

Allcargo Logistics

HOLD
Maintained
Rs94

Debt appears manageable

Allcargo Logistics (Allcargo) has been able to manage its cashflows reasonably well. Presence in the multimodal transport segment provides a cashflow buffer with Q4FY20/FY20 volumes up 8%/10% YoY respectively, given the relative buoyancy of global container trade. CFS (volumes down 8-9% YoY for two successive quarters) and project and engineering segment (with a reported negative EBIT of Rs188mn in H2FY20) continue to drag. Cash inflow from sale of Logistic Parks assets to Blackstone coincides with outflow on Gati acquisition. We do find reason in management guidance of current net debt of Rs11.5bn as peak (and to reduce to Rs6bn-7bn by FY21-end). This will be achieved through additional receipt of payments / offloading of debt to the separated Logistics Parks business. Maintain HOLD with a revised target price of Rs93 (Rs109 earlier).

- ▶ **Blackstone deal cashflow has started to accrue.** Blackstone has agreed to invest up to Rs3.8bn through a combination of equity and debentures. The transaction is expected to be complete in 12 months. Blackstone has made an investment of Rs2,284mn through debentures as well as Rs89.3mn through equity acquisition in specified wholly-owned subsidiaries – to which Allcargo has transferred its Logistics Parks business.
- ▶ Allcargo currently owns 46.86% in Gati; Gati's 20.83% stake as on 31st Mar'20 treated as investment in associate. As on Q4FY20 result date, Allcargo had 20.83% stake in Gati for a total consideration of Rs1,887mn, which has been accounted as investment in associate. Further, the company deposited Rs2,381mn in the escrow account for the open offer. Currently, post the open offer, Allcargo has 46.86% stake in Gati. Management remains confident of implementing a turnaround in Gati through operations restructuring and exploring synergies with Avashya CCI.
- ▶ **Cashflow analysis.** FY20 witnessed capex of ~Rs8bn, mainly in Logistics Parks. Allcargo has invested a further Rs2,071mn to acquire 20.83% in Gati and has kept Rs2,381mn in the special escrow account for Gati's open offer. Investing cashflows also highlight an inflow of Rs2,378mn in pursuance of the business transfer arrangement (net of registration costs) in the Blackstone deal. Further, financing cashflows saw an inflow of Rs879.6mn through optionally and compulsorily convertible debentures (again from Blackstone).
- ▶ **Jump in share of profit from associates despite substantial loss by Gati.** Q4FY20/FY20 witnessed share of profit from JVs and associates at Rs 33.7/61mn. This was despite Q4FY20 losses of ~Rs147mn attributable to Gati. While management highlighted underlying improvements in Avashya CCI (warehousing space increased from 1mn-sqft to 4mn-5mn-sqft currently), the bump in associate/JV profit looks to be due to one offs. Nevertheless, the scope for synergies between Gati's express distribution and Avashya CCI's contract logistics business is significant and can be the first turnaround lever for the Gati acquisition.

Market Cap	Rs23.1bn/US\$308mn	Year to Mar	FY19	FY20	FY21E	FY22E
Reuters/Bloomberg	ACLL.BO / AGLL IN	Revenue (Rs mn)	68,949	73,462	86,734	95,865
Shares Outstanding (mn)	245.7	EBITDA(Rs mn)	4,485	5,035	4,680	5,434
52-week Range (Rs)	122/51	Net Income (Rs mn)	2,420	1,683	1,235	1,683
Free Float (%)	30.0	EPS (Rs)	9.8	9.1	5.0	6.9
FII (%)	13.2	P/E (x)	9.4	10.2	18.5	13.6
Daily Volume (US\$'000)	343	CEPS (Rs)	16.2	18.5	14.6	16.5
Absolute Return 3m (%)	58.8	EV/E (x)	6.1	6.8	7.5	6.5
Absolute Return 12m (%)	(7.2)	Dividend Yield	3.8	2.2	2.2	2.2
Sensex Return 3m (%)	32.2	RoCE (%)	13.6	9.2	7.5	8.8
Sensex Return 12m (%)	(7.7)	RoE (%)	12.1	10.4	5.6	7.3

Company update and earnings revision

Logistics

Target price: Rs93

Earnings revision

(%)	FY21E	FY22E
Sales	↓ 5.0	↓ 4.5
EBITDA	↓ 16.9	↓ 11.7
EPS	↓ 50.5	↓ 40.3

Target price revision

Rs93 from Rs109

Shareholding pattern

	Sep '19	Dec '19	Mar '20
Promoters	70.0	70.0	70.0
Institutional investors	16.0	16.1	16.8
MFs and others	3.9	3.9	3.6
Banks & FIs	0.1	0.0	0.0
Insurance Cos.	0.0	0.0	0.0
FIs	12.0	12.2	13.2
Others	14.0	13.9	13.2

Price chart



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Table 1: Q4FY20 consolidated result review*(Rs mn)*

	Q4FY20	Q4FY19	% Chg YoY	Q3FY20	% Chg QoQ	FY20	FY19	% Chg YoY
Income from operations	18,644	17,216	8.3	17,808	4.7	73,221	68,749	
Other operating income	66	57		61		242	200	
Total Income from operations	18,710	17,273	8.3	17,868	4.7	73,462	68,949	6.5
Total Expenses	17,646	16,202	8.9	16,603	6.3	68,428	64,464	6.1
EBITDA	1,063	1,072	(0.8)	1,265	(15.9)	5,035	4,485	12.2
Margin (%)	5.7	6.2		7.1		6.9	6.5	
Depreciation	602	361	66.5	629	(4.4)	2,316	1,559	48.5
Other income	177	108	64.0	65	172.0	413	338	22.1
Finance Costs	293	67	340.2	159	84.3	685	295	131.9
Exceptional	-	-		-		-	-	
PBT	345	752	(54.0)	541	(36.2)	2,447	2,969	(17.6)
Tax	112	(48)		315		711	542	31.1
PAT	233	800	(70.8)	227	3.0	1,736	2,426	(28.5)
Share of profit from associates	(20)	(9)		(51)		(113)	(59)	
MI	34	3		(11)		61	52	
PAT	247	793	(68.9)	165	49.3	1,683	2,420	
OCI	202	(104)		177		353	(133)	
TCI	449	690		342	31.3	2,036	2,287	

Source: Company data, I-Sec research

Table 2: Q4FY20 segmental result review (consolidated)*(Rs mn)*

Segment Revenues	Q4FY20	Q4FY19	% Chg YoY	Q3FY20	% Chg QoQ	FY20	FY19	% Chg YoY
-MTO	16,929	15,392	10.0	16,156	4.8	66,047	61,590	7.2
-CFS	1,000	1,121	(10.8)	1,113	(10.2)	4,490	4,598	(2.4)
-P&ES	883	921	(4.2)	697	26.7	3,508	3,381	3.8
-Logistics	118	18		40		266	44	
-Others	66	57		61		242	(621)	
Total	18,719	17,255	8.5	17,790	5.2	73,462	68,992	6.5
Segment Results	Q4FY20	Q4FY19	% Chg YoY	Q3FY20	% Chg QoQ	FY20	FY19	% Chg YoY
-MTO	634	571	11.0	575	10.2	2,320	2,417	(4.0)
-CFS	229	309	(25.9)	278	(17.5)	1,171	1,362	(14.0)
-P&ES	(102)	86		(86)	NM	(158)	49	(424.8)
-Logistics	119	(7)		(20)		-	-	
-Others	(134)	(142)		(185)	NM	(252)	(541)	
Total	745	817	(8.8)	562	(7.2)	3,081	3,286	(6.3)

Source: Company data, I-Sec research

Earnings change

We have changed our earnings estimates to factor-in the possible disruption that CFS and project & engineering segments face over the next two years. Also, to note here, management guidance is for flat YoY profit for FY21E, but we have currently factored-in a 26%YoY decline. We have not changed our estimates on account of Gati acquisition and Blackstone deal.

Table 3: Earnings revision

(Rs mn)

	FY21E			FY22E		
	Old	New	% Chg	Old	New	% Chg
Sales	91,300	86,734	(5.0)	100,363	95,865	(4.5)
EBITDA	5,635	4,680	(16.9)	6,157	5,434	(11.7)
PAT	2,494	1,235	(50.5)	2,819	1,683	(40.3)

Source: Company data, I-Sec research

Table 4: Earnings revision (segmental)

(Rs mn)

	FY21E			FY22E		
	Old	New	% Chg	Old	New	% Chg
Sale of services:	90,600	86,434	(4.6)	99,363	95,365	(4.0)
Multimodal transport operations	81,137	79,422	(2.1)	89,251	87,365	(2.1)
Container freight stations	5,366	4,433	(17.4)	5,785	4,999	(13.6)
Project and engineering solutions	4,097	2,579	(37.0)	4,328	3,001	(30.7)
EBITDA	5,635	4,680	(16.9)	6,157	5,434	(11.7)
Multimodal transport operations	3,146	3,080	(2.1)	3,461	3,388	(2.1)
Container freight stations	1,939	1,453	(25.1)	2,052	1,598	(22.1)
Project and engineering solutions	1,000	591	(40.9)	1,044	821	(21.3)

Source: Company data, I-Sec research

Valuation

We value Allcargo on SoTP basis due to the inherent differences in capital intensity, profitability, etc. of its key businesses of MTO and CFS on one hand, and P&E business on the other. We revise our target price to Rs93/share from Rs109/share earlier. We are yet to factor-in reduced debt due to Blackstone deal. The deal valuation appears prospective vis-à-vis the current level of business that Allcargo is doing from the Logistics Parks.

Table 5: SoTP valuation (new)

Business	Valuation multiple	FY22E
		Implied EV (IRs mn)
MTO	8x FY22E EV/EBITDA (20% Holdco discount)	21,681
CFS/ ICD	6x FY22E EV/EBITDA	9,588
P&E	6x FY22E EV/EBITDA	4,928
Logistics Parks	8x FY22E EV/EBITDA	1,882
Elimination	7x FY22E EV/EBITDA	(4,259)
Total		33,819
Less: Net Debt		12,288
Equity		21,532
No. of Shares		246
Equity/share (Rs/share)		88
Business of JV (20x PE)		5
Equity Value per share		93

Source: Company data, I-Sec research

Table 6: SoTP valuation (old)

Business	Valuation multiple	FY22E Implied EV (IRs mn)
MTO	7x FY22E EV/EBITDA (20% Holdco discount)	19,204
CFS/ ICD	6x FY22E EV/EBITDA	12,042
P&E	6x FY22E EV/EBITDA	6,413
Elimination	7x FY22E EV/EBITDA	(4,200)
Total		33,459
Less: Net Debt		7,908
Equity		25,551
No. of Shares		246
Equity/share (Rs/share)		104
Business of JV (15x PE)		5
Equity Value per share		109

Source: Company data, I-Sec research

Financial summary

Table 7: Profit & loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Net Sales	68,949	73,462	86,734	95,865
Other operating revenue	112	112	112	112
Total Revenue	68,949	73,462	86,734	95,865
Operating Expenses	64,464	68,428	82,054	90,431
EBITDA	4,485	5,035	4,680	5,434
% margins	6.5%	6.9%	5.4%	5.7%
Depreciation & Amortisation	1,559	2,316	2,345	2,375
Gross Interest	295	685	1,188	1,330
Other Income	338	413	433	455
Recurring PBT	2,969	2,447	1,580	2,183
Less: Taxes	542	711	350	484
Minority Int. & Asso. Profit	(7)	(53)	5	(16)
Net Income (Reported)	2,420	1,683	1,235	1,683

Source: Company data, I-Sec research

Table 8: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Assets				
Total Current Assets	16,730	22,873	26,826	30,601
of which cash & cash eqv.	2,406	3,080	4,368	6,379
Total Current Liabilities & Provisions	11,816	14,470	16,377	17,607
Net Current Assets	4,914	8,403	10,449	12,994
Investments	2,732	6,247	6,247	6,247
Net fixed assets (including CWIP)	13,457	15,115	15,770	16,394
Intangible Assets	1,311	1,867	1,867	1,867
Goodwill on consolidation	2,850	3,365	3,365	3,365
Long term loans and advances	444	2,635	2,635	2,635
Other non-current assets	1,656	1,035	1,035	1,035
Total Assets	27,364	38,666	41,367	44,537
Liabilities				
Borrowings	7,110	14,737	16,737	18,737
Deferred Tax Liability	36	127	127	127
Other long term liabilities	-	2,054	2,054	2,054
Long term provisions	23	25	25	25
Minority Interest	207	266	321	398
Equity Share Capital	491	491	491	491
Reserves & Surplus	19,496	20,966	21,611	22,705
Net Worth	19,988	21,457	22,103	23,196
Total Liabilities	27,364	38,666	41,367	44,537

Source: Company data, I-Sec research

Table 9: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Net Profit before tax	2,969	2,994	1,580	2,183
Depreciation	1,559	2,316	2,345	2,375
Non-Cash Adjustments	70	734	61	61
Working Capital Changes	(3,148)	(3,618)	(757)	(535)
Taxes Paid	(616)	(822)	(350)	(484)
Operating Cashflow	3,244	2,626	2,878	3,600
Capital Commitments	(3,878)	(7,998)	(3,000)	(3,000)
Free Cashflow	(633)	(5,372)	(122)	600
Other investing cashflow	1,362	(1,290)	-	-
Cashflow from Investing Activities	(2,891)	(8,862)	(3,000)	(3,000)
Inc (Dec) in Borrowings	919	8,030	2,000	2,000
Dividend paid	(1,629)	(888)	(590)	(590)
Other financing activities	-	-	-	-
Cashflow from Financing Activities	(746)	7,951	1,410	1,410
Chg. in Cash & Bank balance	(393)	1,716	1,289	2,011

Source: Company data, I-Sec research

Table 10: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Per Share Data (Rs)				
EPS	9.8	9.1	5.0	6.9
Cash EPS	16.2	18.5	14.6	16.5
OCF per share	13.2	10.7	11.7	14.7
Dividend per share (DPS)	3.5	2.0	2.0	2.0
Book Value per share (BV)	81.4	87.3	90.0	94.4
Growth (%)				
Net Sales	13.8	6.6	18.0	10.5
EBITDA	18.9	12.2	(7.0)	16.1
PAT	41.2	(7.8)	(44.6)	36.3
Valuation Ratios (x)				
P/E	9.4	10.2	18.5	13.6
P/BV	1.1	1.1	1.0	1.0
EV / EBITDA	6.1	6.8	7.5	6.5
Return/Profitability Ratios (%)				
EBITDA Margins	6.5	6.9	5.4	5.7
Net Income Margins	3.5	3.0	1.4	1.7
RoCE - without goodwill	13.6	9.2	7.5	8.8
RoE	12.1	10.4	5.6	7.3
Other Key Ratios				
Effective Tax Rate (%)	18.3	23.7	22.2	22.2
Total D/E Ratio (x)	0.4	0.7	0.8	0.8
Net D/E Ratio (x)	0.2	0.5	0.6	0.5

Source: Company data, I-Sec research

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