INDIAN PORT LOGISTICS SECTOR: CFS/ICDs/CTOs

Direct Inland Delivery (DID) could be a challenge for port logistics players even as they grapple with DPD at their CFSs

Corporate Ratings

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Executive Summary

Implementation of DID could put pressure on the margins at ICDs

Direct Inland delivery (DID) to further improve the ease of business

The government of India plans another reform - a new import handling plan to supplement the DPD program. Authorities have called on various stakeholders to examine the last touch logistics plan for inland container depots (ICDs) - Direct Inland Delivery (DID). This should be another positive for hinterland shippers striving to reduce logistics costs in a hyper-competitive market environment. This is largely on the back of the success achieved by DPD which has largely reduced the dwell times and overall cost for importers in order to extend the same benefit to users of ICDs. The same is being implemented by the Central Board of Indirect Taxes & Customs (CBIC). The board has suggested that importers registered under DID will have to complete documentation and duty payments prior to goods arrival at their designated ICDs and that stakeholders should consider offering tariff incentives for DID containers, in lieu of free storage days that apply under the normal delivery practice. There will be a need to devise a tariff structure [which acts as a financial incentive] where importers voluntarily opt for DID clearance for pre-identified containers, rather than avail the free period at ICD as non-DID containers. Further, the board has asked stakeholders to take into account cases where all containers manifested on the bill of lading do not arrive in a single shipment, which happens frequently at ICDs, and suggested that custodians extend DID to all manifested containers, including those yet to arrive, subject to other compliances.

At this point, the actual savings that can be achieved, the extent to which the importers are willing to accept this program and the real advantage of DID remain to be seen. ICRA believes, that while this is a positive development for importers and could help in reducing the transit time, thereby easing business, similar to the impact on CFS players on account of DPD, there could be an impact on the business model of ICDs. There would be an impact on the overall revenues earned from imported containers thereby affecting margins.

Rail volumes witness healthy YoY growth during Q1 FY2019

Rail volumes continue to witness healthy growth during Q1 FY2019, timely implementation of initiatives to address issues of private CTOs and ongoing infra projects will be crucial to drive growth in medium term: After witnessing moderate growth in volumes during FY2017 due to some pick-up in EXIM traffic as well as some pick up in domestic traffic due to introduction of services like time table-based trains, the growth accelerated during FY2018, driven by traction in both EXIM and domestic volumes. The trend continued during Q1 FY2019, when the rail volumes witnessed healthy YoY growth, although there was some sequential moderation.

The setting up of Railway Development Authority announced in April 2017, is expected to address issues related to private CTOs, especially with regards to haulage rates and other charges set by Indian Railways; however there has been no traction since then and actual impact remains to be seen. Further, the timely completion of infrastructure projects like dedicated freight corridor in a timely manner will also be crucial to drive growth in this segment in the medium term.

Stable outlook in the near term as trade volume growth revives; favourable growth outlook over the medium term, driven by increasing containerisation, new terminals/ ports, DFC and DMIC

Stable near-term outlook; favourable long-term prospects: In terms of the near-term outlook for the container logistics sector – the CFS, ICDs and CTOs segments are expected to display moderate growth in the current fiscal and FY 2019 as the international trade volumes have shown a revival. Notwithstanding the moderation in economic growth, the industry's long-term prospects remain highly favourable as containerisation witnesses a renewed focus with new capacities coming up online and providing the necessary environment for increased usage of containers. On account of the country's growing external trade and increased orientation towards containerisation, container traffic volumes should grow at a 10-12% CAGR over the next decade. The growth in the port logistics segment is expected to be mainly led by benefits arising out of GST implementation and volume growth in containerisation/new terminals at ports leading to incremental growth in volumes. Besides, the port logistics industry should benefit from a favourable demand environment over the long term due to ongoing projects such as a dedicated freight corridor (DFC) and the Delhi-Mumbai industrial Corridor (DMIC), as well as the opening up of new business segments like 3PL and cold chains.

Credit issues for the CFS/CTO operators

ICRA Research believes that CFS players at JNPT could face pressure on margins in the near term on account of diversion of volumes to DPD and lower storage incomes resulting from it. Players who are able to retain volumes and offer value added services may stand to fare better than other players. At all ports handling containers, large number of CFS operators results in high competition for incremental volumes and could result in some consolidation going forward. Credit profiles of CTO players are susceptible to increase in haulage charges and also face competition from road carriers. Further, the business remains highly capital intensive as players have to set up new terminals in order to expand operations.

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