

Allcargo Global Logistics

Sidharth Agrawal

+91 22 67069940
sidharth.agrawal@investsmartindia.com

Ember Pereira

+91 22 67069940
Ember.pereira@investsmartindia.com

Shareholding (%)

Promoters	79.6
FII's	3.1
MFs	3.3
Others	14.0

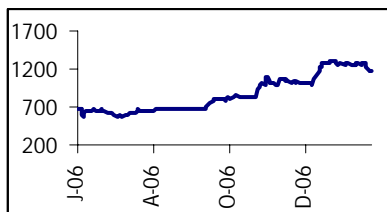
Share price performance

52-week high/low (Rs) 1355/559

	-1m	-3m	-12m
Abs (%)	-10.4	38.8	na
Rel* (%)	-10.2	33.9	na

*to Nifty

Stock chart



International business on track; domestic performance disappoints

On a standalone basis, Allcargo Global Logistics Ltd (AGL) reported a revenue growth of 26% YOY, from Rs677 mn to Rs 852 mn in Q3FY07. Net realisations, however, in both the MTO and CFS businesses dropped by 7.3% and 3.5% YoY respectively, resulting in a fall in EBITDA margins by 550 bps YoY, from 24.5% to 19%.

On a consolidated basis, AGL's performance remained almost flat. Net sales for the quarter rose to Rs4,223 mn as against Rs4,184 mn in Q2FY07; net profit was flat at Rs231 mn in Q3FY07 as against Rs232 mn in Q2FY07. We expect AGL's consolidated net sales to rise to Rs16,394 mn in FY08E and Rs17,501 mn in FY09E, resulting in an FY08 EPS of Rs58.6 and FY09 EPS of Rs70.2 respectively.

At the current price of Rs1,110 the stock trades at a P/E multiple of 18.6x FY08E and 15.6x FY09E. We continue to rate the stock an 'Accumulate'.

The key highlights of the Q3FY07 results are :

- Volumes drive growth in MTO segment:** Revenues from the MTO business increased by 29% YoY, from Rs490 mn to Rs633 mn in Q3FY07. This growth was mainly driven by an increase in volumes, from 5,206 TEUs to 6,482 TEUs. Net realisations per TEU, however, dropped by 5.4% from Rs 14,169 to Rs 13,372 due to shipments made to lower-margin areas like Middle East. On a QOQ basis, volumes declined by 4%, from 6,767 TEUs to 6482 TEUs; net realisations per TEU also dipped by 8% QoQ from Rs 14,610 to Rs 13,372.
- CFS business margins under pressure :** Net sales in the CFS business increased by 17% YoY, from Rs187 mn to Rs218 mn on account of increase in volumes to 26,141 from 22,976 IN Q3FY06. PBIT margins fell by 800 bps YoY, from 68% to 60%; this was due to a drop in net realisations per TEU from Rs5,932 to Rs5,720.

Accumulate
Rs1,110

February 14, 2007

Market cap

Rs bn 24
US\$ mn 535

Avg 3m daily volume

42,712

Avg 3m daily value

USD mn 1

Shares outstanding (mn)

20

Reuters

ALGL.BO/ALLCARGO.NS

Bloomberg

AGLL IN

Sensex

14,091

Nifty

4,045

Allcargo Global Logistics

- Consolidated performance flat, on QoQ basis:** On a consolidated basis , net sales stood at Rs 4,223 mn in Q3FY07 as against 4,184 mn in Q2FY07; this minimal growth of 1% was caused by the seasonality in the EcuLine business during the third quarter. EBITDA declined by 6.4% QoQ, from Rs347 mn to Rs324 mn, and net profits remained flat at Rs239 mn as against Rs240 mn. Traditionally , Eculine’s MTO business has experienced low volumes during Q3 on account of major shipments being completed before September.
- Acquisition of Hindustan Cargo Ltd (HCL):** During the quarter, AGL acquired Hindustan Cargo Ltd, a wholly- owned subsidiary of Thomas Cook operating in the air freight business for a total consideration of Rs 89.10 mn. AGL initiated the acquisition to gain a presence in the air cargo segment in India and to complement Eculine’s air freight business in Belgium and rest of the world. Entry into this space would enable AGL to offer its customers a full range of transport services in the logistics space.
- Valuation:** AGL’s global business is on track. On the domestic front, we believe that, the comissioning of the CFS at Mundra and Chennai would add volumes to the CFS business and the company’s focus on high-margin areas would improve realisations in the MTO business. At the current price of Rs1,110 the stock is trading at 18.6x FY08E and 15.6x FY09E earnings on a consolidated basis. We therefore, maintain an ‘Accumulate’ rating on the stock.

Table 1. Quarterly result table (Standalone)

Rs mn	Q3FY07	Q3FY06	YoY (%)	Q2FY07	QoQ (%)
Net Sales	851.5	677.4	25.7	882.7	-3.5
Total Expenses	689.7	511.7	34.8	719.0	-4.1
Operating Expenses	631.7	448.9	40.7	646.3	-2.3
Staff Cost	24.9	24.0	3.7	33.0	-24.5
Other Expenses	33.1	38.7	-14.6	39.6	-16.5
EBITDA	161.8	165.7	-2.3	163.7	-1.1
Other Income	21.2	11.0	93.2	6.5	227.1
PBIT	183.1	176.7	3.6	170.2	7.6
Interest	6.0	3.3	82.9	0.8	622.9
Depreciation	-3.9	13.9	-127.8	17.3	-122.3
PBT	180.9	159.5	13.4	152.0	19.0
Tax	43.9	15.5	0.0	16.2	170.9
PAT	137.0	144.0	-4.9	135.8	0.9
Equity	202.6	202.6	0.0	202.6	0.0
EPS (Rs)	6.76	7.11	-4.9	6.70	0.9
Key Ratios (%)					
EBITDA Margin	19.0	24.5		18.5	-0.5
Interest / Sales	0.7	0.5		0.1	
Tax / PBT	24.3	9.7		10.7	
NPM	16.1	21.3		15.4	

Source: IISL research, company

Allcargo Global Logistics

Table 2. Quarterly result table (Consolidated)

Rs mn	Q3FY07	Q2FY07	QoQ (%)
Net Sales	4223.5	4183.8	0.9
Total Expenses	3898.8	3836.9	1.6
Operating Expenses	2935.6	2891.2	1.5
Staff Cost	607.9	607.4	0.1
Other Expenses	355.4	338.2	5.1
EBITDA	324.7	346.9	-6.4
Other Income	21.5	6.9	210.1
PBIT	346.1	353.9	-2.2
Interest	19.2	14.6	31.3
Depreciation	25.9	46.0	-43.7
PBT	301.1	293.3	2.7
Tax	62.1	52.8	17.6
PAT	239.0	240.4	-0.6
Minority interest	8.2	8.4	
Net profit	230.8	232.0	
Equity	202.6	202.6	0.0
EPS (Rs)	11.80	11.87	-0.6
Key Ratios (%)			
EBITDA Margin	7.7	8.3	
Interest / Sales	0.5	0.3	
Tax / PBT	20.6	18.0	
NPM	5.5	5.5	

Source: IISL research, company

Allcargo Global Logistics

Financials (Consolidated)

Profit & Loss					Balance Sheet				
In Rs mn	FY06	FY07E	FY08E	FY09E	In Rs mn	FY06	FY07E	FY08E	FY09E
Net sales	2,704.2	15,335.0	16,393.8	17,501.1	Equity capital	181.8	202.6	202.6	202.6
YoY (%)	19.4	467.1	6.9	6.8	Preference capital	0.0	0.0	0.0	0.0
Total expenses	2,121.9	13,992.8	14,770.5	15,768.1	Reserves	1,413.3	2,662.9	3,850.4	5,271.7
Inc/dec in stock	0.0	0.0	0.0	0.0	Net worth	1,595.1	2,865.5	4,053.0	5,474.3
Expenses of operation	1,877.5	10,351.1	10,869.1	11,603.2	Total borrowings	225.3	300.0	300.1	300.1
Employee cost	103.0	1,916.9	2,049.2	2,187.6	Deferred tax	10.3	5.3	5.3	5.3
Hire and Transport	12.2	13.4	14.3	15.3	Total liabilities	1,830.7	3,170.8	4,358.3	5,779.7
Other Expenses	0.0	0.0	0.0	0.0	Gross block	496.3	1,046.3	1,386.3	1,726.3
Administrative Exp	129.3	1,711.4	1,837.9	1,962.0	Less: Acc. depreciation	132.8	207.8	305.8	403.8
EBITDA	582.3	1,342.2	1,623.3	1,732.9	Net block	363.5	838.5	1,080.5	1,322.5
YoY (%)	66.5	130.5	20.9	6.8	CWIP	120.4	50.0	50.0	50.0
EBIDTA (%)	21.5	8.8	9.9	9.9	Investments	793.8	1,416.3	2,389.3	3,537.1
Other income	44.4	29.8	73.1	107.5	Current assets	817.6	1,191.1	1,234.5	1,279.8
PBIDT	626.7	1,372.0	1,696.4	1,840.5	Inventories	0.0	0.0	0.0	0.0
Interest	23.2	35.1	35.0	35.0	Debtors	254.0	627.7	671.0	716.4
Gross profit	603.6	1,336.9	1,661.4	1,805.4	Cash	408.3	400.0	400.0	400.0
Depreciation	62.3	159.3	177.0	28.8	Loans and advances	155.4	163.4	163.4	163.4
PBT and extra ordinary	541.3	1,177.6	1,484.4	1,776.6	Current liabilities	227.4	257.9	325.6	336.0
Extra ordinary items	0.0	0.0	0.0	0.0	Provisions	37.1	67.1	70.3	73.7
PBT	541.3	1,177.6	1,484.4	1,776.6	Net current assets	553.1	866.1	838.5	870.0
(-) Tax	46.9	235.5	296.9	355.3	Miscellaneous expenses	0.0	0.0	0.0	0.0
Tax/ PBT	8.7	20.0	20.0	20.0	Total assets	1,830.7	3,170.8	4,358.3	5,779.7
PAT	494.3	942.1	1,187.5	1,421.3					
Adjusted net profit	494.3	942.1	1,187.5	1,421.3					
YoY (%)	76.6	90.6	26.0	19.7					

Key Ratios					Cash Flow				
	FY06	FY07E	FY08E	FY09E	In Rs mn	FY06	FY07E	FY08E	FY09E
EPS (Rs)	27.2	46.5	58.6	70.2	Net profit	494.3	942.1	1,187.5	1,421.3
Adjusted EPS (Rs)	0.0	0.0	0.0	0.0	Depn and w/o	62.6	159.3	177.0	28.8
CEPS (Rs)	30.5	54.4	67.4	71.6	Deferred tax	(2.8)	0.0	0.0	0.0
Book value (Rs)	87.8	141.5	200.1	270.3	Change in working cap	(62.6)	(321.3)	27.6	(31.5)
Dividend per share (Rs)	5.7	0.0	0.0	0.0	Other income	0.0	0.0	0.0	0.0
Debt-equity (x)	0.1	0.1	0.1	0.1	Operating cash flow	491.5	780.1	1,392.1	1,418.6
ROCE	28.6	37.4	33.2	29.5	Other income	0.0	0.0	0.0	0.0
ROE	31.0	32.9	29.3	26.0	Capex	(211.7)	(563.9)	(419.0)	(270.8)
PE (x)	40.9	23.9	19.0	15.8	Investments	(718.3)	(622.5)	(973.1)	(1,147.8)
Cash PE (x)	36.5	20.4	16.5	15.5	Investing cash flow	(930.0)	(1,186.4)	(1,392.1)	(1,418.6)
Price/book value (x)	12.7	7.9	5.6	4.1	Dividend	(103.1)	0.0	0.0	0.0
Dividend yield					Fresh equity	721.4	307.5	0.0	0.0
Market cap/sales	7.5	1.5	1.4	1.3	Debt	126.1	74.7	0.0	0.0
EV/sales (x)	7.4	1.5	1.4	1.3	Financing cash flow	744.4	382.2	0.0	0.0
EV/EBDITA (x)	34.4	16.7	13.8	12.9	Others	90.4	15.8	0.0	0.0
					Net change in cash	396.2	(8.3)	(0.0)	0.0
					Opening cash	12.1	408.3	400.0	400.0
					Closing cash	408.3	400.0	400.0	400.0

Disclaimer Clause

This report has been prepared by the Research Department of IL&FS Investsmart Securities Limited (IISL). The information and opinions contained herein have been compiled or arrived at based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This report has been produced independently of the company, and forward looking statements, opinions and expectations contained herein are entirely those of IISL and given as part of its normal research activity and not as a Manager or Underwriter or any Offering or as an agent of the Company or any other person. Accordingly, if the Company should at any time commence an Offering of securities, any decision to invest in any such Offer or invitation to subscribe for or acquire securities of the Company must be based wholly on the information contained in the Final Prospectus issued or to be issued by the Company in connection with any such Offer or invitation and not on the contents hereof. This document is for information purpose only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. IISL, its directors, analysts or employees do not take any responsibility financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of the shares and bonds, changes in the currency rates, diminution in the NAVs reduction in the dividend or income, etc

IISL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

This report is not directed to or intended for display, downloading, printing, reproducing or for distribution to or use by any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject IISL or its affiliates to any registration or licensing requirement within such jurisdiction. If this report is inadvertently send or has reached any individual in such country, especially, USA the same may be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published for any purpose without prior written approval of IISL.

Foreign currency denominated securities, if any, wherever mentioned are subject to exchange rate fluctuations which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively