

Financial Planning

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Transportation And Logistics: The New Sunrise Sectors

After reaching a peak in October 2021, the Indian stock markets have remained below that level for an entire year so far. Rising inflation across the world and geo-political developments like the Russia-Ukraine war have taken a severe toll on the global markets. Such situations are a good occasion for investors to look for newer or under-explored opportunities for investments. These could be companies or sectors with a promising future once the global headwinds have passed. One such sector is the transportation and logistics sector. Let us understand the potential of this theme.

More Power to Transportation

While developed economies such as the United States and the European countries are under the pressure of inflation and the resulting slowdown, the Indian economy is expected to continue its growth at a pace faster than most other economies. This strengthens the case to be optimistic on the Indian economy in the near to long term. On its part, the Government of India is increasing its focus on infrastructure development. Government spending on infrastructure like roads and railways is at a record high with the government pledging to spend ₹10 lakh crore on the strengthening of infrastructure, according to the Union Budget 2022-23.

Any improvement in infrastructure directly impacts other parts of the economy. For example, better roads translate into more people buying better vehicles or travel time coming down which results in the improvement of supply chains. It is not just infrastructure development that will contribute to this sector's growth. The Indian society so far has remained under-penetrated when it comes to the density of cars. India has just

24 cars per 1,000 people while the US has over 300, Germany has close to 500 and some countries like Italy have over 600. With rising prosperity in India, the chances of car ownership increasing rapidly are quite high.

The other area of growth for vehicle manufacturers is likely to come from the export of vehicles. The government's focus on 'Make in India' is already resulting in vehicular exports from India growing sharply over the last few years. When the vehicle manufacturing sector grows, the supporting industry of automotive ancillaries like batteries and other automobile parts also benefits from such growth. In fact, there are quite a number of both organised and disorganised sectors that are directly or indirectly dependent or related to the automotive sector and the benefits arising out of a rise in manufacturing trickle down to the lowest denominator.

Potential in Logistics

As highlighted above, an improvement in infrastructure and better transport facilities results in improving supply chains. For example, enhanced railway connectivity has a positive impact on economic movement across the country – of people as well as that of goods. Moreover, the rapid digitization and the expected roll-out of 5G connectivity in the country will only aid the e-commerce sector and make many smaller businesses capable of reaping good dividends. This could boost sectors like e-commerce as it can lead to more unorganised segments like smaller artisans and merchants to come into the organised space and enhance their reach. Simply put, it appears that companies operating in the areas of manufacturing cars, two-wheelers, commercial vehicles or those engaged in the logistics space are likely to benefit in the near future.

Taking Advantage

While it is clear that the transportation and logistics sectors are likely to be the next sunrise segments, as an investor the universe of major companies operating in this space is reasonably large. As a retail investor, however, following all details and developments in the sector and companies could be a difficult task. In such a scenario, the best option is to opt for a mutual fund scheme that focuses on the theme of transportation and logistics. Seasoned fund managers keep a close track of companies and invest in leading players after all the required due diligence is performed.

Such a thematic fund could typically invest 80 per cent of its corpus in companies operating in such sectors, providing you, as an investor, diversified exposure to the sector. It is imperative that as an investor one should invest with a long-term view. Given the pedestal on which the Indian economy stands today, taking a position in one of the most promising sectors from the country is a logical choice with a high probability of wealth creation. But while at it, one should be patient and disciplined. As happens with any other sector, there are bound to be some headwinds or challenges and an investor would do well to stand committed for a long run.