PRESS RELEASE
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Indian road logistics industry revenues to grow at 3-6% in FY2025: ICRA

- ***Operating profit margins to remain range-bound at 10.5-12.5% in FY2025 as concerns on cost inflation persist***

ICRA expects the revenues of the Indian road logistics industry to remain range-bound and grow at sedate pace of 3-6% in FY2025, given the limited ability of players to increase the freight rates, expected softening in Government capex during the elections (given the Model Code of Conduct requirements) and moderation in consumer demand sentiments amid high inflation and interest rates. The outlook for the sector continues to be Stable, fuelled by a sustained momentum in economic activities, enhanced traction of organised trade and continued support from varied segments like e-commerce, FMCG, retail, pharmaceuticals, and industrial goods.

Mr. Suprio Banerjee, Vice President & Sector Head – Corporate Ratings, ICRA Limited, said: ***"****ICRA's sample set*[1] *witnessed a modest revenue growth of 2.3% in 9M FY2024 on a YoY basis amidst tapering demand due to high inflation, an uneven monsoon, a high interest rate regime and relatively muted festive season. Thus, on an elevated base of FY2023, ICRA estimates a low single digit growth of 2-5% in FY2024. The growth for road logistics sector in FY2025 is expected to be in the range of 3-6% , owing to the impact on demand from high inflation, high interest rate regime and soft (though improving) consumer sentiment. The industry operating profit margin contracted to 11.2% in 9M FY2024 (down ~150 bps YoY), on account of increase in operating costs (ex-fuel) due to the high inflationary regime, and pressure on realisations, given the sticky retail diesel rates, limiting any formula-driven price rise. ICRA expects the margins to remain in the range of 10.5-12.5% in FY2024 and FY2025 over 12.4% in FY2023 amidst inflationary headwinds and despite benefits of efficiency gains due to increasing digitalisation and value-added service offerings of industry players. Key debt metrics like Total debt / OPBITDA is expected to have moderated marginally to 1.5x-1.7x in FY2024 from 1.4x in FY2023 with rising operating costs (ex-fuel), given the persistently high inflation levels and increase in debt due to debt-funded capital expenditure for new vehicles, and anticipated rise in lease liabilities due to expanding branch network and technology investments."*

E-way monthly volumes remained largely stable in the last four months at above 85 million, post reporting all-time high volumes of 100 million in October 2023, signifying resilient domestic trade and transportation activities. The monthly FASTag volumes have also moved in tandem with the e-way bills, ranging from 295 to 350 million in the current fiscal, with an all-time peak of 348 million in December 2023, reflecting business continuity.

"Additionally, road logistics players also remain exposed to environmental and social risks. Tightening emission control norms necessitate alternative fuel vehicle investments or investments in the current fleet. They are also exposed to litigation / penalties arising from issues related to harmful emissions and waste, which may lead to financial implications and impact reputation. The social risk includes driver shortage, health, safety, and quality of work-life balance for drivers," **Mr. Banerjee** added.

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[1] Sample set considers 10 listed players in the road logistics industry

Media Contacts:	
Naznin Prodhani Head – Group Corporate Communications & Media Relations ICRA Ltd Tel: + (91 124) 4545300, Dir - 4545860 Email: naznin.prodhani@icraindia.com	**Shreya Bothra** Manager - Corporate Communications & Media Relations ICRA Ltd Tel: + (91 022) 61693300, Dir - 61693367 Email: shreya.bothra@icraindia.com

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