

BUY

TP: Rs 135 | ▲ 23%

ALLCARGO LOGISTICS

Logistics

24 May 2019

Stellar quarter; well placed to fend off headwinds

Q4FY19 was a stellar quarter for Allcargo Logistics (AGLL) marked by a surge in adj. PAT to Rs 802mn vs. Rs 199mn in Q4FY18, led by sharp improvement in P&E segment profitability. However, performance of the MTO and CFS segments was relatively underwhelming. While we remain cognizant of near-term industry headwinds (escalating global trade wars, moderating container growth at key ports), we believe AGLL is well placed to withstand the challenges. Reiterate BUY with a revised Mar'20 TP of Rs 135 (vs. Rs 130).

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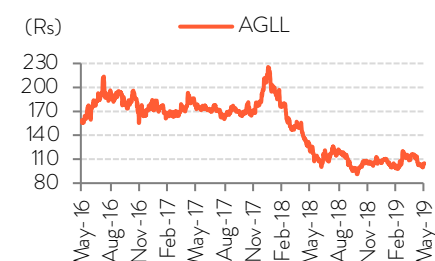
P&E segment drives profit beat: AGLL's Q4 consolidated revenue grew 12.4% YoY to Rs 17.3bn, in line with our estimate, led by 24% YoY growth in the P&E segment. EBITDA margin expanded 135bps YoY to 6.2% and EBITDA grew 44% to Rs 1.1bn as P&E segment EBIT leapfrogged to Rs 86mn from a loss of Rs 366mn in Q4FY18 (Q4FY19 includes a writeback of Rs 60mn vs. provision of Rs 150mn in base quarter). P&E utilisation has scaled up to 70-75% levels and its order book stands at Rs 1.5bn.

Ticker/Price	AGLL IN/Rs 110
Market cap	US\$ 387.4mn
Shares o/s	246mn
3M ADV	US\$ 0.4mn
52wk high/low	Rs 124/Rs 98
Promoter/FPI/DII	70%/4%/13%

Source: NSE

MTO and CFS underperform: MTO segment revenue grew 12.3% YoY led by higher realisations (+7%), while volume growth decelerated (+5% vs. +21% in 9MFY19). EBIT margin contracted 35bps YoY to 3.7%, affected by a higher share of FCL volumes. CFS revenue/volumes grew 5.5%/6%, while the segment's EBIT margin decreased 191bps YoY. Management has pinned the Q4 underperformance on seasonal aberrations/product mix changes and remains confident of achieving above-industry growth in both MTO and CFS.

STOCK PERFORMANCE



Source: NSE

Maintain BUY: Factoring in the sharp uptick in P&E segment profitability in Q4, we raise our FY20/FY21 earnings estimates by 5% each. Consequently, our Mar'20 TP rises to Rs 135 (earlier Rs 130), based on an unchanged FY21E EPS multiple of 11x for core operations. Reiterate BUY.

KEY FINANCIALS

Y/E 31 Mar	FY17A	FY18A	FY19E	FY20E	FY21E
Adj. net profit (Rs mn)	2,378	1,808	2,478	2,564	2,930
Adj. EPS (Rs)	9.7	7.4	10.1	10.4	11.9
Adj. EPS growth (%)	(1.5)	(26.8)	42.5	3.4	14.3
Adj. ROAE (%)	13.5	9.6	12.5	12.3	12.9
Adj. P/E (x)	11.3	14.9	10.9	10.5	9.2
EV/EBITDA (x)	5.9	8.0	6.3	6.0	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 – QUARTERLY PERFORMANCE – CONSOLIDATED

Y/E Mar (Rs mn)	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	FY19	FY18	YoY (%)
Total revenues	17,273	15,371	12.4	18,038	(4.2)	68,949	60,492	14.0
Freight and other related expenses	12,414	10,981	13.0	13,172	(5.8)	49,790	43,122	15.5
% of sales	71.9	71.4	43bps	73.0	(116bps)	72.2	71.3	93bps
Employee expenses	2,782	2,414	15.2	2,758	0.8	10,696	9,303	15.0
% of sales	16.1	15.7	40bps	15.3	81bps	15.5	15.4	13bps
Other expenses	1,006	1,230	(18.2)	979	2.8	3,977	4,296	(7.4)
% of sales	5.8	8.0	(217bps)	5.4	40bps	5.8	7.1	(133bps)
Total expenditure	16,202	14,625	10.8	16,909	(4.2)	64,464	56,721	13.7
EBITDA	1,072	746	43.6	1,129	(5.1)	4,485	3,771	18.9
EBITDA margin (%)	6.2	4.9	135bps	6.3	(5bps)	6.5	6.2	27bps
Depreciation	361	397	(8.9)	398	(9.3)	1,559	1,591	(2.0)
EBIT	710	350	103.3	731	(2.8)	2,926	2,181	34.2
Interest expenses	67	75	(10.6)	65	2.1	295	299	(1.3)
Other income	108	147	(26.8)	141	(23.3)	338	391	(13.6)
Extraordinary income/(expense)	-	(69)	NM	-	NM	-	(69)	NM
PBT	752	354	112.6	806	(6.7)	2,969	2,204	34.7
PBT margin (%)	4.4	2.3	205bps	4.5	(12bps)	4.3	3.6	66bps
Tax rate	(48)	231	NM	306	NM	542	513	5.8
Tax rate (%) – total	(6.4)	65.3	NM	37.9	NM	18.3	23.3	(498bps)
Reported PAT – pre-minority interest	800	123	551.9	500	59.9	2,426	1,692	43.4
Profit/(loss) from minority interest	3	7	(64.9)	4	(35.0)	52	48	8.5
Reported PAT – after minority interest	802	130	516.8	504	59.1	2,478	1,740	42.5
Adjustment	-	69	NM	-	NM	-	69	NM
Adjusted PAT	802	199	303.9	504	59.1	2,478	1,808	37.1
Adjusted PAT margin (%)	4.6	1.3	335bps	2.8	185bps	3.6	3.0	61bps
Adjusted EPS	3.3	0.8	303.9	2.1	59.1	10.1	7.4	37.1

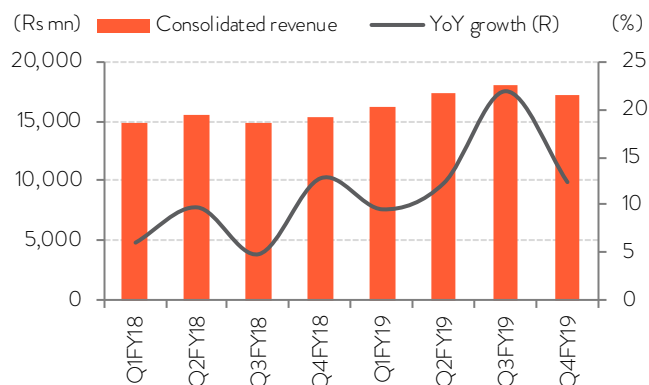
Source: Company, BOBCAPS Research

FIG 2 – SEGMENT-WISE METRICS

Y/E Mar (Rs mn)	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	FY19	FY18	YoY (%)
Multi-modal transport operations (MTO) segment								
Volumes (teu)	1,67,949	1,59,951	5.0	1,67,978	(0.0)	6,84,238	5,86,030	16.8
Realisation (Rs/teu)	91,649	85,671	7.0	96,631	(5.2)	90,013	91,716	(1.9)
Revenue	15,392	13,703	12.3	16,232	(5.2)	61,590	53,748	14.6
EBIT	571	556	2.7	593	(3.7)	2,417	2,199	9.9
EBIT margin (%)	3.7	4.1	(35bps)	3.7	6bps	3.9	4.1	(17bps)
EBIT/teu (Rs)	3,401	3,476	(2.2)	3,531	(3.7)	3,532	3,753	(5.9)
Container freight station (CFS) segment								
Volumes (teu)	80,882	76,304	6.0	82,319	(1.7)	3,34,015	2,99,531	11.5
Realisation (Rs/teu)	13,860	13,926	(0.5)	14,341	(3.4)	13,767	13,667	0.7
Revenue	1,121	1,063	5.5	1,181	(5.0)	4,598	4,094	12.3
EBIT	309	313	(1.3)	351	(12.1)	1,362	1,191	14.4
EBIT margin (%)	27.5	29.4	(191bps)	29.8	(222bps)	29.6	29.1	53bps
EBIT/teu (Rs)	3,815	4,099	(6.9)	4,266	(10.6)	4,079	3,976	2.6
Project and Engineering (P&E) segment								
Revenue	921	743	24.1	798	15.4	3,381	3,142	7.6
EBIT	86	(366)	NM	30	NM	49	(516)	NM
EBIT margin (%)	9.4	(49.3)	NM	3.8	556bps	1.4	NM	NM

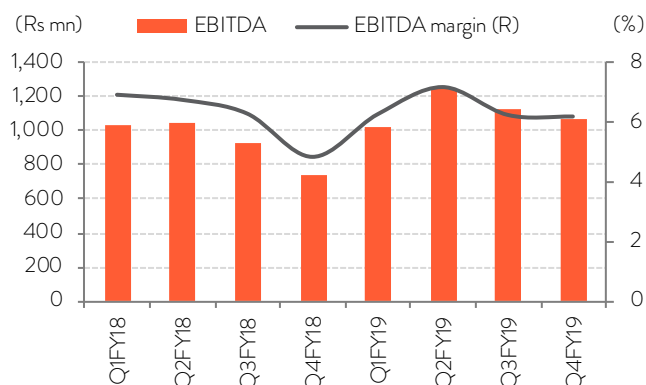
Source: Company, BOBCAPS Research

FIG 3 – Q4 CONSOLIDATED REVENUE UP 12.4% YOY



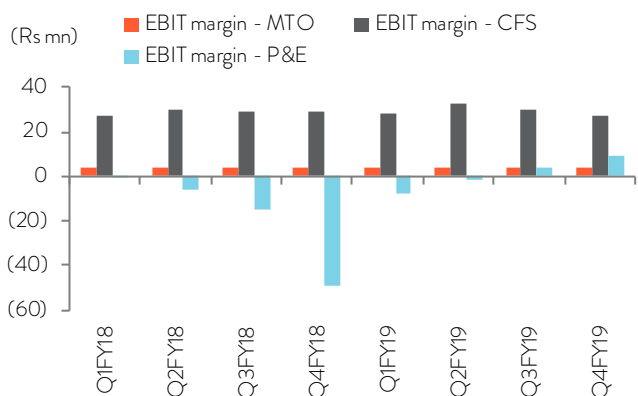
Source: Company, BOBCAPS Research

FIG 4 – EBITDA MARGIN ROSE 135BPS YOY TO 6.2%



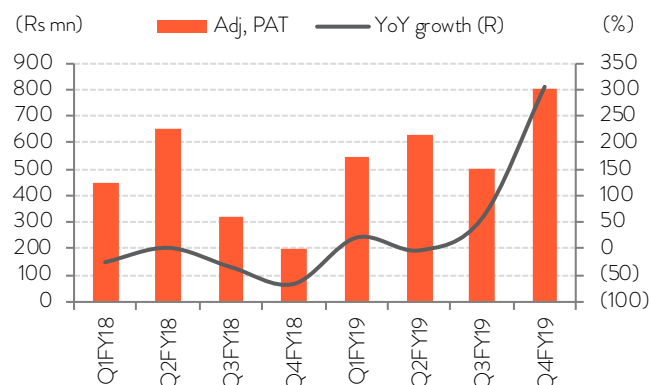
Source: Company, BOBCAPS Research

FIG 5 – P&E EBIT MARGIN IMPROVES; MTO AND CFS SEE CONTRACTION



Source: Company, BOBCAPS Research

FIG 6 – ADJ. PAT LEAPED TO RS 802MN FROM RS 199MN IN Q4FY18



Source: Company, BOBCAPS Research

Earnings call highlights

- In the MTO division, AGLL continues to grow in both less-than-container load (LCL) and full container load (FCL) categories through market share gains, while maintaining focus on expanding network across trade lanes.
- AGLL has been able to maintain double-digit volume growth over the past few years, much faster than the ~3% growth in global trade, led by market share gains in the LCL segment and higher FCL volumes. Management remains confident of double-digit growth in FY20 as well.
- Higher volumes handled at the Kolkata and Chennai ports have helped CFS segment volumes to scale up 6% YoY during the quarter. Realisations dipped by 0.5% YoY due to an unfavourable import-export mix and lower dwell time.
- P&E segment EBIT surged to Rs 86mn in Q4FY19 from a loss of Rs 366mn in Q4FY18, boosted by a Rs 60mn writeback. The base quarter also had a provision of Rs 150mn.

- A capex uptick in the wind and power segment has helped asset utilisation in the P&E segment to climb to 70-75% in Q4FY19 from ~45% in FY18. The P&E order book stands at Rs 1.5bn and management expects traction from key sectors going ahead.
- The CFS segment's financials do not yet include SEIS income (Service Exporter Incentive Scheme). AGLL has applied to the government for the same.
- Management plans to add 5mn sq ft of warehousing space over FY20-FY21, beginning with grade-A warehouses at Hyderabad and Bangalore. It already has visibility of clients absorbing 3.5mn sq ft. As per management, revenue potential from this space would be upwards of Rs 1bn-1.2bn per annum.
- During the quarter, the logistics park segment became a reportable segment as per Ind-AS 108. Revenue here includes lease rentals earned from two warehouses in Goa and Hosur.
- AGLL plans to phase out the shipping business completely by Q1FY20. It currently has two ships, down from seven a few years ago. A challenging environment in bulk transport and muted rates have compelled the company to scale down operations.

Valuation methodology

While acknowledging that industry headwinds persist across business segments, we maintain our view that AGLL's established market positioning should help it emerge relatively unscathed.

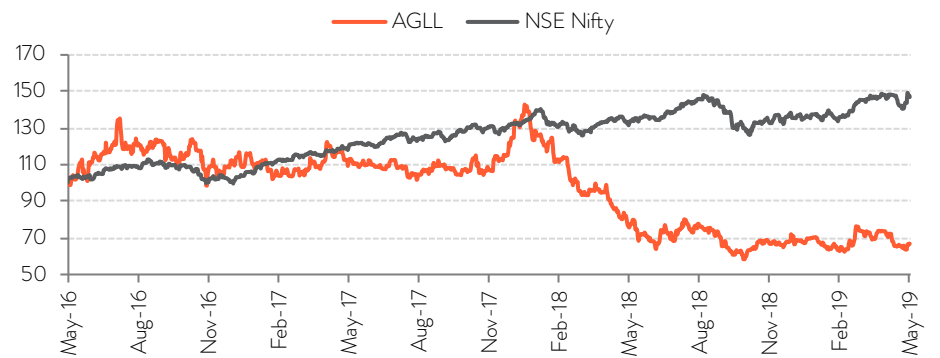
- In the MTO division, a leadership position in the growing LCL category, diversified presence across major trade lanes, and galloping FCL volumes should help the company withstand a possible slowdown in global trade owing to escalating trade wars.
- Despite sedate cargo traffic growth at key ports where AGLL has CFSs (Kolkata, Chennai, JNPT, and Mundra), we expect the company to grow faster than overall volume growth at these ports led by continued market share gains.
- While higher utilisation in the P&E business is a positive, a sustained growth revival in the segment hinges on a capex uptick in key sectors – coal, crude oil, natural gas, refinery products, fertilisers, steel, cement and power. In our view, a leaner asset profile after the recent pruning of the equipment base bodes well for future prospects.

Factoring in the higher-than-expected profitability of the P&E segment in Q4FY19, we increase our FY20/FY21 earnings estimates by 5% each. Accordingly, we raise our Mar'20 target price for the company to Rs 135 from Rs 130, set at an unchanged one-year forward P/E multiple of 11x. We maintain our BUY rating, considering that the CMP of Rs 110 fully factors in the risks. The CMP yields an attractive trading forward P/E multiple of 9.3x.

FIG 7 – REVISED ESTIMATES

(Rs mn)	FY20E			FY21E		
	Old	New	Change (%)	Old	New	Change (%)
Revenues	77,880	78,026	0.2	87,891	88,230	0.4
EBITDA	4,999	5,145	2.9	5,816	5,970	2.7
EBITDA margin (%)	6.4	6.6	18bps	6.6	6.8	15bps
PAT	2,435	2,564	5.3	2,794	2,930	4.9
PAT margin (%)	3.1	3.3	5.1	3.2	3.3	4.5
Adj. EPS (Rs)	9.9	10.4	5.3	11.4	11.9	4.9

Source: Company, BOBCAPS Research

FIG 8 – RELATIVE STOCK PERFORMANCE

Source: NSE

Key risks

- A sharp downturn in global trade can affect the MTO division's performance.
- A jump in direct port delivery (DPD) volumes may impact per unit profitability of the CFS segment.
- Capex slowdown in key sectors for the P&E segment (coal, crude oil, natural gas, refinery products, fertilisers, steel, cement and power) could hinder its growth revival.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Total revenue	55,834	60,492	68,949	78,026	88,230
EBITDA	4,699	3,771	4,485	5,145	5,970
EBIT	3,037	2,181	2,926	3,238	3,726
Net interest income/(expenses)	(374)	(299)	(295)	(359)	(394)
Other income/(expenses)	453	391	338	345	345
Exceptional items	0	0	0	0	0
EBT	3,116	2,273	2,969	3,224	3,677
Income taxes	(776)	(513)	(542)	(723)	(826)
Extraordinary items	0	(69)	0	0	0
Min. int./Inc. from associates	38	48	52	62	80
Reported net profit	2,378	1,740	2,478	2,564	2,930
Adjustments	0	69	0	0	0
Adjusted net profit	2,378	1,808	2,478	2,564	2,930

Balance Sheet

Y/E 31 Mar (Rs mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Accounts payables	6,232	6,902	7,916	9,041	10,264
Other current liabilities	1,212	1,642	3,734	4,226	4,778
Provisions	1,007	894	604	683	772
Debt funds	5,941	4,796	6,696	7,238	7,738
Other liabilities	0	0	0	0	0
Equity capital	491	491	491	491	491
Reserves & surplus	17,638	19,324	19,703	21,557	23,684
Shareholders' fund	18,129	19,816	20,195	22,048	24,175
Total liabilities and equities	32,522	34,049	39,144	43,236	47,728
Cash and cash eq.	2,725	3,553	2,658	2,027	2,370
Accounts receivables	7,522	8,386	9,422	10,662	12,056
Inventories	101	96	89	100	114
Other current assets	1,980	2,073	4,562	5,162	5,837
Investments	2,057	2,143	2,586	2,586	2,586
Net fixed assets	11,975	11,333	11,368	15,607	17,363
CWIP	753	100	1,645	0	0
Intangible assets	3,420	4,271	4,161	4,161	4,161
Deferred tax assets, net	721	931	553	553	553
Other assets	1,267	1,164	2,100	2,376	2,687
Total assets	32,522	34,049	39,144	43,236	47,728

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Net income + Depreciation	4,040	3,399	4,038	4,470	5,174
Interest expenses	374	299	295	359	394
Non-cash adjustments	123	(210)	378	0	0
Changes in working capital	(2,099)	138	(1,637)	(433)	(528)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	2,437	3,625	3,073	4,397	5,040
Capital expenditures	(974)	(1,145)	(3,031)	(4,500)	(4,000)
Change in investments	(1,755)	(86)	(443)	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(2,729)	(1,231)	(3,474)	(4,500)	(4,000)
Equities issued/Others	(13)	0	0	0	0
Debt raised/repaid	2,589	(1,145)	1,899	542	500
Interest expenses	(374)	(299)	(295)	(359)	(394)
Dividends paid	(491)	(860)	(747)	(773)	(883)
Other financing cash flows	(1,278)	821	(1,335)	62	80
Cash flow from financing	433	(1,482)	(478)	(528)	(697)
Changes in cash and cash eq.	142	912	(878)	(631)	343
Closing cash and cash eq.	2,725	3,553	2,658	2,027	2,370

Per Share

Y/E 31 Mar (Rs)	FY17A	FY18A	FY19E	FY20E	FY21E
Reported EPS	9.7	7.1	10.1	10.4	11.9
Adjusted EPS	9.7	7.4	10.1	10.4	11.9
Dividend per share	2.0	3.5	2.5	2.6	3.0
Book value per share	72.9	80.0	81.4	88.6	97.0

Valuations Ratios

Y/E 31 Mar (x)	FY17A	FY18A	FY19E	FY20E	FY21E
EV/Sales	0.5	0.5	0.4	0.4	0.4
EV/EBITDA	5.9	8.0	6.3	6.0	5.4
Adjusted P/E	11.3	14.9	10.9	10.5	9.2
P/BV	1.5	1.4	1.3	1.2	1.1

DuPont Analysis

Y/E 31 Mar (%)	FY17A	FY18A	FY19E	FY20E	FY21E
Tax burden (Net profit/PBT)	76.3	79.6	83.5	79.5	79.7
Interest burden (PBT/EBIT)	102.6	104.2	101.5	99.6	98.7
EBIT margin (EBIT/Revenue)	5.4	3.6	4.2	4.2	4.2
Asset turnover (Revenue/Avg TA)	2.5	2.5	2.7	2.8	2.9
Leverage (Avg TA/Avg Equity)	1.3	1.3	1.3	1.3	1.3
Adjusted ROAE	13.5	9.6	12.5	12.3	12.9

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

Ratio Analysis

Y/E 31 Mar	FY17A	FY18A	FY19E	FY20E	FY21E
YoY growth (%)					
Revenue	(1.0)	8.3	14.0	13.2	13.1
EBITDA	(7.7)	(19.7)	18.9	14.7	16.0
Adjusted EPS	(1.5)	(26.8)	42.5	3.4	14.3
Profitability & Return ratios (%)					
EBITDA margin	8.4	6.2	6.5	6.6	6.8
EBIT margin	5.4	3.6	4.2	4.2	4.2
Adjusted profit margin	4.3	3.0	3.6	3.3	3.3
Adjusted ROAE	13.5	9.6	12.5	12.3	12.9
ROCE	13.5	8.9	11.3	11.5	12.2
Working capital days (days)					
Receivables	49	51	50	50	50
Inventory	1	1	0	0	0
Payables	44	44	45	45	46
Ratios (x)					
Gross asset turnover	3.9	4.1	4.3	3.9	3.5
Current ratio	1.5	1.5	1.4	1.3	1.3
Net interest coverage ratio	8.1	7.3	9.9	9.0	9.5
Adjusted debt/equity	0.2	0.1	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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