Angel Broking™
Service Truly Personalized

February 7, 2011

Allcargo Global Logistics

Performance Highlights

Y/E Dec (₹ cr)	4QCY10	4QCY09	%yoy	3QCY10	%qoq
Revenues	704	559	25.9	704	*(0.0)*
EBIDTA	77	42	82.0	78	*(1.4)*
OPM margin (%)	*10.9*	*7.6*	*338bps*	*11.1*	*(16)bps*
PAT	42	18	133.6	57	*(26.1)*

Source: Company, Angel Research

Allcargo Global Logistics (AGL) reported its consolidated 4QCY2010 results, which were in line with our expectations. ECU line continued its strong performance and registered yoy revenue growth of 35%, while reporting profit of ₹17.2cr v/s a loss of ₹2.3cr in 4QCY2009. Further, management has indicated that it has planned a capex of ~₹250cr for CY2011. On the bourses, the stock has grossly underperformed since the last one year owing to subdued performance by ECU Line; however, the subsidiary has been gaining traction since the last two-three quarters. **Hence, we maintain a Buy on the stock.**

ECU Line drives profitability: AGL reported broadly in-line consolidated revenues on the back of strong performance across segments. ECU line continued its robust performance and registered yoy revenue growth of 35% and net profit of ₹17.2cr (up 18.6% qoq) as against loss of ₹2.3cr in 4QCY2009, justifying our call of sustainable recovery in margins. The Indian MTO and CFS business grew 12.7% and 37.1% yoy respectively, on strong volumes owing to improving Exim visibility. Further, Hindustan Cargo reported 18% yoy growth in revenues. Overall, OPM stood at 10.9% (up 338bp yoy and flat qoq), while ECU Line recorded OPM of 5.9% (up 100bp yoy and down 27bp qoq). Consequently, consolidated operating profit grew 82% yoy to ₹77cr. During the last quarter, the company re-assessed useful life of its cranes, which resulted in lower depreciation by ₹2cr during 4QCY10. Consequently, PAT came in at ₹41.9cr, up 133.6% yoy though marginally below our estimate of ₹45.8cr.

Outlook and Valuation: We believe AGL is well positioned in the container segment through its MTO and CFS divisions. We expect the company to register 28.7% CAGR in profit over CY2010-12. At ₹143, the stock is trading at 6.6x CY2012E EPS. We maintain a Buy on the stock, with a Target Price of ₹217, based on10.0x CY2012E EPS.

Key Financials (Consolidated)

Y/E Dec (₹ cr)	CY2008	CY2009	CY2010P	CY2011E	CY2012E
Net Sales	**2,314**	**2,061**	**2,633**	**3,109**	**3,584**
% chg	*43.4*	*(10.9)*	*27.8*	*18.1*	*15.3*
Net Profit	**107.7**	**129.9**	**171.0**	**217.3**	**283.2**
% chg	*49.4*	*20.7*	*31.6*	*27.1*	*30.3*
FDEPS (₹)	**8.2**	**9.9**	**13.1**	**16.6**	**21.7**
EBITDA Margin (%)	9.5	10.6	10.6	11.6	12.7
P/E (x)	17.4	14.4	10.9	8.6	6.6
RoE (%)	23.1	18.0	16.8	17.2	18.9
RoCE (%)	22.3	15.2	16.7	18.5	21.7
P/BV (x)	3.1	1.9	1.5	1.3	1.1
EV/Sales (x)	0.9	1.0	0.8	0.6	0.5
EV/EBITDA (x)	9.6	9.1	7.3	5.3	4.0

Source: Company, Angel Research

BUY

CMP	₹143
Target Price	₹217
Investment Period	12 Months

Stock Info	
Sector	Logistics
Market Cap (₹ cr)	1,871
Beta	0.5
52 Week High / Low	201/125
Avg. Daily Volume	27,621
Face Value (₹)	2
BSE Sensex	18,037
Nifty	5,396
Reuters Code	ALGL.BO
Bloomberg Code	AGLL@IN

Shareholding Pattern (%)	
Promoters	69.8
MF / Banks / Indian FIs	5.9
FII / NRIs / OCBs	22.1
Indian Public / Others	2.2

Abs. (%)	3m	1yr	3yr
Sensex	(14.1)	13.3	2.9
Allcargo	(11.6)	(24.8)	(2.3)

Param Desai
022 – 3935 7800 Ext: 6823
paramv.desai@angelbroking.com

Mihir Salot
022 – 3935 7800 Ext: 6843
mihirr.salot@angelbroking.com

Exhibit 1: 3QCY2010 performance (Consolidated)

(₹ cr)	4QCY10	4QCY09	%yoy	3QCY10	%qoq
Net sales	704	559	25.9	704	(0.0)
Total expenditure	627	517	21.3	626	0.2
Operating profit	**77**	**42**	**82.0**	**78**	**(1.4)**
OPM (%)	*10.9*	*7.6*	*338bp*	*11.1*	*(16)bp*
Depreciation	18	15	20.5	3	483.4
Interest	6	1	433.0	5	28.4
Other income	6	0	1,462.7	8	(28.7)
Profit before tax	**58.3**	**26.3**	**121.3**	**78.3**	**(25.6)**
Tax	14	2	828.0	17	(18.1)
Tax rate (%)	24.2	5.8	1,846bp	22.0	221bp
MI/EO items	(2)	(7)	(67.6)	(4)	(48.7)
Reported PAT	**41.9**	**18.0**	**133.6**	**56.7**	**(26.1)**
PAT margin (%)	*6.0*	*3.2*	*275bp*	*8.1*	*(210)bp*
EPS (₹)	**3.2**	**1.4**	**133.6**	**4.3**	**(26.1)**

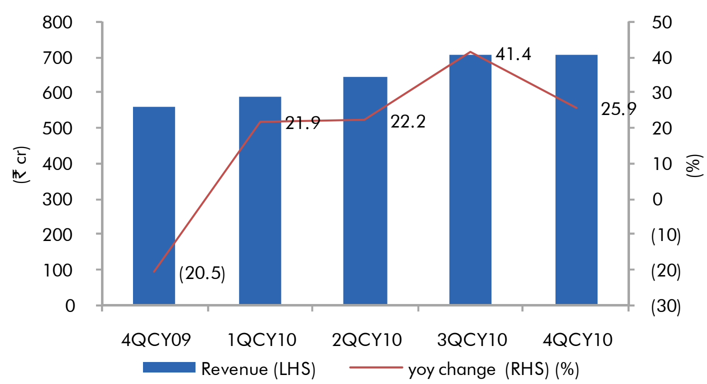
Source: Company, Angel Research

Exhibit 2: Actual v/s estimates

Particulars (₹ cr)	Estimates	Actual	Variation (%)
Net Sales	683	704	3.0
Operating Profit	76	77	1.8
OPM (%)	*11.1*	*10.9*	*(13)bp*
Reported PAT	46	42	(8.5)

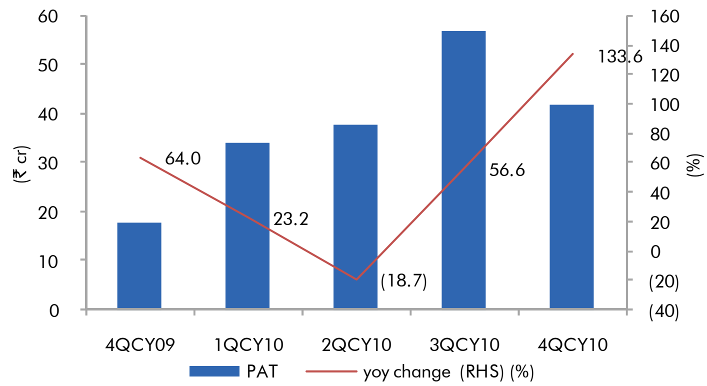
Source: Company, Angel Research

Exhibit 3: Quarterly revenue trend



Source: Company, Angel Research

Exhibit 4: Quarterly profitability trend



Source: Company, Angel Research

CFS volumes continue to show uptick

CFS volumes grew 28.0% yoy (11.7% qoq) led by strong performance at all the three CFSs. Capacity ramp up at the Mundra port over the last two quarters has begun to pay-off as the volume handled increased by 25.9% yoy and 74.2% qoq. Volume growth at the JNPT CFS (up 18.1% yoy) and Chennai CFS (48.7% yoy) has also shown traction in line with revived Exim activity at the respective ports. Although volumes in the domestic MTO segment were down 9.4% yoy, realizations witnessed a strong growth of 24.4% yoy as AGL has begun to pass on increase in freight costs since last quarter. ECU Line registered volume growth of 7.3% yoy to 53,626 TEUs on the back of reviving Exim trade in EU. Management indicated ECU Line to sustain its performance in the ensuing quarters as well.

Exhibit 5: Segment-wise performance

Particulars	4QCY10	4QCY09	%yoy	3QCY10	%qoq
Total volumes	**121,351**	**104,872**	**15.7**	**117,730**	**3.1**
CFS	61,637	48,156	28.0	55,164	11.7
Standalone MTO	6,088	6,720	(9.4)	6,507	(6.4)
ECU Line	53,626	49,996	7.3	56,059	(4.3)
Realisation(₹/TEU)	**51,869**	**45,290**	**14.5**	**50,484**	**2.7**
CFS	9,971	9,311	7.1	8,862	12.5
Standalone MTO	89,643	72,041	24.4	96,303	(6.9)
ECU Line	95,737	76,348	25.4	86,124	11.2

Source: Company, Angel Research

Strong revenue growth across segments; EBIT margins fell for Indian operations on rising freight rates

AGL reported 33.2% yoy revenue growth in PES segment on account of addition of new cranes and strong order book in project cargo business. However, EBIT margins declined 378bp yoy during the quarter despite a revision of useful life of cranes, which resulted in lower depreciation. We expect project cargo to register 25% CAGR in revenues over CY2010-12. Overall, we expect both these high-margin segments to contribute 20% to consolidated revenues from current levels of 10% in CY2012. CFS EBIT margins however, fell by 605bp yoy but increased by 104bp qoq owing to reduction in dwell time. ECU line continued to show an improvement in OPM by 398bp yoy (marginal decline of 30bp qoq) to 5.9% with increasing benefits of outsourcing. MTO margins for Indian operations fell down by 412bp yoy on account of increasing freight rates as company pass on the absolute hike to customers.

Exhibit 6: Segment-wise performance (standalone)

Revenue (₹ cr)	4QCY10	4QCY09	%yoy	3QCY10	%qoq
Total	178	140	27.3	197	(9.5)
MTO	55	48	12.7	63	(12.9)
CFS	61	45	37.1	49	25.7
PES	66	50	33.2	88	(24.6)
Less Inter-segment	(4)	(3)		(3)	
EBIT (₹ cr)					
Total	42	38	10.0	53	(21.6)
MTO	4	6	(25.6)	4	6.8
CFS	28	23	20.9	22	28.7
PES	9	9	5.1	27	(65.7)
EBIT margins (%)					
Total	23.4	27.1	(368)bps	27.0	(361)bps
MTO	8.0	12.1	(412)bps	6.5	147bps
CFS	45.3	51.4	(605)bps	44.3	104bps
PES	14.1	17.9	(378)bps	31.1	(1,692)bps

Source: Company, Angel Research

Investment Arguments

High infra spend to boost project cargo, equipment hire businesses

The Eleventh Five-Year Plan has earmarked a substantial US $500bn for the infrastructure sector, which will lend a boost to the logistics segment and in particular to the project cargo and cranes business. We believe that AGL's high-margin project cargo and equipment hire divisions are well placed to capitalise on the emerging opportunities and post 25% CAGR in revenues over CY2010-12 taking its share to consolidated revenues to 20.0% in CY2012E from current levels of 10%.

Steady performance by MTO and CFS/ICD segments to sustain

AGL is the leader in the MTO segment offering services of full container load (FCL) and less than container load (LCL). It has three operational CFS near the vital ports of JNPT, Chennai and Mumbai, and an ICD at Indore (Pithampur). We expect container traffic to register 15% CAGR over the next five years following addition of new container terminals and improvement in Exim visibility. Management has indicated doubling of capacity at its JNPT CFS by the end of CY2011, which will enhance profitability in the longer term. Recently, AGL commissioned its first road-linked ICD at Pithampur with annual capacity of 30,000 TEU. It also acquired land at Nagpur, Hyderabad, Hosur and Goa for further expansion. The company has also entered into a joint venture (JV) with Hind Terminal for setting up, commissioning, operating and managing the CFS's and ICDs at Indore, Hyderabad, Nagpur and Bangalore. With this JV, we expect AGL to garner Hind Terminal's captive volumes (10 rakes are operating and have plans to add another 10-12 rakes over the next two years) at its respective ICD/CFS. Thus, AGL on account of having a pan-India presence is well-placed to benefit from the growing container traffic.

ECU Line performance holds key for stock performance

The AGL stock has grossly underperformed since the last one year on account of subdued performance by ECU Line. Post the ECU Line acquisition, AGL targeted to improve its OPM by 100bp every year. However, while it managed to register cumulative 150bp improvement in OPMs, net margins have languished over the last three years. This can be attributed to the slowdown in the global economy, which has delayed the integration of ECU with AGL. However, the subsidiary has been gaining traction since the last two-three quarters justifying our call of sustainable recovery. Over the next two years, we expect 100bp improvement in ECU Line's business each year following improvement in the global economy and increasing outsourcing to India.

Outlook and Valuation

We believe that AGL is well positioned in the container segment through its MTO and CFS divisions. Moreover, with the ECU Line acquisition, AGL has the opportunity to scale up its operations globally as well as enhance profit. We believe that going ahead the stock's performance would depend on continued improvement in ECU Line's operational efficiency. We expect the company to register 28.7% CAGR in profit over CY2010-12. At the CMP of ₹143, the stock is trading at 6.6x CY2012E EPS of ₹21.7. **We maintain a Buy on the stock, with a Target Price of ₹217, based on10.0x CY2012E EPS**

Exhibit 7: Comparative Valuation

Company	Reco	Mcap	CMP	TP	*Upside*	P/E (x)		P/B (x)		EV/EBITDA (x)		RoE (%)		CAGR#	
		(₹ cr)	(₹)	(₹)	(%)	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	Sales	PAT
Allcargo*	Buy	1,871	143	217	51.7	8.6	6.6	1.3	1.1	5.3	4.0	17.2	18.9	16.7	28.7
Gateway Distriparks	Buy	1,153	107	123	15.0	13.1	10.6	1.9	1.7	7.3	5.2	12.8	14.6	17.7	17.5
Container Corp	Neutral	15,169	1,167	-	-	17.8	16.7	3.3	2.9	11.8	11.1	18.5	17.4	6.7	8.1

*Source: Company, Angel Research; Note: *Calendar year end, figures for CY2011E and CY2012E; #CAGR over FY2010-12*

Profit & Loss Statement (Consolidated)

Y/E Dec (₹ cr)	CY2008	CY2009	CY2010P	CY2011E	CY2012E
Gross sales	2,314	2,061	2,633	3,109	3,584
Less: Excise duty	-	-	-	-	-
Net Sales	2,314	2,061	2,633	3,109	3,584
Other operating income	-	-	-	-	-
Total operating income	2,314	2,061	2,633	3,109	3,584
% chg	*43.4*	*(10.9)*	*27.8*	*18.1*	*15.3*
Total Expenditure	2,094	1,842	2,354	2,747	3,130
Operating Expenses	1,589	1,305	1,786	2,110	2,413
Administrative & Selling	174	191	181	264	305
Personnel	330	347	387	373	412
Other	-	-	-	-	-
EBITDA	220	219	279	362	454
% chg	*54.6*	*(0.7)*	*27.7*	*29.7*	*25.6*
(% of Net Sales)	*9.5*	*10.6*	*10.6*	*11.6*	*12.7*
Depreciation	45	54	54	62	71
EBIT	175	164	225	300	383
% chg	*49.7*	*(6.3)*	*36.9*	*33.4*	*27.9*
(% of Net Sales)	*7.6*	*8.0*	*8.5*	*9.6*	*10.7*
Interest & other charge	25	23	22	19	10
Other Income	11	29	26	19	14
(% of PBT)	6.6	16.9	11.3	6.2	3.7
Share in profit of asso.	-	-	-	-	-
Recurring PBT	161	169	228	299	387
% chg	*46.6*	*5.3*	*34.8*	*30.8*	*29.6*
Extraordinary exp/(inc)	-	-	-	-	-
PBT (reported)	161	169	228	299	387
Tax	36	26	47	66	85
(% of PBT)	*22.2*	*15.4*	*20.8*	*22.0*	*22.0*
PAT (reported)	121.6	140.7	181.1	233.1	302.0
Add: earnings of asso.	-	-	-	-	-
Less: Minority int. (MI)	(14)	(11)	(10)	(16)	(19)
Prior period items	(4)	(3)	0	-	-
PAT after MI (reported)	107.7	129.9	171.0	217.3	283.2
ADJ. PAT	125.1	143.4	181.0	233.1	302.0
% chg	*55.9*	*14.6*	*26.2*	*28.8*	*29.6*
(% of Net Sales)	*5.4*	*7.0*	*6.9*	*7.5*	*8.4*
Basic EPS (₹)	9.6	10.4	13.1	16.6	21.7
Fully Diluted EPS (₹)	8.2	9.9	13.1	16.6	21.7
% chg	*49.4*	*20.7*	*31.6*	*27.1*	*30.3*

Balance Sheet (Consolidated)

Y/E Dec (₹ cr)	CY2008	CY2009	CY2010E	CY2011E	CY2012E
Sources of funds					
Equity Share Capital	22	25	26	26	26
Share Warrants	29	-	-	-	-
O/S ESOP	2	2	2	2	2
Reserves& Surplus	558	954	1,222	1,431	1,707
Shareholder's Funds	**611**	**981**	**1,249**	**1,459**	**1,735**
Minority Interest	11	13	13	13	13
Total Loans	344	204	304	204	104
Deferred Tax Liability	13	18	18	18	18
Total Liabilities	**980**	**1,217**	**1,585**	**1,695**	**1,871**
Application of funds					
Gross Block	708	924	1,144	1,344	1,494
Less: Acc. dep.	146	205	260	322	393
Net Block	**562**	**719**	**884**	**1,022**	**1,101**
Capital WIP	74	75	75	75	75
Investments	83	167	192	192	192
Current Assets	**567**	**546**	**798**	**811**	**956**
Cash	101	92	127	143	177
Loans & Advances	167	216	324	256	295
Other	299	238	346	412	484
Current liabilities	307	290	364	405	454
Net Current Assets	**260**	**256**	**434**	**406**	**502**
Misc. exp. not w/off	-	-	-	-	-
Total Assets	**980**	**1,217**	**1,585**	**1,695**	**1,871**

Cash Flow Statement (Consolidated)

Y/E Dec (₹ cr)	CY2008	CY2009	CY2010E	CY2011E	CY2011E
Profit before tax	161	169	228	299	387
Depreciation	45	54	54	62	71
Change in Working Capital	(107)	1	(142)	44	(63)
Other Adjustments	22	3	-	-	-
Direct taxes paid	(31)	(42)	(47)	(66)	(85)
Cash Flow from Operations	**89**	**186**	**93**	**340**	**310**
Inc./ (Dec.) in Fixed Assets	(174)	(171)	(220)	(200)	(150)
Inc./ (Dec.) in Investments	(75)	(64)	(25)	-	-
Inc./ (Dec.) in loans & adv	-	-	-	-	-
Acquisition of subsidiary	-	-	-	-	-
Other income	(14)	5	-	-	-
Cash Flow from Investing	**(263)**	**(230)**	**(245)**	**(200)**	**(150)**
Issue of Equity	25	110	105	-	-
Inc./(Dec.) in loans	218	(39)	100	(100)	(100)
Dividend Paid (Incl. Tax)	(5)	(14)	(7)	(7)	(8)
Others	(25)	(23)	(10)	(16)	(19)
Cash Flow from Financing	**213**	**35**	**187**	**(123)**	**(126)**
Inc./(Dec.) in Cash	38	(10)	35	17	34
Opening Cash balances	**63**	**101**	**92**	**127**	**143**
Closing Cash balances	**101**	**92**	**127**	**143**	**177**

Key Ratios

Y/E Dec	CY2008	CY2009	CY2010E	CY2011E	CY2012E
Valuation Ratio (x)					
P/E (on FDEPS)	17.4	14.4	10.9	8.6	6.6
P/CEPS	10.7	10.0	8.0	6.3	5.0
P/BV	3.1	1.9	1.5	1.3	1.1
Dividend yield (%)	1.7	3.5	0.3	0.3	0.3
EV/Sales	0.9	1.0	0.8	0.6	0.5
EV/EBITDA	9.6	9.1	7.3	5.3	4.0
EV / Total Assets	3.5	2.1	1.7	1.2	1.1
Per Share Data (₹)					
EPS (Basic)	9.6	10.4	13.1	16.6	21.7
EPS (fully diluted)	8.2	9.9	13.1	16.6	21.7
Cash EPS	13.3	14.4	17.9	22.6	28.6
DPS	2.5	5.0	0.5	0.5	0.5
Book Value	47	75	96	112	133
Dupont Analysis					
EBIT margin	7.6	8.0	8.5	9.6	10.7
Tax retention ratio	0.8	0.8	0.8	0.8	0.8
Asset turnover (x)	3.3	2.1	2.1	2.1	2.2
ROIC (Post-tax)	19.3	14.1	14.0	15.7	18.6
Cost of Debt (Post Tax)	8.2	7.1	7.2	6.0	5.3
Leverage (x)	0.3	0.3	0.1	0.1	(0.0)
Operating ROE	22.3	15.9	14.8	16.6	18.6
Returns (%)					
ROCE (Pre-tax)	22.3	15.2	16.2	18.5	21.7
Angel ROIC (Pre-tax)	27.1	18.0	18.7	21.2	25.1
ROE	23.1	18.0	16.8	17.2	18.9
Turnover ratios (x)					
Asset Turnover (GB)	3.7	2.5	2.5	2.5	2.5
Inventory / Sales (days)	-	-	-	-	-
Receivables (days)	41	47	40	44	45
Payables (days)	28	30	30	30	31
Wkg. cap. (ex-cash, days)	17	29	33	33	30
Solvency ratios (x)					
Net debt to equity	0.4	0.1	0.1	0.0	(0.0)
Net debt to EBITDA	1.1	0.5	0.6	0.2	(0.2)
Int. coverage (EBIT/Int)	7.0	7.1	10.2	15.4	36.7

Research Team Tel: 022 - 3935 7800 E-mail: research@angelbroking.com Website: www.angelbroking.com

DISCLAIMER

Disclosure of Interest Statement	Allcargo
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors.

Ratings (Returns) :	*Buy (> 15%)*	*Accumulate (5% to 15%)*	*Neutral (-5 to 5%)*
	Reduce (-5% to 15%)	Sell (< -15%)	