

26<sup>th</sup> March 2024

## Allcargo Logistics Ltd – BUY

**CMP** : Rs. 70.0  
**Target Price** : Rs. 89.0  
**Upside** : 27%+  
**Stop Loss** : Rs. 60.0 (Closing basis)

### Investment Thesis

- **Restructuring for Simplicity and Efficiency:** Allcargo Logistics (ALCL) has announced a restructuring scheme, demerging the international supply chain business into Allcargo ECU and consolidating express and contract logistics into Allcargo Logistics directly. This aims to create a simpler operating structure, enhancing management efficiency and providing better financial flexibility for growth in both businesses.
- **Cost Reduction Initiatives:** ALCL has implemented cost reduction initiatives, including outsourcing operations from high-cost to low-cost countries, digitization, and efficiency measures. While there may be severance costs in the short term which can increase cost, the overall goal is to see substantial cost reduction. The anticipation is that these initiatives will lead to improved profitability from April onwards.
- **International Supply Chain:** Despite a tough economic and geopolitical environment, ALCL has maintained flat volumes and expects improved profitability in the future, driven by cost reduction initiatives and rebounding volumes expectation in the second half of CY2024. ALCL expects continued growth in the contract logistics business with a healthy pipeline.
- **Diversification and Growth Strategy:** ALCL has successfully diversified its business segments, with a focus on sectors like chemicals, auto, and e-commerce. This strategy aims to tap into new opportunities and improve market share in growing sectors, particularly in auto and e-commerce, which are expected to contribute significantly to revenue. ALCL has been making inroads into consumer durables, IT products, and furniture, aiming for better market share and utilization of warehouse space.
- **Focus on Express Logistics (Gati):** For the Express Logistics business (Gati), ALCL is focused on improving operational capabilities, infrastructure upgrades, and expanding market share. Despite changes in product mix affecting yield, there is an expectation of continued volume expansion and improved profitability.

### Financials

- ALCL reported revenues of Rs. 3,212 Cr for Q3FY24 which was declined by 22% on YoY basis. Decline in freight charges impacted revenue adversely.

Particulars	FY21	FY22	FY23	FY24E	FY25E
Revenue (Rs. Crs)	10,498.10	20,072.07	18,050.77	13,184.61	14,503.07
EBITDA* (Rs. Crs)	159.08	1,250.15	895.34	525.49	725.15
PAT * (Rs. Crs)	172.90	925.73	629.59	217.67	382.66
EPS (Rs.)	1.76	9.42	6.41	2.21	3.89
P/E (x)	39.72	7.42	10.90	31.63	17.97

### Stock Data

Market Cap (Rs. Crs)	6,869
Market Cap (\$ Mn)	824
Shares O/S (in Cr)	98.3
Avg. Volume (3 month)	5,28,9207
52-Week Range (Rs.)	98/61.40

### Shareholding Pattern

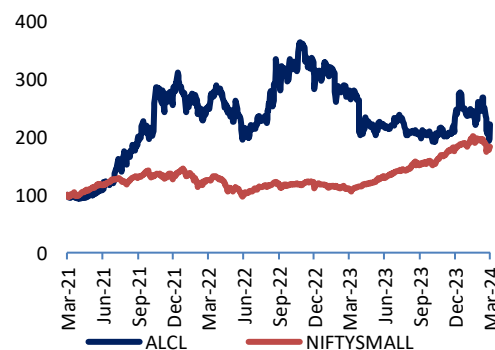
Promoter	69.91%
FII's	10.95%
Institutions	2.91%
Public	16.23%

### Key Ratios

Div Yield (%)	1.11
TTM PE (x)	31.70
ROE (%)	20.70
TTM EPS (Rs.)	27.35/-

### Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	(14.9%)	7.9%	(20.3%)
NIFTYSMALL	(8.0%)	(11.4%)	(85.5%)



- In Q3 FY24, there was a marginal decline in revenue by 3% and EBITDA by 6% on QoQ basis, but the profit after tax remained similar to the previous quarter.
- In Q3FY24, ALCL reported decline in EBITDA margin by 260bps at 3.5% on YoY basis, which is expected to be improved in upcoming quarters.

## Key Business Highlights

- ALCL incorporated in 1993, ALCL provides integrated logistics solutions and offers specialized logistics services across multimodal transport operations, inland container depot, container freight station operations, contract logistics operations and project and engineering solutions.
- ALCL expects the margins in the contract logistics business to remain steady in the range of 12% to 14%. While acknowledging the impact of historical dominance in the chemical segment, ALCL anticipates positive factors such as operating leverage and reduction in white space costs. The diversification into new sectors is expected to balance out any negative impact on margins.
- ALCL holds a significant share in the global neutral LCL consolidation trade (Less container load), covering 2,500 trade lanes across 180 countries. It is not heavily dependent on specific sectors or trade lanes, providing a broad representation of global trade.
- E-commerce is identified as one of the contributors to LCL trade growth, along with the emergence of small and medium businesses. ALCL's participation in e-commerce is primarily through B2B operations, involving pick-up and delivery between warehouses.
- Plans for growth include consolidating and enhancing market presence in Latin American markets, particularly in countries like Brazil, Colombia, Ecuador, Peru, and Chile. Additionally, there is a focus on deeper penetration into the Chinese market, which is considered a highly fragmented market with growth potential.
- ALCL aims to turn around the negative contributions from key countries such as the US and Germany, where losses have been incurred. Efforts are underway to address issues in these countries and achieve breakeven or positive contributions to profitability.

## Valuation

The outlook for ALCL remains positive because of the following: a) ALCL improved its operational efficiency which will improve its EBITDA margin when freight rates will come to normal b) Fed rate is expected to get declined in FY25 which will boost volume at international and domestic level.

**We recommend ALCL with a BUY rating which is currently trading at attractive P/E of 31.70x which is lesser than the industrial P/E of 40.2x and connoting a Target Price of Rs. 89 (23x PE multiple on FY25E EPS) and a potential upside of 27%.**

## Risk & Concern

- Delay in decline of Fed rate can impact the international volume.
- Decline in GDP growth of India can impact the volume adversely.

## Graphs & Charts

Figure 1: Revenue

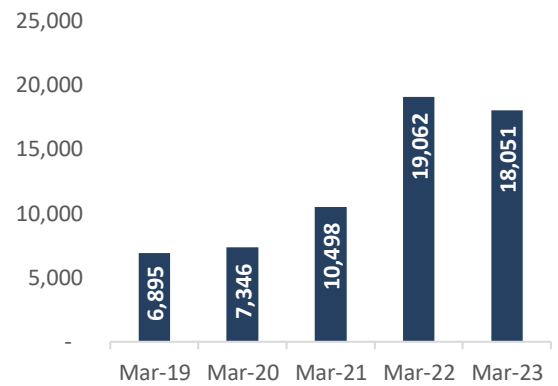


Figure 2: EBITDA Margin Trend

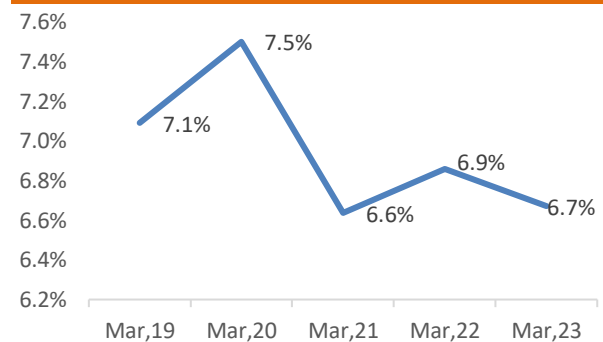


Figure 3: Revenue Contribution

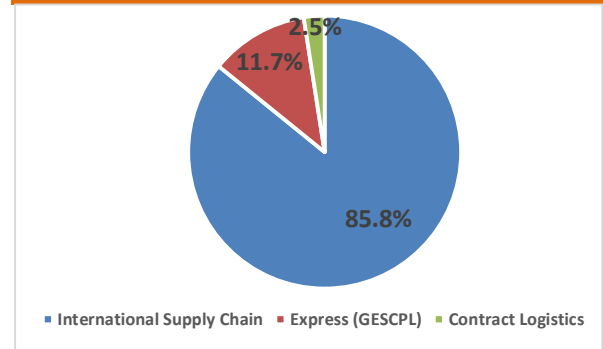
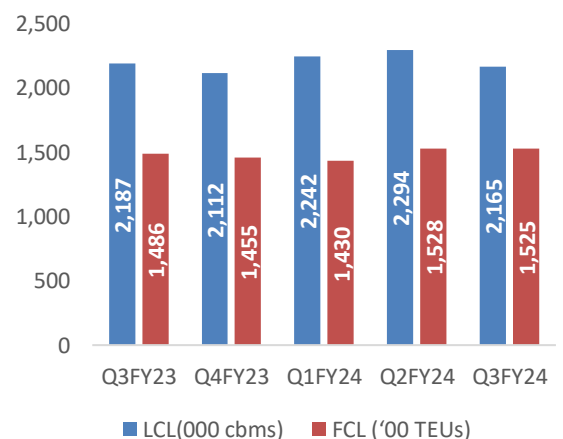


Figure 4: International Supply Chain (Volume)



**Name**  
**Vaibhav Vidwani**

**Designation**  
**Research Analyst**

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M/s. Bonanza Portfolio Ltd at Bonanza House, Plot No. M-2, Cama Industrial Estate, Walbhat Road, Goregaon (E), Mumbai – 400063  
Web site: <https://www.bonanzaonline.com>

Research Analyst Regn No. INH100001666

SEBI Regn. No.: INZ000212137

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