Allcargo Logistics: Delisting and improving macros provide strong tailwind

With a vast footprint and a long operating history, Allcargo is well positioned to continue the expansion of its Indian business, while gaining incremental share in international trade

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Highlights

- *Q2 aided by consolidation of Gati's financials*
- *Logistic parks to aid top line from next fiscal*
- *Second half expected to be better on the back of improving macros*
- *Valuations remain reasonable for gradual accumulation*

Multimodal logistics company **Allcargo Logistics** (CMP: Rs 136, Mcap: Rs 3353 crore) continued to impress investors by posting robust results in the September quarter. Cost containment efforts, acquisition synergies, recovery in demand and scale-up of new business verticals should translate into a much better performance in the second half of this financial year.

Quarterly revenue highlights

Allcargo Logistics result snapshot						
(Rs crore)	Q2 FY21	Q2 FY20	YoY	H1 FY21	H1 FY20	YoY
Revenue	2,337	1,873	24.8%	4,415	3,688	19.7%
EBITDA	162	130	24.6%	293	271	8.1%
EBITDA margin	6.9%	6.9%	0 bps	6.6%	7.3%	-70 bps
Profit after tax (PAT)	57	64	-10.9%	105	127	-17.3%
PAT margin	2.4%	3.4%	-100 bps	2.4%	3.4%	-100 bps

Source: Company, Moneycontrol Research

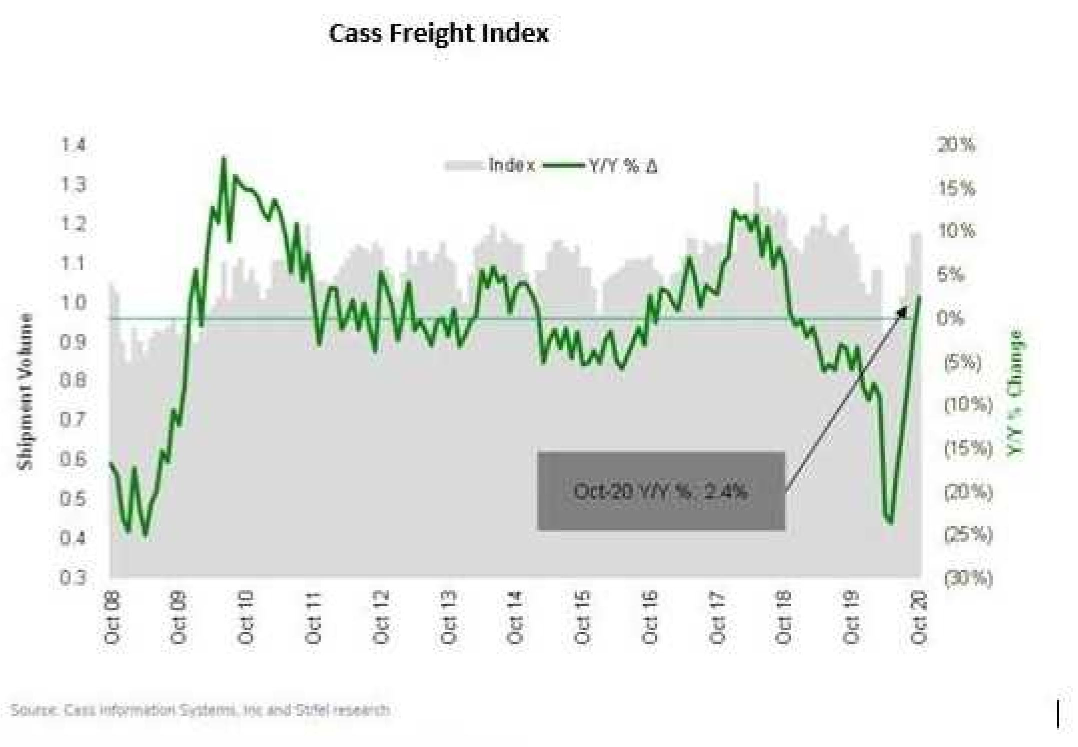
Total revenue in the second quarter was impressive at Rs 2,327 crore, up 25 per cent from the same quarter a year ago, but the headline figures are not comparable due to the inclusion of Gati's revenues in consolidated financials (from Q1 FY21). Excluding Gati, the revenue growth stood at 6 per cent on a like-for-like basis. The top line in the core business was driven by an 8 per cent growth in Modal Transport Operations (MTO) — Allcargo's largest business segment. While higher realisations and an uptick in volumes drove revenues of the MTO business, Container Freight Station (CFS) remained weak due to the shortage of containers. The execution of Project & Engineering Solutions (PES) improved on a sequential basis, but segmental revenues in Q2 were down 9 per cent year on year (YoY). The earnings before interest, tax, depreciation and amortisation (EBITDA) rose 25 per cent YoY to Rs 162 crore as the adverse impact of higher fixed costs and lower capacity utilisation in the CFS and the PES businesses was offset by government grants and subsidies.

Segmental break-up	Revenue			EBIT Margin	
(Rs crore)	Q2 FY21	Q2 FY20	YoY	Q2 FY21	Q2 FY20
Multimodal Transport Operations (MTO)	1,841	1,697	8%	4%	4%
Container Freight Station operations (CFS)	96	120	-19%	34%	25%
Proiect and Engineering Solutions (PES)	69	76	-9%	-16%	-7%
Express Distribution - Gati	343	-	-	2%	-
Other/Intersegment	-12	-19	NM		
Total	2,337	1,873	25%	3%	5%

Source: Company, Moneycontrol Research

Global trade volumes indicating recovery

Global shipping volumes fell off the cliff during the first half of 2020 due to the pandemic, but recovered during the July-September period owing to healthy consumer spending. Resurgent restocking demand in the American and the European markets ahead of the holiday season in November-December has led to an unexpected recovery in overall tonnage volumes. Global container shipping rates are also trending higher on the back of rising trade volumes, container scarcity at export hubs, and changes in freight routes on account of the pandemic. The Cass Freight Index for October showed a year-on-year growth for the first time after a gap of two years, highlighting continued improvements in freight shipments and expenditures across the global economy.



Warehousing expansion nearing completion

Allcargo is monetising its land banks across Telangana, Tamil Nadu, Karnataka, Gujarat, Goa and Maharashtra through the development of logistics parks. The company has committed Rs 1,000 crore of investment for the development of these warehouses with 5-6 million square feet of leasing area and has entered into a definitive agreement with Blackstone to sell a 90 per cent stake in these warehousing subsidiaries for a consideration of Rs 380 crore. Allcargo will retain operational control of the warehousing business along with a 10 per cent stake in profits. The company has received Rs 240 crore from Blackstone and the balance will be received in parts through the year.

With the logistic park nearing completion, the capital expenditure for FY21 and FY22 is expected to be limited to maintenance and upgradation activities. The cash flows from the sale of warehousing operations will be directed towards repayment of debt, which stood at around Rs 1,300 crore in September.

Delisting on track

The promoters of the company have initiated proceedings to delist the company's shares as the management feels that taking Allcargo private would allow them to streamline the company's operations and improve its capital structure. The board has approved the delisting proposal and the floor price for delisting has been set at Rs 92.6. The delisting remains on track as the company has got the approval from about 90 per cent of the shareholders. The promoters are in the process of filing an application for delisting with the authorities concerned, following which the reverse book-building process will commence in the next 8-10 weeks. For delisting to be successful, the promoters will need to accept the price offered by 90 per cent of shareholders.

Outlook and recommendation

Valuation and estimates				
(Rs crore)	FY19	FY20	FY21e	FY22e
Net Sales	6,895	7,446	7,819	8,444
EBITDA	455	494	532	591
EBITDA margin	6.3%	6.6%	6.8%	7.0%
PAT	242	223	211	245
PAT margin	2.8%	3.0%	2.7%	2.9%
Price-to-earnings ratio	13.9x	15.0x	15.9x	13.7x
CMP (Rs)	137			
Market cap.	3,354			

Source: Company, Moneycontrol Research

Allcargo could see a favourable impact during Q3 and Q4 as recovery from the pandemic continues to ease macroeconomic pressure. The company has a resilient business model and Allcargo stands to benefit from the improving demand trends across different markets. With a vast footprint and a long operating history, Allcargo is well positioned to continue the expansion of its Indian business, while gaining incremental share in international trade. Positive developments such as the commencement and the ramp-up of warehouses, and restructuring of Gati will contribute to significant improvement from the next financial year. While the delisting price offers downside protection, the valuations (14 times FY22 earnings) appear reasonable for gradual accumulation and an improvement of return ratios and reduction in leverage could trigger a re-rating for Allcargo Logistics in the medium to long run.

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