



## Economy News

- ▶ According to a study conducted by risk analysis firm Maplecroft, India has been ranked as the 19th most exposed and least resilient country worldwide to the global risks. (BS)
- ▶ Subsidies on diesel should not be offered to luxury cars, telecom towers and other industries and must be restricted only to agriculture and transport sectors, according to industry chamber Assocham's newly-elected President Rajkumar Dhoot. (ET)
- ▶ Indian Railways' financial distress is not likely to get over in the near future. Its projected shortfall in internal resource generation for meeting its 12th Plan outlay (2012-17) is Rs 2 Tn. (BS)
- ▶ Prime Minister Manmohan Singh said the government is committed to doubling the overall spending on research and development (R&D) to at least 2 per cent of the GDP by end of the 12th Five-Year Plan and felt the need of greater participation from the private sector. (ET)
- ▶ The Food Ministry has issued export order for 9.47 lakh tonne (LT) of sugar out of total 10 LT the government had allowed for overseas shipments in the 2011-12 marketing year (October-September). (ET)
- ▶ The global steel demand is expected to register a 5.4 per cent growth in the current year to around 1,500 million tonnes on higher consumption from developing nations, World Steel Association (WSA) said. (ET)
- ▶ Infrastructure companies that build and manage projects on behalf of the government may have to take a hit on their bottom lines as costs may rise after finance ministry decided to impose service tax on them for the right to develop the project. (ET)
- ▶ The Central Electricity Regulatory Commission (CERC) has proposed capital cost of Rs 5.75 crore per Mw for wind energy projects. The proposal is a part of the regulations the commission released recently and will be used to determine tariff of renewable energy for 2012-17. (BS)

## Corporate News

- ▶ **Hindustan Petroleum Corporation Limited (HPCL)** has taken up construction of underground storage facilities for keeping crude oil stocks which could be used to meet petroleum requirement during oil crisis, Union Minister S Jaipal Reddy said. (ET)
- ▶ The petroleum regulator has asked gas marketers such as **Gail India, GSPC and Reliance Industries** to submit cost of procuring natural gas and its sale price by March 5 to help it fixing marketing margins, officials in the Petroleum & Natural Gas Regulatory Board (PNGRB) said. (ET)
- ▶ **Mangalore Refinery and Petrochemicals Ltd. (MRPL)** plans to shut a 1.2 million tonnes/year hydrocracker from April for 45 days for revamp, a company source said. (ET)
- ▶ The ongoing sanctions imposed by the US and some European countries against Iran due to its nuclear programme may put some of the ONGC Videsh's plans in that country on the backburner, according to a top executive of **ONGC**. (ET)
- ▶ **Vishwanath Sugar and Steel Industries Limited**, the Belgaum-based integrated sugar manufacturer has planned to double its sugarcane crushing capacity to 11,000 TCD (tonnes crushed per day) at its factory in Bellad Bagewadi in the high sugar recovery zone of Belgaum. (BS)

### Equity

|                       | 17 Feb 12 | % Chg |       |        |
|-----------------------|-----------|-------|-------|--------|
|                       |           | 1 Day | 1 Mth | 3 Mths |
| <b>Indian Indices</b> |           |       |       |        |
| SENSEX Index          | 18,289    | 0.7   | 9.3   | 11.7   |
| NIFTY Index           | 5,564     | 0.8   | 10.2  | 13.4   |
| BANKEX Index          | 12,736    | 1.4   | 16.7  | 25.3   |
| BSET Index            | 6,267     | 1.4   | 13.9  | 11.6   |
| BSETCG INDEX          | 11,107    | 1.5   | 13.3  | 16.3   |
| BSEOIL INDEX          | 8,645     | 0.4   | 3.8   | 4.2    |
| CNXMcap Index         | 7,925     | 0.6   | 16.5  | 19.4   |
| BSESMCAP INDEX        | 7,116     | (0.2) | 13.4  | 15.1   |
| <b>World Indices</b>  |           |       |       |        |
| Dow Jones             | 12,950    | 0.4   | 1.8   | 9.8    |
| Nasdaq                | 2,952     | (0.3) | 5.9   | 14.7   |
| FTSE                  | 5,945     | 0.7   | 3.8   | 10.9   |
| NIKKEI                | 9,485     | 1.1   | 8.2   | 13.6   |
| HANGSENG              | 21,425    | (0.3) | 6.2   | 17.2   |

### Value traded (Rs cr)

|             | 17 Feb 12 | % Chg - Day |
|-------------|-----------|-------------|
| Cash BSE    | 4,344     | 22.2        |
| Cash NSE    | 20,704    | 22.5        |
| Derivatives | 180,853   | 36.0        |

### Net inflows (Rs cr)

|             | 16 Feb 12 | % Chg   | MTD     | YTD     |
|-------------|-----------|---------|---------|---------|
| FII         | 2,185     | 90.6    | 13,222  | 24,312  |
| Mutual Fund | (432)     | (301.8) | (1,330) | (3,177) |

### FII open interest (Rs cr)

|                   | 16 Feb 12 | % Chg |
|-------------------|-----------|-------|
| FII Index Futures | 17,252    | 2.3   |
| FII Index Options | 48,927    | 6.7   |
| FII Stock Futures | 32,911    | (0.7) |
| FII Stock Options | 1,898     | 1.0   |

### Advances / Declines (BSE)

|           | 17 Feb 12 | A     | B   | T     | Total | % total |
|-----------|-----------|-------|-----|-------|-------|---------|
| Advances  | 110       | 921   | 362 | 1,393 | 45    |         |
| Declines  | 94        | 1,143 | 344 | 1,581 | 51    |         |
| Unchanged | 0         | 70    | 49  | 119   | 4     |         |

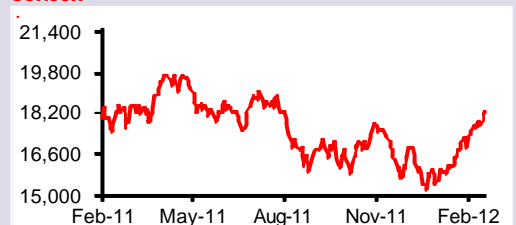
### Commodity

|                          | 17 Feb 12 | % Chg |       |        |
|--------------------------|-----------|-------|-------|--------|
|                          |           | 1 Day | 1 Mth | 3 Mths |
| Crude (NYMEX) (US\$/BBL) | 104.8     | 1.5   | 6.4   | 8.1    |
| Gold (US\$/OZ)           | 1,734.7   | 0.8   | 4.3   | 3.6    |
| Silver (US\$/OZ)         | 33.6      | 1.1   | 6.4   | 8.5    |

### Debt / forex market

|                     | 17 Feb 12 | 1 Day | 1 Mth | 3 Mths |
|---------------------|-----------|-------|-------|--------|
| 10 yr G-Sec yield % | 8.19      | 8.19  | 8.18  | 8.86   |
| Re/US\$             | 49.3      | 49.3  | 50.7  | 50.9   |

### Sensex



**RESULT UPDATE****Sanjeev Zarbade**

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**AREVA T&D INDIA LTD****PRICE: Rs.200****TARGET PRICE: Rs.158****RECOMMENDATION: REDUCE****C12 P/E: 27.2x**

- ❑ The company has presented separate numbers for the continuing part of the business (Transmission) and discontinuing operations (distribution). Hence yoy comparison is not relevant
- ❑ The T&D industry continues to witness low market growth but PGCIL spending has remained healthy. A silver lining has been that decline in product prices appears to be closer to bottoming out, which is a positive signal for the margins.
- ❑ In the near-term, the T&D equipment industry would continue to face demand and cost pressures. Hence we remain negative on the sector.
- ❑ We maintain Reduce on the stock with a target price of Rs.158 per share (unchanged).

**Summary table**

| (Rs mn)               | CY10  | CY11E | CY12E |
|-----------------------|-------|-------|-------|
| Sales                 | 40200 | 31372 | 35245 |
| Growth (%)            | 12.7  | -22.0 | 12.3  |
| EBITDA                | 4238  | 2868  | 4006  |
| EBITDA margin (%)     | 10.5  | 9.1   | 11.4  |
| PBT                   | 2,816 | 1,711 | 2,661 |
| Net profit            | 1729  | 1027  | 1756  |
| EPS (Rs)              | 7.2   | 4.3   | 7.3   |
| Growth (%)            | 1.7   | -40.6 | 71.0  |
| CEPS (Rs)             | 11.7  | 8.2   | 10.9  |
| BV (Rs/share)         | 39.9  | 34.9  | 40.1  |
| Dividend / share (Rs) | 1.8   | 1.8   | 1.8   |
| ROE (%)               | 18.5  | 10.9  | 18.6  |
| ROCE (%)              | 18.7  | 11.5  | 17.4  |
| Net cash (debt)       | -7759 | -7053 | -8541 |
| NW Capital (Days)     | 80.6  | 107.4 | 124.4 |
| EV/Sales (x)          | 1.4   | 1.7   | 1.6   |
| EV/EBITDA (x)         | 13.1  | 19.1  | 14.1  |
| P/E (x)               | 27.6  | 46.5  | 27.2  |
| P/Cash Earnings       | 17.1  | 24.3  | 18.3  |
| P/BV (x)              | 5.0   | 5.7   | 5.0   |

Source: Company, Kotak Securities - Private Client Research

**Quarterly performance**

| (Rs mn)                        | Q4 CY11      | Q3 CY11      |
|--------------------------------|--------------|--------------|
| <b>Net Sales</b>               | <b>6,789</b> | <b>7,401</b> |
| Other operating income         | 43           | 77           |
| Raw Material costs             | 4,674        | 4,895        |
| Staff costs                    | 669          | 599          |
| Other exp                      | 920          | 1,098        |
| Total Expenditure              | 6,263        | 6,593        |
| <b>PBIDT</b>                   | <b>570</b>   | <b>886</b>   |
| Other Income                   | 34           | -            |
| Depreciation                   | 189          | 184          |
| <b>PBDT</b>                    | <b>416</b>   | <b>702</b>   |
| Interest                       | 138          | 116          |
| <b>PBT</b>                     | <b>278</b>   | <b>586</b>   |
| Tax                            | 119          | 188          |
| <b>Adj Profit After Tax</b>    | <b>159</b>   | <b>398</b>   |
| Extra-ordinary Items           | 142.9        | -            |
| <b>Reported PAT</b>            | <b>302</b>   | <b>398</b>   |
| EBITDA (%)                     | 8.4          | 12.0         |
| Raw material cost to sales (%) | 68.8         | 66.1         |
| Staff cost to sales (%)        | 9.9          | 8.1          |
| Other expenditure to sales (%) | 13.5         | 14.8         |
| Tax rate (%)                   | 42.9         | 32.1         |
| <b>EPS (Rs)</b>                | <b>1.3</b>   | <b>1.7</b>   |

Source: Company

**Result highlights for "Transmission Business"**

- Post the acquisition of Areva T&D by consortium of Alstom and Schneider, the Transmission business of Areva T&D has been retained under Alstom (renamed as Alstom T&D) while the distribution products business has been transferred to Schneider Electric. Hence, yoy comparison is not relevant as the previous numbers included both the segments (Transmission and Distribution).
- Revenue growth has been weakened in the Q4 due to delayed customer clearances (due to delay in procurement of land and coal linkage).

- Market slowdown for T&D equipment continues in this year as well. Several large projects have been delayed due to issues relating to fuel availability and land acquisition.
- For the quarter, EBITDA margins declined 360 bps to 8.4% compared to 12.0% in Q2 CY11 due to lower sales volume and price erosion in key product categories.
- The management sounded cautious on margin outlook highlighting that price competition has been very severe especially from Korean players. Moreover, the price competition is not limited to a particular segment but is spreading to other product segments as well.

### **Business environment remains tough. Traction in PGCIL spending is the only silver lining.**

- Power generation market has been further impacted due to
  - Deferment of investment by most private IPPs
  - Severe cash shortage at SEBs is causing them to scale down power purchases
  - Banks are cautious in sanctioning fresh loans to the SEBs
- The newly appointed committee by PMO to address coal shortage problem should partially revive investment interest in the power generation sector.
- Industry & Infrastructure sectors are yet to show positive growth in Capex. However, there is positive traction on the PGCIL spending. BOOT is now emerging as a new market trend in the transmission domain

### **Order snapshot**

During the quarter, order intake is down 49% to Rs 6.6 bn. For CY11 basis, the order intake is down 3% yoy to Rs 40.6 bn. Order intake has been driven by large orders from PGCIL (765 KV substation and circuit breaker package valued at Rs 2.0 bn). Order backlog at Rs 43.3 bn provides visibility of 15 months.

### **Earnings Revision - CY11E**

|                 | <b>Earlier</b> | <b>Revised</b> |
|-----------------|----------------|----------------|
| Revenue (Rs mn) | 36,544         | 35,245         |
| EBITDA (%)      | 11.1           | 10.4           |
| EPS (Rs)        | 7.2            | 6.4            |
| % change        |                | -11.5          |

Source: Kotak Securities - Private Client Research

### **Maintain Reduce**

**We maintain REDUCE on Areva T&D India with a price target of Rs.158**

Valuations are rich at 27.2x CY12E earnings. We value the company at 30x CY11 earnings in line with the trading multiples for Siemens and ABB. We maintain **REDUCE** on the company with a target price of Rs 158 (unchanged).

## RESULT UPDATE

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## ALLCARGO GLOBAL LOGISTICS

PRICE: Rs.145  
TARGET PRICE: Rs.190

RECOMMENDATION: BUY  
CY12E P/E: 7.4x

## Summary table

| (Rs mn)               | CY10    | CY11E   | CY12E   |
|-----------------------|---------|---------|---------|
| Sales                 | 28,612  | 32,443  | 36,373  |
| Growth (%)            | 38.8    | 13.4    | 12.1    |
| EBITDA                | 2,696   | 3,871   | 4,438   |
| EBITDA margin (%)     | 9.4     | 11.9    | 12.2    |
| PBT                   | 2,238   | 2,986   | 3,331   |
| Net profit            | 1,654   | 2,293   | 2,573   |
| EPS (Rs)              | 12.1    | 16.8    | 18.8    |
| Growth (%)            | 24.1    | 38.7    | 12.2    |
| CEPS (Rs)             | 17.7    | 23.3    | 26.3    |
| BV (Rs/share)         | 89.4    | 104.1   | 119.8   |
| Dividend / share (Rs) | 2.9     | 3.0     | 4.0     |
| ROE (%)               | 13.5    | 16.1    | 15.7    |
| ROCE (%)              | 12.0    | 12.2    | 12.4    |
| Net cash (debt)       | (2,330) | (5,253) | (3,677) |
| NW Capital (Days)     | 19.8    | 20.8    | 23.6    |
| EV/EBITDA (x)         | 7.7     | 6.1     | 5.0     |
| P/E (x)               | 11.6    | 8.3     | 7.4     |
| P/Cash Earnings       | 7.9     | 6.0     | 5.3     |
| P/BV (x)              | 1.6     | 1.3     | 1.2     |

Source: Company, Kotak Securities - Private Client Research

## Slightly subdued operational performance

Allcargo Logistics (AGLL) reported a consolidated adjusted PAT of Rs 508 mn vs. our estimate of Rs 560 mn and consensus estimate of Rs 600 mn in 4Q CY11, up ~20% YoY but falling 10% QoQ. This was primarily because of fall in margin by 90 bps YoY and by 290 bps QoQ. The fall in margin was primarily on account of weak container shipping market, slowing of trade and strong competition in the CFS business (leading to lower utilisation). Revenue was at Rs 9.98 bn, up 7% YoY, much above consensus on account of a jump in CFS volume in Chennai and Mundra, higher dwell times in the CFS segment and improved realization in ECULine. The company now expects healthy volume growth in its global NVOCC business as it moves towards higher volume and strategic trade routes. Company is now in the process of increasing the CFS capacity at JNPT through a new facility with an annual capacity of ~1.5 lakh TEUs. Company would also enhance the capacity at its Chennai CFS from 1.2 lakh TEUs to 1.5 lakh TEUs through renovation of the facility and purchase of gantry cranes. In the project cargo and engineering solution division, the company has made a relatively huge capex of Rs 3.25 bn in CY11E primarily to enhance the fleet. We expect this segment to report revenue growth of 25% CAGR to Rs 4.8 bn over CY10 to CY12E. Overall we expect the company to report a healthy topline growth of 12% CAGR over CY10 to CY12E to ~Rs 36 bn. The margins are also expected to expand as Allcargo takes an absolute margin in its NVOCC segment and the current slowness in the container shipping market has made the base low. Increased contribution from high margin CFS business in total revenues would also help the margin. Despite strong operational performance and estimated as well, the stock price has remained flat YOY. We reiterate BUY on Allcargo with an unchanged 12 month price target of Rs 190 for the stock. Downside to our call includes: 1) Further competition in the CFS segment. 2) Slowing down of container trade.

## Quarterly Snapshot (Consolidated)

| (Rs mn)              | Q4CY10       | Q1CY11       | Q2CY11       | Q3CY11       | Q4CY11       |
|----------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Sales</b>         | <b>7,037</b> | <b>7,315</b> | <b>8,541</b> | <b>8,116</b> | <b>9,983</b> |
| Operating expense    | 4,663        | 4,732        | 5,815        | 5,270        | 6,892        |
| Staff cost           | 1,100        | 1,092        | 1,200        | 1,148        | 1,346        |
| other benefits       | 504          | 594          | 503          | 650          | 751          |
| Operating expd       | 6,267        | 6,418        | 7,518        | 7,068        | 8,989        |
| <b>EBIDTA</b>        | <b>770</b>   | <b>897</b>   | <b>1,023</b> | <b>1,048</b> | <b>994</b>   |
| EBIDTA (%)           | 10.9         | 12.3         | 12.0         | 12.9         | 10.0         |
| Depreciation         | 183          | 180          | 244          | 224          | 256          |
| Interest             | 64           | 99           | 83           | 125          | 189          |
| Other income         | 59           | 81           | 106          | 75           | 178          |
| <b>PBT</b>           | <b>582</b>   | <b>699</b>   | <b>802</b>   | <b>774</b>   | <b>727</b>   |
| Taxes                | 141          | 158          | 110          | 132          | 179          |
| <b>PAT</b>           | <b>441</b>   | <b>541</b>   | <b>692</b>   | <b>642</b>   | <b>548</b>   |
| Minority interest    | 27           | 43           | 27           | 33           | 40           |
| <b>Adjusted PAT</b>  | <b>414</b>   | <b>498</b>   | <b>665</b>   | <b>609</b>   | <b>508</b>   |
| Extraordinary' items | 5            | 0            | 0            | -50          | 0            |
| <b>Reported PAT</b>  | <b>419</b>   | <b>498</b>   | <b>665</b>   | <b>559</b>   | <b>508</b>   |

Source: Company

### Financial highlights

- Net sales grew by 41.9% and 23% on YoY and QoQ respectively to Rs 9.9 bn in Q4CY11 backed by strong revenue growth in all three business segments - MTO, CFS and Project Engineering.
- EBITDA margins declined by 90 bps YoY and 280 bps YoY to 10% in Q4CY11 on account of weak container shipping market, slowing of trade and strong competition in the CFS business (leading to lower utilisation).
- Volumes in the CFS business grew marginally by 2.7% YoY and 0.9% QoQ to 63,290TEUs in Q4CY11, led by strong volume growth in Chennai and Mundra CFS, which was partly offset by volume decline at JNPT. The new CFS at JNP with a capacity of 1.5 lakh TEUs is expected to be commissioned by H2CY12.
- In the MTO segment, volumes were up 17% YoY and down 4% QoQ at 68,503 TEUS
- Interest cost for the company has gone in the quarter to Rs 189 mn from Rs 64 mn YoY as the company has been doing capex across segments primarily through debt.
- The tax rate stood at a higher 33% (previous quarter it was 17%) due to lower MAT entitlement for the quarter. Also the earnings contribution from the CFS segment has increased which is a full tax paying business.
- Consequently PAT was at Rs 508 mn down 20% QoQ but up 20% YoY
- The company has also approved merger of the projects division of its 100% subsidiary, MHCT. AGLL has also decided to change its year-end from December to March.

### Non Vessel Owned Container Carrier (NVOCC) or Multimodal Transport Operations (MTO) continues to show healthy growth

Allcargo generated its ~10% MTO volume (25,875 TEUs in CY10 and 18,076 TEUs in 9MCY11) from Indian market and it generates remaining 90% MTO volume (~211,700 TEUs in CY10 and 181,620 TEUS in 9MCY11) through ECU Line which has its presence in over 59 countries. MTO business largely depends upon the performance of the container shipping segment. However, the global container freight rates has fallen across routes by more than 50% in the last one year with no signs of immediate recovery. For instance India - UK per TEU container shipping rate has fallen from \$ 1200 per TEU in January 2011 to \$600 per TEU currently. But AGL been a Less than Container Load (LCL) consolidator won't be much impacted by the weakness in the container market. Typically LCL volumes are more immune to slowness in container trade as a large part of Full Container Load (FCL) volumes during bad times gets converted into LCL volumes. So the impact on the FCL business is more than the LCL business. Hence we are not bearish for MTO volume growth for AGL. Increasing containerization especially in India supports our argument. In Q3CY11 domestic MTO volumes grew by 13.2% YoY to 7,367 TEUs and ECU Line volumes grew by 12.3 % YoY to 63,010 TEUs. We estimate domestic volume to increase at a CAGR of 13% CY10 - CY12E to 32.894 TEUs in CY12E as the Indian economy is expected to grow ~7% for the next two years. While remaining cautious, we estimate ECU Line's volume to increase at a CAGR of 8% over CY10 - CY12E to 247,749 TEUs in CY12E.

#### Consolidated volumes in MTO business for Allcargo in TEUs

|       | ECU     | CAGR | India  | CAGR  | Total   | CAGR |
|-------|---------|------|--------|-------|---------|------|
| CY08  | 190,509 |      | 29,555 |       | 220,064 |      |
| CY09  | 181,313 | -4.8 | 24,868 | -15.9 | 206,181 | -6.3 |
| CY10  | 211,679 | 16.7 | 25,875 | 4.0   | 237,554 | 15.2 |
| CY11E | 237,080 | 12.0 | 25,948 | 0.3   | 263,029 | 10.7 |
| CY12E | 247,749 | 4.5  | 28,057 | 8.1   | 275,806 | 4.9  |
| CY13E | 262,614 | 6.0  | 30,993 | 10.5  | 293,607 | 6.5  |

Source: Company, Kotak Securities - Private Client Research

### Aggressive capacity expansion in CFS and ICD segment

Allcargo had allocated ~ Rs 1.1 bn for setting a second CFS at JNPT with a capacity of ~1.5 lakh TEUs which would double its capacity at JNPT to ~290,000 TEUs (Twenty-Foot Equivalent Unit). The new facility would be operational from 3rd quarter of CY12 and would initially handle only export containers. We have factored lower utilisation of 40% and lower realisation of Rs 5000 per TEU for this new facility. The company is also enhancing the capacity at its Chennai CFS from 1.2 lakh TEUs to 1.5 lakh TEUS by end of Q2CY12 through modernization of the facility and purchase of gantry cranes. The company has allocated Rs 400 mn for setting up ICDs at Dadri and Hyderabad with capacities of 52,000 TEUs and 36,000 TEUs respectively which would complement the NVOCC business. We believe capacity expansion at JNPT CFS (current utilisation rate above 95%) & new capacity at ICDs as well as order book position (Rs 4.5 bn) of project and engineering solution segment would drive top-line growth.

#### Current capacities for Allcargo at CFS/ICDs in TEUs

| CFS     | TEUs    | ICD              | TEUs   |
|---------|---------|------------------|--------|
| JNPT    | 144,000 | Indore-Pithampur | 36,000 |
| Chennai | 120,000 |                  |        |
| Mundra  | 77,000  |                  |        |
|         | 341,000 |                  |        |

Source: Company

#### Addition in Capacities

| Location              | CFS/ICD | Capacity (TEUs) | Remark                 |
|-----------------------|---------|-----------------|------------------------|
| JNPT                  | CFS     | 144,000         | Operational by Q3CY12  |
| Dadri (Greater Noida) | ICD     | 52,000          | Partially Operational  |
| Hyderabad             | ICD     | 36,000          | New facility by Q3CY12 |

Source: Company

We estimate expansion of ICDs/CFS facility would increase the revenues from CFS segment in the overall revenues, particularly from JNPT CFS as currently its operate above 95% capacity utilization with ~9% market share at JNPT port. Currently, JNPT contributes more than 60% of CFS volume of the company which attracts higher realization compared to other CFS in India mainly due to most of its volume is contributed by imports. JNPT has registered a CAGR of ~15% to 4.1mn TEUs (total container volumes) between FY01 and FY11. We believe this growth would continue in future considering overall growth in the economy and Allcargo is well positioned to get the benefit of increasing traffic on India's largest port (accounts for ~60% of container traffic).

#### Volumes in CFS business for Allcargo in TEUs

|         | CY08    | CY09    | CY10    | CY11E   | CY12E   | CY13E   |
|---------|---------|---------|---------|---------|---------|---------|
| Mumbai  | 125,381 | 107,800 | 131,870 | 136,800 | 187,200 | 201,600 |
| Chennai | 40,379  | 48,300  | 73,427  | 87,000  | 87,600  | 90,000  |
| Mundra  | 12,428  | 17,751  | 21,500  | 33,600  | 35,280  | 37,800  |
| Total   | 178,188 | 173,851 | 226,797 | 257,400 | 310,080 | 329,400 |
| CAGR    |         | -2.4    | 30.5    | 13.5    | 20.5    | 6.2     |

Source: Company, Kotak Securities - Private Client Research

### Company has incurred huge capex of Rs 3.25 bn in the Project cargo & Engineering solution in CY11

Allcargo has incurred a capex of Rs 3.25 bn only for the Project cargo and Engineering solution division to modernise the fleet adding cranes, trailers and forklifts. With this capex we estimate the company is in a position to take up more complex and high margin projects. The current total order book of the segment is ~Rs 4.5 bn. We believe the company would execute all the order by CY12E end. Though the orderbook is full for the next 12 months the division may face slowdown in orderbook addition as corporate capex slows. Management is confident of achieving healthy growth in revenue and profitability for the segment. We estimate Project & Engineering Solution revenues would increase at a CAGR of 25% (low base effect and because of capex) to Rs 4.8 bn over CY10 to CY12E.

#### Addition of equipment's and performance of Project Cargo division

| Infrastructure/Equipment's owned | CY09  | CY10  | CY11E | CY12E | CY13E |
|----------------------------------|-------|-------|-------|-------|-------|
| Cranes                           | 75    | 115   | 136   |       |       |
| Trailers                         | 363   | 425   | 483   |       |       |
| Reach stackers                   | 20    | 29    | 36    |       |       |
| Forklifts                        | 70    | 66    | 62    |       |       |
| Total                            | 528   | 635   | 717   | 792   | 842   |
| Capex (Rs mn)                    |       |       | 3,250 | 750   | 500   |
| Revenues (Rs mn)                 | 1,039 | 2,910 | 3,779 | 4,800 | 5,868 |

Source: Company, Kotak Securities - Private Client Research

### No plans to diversify the business further

Company has no plans to diversify the business further. The company also has no intentions to enter into much talked about FTWZ business. However we expect ECU line to continue its strategy of expanding inorganically

### EBIDTA margins to improve by 280 bps over CY10 to 12.2% in CY12E

Allcargo been a Less than Container Load (LCL) consolidator won't be much impacted by the current weakness in the container market. Typically LCL volumes are more immune to slowness in container trade as a large part of Full Container Load (FCL) volumes during bad times gets converted into LCL volumes. The margins are also expected to expand as Allcargo takes an absolute margin in its NVOCC segment and the current slowness in the container shipping market has made the base low. Also the company is increasing its capacities at Hyderabad ICD, Dadri ICDs and JNPT CFS (high EBIDTA margin business of 52% in CY10), we believe the contribution in total revenue from CFS business would increase to 9.3% in CY12E compared to 7.0% in CY10. Going ahead, we expect change in revenue mix toward high margin CFS business coupled with strong performance of the MTO business would expand consolidated EBIDTA margin by 280 bps over CY10 to 12.2% in CY12E. Margin expansion would also improve the ROE and ROCE of the company.

### Debt to recede and free cash flow to turn positive in CY12E

AGLL has already spent more than ~ Rs 5 bn in CY10 and 9MCY11 and planned to spend ~ Rs 2 bn the next one year primarily for CFS and MTO business. Post CY12E, there won't be significant capex for the company at least till CY14E. With healthy estimated operating cash flow generation of ~ Rs 2.4 bn in CY11E and ~Rs 3.3 bn in CY12E we expect the debt of the company to start receding post CY12E and company to turn free cash flow positive. With reduction in debt and benefits of capex accruing to the company, we estimate the return ratios of the company to improve going forward.

**Debt and cash flow analysis**

| (Rs mn)                | CY08  | CY09  | CY10   | CY11E  | CY12E  |
|------------------------|-------|-------|--------|--------|--------|
| Gross Debt             | 3,440 | 2,045 | 3,778  | 8,150  | 8,618  |
| Networth               | 6,180 | 9,799 | 12,214 | 14,217 | 16,358 |
| Cash                   | 954   | 734   | 1,448  | 2,897  | 4,941  |
| Net Debt/equity (x)    | 0.40  | 0.13  | 0.19   | 0.37   | 0.22   |
| Gross Debt /EBITDA (x) | 1.56  | 0.93  | 1.40   | 2.11   | 1.94   |
| Operating cash flow    | 642   | 1,876 | 2,602  | 2,412  | 3,344  |
| Net Capex              |       |       |        | 5,099  | 1,250  |

Source: Company, Kotak

**Economic slowdown may have an adverse impact on company**

The Logistics industry has witnessed strong traffic growth due to robust economic growth in India. However, India may face the risk of economic slowdown in future. Since the country's growth has positive correlation with the Logistics industry, AGL's performance would be affected if India's growth will slow down going forward. Similarly, as the company generates its majority revenues from other countries through ECU Line, its growth is subject to overall performance of world economy.

**Stock has liquidity risk**

The promoter holding in Allcargo is ~70% and Institutions including foreign institutions hold around 28% in the company. Out of the total number of shares of 137 mn, only around 2% (or 2.7 mn shares) is available as free float. This is the only reason for low volumes in the stock at the bourses. The average daily volume for the last one year has been around 25,000 shares (both NSE and BSE). This may also be reason for low demand from big investors for the stock which is imperative for the discovering fair value of the stock. Similar is the case even in Concor.

**Key Investors as on December 2011**

| Allcargo                   | % held        | Concor                     | % held        |
|----------------------------|---------------|----------------------------|---------------|
| Promoters                  | 69.82         | Government of India        | 63.08         |
| Blackstone                 | 13.99         | LIC                        | 5.12          |
| New Vernon                 | 2.88          | T Rowe Price               | 3.70          |
| Acacia Partners            | 2.28          | Aberdeen                   | 3.58          |
| Bajaj Allianz              | 1.93          | Capital Research           | 2.88          |
| Citigroup                  | 1.29          | Genesis                    | 2.00          |
| Other funds/corporates     | 5.83          | Other funds/corporates     | 16.44         |
| <b>Free Float (public)</b> | <b>1.98</b>   | <b>Free Float (public)</b> | <b>3.20</b>   |
| <b>Total</b>               | <b>100.00</b> | <b>Total</b>               | <b>100.00</b> |

Source: Bloomberg

**Outlook and Valuation - Value BUY with a Target Price of Rs 190**

AGLL has a strong presence in the MTO business through wide network of ECU Line and also has a strong hold on domestic MTO business, MTO volumes and realizations may come under pressure in near term due to the weakness in the container shipping segment and economic problems in Europe and US. However we are confident on the business as the company operates only in the LCL segment which is quiet immune to economic slowdown.

The indigenous CFS segment would deliver better growth with increasing containerization in the country and +7% estimated GDP growth for the next two financial years for India.

**We reiterate BUY on Allcargo Global Logistics with a price target of Rs.190**

We feel currently investors are overlooking the performance. Despite healthy operational performance, the stock price has remained flat YoY at Rs 140. At CMP, the stock is trading at 8.4 x to CY12E earnings estimates and available at ~20% discount to its peer group average of 11 x for the last 3 years. We have valued the stock at par with peers. We reiterate **BUY** with a target price of Rs 190 based on CY12E P/E. The target price implies a potential upside of ~31% for an investment horizon of 12 months.

## Bulk deals

## Trade details of bulk deals

| Date   | Scrip name       | Name of client                       | Buy/<br>Sell | Quantity<br>of shares | Avg.<br>price<br>(Rs) |
|--------|------------------|--------------------------------------|--------------|-----------------------|-----------------------|
| 17-Feb | 8K Miles Soft    | Gulab Chand Pukhraj Surana           | S            | 30,000                | 55.6                  |
| 17-Feb | Banas Finance    | Vaishali Chirag Shah                 | S            | 681,288               | 49.0                  |
| 17-Feb | Capman Fin       | Slogan InfotechPvt Ltd               | B            | 25,000                | 10.0                  |
| 17-Feb | Chisel           | Bharti Rajesh Sheth                  | S            | 11,000                | 54.4                  |
| 17-Feb | Emporis          | Aashish Developer                    | B            | 210,000               | 58.5                  |
| 17-Feb | Emporis          | Raajratna Stockholdings Pvt Ltd      | S            | 208,020               | 58.5                  |
| 17-Feb | Epic Energy-\$   | Kakk Family Private Trust            | S            | 48,500                | 15.0                  |
| 17-Feb | Essen Supp       | Vardhaman Textile CompanyPvt Ltd     | B            | 70,000                | 51.8                  |
| 17-Feb | Essen Supp       | Radheshyam Mahadev Chokhani          | S            | 100,000               | 51.7                  |
| 17-Feb | Gateway Distr    | Citigroup Global Markets Mauritius   | S            | 552,000               | 143.8                 |
| 17-Feb | Gflfin           | Indian Aluminium Rolling Mills P Ltd | B            | 37,000                | 34.9                  |
| 17-Feb | Gloster          | Kttlewell Bullin & Co Ltd            | B            | 14,080                | 315.0                 |
| 17-Feb | Gloster          | Nirmala Krishna Chandra Lahoti       | S            | 15,000                | 315.3                 |
| 17-Feb | Indergiri Fin    | Gajanand Gupta                       | S            | 40,000                | 10.1                  |
| 17-Feb | Kanchan Intl     | SLP Traders (Satish Vasant Ghone)    | B            | 27,600                | 88.0                  |
| 17-Feb | Karma Ind        | Moonstar Securities Trading & Fin    | B            | 200,000               | 55.4                  |
| 17-Feb | Karma Ind        | Multiplast Trading CompanyPvt Ltd    | S            | 215,920               | 55.2                  |
| 17-Feb | Kirloskar Pneu   | Kirloskar Brothers Investments Ltd   | B            | 106,630               | 490.0                 |
| 17-Feb | Kirloskar Pneu   | DSP Blackrock Mutual Fund            | S            | 105,595               | 490.0                 |
| 17-Feb | Krishna Deep     | Money Managers                       | S            | 36,995                | 45.5                  |
| 17-Feb | Master Trust     | Gala Finance And Investment Ltd      | B            | 39,242                | 82.9                  |
| 17-Feb | Midvalley Entert | Gunny Chem Tex India Ltd             | S            | 235,377               | 14.5                  |
| 17-Feb | Mudit Finlease   | D.A. TehnologiesPvt Ltd              | B            | 68,000                | 285.8                 |
| 17-Feb | Neo Corp         | Ravindra Bhikuram Tambe              | S            | 195,115               | 45.8                  |
| 17-Feb | Parichay Invest  | Dhaval Satishkumar Agrawal           | B            | 13,600                | 36.7                  |
| 17-Feb | Pasupati Fin     | Paresh Ramjibhai Chauhan             | B            | 25,000                | 36.4                  |
| 17-Feb | Pasupati Fin     | Charishma Engineering Ltd            | S            | 50,000                | 36.4                  |
| 17-Feb | Pasupati Fin     | Amit Krishnakant Thakker             | S            | 40,000                | 36.7                  |
| 17-Feb | Pasupati Fin     | Rohnil Boradia                       | S            | 49,105                | 36.4                  |
| 17-Feb | Rander Corp      | Rhiday GemsPvt Ltd                   | B            | 300,000               | 147.6                 |
| 17-Feb | Rander Corp      | P S Global Ltd                       | S            | 66,500                | 150.3                 |
| 17-Feb | Rander Corp      | Abhijeet Manojkumar Jayaswal         | S            | 125,000               | 145.2                 |
| 17-Feb | Rander Corp      | Archana Ajay Mittal                  | S            | 95,000                | 149.6                 |
| 17-Feb | Ravi Kumar Dist  | BPJ Holding Pvt Ltd                  | B            | 180,000               | 16.1                  |
| 17-Feb | Sanjay Leasing   | Ketan Bhavarlal Kothari              | B            | 54,509                | 110.3                 |
| 17-Feb | Sanjay Leasing   | Ashish Pratap Doshi                  | S            | 54,499                | 110.3                 |
| 17-Feb | Setco Auto       | Morgan Stanley Asia (Singapore) Pte  | B            | 100,000               | 174.0                 |
| 17-Feb | Sun And Shine    | Shah Hiralal Popatlal                | S            | 359,200               | 40.2                  |
| 17-Feb | Sundaram Multi   | Inventure Merchant Banker Services   | B            | 575,000               | 45.8                  |
| 17-Feb | Sundaram Multi   | Inventure Commodities Ltd            | S            | 575,000               | 45.8                  |
| 17-Feb | Unisys Soft      | Esha Securities Ltd                  | S            | 123,056               | 152.5                 |

Source: BSE

## Gainers &amp; Losers

## Nifty Gainers &amp; Losers

|                | Price (Rs) | chg (%) | Index points | Volume (mn) |
|----------------|------------|---------|--------------|-------------|
| <b>Gainers</b> |            |         |              |             |
| Infosys        | 2,948      | 1.3     | 6.2          | 1.4         |
| SBI            | 2,417      | 2.8     | 5.7          | 5.0         |
| BHEL           | 304        | 6.7     | 4.9          | 28.3        |
| <b>Losers</b>  |            |         |              |             |
| Hero MotoCorp  | 2,109      | (3.7)   | (2.5)        | 0.5         |
| Maruti Suzuki  | 1,322      | (2.8)   | (1.7)        | 0.7         |
| Hindalco Ind   | 151        | (2.1)   | (1.4)        | 19.1        |

Source: Bloomberg

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