

Allcargo Logistics

BSE SENSEX	S&P CNX
25,230	7,731
Bloomberg	AGLL IN
Equity Shares (m)	252.1
M.Cap.(INRb)/(USDb)	40.2 / 0.6
52-Week Range (INR)	218 / 128
1, 6, 12 Rel. Per (%)	1/-14/6
Avg Val, INRm/ Vol m	42
Free float (%)	30.1

Financials & Valuations (INR b)

Y/E Mar	2016	2017E	2018E
Net Sales	56.8	69.1	75.2
EBITDA	5.2	6.2	7.0
PAT	3.0	3.6	4.4
EPS (INR)	11.4	14.5	17.5
Gr. (%)	13.1	26.6	20.8
BV/Sh (INR)	84.5	96.0	110.0
RoE (%)	14.3	16.0	16.9
RoCE (%)	12.2	14.1	15.1
P/E (x)	14.0	11.0	9.1
P/BV (x)	1.9	1.7	1.4

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR159 TP: INR243(+53%) Buy

Impressive MTO volume growth despite subdued macros

AGLL reported above estimate EBITDA at INR1.2b (vs est of INR1.1b; +13% YoY, +3% QoQ). While, reported EBIT was at INR858m (est. INR673m; +14% YoY, flat QoQ), EBIT margin stood at 6.1% (6.0% in 3QFY16 and 4.9% in 4QFY15). EBIT beat was boosted by margins improvement in MTO business and impressive volumes despite a weak macro environment. PAT stood at INR709m (+28% YoY, +17% QoQ). Full year FY16 EBITDA stood at INR5.2b (+6% YoY) and PAT at INR2.8b (+14% YoY).

- **MTO volumes up 8% YoY in tough operating environment:** AGLL's MTO volumes grew 8% YoY to 112,593 TEUs in 4QFY16 led by China, N. America, SE Asia and India. Realizations improved 12% QoQ to ~INR106K and EBIT margin increased to 5.2% despite tough environment (vs 4.9% in 9MFY16 and 4% in FY15) led by operational efficiencies.
- **CFS business withstanding subdued macros:** CFS volumes stood at 74,751 TEUs (+3% YoY, flat QoQ). CFS revenue stood at INR1.1b (+2% YoY, flat QoQ). Realizations stood at INR13,057/TEU as compared to INR15,461/TEU in 3QFY16. Realizations declined in 4QFY16 due to handling of special cargo and long standing containers in 3QFY16 which had boosted realizations. EBIT/TEU stood at INR4,040/TEU (+1% YoY, -22% QoQ and v/s INR4,400 in 1HFY16).
- **P&E business continues to grow:** P&E segment's EBIT increased 99% sequentially to INR187m led by EBIT margin improvement to 5.2% in 4QFY16 (v/s 1.8% in 3QFY16 impacted by ship maintenance). Crane utilization continues to be above 90%.
- Allcargo's stake in newly formed Avvashya CCI Logistics (ACCI) stands at 61%. In ACCI, AGLL merged its contract logistics and Indian freight forwarding business and acquired 44% stake for INR1.3b. Total value of the transaction is INR1.9b.

Valuation and view:

- We estimate EBITDA/PAT CAGR of 16%/26% through FY16-18E; return ratios are expected to improve from ~13% to 15%-17% driven by improvement in margins and reduction in capex intensity in the business.
- We value Allcargo Logistics at 14x FY18E EPS, and arrive at a target price of INR243. Maintain buy. The stock trades at 11.0x FY18EPS.

Consolidated - Quarterly Earning Model

Y/E March	FY15				FY16				FY15	FY16	FY16	(INR Million)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		4QE	Var (%)	
Net Sales	13,206	14,625	14,317	14,152	14,764	14,652	13,365	13,976	56,299	56,756	11,278	23.9
YoY Change (%)	34.7	36.4	-5.6	10.3	11.8	0.2	-6.7	-1.2	16.1	0.8	-20.3	
Total Expenditure	11,992	13,400	12,958	13,080	13,353	13,281	12,182	12,760	51,430	51,575	10,218	24.9
EBITDA	1,214	1,225	1,359	1,071	1,411	1,371	1,183	1,216	4,870	5,181	1,061	14.7
Margins (%)	9.2	8.4	9.5	7.6	9.6	9.4	8.9	8.7	8.6	9.1	9.4	
Depreciation	427	391	372	384	362	422	386	359	1,574	1,529	387	-7.5
Interest	164	141	140	89	106	108	115	95	535	425	110	-13.2
Other Income	83	147	116	191	67	73	125	122	537	386	180	-32.3
PBT before EO expense	706	841	962	789	1,009	913	807	884	3,298	3,614	743	19.0
Extra-Ord expense	34	48	34	12	49	-10	39	6	127	84	0	
PBT	673	793	928	777	960	923	769	878	3,171	3,530	743	18.2
Tax	159	132	187	222	190	178	162	169	700	700	149	13.9
Rate (%)	23.6	16.6	20.1	28.6	19.8	19.3	21.1	19.3	22.1	19.8	20.0	-3.6
Reported PAT	514	661	742	555	770	745	606	709	2,472	2,830	595	19.2
Minority Interest & Profit/Loss of Asso.	24	-25	-24	0	-19	8.8	-18	-47	-25	-76	45	-205.2
Adj PAT	515	725	792	564	829	756	655	761	2,595	2,973	550	38.5
YoY Change (%)	39.0	63.5	55.0	6.9	60.8	4.2	-17.3	35.0	52.7	14.6	-2.5	
Margins (%)	3.9	5.0	5.5	4.0	5.6	5.2	4.9	5.4	4.6	5.2	4.9	

E: MOSL Estimates

Harshad Borawake (HarshadBorawake@MotilalOswal.com); +91 22 3982 5432

Rajat Agarwal (Rajat.Agarwal@MotilalOswal.com); +91 22 3982 5558

Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Exhibit 1: AGLL 4QFY16 earnings snapshot (INR m)

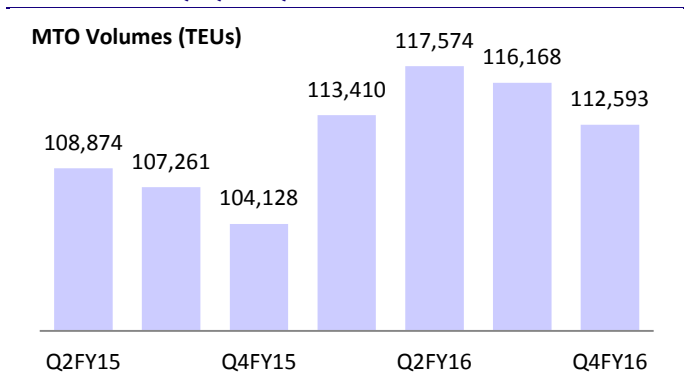
	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	YoY (%)	QoQ (%)
Volume Details										
MTO Volumes (TEU)	101,937	108,874	107,261	104,128	113,410	117,574	116,168	112,593	8.1	-3.1
CFS/ICD Volumes (TEU)	72,930	75,398	70,587	72,664	78,727	77,027	74,251	74,751	2.9	0.7
Financial Summary (INRm)										
MTO	11,309	12,500	12,101	11,828	12,431	12,323	10,964	11,908	0.7	8.6
CFS/ICD	907	1,021	1,059	1,046	1,094	1,122	1,148	1,067	2.1	-7.0
P&E	1,165	1,267	1,322	1,545	1,425	1,382	1,399	1,277	-17.4	-8.7
Others	78	70	93	70	76	84	109	144	106.6	31.8
Net Revenue	13,206	14,618	14,317	14,152	14,779	14,681	13,392	14,020	-0.9	4.7
Reported EBITDA	1,214	1,225	1,359	1,071	1,411	1,371	1,183	1,216	13.5	2.8
EBITDA margin	9.2%	8.4%	9.5%	7.6%	9.5%	9.3%	8.8%	8.7%		
Depreciation	427	391	372	384	362	422	386	359	-6.6	-7.1
EBIT	787	835	987	687	1,048	949	797	858	24.8	7.6
Interest	164	141	140	89	106	108	115	95	7.1	-17.3
Other Income	83	147	116	191	67	73	125	122	-36.1	-2.7
PBT before exceptionals	706	841	962	789	1,009	913	807	884	12.1	9.5
Exceptionals	34	48	34	12	49	(10)	39	6	-50.0	-84.8
PBT before exceptionals	673	793	928	777	960	923	769	878	13.0	14.3
Tax	159	132	187	222	190	178	162	169	-23.8	4.4
Tax rate (%)	23.6%	16.6%	20.1%	28.6%	19.8%	19.3%	21.1%	19.3%		
PAT	514	661	742	555	770	745	606	709	27.7	16.9
PAT margin (%)	3.9%	4.5%	5.2%	3.9%	5.2%	5.1%	4.5%	5.1%		

Source: Company, MOSL

Key takeaways from concall

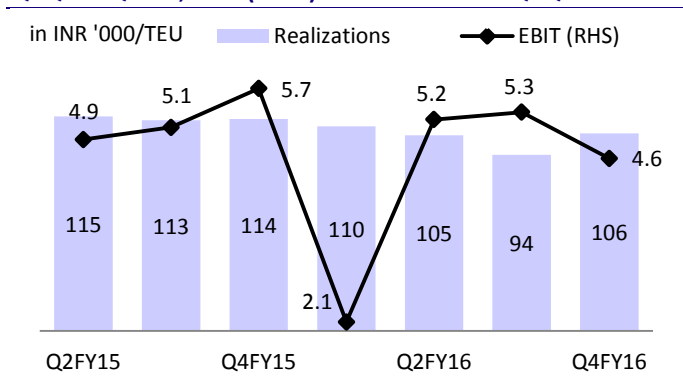
- Allcargo had earlier announced plans to start CFS operations in Kolkata. The CFS is expected to become operational in 1HCY17. The planned capacity had earlier been announced at 100,000 TEUs. Land for the CFS has been leased from the port authority on a long-term basis. The total capex for the CFS is INR350m.
- Allcargo is also considering setting up an integrated logistics park and an ICD at Jhajjhar, Haryana. The ICD will also be connected by rail. The project will be funded through debt and equity and will commence operations in two to three years from date of construction. The new logistics park will enable Allcargo to capitalize on DFC.
- Management indicated that while the cash in its international business ECU line and domestic business is fungible, it will primarily use the domestic cash and recently approved INR3b debentures for domestic capex.
- Allcargo, to strengthen its presence in contract logistics and ecommerce acquired stake in CCI Integrated Logistics Pvt Ltd. Allcargo entered into a series of transactions to integrate CCI Integrated Logistics Pvt Ltd with its freight forwarding and contract logistics businesses.
 - A new company named, Avvashya CCI Logistics (ACCI) was formed in which its freight forwarding, contract logistics and CCI was merged.
 - (a) Freight forwarding (Hindustan Cargo at a value of INR313m for 10.6% stake) and (b) Contract Logistics (valued at INR196m for 6.6% stake) businesses were transferred to ACCI
 - Allcargo acquired 43.9% stake in ACCI for INR1.3b thereby taking Allcargo's overall stake in ACCI to 61.1% with the remaining 38.9% being owned by erstwhile CCI promoters.

Exhibit 2: MTO volumes (TEUs) increased 8.1% YoY but declined 3.1% QoQ in 4QFY16



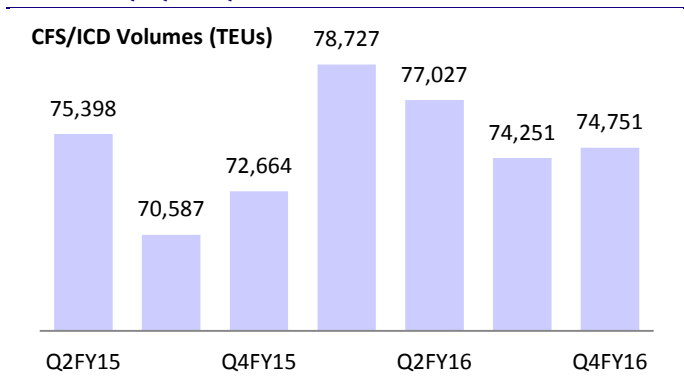
Source: MOSL, Company

Exhibit 3: Realizations declined 6.9 % YoY but grew 12.1% QoQ in 4QFY16; EBIT (INRb) increased 17.9% QoQ



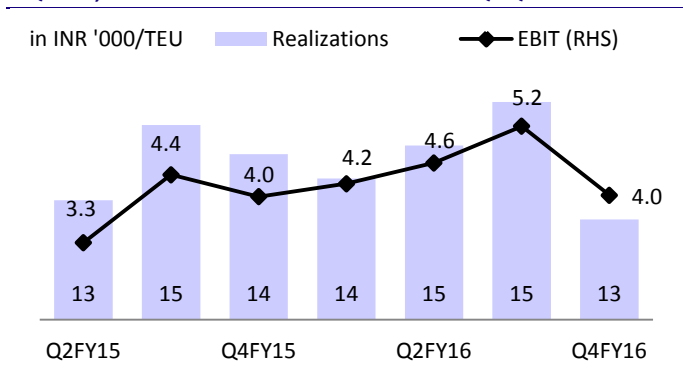
Source: MOSL, Company

Exhibit 4: CFS/ICD volumes (TEUs) increased 2.9% YoY and were flat QoQ in 4QFY16



Source: MOSL, Company

Exhibit 5: Realizations declined 9.3% YoY and 15.6% QoQ in 4QFY16; EBIT flat YoY but declined 21.9% QoQ



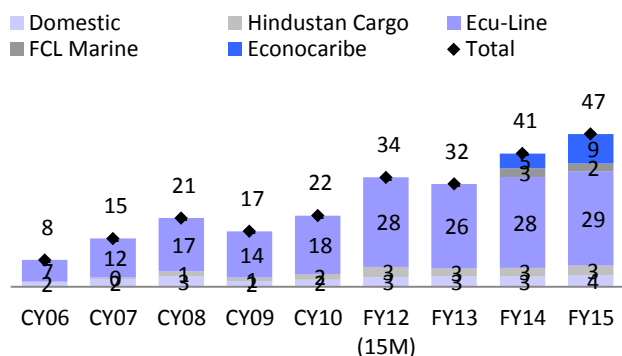
Source: MOSL, Company

Valuation and view

- Allcargo Logistics gives a unique opportunity to participate in the (a) domestic economic revival (through CFS and P&E) and (b) exposure to global LCL (less than container load) consolidation market where it is one of the top two players (fast growing sub-segment in container shipping) with presence in >90 countries.
- We believe that Allcargo Logistics through its superior size and global presence via ECU Line has established an effective competitive advantage versus its competitors. It is therefore well placed to tackle both any sluggishness in container business as well as make good use of the opportunities in this space.
- Strong balance sheet, increasing FCF will help Allcargo to further consolidate in global LCL market and help it to make value accretive acquisitions to further spur growth. Its domestic land banks give it an opportunity to capitalize on upcoming rail DFC (dedicated freight corridor) and GST reform.
- We estimate EBITDA/PAT CAGR of 16%/26% through FY16-18E and return ratios are expected to improve from ~13% to 15%-17% driven by improvement in margins and reduction in capex intensity in the business.
- We value Allcargo Logistics at 14x FY18E EPS, to arrive at a fair value of INR243. Maintain Buy. The stock trades at 11.0x/9.1x FY17/FY18EPS.

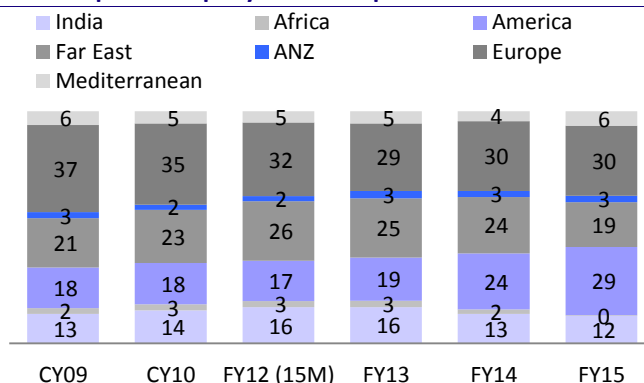
Story in charts

Exhibit 6: MTO revenues (INRm) grew at 21% CAGR driven by contribution from acquired entities



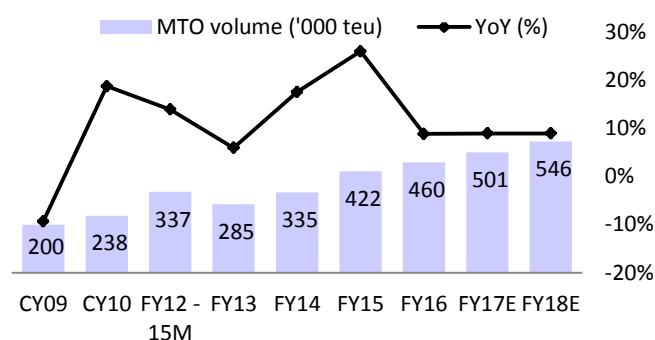
Source: Company, MOSL

Exhibit 7: Regional MTO revenue share (in %) – America's share improved rapidly due to acquisitions



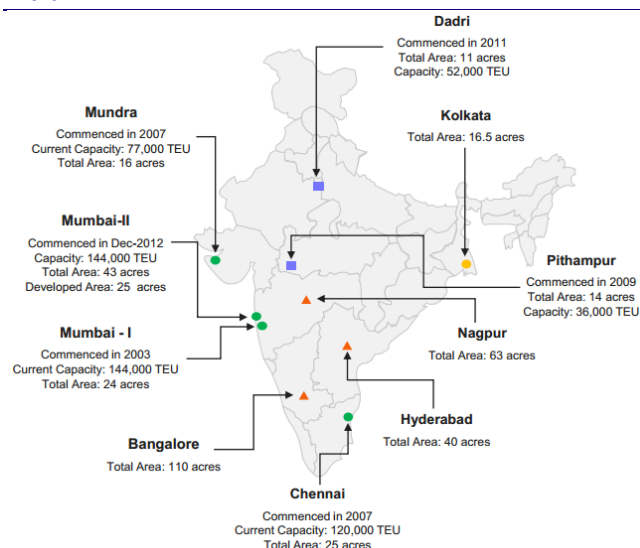
Source: Company, MOSL

Exhibit 8: Expect MTO volumes to grow at 9% CAGR driven by improving trade volumes



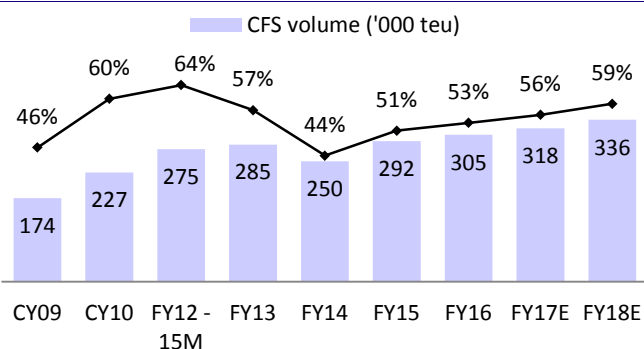
Source: Company, MOSL

Exhibit 9: Allcargo has presence near the major ports in India



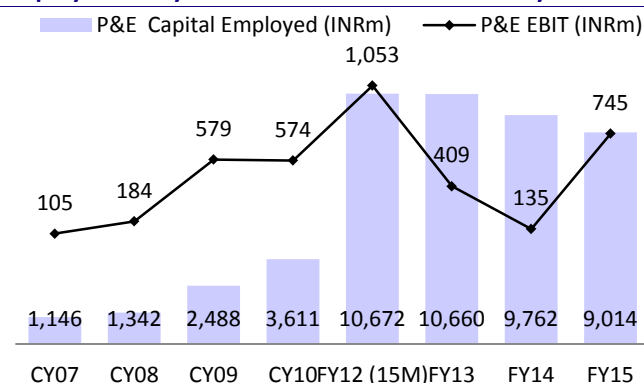
Source: Company, MOSL

Exhibit 10: Expect CFS volumes to grow at 5% CAGR at FY15-FY18E



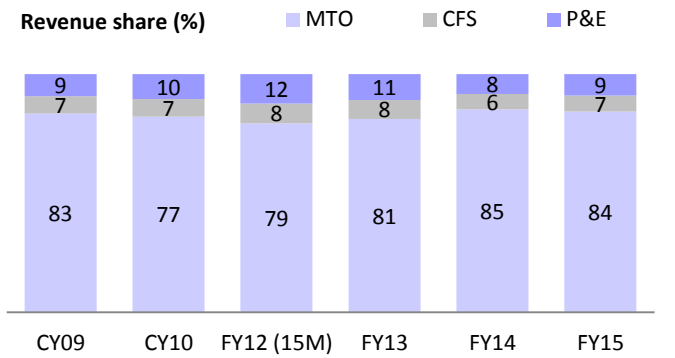
Source: Company, MOSL

Exhibit 11: P&E revenue growth lagged increase in capital employed led by slowdown in domestic economy



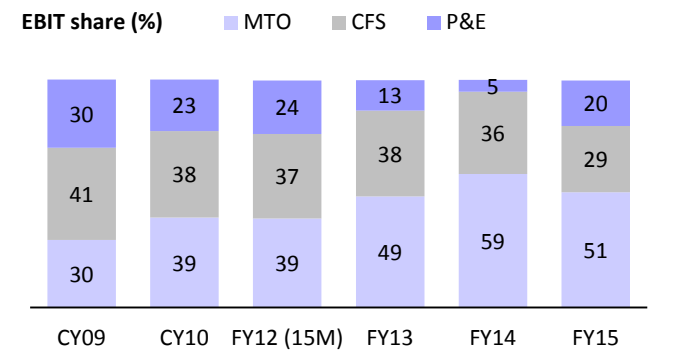
Source: Company, MOSL

Exhibit 12: MTO segment contributes the highest to revenue



Source: Company, MOSL

Exhibit 13: P&E segment contributes the highest to EBIT



Source: Company, MOSL

Financials and Valuations

Income Statement							(INR Million)	
Y/E Mar	2010	2012	2013	2014	2015	2016	2017E	2018E
Net Sales	28,633	42,804	39,263	48,594	56,288	56,756	69,129	75,186
Change (%)	38.9	49.5	-8.3	23.8	15.8	0.8	21.8	8.8
EBITDA	2,717	5,238	3,562	3,913	4,754	5,181	6,229	7,012
EBITDA Margin (%)	9.5	12.2	9.1	8.1	8.4	9.1	9.0	9.3
Depreciation	550	1,337	1,474	1,755	1,574	1,529	1,711	1,808
EBIT	2,167	3,901	2,088	2,159	3,180	3,652	4,518	5,204
Interest	195	644	414	563	535	425	313	313
Other Income	266	452	662	365	526	386	479	837
Extraordinary items	0	0	0	0	0	84	0	0
PBT	2,239	3,709	2,335	1,960	3,171	3,698	4,684	5,728
Tax	480	734	512	416	700	700	984	1,260
Tax Rate (%)	21.4	19.8	21.9	21.2	22.1	18.9	21.0	22.0
Min. Int. & Assoc. Share	100	132	126	51	73	47	57	68
Reported PAT	1,659	2,844	1,697	1,493	2,399	2,950	3,644	4,400
Adjusted PAT	1,659	2,844	1,697	1,493	2,399	2,950	3,644	4,400
Change (%)	27.7	71.4	-40.3	-12.0	60.6	23.0	23.5	20.8

Balance Sheet							(INR Million)	
Y/E Mar	2010	2012	2013	2014	2015	2016	2017E	2018E
Share Capital	261	260	252	252	252	504	504	504
Reserves	11,528	14,638	15,604	17,679	18,826	20,795	23,704	27,217
Net Worth	11,789	14,898	15,856	17,931	19,078	21,299	24,208	27,721
Minority Interest	263	311	433	463	221	228	228	228
Debt	3,778	7,654	7,267	9,921	6,134	3,581	3,581	3,581
Deferred Tax	408	753	943	1,045	1,101	1,094	1,094	1,094
Total Capital Employed	16,238	23,617	24,500	29,361	26,532	26,201	29,110	32,624
Gross Fixed Assets	10,429	16,358	18,850	20,528	20,244	21,344	23,098	23,859
Less: Acc Depreciation	2,338	3,801	5,163	7,094	8,283	9,811	11,522	13,330
Net Fixed Assets	8,091	12,557	13,687	13,434	11,961	11,533	11,576	10,529
Goodwill on consolidation	3,391	4,580	4,602	9,051	8,655	9,049	9,049	9,049
Capital WIP	560	854	139	236	302	305	400	140
Investments	1,319	1,071	1,859	1,902	894	1,566	1,566	1,566
Current Assets	7,273	9,369	9,641	11,675	12,648	13,559	18,519	24,452
Inventory	70	125	111	114	117	117	142	154
Debtors	2,528	3,576	3,825	5,715	6,476	6,671	8,125	8,837
Cash & Bank	1,430	1,341	1,382	1,647	1,738	2,089	4,548	9,258
Loans & Adv, Others	3,245	4,327	4,324	4,199	4,318	4,682	5,703	6,203
Curr Liabs & Provns	4,397	4,815	5,429	6,938	7,928	9,810	12,000	13,112
Net Current Assets	2,876	4,555	4,212	4,737	4,720	3,749	6,519	11,340
Total Assets	16,238	23,617	24,500	29,361	26,532	26,201	29,110	32,624

Financials and Valuations

Ratios

Y/E Mar	2010	2012	2013	2014	2015	2016	2017E	2018E
Basic (INR)								
EPS	6.6	11.3	6.7	5.9	10.1	11.4	14.5	17.5
Cash EPS	8.8	16.6	12.6	12.9	16.3	17.5	21.2	24.6
Book Value	46.9	59.1	62.9	71.1	75.7	84.5	96.0	110.0
DPS	1.6	0.8	0.7	0.8	1.0	2.0	2.6	3.2
Payout (incl. Div. Tax.)	26.1	7.6	12.1	14.3	12.2	19.8	19.8	19.8
Valuation(x)								
P/E					15.8	14.0	11.0	9.1
Cash P/E					9.8	9.1	7.5	6.5
Price / Book Value					2.1	1.9	1.7	1.4
EV/Sales					0.8	0.7	0.6	0.5
EV/EBITDA					9.4	8.0	6.3	4.9
Dividend Yield (%)					0.6	1.3	1.6	2.0
Profitability Ratios (%)								
RoE	15.3	17.0	11.0	8.8	13.8	14.3	16.0	16.9
RoCE	13.3	17.4	8.9	7.3	10.2	12.2	14.1	15.1
Turnover Ratios (%)								
Asset Turnover (x)	1.7	1.8	1.6	1.6	2.1	2.1	2.4	2.3
Debtors (No. of Days)	32	30	36	43	42	43	43	43
Inventory (No. of Days)	1	1	1	1	1	1	1	1
Creditors (No. of Days)	50	43	47	50	53	57	57	57
Leverage Ratios (%)								
Net Debt/Equity (x)	0.2	0.5	0.4	0.5	0.3	0.1	0.0	-0.2

Cash Flow Statement

(INR Million)

Y/E Mar	2010	2012	2013	2014	2015	2016	2017E	2018E
Adjusted EBITDA	2,717	5,238	3,562	3,913	4,754	5,181	6,229	7,012
Non cash opr. exp (inc)	189	359	617	334	484	-84	0	0
(Inc)/Dec in Wkg. Cap.	-376	-1,353	-22	-195	113	1,323	-311	-111
Tax Paid	-653	-930	-634	-373	-478	-700	-984	-1,260
Other operating activities	88	153	-278	-572	-573	0	0	0
CF from Op. Activity	1,966	3,468	3,244	3,107	4,300	5,720	4,935	5,640
(Inc)/Dec in FA & CWIP	-4,425	-5,991	-1,896	-1,290	-442	-1,497	-1,850	-500
Free cash flows	-2,459	-2,524	1,348	1,817	3,858	4,223	3,085	5,140
(Pur)/Sale of Invt	380	1,014	52	-237	1,218	-672	0	0
Others	232	-414	88	-2,665	-1,028	386	479	837
CF from Inv. Activity	-3,813	-5,391	-1,757	-4,192	-252	-1,783	-1,371	337
Inc/(Dec) in Net Worth	1,047	0	0	0	0	0	0	0
Inc / (Dec) in Debt	1,707	3,009	-563	2,732	-2,509	-2,553	0	0
Interest Paid	-195	-556	-538	-586	-550	-425	-313	-313
Divd Paid (incl Tax) & Others	-199	-620	-345	-797	-898	-608	-791	-955
CF from Fin. Activity	2,361	1,834	-1,446	1,350	-3,957	-3,586	-1,104	-1,268
Inc/(Dec) in Cash	513	-89	41	265	91	351	2,459	4,710
Add: Opening Balance	916	1,430	1,341	1,382	1,647	1,738	2,089	4,548
Closing Balance	1,430	1,341	1,382	1,647	1,738	2,089	4,548	9,258

Corporate profile

Company description

AGLL is an integrated logistics services provider with >USD1b in sales. Its key business divisions are global Multimodal Transport Operations (NVOCC, LCL and FCL), domestic CFS/ICD operations and Project and Engineering division. It also provides contract logistics services.

Exhibit 1: Sensex rebased

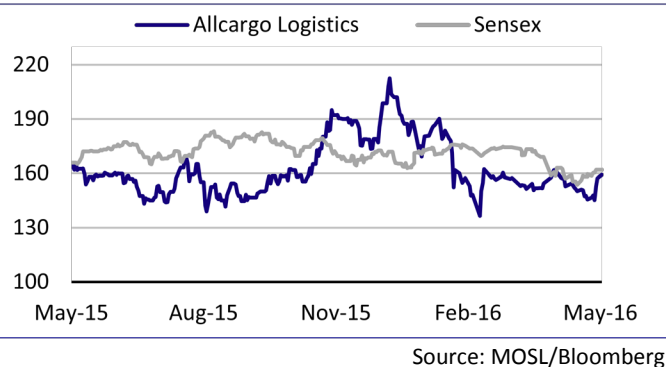


Exhibit 2: Shareholding pattern (%)

	Mar-16	Dec-15	Mar-15
Promoter	69.9	69.9	69.9
DII	0.1	0.1	0.0
FII	14.0	13.8	5.9
Others	16.0	16.1	24.2

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Shashi Kiran Shetty	64.5%
Blackstone	14.5%

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Shashi Kiran Shetty	Chairman & Managing Director
Shailesh Dholakia	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Adarsh Hegde	Arathi Shetty
Hari L Mudra	Keki Elavia
M P Bansal	J Ramachandran

*Independent

Exhibit 6: Auditors

Name	Type
Appan & Lokhandwala Associates	Statutory
BSR & Co LLP	Statutory
Mehta & Mehta	Secretarial Audit
Mukundan K V	Internal

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY16	11.5	10.5	9.5
FY17	14.5	13.0	11.9
FY18	17.5	16.6	5.7

Source: Bloomberg

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In respect of any matter arising from or in connection with the research you could contact the following representatives of Motilal Oswal Capital Markets Singapore Pte Limited:

Varun Kumar

Varun.kumar@motilaloswal.com

Contact : (+65) 68189232

Office Address: 21 (Suite 31), 16 Collyer Quay, Singapore 04931

Kadambari Balachandran

kadambari.balachandran@motilaloswal.com

(+65) 68189233 / 65249115



Motilal Oswal Securities Ltd

Motilal Oswal Tower, Level 9, Sayani Road, Prabhadevi, Mumbai 400 025

Phone: +91 22 3982 5500 E-mail: reports@motilaloswal.com