

Q2FY21 concall update
and TP change

Logistics

Target price: Rs126

Earnings revision

(%)	FY21E	FY22E
Revenue	↑ 6.9	↑ 6.4
EBITDA	↑ 24.8	↑ 22.5
EPS	↑ 45.2	↑ 30.8

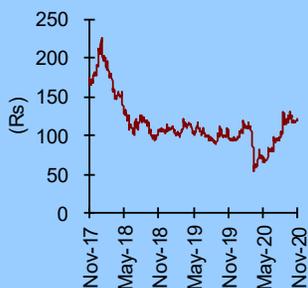
Target price revision

Rs126 from Rs115

Shareholding pattern

	Mar '20	Jun '20	Sep '20
Promoters	70.0	70.0	70.0
Institutional investors	16.8	16.7	16.3
MFs and others	3.6	3.6	3.6
Banks & FIs	0.0	0.0	0.0
Insurance Cos.	0.0	0.0	0.0
FIs	13.2	13.1	13.7
Others	13.2	13.3	12.7

Price chart



Allcargo Logistics

HOLD

Maintained

Meaningful improvement in Gati operations

Rs120

Operational improvement in Gati operations remains the key takeaway from Allcargo Logistics' (AGLL) Q2FY21 result, and the same led to an operational beat. While recovery is visible in MTO segment, project and engineering business is yet to see pre-Covid volumes. CFS and ICD business has seen improvement in EBIT on the back of cost reduction and increase in ground rent despite lower volumes. Management has reiterated its intent to stay asset-light. Allcargo expects freight rates to stabilise. Decrease in government subsidies, stabilisation in freight rates and volume pick up can dictate further margin uptrend. Balance sheet management remains the key near-term monitorable along with operational turnaround in express logistics business (Gati). We maintain HOLD with a revised target price of Rs126/share (Rs115/share earlier).

- **MTO RoCE stood at 27.43% (annualised).** The activation of business continuity plan across the global network helped in overall reduction of SG&A costs, which was further assisted, by help from government subsidies. Incremental revenue for this business has been coming by handling specialised cargo.
- **CFS and ICD business segment:** Q2FY21 volumes were 59,000 (down 34% YoY). EBIT is up 10% YoY (margins at 34%, up 9% point YoY). This is on the back of cost reduction, increase in ground rent (storage income) etc. Good volume growth in EXIM was hampered by shortage of containers, blank sailing and higher freight rate. RoCE has improved from the usual average level of 20-32% to 45%. Management believes volume increase is the key.
- **Project and engineering business was impacted mainly due to lower utilisation.** With more and more projects coming into action, there is a continuous improvement in terms of equipment utilisation. Utilisation has been steadily improving for cranes and stood at ~65% over Q2FY21.
- **Logistics park asset sales, key to deleveraging.** The construction activity is going as per schedule and is likely to complete in ~2 years. What remains to be seen is the extent of equity contribution that Blackstone (BRE) deal brings in, as FY20 contribution has been largely in the form of debentures, against which AGLL has pledged the shareholdings of eight subsidiaries in favour of BRE.
- **Gati integration.** Gati has been able to show substantial improvement in operations with ~6% consolidated EBITDA margin (from an EBITDA loss QoQ). Management is of the view that Gati brings the capability to distribute across hinterland, delivers to 19k pin codes. Leveraging door-to-door delivery, cross selling and pooling of resources are the major synergies identified by the management for this transaction. As the firm has long-term contracts with e-commerce players, it is immune to festive season volatility.

Market Cap	Rs29.4bn/US\$398mn	Year to Mar	FY19	FY20	FY21E	FY22E
Reuters/Bloomberg	ACLL.BO / AGLL IN	Revenue (Rs mn)	68,949	73,462	92,689	102,036
Shares Outstanding (mn)	245.7	EBITDA(Rs mn)	4,485	5,035	6,683	7,478
52-week Range (Rs)	131/54	Net Income (Rs mn)	2,420	1,683	2,540	2,887
Free Float (%)	30.0	EPS (Rs)	9.8	9.1	10.2	11.8
FII (%)	13.7	P/E (x)	12.2	13.2	11.8	10.2
Daily Volume (US\$'000)	550	CEPS (Rs)	16.2	18.5	22.1	23.7
Absolute Return 3m (%)	21.8	EV/E (x)	7.6	8.2	5.9	5.1
Absolute Return 12m (%)	23.9	Dividend Yield	2.9	1.7	1.7	1.7
Sensex Return 3m (%)	12.3	RoCE (%)	13.6	9.2	10.7	12.0
Sensex Return 12m (%)	6.9	RoE (%)	12.1	10.4	10.7	11.2

Research Analysts:

Abhijit Mitra

abhijit.mitra@icicisecurities.com
+91 22 6637 7289

Udaykiran Paluri

udaykiran.paluri@icicisecurities.com
+91 22 6637 7510

Table 1: Q2FY21 consolidated result review

(Rs mn)

	Q2FY21	Q2FY20	% Chg YoY	Q1FY21	% Chg QoQ
Income from ops	23,316	18,681	24.8	20,723	12.5
Other operating income	50	51		52	
Total Income from operations	23,366	18,732	24.7	20,776	12.5
Total Expenses	21,745	17,431	24.7	19,448	11.8
EBITDA	1,621	1,300	24.6	1,328	22.1
Margin (%)	6.9	6.9		6.4	
Depreciation	731	539	35.8	727	0.5
Other income	150	108	38.9	161	(6.4)
Finance Costs	361	115	213.6	385	(6.2)
Exceptional	-	-		35	
PBT	679	755	(10.1)	341	99.2
Tax	125	109		32	
PAT	554	646	(14.3)	309	79.0
Share of profit from associates	(7)	(28)		181	
MI	26	23		6	
PAT	573	640	(10.6)	496	15.4
OCI	48	(12)		140	
TCI	627	628		636	(1.3)

Source: Company data, I-Sec research

Table 2: Q2FY21 segmental result review (consolidated)

(Rs mn)

Segment Revenues	Q2FY21	Q2FY20	% Chg YoY	Q1FY21	% Chg QoQ
-MTO	18,410	16,971	8.5	17,371	6.0
-CFS	964	1,192	(19.1)	1,275	(24.4)
-P&ES	690	757	(8.9)	639	8.0
-Logistics	108	21		108	
-Express (Gati)	3,425				
-Others	50	51		52	
Total	19,945	18,711	6.6	19,153	4.1
Segment Income	Q2FY21	Q2FY20	% Chg YoY	Q1FY21	% Chg QoQ
-MTO	793	703	12.8	788	0.7
-CFS	330	299	10.3	510	(35.3)
-P&ES	(111)	(54)		(139)	NM
-Logistics	15	(43)		28	
-Express (Gati)	52				
-Others	(38)	(35)		16	NM
Total	1,040	870	19.5	1,202	(13.5)

Source: Company data, I-Sec research

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 Rs126/share from Rs115/share earlier.

Table 3: SoTP valuation (new)

		FY22E
Business	Valuation Multiple	Implied EV (IRs mn)
MTO	7x FY2E EV/EBITDA	25,451
CFS/ ICD	6x FY2E EV/EBITDA	11,307
P&E	6x FY2E EV/EBITDA	1,959
Logistic Park	7x FY2E EV/EBITDA	1,610
Express	25x FY22E PAT	1,500
Elimination	7x FY22E EV/EBITDA	(2,800)
Total		39,027
Less: Net Debt		8,956
Equity		30,071
No of Share		246
Equity/share (Rs/share)		122
Business of JV (15x PE)		4
Total business value		126

Source: Company data, I-Sec research

Table 4: SoTP valuation (old)

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

Source: Company data, I-Sec research

Revision of earnings

Table 5: Earnings change

(Rs mn)	New		Old		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	92,689	1,02,036	86,734	95,865	6.9	6.4
EBITDA	6,683	7,478	5,356	6,106	24.8	22.5
PAT	2,540	2,887	1,749	2,208	45.2	30.8

Source: Company data, I-Sec research

We have consolidated Gati's FY21/22E earnings, leading to change in earnings. Also FY21/22E earnings have been increased keeping in mind H1FY21 performance.

Financial summary

Table 4: Profit & loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Net Sales	68,949	73,462	92,689	1,02,036
Other operating revenue	112	112	112	112
Total Revenue	68,949	73,462	92,689	1,02,036
Operating Expenses	64,464	68,428	86,005	94,558
EBITDA	4,485	5,035	6,683	7,478
% margins	6.5%	6.9%	7.2%	7.3%
Depreciation & Amortisation	1,559	2,316	2,921	2,937
Gross Interest	295	685	1,067	1,067
Other Income	338	413	433	455
Recurring PBT	2,969	2,447	3,129	3,929
Less: Taxes	542	711	789	1,002
Minority Int. & Asso. Profit	(7)	(53)	200	(40)
Net Income (Reported)	2,420	1,683	2,540	2,887

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Assets				
Total Current Assets	16,730	22,873	26,938	30,549
of which cash & cash eqv.	2,406	3,080	3,910	5,105
Total Current Liabilities & Provisions	11,816	14,470	22,300	23,556
Net Current Assets	4,914	8,403	4,638	6,993
Investments	2,732	6,247	3,902	3,902
Net fixed assets (including CWIP)	13,457	15,115	22,194	22,257
Intangible Assets	1,311	1,867	5,191	5,191
Goodwill on consolidation	2,850	3,365	5,198	5,198
Long term loans and advances	444	2,635	3,420	3,420
Other non-current assets	1,656	1,035	1,761	1,761
Total Assets	27,364	38,666	46,304	48,721
Liabilities				
Borrowings	7,110	14,737	15,025	15,025
Deferred Tax Liability	36	127	1,320	1,320
Other long term liabilities	-	2,054	2,054	2,054
Long term provisions	23	25	25	25
Minority Interest	207	266	4,509	4,629
Equity Share Capital	491	491	491	491
Reserves & Surplus	19,496	20,966	22,880	25,178
Net Worth	19,988	21,457	23,372	25,669
Total Liabilities	27,364	38,666	46,304	48,721

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Net Profit before tax	2,969	2,994	3,093	3,929
Depreciation	1,559	2,316	2,921	2,937
Non-Cash Adjustments	70	734	80	80
Working Capital Changes	(3,148)	(3,618)	5,896	(1,159)
Taxes Paid	(616)	(822)	403	(1,002)
Operating Cashflow	3,244	2,626	12,393	4,785
Capital Commitments	(3,878)	(7,998)	(10,000)	(3,000)
Free Cashflow	(633)	(5,372)	2,393	1,785
Other investing cashflow	1,362	(1,290)	(973)	-
Cashflow from Investing Activities	(2,891)	(8,862)	(10,973)	(3,000)
Inc (Dec) in Borrowings	919	8,030	-	-
Dividend paid	(1,629)	(888)	(590)	(590)
Other financing activities	-	-	-	-
Cashflow from Financing Activities	(746)	7,951	(590)	(590)
Chg. in Cash & Bank balance	(393)	1,716	830	1,196

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Per Share Data (Rs)				
EPS	9.8	9.1	10.2	11.8
Cash EPS	16.2	18.5	22.1	23.7
OCF per share	13.2	10.7	50.4	19.5
Dividend per share (DPS)	3.5	2.0	2.0	2.0
Book Value per share (BV)	81.4	87.3	95.1	104.5
Growth (%)				
Net Sales	13.8	6.6	26.1	10.1
EBITDA	18.9	12.2	32.8	11.9
PAT	41.2	(7.8)	12.3	15.3
Valuation Ratios (x)				
P/E	12.2	13.2	11.8	10.2
P/BV	1.5	1.4	1.3	1.1
EV / EBITDA	7.6	8.2	5.9	5.1
Return/Profitability Ratios (%)				
EBITDA Margins	6.5	6.9	7.2	7.3
Net Income Margins	3.5	3.0	2.7	2.8
RoCE - without goodwill	13.6	9.2	10.7	12.0
RoE	12.1	10.4	10.7	11.2
Other Key Ratios				
Effective Tax Rate (%)	18.3	23.7	25.5	25.5
Total D/E Ratio (x)	0.4	0.7	0.6	0.6
Net D/E Ratio (x)	0.2	0.5	0.4	0.3

Source: Company data, I-Sec research

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