

ADD

TP: Rs 117 | ▲ 5%

ALLCARGO LOGISTICS

| Logistics

| 14 February 2020

Soft quarter; downgrade to ADD on limited upside

Allcargo Logistics' (AGLL) Q3FY20 consolidated revenue fell 1% YoY marred by a decline across segments. Ind-AS 116 changes aided a 12% YoY rise in EBITDA, but PBT/adj. PAT plunged 33%/36% on higher depreciation and interest costs. MTO growth could remain tepid as soft global container trade and the coronavirus epidemic exact a toll. CFS/P&E segments continue to reel under the domestic slowdown. We cut FY20-FY22 EPS by 3-7% and slightly pare our Mar'21 TP to Rs 117. Downgrade from BUY to ADD on limited upside post the recent rally.

Sayan Das Sharma
 research@bobcaps.in

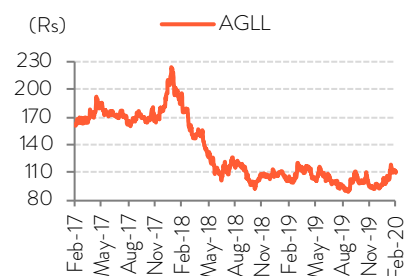
Topline growth slips across segments: Despite a 10% YoY rise in volumes, MTO revenue slipped 0.5% as realisations tumbled (-10%) off a high base of Q3FY19. Lower container volumes at the key JNPT and Chennai ports led to an 8%/6% decline in CFS volume/revenue. Volume trajectory was healthy at Mundra (+14% YoY) and Kolkata (+27%) ports. Lower utilisation of higher yielding equipment dragged P&E revenue down 13% YoY. Growth pressures are likely to persist going forward due to domestic and global trade headwinds.

Ticker/Price	AGLL IN/Rs 111
Market cap	US\$ 382.0mn
Shares o/s	246mn
3M ADV	US\$ 0.4mn
52wk high/low	Rs 124/Rs 87
Promoter/FPI/DII	70%/12%/4%

Source: NSE

MTO margin flat, CFS/P&E remains drag: EBIT margin of the MTO segment was flat YoY at 3.6%, while CFS saw a 480bps YoY contraction (-15bps QoQ) to 24.9%. P&E remained in the red, posting an EBIT loss of Rs 86mn.

STOCK PERFORMANCE



Stake sale in logistics parks: AGLL has entered into an agreement with Blackstone Group for sale of 90% stake in its logistics park subsidiaries for Rs 3.8bn. The deal is expected to be completed within a year. As expected, the segment's revenue leapfrogged in Q3, to Rs 118mn from Rs 21mn in Q2FY20.

Cut to ADD: We trim FY20/FY21/FY22 earnings by 7%/3%/4% and revise our TP from Rs 120 to Rs 117. The stock has rallied ~16% since mid-Dec'19 and offers limited upside at current valuations of 10x FY22E EPS – cut to ADD.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	60,492	68,949	72,102	83,477	94,259
EBITDA (Rs mn)	3,771	4,485	4,674	5,633	6,530
Adj. net profit (Rs mn)	1,808	2,478	2,354	2,763	3,093
Adj. EPS (Rs)	7.4	10.1	9.6	11.2	12.6
Adj. EPS growth (%)	(26.9)	42.5	(5.0)	17.4	12.0
Adj. ROAE (%)	9.6	12.5	11.3	12.2	12.6
Adj. P/E (x)	15.1	11.0	11.6	9.9	8.8
EV/EBITDA (x)	7.8	6.6	6.4	5.6	5.0

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)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Total revenues	17,868	18,038	(0.9)	18,732	(4.6)	54,753	51,676	6.0
Operating expenses	12,937	13,172	(1.8)	13,727	(5.8)	39,838	37,376	6.6
% of sales	72.4	73.0	(62bps)	73.3	(88bps)	72.8	72.3	43bps
Employee expenses	2,787	2,758	1.0	2,811	(0.9)	8,333	7,915	5.3
% of sales	15.6	15.3	30bps	15.0	59bps	15.2	15.3	(10bps)
Other expenses	880	979	(10.1)	893	(1.4)	2,611	2,971	(12.1)
% of sales	4.9	5.4	(50bps)	4.8	16bps	4.8	5.7	(98bps)
Total expenditure	16,603	16,909	(1.8)	17,431	(4.7)	50,782	48,262	5.2
EBITDA	1,265	1,129	12.1	1,300	(2.7)	3,971	3,414	16.3
EBITDA margin (%)	7.1	6.3	82bps	6.9	14bps	7.3	6.6	65bps
Depreciation	629	398	58.1	539	16.9	1,715	1,198	43.1
EBIT	635	731	(13.0)	762	(16.6)	2,257	2,216	1.9
Interest expenses	159	65	144.0	115	38.2	391	229	71.2
Other income	65	141	(53.7)	108	(39.9)	236	230	2.6
PBT	541	806	(32.8)	755	(28.3)	2,102	2,217	(5.2)
PBT margin (%)	3.0	4.5	(144bps)	4.0	(100bps)	3.8	4.3	(45bps)
Extraordinary income/(expense)*	274	-	NM	-	NM	274	-	NM
Tax rate	315	306	2.9	109	188.4	599	591	1.4
Tax rate (%) – total	39.1	37.9	117bps	14.5	2,465bps	28.5	26.6	187bps
Reported PAT – pre-share of profit from associates and JVs	500	500	0.0	646	(22.5)	1,776	1,627	9.2
Profit/(loss) from associates and JVs	(11)	4	(362.5)	23	(146.7)	27	50	(45.5)
Reported PAT – after share of profit from associates and JVs	490	504	(2.8)	668	(26.7)	1,803	1,676	7.6
Adjustment (post tax)	(167)	-	NM	-	NM	(167)	-	NM
Adjusted PAT	323	504	(35.9)	668	(51.6)	1,637	1,974	(17.1)
Adjusted PAT margin (%)	1.8	2.8	(99bps)	3.6	(176bps)	3.0	3.8	(83bps)
Adjusted EPS	1.3	2.1	(35.9)	2.7	(51.6)	6.7	8.0	(17.1)

Source: Company, BOBCAPS Research | *Exception item pertains to the net income arising from the sale of export incentive (SEIS) scrips

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

Y/E Mar (Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Total revenues	17,868	18,038	(0.9)	18,732	(4.6)	54,753	50,911	7.5
EBITDA	1,095	1,129	(3.0)	1,153	(5.0)	3,971	3,414	16.3
EBITDA margin (%)	6.1	6.3	(13bps)	6.2	(3bps)	7.3	6.6	65bps
Adjusted PAT	339	504	(32.8)	535	(36.6)	1,674	1,676	(0.1)

Source: Company, BOBCAPS Research | Note: IND-AS 116 adjustments as per data shared by management in Q2FY20 and Q3FY20 earnings calls

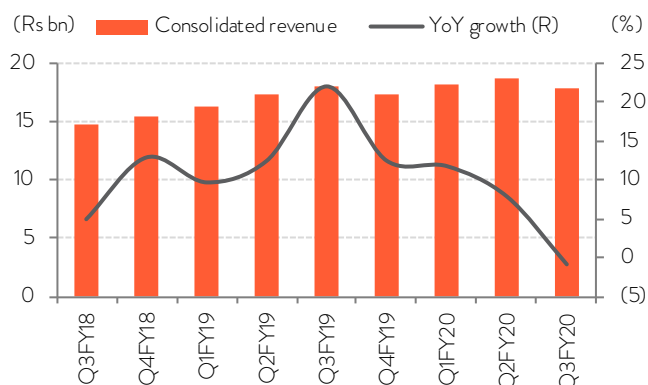
FIG 3 – SEGMENT-WISE PERFORMANCE*

Y/E Mar (Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Multi-modal transport operations (MTO) segment								
Volumes (teu)	1,85,408	1,67,978	10.4	1,84,479	0.5	5,54,229	5,16,289	7.3
Realisation (Rs/teu)	87,137	96,631	(9.8)	91,995	(5.3)	88,624	89,481	(1.0)
Revenue	16,156	16,232	(0.5)	16,971	(4.8)	49,118	46,198	6.3
EBIT	575	593	(3.1)	703	(18.3)	1,883	1,845	2.1
EBIT margin (%)	3.6	3.7	(10bps)	4.1	(59bps)	3.8	4.0	(16bps)
EBIT/teu (Rs)	3,101	3,531	(12.2)	3,813	(18.7)	3,398	3,574	(4.9)

Y/E Mar (Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Container freight station (CFS) segment								
Volumes (teu)	75,965	82,319	(7.7)	89,145	(14.8)	2,50,114	2,53,133	(1.2)
Realisation (Rs/teu)	14,645	14,341	2.1	13,368	9.6	13,955	13,737	1.6
Revenue	1,113	1,181	(5.8)	1,192	(6.6)	3,490	3,477	0.4
EBIT	278	351	(21.0)	299	(7.2)	942	1,054	(10.6)
EBIT margin (%)	24.9	29.8	(481bps)	25.1	(15bps)	27.0	30.3	(331bps)
EBIT/teu (Rs)	3,653	4,266	(14.4)	3,355	8.9	3,767	4,163	(9.5)
Project and Engineering (P&E) segment								
Revenue	697	798	(12.7)	757	(8.0)	2,625	2,459	6.7
EBIT	(86)	30	NM	(54)	NM	(56)	(38)	NM
EBIT margin (%)	(12.3)	3.8	NM	(7.2)	(512bps)	(2.1)	(1.5)	(60bps)

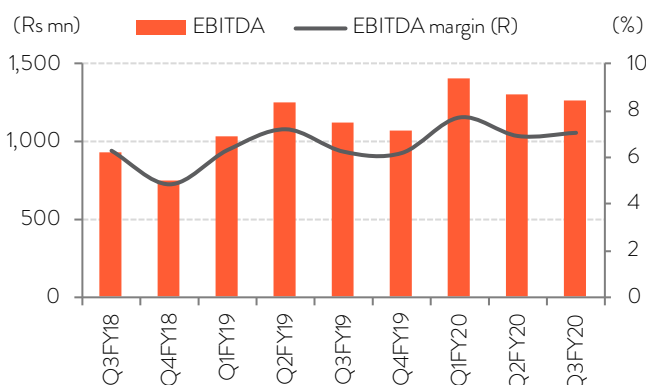
Source: Company, BOBCAPS Research | *Note: Segmental performance not adjusted for Ind-AS 116 impact

FIG 4 – CONSOLIDATED REVENUE DIPPED 1% YOY TO RS 17.9BN



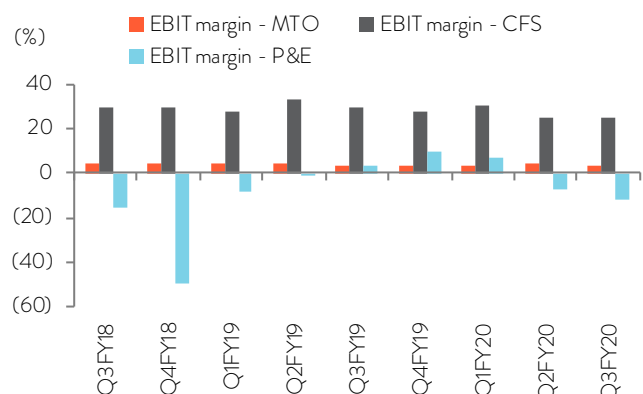
Source: Company, BOBCAPS Research

FIG 5 – EBITDA INCREASED 12% LED BY IND-AS 116 ACCOUNTING CHANGES



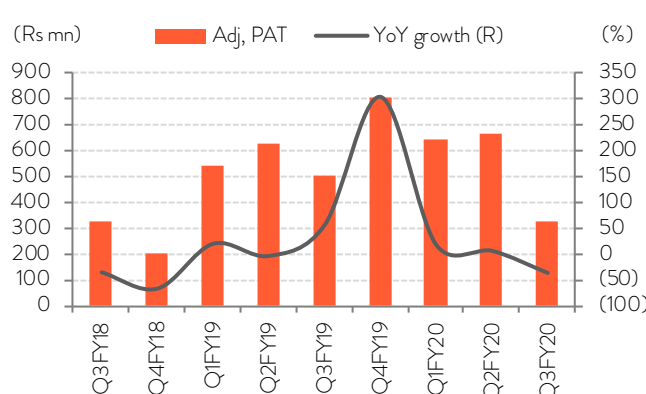
Source: Company, BOBCAPS Research

FIG 6 – MTO EBIT MARGIN WAS FLAT, CFS AND P&E CONTRACT YOY



Source: Company, BOBCAPS Research

FIG 7 – ADJ. PAT DECLINED 36% YOY (INCLUDING IND-AS 116 IMPACT)



Source: Company, BOBCAPS Research

Earnings call highlights

- As per AGLL, world trade is growing at under 2% at present, creating growth challenges for the MTO and CFS segments.
- The coronavirus epidemic may further affect global trade. Some manufacturing activity has begun in South China and AGLL's local office has also reopened. However, the outbreak may have some lingering impact due to China's importance in global trade.
- In Jan'20, AGLL entered into a definitive transaction agreement with the Blackstone Group. As per the agreement, Blackstone will acquire 90% stake in AGLL's warehousing subsidiaries at Telangana, Tamil Nadu, Karnataka, Gujarat, Goa, and Maharashtra for a consideration of Rs 3.8bn through a combination of debt and equity. The transaction is likely to be completed within the next 12 months. AGLL aims to lower the consolidated debt on its balance sheet post closure of the transaction.
- AGLL has acquired 20.8% stake in Gati Ltd (GTIC IN) through preferential issuance of shares, acquisition of promoter stake, and secondary market purchase. It is currently awaiting SEBI's approval for an open offer; the total stake in GTIC is likely to rise to 45% post completion of the open offer. It has appointed two nominee directors to GTIC's board.
- The company is confident of turning GTIC around despite competition from traditional express logistics incumbents and the recent entry of logistics start-ups such as Delhivery and Rivigo. Management believes GTIC has a strong customer franchise and network, and intends to focus on raising profitability.
- Sequential improvement in CFS realisation in Q3 was driven by a better volume mix and higher ground rent realisation. Despite sluggish volumes, AGLL maintains market share in its addressable CFS markets.
- P&E EBIT was impacted by accelerated depreciation taken on some cranes upon reassessment of their useful lives. AGLL has identified some low yielding equipment to monetise and has already sold ~30% of these.
- A total of ~Rs 4bn in capex is targeted for FY20, mostly towards logistics parks. Existing assets are not likely to require any capex. Outlay for FY21 is yet to be finalised.

Valuation methodology

Factoring in the soft Q3FY20 operating performance, we cut our FY20/FY21/FY22 earnings estimates by 7%/3%/4%. Consequently, we lower our Mar'21 target price to Rs 117 from Rs 120, set at an unchanged P/E multiple of 9x FY22E EPS for the core business.

The stock has rallied ~16% since our last note on 12 December (**Gati acquisition – deriving synergies an uphill task**), without any material improvement in near-term prospects. At current valuations of 10x FY22 EPS, we see limited upside and hence cut our rating from BUY to ADD. We have not incorporated the GTIC acquisition (due to the pending open offer) and Blackstone deal into our forecast. Our projections are as per Ind-AS 116.

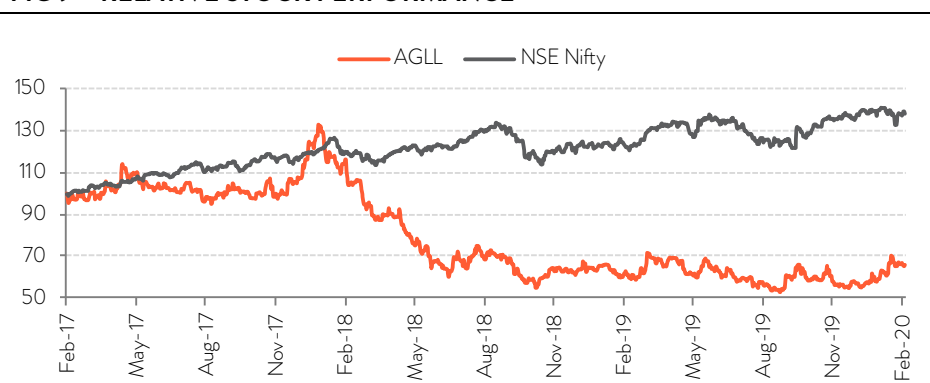
We are cautious on AGLL's near-term prospects as we see headwinds persisting across business segments in the near term. Volume growth in the CFS and MTO segments is likely to remain soft, owing to muted global trade and tepid domestic EXIM. The ongoing coronavirus pandemic is further affecting trans-Pacific trade (between Asia and North America). P&E segment recovery hinges on a revival in wind and other capex-intensive industry sectors, which looks still sometime away. Successful integration of GTIC and faster-than-anticipated deleveraging are potential upside triggers.

FIG 8 – REVISED ESTIMATES

(Rs mn)	FY20E			FY21E			FY22E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenues	75,616	72,102	(4.6)	85,413	83,477	(2.3)	96,486	94,259	(2.3)
EBITDA	4,967	4,674	(5.9)	5,758	5,633	(2.2)	6,681	6,530	(2.3)
EBITDA margin (%)	6.6	6.5	(9bps)	6.7	6.7	1bps	6.9	6.9	0bps
PAT	2,519	2,354	(6.5)	2,847	2,763	(3.0)	3,205	3,093	(3.5)
PAT margin (%)	3.3	3.3	(2bps)	3.3	3.3	(1bps)	3.3	3.3	(1bps)
Adj. EPS (Rs)	10.3	9.6	(6.5)	11.6	11.2	(3.0)	13.0	12.6	(3.5)

Source: Company, BOBCAPS Research

FIG 9 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Key downside risks to our estimates are:

- a sharp downturn in global trade,
- prolonged 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)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	60,492	68,949	72,102	83,477	94,259
EBITDA	3,771	4,485	4,674	5,633	6,530
Depreciation	1,591	1,559	1,737	2,093	2,504
EBIT	2,181	2,926	2,937	3,540	4,025
Net interest income/(expenses)	(299)	(295)	(402)	(443)	(458)
Other income/(expenses)	391	338	345	356	291
Exceptional items	0	0	0	0	0
EBT	2,273	2,969	2,881	3,454	3,858
Income taxes	(513)	(542)	(671)	(734)	(822)
Extraordinary items	(69)	0	274	0	0
Min. int./Inc. from associates	48	52	37	43	57
Reported net profit	1,739	2,478	2,521	2,763	3,093
Adjustments	69	0	(167)	0	0
Adjusted net profit	1,808	2,478	2,354	2,763	3,093

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	7,184	7,916	8,287	9,667	10,964
Other current liabilities	1,693	4,110	4,298	4,977	5,619
Provisions	556	604	631	731	825
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	21,385	23,359	25,576
Shareholders' fund	19,816	20,195	21,877	23,850	26,068
Total liabilities and equities	34,049	39,144	41,948	46,579	50,831
Cash and cash eq.	3,553	2,658	1,977	1,618	1,428
Accounts receivables	8,386	9,422	9,852	11,407	12,880
Inventories	96	89	93	108	121
Other current assets	2,073	4,562	4,777	5,531	6,245
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	1,643	1,902	2,147
Total assets	34,049	39,144	41,948	46,579	50,831

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	3,399	4,038	4,091	4,855	5,597
Interest expenses	299	295	402	443	458
Non-cash adjustments	(210)	(152)	0	0	0
Changes in working capital	133	(727)	(135)	(424)	(413)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	3,620	3,454	4,358	4,874	5,643
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)	(402)	(443)	(458)
Dividends paid	(491)	(860)	(710)	(833)	(932)
Other financing cash flows	453	(1,222)	37	43	57
Cash flow from financing	(1,478)	(859)	(539)	(732)	(1,334)
Changes in cash and cash eq.	912	(879)	(681)	(358)	(191)
Closing cash and cash eq.	3,553	2,658	1,977	1,618	1,428

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	7.1	10.1	10.3	11.2	12.6
Adjusted EPS	7.4	10.1	9.6	11.2	12.6
Dividend per share	2.0	3.5	2.4	2.8	3.1
Book value per share	80.0	81.4	88.0	95.9	104.7

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	7.8	6.6	6.4	5.6	5.0
Adjusted P/E	15.1	11.0	11.6	9.9	8.8
P/BV	1.4	1.4	1.3	1.2	1.1

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	79.6	83.5	81.7	80.0	80.2
Interest burden (PBT/EBIT)	104.2	101.5	98.1	97.5	95.8
EBIT margin (EBIT/Revenue)	3.6	4.2	4.1	4.2	4.3
Asset turnover (Revenue/Avg TA)	2.5	2.7	2.6	2.8	2.9
Leverage (Avg TA/Avg Equity)	1.3	1.3	1.3	1.3	1.3
Adjusted ROAE	9.6	12.5	11.3	12.2	12.6

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	8.3	14.0	4.6	15.8	12.9
EBITDA	(19.7)	18.9	4.2	20.5	15.9
Adjusted EPS	(26.9)	42.5	(5.0)	17.4	12.0
Profitability & Return ratios (%)					
EBITDA margin	6.2	6.5	6.5	6.7	6.9
EBIT margin	3.6	4.2	4.1	4.2	4.3
Adjusted profit margin	3.0	3.6	3.3	3.3	3.3
Adjusted ROAE	9.6	12.5	11.3	12.2	12.6
ROCE	8.9	11.4	10.6	11.8	12.4
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	3.7	3.4	3.2
Current ratio	1.5	1.3	1.3	1.2	1.2
Net interest coverage ratio	7.3	9.9	7.3	8.0	8.8
Adjusted debt/equity	0.1	0.2	0.2	0.2	0.2

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

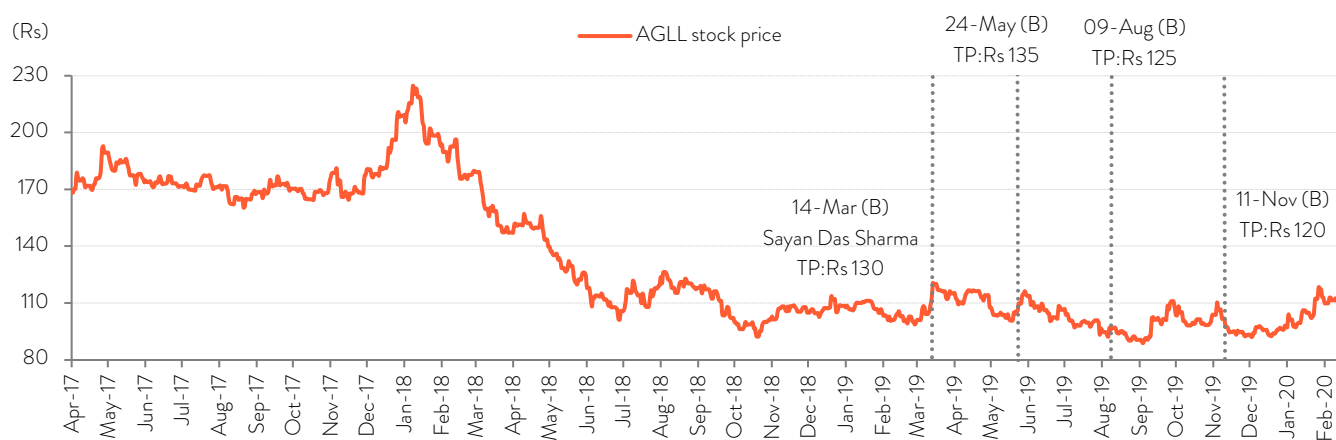
ADD – Expected return from >+5% to +15%

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)

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



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

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