

Allcargo Global Logistics1044
OUTPERFORMER

RESULT NOTE

Mkt Cap: Rs19bn; US\$460m

Analyst: Bhoomika Nair (91-22-6638 3337; bhoomika@sski.co.in)
Shirish Rane (91-22-6638 3313; shirish@sski.co.in)

Result: Q1CY07

Comment: Consolidated results below our estimates due to lower margins in ECU line; CY07 earnings downgraded by 4.6%

Last report: 31 January 2007 (Price Rs1257; Recommendation: Outperformer)

Key valuation metrics

Year to March (Rs mn)	Sales	yoy chg (%)	Net Profit	EPS (Rs)	yoy chg (%)	PER (x)
2004	1,462	25.0	59	11.8	78.5	88.6
2005	2,266	54.9	250	24.9	111.2	42.0
2006	2,704	19.4	494	27.2	9.3	38.4
CY2006P*	12,281	354.2	678	33.5	23.2	31.2
CY2007E	18,121	47.6	1,057	52.2	55.8	20.0
CY2008E	20,695	14.2	1,334	65.9	26.2	15.9

*ECU line consolidated from CY2006 onwards

AGL's 1QCY07 consolidated results were below our estimates at Rs204mn (+65% yoy growth) led by lower ECU margins at 4.8% during the quarter. Standalone revenues grew by 11.5% yoy to Rs766mn during the quarter led by higher volume and realization growth. Operating margins improved by 140bps to 21% led by expansion in MTO margins (+20bps) due to lower shipping freight expenses. However, CFS margins fell sharply (-980bps) due to high base effect. We have downgraded our consolidated earnings by 4.6% for CY07 and 2% for CY08 due to lower than estimated margins of ECU line. AGL currently trades at 15.9x CY08E earnings. We believe valuations are attractive considering 40% earnings CAGR over CY06-CY08 driven by its global leadership in MTO business (2nd largest NVOCC in the world) as well as expansion of its CFS network to provide end to end logistics solutions to clients. Maintain Outperformer.

AGL changed its year – end to December against April. Consequently, CY06 was a 9 month period from April - December 2006. Hence the comparable period is 4QFY06 to the current 1QCY07.

STANDALONE RESULT HIGHLIGHTS

- Revenues grew by 12% yoy in 1QCY07 to Rs766mn mainly driven by higher volumes in both MTO (Multi modal Transport Operations) as well as CFS (Container Freight Stations) divisions. Moreover, realizations improved in the CFS divisions as AGL passed on the road freight hike to its customers, while MTO realizations fell by 11.8% yoy as the shipping freight rates fell during the quarter.
- Operating margins improved by 140bps yoy to 21.1% during the quarter primarily due to higher EBIT margins of the MTO operations (improved by 20bps led by the lower freight costs). Moreover, AGL has signed up long term contracts with shipping lines for freight rates, which has further reduced freight cost during the quarter.
- On the other hand, CFS margins fell sharply by 980bps to 50.1% during the quarter, primarily due to a high base effect. Last year (FY06), CFS margins had jumped sharply led by higher ground rent due to the congestion at the port.

Segmental break up

(Rs m)	4QFY06	1QCY07	% yoy chg
Multimodal			
Revenues	533	545	2.3
EBIT	32	34	5.2
EBIT margin (%)	6.0	6.2	+20bps
Volumes (mn TEU)	6,207	7,198	16.0
Realisations (Rs/TEU)	85,843	75,740	-11.8
CFS			
Revenues	160	221	38.3
EBIT	96	110	15.6
EBIT margin (%)	59.9	50.1	-980bps
Volumes (mn TEU)	21,182	26,973	27.3
Realizations (Rs/TEU)	7,533	8,181	8.6

- Other income fell by 36% to Rs13mn, while interest expense fell by 79% yoy to Rs2mn as AGL repaid high cost debt.
- On the other hand, depreciation increased by 29.6% yoy to Rs18mn as AGL changed its accounting policy of depreciation to a SLM (straight line method) against the earlier WDV (written down value) method.
- AGL has provided a higher tax at 17.4% for the quarter against 8.3% in 4QFY06.
- Consequently, net profit grew by 3.7% to Rs129mn during the quarter.

□ ECU line reports profit of Rs72mn for the quarter

ECU revenues for 1QCY07 are Rs2.9bn and a PAT of Rs72mn. On the other hand, margins have remained stable over 3QCY07.

AGL acquired ECU line, 2nd largest NVOCC in the world in June 2006. ECU complements AGL's MTO business and enables it to leverage ECU's network to service clients across the world. AGL is focusing on enhancing the margins and operating performance of ECU Line. Accordingly, the few initiatives taken by the management during the quarter are:

- Outsourcing back end operations to India – Appointment of WNS for KPO services
- Establishment of office in Hong Kong for global buying of freight from shipping lines (approx. Rs9bn)
- Tie-up with Econocaribe, USA (leading NVOCC in USA) to provide services in USA and to get volumes from Econocaribe for other parts of the world
- Debt reduction through better working capital management – 12.5mn euros debt as on quarter end compared to 16.5mn euros in December 2006

Performance of ECU Line during the quarter

	Rs mn
Revenues	2891
EBITDA	140
EBITDA margin (%)	4.8%
PBT	102
PAT	72

Source: Company

□ Acquisition of Hindustan Cargo at Rs89mn during the quarter

AGL has recently acquired Hindustan Cargo Limited (HCL), a wholly owned subsidiary of Thomas Cook (India) Ltd to enter the air freight business. HCL had revenues of Rs89mn and Rs2mn PAT during the quarter. Going forward, HCL will enhance AGL's competitive position in the air logistics business and will help it provide end to end logistics solutions to its client across the European market.

Performance of HCL during the quarter

	Rs mn
Revenues	89
EBITDA	4
EBITDA margin (%)	4.1%
PBT	3
PAT	2

Source: Company

□ 1Q CY07 consolidated earnings at Rs204mn led by ECU line acquisition

AGL's consolidated revenues for the quarter jumped by over 4x led by the ECU line acquisition to Rs3.75bn. On the other hand, operating margins were at 8.2% for the quarter (not comparable on yoy basis) mainly due to lower margins of ECU line. Consequently, the consolidated profit grew by 65% yoy to Rs204mn during the quarter.

□ Chennai and Mundra CFS commissioned; new ICD's by CY09

AGL has commissioned the two new CFS facilities as planned at Chennai and Mundra in April 2007. The Chennai CFS is spread across 9 acres, which the management expects to handle ~20,000TEU's during CY07, while the management expects the Mundra CFS to handle ~14,000TEU's during CY07. The capex incurred for both the facilities was Rs510mn. Moreover, AGL plans to open new ICD's and CFS's across the northern market, Bangalore, Ahemdabad, Nagpur, Hyderabad, etc which are likely to be commissioned over the next 3 years by CY09. AGL expects to incur a total capex of Rs3.5bn for these new facilities over the next 3 years.

□ Earnings CAGR of 40% over CY06-08 – Maintain Outperformer

We have downgraded our consolidated numbers by 4.6% in CY07 and 2% in CY08 led by the lower than estimated margins in ECU Line during the quarter. AGL is a leading Multimodal Transport Operator (MTO) in India, offering end-to-end logistics solutions across the world. The CFS business in key locations enhances the efficacy of AGL's logistics solutions. The acquisition of ECU Line is extremely value accretive and in line with AGL's strategy of offering complete and cost competitive services. We believe AGL trades at attractive valuations of 15.9x CY08E consolidated earnings in view of the strong earnings growth led by CFS network expansion and integration of its MTO business with ECU Line, the 2nd largest NVOCC in the world. We maintain Outperformer rating on the stock with a target price of Rs1186/share.

SSKI INDIA

Standalone quarterly results

Rs mn	1Q06	2Q06	3Q06	4Q06	FY06	1QCY06	2QCY06	3QCY06	CY06	1Q07	CY07E
Net Sales	694	631	692	687	2,704	701	883	852	2,436	766	3,846
Total Expenses	549	492	531	551	2,122	550	719	690	1,975	604	3,123
EBITDA	145	140	161	136	582	152	164	162	461	162	723
OPM (%)	21.0	22.1	23.3	19.7	21.5	21.7	18.5	19.0	18.9	21.1	18.8
Other Income	0	8	15	21	44	11	6	21	40	13	50
Interest	2	10	3	7	23	9	1	6	16	2	10
Depreciation	17	18	14	14	62	15	17	(4)	73	18	80
PBT	126	120	159	135	541	140	152	181	411	156	684
Tax	11	9	16	11	47	17	16	44	74	27	109
Tax Rate (%)	8.6	7.8	9.8	8.3	8.7	11.9	10.7	24.3	18.1	17.4	16.0
PAT	115	111	144	124	494	123	136	137	337	129	574
Growth (yoy, %)											
Net Sales					119.4	1.1	39.8	23.0	90.1	11.5	157.9
EBITDA					183.1	4.5	17.3	0.3	79.1	19.4	156.9
PBT					355.9	11.0	26.5	13.5	144.5	15.2	166.3
PAT					198.1	7.0	22.6	(4.8)	68.2	3.7	170.5
Equity Shares	18.2	18.2	18.2	18.2	18.2	20.3	20.3	20.3	20.3	20.3	20.3
EPS (Rs/share)	63.3	61.0	79.1	68.3	271.7	6.1	6.7	6.8	16.6	6.4	28.4
PER (x)	16.5	17.1	13.2	15.3	3.8	171.6	155.7	154.4	62.8	164.3	36.8

Consolidated quarterly results

Rs mn	1Q06	2Q06	3Q06	4Q06	FY06	1QCY06	2QCY06	3QCY06	CY06	1Q07	CY07E
Net Sales	698	635	684	687	2,704	3,874	4,184	4,224	12,281	3,751	18,121
Total Expenses	551	496	524	551	2,122	3,578	3,837	3,899	11,331	3,444	16,627
EBITDA	146	139	161	136	582	295	347	325	950	306	1,494
OPM (%)	21.0	21.9	23.5	19.7	21.5	7.6	8.3	7.7	7.7	8.2	8.2
Other Income	0	9	15	21	44	11	7	21	40	14	50
Interest	2	10	3	7	23	21	15	19	55	13	44
Depreciation	17	18	14	14	62	42	46	26	113	45	172
PBT	127	120	158	135	541	244	293	301	822	262	1,328
Tax	11	10	15	11	47	31	53	62	144	52	270
Tax Rate (%)	8.7	7.9	9.6	8.3	8.7	12.7	18.0	20.6	17.5	19.7	20.4
PAT	116	111	143	124	494	213	240	239	678	211	1,057
Minority interest	-	-	-	-	-	8	8	-	16	6	8
Reported Profit After Tax	116	111	143	124	494	205	232	239	662	204	1,049
Growth (yoy, %)											
Net Sales					119.4	455.2	558.5	517.1	454.2	446.2	147.6
EBITDA					183.1	101.8	149.0	102.1	163.3	125.9	157.3
PBT					355.9	92.2	143.5	90.2	288.8	93.9	306.9
PAT					198.1	77.0	109.3	67.0	134.1	64.7	158.4

SSKI INDIA

Analyst	Sector/Industry/Coverage	E-mail	Tel. +91-22-6638 3300
Pathik Gandotra	Head of Research; Banking, Strategy	pathik@sski.co.in	91-22-6638 3304
Shirish Rane	Cement, Construction, Power, Real Estate	shirish@sski.co.in	91-22-6638 3313
Nikhil Vora	FMCG, Media, Retailing, Mid Caps	nikhilvora@sski.co.in	91-22-6638 3308
Ramnath S	Automobiles, Auto ancillaries	ramnaths@sski.co.in	91-22-6638 3380
Nitin Agarwal	Pharmaceuticals	nitinagarwal@sski.co.in	91-22-6638 3395
Ganesh Duvvuri	IT Services, Telecom	ganesh@sski.co.in	91-22-6638 3358
Varatharajan S	Oil & Gas, Engineering	varatharajan@sski.co.in	91-22-6638 3240
Chirag Shah	Textiles, Metals, Real Estate	chiragshah@sski.co.in	91-22-6638 3306
Bhoomika Nair	Construction, Power, Logistics	bhoomika@sski.co.in	91-22-6638 3337
Avishek Datta	Oil & Gas, Engineering	avishek@sski.co.in	91-22-6638 3217
Bhushan Gajaria	FMCG, Retailing, Media	bhushangajaria@sski.co.in	91-22-6638 3367
Shreyash Devalkar	IT Services, Telecom	shreyashdevalkar@sski.co.in	91-22-6638 3311
Nilesh Parikh, CFA	Banking	nilesh@sski.co.in	91-22-6638 3325
Veekesh Gandhi	Banking	veekesh@sski.co.in	91-22-6638 3231
Ashish Shah	Automobiles, Auto ancillaries	ashishshah@sski.co.in	91-22-6638 3371
Salil Desai	Cement, Infrastructure	salil@sski.co.in	91-22-6638 3373
Rahul Narayan	FMCG, Retailing, Media	rahulnarayan@sski.co.in	91-22-6638 3238
Suchit Sehgal	Mid Caps	suchitsehgal@sski.co.in	91-22-6638 3307
Nityam Shah	Automobiles, Auto ancillaries	nityam@sski.co.in	91-22-6638 3327
Uday Joshi	Technical Analyst	udayjoshi@sski.co.in	91-22-6638 3392
Dharmendra Sahu	Database Manager	dharmendra@sski.co.in	91-22-6638 3382
Equity Sales/Dealing	Designation	E-mail	Tel. +91-22-6638 3300
Naishadh Paleja	CEO	naishadh@sski.co.in	91-22-6638 3211
GV Alankara	Head of Dealing	alankara@sski.co.in	91-22-6638 3201-210
Vishal Purohit	VP - Sales	vishalp@sski.co.in	91-22-6638 3212
Nikhil Gholani	VP - Sales	nikhilgholani@sski.co.in	91-22-6638 3363
Sanjay Panicker	VP - Sales	sanjaypanicker@sski.co.in	91-22-6638 3368
V Navin Roy	AVP - Sales	navin@sski.co.in	91-22-6638 3370
Rohan Soares	AVP - Sales	rohan@sski.co.in	91-22-6638 3310
Rishi Kohli	VP - Derivatives	rishikohli@sski.co.in	91-22-6638 3321/403
Pawan Sharma	AVP - Derivatives	pawansharma@sski.co.in	91-22-6638 3403
Dipesh Shah	AVP - Derivatives	dipeshshah@sski.co.in	91-22-6638 3403
Manohar Wadhwa	AVP - Derivatives	manohar@sski.co.in	91-22-6638 3403

Disclaimer

This document has been prepared by S S Kantilal Ishwarlal Securities Private Limited (SSKI). SSKI and its subsidiaries and associated companies are full-service, integrated investment banking, investment management and brokerage group. Our research analysts and sales persons provide important input into our investment banking activities. This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction.

The information contained herein is from publicly available data or other sources believed to be reliable. While we would endeavor to update the information herein on reasonable basis, SSKI, its subsidiaries and associated companies, their directors and employees ("SSKI and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SSKI and affiliates from doing so.

We do not represent that information contained herein is accurate or complete and it should not be relied upon as such. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved). The investment discussed or views expressed may not be suitable for all investors.

Affiliates of SSKI may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SSKI and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

SSKI & affiliates may have used the information set forth herein before publication and may have positions in, may from time to time purchase or sell or may be materially interested in any of the securities mentioned or related securities. SSKI and affiliates may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SSKI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. Any comments or statements made herein are those of the analyst and do not necessarily reflect those of SSKI and affiliates.

This Document is subject to changes without prior notice and is intended only for the person or entity to which it is addressed to and may contain confidential and/or privileged material and is not for any type of circulation. Any review, retransmission, or any other use is prohibited.

Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. SSKI will not treat recipients as customers by virtue of their receiving this report.

Explanation of Ratings:

1. Outperformer: More than 10% to Index
2. Neutral: Within 0-10% to Index
3. Underperformer: Less than 10% to Index

Disclosure of interest:

1. SSKI and its affiliates have not received compensation from the company covered herein in the past twelve months for Issue Management, Capital Structure, Mergers & Acquisitions, Buyback of shares and Other corporate advisory services.
2. Affiliates of SSKI are currently not having any mandate from the subject company.
3. SSKI and its affiliates do not hold paid up capital of the company.
4. The Equity Analyst and his/her relatives/dependents hold no shares of the company covered as on the date of publication of research on the subject company.

Copyright in this document vests exclusively with SSKI