PhillipCapital

Allcargo Logistics Ltd

Getting ahead

INITIATING COVERAGE

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Getting ahead

INDIA | Logistics | Initiating Coverage

27 April 2015

BUY (Maintain)

CMP Rs 315

TARGET Rs 455 (+45%)

Allcargo, a leading integrated logistics players spread across 90 countries and shipments across 4,000+ port pairs, is the largest player in asset-light LCL consolidation. Its synergized business model provides cost effective logistic solutions and it is ready to exploit attractive opportunities in new businesses with entry into costal shipping and 3PL. Valuations are expected to rerate with an earnings CAGR of 42% to Rs 3.84bn over FY14-17 and balance sheet deleveraging with cash profit of ~Rs 10.3bn over FY16-17. We initiate coverage with a BUY rating and a target price of Rs 455.

Multimodal Transport Operations (MTO) to grow by CAGR 14% in FY14-17

MTO business account for 83% of consolidated revenue and 49% of EBITDA and is asset light with high returns on capital employed. Its successful acquisition strategy has helped it to grow MTO revenue at 24% CAGR from 17bn in CY09 to Rs 41.2bn in FY14 consolidating its network in major global economies and add more product lines. We expect this business to see a CAGR of 14% to Rs 61.4bn over FY14-FY17. The business is more resilient in a downturn because full-load container business shifts to LCL. We see EBITDA margins in MTO rising 50bps to 5.5% in FY17 from 5% in FY14 and EBIT margins to 5% in FY17 from 4.4% in FY14.

CFS and ICD to benefit from growing Containerization in India

Container traffic has remained one of the highest growing cargoes in India historically, with a GDP multiplier of around 1.5x. Allcargo has leveraged its relationships with freight forwarders and major shipping lines by entering into CFS. It has a presence at key container ports of the country (JNPT, Chennai, and Mundra) that collectively handle more 75% of India's container cargo. It has utilized 50% of land at its second CFS at JNPT; potential to double capacity as demand picks up. It also has a land bank of more than 200 acres across three strategic locations—Hyderabad, Bangalore, and Nagpur. Its current CFS' capacity utilization is ~65% and economic recovery would provide significant upside to profits. For this segment, we expect revenue CAGR of 23% to Rs 5.9bn in FY14-17 with EBITDA margin improvement of 180bps to 33.3%.

Recovery in project business to improve return ratios

Project and Engineering (P&E) business combines equipment leasing, project movement, and costal shipping. Allcargo focuses on providing integrated logistics solutions to clients through P&E, by harnessing synergies from MTO and CFS verticals. It has an equipment fleet of 1,034 (including 143 cranes and three ships) and has entered into an alliance with Mammoet to provide crawler lattice boom cranes from 1,000 MT up to 5,000MT besides technical support for erection and lift plan. P&E contributes to ~3% of EBIT but is responsible for 33% of capital employed, thereby pulling down return ratios. The company had seen a pickup in P&E demand with utilization rates increasing to ~90% in 4QFY15 from 72% in FY14. The economic recovery is expected to improve this unit's asset turnover to ~0.7x in FY17 from 0.4x in FY14, thereby improving return ratios (considering high operating leverage).

Valuation

At CMP of Rs 315, the stock is trading at 10.3x FY17 earnings of Rs 30.4 and P/BV of 2.2x FY14. On EV/EBITDA, it trades at 5.5x FY17. We believe with its presence across the critical value chain in logistics, Allcargo would be a major beneficiary of increased global trade and recovery in domestic industrial activity. We initiate coverage with a BUY rating and assign a P/E of 15x FY17 EPS to arrive at a target price of Rs 455.

COMPANY DATA

O/S SHARES (MN) :	126
MARKET CAP (RSBN) :	40
MARKET CAP (USDBN) :	0.7
52 - WK HI/LO (RS) :	358 / 133
LIQUIDITY 3M (USDMN) :	0.7
PAR VALUE (RS) :	2

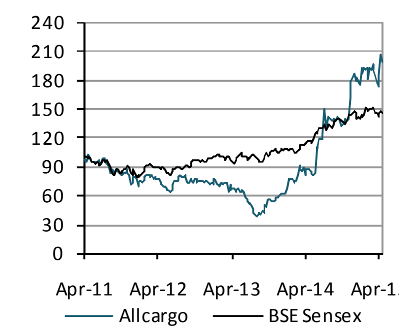
SHARE HOLDING PATTERN, %

PROMOTERS :	69.9
FII / NRI :	5.8
FI / MF :	0.0
NON PROMOTER CORP. HOLDINGS :	1.26
PUBLIC & OTHERS :	23.4

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	2.3	-4.7	107.3
REL TO BSE	4.8	1.5	87.2

PRICE VS. SENSEX



Source: Phillip Capital India Research

KEY FINANCIALS

Rs mn	FY15E	FY16E	FY17E
Net Sales	56,859	64,153	73,500
EBIDTA	5,036	6,059	7,446
Net Profit	2,531	3,047	3,840
EPS, Rs	20.1	24.2	30.5
PER, x	15.7	13.0	10.3
EV/EBIDTA, x	9.2	7.2	5.5
P/BV, x	2.0	1.8	1.5
ROE, %	12.7	13.5	14.9
Debt/Equity (%)	37.5	27.4	19.1

Source: PhillipCapital India Research Est.

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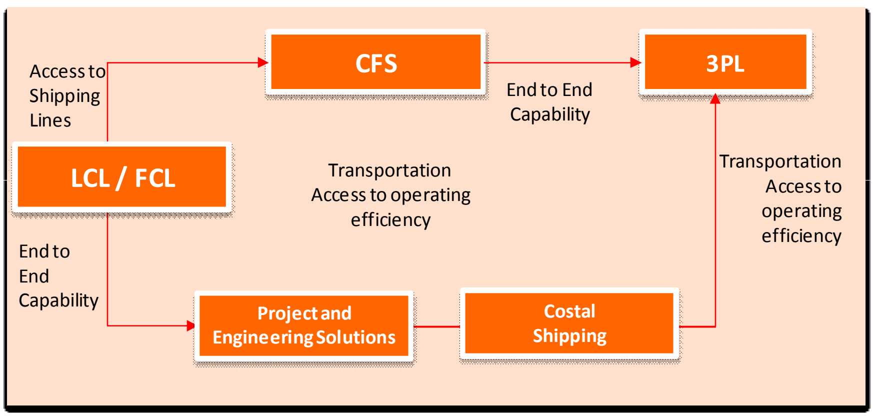
Unique synergized business model

Allcargo Logistics (AGLL) has a diversified presence across the logistics sector with significant synergy benefit. It is the second-largest NVOCC player in the world and provides multimodal transport logistics for container movement (NVOCC stands for non-vessel-operating common carrier). It is one of the dominant players in the CFS/ICD (Container Freight Stations/ Inland Clearance Depots) business and a leading integrated Projects & Engineering solution provider in India. Its global network, LCL consolidation, freight-forwarding and air-cargo businesses help AGLL provide a complete and cost-effective solution to customers. The company has developed an asset-light business model in MTO (Multimodal Transport Operator) as a value proposition, and has not invested in the highly competitive and capital-intensive rail transportation segment.

Global NVOCC player with end to end solution provider in domestic market



Source: Company, PhillipCapital India Research

With the variety of inter-linked businesses that company operates in, it has been able to bring in synergy which has strengthened its competitive position as a leading logistics solutions provider.

Allcargo business model captures significant part of logistics value chain

	NVOCC	Container Rail	CFS/FTWZ	Project Engineering	Equipment Leasing	Costal	3PL	Express Logistics
Gateway Distriparks								
Arshiya								
Gati								
TCI								
VRL								
Allcargo								
Sanghvi Movers								
Concor								

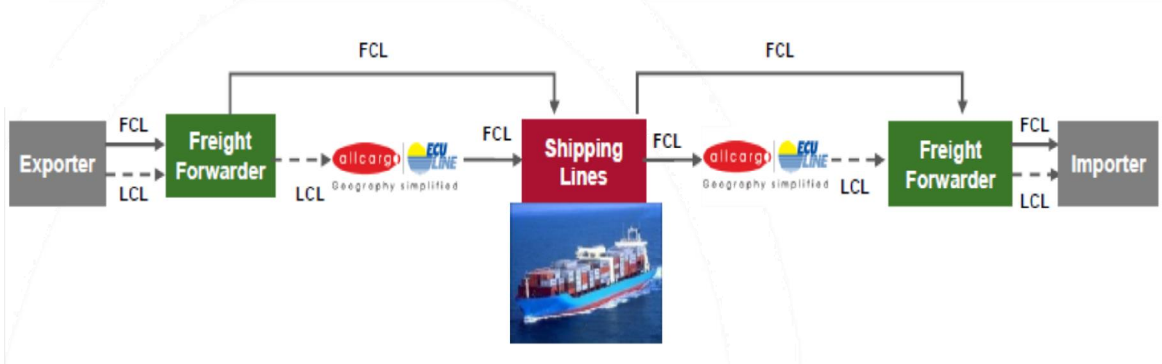
Source: PhillipCapital India Research

Leader in LCL consolidation

Allcargo has emerged as the pioneers and leader in Less than Container load (LCL) cargo consolidation in India and has emerged as second largest player globally with successful acquisitions. The business involves NVOCC (Non Vessel Owning Common Carrier) operations related to LCL (Less than container Load) consolidation and FCL (Full Container Load) forwarding activities. Allcargo receives cargo from various freight forwarders and books FCL space on various shipping lines. Cargo for each destination consolidated into containers at bonded warehouses to be shipped to either final destination or to hub ports from where it is transshipped to final destination. It actively liaise with shipping lines, port agents, local carriers and others for movement of shipments and air cargo, taking on the responsibility of safe and time-bound deliveries.

It has built a strong global network of customers, offices, agents and Partners. The company has strengthened into FCL freight-forwarding through acquisition of FCL Marine, a Netherlands based FCL freight-forwarding company mainly focused on Europe, USA and Canada trade. Allcargo is planning to leverage expertise of FCL marine to provide FCL services to its existing clients other regions.

NVOCC business operation flow



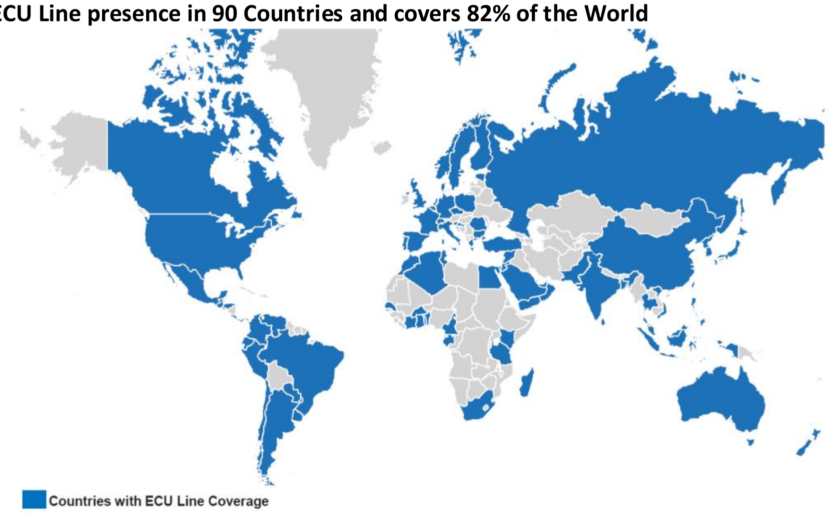
Source: Company

The MTO operations are backed by a strong international network with 200+ owned offices in 90 countries. The wide geographical presence and network across the globe helps Allcargo to generate higher volumes. It has built a strong relationship with most of the leading carriers/liners and as a result is able to obtain competitive commercial terms and operational advantages. MTO business is more resilient in downturn as full load container business shift to less than container load. The company enjoys better relationship with shipping line and freight forwards and is able to get significant volume discount from shipping lines for container movement.

Proven Track-record of Acquisition and Turn-around

In June 2006, Allcargo acquired Belgium-based ECU Line, a global multinational and a world leader in consolidation and NVOCC operations, headquartered in Antwerp. Allcargo was associated with ECU Line since 1995 and was using its network for carriage of goods to various destinations across the world. The company first took a 34% stake in ECU in mid-2005, raised this to 50% in January 2006, and eventually to 100% in June 2006. The acquisition has helped the company to grow ~5x with a global presence. Operational excellence and effective cost management helped reduce costs, thereby improving ECU's operating margins (ECU Line's EBITDA margins expanded by ~400 bps to ~5.5% between CY05 to Q3FY15), showing the strength in management capabilities in integration of the large business.

ECU Line presence in 90 Countries and covers 82% of the World



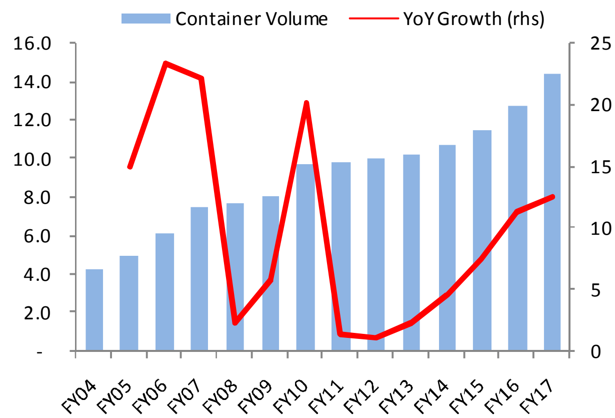
Source: Company

After the success of the ECU acquisition, Allcargo acquired two NVOCC operators in China in 2010 with extensive operations in Hong Kong, China, and other parts of the eastern world. The company strengthened its presence in USA with acquisition of Econocaribe Consolidators in 2013. Econocaribe is 3rd largest NVOCC in the US with 9 offices and 22 receiving locations in the US and Canada. Acquisitions have helped company to expand and consolidate network, gain footprint in major economies of the world and add more product lines for customers. It acquired FCL Marine Agencies in 2013 which is NVOCC service provider in Full Container Load (FCL) segment in Europe, USA and Canada extending company's business to FCL.

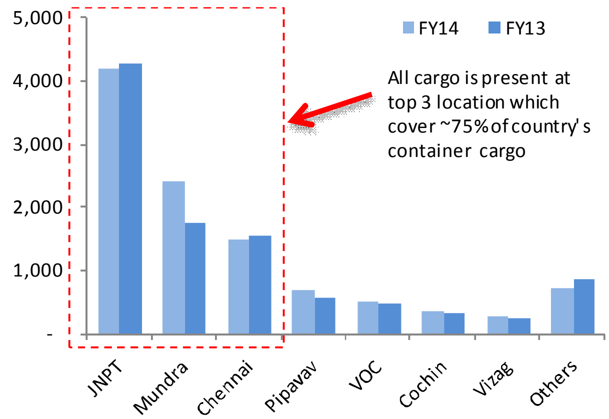
CFS operations- play on growing containerization

CFS/ICDs are the critical link in container logistics and expect to benefit from secular growth in containerized cargo in India. Container traffic has remained one of the highest growing cargoes in India historically, with a GDP multiplier of around 1.5x. This segment's operations involve import/export cargo stuffing, de-stuffing, customs clearance and other related ancillary services to both importers and exporters.

Container remains attractive cargo in India



Container cargo volume at Indian Ports (000 TEU)



Source: Indian Ports Association, PhillipCapital India Research Estimates

The break-bulk cargo (non-containerized) is typically moved by containers due to lower costs and ease of handling. Globally, around 85% of break-bulk cargo is moved by containers while in India the figure is around 50-52%. Growing containerization of cargo has brought about: (1) a significant re-organization of port terminal services, (2) demand for highly sophisticated handling equipment, and (3) demand for an inland and costal logistics network. The main containerized cargoes are garments, electronic goods, agro products, cotton yarn, machinery/parts, granite products, coir products, leather products, and jute products. Goods that were not containerized until now are now being transported by containers (tea, newsprint, rice, maize, glass, granite, garnet sand, soya, cement, and flowers) due to its innumerable advantages over break-bulk cargo transport.

Allcargo has leveraged its relationships with freight forwarders and major shipping lines by entering into CFS. It has presence at key container ports of the country (JNPT, Chennai, and Mundra) that collectively handle more than 75% of India's container cargo. It has utilized ~50% of land at its second CFS at JNPT; this offers an opportunity to double capacity as demand picks up. It also has a land bank of more than 200 acres across three strategic locations (Hyderabad, Bangalore, and Nagpur), which can be developed for ICD and multimodal logistic parks. The CFS business mostly caters to the import container traffic which has higher profitability per TEU on account of the storage collections being higher compared to export. Current capacity utilization of CFS facilities is around ~65% and economic recovery would provide significant upside in profits from this segment. Allcargo is uniquely placed to benefit from growing international trade and a shift to containerized cargo from bulk with synergy in MTO business.

Project and Engineering Solutions

This segment provides integrated end-to-end project, engineering, and logistics services through a diverse fleet of owned/rented special equipment (such as cranes, hydraulic axles, barges reach-stackers) to carry ODC/OWC cargo (Over Dimensional/Over Weight) as well as project-engineering solutions. It owns cranes up to 750 tons in capacity that are used in industrial manufacturing and infrastructure sectors such as power, oil and gas refineries, wind energy, steel, cement etc. It has developed in-house repairs and maintenance (R&M) division to efficiently manage all types of R&M of its fleets where-ever deployed. Allcargo has entered into an alliance with Netherlands based Mammoet to provide crawler lattice boom cranes from 1,000 ton up to 5,000 ton besides technical support for erection and lift plan. It also has partnership with Germany based Hansa Heavy lift for project cargo business and Sweden based SCANIA for utilizing heavy transport trailers on operating lease.

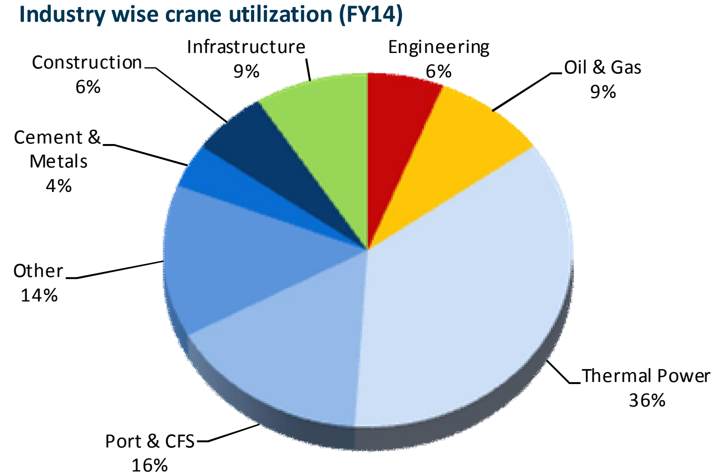
Infrastructure led growth especially in sectors like oil & gas, steel, cement and power is expected to increase demand for specialized transport solutions. The company has expertise in handling rail, metro rail projects, and transmission and distribution network for power sector, transportation of wind mill equipments and boiler and turbines for power generation.

P&E asset profile (FY14)

Equipment Type	No
Trailers	584
Hydraulic Axles	201
Cranes	143
Forklifts	43
Reach Stackers	36
Prime Mover	20
Ships	3
Dump Barges	2
Girder Bridge	1
Total	**1034**

Source: Company

Industry wise crane utilization (FY14)

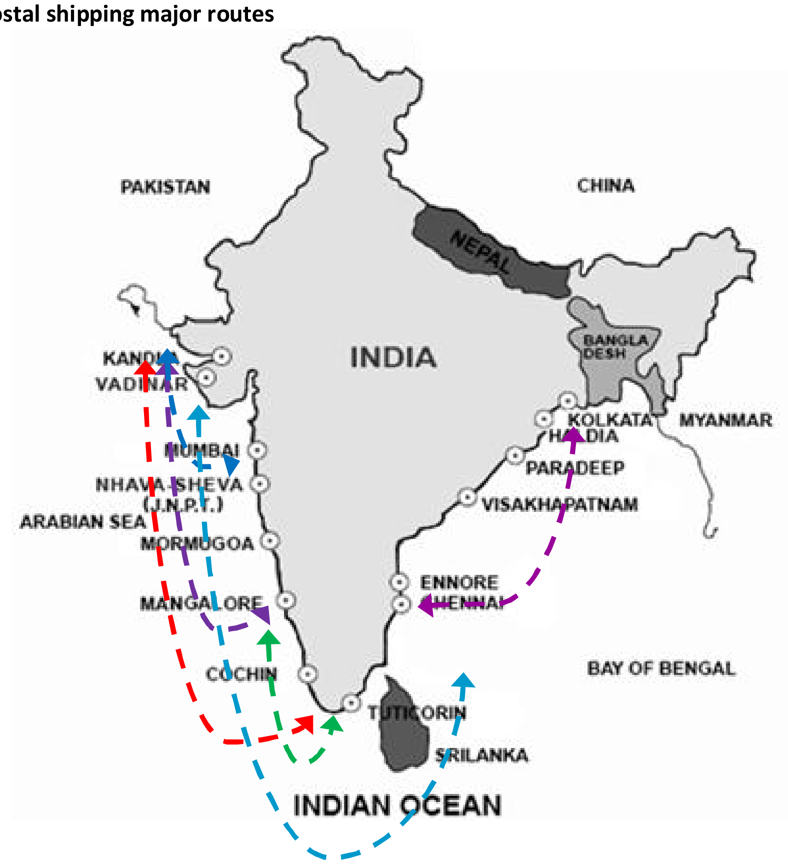


The project & engineering business was impacted due to slowdown in Capex and execution of projects leading to lower revenue realization and lower asset utilization. The crane utilization has improved from 72% in FY14 to ~80% 3QFY15 and ~90% in Feb 2015. The strong order book, new customer addition by offering integrated logistics solutions and pick up in industrial Capex and construction activity should improve profitability for the segment through improved asset utilization.

Shipping division to create new growth market

Allcargo has entered into costal waterway transportation for bulk and break bulk cargo. The government is actively promoting waterways, considering their cost benefit and because they are an environment-friendly mode of transportation as compared to road and railways. India has a 7,500 km coastline, but it has neglected cargo movement; it accounts for only ~7% of domestic cargo compared to 30% in China and ~40% in Europe. In order to increase the share of costal shipping to 15% of total domestic cargo movement, the government has proposed several measures such as: 1) 40% reduction in port duties, 2) dedicated berth for costal shipping at all major ports, 3) financial incentives of Rs 0.50 per ton per km up to 500km for transportation of goods by coastal route, and 4) reduction of taxes on bunker. Allcargo is working with industries to manage heavy cargo through the coastal route. The shipping service is well poised to leverage its expertise to capitalize on the emergence of coastal shipping as the preferred mode of cargo movement across India.

Costal shipping major routes



3PL & Warehousing division

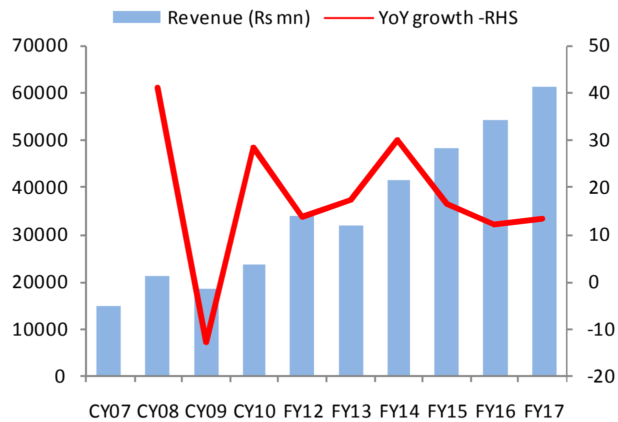
The company has started third party logistics and warehousing as long term strategy to provide full service play in the logistics. The division specializes in providing services such contract warehousing, order fulfillment, distribution and warehousing management as well as value added services. It is currently focused on five industries Viz Automobiles, Chemicals, Electronics, Healthcare and Industrials. The division provides services through its network of strategically located warehouses across India including, Mumbai (Bhiwandi), Goa, Indore, Hosur and Chennai. Allcargo also has land bank of nearly 200 acres for facilities across Nagpur, Hyderabad and Bangalore providing opportunity to set up multimodal logistic parks in future.

The Indian logistics sector is expected to grow by 10-12% annually, driven by changing tax regime, growth across major industries such as automobile, pharmaceutical, and FMCG, and emergence of organized retail. With increasing competition and cost pressure, companies are focusing on their core competencies by outsourcing their logistics requirement to third-party logistics (3PL) players. Organized retail in India has been growing at ~30% per annum and has created demand for specialized logistics and warehousing services. The government's focus on developing the country as a manufacturing hub by promoting industrial corridors, smart cities, and costal clusters, will create opportunities for logistic players. Allcargo offer production supply logistics, distribution and sourcing logistics as well as reverse logistics. It is expected to benefit from increased outsourcing of logistics by corporate to optimize their needs.

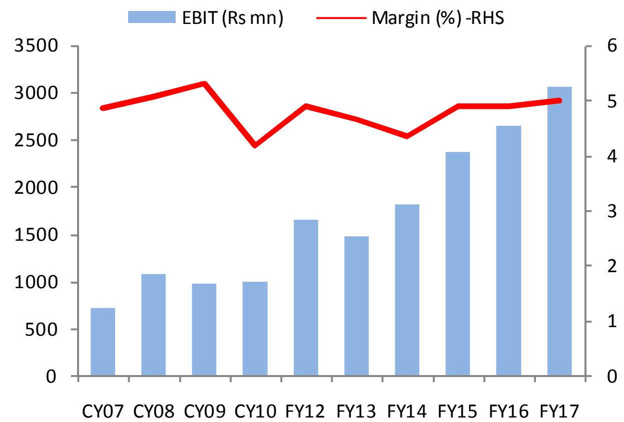
Financials

MTO business is expected to see a CAGR of 14% to Rs 61.4bn over FY14-FY17, contributing to 83% of total revenue. The volume growth is estimated at 15% CAGR from 0.33mn TEU in FY14 to 0.51mn TEU in FY17. EBITDA margins in MTO segment is expected to improve by 50bps from 5% in FY14 to 5.5% in FY17 and EBIT margins by 60bps from 4.4% in FY14 to 5% in FY17.

MTO 14% CAGR revenue growth



EBIT margin to improve by 60bps

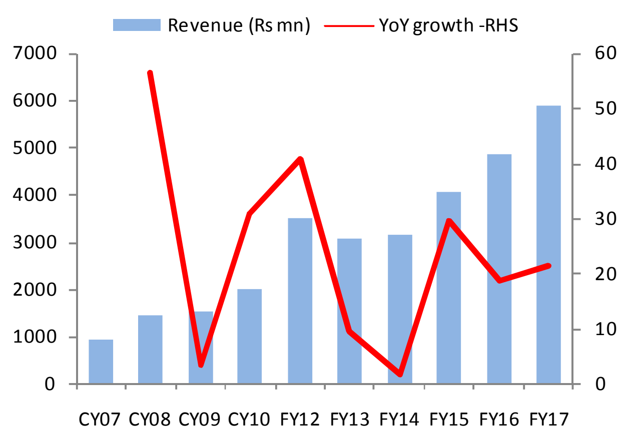


Note: Growth is adjusted for 12 month revenue in FY12

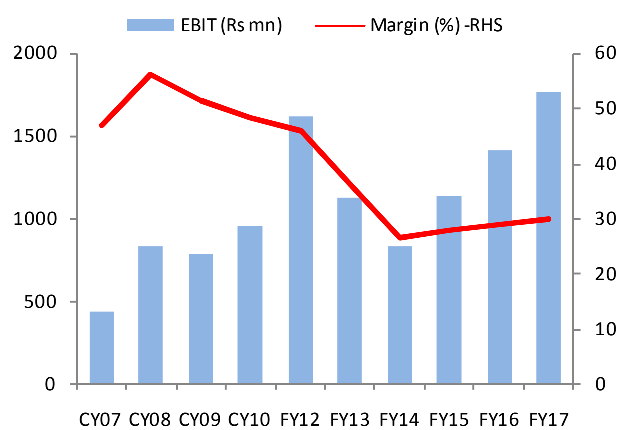
Source: Company, PhillipCapital India Research Estimates

CFS business has reported revenue growth of 22% CAGR to Rs 3.15bn over CY07-FY14 on capacity addition and realization growth. We have assumed revenue CAGR of 23.2% to Rs 5.9bn in FY14-17, considering volume pick up in second terminal at JNPT. The overall margins in CFS business have been impacted with increased competition and slowdown in India's Exim trade. EBITDA margins have come down from ~50-60% in CY06-CY09 to ~33-40% in FY14 at three major CFS (Mumbai, Chennai and Mundra). The lower initial volumes at second terminal at JNPT and ICD at Kheda also impacted the operating margins for CFS over FY12-14. The average realization has increased from Rs 8,299 per TEU at three CFS in CY08 to Rs 14,294 per TEU in FY14. Despite fall in margins, the company has been able to grow EBITDA per TEU from Rs 4,966 in CY08 to Rs 5,341 in FY14 at three CFS. We believe margins have bottomed out for CFS, and profitability could see recovery as volumes pick up.

CFS revenue growth of 22% CAGR



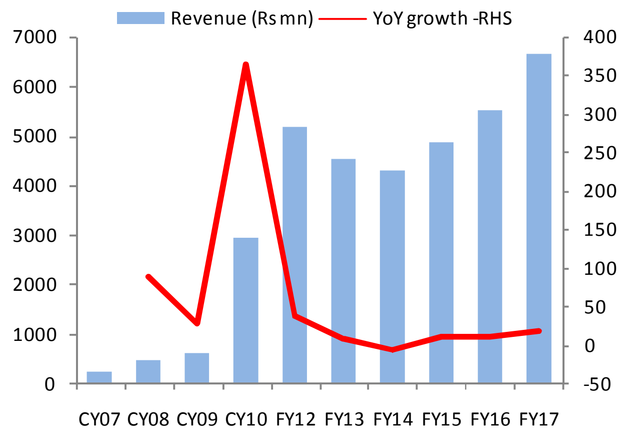
Margins bottoming out in FY14



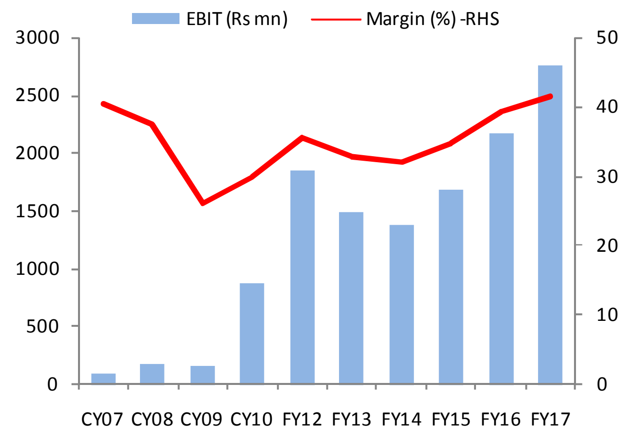
Source: Company, PhillipCapital India Research Estimates

Project business revenue CAGR was 60% to Rs 4.32bn over CY07-FY14, contributing ~10% to total revenue. The revenue from equipment leasing is mainly dependent on industrial activities and was impacted in the past three years. The company had seen a pickup in demand for P&E with utilization rates increasing from 72% in FY14 to ~90% in February 2015. The economic recovery is expected to improve asset turnover in segment to ~0.7x in FY17 from 0.4x in FY14, improving return ratios for the company (considering high operating leverage). Allcargo is aggressively looking into costal shipping opportunities providing logistic solution to diversified cargo. We expect fleet addition in costal business and revenue contribution of Rs 1.1bn in FY17.

P&E revenue growth of 15.4% CAGR



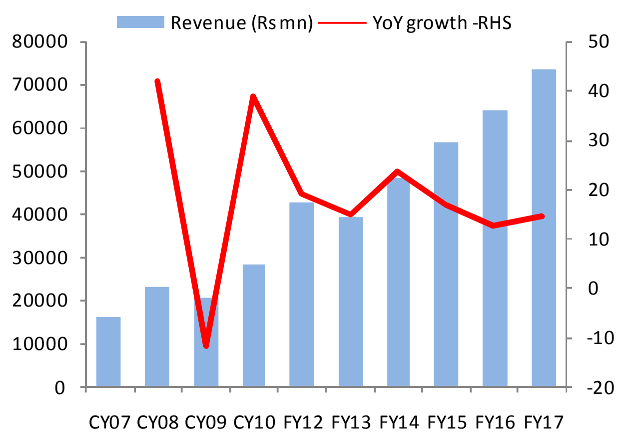
Strong margin recovery expected



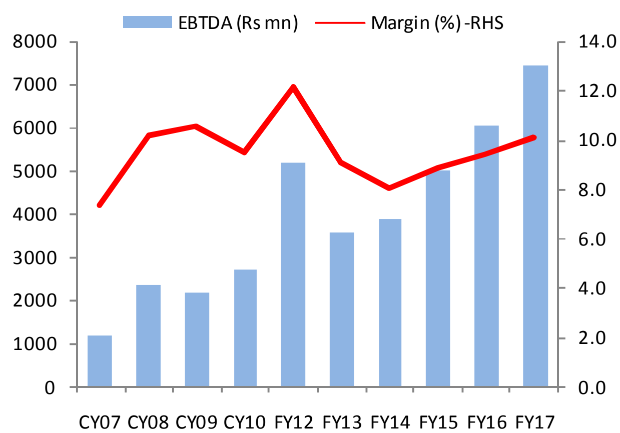
Source: Company, PhillipCapital India Research Estimates

In CY06-FY14, the company has seen consolidated revenue CAGR of 27% to Rs 48.5bn from Rs 8.9bn, EBITDA CAGR of 25% to Rs 3.9bn, and net profit CAGR of 14% to Rs 1.3bn. Over FY14-17, we expect (1) revenue to see a CAGR of 15% to Rs 75.35bn, (2) operating leverage in project and CFS business, along with operational efficiency in MTO to drive EBITDA CAGR of 24% to Rs 7.44bn, and (3) margin recovery of 210bps to 10.1%.

Consolidated revenue growth trend



Margin recovery of 210bps to 10.1%

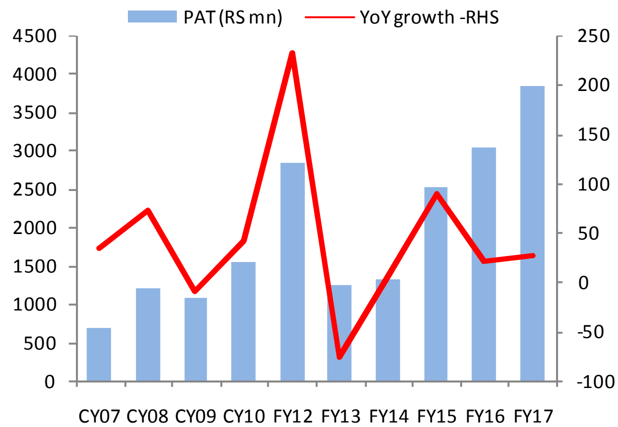


Source: Company, PhillipCapital India Research Estimates

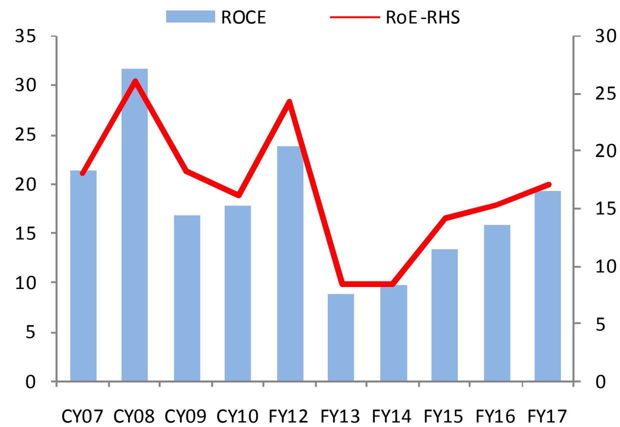
Net profit should see a CAGR of 42% to Rs 3.84bn in FY17 from Rs 1.33bn in FY14, considering strong recovery in operating margins and de-leveraging of balance sheet. The return on capital declined to 7.3% in FY14 from 19.8% in CY08, with expansion in

P&E and CFS business. We expect the recovery in asset utilization in these businesses, along with operation improvement in MTO, to improve return ratios to 17% (pre tax RoCE) in FY17.

Consolidated PAT CAGR of 42% FY14-17



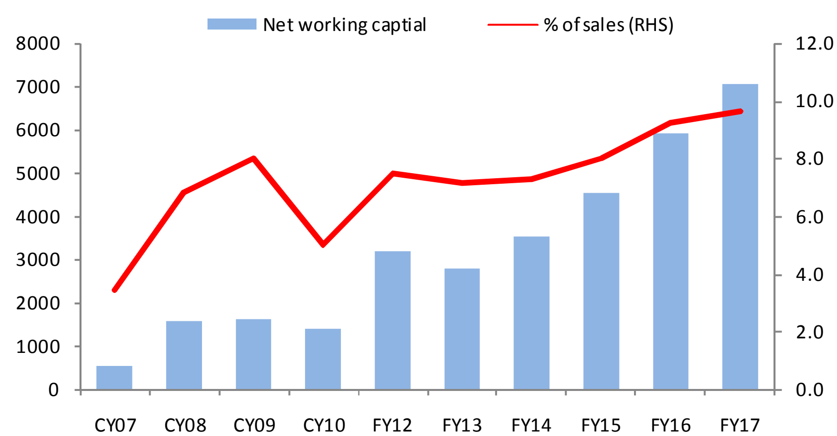
Return ratios to improve



Source: Company, PhillipCapital India Research Estimates

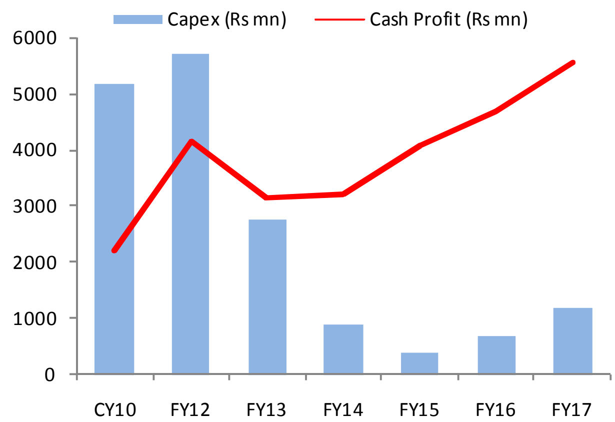
The MTO and CFS businesses are mostly cash-and-carry and have low working capital requirements. Despite assuming higher working capital in P&E, the company can comfortably meet requirements. We expect it to generate cash profit of ~Rs 10.3bn over the next two years (FY16-17) and it has completed major capital expenditure. The regular maintenance capital expenditure is ~Rs 250-300mn; we have assumed additional capex in costal shipping and 3PL warehousing. With strong cash flow, the company would be debt free over the next two years, with sufficient room for inorganic growth.

Net working capital (ex-cash) remains low

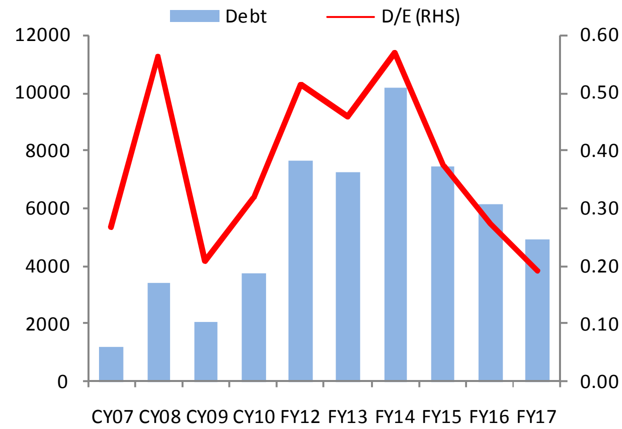


Source: Company, PhillipCapital India Research Estimates

Strong cash flow to fund capital expenditure



De-leveraging of balance sheet

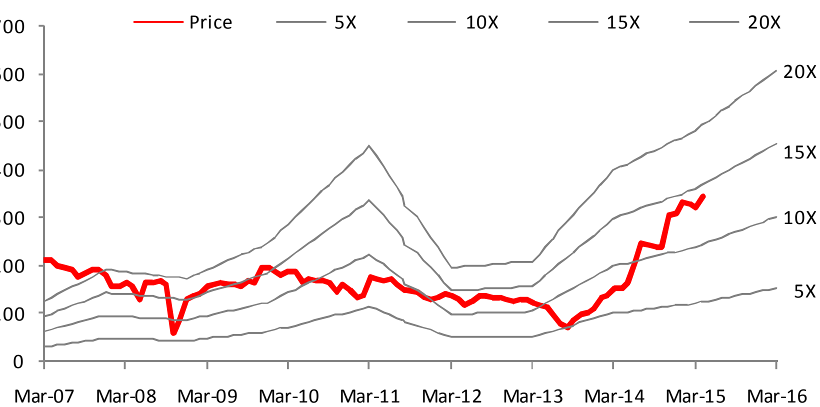


Source: Company, PhillipCapital India Research Estimates

Valuation

At CMP of Rs 315, the stock is trading at 10.3x FY17 earnings of Rs 30.4 and P/BV of 2.2x FY14. On EV/EBITDA, it trades at 5.5x FY17. We believe with its presence across the critical value chain in logistics, Allcargo would be a major beneficiary of increased global trade and recovery in domestic industrial activity. We initiate coverage with a BUY rating and assign a P/E of 15x FY17 EPS to arrive at a target price of Rs 455.

1 yr forward P/E trend



Source: PhillipCapital India Research Estimates

Quarterly Results

Rs mn	1QFY14	2QFY14	3QFY14	4QFY14	1QFY15	2QFY15	3QFY15
Revenue	**9804**	**10719**	**15164**	**12826**	**13206**	**14617**	**14317**
% YoY	0.5	5.7	55.9	34.3	34.7	36.4	-5.6
Operating expenses	6846	7411	10864	9051	9157	10376	9894
Staff Cost	1438	1633	2182	2023	2051	2129	2196
Other Expenditure	642	714	1081	777	817	935	903
Total Cost	8925	9757	14128	11851	12025	13439	12993
EBIDTA	**879**	**962**	**1036**	**975**	**1181**	**1178**	**1324**
% YoY	-25.2	-17.2	16.7	42.0	34.4	22.5	27.7
% QoQ	28.0	9.4	7.8	-5.9	21.1	-0.2	12.4
% margins	9.0	9.0	6.8	7.6	8.9	8.1	9.2
Depreciation	336	326	332	419	427	391	372
Interest	105	107	188	163	164	141	140
Other Income	119	81	127	39	83	147	117
PBT	**556**	**610**	**643**	**432**	**673**	**793**	**928**
Tax	167	131	141	-23	159	132	180
%	30.1	21.5	21.9	-5.3	23.6	16.6	19.4
Current	144	124	105	1	176	164	163
Differed	53	26	67	-7	-17	3	20
MAT Entitlement	-30	-19	-31	-17	0	-35	-3
PAT	**388**	**479**	**503**	**455**	**514**	**661**	**748**
Less Minority interest	21	26	6	0	24	25	24
PAT	**367**	**453**	**497**	**455**	**490**	**636**	**724**
% YoY	-40.6	-34.2	1.0	134.9	33.4	40.4	45.7
Extraordinary	19.3	-32.1	73.3	-341	0	0	0
Reported PAT	387	421	570	114	490	636	724
EPS (Rs)	**3.5**	**3.6**	**3.9**	**3.6**	**3.9**	**5.0**	**5.7**
Segmental Results							
MTO	8111	8982	13372	11020	11309	12500	12101
CFS	723	824	825	777	907	1021	1059
P&E	1022	1013	1072	1073	1165	1267	1322
Others	95	80	91	76	78	70	93
Less: Inter segment	147	180	196	121	254	240	258
Net Income Operations	9804	10719	15164	12826	13206	14617	14317
MTO	366	412	472	419	502	557	613
CFS	208	259	258	199	244	246	309
P&E	210	45	152	-279	75	168	170
Other Unallocated	4	0	3	9	7	2	6
Total EBIT	**788**	**715**	**885**	**347**	**828**	**974**	**1097**
EBIT margins (%)							
MTO	4.5	4.6	3.5	3.8	4.4	4.5	5.1
CFS	28.8	31.4	31.3	25.6	26.9	24.1	29.2
P&E	20.5	4.5	14.2	-26.0	6.4	13.3	12.9

Source: Company

Business Risks

- The company derives around 83% revenue from MTO which is linked to global container movement. CFS/ ICD business is affected by the rise and fall in the levels of imports and exports through container in India.

- Pricing in NVOCC business is linked to shipping rates which are essentially a pass through and impact revenue and absolute profitability for the company.

- The global operations for the company have significant exposure to currency volatility leading to currency translation impact on financials.

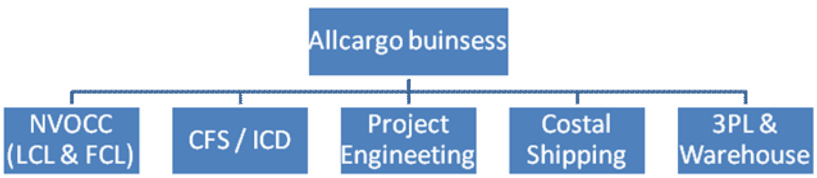
- The growth in Costal cargo movement would depend on Government policy and fiscal incentives. The company need to develop new markets for ships as business is at nascent stage in India. The growth in 3PL is dependent on implementation of GST.

- The delay in utilization of land bank and pick up in P&E business will continue to impact return ratios for the company.

Company Background

The Company was promoted by Mr. Shashi Kiran Shetty in 1993 as a shipping agency house and provided freight forwarding services as All Cargo Movers (India) Private Limited. The name of the company was changed to Allcargo Global Logistics Private Limited in December, 2005. Allcargo is now part of the global conglomerate Avvashya Group, which provides integrated logistics services. It invested in CFS and ICD to complement its LCL business in India as well as to capitalize on growing containerization and Exim trade. Allcargo is also one of India's largest project logistics and equipment service providers and operates a fleet of over 1,000 equipment, three general cargo ships for coastal shipping, and has strategically located warehouses for 3PL and warehousing services.

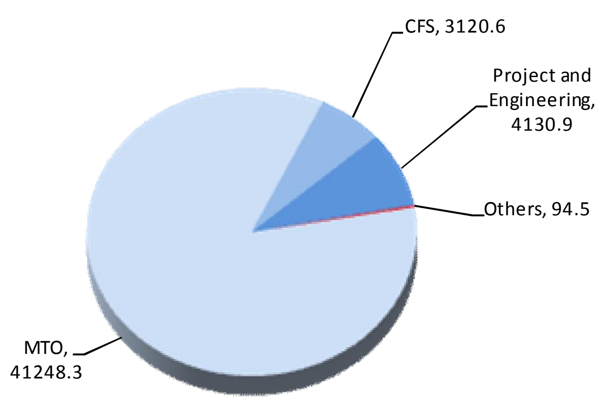
Allcargo business operations



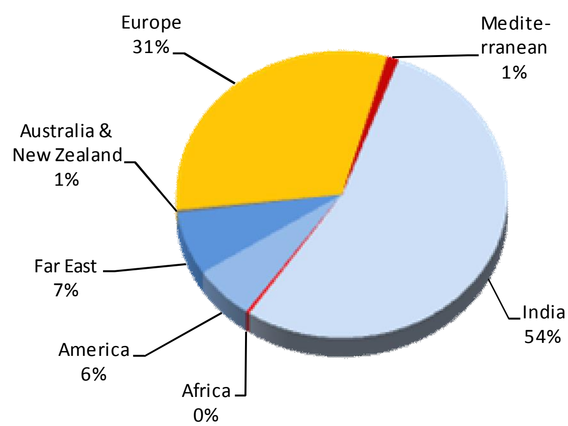
Source: Company, PhillipCapital India Research

The Company offers specialized logistics services across Multimodal Transport Operations (MTO), Container Freight Station Operations (CFS) and Project & Engineering Solutions (P&E). It is also scaling up costal cargo movement and 3PL, warehousing businesses. The Company currently operates out of 200 plus offices in 90 plus countries and gets supported by larger network of franchisee offices across the world. It reported revenue of Rs 49.2bn in FY14 with 84.3% contribution from MTO division while Project and CFS division contributed 8.8% and 6.5% respectively

Revenue mix FY14



Region wise revenue mix (FY14)



Source: Company, PhillipCapital India Research

Successful M&A Strategy

ECU Line (2005-06)	One of the Largest NVOCC in the World and 4 times larger than Allcargo, at the time of acquisition
Hindustan Cargo (2006)	Former subsidiary of Thomas Cook and leading company of India, engaged in air freight forwarding and custom clearance
2 NVOCC Operators in China (2006)	With extensive operations in Hong Kong , China and other parts of the eastern region
MHTC Logistics (2012)	Leading company engaged in engaged in project logistics and freight forwarding
Econocaribe Consolidators (2013)	3rd largest NVOCC in the US with 9 offices and 22 receiving locations in the US and Canada
FCL Marine Agencies (2013)	Leading neutral NVO service provider in Full Container Load segment in Europe, USA and Canada

Source: Company, PhillipCapital India Research

MTO Business

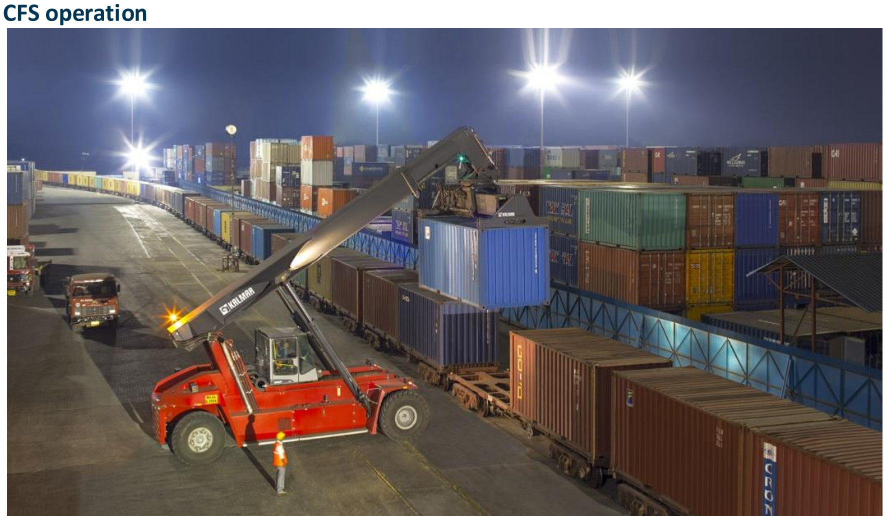
Allcargo's Multimodal Transport Operations comprises NVOCC which constitutes LCL, FCL and other value added services. LCL consolidation business is a major contributor to its revenue and caters to EXIM traffic across the world. With a network across 90-plus countries and 200-plus offices, LCL services covers over 82% of the world and connect over 4,000 port pairs globally.

Allcargo receives Less-than-Container-Load (LCL) cargo from various freight-forwarders. Cargo for each destination is consolidated into containers at bonded warehouses, to be shipped to either final destination or to hub ports from where it is trans-shipped to final destination. After consolidating the LCL cargo into Full-Container-Load (FCL) consignments, Allcargo forwards the consignments to shipping lines for transportation to the final destination. With global leadership in LCL, Allcargo is also focused on spearheading the FCL portfolio of services. In the LCL Consolidation business, the company expanded operations by organic or inorganic route. It acquired two companies in China for Rs 1.2bn to benefit from export from China through Eculine network. It has acquired Econocaribe Consolidators for USD 50mn in 2013. Econocaribe started is in 1971 is a NVOCC specialized in freight consolidation with receiving terminals located throughout the United States providing services to over 125 destinations throughout Latin America, Caribbean, Europe, Mediterranean, Middle East, Africa and Asia. It is licensed to store bonded cargo and also specializes in the handling and storage of green coffee and has 500,000 square feet of warehouse space in Miami, Florida. It is the largest LCL consolidator in the Caribbean and Latin American markets and offer air freight services to the Caribbean, Latin America and other worldwide destinations.

CFS / ICD Operations

CFS and ICD division is largely dependent on EXIM container traffic in India and CFS facilities are located at the three main Indian ports (JNPT, Chennai and Mundra). The CFS caters mainly to the Import container traffic, which has a higher profitability per TEU on account of the storage collections being higher, compared to Export.

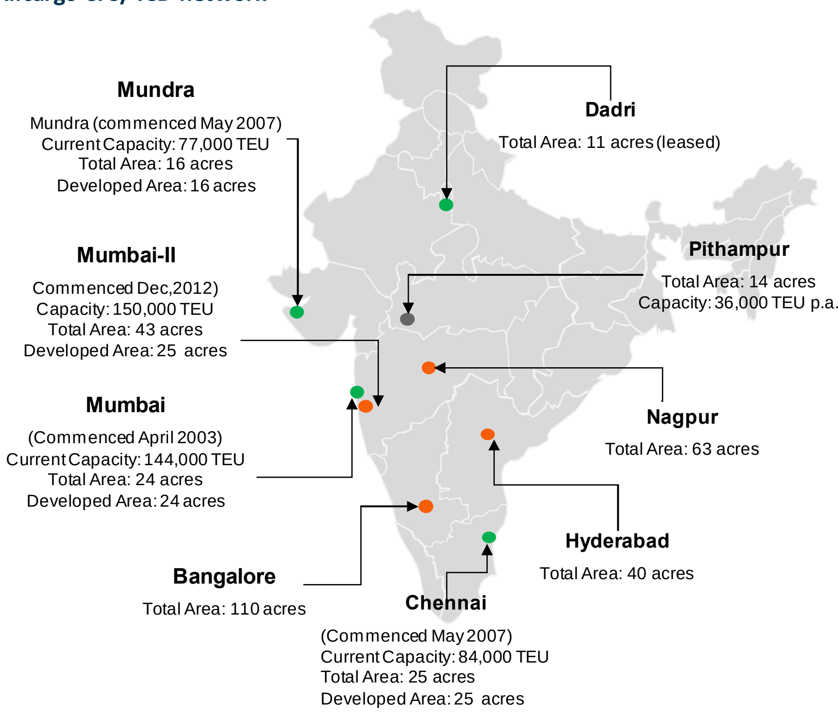
CFS operation



Source: PhillipCapital Research

CFS facilities provide a one-stop shop for storage and clearance of exim container, with all value-added services. Allcargo is one of the leaders in CFS & ICD operations pan India, with six modern facilities across JNPT (Mumbai), Mundra (Gujarat), Chennai, Dadri (near Delhi) and Kheda (Indore) with a capacity to handle 5,73,000 TEUs per annum. CFS infrastructure comprises equipments such as Rubber Tyre Gantry Cranes (RTGC), Reach Stacker, owned fleet of trailers etc. Allcargo was one of the first CFSs to implement RFID technology to track containers providing seamless control and real time information.

Allcargo CFS/ ICD network



Source: Company, PhillipCapital India Research

Project Logistics & Equipment Leasing- Out of box thinking

Allcargo offer services for transportation of high-value specialized equipment such as oilfield, power plants, compressor stations and other over dimensional cargo that cannot be containerized on turnkey basis. Industries it caters to include steel, power, refineries, energy, aluminum, oil and gas, cement, infrastructure, and engineering. Allcargo's project cargo business has the necessary asset portfolio and manpower to deliver challenging projects comprising overseas consignments to India and vice versa.

P&E operates with a fleet of over 1,023 owned equipment, which includes complete range of cranes (crawler, telescopic, truck lattice and all terrain), hydraulic axels & self-propelled modular transporters (SPMTs), strand jacks, trailers (low bed, semi low & high bed), forklifts & reach stackers. The company owns 143 cranes and has been focusing on adding high-capacity cranes, whose demand is projected to rise with a focus on infrastructure. It has tie up with Mammoet and Hansa Heavy Lift for providing services from transportation, to erection, to commissioning of projects. Allcargo has bought three vessels (+ one on lease basis) to leverage on coastal cargo movement.

Its P&E team is one of the most experienced in the industry and has successfully executed projects for BHEL, British Gas, Jindal, Delhi Metro Corporation, Vedanta, and Bombardier.

Allcargo expertise in moving project cargo



Equipment Leasing Operations


Source: Company, PhillipCapital India Research

Financials

Income Statement

Y/E Mar, Rs mn	FY14	FY15e	FY16e	FY17e
Net sales	**48,594**	**56,859**	**64,153**	**73,500**
Growth, %	24	17	13	15
Total income	48,594	56,859	64,153	73,500
Employee expenses	-7,276	-8,622	-9,829	-11,304
Other Operating expenses	-37,405	-43,200	-48,265	-54,751
EBITDA (Core)	**3,913**	**5,036**	**6,059**	**7,446**
Growth, %	9.7	28.7	20.3	22.9
Margin, %	8.1	8.9	9.4	10.1
Depreciation	-1,755	-1,559	-1,648	-1,731
EBIT	**2,159**	**3,477**	**4,410**	**5,714**
Growth, %	3.1	61.1	26.8	29.6
Margin, %	4.4	6.1	6.9	7.8
Interest paid	-563	-637	-535	-437
Other Non-Operating Income	202	445	401	409
Pre-tax profit	**1,798**	**3,285**	**4,276**	**5,686**
Tax provided	-416	-657	-1,112	-1,706
Profit after tax	**1,382**	**2,628**	**3,164**	**3,980**
Others (Minorities, Associates)	-51	-97	-117	-140
Net Profit	**1,331**	**2,531**	**3,047**	**3,840**
Growth, %	6.1	90.2	20.4	26.0
Net Profit (adjusted)	**1,331**	**2,531**	**3,047**	**3,840**
Unadj. shares (m)	126	126	126	126
Wtd avg shares (m)	126	126	126	126

Balance Sheet

Y/E Mar, Rs mn	FY14	FY15e	FY16e	FY17e
Cash & bank	1,647	1,140	2,077	3,659
Debtors	5,715	6,572	7,755	8,919
Inventory	114	149	193	251
Loans & advances	3,861	4,248	4,672	5,046
Other current assets	497	732	874	1,002
Total current assets	11,835	12,841	15,572	18,876
Investments	1,902	2,093	2,511	3,013
Gross fixed assets	37,927	38,327	39,027	40,227
Less: Depreciation	-15,442	-17,001	-18,649	-20,381
Add: Capital WIP	77	78	80	81
Net fixed assets	22,562	21,404	20,458	19,928
Total assets	**36,299**	**36,338**	**38,541**	**41,817**
Current liabilities	6,044	6,486	6,861	7,364
Provisions	602	662	728	801
Total current liabilities	6,645	7,148	7,589	8,165
Non-current liabilities	11,259	8,690	7,735	7,051
Total liabilities	17,904	15,838	15,324	15,216
Paid-up capital	252	252	252	252
Reserves & surplus	17,679	19,687	22,288	25,533
Shareholders' equity	18,395	20,500	23,217	26,602
Total equity & liabilities	**36,299**	**36,338**	**38,541**	**41,817**

Source: Company, PhillipCapital India Research Estimates

Cash Flow

Y/E Mar, Rs mn	FY14	FY15e	FY16e	FY17e
Pre-tax profit	1,798	3,285	4,276	5,686
Depreciation	1,755	1,559	1,648	1,731
Chg in working capital	-729	-1,010	-1,353	-1,147
Total tax paid	-314	-493	-770	-1,137
Cash flow from operating activities	**2,509**	**3,341**	**3,801**	**5,133**
Capital expenditure	-5,887	-402	-702	-1,202
Chg in investments	-43	-190	-419	-502
Cash flow from investing activities	**-5,930**	**-592**	**-1,120**	**-1,704**
Free cash flow	-3,421	2,749	2,681	3,430
Equity raised/(repaid)	827	80	100	150
Debt raised/(repaid)	2,963	-2,733	-1,297	-1,253
Dividend (incl. tax)	-371	-372	-447	-596
Cash flow from financing activities	**3,398**	**-3,025**	**-1,644**	**-1,698**
Net chg in cash	-24	-276	1,037	1,731

Valuation Ratios

	FY14	FY15e	FY16e	FY17e
Per Share data				
EPS (INR)	10.6	20.1	24.2	30.5
Growth, %	6.1	90.2	20.4	26.0
Book NAV/share (INR)	142.3	158.2	178.8	204.6
FDEPS (INR)	10.6	20.1	24.2	30.5
CEPS (INR)	24.5	32.4	37.3	44.2
CFPS (INR)	18.3	23.0	27.0	37.5
DPS (INR)	2.5	2.5	3.0	4.0
Return ratios				
Return on assets (%)	5.3	8.4	9.4	10.6
Return on equity (%)	7.4	12.7	13.5	14.9
Return on capital employed (%)	6.3	10.1	11.4	12.9
Turnover ratios				
Asset turnover (x)	2.0	2.1	2.4	2.7
Sales/Total assets (x)	1.5	1.6	1.7	1.8
Sales/Net FA (x)	2.4	2.6	3.1	3.6
Working capital/Sales (x)	0.1	0.1	0.1	0.1
Fixed capital/Sales (x)	0.5	0.4	0.3	0.3
Receivable days	42.9	42.2	44.1	44.3
Inventory days	0.9	1.0	1.1	1.2
Payable days	38.1	35.5	33.6	31.9
Working capital days	31.1	33.5	37.7	39.0
Liquidity ratios				
Current ratio (x)	2.0	2.0	2.3	2.6
Quick ratio (x)	1.9	2.0	2.2	2.5
Interest cover (x)	3.8	5.5	8.2	13.1
Dividend cover (x)	4.2	8.0	8.0	7.6
Total debt/Equity (%)	57.0	37.5	27.4	19.1
Net debt/Equity (%)	47.8	31.8	18.2	4.9
Valuation				
PER (x)	29.8	15.7	13.0	10.3
PEG (x) - y-o-y growth	4.9	0.2	0.6	0.4
Price/Book (x)	2.2	2.0	1.8	1.5
Yield (%)	0.8	0.8	1.0	1.3
EV/Net sales (x)	1.0	0.8	0.7	0.6
EV/EBITDA (x)	12.4	9.2	7.2	5.5
EV/EBIT (x)	22.4	13.3	9.9	7.2

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