

Allcargo Global Logistics

Performance Highlights

Y/E Dec (Rs cr)	2QCY10	2QCY09	%yoy	1QCY10	%qoq
Revenues	639	523	22.2	586	9.2
EBIDTA	67	62	6.8	57	16.6
OPM margin (%)	10.4	11.9	(150bp)	9.8	66bp
PAT	38	47 [#]	(18.7)	34	11.3

Source: Company, Angel Research; Note: [#] includes sale of investments in GDL

Allcargo Global Logistics' (AGL) consolidated 2QCY2011 results were marginally above our expectations owing to strong performance by ECU Line. Management expects ECU Line's performance to sustain and double capacity at JNPT CFS by CY2011 end and enhance profitability. There was strong volume growth across segments with improvement in Exim visibility. The stock has underperformed in the last one year on account of subdued performance in ECU Line and is currently available at reasonable valuations. **We upgrade the stock to Accumulate.**

ECU Line drives profitability: AGL reported a 22.2% yoy and 9.2% qoq jump in revenues to Rs639cr due to strong pick-up in volumes across segments. ECU Line reported 15.6% yoy and 65.6% yoy growth in revenues and profit respectively in 2QCY2010. OPM came in at 10.4%, down by 150bp yoy on lower ground rent in the CFS segment and the Indian MTO segment registered higher depreciation charges coupled with only the absolute hike in freight rates getting passed on. Reported PAT fell 18.7% yoy, but higher by 11.3% qoq to Rs38cr in 2QCY2010 as the company booked other income of Rs18cr on sale of investments in GDL in 2QCY2009. AGL also continued to claim MAT entitlement, which resulted in lower tax rate of 17.6% (20.4%) for 2QCY2010.

Outlook and Valuation: We believe that AGL is well positioned in the container industry, through its MTO and CFS segments. We have revised upwards our CY2011 earnings estimate by 5% and expect AGL to register 22.9% CAGR in profit over CY2009-11E. At Rs171, the stock is trading at 11.3x CY2011E EPS. We upgrade the stock to Accumulate on improved performance by ECU Line with a Target Price of Rs195, valuing the stock at 13x CY2011E EPS.

Key Financials (Consolidated)

Y/E Dec (Rs cr)	CY2008	CY2009	CY2010E	CY2011E
Net Sales	2,314	2,061	2,468	2,876
% chg	43.4	(10.9)	19.8	16.5
Net Profit	107.7	129.9	150.4	196.4
% chg	49.4	20.7	15.7	30.6
FDEPS (Rs)	8.2	9.9	11.5	15.0
EBITDA Margin (%)	9.5	10.6	11.0	12.0
P/E (x)	20.7	17.1	14.8	11.3
RoE (%)	23.1	18.0	14.8	16.0
RoCE (%)	22.3	15.2	14.6	16.0
P/BV (x)	3.6	2.3	1.8	1.6
EV/Sales (x)	1.1	1.1	1.0	0.8
EV/EBITDA (x)	11.2	10.7	8.8	6.5

Source: Company, Angel Research

ACCUMULATE

CMP	Rs171
Target Price	Rs195

Investment Period	12 Months
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Stock Info

Sector	Logistics
Market Cap (Rs cr)	2,227
Beta	0.4
52 Week High / Low	218/151
Avg. Daily Volume	23,099
Face Value (Rs)	2
BSE Sensex	18,051
Nifty	5,418
Reuters Code	ALGL.BO
Bloomberg Code	AGLL@IN

Shareholding Pattern (%)

Promoters	69.8
MF / Banks / Indian Fls	4.2
FII / NRIs / OCBs	24.0
Indian Public / Others	2.0

Abs. (%)	3m	1yr	3yr
Sensex	7.2	22.1	25.7
Allcargo	(6.2)	7.2	(1.4)

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Exhibit 1: 2QCY2010 performance (consolidated)

(Rs cr)	2QCY10	2QCY09	%yoy	1QCY10	%qoq
Net sales	639	523	22.2	586	9.2
Total expenditure	573	461	24.3	529	8.4
Operating profit	67	62	6.8	57	16.6
OPM (%)	10.4	11.9	(150bp)	9.8	66bp
Depreciation	18	14	28.5	15	19.7
Interest	7	9	(18.5)	4	105.6
Other income	8	22	(64.4)	4	85.6
Profit before tax	49	61	(19.7)	43	14.8
Tax	9	12	(30.8)	7	15.8
Tax rate (%)	17.6	20.4	(282bp)	17.4	15bp
MI/EO items	(3)	(2)	25.8	(1)	102.4
Reported PAT	37.9	46.6*	(18.7)	34.0	11.3
PAT margin (%)	5.9	8.9	(298bp)	5.8	11bp
EPS (Rs)	2.9	3.6	(18.7)	2.6	11.3

Source: Company, Angel Research; Note: * includes sale of investments in GDL

Exhibit 2: Actual v/s estimates

Particulars (Rs cr)	Estimates	Actual	Variation (%)
Net Sales	588	639	8.8
Operating Profit	62	67	8.0
OPM (%)	10.5	10.4	8bp
Reported PAT	36.3	37.9	4.4

Source: Company, Angel Research

Improvement in ECU Line volumes; sustainability holds key

CFS volumes grew by 35.4% yoy (down 1.0% qoq) led by strong performance across the three CFS segments on a low base and improving Exim visibility. However, EBIT margins in CFS fell by 775bp yoy and 359bp qoq due to reduction in the dwell time. Standalone MTO volumes grew by 7.5% yoy (down 9.7% qoq) to 6,302 TEU. ECU Line volumes grew 27.1% yoy and 12.5% qoq to 54,000 TEU. Management has indicated sustainability of ECU Line performance in ensuing quarters. Further, ECU Line OPM increased by 176bp qoq to 5.4% as the company was able to pass through the rise in freight rates.

Exhibit 3: Volumes Breakup

Particulars (TEUs)	2QCY10	2QCY09	%yoy	1QCY10	%qoq
Total volumes	115,020	88,771	29.6	110,256	4.3
CFS	54,718	40,406	35.4	55,278	(1.0)
Standalone MTO	6,302	5,865	7.5	6,978	(9.7)
ECU Line	54,000	42,500	27.1	48,000	12.5

Source: Company, Angel Research

Equipment leasing and project cargo continue to report strong numbers

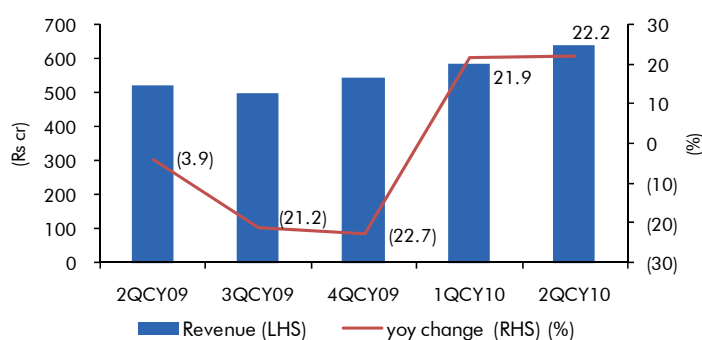
AGL reported 46.5% yoy growth in equipment leasing (TFSP) revenues on account of addition of new cranes. However, there was a dip in EBIT margins by 392bp on account of higher depreciation charges. AGL reported 75.0% yoy growth in project cargo revenues thereby boosting MTO segment. We expect both these high-margin segments to contribute 10% to consolidated revenues from current levels of 5% in CY2011.

Exhibit 4: Segment-wise performance (standalone)

Revenue (Rs cr)	2QCY10	2QCY09	%yoy	1QCY10	%qoq
Total	162	116	39.3	164	(1.1)
MTO	89	64	40.2	104	(13.9)
CFS	46	35	32.0	45	2.2
TFSP	32	22	46.5	20	64.0
Less Inter-segment	(5)	(4)	30.6	(4)	27.2
EBIT (Rs cr)					
Total	34	33	1.9	38	(11.5)
MTO	9	11	(21.5)	13	(32.1)
CFS	20	18	12.3	21	(5.5)
TFSP	5	4	17.6	4	19.1
EBIT margins (%)					
Total	21.0	28.7	(771bp)	23.5	(246bp)
MTO	9.7	17.3	(762bp)	12.3	(260bp)
CFS	44.3	52.0	(775bp)	47.8	(359bp)
TFSP	16.0	19.9	(392bp)	22.0	(601bp)

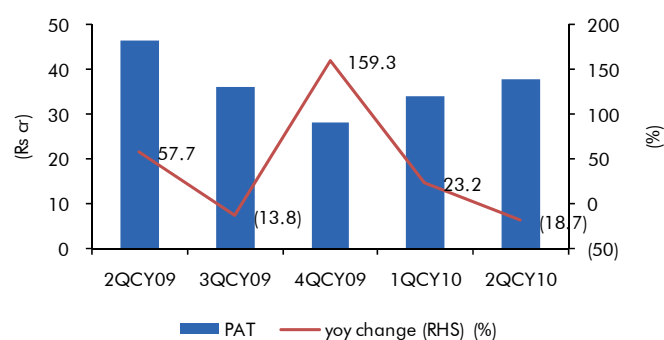
Source: Company, Angel Research

Exhibit 5: Quarterly revenue trend



Source: Company, Angel Research

Exhibit 6: Quarterly profitability trend



Source: Company, Angel Research

Investment Arguments

High infra spend to boost project cargo, equipment hire businesses

The Eleventh Five-Year Plan has earmarked a substantial US \$500bn for the infrastructure sector, which will lend a boost to the logistics segment in particular the project cargo and cranes business. We believe that AGL's high-margin project cargo and equipment hire divisions are well placed to capitalise on the emerging opportunities and post 30% CAGR in revenues over CY2009-11E taking its share in consolidated revenues to 10.0% in CY2011E from current levels of 5.2%.

Steady performance from MTO and CFS/ICD segments to continue

AGL is the leader in the MTO segment offering services of full container load (FCL) and less than container load (LCL). It has three operational CFS near the vital ports of JNPT, Chennai and Mumbai, and an ICD at Indore (Pithampur). We expect container traffic to register 15% CAGR over the next five years following addition of new container terminals and improvement in Exim visibility. Management has indicated doubling of capacity at its JNPT CFS by the end of CY2011E, which will enhance profitability in the longer term. Recently, AGL commissioned its first road-linked ICD at Pithampur with annual capacity of 30,000 TEU. Additionally, it also acquired land at Nagpur, Hyderabad, Hosur and Goa for further expansion. The company has also entered into a joint venture (JV) with Hind Terminal for setting up, commissioning, operating and managing the CFS's and ICDs at Indore, Hyderabad, Nagpur and Bangalore. With this JV, we expect AGL to garner Hind Terminal's captive volumes (10 rakes are operating and have plans to add another 10-12 rakes over the next two years) at its respective ICD/CFS. AGL has also entered into a JV with Concor to share its ICD at Dadri, which is expected to get operational by end CY2010E. AGL on account of having a pan-India presence is well-placed to benefit from the growing container traffic.

Performance of ECU Line holds key for stock performance

The stock has grossly underperformed since the last one year on account of subdued performance in ECU Line. Post the ECU Line acquisition, AGL targeted to improve its OPM by 100bp every year. However, while it managed to register a cumulative 150bp improvement in OPMs, net margins have languished over the last three years. This can be attributed to the slowdown in the global economy, which has delayed the integration of ECU with AGL. We expect 100bp improvement in ECU Line each year over the next two years following improvement in the global economy and increasing outsourcing to India.

Outlook and Valuation

We believe that AGL is well positioned in the container segment through its MTO and CFS segments. Moreover, with the ECU Line acquisition, AGL has the opportunity to scale up its operations globally as well as enhance profit. We believe that going ahead the stock's performance will depend on improvement in the ECU Line's operational efficiency. We have revised upwards our CY2011 earnings estimates by 5% and expect the company to register 22.9% CAGR in profit over CY2009-11E. At Rs171, the stock is trading at attractive valuations of 11.3x CY2011E EPS of Rs15.0. **We upgrade the stock from Neutral to Accumulate, with a Target Price of Rs195, valuing the stock at 13x CY2011E EPS.**

Exhibit 7: Change in estimates

(Rs cr)	Earlier Estimates		Revised Estimates		Change (%)	
	CY2010E	CY2011E	CY2010E	CY2011E	CY2010E	CY2011E
Revenue	2,352	2,686	2,468	2,876	5.0	7.1
EBITDA	256	327	273	344	6.2	5.3
PAT	152	186	150	196	(1.0)	5.4

Source: Angel Research

Exhibit 8: Comparative Valuation

Company	Reco	Mcap (Rs cr)	CMP (Rs)	TP (Rs)	Upside (%)	P/E (x)		P/B (x)		EV/EBITDA (x)		RoE (%)		CAGR*	
						FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	Sales	PAT
Allcargo*	Accumulate	2,227	171	195	12.6	14.8	11.3	1.8	1.6	8.8	6.5	14.8	16.0	18.1	22.9
Gateway Distriparks	Buy	1,082	100	123	22.4	13.6	10.6	1.8	1.6	6.3	5.0	11.6	13.8	21.1	13.6
Container Corp	Reduce	17,623	1,356	1,194	(11.9)	20.9	18.7	3.8	3.4	14.3	13.0	18.4	18.0	11.5	9.9

Source: Company, Angel Research; Note: *Calendar Year; #CAGR over FY10-12E

Profit & Loss Statement (Consolidated)

Y/E Dec (Rs cr)	Dec. 06	CY2007	CY2008	CY2009	CY2010E	CY2011E
Gross sales	895	1,613	2,314	2,061	2,468	2,876
Less: Excise duty	-	-	-	-	-	-
Net Sales	895	1,613	2,314	2,061	2,468	2,876
Other operating income	-	-	-	-	-	-
Total operating income	895	1,613	2,314	2,061	2,468	2,876
% chg	17.0	80.2	43.4	(10.9)	19.8	16.5
Total Expenditure	815	1,471	2,094	1,842	2,196	2,532
Operating Expenses	612	1,040	1,589	1,305	1,690	1,942
Administrative & Selling	95	162	174	190	210	244
Personnel	108	269	330	347	296	345
Other	-	-	-	-	-	-
EBITDA	80	142	220	219	273	344
% chg	-	77.7	54.6	(0.5)	24.4	26.4
(% of Net Sales)	8.9	8.8	9.5	10.6	11.0	12.0
Depreciation	8	25	45	55	72	86
EBIT	72	117	175	164	200	258
% chg	-	62.5	49.7	(6.3)	22.0	29.0
(% of Net Sales)	8.0	7.2	7.6	8.0	8.1	9.0
Interest & other charge	1	12	25	23	26	22
Other Income	5	5	11	29	25	29
(% of PBT)	6.6	4.7	6.6	16.9	12.4	10.8
Share in profit of asso.	-	-	-	-	-	-
Recurring PBT	76	110	161	169	199	265
% chg	-	44.8	46.6	5.3	17.4	33.3
Extraordinary exp/(inc)	-	-	-	-	-	-
PBT (reported)	76	110	161	169	199	265
Tax	17	29	36	26	36	53
(% of PBT)	23.1	26.9	22.2	15.4	18.0	20.0
PAT (reported)	66	82	127	141	163	212
Add: earnings of asso.	-	-	-	-	-	-
Less: Minority int. (MI)	-	(10)	(14)	(11)	(13)	(16)
Prior period items	8	2	(4)	(3)	-	-
PAT after MI (reported)	66.2	72.1	107.7	129.9	150.4	196.4
ADJ. PAT	58.3	80.2	125.1	143.4	163.1	212.2
% chg	34.0	37.7	55.9	14.6	13.7	30.1
(% of Net Sales)	6.5	5.0	5.4	7.0	6.6	7.4
Basic EPS (Rs)	6.5	6.4	9.6	10.4	11.5	15.0
Fully Diluted EPS (Rs)	5.1	5.5	8.2	9.9	11.5	15.0
% chg		8.9	49.4	20.7	15.7	30.6

Balance Sheet (Consolidated)

Y/E Dec (Rs cr)	CY2006	CY2007	CY2008	CY2009	CY2010E	CY2011E
Sources of funds						
Equity Share Capital	20	22	22	25	26	26
Share Warrants	-	-	29	-	-	-
O/S ESOP	1	2	2	2	2	2
Reserves & Surplus	374	448	558	954	1,201	1,389
Shareholder's Funds	395	472	611	981	1,228	1,417
Minority Interest	5	9	11	13	13	13
Total Loans	78	126	344	204	304	254
Deferred Tax Liability	(1)	4	13	18	18	18
Total Liabilities	476	611	980	1,217	1,564	1,703
Application of funds						
Gross Block	341	558	708	924	1,144	1,324
Less: Acc. dep.	67	114	146	205	278	364
Net Block	274	444	562	719	866	960
Capital WIP	34	41	74	75	75	75
Goodwill	-	-	-	-	-	-
Investments	58	6	83	167	192	192
Current Assets	312	364	567	546	783	862
Cash	45	63	101	92	131	244
Loans & Advances	81	72	167	216	324	236
Other	186	229	299	238	327	381
Current liabilities	202	243	307	290	352	386
Net Current Assets	110	120	260	256	431	476
Misc. exp. not w/off	1	1	0	-	-	-
Total Assets	476	611	980	1,217	1,564	1,703

Cash Flow Statement (Consolidated)

Y/E Dec (Rs cr)	CY2006	CY2007	CY2008	CY2009	CY2010E	CY2011E
Profit before tax	72	110	161	169	199	265
Depreciation	8	25	45	54	72	86
Change in Working Capital	(50)	9	(107)	1	(135)	68
Other Adjustments	2	(0)	22	3	-	-
Direct taxes paid	(7)	(19)	(31)	(42)	(36)	(53)
Cash Flow from Operations	24	125	89	186	100	366
Inc./ (Dec.) in Fixed Assets	(136)	(141)	(174)	(171)	(220)	(180)
Inc./ (Dec.) in Investments	(46)	53	(75)	(64)	(25)	-
Inc./ (Dec.) in loans & adv	-	-	-	-	-	-
Acquisition of subsidiary	(101)	(31)	-	-	-	-
Other income	1	1	(14)	5	-	-
Cash Flow from Investing	(281)	(118)	(263)	(230)	(245)	(180)
Issue of Equity	130	-	25	110	105	-
Inc./ (Dec.) in loans	55	33	218	(39)	100	(50)
Dividend Paid (Incl. Tax)	(18)	(9)	(5)	(14)	(7)	(8)
Others	(5)	(13)	(25)	(23)	(13)	(16)
Cash Flow from Financing	162	11	213	35	185	(73)
Inc./ (Dec.) in Cash	4	18	38	(9)	40	113
Opening Cash balances	41	45	63	101	92	132
Closing Cash balances	45	63	101	92	132	245

Key Ratios

Y/E Dec	CY2006	CY2007	CY2008	CY2009	CY2010E	CY2011E
Valuation Ratio (x)						
P/E (on FDEPS)	33.6	30.9	20.7	17.1	14.8	11.3
P/CEPS	23.6	20.2	12.8	11.8	9.5	7.5
P/BV	5.7	4.7	3.6	2.3	1.8	1.6
Dividend yield (%)	2.6	2.8	1.5	2.9	0.3	0.3
EV/Sales	2.5	1.4	1.1	1.1	1.0	0.8
EV/EBITDA	28.2	16.1	11.2	10.7	8.8	6.5
EV / Total Assets	12.3	4.8	4.1	2.4	2.0	1.4
Per Share Data (Rs)						
EPS (Basic)	6.5	6.4	9.6	10.4	11.5	15.0
EPS (fully diluted)	5.1	5.5	8.2	9.9	11.5	15.0
Cash EPS	7.2	8.4	13.3	14.4	18.0	22.9
DPS	4.5	4.8	2.5	5.0	0.5	0.5
Book Value	30	36	47	75	94	108
Dupont Analysis						
EBIT margin	8.0	7.2	7.6	8.0	8.1	9.0
Tax retention ratio	0.8	0.7	0.8	0.8	0.8	0.8
Asset turnover (x)	3.7	3.3	3.3	2.1	2.0	2.0
ROIC (Post-tax)	23.0	17.5	19.3	14.1	13.0	14.5
Cost of Debt (Post Tax)	1.8	12.0	8.2	7.1	8.3	6.2
Leverage (x)	-	0.1	0.3	0.3	0.1	0.1
Operating ROE	23.0	18.1	22.3	15.9	13.6	15.1
Returns (%)						
ROCE (Pre-tax)	21.8	21.6	22.3	15.2	14.6	16.0
Angel ROIC (Pre-tax)	12.1	26.0	27.1	18.0	16.9	19.1
ROE	21.0	18.5	23.1	18.0	14.8	16.0
Turnover ratios (x)						
Asset Turnover (GB)	4.6	3.6	3.7	2.5	2.4	2.3
Inventory / Sales (days)	-	-	-	-	-	-
Receivables (days)	32	47	41	47	41	45
Payables (days)	38	34	28	30	30	30
Wkg. cap. (ex-cash, days)	16	14	17	29	34	34
Solvency ratios (x)						
Net debt to equity	0.1	0.1	0.4	0.1	0.1	0.0
Net debt to EBITDA	0.4	0.4	1.1	0.5	0.6	0.0
Int. coverage (EBIT/Int)	62.6	9.5	7.0	7.1	7.7	11.9

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Disclosure of Interest Statement

	Allcargo
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below Rs 1 lakh for Angel, its Group companies and Directors.

Ratings (Returns) :	Buy (> 15%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
	Reduce (-5% to 15%)	Sell (< -15%)	