ALLCARGO GLOBAL LOGISTICS

INR 1,269

Delivering on schedule

BUY

Edelweiss
Ideas create, values protect

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Allcargo Global Logistics' (Allcargo's) Q3FY07 results were in line with our expectations in terms of revenue growth and profitability. Consolidated net revenues and net profits stood at INR 4.2 bn and INR 231 mn, respectively. Eculine's business has not shown much improvement in this quarter in terms of profitability and container freight station (CFS) business continued to face margin pressure. However, we continue to remain positive on Allcargo expecting Eculine's margins to expand (due to cost efficiencies) and easing of margin pressure in the CFS business with ramp-up in fourth terminal at JNPT. Adjusted for the change in depreciation policy from written down method to straight line method, Allcargo's standalone profit stood at INR 147 mn, a growth of only 2.2% Y-o-Y.

We expect Eculine's margins to expand, going forward, and will be closely monitoring it. We maintain our positive outlook on Allcargo, as its expansion plans are on track with both its CFSs at Chennai and Mundra expected to commence operations next month. Management expects to achieve capacity utilisation of ~50% in the next 6-9 months for both the CFSs on account of long term relationships with the shipping lines. Land acquisition for NCR-based inland container depot (ICD) is also in the final stages and the company expects to start infrastructure development at the ICD in April 2007.

We expect Allcargo to register revenues of INR 17.2 bn and 19.2 bn in FY07E and FY08E respectively. At CMP of INR 1,269, the stock trades at 28x and 21x our EPS estimates of INR 45.5 and INR 60.3 for FY07 and FY08, respectively. We remain positive on the company based on its growth prospects with aggressive expansion into ICDs, acquisitions in the US and China, and improvement in Eculine's performance. We maintain our 'BUY' recommendation.

Key Highlights

- Net revenues stood at INR 4.2 bn, up 521% Y-o-Y and standalone net revenues stood at INR 852 mn, up 25.7% Y-o-Y.
    - Allcargo's multi-modal transport (MTO) and CFS businesses grew 29% and 16.7% Y-o-Y, mainly driven by volume growth in both the businesses.
    - The MTO volumes have grown from 17,608 TEUs to 19,971 TEUs, registering a growth of 13.4% in 9MFY07, while the CFS volumes have grown 62,045 TEUs to 77,035 TEUs registering a growth of 24%.

Reuters	:	ALGI.BO
Bloomberg	:	AGLL IN

Market Data

52-week range (INR)	:	1,355 / 520
Share in issue (mn)	:	20.3
M cap (INR bn/USD mn)	:	25.7 / 581.4
Avg. Daily Vol. BSE/NSE ('000)	:	173.1

Share Holding Pattern (%)

Promoters	:	79.6
MFs, FIs & Banks	:	3.3
FIIs	:	3.1
Others	:	14.0

Financials

Year to March	Q2FY07	Q2FY07	*% change*	Q1FY07	*% change*	FY07E	FY08E
Sales (INR mn)	4,224	4,184	*0.9*	680	*521.2*	17,267	19,244
EBITDA (INR mn)	3,899	347	*1,023.8*	165	*2,257.2*	1,439	1,946
Net profit (INR mn)	231	232	*(0.5)*	124	*86.9*	930	1,234
EPS (INR)						45.5	60.3
P/E (x)						27.9	21.0
EV/ EBITDA						17.9	13.2
ROE (%)						34.9	29.2

- EBITDA, at INR 325 mn, registered a growth of 96.3% Y-o-Y. EBITDA margin stood at 7.7%. Allcargo registered standalone EBITDA de-growth of 2.3% Y-o-Y and its margins stood at 19.0% as against 24.5% in Q3FY06 due to 40.7% Y-o-Y increase in the operating cost. The rise in operating cost is on account of the company's inability to pass increased freight costs (accounting for 70% of the operating cost) to its customers.

- PAT (at INR 231 mn) was up 87% Y-o-Y, resulting in net margin of 5.5%. Eculine's net margin has not shown significant improvement in the last few quarters and stands at 2.8% in Q3FY07.

- Allcargo's standalone net profit declined by 4.9% Y-o-Y at INR 137 mn. This is due to the fact that the company changed its depreciation policy from the written down method to straight line method. Adjusted for the change, the profit stands at INR 147 mn, a growth of 2.2% Y-o-Y due to higher depreciation charges (INR 13.08 mn) and lower deferred tax liability (INR 23.28 mn).

Other Highlights

- Allcargo acquired Hindustan Cargo, a wholly-owned subsidiary of Thomas Cook, at a cost of INR 89.1 mn. Hindustan cargo is primarily engaged in the business of air freight and logistics, and registered a turnover of INR 320 mn in FY06 (October-November end). The company had EBITDA of INR 15 mn and PBT of INR 13 mn. This acquisition is positive for Allcargo, as it supplements the company's existing ocean freight business and enhances its service offering by enabling it to cater to the large base of export import (EXIM), less than container load (LCL), and full container load (FCL) customers.

- Allcargo's expansion plans are on track with both the CFSs at Chennai and Mundra expected to commence operations in the next month. Management expects to achieve capacity utilisation of ~50% in the next 6-9 months for both the CFSs on account of long term relationships with the shipping lines. Land acquisition for NCR ICD is also in the final stage and the company expects to start infrastructure development at the ICD in April 2007.

- Allcargo has a strong foothold in Europe through Eculine and is eyeing acquisitions in the US and China. These acquisitions, upon materialising, will enable the company to establish global footprints.

Financial snapshot (INR mn)

Year to March	Q3FY07	Q2FY07	*% change*	Q3FY06	*% change*	FY06	FY07E	FY08E
Net sales	4,224	4,184	*0.9*	680	*521.2*	2,704	17,267	19,244
Total expenditure	3,899	3,837	*1.6*	514	*657.8*	2,122	15,828	17,298
- Operating expenses	2,936	2,891	*1.5*	452	*549.9*	1,877	12,067	13,341
- Employee	608	607	*0.1*	24	*2422.3*	103	2,306	2,359
- Other	355	338	*5.1*	39	*817.9*	141	1,455	1,597
EBIDTA	3,899	347	*1,023.8*	165	*2257.2*	583	1,439	1,946
Other income	21	7	*210.1*	11	*91.6*	44	40	63
Depreciation	26	46	*(43.7)*	35	*(25.3)*	62	212	283
EBIT	320	308	*4.0*	142	*125.6*	565	1,267	1,726
Interest (Net)	19	15	*31.3*	3	*485.1*	23	70	68
PBT	301	293	*2.7*	139	*117.1*	542	1,196	1,658
Taxes	62	53	*17.6*	15	*309.0*	47	266	424
Adjusted PAT	231	232	*(0.5)*	124	*86.9*	495	930	1,234
Tax rate (%)	20.6	*18.0*		*10.9*		*8.7*	*22.2*	*25.6*
% of sales								
Operating expenses	69.5	69.1		66.4		69.4	69.9	69.3
Employee expense	14.4	14.5		3.5		3.8	13.4	12.3
Other expense	8.4	8.1		5.7		5.2	8.4	8.3
Operating profit	7.7	8.3		24.3		21.5	8.3	10.1
Net profit	5.5	5.5		18.2		18.3	5.4	6.4

Company Background

Allcargo is engaged in the business of operating MTO, owning and operating CFS, and handling project cargo. It is one of the largest players in the consolidation of LCL division and handles large volumes of FCL. It is a pan-Indian company with presence across 26 locations and an extensive international coverage of over 4,000 locations through a strategic-tie up with ECU Line NV (100% stake), one of the leading global non-vessel owning cargo carrier.

Investment Thesis

Allcargo is among the leading consolidators in the industry and over a period of time, it has established strong relationships with shipping lines. It has leveraged this network to enter into CFS business and provides value added services to its clients. It is now expanding into other CFSs and creating a pan India network of ICDs. This is a positive for the company, as the CFS business yields higher margins compared with MTO business. Financial restructuring of Eculine and consolidated freight buying for both Allcargo and Eculine are also expected to improve margins, going forward.

Key Risks

Any delay in land acquisition due to surging real estate prices could hamper Allcargo's performance, going forward. Further, a delay in volume ramp up at the fourth terminal at JNPT could keep the CFS margins under pressure, giving a downside risk to our estimates.

Financial Statements

Income statement (INR Mn)

Year to March	FY05	FY06	FY07E	FY08E	FY09E
Income from operations	2,318	2,704	17,267	19,244	21,466
Direct costs	1,772	1,877	12,067	13,341	14,787
Employee costs	68	103	2,306	2,359	2,409
Other expenses	101	141	1,455	1,597	1,744
Total operating expenses	1,941	2,122	15,828	17,298	18,939
EBITDA	377	583	1,439	1,946	2,527
Depreciation and amortisation	78	62	212	283	339
EBIT	298	520	1,227	1,663	2,188
Interest expenses	8	23	70	68	66
Other income	3	44	40	63	101
Profit before tax	294	542	1,196	1,658	2,222
Provision for tax	40	47	266	424	562
Extraordinary items	-	-	-	-	-
Reported profit	254	495	930	1,234	1,660
Adjusted net profit	254	495	930	1,234	1,660
Shares outstanding	20	20	20	20	20
Dividend per share	0.5	5.0	9.5	12.6	16.9
Dividend payout (%)	3.9	20.8	20.8	20.8	20.8

Common size metrics- as % of net revenues

Year to March	FY05	FY06	FY07E	FY08E	FY09E
Operating expenses	83.7	78.5	91.7	89.9	88.2
Depreciation	3.4	2.3	1.2	1.5	1.6
Interest expenditure	0.3	0.9	0.4	0.4	0.3
EBITDA margins	16.3	21.5	8.3	10.1	11.8
Net profit margins	11.0	18.3	5.4	6.4	7.7

Growth metrics (%)

Year to March	FY05	FY06	FY07E	FY08E	FY09E
Revenues	58.5	37.2	538.5	11.4	11.5
EBITDA	247.5	45.3	147.0	35.2	29.9
PBT	276.1	42.2	120.9	38.6	34.1
Net profit	331.0	43.3	88.1	32.6	34.5
EPS	331.0	43.3	88.1	32.6	34.5

Cash flow statement (INR Mn)

Year to March	FY05	FY06	FY07E	FY08E	FY09E
Net profit	254	495	930	1,234	1,660
Add: Depreciation	78	62	212	283	339
Add: Misc expenses written off	(1)	0	1	-	-
Add: Deferred tax	(0)	(3)	-	-	-
Gross cash flow	331	554	1,143	1,517	1,999
Less: Dividends	10	103	194	257	346
Less: Changes in W. C.	87	46	1,356	183	191
Operating cash flow	234	405	(406)	1,077	1,462
Less: Change in investments	70	225	547	-	-
Less: Capex	153	149	738	800	500
Free cash flow	12	31	(1,691)	277	962

Balance sheet					(INR Mn)
As on 31st March	FY05	FY06	FY07E	FY08E	FY09E
Equity capital	100	184	205	205	205
Reserves & surplus	293	1,411	3,530	4,507	5,821
Shareholders funds	393	1,595	3,735	4,712	6,026
Secured loans	99	225	1,019	1,019	1,019
Unsecured loans	0	0	0	0	0
Borrowings	99	225	1,019	1,019	1,019
Sources of funds	492	1,820	4,754	5,731	7,045
Gross block	519	496	1,234	2,034	2,534
Depreciation	202	133	345	628	967
Net block	317	363	889	1,406	1,567
Capital work in progress	17	120	120	120	120
Total fixed assets	334	484	1,010	1,526	1,687
Investments	76	794	1,341	1,341	1,341
Inventories	0	0	0	0	0
Sundry debtors	181	254	1,622	1,807	2,016
Cash and equivalents	12	408	917	1,195	2,157
Loans and advances	219	151	189	218	239
Total current assets	412	817	2,728	3,219	4,412
Sundry creditors and others	256	227	250	263	276
Provisions	62	37	64	83	109
Total CL & provisions	318	265	314	345	385
Net current assets	94	552	2,414	2,874	4,027
Net Deferred tax	(13)	(10)	(10)	(10)	(10)
Others	1	1	0	0	0
Uses of funds	492	1,820	4,754	5,731	7,045
Book value per share (BV)	19	78	183	230	295

Ratios

Year to March	FY05	FY06	FY07E	FY08E	FY09E
ROE (%)	92.1	41.5	34.9	29.2	30.9
ROCE (%)	79.2	37.1	38.5	32.9	35.8
Current ratio	1.3	3.1	8.7	9.3	11.5
Debtors (Days)	29	34	34	34	34
Fixed assets t/o (x)	7.8	6.1	23.1	15.2	13.4
Debt/Equity	0.3	0.1	0.3	0.2	0.2

Valuations parameters

Year to March	FY05	FY06	FY07E	FY08E	FY09E
EPS (INR)	12.4	24.2	45.5	60.3	81.2
Y-o-Y growth (%)	*331.0*	*43.3*	*88.1*	*32.6*	*34.5*
CEPS (INR)	33.2	30.3	55.9	74.2	97.7
PE (x)	102.2	52.5	27.9	21.0	15.6
Price/BV(x)	66.1	16.3	6.9	5.5	4.3
EV/Sales (x)	11.2	9.5	1.5	1.3	1.2
EV/EBITDA (x)	69.1	44.2	17.9	13.2	10.2

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Ashutosh Goel	-	2286 4287	Automobiles, Auto Components
Vishal Goyal, CFA	-	2286 4370	Banking & Finance
Revathi Myneni	-	2286 4413	Cement
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Harish Sharma	-	2286 4307	Infrastructure, Auto Components, Mid Caps
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Hitesh Zaveri	-	2286 4424	Information Technology
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RATING INTERPRETATION

Buy	Expected to appreciate more than 20% over a 12-month period	Reduce	Expected to depreciate up to 10% over a 12-month period
Accumulate	Expected to appreciate up to 20% over a 12-month period	Sell	Expected to depreciate more than 10% over a 12-month period
Trading Buy	Expected to appreciate more than 10% over a 45-day period	Trading Sell	Expected to depreciate more than 10% over a 45-day period