

ADD

TP: Rs 130 | ▲ 9%

ALLCARGO LOGISTICS

Logistics

18 September 2020

Multiple one-offs, Gati consolidation boosts performance

Amid a tumultuous demand climate, Allcargo Logistics (AGLL) reported strong 14% YoY revenue growth in Q1FY21 led by consolidation of the newly acquired Gati (5.4% ex-Gati) and healthy topline growth in the MTO (+9%) and CFS (+8%) segments. Despite Gati's losses, EBIT fell by only 32% YoY (+21% ex-Gati), aided by one-offs. AGLL has received board approval for voluntary delisting and expects to complete the shareholder approval process by Oct'20. We raise FY21/FY22 EPS by 12%/13% and roll over to a Sep'21 TP of Rs 130 (vs. Rs 100). **ADD.**

Sayan Das Sharma
 research@bobcaps.in

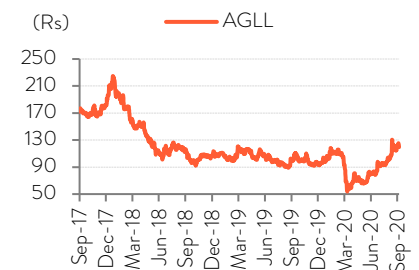
One-offs boost performance: Though MTO volumes fell 12% YoY, revenue rose 9% as higher global shipping rates amidst an acute supply crunch lifted realisation by 24%. Similarly, CFS realisation (+84% YoY) surged, stemming from higher ground rent as container dwell time increased due to evacuation challenges – this negated the impact of lower volumes (-42% YoY) on revenue (+8% YoY) and drove higher CFS EBIT (+39% YoY). MTO EBIT (+30% YoY) was aided by a ~Rs 130mn government grant. Freight rates and container dwell times are likely to normalise through Q2 as supply challenges are resolved.

| | |
|------------------|----------------|
| Ticker/Price | AGLL IN/Rs 120 |
| Market cap | US\$ 399.9mn |
| Shares o/s | 246mn |
| 3M ADV | US\$ 0.7mn |
| 52wk high/low | Rs 140/Rs 49 |
| Promoter/FPI/DII | 70%/13%/4% |

Source: NSE

Consolidation of Gati: Conclusion of the open offer in April endowed AGLL with a majority stake (46.9%) and management control of Gati, enabling it to consolidate the entity from Q1FY21. Gati posted a 64% YoY decline in revenue and an EBIT loss of Rs 458mn given lockdown woes. Per management, demand is on the mend and utilisation has picked up to ~75% in July-August.

STOCK PERFORMANCE



Source: NSE

Retain ADD: We raise our FY21/FY22 EPS estimates by 12%/13%, factoring in a robust Q1 performance, and roll to a Sep'21 TP of Rs 130 (vs. Rs 100) set at an unchanged 9x P/E multiple for the core business. We have not included Gati in our projections as the consolidated balance sheet is not yet available. We continue to value the Gati investment at market value. Retain ADD.

KEY FINANCIALS

| Y/E 31 Mar | FY19A | FY20A | FY21E | FY22E | FY23E |
|-------------------------|--------|--------|--------|--------|--------|
| Total revenue (Rs mn) | 68,949 | 73,462 | 74,362 | 84,667 | 97,330 |
| EBITDA (Rs mn) | 4,485 | 5,035 | 5,283 | 6,636 | 7,805 |
| Adj. net profit (Rs mn) | 2,478 | 2,010 | 1,924 | 2,691 | 3,479 |
| Adj. EPS (Rs) | 10.1 | 7.3 | 7.8 | 11.0 | 14.2 |
| Adj. EPS growth (%) | 42.5 | (27.5) | 7.1 | 39.8 | 29.3 |
| Adj. ROAE (%) | 12.5 | 8.7 | 8.7 | 11.5 | 13.8 |
| Adj. P/E (x) | 11.8 | 16.3 | 15.3 | 10.9 | 8.4 |
| EV/EBITDA (x) | 7.0 | 6.3 | 7.2 | 6.4 | 5.4 |

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) | Q1FY21 | Q1FY20 | YoY (%) | Q4FY20 | QoQ (%) |
|---|---------------|---------------|---------------|---------------|---------------|
| Total revenues | 20,776 | 18,153 | 14.4 | 18,710 | 11.0 |
| Operating expenses | 15,338 | 13,174 | 16.4 | 13,741 | 11.6 |
| % of sales | 73.8 | 72.6 | 125bps | 73.4 | 38bps |
| Employee expenses | 2,946 | 2,735 | 7.7 | 2,789 | 5.6 |
| % of sales | 14.2 | 15.1 | (89bps) | 14.9 | (73bps) |
| Other expenses | 1,182 | 838 | 41.0 | 1,117 | 5.8 |
| % of sales | 5.7 | 4.6 | 107bps | 6.0 | (28bps) |
| Total expenditure | 19,465 | 16,747 | 16.2 | 17,646 | 10.3 |
| EBITDA | 1,311 | 1,406 | (6.8) | 1,063 | 23.3 |
| EBITDA margin (%) | 6.3 | 7.7 | (144bps) | 5.7 | 63bps |
| Depreciation | 727 | 547 | 33.1 | 602 | 20.9 |
| EBIT | 583 | 859 | (32.1) | 462 | 26.4 |
| Interest expenses | 385 | 117 | 228.5 | 293 | 31.3 |
| Other income | 161 | 63 | 154.9 | 177 | (9.2) |
| PBT | 359 | 805 | (55.4) | 345 | 4.0 |
| PBT margin (%) | 1.7 | 4.4 | (271bps) | 1.8 | (12bps) |
| Extraordinary income/(expense) | (35) | - | NM | 273 | (112.8) |
| Income tax | 32 | 175 | (82.0) | 112 | (71.8) |
| Effective tax rate (%) | 8.8 | 21.8 | (1,300bps) | 32.4 | (2,363bps) |
| Reported PAT – pre-share of profit from associates and JVs | 293 | 630 | (53.5) | 507 | (42.3) |
| Profit/(loss) from associates and JVs | 6 | 15 | (62.7) | 34 | (83.4) |
| Reported PAT – after share of profit from associates and JVs | 298 | 645 | (53.8) | 541 | (44.8) |
| Adjustment | 35 | - | NM | (273) | NM |
| Adjusted PAT | 333 | 645 | (48.3) | 267 | 24.7 |
| Adjusted PAT margin (%) | 1.6 | 3.6 | (195bps) | 1.4 | 18bps |
| Adjusted EPS | 1.4 | 2.6 | (48.3) | 1.1 | 24.7 |

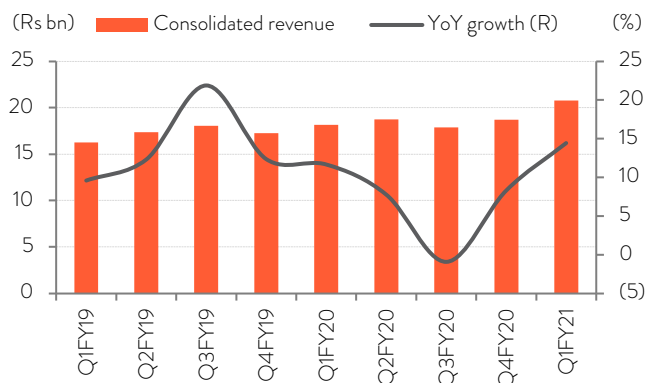
Source: Company, BOBCAPS Research

FIG 2 – SEGMENT-WISE PERFORMANCE

| Y/E Mar (Rs mn) | Q1FY21 | Q1FY20 | YoY (%) | Q4FY20 | QoQ (%) |
|---|----------|----------|------------|----------|------------|
| Multi-modal transport operations (MTO) segment | | | | | |
| Volumes (teu) | 1,61,991 | 1,84,342 | (12.1) | 1,82,528 | (11.3) |
| Realisation (Rs/teu) | 1,07,237 | 86,746 | 23.6 | 92,746 | 15.6 |
| Revenue | 17,371 | 15,991 | 8.6 | 16,929 | 2.6 |
| EBIT | 788 | 605 | 30.2 | 634 | 24.3 |
| EBIT margin (%) | 4.5 | 3.8 | 75bps | 3.7 | 79bps |
| EBIT/teu (Rs) | 4,862 | 3,281 | 48.2 | 3,472 | 40.0 |
| Container freight station (CFS) segment | | | | | |
| Volumes (teu) | 49,581 | 85,004 | (41.7) | 73,377 | (32.4) |
| Realisation (Rs/teu) | 25,718 | 13,955 | 84.3 | 13,621 | 88.8 |
| Revenue | 1,275 | 1,186 | 7.5 | 1,000 | 27.6 |
| EBIT | 510 | 366 | 39.4 | 229 | 122.7 |
| EBIT margin (%) | 40.0 | 30.8 | 915bps | 22.9 | 1,707bps |
| EBIT/teu (Rs) | 10,280 | 4,301 | 139.0 | 3,120 | 229.5 |
| Project and Engineering (P&E) segment | | | | | |
| Revenue | 639 | 1,171 | (45.5) | 883 | (27.6) |
| EBIT | (139) | 84 | (265.3) | (102) | NM |
| EBIT margin (%) | (21.7) | 7.2 | (2,888bps) | (11.6) | (1,012bps) |
| Express distribution (Gati) | | | | | |
| Revenue | 1,643 | - | - | - | - |
| EBIT | (458) | - | - | - | - |
| EBIT margin (%) | (27.9) | - | - | - | - |
| Logistics park | | | | | |
| Revenue | 88 | 18 | 385.1 | 109 | (19.3) |
| EBIT | 28 | (38) | (172.8) | 12 | NM |
| EBIT margin (%) | 31.3 | (208.8) | 24,016bps | 11.2 | 2,011bps |

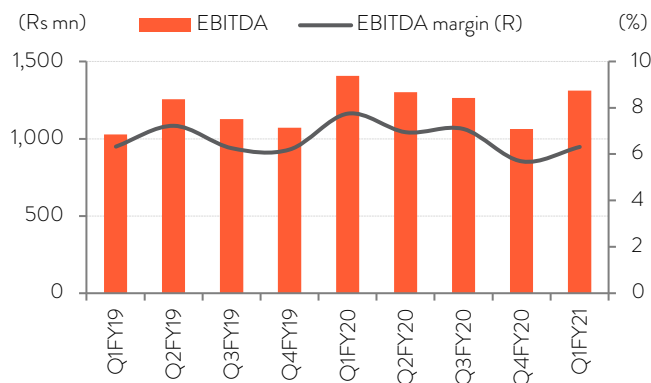
Source: Company, BOBCAPS Research

FIG 3 – CONSOLIDATED REVENUE GREW 14.4% YOY IN Q1FY21



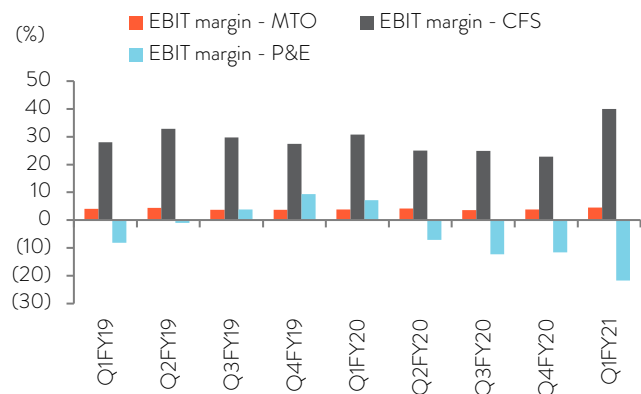
Source: Company, BOBCAPS Research

FIG 4 – EBITDA FELL 7% YOY, EBITDA MARGIN CONTRACTED 144BPS



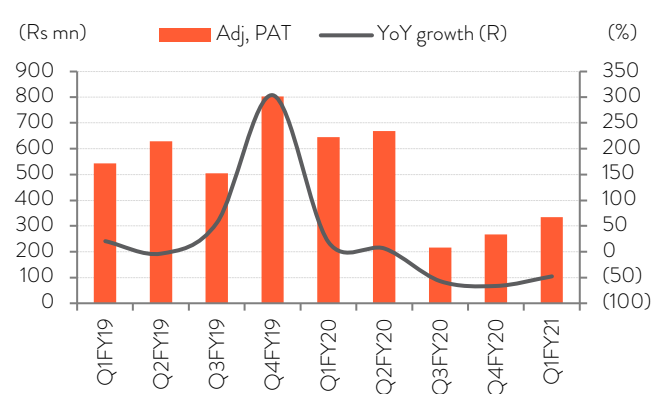
Source: Company, BOBCAPS Research

FIG 5 – MTO, CFS EBIT MARGINS SURGED; P&E POSTED EBIT LOSSES DUE TO LOW UTILISATION



Source: Company, BOBCAPS Research

FIG 6 – ADJ. PAT FELL 48% YOY AS DEPRECIATION, INTEREST ROSE ON GATI CONSOLIDATION



Source: Company, BOBCAPS Research

Valuation methodology

Factoring in the above-expected Q1FY21 performance and likelihood of higher global shipping freight rates and ground rates for most of Q2, we raise our FY21/FY22 EPS estimates by 12%/13%. On rolling valuations forward to Sep'22, we move to a revised target price of Rs 130 (vs. Rs 100). Maintain ADD.

We continue to value AGLL's core business using a 9x multiple on TTM Sep'22E EPS. We raise our P/E multiple to value the stake in associate company ACCI to 15x from 11x as we move to Ind-AS 116 based projections – this lowers accounting profit, but economic value of the business remains unchanged, necessitating a multiple revision. Though AGLL has reported consolidated P&L for Q1FY21 including Gati's financials, we have not factored Gati into our projections as the consolidated balance sheet is yet to be made available. We continue to value AGLL's stake in Gati on the current market value.

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 the reverse book building process at Rs 92.6/sh. It has currently started acquiring approval from shareholders through postal ballots, a process which should be concluded by end-October, as per the company.

FIG 7 – REVISED ESTIMATES

| (Rs mn) | FY21E | | | FY22E | | | FY23E |
|-------------------|--------|--------|------------|--------|--------|------------|--------|
| | Old | New | Change (%) | Old | New | Change (%) | New |
| Revenues | 71,576 | 74,362 | 3.9 | 82,041 | 84,667 | 3.2 | 97,330 |
| EBITDA | 4,780 | 5,283 | 10.5 | 6,050 | 6,636 | 9.7 | 7,805 |
| EBITDA margin (%) | 6.7 | 7.1 | 43bps | 7.4 | 7.8 | 46bps | 8.0 |
| PAT | 1,721 | 1,924 | 11.8 | 2,380 | 2,691 | 13.1 | 3,479 |
| PAT margin (%) | 2.4 | 2.6 | 8bps | 2.9 | 3.2 | 10bps | 3.6 |

Source: Company, BOBCAPS Research

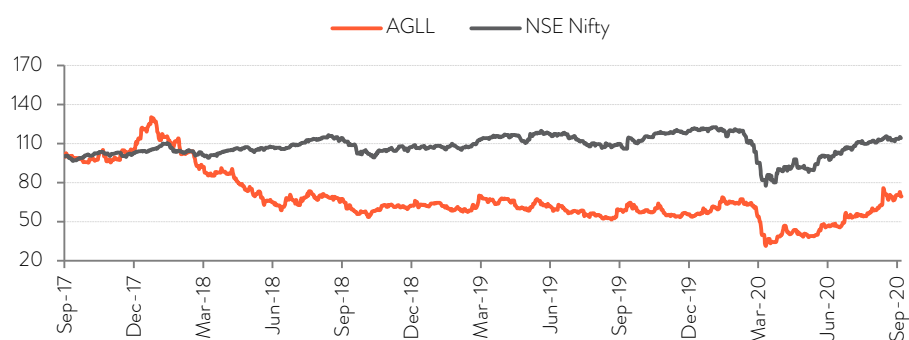
FIG 8 – VALUATION SNAPSHOT

| Particulars | Value |
|---|------------|
| AGLL – core business | |
| TTM H1FY23E EPS (Rs) - before share of profit from associates | 12.3 |
| P/E multiple applied (x) | 9 |
| Value of core business (Rs per share) [A] | 111 |
| Value of stake in ACCI | |
| ACCI's TTM H1FY23E PAT (Rs mn) (IND-AS 116 adjusted) | 133 |
| P/E multiple applied (x) | 15 |
| Total equity value (Rs mn) | 1,995 |
| AGLL's stake in ACCI (%) | 61% |
| Value of AGLL's stake (Rs per share) [B] | 5 |

| Particulars | Value |
|--|------------|
| Value of stake in Gati | |
| Gati's market capitalisation (Rs mn) | 6,091 |
| AGLL's stake (%) | 46.9 |
| Value of AGLL's stake (Rs mn) | 2,854 |
| Value of AGLL's stake (Rs per share) [C] | 12 |
| Target price for AGLL (Rs per share) [A+B+C]* | 130 |

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 | 74,362 | 84,667 | 97,330 |
| EBITDA | 4,485 | 5,035 | 5,283 | 6,636 | 7,805 |
| Depreciation | 1,559 | 2,316 | 2,573 | 2,852 | 3,317 |
| EBIT | 2,926 | 2,719 | 2,709 | 3,783 | 4,488 |
| Net interest income/(expenses) | (295) | (685) | (962) | (947) | (857) |
| Other income/(expenses) | 338 | 413 | 630 | 576 | 737 |
| Exceptional items | 0 | 0 | 0 | 0 | 0 |
| EBT | 2,969 | 2,447 | 2,377 | 3,412 | 4,368 |
| Income taxes | (542) | (711) | (313) | (759) | (961) |
| Extraordinary items | 0 | 547 | (35) | 0 | 0 |
| Min. int./Inc. from associates | 52 | 61 | (140) | 38 | 72 |
| Reported net profit | 2,478 | 2,343 | 1,889 | 2,691 | 3,479 |
| Adjustments | 0 | (333) | 35 | 0 | 0 |
| Adjusted net profit | 2,478 | 2,010 | 1,924 | 2,691 | 3,479 |

Balance Sheet

| Y/E 31 Mar (Rs mn) | FY19A | FY20A | FY21E | FY22E | FY23E |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Accounts payables | 7,916 | 9,181 | 9,195 | 10,895 | 12,522 |
| Other current liabilities | 4,110 | 5,290 | 5,354 | 6,096 | 7,008 |
| Provisions | 604 | 456 | 462 | 526 | 605 |
| Debt funds | 6,319 | 16,360 | 16,110 | 15,610 | 14,610 |
| Other liabilities | 0 | 0 | 0 | 0 | 0 |
| Equity capital | 491 | 491 | 491 | 491 | 491 |
| Reserves & surplus | 19,703 | 21,232 | 22,320 | 23,914 | 25,996 |
| Shareholders' fund | 20,195 | 21,723 | 22,812 | 24,405 | 26,488 |
| Total liabilities and equities | 39,144 | 53,009 | 53,933 | 57,533 | 61,233 |
| Cash and cash eq. | 2,658 | 3,150 | 2,878 | 2,949 | 1,948 |
| Accounts receivables | 9,422 | 11,501 | 11,642 | 12,758 | 14,666 |
| Inventories | 89 | 78 | 79 | 89 | 103 |
| Other current assets | 4,562 | 8,145 | 8,252 | 8,776 | 10,088 |
| Investments | 2,586 | 5,353 | 5,353 | 5,353 | 5,353 |
| Net fixed assets | 11,368 | 14,125 | 17,741 | 19,389 | 20,572 |
| CWIP | 1,645 | 2,690 | 0 | 0 | 0 |
| Intangible assets | 4,161 | 5,232 | 5,232 | 5,232 | 5,232 |
| Deferred tax assets, net | 1,082 | 1,092 | 1,092 | 1,092 | 1,092 |
| Other assets | 1,571 | 1,644 | 1,664 | 1,895 | 2,179 |
| Total assets | 39,144 | 53,009 | 53,933 | 57,533 | 61,233 |

Source: Company, BOBCAPS Research

Cash Flows

| Y/E 31 Mar (Rs mn) | FY19A | FY20A | FY21E | FY22E | FY23E |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Net income + Depreciation | 4,038 | 4,112 | 4,498 | 5,543 | 6,796 |
| Interest expenses | 295 | 685 | 962 | 947 | 857 |
| Non-cash adjustments | (152) | (10) | 0 | 0 | 0 |
| Changes in working capital | (727) | (3,428) | (185) | 625 | (900) |
| Other operating cash flows | 0 | 0 | 0 | 0 | 0 |
| Cash flow from operations | 3,454 | 1,359 | 5,275 | 7,115 | 6,753 |
| Capital expenditures | (3,486) | (7,188) | (3,500) | (4,500) | (4,500) |
| Change in investments | 12 | (2,767) | 0 | 0 | 0 |
| Other investing cash flows | 0 | 0 | 0 | 0 | 0 |
| Cash flow from investing | (3,474) | (9,955) | (3,500) | (4,500) | (4,500) |
| Equities issued/Others | 0 | 0 | 0 | 0 | 0 |
| Debt raised/repaid | 1,519 | 10,040 | (249) | (500) | (1,000) |
| Interest expenses | (295) | (685) | (962) | (947) | (857) |
| Dividends paid | (860) | (737) | (696) | (1,135) | (1,468) |
| Other financing cash flows | (1,222) | 471 | (140) | 38 | 72 |
| Cash flow from financing | (859) | 9,089 | (2,047) | (2,544) | (3,253) |
| Changes in cash and cash eq. | (879) | 494 | (272) | 71 | (1,000) |
| Closing cash and cash eq. | 2,658 | 3,150 | 2,878 | 2,949 | 1,948 |

Per Share

| Y/E 31 Mar (Rs) | FY19A | FY20A | FY21E | FY22E | FY23E |
|----------------------|-------|-------|-------|-------|-------|
| Reported EPS | 10.1 | 9.5 | 7.7 | 11.0 | 14.2 |
| Adjusted EPS | 10.1 | 7.3 | 7.8 | 11.0 | 14.2 |
| Dividend per share | 3.5 | 3.0 | 2.3 | 3.8 | 5.0 |
| Book value per share | 81.4 | 87.3 | 92.3 | 98.7 | 106.8 |

Valuations Ratios

| Y/E 31 Mar (x) | FY19A | FY20A | FY21E | FY22E | FY23E |
|----------------|-------|-------|-------|-------|-------|
| EV/Sales | 0.5 | 0.4 | 0.5 | 0.5 | 0.4 |
| EV/EBITDA | 7.0 | 6.3 | 7.2 | 6.4 | 5.4 |
| Adjusted P/E | 11.8 | 16.3 | 15.3 | 10.9 | 8.4 |
| 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 | 80.9 | 78.9 | 79.6 |
| Interest burden (PBT/EBIT) | 101.5 | 90.0 | 87.7 | 90.2 | 97.3 |
| EBIT margin (EBIT/Revenue) | 4.2 | 3.7 | 3.6 | 4.5 | 4.6 |
| Asset turnover (Revenue/Avg TA) | 2.7 | 2.3 | 1.9 | 2.1 | 2.4 |
| Leverage (Avg TA/Avg Equity) | 1.3 | 1.5 | 1.7 | 1.7 | 1.6 |
| Adjusted ROAE | 12.5 | 8.7 | 8.7 | 11.5 | 13.8 |

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 | 1.2 | 13.9 | 15.0 |
| EBITDA | 18.9 | 12.2 | 4.9 | 25.6 | 17.6 |
| Adjusted EPS | 42.5 | (27.5) | 7.1 | 39.8 | 29.3 |
| Profitability & Return ratios (%) | | | | | |
| EBITDA margin | 6.5 | 6.9 | 7.1 | 7.8 | 8.0 |
| EBIT margin | 4.2 | 3.7 | 3.6 | 4.5 | 4.6 |
| Adjusted profit margin | 3.6 | 2.7 | 2.6 | 3.2 | 3.6 |
| Adjusted ROAE | 12.5 | 8.7 | 8.7 | 11.5 | 13.8 |
| ROCE | 11.4 | 8.4 | 7.0 | 9.6 | 11.0 |
| Working capital days (days) | | | | | |
| Receivables | 50 | 57 | 57 | 55 | 55 |
| Inventory | 0 | 0 | 0 | 0 | 0 |
| Payables | 45 | 49 | 49 | 51 | 51 |
| Ratios (x) | | | | | |
| Gross asset turnover | 4.5 | 4.4 | 3.6 | 3.3 | 3.2 |
| Current ratio | 1.3 | 1.5 | 1.5 | 1.4 | 1.3 |
| Net interest coverage ratio | 9.9 | 4.0 | 2.8 | 4.0 | 5.2 |
| Adjusted debt/equity | 0.2 | 0.6 | 0.6 | 0.5 | 0.5 |

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

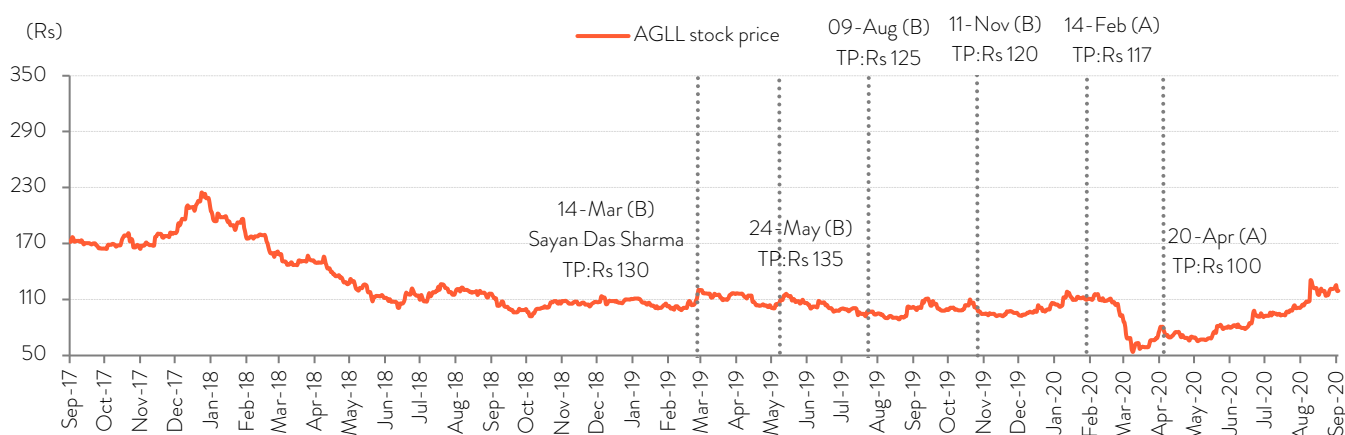
ADD – Expected return from >+5% to +15%

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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