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AN EXPORT DOWNTURN AND AN INDUSTRIAL SLOWDOWN PROVE A DOUBLE WHAMMY FOR LOGISTICS COMPANIES

When commerce and industry minister Anand Sharma last week announced that India would miss its exports targets for FY13, he was just reiterating the obvious. Given that between April and January of the current fiscal, overseas shipments had shrunk by 5% to $240 billion, it was pretty clear that India would miss its stated export target of $350 billion for FY13 by a huge margin.

Following the slowdown in the export and domestic markets, aggregate volume growth for all commodities across the country's major ports is down 3%. As a result, stocks of Gateway Distriparks, Gati, Allcargo, and TCI are trading lower, between 5% and 20%, following the initial pop seen in the beginning of the year. While exports have been flagging, the insipid domestic manufacturing growth, too, is proving to be a bane. Industrial output growth for the nine months ended December 2012 was a meagre 0.7%. Besides, imports coming into India are largely on account of crude oil and gold. In other words, there is not much business growth for the companies in question.

"Where is the so-called recovery in the economy?," asks Ankur Periwal of Axis Capital. "The fact is the economy still faces enough headwinds in the form of fiscal deficit, inflation among others."

Compounding the problem is that most logistics companies are fighting their own demons. Kavita Vempalli, analyst at Nirmal Bang Securities, says Gati has suffered because of its loss-making shipping business. "Gati saw its shipping business post huge losses [₹8 crore in Q2FY13] and has since hived it off into a separate business." Gateway Distriparks saw a steep decline in its volumes in the container freight station (CFS) segment in the first two quarters of FY13 as well as slackening in port volumes owing to macro slowdown and rupee depreciation affecting imports at major ports. Volumes at the JNPT port also suffered owing to fierce competition from new CFS operators. Its rail volumes also slipped by 15% in Q3FY13. Allcargo saw a 9% decline in volumes for Q3FY13 in its CFS operations. In the case of Arshiya International, the buzz around financial irregularities took a toll on the stock, which is down 73%.

For now analysts are keeping their fingers crossed. Some believe the introduction of GST will be a game changer. Currently most manufacturers have multiple warehouses in different states to show the movement of goods from one state to another to avoid paying central sales tax. With GST, logistics players have the incentive to combine three or four warehouses into a single one. This is expected to lead to better operational efficiency. However, Mihir Jhaveri of Religare believes it's too early to factor any macro improvement. "Things are still looking bad," says Jhaveri. Concurring with him, Periwal of Axis feels it will take a couple of quarters before volumes pick up. In a nutshell, expect the nightmare for logistics stocks to continue.

—ADIT MATHAI