

Logistics

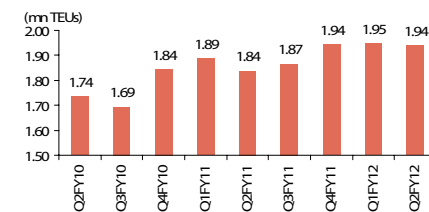
Q2FY12 Preview

Steady quarter with healthy volumes

We maintain our positive view on container based logistics players with a Buy rating on Allcargo Global Logistics and Gateway Distriparks (GDL). We have a Hold on Container Corporation (Concor) due to its higher valuations and slower growth. We expect container volumes at 12 major ports to remain healthy and estimate 10.2% volume growth (in TEU terms) to 8.3mn TEUs for FY12E and 10.0% growth to 9.1mn TEUs for FY13E. Aegis Logistics is creating niche value in the oil and gas logistics space. We expect its earnings to grow at 36% CAGR over FY11-13 on the back of growth in India's energy consumption. The company is trading at 7.3x FY13 with RoCE of 18.9%, much higher than its peers. Transport Corporation of India (TCI) is riding on growth in its supply chain and express logistics division, helping its revenue grow higher than that of the industry.

- **Container volumes steady:** Container traffic at the 12 major ports remained steady during Q2FY12. Container volumes grew 5.5% YoY to 1.9mn TEUs during July-Sept 2011, as compared to 3.2% growth during Q1FY12. Volumes at India's largest container port JNPT also remained healthy with a growth of 4.6% YoY to 1.1mn TEUs during Q2 as the port was non operational for 10-15 days during last year.
- **Total port traffic flat, up 0.8% YoY:** Total port traffic remained lacklustre with a growth of just 0.8% in Q1FY12 on the back of decline in iron-ore and fertiliser volumes. Iron ore volumes declined 8.6% YoY to 12.1mn tonnes while fertiliser volumes fell 24.8% to 4.7mn tonnes in Q2.
- **EXIM trade continues to be robust:** India's exports and imports continued to grow during Q2. While exports grew 62.6% YoY in value terms during July-Aug 2011, imports increased 44.9% YoY in the same period.
- **Domestic industrial activity:** India's Index of Industrial Production (IIP) however remained lacklustre for the last couple of months with growth ranging between 3-5%. During July 2011 it grew 3.3% YoY (new series) largely on account of a moderation in growth in the manufacturing sector (2.3% YoY vs. 10% a month back) which is the lowest in twenty-one months.
- **GDL and Allcargo - Top picks in the sector:** Gateway Distriparks and Allcargo are our top picks in the logistics space. We have a Buy rating on both with a target of Rs190 and Rs228 respectively. We have a Hold on Concor with a target of Rs1,290 as the company is on a slower growth and lower return profile. We maintain Buy rating on TCI (target price Rs125) and Aegis (Rs360).

Container traffic at Indian ports



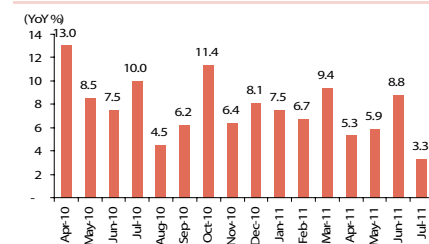
Source: IPA, Centrum Research

India's foreign trade (YoY % growth)



Source: Ministry of Commerce, Centrum Research

Moderate IIP growth (% YoY)

Source: Ministry of Commerce, Centrum Research
Price Performance* (%)

| | 1M | 6M | 1Yr |
|-----------------|-------|--------|--------|
| Aegis Logistics | (4.1) | (36.8) | (50.0) |
| Allcargo | (8.5) | (16.9) | (14.3) |
| Concor | (3.1) | (25.7) | (30.7) |
| GDL | (0.5) | 11.5 | 14.0 |
| TCI | (4.2) | (20.5) | (45.4) |
| NIFTY | (5.3) | (19.6) | (22.7) |

Source: Bloomberg, Centrum Research
* as on 5 October 2011Siddhartha Khemka
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Summary Financials

| Y/E Mar (Rsmn) | Net Sales (Rsmn) | | | | EBITDA (Rsmn) | | | | EBITDA Margin (%) | | Adj. PAT (Rsmn) | | | |
|-------------------|------------------|---------|---------|--------|---------------|---------|---------|--------|-------------------|--------|-----------------|---------|---------|-------|
| | Q2FY12E | YoY (%) | QoQ (%) | FY12E | Q2FY12E | YoY (%) | QoQ (%) | FY12E | Q1FY12E | Q1FY11 | Q2FY12E | YoY (%) | QoQ (%) | FY12E |
| Aegis Logistics | 8,080 | 195.7 | (2.7) | 32,397 | 289 | 51.0 | 5.5 | 1,172 | 3.6 | 7.0 | 172 | 82.3 | 6.5 | 690 |
| Allcargo Global # | 8,399 | 19.3 | (1.7) | 32,714 | 1,018 | 30.3 | (0.4) | 3,965 | 12.1 | 11.1 | 594 | 4.7 | (10.6) | 2,297 |
| Concor ** | 9,827 | 4.1 | 3.5 | 40,496 | 2,631 | 0.5 | 1.3 | 10,843 | 26.8 | 27.7 | 2,178 | 5.3 | (7.0) | 8,938 |
| GDL | 1,847 | 31.6 | (1.4) | 7,514 | 568 | 52.0 | (13.9) | 2,297 | 30.8 | 26.6 | 310 | 51.4 | (7.0) | 1,247 |
| Transport Corp** | 4,971 | 12.4 | 19.5 | 19,778 | 372 | 5.6 | 8.4 | 1,482 | 7.5 | 8.0 | 151 | 4.0 | 12.2 | 593 |

Note: **Standalone, # Y/E Dec (Data for Q3CY11)
Source: Company, Centrum Research Estimates

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Centrum Equity Research is available on Bloomberg, Thomson Reuters and FactSet

Aegis Logistics (Rating – Buy; Target Price – Rs360)

- Consolidated revenue is expected to remain flat sequentially (down just 2.7% QoQ) at Rs8,080mn for Q2FY12. Liquid logistics revenue is likely to increase 7.5% YoY but remain down just 1.0% QoQ to Rs227mn. Gas (LPG) division revenues are expected to remain flat QoQ (down 2.7%) to Rs7,853mn (up 212% YoY but not comparable to Q2FY11 numbers as LPG sourcing business had not been started by then)
- Operating profit is likely to grow 51.0% YoY and 5.5% QoQ to 289mn. Net profit is expected to increase 6.5% QoQ to Rs172mn while net margins are likely to improve to 2.1% vs. 1.9% in the previous quarter.

Allcargo Global (Rating – Buy; Target Price – Rs228)

- Consolidated revenue is likely to increase 19.3% YoY to Rs8,399mn, primarily led by growth in container volumes in the CFS and ECU Line business. Operating profits are expected to grow 30.3% YoY to Rs1,018mn on the back of 102bp YoY expansion in margins to 12.1%.
- Volumes in the CFS (Container Freight Station) business are likely to grow 15.4% YoY to 63,660 TEUs on the back of capacity expansion in Chennai and Mundra. The global MTO (Multi-Modal Transport Operation) business (ECU Line) volume is expected to increase 11.3% YoY to 62,418 TEUs and the domestic MTO business volumes are likely to grow at 8.1% YoY to 7,033 containers.
- Net profit is expected to grow 4.7% YoY to Rs594mn while net margins are likely to decline 99bp YoY to 7.1%.

Container Corp of India (Rating – Hold; Target Price – Rs1,150)

- We expect standalone revenue to increase 4.1% YoY to Rs9,827mn, mainly led by volume growth in the EXIM segment.
- EXIM segment's volumes are expected to improve 5.0% YoY to 517,952 containers, while the domestic business volumes are likely to decline 5.0% YoY to 123,655 containers.
- Operating profit is likely to remain flat YoY at Rs2,631mn (up just 0.5% YoY). Operating margins are likely to decline 96bp YoY to 26.8% led by decline in domestic segment's profitability. While Exim segment's EBIT is expected to improve 6.3% YoY to Rs2,220mn, domestic EBIT is likely to decline 20.8% YoY to Rs166mn mainly on the back of cost pressure and inability to pass on the increased haulage charges.

Gateway Distriparks (Rating – Buy; Target Price – Rs190)

- GDL's standalone CFS revenue is expected to increase 31.4% YoY to Rs552mn. Net profit is likely to remain flat at Rs200mn on back of higher taxes as the tax holiday period for Mumbai CFS got over in FY11.
- We expect the consolidated total income (revenue + other income) to grow 31.6% YoY to Rs1,847mn and operating profit by 52.0% to Rs568mn. Operating margins are likely to improve 413bp YoY to 30.8%. Margin in container rail business is expected to improve with increased contribution from Exim segment and positively impact overall profitability.
- Container volume at the Mumbai CFS is likely to increase 7.2% YoY to 60,390 TEUs, while average realisation is expected to be higher by 21.8% to Rs9,500 per container.
- The rail business subsidiary, Gateway Rail Freight (GRFL), is expected to register 25.3% YoY revenue growth to Rs930mn. Container rail volumes are expected to increase 28.0% YoY to 40,416 TEUs, while average realisations are likely to remain flat at Rs23,000 per container.

Transport Corporation (Rating – Buy; Target Price – Rs125)

- TCI's standalone revenue is expected to rise 12.4% YoY to Rs4,971mn on the back of growth in the express and supply chain business.
- Operating profit is likely increase 5.6% YoY to Rs372mn, while margins are likely to contract 50bp YoY to 7.5% on the back of increase in fuel and freight cost. Net profit is likely to grow 4.0% YoY to Rs151mn on the back of the growth in revenues, while net margins are likely to decline 24bp YoY to 3.3%
- We estimate the Supply Chain Solution (SCS) division revenues to grow 25.0% YoY to Rs1,232mn, while the Express Division revenues are likely to increase 12.0% to Rs1,315mn. The SCS PBIT is expected at Rs98mn, a growth of 27% YoY and margins of 8.0%.

Summary valuations

| Y/E Mar (Rsmn) | Rating | Target | CMP (Rs) | Mkt Cap | EPS (Rs) | | | P/E (x) | | | EV/EBITDA (x) | | | RoCE (%) | | |
|-----------------|--------|------------|----------|---------|----------|-------|-------|---------|-------|-------|---------------|-------|-------|----------|-------|-------|
| | | Price (Rs) | 5-Oct-11 | (Rsmn) | FY11 | FY12E | FY13E | FY11 | FY12E | FY13E | FY11 | FY12E | FY13E | FY11 | FY12E | FY13E |
| Aegis Logistics | Buy | 360 | 181 | 6,046 | 14.0 | 20.7 | 25.3 | 12.9 | 8.8 | 7.1 | 7.9 | 5.3 | 4.3 | 14.7 | 17.3 | 18.9 |
| Allcargo # | Buy | 228 | 138 | 18,011 | 12.7 | 17.6 | 19.0 | 13.4 | 7.8 | 7.3 | 9.1 | 5.8 | 5.1 | 13.0 | 14.1 | 12.7 |
| Concor** | Hold | 1150 | 907 | 117,892 | 63.9 | 68.8 | 72.0 | 20.4 | 13.2 | 12.6 | 14.2 | 8.4 | 7.4 | 17.9 | 17.1 | 16.1 |
| GDL | Buy | 190 | 135 | 14,580 | 9.0 | 11.5 | 13.5 | 12.7 | 11.7 | 10.0 | 7.5 | 6.6 | 5.6 | 10.9 | 11.2 | 12.4 |
| TCI | Buy | 125 | 79 | 5,735 | 6.9 | 9.0 | 10.5 | 11.4 | 8.8 | 7.5 | 6.3 | 5.4 | 4.7 | 10.6 | 12.7 | 13.2 |

Note: **Standalone, Allcargo # Y/E Dec (Data for CY10, CY11E and CY12E)

Source: Company, Centrum Research Estimates

Appendix A

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