ALLCARGO GLOBAL LOGISTICS INR 919

Soft quarter BUY

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Krishnakant Thakur
+91-22-2286 4318
krishnakant.thakur@edelcap.com

Allcargo Global Logistics' (Allcargo's) Q3FY07 results were below our expectations in terms of lower growth in revenues. Standalone revenues decreased 11% Y-o-Y, at INR 785 mn, on account of lower contribution from the project cargo business, which tends to spread over the entire year. Volume growth in the MTO business, at 7,456 TEUs, was in line with the average industry growth of 10% Y-o-Y; however, due to change in freight rates in certain routes, consolidated revenues decreased 3.5% Y-o-Y. Net profit (before minority interest) declined 19.2% Y-o-Y; for EcuLine, net profit decreased 22.7%, as change in freight rates put pressure on the margins. Additionally, the company was not able to compensate fully for losses from its MTO business with OTS Logistics (world's no. 1 NVOCC) in the US market. To establish itself independently in that geography, it has established a tie-up with Econocaribe.

Allcargo's Chennai and Mundra CFSs have commenced operations, as per the company's aggressive growth plans. These CFSs have contributed 4,000 TEUs to the volumes for the quarter; for the full year, they are expected to contribute 14,000 TEUs and 12,000 TEUs, respectively, to the overall capacity. The company's JNPT CFS is also running at 95% capacity utilisation and has yielded volumes of 25,788 TEUs for the quarter (growth of 2.7% Y-o-Y). However, revenues for the CFS segment have grown 2.7% Y-o-Y, at INR 216 mn. The lower revenue growth vis-à-vis volume is on account of lower/TEU revenues at Chennai and Mundra and continued pricing pressure at JNPT CFS. Further, Allcargo has outlined an expansion plan of INR 3.0-3.5 bn and acquired land at Nagpur, Hyderabad, Pithampur, Hosur, and Goa, to create a pan-India network of CFSs and ICDs. It is also in the process of identifying two more strategic locations in north India for expansion. This ICD rollout is expected to keep Allcargo ahead of competition in the face of strong growth estimated for the container traffic business.

With EcuLine's margin expansion taking longer than expected and lower profitability on the MTO business on account of competitive scenario, we have revised our profit numbers downwards by 11% and 7.5% for FY08E and FY09E respectively. On our revised EPS estimate, Allcargo trades at 23.3x and 17.3x our FY08E and FY09E estimates. Though the stock is likely to remain lackluster over the short term, as integration of EcuLine and contribution from the ongoing expansion is likely to take a while, we remain positive on the company, based on its 'high barriers to entry' business model, aggressive expansion into ICDs, and improvement in EcuLine's performance. We maintain our 'BUY' recommendation on the stock.

Reuters	:	ALGL.BO
Bloomberg	:	AGLL IN

Market Data

52-week range (INR)	:	1,355 / 815
Share in issue (mn)	:	20.3
M cap (INR bn/USD mn)	:	18.6 / 473.4
Avg. Daily Vol. BSE/NSE ('000)	:	25.3

Share Holding Pattern (%)

Promoters	:	79.6
MFs, FIs & Banks	:	3.8
FIIs	:	3.4
Others	:	13.2

Financials

Year to December	Q3FY07	Q3FY06	*% change*	Q2FY07	*% change*	9mFY06	CY07E
Sales (INR mn)	4,039	4,184	*(3.5)*	4,024	*0.4*	12,281	17,104
EBITDA (INR mn)	283	347	*(18.3)*	264	*7.5*	967	1,334
Net profit (INR mn)	172	232	*(25.9)*	217	*(20.6)*	670	829
EPS (INR)	8.2	11.0	*(25.9)*	10.3	*(20.6)*	29.5	39.4
P/E (x)						31.2	23.3
EV/ EBITDA						24.5	14.7
ROE (%)						22.4	19.3

Key highlights

- Consolidated net revenues, at INR 4.0 bn, declined 3.5% Y-o-Y and standalone net revenues stood at INR 785 mn, down 11.1% Y-o-Y. Lower growth on the consolidated front was on account of change in freight rates in certain trade routes for the MTO business.
- Allcargo's multimodal transportation segment declined 15%, to INR 568 mn. Revenues in the CFS business grew 2.6% to INR 216 mn, mainly driven by volume growth of 18%. The CFS business registered a throughput of 29,831 TEUs as against 25,104 TEUs in Q3FY06. Gross realisations per TEU dropped from INR 8,390 in Q3FY06 to INR 7,248 in this quarter. The drop is more pronounced because of lower revenue contribution from the Chennai and Mundra CFSs.
- EBITDA, at INR 283.4 mn, declined 18.3% Y-o-Y and EBITDA margins stood at 7.0%, as against 8.3% in Q3FY06 and 6.6% in Q2FY07. Lower profitability is on account of change in freight rates in certain trade routes.
- PAT, at INR 172 mn, declined 25.9% Y-o-Y, resulting in net margin of 4.3%. EcuLine's net margin stands at 1.8% in this quarter as against 2.9% in Q3FY06. The expected improvement in EcuLine's margins, owing to centralised freight buying from Hong Kong and transfer of back-end operations to India, is likely to take some more time. It is expected to show at least 150-200bps improvement on the back of streamlining of its operations, going forward.

Expansion plans in future

- Allcargo has outlined a capacity expansion plan of INR 3.0-3.5 bn, including phase II expansion at Chennai and Mundra and ICD rollout at five locations. For this, the company has already identified land at five locations of Nagpur (45 acre), Hyderabad (30 acre), Pithampur (14 acre), Hosur (15 acre), and Goa (8 acre). Further, it is in the process of identifying two more strategic locations in north India for expansion. The ICD rollout is expected to accomplish by CY09, and upon completion, is expected to augment the company's capacity by 0.65 mn TEUs from the existing 0.12 mn TEUs.

Table 1: Expansion plans

	Existing buisnesses	Current expansion		New expansion
	JNPT CFS	Mundra	Chennai	plans*
Capacity	120,000	50,000	50,000	500,000
Capex (INR mn)	30 year lease agreement	310	210	2,980

*Source: Company   * includes 5 ICDs at Nagpur, Hyderabad, Pithampur, Hosur, Goa and 2 ICDs in northen India*

Financial snapshot								(INR mn)
Year to December	Q3FY07	Q3FY06	*% change*	Q2FY07	*% change*	9mFY06	CY07E	CY08E
Net sales	4,039	4,184	*(3.5)*	4,024	*0.4*	12,281	17,104	18,172
Total expenditure	3,755	3,837	*(2.1)*	3,760	*(0.1)*	11,314	15,678	16,473
- Operating expenses	2,829	2,891	*(2.2)*	2,669	*6.0*	8,554	11,963	12,677
- Employee	642	607	*5.6*	616	*4.1*	1,748	2,346	2,332
- Other	285	338	*(15.7)*	475	*(40.0)*	1,012	1,369	1,464
EBIDTA	283	347	*(18.3)*	264	*7.5*	967	1,334	1,699
Other income	23	7	*230.8*	35	*(34.4)*	40	94	157
Depreciation	46	46	*0.5*	42	*10.9*	114	270	350
EBIT	260	308	*(15.5)*	257	*1.2*	893	1,159	1,505
Interest (Net)	15	15	*5.2*	13	*22.9*	55	68	67
PBT	245	293	*(16.5)*	244	*0.1*	838	1,090	1,438
Taxes	50	53	*(4.5)*	39	*27.8*	146	261	323
Extra-ordinary items	(22)					23		
Adjusted PAT	172	232	*(25.9)*	217	*(20.6)*	670	829	1,116
Tax rate (%)	20.6	*18.0*	*14.4*	*16.2*	*27.6*		*24.0*	*22.4*
% of sales								
Operating expenses	70.0	69.1		66.3		53.4	68.5	72.6
Employee expense	15.9	14.5		15.3		10.9	13.4	13.4
Other expense	7.1	8.1		11.8		6.3	7.8	8.4
Operating profit	7.0	8.3		6.6		7.9	7.8	9.3
Net profit	4.3	5.5		5.4		5.5	4.8	6.1

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 Less than container load (LCL) division and handles large volumes of Full container load (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 EcuLine NV (100% stake), one of the leading global non-vessel owning cargo carrier.

Investment Theme

Allcargo is among the leading consolidators in the industry with excellent relationships with major shipping lines. It has leveraged this network to enter into the 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	FY06*	9mFY06#	FY07E#	FY08E#
Income from operations	2,704	8,954	17,104	18,172
Direct costs	1,877	6,125	11,963	12,677
Employee costs	103	1,079	2,346	2,332
Other expenses	141	949	1,462	1,464
Total operating expenses	2,122	8,153	15,770	16,473
EBITDA	583	801	1,334	1,699
Depreciation and amortisation	62	79	270	350
EBIT	520	722	1,064	1,348
Interest expenses	23	53	68	67
Other income	44	50	94	157
Profit before tax	542	720	1,090	1,438
Provision for tax	47	175	261	323
Extraordinary items	0	(76)	0	0
Reported profit	495	621	829	1,116
Adjusted net profit	495	621	829	1,116
Shares outstanding	21	21	21	21
Dividend per share	4.9	4.3	5.8	7.8
Dividend payout (%)	20.8	14.7	14.7	14.7

Common size metrics- as % of net revenues

Year to March	FY06*	9mFY06#	FY07E#	FY08E#
Operating expenses	78.5	91.1	92.2	90.7
Depreciation	2.3	0.9	1.6	1.9
Interest expenditure	0.9	0.6	0.4	0.4
EBITDA margins	21.5	8.9	7.8	9.3
Net profit margins	18.3	6.9	4.8	6.1

Growth metrics (%)

Year to March	FY06*	9mFY06#	FY07E#	FY08E#
Revenues	37.2	231.1	91.0	6.2
EBITDA	45.3	37.5	66.5	27.4
PBT	42.2	32.9	51.5	31.9
Net profit	43.3	25.5	33.5	34.6
EPS	43.3	25.5	33.5	34.6

Cash flow statement (INR mn)

Year to March	FY06*	9mFY06#	FY07E#	FY08E#
Net profit	495	545	829	1,116
Add: Depreciation	62	79	270	350
Add: Misc expenses written off	0	(5)	1	0
Add: deferred tax	(3)	67	0	0
Gross cash flow	554	686	1,100	1,466
Less: Dividends	103	91	122	164
Less: Changes in W. C.	113	516	741	198
Operating cash flow	338	78	237	1,104
Less: Change in investments	225	(216)	0	0
Less: Capex	149	2,673	150	900
Free cash flow	(35)	(2,378)	87	204

Balance sheet (INR mn)

As on 31st March	FY06*	9mFY06#	FY07E#	FY08E#
Equity capital	184	211	211	211
Reserves & surplus	1,411	3,737	4,445	5,396
Shareholders funds	1,595	3,948	4,655	5,607
Secured loans	225	776	1,519	1,519
Unsecured loans	0	0	0	0
Borrowings	225	776	1,519	1,519
Sources of funds	1,820	4,776	6,174	7,126
Gross block	496	3,408	3,558	4,458
Depreciation	133	670	940	1,290
Net block	363	2,738	2,618	3,168
Capital work in progress	120	340	340	340
Total fixed assets	484	3,078	2,958	3,508
Investments	794	578	578	578
Inventories	0	0	0	0
Sundry debtors	254	1,861	2,577	2,738
Cash and equivalents	408	450	1,234	1,438
Loans and advances	151	808	930	1,069
Total current assets	817	3,120	4,741	5,245
Sundry creditors and others	227	1,945	2,042	2,145
Provisions	37	73	73	73
Total CL & provisions	265	2,018	2,115	2,217
Net current assets	552	1,102	2,625	3,028
Net Deferred tax	(10)	13	13	13
Others	1	6	0	0
Uses of funds	1,820	4,776	6,174	7,126
Book value per share (BV) (INR)	76	187	221	266

Ratios

Year to March	FY06*	9mFY06#	FY07E#	FY08E#
ROE (%)	41.5	22.4	19.3	21.7
ROCE (%)	37.1	25.7	21.2	22.6
Current ratio	3.1	1.5	2.2	2.4
Debtors (days)	34	76	55	55
Fixed assets t/o (x)	6.1	5.0	5.7	5.6
Debt/Equity	0.1	0.2	0.3	0.3

Valuations parameters

Year to March	FY06*	9mFY06#	FY07E#	FY08E#
EPS (INR)	23.5	29.5	39.4	53.0
Y-o-Y growth (%)	*43.3*	*25.5*	*(8.1)*	*20.2*
CEPS (INR)	30.3	33.2	52.2	69.6
P/E (x)	39.1	31.2	23.3	17.3
Price/BV(x)	12.1	4.9	4.2	3.4
EV/Sales (x)	7.1	2.2	1.1	1.1
EV/EBITDA (x)	32.9	24.5	14.7	11.6

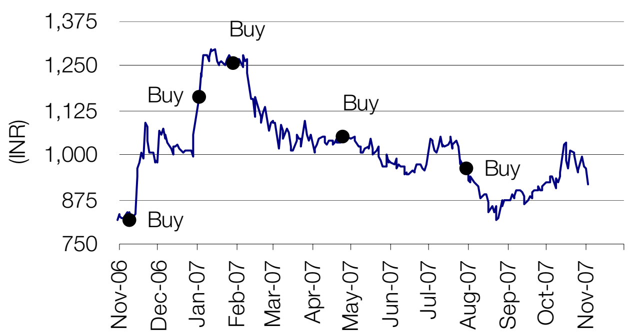
Edelweiss Securities Limited, 14th Floor, Express Towers, Nariman Point, Mumbai – 400 021, Board: (91-22) 2286 4400, Email: *research@edelcap.com*

Naresh Kothari	Co-Head Institutional Equities	naresh.kothari@edelcap.com	+91 22 2286 4246
Vikas Khemani	Co-Head Institutional Equities	vikas.khemani@edelcap.com	+91 22 2286 4206
Shriram Iyer	Head Research	shriram.iyer@edelcap.com	+91 22 2286 4256

Coverage group(s) of stocks by primary analyst(s): *Logistics:*

Allcargo, Concor, Dredging Corp Of India, Gateway Distriparks, Gati, SICAL and Transport Corporation of India

Allcargo Global Logistics



Recent Research

Date	Company	Title	Price (INR)	Recos
2-Nov-07	Sical Logistics	Growth by offshore; *Result Update*	233	Buy
22-Oct-07	Gateway Distriparks	Robust volume growth; *Result Update*	134	Buy
18-Oct-07	Gati	Softer quarter; *Result Update*	106	Buy
12-Oct-07	Container Corporation	A bad patch; *Result Update*	1,954	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Accumulate	Reduce	Sell	Total
Rating Distribution*	103	45	23	4	184

* 7 stocks under review / 2 rating withheld

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	88	66	30

Rating Interpretation

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