Allcargo’s strong Q4 show, robust prospects may raise delisting cost

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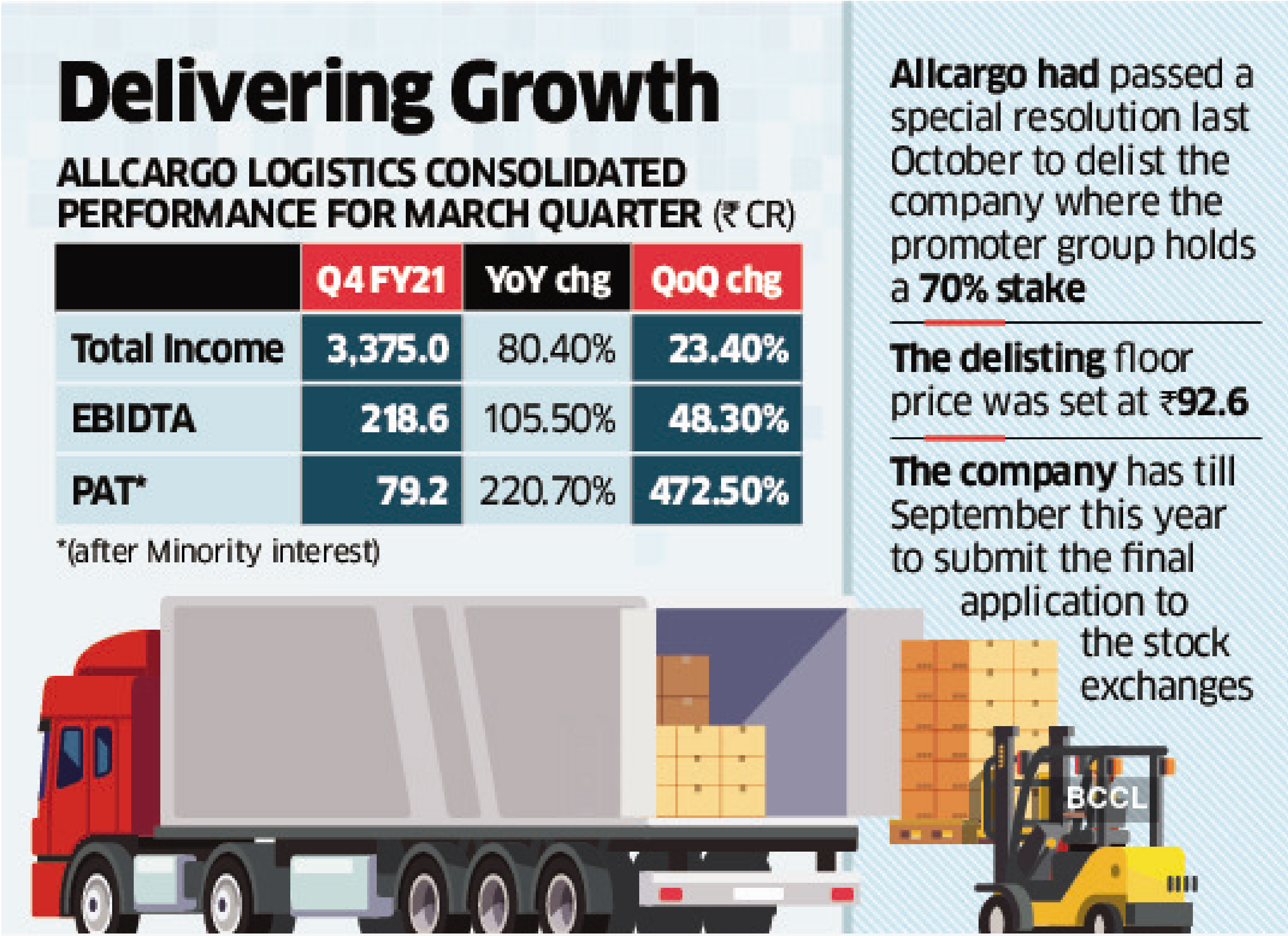
Synopsis

Allcargo had passed a special resolution last October to delist the company where the promoter group holds 70% stake. The delisting floor price was set at Rs 92.6.

ET INTELLIGENCE GROUP: Analysts have upgraded price targets for **Allcargo Logistics** by over 30% from the current stock price of Rs 153.8 following the company's stellar March 2021 quarter performance and focus on reducing debt by selling non-core businesses. While this presents a buying opportunity for investors, it may in fact make the promoter group's delisting plan more expensive.

Allcargo had passed a special resolution last October to delist the company where the promoter group holds 70% stake. The delisting floor price was set at Rs 92.6. According to the delisting laws, the company has one year or till September to submit the final application to the stock exchanges. The floor price is much lower than the current stock price and higher analyst target prices dwarf it further. Foreign and domestic institutions hold a significant 15% stake in the company. These factors would make the delisting process more expensive for the promoters. In addition, given the management's focus on conserving cash, the promoter group may also find the delisting less lucrative at the current stock price.



	Q4 FY21	YoY chg	QoQ chg
Total Income	3,375.0	80.40%	23.40%
EBIDTA	218.6	105.50%	48.30%
PAT*	79.2	220.70%	472.50%

Over the last few years, **Shashi Kiran Shetty** led **Allcargo** group has adopted an asset light, digitally enabled, low debt business strategy. It has been divesting from operations which do not comply with the new strategy. Last year, the company struck a deal with **Blackstone** to sell 90% stake in its logistics parks business for Rs 380 crore. In addition to this cash, the debt in the logistics park business of nearly Rs 350 crore will also go off from the company’s balance sheet. Its standalone net debt was Rs 950 crore at the end of March 2021.

Although Allcargo is present in several business services in the logistics space, MTO(multimodal transport) and CFS(container freight station) are the two largest revenue contributors. The two businesses reported 61% and 31% growth respectively in the March quarter. As a result, consolidated operating profit before depreciation and amortisation (EBIDTA) jumped 106% and net profit by 221%. Revenues, EBIDTA and net profit for the quarter were Rs 3340, Rs 219 crore and Rs 21 crore.

Analysts expect Rs 1,000 crore in EBITDA for FY22. Given this, its enterprise value (EV) is 3.8 times the forward EBIDTA. Its peers trade at double digit multiples given the high growth nature of the industry. The valuation gap reflects the delisting hangover on Allcargo’s stock.