BUY

ARSHIYA INTERNATIONAL

BEST IS YET TO COME

Sunidhi
"In your prosperity lies our success"

Retail Desk

23 November 2011

Rating	Buy
CMP (₹)	140
Target Price (₹)	196
Upside (%)	40
Key Data	
BSE Code	506074
NSE Code	ARSHIYA
Reuters code	ARTC.BO
Bloomberg Code	ARST IN
Sensex	15699
Face Value (₹)	2
Mcap (₹ Cr.)	826
52 week H/L (₹)	297/120
2 Wk Avg Qty	91000

Share holding, September '11	Holding %
Promoters	43.2
Corporates	10.3
DIs	2.3
FIIs	14.3
Public	29.9

Performance (%)	3M	6M	12M
Stock (AIL)	1.4	-31.0	-49.6
BSE 200	-6.1	-14.3	-24.6
BSE 500	-6.5	-14.7	-23.3

Price Chart: (One-Year)

http://www.arshiyainternational.com

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Company Description:

Incorporated in 1981, Arshiya International (AIL) is an integrated supply chain and logistics infrastructure solutions provider headquartered in India. It has multinational operations in the logistics and supply chain management space and is currently involved in the phased investment of approximately USD 1.6 billion towards creating and pioneering logistics infrastructure within India.

Arshiya's strategically integrated logistics verticals are: Free Trade and Warehousing Zones (FTWZ), Rail Infrastructure, Domestic Distriparks, Logistics, Supply Chain Management, Transport & Handling and Information Technology. These verticals enable unparalleled operational expertise & solution capability across the entire supply chain spectrum. Arshiya has been accorded the status of "Star Export House" in accordance with the provisions of the Foreign Trade Policy.

Business Entities:

Arshiya FTWZ- Responsible for the implementation and operation of Free Trade and Warehousing Zones

Arshiya Rail Infrastructure – Designed to provide pan-India rail freight operations and rail terminal facilities

Arshiya Domestic Distripark – Located as strategic hubs for warehousing and domestic rail consolidation across India

Arshiya Logistics – Provides logistics solutions including end-to-end freight management & transportation services in over 150 + countries world-wide

Arshiya Supply Chain Management – Provides end-to-end supply & demand chain solutions

Arshiya Transport & Handling – Focuses on providing world class transportation and handling infrastructure and services

Arshiya Technology – Provides software solutions for supply chain management and business process outsourcing

Key Financial: (Consolidated) (₹ crore)

Year-March	H1FY12A	H1FY11A	FY11A	FY12E
Sales	468.0	372.0	821.5	1100.0
PBIDT	121.8	61.7	160.4	272.8
Interest	40.5	15.1	46.2	94.0
PBDT	81.3	46.6	114.2	178.8
Depreciation	14.0	6.2	18.0	36.0
PBT	67.3	40.4	96.2	142.8
Tax	11.8	5.4	14.0	26.3
PAT	55.5	35.0	82.2	116.5
Equity			11.8	11.8
Reserves			733.3	849.8
Book Value (Rs)			126.3	146.0
EPS (Rs)	9.4	5.9	13.9	19.7
OP Margin (%)	26.0	16.6	19.5	24.8
NP Margin (%)	11.9	9.4	10.0	10.6
P/E			10.1	7.1

Q2FY12 & FY11 Results

During FY11, consolidated sales advanced buy 56.0 per cent to ₹821.5 crore but net profit fell by 16.1 per cent to ₹82.2 crore. Consolidated EPS stood at ₹13.9. OP and NP margin stood at 19.5% and 10.0% against 24.3% and 18.6% respectively in the corresponding period last year.

AIL's FY11 consolidated debts were ₹1442 crore, which gives DER of 1.9:1. Cash and bank balances were ₹152 crore. The value of the consolidated gross block was ₹1932 crore. (GB ₹676 crore +WIP ₹1256 crore).

During Q2FY12, consolidated sales rose 25.8% to ₹245.4 crore and net profit by 73.3% to ₹31.9 crore. OPM and NPM stood at 27.5% and 13.0% compared to 17.1% and 9.4% respectively in the corresponding period last year. Q2FY12 consolidated EPS stands at ₹5.4.

FTWZ at Panvel, Mumbai

AIL's biggest achievement has been the development of India's first Free Trade Warehousing Zone (FTWZ) at Panvel, Mumbai spanning across 165 acres. A real boon for Importers, Exporters and Value adders FTWZs are deemed foreign territory where Warehousing, Trading and Value Optimising can be performed with the help of Arshiya's state-of-the-art infrastructure and expert personnel. This will also enable India to compete with its cost and skill arbitrage in regional hubbing and also process cargo in and out of India more efficiently – thereby improving logistics connectivity of India.

Rail Infrastructure & Distriparks

AIL is also investing in the development of rail infrastructure to provide pan-India rail freight operations, building Rail terminals in strategic locations across India. With state-of-the-art infrastructure, Arshiya's rail logistic network can help in aggregate & consolidate products for domestic movement as well as customize rail containers for faster and more efficient product loading/unloading.

Arshiya is also initiating development of domestic Distriparks as state-of-the-art regional distribution hubs for domestic and EXIM cargo, towards product consolidation for in-land India movement. Recognizing the need in the logistics space, Arshiya operates with the mission of becoming the first and only company to address challenges of supply chain solutions, Rail infrastructure, domestic distriparks (logistics parks), and Free Trade and Warehousing Zones (FTWZs) with an integrated focus on Infrastructure, Innovation, Investment, Integration & IT.

Five FTWZ across India over 3 years

Five such zones are planned by AIL across India including Mumbai, Delhi, Nagpur, Chennai and undisclosed location in the East of India. Mumbai FTWZ is already operational from November 2010 with plans afoot for the launch of Delhi FTWZ in Q3FY12. Benefits through this pioneering venture for customers would be Duty/Tax Incentives, Faster Regulatory Clearances, Reduced Capital Expenses, Visibility, Flexibility and most importantly, significantly reduce working capital costs - for all of Arshiya's clients leveraging the FTWZ infrastructure. Each FTWZ is integrated with its own dedicated Container Yard (CY) / Inland Container Depot (ICD), Customised Storage facility for all kinds of cargo, Exhibition & Office Complex and also core services such as Banking/Financial Services, Insurance, Manpower Agencies, Utilities etc. AIL has also plan to go in for 6th FTWZ in the future.

Huge Capex Plan

AIL has allocated fund for all its five strategically located FTWZs. AIL has allocated ₹2625 crore for its Phase-I expansion which includes expansion of Rail infrastructure (₹626 crore), phase I expansion of Mumbai (₹535 crore), Khura, UP (₹421 crore), and Nagpur FTWZ (₹492 crore) along with Phase I expansion of Domestic Distripark at Khurja (₹551 crore) and ₹1027 crore has been allocated for Phase-II expansion of Mumbai FTWZ. This Capex will be spent by 2013, out of which ₹2436 crore has been already spent as on 30 September 2011. The debt portion is ₹1390 crore and the balance ₹779 crore by way of equity.

Proximity to the Eastern and Western freight corridors will open up huge potential

Arshiya is developing a 315 acre FTWZ, domestic distripark and a rail siding in Khurja near Delhi to be operational by Q3FY12. This facility will provide the much needed logistics infrastructure support to the companies operating in the North. The Northern belt being a major export hub will be connected to the Panvel, Mumbai FTWZ with Arshiya rail to enable cost effective and faster movement to the JNPT Port and vice versa. While the FTWZ will service EXIM cargo, Domestic Distripark will be a consolidation and distribution hub for domestic cargo and eventual movement by road or Arshiya rail supported by private rail siding of Arshiya. The proximity to the Eastern and Western freight corridors will open up huge potential to service the cargo that will move on these corridors. This facility will also have the state-of-the-art infrastructure that is available at Panvel-Mumbai.

Level of containerization provides huge opportunity

India's level of containerization is <25 percent as against global average of 60-70%. Average time taken to clear import and export cargo at ports is about 19 days in India against 3/4 in Singapore. World Bank's 2010 Logistics Performance Index ranks India 47th in terms of logistics in-efficiency among 130 countries globally - in terms of variables such as - Customs Clearance, Infrastructure, Timelines, Shipments, Logistics Competencies, Tracking and Tracing. While consumption in India will grow in real terms from USD 378 billion presently to USD 1.56 trillion by 2025 - a fourfold increase, in reality India ranks only 17th in terms of importing world products, consuming just over 2 percent of globally produced merchandise, but growing at 35%.

While by 2020, India is projected to have an additional 47 million working population with an average Indian age of 29 fuelling our ability to become a manufacturing Mecca of the world, reality is that India ranks 26th as per WTO in terms of exporting world products contributing just over 1.3 percent of globally consumed merchandise, but growing at 22 percent. India's container throughput in calendar year 2010 was just over 9.3 million TEUs (Twenty Equivalent Unit) as compared to Dubai (12 million), Singapore (28 million) and China (169 million) - Indicating zero penetration in value addition, hubbing and re-export market.

Sizable investments in Ports & Railways highly beneficial

The favorable investment environment in domestic infrastructure space, the public and private investments in ports and railways are likely to benefit companies in rail and port-based logistics. Key investment initiatives like the ₹600 billion National Maritime Development Programme (NMDP) would augur well. The recently released Maritime Agenda – 2020 has estimated that container handling will grow at a 16% CAGR until FY20.

Container port capacity has increased manifold over the past five years, but remains sadly inadequate despite increasing capacity expansion at major container ports like JNPT, Chennai and Mundra in Gujarat and setting up of new ports like Vallarpadam in Kerala and Tuticorin in Tamil Nadu. The Indian Railways, due to its improving financial position is aggressively pursuing schemes like the ₹600 billion dedicated rail freight corridor (DRFC) and the ₹150 billion National Rail Vikas Yojana (NRVY).

Freight transport to grow @6% CAGR

India's freight transport system currently carries approximately 2.8 billion metric tonnes of cargo; which is expected to grow to approximately 5.2 billion MT by 2020 at a CAGR of 6 percent. Given the CAGR of India's middle class growth, the country will have approximately 615 million consumers in the segment by 2020 and an additional 47 million working population, almost equal to the total world shortfall with an average Indian age of 29 years.

Comparative average population age of other geographies at that time will be: 37 in China, 45 in US and Western Europe and 48 in Japan. Thus the country is poised for an exponential growth in the coming decades. One of the most critical variables for realizing India's true potential as an economic power house is development of logistics infrastructure across India's demography to support the rapidly growing economy.

Logistics has been seen as a complex detail

Logistics typically accounts for one of the highest costs of doing business, second only to materials in manufacturing or cost of goods sold in wholesaling or retailing. Therefore, targeting this huge cost centre has been a constant endeavor of most countries over time.

Globally, countries have steadily and successfully brought down logistics cost in a bid to improve their competitive advantage and curb inflation. Logistics has traditionally been perceived as a cost centre and companies devote time and resources for cost rationalization rather than use the logistics as a means for enhancing customer satisfaction and bolstering revenues. Because it's an unavoidable cost, logistics has been seen as a complex detail that can be attended to in the margins of the business.

Logistics provide organic growth opportunities

Contrary to the traditional view logistics can provide competitive advantage resulting in organic growth opportunities. Logistics encompasses an array of essential activities from transport, warehousing, cargo consolidation, and border clearance to in-country distribution and payment systems' involving a variety of public and private agents. India's lack of logistics competitiveness is evident from the fact that, its share of global merchandise exports is also modest and not commensurate with its economic size and potential.

Countries like China (9.6 percent) and Korea (2.9 percent) have a far higher share of global exports compared to India's 1.75 percent. A competitive network of global logistics is the backbone of international trade. It's no longer possible to make a decision about where to obtain parts, locate a manufacturing facility or open a retail outlet without first understanding the impact on logistics. Companies across the globe are increasingly realizing the severe impacts on their bottom lines due to rising inventory, higher levels of working capital, missed deliveries and glitches in lean manufacturing performance, all of which can result from poor global sourcing strategies.

Government's focus to double exports augurs well

The Indian government has set an ambitious target of doubling its exports from US$225 billion in FY11 to US$450 billion in FY14 and then to US$750 billion by FY17, which would imply a CAGR of more than 25% over the next six years. The Commerce Ministry has targeted doubling India's share in global trade by the end of FY20 from the current 1.75%. The government wants to achieve these targets despite the current global slowdown and facilitative trade, currency and regulatory policies of other exporting countries.

To this effect, it has identified key areas of infrastructure development — roads, railways, ports where it has made required regulatory changes to support growth, reduce transaction costs for the industry and increase efficiency. We expect the Twelfth plan to increase allocations to these areas and focus on improved execution.

Prospects

India spends approximately 14% of its GDP on logistics while most developed economies spend between 8% and 9%. On a USD 1.6 trillion GDP; this represents approximately USD 65 billion in excessive spending owing to the inefficiencies and unorganized nature of logistics in India. As India's economy surges ahead and trade increases, bringing the desired efficiencies in logistics systems in India represents your Company's mission.

Arshiya plans to capitalize on India's mammoth logistics opportunity through Integrated Supply Chain and Logistics Infrastructure Solutions by leveraging its unique competency of combining 'Soft Infrastructure' such as asset-light 3PL (Third Party Logistics), 4PL (Fourth Party Logistics) services, with innovative 'Hard Infrastructure' such as, FTWZs, Rail Infrastructure, Domestic Distriparks, Transport & Handling integrated through customized IT solutions.

FY13 will be robust for AIL

In the coming quarter, AIL would be ready to launch its integrated infrastructure project in Khurja, which includes the first phase of a free trade and warehousing zone, a domestic distripark and a private rail terminal. This FTWZ in Khurja will be in a 4 position to leverage the customer base developed in the Mumbai FTWZ and will also stand to gain from the operational expertise acquired there.

These two FTWZs, one in the west which is in proximity to India's premier container port and the other in the north located strategically near India's manufacturing hub, integrated with the rail terminal will drive volumes and enable AIL to become a force to reckon with. This would in turn also provide a strong impetus to its freight forwarding and logistics business. Backed by expansion, during FY13E, net profit is expected to go up by 37% to ₹160 crore on 36% higher sales of ₹1500 crore. This would fetch an EPS of ₹27.

Valuation & Recommendation

With operations started in the beginning of 2009, Arshiya Rail Infrastructure currently has 15 rail rakes operational and the company has plans to take it to 25-30 rakes by FY13E. Arshiya Rail Infra intends to become the most profitable private container rail operator in India. AIL is also in the process of building rail terminals at strategic locations, across India, with modern equipment to increase speed of loading, unloading, etc.

AIL has regular stream of other income. One is the rental income which the company receives from renting out space within the FTWZ. In addition, the company provides value added services to clients like labeling, packaging, assembling, repackaging, quality control, etc.

AIL plans to enter the road transportation business by either acquiring a company or buying trucks and trailers. The primary reason behind this foray is to have control on the entire supply chain of cargo movement.

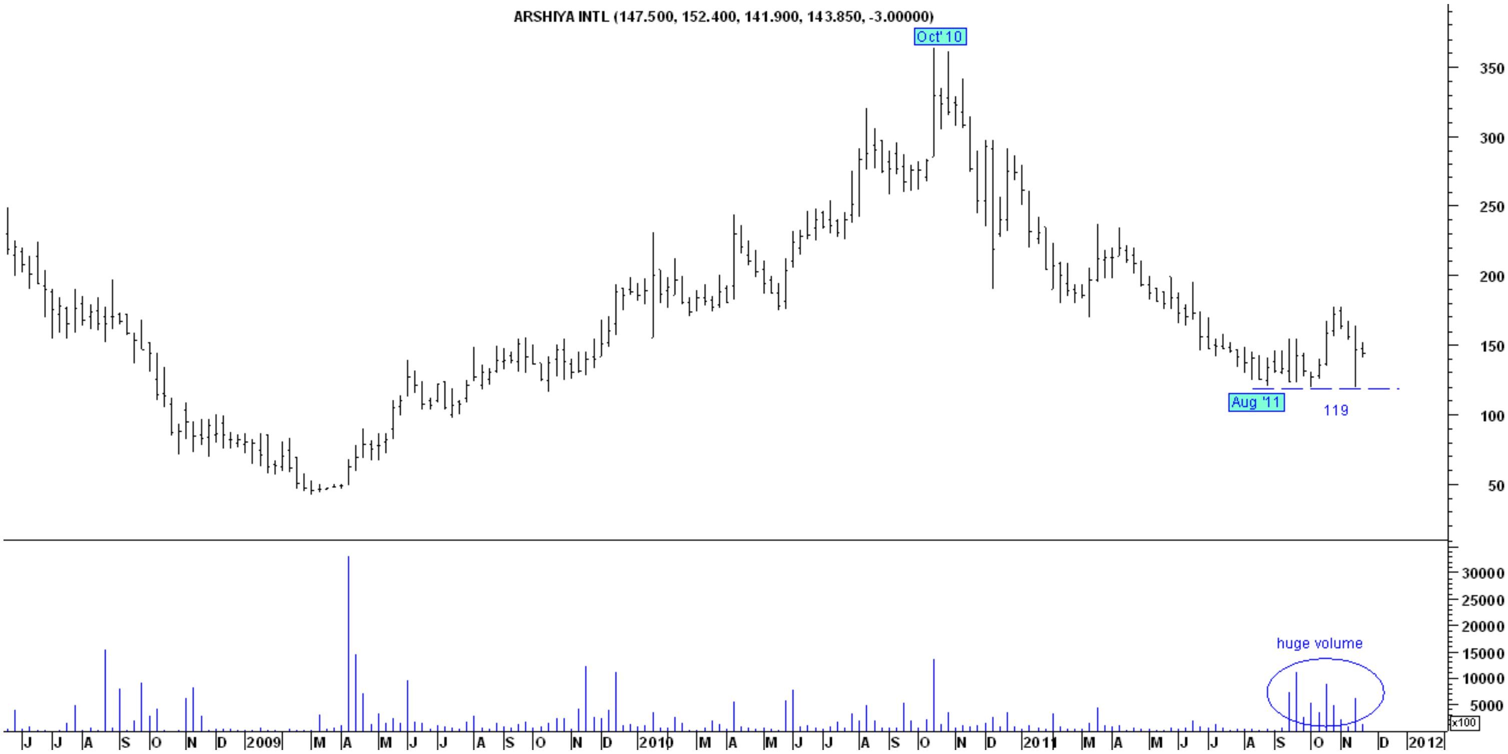
Road transport accounts for about 65% of all freight transport in India while railways have about 30% market share. Considering the potentials of this business, AIL had planned to have trucks and trailers, which would be meant for short hauls to nearby ports, rail sidings or warehouses from FTWZ would also increase efficiencies and lower dependencies for AIL.

Currently, apart from FTWZ, AIL has a presence in container train operations, freight forwarding and IT for logistics management; road transportation service is the missing link in the supply chain. The road transportation business would help AIL offer last-mile connectivity in delivering goods door-to-door and to diversify to other sectors.

AIL is expected to post consolidated EPS of ₹19.7 in FY12 and ₹27 in FY13. At the CMP of ₹140, the share is trading at a P/E of 7.1x on FY12E and 5.2x on FY13E. We recommend BUY with a target price of ₹196 in the medium-to-long term.

Technicals-Arshiya International & Unique Benefits of FTWZ (See below)

Technicals-Arshiya International



The weekly chart of Arshiya International shows that the ₹119 level had offered support to the stock twice in the recent past. Huge volume was seen during the last few weeks, which shows increase in interest in the stock after the big correction that lasted from Oct' 10 to Aug '11.Investors can enter the stock with a stop-loss below ₹119 for an upside target of ₹200.

Unique Benefits of FTWZ for Imports Exports & Re-Exports

Imports

Flexibility to clear cargo in part consignments (unlike in the case in other Container Freight Station (CFS)/ International Container Depot (ICDs) thus allowing flexibility towards consumption/end distribution duty deferment benefits (freeing up working capital and reduction in costs) de-stuffing and stuffing of cargo from shipping line containers into other containers for avoiding Shipping Line detention charges and customised delivery. The same product could also be stored in the warehouses within the FTWZ at much lower costs as compared to detention charges that plague users.

- Quality control prior to duty payment, hence no duty to be paid on rejected products
- Exemption of SAD, VAT & CST on imports through FTWZ Service
- Tax exemption for Handling & Transportation of containers from Port to FTWZ
- Availability of state-of-the-art Container Storage Yard with World Class Safety, Hazardous Storage and Maintenance and Repair Facilities within the FTWZ with Service Tax Exemption
- Free foreign exchange transaction capability for the services rendered including CY/Container Freight Station services.
- Value addition services can be provided like labelling, packing, kitting, bar-coding, palletization and other authorized services (in FTWZ as described earlier)
- All such activities are exempted from service tax as well as any purchases of packaging material, labels and the like from DTA into the FTWZ would be treated as exports from such suppliers

Exports

- Factory stuffed containers entering the FTWZ are treated as deemed export providing immediate export benefits
- Local Tax Exemption (e.g. CST, Sales Tax, Excise & VAT) on all activities conducted inside the FTWZ
- Increased efficiency through lowered reverse logistics activities through quality control before dispatch from India
- Lowering 'back to town' costs with better aggregation and consolidation
- Facilitating consolidation of cargo with other users of the FTWZ for cost optimisation through Arshiya's Rail movement and last mile distribution
- Value addition services can be provided like labelling, packing, kitting, bar-coding , palletization and other authorised services with all fiscal and regulatory benefits
- Availability of state-of-the-art Container Storage Yard with world class safety, hazardous storage, maintenance and repair facilities within the FTWZ with service tax exemption
- Free foreign exchange transaction capability for the services rendered including ICD/CFS services

Re-exports

- Income tax exemption on all profits generated through re-exports activity through the FTWZ
- Hassle-free re-export process by routing cargo through FTWZ integrated with ICD/CFS services
- Ability to leverage India's cost, skill and geographic positioning advantage as a hub for regional/global distribution post value addition activities
- Service tax exemption on services availed by routing containers through FTWZ integrated with ICD/CFS services
- Permission of 100% FDI for the set-up of units by the unit holder of the FTWZ
- Value addition services can be provided like labelling, packing, kitting, bar-coding, palletization and other authorised services with all fiscal and regulatory benefits

SUNIDHI SECURITIES & FINANCE LTD

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