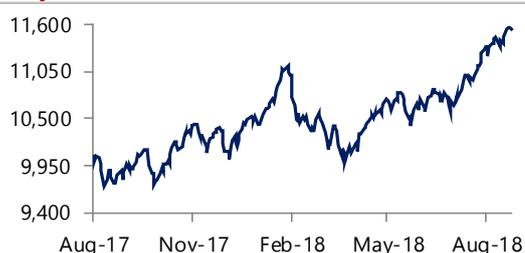


AUGUST 27, 2018

	24-Aug	% Chg			
		1 Day	1 Mth	3 Mths	
Indian Indices					
SENSEX Index	38,252	(0.2)	3.9	10.4	
NIFTY Index	11,557	(0.2)	3.8	9.9	
NSEBANK Index	27,835	(0.7)	3.2	7.0	
NIFTY 500 Index	9,851	(0.2)	4.2	8.1	
CNXMcap Index	19,542	(0.3)	5.7	6.0	
BSESMCAP Index	16,864	(0.3)	4.0	(0.5)	
World Indices					
Dow Jones	25,790	0.5	1.3	4.2	
Nasdaq	7,946	0.9	2.7	6.9	
FTSE	7,577	0.2	(1.6)	(2.0)	
NIKKEI	22,602	0.9	0.2	1.4	
Hangseng	22,602	0.9	0.2	1.4	
Shanghai	27,672	(0.4)	(2.5)	(8.2)	
Value traded (Rs cr)					
	24-Aug	% Chg Day			
Cash BSE	3,217	(8.6)			
Cash NSE	33,766	(10.4)			
Derivatives	-	-			
Net inflows (Rs cr)					
	23-Aug	MTD	YTD		
FII	415	1,144	(2,266)		
Mutual Fund	35	2,481	75,079		
Nifty Gainers & Losers					
	Price	Chg	Vol		
24-Aug	(Rs)	(%)	(mn)		
Gainers					
Vedanta Ltd	224	4.3	12.0		
ONGC	175	1.7	9.9		
Grasim Ind	1,060	1.4	1.7		
Losers					
Yes Bank	374	(3.7)	16.3		
Titan Co	885	(2.9)	3.2		
Hero MotoCorp	3,212	(2.2)	0.3		
Advances / Declines (BSE)					
24-Aug	A	B	T	Total	% total
Advances	158	414	51	623	100
Declines	270	620	87	977	157
Unchanged	4	23	18	45	7
Commodity					
	24-Aug	% Chg			
		1 Day	1 Mth	3 Mths	
Crude (US\$/BBL)	75.7	(0.1)	1.9	(0.9)	
Gold (US\$/OZ)	1,206	1.7	(1.5)	(7.4)	
Silver (US\$/OZ)	14.8	2.1	(4.3)	(10.2)	
Debt / forex market					
24-Aug	1 Day	1 Mth	3 Mths		
10 yr G-Sec yield %	7.9	7.9	7.8	7.9	
Re/US\$	69.9	70.1	68.9	68.3	

Nifty



Source: Bloomberg

News Highlights

- ▶ Eyeing a major technological leap in its surveillance and investigation functions, Sebi plans to build a private data storage cloud, automate its inspection of brokers and make greater use of data analytics. (Mint)
- ▶ More than 40 per cent districts in South India witnessed deficient rainfall this monsoon season, the India Meteorological Department data showed, despite the southern state of Kerala experiencing excessive precipitation. (BS)
- ▶ Public sector banks are in the process of closing or rationalizing about 70 overseas operations as part of capital conservation exercise. Unviable foreign operations are being shut while multiple branches in same cities or nearby places are being rationalized with a view to achieving efficiency. (BL)
- ▶ Liabilities of big wilful defaulters of **Punjab National Bank** fell by 1.8 per cent to Rs 151.75 bn by July-end over the previous month. (BS)
- ▶ **SAIL** has started process to exit some of its joint ventures that are either non-operational or non-performing. The steel maker is also exploring options to monetise its investment in certain JV companies. (ET)
- ▶ Liberty House, the London-based metals group, plans to build a steel plant in place of the existing ship-building facility if its bid to buy ABG Shipyard is accepted. Gupta's Liberty House has placed a bid of Rs 52 bn for **ABG Shipyard**, which owes close to Rs190 bn to creditors. (Mint)
- ▶ **Tata Steel** has started the process of cancelling power purchase agreements (PPAs) between **Bhushan Steel**, a company it acquired through bankruptcy resolution proceedings, and Bhushan Energy in a bid to cut costs. (ET)
- ▶ Former **GlaxoSmithKline Consumer India** chairman Zubair Ahmed is advising US private equity KKR as it joins a list of suitors preparing to bid for the company's health nutrition products portfolio, including Horlicks, estimated to be worth \$4.5 bn. (ET)
- ▶ **Apollo Tyres**, has lined up \$1bn in investments with an eye on grabbing the No. 1 position from **MRF Ltd** across other segments - excluding two-wheelers - and crossing Rs.200 bn in revenue by 2020. (ET)
- ▶ **Reliance Jio Infocomm** is now India's second-largest telco by revenue market share, dislodging Vodafone India and closing the gap with market leader **Bharti Airtel** on this score, helped by strong performance in the rural mobile markets and aggressive pricing that has left rivals struggling. (ET)
- ▶ Drug firm **Lupin** has received an establishment investigation report (EIR) from the US health regulator after the successful inspection of its Nagpur facility. The plant was inspected by the United States Food and Drug Administration (USFDA) in May 2018.(Mint)

What's Inside

- ▶ **Company Update:** Allcargo Logistics Ltd

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, IE = Indian Express, BL = Business Line, ToI: Times of India, BSE = Bombay Stock Exchange, MC = Moneycontrol

Company Update

Stock Details

Market cap (Rs mn)	:	29569
52-wk Hi/Lo (Rs)	:	229 / 100
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	329,807
Shares o/s (mn)	:	246

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	60,648	63,150	65,110
Growth (%)	8.6	4.1	3.1
EBITDA	3,748	4,379	4,522
EBITDA margin (%)	6.2	6.9	6.9
PAT	1,663	2,236	2,387
EPS	6.8	9.1	9.7
EPS Growth (%)	-28.3	34.5	6.7
BV (Rs/share)	99.2	106.1	112.9
Dividend/share (Rs)	2.0	2.0	2.6
ROE (%)	7.0	8.9	8.9
ROCE (%)	8.6	10.2	10.2
P/E (x)	17.9	13.3	12.5
EV/EBITDA (x)	7.2	6.2	6.0
P/BV (x)	1.2	1.1	1.1

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	69.1	69.1	69.1
FII	13.6	15.6	15.8
DII	4.8	4.7	4.8
Others	12.5	10.6	10.3

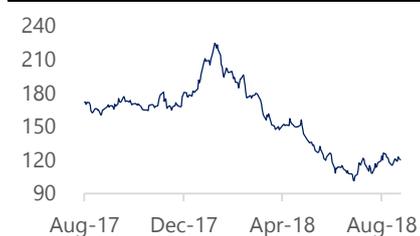
Source: Company

Price Performance (%)

(%)	1M	3M	6M
Allcargo Logistics	3.0	0.5	(32.3)
Nifty	3.8	9.9	10.2

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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ALLCARGO LOGISTICS LTD (ALL)

PRICE RS.121

TARGET RS. 145

BUY

After a weak FY18, the new financial year has begun on a healthy note for ALL with strong quarterly performance in Q1FY19. Strong volume trend was witnessed in both the key segments of Multimodal Transport Operations (MTO) and Container Freight station (CFS) with stable realisations. However the project engineering division continued to report losses for ALL dragging the overall performance of the company. The current quarter outperformance has given us confidence of decent performance in FY19. Also, we believe that most of negatives have got factored at the current valuation. Maintain estimates with an unchanged target price of Rs 145 at 15x FY20 earnings with a BUY rating.

CFS division has shown improvement in the first quarter of FY19

The total volumes in the CFS division was reported at 82,210 TEUs (+7.7% QoQ and +4.4% YoY) in Q1FY19. Growth was driven by Kolkata operations and increased share of Direct Port Delivery (DPD) CFS volumes at JNPT.

Within the 3 quarters of operation Kolkata CFS has achieved break even and likely to turn profitable in the coming quarters. EBIT margin has improved by 90 bps YoY on back of shut down of CWC facility in Mundra. Asset utilization continue to remain at low (40-50%) levels for ALL in the CFS segment. Though the management has witnessed enquiry and expect recovery from H2FY19.

Quarterly CFS and ICD segment performance for ALL

Year	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
CFS TEUs	78,732	65,362	71,764	76,304	82,210
Revenue (Rs mn)	1088	998	940	1060	1100
EBIT	297	304	280	310	310
EBIT margin (%)	27.3	30.5	29.8	29.2	28.2

Source: Company

Relationship with shipping lines, vast experience in logistics business and presence in other verticals (like MTO) continue to help ALL to outperform most of its peers in the CFS segment. We have factored in contribution of 20,000 TEUs (1% market share) in FY19E for ALL in the CFS segment at Kolkata port leading to improved performance of 13.7% volume growth in FY19E. Pick-up in global container is an upside risk to our estimates.

Growth in CFS and ICD volumes for ALL

Year	FY15	FY16	FY17	FY18	FY19E	FY20E
CFS TEUs	292,000	304,936	306,700	292,162	332,128	338,771
YoY growth (%)	16.8	4.4	0.6	-4.7	13.7	2.0

Source: Company, Kotak Securities – Private Client Research

Steady volume growth in the Multimodal Transport Operations (MTO)

Volumes continue to grow at a stable pace for ALL in the MTO segment despite weak global trade environment as ALL is primarily present in the less than Container Load (LCL) segment of MTO which is more immune to slowdown. Geographical expansion and inorganic growth has also contributed to the growth. Company continues to be a leader in MTO segment. ALL is also leveraging its global network of LCL for Full Container Load (FCL) cargo. Currently

FCL contribute ~15% of total MTO volume and management expects this % to increase going forward. Pass-through nature of the cost keep margins range-bound for ALL in the MTO segment

Volumes for MTO business in TEUs

Year	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
MTO TEUs	138,479	142,954	144,646	159,951	174,043
Revenue (Rs mn)	12,895	13,879	13,270	13,700	14,550
EBIT	532	566	550	560	580
EBIT margins	4.1	4.1	4.1	4.1	4.0

Source: Company

With its global reach and market leadership, we estimate the MTO segment to report high single digit volume CAGR of 7.9% over FY18 to FY20E

MTO volumes for ALL in TEUs

Year	Total	YoY growth (%)
FY13	284,726	-15.5
FY14	328,711	15.4
FY15	422,200	28.4
FY16	459,745	8.9
FY17	508,073	10.5
FY18	586,030	15.3
FY19E	634,670	8.3
FY20E	682,271	7.5

Source: Company, Kotak Securities – Private Client Research

Project and Engineering Solutions divisions (PES) remains a drag

The PES division continue to report volatility in revenue and profitability and we estimate the trend to continue over FY18 to FY20E and be a drag on overall profitability of the company. Management has started selling low yielding assets in the PES division.

Contract Logistics

Allcargo has a strong presence in the business of contract logistics through it's approximately 62% stake in joint venture -'Avvashya CCI' (ACCI). The scope of work here includes designing and planning supply chains, warehousing, transporting & managing inventory. ALL currently has a network of warehouses across 45 locations in India with a total warehouse capacity of 3 million square feet which the company intends to increase to 10 million square feet (PAN India) with an investment of Rs 4 bn by FY22 focusing on sectors like Chemicals, Auto & Engineering, Pharma, Fashion & Retail. Going forward, we expect contract logistics to add value to ALL.

Multimodal Logistics park (MMLP) in Jhajjar, Haryana

ALL is also building a multimodal Logistics park (MMLP) in Jhajjar, Haryana with an investment of Rs 5 bn over a period of 3 years. During Q1FY19, ALL has acquired 120 acres (93 acres owned, 27 acres on lease) of land at Jhajjar at cost of Rs. 1.35 bn. Management expects the first phase of the MMLP to start commercial operation by end of FY20. The MMLP is expected to complement the current MTO operations, CFS business and contract logistics business of ALL.

Performance of the company to remain stable over FY18 to FY20E

We believe the business environment in which ALL operates has exhibited structural changes. These changes involve

- 1) Direct Port Delivery (DPD) scheme at JNPT
- 2) Continued weak global container trade
- 3) Persistently weak private sector capex

These changes has impacted the overall performance of the company. However, despite that, company has reported improvement in performance in Q1FY19. Kolkata CFS, investments in contract Logistics, MMLP in Jhajjar and leadership position in MTO segment would ensure that the performance of the company remains stable over FY18 to FY20E.

Valuation & Outlook

We believe the performance of FY18 of ALL is a reflective of structural changes in the container freight station business, which we believe would be a feature of the CFS business for all players in medium term. The profit margin in the MTO segment is capped due to the pass through nature of realisations in the segment. While the project engineering division would continue be a drag, unless the private sector capex picks-up. We believe the next phase of growth for the company to come from the MMLP, steady growth of the MTO segment, Kolkata CFS (incremental contribution) and contract Logistics business.

Broadly, we feel the performance of company to remain stable (with a positive bias) over FY18 to FY20E. The current quarter outperformance has given us confidence of decent performance in FY19. Also, we believe that most of negatives have got factored in the current price. Maintain estimates with an unchanged target prices of Rs 145 at 15x FY20 earnings.

Company background

Allcargo Logistics Limited, part of The Avvashya Group, is a global leader in integrated logistics solutions. The Company offers specialized logistics services across Multimodal Transport Operations, Container Freight Station Operations and Project & Engineering Solutions. Benchmarked quality standards, standardized processes and operation excellence across all the services and facilities, have enabled Allcargo Logistics Limited to emerge as the market leader in all these segments. The Company currently operates out of 300 plus offices across 160+ countries and gets supported by an even larger network of franchisee offices across the world.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	55,833	60,648	63,150	65,110
% change YoY	(1.8)	8.6	4.1	3.1
Operational cost	39,411	43,813	45,254	46,653
Employee cost	8,189	9,104	9,403	9,694
Other expenses	3,583	3,983	4,114	4,241
Total Operating expd	51,183	56,900	58,771	60,588
EBITDA	4,650	3,748	4,379	4,522
Depreciation	1,663	1,591	1,625	1,630
EBIT	2,987	2,157	2,754	2,892
Other income	453	414	425	450
Interest expense	324	300	335	313
Profit before tax	3,116	2,271	2,844	3,029
Tax	777	513	512	545
ETR (%)	24.9	22.6	18.0	18.0
Profit after tax	2,339	1,758	2,332	2,484
Minorities & Associates	(20)	(95)	(96)	(97)
Net income	2,319	1,663	2,236	2,387
% change YoY	(16.9)	(28.3)	34.5	6.7
Shares outstanding (m)	246.0	246.0	246.0	246.0
EPS	9.4	6.8	9.1	9.7

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PAT	2,319	1,663	2,236	2,387
Depreciation+DTL	1,741	1,642	1,676	1,685
Change in working capital	115	(772)	(285)	(223)
Cash flow from operations	4,174	2,533	3,627	3,848
Capex	(1,863)	(2,500)	(2,000)	(1,500)
Investments	(189)	-	-	-
Cash flow from investments	(2,052)	(2,500)	(2,000)	(1,500)
Equity issuance	-	-	-	-
Debt raised	164	131	(145)	(366)
Dividend Paid	(605)	(605)	(605)	(756)
Miscellaneous items	20	95	96	97
Cash flow from financing	(421)	(379)	(654)	(1,025)
Net cash flow	1,701	(346)	973	1,323
Opening cash	2,713	4,414	4,005	4,978
Closing cash	4,414	4,069	4,978	6,301

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash	4,414	4,005	4,978	6,301
Debtors	8,375	9,097	9,473	9,767
Loans and advances	5,472	6,186	6,441	6,641
Other current assets	113	121	126	130
Total current assets	13,959	15,405	16,040	16,538
LT investments	1,050	1,050	1,050	1,050
Net fixed assets	17,599	18,508	18,883	18,753
Total assets	37,022	38,967	40,952	42,643
Creditors	7,537	8,187	8,525	8,790
Other current liabilities	279	303	316	327
Total current liabilities	7,817	8,491	8,841	9,116
LT debt	5,595	5,726	5,581	5,215
Minority Interest	241	336	432	529
Equity Capital	492	492	492	492
Reserves	22,877	23,923	25,605	27,291
Networth	23,369	24,415	26,097	27,783
Total liabilities	37,022	38,967	40,952	42,643
BVPS (Rs)	95.0	99.2	106.1	112.9

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	8.3	6.2	6.9	6.9
EBIT margin (%)	5.3	3.6	4.4	4.4
Net profit margin (%)	4.2	2.9	3.7	3.8
ROE (%)	10.3	7.0	8.9	8.9
ROCE (%)	12.2	8.6	10.2	10.2
DPS	2.0	2.0	2.0	2.6
Dividend payout (%)	26.1	36.4	27.0	31.7
Working capital turnover (days)	40.5	39.3	40.8	41.0
Debt Equity (x)	0.2	0.2	0.2	0.2
PER (x)	12.8	17.9	13.3	12.5
P/C (x)	7.3	9.0	7.6	7.3
Dividend yield (%)	1.7	1.7	1.7	2.1
P/B (x)	1.3	1.2	1.1	1.1
EV/Sales (x)	0.5	0.5	0.5	0.5
EV/ EBITDA (x)	5.9	7.2	6.2	6.0

Source: Company, Kotak Securities – Private Client Research

RATING SCALE

Definitions of ratings

- BUY** – We expect the stock to deliver more than 12% returns over the next 12 months
- ACCUMULATE** – We expect the stock to deliver 5% - 12% returns over the next 12 months
- REDUCE** – We expect the stock to deliver 0% - 5% returns over the next 12 months
- SELL** – We expect the stock to deliver negative returns over the next 12 months
- NR** – **Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
- SUBSCRIBE** - We advise investor to subscribe to the IPO.
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- NA** – **Not Available or Not Applicable.** The information is not available for display or is not applicable
- NM** – **Not Meaningful.** The information is not meaningful and is therefore excluded.
- NOTE** – Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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