



ALPHA

22 DEC 2022

Allcargo Logistics Ltd. – Integrated Logistics Player

Market Data	
CMP	Rs. 400
Date	22-Dec-22
Target Price	Rs. 490
Upside Potential	23.00%
52 Week High/Low	495/249
NSE Code	ALLCARGO
Market Cap	Small Cap
Sector	Logistics
Rating	BUY

Allcargo Logistics Ltd (ALL) is an integrated logistics service provider and operates in multiple business segments – MTO (Multimodal Transport Operations), CFS (Container Freight Solutions)/ICD (Inland Container Depot), P&E (Project & Engineering), Contract logistics, and Logistics Parks (LPs) in which it has forayed recently. Incorporated in 1993, as a freight-forwarding agent, ALL became a multimodal transport operator in 1998 by offering logistics services such as consolidation of LCL (Less than Container Load) and full-container load cargo for exporters and importers. In 2006, the company acquired ECU Worldwide, which is one of the world's largest players in the LCL segment. ALL is also present in last-mile delivery. As on March 31, 2022, ALL owns and operates five CFSs, with two at JNPT and one each in Chennai, Mundra, and Kolkata, with a combined capacity of 5 lakh TEUs per annum.



Products & Services: The Company offers various Logistics solutions.

Multimodal Transport Operations – MTO services include Non-Vessel Owning Common Carrier (NVOCC) operations related to LCL Consolidation, Full Container Load (FCL), Air Freight Services, Multi-city consolidation activities across the world.

CFS – It offers Import & Export Handling, Hazardous Cargo handling, Bonded & Unbonded Warehouse, etc.

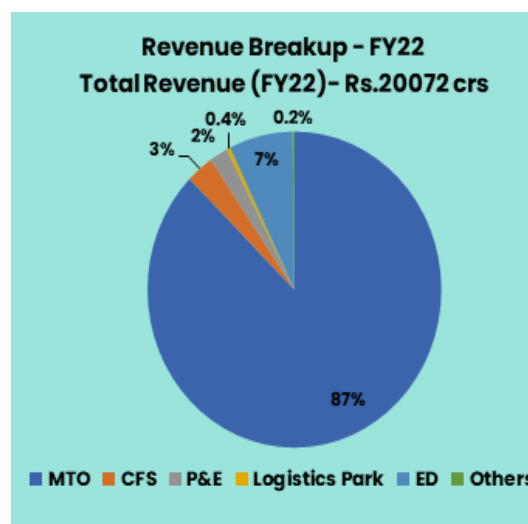
P&E – Project & Engineering solutions comprises of two major constituents a) Project transportation & shipping and b) Equipment leasing.

Express Distribution – Through its subsidiary GATI Ltd, the company offers logistics solutions to time-bound, door-to-door, high value, and critical shipments.

Logistics Park – Allcargo offers state-of-the-art warehousing and industrial real estate solutions. With an existing land bank of 460 acres and each park spread across massive 50–100 acres, it is a one-stop shop for clients looking at minimizing their logistics overheads.

SHP	Sep - 22 (%)	Jun - 22 (%)	Change
Promoters	69.92	69.92	0.00
FPI	9.22	9.33	-0.11
DII	2.13	2.01	0.12
Public & Others	18.73	18.74	-0.01
Pledged	0.00	0.00	0.00

Subsidiaries: The Company has 15 subsidiaries, 3 Associates and 1 Joint Venture as on 31st March 2022.





Key Rationale

- **Largest Player** – The group is India's largest, and a leading global operator, in the NVOCC business, backed by a strong network. It is the largest player in the Less than Container Load (LCL) freight-forwarding industry globally. Despite challenging global trade conditions in fiscal 2021 owing to the pandemic, the volume in this business grew 7%, by gaining market share due to an established global network and longstanding relationships with customers. With recovery in global trade environment this fiscal as well support from Nordicon acquisition, volumes have grown at a healthy 20% YoY in fiscal 2022. The group is expected to continue witnessing healthy volume growth and realisation this fiscal which would support overall revenue growth and profitability. The group will be leveraging on its existing global network and bolt-on acquisitions that should help the NVOCC business grow steadily over the medium term.
- **Integrated Solutions Provider** – ALL operates in multiple segments – MTO, CFS/ICD, P&E, domestic mid-mile and last-mile logistics through Gati, and LPs where it has ventured recently. Furthermore, it also provides contract and e-commerce logistics solutions. The recent addition of Gati's strong domestic network will further improve its business risk profile. Having its presence across the logistics supply chain and with its strong network spread domestically and across various countries, ALL is an end-to-end logistics solutions provider with six major segments – MTO, CFS, P&E, warehousing and express logistics, contributing around 87%, 3%, 2%, 1%, and 7%, respectively, to the total consolidated revenue in FY22.
- **Q2FY23** – Transformational initiatives continues to drive performance with Allcargo Logistics reporting highest ever EBITDA margins. Consolidated revenue stood at Rs.5,300 Crores and EBITDA stood at Rs.450 Crores in Q2FY23. Profit before tax excluding exceptional income stood at Rs.352 Crores, including share of profit from associates and JVs. Express logistics business under Gati continued its strong performance leading to 3x growth in EBITDA for first half of FY23 as compared to FY22.
- **Financial Performance** – The company has generated a Revenue and EBITDA CAGR of 35% and 42% between FY18-22. The company's gross debt stands at Rs.1420 crs and the cash balance stands at Rs.884 crs. Allcargo had executed agreements with Blackstone entity for transfer of 90% stake in various SPVs subject to the satisfaction of closing conditions. These SPVs includes subsidiaries set up as SPVs at Telangana, Tamil Nadu, Karnataka, Gujarat, Goa and Maharashtra. The deal with Blackstone is expected to be consummated in another 3-4 weeks post which the net debt would be near zero as the Lease Rental Discounting and Optionally Convertible Debentures would be alienated.

**Ratios - FY22**

ROE	31%
ROCE	25%
Div. Yield	0.70%
PE Ratio	11.00
Face Value	2.00
EPS	Rs. 37.68

Industry Analysis

India has the second-largest population in the world with 1.38 billion people and its logistics market is estimated to be around \$210 Billion. The domestic logistics market is growing at a faster pace than the economy and is expected to maintain its CAGR of 8-10% in coming years. As per various reports logistics sector contributes around 13% of GDP. Currently at US\$ 400 billion, over the next five years, India's logistics market is predicted to develop at an annual compounded growth rate of 8%, reaching US\$ 600 billion by 2025. Indian Express Industry has come a long way in last four decades and evolved in terms of product offering & service quality. In last decade segments like e-commerce and on demand logistics have changed the complete paradigm of sector. Future outlook of the sector is very positive and CAGR is expected to be more than 15% in next decade. By year 2025 its market size is estimated to be around \$10 bn.

Growth Drivers

According to Union Budget 2022-23, the National Highways Network would be extended by 25,000 kilometres under PM Gati Shakti which has been allocated with its first budgetary outlay of Rs.200 billion.

The announcement of four multi-modal national logistics park contracts to be granted in FY23 is a much-needed milestone for India's rising economy. The country's infrastructure and transportation would expand as a result of the economy's expansion.

The Government is dedicated to using 100% green and clean energy for public transportation and logistics. The prime minister's national hydrogen mission is to advance hydrogen technology for the transportation industry and establish India as a global leader in the production and application of green hydrogen.



Peer Analysis

Competitors: Transport Corporation of India (TCI), Gateway Distriparks, etc.

TCI is more of a direct competitor to Allcargo with the same Multi Modal logistics provider and Gateway is not. When comparing with the revenue growth and P/E of the players, Allcargo stands out among them as a strong contender.

Company	CMP	Mcap.	5yr Sales CAGR	5yr Avg. RoCE	P/E	EPS
Allcargo	400	9857	29.00%	14.00%	11	37.68
TCI	603	4675	11.00%	17.00%	16	37.45
Gateway Distriparks	66	3288	13.00%	12.00%	15	4.5

Outlook

The company is also in the process of carrying out a demerger of its businesses, resulting in strategic business undertakings. The board of directors of ALL, at its meeting held on December 24, 2021, approved the demerger of the CFS/inland container depot (ICD) business into a separate entity – Allcargo Terminals Limited (ATL), and the demerger of the equipment rental, warehousing, logistics parks (LPs) and other real estate assets into TransIndia Realty & Logistics Parks Limited (TRL). These two divisions contributed to around 4% of ALL's consolidated revenue in FY22. As per management articulation, the demerger will create three focused entities, targeting a distinct set of growth opportunities. The demerger is expected to be concluded by April-May 2023 subject to approvals. The Management also expects the company to generate a revenue between Rs.25000 – 30000 crs by FY26 and EBITDA of around Rs.2400 – 2700 crs.

Margins - FY22	
EBITDA	8%
EBIT	6%
PAT	5%



Valuation

Allcargo's end-to-end solutions for logistics services, market leader status in the LCL and CFS segment and the long-standing client relationship are the positive drivers of the company. Hence, we recommend a BUY rating in the stock with the target price (TP) of Rs.490, 14x FY24E EPS.

Risks

- **Economic risk** – The logistics sector is exposed to economic cycles and any slowdown in export-import trade or capex cycle due to an economic slowdown may affect ALL.
- **Cyclical risk** – Around 70% of P&E segment revenue is derived from power, oil and gas, cement and metals sectors, which are exposed to uneven investment cycles and economic slowdown. While the group intends to make the P&E business asset-light through increase in leased asset proportion and sale of unproductive assets, the resultant benefits to operating performance will continue to be a monitorable.

Source – Tickertape, Company's Website, BSE Website.

Thanks & Regards

Abeshk C V

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