

ALLCARGO LOGISTICS LTD

BUY

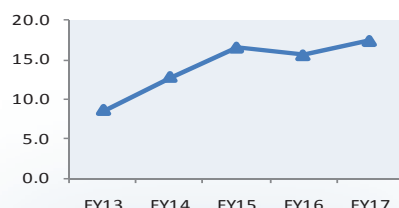
08-Dec-17

INDUSTRY - LOGISTICS
BLOOMBERG Code- AGLL IN
BSE Code - 532749
NSE Code - ALLCARGO
NIFTY - 10166

Company Data

CMP	178
Target Price	212
Previous Target Price	0
Upside	19%
52wk Range H/L	198/155
Mkt Capital (Rs Cr)	4,388
Av. Volume (,000)	718

P/E Ratio

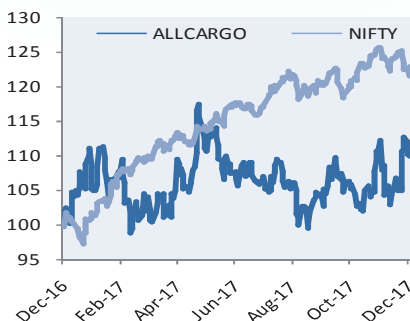


Shareholding patterns %

	2QFY18	1QFY18	4QFY17
Promoters	69.1	69.1	70.0
FII	16.7	16.3	16.3
DII	6.3	6.4	6.4
Others	8.0	8.0	7.0
TOTAL	100	100	100

Stock Performance %

	1Mn	3Mn	1Yr
Absolute	2.7	5.0	8.4
Rel to Nifty	4.5	2.6	(16.7)


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Key Highlights of the Report:

- ✓ MTO segment reported strong volume growth of 12% coupled with improved realization. Freight rates are improving from last couple of
- ✓ Management is completed reconstruction exercise of CFS segment and expects volume recovery from January quarter.
- ✓ Robust plan to invest Rs.700-1000 Cr over next 2-3 years in contract logistics and warehousing business.
- ✓ ALLCARGO's management is evaluating inorganic growth opportunity in contract logistic space in order to achieve its ambitious revenue target of Rs.12000 Cr by 2020.
- ✓ Currently we are not factoring expansion plan of contract logistics in our estimate. We value ALLCARGO at 16x FY19E EPS and recommend "BUY" with target price Rs.212.

Financials/Valu	FY15	FY16	FY17	FY18E	FY19E
Net Sales	5,629	5,641	5,583	6,152	6,797
EBITDA	475	504	465	461	547
EBIT	318	303	299	307	392
PAT	240	248	238	263	326
EPS (Rs)	10	10	10	11	13
EPS growth (%)	61%	3%	-1%	10%	24%
ROE	13%	14%	13%	13%	14%
ROCE	14%	15%	14%	13%	15%
BV	151	88	73	81	92
P/B (X)	1.0	1.8	2.3	2.2	1.9
P/E (X)	16.6	15.6	17.4	16.6	13.4

Capex Plan for next 2-3 Years

- ✓ Company is planning to increase warehousing space from current 3 mn sqft to 10 mn sqft in next 2-3 years.
- ✓ Currently, ALLCARGO is developing logistic park at Jhajjar. The project will comprise of rail linked private freight terminal catering to railway cargo movement, free trade warehousing zone, domestic tariff area and other related activities. It will also have the facility to handle both in-bound and out-bound contract logistics services.
- ✓ Planning to develop warehouse facilities at Delhi
- ✓ ALLCARGO will develop its land bank at various strategic locations like Hyderabad, Nagpur and Jaipur over next 2-3 years.
- ✓ Management is evaluating inorganic opportunity in space of contract logistic business.

Quarterly Performance

Financials	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	YoY %	QoQ%	FY16	FY17	YoY %
Net Sales	1,410	1,411	1,363	1,483	1,547	10%	4%	5,641	5,583	-1%
Other Income	6	18	15	16	5	-18%	-68%	28	45	62%
COGS	959	972	919	1,058	1,113	16%	5%	3,794	3,778	0%
Employee Expenses	235	240	225	222	228	-3%	2%	918	942	3%
Other Expenses	89	94	109	100	102	15%	2%	425	399	-6%
Provision for Bad Debt	1	6	4	-	-			-	-	
Total Expenditure	1,283	1,312	1,257	1,380	1,443	12%	4%	5,137	5,118	0%
EBITDA	127	99	106	103	105	-17%	2%	504	465	-8%
EBITDA M (%)	9%	7%	8%	7%	7%			9%	8%	-7%
Depreciation	43	41	39	40	40	(0.1)	0%	201	166	-17%
EBIT	83	59	67	63	65	-22%	3%	303	299	-1%
Intreset	8	8	10	8	7	-6%	-15%	41	32	-21%
Exceptional Item	-	-	-	-	-			-	-	
PBT	82	69	72	71	63	-23%	-11%	290	312	7%
Tax	18	21	13	8	1	-96%	-92%	50	78	56%
PAT	64	49	57	64	65	1%	3%	248	238	-4%
PAT %	4%	2%	2%	4%	4%	0%	-2%	4%	4%	-3%

Segment Revenue	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	YoY %	QoQ%	FY16	FY17	YoY %
MTO	1,209	1,206	1,161	1,289	1,388	15%	8%	4,736	4,756	0%
CFS	111	111	99	109	100	-10%	-8%	427	431	1%
PE	99	111	114	99	70	-29%	-29%	548	457	-17%
TOTAL	1,410	1,411	1,363	1,512	1,584	12%	5%	5,651	5,583	-1%

- ✓ ALLCARGO posted mixed set of numbers in Q2FY18. Revenue was up by 9.7% YoY led by MTO segment. Revenue from MTO grew by 15% YoY on account of healthy cargo volume growth of 12% YoY and improved shipping freight rate globally.
- ✓ From last couple quarters freight rate is improving on back of uptick in demand.
- ✓ While CFS and P&E segment has reported de growth of 10% & 29% YoY respectively. CFS business was impacted due to DPD and lower volume turnover at Mundra CFS.
- ✓ There was huge dip in P&E revenue in Q2FY18 because of lower assets base. From last 12 months, company continuously selling its low yielding and aged assets in order to improve return
- ✓ EBITDA margin contacted by 220 bps YoY to 6.8% compared to 9% on account of lower margin from P&E segment.
- ✓ For two consecutive quarter P&E segment has reported negative EBIT margin of 5% on account of provision for bad debt and lower revenue.
- ✓ However, the PAT margin is flat YoY on account of lower tax rate (1% of PBT vs 21% YoY).

Multi Model Transport Operation

	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	YoY %	QoQ%	FY16	FY17	YoY %
Cargo Volume (TEU '000)	127	133	127	138	143	12%	3%	460	508	11%
Realization/TEU (In '000)	95	91	92	93	97	2%	4%	103	94	-9%
EBIT/TEU	3,895	3,190	3,936	3,838	3,957	2%	3%	4,260	3,911	-8%

CFS

	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	YoY %	QoQ%	FY16	FY17	YoY %
Cargo Volume (TEU '000)	69	76	77	79	65	-6%	-17%	304	306	1%
Realization/TEU (In '000)	16	15	13	14	15	-5%	10%	14	14	0%
EBIT/TEU	5,732	4,180	3,790	3,766	4,643	-19%	23%	4,335	4,286	-1%

- ✓ MTO business continues to outperform industry in terms of cargo volume growth.
- ✓ Cargo volume in MTO segment was up by 12% YoY and 3% on QoQ on account of uptick in global demand.
- ✓ Realization of MTO has improved mere 2% YoY but shown 4% growth on QoQ basis. Though, it was still on the lower side of the cycle. Freight rates are subdued from last 2 years on account of weak demand and excess capacity.
- ✓ EBIT per TEU has improved by 2% YoY.
- ✓ CFS business continues to witness decline in cargo volume growth on account of DPD (Direct Port Delivery) and lower than expected run rate at Mundra CFS.
- ✓ Cargo volume was down by the 6% YoY.
- ✓ EBIT per TEU was down by 19% YoY because of lower volume growth at Mundra CFS, which is on lease rental.

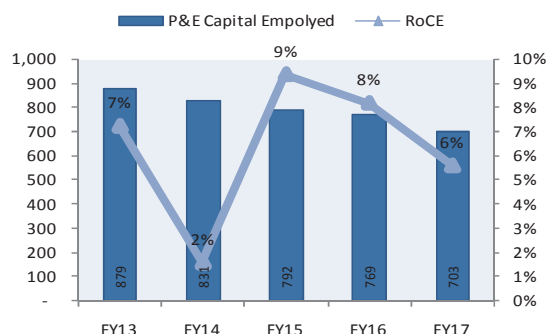
Concall Highlights:-

- ✓ Kolkata CFS will commence operation in next 3-4 weeks.
- ✓ Lease period of CWC CFS in Mundra will ended in December and company has decided not renew it. This will save lease rental and it will result into margin improvement.
- ✓ Slow movement in wind energy segment lead to lower utilization of Crane.
- ✓ Project Logistics business growing well and has order book of 160 Cr which will execute over next 2 years.
- ✓ Witnessing lot of inquires from public and private sector in P&E Segment.
- ✓ EBIT in P&E segment was negative during the year on account of provision of Bad debt.
- ✓ Plan to grow organically and inorganically in project logistics business.
- ✓ ACCI revenue was 300 Cr in last year and 198 Cr for six months of this financial year.
- ✓ 700-1000 Cr of capex requirement over next 2-3 years.
- ✓ Company is planning to develop its land bank at various key strategic locations like Hyderabad, Nagpur and Jaipur.
- ✓ Company is in process to acquire land outside Delhi and will develop warehouse facilities in order to cater manufacturing and E-Commerce companies.
- ✓ Management looking strategic partner for developing these land.
- ✓ Management is reconstructing the CFS business in order to counter volume loss from DPD (Direct Port Delivery) program at JNPT port.

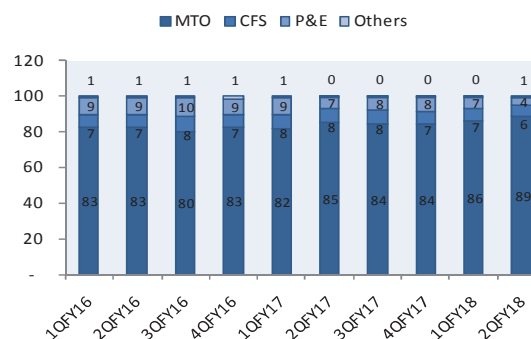
Investment Arguments:

- ✓ **Contract Logistic a Key growth Area:-** ALLCARGO has acquired CCI in last year which caters into freight forwarding and contract logistic to the key sector like Auto, Chemical, White goods, E-Commerce and retail. Management is very keen to invest into this segment and go PAN India presence. ALLCARGO is planning its land bank into Logistics Park which will have one stop solution (CFS, ICD and Warehouse) at one place. Company has land bank of 500 acres at various key strategic locations Hyderabad, Nagpur, Jaipur and Jhajjar. Additionally, company is acquiring one land parcel outside Delhi to develop into warehousing facilities in order to cater manufacturing and E-Commerce companies surrounding Capital region. Company is looking for the strategic partner to invest into new facilities in order to keep business model asset light. ALLCARGO's management is also open to inorganic growth in contract logistic space in order to achieve its ambitious revenue target of Rs.12000 Cr by 2020.
- ✓ **Improving Freight Rates:-** Profitability of the MTO segment was subdued in last one and one and half years due to lower freight rates globally on account of lower demand and excess capacity of shipping companies. But from last couple of quarters we have witnessed improvement in freight rates. ALLCARGO is well placed in this segment with double digit market share globally. MTO segment continues to deliver strong performance on back of recovery in shipping freight rates and we expect 12% CAGR revenue growth over FY17 to FY19. ALLCARGO is in advance stage of reconstructing CFS business by entering into last mile connectivity business in order to counter volume loss due to Direct Port Delivery programme at JNPT port. We believe it will augur well for the company and management expects recovery in volume from January quarter.
- ✓ **Sale of Low Yield/Unproductive Assets:-** From last one year company has continuously sold its lower yielding and aged assets in P&E segment. Company has sold couple of ships and some of lower tonnage and aged cranes in order to improve return ratio. We expect uptick in performance on back of recovery in capex cycle and we believe that the management's strategy to move away from low yielding business will improve the return ratio of the segment. ALLCARGO is running one CFS at Mundra on lease basis from CWC for the period of one year which is not as per the expectation and management has decided not to renew lease agreement post December. Termination of contract will save lease rental and which will result in margin improvement.
- ✓ **Robust Capex Plan :-** Company's management is ready with robust capex plan in order to cater growing contract logistic demand in India by providing one stop solution. ALLCARGO plans to develop its 500 acres of land bank at various strategic locations like Hyderabad, Nagpur and Jaipur and will invest Rs. 700-1000 Cr over next 2-3 years. Management expects robust logistic demand from corporate near national capital region Delhi and company is in process to acquire land and develop warehousing facilities. ALLCARGO is looking for the strategic partner who will invest in upcoming facilities in order to keep business model light. Management is also looking for inorganic growth to grow faster and achieve its ambitious revenue target of Rs.12000 Cr by 2020.

Return ratio will Improve



Segment Revenue Contribution



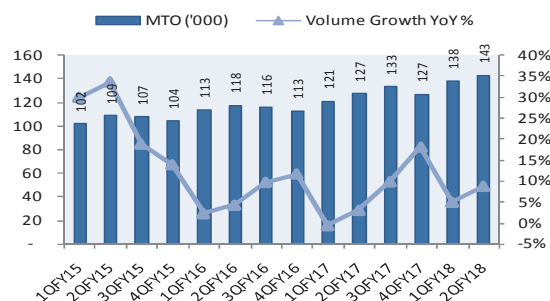
View and Valuation :-

ALLCARGO is the global leader in LCL consolidation along with presence in CFS and project logistic business in India. ALLCARGO has reported strong recovery in profitability in MTO segment on the back of improved freight rate and healthy cargo volume during the Q2FY18. We expect MTO will continue to deliver strong growth in medium to long term. Although, CFS business continue to witness decline in volume numbers due to DPD and lower than expected run rate at Mundra CFS. Management has decided to terminate lease contract of Mundra CFS and this will save lease rental which will result in margin improvement. ALLCARGO is in advance stage of reconstructing CFS business by entering into last mile connectivity business in order to counter volume loss due to Direct Port Delivery program at JNPT port. We believe it will augur well for the company and management expects recovery in volume from January quarter. From last 9 months ALLCARGO has sold some of the aged and low yielding assets which is in line with company's strategy to move away from low yield business in P&E segment. We expect improvement in return ratios going ahead.

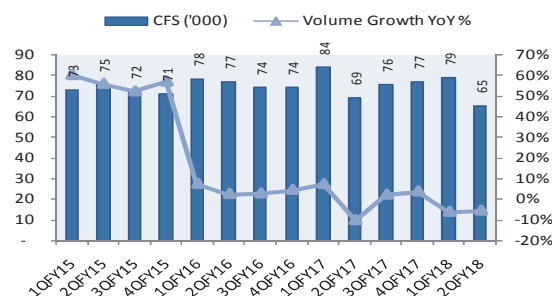
Contract logistics will be key growth driver for the ALLCARGO and management is bullish in this segment. ALLCARGO has land bank of 500 acres and management planning to develop it into logistic park (CFS, ICD and Warehouse) at key strategic locations; Hyderabad, Nagpur and Jaipur. Additionally, company is in process to acquire land outside Delhi to develop warehouse facilities to cater demand of manufacturing and E-Commerce companies. Company is looking for the strategic partner to invest into new facilities in order to keep business model asset light. ALLCARGO's management is also open to inorganic growth in contract logistic space in order to achieve its ambitious revenue target of Rs.12000 Cr by 2020.

Currently we are not factoring expansion plan of contract logistics in our estimate. We value ALLCARGO at 16x FY19E EPS and recommend "BUY" with target price Rs.212.

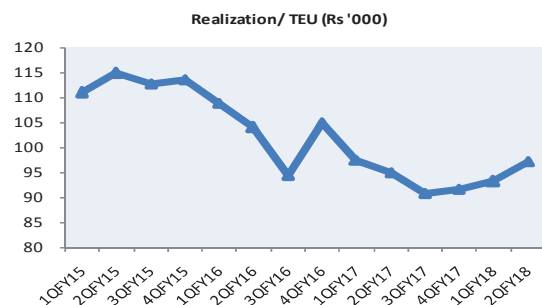
MTO :- Outperforming Industry



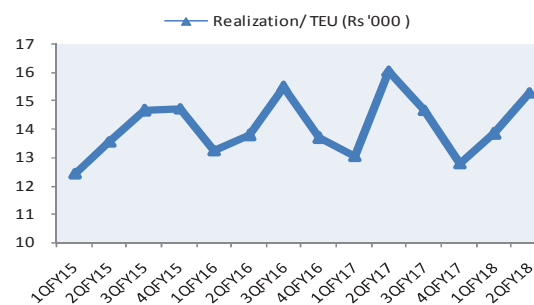
CFS:- Volume growth impacted due to DPD



MTO :- Improving Freight rate



CFS Realization/TEU



Financials Snap Shot

Income Statement				
Rs in Crores				
Y/E March	FY16	FY17	FY18E	FY19E
Revenue from Operation	5,641	5,583	6,152	6,797
Change (%)	0%	-1%	10%	10%
EBITDA	504	465	461	547
Change (%)	6%	-8%	-1%	19%
Margin (%)	9%	8%	7%	8%
Dep & Amortization	201	166	154	155
EBIT	303	299	307	392
Interest & other finance cost	41	32	32	38
Other Income	28	45	40	40
EBT	290	312	314	394
Exceptional Item	-	-	-	-
Tax	50	78	52	68
Minority Int & P/L share of Ass.	-	-	-	-
Reported PAT	248	238	263	326
Adjusted PAT	248	238	263	326
Change (%)	3%	-4%	10%	24%
Margin(%)	4%	4%	4%	5%

Key Ratios				
Y/E March	FY16	FY17	FY18E	FY19E
ROE	14%	13%	13%	14%
ROCE	15%	14%	13%	15%
Asset Turnover	1.8	1.7	1.7	1.7
Debtor Days	44	49	49	49
Inventory Days	1	1	1	1
Payable Days	37	40	40	35
Interest Coverage	7.44	9.21	9.47	10.34
P/E	16	17	17	13
Price / Book Value	1.8	2.3	2.2	1.9
EV/EBITDA	8	9	10	8
FCF per Share	300	220	244	150
Dividend Yield	1%	1%	1%	1%

Balance Sheet				
Rs in Crores				
Y/E March	FY16	FY17	FY18E	FY19E
Share Capital	50	49	49	49
Reserves	1,686	1,743	1,947	2,214
Networth	1,736	1,792	1,996	2,264
Debt	333	513	513	613
Other Non Current Liab	8	7	7	7
Total Capital Employed	2,069	2,306	2,509	2,877
Net Fixed Assets (incl CWIP)	1,354	1,286	1,261	1,356
Non Current Investments	30	206	206	206
Other Non Current Assets	549	530	556	556
Non Current Assets	1,933	2,021	2,024	2,118
Inventory	11	10	11	12
Debtors	677	752	829	916
Cash & Bank	181	169	260	322
Other Current Assets	280	311	420	531
Current Assets	1,138	1,233	1,509	1,769
Creditors	564	617	679	652
Provisions	12	15	16	18
Other Current Liabilities	395	288	300	314
Curr Liabilities	972	919	995	983
Net Current Assets	166	314	514	786
Total Assets	3,071	3,254	3,533	3,888

Cash Flow Statement				
Rs in Crores				
Y/E March	FY16	FY17	FY18E	FY19E
PBT	290	312	314	394
(inc)/Dec in Working Capital	13	(48)	(74)	(118)
Non Cash Op Exp	201	166	154	155
Interest Paid (+)	41	32	32	38
Tax Paid	86	70	52	68
others	(33)	(47)	-	-
CF from Op. Activities	440	359	374	400
(inc)/Dec in FA & CWIP	(140)	(139)	(130)	(250)
Free Cashflow	300	220	244	150
(Pur)/Sale of Investment	(52)	(12)	(35)	(80)
others	(16)	(131)	(27)	-
CF from Inv. Activities	(202)	(267)	(191)	(330)
inc/(dec) in NW	-	-	-	-
inc/(dec) in Debt	(80)	100	-	100
Interest Paid	43	32	32	38
Dividend Paid (inc tax)	64	-	59	59
others	(12)	(152)	-	-
CF from Fin. Activities	(200)	(84)	(91)	3
Inc(Dec) in Cash	38	7	91	73
Add: Opening Balance	128	177	187	278
Closing Balance	177	167	278	351