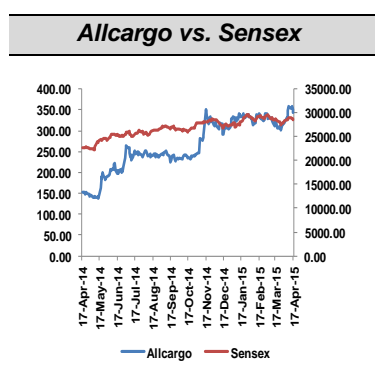


Target Price ₹535
CMP ₹ 316
FY17E PE 10.6x

Index Details	
Sensex	27,437
Nifty	8,306
Industry	Logistics

Scrip Details	
MktCap (₹ cr)	3,989
BVPS (₹)	142
O/s Shares (Cr)	12.6
AvVol (Lacs)	0.2
52 Week H/L	133/378.5
Div Yield (%)	0.5
FVPS (₹)	2.0

Shareholding Pattern	
Shareholders	%
Promoters	69.9
DII's	0.0
FII's	6.2
Public	23.9
Total	100.0



Key Financials (₹ in Cr)

Y/E Mar	Net Sales	EBITDA	PAT	EPS (₹)	EPS Growth (%)	RONW (%)	ROCE (%)	P/E (x)	EV/EBITDA (x)
2014	4,859	391.1	154.5	11.9	--	8.6	13.2	26.7	11.3
2015E	5,705	476.2	239.1	18.5	55.5	12.0	20.6	17.1	8.5
2016E	6,563	560.1	314.2	24.4	31.9	14.0	23.8	12.9	6.9
2017E	7,393	640.1	381.4	29.7	21.7	14.9	26.7	10.6	5.7

Allcargo Logistics (ACLL) is an integrated multinational logistics company headquartered in Mumbai, India. It is India's largest and globally the second largest *Less than container load (LCL)* consolidator with a presence across 90 countries. It has a diverse presence across various segments viz., Multimodal Transport Operations (MTO), Container Freight Stations (CFS) and Project and Engineering Services (PES).

Robust growth in the MTO business, revival of the CFS segment and a pick-up in the PES segment is expected to fuel the growth for ACLL in the coming years. We expect ACLL to report a three year net revenue CAGR of 15% to ₹7,393 crore by FY17E. We also expect PAT to increase at a 3 year CAGR of 35.8% to ₹374.6 crore.

We are positive on the company's prospects given that

- We expect Allcargo to continue to outperform the MTO industry growth and grow its volumes at a CAGR of 15.6% over FY14-FY17E period to 121,404 TEUs. MTO is the mainstay for Allcargo and contributes 85% of its top line. Being an 'asset light' business it has a very high RoCE of around 40%. MTO revenues are expected to grow to ₹6,276 crore from ₹4,125 crore in FY14 implying a CAGR of 15%. We expect the EBITDA margins to expand by 50 bps as a result of improved operational efficiency.

In the Multimodal Transport Operations (MTO) Allcargo has grown aggressively by acquiring many global LCL companies, with the first major acquisition being that of the Belgium based ECU Line in 2005-2006. Subsequent to that it has created a niche for itself as an LCL consolidator and is today the second largest player globally.

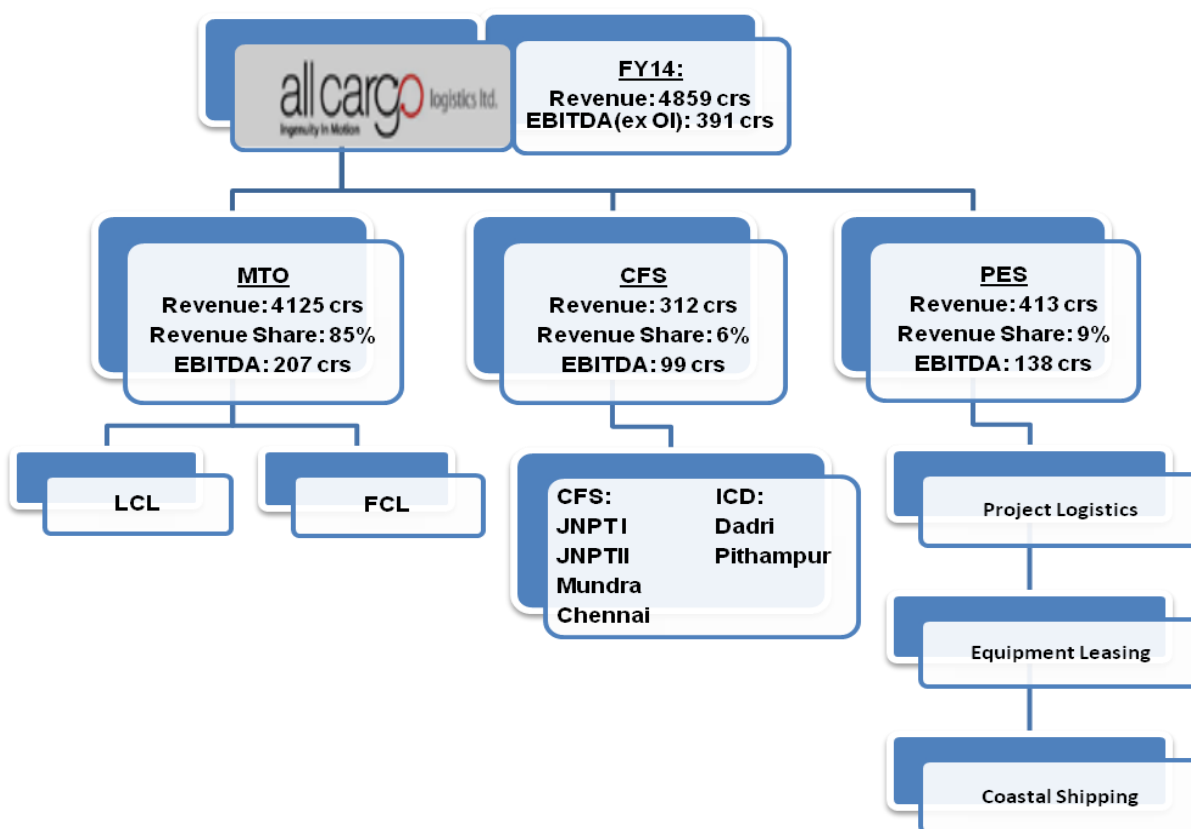
- With an EBITDA margin of 32%, the CFS is one of the ACLL's most profitable businesses. Allcargo is one of the largest CFS operators in India with a significant presence at major Indian ports and leadership position at Chennai. With the revival of EXIM trade and a rise in volumes at major ports we see a turnaround in this business vertical. Allcargo has built vast facilities to cater to the expected demand. We believe the consolidation in this segment is over and expect the volumes to increase at a 14.2% CAGR to 313,054 TEUs over FY14-FY17E. Revenues are expected to grow at a 17.1% CAGR to ₹499.5 crores by FY17E.
- The asset heavy Project & Engineering Services isegment s gaining traction on the back of good economic growth. Asset utilization has already picked up from 72% in FY14 to 92% as on Feb' 2015 and as the capex cycle revives further, we expect more order inflows. We expect the revenues to increase to ₹585.3 crores by FY17E from ₹399 crores in FY14 implying a CAGR of 13.6%.

We initiate coverage on Allcargo Logistics as a BUY with a Price Objective of ₹535 representing a potential upside of ~69% over a period of 18 months. The target price is arrived at by assigning a PE multiple of 18x on the FY17 EPS of ₹29.7. At the CMP of ₹316, the stock is trading at a PE multiple of 10.6x FY17E.

❖ Company Background

Allcargo Logistics Limited, part of the Avvashya Group, is a leading multinational company providing integrated logistics solutions. The Company offers specialized logistic services across Multimodal Transport Operations (MTO), Container Freight Station Operations (CFS) and Project & Engineering Solutions (P&E). Benchmarked quality standards, standardized processes and operational excellence across all the services and facilities, have enabled ACLL to emerge as one of the leading player in all these segments.

Allcargo Logistics Business Structure



➤ Key Investment Highlights

❖ MTO: Robust volume growth and margin improvement on the cards :

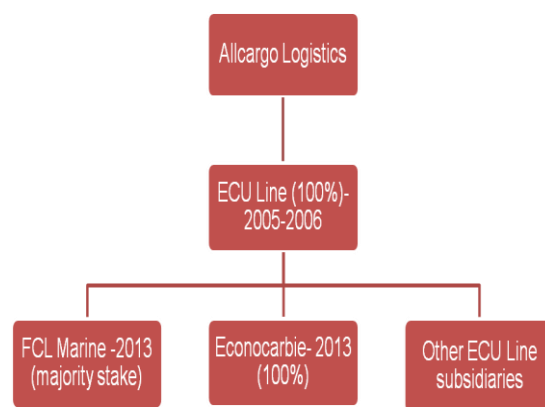
Under the MTO vertical, Allcargo consolidates *Less than Container Load (LCL)* ocean cargo into *Full container load (FCL)* container shipments, which are then shipped globally. Post the acquisition of Belgium based ECU Line in 2006; Allcargo became the second largest LCL consolidator in the world (next only to Vanguard Logistics (USA).). With this acquisition ACLL now has operations in 90 countries. This gives ACLL the ability to offer global services and higher execution control through presence at both ends of the cargo movement.

Allcargo successfully completed many M&As



Source: Allcargo Logistics, Ventura Research

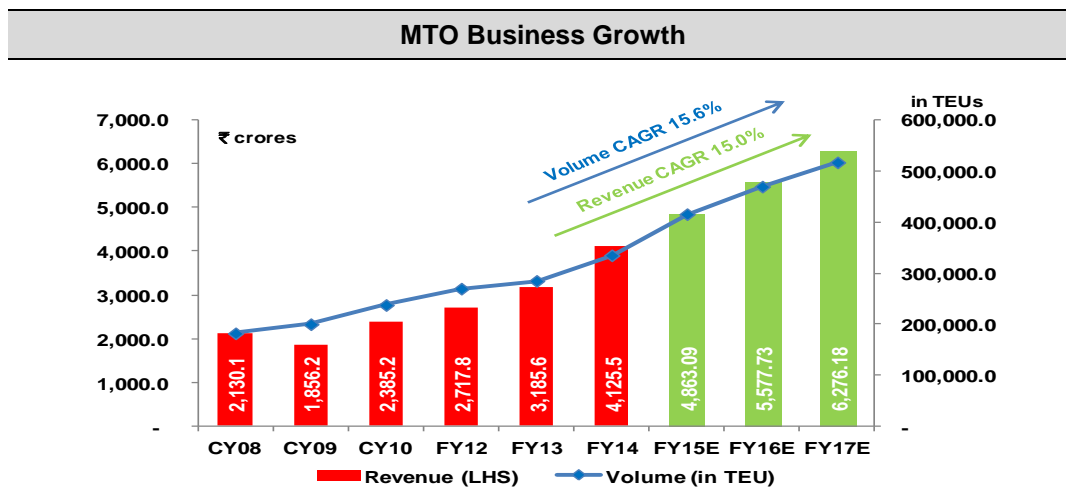
ECU Line structure



Source: Allcargo Logistics, Ventura Research

The slew of acquisitions undertaken by Allcargo over the last 10 years has enabled the company to post 12.1% CAGR growth in volumes (in TEUs) over CY10-FY14 period against the industry growth of 5%. During the same period MTO revenues grew at 20% CAGR to ₹4,125 crores in FY14. Allcargo's acquired companies have grown at a healthy pace over the years and have proved to be EPS accretive. While the consolidated PAT of ACLL grew at 6.6% CAGR over CY08-FY14 period, PAT of subsidiary companies flourished at 27.3% over the same period reflecting management's ability to integrate operations efficiently. Performance of its biggest subsidiary ECU Line, improved exponentially over the years. Its EBITDA grew at a CAGR of 27.6% over CY05-FY14 period while margins expanded by 430 bps to 5.2% as on Q3FY15.

Currently the asset light MTO vertical has enabled ACLL achieve a healthy return on Capital employed (RoCE). As at Dec'14 Allcargo has employed Capital to the tune of ₹343 crores (excluding Goodwill approximately worth ₹780 crores) and its average RoCE for last 3 years has been around 40%.



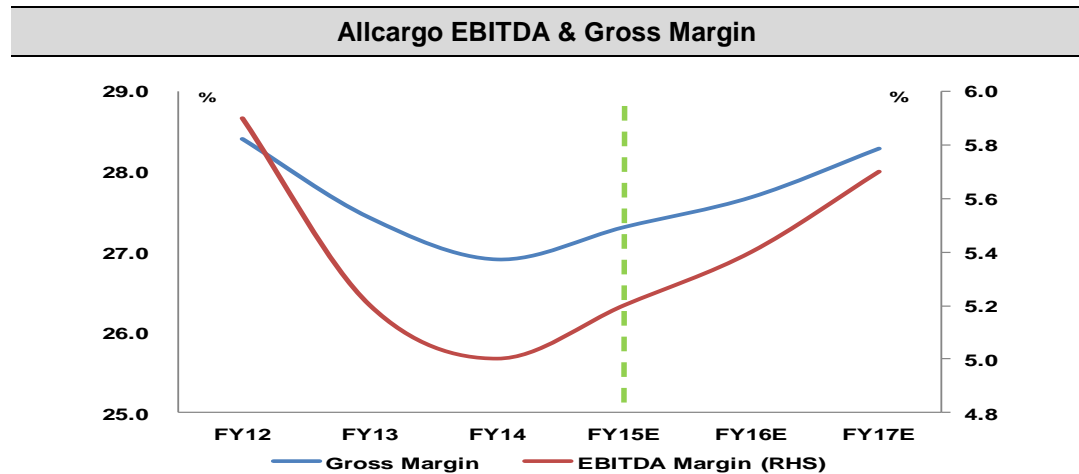
Source: Allcargo Logistics, Ventura Research

Future growth to be driven by volume and margin expansion:

Allcargo experienced a steady growth in its MTO business with volume growth of 13.0% CAGR over CY08-FY14 period against industry growth rate of 5%. Revenues for MTO grew at a CAGR of 14.1% from 2,130 crores in CY08 to 6,276 crores in FY14.

The Less than Container Load (LCL) industry is immune from any weaknesses in the global EXIM trade, because as the global EXIM volumes fall FCL shipments breaks down to LCL, keeping the overall LCL industry growing at its steady rate of 4-5%. We expect Allcargo to continue to grow at higher-than-industry rate as evidenced in the past.

The MTO volume growth is expected to be 15.6% CAGR over FY14-FY17E period and we expect the revenue to rise to ₹6,276 crores from FY14 level of ₹ 4,125 crores implying a CAGR of 15.0%.

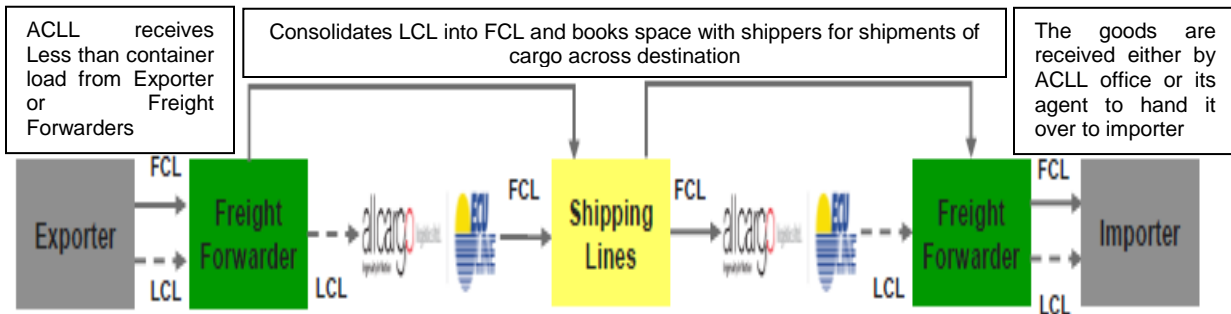


Source: Allcargo Logistics, Ventura Research

We expect EBITDA margins to expand by 60bps over next three years to 5.7% led by increase in volumes and Gross margins. The gross margins are expected improve to 28.3% from 26.9% mainly due to company's ability to get better freight rate from the shippers, owing to its large size and wide network. Allcargo will also be undertaking several cost reduction activities such as optimizing its manpower utilization and improving storage efficiency.

Multimodal Transport Operations Snapshot

MTO Business Flow



Key Drivers

Huge FCL Industry: The LCL industry is small part of the vast FCL industry which is worth billions of dollars. So there will always be enough scope for LCL traffic.

Immune to Economic weakness: The biggest advantage of LCL is that it can survive a scenario of economic weakness. In a down and uncertain market, companies are cautious about how much freight and inventory they produce. They cut down on buying/ producing volumes, which gives rise to LCL shipments.

Higher cost of Air transport: The high cost of air cargo is another factor that contributes to growth of LCL. It offers increasingly diverse options to the cargo shippers.

Inorganic opportunities: The LCL industry is widely scattered and there are lots of small companies that can become a takeover target. And as done in past Allcargo may continue to grow inorganically if they face a suitable opportunity.

Key Risks

Impairment of Goodwill: Allcargo has Goodwill worth Rs. 841 crores on its Balance Sheet (mainly pertaining to ECU Line), subsequent impairment of which can threaten the future profitability. However over the forecast period we do not see any deterioration of ECU Line business and thus we don't expect any impairment in near future.

Forex Translation Risk: Nearly 90% of MTO business is based out of India. So there are substantial amount of revenue and costs that are required to be settled in Foreign currency which makes company vulnerable to exchange rate fluctuations on translation of currency.

Handling and transport risk: In LCL shipments, the company assumes the risk of cargo till the time they are shipped and they are faced with risk of loss or damage of goods. Further, Consolidation and deconsolidation mean extra handling thus increasing the risk of damage. However Allcargo insures its cargo to mitigate its losses.

Competition Risk: The global LCL industry is highly fragmented with many small players across the world who want to gain each other's market share.

❖ CFS: Revival in volumes and capacity utilization to fuel growth

Allcargo is one of the largest CFS operators in India with leadership position at Chennai port. It has also got significant presence at Mundra and JNPT. These three ports collectively handle more than 70% of Indian's container volume traffic. Allcargo also has two ICDs at Dadri and Pithampur. Besides this, ACLL has at its disposal large land banks summing upto 210 acres where it can plan future expansions whenever required.

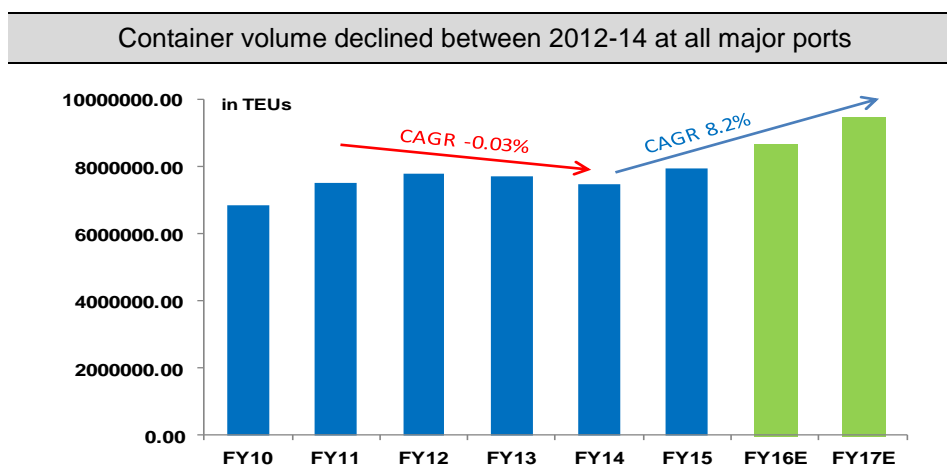
CFS port wise performance							
CFS Capacity UtilizationUtilization (%)							
	Dec '08	Dec '09	Dec '10	Mar '12	Mar '13	Mar '14	9MFY15
All CFS	52.4%	51.0%	66.5%	71.5%*	65.1%	54.7%	63%*

*Annualized

Source: Allcargo Logistics., Ventura Research

After the initial phase of growth from CY08-FY12 where the CFS volume grew at 10.9% CAGR Allcargo saw some consolidation in FY12-FY14 as volumes declined from 243,792 TEUs to 186,588 TEUs. Allcargo took a heavy hit on its EBITDA margins which dwindled from 50.1% in CY06 to 31.7% in FY14. However the drastic fall in margin was mainly on account of;

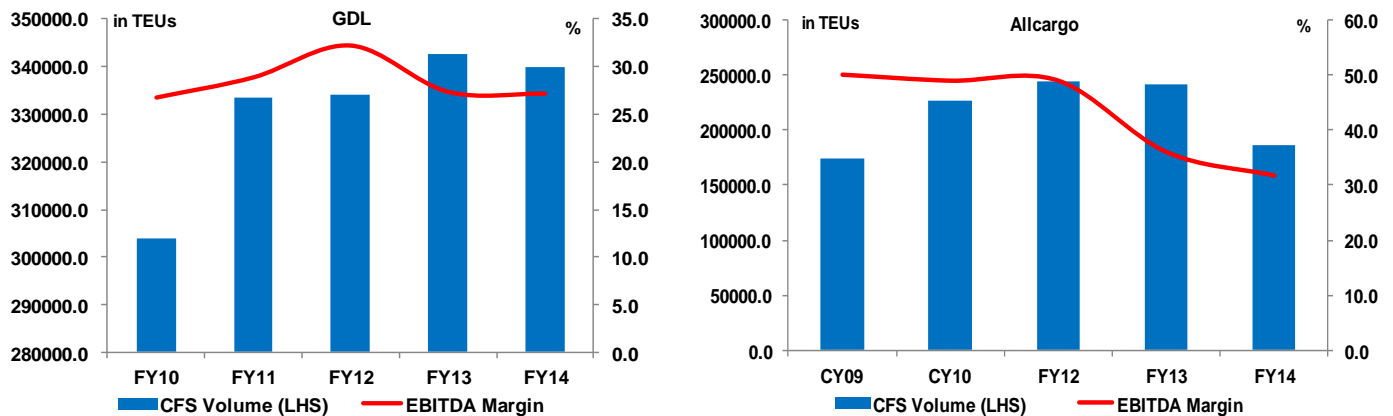
- overall weakness in the economy which resulted in fall of container volumes at major ports.
- capacity addition at JNPT II (second CFS addition at JNPT that doubled capacity) which resulted in incremental fixed cost.



Source: Indian Ports Association, Ventura Research

Allcargo's performance was no different from its peer GDL which also saw a decline in both volumes and margin in line with the industry trends.

Both GDL and Allcargo saw a period of slowdown and fall in margin during FY12-FY14.



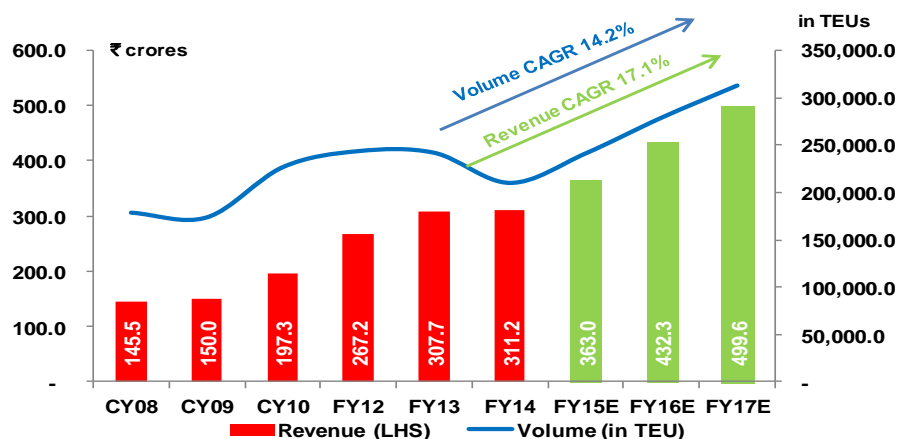
Source: GDL, Allcargo Logistics, Ventura Research

Container volumes to grow at brisk pace:

With the economy revival, container volumes are expected to pick up and grow at 8-9% CAGR over FY14-FY17E. Container volumes at major port have increased by 6.7% YoY in FY15 against a decline of 3.1% YoY in FY14. This increase in volume at ports is also reflected in Allcargo's 9MFY15 performance where its CFS volume grew at 14% YoY against 19.3% decline in the corresponding period.

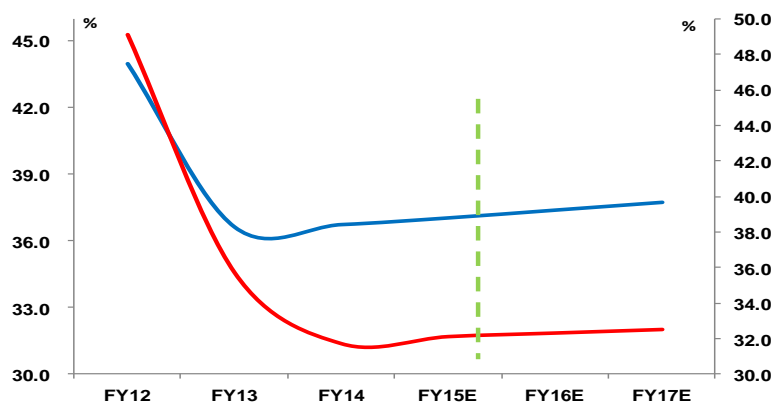
We expect Allcargo's volumes to increase at 14.2% CAGR over FY14-FY17E period and topline to grow to ₹499.5 crores from 311.2 crores in FY14 implying a CAGR of 17.1%. Considering the capacity ACLL possesses, it won't be difficult for them to accommodate the increase in volume.

CFS volume and Net revenue



Source: Allcargo Logistics., Ventura Research

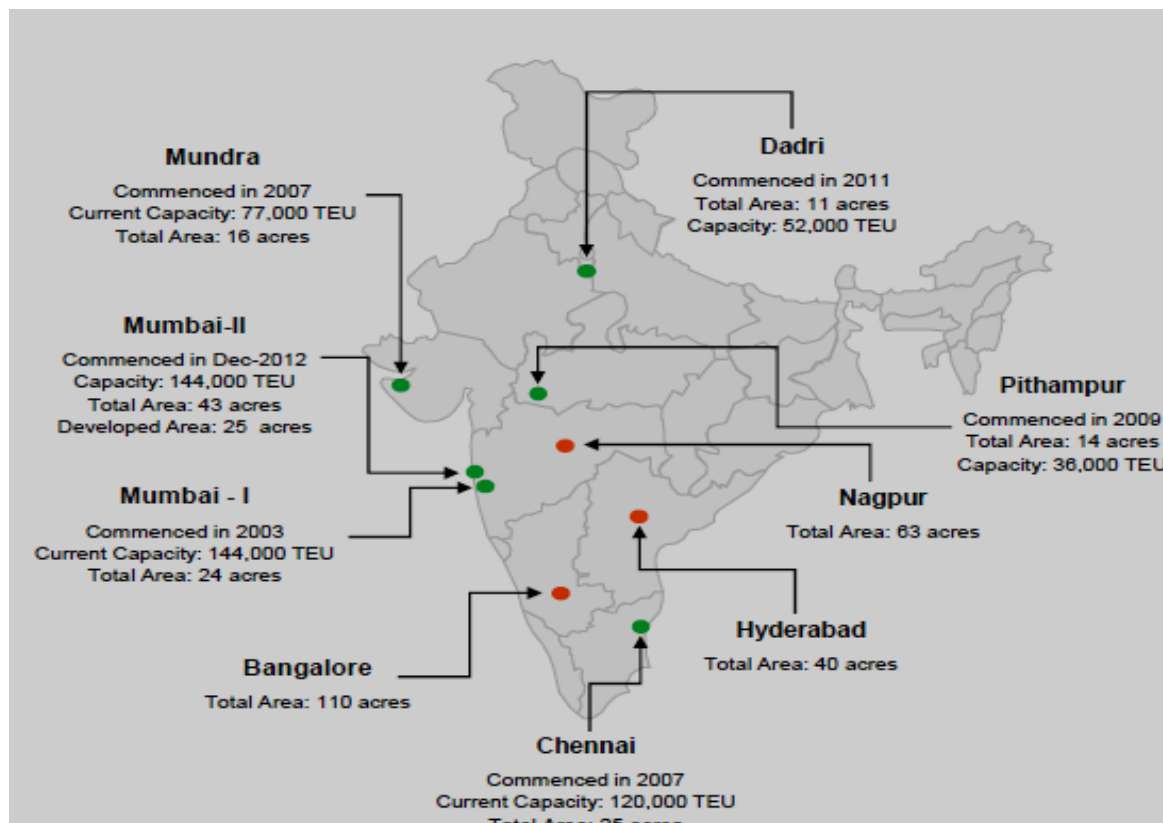
Allcargo's Gross and EBITDA margin to sustain



Source: Allcargo Logistics., Ventura Research

ACLL is not eyeing any major capex over the next 2-3 years and its focus will be on improving the utilization at its major facilities. This will help them improve and sustain their margins which were continuously declining. Based on this we are factoring a EBITDA margin expansion of 80 bps to 32.5% by FY17.

Container Freight Station segment Snapshot



Key Drivers

Pick up in EXIM trade: Increase in the EXIM activity will lead to higher volumes at port. Allcargo has presence across major ports and will benefit from increase in the EXIM container volumes at various ports.

Dedicated Freight Corridor: The proposed DFC that will connect the Eastern and Western ports to North region is considered as a big game changer for CFS/ICD operators. DFC is expected to double up the speed at which the cargo trains run and result in reduction of dwell times at ports. This will lead to handling of higher volumes than now for same time span.

Implementation of GST: GST will decrease the overall tax burden on inter-state transfer of goods resulting in increased movement of goods across states. The proposed introduction GST is also expected to significantly bring down the total costs of the logistics industry

Headroom in containerization of cargo: Container transport constitutes 21-22% of India's cargo traffic, much below the global average of 70-75%.

Key Risks

Delay in Economic revival: Though the EXIM trades have picked up in FY15, the overall economic scenario still remains weak. This coupled with slowdown in Europe and China can lead to decrease in EXIM trade and thus volumes, going ahead.

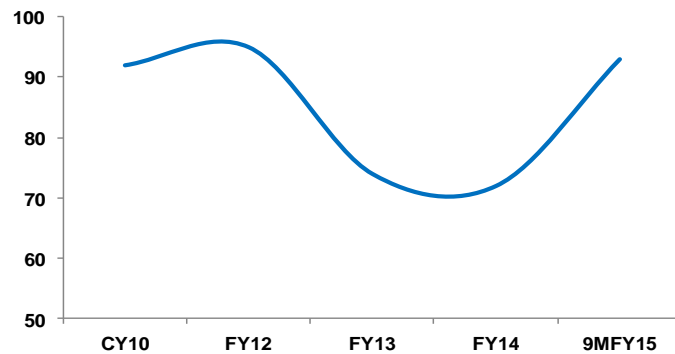
Delay in DFC: Further delay in construction of DFC will dampen the assumption of volume growth and higher handling of containers at CFS.

Source: Allcargo Logistics., Ventura Research

❖ PES: Economic revival to impel growth

The PES division is dependent on the Infrastructure sector which is linked to the overall economic scenario of the country. The slowdown in the economy during last 2-3 years took a toll on this segment of Allcargo. This was visible in declining utilization levels of cranes which dropped to 72% during FY14 from 92% during CY10. The decreased utilization impacted their top line which declined from 426.7 crores in FY12 to 399 crores in FY14.

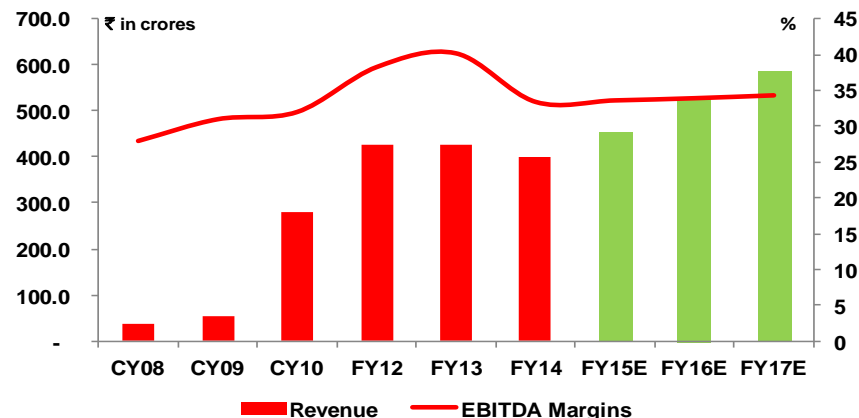
Utilization levels are improving as economy is gaining traction



Source: Allcargo Logistics., Ventura Research

However with the economy showing some signs of revival and infra projects getting the required push, there is a slow recovery in the capex cycle. Allcargo is already seeing some benefits in terms of increased order inflows and utilization. As at Feb' 2015 crane utilization stood at 92%. (this is mainly on account of the Reliance Jamnagar J3 projects where significant portion of its crane are deployed and two power projects where it is providing Project logistic services to NCC Ltd. and ABB Ltd.)

PES Annual net revenue

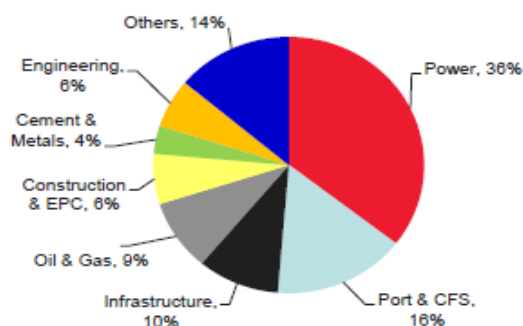


Source: Allcargo Logistics., Ventura Research

In coming years we expect an uptick in the revenue on the back of pick up in the economy and improved utilization. The EBITDA margins which tumbled from 40.1% to 33.4 in FY 14 are expected to expand by 90bps to 34.3% by FY17E. We expect the revenue to increase at 13.6% CAGR to ₹585.3 crores by FY17E.

Going ahead, Allcargo would be looking to adopt an asset light strategy for lesser duration projects (3-6 months) by hiring assets to expand its PES business instead of acquiring it. This will conserve its cash reserves and also bring down large annual maintenance cost attached with these equipments. This will also help mitigate risk in the scenario of low or no demand for these assets.

ACLL has diverse presence in PES segment



Source: Allcargo Logistics, Ventura Research

Allcargo possesses over 1000 specialized assets

Equipment Type	As on 31 st March, 2014
Trailers	585
Hydraulic Axles	201
Cranes	143
Reach Stackers and Forklifts	79
Prime Mover	20
Ships	3
Others	3
Total	1,034

Source: Allcargo Logistics, Ventura Research

Project & Engg Key Drivers and Risks

Key Drivers	Key Risks
Infrastructure push: In PES Allcargo has presence across key verticals and Infrastructure led growth especially in sectors like oil & gas, steel, cement and power is expected to increase demand for specialized transport solutions.	Industry Risk: The transportation of cranes from one state to another, debtors collection, lack of uniformity in state laws especially in respect to sales tax and entry tax are some of the critical factors affecting crane hiring industry.
Opportunities from power sector: Allcargo has successfully assisted in implementation of many power projects and over next five years the Indian Government intends to spend 12-14 lakhs crores in power sector. We foresee lot of opportunities stemming from this sector.	Maintaining utilization levels: There is uncertainty in respect of maintaining optimal utilization and yield of fleet all times and ensuring minimal idle time between contracts.

Source: Allcargo Logistics., Ventura Research

➤ **Financial Performance:**

In Q3 FY15, Consolidated revenue of Allcargo declined by 5.6% YoY. However this was mainly because Q3FY14 included full calendar year financials of FCL Marine after it was acquired in October' 2013. Individual segment wise; MTO declined 9.6% while CFS and PES grew at 26.5% and 18% respectively. EBITDA before other income grew from ₹111 crores to ₹132.4 crores and margins expanded by 200bps. Consolidated PAT jumped 28.8% YoY to ₹74.2 crores from ₹57.6 crores.

For 9MFY15 consolidated revenue increased by 18.1% YoY from ₹3565.8 crores to ₹4210.1 crores while EBITDA (ex OI) grew 25.4% from 293.8 crores to 368.3 crores. Consolidated PAT rose 34.1% YoY and PAT margin expanded by 50 bps to 4.5%.

Consolidated Quarterly Financial Performance (₹ crores)

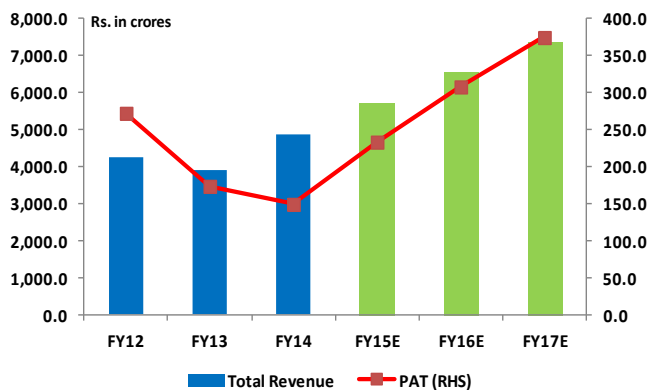
Particulars	Q3FY15	Q3FY14	9MFY15	9MFY14
Net Sales	1431.7	1516.4	4214.0	3568.6
<i>Growth %</i>	<i>-558.6%</i>		<i>18.1%</i>	
Total Expenditure	1299.3	1405.4	3845.8	3274.8
EBITDA (ex OI)	132.4	111.0	368.3	293.8
<i>EBITDA Margin %</i>	<i>9.2%</i>	<i>7.3%</i>	<i>8.7%</i>	<i>8.2%</i>
Depreciation	37.2	33.2	119.0	99.5
EBIT	95.2	77.7	249.3	194.4
Other Income	11.7	12.7	34.7	32.6
EBIT	106.8	90.4	284.0	227.0
<i>Margin %</i>	<i>7.5%</i>	<i>6.0%</i>	<i>6.7%</i>	<i>6.4%</i>
Interest	14.0	18.8	44.6	40.1
Exceptional items	0.0	0.0	0.0	0.0
PBT	92.8	71.6	239.4	186.9
<i>Margin %</i>	<i>6.5%</i>	<i>4.7%</i>	<i>5.7%</i>	<i>5.2%</i>
Provision for Tax	18.7	14.1	47.8	43.9
PAT	74.2	57.6	191.7	143.0
<i>PAT Margin %</i>	<i>5.2%</i>	<i>3.8%</i>	<i>4.5%</i>	<i>4.0%</i>

Source: Allcargo Logistics., Ventura Research

❖ Financial Outlook:

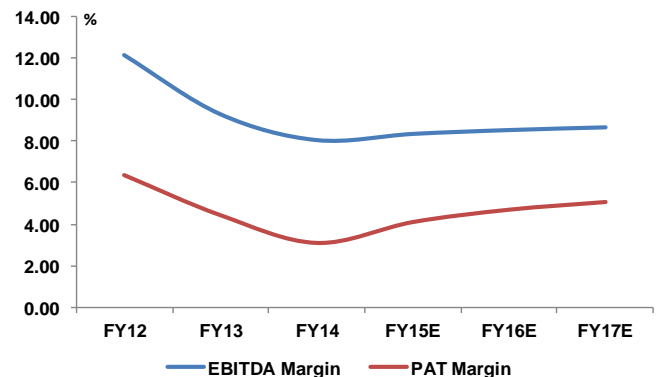
Robust performance of MTO business, revival of CFS volumes and higher utilization in PES will spell out the future growth for Allcargo Logistics. We expect ACLL to report 3 year CAGR revenue of 15% to ₹7,393 crores by FY17E and consolidated PAT is expected to grow at 35.8% to ₹374.6 crores by FY17E. The EBITDA margins (ex OI) are expected to expand by 70 bps and PAT margin by 200 bps to 8.7% and 5.1% respectively.

Consolidated PAT



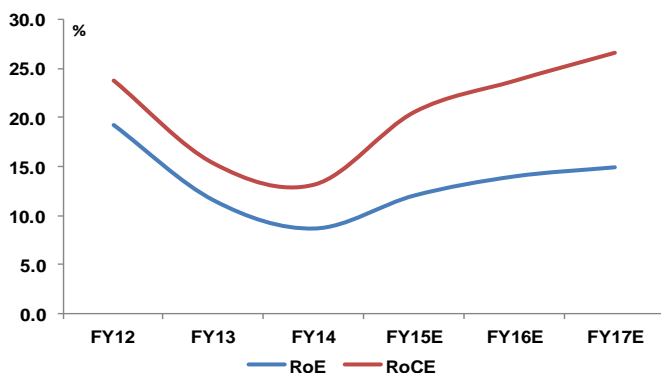
Source: Allcargo Logistics., Ventura Research

EBITDA and PAT Margin



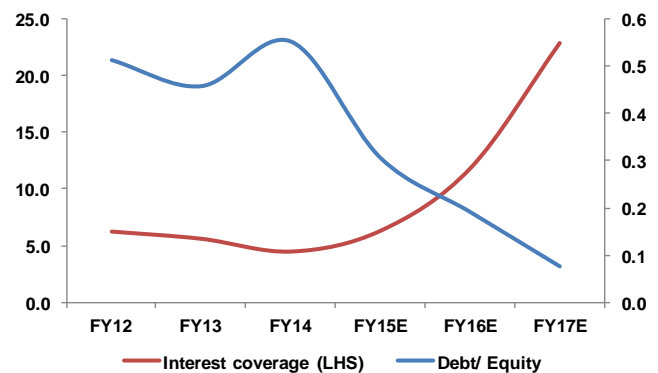
Source: Allcargo Logistics Ltd., Ventura Research

RoCE & RoE



Source: Allcargo Logistics, Ventura Research

D/E and Interest coverage to improve considerably

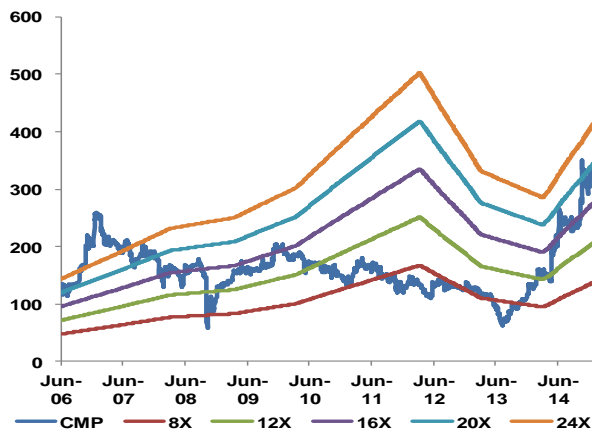


Source: Allcargo Logistics, Ventura Research

❖ Valuation:

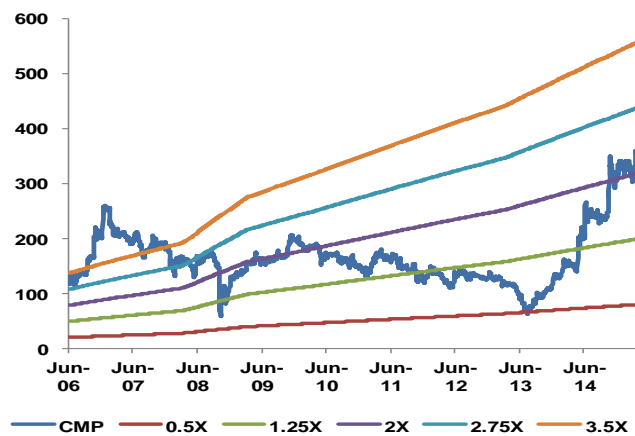
We initiate coverage on Allcargo Logistics as a **BUY** with a price objective of ₹535 representing a potential upside of ~69% over a period of 18 months. We have used the price multiple approach to value Allcargo. Our target price implies an FY17 P/E of 18x..

Allcargo Logistics P/E Band



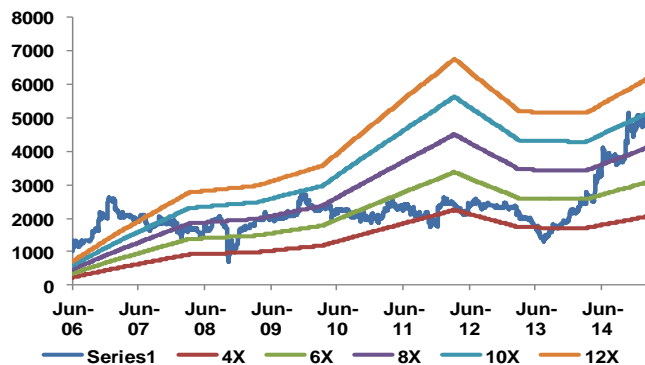
Source: Ventura Research

Allcargo Logistics P/BV Band



Source: Ventura Research

Allcargo Logistics EV/EBITDA Band



Source: Ventura Research

Financials and Projections

Y/E March, Fig in ` Cr	FY14	FY15E	FY16E	FY17E	Y/E March, Fig in ` Cr	FY14	FY15E	FY16E	FY17E
Profit & Loss Statement					Per Share Data (Rs)				
Net Sales	4859.4	5705.1	6563.4	7393.4	Adj. EPS	11.9	18.5	24.4	29.7
% Chg.		17%	15%	13%	Cash EPS	25.8	31.2	37.4	43.1
Total Expenditure	4468.3	5228.9	6003.3	6752.8	DPS	1.5	2.3	3.3	4.4
% Chg.		17%	15%	12%	Book Value	142.3	158.0	178.5	203.2
EBDITA	391.1	476.2	560.1	640.6	Capital, Liquidity, Returns Ratio				
EBDITA Margin %	8%	8%	9%	9%	Debt / Equity (x)	0.6	0.3	0.2	0.1
Other Income	36.5	43.8	39.4	35.5	Current Ratio (x)	1.0	1.1	1.2	1.5
PBDIT	427.6	520.0	599.5	676.1	ROE (%)	9%	12%	14%	15%
Depreciation	175.5	159.2	163.9	168.5	ROCE (%)	13%	21%	24%	27%
Interest	56.0	56.9	36.8	22.2	Dividend Yield (%)	0.0	0.0	0.0	0.0
Exceptional items	0.0	0.0	0.0	0.0	Valuation Ratio (x)				
PBT	196.1	303.9	398.8	485.4	P/E	26.7	17.1	12.9	10.6
Tax Provisions	41.6	64.8	84.6	104.0	P/BV	2.2	2.0	1.8	1.6
Reported PAT	154.6	239.1	314.2	381.4	EV/Sales	1.0	0.8	0.6	0.5
PAT Margin (%)	3%	4%	5%	5%	EV/EBIDTA	11.3	8.5	6.9	5.7
Adj. PAT	149.4	233.5	308.0	374.6	Efficiency Ratio (x)				
Manpower cost / Sales (%)	15.0%	14.9%	15.1%	15.4%	Inventory (days)	n.a	n.a	n.a	n.a
Other opr Exp / Sales (%)	0.8%	0.8%	0.6%	0.5%	Debtors (days)	43.1	43.1	44.4	45.3
Tax Rate (%)	21.2%	21.3%	21.2%	21.4%	Creditors (days)	50.2	50.2	47.8	46.4
Balance Sheet					Cash Flow Statement				
Share Capital	25.2	25.2	25.2	25.2	Profit Before Tax	196.03	303.89	398.76	485.41
Reserves & Surplus	1767.9	1966.6	2225.2	2535.5	Depreciation	175.46	159.22	163.92	168.49
Minority Interest	46.3	46.3	46.3	46.3	Working Capital Changes	-41.41	-28.11	-68.91	-69.65
Long Term Borrowings	520.8	335.4	101.1	25.7	Others	-19.36	28.57	20.50	3.15
Deferred Tax Liability	104.5	100.5	97.6	94.1	Operating Cash Flow	310.72	385.80	408.54	452.24
Long term Provisions	66.4	63.3	64.1	66.5	Capital Expenditure	-155.84	-46.88	-58.17	-62.71
Total Liabilities	2531.2	2537.4	2559.7	2793.3	Change in Investment	-23.73	110.53	-18.90	-36.72
Gross Block	2957.9	3004.8	3063.0	3125.7	Cash Flow from Investing	-439.00	82.33	-58.99	-80.54
Less: Acc. Depreciation	709.4	891.1	1055.8	1225.2	Proceeds from equity issue	0.00	0.00	0.00	0.00
Net Block	2248.5	2113.7	2007.1	1900.5	Issue Exp	0.00	0.00	0.00	0.00
Capital Work in Progress	7.7	9.8	10.8	26.5	Dividend and DDT	-22.19	-34.56	-49.20	-64.23
Investments	55.6	56.4	56.4	56.4	Cash Flow from Financing	134.95	-462.08	-254.15	-304.62
Net Current Assets	-37.4	98.9	212.1	516.9	Net Change in Cash	6.67	6.05	95.40	67.08
Long term Loans & Advances	256.9	258.6	273.2	293.0	Opening Cash Balance	131.39	159.64	165.69	251.29
Total Assets	2531.2	2537.4	2559.7	2793.3	Closing Cash Balance	159.64	165.69	251.29	310.87

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