Institutional Equities
India Research

Arshiya International

QUARTERLY REVIEW

Bloomberg: ARST IN
Reuters: ARTC.BO

BUY

On Fast Track; Growth Triggers Abound

Arshiya International (ARST) Q1FY13 consolidated PAT grew 47% YoY (+13% QoQ) to Rs346bn (10% ahead of our estimates). Revenues grew 54% YoY (+9% QoQ) to Rs3.4bn driven by strong growth across all three business segments. Rise in high margin FTWZ business and better asset utilization across all the verticals boosted EBITDA growth to 72% YoY (10% ahead our est) and 15% QoQ. However, PAT growth got moderated on account of high capital charges on capacity commissioning and capex related debt levels.

Revenue growth of 9% QoQ during the quarter gained from the additions of three warehouses at Khurja FTWZ as well as from the business integration benefits boosting 3PL revenues. Rail revenue remained flat QoQ on account of maintenance downtime of ~6 weeks for four of its 20 rakes.

Capital charges firm up both QoQ as well as YoY on account of commissioning of Khurja warehouses and related interest charges.

Lower tax rate of ~10% during the quarter on account of MAT credit entitlement helped moderate impact of capital charges and the company expects the same to continue for the next two years.

Triggers abound going forward: Over the preceding 10 quarters, ARST delivered 15% EBITDA and 7% Cumulative Qtrly Growth Rate (CQGR). Going forward, we remain confident of ARST growth driven by (1) commissioning of more warehouses across the two FTWZ locations in Panvel and Khurja, (2) the upcoming rail terminal at Khurja should reduce Rail maintenance downtime as well as increase revenue for the domestic distriparks, (3) Rail rake expansion through acquiring on lease from GATX should drive revenue and profit growth without straining balance sheet (4) Better utilisation and ramp up should help ARST stabilize its debt levels.

We re-iterate our 'BUY' recommendation on the stock valuing ARST at 40% discount to the average of its long term median P/E (9.3x) and EV/EBITDA (10.8) multiples thereby arriving at a TP of Rs227 (at average of 6.5x FY14E EBITDA and 5.5x FY14E EPS). We believe the lower multiples factor in business risk arising out of high debt exposure and weak economic activities impacting profits growth.

Key Financials (consolidated)

Year to Mar (Rs mn)	FY10	FY11	FY12	FY13E	FY14E
Net Sales	5,259	8,215	10,573	15,524	20,283
EBITDA	861	1,592	2,717	4,222	6,240
EBITDA margin (%)	*16.4*	*19.4*	*25.7*	*27.2*	*30.8*
PAT	980	827	1,208	1,356	2,817
EPS (Rs)	16.7	14.1	20.5	23.1	47.9
RoE (%)	15.4	11.7	15.0	14.6	25.3
RoCE (%)	11.2	7.2	7.9	10.0	13.8
P/E (x)	8.0	9.5	6.5	5.8	2.8
EV/EBITDA (x)	14.9	13.1	11.0	7.6	5.3

Source: Company, Karvy Institutional Research

Recommendation

CMP:	Rs133
Target Price:	Rs227
Previous Target Price	Rs227
Upside (%)	71%

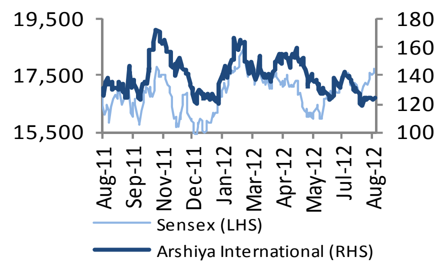
Stock Information

Market Cap. (Rs bn / US$ mn)	08/141
52-week High/Low (Rs)	179/116
3m ADV (Rs mn /US$ mn)	13/0.2
Beta	0.7
Sensex/ Nifty	17,885/5,421
Share outstanding (mn)	59

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	2.0	(5.5)	5.7	4.8
Rel. to Sensex	(2.2)	(14.7)	(4.6)	(9.4)

Performance



Source: Bloomberg, Karvy Institutional Research

Earnings Revision

(%)	FY13E	FY14E
Sales	↑12%	↑5%
EBITDA	↑15%	↑3%
PAT	↓2%	↓6%

Source: Karvy Institutional Research

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Q1FY13 Results Analysis

Exhibit 1: Quarterly profit and loss analysis – strong numbers

Consolidated (Rs mn)	Jun-11	Mar-12	Jun-12	YoY %	QoQ %
Net Sales	**2,226**	**3,134**	**3,418**	**53.6**	**9.1**
Staff Costs	147	194	218	48.4	12.8
% net sales	*6.6*	*6.2*	*6.4*	*(22bp)*	*21 bps*
Cost of Operations	1,420	1,957	2,120	49.3	8.3
% net sales	*63.8*	*62.5*	*62.0*	*(175 bps)*	*(43 bps)*
Other expenses	113	172	145	28.4	(15.6)
% net sales	*5.1*	*5.5*	*4.3*	*(83 bps)*	*(124bps)*
Total Expenditure	1,680	2,323	2,484	47.9	6.9
EBITDA	**546**	**811**	**934**	**71.2**	**15.2**
EBITDA Margins (%)	***24.5***	***25.9***	***27.3***	***281** bps*	***146** bps*
Other Income	3	(43)	74		
Depreciation	66	93	120	80.5	29.3
EBIT	**483**	**675**	**889**	**84.2**	**31.7**
EBIT margins (%)	***21.7***	***21.8***	***25.4***	***380** bps*	***362** bps*
Interest	196	340	500	154.9	47.2
PBT	**286**	**335**	**389**	**35.7**	**16.1**
PBT margins (%)	**12.9**	**10.7**	**11.4**	**(149** *bps***)**	**68** *bps*
Total tax	**50**	**27**	**42**	**(15.5)**	**59.0**
% PBT	*17.5*	*8.0*	*10.9*	*(661bps)*	*295bps*
Adj PAT	**236**	**308**	**346**	**46.6**	**12.3**
Adj NPM (%)	***10.6***	***9.8***	***10.1***	***(48bps)***	***30bps***
EPS	**4.0**	**5.2**	**5.9**	**46.6**	**12.3**

Source: Company, Karvy Institutional Research

Revenue growth of 54% YoY driven by all business segments

ARST's consolidated net sales rose 54% YoY and 9% QoQ to Rs3.4bn led by strong growth across all the three business verticals. While the 3P Logistics registered 29% YoY (+7% QoQ) growth, the FTWZ and Rail revenues grew at a faster pace of 133% YoY (+25% QoQ) and 76% YoY (+1% QoQ).

The FTWZ business share continues to rise as new warehouses get commissioned and as business ramps up as along with VAS multiple. ARST had eight operational FTWZ warehouse during the quarter vs. five operational during 4QFY12. The management is also focusing on acquiring more VAS focused customers at both the facilities – Panvel and Khurja.

The Rail revenues remained flat QoQ as four of its 20 rakes were non-operational for almost 1.5 months as these went for mandatory bi-annual over-hauling. The 3P Logistics revenue rose 7% QoQ (+29% YoY) helped by integration benefits on Rail and FTWZ expansions.

Exhibit 2: The rising share of FTWZ revenue boosts profit growth

Segmental (Consol) Rs Mn	Jun-11	Mar-12	Jun-12	YoY %	QoQ %
Revenues	**2,226**	**3,134**	**3,418**	**53.6**	**9.1**
3P Logistics	1,425	1,715	1,842	29.3	7.4
FTWZ/Distriparks	309	576	722	133.4	25.4
Container Rail	485	843	853	75.7	1.2
Software/ Others	7	-	1		
EBIT	**473**	**664**	**868**	**83.7**	**30.9**
3P Logistics	300	343	332	10.7	(3.3)
FTWZ/Distriparks	207	361	537	159.9	48.9
Container Rail	82	130	141	71.6	8.8
Software/ Others	0	(15)	(0)		
Less: Other Un-allocable Exp	116	155	142	21.8	(8.9)
Less : Net Interest Cost	187	328	480	156.5	46.2
PBT	**286**	**335**	**389**	**36.0**	**15.9**
EBIT margins (%)				bps	bps
3P Logistics	21.1	20.0	18.0	(303)	(200)
FTWZ/Distriparks	66.8	62.7	74.4	758	1,173
Container Rail	17.0	15.4	16.6	(40)	115
Capital Employed	**7,692**	**8,662**	**9,083**	**18.1**	**4.9**
3P Logistics	3,798	4,525	4,917	29.5	8.7
FTWZ/Distriparks	4,170	5,393	6,014	44.2	11.5
Container Rail	1,209	1,538	1,554	28.6	1.1
Software/ Others	875	839	850	(2.8)	1.3
Unallocated Net Assets/Liabilities	511	(27)	(642)		
Intersegment Elimination	(2,870)	(3,605)	(3,611)		

Source: Company, Karvy Institutional Research

Rising share of high margin FTWZ, better utilisation drive profitability growth

ARST's EBITDA rose 71% YoY (+15% QoQ) to Rs934mn ~10% ahead of our estimates. The high margin FTWZ revenue share rose 720bps YoY and 275bps QoQ. The low margin 3P Logistics revenue share contracted 1000bps YoY. Additionally, the FTWZ and Rail margins improved QoQ on better utilisation and ramp up thereby driving profit growth during the quarter.

Capital charges moderates PAT growth

As warehouses get added in the FTWZ business segments, depreciation and interest costs would continue to rise over the next two years. During the quarter, capital charges more than doubled as the on-going expansion (primarily FTWZ) is largely debt funded. This moderated PAT growth to 47% YoY (+12% QoQ) to Rs346mn (10% ahead of our estimates of Rs315mn).

Key Triggers

FTWZ utilisation and VAS to rise as large clients come on board – With large clients like CISCO, L&T, GE India, BHEL, Hypercity, Henkel, etc become long term customers at ARST's FTWZ, the management expects it should be easier of to gain more customers (and primarily those who would value added services -VAS) to use its FTWZ. ARST is focusing on improving the VAS to rental multiple at Panvel FTWZ where five warehouses are operational currently and three more warehouses are expected to be commissioned during FY13. These should drive additional revenue growth in FY13-14E.

Khurja FTWZ ramp up to aid revenue and profit growth – ARST's three warehouses at Khurja got operational at the end of 4QFY12. Subsequently, during 1QFY13, the monthly revenue run-rate during three months rose from Rs20mn in April to Rs40mn in May and to Rs100mn in June. With some of Arshiya's Panvel FTWZ clients moving to Khurja, the VAS multiple rose to 1.3x. Going forward, the management estimates ~Rs250-300mn of quarterly revenue run-rate over the next three quarters.

Rail terminal in Q2FY13, new domestic distriparks at Khurja - The rail terminal is expected to be ready during Sep 2012. ARST plans to make this terminal accessible to all CTOs thereby driving revenue growth. Additionally, the infrastructure at Khurja terminal would reduce the down time on rail rakes overhauling from 6 weeks currently to 1 week. ***This should reduce non-revenue days*** for its 20 rakes considerably as most of ARST's rakes would go for the biannual over-hauling this year. Further, three domestic warehouses (domestic distriparks) expected to be operational in FY13E. The rail terminal and its 3PL experience should help the management gain business for the domestic warehouses.

More rakes on lease basis from GATX to reduce strain on balance sheet - ARST expects to increase its rake fleet 20 currently to 25 in FY13E and to 30 in FY14E by acquiring rakes on lease from GATX, India during each of FY13-14E. On one hand, this should aid Rail revenue growth of ~20% YoY and on other hand the leased model should reduce the strain on the balance sheet. This is a positive development as we estimate ARST's EBIT to int cost ratio should remain suppressed at 1.7x in FY13E before improving to 2.3x in FY14E.

MAT credit to lower effective tax rate to ~10% in FY13-14E: The management has guided that its effective tax rate should remain low at 10% and lower during Fy13-14E on account of MAT credit entitlement. Currently, the FTWZ business is under MAT rate of taxation. From FY14E onwards, the rail business would also benefit from MAT rate. This should reduce the negative impact of higher capital charges on PAT growth.

Revenue, EBITDA and PAT CAGR of ~ 40%, 50% and 60% during FY12-13E – Driven by ramp up across all the three businesses, we estimate a top-line growth of 47% and 31% YoY during FY13-14E period. Additionally, rising share of FTWZ earnings and increased asset utilisation across all the three business segments, EBITDA and PAT should grow at 50% and 60% CAGR during FY13-14E. PAT growth would be impacted on account of rising capital charges as debt funded FTWZ warehouses, rail terminal and domestic distriparks get commissioned during FY13-14E.

Revising estimates to factor in changes in revenue mix and higher capital charges

We have raised our revenue estimates as we factor in higher growth in the 3PL segment. However, with higher capital charges led by on-going expansions, we have marginally lowered our PAT estimates.

Exhibit 3: Revising estimates to factor in lower other income, higher dep & tax

	FY13E			FY14E		
	New	Old	% Change	New	Old	% Change
Revenue	15,524	13,886	11.8	20,283	19,404	4.5
EBITDA	4,222	3,686	14.5	6,240	6,045	3.2
PAT	1,356	1,378	(1.6)	2,817	2,988	(5.7)

Source: Karvy Institutional Research

Exhibit 4: Key assumptions & estimates - FTWZ segment to grow considerably at >90% YoY and Rail at >20% during FY12-14E period

Revenues	FY10	FY11	FY12E	FY13E	FY14E
3P Logistics	**4,591**	**6,203**	**6,063**	**7,673**	**8,210**
Growth YoY (%)	*(0.4)*	*35.1*	*(2.3)*	*26.5*	*7.0*
EBIT margin (%)	17.6	22.3	20.9	17.3	17.8
FTWZ/Distriparks	**-**	**256**	**1,716**	**3,575**	**6,794**
Growth YoY (%)			*570*	*108*	*90*
EBIT margin (%)		*54.5*	*70.2*	*64.4*	*60.7*
Container Rail	**482**	**1,692**	**2,707**	**4,277**	**5,279**
Growth YoY (%)	*2,227*	*251*	*60*	*58*	*23*
EBIT margin (%)	*17.6*	*16.5*	*16.7*	*17.0*	*15.7*
Others	**186**	**63**	**8**	**-**	**-**
Growth YoY (%)	*(54.1)*	*(65.9)*	*(88.2)*	*(100.0)*	

Source: Company, Karvy Institutional Research

Valuation and Recommendation

Re-iterate 'BUY' recommendation with a TP of Rs227: ARST is currently trading at 4.1x and 6.5x its one year fwd EPS and EBITDA. Over the last six years, the stock has traded at median PE and EV/EBITDA of 9.3x and 10.8x respectively. ***We ascribe a 40% discount to these long term median multiples to value ARST***. Subsequently, we value ARST at average of 5.5x its FY14E EPS and 6.5x is FY14E EBITDA to arrive at our TP of Rs227. The lower multiples factor in business risk arising out of high debt exposure and weak economic activities impacting profits growth.

Key Risks

Lower business ramp-up across FTWZ and Rail business can adversely impact PAT growth on account of high financial leverage and depreciation.

Being in expansion phase, ARST may not be able to pass on sharp haulage charge increases by Indian Railways thereby impacting its rail margins downwards.

Any withdrawal of tax benefits available at FTWZ when GST is fully implemented would lower the FTWZ value preposition negatively impact FTWZ revenue growth.

Important Charts

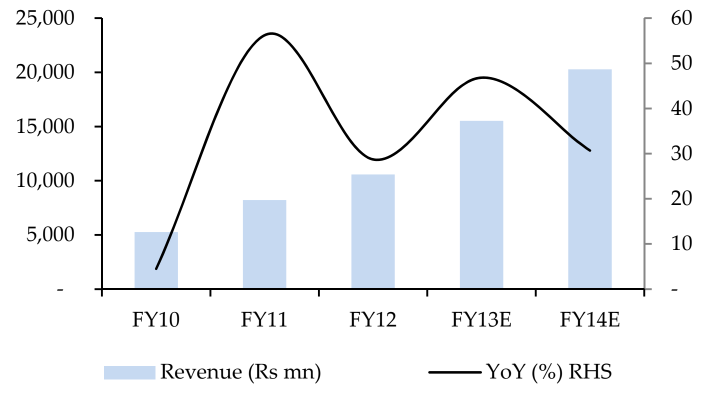
Exhibit 5: One year fwd PE trend - (Median 9.3x)

Source: Company, Karvy Institutional Research

Exhibit 6: One yr fwd EV/EBITDA trend - (Median 10.8x)

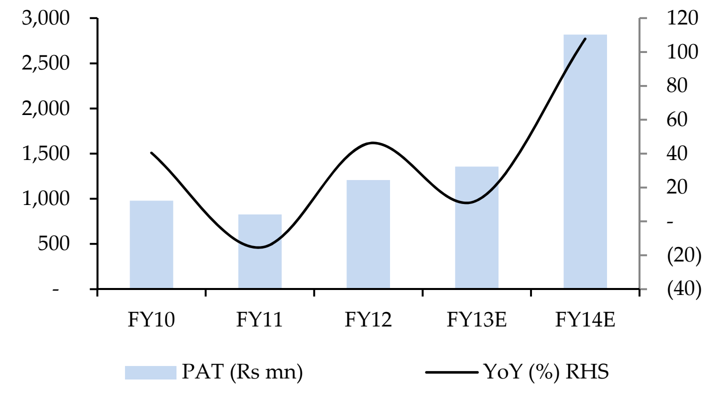
Source: Company, Karvy Institutional Research

Exhibit 7: Revenue CAGR of 40% during FY10-14E



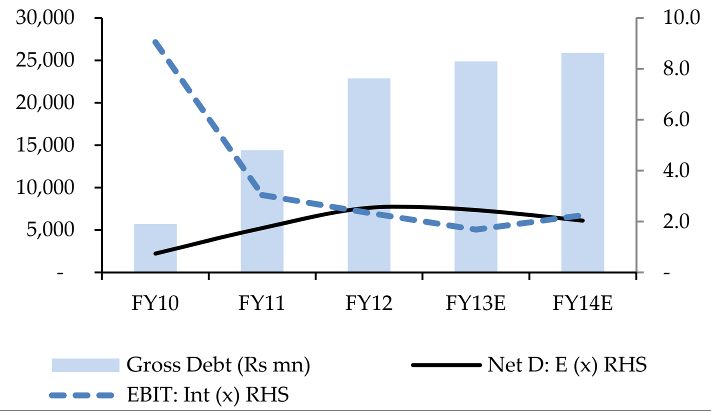
Source: Company, Karvy Institutional Research

Exhibit 8: PAT CAGR of 30% during FY10-14E



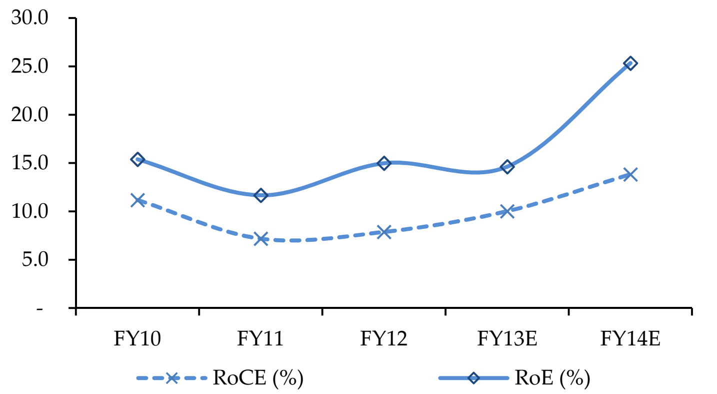
Source: Company, Karvy Institutional Research

Exhibit 9: High debt levels strain balance sheet in near term



Source: Company, Karvy Institutional Research

Exhibit 10: Return ratios should expand as profits grow during FY13-14E



Source: Company, Karvy Institutional Research

Financials

Exhibit 11: Profit & Loss Statement (Consolidated)

Year to March (Rs mn)	FY10	FY11	FY12	FY13E	FY14E
Net Sales	**5,259**	**8,215**	**10,573**	**15,524**	**20,283**
% growth	*4*	*56*	*29*	*47*	*31*
Operating expenditure	4,398	6,623	7,857	11,302	14,043
EBITDA	**861**	**1,592**	**2,717**	**4,222**	**6,240**
% growth	*16*	*85*	*71*	*55*	*48*
Depreciation	96	180	314	525	620
Other Income	419	28	75	10	10
EBIT	1,184	1,441	2,478	3,707	5,630
Interest expenditure	131	474	1,060	2,200	2,500
PBT	1,053	967	1,419	1,507	3,130
Tax	74	140	211	151	313
Adjusted PAT	**980**	**827**	**1,208**	**1,356**	**2,817**
% growth	*40*	*(16)*	*46*	*12*	*108*

Exhibit 12: Balance Sheet (Consolidated)

Year to March (Rs mn)	FY10	FY11	FY12	FY13E	FY14E
Cash & liquid investments	718	1,398	860	696	702
Debtors	2,714	2,291	3,109	4,347	5,882
Inventory	-	1	-	-	-
Loans & advances	547	3,116	2,650	3,881	5,071
Long term investments	5	-	-	-	-
Gross block	2,657	6,758	15,753	25,389	31,144
Net block	2,532	6,470	15,159	24,269	29,404
CWIP	7,292	10,169	12,606	6,000	3,000
Other Current Assets	(28)	531	346	-	-
Total assets	**13,780**	**23,976**	**34,729**	**39,193**	**44,059**
Current liabilities & provisions	1,378	2,053	3,041	4,288	5,679
Debt	5,715	14,421	22,886	24,886	25,886
Other liabilities	(12)	47	137	137	137
Total liabilities	**7,081**	**16,521**	**26,065**	**29,312**	**31,702**
Shareholders' equity	118	118	118	118	118
Reserves & surpluses	6,582	7,338	8,546	9,764	12,239
Total networth	**6,699**	**7,456**	**8,664**	**9,882**	**12,357**
Total equity and liabilities	**13,780**	**23,976**	**34,729**	**39,193**	**44,059**

Source: Company, Karvy Institutional Research

Exhibit 13: Cash Flow Statement (Consolidated)

Year to March (Rs mn)	FY10	FY11	FY12	FY13E	FY14E
PBT	1,053	962	1,419	1,507	3,130
Depreciation	108	176	314	525	620
Interest	121	(19)	(5)	(10)	(10)
Tax	(111)	(81)	(256)	(154)	(299)
(Incr) / decr in net working capital	(774)	868	(983)	(907)	(1,535)
Others	(185)	482	1,134	2,197	2,510
CF from operating activities	**213**	**2,389**	**1,621**	**3,157**	**4,416**
(Incr) / decr in capital expenditure	(4,399)	(9,387)	(9,674)	(3,030)	(2,755)
(Incr) / decr in investments	(5)	(277)	208	-	-
Others	19	19	4	10	10
CF from investing activities	**(4,385)**	**(9,645)**	**(9,461)**	**(3,020)**	**(2,745)**
Incr / (decr) in borrowings	4,405	8,720	8,465	2,000	1,000
Issuance of equity	-	16	-	-	-
Dividend paid	(55)	(69)	(82)	(101)	(165)
Others	(118)	(745)	(1,135)	(2,199)	(2,500)
CF from financing activities	**4,232**	**7,922**	**7,248**	**(300)**	**(1,665)**
Net change in cash	61	666	(591)	(163)	6

Source: Company, Karvy Institutional Research

Exhibit 14: Ratio Analysis

Year to March (%)	FY10	FY11	FY12	FY13E	FY14E
EBITDA margin	16.4	19.4	25.7	27.2	30.8
EBIT margin	22.5	17.5	23.4	23.9	27.8
Net profit margin	18.6	10.1	11.4	8.7	13.9
Dividend payout ratio	7.0	9.9	7.9	10.1	12.1
Net debt: equity	0.7	1.7	2.5	2.4	2.0
Working capital turnover	0.4	0.5	0.3	0.3	0.3
RoCE	11.2	7.2	7.9	10.0	13.8
RoIC	12.0	7.6	8.2	10.3	14.1
RoE	15.4	11.7	15.0	14.6	25.3

Source: Company, Karvy Institutional Research

Exhibit 15: Valuation Parameters

Year to March	FY10	FY11	FY12	FY13E	FY14E
EPS (Rs)	16.7	14.1	20.5	23.1	47.9
DPS (Rs)	1.0	1.2	1.4	2.0	5.0
Book value per share (Rs)	115	127	147	168	210
P/E (x)	8.0	9.5	6.5	5.8	2.8
P/BV (x)	1.2	1.0	0.9	0.8	0.6
EV/EBITDA (x)	14.9	13.1	11.0	7.6	5.3
EV/Sales (x)	2.4	2.5	2.8	2.1	1.6

Source: Company, Karvy Institutional Research

KARVY STOCK BROKING

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Stock Ratings		Absolute Returns
Buy	:	> 15%
Hold	:	5-15%
Sell	:	< 5%

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Disclosures Appendix

Analyst certification

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