

ADD

TP: Rs 135 | ▲ 12%

ALLCARGO LOGISTICS

Logistics

09 November 2020

MTO segment spurs robust operating performance

Allcargo Logistics' (AGLL) Q2FY21 consolidated revenue rose 25% YoY, ahead of our estimate of 15%, augmented by consolidation of Gati (4% ex-Gati) and growth in the MTO segment (+9%). Despite P&E losses and subdued Gati margins, EBITDA swelled 25% YoY (8% est.), aided by MTO and CFS. AGLL's delisting process is on course with approval received from ~87% of shareholders; reverse book building will begin in a few weeks. We raise FY21-FY23 EPS by 9-10% and roll over to a Dec'21 TP of Rs 135 (vs. Rs 130). ADD.

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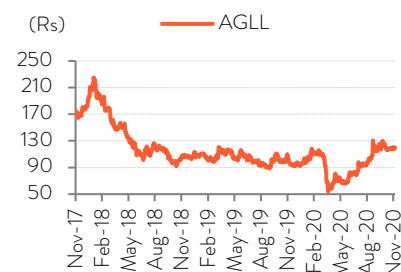
MTO segment continues to drive topline: Ex-Gati, revenue grew 4% YoY led mainly by the MTO segment (+9%). MTO volumes (+4% YoY) maintained an above-industry growth trajectory, aided by higher specialised cargo transport (e.g. PPE). Better freight rates lifted MTO realisations by 4% YoY. CFS volumes fell 34% YoY owing to blank sailing and container shortage, but realisations leaped 22% as ground rent remained elevated due to delayed container clearance – this cushioned the fall in revenue to 19%. P&E revenue dropped 9% YoY owing to lower crane utilisation and subdued project logistics demand.

Ticker/Price	AGLL IN/Rs 120
Market cap	US\$ 398.2mn
Shares o/s	246mn
3M ADV	US\$ 0.8mn
52wk high/low	Rs 140/Rs 49
Promoter/FPI/DII	70%/13%/4%

Source: NSE

Stable margin despite P&E losses: MTO (+16bps YoY) and CFS (+915bps) reported healthy EBIT margin expansion, negating higher EBIT losses in the P&E segment (Rs 111mn vs. Rs 54mn in Q2FY20) and subdued EBIT margins in the Gati business (1.5%). Consolidated EBITDA margin was flat YoY at 6.9%. EBITDA growth of 25% was negated by higher depreciation and interest costs stemming from Gati consolidation, dragging adj. PAT down by 13% YoY.

STOCK PERFORMANCE



Source: NSE

Retain ADD: We raise our FY21-FY23 EPS estimates by 9-10% factoring in the Gati integration (as the consolidated balance sheet is now available), and the above-expected Q2FY21 performance. On rollover, we have a revised Dec'21 TP of Rs 135 (Rs 130 earlier). Retain ADD.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	68,949	73,462	91,199	1,02,917	1,17,160
EBITDA (Rs mn)	4,485	5,035	6,235	7,755	8,996
Adj. net profit (Rs mn)	2,478	2,010	2,114	2,932	3,802
Adj. EPS (Rs)	10.1	7.3	8.6	11.9	15.5
Adj. EPS growth (%)	42.5	(27.5)	17.7	38.7	29.7
Adj. ROAE (%)	12.5	8.7	9.6	12.4	14.9
Adj. P/E (x)	11.9	16.4	14.0	10.1	7.8
EV/EBITDA (x)	7.1	6.3	6.1	5.8	5.2

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

Y/E Mar (Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Total revenues	23,366	18,732	24.7	20,776	12.5	44,141	36,885	19.7
Operating expenses	17,513	13,727	27.6	15,338	14.2	32,850	26,902	22.1
% of sales	75.0	73.3	167bps	73.8	113bps	74.4	72.9	149bps
Employee expenses	3,148	2,811	12.0	2,946	6.9	6,093	5,547	9.9
% of sales	13.5	15.0	(154bps)	14.2	(71bps)	13.8	15.0	(123bps)
Other expenses	1,085	893	21.5	1,182	(8.2)	2,266	1,730	31.0
% of sales	4.6	4.8	(12bps)	5.7	(105bps)	5.1	4.7	44bps
Total expenditure	21,745	17,431	24.7	19,465	11.7	41,210	34,178	20.6
EBITDA	1,621	1,300	24.6	1,311	23.6	2,932	2,706	8.3
EBITDA margin (%)	6.9	6.9	(1bps)	6.3	63bps	6.6	7.3	(70bps)
Depreciation	731	539	35.8	727	0.5	1,458	1,085	34.4
EBIT	890	762	16.8	583	52.5	1,473	1,621	(9.1)
Interest expenses	361	115	213.6	385	(6.2)	746	232	221.1
Other income	150	108	38.9	161	(6.4)	311	171	81.6
PBT	679	755	(10.1)	359	89.1	1,038	1,560	(33.5)
PBT margin (%)	2.9	4.0	(112bps)	1.7	118bps	2.4	4.2	(188bps)
Extraordinary income/(expense)	-	-	NM	(35)	NM	(35)	-	NM
Income tax	125	109	14.8	32	297.8	157	284	(44.9)
Effective tax rate (%)	18.5	14.5	400bps	8.8	968bps	15.1	18.2	(313bps)
Reported PAT – pre-share of profit from associates and JVs	554	646	(14.3)	293	89.2	846	1,276	(33.7)
Profit/(loss) from associates and JVs	26	23	16.4	6	367.9	32	38	(15.2)
Reported PAT – after share of profit from associates and JVs	580	668	(13.2)	298	94.5	878	1,313	(33.1)
Adjustment	-	-	NM	35	NM	35	-	NM
Adjusted PAT	580	668	(13.2)	333	74.0	913	1,313	(30.5)
Adjusted PAT margin (%)	2.5	3.6	(109bps)	1.6	88bps	2.1	3.6	(149bps)
Adjusted EPS	2.4	2.7	(13.2)	1.4	74.0	3.7	5.3	(30.5)

Source: Company, BOBCAPS Research | Q2FY21 financials are not comparable with Q2FY20 due to the consolidation of Gati

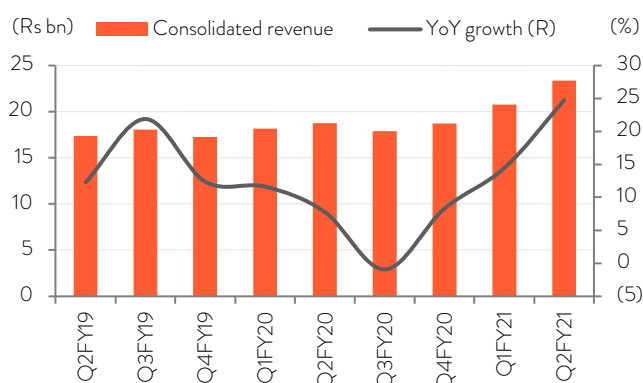
FIG 2 – SEGMENT-WISE PERFORMANCE

Y/E Mar (Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Multi-modal transport operations (MTO) segment								
Volumes (teu)	1,91,731	1,84,479	3.9	1,61,991	18.4	3,53,722	3,68,821	(4.1)
Realisation (Rs/teu)	96,020	91,995	4.4	1,07,237	(10.5)	1,01,157	89,372	13.2
Revenue	18,410	16,971	8.5	17,371	6.0	35,781	32,962	8.6
EBIT	793	703	12.8	788	0.7	1,581	1,308	20.8
EBIT margin (%)	4.3	4.1	16bps	4.5	(23bps)	4.4	4.0	45bps
EBIT/teu (Rs)	4,137	3,813	8.5	4,862	(14.9)	4,469	3,547	26.0
Container freight station (CFS) segment								
Volumes (teu)	59,031	89,145	(33.8)	49,581	19.1	1,08,612	1,74,149	(37.6)
Realisation (Rs/teu)	16,329	13,368	22.1	25,718	(36.5)	20,615	13,654	51.0
Revenue	964	1,192	(19.1)	1,275	(24.4)	2,239	2,378	(5.8)
EBIT	330	299	10.3	510	(35.3)	840	665	26.3
EBIT margin (%)	34.2	25.1	914bps	40.0	(574bps)	37.5	28.0	955bps
EBIT/teu (Rs)	5,590	3,355	66.6	10,280	(45.6)	7,731	3,817	102.6

Y/E Mar (Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Project and Engineering (P&E) segment								
Revenue	690	757	(8.9)	639	8.0	1,329	1,928	(31.1)
EBIT	(111)	(54)	NM	(139)	NM	(250)	30	NM
EBIT margin (%)	(16.1)	(7.2)	(899bps)	(21.7)	557bps	(18.8)	1.5	(2,036bps)
Express distribution (Gati)								
Revenue	3,425	-	NM	1,643	108.5	5,068	-	NM
EBIT	52	-	NM	(458)	NM	(406)	-	NM
EBIT margin (%)	1.5	-	151bps	(27.9)	2,940bps	(8.0)	NM!	NM
Logistics park								
Revenue	104	18	475.1	88	18.6	192	39	394.6
EBIT	15	(38)	NM	28	NM	43	(81)	NM
EBIT margin (%)	14.5	(208.8)	22,335bps	31.3	(1,682bps)	22.2	(207.7)	22,993bps

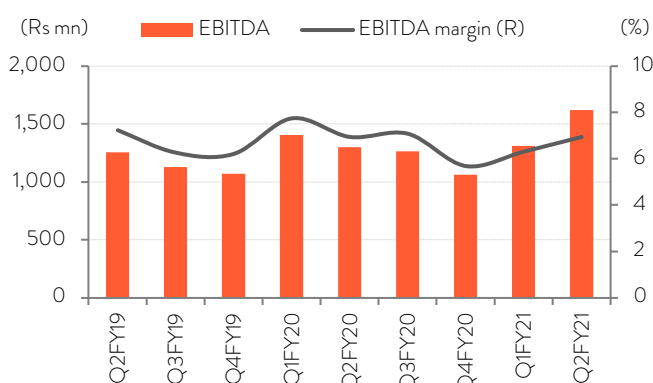
Source: Company, BOBCAPS Research

FIG 3 – CONSOLIDATED REVENUE GREW 24.7% YOY IN Q2FY21 LED BY CONSOLIDATION OF GATI



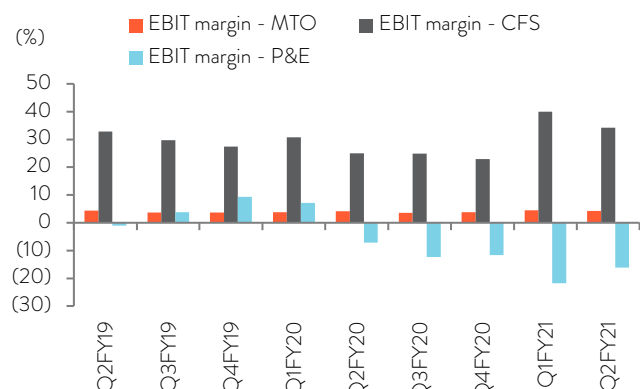
Source: Company, BOBCAPS Research

FIG 4 – EBITDA GREW 24.6% YOY, EBITDA MARGIN FLAT



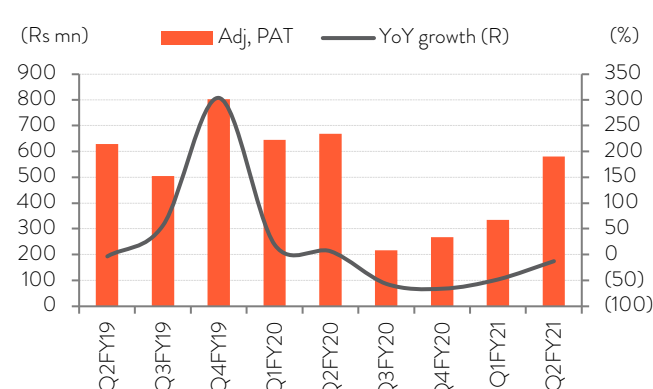
Source: Company, BOBCAPS Research

FIG 5 – MTO, CFS EBIT MARGINS EXPANDED YOY, EBIT LOSSES FOR P&E WIDENED



Source: Company, BOBCAPS Research

FIG 6 – ADJ. PAT FELL 13% YOY AS DEPRECIATION, INTEREST ROSE ON GATI CONSOLIDATION



Source: Company, BOBCAPS Research

Valuation methodology

After completing the acquisition of a majority stake in Gati, AGLL has consolidated the entity starting Q1FY21. With the consolidated balance sheet now available, we bake the integration into our projections. We raise our FY21/FY22/FY23 EPS estimates 10%/9%/9%, baking in the Gati consolidation and above-expected Q2FY21 performance.

On rolling valuations forward to Dec'22, we move to a revised target price of Rs 135 (vs. Rs 130). Since we have incorporated Gati's financials in our consolidated projections, we no longer value AGLL's stake separately. We continue to value AGLL's core business using a 9x multiple on TTM Dec'22E EPS. Maintain ADD.

On 24 Aug 2020, AGLL's promoters expressed their intention to voluntarily delist the company. Subsequently, the company received in-principle approval of the board and set the floor price for reverse book building at Rs 92.6/sh. It has currently got approval from 87% of shareholders. As per the next step in the process, the promoters will file an application for delisting, after which it may take 6-7 weeks to conclude the reverse book building process.

FIG 7 – REVISED ESTIMATES*

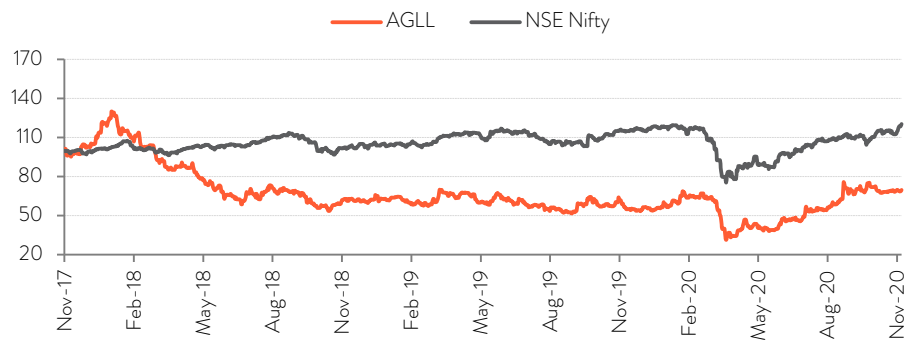
(Rs mn)	FY21E			FY22E			FY23E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenues	74,362	91,199	22.6	84,667	1,02,917	21.6	97,330	1,17,160	20.4
EBITDA	5,283	6,235	18.0	6,636	7,755	16.9	7,805	8,996	15.3
EBITDA margin (%)	7.1	6.8	(27bps)	7.8	7.5	(30bps)	8.0	7.7	(34bps)
Adj. PAT	1,924	2,114	9.9	2,691	2,932	9.0	3,479	3,802	9.3
Adj. PAT margin (%)	2.6	2.3	(10bps)	3.2	2.8	(10bps)	3.6	3.2	(9bps)

Source: Company, BOBCAPS Research | *Earlier projections did not in factor in Gati's consolidation and hence are not strictly comparable with our revised forecast

FIG 8 – VALUATION SNAPSHOT

Particulars	Value
AGLL – core business	
TTM Dec'22 EPS (Rs) - before share of profit from associates	14.3
P/E multiple applied (x)	9
Value of core business (Rs per share) [A]	129
Value of stake in ACCI	
ACCI's TTM Dec'22 PAT (Rs mn)	116
P/E multiple applied (x)	15
Total equity value (Rs mn)	1,745
AGLL's stake in ACCI (%)	61%
Value of AGLL's stake (Rs per share) [B]	4
Target price for AGLL (Rs per share) [A+B]*	135

Source: BOBCAPS Research | *TP is rounded off

FIG 9 – RELATIVE STOCK PERFORMANCE

Source: NSE

Key risks

Key downside risks to our estimates are:

- a prolonged downturn in global trade,
- sustained slowdown in container traffic at addressable ports, and
- 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)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	68,949	73,462	91,199	1,02,917	1,17,160
EBITDA	4,485	5,035	6,235	7,755	8,996
Depreciation	1,559	2,316	2,969	3,347	3,808
EBIT	2,926	2,719	3,266	4,407	5,188
Net interest income/(expenses)	(295)	(685)	(1,439)	(1,503)	(1,448)
Other income/(expenses)	338	413	630	650	700
Exceptional items	0	0	0	0	0
EBT	2,969	2,447	2,457	3,554	4,440
Income taxes	(542)	(711)	(403)	(688)	(710)
Extraordinary items	0	547	(35)	0	0
Min. int./Inc. from associates	52	61	60	66	73
Reported net profit	2,478	2,343	2,079	2,932	3,802
Adjustments	0	(333)	35	0	0
Adjusted net profit	2,478	2,010	2,114	2,932	3,802

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	7,916	9,181	12,012	13,442	15,293
Other current liabilities	4,110	5,290	7,496	8,459	9,630
Provisions	604	456	661	746	849
Debt funds	6,319	16,360	17,910	17,610	16,610
Other liabilities	0	0	0	0	0
Equity capital	491	491	491	491	491
Reserves & surplus	19,703	21,232	22,641	24,402	26,673
Shareholders' fund	20,195	21,723	23,132	24,893	27,164
Total liabilities and equities	39,144	53,009	61,211	65,151	69,546
Cash and cash eq.	2,658	3,150	561	1,063	1,720
Accounts receivables	9,422	11,501	12,993	14,662	16,691
Inventories	89	78	375	423	481
Other current assets	4,562	8,145	8,953	9,258	9,897
Investments	2,586	5,353	3,153	3,153	3,153
Net fixed assets	11,368	14,125	22,453	23,606	24,298
CWIP	1,645	2,690	0	0	0
Intangible assets	4,161	5,232	10,232	10,232	10,232
Deferred tax assets, net	1,082	1,092	450	450	450
Other assets	1,571	1,644	2,041	2,304	2,622
Total assets	39,144	53,009	61,211	65,151	69,546

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	4,038	4,112	5,083	6,280	7,610
Interest expenses	295	685	1,439	1,503	1,448
Non-cash adjustments	(152)	(10)	642	0	0
Changes in working capital	(727)	(3,428)	2,247	194	79
Other operating cash flows	0	0	0	0	0
Cash flow from operations	3,454	1,359	9,412	7,977	9,137
Capital expenditures	(3,486)	(7,188)	(13,608)	(4,500)	(4,500)
Change in investments	12	(2,767)	2,200	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(3,474)	(9,955)	(11,408)	(4,500)	(4,500)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	1,519	10,040	1,551	(300)	(1,000)
Interest expenses	(295)	(685)	(1,439)	(1,503)	(1,448)
Dividends paid	(860)	(737)	(765)	(1,237)	(1,604)
Other financing cash flows	(1,222)	471	60	66	73
Cash flow from financing	(859)	9,089	(593)	(2,974)	(3,980)
Changes in cash and cash eq.	(879)	494	(2,589)	502	657
Closing cash and cash eq.	2,658	3,150	561	1,063	1,720

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	10.1	9.5	8.5	11.9	15.5
Adjusted EPS	10.1	7.3	8.6	11.9	15.5
Dividend per share	3.5	3.0	2.6	4.2	5.4
Book value per share	81.4	87.3	92.8	99.7	108.7

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	0.5	0.4	0.4	0.4	0.4
EV/EBITDA	7.1	6.3	6.1	5.8	5.2
Adjusted P/E	11.9	16.4	14.0	10.1	7.8
P/BV	1.5	1.4	1.3	1.2	1.1

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	83.5	82.2	86.1	82.5	85.6
Interest burden (PBT/EBIT)	101.5	90.0	75.2	80.6	85.6
EBIT margin (EBIT/Revenue)	4.2	3.7	3.6	4.3	4.4
Asset turnover (Revenue/Avg TA)	2.7	2.3	2.3	2.4	2.6
Leverage (Avg TA/Avg Equity)	1.3	1.5	1.8	1.8	1.7
Adjusted ROAE	12.5	8.7	9.6	12.4	14.9

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	14.0	6.5	24.1	12.8	13.8
EBITDA	18.9	12.2	23.8	24.4	16.0
Adjusted EPS	42.5	(27.5)	17.7	38.7	29.7
Profitability & Return ratios (%)					
EBITDA margin	6.5	6.9	6.8	7.5	7.7
EBIT margin	4.2	3.7	3.6	4.3	4.4
Adjusted profit margin	3.6	2.7	2.3	2.8	3.2
Adjusted ROAE	12.5	8.7	9.6	12.4	14.9
ROCE	11.4	8.4	8.1	10.2	11.7
Working capital days (days)					
Receivables	50	57	52	52	52
Inventory	0	0	2	2	2
Payables	45	49	52	52	52
Ratios (x)					
Gross asset turnover	4.5	4.4	4.0	3.4	3.4
Current ratio	1.3	1.5	1.1	1.1	1.1
Net interest coverage ratio	9.9	4.0	2.3	2.9	3.6
Adjusted debt/equity	0.2	0.6	0.8	0.7	0.5

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

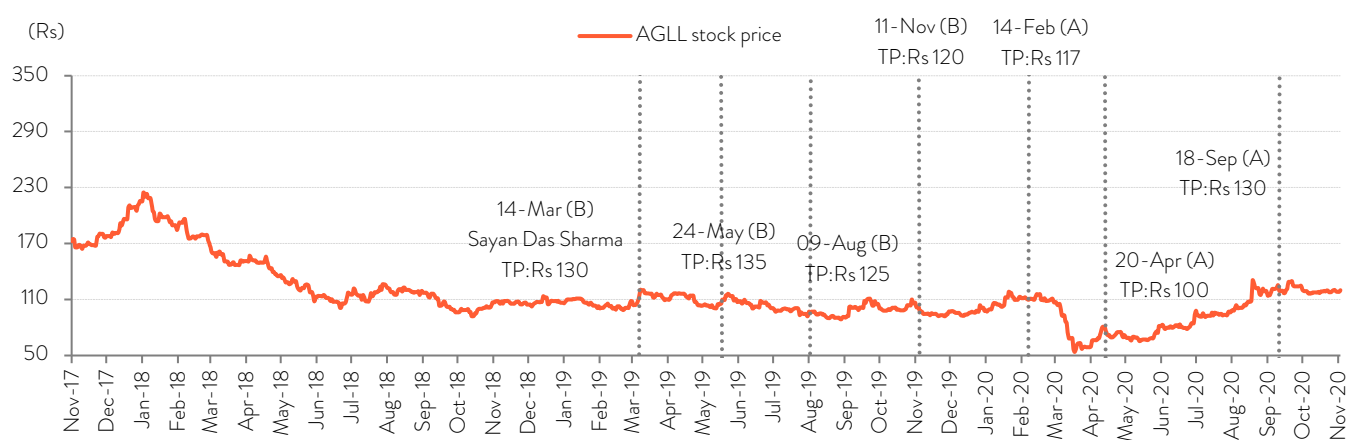
ADD – Expected return from >+5% to +15%

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)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): ALLCARGO LOGISTICS (AGLL IN)



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

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