

BUY

TP: Rs 125 | ▲ 30%

ALLCARGO LOGISTICS

Logistics

09 August 2019

In-line quarter

Allcargo Logistics (AGLL) reported an in-line topline of Rs 18bn, up 12% YoY. MTO/CFS/P&E revenue grew 10%/8%/62% YoY. EBITDA rose 18% YoY (adj. for Ind-AS 116) aided by P&E/CFS, while adj. PAT increased 19% to Rs 645mn. Though Q1 was a decent quarter, we expect growth to moderate in the remainder of FY20 as industry headwinds are intensifying. We broadly maintain earnings estimates, but reduce our target P/E multiple to 10x from 11x earlier. Rolling valuations forward, we lower our Jun'20 TP to Rs 125 (Rs 135 earlier).

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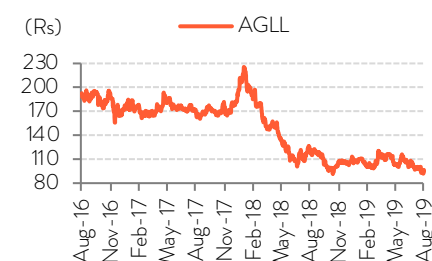
P&E recovery holds: The P&E segment revival that began in Q3FY19 continued in Q1FY20. Revenue grew 62% YoY and EBIT surged to Rs 84mn (incl. Rs 25mn provision writeback) vs. a loss of Rs 59mn in Q1FY19. The order book was healthy at Rs 1.3bn, but management highlighted a slowdown in order closure for Q1. Sluggish demand climate coupled with the base effect catching up suggests that segmental performance may normalise from Q3 onwards.

Ticker/Price	AGLL IN/Rs 96
Market cap	US\$ 333.6mn
Shares o/s	246mn
3M ADV	US\$ 0.2mn
52wk high/low	Rs 124/Rs 89
Promoter/FPI/DII	70%/11%/4%

Source: NSE

MTO, CFS volumes soft: MTO volumes continued to grow in single digits (+6% YoY) amidst softening global trade, aided by continued market share gains. CFS volume growth also slowed to 3% YoY, in line with container traffic growth in addressable ports. Given the trade slowdown both globally and in India, we expect the volume trajectory to remain muted in the near term.

STOCK PERFORMANCE



Source: NSE

EBITDA margin expands: EBITDA margin (adj. for Ind-AS 116) expanded 36bps YoY to 6.7% as employee/other expenses dipped 49bps/71bps YoY. P&E profitability improved due to higher utilisation; cost control and process optimisation measures drove 277bps YoY improvement in CFS EBIT margin.

Maintain BUY: We lower our target P/E to 10x (vs. 11x) in a tough demand climate and cut our Jun'20 TP to Rs 125. Retain BUY on attractive valuations.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	1,808	2,478	2,559	2,893	3,254
Adj. EPS (Rs)	7.4	10.1	10.4	11.8	13.2
Adj. EPS growth (%)	(26.9)	42.5	3.2	13.0	12.5
Adj. ROAE (%)	9.6	12.5	12.3	12.7	13.1
Adj. P/E (x)	13.0	9.5	9.2	8.1	7.2
EV/EBITDA (x)	7.1	5.5	5.3	4.8	4.2

Source: Company, BOBCAPS Research

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda

Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – CONSOLIDATED QUARTERLY PERFORMANCE – AS REPORTED WITH IND-AS 116 IMPACT

Y/E Mar (Rs mn)	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
Total revenues	18,153	16,258	11.7	17,273	5.1
Freight and other related expenses	13,174	11,662	13.0	12,414	6.1
% of sales	72.6	71.7	84bps	71.9	71bps
Employee expenses	2,735	2,529	8.2	2,782	(1.7)
% of sales	15.1	15.6	(49bps)	16.1	(104bps)
Other expenses	838	1,038	(19.3)	1,006	(16.7)
% of sales	4.6	6.4	(177bps)	5.8	(121bps)
Total expenditure	16,747	15,229	10.0	16,202	3.4
EBITDA	1,406	1,029	36.7	1,072	31.2
EBITDA margin (%)	7.7	6.3	142bps	6.2	154bps
Depreciation	547	397	37.8	361	51.3
EBIT	859	632	36.0	710	21.0
Interest expenses	117	79	48.7	67	76.0
Other income	63	43	46.0	108	(41.7)
Extraordinary income/(expense)	-	-	NM	-	NM
PBT	805	596	35.0	752	7.1
PBT margin (%)	4.4	3.7	77bps	4.4	8bps
Tax rate	175	86	104.3	(48)	NM
Tax rate (%) – total	21.8	14.4	739bps	(6.4)	2,821bps
Reported PAT – pre-minority interest	630	510	23.4	800	(21.3)
Profit/(loss) from minority interest	15	33	(54.5)	3	476.9
Reported PAT – after minority interest	645	543	18.6	802	(19.7)
Adjustment	-	-	-	-	-
Adjusted PAT	645	543	18.6	802	(19.7)
Adjusted PAT margin (%)	3.6	3.3	21bps	4.6	(110bps)
Adjusted EPS	2.6	2.2	18.6	3.3	(19.7)

Source: Company, BOBCAPS Research

FIG 2 – CONSOLIDATED QUARTERLY PERFORMANCE – AFTER ADJUSTING FOR IND-AS 116 IMPACT

Y/E Mar (Rs mn)	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
Total revenues	18,153	16,258	11.7	17,273	5.1
Freight and other related expenses	13,174	11,662	13.0	12,414	6.1
% of sales	72.6	71.7	84bps	71.9	71bps
Employee expenses	2,735	2,529	8.2	2,782	(1.7)
% of sales	15.1	15.6	(49bps)	16.1	(104bps)
Other expenses	1,030	1,038	(0.8)	1,006	2.4
% of sales	5.7	6.4	(71bps)	5.8	(15bps)
Total expenditure	16,939	15,229	11.2	16,202	4.6
EBITDA	1,214	1,029	18.0	1,072	13.3
EBITDA margin (%)	6.7	6.3	36bps	6.2	48bps
Depreciation	377	397	(5.1)	361	4.3
EBIT	837	632	32.5	710	17.8
Interest expenses	87	79	10.7	67	30.9
Other income	63	43	46.0	108	(41.7)
Extraordinary income/(expense)	-	-	-	-	-
PBT	813	596	36.4	752	8.1
PBT margin (%)	4.5	3.7	81bps	4.4	13bps

Source: Company, BOBCAPS Research | Adjustments done as per approximate data shared by management in the earnings call

FIG 3 – IND-AS 116 IMPACT ON QUARTERLY FIGURES

(Rs mn)	Comparable basis (IND-AS 17)	Changes due to IND-AS 116	Reported numbers after IND-AS changes
Revenue	18,153	-	18,153
Total expenses (mainly other expenses)	16,939	(192)	16,747
EBITDA	1,214	192	1,406
Depreciation	377	170	547
Finance cost	87	30	117
PBT	813	(8)	805

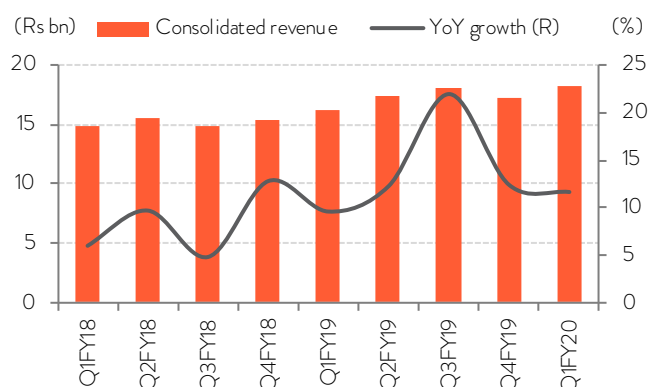
Source: Company, BOBCAPS Research | Adjustments done as per approximate data shared by management in the earnings call

FIG 4 – SEGMENT-WISE PERFORMANCE*

Y/E Mar (Rs mn)	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
Multi-modal transport operations (MTO) segment					
Volumes (teu)	1,84,342	1,74,043	5.9	1,67,949	9.8
Realisation (Rs/teu)	86,746	83,624	3.7	91,649	(5.3)
Revenue	15,991	14,554	9.9	15,392	3.9
EBIT	605	579	4.5	571	5.9
EBIT margin (%)	3.8	4.0	(20bps)	3.7	7bps
EBIT/teu (Rs)	3,281	3,327	(1.4)	3,401	(3.5)
Container freight station (CFS) segment					
Volumes (teu)	85,004	82,210	3.4	80,882	5.1
Realisation (Rs/teu)	13,955	13,406	4.1	13,860	0.7
Revenue	1,186	1,102	7.6	1,121	5.8
EBIT	366	309	18.3	309	18.5
EBIT margin (%)	30.8	28.0	277bps	27.5	329bps
EBIT/teu (Rs)	4,301	3,760	14.4	3,815	12.7
Project and Engineering (P&E) segment					
Revenue	1,171	722	62.3	921	27.1
EBIT	84	(59)	(243.4)	86	NM
EBIT margin (%)	7.2	(8.1)	1,527bps	9.4	(220bps)

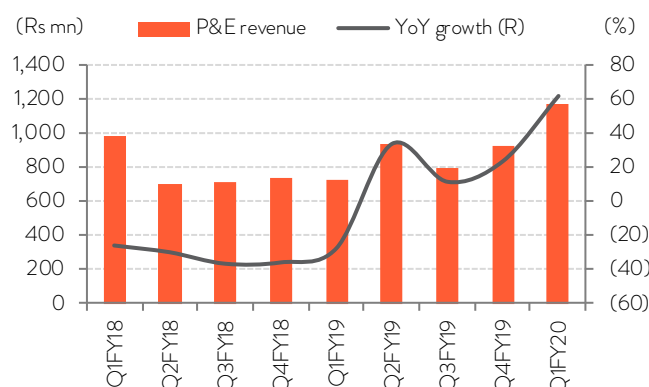
Source: Company, BOBCAPS Research | *Note: Segmental performance without adjusting for Ind-AS 116 impact

FIG 5 – CONSOLIDATED REVENUE GREW 11.7% YOY



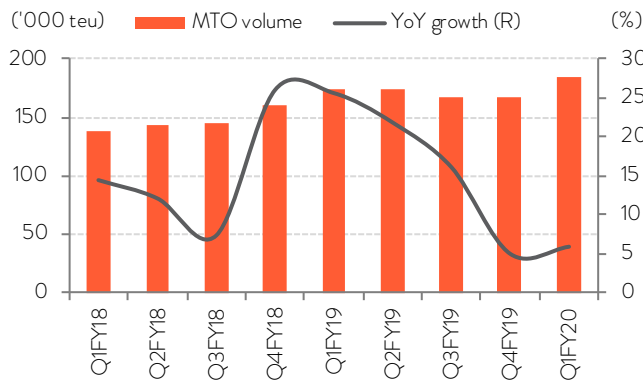
Source: Company, BOBCAPS Research

FIG 6 – P&E SEGMENT WAS A KEY CATALYST



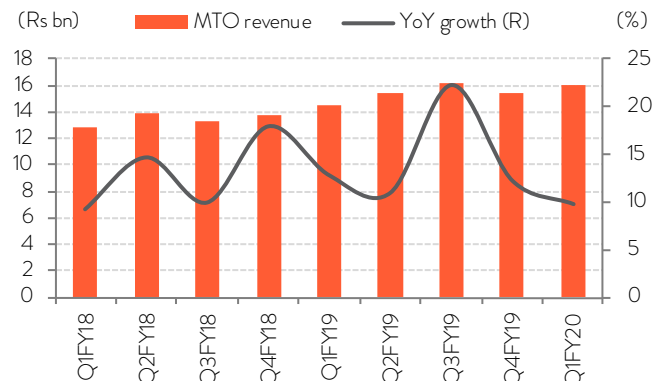
Source: Company, BOBCAPS Research

FIG 7 – MTO SEGMENT VOLUME GROWTH REMAINED IN SINGLE DIGITS



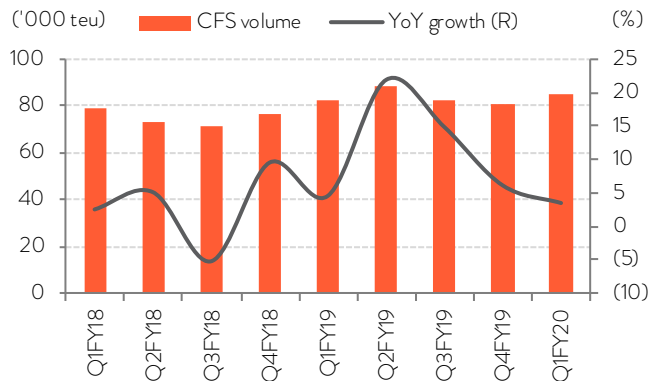
Source: Company, BOBCAPS Research

FIG 8 – REALISATION GAINS SUPPORTED 10% GROWTH IN MTO REVENUE



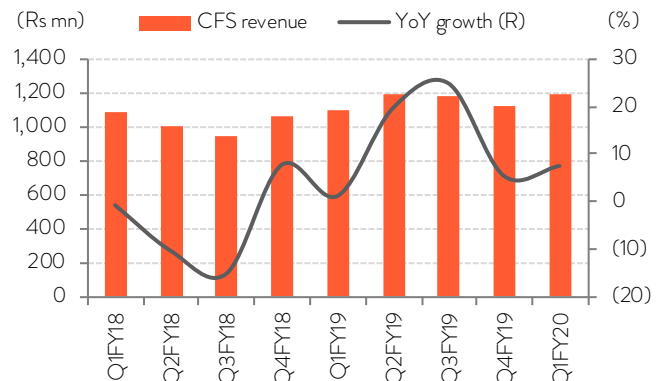
Source: Company, BOBCAPS Research

FIG 9 – CFS VOLUMES INCREASED BY 3.4% YOY



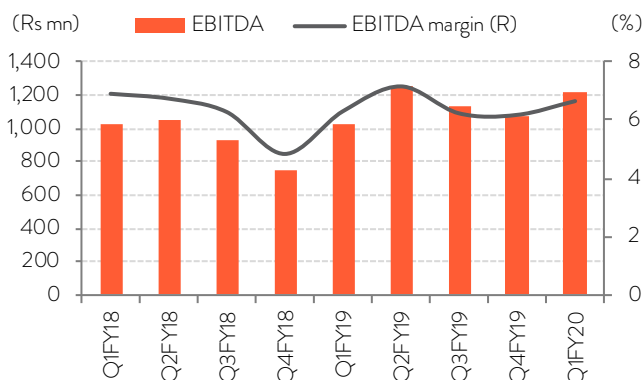
Source: Company, BOBCAPS Research

FIG 10 – CFS REVENUE INCREASED BY 8%



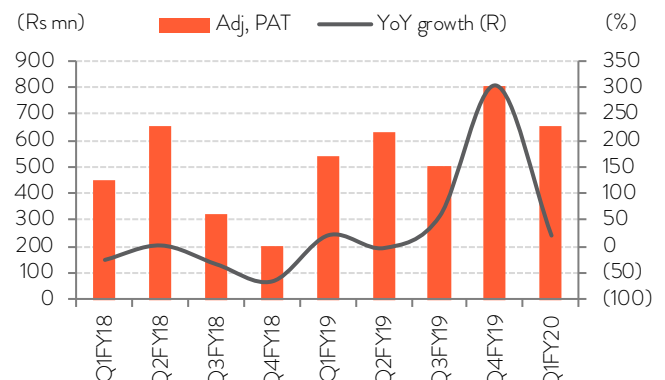
Source: Company, BOBCAPS Research

FIG 11 – EBITDA MARGIN* ROSE TO 6.7%



Source: Company, BOBCAPS Research | *Adj. for Ind-AS 116 impact

FIG 12 – ADJ. PAT INCREASED 19% YOY



Source: Company, BOBCAPS Research

Earnings call takeaways

- AGLL is investing Rs 110bn towards developing logistics parks (including grade-A warehouses) covering 5mn sq ft by FY21. Management estimates revenue potential of ~Rs 1bn+/year from rentals, ~yielding 12% return on invested capital, and stated that the company has garnered client interest for ~4mn sq ft of space.
- The company has spent ~Rs 1.2bn towards development of logistics parks in Q1FY20.
- Global trade conditions remain challenging, characterised by a global container trade slowdown, trade restrictions imposed by major economies, and oversupply in the global shipping industry. The MTO segment has not been impacted materially by the trade slowdown as yet, as per management. The company continued to gain market share in FCL and LCL, which drove volume growth of 6% YoY.
- AGLL claims to have gained market share in its addressable markets in the CFS segment. Segmental volume growth was driven by Mundra, Kolkata and Chennai ports.
- Cost control initiatives and process improvements have led to margin improvement in the CFS segment.
- Amidst muted private capex, the P&E segment's revival has been aided by public investments and international operations. Among sectors, the company has witnessed improvement in coal, crude oil, natural gas, refinery products, fertilisers, steel, cement and power.
- Utilisation of the equipment leasing business has inched up to 65-70% from 45-50% a year ago. The project logistics segment secured its first project in Africa and is in discussions for multiple projects in East African countries.
- Avvashya CCI (supply chain management business) has not been materially affected by the auto sector slowdown. Chemicals, the dominant end-user industry, has remained fairly stable. Currently, ACCI operates ~3.5mn sq ft of warehousing area which is ~97% utilised.
- AGLL has exited the shipping business by selling off its last ship in Q1FY20.
- As of Q1FY20, gross debt totalled ~Rs 6bn and net debt was at Rs 4.3bn. Net debt increased slightly in Q1 due to investments in logistics parks.
- The FY20 capex target has been maintained at Rs 40bn-45bn, with a quarterly run-rate of ~Rs 10bn. A bulk of this capex would be towards setting up the logistics parks.

Valuation methodology

We expect AGLL's EBITDA/profit growth to moderate in the next few quarters due to (1) soft volume growth expectations in the MTO/CFS segments amidst an intensifying global trade slowdown and tepid EXIM activity in India, and (2) P&E segment's profitability normalising from Q3 onwards as the base effect catches up. From a long-term perspective, we continue to like the MTO and CFS businesses, but the asset-intensive P&E segment and investments in logistics parks may remain drag on ROCE/FCF generation.

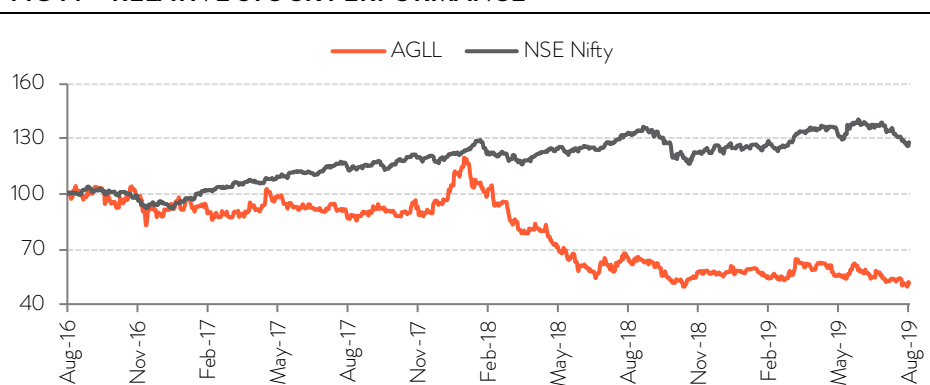
We broadly maintain our FY20/FY21 earnings estimates after an in-line Q1, while lowering our one-year forward target P/E multiple to 10x from 11x earlier due to the growth challenges stated above. Rolling over valuations to Jun'21, we lower our target price to Rs 125 from Rs 135 earlier. Maintain BUY as the stock is trading at an attractive forward P/E multiple of 8.1x.

FIG 13 – REVISED ESTIMATES

(Rs mn)	FY20E			FY21E			FY22
	Old	New	Change (%)	Old	New	Change (%)	
Revenues	78,026	77,064	(1.2)	88,230	87,137	(1.2)	98,493
EBITDA	5,145	5,115	(0.6)	5,970	5,924	(0.8)	6,829
EBITDA margin (%)	6.6	6.6	4bps	6.8	6.8	3bps	6.9
PAT	2,564	2,559	(0.2)	2,930	2,893	(1.3)	3,254
PAT margin (%)	3.3	3.3	1.0	3.3	3.3	(0.0)	3.3
Adj. EPS (Rs)	10.4	10.4	(0.2)	11.9	11.8	(1.3)	13.2

Source: Company, BOBCAPS Research

FIG 14 – RELATIVE STOCK PERFORMANCE



Key risks

- A sharp downturn in global trade can affect the MTO division's performance.
- A jump in direct port delivery (DPD) volumes may impact per unit profitability of the CFS segment.
- Capex slowdown in key sectors for the P&E segment (coal, crude oil, natural gas, refinery products, fertilisers, steel, cement and power) could hinder its growth revival.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E*	FY21E*	FY22E*
Total revenue	60,492	68,949	77,064	87,137	98,493
EBITDA	3,771	4,485	5,115	5,924	6,829
EBIT	2,181	2,926	3,281	3,708	4,208
Net interest income/(expenses)	(299)	(295)	(351)	(387)	(401)
Other income/(expenses)	391	338	319	344	308
Exceptional items	0	0	0	0	0
EBT	2,273	2,969	3,249	3,665	4,115
Income taxes	(513)	(542)	(722)	(816)	(918)
Extraordinary items	(69)	0	0	0	0
Min. int./Inc. from associates	48	52	32	43	57
Reported net profit	1,739	2,478	2,559	2,893	3,254
Adjustments	69	0	0	0	0
Adjusted net profit	1,808	2,478	2,559	2,893	3,254

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E*	FY21E*	FY22E*
Accounts payables	7,184	7,916	8,887	10,104	11,471
Other current liabilities	1,693	4,110	4,594	5,195	5,872
Provisions	556	604	675	763	862
Debt funds	4,801	6,319	6,855	7,355	7,355
Other liabilities	0	0	0	0	0
Equity capital	491	491	491	491	491
Reserves & surplus	19,324	19,703	21,522	23,587	25,917
Shareholders' fund	19,816	20,195	22,014	24,078	26,408
Total liabilities and equities	34,049	39,144	43,024	47,494	51,968
Cash and cash eq.	3,553	2,658	2,023	1,922	1,940
Accounts receivables	8,386	9,422	10,530	11,907	13,459
Inventories	96	89	99	112	127
Other current assets	2,073	4,562	5,106	5,773	6,526
Investments	2,598	2,586	2,586	2,586	2,586
Net fixed assets	10,877	11,368	15,680	17,964	19,843
CWIP	97	1,645	0	0	0
Intangible assets	4,273	4,161	4,161	4,161	4,161
Deferred tax assets, net	931	1,082	1,082	1,082	1,082
Other assets	1,164	1,571	1,756	1,985	2,244
Total assets	34,049	39,144	43,024	47,494	51,968

Source: Company, BOBCAPS Research | *Without factoring in Ind-AS 116 impact

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E*	FY21E*	FY22E*
Net income + Depreciation	3,399	4,038	4,392	5,108	5,875
Interest expenses	299	295	351	387	401
Non-cash adjustments	(210)	(152)	0	0	0
Changes in working capital	133	(727)	(322)	(381)	(434)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	3,620	3,454	4,421	5,114	5,842
Capital expenditures	(690)	(3,486)	(4,500)	(4,500)	(4,500)
Change in investments	(541)	12	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(1,231)	(3,474)	(4,500)	(4,500)	(4,500)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(1,140)	1,519	535	500	0
Interest expenses	(299)	(295)	(351)	(387)	(401)
Dividends paid	(860)	(747)	(771)	(872)	(981)
Other financing cash flows	822	(1,335)	32	43	57
Cash flow from financing	(1,478)	(859)	(555)	(715)	(1,324)
Changes in cash and cash eq.	912	(879)	(635)	(101)	17
Closing cash and cash eq.	3,553	2,658	2,023	1,922	1,940

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E*	FY21E*	FY22E*
Reported EPS	7.1	10.1	10.4	11.8	13.2
Adjusted EPS	7.4	10.1	10.4	11.8	13.2
Dividend per share	3.5	2.5	2.6	2.9	3.3
Book value per share	80.0	81.4	88.6	96.9	106.1

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E*	FY21E*	FY22E*
EV/Sales	0.4	0.4	0.4	0.3	0.3
EV/EBITDA	7.1	5.5	5.3	4.8	4.2
Adjusted P/E	13.0	9.5	9.2	8.1	7.2
P/BV	1.2	1.2	1.1	1.0	0.9

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E*	FY21E*	FY22E*
Tax burden (Net profit/PBT)	79.6	83.5	78.8	78.9	79.1
Interest burden (PBT/EBIT)	104.2	101.5	99.0	98.8	97.8
EBIT margin (EBIT/Revenue)	3.6	4.2	4.3	4.3	4.3
Asset turnover (Revenue/Avg TA)	2.5	2.7	2.8	2.9	3.0
Leverage (Avg TA/Avg Equity)	1.3	1.3	1.3	1.3	1.3
Adjusted ROAE	9.6	12.5	12.3	12.7	13.1

Source: Company, BOBCAPS Research | Note: TA = Total Assets | *Without factoring in Ind-AS 116 impact

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E*	FY21E*	FY22E*
YoY growth (%)					
Revenue	8.3	14.0	11.8	13.1	13.0
EBITDA	(19.7)	18.9	14.0	15.8	15.3
Adjusted EPS	(26.9)	42.5	3.2	13.0	12.5
Profitability & Return ratios (%)					
EBITDA margin	6.2	6.5	6.6	6.8	6.9
EBIT margin	3.6	4.2	4.3	4.3	4.3
Adjusted profit margin	3.0	3.6	3.3	3.3	3.3
Adjusted ROAE	9.6	12.5	12.3	12.7	13.1
ROCE	8.9	11.4	11.8	12.3	12.9
Working capital days (days)					
Receivables	51	50	50	50	50
Inventory	1	0	0	0	0
Payables	46	45	45	45	46
Ratios (x)					
Gross asset turnover	4.1	4.5	4.0	3.5	3.4
Current ratio	1.5	1.3	1.3	1.2	1.2
Net interest coverage ratio	7.3	9.9	9.3	9.6	10.5
Adjusted debt/equity	0.1	0.2	0.2	0.2	0.2

Source: Company, BOBCAPS Research | *Without factoring in Ind-AS 116 impact

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

HISTORICAL RATINGS AND TARGET PRICE: ALLCARGO LOGISTICS (AGLL IN)



B – Buy, A – Add, R – Reduce, S – Sell

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