

# Allcargo Logistics

**HOLD****Maintained****Rs120**

Trying to stich through an integrated offering

The total consideration for Allcargo logistics' (AGLL) acquisition of 46.86% stake in Gati has been ~ Rs 4.29bn. Gati's Q1FY21 operating results, though, did disappoint with ~ Rs 263mn EBITDA loss. There are multiple efforts being undertaken by the AGLL management to i) improve operational efficiency ii) invest necessary equity and iii) recover outstanding dues from all parties including earlier management for excess managerial remuneration in Gati's subsidiaries. The deal with Blackstone for the transfer of logistics park portfolio is underway with Rs 2.37bn of money received till date and another Rs 590mn Lease rental discounting upstreamed to AGLL. We maintain HOLD with a revised target of Rs 115/share (Rs 93 earlier). AGLL's board has received and accepted the delisting offer from 'promoters'. Net debt stands at ~Rs 10bn, and management expects the same to increase to Rs13.5bn as Gati acquisition completes.

- **Q1FY21 EBITDA has been helped by ground rent in CFS, government support in MTO business.** CFS business has benefitted from accrual of one time ground rent as containers were parked during the time of the pandemic. While management tried to guide to the extent of benefit as the increase in topline YoY (i.e Rs 89mn), given that volumes have declined ~ 42% YoY, the accrued benefit seems to be much higher. Higher ground rent expenses have continued through Q2FY21 as well. This, along with US\$1.6mn of government support received in the MTO segment accounts for majority of the EBITDA salience witnessed in the current quarter.
- **AGLL has received ~ €10mn in dividend from the ECU lines.** MTO business witnessed significant increase in realisation/teu as freight rate increased (~23.6% YoY). While currency can be attributed ~ 7% of the increase, the rest is mainly on account of increased freight rates. Volumes have declined 12% YoY. Gross profit numbers would have come down as per management, however significant effort on cost reduction, staff cost optimisation and government grants helped bottom line. EBIT/teu has increased from €42/te to €58/te YoY.
- **Gati witnessed a weak Q1FY21, efforts are underway for a turnaround.** Q1FY21 witnessed EBITDA loss for Gati; clearly traditional ecommerce players were unable to capture any benefits in traditional last mile delivery despite increase in ecommerce transactions. There are efforts to restructure operations of Gati Kausar (Coldchain subsidiary) and recover excess remuneration that has been paid out in the earlier years to the 'erstwhile executive chairman' of Gati Kintentsu (Express subsidiary).
- **Maintain HOLD.** AGLL has received Rs 2.37bn till date from Blackstone, along with Rs 590mn in LRD for the assets transferred to Blackstone. Management guided for Rs 2-3bn investment in the warehousing assets for FY21. Logistics parks reported revenue trajectory (at Rs 88mn for Q1FY21, up ~ 5x YoY on a low base) continue to impress.

**Q1FY21 concall update and TP change**

## Logistics

Target price: Rs115

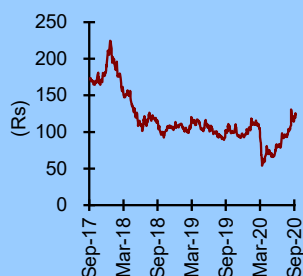
Target price revision

Rs115 from Rs93

### Shareholding pattern

	Dec '19	Mar '20	Jun '20
Promoters	70.0	70.0	70.0
Institutional investors	16.1	16.8	16.7
MFs and others	3.9	3.6	3.6
Banks & FIs	0.0	0.0	0.0
Insurance Cos.	0.0	0.0	0.0
FII's	12.2	13.2	13.1
Others	13.9	13.2	13.3

### Price chart



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Market Cap	Rs29.4bn/US\$401mn
Reuters/Bloomberg	ACLL.BO / AGLL IN
Shares Outstanding (mn)	245.7
52-week Range (Rs)	131/54
Free Float (%)	30.0
FII (%)	13.1
Daily Volume (US\$'000)	443
Absolute Return 3m (%)	48.1
Absolute Return 12m (%)	25.4
Sensex Return 3m (%)	14.2
Sensex Return 12m (%)	7.4

Year to Mar	FY19	FY20E	FY21E	FY22E
Revenue (Rs mn)	68,949	73,462	86,734	95,865
EBITDA(Rs mn)	4,485	5,035	5,356	6,106
Net Income (Rs mn)	2,420	1,683	1,749	2,208
EPS (Rs)	9.8	9.1	7.1	9.0
P/E (x)	12.2	13.2	16.9	13.4
CEPS (Rs)	16.2	18.5	16.6	18.5
EV/E (x)	7.6	8.2	7.7	6.7
Dividend Yield	2.9	1.7	1.7	1.7
RoCE (%)	13.6	9.2	9.3	10.3
RoE (%)	12.1	10.4	7.7	9.1

**Table 1: Q1FY21 consolidated result review**

(Rs mn)

	Q1FY21	Q1FY20	% Chg YoY	Q4FY20	% Chg QoQ
Income from ops	20,723	18,089	14.6	18,644	11.2
Other operating income	52	65		66	
<b>Total Income from operations</b>	<b>20,776</b>	<b>18,153</b>	<b>14.4</b>	<b>18,710</b>	<b>11.0</b>
<b>Total Expenses</b>	<b>19,465</b>	<b>16,747</b>	<b>16.2</b>	<b>17,646</b>	<b>10.3</b>
<b>EBITDA</b>	<b>1,311</b>	<b>1,406</b>	<b>(6.8)</b>	<b>1,063</b>	<b>23.3</b>
Margin (%)	6.3	7.7		5.7	
Depreciation	727	547	33.1	602	20.9
Other income	161	63	155.7	177	(9.2)
Finance Costs	385	117	228.5	293	31.3
Exceptional	35	-		(273)	
<b>PBT</b>	<b>324</b>	<b>805</b>	<b>(59.7)</b>	<b>619</b>	<b>(47.6)</b>
Tax	32	175		112	
<b>PAT</b>	<b>293</b>	<b>630</b>	<b>(53.5)</b>	<b>507</b>	<b>(42.3)</b>
Share of profit from associates	181	(14)		(20)	
MI	6	15		34	
<b>PAT</b>	<b>479</b>	<b>630</b>	<b>(24.0)</b>	<b>520</b>	<b>(7.9)</b>
OCI	140	(23)		202	
<b>TCI</b>	<b>438</b>	<b>607</b>		<b>723</b>	<b>(39.4)</b>

Source: Company data, I-Sec research

**Table 2: Q1FY21 segmental result review (consolidated)**

(Rs mn)

Segment Results	Q1FY21	Q1FY20	% Chg YoY	Q4FY20	% Chg QoQ
-MTO	788	605	30.2	634	24.3
-CFS	510	366	39.4	229	122.7
-P&ES	(139)	84		(102)	NM
-Logistics	28	(38)		12	
<b>-Express (Gati)*</b>	<b>(458)</b>				
-Others	16	(94)		(134)	NM
<b>Total</b>	<b>744</b>	<b>922</b>	<b>(19.3)</b>	<b>639</b>	<b>(18.4)</b>

Source: Company data, I-Sec research

\* Reported EBIT of Gati was Rs (363.5) mn

## Valuation

We value AGLL 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 Rs115/share from Rs93/share earlier as we include equity valuation of Gati.

**Table 3: SoTP valuation (new)**

		<b>FY22E</b>
<b>Business</b>	<b>Valuation multiple</b>	<b>Implied EV (IRs mn)</b>
MTO	7x 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	1,410
Express	20% discount to Acquisition cost (46.86%)	4,290
Elimination	7x FY22E EV/EBITDA	-3,300
<b>Total</b>		<b>38,597</b>
Less: Net Debt		11,365
Equity		27,232
No. of Shares		246
Equity/share (Rs/share)		111
Business of JV (15x PE)		4
<b>Equity Value per share</b>		<b>115</b>

Source: Company data, I-Sec research

**Table 4: SoTP valuation (old)**

		<b>FY22E</b>
<b>Business</b>	<b>Valuation multiple</b>	<b>Implied EV (IRs mn)</b>
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)
<b>Total</b>		<b>33,819</b>
Less: Net Debt		12,288
Equity		21,532
No. of Shares		246
Equity/share (Rs/share)		88
Business of JV (20x PE)		5
<b>Equity Value per share</b>		<b>93</b>

Source: Company data, I-Sec research

## Financial summary

Table 5: Profit &amp; loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Net Sales</b>	<b>68,949</b>	<b>73,462</b>	<b>86,734</b>	<b>95,865</b>
Other operating revenue	112	112	112	112
<b>Total Revenue</b>	<b>68,949</b>	<b>73,462</b>	<b>86,734</b>	<b>95,865</b>
<b>Operating Expenses</b>	<b>64,464</b>	<b>68,428</b>	<b>81,379</b>	<b>89,759</b>
<b>EBITDA</b>	<b>4,485</b>	<b>5,035</b>	<b>5,356</b>	<b>6,106</b>
% margins	6.5%	6.9%	6.2%	6.4%
Depreciation & Amortisation	1,559	2,316	2,329	2,342
Gross Interest	295	685	1,188	1,330
Other Income	338	413	433	455
<b>Recurring PBT</b>	<b>2,969</b>	<b>2,447</b>	<b>2,272</b>	<b>2,889</b>
Less: Taxes	542	711	504	640
Minority Int. & Asso. Profit	(7)	(53)	(19)	(40)
<b>Net Income (Reported)</b>	<b>2,420</b>	<b>1,683</b>	<b>1,749</b>	<b>2,208</b>

Source: Company data, I-Sec research

Table 6: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Assets</b>				
Total Current Assets	16,730	22,873	27,232	31,524
of which cash & cash eqv.	2,406	3,080	4,774	7,302
Total Current Liabilities & Provisions	11,816	14,470	16,262	17,491
<b>Net Current Assets</b>	<b>4,914</b>	<b>8,403</b>	<b>10,971</b>	<b>14,032</b>
Investments	2,732	6,247	6,247	6,247
Net fixed assets (including CWIP)	13,457	15,115	15,786	16,444
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
<b>Total Assets</b>	<b>27,364</b>	<b>38,666</b>	<b>41,906</b>	<b>45,625</b>
<b>Liabilities</b>				
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	346	447
Equity Share Capital	491	491	491	491
Reserves & Surplus	19,496	20,966	22,125	23,743
<b>Net Worth</b>	<b>19,988</b>	<b>21,457</b>	<b>22,617</b>	<b>24,235</b>
<b>Total Liabilities</b>	<b>27,364</b>	<b>38,666</b>	<b>41,906</b>	<b>45,625</b>

Source: Company data, I-Sec research

Table 7: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Net Profit before tax</b>	<b>2,969</b>	<b>2,994</b>	<b>2,272</b>	<b>2,889</b>
Depreciation	1,559	2,316	2,329	2,342
Non-Cash Adjustments	70	734	61	61
Working Capital Changes	(3,148)	(3,618)	(873)	(534)
Taxes Paid	(616)	(822)	(504)	(640)
<b>Operating Cashflow</b>	<b>3,244</b>	<b>2,626</b>	<b>3,285</b>	<b>4,117</b>
Capital Commitments	(3,878)	(7,998)	(3,000)	(3,000)
<b>Free Cashflow</b>	<b>(633)</b>	<b>(5,372)</b>	<b>285</b>	<b>1,117</b>
Other investing cashflow	1,362	(1,290)	-	-
<b>Cashflow from Investing Activities</b>	<b>(2,891)</b>	<b>(8,862)</b>	<b>(3,000)</b>	<b>(3,000)</b>
Inc (Dec) in Borrowings	919	8,030	2,000	2,000
Dividend paid	(1,629)	(888)	(590)	(590)
Other financing activities	-	-	-	-
<b>Cashflow from Financing Activities</b>	<b>(746)</b>	<b>7,951</b>	<b>1,410</b>	<b>1,410</b>
<b>Chg. in Cash &amp; Bank balance</b>	<b>(393)</b>	<b>1,716</b>	<b>1,695</b>	<b>2,527</b>

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Per Share Data (Rs)</b>				
EPS	9.8	9.1	7.1	9.0
Cash EPS	16.2	18.5	16.6	18.5
OCF per share	13.2	10.7	13.4	16.8
Dividend per share (DPS)	3.5	2.0	2.0	2.0
Book Value per share (BV)	81.4	87.3	92.0	98.6
<b>Growth (%)</b>				
Net Sales	13.8	6.6	18.0	10.5
EBITDA	18.9	12.2	6.4	14.0
PAT	41.2	(7.8)	(21.6)	26.2
<b>Valuation Ratios (x)</b>				
P/E	12.2	13.2	16.9	13.4
P/BV	1.5	1.4	1.3	1.2
EV / EBITDA	7.6	8.2	7.7	6.7
<b>Return/Profitability Ratios (%)</b>				
EBITDA Margins	6.5	6.9	6.2	6.4
Net Income Margins	3.5	3.0	2.0	2.3
RoCE - without goodwill	13.6	9.2	9.3	10.3
RoE	12.1	10.4	7.7	9.1
<b>Other Key Ratios</b>				
Effective Tax Rate (%)	18.3	23.7	22.2	22.2
Total D/E Ratio (x)	0.4	0.7	0.7	0.8
Net D/E Ratio (x)	0.2	0.5	0.5	0.5

Source: Company data, I-Sec research

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