

01 July 2014

Allcargo Logistics

Returns set to improve; Hold

Rating: **Hold**

Target Price: ₹248

Share Price: ₹235

Strengthening global network. On acquiring Econocaribe in FY14, Allcargo has become a global leader in LCL (less-than-a-container load) consolidation. It focuses on the key markets of India, the U.S., China, Brazil and Germany in the medium term to leverage its global network. It has beefed up its senior management and sales bandwidth to gain more customers and increase wallet share of customers. Allcargo aims to leverage its global multi-modal transport division for double-digit revenue growth from ₹41.5bn in FY14 (4.4% EBIT margin, 18.4% RoACE).

Domestic outlook improving. The container freight stations (CFS)/inland container depot (ICD) operations were under stress from lower import volumes in FY14 (₹3.1bn revenue, 26.5% EBIT margin, 20% RoACE) and are expected to be flat in FY15 but expected to pick up with government policies focusing on growth and exports. Allcargo's project and engineering (P&E) division will benefit from revival of project capex, a major overhang on capital returns (FY14 revenue of ₹4.2bn, 1.8% EBIT margin, 1% RoACE). Utilization levels will improve from 72% in FY14 to 90% in FY15 and the division will see a positive swing in return ratios with improved cash flows.

Cash-flow generation to stabilise. Allcargo had invested in the P&E and CFS sub-segments simultaneously in FY12 and entered the downturn with a leveraged balance sheet and low utilisation levels. Low capex over FY16 and improving order inflows in the P&E segment would see the RoCE reaching 11% by FY16. We expect cash generation to reach ₹4bn by FY16 leading to balance-sheet deleveraging.

Our take. At the CMP, the stock trades at 15.1x FY16e PE and 6.7x FY16e EV/EBITDA. Allcargo is focused on leveraging its global network for improving return ratios and to consolidate its balance sheet. We maintain a Hold rating on it, with a revised target price of ₹248 at 7x FY16e EV/EBITDA.

Key financials (YE Mar)	FY12 (15M)	FY13	FY14e	FY15e	FY16e
Revenues (₹m)	42,804	39,268	48,512	52,878	57,109
EBITDA (₹m)	5,233	3,561	3,846	4,230	4,569
EBITDA margin (%)	12.2	9.1	7.9	8.0	8.0
PAT (₹m)	2,977	1,823	1,477	1,665	2,018
EPS (₹)	21.9	13.5	11.3	12.8	15.6
EPS growth (%)	71.9	(38.4)	(16.0)	13.2	21.9
PE (x)	10.8	17.4	20.8	18.4	15.1
P/BV (x)	2.1	1.9	1.7	1.5	1.4
EV/EBITDA (x)	7.0	9.8	9.6	8.0	6.7
RoACE (%)	21.9	11.4	9.1	9.5	10.9

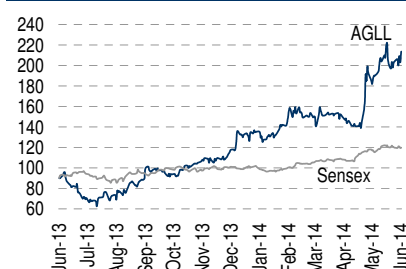
Source: Company, Anand Rath Research

Key data	AGLL IN / ALGL.BO
52-week high / low	₹235 / ₹59
Sensex / Nifty	25414 / 7611
3-m average volume	US\$0.1m
Market cap	₹30bn / US\$0.5bn
Shares outstanding	126m

Shareholding pattern (%)	Mar '14	Mar '14	Dec '13
Promoters	72.3	72.1	72.1
- of which, Pledged			
Free Float	27.7	27.9	27.9
- Foreign Institutions	11.9	11.9	11.8
- Domestic Institutions	0.2	0.2	0.2
- Public	15.6	15.9	15.9

Estimates revision (%)	FY15e	FY16e
Revenues	8.2	0.1
EBITDA	7.9	6.8
PAT	17.0	1.0

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY12 (15M)	FY13	FY14e	FY15e	FY16e
Revenues	42,804	39,268	48,512	52,878	57,109
Revenue growth (%)	49.5	(8.3)	23.5	9.0	8.0
- Oper. expenses	37,570	35,708	44,667	48,648	52,540
EBITDA	5,233	3,561	3,846	4,230	4,569
EBITDA margin (%)	12.2	9.1	7.9	8.0	8.0
- Interest expenses	644	418	563	624	519
- Depreciation	1,326	1,463	1,755	1,872	1,904
+ Other income	452	656	365	402	442
- Tax	734	512	416	470	569
Effective tax rate (%)	19.8	21.9	22.0	22.0	22.0
PAT	2,977	1,823	1,477	1,665	2,018
+/- Extraordinary items	(4)	(0)	-	-	-
+/- Minority interest	(141)	(129)	(51)	(51)	(51)
Attributable PAT	2,845	1,697	1,426	1,614	1,967
Adj. FDEPS (₹/sh)	21.9	13.5	11.3	12.8	15.6
Adj. FDEPS growth (%)	71.9	(38.4)	(16.0)	13.2	21.9

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY12 (15M)	FY13	FY14e	FY15e	FY16e
Share capital	270	258	252	252	252
Reserves & surplus	14,629	15,599	17,679	19,061	20,734
Net worth	14,899	15,857	17,931	19,313	20,986
Minority interest	311	433	463	463	463
Total debt	7,653	7,313	9,921	7,921	5,921
Def. tax liab. (net)	753	943	1,045	1,045	1,045
Capital employed	23,617	24,546	29,361	28,743	28,416
Net fixed assets	17,991	18,429	22,562	21,039	19,485
Investments	638	921	556	556	556
- of which, Liquid	-	-	-	-	-
Net working capital	3,214	2,876	3,250	3,227	3,137
Cash and bank balance	1,773	2,321	2,994	3,921	5,237
Capital deployed	23,617	24,546	29,361	28,743	28,416
Net debt	5,880	4,993	6,928	4,000	684
WC days	27.4	26.7	24.5	22.3	20.1
Book value (₹/sh)	114.4	125.8	142.3	153.2	166.5

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY12 (15M)	FY13	FY14e	FY15e	FY16e
PBT	3,710	2,335	1,893	2,135	2,587
Non-cash items	1,326	1,463	1,755	1,872	1,904
Interest expense	643	415	563	624	519
Non-operating items	(87)	(313)	(365)	(402)	(442)
Change in WC	(1,353)	(34)	(374)	23	89
Tax paid	(930)	(634)	(416)	(470)	(569)
Operating cash-flow	3,309	3,233	3,056	3,784	4,089
Capex	(5,991)	(1,896)	(1,780)	(350)	(350)
Investments	(115)	712	187	402	442
CF from investing	(6,106)	(1,184)	(1,593)	52	92
Chg. in share capital	-	(505)	(5)	-	-
Chg. in debt	3,048	(553)	-	(2,000)	(2,000)
Dividend, int. & others	(1,214)	(444)	(784)	(908)	(864)
CF from financing	1,834	(1,502)	(790)	(2,908)	(2,864)
Net cash-flow	(963)	547	673	928	1,316

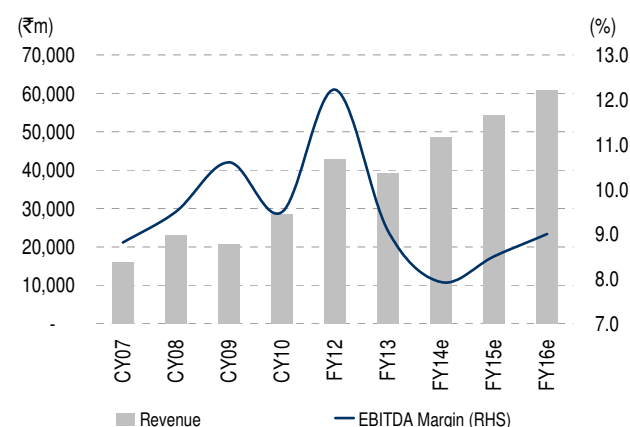
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis @ ₹235

Year-end: Mar	FY12 (15M)	FY13	FY14e	FY15e	FY16e
P/E (x)	10.8	17.4	20.8	18.4	15.1
P/B (x)	2.1	1.9	1.7	1.5	1.4
P/CF (x)	7.3	9.4	9.3	8.5	7.7
EV/Sales (x)	0.9	0.9	0.8	0.6	0.5
EV/EBITDA (x)	7.0	9.8	9.6	8.1	6.7
Dividend yield (%)	0.6	0.6	0.6	0.8	1.0
Dividend payout (%)	6.9	11.1	13.3	15.0	15.0
RoAE (%)	21.3	11.0	8.4	8.7	9.8
RoACE (%)	21.9	11.4	9.1	9.5	10.9
Debt/Equity (x)	0.5	0.5	0.6	0.4	0.3
EBIT/Interest (x)	6.1	5.0	3.7	3.8	5.1
EBITDA growth (%)	92.6	(32.0)	8.0	10.0	8.0
EBITDA margin (%)	12.2	9.1	7.9	8.0	8.0
EBIT margin (%)	9.1	5.3	4.3	4.5	4.7
PAT margin (%)	6.6	4.3	2.9	3.1	3.4

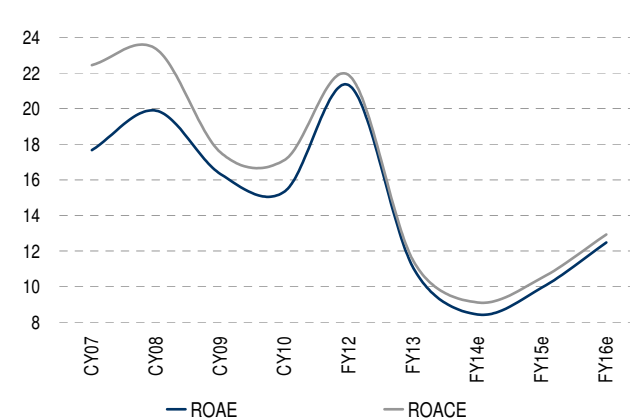
Source: Company, Anand Rathi Research

Fig 5 – Revenue and margins



Source: Anand Rathi Research

Fig 6 – Improving return ratios



Source: Anand Rathi Research

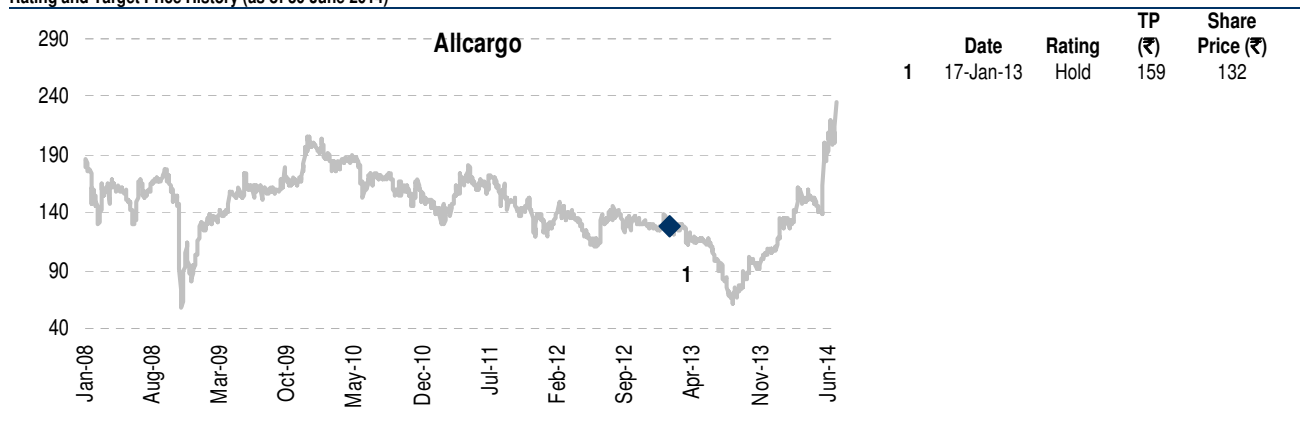
Appendix

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