

Current Reco	: HOLD
Previous Reco	: HOLD
CMP	: INR190
Target Price	: INR200
Potential Return	: 5%

Prateek Kumar

+91 22 4031 3440
prateek.kumar@antiquelimited.com

Nishant Shah

+91 22 4031 3473
nishant.shah@antiquelimited.com

Market data

Sensex	:	28,293
Sector	:	Logistics
Market Cap (INRbn)	:	13.8
Market Cap (USDbn)	:	0.205
O/S Shares (m)	:	76.6
Avg Daily Vol ('000)	:	224
Bloomberg	:	TRPC IN

Source: Bloomberg

Shareholding pattern

Promoters	:	66%
Public	:	34%
Others	:	0%

Source: Bloomberg

MANAGEMENT MEET UPDATE

Transport Corporation of India Ltd.

Scalable business; execution a key

We recently met Mr Vineet Agarwal, Managing Director, Transport Corporation of India, to gain insights into company's growth plan, demerger of the Express segment, strategy to counter competition and perspective on the rollout of the GST. Management indicated that the business has witnessed some improvement in demand recently. Over past 2-3 quarters, company has delivered growth ahead of the peers. Following were the key discussion highlights:

Freight segment to benefit from access to multimodal transport services

Management highlighted that the growth in the freight segment is directly linked to 1) the cyclical industrial growth, so the division has started to witness growth inline with the industry; 2) gaining new clients; 3) expanding share in Less than Truck Load segment. 70% of the total business in the freight segment is from Full-Truck-Load business while 30% (and growing in proportion) is from the Less-than-Truck Load business. Management highlighted that Company has been gaining market share in the LTL segment, which has also been contributing to the growth. In the freight segment, company primarily operates via hired vehicles and uses very limited owned fleet which is dedicated to specific customers. The credit situation was tight in FY16, so the company was cautious of doing business in the freight segment in FY16 as sometimes payment cycles were getting delayed. As a result company was also able to drive improvement in margins in FY16. The company has also benefited because of capabilities to provide multimodal transport services combining the benefits of integration of the road, rail and sea services. The multimodal logistics could gain further relevance with the rollout of GST. The ability to provide the last mile delivery and gain customers has helped the TCI-Concor JV register a 60% growth in FY16 contributing INR1.3bn, implying 13% of the freight segment revenue versus 6% in FY15.

TCI-XPS demerger to enhance focus on B2C business and unlock shareholders value

In express distribution, the company specializes in the B2B segment, while has limited presence in the B2C segment. The demerger and transfer of the Express Distribution vertical into separate company would allow targeted and focused growth in the budding Ecom logistics segment and value unlocking for shareholders. Management highlighted that a large section of e-tailers having robust online merchandise and looking to expand the reach (distribution operations and the fulfillment solutions) prefer the flexibility of working with a 3PL provider. Even as e-tailing companies have been investing in captive manpower and logistics for the purpose of delivering their e-tailing shipments, there is still ample work for the ecom logistics providers. Over next few years, company would be investing towards capacity addition in the surface space, new capacities for handling of the Air Cargo, Investment in B2C last mile and may also look at any small acquisition opportunity.

Meaningful positive impact from GST would take time to materialise

Management highlighted that the GST rollout would bring down the logistics cost of industry as it will drive improved efficiencies, better control and reduction in inventory due to lesser numbers of stocking points - which would allow a firm to take advantage of economies of scale and consolidate warehouses at reduced capital (and admin cost) deployed in the business. Further the organized industry would gain share from the unorganized sector as several players in the unorganised sector avoid tax which generates a cost gap between them and the organized players. CENVAT credit would be available on the freight movement which will drive volumes in favor of the organized players. However, management highlighted that seamless movement of traffic and improvement in (interstate) transit efficiency would be gradual (at best) even post the rollout of the GST. There would be increased documentation

at the entry and exit of the state, even as the taxes may get eliminated. Even as Electronic toll collection (ETC) aims to eliminate the delay on toll roads by collecting tolls electronically, the large proportion of the truck stoppages is attributable to stoppages at these toll-booths - which will still be there post the rollout of GST.

Valuation

We expect TCIL to register a revenue CAGR of 10% over FY16-FY18e, led by higher growth in the XPS and SCS segments as domestic macro improves. While both companies would benefit from pickup in domestic macro, TCIL would be key beneficiary from the rollout of the GST. The TCI Express would benefit from management's increased focus in ecom vertical and high consumption driven sectors. Given the higher growth prospects and return ratio for the XPS vertical, we assign higher multiple of 18x FY18 EV/EBITDA to TCI Express Ltd. arriving at a target price of ~INR155 (expect listing at ~INR310 given the share swap ratio). For TCIL, we assign multiple of 10x FY18 EV/EBITDA and arrive at a target price of ~INR200. The expensive valuations versus the history also suggests shift of the business dynamics from providing a plain road freight services to multimodal, value added services like Express distribution and management of third party logistics. We currently have a HOLD rating on the stock.

Valuations

	FY18e EBITDA	FY18e Net Debt	Target EV/EBITDA	EV	Mkt value	Per share
TCI Express	694	617	18.0	12,490	11,873	155
TCIL	1,967	4,377	10.0	19,667	15,290	200
Total	2,661	4,994		32,157	27,163	355

Source: Company, Antique

TCI-XPS

	TCIL (residual company)			TCI Express			Total		
	FY16	FY17e	FY18e	FY16	FY17e	FY18e	FY16	FY17e	FY18e
Revenue	18,621	20,145	22,335	6,670	7,270	8,360	25,291	27,415	30,695
YoY%	5.5	8.2	10.9	1.0	9.0	15.0	4.3	8.7	12.0
EBITDA	1,415	1,712	1,967	553	603	694	1,968	2,315	2,661
YoY%	0.2	20.9	14.9	6.4	9.2	15.0	1.9	17.6	14.9
EBITDA Margin%	7.6	8.5	8.8	8.3	8.3	8.3	7.8	8.4	8.7

Source: Company, Antique

Industry dynamics and segmental snapshot

	TCI Freight	TCI XPS	TCI SCS	TCI Seaway
Industry Scenario	Mature, Fragmented, Low barriers to entry, low cost	Growth, niche, high entry barriers, cost efficiency	Nascent, knowledge based, very high barriers, single window	Growth, high entry barriers, low cost
Industry growth	5-8%	8-12%	15-20%	10-15%
% of total Revenue (%)	37%	29%	28%	6%
EBITDA Margin (%)	3-5%	8-10%	10-12%	25-30%
Revenue growth 5yr CAGR	0.6%	7.6%	9.7%	13.3%
ROCE (5 yr Avg.)	8%	45%	23%	19%
ROCE (10 yr Avg.)	14%	39%	23%	16%

Source: Company, Antique

Financials

Profit and loss account (INRm)

Year ended 31 Mar	2014	2015	2016	2017e	2018e
Net Revenue	22,265	24,167	25,214	27,415	30,695
Op. Expenses	20,585	22,236	23,246	25,100	28,034
EBITDA	1,680	1,932	1,968	2,315	2,661
Depreciation	468	545	590	726	802
EBIT	1,212	1,386	1,379	1,589	1,858
Other income	92	91	77	88	97
Interest Exp.	311	333	295	375	456
Extra Ordinary Items-gain/(loss)	-	(2)	0	-	-
Reported PBT	993	1,144	1,160	1,302	1,499
Tax	275	326	340	378	435
Reported PAT	718	816	821	924	1,064
Minority Int./Profit (loss) From Asso.	1	2	2	3	3
Adjusted PAT	716	814	818	922	1,061
Adjusted EPS (INR)	9.8	10.8	10.8	12.0	13.9

Balance sheet (INRm)

Year ended 31 Mar	2014	2015	2016	2017e	2018e
Share Capital	146	151	152	152	152
Reserves & Surplus	4,764	6,056	6,606	7,366	8,257
Networth	4,910	6,207	6,758	7,518	8,409
Debt	3,307	3,195	3,926	4,906	5,833
Minority Interest	31	35	39	39	39
Net deferred Tax liabilities	332	293	354	354	354
Capital Employed	8,580	9,729	11,076	12,817	14,636
Capital work in progress	183	68	-	-	-
Net Fixed Assets	4,498	5,281	6,297	7,941	8,959
Goodwill	2	2	2	2	2
Investments	87	98	72	72	72
Non Current Investments	87	98	72	72	72
Current Assets, Loans & Adv.	5,422	5,994	6,519	6,406	7,305
Inventory	17	23	20	20	20
Debtors	3,800	4,346	4,536	4,616	5,041
Cash & Bank balance	428	421	558	366	839
Loans & advances and others	1,176	1,204	1,405	1,405	1,405
Current Liabilities & Prov.	1,429	1,647	1,813	1,604	1,702
Liabilities	1,015	1,054	1,264	1,045	1,134
Provisions	414	593	549	559	568
Net Current Assets	3,992	4,347	4,705	4,802	5,603
Application of Funds	8,580	9,729	11,076	12,817	14,636

Per share data

Year ended 31 Mar	2014	2015	2016	2017e	2018e
No. of shares (m)	73	76	76	77	77
Diluted no. of shares (m)	73	76	76	77	77
BVPS (INR)	67.3	82.0	88.9	98.1	109.8
CEPS (INR)	16.3	18.0	18.5	21.5	24.4
DPS (INR)	1.8	1.5	1.7	1.8	1.9

Source: Company, Antique

Note: We haven't excluded XPS segment from the financials

Cash flow statement (INRm)

Year ended 31 Mar	2014	2015	2016	2017e	2018e
PBT	993	1,144	1,160	1,302	1,499
Depreciation & amortisation	468	545	590	726	802
Interest expense	311	333	295	375	456
(Inc)/Dec in working capital	146	(446)	(208)	(289)	(328)
Tax paid	(280)	(278)	(340)	(378)	(435)
Less: Interest/Div. Income Received	(63)	(40)	(77)	(88)	(97)
Other operating Cash Flow	2	(9)	-	32	(11)
CF from operating activities	1,577	1,248	1,420	1,681	1,887
Capital expenditure	(801)	(1,423)	(1,696)	(2,370)	(1,820)
Inc/(Dec) in investments	(238)	171	0	0	-
Add: Interest/Div. Income Received	63	40	77	88	97
CF from investing activities	(976)	(1,211)	(1,619)	(2,282)	(1,723)
Inc/(Dec) in share capital	8	619	1	-	-
Inc/(Dec) in debt	(189)	(157)	731	980	928
Dividend Paid	(140)	(170)	(143)	(153)	(163)
Others	(311)	(335)	(295)	(375)	(456)
CF from financing activities	(633)	(44)	293	451	309
Net cash flow	(32)	(7)	94	(150)	473
Opening balance	460	428	421	516	366
Closing balance	428	421	516	366	839

Growth indicators (%)

Year ended 31 Mar	2014	2015	2016	2017e	2018e
Revenue(%)	4.5	8.5	4.3	8.7	12.0
EBITDA(%)	-3.3	15.0	1.9	17.6	14.9
Adj PAT(%)	3.0	13.6	0.5	12.7	15.1
Adj EPS(%)	2.9	9.5	0.0	11.9	15.1

Financial ratios

Year ended 31 Mar	2014	2015	2016	2017e	2018e
RoE (%)	15.4	14.6	12.6	12.9	13.3
RoCE (%)	15.6	16.1	14.0	14.0	14.2
Asset/T.O (x)	2.9	2.9	2.8	2.7	2.6
Net Debt/Equity (x)	0.67	0.51	0.58	0.65	0.69
EBIT/Interest (x)	4.2	4.4	4.9	4.5	4.3

Margins (%)

Year ended 31 Mar	2014	2015	2016	2017e	2018e
EBITDA Margin(%)	7.5	8.0	7.8	8.4	8.7
EBIT Margin(%)	5.4	5.7	5.5	5.8	6.1
PAT Margin(%)	3.2	3.4	3.2	3.4	3.5

Source: Company Antique