

Allcargo Logistics

BSE SENSEX	S&P CNX
27,990	8,633
Bloomberg	AGLL IN
Equity Shares (m)	252.1
M.Cap.(INRb)/(USDb)	47.9 / 0.7
52-Week Range (INR)	222 / 128
1, 6, 12 Rel. Per (%)	-1/7/20
12M Avg Val (INR M)	52
Free float (%)	30.1

Financials & Valuations (INR b)

Y/E Mar	2016	2017E	2018E
Net Sales	56.8	59.1	64.0
EBITDA	5.2	5.6	6.4
PAT	2.9	2.8	3.5
EPS (INR)	11.4	11.1	14.0
Gr. (%)	23.9	(2.6)	26.3
BV/Sh (INR)	87.5	71.6	82.9
RoE (%)	14.0	14.0	18.2
RoCE (%)	11.6	11.5	14.9
P/E (x)	16.7	17.1	13.5
P/BV (x)	2.2	2.7	2.3

Estimate change

TP change

Rating change



CMP: INR190 TP: INR229(+21%)

Buy

IndAS impacts earnings; volume growth steady amidst macro headwinds

AGLL reported below estimate EBITDA at INR1.3b (vs est. of INR1.4b; -5% YoY). While reported EBIT stood at INR861m (-2% YoY) and PAT at INR624m (-7% YoY) was impacted by higher tax rate at 29% (v/s 20% in FY16). Allcargo adjusted goodwill against net worth to the extent of INR6.2 (of the total INR9b as on March 2016) under IndAS provisions.

- **MTO volumes up 7% YoY despite weak macros:** AGLL's MTO volumes grew 7% YoY to 120,971 TEUs in 1QFY17 led by China, SE Asia and some parts of Europe. Realizations declined 11% YoY led by lower freight rates, while EBIT margin increased to 4.8% (v/s 3.8% in 1QFY16). We expect the current volume growth to sustain in the medium term despite weak macros, as AGLL's presence across 164 countries helps it to benefit from pockets of high growth areas.
- **CFS benefitted by market share gains:** CFS volumes stood at 75,118 TEUs (+4% YoY, +13% QoQ). CFS revenue stood at INR1.1b (+6% YoY). Realizations (incl. ICD volumes) stood at INR13,041/TEU as compared to INR13,185/TEU in 1QFY16. EBIT/TEU stood at INR3,641/TEU (v/s INR3,963 in 1QFY16), impacted by pre-operating expenses for Kolkata CFS (as per IndAS, earlier was capitalized). While lower EXIM volumes is a near term challenge, expect market share gains to help Allcargo to report ~7% volume growth in CFS.
- **P&E impacted by shipping one-offs:** P&E segment's EBIT stood at INR180m (-22% (YoY) impacted by (a) dry-docking of one ship, (b) letting go of low-margin equipment business and (c) higher depreciation for 2 ships bought in July 2015.

Valuation and view:

- AGLL with (a) current businesses largely in steady state and minimal capex requirement and (b) strong balance sheet and ~9% FCF yield; is well placed to invest in DFC/GST led opportunities.
- With effective tax rate increasing (no change in cash tax though) from 20% to ~28%, EPS gets reduced by ~11% and further impacted by higher depreciation (IndAS impact) resulting in ~EPS cut of ~15% in FY17/FY18.
- We value Allcargo Logistics at FY18E EV/EBITDA of 9x and arrive at a fair value of INR229. On FY18E, the stock trades at P/E of 13.5x and EV/EBITDA of INR6.8x. **Maintain buy.**

Consolidated - Quarterly Earning Model

Y/E March	FY16				FY17				(INR Million)	
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE	FY16	FY17
Net Sales	14,764	14,652	13,365	13,976	13,976	15,033	14,980	14,760	56,756	58,749
YoY Change (%)	11.8	0.2	-6.7	-1.2	-5.3	2.6	12.1	5.6	0.8	3.5
Total Expenditure	13,353	13,281	12,182	12,760	12,679	13,657	13,599	13,232	51,575	53,167
EBITDA	1,411	1,371	1,183	1,216	1,297	1,376	1,381	1,528	5,181	5,582
Margins (%)	9.6	9.4	8.9	8.7	9.3	9.2	9.2	10.4	9.1	9.5
Depreciation	362	422	386	359	436	440	445	453	1,529	1,773
Interest	106	108	115	95	75	75	76	77	425	303
Other Income	67	73	125	122	111	120	122	127	386	480
PBT before EO expense	1,009	913	807	884	897	981	982	1,126	3,614	3,985
Extra-Ord expense	49	-10	39	6	17	0	0	0	84	17
PBT	960	923	769	878	880	981	982	1,126	3,530	3,969
Tax	190	178	162	169	256	275	275	315	700	1,121
Rate (%)	19.8	19.3	21.1	19.3	29.1	28.0	28.0	28.0	19.8	28.2
Reported PAT	770	745	606	709	624	706	707	810	2,830	2,848
Min. Interest & P&L of Asso. Cos.	-19	9	-18	-47	-14	-14	-14	-57	-76	-99
Adj PAT	751	725	615	691	610	692	693	796	2,782	2,791
YoY Change (%)	45.7	0.0	-22.4	22.5	-18.7	-4.6	12.6	15.2	7.2	0.3
Margins (%)	5.1	5.0	4.6	4.9	4.4	4.6	4.6	5.4	4.9	4.8

E: MOSL Estimates

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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 1QFY17 earnings snapshot (INR m)

	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	YoY (%)	QoQ
Volume Details											
MTO Volumes (TEU)	101,937	108,874	107,261	104,128	113,410	117,574	116,168	112,593	120,971	6.7	7.4
CFS/ICD Volumes (TEU)	72,930	75,398	70,587	72,664	78,727	77,027	74,251	74,751	75,118	-4.6	0.5
Financial Summary (INR m)											
MTO	11,309	12,500	12,101	11,828	12,431	12,323	10,964	11,908	11,793	-5.1	-1.0
CFS/ICD	907	1,021	1,059	1,046	1,094	1,122	1,148	1,067	1,096	0.2	2.6
P&E	1,165	1,267	1,322	1,545	1,425	1,382	1,399	1,277	1,322	-7.2	3.5
Others	78	70	93	70	76	84	109	144	100	31.8	-30.4
Net Revenue	13,206	14,618	14,317	14,152	14,779	14,681	13,392	14,020	13,989	-5.3	-0.2
Reported EBITDA	1,214	1,225	1,359	1,071	1,411	1,371	1,183	1,216	1,297	-8.1	6.6
EBITDA margin	9.2%	8.4%	9.5%	7.6%	9.5%	9.3%	8.8%	8.7%	9.3%	-2.9	6.8
Depreciation	427	391	372	384	362	422	386	359	436	20.3	21.5
EBIT	787	835	987	687	1,048	949	797	858	861	-17.9	0.4
Interest	164	141	140	89	106	108	115	95	75	-28.9	-20.9
Other Income	83	147	116	191	67	73	125	122	111	67.1	-8.8
PBT before exceptional	706	841	962	789	1,009	913	807	884	897	-11.1	1.4
Exceptional	34	48	34	12	49	(10)	39	6	17	-66.5	179.7
PBT before exceptional	673	793	928	777	960	923	769	878	880	-8.3	0.2
Tax	159	132	187	222	190	178	162	169	256	34.6	51.0
Tax rate (%)	23.6%	16.6%	20.1%	28.6%	19.8%	19.3%	21.1%	19.3%	29.1%	46.8	50.7
PAT	514	661	742	555	770	745	606	709	624	-18.9	-11.9
PAT margin (%)	3.9%	4.5%	5.2%	3.9%	5.2%	5.1%	4.5%	5.1%	4.5%		

Source: Company, MOSL

Key takeaways from concall

- **IndAS impact:** Company has used one-time option under IndAS to adjust INR6.2b (of the total INR9b as on March 2016) of goodwill from the balance sheet.
- **Growth expectations**
 - **MTO:** 1QFY17 volume growth was 7% YoY and company expects the growth rate to continue.
 - **CFS:** Despite flat/lower port volumes, CFS volume growth was 4% YoY led by market share gains. Company is targeting internally 10-12% growth.
- **Targeting 20% RoE:** Management is moving away from the low returns business and has exited some equipment leasing (part of P&E segment) in 1QFY17. Management is targeting to reach 20% RoE (v/s 14% in FY16).
- **Kolkata CFS:** It is expected to become operational in 1QCY18. 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 (~20% is incurred till date).
- **Jhajjar ICD:** Management is close to complete the due diligence process and working on rail link revival. Expected to complete Phase-1 in two years in 2H2018. The new logistics park will enable Allcargo to capitalize on DFC.
- Allcargo has completed transfer of their contract logistics and freight forwarding businesses in Avvashya CCI (ACCI) Logistics Private Limited in July 2016. The impact of this transaction ACCI will be reflected in the 2QFY17.
- Net debt stands at INR2.9b.

Exhibit 2: MTO volumes (TEUs) increased +6.7% YoY and +7.4% QoQ in 1QFY17

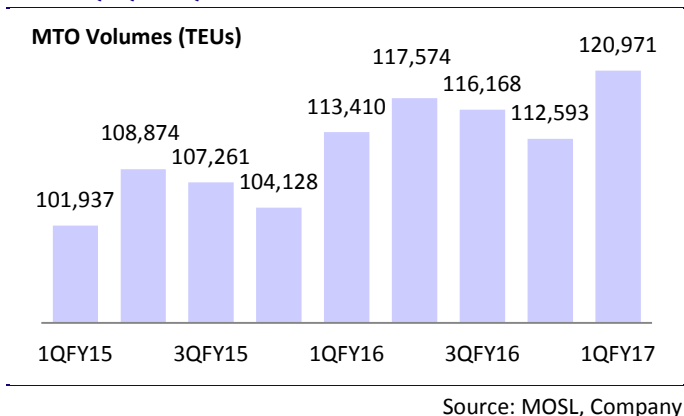


Exhibit 3: Realizations declined 11% YoY and 8% QoQ in 1QFY17; EBIT (INRb) declined 10% YoY and 14% QoQ

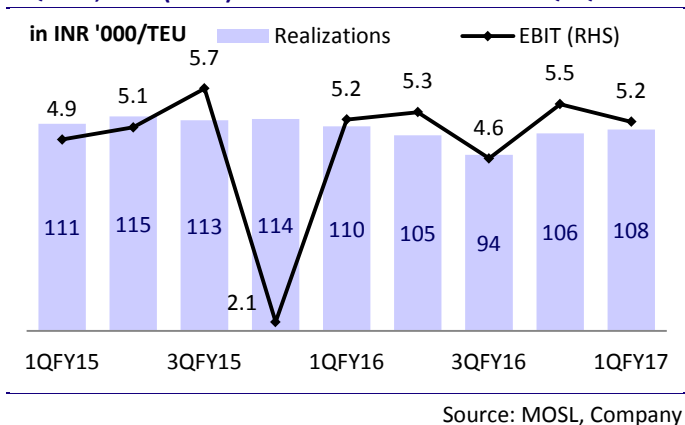


Exhibit 4: CFS+ICD volumes (TEUs) increased 6.7% YoY and +12.4 QoQ in 1QFY17

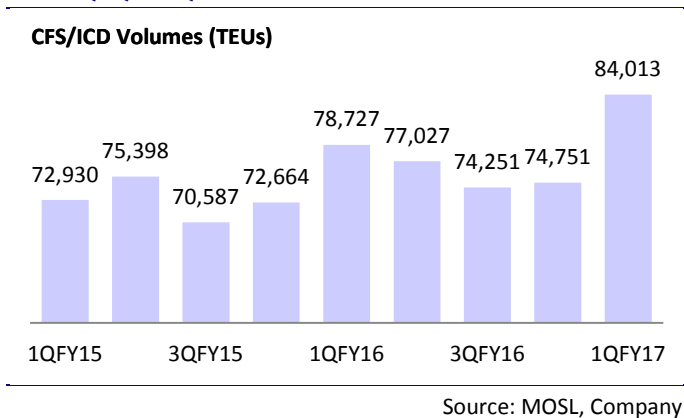
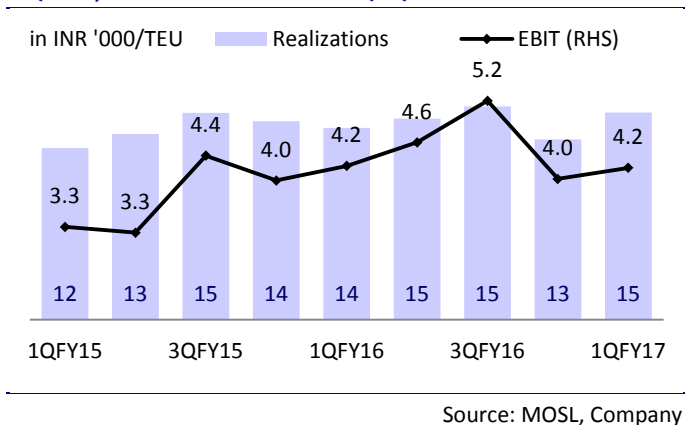


Exhibit 5: Realizations increased +8% YoY and 15% QoQ in 4QFY16; EBIT flat YoY and +4% QoQ

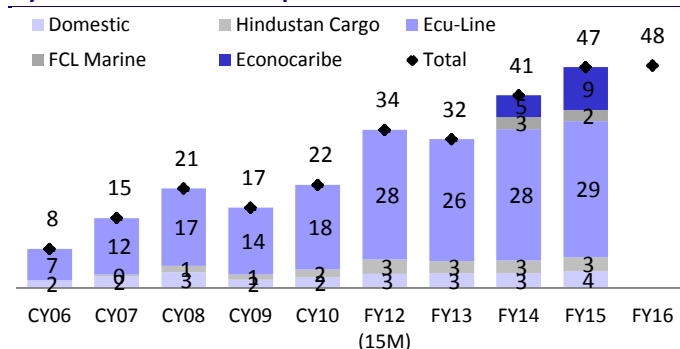


Valuation and view

- Allcargo Logistics gives an 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 model volume CAGR of ~7.5% in MTO and ~7% in CFS in FY17/FY18 and model 70bps EBIT margin improvement in MTO in FY18 over FY16 as we expect benefits from its consolidation and automation efforts.
 - With effective tax rate increasing (no change in cash tax though) from 20% to ~28%, EPS gets reduced by ~11% and further impacted by higher depreciation (IndAS impact) resulting in ~EPS cut of ~15% in FY17/FY18.
 - We value Allcargo Logistics at FY18E EV/EBITDA of 9x, largely in-line with long-term average (changed from P/E methodology as the revised tax rates though does not change cash earnings, distorts true profitability) to arrive at a fair value of INR229. On FY18E, the stock trades at P/E of 13.5x and EV/EBITDA of INR6.8x.
- Maintain buy.**

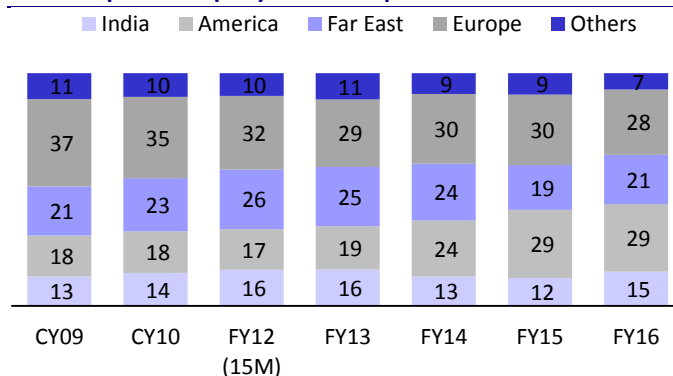
Story in charts

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



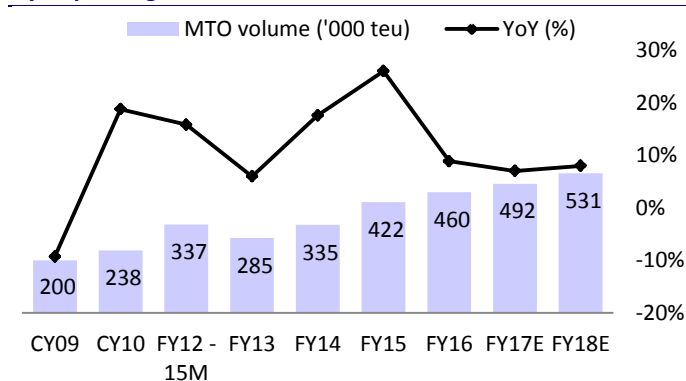
Source: Company, MOSL

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



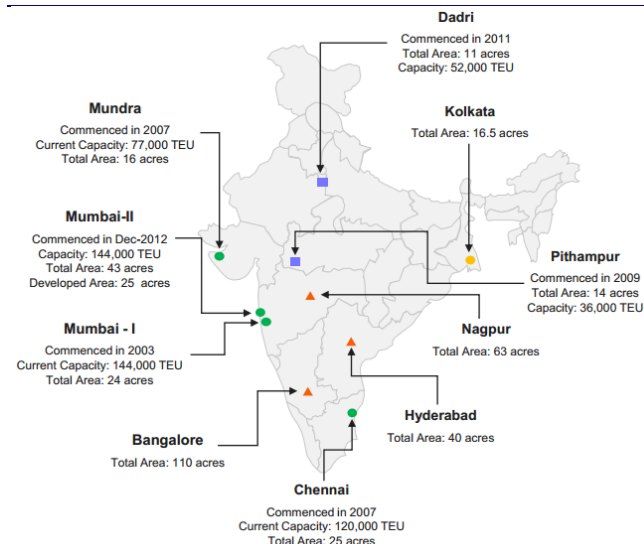
Source: Company, MOSL

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



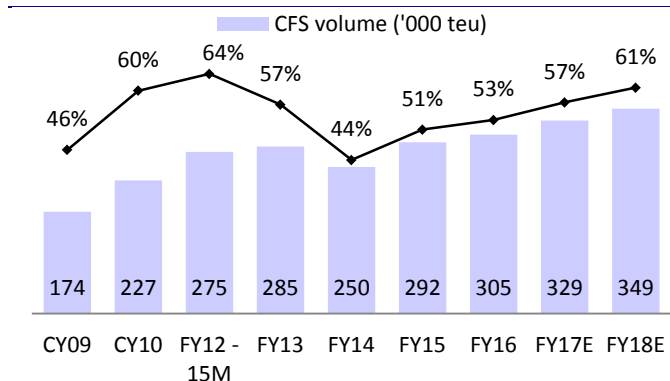
Source: Company, MOSL

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



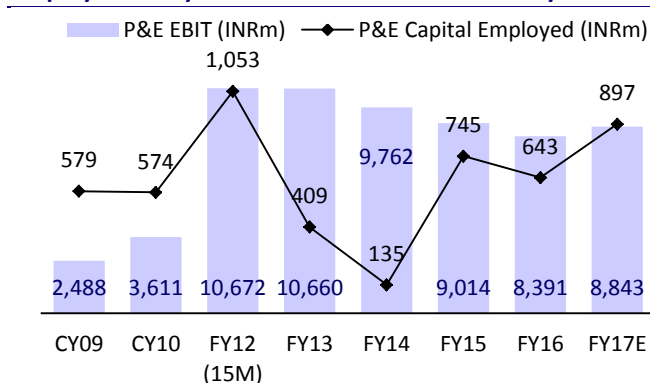
Source: Company, MOSL

Exhibit 10: Expect CFS volumes to grow at 6% CAGR at FY15-FY18E



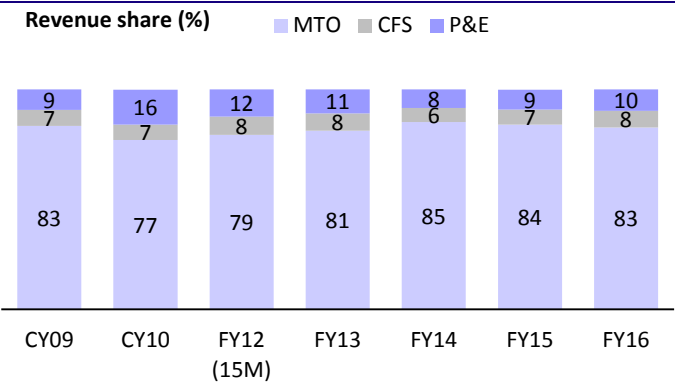
Source: Company, MOSL

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



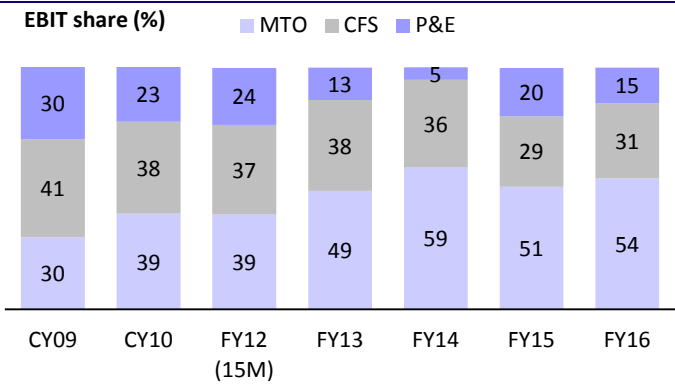
Source: Company, MOSL

Exhibit 12: MTO segment contributes the highest to revenue



Source: Company, MOSL

Exhibit 13: MTO segment contributes the highest to EBIT



Source: Company, MOSL

Financials and Valuations

Consolidated - Income Statement

(INR Million)

Y/E March	FY12 (15M)	FY13	FY14	FY15	FY16	FY17E	FY18E
Income from Operations	42,696	39,255	48,445	56,180	56,756	59,084	63,993
Total Income from Operations	42,696	39,255	48,445	56,180	56,756	59,084	63,993
Change (%)	49.1	-8.1	23.4	16.0	1.0	4.1	8.3
Operational Cost	28,645	27,194	34,281	39,622	38,124	39,586	42,875
Personnel Expenses	6,095	5,634	7,290	8,566	9,256	9,636	10,436
Other Expenses	2,825	2,873	3,111	3,346	4,196	4,279	4,328
Total Expenditure	37,565	35,701	44,681	51,534	51,575	53,501	57,639
EBITDA	5,131	3,554	3,763	4,646	5,181	5,583	6,354
Margin (%)	12.0	9.1	7.8	8.3	9.1	9.4	9.9
Depreciation	1,337	1,474	1,755	1,574	1,529	1,773	1,888
EBIT	3,794	2,080	2,009	3,072	3,652	3,809	4,466
Int. and Finance Charges	644	414	563	535	425	303	266
Other Income	559	670	515	412	386	480	728
PBT bef. EO Exp.	3,709	2,335	1,960	2,950	3,614	3,985	4,928
EO Items	0	0	0	0	84	17	0
PBT after EO Exp.	3,709	2,335	1,960	2,950	3,530	3,969	4,928
Income tax	734	512	416	700	700	1,121	1,331
Tax Rate (%)	19.8	21.9	21.2	23.7	19.8	28.2	27.0
PAT	2,976	1,823	1,544	2,250	2,830	2,848	3,597
Minority + Associate share	132	126	51	73	47	57	57
PAT incl. Minority + Associate	2,844	1,697	1,493	2,177	2,782	2,791	3,541
Adjusted PAT	2,844	1,697	1,493	2,323	2,877	2,803	3,541
Change (%)	71.4	-40.3	-12.0	55.5	23.9	-2.6	26.3
Margin (%)	6.7	4.3	3.1	4.1	5.1	4.7	5.5

Consolidated - Balance Sheet

(INR Million)

Y/E March	FY12 (15M)	FY13	FY14	FY15	FY16	FY17E	FY18E
Equity Share Capital	260	252	252	252	504	504	504
Total Reserves	14,638	15,604	17,679	18,826	21,559	17,558	20,385
Net Worth	14,899	15,857	17,931	19,078	22,063	18,062	20,889
Minority Interest	311	433	463	221	228	228	228
Deferred Liabilities	924	1,172	1,284	1,354	1,373	1,373	1,373
Total Loans	7,653	7,267	9,921	6,133	5,431	4,681	4,181
Capital Employed	23,788	24,728	29,599	26,786	29,095	24,343	26,670
Gross Block	16,358	18,850	20,528	20,244	21,333	23,281	24,221
Less: Accum. Deprn.	3,801	5,163	7,094	8,283	9,351	11,125	13,013
Net Fixed Assets	12,557	13,687	13,434	11,961	11,982	12,157	11,208
Goodwill on Consolidation	4,580	4,602	9,051	8,655	9,263	3,033	3,033
Capital WIP	854	139	236	302	521	422	182
Total Investments	1,071	1,859	1,902	894	1,465	1,465	1,465
Curr. Assets, Loans&Adv.	9,369	9,641	11,675	12,648	13,531	17,229	21,659
Inventory	125	111	114	117	112	121	131
Account Receivables	3,576	3,825	5,715	6,476	6,669	6,944	7,521
Cash and Bank Balance	1,341	1,382	1,647	1,738	2,069	5,290	8,728
Loans and Advances	4,327	4,324	4,199	4,318	4,681	4,874	5,279
Curr. Liability & Prov.	4,815	5,429	6,938	7,928	7,875	10,171	11,086
Account Payables	3,338	3,536	4,661	5,744	5,998	6,200	6,680
Other Current Liabilities	1,094	1,275	1,674	1,557	1,264	3,338	3,616
Provisions	383	619	602	627	613	633	790
Net Current Assets	4,555	4,212	4,737	4,720	5,656	7,058	10,573
Deferred Tax assets	171	228	238	253	208	208	208
Appl. of Funds	23,788	24,728	29,599	26,786	29,095	24,343	26,670

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	FY12 (15M)	FY13	FY14	FY15	FY16	FY17E	FY18E
Basic (INR)							
EPS	11.3	6.7	5.9	9.2	11.4	11.1	14.0
Cash EPS	16.6	12.6	12.9	15.5	17.5	18.2	21.5
BV/Share	59.1	62.9	71.1	75.7	87.5	71.6	82.9
DPS	0.8	0.7	0.8	1.0	2.0	2.0	2.5
Payout (%)	7.6	12.1	14.3	13.4	19.8	19.8	19.8
Valuation (x)							
P/E		28.2	32.1	20.6	16.7	17.1	13.5
Cash P/E		15.1	14.8	12.3	10.9	10.5	8.8
P/BV		3.0	2.7	2.5	2.2	2.7	2.3
EV/Sales		1.4	1.2	0.9	0.9	0.8	0.7
EV/EBITDA		15.1	14.9	11.3	9.9	8.5	6.8
Dividend Yield (%)		0.4	0.4	0.5	1.1	1.1	1.3
Return Ratios (%)							
RoE	17.0	11.0	8.8	12.6	14.0	14.0	18.2
RoCE	17.4	8.9	7.3	9.4	11.6	11.5	14.9
RoIC	20.2	10.1	8.2	10.7	13.3	14.5	22.5
Working Capital Ratios							
Debtor (Days)	31	36	43	42	43	43	43
Creditor (Days)	43	47	50	53	57	57	57
Working Cap. Turnover (Days)	27	26	23	19	23	11	11
Leverage Ratio (x)							
Net Debt/Equity (x)	0.5	0.4	0.5	0.3	0.2	0.0	-0.2

Consolidated - Cash Flow Statement

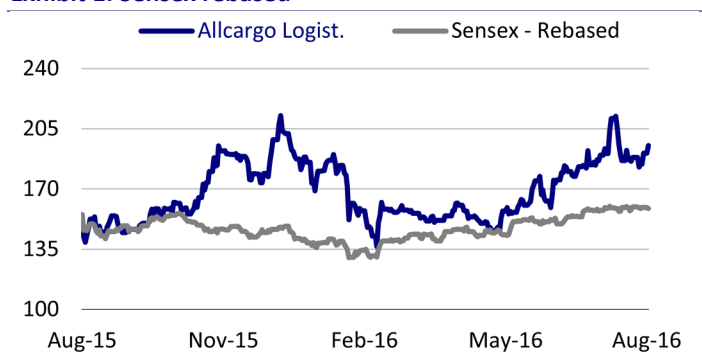
Y/E March	FY12 (15M)	FY13	FY14	FY15	FY16	FY17E	FY18E
OP/(Loss) before Tax	3,710	2,335	1,960	3,171	3,530	3,969	4,928
Depreciation	1,337	1,474	1,755	1,574	1,529	1,773	1,888
Interest & Finance Charges	551	370	532	492	409	-176	-463
Direct Taxes Paid	-930	-634	-373	-478	-894	-1,121	-1,331
(Inc)/Dec in WC	-1,353	-22	-195	113	86	1,819	-77
CF from Operations	3,315	3,522	3,680	4,872	4,660	6,264	4,946
Others	153	-278	-572	-573	-175	0	0
CF from Operating incl EO	3,468	3,244	3,107	4,300	4,484	6,264	4,946
(inc)/dec in FA	-5,991	-1,896	-1,290	-442	-1,414	-1,850	-700
Free Cash Flow	-2,524	1,348	1,817	3,858	3,070	4,414	4,246
(Pur)/Sale of Investments	1,014	52	-237	1,218	-449	0	0
Others	-414	88	-2,665	-1,028	-109	480	728
CF from Investments	-5,391	-1,757	-4,192	-252	-1,971	-1,370	28
Issue of Shares	0	0	0	0	0	0	0
(Inc)/Dec in Debt	3,009	-563	2,732	-2,509	1,437	-750	-500
Interest Paid	-556	-538	-586	-550	-475	-303	-266
Dividend Paid	-530	-74	-222	-310	-640	-563	-714
Others	-90	-271	-575	-589	-2,504	-57	-57
CF from Fin. Activity	1,834	-1,446	1,350	-3,957	-2,182	-1,673	-1,536
Inc/Dec of Cash	-89	41	265	91	331	3,221	3,438
Opening Balance	1,430	1,341	1,382	1,647	1,738	2,069	5,290
Closing Balance	1,341	1,382	1,647	1,738	2,069	5,290	8,728

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



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Jun-16	Mar-16	Jun-15
Promoter	69.9	69.9	69.9
DII	0.1	0.1	0.0
FII	13.8	14.0	5.9
Others	16.1	16.0	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 (%)
FY17	11.1	14.1	-21.3
FY18	14.0	17.4	-19.4

Source: Bloomberg

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