

**BUY**

TP: Rs 120 | ▲ 18%

**ALLCARGO LOGISTICS**

Logistics

11 November 2019

## CFS, P&E segments drag down profitability

**Allcargo Logistics' (AGLL) Q2FY20 performance was below our estimates. Consolidated revenue grew 8% YoY to Rs 18.7bn (est. Rs 19.1bn) led by the MTO segment (+10% YoY). EBITDA margin (adj. for Ind-AS 116) contracted ~100bps YoY to 6.2% as CFS and P&E profitability slumped. We maintain a cautious near-term stance on the business due to continued headwinds across segments. Rolling valuations over, we move to a revised Mar'21 TP of Rs 120 (vs. Rs 125). Maintain BUY on current cheap valuations of 7.5x FY22E EPS.**

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**CFS, P&E disappoint:** After growing for three quarters, P&E revenue slumped 19% YoY in Q2 as subdued demand from core end-user sectors weighed on capacity utilisation. Consequently, the segment posted an EBIT loss of Rs 54mn (vs. a loss of Rs 10mn YoY). CFS segment volume/revenue was flat (+0.6%/−0.3% YoY), hit by lower dwell time at CFSs and weaker imports. Segmental EBIT plunged 24% YoY on a poor volume mix and cost increases.

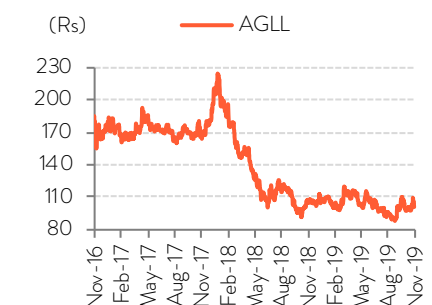
Ticker/Price	AGLL IN/Rs 102
Market cap	US\$ 350.0mn
Shares o/s	246mn
3M ADV	US\$ 0.3mn
52wk high/low	Rs 124/Rs 87
Promoter/FPI/DII	70%/12%/4%

Source: NSE

**MTO segment steady:** Backed by market share gains in the LCL and FCL categories, MTO volume/realisation grew 6%/4% YoY. However, slowing global container trade (~+2% in Q2, as per management) remains an overhang on near-term growth prospects.

## STOCK PERFORMANCE

**Logistics park revenue from Q4:** AGLL plans to deliver ~3mn sq ft of logistics park space to clients in H2 and expects to generate ~Rs 60mn/month of revenue from end-Q3. Segmental capex was ~Rs 1.2bn in Q2FY20.



Source: NSE

**Reduce TP:** We prune FY20-FY22 earnings estimates by ~1.5% each. Given the tough business climate, we also lower our target P/E multiple for the core business to 9x (from 10x). On rollover, we have a new Mar'21 TP of Rs 120.

## KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	60,492	68,949	75,616	85,413	96,486
EBITDA (Rs mn)	3,771	4,485	4,967	5,758	6,681
Adj. net profit (Rs mn)	1,808	2,478	2,519	2,847	3,205
Adj. EPS (Rs)	7.4	10.1	10.3	11.6	13.0
Adj. EPS growth (%)	(26.9)	42.5	1.6	13.0	12.6
Adj. ROAE (%)	9.6	12.5	12.1	12.5	12.9
Adj. P/E (x)	13.8	10.1	9.9	8.8	7.8
EV/EBITDA (x)	7.5	5.9	5.8	5.2	4.6

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 (INCLUDING IND-AS 116 IMPACT)**

Y/E Mar (Rs mn)	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	H1FY20	H1FY19	YoY (%)
<b>Total revenues</b>	<b>18,732</b>	<b>17,380</b>	<b>7.8</b>	<b>18,153</b>	<b>3.2</b>	<b>36,885</b>	<b>33,638</b>	<b>9.7</b>
Operating expenses	13,727	12,542	9.4	13,174	4.2	26,902	24,204	11.1
% of sales	73.3	72.2	112bps	72.6	71bps	72.9	72.0	98bps
Employee expenses	2,811	2,627	7.0	2,735	2.8	5,547	5,156	7.6
% of sales	15.0	15.1	(11bps)	15.1	(6bps)	15.0	15.3	(29bps)
Other expenses	893	954	(6.4)	838	6.6	1,730	1,993	(13.2)
% of sales	4.8	5.5	(72bps)	4.6	15bps	4.7	5.9	(123bps)
Total expenditure	17,431	16,124	8.1	16,747	4.1	34,178	31,353	9.0
<b>EBITDA</b>	<b>1,300</b>	<b>1,256</b>	<b>3.5</b>	<b>1,406</b>	<b>(7.5)</b>	<b>2,706</b>	<b>2,285</b>	<b>18.4</b>
EBITDA margin (%)	6.9	7.2	(29bps)	7.7	(80bps)	7.3	6.8	54bps
Depreciation	539	403	33.6	547	(1.5)	1,085	800	35.6
<b>EBIT</b>	<b>762</b>	<b>853</b>	<b>(10.7)</b>	<b>859</b>	<b>(11.3)</b>	<b>1,621</b>	<b>1,485</b>	<b>9.2</b>
Interest expenses	115	85	36.1	117	(1.8)	232	163	42.2
Other income	108	47	131.2	63	72.3	171	90	90.4
<b>PBT</b>	<b>755</b>	<b>815</b>	<b>(7.4)</b>	<b>805</b>	<b>(6.2)</b>	<b>1,560</b>	<b>1,411</b>	<b>10.5</b>
PBT margin (%)	4.0	4.7	(66bps)	4.4	(40bps)	4.2	4.2	3bps
Extraordinary income/(expense)	-	-	-	-	-	-	-	-
Tax rate	109	199	(45.2)	175	(37.8)	284	285	(0.2)
Tax rate (%) – total	14.5	24.4	(998bps)	21.8	(733bps)	18.2	20.2	(196bps)
<b>Reported PAT – pre-share of profit from associates and JVs</b>	<b>646</b>	<b>616</b>	<b>4.9</b>	<b>630</b>	<b>2.6</b>	<b>1,276</b>	<b>1,126</b>	<b>13.2</b>
Profit/(loss) from associates and JVs	23	13	80.0	15	50.0	38	46	(17.6)
<b>Reported PAT – after share of profit from associates and JVs</b>	<b>668</b>	<b>629</b>	<b>6.3</b>	<b>645</b>	<b>3.7</b>	<b>1,313</b>	<b>1,172</b>	<b>12.0</b>
Adjustment	-	-	-	-	-	-	-	-
<b>Adjusted PAT</b>	<b>668</b>	<b>629</b>	<b>6.3</b>	<b>645</b>	<b>3.7</b>	<b>1,313</b>	<b>1,172</b>	<b>12.0</b>
Adjusted PAT margin (%)	3.6	3.6	(5bps)	3.6	2bps	3.6	3.5	8bps
<b>Adjusted EPS</b>	<b>2.7</b>	<b>2.6</b>	<b>6.3</b>	<b>2.6</b>	<b>3.7</b>	<b>5.3</b>	<b>4.8</b>	<b>12.0</b>

Source: Company, BOBCAPS Research

**FIG 2 – CONSOLIDATED QUARTERLY PERFORMANCE SNAPSHOT – EXCL. IND-AS 116 IMPACT**

Y/E Mar (Rs mn)	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	H1FY20	H1FY19	YoY (%)
<b>Total revenues</b>	<b>18,732</b>	<b>17,373</b>	<b>7.8</b>	<b>18,153</b>	<b>3.2</b>	<b>36,885</b>	<b>33,631</b>	<b>9.7</b>
<b>EBITDA</b>	<b>1,153</b>	<b>1,249</b>	<b>(7.7)</b>	<b>1,214</b>	<b>(5.1)</b>	<b>2,366</b>	<b>2,278</b>	<b>3.9</b>
EBITDA margin (%)	6.2	7.2	(104bps)	6.7	(53bps)	6.4	6.8	(36bps)
<b>Adjusted PAT</b>	<b>682</b>	<b>629</b>	<b>8.6</b>	<b>653</b>	<b>4.6</b>	<b>1,335</b>	<b>1,172</b>	<b>13.9</b>

Source: Company, BOBCAPS Research

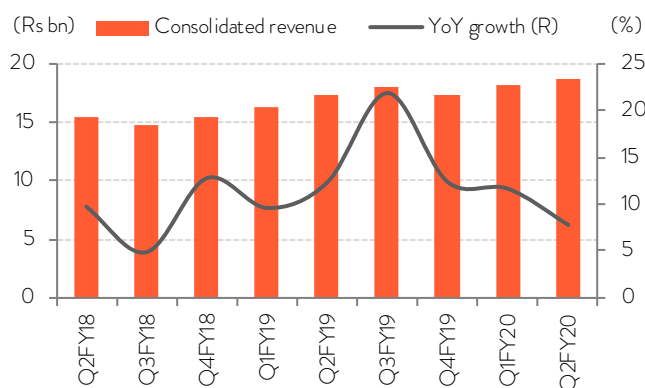
**FIG 3 – SEGMENT-WISE PERFORMANCE\***

Y/E Mar (Rs mn)	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	H1FY20	H1FY19	YoY (%)
<b>Multi-modal transport operations (MTO) segment</b>								
Volumes (teu)	1,84,479	1,74,268	5.9	1,84,342	0.1	3,68,821	3,48,311	5.9
Realisation (Rs/teu)	91,995	88,438	4.0	86,746	6.1	89,372	86,033	3.9
Revenue	16,971	15,412	10.1	15,991	6.1	32,962	29,966	10.0
EBIT	703	673	4.5	605	16.3	1,308	1,252	4.5
EBIT margin (%)	4.1	4.4	(22bps)	3.8	36bps	4.0	4.2	(21bps)
EBIT/teu (Rs)	3,813	3,862	(1.3)	3,281	16.2	3,547	3,595	(1.3)

Y/E Mar (Rs mn)	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	H1FY20	H1FY19	YoY (%)
<b>Container freight station (CFS) segment</b>								
Volumes (teu)	89,145	88,604	0.6	85,004	4.9	1,74,149	1,70,814	2.0
Realisation (Rs/teu)	13,368	13,484	(0.9)	13,955	(4.2)	13,654	13,446	1.5
Revenue	1,192	1,195	(0.3)	1,186	0.5	2,378	2,297	3.5
EBIT	299	394	(24.0)	366	(18.2)	665	703	(5.4)
EBIT margin (%)	25.1	32.9	(784bps)	30.8	(572bps)	28.0	30.6	(264bps)
EBIT/teu (Rs)	3,355	4,441	(24.5)	4,301	(22.0)	3,817	4,113	(7.2)
<b>Project and Engineering (P&amp;E) segment</b>								
Revenue	757	940	(19.4)	1,171	(35.3)	1,928	1,661	16.1
EBIT	(54)	(10)	NM	84	NM	30	(68)	NM
EBIT margin (%)	(7.2)	(1.0)	(615bps)	7.2	(1,432bps)	1.5	(4.1)	563bps

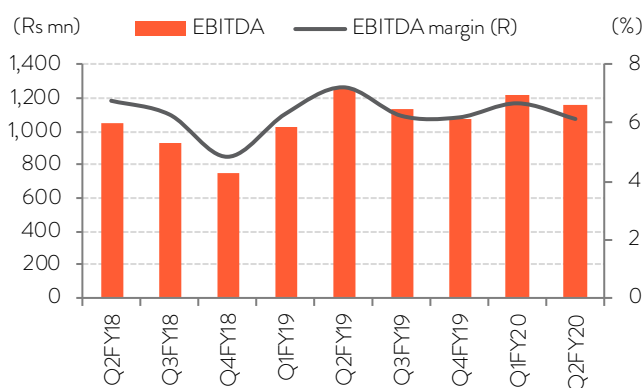
Source: Company, BOBCAPS Research | \*Note: Segmental performance includes Ind-AS 116 impact

**FIG 4 – CONSOLIDATED REVENUE GREW 7.8% YOY, SLOWEST IN PAST 7 QUARTERS**



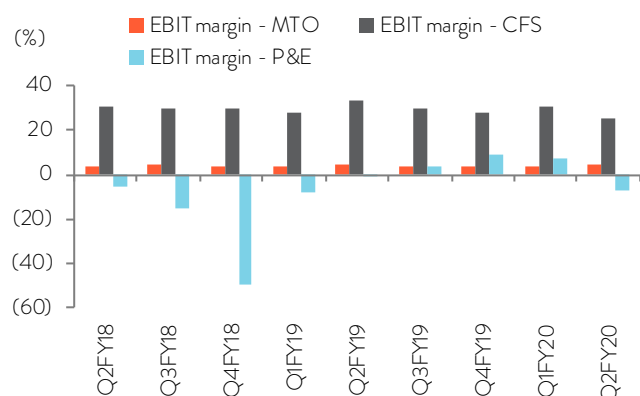
Source: Company, BOBCAPS Research

**FIG 5 – EBITDA MARGIN (EXCL. IND-AS 116) CONTRACTED BOTH YOY AND QOQ**



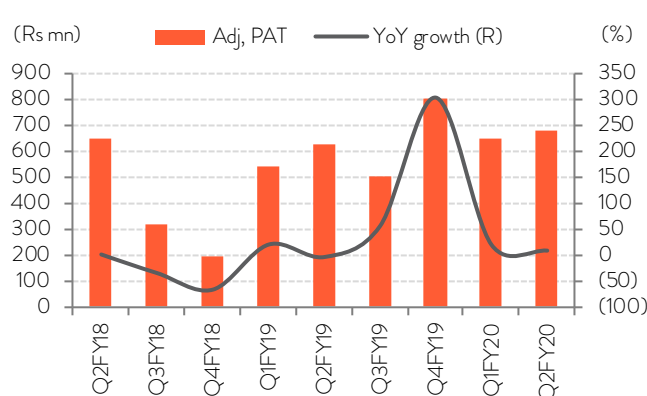
Source: Company, BOBCAPS Research

**FIG 6 – EBIT MARGIN FELL ACROSS SEGMENTS YOY**



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

**FIG 7 – ADJ. PAT ROSE 9% YOY (EXCL. IND-AS 116)**



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

## Valuation methodology

We prune FY20-FY22 earnings estimates by ~1.5% each. Given the tough business climate, we also lower our target P/E multiple for the core business to 9x (from 10x). On rollover, we have a new Mar'21 target price of Rs 120 (from Rs 125). Maintain BUY as the current market price yields an attractive trading forward P/E multiple of 7.5x.

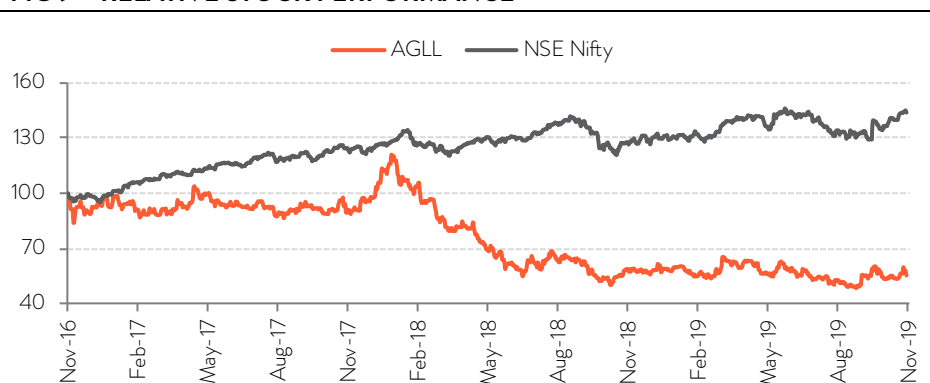
We are cautious on AGLL's near-term prospects as we see headwinds persisting across business segments in the near term. Volume growth in the CFS and MTO segments is likely to remain soft owing to muted global trade and tepid domestic exports/imports. Sustained recovery in the P&E segment hinges on revival in the wind and other capex-intensive sectors. From a long-term perspective, we continue to like the MTO business, but the asset-intensive P&E segment and investments in logistics parks will continue to weigh on ROCE/FCF generation.

**FIG 8 – REVISED ESTIMATES**

(Rs mn)	FY20E			FY21E			FY22E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenues	77,064	75,616	(1.9)	87,137	85,413	(2.0)	98,493	96,486	(2.0)
EBITDA	5,115	4,967	2.9)	5,924	5,758	(2.8)	6,829	6,681	(2.2)
EBITDA margin (%)	6.6	6.6	(7bps)	6.8	6.7	(6bps)	6.9	6.9	(1bps)
PAT	2,559	2,519	(1.6)	2,893	2,847	(1.6)	3,254	3,205	(1.5)
PAT margin (%)	3.3	3.3	0bps	3.3	3.3	0bps	3.3	3.3	0bps
Adj. EPS (Rs)	10.4	10.3	(1.6)	11.8	11.6	(1.6)	13.2	13.0	(1.5)

Source: Company, BOBCAPS Research

**FIG 9 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## Key risks

- Sharp downturn in global trade
- Prolonged slowdown in container traffic in addressable ports
- Capex slowdown in key sectors for the P&E segment (coal, crude oil, natural gas, refinery products, fertilisers, steel, cement and power)

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E*	FY21E*	FY22E*
<b>Total revenue</b>	<b>60,492</b>	<b>68,949</b>	<b>75,616</b>	<b>85,413</b>	<b>96,486</b>
EBITDA	3,771	4,485	4,967	5,758	6,681
Depreciation	1,591	1,559	1,737	2,093	2,504
EBIT	2,181	2,926	3,230	3,665	4,176
Net interest income/(expenses)	(299)	(295)	(351)	(387)	(401)
Other income/(expenses)	391	338	319	328	276
Exceptional items	0	0	0	0	0
EBT	2,273	2,969	3,197	3,607	4,052
Income taxes	(513)	(542)	(710)	(803)	(904)
Extraordinary items	(69)	0	0	0	0
Min. int./Inc. from associates	48	52	32	43	57
<b>Reported net profit</b>	<b>1,739</b>	<b>2,478</b>	<b>2,519</b>	<b>2,847</b>	<b>3,205</b>
Adjustments	69	0	0	0	0
<b>Adjusted net profit</b>	<b>1,808</b>	<b>2,478</b>	<b>2,519</b>	<b>2,847</b>	<b>3,205</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E*	FY21E*	FY22E*
Accounts payables	7,184	7,916	8,690	9,914	11,251
Other current liabilities	1,693	4,110	4,508	5,092	5,752
Provisions	556	604	662	748	845
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	21,494	23,527	25,823
Shareholders' fund	19,816	20,195	21,986	24,018	26,314
<b>Total liabilities and equities</b>	<b>34,049</b>	<b>39,144</b>	<b>42,701</b>	<b>47,126</b>	<b>51,516</b>
Cash and cash eq.	3,553	2,658	1,932	1,726	1,607
Accounts receivables	8,386	9,422	10,333	11,671	13,184
Inventories	96	89	97	110	124
Other current assets	2,073	4,562	5,010	5,659	6,393
Investments	2,598	2,586	2,586	2,586	2,586
Net fixed assets	10,877	11,368	15,777	18,184	20,179
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	1,723	1,946	2,198
<b>Total assets</b>	<b>34,049</b>	<b>39,144</b>	<b>42,701</b>	<b>47,126</b>	<b>51,516</b>

Source: Company, BOBCAPS Research | \*Excluding Ind-AS 116 impact

**Cash Flows**

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E*	FY21E*	FY22E*
Net income + Depreciation	3,399	4,038	4,255	4,940	5,710
Interest expenses	299	295	351	387	401
Non-cash adjustments	(210)	(152)	0	0	0
Changes in working capital	133	(727)	(289)	(330)	(420)
Other operating cash flows	0	0	0	0	0
<b>Cash flow from operations</b>	<b>3,620</b>	<b>3,454</b>	<b>4,317</b>	<b>4,996</b>	<b>5,691</b>
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
<b>Cash flow from investing</b>	<b>(1,231)</b>	<b>(3,474)</b>	<b>(4,500)</b>	<b>(4,500)</b>	<b>(4,500)</b>
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	(491)	(860)	(759)	(858)	(966)
Other financing cash flows	453	(1,222)	32	43	57
<b>Cash flow from financing</b>	<b>(1,478)</b>	<b>(859)</b>	<b>(543)</b>	<b>(702)</b>	<b>(1,310)</b>
<b>Changes in cash and cash eq.</b>	<b>912</b>	<b>(879)</b>	<b>(726)</b>	<b>(205)</b>	<b>(119)</b>
<b>Closing cash and cash eq.</b>	<b>3,553</b>	<b>2,658</b>	<b>1,932</b>	<b>1,726</b>	<b>1,607</b>

**Per Share**

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E*	FY21E*	FY22E*
Reported EPS	7.1	10.1	10.3	11.6	13.0
Adjusted EPS	7.4	10.1	10.3	11.6	13.0
Dividend per share	2.0	3.5	2.6	2.9	3.3
Book value per share	80.0	81.4	88.5	96.6	105.7

**Valuations Ratios**

Y/E 31 Mar (x)	FY18A	FY19A	FY20E*	FY21E*	FY22E*
EV/Sales	0.5	0.4	0.4	0.4	0.3
EV/EBITDA	7.5	5.9	5.8	5.2	4.6
Adjusted P/E	13.8	10.1	9.9	8.8	7.8
P/BV	1.3	1.3	1.1	1.1	1.0

**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	98.4	97.0
EBIT margin (EBIT/Revenue)	3.6	4.2	4.3	4.3	4.3
Asset turnover (Revenue/Avg TA)	2.5	2.7	2.7	2.8	3.0
Leverage (Avg TA/Avg Equity)	1.3	1.3	1.3	1.3	1.3
Adjusted ROAE	9.6	12.5	12.1	12.5	12.9

Source: Company, BOBCAPS Research | Note: TA = Total Assets | \*Excluding Ind-AS 116 impact

**Ratio Analysis**

Y/E 31 Mar	FY18A	FY19A	FY20E*	FY21E*	FY22E*
<b>YoY growth (%)</b>					
Revenue	8.3	14.0	9.7	13.0	13.0
EBITDA	(19.7)	18.9	10.7	15.9	16.0
Adjusted EPS	(26.9)	42.5	1.6	13.0	12.6
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	6.2	6.5	6.6	6.7	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	12.1	12.5	12.9
ROCE	8.9	11.4	11.7	12.2	12.8
<b>Working capital days (days)</b>					
Receivables	51	50	50	50	50
Inventory	1	0	0	0	0
Payables	46	45	45	45	46
<b>Ratios (x)</b>					
Gross asset turnover	4.1	4.5	3.9	3.5	3.3
Current ratio	1.5	1.3	1.3	1.2	1.2
Net interest coverage ratio	7.3	9.9	9.2	9.5	10.4
Adjusted debt/equity	0.1	0.2	0.2	0.2	0.2

Source: Company, BOBCAPS Research | \*Excluding Ind-AS 116 impact

## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

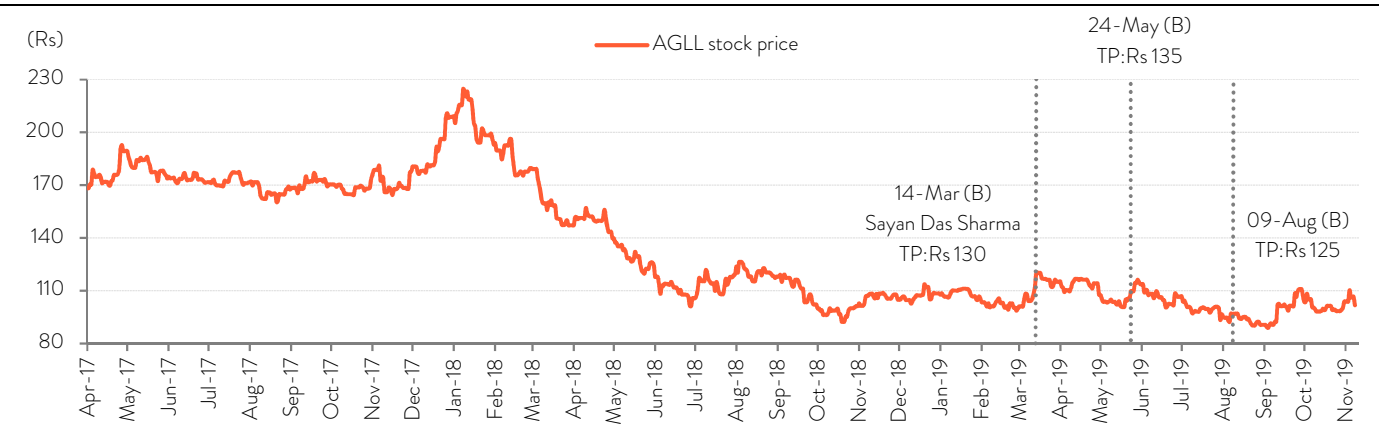
**ADD** – Expected return from >+5% to +15%

**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

### Rating distribution

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