

Allcargo Logistics

BSE SENSEX	S&P CNX
30,365	9,386
Bloomberg	AGLL IN
Equity Shares (m)	245.7
M.Cap.(INRb)/(USD\$)	43.0 / 0.7
52-Week Range (INR)	222 / 150
1, 6, 12 Rel. Per (%)	-4/-10/-10
Avg Val, INRm	89
Free float (%)	30.0

Financials & Valuations (INR b)

Y/E Mar	2017	2018E	2019E
Net Sales	55.7	62.0	67.9
EBITDA	4.6	5.3	5.9
PAT	2.4	3.0	3.5
EPS (INR)	9.8	12.2	14.3
Gr. (%)	-1.2	23.7	17.5
BV/Sh (INR)	66.5	75.1	85.0
RoE (%)	12.6	17.2	17.8
RoCE (%)	10.2	12.9	13.9
P/E (x)	17.9	14.5	12.3
P/BV (x)	2.6	2.3	2.1

Estimate change



TP change



Rating change


CMP: INR176 TP: INR228 (+30%)
Buy

Margin improvement led by firm container shipping freight rates

- **PAT beat led by higher other income, lower tax:** 4QFY17 revenue fell 2% YoY to INR13.6b (largely in-line) due to lower revenue from P&E segment. EBITDA stood at INR1.1b (in-line; -8% YoY, +8% QoQ), with QoQ margin improvement in MTO segment led by a sharp rise in global container freight rates. Adj. PAT came in at INR625m (est. of INR466m; -2% YoY, +19% QoQ) on higher other income of INR169m (est. of INR57m; +31% YoY, -31% QoQ) and a lower tax rate of 18% (est. of 26%; 30.6% in 3QFY17, 14.1% in 4QFY16).
- **MTO margin expands sharply, volumes up:** MTO volumes grew 13% YoY to 126,833 TEUs in 4Q, led by growth across geographies due to higher penetration. EBIT margin expanded to 4.3% from 3.5% in 3QFY17 due to a sharp improvement in container freight rates globally. Revenue fell 2% YoY to INR11,613m due to a notional currency impact and transfer of freight forwarding business to ACCI. Margin is likely to remain strong led by firm container freight rates.
- **CFS profitability stable:** CFS volumes stood at 77,021 TEUs (+15% YoY, +2% QoQ), led by volumes growth in Chennai and ramp-up of new CFS in Mundra. EBIT margin expanded ~100bp YoY/QoQ, despite lease rentals of Kolkata CFS and expenses related to new CFS at Mundra. We expect a strong improvement in CFS EBITDA in FY18, led by ramp-up of Mundra CFS and commencement of Kolkata CFS.
- **P&E segment bottoms out:** P&E revenue fell 10% YoY due to sale of unproductive assets and maintenance of one of the ships. EBIT stood at INR61m (-64% YoY, +35% QoQ), led by non-operation of assets due to repairs and the sale of low-yielding non-strategic assets.
- **Valuation view:** AGLL is well poised to witness profitability improvement across all three verticals, led by a favorable macro and internal cost efficiencies. AGLL is also likely to see strong earnings traction in contract logistics, particularly with GST implementation. Given RoE improvement in excess of 5pp over FY17-FY19E, strong free cash generation and earnings CAGR of 21%, we believe valuation of 12x P/E FY19E earnings is extremely attractive. We value AGLL at P/E of 16x FY19E earnings and arrive at a TP of INR228 (30% upside). Maintain **Buy**.

Consolidated - Quarterly Earning Model

Y/E March	FY16				FY17				(INR Million)		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	FY16	FY17	FY17 4QE Var (%)
Net Sales	14,764	14,534	13,261	13,856	13,937	14,084	14,052	13,608	56,281	55,681	13,809 -1.5
YoY Change (%)	11.8	-0.6	-7.4	-2.1	-5.6	-3.1	6.0	-1.8	0.0	-1.1	-1.2
Total Expenditure	13,353	13,194	12,093	12,685	12,641	12,824	13,059	12,533	51,235	51,056	12,708 -1.4
EBITDA	1,411	1,340	1,168	1,171	1,297	1,261	993	1,075	5,046	4,625	1,101 -2.4
Margins (%)	9.6	9.2	8.8	8.5	9.3	9.0	7.1	7.9	9.0	8.3	8.0
Depreciation	362	556	497	461	436	434	407	386	2,006	1,662	470 -17.9
Interest	106	102	112	94	75	75	78	96	408	324	76 26.6
Other Income	67	70	133	129	111	80	246	169	404	606	57 198.3
PBT before EO expense	1,009	752	692	745	897	832	754	763	3,036	3,245	613 24.5
Extra-Ord expense	49	15	59	46	17	10	63	39	132	128	0
PBT	960	737	633	699	880	822	691	724	2,904	3,117	613 18.1
Tax	190	131	102	98	256	178	211	131	498	776	159 -17.8
Rate (%)	19.8	17.8	16.1	14.1	29.1	21.7	30.6	18.1	17.2	24.9	26.0 -30.4
Reported PAT	770	606	531	601	624	643	480	593	2,406	2,340	454 30.7
Min. Interest & P&L of Asso. Cos.	-4	13	-14	-8	-14	1	12	-20	-8	-22	12
Adj PAT	809	619	580	640	636	651	523	625	2,508	2,414	466 34.2
YoY Change (%)	57.0	-14.7	-26.8	13.5	-21.4	5.2	-9.8	-2.4	-3.4	-3.7	-32.6
Margins (%)	5.5	4.3	4.4	4.6	4.6	4.6	3.7	4.6	4.5	4.3	3.4

E: MOSL Estimates

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

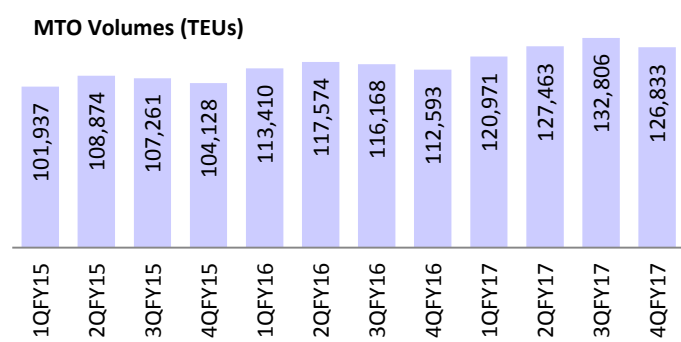
Exhibit 1: AGLL 4QFY17 earnings snapshot (INR m)

	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY (%)	QoQ (%)
Volume Details											
MTO Volumes (TEU)	104,128	113,410	117,574	116,168	112,593	120,971	127,463	132,806	126,833	12.6	-4.5
CFS/ICD Volumes (TEU)	72,664	78,727	77,027	74,251	74,751	84,013	78,830	78,768	75,966	1.6	-3.6
Financial Summary (INRm)											
MTO	11,828	12,431	12,231	10,876	11,815	11,793	12,093	12,059	11,613	-1.7	-3.7
CFS/ICD	1,046	1,094	1,064	1,102	1,016	1,096	1,112	1,113	986	-3.0	-11.4
P&E	1,545	1,425	1,388	1,404	1,277	1,322	990	1,113	1,145	-10.4	2.9
Others	70	76	85	110	145	100	5	3	3	-97.9	-6.3
Net Revenue	14,152	14,779	14,562	13,290	13,900	13,989	14,102	14,114	13,628	-2.0	-3.4
Reported EBITDA	1,071	1,411	1,340	1,168	1,171	1,297	1,261	993	1,075	-8.2	8.2
EBITDA margin	7.6%	9.5%	9.2%	8.8%	8.4%	9.3%	8.9%	7.0%	7.9%		
Depreciation	384	362	556	497	461	436	434	407	386	-16.4	-5.3
EBIT	687	1,048	785	671	710	861	827	586	689	-2.9	17.6
Interest	89	106	102	112	94	75	75	78	96	1.7	22.7
Other Income	191	67	70	133	129	111	80	246	169	31.0	-31.0
PBT before exceptional	789	1,009	752	692	745	897	832	754	763	2.4	1.2
Exceptional	12	49	15	59	46	17	10	63	39	-14.2	-37.4
PBT before exceptional	777	960	737	633	699	880	822	691	724	3.5	4.7
Tax	222	190	131	102	98	256	178	211	131	33.1	-38.0
Tax rate (%)	28.6%	19.8%	17.8%	16.1%	14.1%	29.1%	21.7%	30.6%	18.1%		
PAT	555	770	606	531	601	624	643	480	593	-1.3	23.6
PAT margin (%)	3.9%	5.2%	4.2%	4.0%	4.3%	4.5%	4.6%	3.4%	4.3%		

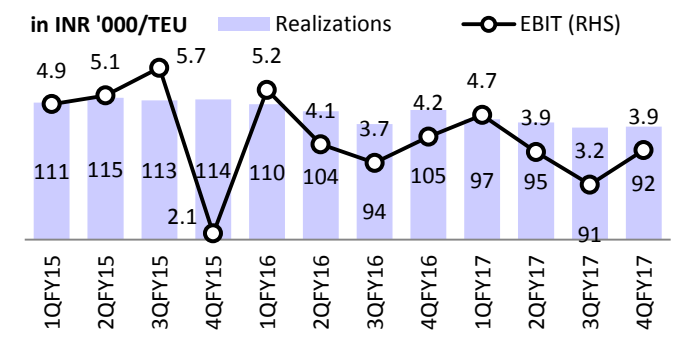
Source: Company, MOSL

Key takeaways from concall

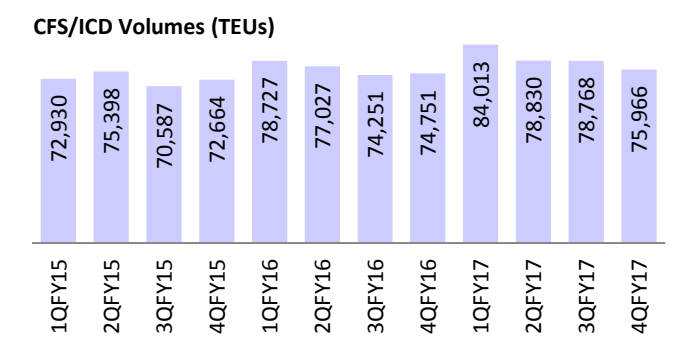
- MTO segment witnessed volume growth of 13% YoY with growth coming from across all geographies.
- Margin profile for the segment should see structural improvement led by increase in freight rates
- Volume growth in MTO segment will continue to be higher than industry growth led by higher penetration.
- Direct port delivery: CFS volumes at JNPT have witnessed some impact of implementation of direct port delivery. However management expects impact from DPD to be limited as volumes handled under DPD could potentially be stored in CFS for warehousing and allied activities. This new revenue stream of warehousing activity could offset partial impact of loss of volumes under DPD.
- **Kolkata CFS:** It is expected to become operational in 1QFY18. The planned capacity had earlier been announced at 100,000 TEUs. Land for the CFS has been leased from the port authority on a long-term basis. The total capex for the CFS is ~INR350m.
- P&E segment profitability was impacted in 4QFY17 due to maintenance of one of the ships and dry docking of another ship. Also the impact of sale of 2 ships in 4QFY17 should be seen in coming quarter which should result in margin improvement.
- ACCI has clocked revenues of ~INR4bn in FY17. Management expects strong business opportunity from sectors like Pharma, Chemicals, Auto etc in the field of contract logistics post the implementation of GST.
- **Focus on high ROCE business:** Management is moving away from the low returns business and sale of aged assets (sold one vessel), transfer of similar business to ACCI and one vessel under repairs for over 2 months.
- **Jhajjar ICD:** The railway approval for land is remaining for the ICD. Management expects capex of INR4-5bn over the next 5 years for the proposed ICD which will be utilized primarily for Multi Modal logistics park.

Exhibit 2: MTO volumes (TEUs) increased +13% YoY and - 4.5% QoQ in 4QFY17

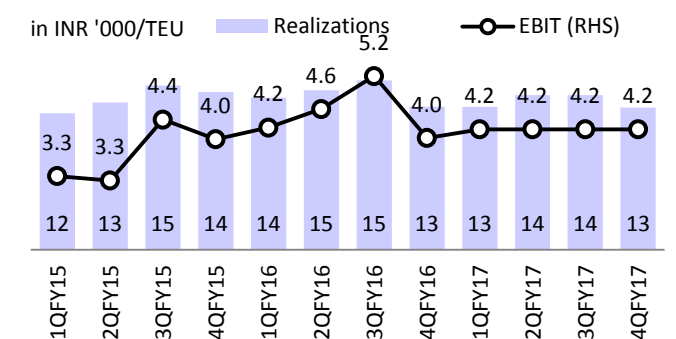
Source: MOSL, Company

Exhibit 3: Realizations down 13% YoY and flat QoQ; EBIT declined 7% YoY and up 23% QoQ

Source: MOSL, Company

Exhibit 4: CFS+ICD volumes (TEUs) increased +2% YoY and - 3.6% QoQ in 4QFY17

Source: MOSL, Company

Exhibit 5: Realizations declined 8% QoQ and flat YoY in 4QFY17; EBIT was up 4% YoY and flat QoQ in 4QFY17

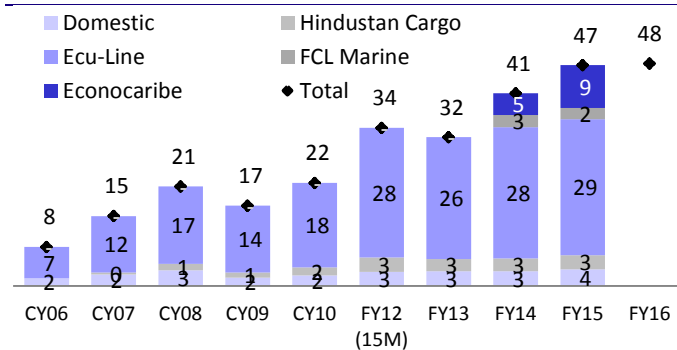
Source: MOSL, Company

Valuation and view

- Allcargo Logistics gives an unique opportunity to participate in the (a) domestic economic revival (through CFS and P&E) and (b) exposure to global LCL (less than container load) consolidation market where it is one of the top two players (fast growing sub-segment in container shipping) with presence in >90 countries.
- We believe that Allcargo Logistics through its superior size and global presence via ECU Line has established an effective competitive advantage versus its competitors. It is therefore well placed to tackle both any sluggishness in container business as well as make good use of the opportunities in this space.
- Strong balance sheet, increasing FCF will help Allcargo to further consolidate in global LCL market and help it to make value accretive acquisitions to further spur growth. Its domestic land banks give it an opportunity to capitalize on upcoming rail DFC (dedicated freight corridor) and GST reform.
- **Valuation and view:** AGLL is well poised to witness profitability improvement across all 3 verticals of business led by favorable macro and internal cost efficiencies. AGLL is also likely to see strong earnings traction in contract logistics particularly with implementation of GST. Given ROE improvement in excess of 5pp over FY17-FY19E, strong free cash generation and earnings CAGR of 21% over FY17-FY19 we believe valuation of 12x P/E FY19E earnings is extremely attractive. We value AGLL at P/E of 16x FY19 earnings and arrive a target price of INR228/share implying upside of 30% from current levels. Maintain Buy.

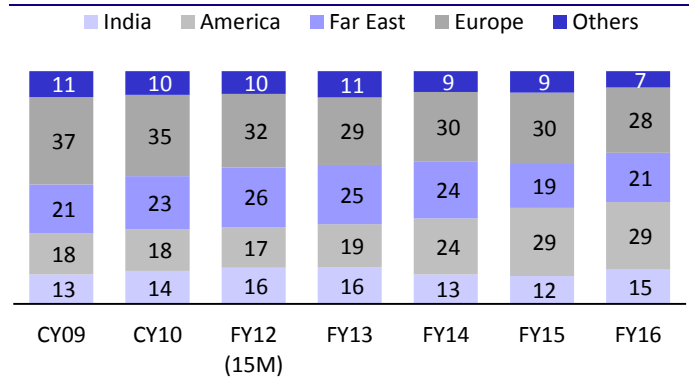
Story in charts

Exhibit 6: MTO revenues (INRm) grew at 21% CAGR driven by contribution from acquired entities



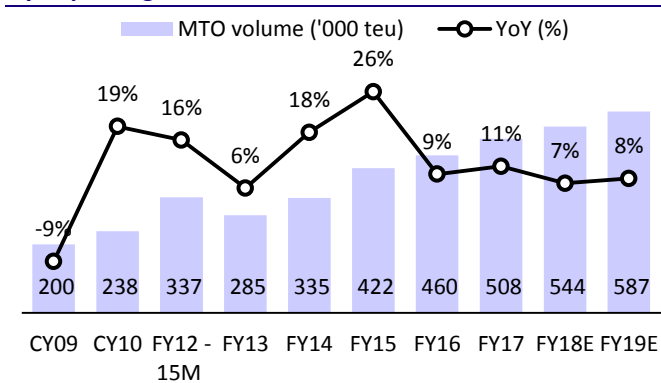
Source: Company, MOSL

Exhibit 7: Regional MTO revenue share (in %) – America's share improved rapidly due to acquisitions



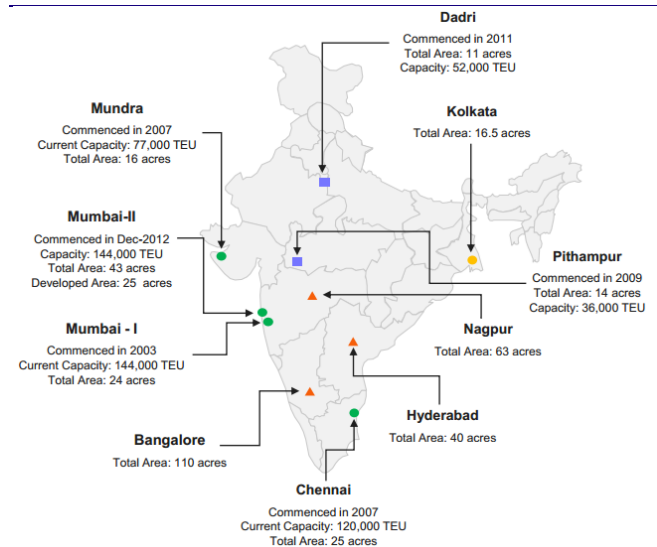
Source: Company, MOSL

Exhibit 8: Expect MTO volumes to grow at 7% CAGR driven by improving trade volumes



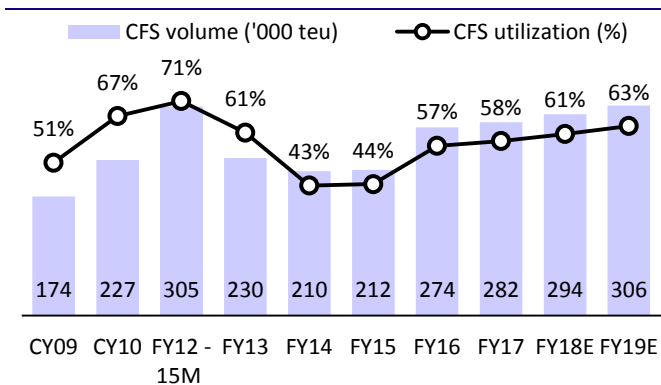
Source: Company, MOSL

Exhibit 9: Allcargo has presence near the major ports in India



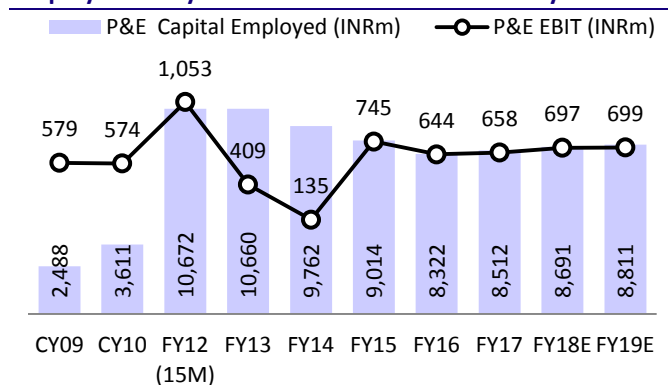
Source: Company, MOSL

Exhibit 10: Expect CFS volumes to grow at 4% CAGR at FY17-FY19E



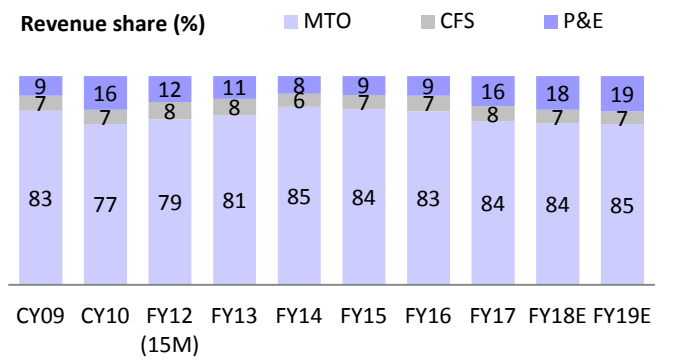
Source: Company, MOSL

Exhibit 11: P&E revenue growth lagged increase in capital employed led by slowdown in domestic economy



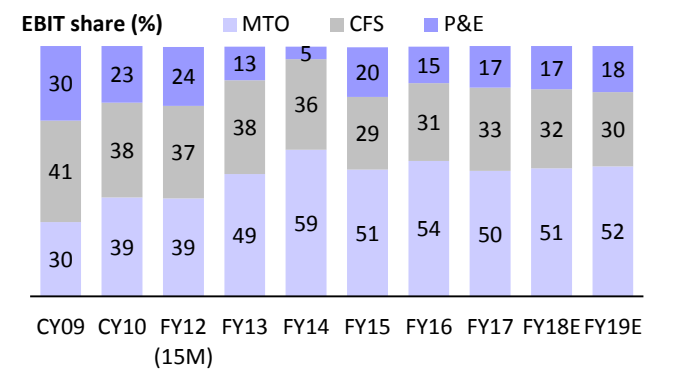
Source: Company, MOSL

Exhibit 12: MTO segment contributes the highest to revenue



Source: Company, MOSL

Exhibit 13: MTO segment contributes the highest to EBIT



Source: Company, MOSL

Financials and Valuations

Consolidated - Income Statement

(INR Million)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Income from Operations	39,255	48,445	56,180	56,281	55,681	62,005	67,920
Less: Excise Duty	0	0	0	0	0	0	0
Total Income from Operations	39,255	48,445	56,180	56,281	55,681	62,005	67,920
Change (%)	-8.1	23.4	16.0	0.2	-1.1	11.4	9.5
Operational Cost	27,194	34,281	39,622	37,935	37,778	41,544	45,507
Personnel Expenses	5,634	7,290	8,566	9,185	9,419	10,119	11,084
Other Expenses	2,873	3,111	3,346	4,115	3,859	5,016	5,470
Total Expenditure	35,701	44,681	51,534	51,235	51,056	56,679	62,061
EBITDA	3,554	3,763	4,646	5,046	4,625	5,327	5,859
Margin (%)	9.1	7.8	8.3	9.0	8.3	8.6	8.6
Depreciation	1,474	1,755	1,574	2,006	1,662	1,613	1,661
EBIT	2,080	2,009	3,072	3,040	2,963	3,714	4,198
Int. and Finance Charges	414	563	535	408	324	363	342
Other Income	670	515	412	404	606	460	614
PBT bef. EO Exp.	2,335	1,960	2,950	3,036	3,245	3,811	4,470
EO Items	0	0	0	132	128	0	0
PBT after EO Exp.	2,335	1,960	2,950	2,904	3,116	3,811	4,470
Income tax	512	416	700	498	776	953	1,118
Tax Rate (%)	21.9	21.2	23.7	17.2	24.9	25.0	25.0
PAT	1,823	1,544	2,250	2,406	2,340	2,858	3,353
Minority + Associate share	126	51	73	-8	-22	128	156
PAT incl. Minority + Associate	1,697	1,493	2,177	2,399	2,318	2,986	3,509
Adjusted PAT	1,823	1,544	2,250	2,508	2,414	2,986	3,509
Change (%)	-38.7	-15.3	45.7	11.5	-3.7	23.7	17.5
Margin (%)	4.6	3.2	4.0	4.5	4.3	4.8	5.2

Consolidated - Balance Sheet

(INR Million)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Equity Share Capital	252	252	252	504	491	491	491
Total Reserves	15,604	17,679	18,826	21,559	15,857	17,949	20,399
Net Worth	15,857	17,931	19,078	22,063	16,348	18,441	20,890
Minority Interest	433	463	221	228	228	228	228
Deferred Liabilities	1,172	1,284	1,354	1,373	1,373	1,373	1,373
Total Loans	7,267	9,921	6,133	5,431	5,431	4,931	4,431
Capital Employed	24,728	29,599	26,786	29,095	23,380	24,972	26,922
Gross Block	18,850	20,528	20,244	21,333	22,311	23,118	23,669
Less: Accum. Deprn.	5,163	7,094	8,283	9,351	11,013	12,626	14,287
Net Fixed Assets	13,687	13,434	11,961	11,982	11,298	10,492	9,382
Goodwill on Consolidation	4,602	9,051	8,655	9,263	3,033	3,033	3,033
Capital WIP	139	236	302	521	274	167	117
Total Investments	1,859	1,902	894	1,465	3,274	3,274	3,274
Curr. Assets, Loans&Adv.	9,641	11,675	12,648	13,531	13,213	17,064	21,428
Inventory	111	114	117	112	116	128	141
Account Receivables	3,825	5,715	6,476	6,669	6,544	7,288	7,983
Cash and Bank Balance	1,382	1,647	1,738	2,069	1,959	4,533	7,701
Loans and Advances	4,324	4,199	4,318	4,681	4,594	5,115	5,603
Curr. Liability & Prov.	5,429	6,938	7,928	7,875	7,921	9,268	10,521
Account Payables	3,536	4,661	5,744	5,998	5,917	6,569	7,311
Other Current Liabilities	1,275	1,674	1,557	1,264	1,392	1,984	2,377
Provisions	619	602	627	613	612	715	832
Net Current Assets	4,212	4,737	4,720	5,656	5,292	7,797	10,907
Deferred Tax assets	228	238	253	208	208	208	208
Appl. of Funds	24,728	29,599	26,786	29,095	23,380	24,972	26,922
E: MOSL Estimates							

Financials and Valuations

Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Basic (INR)							
EPS	7.2	6.1	8.9	9.9	9.8	12.2	14.3
Cash EPS	13.1	13.1	15.2	17.9	16.6	18.7	21.0
BV/Share	62.9	71.1	75.7	87.5	66.5	75.1	85.0
DPS	0.7	0.8	1.0	2.0	2.0	2.3	2.7
Payout (%)	12.1	14.3	13.4	23.3	23.2	22.3	22.3
Valuation (x)							
P/E	24.2	28.6	19.6	17.6	17.8	14.4	12.3
Cash P/E	13.4	13.4	11.5	9.8	10.5	9.3	8.3
P/BV	2.8	2.5	2.3	2.0	2.6	2.3	2.1
EV/Sales	1.2	1.1	0.8	0.8	0.8	0.7	0.6
EV/EBITDA	13.8	13.6	10.2	9.2	10.0	8.1	6.8
Dividend Yield (%)	0.4	0.4	0.6	1.1	1.1	1.3	1.6
Return Ratios (%)							
RoE	11.9	9.1	12.2	12.2	12.6	17.2	17.8
RoCE	8.9	7.3	9.4	10.2	10.2	12.9	13.9
RoIC	10.1	8.2	10.7	11.8	11.9	16.2	19.7
Working Capital Ratios							
Debtor (Days)	36	43	42	43	43	43	43
Creditor (Days)	47	50	53	58	57	58	59
Working Cap. Turnover (Days)	26	23	19	23	22	19	17
Leverage Ratio (x)							
Net Debt/Equity (x)	0.4	0.5	0.3	0.2	0.3	0.1	-0.1

Consolidated - Cash Flow Statement

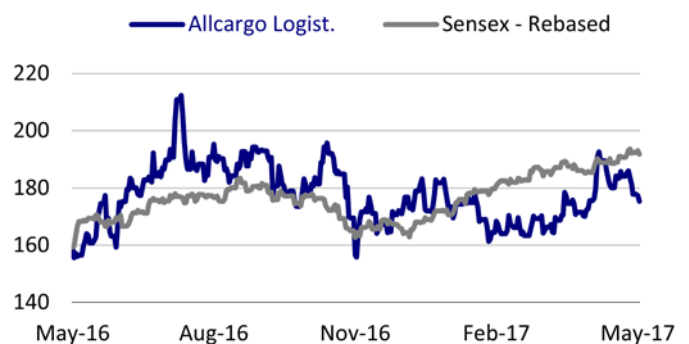
Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
OP/(Loss) before Tax	2,335	1,960	3,171	3,530	3,116	3,811	4,470
Depreciation	1,474	1,755	1,574	1,529	1,662	1,613	1,661
Interest & Finance Charges	370	532	492	409	-281	-97	-272
Direct Taxes Paid	-634	-373	-478	-894	-776	-953	-1,118
(Inc)/Dec in WC	-22	-195	113	86	255	69	58
CF from Operations	3,522	3,680	4,872	4,660	3,975	4,443	4,799
Others	-278	-572	-573	-175	0	0	0
CF from Operating incl EO	3,244	3,107	4,300	4,484	3,975	4,443	4,799
(inc)/dec in FA	-1,896	-1,290	-442	-1,414	-732	-700	-500
Free Cash Flow	1,348	1,817	3,858	3,070	3,243	3,743	4,299
(Pur)/Sale of Investments	52	-237	1,218	-449	-1,809	0	0
Others	88	-2,665	-1,028	-109	606	460	614
CF from Investments	-1,757	-4,192	-252	-1,971	-1,935	-240	114
Issue of Shares	0	0	0	0	-1,261	0	0
(Inc)/Dec in Debt	-563	2,732	-2,509	1,437	0	-500	-500
Interest Paid	-538	-586	-550	-475	-324	-363	-342
Dividend Paid	-74	-222	-310	-640	-542	-638	-748
Others	-271	-575	-589	-2,504	-22	-128	-156
CF from Fin. Activity	-1,446	1,350	-3,957	-2,182	-2,149	-1,629	-1,745
Inc/Dec of Cash	41	265	91	331	-109	2,574	3,168
Opening Balance	1,341	1,382	1,647	1,738	2,069	1,959	4,533
Closing Balance	1,382	1,647	1,738	2,069	1,959	4,533	7,701

Corporate profile

Company description

AGLL is an integrated logistics services provider with >USD1b in sales. Its key business divisions are global Multimodal Transport Operations (NVOCC, LCL and FCL), domestic CFS/ICD operations and Project and Engineering division. It also provides contract logistics services.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Mar-17	Dec-16	Mar-16
Promoter	70.0	68.0	69.9
DII	0.0	0.1	0.1
FII	14.1	12.9	14.0
Others	15.8	19.1	16.0

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Blackstone Gpv Capital Partners Mauritius V-A Ltd	4.4
Blackstone Gpv Capital Partners (Mauritius) V-K Ltd	4.4
Blackstone Gpv Capital Partners (Mauritius) V-L Ltd	3.8
Acacia Partners, LP	2.4
Blackstone Gpv Capital Partners (Mauritius) V-M Ltd	1.8

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Shashi Kiran Shetty	Chairman & Managing Director
Adarsh Hegde	Joint Managing Director
Shruta Sanghavi	Company Secretary

Exhibit 5: Directors

Name	Name
Arathi Shetty	Kaiwan Kalyaniwalla
Hari Mundra	J Ramachandran
Keki Elavia	M P Bansal

*Independent

Exhibit 6: Auditors

Name	Type
Appan & Lokhandwala & Associates	Statutory
Mehta & Mehta	Secretarial Audit
Mukundan K V	Internal
S R Batliboi & Associates LLP	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY18	12.2	13.0	-5.8
FY19	14.3	15.8	-9.2

Source: Bloomberg

NOTES

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