

FIRST LIGHT

13 December 2019

RESEARCH

BOB Economics Research | Inflation and IIP

Food inflation at 70-month high

Allcargo Logistics | Target: Rs 120 | +25% | BUY

Gati acquisition – deriving synergies an uphill task

SUMMARY

India Economics: Inflation and IIP

IIP surprised positively at (-) 3.8% in Oct'19 compared with (-) 4.3% in Sep'19. Intermediate goods improved but all other categories deteriorated. CPI inflation jumped to 5.5% in Nov'19 (4.6% in Oct'19) led by food inflation at 10% (7.9% in Oct'19). Within food, vegetables, pulses and cereal prices accelerated. Core also rose by 10bps but is likely to remain below 4% given the lacklustre growth environment. We thus expect RBI to remain on hold till Q1FY21 as inflation will remain above its target of 4%.

[Click here for the full report.](#)

Allcargo Logistics

Allcargo Logistics (AGLL) recently announced the acquisition of a 45% controlling stake in Gati (GTIC) for ~Rs 4.2bn (13.6x TTM H1FY20 EV/EBITDA). Though this helps AGLL foray into the fast-growing express logistics space, near-term prospects look challenging due to (1) deep-rooted problems at GTIC (sliding market share, eroding profits, levered balance sheet), and (2) a lack of immediate synergies given vastly different business dynamics and client profiles. Rising leverage for AGLL is also a concern. We maintain our estimates and Mar'21 TP of Rs 120.

[Click here for the full report.](#)

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	570
ONGC	Buy	210
Petrojet LNG	Buy	400
Reliance Industries	Buy	1,670
TCS	Add	2,230

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,290
Future Supply	Buy	680
Greenly Industries	Buy	210
Laurus Labs	Buy	480
PNC Infratech	Buy	245

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.79	(5bps)	(15bps)	(112bps)
India 10Y yield (%)	6.76	5bps	20bps	(65bps)
USD/INR	70.84	0.1	0.9	1.6
Brent Crude (US\$/bbl)	63.72	(1.0)	2.5	5.9
Dow	27,911	0.1	0.8	13.8
Shanghai	2,924	0.2	0.5	12.4
Sensex	40,413	0.4	0.2	13.0
India FII (US\$ mn)	10 Dec	MTD	CYTD	FYTD
FII-D	(556.1)	(311.4)	3,933.4	3,388.7
FII-E	(25.7)	(60.8)	13,311.6	6,466.4

Source: Bank of Baroda Economics Research

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INFLATION AND IIP

12 December 2019

Food inflation at 70-month high

IIP surprised positively at (-) 3.8% in Oct'19 compared with (-) 4.3% in Sep'19. Intermediate goods improved but all other categories deteriorated. CPI inflation jumped to 5.5% in Nov'19 (4.6% in Oct'19) led by food inflation at 10% (7.9% in Oct'19). Within food, vegetables, pulses and cereal prices accelerated. Core also rose by 10bps but is likely to remain below 4% given the lacklustre growth environment. We thus expect RBI to remain on hold till Q1FY21 as inflation will remain above its target of 4%.

IIP growth subdued: Industrial output in Oct'19 surprised positively at (-) 3.8% compared with consensus estimate of (-) 5%. It also improved sequentially from (-) 4.3% in Sep'19. While electricity output saw a sharp deceleration to (-) 12.2% in Oct'19 from (-) 2.6% in Sep'19, manufacturing output contracted by (-) 2.1% in Oct'19 versus (-) 4% in Sep'19. Within manufacturing, consumer durables and FMCG goods have seen a deceleration at (-) 18% and (-) 1.1% in Oct'19 from (-) 9.9% and (-) 0.4% in Sep'19 respectively. Even infra/construction goods output contracted further. So is the case with capital goods at (-) 21.9% in Oct'19. Only intermediate goods reported a large increase at 22.2% in Oct'19 from 7% in Sep'19 and does not seem sustainable.

CPI inflation at 40-month high: CPI inflation accelerated to 5.5% in Nov'19 from 4.6% in Oct'19. As early as May'19 it was 3%. The acceleration is entirely driven by food inflation which is now at 10%, highest since Dec'13. Vegetable prices rose by 36% in Nov'19 (26.1% in Oct'19, 5.5% in May'19) due to the increase in onion, garlic and tomato prices. Prices of pulses also inched up at a 38-month high of 13.9%. Cereal inflation also picked up to 3.7% in Nov'19 (2.2% in Oct'19). We believe supply disruptions and a positive base effect will play out from Feb'20 and till such time food inflation will remain elevated.

Core rises moderately: Core inflation rose by 10bps to 3.5% in Nov'19 led by transport and communication index (0.9% versus -0.5% in Oct'19). Oil prices were higher by 5.2% MoM in Nov'19. Also telecom tariffs started inching up in Nov'19 with further acceleration in Dec'19. Personal care and effects (6.3% versus 5.5% in Oct'19) also rose. However, other components of core inflation led by education and amusement decelerated. Given the state of the economy, we expect core inflation to remain below 4% in FY20. CPI inflation is likely to be within 4% only in Q2FY21 once food cools-off.

Sameer Narang

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KEY HIGHLIGHTS

- CPI inflation in Nov'19 jumps to 40-month high at 5.5% from 4.6% in Oct'19%.
- Core inflation rises to 3.5% in Nov'19.
- IIP growth at (-) 3.8% in Oct'19 versus (-) 4.3% in Sep'19.



BUYTP: Rs 120 | Δ 25%**ALLCARGO LOGISTICS**

| Logistics

| 12 December 2019

Gati acquisition – deriving synergies an uphill task

Allcargo Logistics (AGLL) recently announced the acquisition of a 45% controlling stake in Gati (GTIC) for ~Rs 4.2bn (13.6x TTM H1FY20 EV/EBITDA). Though this helps AGLL foray into the fast-growing express logistics space, near-term prospects look challenging due to (1) deep-rooted problems at GTIC (sliding market share, eroding profits, levered balance sheet), and (2) a lack of immediate synergies given vastly different business dynamics and client profiles. Rising leverage for AGLL is also a concern. We maintain our estimates and Mar'21 TP of Rs 120.

Sayan Das Sharma
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Acquisition lends foothold in growing express segment: AGLL has signed an all-cash deal that will see the company eventually acquiring ~45% in GTIC through direct stake purchase from promoters and a subsequent open offer. This provides AGLL a foothold in the fast-growing (~15%) express segment, along with access to an established hub-and-spoke model, wide geographic reach (99% of total districts) and clientele comprising corporate and SMEs.

Ticker/Price	AGLL IN/Rs 96
Market cap	US\$ 332.1mn
Shares o/s	246mn
3M ADV	US\$ 0.3mn
52wk high/low	Rs 124/Rs 87
Promoter/FPI/DII	70%/12%/4%

Source: NSE

GTIC turnaround an uphill task: GTIC has suffered steep market share loss and margin erosion in recent years. This coupled with a weak balance sheet and moderate return ratios implies a challenging task ahead for AGLL. Moreover, we see few immediate synergies due to vastly differing business and client profiles.

Rise in leverage a concern: The deal is likely to bump up AGLL's leverage, with the combined net debt/EBITDA ratio scaling past 2x (vs. 1x in H1FY20). Logistics park development will also raise debt levels intermittently. We are concerned about surging debt levels in a cyclical business. Management plans to divest non-core assets to reduce leverage by H1FY21, which is a monitorable.

STOCK PERFORMANCE



Source: NSE

Maintain BUY: We retain forecasts as we have not factored in the deal pending open offer and merger, but do flag the risks stemming from higher leverage.

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)	13.0	9.5	9.3	8.3	7.3
EV/EBITDA (x)	6.8	5.7	5.2	4.8	4.3

Source: Company, BOBCAPS Research



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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)

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