Research

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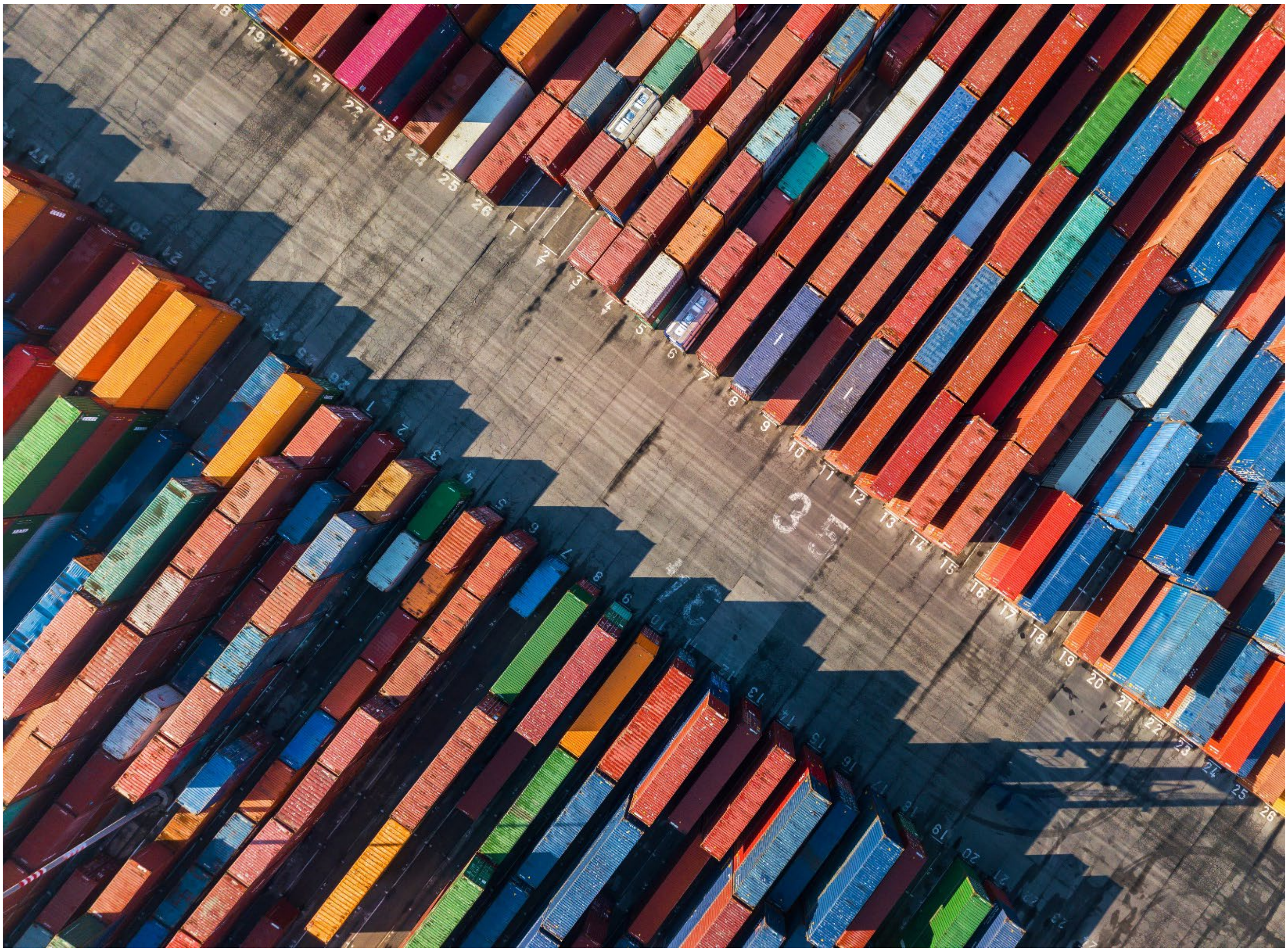
Containing damage

Imperatives for container companies as the world slows



Container traffic to plunge with global growth, recover only gradually

Global container trade is in for a major disruption due to the Covid-19 pandemic, which has hit major economies that account for around 55% of the global gross domestic product (GDP) particularly hard.

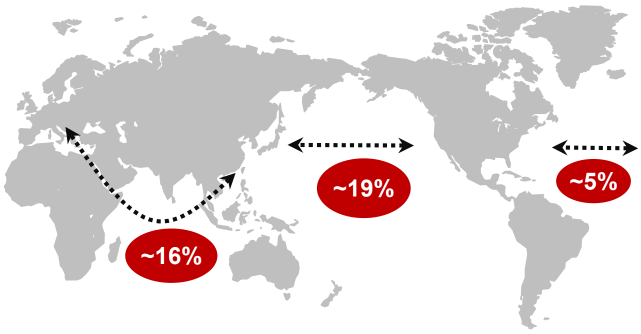
For 2020, S&P Global has projected a 2.4% contraction in world output compared with 2.9% growth in 2019. The non-linearity of the pandemic-driven disruption, and the possibility of a second wave of afflictions also create a downside risk to this forecast. The World Trade Organisation has already forecast a double-digit decline in trade volumes in nearly all regions of the world.

With the US (-5.2%) and Europe (-7.3%) severely affected, mainline east-west container lanes (Transpacific, Asia-Europe and Transatlantic lanes, which account for 40% share in the twenty-foot equivalent unit or TEU volume) are expected to be drastically hit as the lockdown has significantly affected supply chains there.

Indeed, the crisis may be deeper than the one the industry experienced during the global financial crisis (GFC) of 2008, given that the pandemic has caused a big drop in not just demand but also movement of people. Other key prompts are a 30-40% fall in container charter rate indices since the year's start, a 10-15% decline in container throughput at Chinese ports during January-March, and increasing cancellations by liners and idle fleet.

CRISIL Research believes the extent to which the pandemic is controlled globally and, more importantly, the stance that major economies take towards imports will be critical to the pace of recovery in container trade post-2020. However, given that Covid-19 has badly hurt economies and consumer sentiment, and there is likely to be an attitudinal shift against globalisation, a slow and gradual recovery (against a V-shaped recovery witnessed after the 2008 crisis) in container trade seems more plausible.

East-west container trade route to be affected

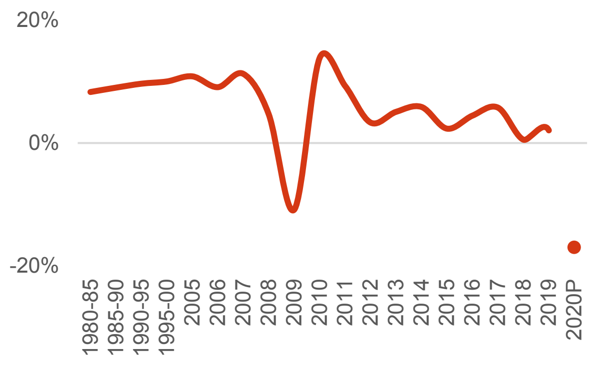


Mainline east-west routes account for ~40% of container trade and non-mainline for ~13%

Estimated shares of Trans-Pacific, Asia-Europe, and Trans-Atlantic mainline trade lanes for 2019

Source: United Nations Conference on Trade and Development (UNCTAD), Industry, CRISIL Research

A steeper-than-GFC fall in container traffic



Estimated on-year change in global container tonnage

Source: UNCTAD, Industry, CRISIL Research

Grim outlook for India's container trade

Restrictions placed on transportation and movement of people in India due to the lockdown (March 25-April 14, and a graded one for April 15-May 17) are severely impacting overseas and domestic trade.

Trade data shows a hefty fall in March 2020. Non-oil non-jewellery exports and non-oil non-gold imports declined by 34.1% and 33.8% on-year, respectively. India's GDP is also expected to witness a sharp correction, with a projected growth rate of 1.8% in fiscal 2021 compared with 5.0% the previous fiscal, with risks tilted to the downside scenario of zero GDP growth.

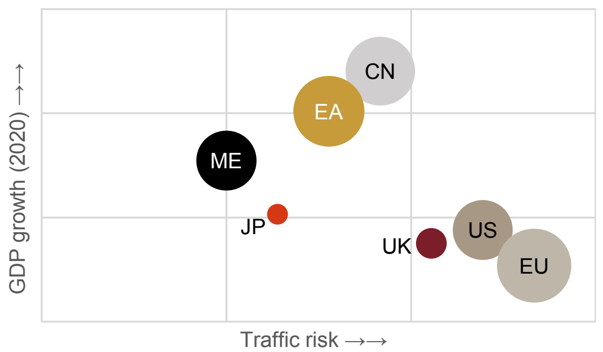
The container trade has also taken a hit in March and April. In March, container traffic at all major ports degrew by 12% on-year and the TEU traffic at Jawaharlal Nehru Port Trust (JNPT) -- the country's largest container port – fell 2%. JNPT's April container traffic was ~37% lower on-year.

India, which has significant container volumes linked with severely hit Covid-19 countries, is at risk of a sharp dip in container trade. The US (estimated 10% share in laden volumes) and Europe, including the UK (around 18%), are regions with very high traffic risk[1]; the Middle East (around 10%) and Rest of Asia (about 23%) have high traffic risk; while China (13%) is in the moderate-to-high traffic risk category.

The lockdown-induced container trade decline, equivalent to around 60 days and 30 days to high/very high traffic risk and moderate-to-high traffic risk geographies, respectively, suggests a contraction of 13-16% in container traffic for Indian ports in fiscal 2021. However, given the uncertainty about the Covid-19 fallout, risk of second wave, tighter or prolonged lockdowns, people movement controls and social distancing across India and key trade partners can mean further downside.

Going forward, recovering trade of essentials (such as agricultural products, perishables and pharmaceuticals) will provide some respite. Volumes for discretionary items, (such as electronics, readymade garments, and automobile parts) will, however, remain lacklustre.

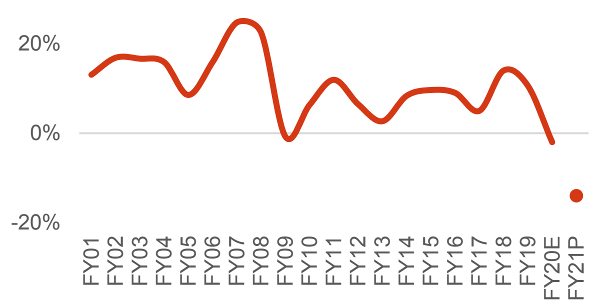
Protracted global slowdown puts traffic at risk



Size of bubble shows estimated share in India's container volumes
ME: Middle East and Central Asia, EA: East Asia, CN: China, JP: Japan, US: United States, EU: Europe, UK: United Kingdom

Source: IMF, UNCTAD, Port websites, Industry, CRISIL Research

India's container traffic on slippery slope, too



Graph indicates on-year change in TEU traffic for major and non-major ports in India

Source: Port websites, Indian Ports Association (IPA), Shipping Ministry, Industry, CRISIL Research

[1] *Relative possibility of container trade decline across Covid-19-impacted geographies*

Manpower shortage hurting both exports and imports

Lack of workers has impacted clearing of cargo, stuffing/de-stuffing, and intra-premises logistics at ports. Imports, including direct port delivery, are increasingly being moved to nearby container freight stations (CFS), both by road and rail, to free up yard inventory. Partial waivers for ground rent and detention due to evacuation challenges were extended till May 3. A further extension, however, remains a monitorable, among concerns from stakeholders.

An acute shortage of drivers has, however, impacted long-lead hinterland movement for both imports and exports. In April, the imports at JNPT were about 20% lower, while exports were around 55% lower, on year. Weaker production due to sparingly available manpower, besides transportation and clearance challenges, has further impacted exports.

Many liners also skipped calls at JNPT and Mundra, in April, due to congestion and paucity of exports. It seems that overall cargo de-growth at ports, will lead to deferment of any greenfield investments, in the excess capacity ridden sector, by at least 6-8 quarters.

The situation is expected to improve with gradual resumption in manufacturing, albeit with reduced utilisation, and relatively swifter clearance of exports (currently, import clearance is given primacy by customs). Truck availability (industry estimates peg current fleet accessibility at a mere 20-30%) for longer leads will also increase as government controls ease. It is likely that export of essentials such as agricultural products, perishables, and pharmaceuticals will be given priority at ports.

Optimal rail share needed

Container flow through rail has jumped significantly since the lockdown was announced. Rail is being increasingly used to transport containers out of ports, even for shorter leads. During March 25-April 30, more than 30 rakes (vis-à-vis occasional movement prior to lockdown) shifted containers from Chennai port premises to the inland container depot (ICD) in Tondiarpet, Tamil Nadu, to ease congestion. Also, there was additional rail movement at JNPT to CFS and ICD in Mumbai region (Mulund, Boisar, and Dronagiri).

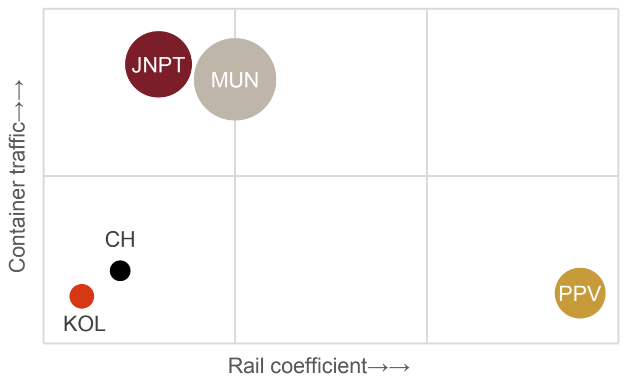
Ports with a higher road coefficient have been more impacted because of the shortage of truck drivers. Among key container ports in India, JNPT (around 85%) and Chennai (over 90%) have higher road coefficients, while Mundra (around 75%) and Pipavav (30%) in Gujarat have lower road coefficients.

In the case of JNPT, throughput for April was 0.28 million TEUs, and around 64,000 TEUs were moved through container rakes. The rail haulage (exports and imports) accounted for ~22.5% of container traffic, which is higher than the rail coefficient observed in recent months. Post March 24, an uptick in container rail wagons, particularly for imports, has also been observed at Mundra and Pipavav.

Indian Railways has a rather sub-optimal share (20-25% in TEU terms) in exim container movement, and hasn't been able to crank it up in long-distance freight because of congestion-led delays. However, there is considerable potential to increase the spoils. For one, a gradual linking of dedicated freight corridors with ports on the west coast would, over the medium term, materially improve its attractiveness as a mode to move exim containers.

In the absence of passenger trains on tracks and reduced traffic on roads due to the lockdown, logging of higher speeds by cargo rakes (for instance, Delhi-Mumbai distance can be now covered in less than 24 hours) is also a good measure of efficiencies that can be achieved.

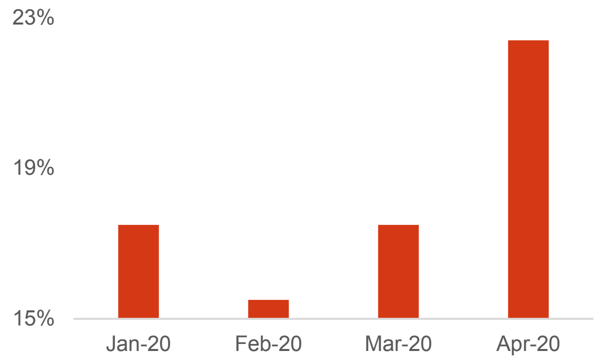
Higher rail share at ports will mean less disruption



Size of bubble shows import container wagons for March 11 – April 7 period
KOL: Kolkata, CH: Chennai, MUN: Mundra, and PPV: Pipavav

Source: Port websites, IPA, Rail Ministry, Industry, CRISIL Research

JNPT: Rail's share increased in April



Source: Port websites, IPA, Shipping Ministry, Industry, CRISIL Research

Diversified service mix also an imperative

Decline in container volumes will impact all stakeholders in the container logistics space. Entities with stronger parentage (large container liners and terminal groups), better volume visibility (mainline/direct shipping dependent terminals vis-à-vis feeder reliant), presence across legs of the value chain (vertically integrated groups across shipping, port, and inland logistics), and diversified offerings (groups present in cross-container logistics) will be more resilient.

Among port terminals, those with better connectivity will experience a lower cargo loss vis-à-vis others. Also, terminal operators associated with shipping liners will fare better as they can leverage on liner alliances for container throughput visibility. Government-operated terminals may face a higher brunt due to lower flexibility.

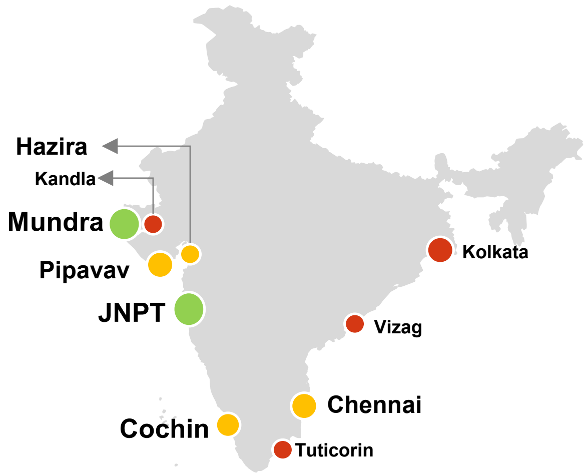
Among other players, container train operators are well-placed, with a likely improvement in modal share in the near term. Liner-associated CFS can withstand utilisation drops due to a better volume visibility, while diversified CFS players, with presence across the logistics value chain (contract logistics, warehousing, express services, train operations), can utilise synergies from other business verticals.

Inland container depot (ICD) operators located in major clusters in the hinterland will sustain a milder blow. Also, integrated ICD and private freight terminals will be cushioned to some extent through domestic linkage. Standalone CFS operators and road-based logistics service providers are more exposed to uncertainties than others. Usage of CFS for storage until long lead transport normalises will, however, provide a breather.

Given all this, players need to integrate vertically (such as coordination with major and minor liners), optimise people-intensive operations (such as consolidation), and diversify service mix (such as storage services to aid worn-out players) to endure the current demand shock.

It is also important to keep a close watch on commodity-level export-import assessments, sectoral indicators, and industrial activity across key hinterland clusters in order to plan better for volatile times ahead.

JNPT and Mundra fare better on liner connectivity

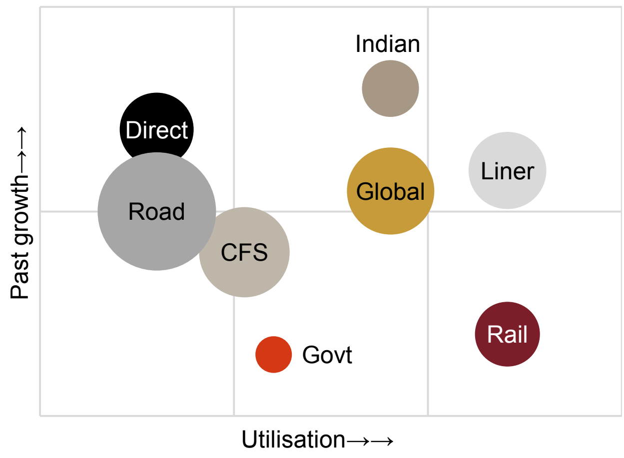


Size and colour of bubbles show relative volume and impact derived via Port Liner Shipping Connectivity Index (PLSCI), which is based on:

1. Weekly scheduled ship calls
2. Deployed annual capacity
3. Number of regular liner shipping services
4. Number of liner shipping companies
5. Average size of ships
6. Number of ports connected

Source: PLSCI data of UNCTAD – 2019, Industry, CRISIL Research

Positioning of players in container logistics



Direct: direct ports exports/imports, Govt: Government-operated port terminal, Indian: Indian player-operated non-liner terminals, Global: Global player-operated non-liner terminals, Liner: Liner-operated port terminal
Utilisation (X Axis) shows utilisation post overall drop in container trade.
Size of bubble indicates estimated % in Indian TEU traffic (Fiscal 2019)

Source: Port websites, IPA, Industry, CRISIL Research

Analytical contacts

Ajay Srinivasan
Director
CRISIL Ltd
ajay.srinivasan@crisil.com

Hemal N Thakkar
Associate Director
CRISIL Ltd
hemal.thakkar@crisil.com

Navneet Kumar
Manager
CRISIL Ltd
navneet.kumar@crisil.com

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