

ADD

TP: Rs 100 | ▲ 7%

ALLCARGO LOGISTICS

Logistics

06 July 2020

Robust MTO show offset by insipid CFS & P&E segments

Allcargo Logistics' (AGLL) Q4FY20 consolidated revenue grew at a steady 8% YoY led by the MTO segment (+10%). EBITDA was flat at Rs 1.1bn, but adj. PAT declined 67% YoY due to higher depreciation, interest cost and tax outflow. Covid-related trade disruptions cast a shadow on AGLL's near-term business prospects. We cut our FY21/FY22 earnings by 15%/8% factoring in Ind-AS 116 changes and higher finance cost assumptions. Our Mar'21 TP remains at Rs 100 as we ascribe a value to the investments in Gati. Maintain ADD.

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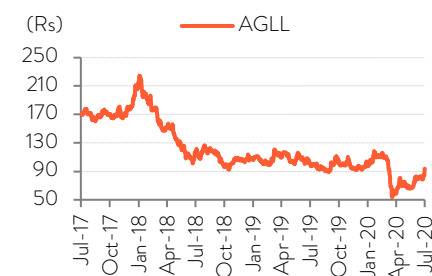
MTO – robust performance: Led by volume/realisation growth of 9%/1% YoY, MTO revenues rose by a healthy 10% YoY amidst muted container trade. EBIT margin of 3.7% was flat YoY. Share gain in LCL/FCL businesses and a diversified presence across major trade lanes catalysed this robust showing, per AGLL. While the company should continue to outpace global container trade (10-15% decline in CY20E), we expect MTO growth to ease to -2% in FY21 vs. +8% in FY20.

Ticker/Price	AGLL IN/Rs 94
Market cap	US\$ 308.6mn
Shares o/s	246mn
3M ADV	US\$ 0.1mn
52wk high/low	Rs 123/Rs 49
Promoter/FPI/DII	70%/13%/4%

Source: NSE

CFS/P&E disappoint: CFS/P&E revenue fell 11%/4% YoY. CFS volumes declined 9% YoY as weak EXIM trade resulted in a 14% decline in container volumes at addressable ports. Negative operating leverage dragged the EBIT margin down 460bps YoY to 22.9%. P&E posted EBIT losses due to doubtful debt provisioning and accelerated depreciation. Weak EXIM trade and a sluggish investment climate will weigh on these two segments in the near term.

STOCK PERFORMANCE



Maintain ADD: AGLL acquired an additional 26% stake in Gati through an open offer in Q4, raising its controlling stake to 47%. Despite a 15%/8% cut in earnings estimates for FY21/FY22, we maintain our Mar'21 TP of Rs 100 (core business valued at an unchanged 9x FY22E EPS) as we ascribe a value to the Gati investments post completion of the open offer.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	60,492	68,949	73,462	71,576	82,041
EBITDA (Rs mn)	3,771	4,485	5,035	4,780	6,050
Adj. net profit (Rs mn)	1,808	2,478	2,010	1,721	2,380
Adj. EPS (Rs)	7.4	10.1	7.3	7.0	9.7
Adj. EPS growth (%)	(26.9)	42.5	(27.5)	(4.2)	38.2
Adj. ROAE (%)	9.6	12.5	8.7	7.8	10.2
Adj. P/E (x)	12.7	9.3	12.8	13.4	9.7
EV/EBITDA (x)	6.6	5.6	5.1	6.6	6.0

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)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Total revenues	18,710	17,273	8.3	17,868	4.7	73,462	68,949	6.5
Operating expenses	13,741	12,414	10.7	12,937	6.2	53,579	49,790	7.6
% of sales	73.4	71.9	157bps	72.4	104bps	72.9	72.2	72bps
Employee expenses	2,789	2,782	0.3	2,787	0.1	11,122	10,696	4.0
% of sales	14.9	16.1	(120bps)	15.6	(69bps)	15.1	15.5	(37bps)
Other expenses	1,117	1,006	11.0	880	26.9	3,727	3,977	(6.3)
% of sales	6.0	5.8	14bps	4.9	104bps	5.1	5.8	(69bps)
Total expenditure	17,646	16,202	8.9	16,603	6.3	68,428	64,463	6.2
EBITDA	1,063	1,072	(0.8)	1,265	(15.9)	5,035	4,485	12.2
EBITDA margin (%)	5.7	6.2	(52bps)	7.1	(140bps)	6.9	6.5	35bps
Depreciation	602	361	66.5	629	(4.4)	2,316	1,559	48.5
EBIT	462	710	(35.0)	635	(27.3)	2,719	2,926	(7.1)
Interest expenses	293	67	340.2	159	84.3	685	295	131.9
Other income	177	108	64.0	65	172.0	413	338	22.1
PBT	345	752	(54.0)	541	(36.2)	2,447	2,969	(17.6)
PBT margin (%)	1.8	4.4	(251bps)	3.0	(118bps)	3.3	4.3	(98bps)
Extraordinary income/(expense)	273	-	NM	274	(0.1)	547	-	NM
Income tax	112	(48)	NM	315	(64.4)	711	542	31.1
Effective tax rate (%)	32.4	(6.4)	3,882bps	39.1	(670bps)	29.1	18.3	1,079bps
Reported PAT – pre-share of profit from associates and JVs	507	800	(36.6)	500	1.3	2,283	2,426	(5.9)
Profit/(loss) from associates and JVs	34	3	1,196.2	(11)	(421.0)	61	52	16.5
Reported PAT – after share of profit from associates and JVs	541	802	(32.6)	490	10.3	2,343	2,478	(5.4)
Adjustment	(273)	-	NM	(274)	NM	(547)	-	NM
Adjusted PAT	267	802	(66.7)	216	23.5	1,796	2,478	(27.5)
Adjusted PAT margin (%)	1.4	4.6	(322bps)	1.2	22bps	2.4	3.6	(115bps)
Adjusted EPS	1.1	3.3	(66.7)	0.9	23.5	7.3	10.1	(27.5)

Source: Company, BOBCAPS Research

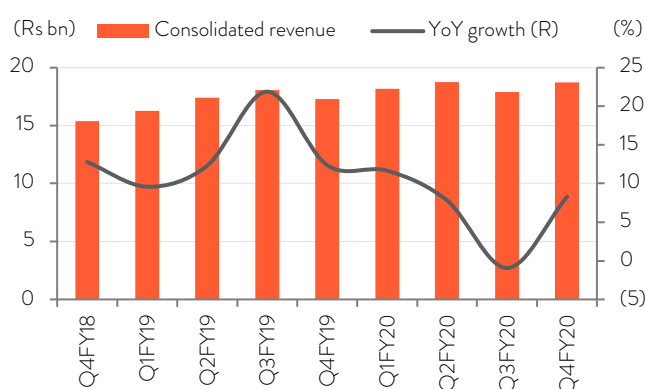
FIG 2 – SEGMENT-WISE PERFORMANCE

Y/E Mar (Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Multi-modal transport operations (MTO) segment								
Volumes (teu)	1,82,528	1,67,949	8.7	1,85,408	(1.6)	7,36,757	6,84,238	7.7
Realisation (Rs/teu)	92,746	91,649	1.2	87,137	6.4	89,645	90,013	(0.4)
Revenue	16,929	15,392	10.0	16,156	4.8	66,047	61,590	7.2
EBIT	634	571	11.0	575	10.2	2,517	2,417	4.2
EBIT margin (%)	3.7	3.7	3bps	3.6	18bps	3.8	3.9	(11bps)
EBIT/teu (Rs)	3,472	3,401	2.1	3,101	12.0	3,416	3,532	(3.3)
Container freight station (CFS) segment								
Volumes (teu)	73,377	80,882	(9.3)	75,965	(3.4)	3,23,491	3,34,015	(3.2)
Realisation (Rs/teu)	13,621	13,860	(1.7)	14,645	(7.0)	13,880	13,767	0.8
Revenue	1,000	1,121	(10.8)	1,113	(10.2)	4,490	4,598	(2.4)
EBIT	229	309	(25.8)	278	(17.5)	1,171	1,362	(14.0)
EBIT margin (%)	22.9	27.5	(463bps)	24.9	(204bps)	26.1	29.6	(355bps)
EBIT/teu (Rs)	3,120	3,815	(18.2)	3,653	(14.6)	3,620	4,079	(11.2)

Y/E Mar (Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Project and Engineering (P&E) segment								
Revenue	883	921	(4.2)	697	26.7	3,508	3,381	3.8
EBIT	(102)	86	(218.7)	(86)	NM	(158)	49	NM
EBIT margin (%)	(11.6)	9.4	(2097bps)	(12.3)	67bps	(4.5)	1.4	(595bps)
Logistics park								
Revenue	109	18	501.1	118	(8.0)	266	44	506.8
EBIT	12	(6)	(314.0)	119	NM	50	(22)	NM
EBIT margin (%)	11.2	(31.5)	4,270bps	100.6	(8,938bps)	19.0	(50.9)	6,987bps

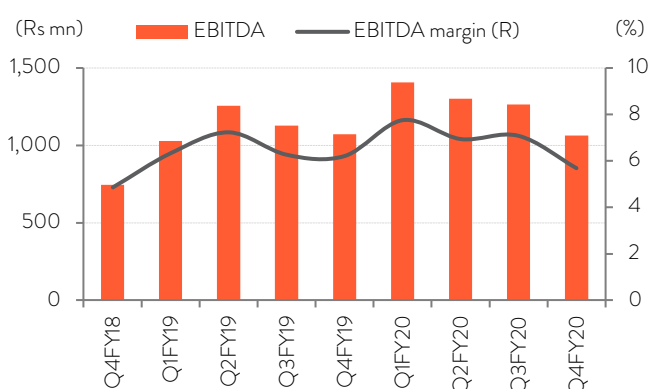
Source: Company, BOBCAPS Research

FIG 3 – CONSOLIDATED REVENUE GREW 8.3% YOY IN Q4FY20



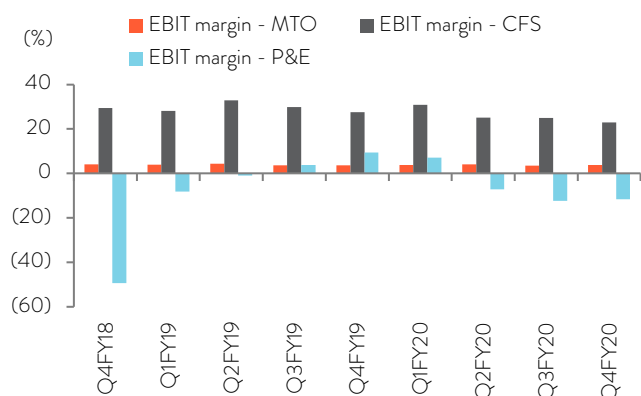
Source: Company, BOBCAPS Research

FIG 4 – EBITDA WAS FLAT AT RS 1.1BN, MARGIN CONTRACTED 52BPS YOY



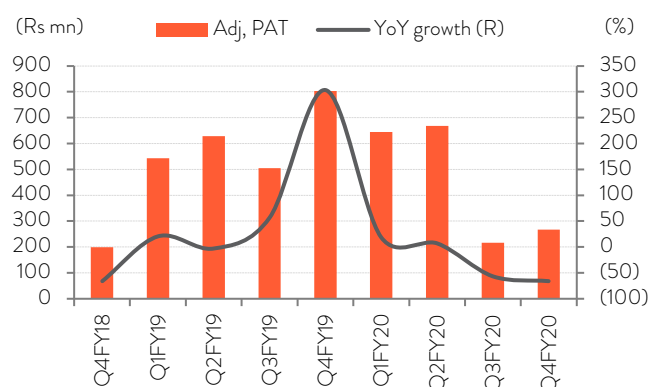
Source: Company, BOBCAPS Research

FIG 5 – MTO EBIT MARGIN WAS FLAT, CFS AND P&E CONTRACTED YOY



Source: Company, BOBCAPS Research

FIG 6 – ADJ. PAT DECLINED 67% YOY (AS REPORTED, INCLUDING IND-AS 116 IMPACT)



Source: Company, BOBCAPS Research

Valuation methodology

AGLL has completed the open offer to acquire a controlling 47% stake in Gati. We ascribe a Rs 10/sh value to this investment, valuing the shareholding at Gati's CMP.

We lower our FY21/FY22 revenue estimates for AGLL by 2% each to factor in the sluggish CFS/P&E performance in Q4. Our EBITDA estimates are largely unchanged despite a lower revenue forecast as we incorporate Ind-AS 116 accounting-related changes. We cut earnings estimates by a sharper 15%/8% due to higher depreciation and interest expense forecasts, following the accounting change. Interest cost estimates also factor in higher debt stemming from the investment in Gati.

Since the accounting changes do not have any impact on the economic value of the business and the higher interest cost burden is negated by the value of its investments in Gati, our Mar'21 target price for AGLL remains unchanged at Rs 100. We continue to value the core business at 9x FY22E EPS and the stake in associate company Avvashya CCI at 11x FY22E EPS.

FIG 7 – REVISED ESTIMATES

(Rs mn)	FY21E			FY22E		
	Old	New	Change (%)	Old	New	Change (%)
Revenues	73,167	71,576	(2.2)	83,861	82,041	(2.2)
EBITDA	4,759	4,780	0.4	6,052	6,050	(0.0)
EBITDA margin (%)	6.5	6.7	17bps	7.2	7.4	16bps
PAT	2,007	1,721	(14.2)	2,584	2,380	(7.9)
PAT margin (%)	2.7	2.4	(12bps)	3.1	2.9	(6bps)
Adj. EPS (Rs)	8.2	7.0	(14.6)	10.5	9.7	(7.8)

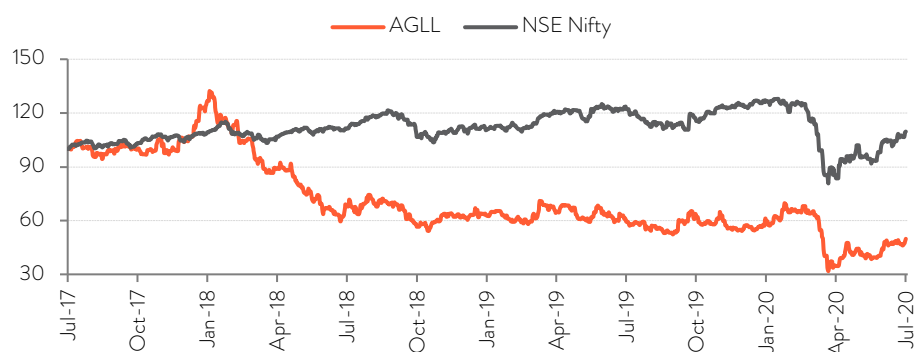
Source: Company, BOBCAPS Research

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 container trade and tepid domestic EXIM trade, amidst the lingering impact of Covid-19 and trade disruptions in major countries. P&E segment recovery hinges on a revival in wind and other capex-intensive industry sectors, which still looks some time away. Successful integration of Gati and faster-than-anticipated deleveraging are potential upside triggers. Maintain ADD.

FIG 8 – VALUATION SNAPSHOT

Particulars	Value
AGLL – core business	
FY22E EPS (Rs) - before share of profit from associates	9.5
P/E multiple applied (x)	9
Value of core business (Rs per share) [A]	85
Value of stake in ACCI	
ACCI's FY22E PAT (Rs mn)	225
P/E multiple applied (x)	11
Total equity value (Rs mn)	2,742
AGLL's stake in ACCI (%)	61%
Value of AGLL's stake (Rs per share) [B]	6
Value of stake in Gati	
Gati's market capitalisation (Rs mn)	5,116
AGLL's stake	47%
Value of AGLL's stake (Rs mn)	2,397
Value of AGLL's stake (Rs per share) [C]	10
Target price for AGLL (Rs per share) [A+B+C]*	100

Source: BOBCAPS Research | * TP is rounded off

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	FY20P	FY21E	FY22E
Total revenue	60,492	68,949	73,462	71,576	82,041
EBITDA	3,771	4,485	5,035	4,780	6,050
Depreciation	1,591	1,559	2,316	2,460	2,771
EBIT	2,181	2,926	2,719	2,320	3,278
Net interest income/(expenses)	(299)	(295)	(685)	(734)	(769)
Other income/(expenses)	391	338	413	504	511
Exceptional items	0	0	0	0	0
EBT	2,273	2,969	2,447	2,090	3,021
Income taxes	(513)	(542)	(711)	(430)	(711)
Extraordinary items	(69)	0	547	0	0
Min. int./Inc. from associates	48	52	61	62	70
Reported net profit	1,739	2,478	2,343	1,721	2,380
Adjustments	69	0	(333)	0	0
Adjusted net profit	1,808	2,478	2,010	1,721	2,380

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Accounts payables	7,184	7,916	9,181	8,713	10,038
Other current liabilities	1,693	4,110	5,290	5,154	5,907
Provisions	556	604	456	445	510
Debt funds	4,801	6,319	16,360	16,110	16,110
Other liabilities	0	0	0	0	0
Equity capital	491	491	491	491	491
Reserves & surplus	19,324	19,703	21,232	22,392	23,838
Shareholders' fund	19,816	20,195	21,723	22,884	24,329
Total liabilities and equities	34,049	39,144	53,009	53,306	56,895
Cash and cash eq.	3,553	2,658	3,150	3,008	1,535
Accounts receivables	8,386	9,422	11,501	11,206	12,844
Inventories	96	89	78	76	87
Other current assets	2,073	4,562	8,145	7,936	9,096
Investments	2,598	2,586	5,353	5,353	5,353
Net fixed assets	10,877	11,368	12,099	15,828	17,557
CWIP	97	1,645	2,690	0	0
Intangible assets	4,273	4,161	5,232	5,232	5,232
Deferred tax assets, net	931	1,082	1,092	1,092	1,092
Other assets	1,164	1,571	3,670	3,576	4,099
Total assets	34,049	39,144	53,009	53,306	56,895

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Net income + Depreciation	3,399	4,038	4,112	4,182	5,151
Interest expenses	299	295	685	734	769
Non-cash adjustments	(210)	(152)	(10)	0	0
Changes in working capital	133	(727)	(5,453)	(14)	(1,189)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	3,620	3,454	(666)	4,901	4,731
Capital expenditures	(690)	(3,486)	(5,162)	(3,500)	(4,500)
Change in investments	(541)	12	(2,767)	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(1,231)	(3,474)	(7,929)	(3,500)	(4,500)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(1,140)	1,519	10,040	(249)	0
Interest expenses	(299)	(295)	(685)	(734)	(769)
Dividends paid	(491)	(860)	(737)	(623)	(1,004)
Other financing cash flows	453	(1,222)	471	62	70
Cash flow from financing	(1,478)	(859)	9,089	(1,544)	(1,703)
Changes in cash and cash eq.	912	(879)	494	(142)	(1,472)
Closing cash and cash eq.	3,553	2,658	3,150	3,008	1,535

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20P	FY21E	FY22E
Reported EPS	7.1	10.1	9.5	7.0	9.7
Adjusted EPS	7.4	10.1	7.3	7.0	9.7
Dividend per share	2.0	3.5	3.0	2.1	3.4
Book value per share	80.0	81.4	87.3	91.8	97.4

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20P	FY21E	FY22E
EV/Sales	0.4	0.4	0.3	0.4	0.4
EV/EBITDA	6.6	5.6	5.1	6.6	6.0
Adjusted P/E	12.7	9.3	12.8	13.4	9.7
P/BV	1.2	1.2	1.1	1.0	1.0

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20P	FY21E	FY22E
Tax burden (Net profit/PBT)	79.6	83.5	82.2	82.4	78.8
Interest burden (PBT/EBIT)	104.2	101.5	90.0	90.1	92.1
EBIT margin (EBIT/Revenue)	3.6	4.2	3.7	3.2	4.0
Asset turnover (Revenue/Avg TA)	2.5	2.7	2.3	1.9	2.1
Leverage (Avg TA/Avg Equity)	1.3	1.3	1.5	1.7	1.7
Adjusted ROAE	9.6	12.5	8.7	7.8	10.2

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
YoY growth (%)					
Revenue	8.3	14.0	6.5	(2.6)	14.6
EBITDA	(19.7)	18.9	12.2	(5.1)	26.6
Adjusted EPS	(26.9)	42.5	(27.5)	(4.2)	38.2
Profitability & Return ratios (%)					
EBITDA margin	6.2	6.5	6.9	6.7	7.4
EBIT margin	3.6	4.2	3.7	3.2	4.0
Adjusted profit margin	3.0	3.6	2.7	2.4	2.9
Adjusted ROAE	9.6	12.5	8.7	7.8	10.2
ROCE	8.9	11.4	8.4	6.0	8.2
Working capital days (days)					
Receivables	51	50	57	57	57
Inventory	1	0	0	0	0
Payables	46	45	49	48	48
Ratios (x)					
Gross asset turnover	4.1	4.5	4.1	3.2	3.0
Current ratio	1.5	1.3	1.5	1.6	1.4
Net interest coverage ratio	7.3	9.9	4.0	3.2	4.3
Adjusted debt/equity	0.1	0.2	0.6	0.6	0.6

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

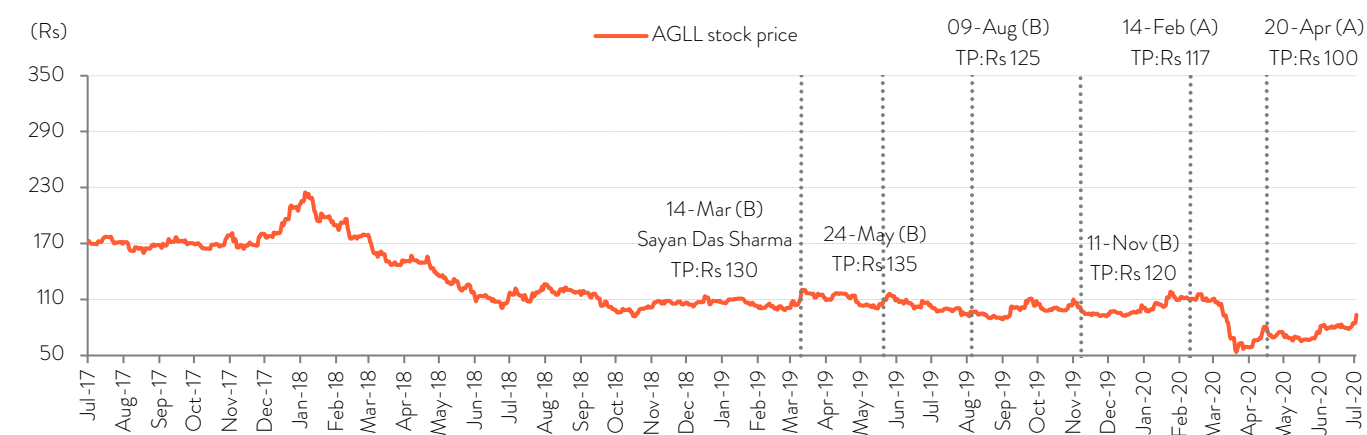
ADD – Expected return from >+5% to +15%

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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