent

The BDI marked its life-time lowest level of 290 in February, impacted by a rise in vessel deliveries in January 2016, which is at 7.2 million dwt double the average monthly deliveries in 2015. Adding to the same was the Chinese New Year, which caused a decline in bulk volumes. This impact was reversed during March, with the BDI gaining January levels. Apart from the demand side, scrapping for YTD was higher with 144 ships with capacity of 11.9 million dwt compared to 142 ships with capacity of 9.9 million dwt in the previous year. Given the demand-supply situation in Opec countries, tanker TCY rates continue to remain at elevated levels. Lower bunker costs with elevated tanker rates were a double whammy for I-direct shipping universe whose fleet profile is in favour of tankers. Following this, SCI and Great Eastern Shipping's (Gesco) profitability for FY16 is poised to record highest levels since 2011.

Spurt in trade activity requires continuity...

Though the subdued trade scenario persists, container volumes at major ports recovered during February. The YTD FY16 (April-February) growth in container volumes was at 3% YoY to 7.45 million TEUs compared to 7.25 million TEUs in the same period of the previous year. Rail volumes for the month remained flattish. Continuity in trade volumes remains key for inland container depots (ICDs) and container train operators (CTOs). This would reduce empty running and improve utilisation rates for companies like Concor and Gujarat Pipavav.

B2C momentum tapering; competitive advantage...

The continued internet penetration via mobile would continue to give an impetus to m-commerce. Higher ad spends coupled with cheaper mobile has led e-commerce breakthrough in Tier II and III cities. B2C logistics players with wider coverage and pan-India reach would benefit from this surge. Revival in trade activities would further drive up revenues from B2B business. We remain positive on key players like TCI, Gati and BlueDart.

Post high growth in December, VLCC rates for March improved 12% to \$46000 compared to the earlier \$42000. Majority of the improvement was visible in Aframax asset class with rates improving 12%. However, following the oversupply in the spot market, rates for Suezmax corrected by 10%. The growth rates are expected to taper, going ahead, as the high base impact catches up

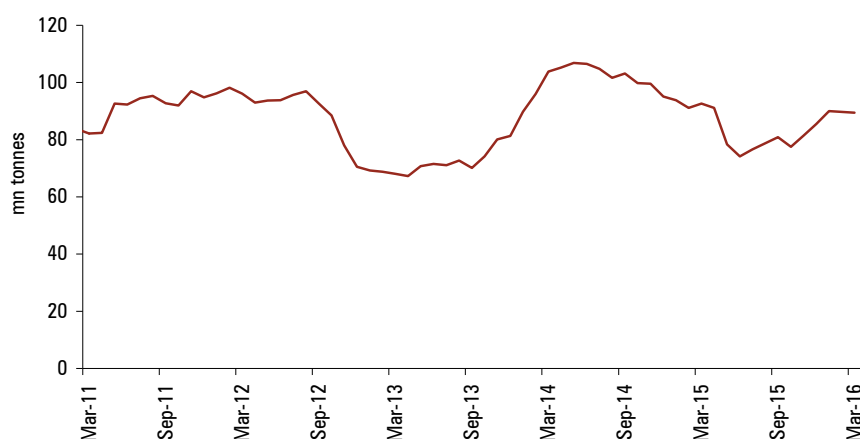
Post the decline in February, BDI for March resumed its upward trend. During the month, the Baltic Dry Index (BDI) grew 25% MoM to an average of 383 levels. Apart from Capesize, which corrected 8%, indices for Panamax, Supramax and Handysize grew 37%, 51% and 27%, respectively

Exhibit 1: Spot Freight rates (US\$ per day)

Asset class	CY14	CY15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16
Tankers							
VLCC	20178	54876	58328	81155	51591	41355	46228
Suezmax	11488	29777	37879	37121	32555	27220	24380
Aframax	11972	23390	24932	30130	22413	18971	21272
Clean	5903	14818	11293	13363	11225	10231	10786
Bulk Indices							
Baltic Dry index	1016	746	586	519	386	307	383
Capesize	1875	1169	873	718	278	203	187
Panamax	855	719	545	429	379	324	445
Supramax	883	678	535	456	387	280	424
Handysize	469	366	310	279	244	197	251

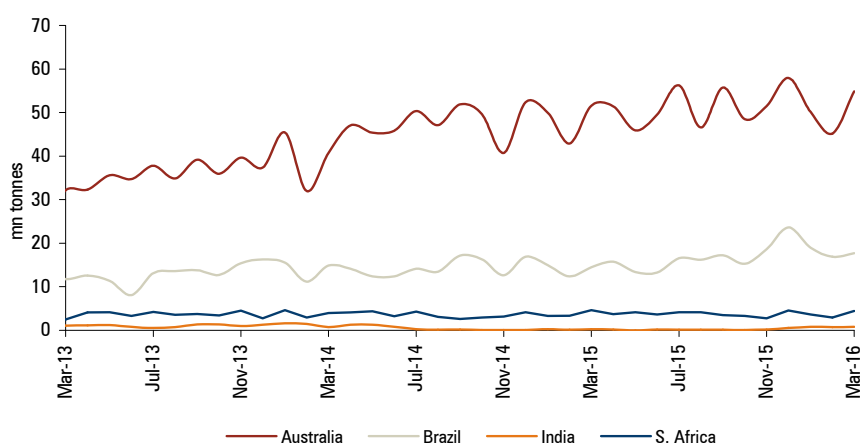
Source: Bloomberg, ICICIdirect.com Research.

Exhibit 2: China's monthly iron ore inventory



Source: Bloomberg, ICICIdirect.com Research

Exhibit 3: Country wise China iron ore import

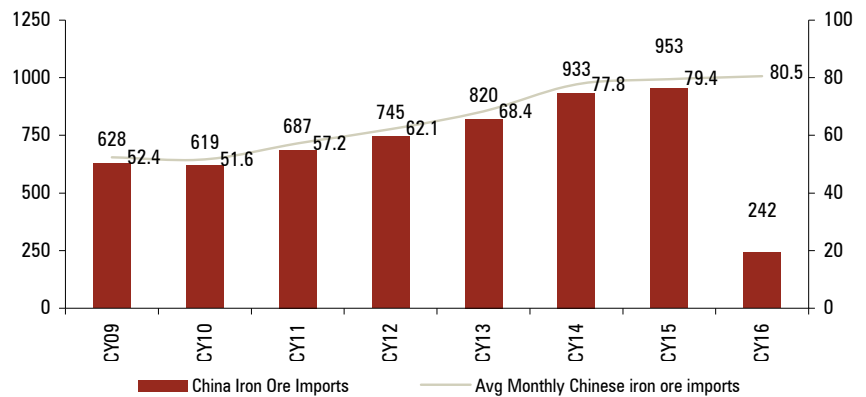


Source: Bloomberg, ICICIdirect.com Research

Chinese iron-ore imports for March grew 16.5% MoM (up 6.5% YoY) to 85.8 MT. On a YTD basis, imports were at 227 MT compared to 241.6 MT in the same period of the previous year. However, lower base imports from India grew the most with 2.3 MT on YTD basis as compared to 0.6 MT in previous year. Australia continues to command a lion's share of total imports

Exhibit 4: China iron ore inventory trend analysis

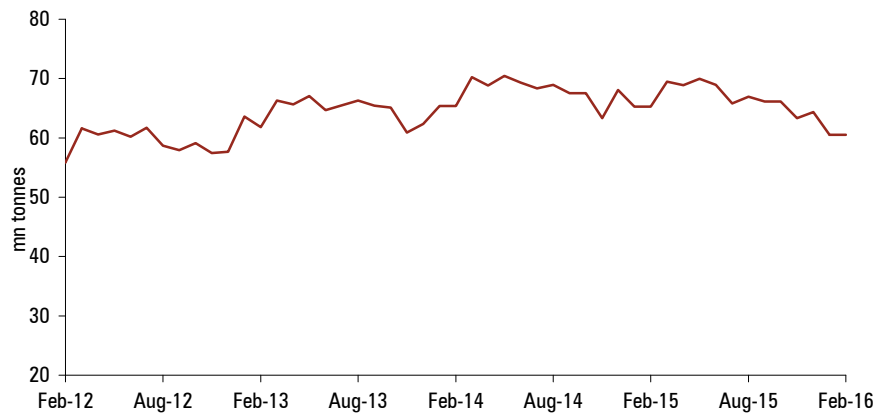
The average monthly iron ore imports grew 1% to 80.5 MT, which continues to remain significantly above the six year average level of 61.6 MT



Source: Bloomberg, ICICIdirect.com Research

Exhibit 5: China's monthly steel production

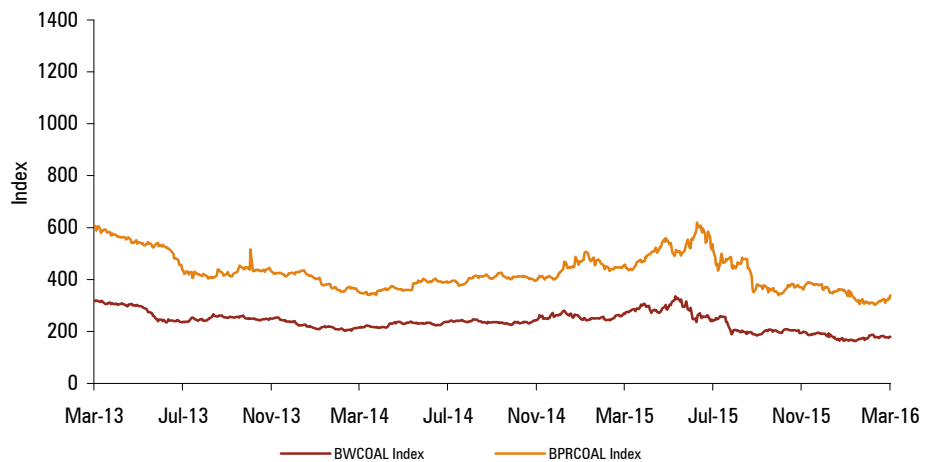
Chinese monthly steel output remained flattish MoM to 60.53 MT in March 2016. The YTD (January to February) output de-grew 7% YoY to 121 MT compared to 130 MT in the earlier year



Source: Bloomberg, ICICIdirect.com Research

Exhibit 6: Coal Index

The World Coal Index and Asia Pacific Coal Index continued to decline from July levels. On the back of subdued manufacturing and trade activity, the index sequentially remained sluggish for March



Source: Bloomberg, ICICIdirect.com Research

Exhibit 7: Dry bulk indices

During CY15, we have seen BDI being volatile. It grew from 596 to 900 levels by September 2015. However, as the trade scenario in China worsened, this resulted in downward pressure on BDI. During the month, BDI recovered a bit and returned to around January levels

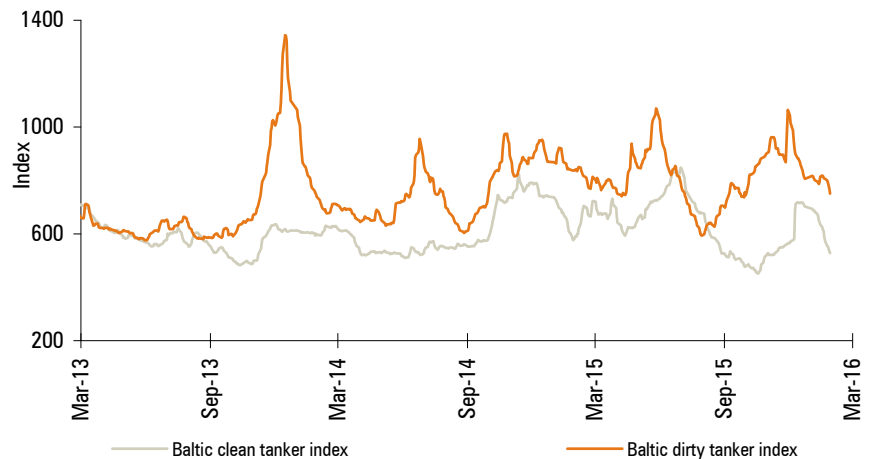
The fortnight value for the BDI reflects a sharp recovery with more than 250 bps rise. However, following the continued subdued trade scenario and additions marked during the year, we expect BDI to remain at distressed levels



Source: Bloomberg, ICICIdirect.com Research

Exhibit 8: Tanker indices

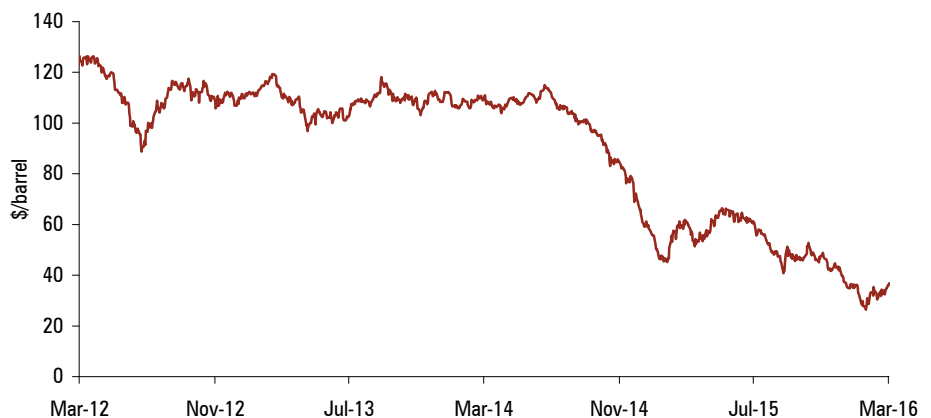
The average BCTI and BDTI for March were at 500 and 800, respectively. Although BCTI for the month declined 8.7%, BDTI improved 2% in March



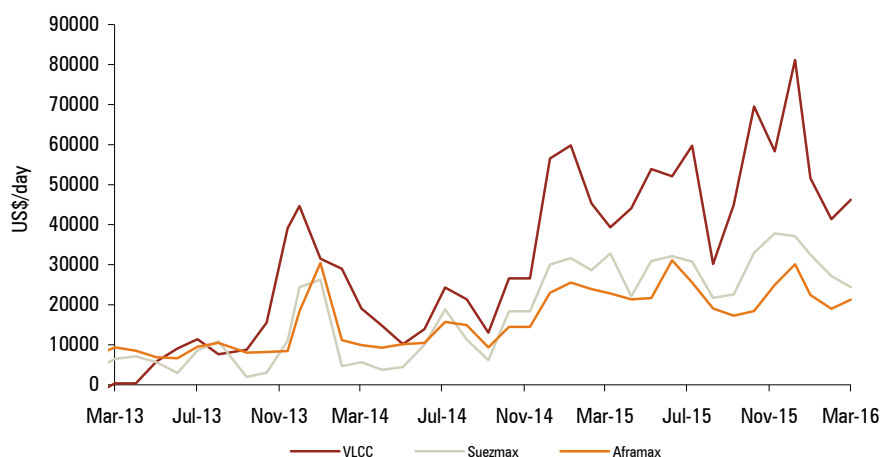
Source: Bloomberg, ICICIdirect.com Research

Exhibit 9: International crude oil prices trend

Average crude prices for March 2016 were at \$39 compared to an average of \$33 in February 2016 and \$30.8 in January 2016. Notably, prices for crude rebounded for a third consecutive month



Source: Bloomberg, ICICIdirect.com Research

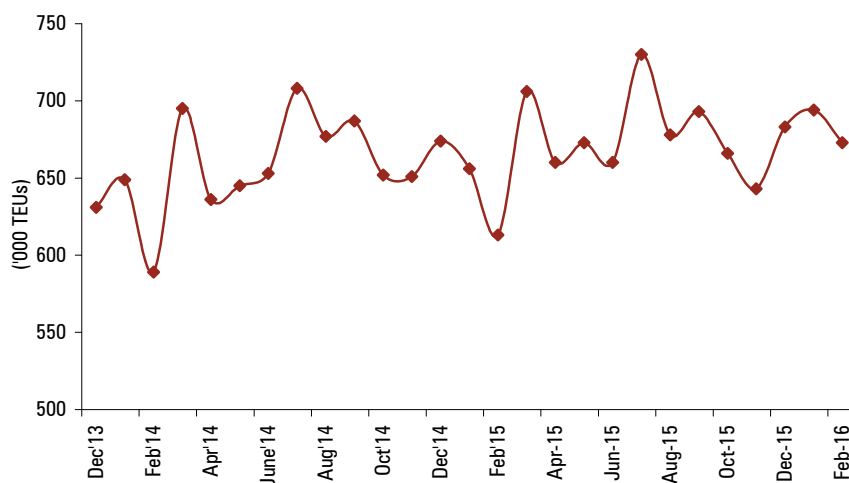
Exhibit 10: Tanker rates trend


Source: Bloomberg, ICICIdirect.com Research

Exhibit 11: Container volume at major ports

(000's TEUs)	FY12	FY13	FY14	FY15	FY16 YTD	YoY Monthly
Kolkata	600	552	563	630	601	4.0%
Paradip	13	8	9	4	5	25.0%
Vizag	248	234	263	248	262	16.4%
Ennore	-	-	-	-	-	0.0%
Chennai	1539	1558	1468	1552	1417	0.0%
Tuticorin	479	477	508	560	550	9.6%
Cochin	326	336	351	365	381	13.1%
New Mangalore	48	45	50	63	68	44.7%
Mormugoa	20	22	22	25	23	0.0%
Mumbai	58	58	41	45	41	-2.4%
JNPT	4259	4321	4161	4460	4103	0.6%
Kandla	118	168	29	-	2	0.0%
Total	7708	7779	7465	7952	7453	2.8%

Source: Indian Ports Association, ICICIdirect.com Research

Exhibit 12: Container volume at major ports


Source: Indian Ports Association, ICICIdirect.com Research

Post a sharp decline in January and February, freight rates in March rebounded. Average annual freight rates for March 2016 for VLCC and Aframax sequentially grew 12% each. However, Suezmax de-grew 10%

Container volumes at major ports remained subdued over the last two years with FY13 remaining flat YoY and FY14 registering a decline of 4%. FY15 has shown a mild recovery with container volumes at major ports increasing 7% YoY

For February, container volumes posted spirited growth of 10% YoY to 673000 TEUs. Following this, YTD FY16 growth for container volumes improved from 2.1% to 2.8%

For February 2016, container volumes at major ports grew 10% YoY (down 3% QoQ). Volumes at JNPT remained flat. However, post revival of volumes at Chennai in January, volumes in March tapered. Kolkata port continued to maintain its quarterly run rate

Indian Railways passenger revenues for FY2016 grew 4% YoY to ₹ 163650 crore as compared budgeted estimate (BE) of ₹ 167780 crore. Passenger and goods revenues grew 6% and 4%, respectively. Revenues from freight continue to remain the highest contributor to total earnings with a contribution of ~67%. The growth can mainly be attributed to an increase in passenger rail fare and freight rates

Exhibit 13: Railways segment wise earnings

₹ Crore	FY11	FY12	FY13	FY14	FY15	FY16	YTD Growth (%)
Passenger	25985.7	28631.5	32536.1	37478.3	42866.2	45355.5	6%
Other Coaching	2518.3	2848.6	3197.9	3818.0	4035.6	4468.9	11%
Goods	62441.4	69382.2	86255.4	94955.9	107074.8	110347.0	4%
Sundry	2999.2	2828.3	3913.2	4509.0	3903.9	3477.8	-10%
Total	93944.6	103690.7	125902.6	140761.3	157880.5	163649.1	4%

Source: Indian Railways, ICICIdirect.com Research

Exhibit 14: Railways commodity wise earnings

₹ Crore	FY11	FY12	FY13	FY14	FY15	FY16	YTD Growth (%)
Coal	24029.9	28611.6	36802.4	39986.9	48373.4	49988.8	3%
RM for steel plants except iron-ore	1009.2	1163.7	1387.3	1560.8	1875.0	2022.8	8%
Pig Iron & Finished Steel	1585.7	4080.7	5182.1	5805.3	6409.1	7046.5	10%
Iron Ore	9138.5	7285.0	7421.3	9163.4	7904.7	7072.6	-11%
Cement	5776.3	6719.7	8229.2	8665.3	9181.8	9154.6	0%
Foodgrains	4218.9	4634.2	6792.2	7894.4	8550.4	7811.3	-9%
Fertilizers	185.2	4270.8	4732.1	4536.0	5431.1	6920.0	27%
POL	3491.6	3667.3	4720.3	5405.7	5705.8	6003.1	5%
Other Goods	4415.0	5115.3	5684.4	6111.4	7013.9	7777.5	11%
Domestic Container	887.3	921.2	953.8	1239.9	1258.9	1248.8	-1%
EXIM Container	2215.8	2495.9	2879.6	3098.7	3610.3	4234.4	17%
Total Container	3103.1	3417.1	3833.4	4338.6	4869.2	5483.2	13%
Grand Total	56953.2	68965.4	84784.7	93467.7	105314.4	109280.3	4%

Source: Indian Railways, ICICIdirect.com Research

Exhibit 15: Railways commodity wise tonnage

Million Tonnes	FY11	FY12	FY13	FY14	FY15	FY16	YTD Growth (%)
Coal	420.22	455.81	496.37	508.08	545.67	551.6	1%
RM for steel plants except iron-ore	13.22	14.53	15.68	17.3	18.37	20.3	11%
Pig Iron & Finished Steel	15.17	34.53	35.33	38.57	39.89	42.7	7%
Iron Ore	118.44	104.71	111.54	124.23	112.72	117.0	4%
Cement	99.07	107.57	105.78	109.85	110.29	106.1	-4%
Foodgrains	42.11	45.61	48.29	54.41	54.98	45.8	-17%
Fertilizers	2.64	52.74	45.93	44.37	47.42	52.3	10%
POL	40.28	41.18	41.62	41.99	42.77	44.0	3%
Domestic Container	10.15	9.34	9.27	10.94	10.41	9.0	-13%
EXIM Container	26.69	29.11	31.89	32.59	38.32	37.1	-3%
Total Container	36.84	38.45	41.16	43.53	48.73	46.1	-5%
Other Goods	70.85	74.32	68.12	71.21	76.72	78.0	2%
Grand Total	858.84	969.45	1009.82	1053.54	1097.56	1104.0	1%

Source: Indian Railways, ICICIdirect.com Research

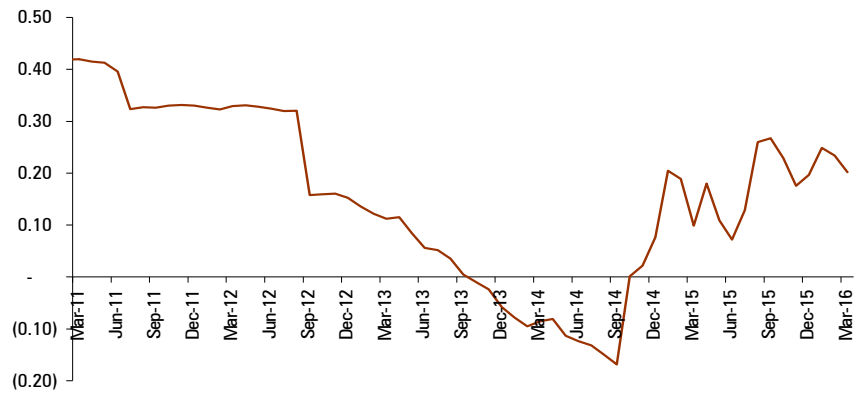
Earnings for railways for FY16, grew 4% YoY to ₹ 109280 crore. The commodity mix of Railways freight earnings is highly skewed towards coal, which constitutes about 45% of freight earnings, followed by cement & food grains at 8% and 7%, respectively

Over FY11-16, coal tonnage increased at a CAGR of 6%. For the same period, cement and food grains volume has increased 1% and 2%, respectively. Coal tonnage as a percentage of total volume has increased from 44% in FY10 to 50% in FY16 whereas iron ore tonnage has declined from 15% in FY10 to 10% in FY16

For March 2016, the coal tonnage contribution to the total tonnage was at 49%. Total tonnage for March de-grew 1.2% YoY. Container volumes for Exim and domestic routes de-grew 2% and 6%, respectively

Average freight rates for March remained flattish to ₹ 1.59 per tonne km. However, following the rise in diesel rates, average diesel prices grew 3% MoM. Subsequently, the freight to diesel prices spread declined 13% to 0.23, which would pressure the profitability of road freight operators

Exhibit 16: Diesel price & freight rate spread (₹/tonne kilometre)



Source: Crisil Research, ICICIdirect.com Research

ICICIdirect.com coverage universe (Shipping)

Sector/Company	CMP	TP (₹)	Rating	Mcap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)				FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY17E
G.E Shipping	335	350	HOLD	5,051.1	49.6	83.5	82.1	7.1	3.9	4.0	5.6	3.5	3.6	6.3	10.2	8.7	10.1	14.8	12.9
Reliance Defence	67	80	HOLD	4,932.6	-5.4	-10.8	-3.3	NA	NA	NA	121.6	-66.4	45.6	-0.4	-4.6	0.5	-40.5	-10.8	-1.0
SCI	72	76	HOLD	3,353.8	4.3	13.0	14.4	18.5	6.2	5.6	8.2	5.6	4.5	0.5	4.6	4.8	2.7	8.5	8.6

Source: ICICIdirect.com Research

ICICIdirect.com coverage universe (Logistics)

Sector / Company	CMP	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)				FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY17E
Container Corporation	1,362	1,700	BUY	26,321	53.7	46.4	56.8	23.5	29.3	24.0	17.0	19.6	15.6	12.0	10.1	12.2	13.7	10.9	12.2
Transport Corp (TRACOR)	271	280	BUY	2,065	10.8	12.6	14.0	19.0	17.0	14.5	10.6	10.5	9.0	19.8	20.0	19.9	13.1	14.0	13.8
BlueDart	6,200	7,300	BUY	14,850	53.5	81.2	92.6	112.1	75.8	66.5	64.3	38.5	32.5	28.0	38.0	40.6	42.7	45.0	42.2
Gati Ltd.	124	150	BUY	1,070	4.7	3.7	4.8	22.8	29.4	22.6	9.7	10.4	8.5	11.2	11.3	13.1	6.3	5.7	7.1
Gujarat Pipavav (GPPL)	175	195	BUY	8,440	8.0	5.1	6.3	19.1	30.2	24.3	14.3	19.3	14.7	22.8	13.2	16.8	21.6	12.1	13.0

Source: ICICIdirect.com Research

Glossary

Tankers

VLCC	Very large crude carrier - capacity 300000 DWT
Suezmax	Capacity 120000 to 200000 DWT
Aframax	Capacity 80000 and 120000 in DWT
Small Tankers	Capacity 10000 to 60000 DWT

Bulkers

Capesize	Capacity 80000 to 200000 DWT
Panamax	Capacity 60000 to 100000 DWT
Handymax	Capacity 40000 to 60000 DWT
Handysize	Capacity 10000 to 40000 DWT

Offshore

Drill ship	Offshore drilling vessel capable to drill in water depths up to 6000 meter. (Deepwater drilling)
Semi submersible rig	Offshore drilling vessel capable to drill in water depths up to 2000 meter. (Deepwater drilling)
Jack up rig	Offshore drilling vessel capable to drill in water depths up to 350 meter. (Shallow water drilling)
AHTS	Anchor handling tag supply vessel used for positioning of jack up rigs.
PSV	Platform support vessel used for transport of men and material to oil platform and jack up rigs.

LPG

VLGC	Very large gas carrier capacity 70000+ CBM
LGC	Large sized gas carrier capacity 50000 - 70000 CBM
MGC	Mid sized gas carrier capacity 20000 - 50000 CBM

Miscellaneous

DWT	Dead weight tonne
LDT	Light displacement tonne
TCY	Time Charter Yield measures the operating profit of a ship on a daily basis.
TEU	Twenty-foot Equivalent Units

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Sector view:

Over weight compared to index

Equal weight compared to index

Under weight compared to index

Index here refers to BSE 200



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