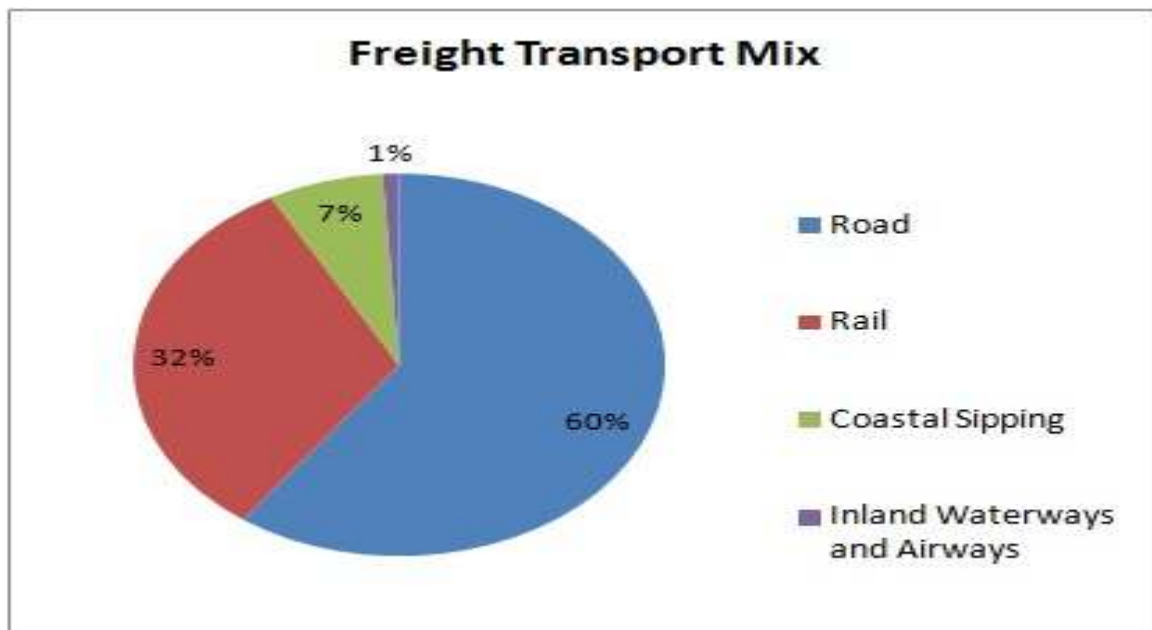


Recovery in economic growth likely to boost logistics sector in coming future

The growth prospect of the logistics sector is directly correlated to economic growth and foreign trade. As India is an emerging economy, logistics industry has become an area of priority growing along with the domestic economy, which has resulted in a significant rise in freight transport volume. Present, market size of the industry is estimated at around \$135 billion. Indian logistics industry comprises three segments including freight transportation via road, rail, air and water, warehousing and other value added services like third party logistics. The contribution from freight transportation and warehousing is above 90 percent of industry's total revenue. Road dominates the mode of freight transport mix and accounts for about 60 percent of the total quantity of freight traffic in India. Rail and coastal shipping account for about 32 percent and 7 percent, respectively, while the share of inland waterways and airways transportation stand less than 1 percent each. Indian logistic industry is a highly fragmented and unorganized industry with thousands of players offering partial services in logistics. The government permits 100 percent Foreign Direct Investments (FDI) under the automatic route for all logistics services, except air cargo and courier services.



Industry Performance

The purpose of the logistic industry is to enable an effective transportation or timely movement of goods from one place to another. Freight movement depends upon the overall economic development of the country. Over the past ten years, India's economic size has increased more than double to Rs 57.42 lakh crore in 2013-14 and total foreign merchandise trade increased to around 40 percent of India's GDP from 20 percent a decade ago. High economic growth during the past decade has spurred increase in rail, road and port traffic in the country. Apart from

economic growth, other factors such as increasing investments in development of country's infrastructure, favorable government policies such as liberalization of FDI norms in sector, growing private players participation and globalization have been providing the growth opportunities in all facets of the industry like freight transportation, warehousing, express cargo delivery and container services. With the growing integration of India's economy with the world, the country's total trade has grown at a CAGR of about 18 percent to \$762 billion in 2013-14 from \$171 billion in 2004-05. Barring the last two fiscal years, Industry grew at significant CAGR of around 15 percent during the period FY05-FY12.

With the focused growth and gradually growing domestic economy, Indian logistic sector has emerged as one of the most attractive sectors in the world attracting investments from large global and Indian private equity (PE) firms. Several global players view the Indian logistics market favourably and have entered India by the way of mergers or acquisitions (M&A) of Indian companies or with joint venture agreements. Some of the major M&A and Joint ventures in the industry includes FedEx Express which acquired Mumbai-based integrated logistics service provider AFL in 2013 and GATI signed joint venture in 2012 with Kintesu World Express a Japan-based air and ocean freight services provider. The Emerging Market Survey, 2013, conducted by Transport Intelligence (Ti) ranks India as the second most attractive logistics market in the future after China. According to TI's survey, India as a fast growing economy with one of the largest consumer markets, industries such as automobile, pharmaceuticals, FMCG and retail will provide impetus to the logistic industry in the future. Moreover, growing emphasis on increasing exports and manufacturing sector will also derive the demand for logistics in India.

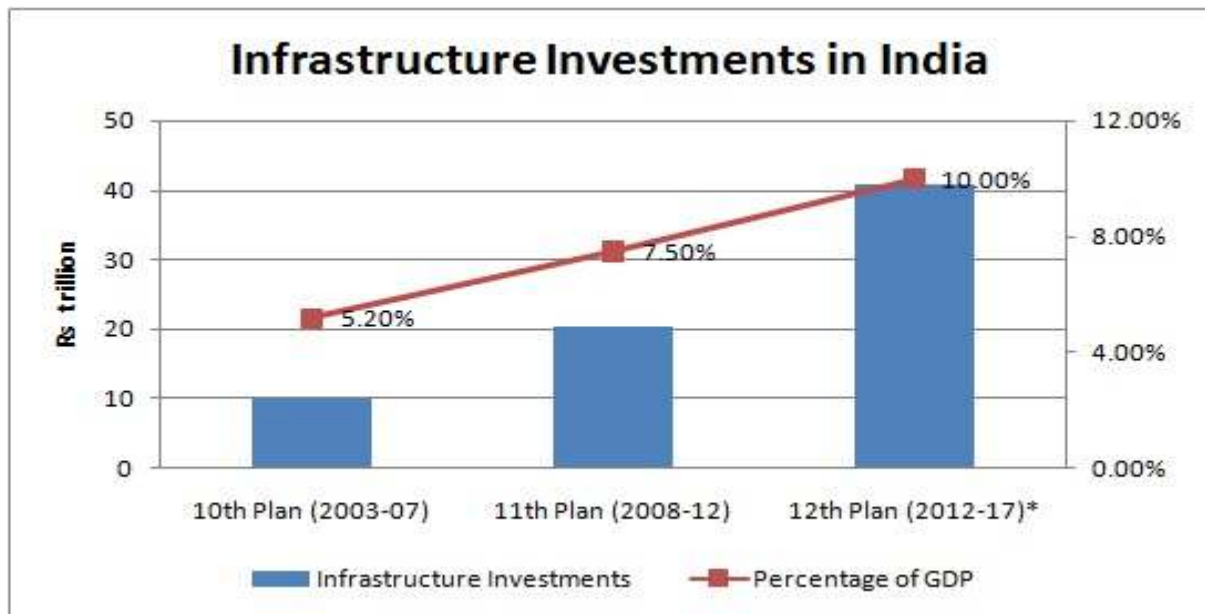
Indian logistics industry, being highly sensitive to country's GDP growth has remained under pressure during the past two fiscals owing to the economic slowdown. India's economic growth stayed below 5 percent for the second year in a row at 4.7 percent in FY14 and this downturn can be attributed partly to global factors and mainly to slow reforms, high interest rates and inflation and delays in implementation of infrastructure projects in the country. Besides the economic downturn, inadequate logistic infrastructure can also be attributed to sluggish Indian logistics industry's growth.

Inadequate logistics infrastructure impacting industry growth

Presently, India's logistics infrastructure covering the road, rail, ports and air network remains woefully inadequate to meet the economy's demands, leading to the significant rise in the logistic cost. Clogging witnessed on domestic roads and ports, overloading of trucks leading to faster deterioration of road infrastructure, longer inhabit times on ports and longer overall transit times can reflect inadequacy of logistics infrastructure. India spends around 13 percent of its GDP on logistics, which is comparatively higher than other developed countries like the US, Europe and Japan. Infrastructure development in the country has been impacted mainly on account of issues related to environmental clearances, land acquisitions, shortage of funds from lenders as well as sector specific challenges that impacted investors' interest for new projects. Several regulatory consents from multiple agencies required across the different stages of the project cycle, leading to time and cost overruns inflating actual investments. Furthermore, imbalanced allocation of funds across different infrastructure sectors has also become the concern for overall

infrastructure development of the country. During the 11th five year plan, overall investment targets of Rs 20.5 trillion have only been achieved due to the strong performance of the Telecom and Oil & Gas sectors, whereas the critical segments of infrastructure such as roads, railways and ports have under-achieved their investment targets by around 22 percent.

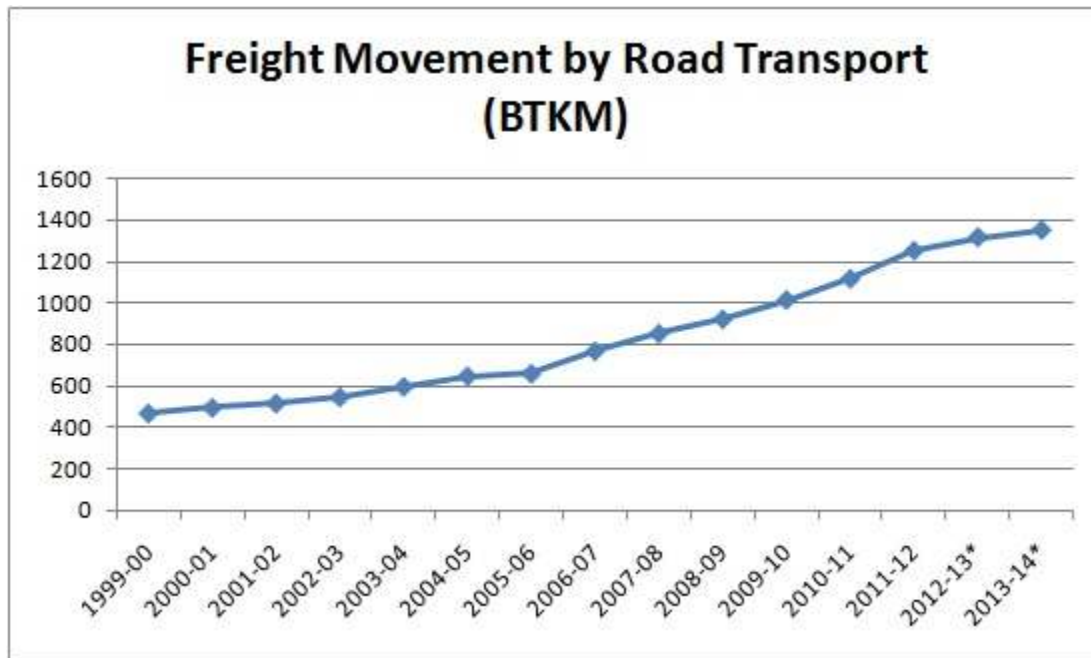
However, the situation of logistics industry is likely to improve as Indian economy is witnessing significant recovery. Over the past few months, macro-economic indicators like inflation and industrial production have shown some improvement. Indian industrial production during the April-June quarter 2014-15 grew by 3.9 percent as compared to -1 percent in the same period of previous fiscal. On the other hand, in recent years, Indian government has accorded high priority to infrastructure sector and allocated greater public budget to boost infrastructure development in the country. The Government has set a massive target of \$1 trillion (Rs 40.9 trillion) during the 12th Plan period (2012-2017) to overhaul its infrastructure sector such as ports, airports and highways. The government has planned to invest around 20 percent of total projected investments for 12th plan period in the road and railway sectors. In order to bring in better technology, operational efficiencies and reduce time & cost overruns, the government has opened up the sector to private investment. Around 50 percent of the total infrastructure investments would come from private sector during the plan period. The share of total investment in infrastructure including roads, railways, ports, airports, electricity, oil gas pipelines and irrigation, is expected to increase at around 10 percent by the end of 12th Five Year Plan period from 7.5 percent of GDP in the previous plan. Increasing emphasis on infrastructure development and recovery in economic growth is likely to provide impetus to Indian logistics industry in coming future.



Segmental Analysis

Roads freight transportation

Road transport is the major sub-sector of the industry, accounting for around 60 percent of the total freight movement in the country. With around 4.6 million kilometers in lengths, India road network is the second largest in the world and plays an important role for the growth of the economy. Unlike other modes of transport, roads freight transportation is available to cities as well as remote areas of the country. Road freight increased by a CAGR of 8 percent to around 1,350 billion tonne kilometres (BTKM) in 2013-14 from 467 BTKM in 1999-2000. As per the Ministry of Road Transport and Highways, road freight is expected to reach 1,835 BTKMs by 2016-17.



However, road freight transportation has not achieved its deserved attention or recognition due to poor infrastructure leading to rise in overall transportation cost. The cost of goods transportation by road in India is 30 percent higher than that in the US. National Highways account for just 2 percent of the total road network, but carry 40 percent of the total road traffic. Further, only around 24 percent of the country's national highways are four-lane, whereas 53 percent of highways are double-lane. The situation further worsens with issues such as overloading of trucks and oversized cargoes moving without requisite permissions and multiple check-points like cargo and vehicle inspection, tax and toll collection delaying transit. During the past few years, highway roads development in the country remained sluggish with physical achievement

falling short of its proposed target and getting further delayed with time. During 2013-14, the National Highways Authority of India (NHAI) has managed to award around 2,000 km of road projects as against the set target of 9,000 km, while in 2012-13 only 1,116 km of projects were awarded against a target of 9,500 km. Financial constraints, delay in land acquisition and environmental clearances and lack of project planning are the leading factors impacting road infrastructure development in the country.

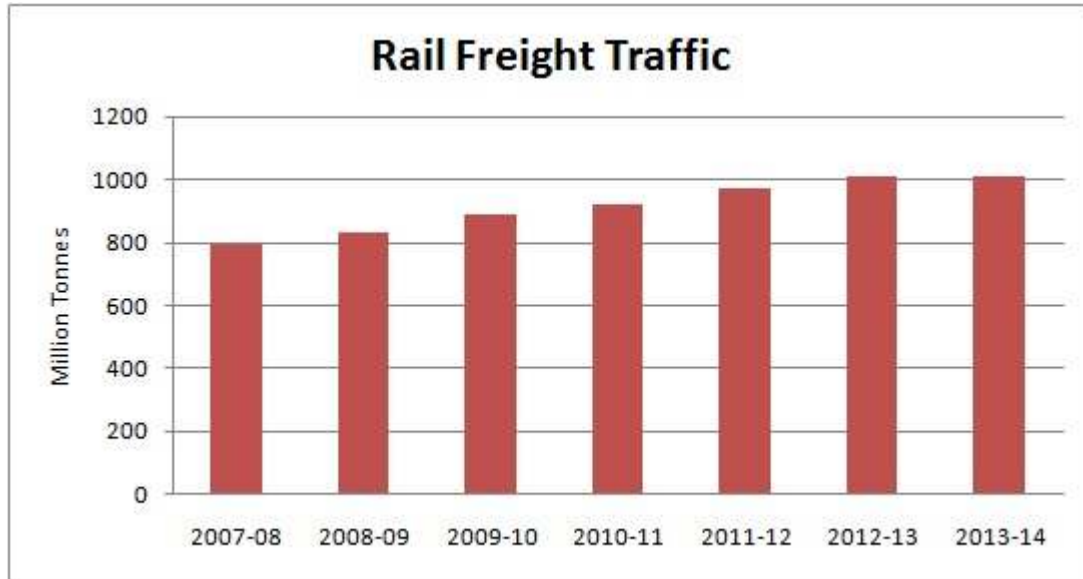
Freight movement by road is likely to surge in coming days, given recovery witnessed in domestic economy and government's renewed efforts to boost road infrastructure. Over the past one and half year, the government has taken various initiatives like encouraging Engineering, Procurement, Construction (EPC), public-private-partnership (PPP) and Build-Operate-Transfer (BOT) models in road development. Furthermore, around 12 percent of total investment during the 12th five year plan is proposed to be invested in the roads sector alone and private sector's contribution in total road development is likely at 45 percent.

Rail Transport

Indian railway earns nearly 70 percent of revenue from the freight segment. Major commodities carried by Indian Railways are coal, iron ore, foodgrains, iron & steel, fertilizer, cement and Petroleum products with the help of specialized wagons suited to the need of specific commodity. Freight movement via railways has grown at a CAGR of around 4.13 percent to 1012 million tonnes in 2013-14 from 794 million tonnes in 2007-08. Though, rail freight traffic on Indian Railways has seen a consistent increase during the past fiscals, rail infrastructure in the country has not developed comparatively. As infrastructure addition is taking place at a snail's pace, rail infrastructure has been witnessing pressure with major routes facing jamming and overcrowding particularly freight segment. Owing to the poor quality of rail services and sluggish development in road infrastructure, railways share of freight traffic in India has dropped to 32 percent now from around 86 percent over the period of time. The factors such as inadequate allocation of funds, inability to attract private investments, omitted investment priorities and lack of timely reforms have been impacting the country's railway sector. Furthermore, the government's revenue surplus is too small to fund big railway projects, whereas private investments only account for around 5 percent of the total investment in the sector. Given that railway play important role in the transportation of major bulk commodities, insufficient railway capacity expansions and rejuvenation could adversely impact the economic growth of the country.

Despite all these apparent limitations, railway has been witnessing consistent increase in freight transportation, specifically for medium and long distances on high-traffic density corridors. However, in order to fast-track modernization of the state-run transporter to meet global standards, the cabinet allowed 100 percent foreign participation in crucial infrastructure segments of the Railways. Foreign investors can now invest in setting up of high-speed corridors, suburban rail networks, signaling projects, logistic hubs and in creating links to industrial parks. The move is likely to help in transformation and expansion of the Railways which is facing a cash-crunch of around Rs 26,000 crore. Further, the railway vision 2020 was introduced which envisage to add around 6,000 km per annum including new lines, doubling and electrification.

The government also planned to invest around 7 percent of the total planned funds under the 12th five year plan in the Indian railway sector.



Warehousing Segment

Warehousing has progressed significantly in India over recent years and become one of the major sub-sectors, accounting for around 20 percent 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. The warehouse segment is growing at over 10 percent annually with current market size estimated at around Rs 560 billion. Multiple business models exist within the warehousing segment with industrial/retail warehousing accounting for around 55 percent of the total market followed by Agri warehousing and cold storage having 15 percent and 16 percent share in total warehousing market. As modern warehouse equipped with superior designs, modular racking systems, use of automation systems, the demand for these is on the increase in India. Further, the factors like government's initiatives of setting up free-trade warehousing zones, gradually growing Indian economy and demand supply gap has provided impetus to the warehousing segment. The segment is attracting investments from big private player due to its focused growth and strong growth drivers. Going forward, the development of key infrastructure projects related to road, rail and ports projects is expected to result in creation of new more warehousing hubs in the country.

Meanwhile, the major boost to segment is likely to come in from the implementation of goods and services tax (GST). Presently, due to multiple and differential state level taxes, logistic players in India have set up multiple warehouses often one per state to minimize interstate movements and associated taxation, servicing various regions of the country. This is highly inefficient for industry and leads to higher units and inventory carrying costs. The Government is likely to implement GST soon, which will replace existing state and federal levies such as excise

duty, service tax and value-added tax (VAT) and avert the need for multiple warehouses. The implementation of GST will result in major reformation of warehouses segment with large warehouses being developed in key locations and smaller hubs closer to the production and consumption centres.

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 and represent around 5-10 percent share in the overall logistics market in India. The third party logistics services in the country are still available to only a few sectors include telecom, automobile, IT hardware's and infrastructure equipment. The segment is expected to grow rapidly as the need for controlling logistics costs, to focus on core competencies and ability of 3PL companies to provide quality services are driving more and more companies to look for such 3PL players. Furthermore, 3PL services in India still lags behind many countries, offering remarkable growth opportunities in domestic markets.

Outlook

The cost of trading, whether by land, water or air forms a critical component to determine the final price of a commodity and thus the logistics industry is broadly considered as the backbone of country's trade, associated economic activity and growth of other key industries. An efficient logistics system reduces the carrying cost, providing a competitive edge to country on global front and propelling economic activity. As the economic scenario determines the volume of freight movement, industry is highly correlated to prevailing economic situation. After two years of sluggish growth, Indian economy is showing signs of recovery with manufacturing growth entering into the positive territory. Increasing government's focus on infrastructure development is also expected to provide impetus to logistics industry. Furthermore, the factors like favorable regulatory policies such as liberalization of FDI norms, 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. In coming future, the growth of Indian logistic industry growth is likely to surge. Medium to long term outlook also looks promising for logistic industry on the back of growing economy.

Companies Financial Data In Industry

COMPANY NAME	CMP	MCAP	BOOK VALUE	DIV. YEILD %	TTM EPS	TTM PE
Container Corporation Of India Ltd.	1323.85	25811.6	371.70	0.93	51.30	25.81
Sanco Trans Ltd.	258.00	46.44	280.22	1.05	17.90	14.41
Agarwal Industrial Corporation Ltd.	91.95	50.69	73.65	1.52	9.84	9.34
Tiger Logistics (India) Ltd.	93.50	39.54	56.46	0.00	9.27	10.09
Transport Corporation Of India Ltd.	202.65	1484.89	62.24	0.64	8.73	23.20
Aegis Logistics Ltd.	351.40	1173.68	97.89	1.49	5.59	62.90
Gateway Distriparks Ltd.	245.05	2664.38	58.47	2.86	4.74	51.70
Allcargo Logistics Ltd.	227.20	2863.81	98.05	0.66	4.48	50.77
GATI Ltd.	184.20	1607.40	72.61	0.38	2.74	67.23
Sical Logistics Ltd.	108.20	601.61	78.24	0.00	2.24	48.35
Patel Integrated Logistics Ltd.	45.95	69.78	59.36	1.09	1.99	23.14
Inter State Oil Carrier Ltd.	6.28	3.14	25.63	0.00	1.42	4.42
Snowman Logistics Ltd.	87.40	1454.77	15.84	0.00	1.35	64.72
North Eastern Carrying Corporation Ltd.	81.10	407.10	11.43	0.00	1.27	63.79
Balurghat Technologies Ltd.	3.13	5.70	3.64	0.00	0.38	8.17
Chartered Logistics Ltd.	10.17	101.03	2.34	0.00	-0.88	0.00
ABC India Ltd.	96.80	52.44	85.52	1.03	-1.57	0.00
SER Industries Ltd.	24.70	2.44	15.56	0.00	-3.10	0.00
Arshiya Ltd.	18.95	222.53	24.12	0.00	-25.71	0.00

Source – Ace Equity

Disclaimer

This report is for private circulation within the Indira Group. This report is strictly confidential and for information of the selected recipient only and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form. This report should not be construed as an offer or solicitation to buy or sell any securities or any interest in securities. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or any such factor. The information, opinions estimates and forecasts contained here have been obtained from, or are based upon, sources we believe to be reliable, but no representation of warranty, express or implied, is made by us to their accuracy or completeness. Opinions expressed are our current opinions as of the date appearing on this material only and are subject to change without notice.