

Company Report

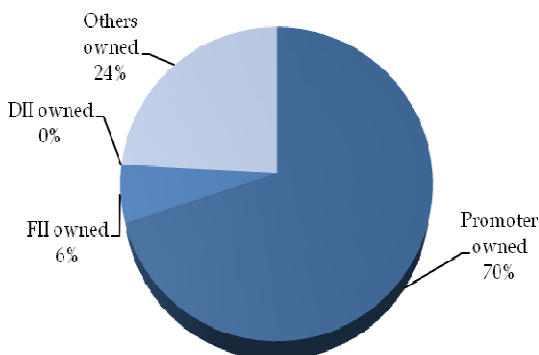
Allcargo Logistics Ltd.

09th September, 2015**BUY****CMP** **Rs.299.60****Target Price** **Rs.398.00**

BSE Code	532749
Market Cap (Rs Cr.)	3758.50
52 Week High/Low	378.50/215.00
Industry	Logistics
Face Value	Rs.2.00
Shares O/S	12.60 Cr.

EPS	19.04
Book Value	151.41
P/E	15.74
P/B	1.98

Shareholding Pattern



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- Allcargo Logistics Limited, part of the Avvashya Group, is a leading Indian multinational company providing integrated logistics solutions. The Company offers specialized logistics services across Multimodal Transport Operations (MTO), Container Freight Station Operations (CFS), Inland Container Depot (ICD) and Project & Engineering Solutions (P&E). Benchmarked quality standards, standardized processes and operational excellence across all the services and facilities, have enabled the company to emerge as a leading player in all these segments. The company owns leading multinational companies in the logistics space globally such as ECU-LINE, which is world's largest LCL service provider operating from Belgium. It also owns USA-Miami based NVOCC leader Econocaribe Consolidators and Rotterdam based FCL Marine Agencies specializing in FCL services.
- The company has registered strong results for the quarter ending June 2015. The revenues from operations grew by about 12% to Rs.1477.91 crs vs. Rs.1320.91 crs in the year ago quarter while it grew ~4.43% q-o-q. Operating profit climbed by 33% at Rs.100.63 crores as against Rs.75.70 crores in the previous year quarter. The adjusted net profit stood at Rs.75.10 crores for the quarter as against Rs.48.98 crores; registering robust growth of 53%.

Valuation

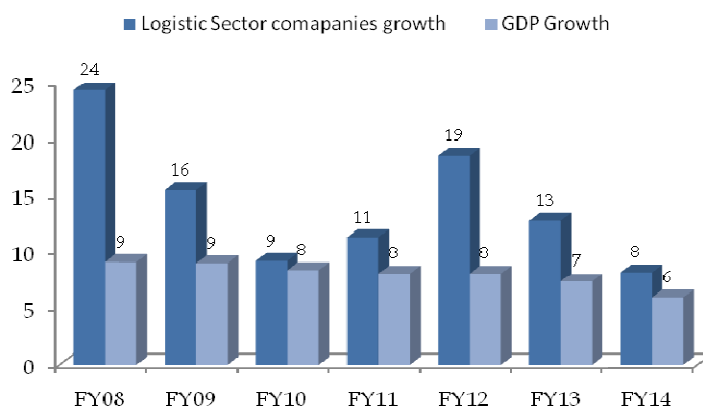
Allcargo has strong presence across all lines of businesses i.e. MTO, CFS and P&E businesses. It has emerged as the second largest player in the LCL consolidation business globally and is the only Indian player who has a strong presence across multiple logistics businesses of CFS, contract logistics, project logistics, equipment leasing and costal shipping in India. The company is focused on top and bottom line growth, ROCE, asset utilization and generation of cash flows across all the businesses. The company is well placed to cash on the emerging opportunities in the logistic space in India. The company is trading at an attractive valuation at 12x and 10.16x FY16 EPS of Rs 24.92 and FY17 EPS of Rs 29.49. We initiate a 'BUY' on the stock with a target price of Rs. 398 (appreciation of about 33%) with the medium to long term investment horizon.

Industry Overview

The global economy has seen a moderate and uneven growth in 2014, as the prolonged recovery process from the global financial crisis was still saddled with unfinished post-crisis adjustments. Global recovery was also hampered by some new challenges, including a number of unexpected shocks, such as the heightened geopolitical conflicts in various areas of the world. Global trade recovered somewhat in 2014. Exports from North America and the Asia Pacific region rose at a greater rate than in other regions. The emerging markets in Asia are expected to play a significant role in the growth of global trade again in 2015. At 3.0 %, growth in global trade volumes (transported quantity in tonnes) is forecast to be overall slightly higher in 2015 compared with 2014 due to the slight improvement in the economic climate in the industrial countries. Overall, global growth is expected to rise moderately, to 3.0% in 2015, and average about 3.3% through 2017. High-income countries are likely to see growth of 2.2% in 2015-17, up from 1.8% in 2014, on the back of gradually recovering labor markets, ebbing fiscal consolidation, and still-low financing costs. In developing countries, as the domestic headwinds that held back growth in 2014 ease and the recovery in high-income countries slowly strengthen, growth is projected to gradually accelerate, rising from 4.4% in 2014 to 4.8% in 2015 and 5.4% by 2017. Lower oil prices will contribute to diverging prospects for oil exporting and importing countries, particularly in 2015. The global logistics industry, which reported 981 billion euro (\$1301 billion) revenue in 2011, is expected to grow up to 3 percent per year till 2020. Emerging markets are expected to offer above-average growth rates for the industry. Intraregional trade is becoming increasingly important in Asia in particular, and this, combined with high GDP growth rates, may transform the region into the most significant regional cluster in the world.

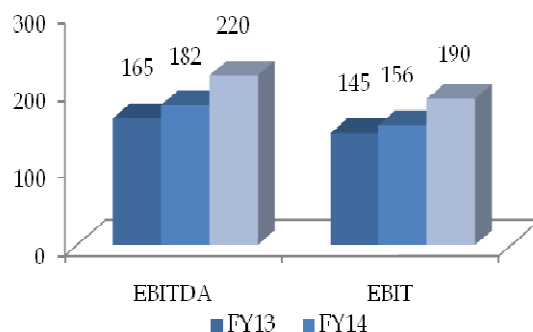
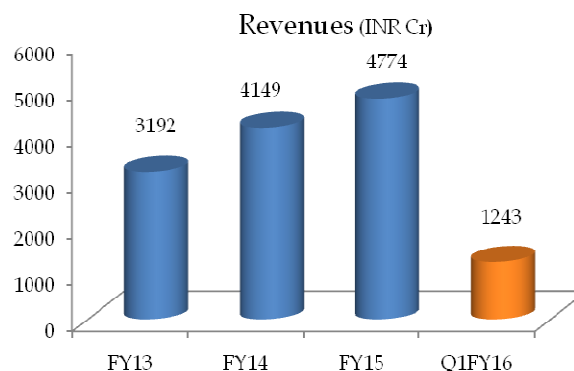
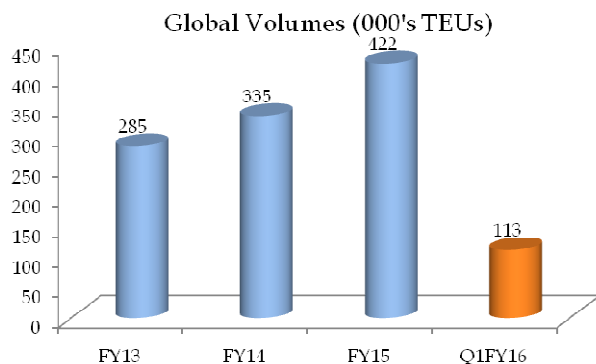
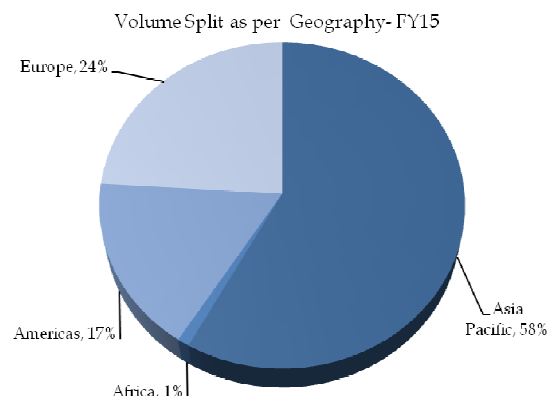
The Economic Survey put India's growth at 7.4% for FY2015. The new fiscal year is expected to see the highest economic output growth in recent years. The Economic Survey has it at 8.1-8.5%, while the International Monetary Fund's (IMF's) 7.5% and the Asian Development Bank's 7.8% have India growing faster than China. Growth of the Logistics business is directly correlated with economic activity and empirical evidence suggests that the Logistics Industry grows at 1.5-

2.0x the GDP growth of a nation. The Indian logistics industry is valued at an estimated US\$ 130-150 billion and it has seen a CAGR of around 15.0-16.0% over the last five years. It is expected to go through a period of strong growth, possibly in the range of 15.0%-17.0% CAGR over next 4-5 years. It is poised for accelerated growth, led by GDP revival, infrastructure ramp-up, volume growth in containerization, new terminals at ports leading to incremental growth in volumes, dedicated freight corridor (DFC), impending GST implementation, other initiatives like "Make in India" and new businesses segments like coastal shipping, 3PL, cold chain and e-commerce creating opportunities in long run. As India's nominal GDP could grow from \$1.8 trillion currently to \$3.6 trillion by 2020, the overall export-import cargo at Indian ports is projected to increase to around 2,800 million metric tonnes (MMT) by 2020 from approximately 890 MMT now. With the Indian economy on a revival path, we believe India's Logistics sector is poised for accelerated growth.



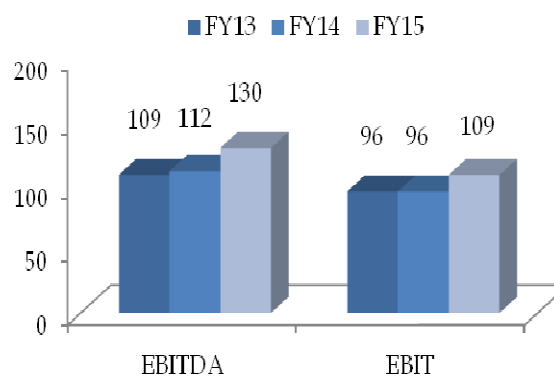
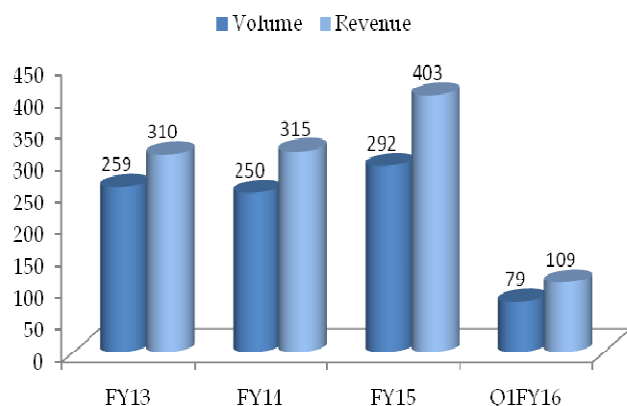
Continuous growth in Multimodal Transport Operations

Allcargo's MTO service comprises NVOCC operations related to LCL consolidation and FCL activities globally, through its wholly owned subsidiary ECU Line (based in Belgium). Allcargo, as an LCL consolidator, is less hurt by the current weakness in the container market as LCL volumes are more immune to such sluggishness; a large part of full container load volumes in tough times gets converted into LCL volumes. LCL Consolidation is a multibillion dollar global market with an asset light business model. Besides LCL consolidation, the company has also forayed into FCL freight-forwarding through acquisition of FCL Marine; a Netherlands based FCL freight-forwarding company. The company being primarily a Less than Container Load (LCL) consolidator won't be much impacted by the current weakness in the container market as it is resilience to global market volatility. Also LCL is an asset light business model with high Return on Capital Employed. Volumes of the company have grown for the Q1FY16 at ~113,000 TEUs with rise in margins. Volumes have improved for the MTO segment in FY15 at ~422,000 TEUS as compared to ~335,000 TEUS in FY14 primarily due to consolidation of the new acquisitions as well as improvement in trade. Going forward we do not expect any contraction in volumes and margins in the MTO segment.



Container Cargo business is poised for growth

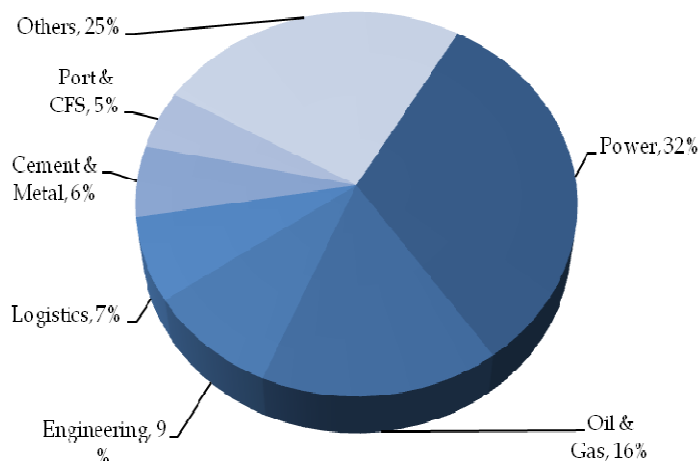
Container volume in India is expected to be 2x by 2020, driven by EXIM trade and an increase in containerization from the current 55% to >65% (versus developed countries' average of 70%). Revival in EXIM trade expected to translate into higher demand for containerization due to their efficiency. Infrastructural initiatives like Dedicated Freight Corridor and development of multi-modal logistics park, to further support growth of cargo containerization in India. Several upcoming container terminals planned at both major and non-major ports - to further increase flow of container traffic. Strong growth is expected in CFS container volume with container traffic growing, CFS / ICD business is expected to grow by CAGR 9% in coming years. CFS business due to its nature and constraints for the new entrants (proximity to port, contiguous land parcel and capital) enables operators to earn rich margins in the business. The operating costs involved in the CFS are relatively low and hence operators can earn high operating margins. Being one of the largest CFS operators in India, Allcargo is the only company with significant presence at key container ports of the country, viz JNPT, Chennai and Mundra, with annual operational capacity of 288,000 TEUs, 77,000 TEUs and 120,000 TEUs, respectively, bringing the total annual operational capacity at 485,000 TEUs. These ports are in proximity to main industrial hubs, carry majority of the volumes and are preferred choice for customers because of their strategic location. They collectively handle around 75% of total container traffic of India. The company is well equipped to ride on the growth in CFS business as it has a presence in 3PL (third party logistics) and has 2 warehouses, one in Goa and other in Hosur. The company is actively looking for opportunities in contract warehousing and/or 3PL sector so that it could create a niche for itself by providing a fully integrated logistic service. It also has land bank of about 200 acres spread across Nagpur, Hyderabad and Bangalore. The company operates its business model with unique synergies between MTO and CFS business, it leases container space with major shipping companies for its clients in MTO segment and on other hand, it gets clients of CFS segment from the same shipping companies. The company has shown robust growth in CFS segment as volumes have increased with stable margins in FY15 at ~292000 as compared to 250000 in FY14. Relationship with shipping lines, vast experience in logistics business and presence in other verticals (MTO) should help Allcargo to outperform most of its peers in the CFS segment. We estimate CFS volumes to grow at a steady pace with stable margins.



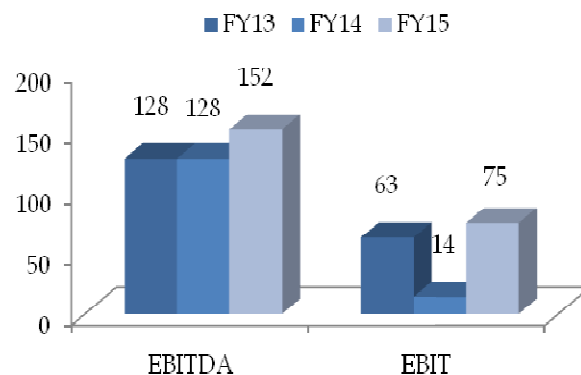
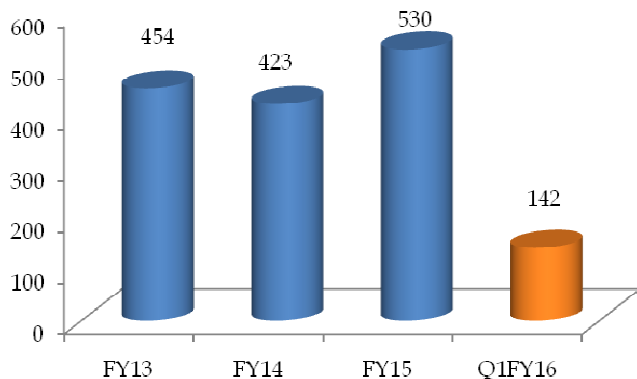
Project and Engineering Solution business to be the game changer

Allcargo's P&E division combines equipment leasing, project movement and coastal shipping business, focusing on providing integrated logistics solutions to clients through these businesses, and also harnessing synergies from MTO and CFS verticals. The company owns a diverse fleet of about 990 equipment including cranes, hydraulic axles, trailers, reach stackers, forklifts, prime movers, barges and coastal vessels. As per FY15, all these equipments were allocated to various sectors. Power (including wind) contributed 32% of revenue, Port and CFS about 5%, logistics about 7%, Oil & Gas about 9%, Engineering about 9%, Cement and Metals about 6% and Others about 25% (breakup for Equipment leasing and project logistics business put together). The company follows a conservative accounting policy of depreciating cranes, although they can be used for substantially higher time. This will reduce depreciation component in later years which will be reflected in the bottom line. Also, the salvage value of cranes remains very high. This acts as a hidden treasure for the company in its project & engineering solutions business. Revenues for PES division have been volatile for company primarily due to weak economic environment and slow capex cycle as the performance of this business segment is highly dependent on the capex cycle of the country. The total revenue for FY15 was Rs 5629 cr (16% growth) versus as Rs 4851 cr for FY14. The company has also shown an increase in EBIT and PAT margins, as EBIT margins expanded by 200 bps at 7% from 5% y-o-y. Similarly PAT margins jumped by 100 bps at 4% from 3% y-o-y.

Industry Diversification (By Revenue) - FY15



Revenues (INR Cr)



Consolidated Profit & Loss Account

Rs. Crore

Particulars	FY13	FY14	FY15	FY16E	FY17E
Net sales	3926.27	4859.43	5628.80	6578.27	7229.81
Growth		23.77%	15.83%	16.87%	9.90%
Expenditure	3570.11	4468.12	5153.43	5979.65	6535.75
EBITDA	356.16	391.31	475.37	598.62	694.06
Growth		9.87%	21.48%	25.93%	15.94%
EBITDA margin	9.07%	8.05%	8.45%	9.10%	9.60%
Other income	66.18	36.50	52.61	35.50	39.42
Depreciation & Amortisation	147.35	175.46	157.37	169.79	176.76
EBIT	274.99	252.35	370.61	464.33	556.72
EBIT margin	7.00%	5.19%	6.58%	7.06%	7.70%
Interest	41.44	56.32	53.47	51.12	56.58
PBT	233.55	196.03	317.14	413.21	500.14
Tax	51.21	41.59	69.96	90.91	119.03
PAT	182.34	154.44	247.18	322.30	381.11
Share of Associates	0.00	0.00	0.00	0.00	0.00
Minority Interest	12.60	5.11	7.29	8.30	9.48
Adjusted PAT	169.74	149.33	239.89	314.00	371.63
Growth		(12.02)	60.64	30.89	18.35
Net Profit margins	4.32	3.07	4.26	4.77	5.14
Exceptional item	0.00	0.00	0.36	0.00	0.00
Reported PAT	169.74	149.33	240.25	314.00	371.63
Equity Capital	25.24	25.24	25.24	25.24	25.24
Adjusted EPS	13.47	11.85	19.04	24.92	29.49

Ratios

Particulars	FY13	FY14	FY15	FY16E	FY17E
Return on Equity	10.70	8.33	12.57	14.36	14.76
Return on Capital employed	11.36	9.06	14.70	16.26	17.27
Debt/Equity	0.53	0.55	0.32	0.31	0.28
Asset turnover	1.31	1.34	1.63	1.73	1.73
Current Ratio	2.22	1.68	1.60	1.84	2.02
Book value per share	125.85	142.31	151.41	173.59	199.84
Interest coverage	6.64	4.48	6.93	9.08	9.84

Balance Sheet

Rs. Crore

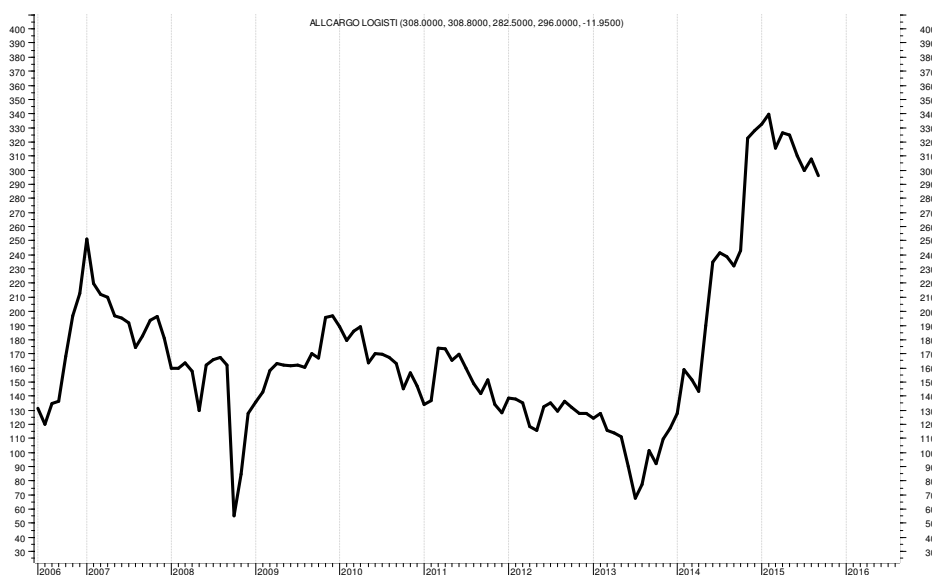
Particulars	FY13	FY14	FY15	FY16E	FY17E
Equity Share Capital	25.24	25.24	25.24	25.24	25.24
Reserves & Surplus	1560.42	1767.88	1882.55	2,162.01	2,492.76
Shareholders funds	1585.66	1793.12	1907.79	2187.25	2518.00
Borrowings	834.48	992.11	613.33	669.16	705.13
Deferred tax liability	94.34	104.53	110.05	110.05	110.05
Minority Interest	43.30	46.33	22.06	22.72	23.86
Sources of funds	2557.78	2936.09	2653.23	2989.18	3357.04
Gross block	1,886.52	2,103.19	2,075.09	2215.79	2494.67
Accumulated Depreciation	516.25	709.37	828.25	998.04	1,174.79
Net block	1370.27	1393.82	1246.84	1217.75	1319.88
Capital WIP	12.39	7.31	13.63	14.69	14.92
Investments	185.91	190.24	89.37	191.38	251.72
Goodwill on consolidation	460.23	870.99	831.37	890.14	926.67
Inventories	11.05	11.41	11.67	14.79	16.69
Sundry debtors	382.45	571.50	647.56	783.97	901.01
Cash and bank balance	138.19	164.69	173.77	207.09	233.59
Other current assets	42.45	49.76	68.50	73.96	83.43
Loans and advances	389.97	370.12	363.27	399.38	433.82
Total current assets	964.11	1167.48	1264.77	1479.18	1668.53
Current liabilities and provisions	435.13	693.75	792.75	803.95	824.68
Net current assets	528.98	473.73	472.02	675.23	843.85
Misc exp	0.00	0.00	0.00	0.00	0.00
Uses of funds	2,557.78	2,936.09	2,653.23	2,989.18	3,357.04

Consolidated Quarterly Financial Highlights

Rs. Crore

Particulars	Q1FY16	Q1FY15	Q4FY15	YoY%	QoQ%
Revenues	1477.91	1320.91	1415.15	11.89	4.43
Expenditures	1377.28	1245.21	1347.57	10.61	2.20
Operating Profit	100.63	75.70	67.58	32.93	48.91
Adjusted Net Profit	75.10	48.98	55.48	53.33	35.26
OPM%	6.81	5.73	4.78	108bps	203bps
NPM %	5.08	3.71	3.92	137bps	116bps
Adjusted EPS	6.00	3.90	4.40	53.85	36.36

Past Price movement of the stock



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<i>Disclosure of Interest Statement</i>	<i>Company Name</i>
1. Analyst Ownership of the Stock	No
2. Hem & its Group Company Ownership of the Stock	Yes
3. Hem & its Group Companies' Director Ownership of the Stock	Yes
4. Broking relationship with company covered	No

Analyst Certification

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