

August 19, 2011

**ALLCARGO LOGISTICS LIMITED**

**CMP: Rs. 152; STRONG BUY**

## Result Update

**Q2CY11 Result Update**

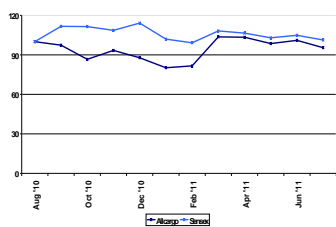
**Target Price: Rs. 289**

Reuters code	ALGL.BO
Bloomberg Code	AGLL@IN
BSE	532749
Sensex	16,142
52week H/L (Rs)	192/125
Monthly H/L (Rs)	176/143
MktCap (Rs mn)	19,827
MktCap (US\$ mn)	441
EV (Rs mn)	22,635

### Valuation Parameters (CY 11)

EV/EBITDA	5.3
MktCap/EBITDA	4.7
EV/Sales	0.7
Mkt Cap/Sales	0.6

### Price Chart



### Shareholding Pattern



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### Q2CY11 CONSOLIDATED PERFORMANCE

Allcargo results were above our estimates on account of better than expected performance of its global NVOCC and domestic CFS businesses. The domestic CFS business benefited from several factors such as volume growth, favourable shift in mix between import and export, increase in dwell time and realization.

#### Quarterly Highlights

- Revenues at Rs. 8,541 mn up by 33.5% YoY, as its global NVOCC and domestic CFS businesses registered strong revenue growth
- EBITDA grew significantly by 52.5% YoY to Rs. 1,022 mn as EBITDA margin improved from 10.5% to 12.0% as the company was able to maintain spread in its domestic and global NVOCC businesses
- Depreciation and interest costs were at Rs. 244 mn and Rs. 83 mn, up 35.4% YoY and 13.9% YoY respectively
- Profit before tax stood at Rs. 801 mn versus Rs. 491 mn in Q2CY10 and net profit came in at Rs. 664 mn, up by 75.3% YoY

### OUTLOOK

#### Global NVOCC business to maintain growth momentum

Allcargo's global NVOCC business is expected to continue its strong growth momentum through CY11 and beyond. We expect this business to be a major driver of volumes and profitability as:

- increase in network penetration in far-east and Chinese market through acquisitions and expansion generates more volumes and creates added value; and
- improvement in cost efficiencies by increasing throughput through its extensive network translates into margin improvements

#### CFS/ICD business to be key growth driver

Allcargo's CFS/ICD business is expected to be a key growth driver for the company as it focuses on increasing market share through combination of:

- capacity expansion at major port terminals of Mumbai, Chennai and Mundra;
- focus on maintaining high capacity utilization levels across its CFS/ICD facilities; and
- superior service delivery in terms of operational efficiency through integrated transport operations

## **Recent acquisition expected to be strategic value-add to Projects & Engineering Solutions business**

Allcargo intends to increase its asset utilization and improve its margin in the Projects & Engineering Solutions business through provision of value-based offering to its top customers in the green-energy, industrials and port-development industries. Its recent acquisition of MHTC, which has over 25 years of experience in project transportation business, provides Allcargo with access to MHTC's long-standing relationships with several marquee customers including Bechtel, ABB, Siemens and Reliance Energy.

## **VALUATION**

Considering the strong margin performance of Allcargo's global NVOCC and domestic CFS businesses, we have revised upwards our margin estimates for CY11E-CY12E. We expect an 18.0% CAGR in revenues over the period CY10-CY12E. Our EPS estimates for CY11E and CY12E are at Rs. 16.8 and Rs. 19.2 respectively.

The stock is currently trading at a P/E multiple of 9.0x and 7.9x and EV/EBITDA multiple of 5.3x and 4.2x times its CY11E and CY12E numbers. Our target price on the stock is Rs. 289 at a P/E multiple of 15.0x times its CY12E earnings.

Fiscal Year	CY08 (A)	CY09 (A)	CY10 (A)	CY11 (E)	CY12 (E)
Revenues (Rs. mn)	23,141	20,609	28,613	34,522	39,837
EBITDA (Rs. mn)	2,198	2,185	2,697	4,242	4,883
EBITDA (%)	9.5	10.6	9.4	12.3	12.3
PAT (Rs. mn)	1,077	1,299	1,659	2,194	2,512
Net Profit (%)	4.6	6.2	5.7	6.3	6.3
No. of Shares (mn)	22	125	131	131	131
EPS (Rs.)	48.2	10.4	12.7	16.8	19.2
P/E	-	-	-	9.0	7.9
EV/EBITDA	-	-	-	5.3	4.2

## **KEY RISKS**

The key downside risks are as follows:

- i) Slowdown in the global economy can adversely affect demand for logistics services
- ii) Changes in freight rates driven by competitive pressure
- iii) Insurance and claim expenses could adversely impact earnings
- iv) Foreign exchange risk due to the global nature and scale of operations

## Annexure I: Quarterly Consolidated Performance

Rs mn				Var (%)	
	Q2CY11	Q1CY11	Q2CY10	QoQ	YoY
<b>Sales</b>	<b>8,541</b>	<b>7,315</b>	<b>6,399</b>	<b>16.8%</b>	<b>33.5%</b>
<b>EBITDA</b>	<b>1,022</b>	<b>897</b>	<b>670</b>	<b>14.0%</b>	<b>52.5%</b>
<i>margin (%)</i>	12.0%	12.3%	10.5%		
Depreciation	244	180	180	35.2%	35.4%
<b>PBIT</b>	<b>884</b>	<b>798</b>	<b>564</b>	<b>10.9%</b>	<b>56.9%</b>
Interest	83	99	73	-16.1%	13.9%
Other income	106	81	73	30.8%	44.7%
EO	0	-1	5	-68.6%	-107.2%
<b>PBT</b>	<b>801</b>	<b>699</b>	<b>491</b>	<b>14.7%</b>	<b>63.3%</b>
Tax	110	157	86	-29.6%	28.0%
<b>PAT</b>	<b>691</b>	<b>543</b>	<b>400</b>	<b>27.4%</b>	<b>73.0%</b>
Share in profit in associates/JV	0	0	0		
Minority Interest	27	43	21	-37.8%	30.4%
<b>Adjusted PAT</b>	<b>664</b>	<b>499</b>	<b>379</b>	<b>33.1%</b>	<b>75.3%</b>
<i>NPM (%)</i>	7.7%	6.7%	5.9%		

Source: Company, Prime Broking

## Annexure II: Consolidated Profit & Loss Statement

Rs mn	CY08 (A)	CY09 (A)	CY10 (A)	CY11 (E)	CY12 (E)
<b>Total Income (incl. Other Income)</b>	<b>23,247</b>	<b>20,895</b>	<b>28,899</b>	<b>34,701</b>	<b>40,017</b>
Total Expenses	20,943	18,424	25,916	30,280	34,954
<b>PBITDA</b>	<b>2,304</b>	<b>2,471</b>	<b>2,983</b>	<b>4,422</b>	<b>5,063</b>
<i>PBITDA Margin (%)</i>	9.9	11.8	10.3	12.7	12.7
Depreciation	447	545	550	914	1,028
<b>PBIT</b>	<b>1,857</b>	<b>1,926</b>	<b>2,434</b>	<b>3,508</b>	<b>4,035</b>
<i>PBIT Margin (%)</i>	8.0	9.2	8.4	10.1	10.1
Interest	249	232	194	362	422
EO	31	27	0	0	0
<b>PBT</b>	<b>1,577</b>	<b>1,667</b>	<b>2,239</b>	<b>3,145</b>	<b>3,613</b>
<i>PBT Margin (%)</i>	6.8	8.0	7.7	9.1	9.0
Tax	362	260	480	779	896
<b>PAT</b>	<b>1,216</b>	<b>1,407</b>	<b>1,759</b>	<b>2,366</b>	<b>2,717</b>
Less: Minority Interest	139	108	100	173	205
Add: Share of Profit from Associates	0	0	0	0	0
<b>Adjusted PAT</b>	<b>1,077</b>	<b>1,299</b>	<b>1,659</b>	<b>2,194</b>	<b>2,512</b>
<i>Net Profit Margin</i>	4.6	6.2	5.7	6.3	6.3
<b>No. of shares</b>	<b>22</b>	<b>125</b>	<b>131</b>	<b>131</b>	<b>131</b>
<b>EPS</b>	<b>48.2</b>	<b>10.4</b>	<b>12.7</b>	<b>16.8</b>	<b>19.2</b>

Source: Company, Prime Broking; (A) Audited; (E) Estimated

## Annexure III: Consolidated Balance Sheet Statement

Rs mn	CY08 (A)	CY09 (A)	CY10 (A)	CY11 (E)	CY12 (E)
Share Capital, Warrants & ESO	534	266	274	274	274
Reserves & Surplus	5,580	9,545	11,539	13,274	15,327
<b>Networth</b>	<b>6,113</b>	<b>9,811</b>	<b>11,812</b>	<b>13,547</b>	<b>15,600</b>
Loan Funds	3,440	2,044	3,778	5,278	5,278
Minority Interest	115	135	262	435	640
Deferred Tax Liability (Net)	127	179	408	408	408
<b>Total Liabilities</b>	<b>9,795</b>	<b>12,169</b>	<b>16,260</b>	<b>19,668</b>	<b>21,926</b>
Net Fixed Assets	6,365	7,938	12,025	13,611	13,383
Investments	828	1,668	1,319	1,319	1,319
Cash and Bank Balances	1,012	916	1,430	2,470	4,563
Debtors	2,975	2,354	2,528	3,810	4,397
Inventory	20	27	70	70	70
Loan, Advances & Other Current Assets	1,667	2,165	3,174	3,314	3,824
Current Liabilities	3,075	2,900	4,308	4,950	5,653
<b>Net Current Assets</b>	<b>2,599</b>	<b>2,563</b>	<b>2,893</b>	<b>4,715</b>	<b>7,201</b>
<b>Total Assets</b>	<b>9,795</b>	<b>12,169</b>	<b>16,260</b>	<b>19,668</b>	<b>21,926</b>

Source: Company, Prime Broking; (A) Audited; (E) Estimated

## Annexure IV: Consolidated Cash Flow Statement

Rs mn	CY08 (A)	CY09 (A)	CY10 (A)	CY11 (E)	CY12(E)
Profit Before Tax	1,609	1,695	2,239	3,145	3,613
Depreciation	447	545	550	914	1,028
Interest	219	193	117	285	345
Other Items	-85	-144	123	-8	-8
Change in Working Capital	-1,069	10	291	-782	-393
Income Tax Paid & Other Adjustments	-312	-424	-653	-779	-896
<b>Cash Flow from Operations</b>	<b>809</b>	<b>1,874</b>	<b>2,667</b>	<b>2,776</b>	<b>3,688</b>
Change in Net Fixed Assets	-1,909	-1,707	-4,913	-2,500	-800
Change in Investments & Interest Received	-745	-636	380	0	0
Dividend Received	0	10	8	8	8
Other Items	30	37	77	77	77
<b>Cash Flow from Investing</b>	<b>-2,625</b>	<b>-2,296</b>	<b>-4,448</b>	<b>-2,415</b>	<b>-715</b>
Change in Capital	280	1,102	973	0	0
Debt Raised	2,177	-386	1,707	1,500	0
Interest Paid	-249	-232	-194	-362	-422
Dividend Paid	-78	-138	-125	-459	-459
<b>Cash Flow from Financing</b>	<b>2,130</b>	<b>346</b>	<b>2,361</b>	<b>679</b>	<b>-881</b>
<b>Change in Cash</b>	<b>313</b>	<b>-75</b>	<b>581</b>	<b>1,040</b>	<b>2,093</b>
Opening Cash & Bank Balance	699	992	849	1,430	2,470
<b>Closing Cash &amp; Bank Balance</b>	<b>1,012</b>	<b>916</b>	<b>1,430</b>	<b>2,470</b>	<b>4,563</b>

Source: Company, Prime Broking; (A) Audited; (E) Estimated

## Annexure V: Key Financial Ratios

	CY08 (A)	CY09 (A)	CY10 (A)	CY11 (E)	CY12 (E)
Net Sales Growth	43.4%	-10.9%	38.8%	20.6%	15.4%
EBITDA Growth	49.2%	-0.6%	23.4%	57.3%	15.1%
EBIT Margin	7.6%	8.0%	7.5%	9.6%	9.7%
Net Profit Margin	4.6%	6.2%	5.7%	6.3%	6.3%
Debt to Equity Ratio	0.6	0.2	0.3	0.4	0.3
Interest Coverage Ratio	7.0	7.1	11.0	9.2	9.1
Debtor Turnover (Days)	41	47	31	34	38
Return on Asset	11.0%	10.7%	10.2%	11.2%	11.5%
Return on CE	17.9%	13.5%	13.2%	16.9%	17.6%

Source: Company, Prime Broking; (A) Audited; (E) Estimated

# PRIME BROKING



PRIME

## EQUITY SALES / DEALING

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## STOCK OWNERSHIP / CONFLICT DISCLOSURE

Prime / Prime Subsidiaries	Yes
Key Prime Management &/or Other Employees	No
Any Other Corporate Finance Conflict of Interest	No

## ANALYSTS' RATINGS DEFINITIONS

<b>STRONG BUY</b>	Expect $\geq$ 25% CAGR return
<b>BUY</b>	Expect a CAGR return $\geq$ 15% and $<$ 25%
<b>HOLD</b>	Expect $<$ 15% CAGR return
<b>SELL</b>	Expect $\leq$ 5% CAGR return

## CONTACT NUMBERS

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