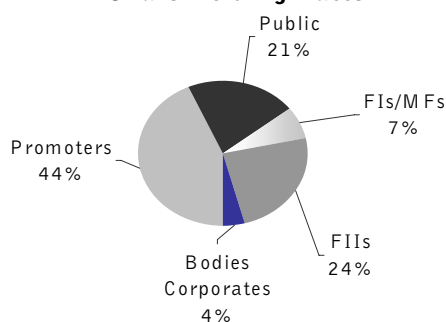


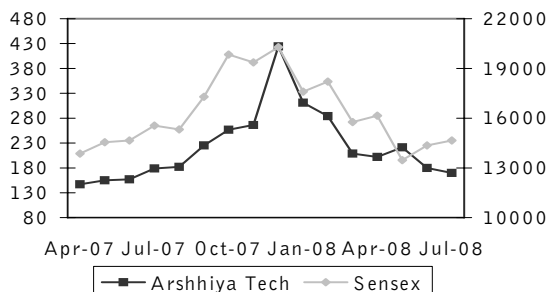
CMP Rs 170
HOLD
Target Rs 342
Arshiya International Ltd
CMP Rs. 170

Sensex	14657
Nifty	4414
BSE Code	506074
NSE Code	-
Bloomberg Code	ARST IN
Reuters Code	ARTC.BO

Out Standing Eq (No.of Shares)	57.00 mn
Mkt Cap	Rs.9690 mn
52 wk Hi / Low	Rs.424 / 150
Avg Daily Vol(Wkly)	101531
Face Value	Rs.2

Share Holding Pattern

Stock Performance (%)

	3Mths	6Mths	1Year
Absolute	-56	-20	16
Relative	-41	0	23

Price Movements

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Arshiya International Ltd has reported a revenue of Rs 1.40 bn in Q1FY09, up by 79% on yoy basis and 8% on qoq basis. EBDITA margins were higher by 460 bps to 14.4% in Q1FY09 on yoy basis led by increase in services for end to end logistics solutions. Arshiya is strengthening its current operations through leveraging its tie up with BDP International for logistic solutions and Cyberlog for web based solutions in logistics. Setting up of FTWZs at strategic locations (JNPT, Delhi & Nagpur) with rail linkages will pave the way for a ramp up in volumes at its upcoming CFS and ICD and consequently improve profitability for Arshiya. We remain positive on the stock with a HOLD recommendation.

Consolidated Revenue Highlights

- Arshiya International's revenue grew by 79% on yoy basis in Q1FY09 to Rs 1.40 bn led by growth across all the business divisions of the company. Clientele base witnessed an expansion across India & Middle East (M.E.) It has added an client with oil & gas segment for project logistics in M.E. Through supply chain solution, it has added 43 new clients.
- For integrated supply chain solutions, Arshiya is leveraging through Cyberlog IT. It has expanded its clientele portfolio by adding 8 new clients.
- In retail logistics, Arshiya is penetrating deeper its services to its existing clients. Arshiya has added forward logistics services to one of its existing client as the core distribution in supply chain across India. We believe expanding its horizon of services will improve revenues of the business division.
- Arshiya has entered into a strategic partnership with one of renowned logistic company of Japan. As per the partnership, the Japanese company would help Arshiya to develop trade opportunities between India and Japan.

Financial Snapshot				(Rs.in Mn)
Particulars	FY07(A)	FY08(A)	FY09(E)	FY10(E)
Net Sales	1865	4012	6336	12198
EBIDTA	226	490	830	2366
EBIDTA(%)	12.1	12.1	13.1	19.4
PAT	161	456	573	1236
PAT(%)	8.7	9.7	9.0	10.1
EPS (Rs.)	3.7	8.0	9.7	21.0
ROCE(%)	18.9	7.1	5.4	11.7
ROE(%)	16.8	7.5	9.9	17.8
P/Ex	46.0	30.0	17.4	8.1
EV/EBIDTAx	42.1	22.6	21.8	9.5

Source : Company, India Capital Markets Research

- EBIDTA margins increased by 460 bps in Q1FY09 to 14.4% on yoy basis as company has moved into higher margin business like providing end to end logistic solutions. We expect improvement in providing supply chain solutions with other value added services will enhance the EBIDTA margins in FY09E.
- Other income significantly increased in Q1FY09 to Rs 43 mn attributed by interest income on the QIP fund raised.
- Depreciation was at Rs 4 mn led by ongoing capex incurred in the quarter.
- Arshiya has reported net profit after minority interest to Rs 195 mn Q1FY09 (up by 196% on yoy basis) on the back of strong revenue growth across all segments.

Capex of Rs 16 bn in railway operations

Arshiya has earmarked a capex of Rs 16 bn for its pan India rail operations. Arshiya has ordered for 75 rakes which is likely to be delivered over next 18 months. Company expects the 1st rake would be deployed in November 2008 which will run on domestic route. Management has guided that their main focus will be the domestic route between East – West and East – North parts of India. Rail connectivity will significantly scale up due to presence of its own FTWZ operations at JNPT and NCR region which will boost its revenue earnings. Arshiya is also setting up seven railway sidings across India to cater to the increasing demand of bulk cargo movement through rail connectivity. We believe rail based containerized transportation shall benefit Arshiya's CFS and ICD business which will increase growth in higher band. The funding will be through private equity investors, debt and internal accruals in D/E 2.5:1.

Status of FTWZ – Central FTWZ on cards

Arshiya has acquired about 130 acres of land out of the total requirement of approx. 175 acres for the proposed FTWZ at JNPT. Arshiya is in the process of acquiring balance 45 acres which is likely to be completed by next quarter. Company expects final approval will be received by September 2008 and we expect commercial operations will start by Q4FY09.

Arshiya has acquired 220 acres of land for FTWZ in Delhi, out of which 168 acres is registered and balance is in process and is expected to complete by August 2008. Company believes that final approval from BOA is expected to be received by October 2008. We expect FTWZ to be operational by Q1FY2010.

Management has indicated that FTWZ at Sohar in Oman is not on schedule due to non-transferring of leasing land by Sohar Industrial Port Corporation (SPIC) to Company as some delay occurred in process.

Arshiya has acquired 60 acres of land for Central FTWZ (Nagpur) of the total earmark of 130 acres of land. Arshiya was planning to built the Central FTWZ in Phase II, but management has proactively started to implement in Phase I. The balance acquisition of land and approvals is likely to be completed by end of FY09.

Outlook & Valuations

There has been a change in the sequence of expansion plans of the company. Arshiya has infused its QIP fund on scheduled and is very optimistic about its expansion plans. Entry into rail based logistics would strengthen Arshiya's position in long term, however short term profitability could suffer. We shall take a call on the new segment (rail business) as company has increased its capex size and once the clarity emerges, accordingly we will change our earning estimates for FY09 & FY10. We maintain our strong business outlook for its existing segments, however we are concerned on the execution risk of its newly ventured rail business. Hence we recommend a HOLD on the stock.

Consolidated quarterly results

(Rs in mn)								
Result Analysis				12 months ended				
Consolidated	Q1FY09	Q1FY08	YoY %	Q4FY08	Q-o-Q %	FY08(A)	FY07(A)	Y-o-Y %
Net Sales	1402	783	79	1298	8	4012	1865	115
Total Expenses	1200	706	70	1126	7	3522	1639	115
EBIDTA	202	77	162	172	18	490	226	117
<i>EBIDTA %</i>	14.4	9.8		13.2		12.2	12.1	
Other Income	43	6	648	51	-14	63	9	599
Depreciation	4	2	108	8	-51	14	29	-51
EBIT	241	81	198	214	13	539	206	161
Interest	1	1	-3	2	-38	9	7	34
PBT	240	80	202	212	13	529	199	166
Tax	44	12	263	23	95	74	38	94
<i>Tax rate</i>	18.4	15.3		10.7		13.9	19.1	
PAT	196	67	190	189	4	456	161	183
Minority Int	1	1		-1		-2	4	
Extraordinary items	0	0		0		3	-18	
Adj PAT	195	66	196	190	3	454	175	159
EPS	3.42	1.57	117	3.33	3	7.99	3.68	117
Equity Shares (in mn)	57.00	43.70		57.00		57.00	43.70	

Source: Company

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