Sharekhan
by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Viewpoint

Result Update

Allcargo Gati Ltd

OPM levers beginning to pay off; Stay positive

Logistics	Sharekhan code: ACLGATI

Reco/View: Positive	↔	CMP: **Rs. 95**	Upside potential: **35%**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

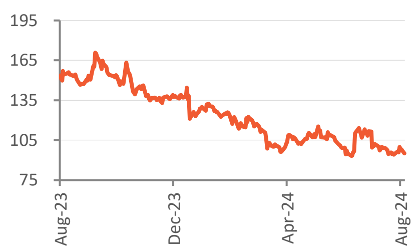
Company details

Market cap:	Rs. 1,397 cr
52-week high/low:	Rs. 178 / 90
NSE volume: (No of shares)	16.0 lakh
BSE code:	532345
NSE code:	ACLGATI
Free float: (No of shares)	7.8 cr

Shareholding (%)

Promoters	46.9
FII	6.9
DII	5.6
Others	40.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-7.0	-17.7	-18.9	-38.1
Relative to Sensex	-5.4	-24.2	-28.7	-57.5

Sharekhan Research, Bloomberg

Summary

- We stay positive on Allcargo Gati Limited (AGL) and expect an upside of 35%, expecting a high net earnings growth trajectory over the next two years.
- Operational profitability surprised positively in Q1FY2025 led by reduction in costs in express business. Net loss narrows down both y-o-y and q-o-q.
- Post the amalgamation of contract logistics business of Allcargo Logistics, the management estimates FY2027 revenues of Rs. 3000 crore, 30% plus gross margins and 10% EBITDA margins.
- Express business volumes are targeted to grow at 15% CAGR over the next couple of years along with sustained measures for further reduction in operating costs.

Allcargo Gati (AGL) reported marginally lower than estimated consolidated revenues at Rs. 408 crore (down 4.2% y-o-y) as GESCPL (ex-GKEPL), which houses its Express business, reported a 2.5% y-o-y dip in revenues although volumes were up 3% y-o-y. However, consolidated OPMs at 4.7% (up 83 bps y-o-y) surprised positively (our estimate of 3.8%) led by improvement in gross margins (up 47 bps y-o-y at 24.3%) led by sustained decrease in operating costs. Express business reported 114 bps improvement in EBITDA margins at 5.6%. Overall, consolidated operating profit grew 16.4% y-o-y at Rs. 19.3 crore while net loss narrowed down to Rs. 0.7 crore. For FY2025, the management targets 15% y-o-y volume growth for its express business. Post the amalgamation of contract logistics business of Allcargo Logistics (expected in Q1FY2026), the management estimates FY2027 revenues of Rs. 3000 crore, 30% plus gross margins and 10% EBITDA margins.

Key positives

- EBITDA margins in express business improved by 114 bps y-o-y to 5.6% while overall consolidated OPMs improved 83 bps y-o-y to 4.7%.
- Debt free as on June 2024 with a positive cash position of Rs. 196 crores after a successful QIP of Rs. 169 crores.

Key negatives

- Express business revenues were lower 2.5% y-o-y despite 3% volume growth.
- Consolidated net loss continued although have narrowed down.

Management Commentary

- The management retained its Rs. 3000 crore revenue guidance (including contract logistics revenues) for FY2025. It targets 15% volume growth for FY2025. Gross margins and EBITDA margins guidance are retained at 30% plus and 10% respectively for FY2025. It expects Q2FY2025 to be very good benefitting from pre-festivity inventory.
- The management believes Gati is currently at an inflection point for growth and profitability over the next two years. The recent fund raise would be utilised for growth in infrastructure, technology and other required processes.
- It would be cross selling express business to contract logistics customers. It would be rolling out RFQs for combined warehousing and distribution giving clients single unit price. It expects contract logistics business to grow at 30% CAGR over the next 2-3 years.

Revision in estimates – We have fine tuned our net earnings estimates for FY2025-FY2026.

Our Call

Valuation – Stay Positive; expect upside potential of 35%: Gati has been showing improving operational performance on the back of cost efficiencies and yield improvements in its express business. Its focus on improving yields, consolidation of hubs across regions, and completion of ECL-related provisions is likely to improve OPMs going forward. Management remains committed to achieving its revenue target of Rs. 3,000 crore, with 10% OPM to be achieved by FY2027. Amalgamation of contract logistics business of allcargo logistics is expected to provide fillip to its revenues and OPMs over the next two to three years. Stock trades at an EV/EBITDA of 16x/9x its FY2025E/FY2026E earnings. We believe there is room for upside as it achieves scale and higher operational profitability. Hence, we stay positive on the stock and expect an upside of 35% estimating high net earnings growth trajectory over the next two years.

Key Risks

A sustained weak macroeconomic environment can lead to a downward revision in net earnings.

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24	FY25E	FY26E
Revenue	1,723.2	1,698.0	1,868.7	2,206.2
OPM (%)	4.1	3.1	4.7	7.3
Adjusted PAT	(10.2)	(20.0)	(0.6)	53.7
% YoY growth	-	-	-	-
Adjusted EPS (Rs.)	(0.8)	(1.5)	(0.0)	4.1
P/E (x)	-	-	-	23.0
P/B (x)	1.9	1.9	1.9	1.7
EV/EBITDA (x)	19.8	26.7	15.9	8.6
RoNW (%)	(1.7)	(3.2)	(0.1)	8.1
RoCE (%)	(7.4)	10.1	3.0	9.6

Source: Company; Sharekhan estimates

Operational profitability improves; net loss narrows down

The company's consolidated net revenues declined by 4.2% y-o-y (up 0.6% q-o-q) to Rs. 408.2 crore which was 4% lower than our estimate. The revenues from express distribution and supply chain declined by 2.7% y-o-y (up 0.6% q-o-q) at Rs. 356 crore. The revenue from fuel stations declined by 15% y-o-y (down 1.3% q-o-q) to Rs. 50 crore. The company reported consolidated OPM of 4.7% (up 83bps y-o-y, up 132bps q-o-q) which was higher than our estimate of 3.8%. The company's gross margins improved by 47bps y-o-y (up 100bps q-o-q) to 24.3%. Consolidated operating profit grew by 16.4% y-o-y (up 39.6% q-o-q) to Rs. 19.3 crore, which was 20% than our estimate. Higher depreciation (up 20% y-o-y) led to consolidated adjusted net loss of Rs. 0.7 crore as against adjusted net losses of Rs. 1.7 crore/Rs. 4.6 crore in Q1FY2024/Q4FY2024.

Key conference call takeaways

- **Guidance:** The management retained its Rs. 3000 crore revenue guidance (including contract logistics revenues) for FY2025. It targets 15% volume growth for FY2025. Gross margins and EBITDA margins guidance are retained at 30% plus and 10% respectively for FY2025. It expects Q2FY2025 to be very good as Q2 is generally largest quarter for pre-festivity inventory.
- **Outlook:** Allcargo acquired Gati four years ago. Since, it has cleaned up balance sheet. The management believes Gati is currently at an inflection point for growth and profitability over the next two years. The recent fund raise would be utilised for growth in infrastructure, technology and other required processes. As technology rolls out, employee rationalisation will continue as its employee cost is higher than competition due to old technology.
- **Contract logistics:** The merger of contract logistics business of Allcargo Logistics is expected to be complete by Q1FY2026. It would be cross selling express business to contract logistics customers. It would be rolling out RFQs for combined warehousing and distribution giving clients single unit price. It expects contract logistics business to grow at 30% CAGR over the next 2-3 years.
- **Augmenting managerial strength:** Mr. Ketan Kulkarni who was appointed as the chief growth officer of Allcargo group early this year, has been elevated as Deputy Managing Director of GESCPL effective immediately. Ketan comes with 30 years of experience spanning multiple sectors. His last stint was with Blue Dart Express as a Chief Commercial Officer where he spent 17 years leading sustainable and strategic growth initiatives.
- **Growth initiatives:** Technology – It launched first model "GATE" for tracking and route sharing of Gati Associates. Infrastructure – Phase I has been implemented. It has signed LoIs for Ahmedabad, Kolkata and Pune hubs.
- **Q1FY25 highlights:** It has become debt free as on June 2024 with a positive cash position of Rs. 196 crores after successful QIP of Rs. 169 crore. Express volumes stood at 300,000MT versus 292,000 in Q1FY2024. Express revenues were Rs. 358 crore versus Rs. 367 crore in Q1FY2024. Gross margins improved 100 bps q-o-q to 27%. EBITDA of express business stood at Rs. 20 crore versus Rs. 18 crore in Q1FY2024. Client mix for KEA:MSME:Retail was 63%:19%:18%. Overall, consolidated revenues were down 4% y-o-y to Rs. 408 crore while OPM improved 83 bps y-o-y to 4.7%.
- **Client mix:** Its first benchmark is to achieve KEA: MSME mix of 60:40 and aspirational target is 55:45.

Results (Consolidated) **Rs cr**

Particulars	Q1FY25	Q1FY24	Y-o-Y (%)	Q4FY24	Q-o-Q (%)
Net sales	**408.2**	**426.2**	**-4.2%**	**405.8**	**0.6%**
Other income	2.7	2.2	21.6%	3.8	-29.3%
Total income	**410.9**	**428.4**	**-4.1%**	**409.6**	**0.3%**
Total expenses	389.0	409.7	-5.0%	392.0	-0.8%
Operating profit	**19.3**	**16.5**	**16.4%**	**13.8**	**39.6%**
Depreciation	18.5	15.5	19.8%	19.7	-6.1%
Interest	7.5	7.2	4.3%	7.5	-0.8%
Exceptional items	0.0	0.0	-	-1.0	-
Profit Before Tax	**-4.1**	**-3.9**	**-**	**-8.8**	**-**
Taxes	-2.0	-1.2	-	-2.6	-
PAT	-2.2	-2.7	-	-6.2	-
Minority Interest	-1.4	-1.1	-	-2.5	-
Adjusted PAT	**-0.7**	**-1.7**	**-**	**-4.6**	**-**
EPS (Rs.)	**-0.1**	**-0.2**	**-**	**-0.4**	**-**
			BPS		**BPS**
OPM (%)	4.7%	3.9%	83	3.4%	132
NPM (%)	-0.2%	-0.4%	-	-1.1%	-
Tax rate (%)	-	-	-	-	-

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Strong growth outlook led by changing consumer preferences and macro pick-up

The logistics industry has been one of the key sectors that has shown a strong revival post-COVID-19 pandemic, affecting the overall trade environment both domestically and globally. Domestic indicators such as e-Way bill generations, FASTag collections, Indian rail volumes, domestic port volumes, and foreign trade are showing clear signs of revival. Further, organised domestic logistics players have seen improved business, led by user industries' preference towards credible supply chain management in the wake of the impact of COVID on supply chain operations. Further, the 3PL industry has seen a faster improvement in processes, led by segments such as e-Commerce, pharma, and FMCG. Hence, we have a positive view of the sector.

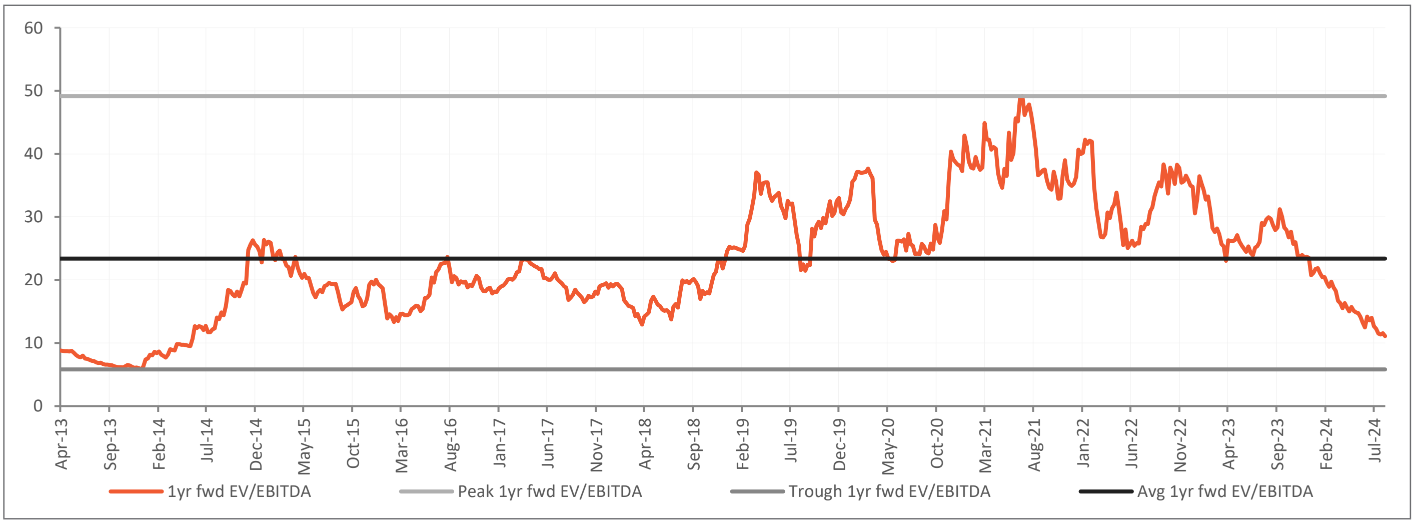
■ Company Outlook – Strong earnings growth outlook led by business restructuring

Gati is on a high earnings growth trajectory for the next 2-3 years, which got initiated post-acquisition of the company by AllCargo Logistics in March 2020. Restructuring involves divestment of subsidiaries and unrelated businesses, sale of land and buildings, a significant reduction in debt and contingent liabilities, deep rationalisation of costs, streamlined working capital, and senior leadership changes, leading to an asset-light-focused approach to its core businesses. It is now on a path to regain its leadership positioning through accelerated sales, digitisation and capacity expansion. Gati targets of Rs. 3,000 crore, with 9-10% OPM to be achieved by FY2026.

■ Valuation – Stay Positive; expect upside potential of 35%

Gati has been showing improving operational performance on the back of cost efficiencies and yield improvements in its express business. Its focus on improving yields, consolidation of hubs across regions, and completion of ECL-related provisions is likely to improve OPMs going forward. Management remains committed to achieving its revenue target of Rs. 3,000 crore, with 10% OPM to be achieved by FY2027. Amalgamation of contract logistics business of allcargo logistics is expected to provide fillip to its revenues and OPMs over the next two to three years. Stock trades at an EV/EBITDA of 16x/9x its FY2025E/FY2026E earnings. We believe there is room for upside as it achieves scale and higher operational profitability. Hence, we stay positive on the stock and expect an upside of 35% estimating high net earnings growth trajectory over the next two years.

One-year forward EV/EBITDA (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY2025E	FY2026E	FY2025E	FY2026E	FY2025E	FY2026E	FY2025E	FY2026E
Gati Limited	-	23.0	15.9	8.6	1.9	1.7	-0.1	8.1
TCI Express	28.2	23.7	19.3	16.2	5.2	4.5	20.2	20.5

Source: Sharekhan Research

About company

Gati, incorporated in 1989 as an Express Distribution service provider, provides multiple services and solutions in the logistics and distribution business. It offers services to 19,800 pin codes, covering 735 out of 739 districts in India, operating in more than 1,900+ scheduled routes. Its integrated multi-modal transportation network comprises air and road. After strategically acquiring Gati in 2020, AllCargo Logistics is now the promoter and the single largest shareholder of Gati with more than 50% ownership, followed by Japan's Kintetsu World Express (KWE) with about 3.5% shares in the company. Gati-Kintetsu Express Private Limited (Gati-KWE) is a Joint Venture between Gati and KWE where KWE holds a 30% stake and Gati holds the remaining 70%.

Investment theme

Gati is on the path of a high earnings growth trajectory over the next two to three years, which was initiated post-acquisition of the company by AllCargo Logistics in March 2020. The restructuring involves divestment of subsidiaries and unrelated businesses, sale of land and buildings, significant parring of debt and contingent liabilities, deep rationalisation of costs, streamlined working capital, and senior leadership changes, which would go ahead and lead to asset-light focused approach on its core businesses. It is now on the path to regaining its leadership position through accelerated sales, digitization digitisation, and capacity expansion. Gati targets to grow its double-digit revenue and achieve OPM of 10.5-11.5% over the next two years.

Key Risks

- Inability to scale up business and OPM led by competitive pressures.
- Non-fructification of the non-core asset sale and rise in working capital leading to a levered balance sheet.

Additional Data

Key management personnel

Mr. Shashi Kiran Janardhan Shetty	Chairman (Executive Director)
Mr. Adarsh Hegde	Managing Director, Gati-KWE
Mr. Pirojshaw Sarkari (Phil)	Chief Executive Officer
Mr. Anish Matthew	Chief Financial Officer
Mrs. T. S. Maharani	Company Secretary & Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	AllCargo Logistics	46.86
2	Agrawal Mukul	5.17
3	Kintetsu group	3.55
4	Neera and Children Trust	1.90
5	Agarwal Mahendra Kumar	1.29
6	TCI Finance Ltd.	0.74
7	Bearers Office	0.54
8	Investor Education & Protection Fund	0.46
9	Mahendra Kumar & Sons	0.45
10	Bunny Investment and Finance Pvt. Ltd.	0.22

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

DISCLAIMER

This information/document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/ information focused on fundamental research.

This information/document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this information/report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst might have dealt or traded directly or indirectly in securities of the company and that all the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report. The analyst and SHAREKHAN encourages independence in research report/ material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has not been a part of the team which has managed or co-managed the public offerings of the company, and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Ltd or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com

---

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. (CIN): - U99999MH1995PLC087498.

Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-67502000.

Correspondence Office: Gigaplex IT Park, Unit No 1001, 10th floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669. BSE – 748, NSE – 10733, MCX – 56125, MSEI – 1043.

Compliance Officer: Ms. Binkle R. Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022-41523200/022 - 33054600