



INDIAN ROAD LOGISTICS INDUSTRY

Trends & Business Outlook

March 2023



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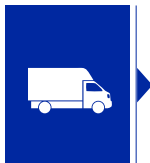




Executive Summary

Accelerated pace of business activities, healthy demand across various sectors and high fuel prices continue to drive the revenue growth in FY2023. ICRA expects the revenue to grow at a high single digit in FY2024 over FY2023 with expectations of a stable demand outlook.

Organised players are able to maintain pricing premium amidst inflationary fuel price scenario, while continuing the cost rationalisation measures to support the operating profitability in FY2024.



- The industry revenues (represented by sample of ten listed companies) grew by ~16.5% in FY2022 over pre-Covid levels supported by revival in economic activities. Growth momentum continues to be stable in FY2023 led by favourable demand dynamics and firm freight rates. Following two quarters of stable demand, economic activity was uneven in Q3 FY2023 despite robust demand for contact-intensive services and upbeat sentiment during the festive season.
- ICRA expects the industry revenues to grow at high single digit for FY2024 on an elevated base of FY2023. Growth shall be aided by stable domestic consumption and buoyant investment demand. Downside risks to the estimates, however, arise from any material tapering of demand due to high inflationary and interest rate regime impacting the overall economic scenario, given its strong linkage to economic activity. Also, expectations around a potential return of the El Nino phenomenon around the summer season could lead to a sub-par South-west Monsoon in 2023, thereby hurting the prospects of crop production and rural demand.
- Rise in crude oil prices due to the Russia-Ukraine conflict was witnessed from Q4 FY2022. Most of the organised players were able to pass on the increase in fuel cost to its customers to an extent as reflected by healthy operating margins of 14.0% in FY2022 and 12.3% in 9M FY2023 against 12.1% in FY2021. ICRA expects the aggregate operating profit margins for the sector to be in the range of 12-14% in FY2023 and FY2024. Nevertheless, operators' ability to effect further rate hikes, to offset input price increases amid stiff competition remain a key credit monitorable.
- Debt coverage metrics is expected to marginally impact in FY2024 compared to FY2023 levels owing to expected debt-funded capital expenditure for vehicle replacement required prior to introduction of the scrappage policy along with the rising interest rate regime.
- The outlook on the Indian road logistic sector continues to be Stable, given the expected resilience of the sector amid the continuation of industrial activities.



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