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January 9, 2020

Transport Corporation of India Ltd.

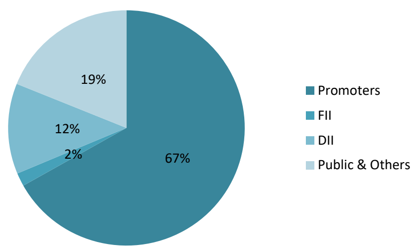
…moving up the value chain resulting in margin improvement

CMP INR 268 | **Target INR 355** | **Initiating Coverage - BUY**

Key Share Data

Face Value (Rs)	2.0
Equity Capital (Rs mn)	153.3
M.Cap (Rs mn)	20545.4
52-wk High/Low (Rs)	329/255
Avg. Daily Vol	5835
BSE Code	532349
NSE Code	TCI
Reuters Code	TCIL.NS
Bloomberg Code	TRPC:IN

Shareholding Pattern (as on Sept 30, 2019)



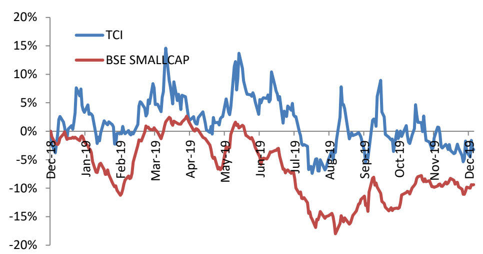
Key Financials (INR mn)

Particulars	FY19	FY20E	FY21E	FY22E
Net Sales	27536.4	29157.8	32737.4	37065.0
Sales Gr.	17.4%	5.9%	12.3%	13.2%
EBIDTA	2495.2	2605.3	3121.5	3717.6
Adj. PAT	1444.0	1422.9	1834.5	2253.1
PAT Gr.	5.2%	4.9%	5.6%	6.1%
EPS (Rs)	18.8	18.6	23.9	29.4
CEPS (Rs)	28.9	30.2	37.4	44.8

Key Ratios

Particulars	FY19	FY20E	FY21E	FY22E
P/E (x)	14.2	14.4	11.2	9.1
P/BVPS (x)	2.3	2.0	1.8	1.6
M.Cap/Sales (x)	0.7	0.7	0.6	0.6
EV/EBIDTA (x)	9.8	9.4	7.8	6.6
ROCE (%)	13.2%	11.9%	13.1%	14.6%
ROE (%)	16.2%	14.2%	16.1%	17.5%
EBIDTM (%)	9.1%	8.9%	9.5%	10.0%
NPM (%)	4.4%	4.0%	4.7%	5.2%
Debt-Equity (x)	0.5	0.4	0.4	0.3

Price Performance TCI vs BSESMALLCAP



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Company Background

Transport Corporation of India Limited (TCI), promoted by Mr. D.P. Agarwal, Chairman and Mr. Vineet Agarwal, Managing Director is India's leading integrated multimodal logistics service provider. The Company offers services like handling and movement of cargo, end-to-end supply chain management and coastal shipping through its three business verticals namely TCI Freight, TCI SCS and TCI Seaways with extensive network of company owned offices, ~7,500 trucks in operation, 12 mn sq. ft. of warehousing space and seven maritime carriers.

Investment Rationale

Moving up the value chain with focus on LTL segment:

- TCI started its freight business with conventional Full Truck Load (FTL) segment - a low margin business (2-3%) vs. Less than Truck Load (LTL) segment (8-11%). LTL is cost efficient due to better pricing (partial booking), lower transit time facilitating hub & spoke model and offers value added services, benefiting both trucker and customer.
- TCI management started focusing on LTL segment since FY16. This boosted both topline and margins of TCI Freight. During FY16-19, topline of TCI's freight segment increased at 13% CAGR, while EBITDA margin improved from 2.9% to 3.4%. Currently, LTL contributes 1/3rd of the Freight Division. With management's focus, **we expect LTL segment to grow with a CAGR of 15% over next three years to reach Rs 7,129.3 mn by FY22E, thereby contributing 40% to TCI Freight revenues.** Further, with higher contribution from LTL segment, **we expect EBITDA margins to touch ~4.4% by FY22E.**

Single window multimodal logistics solution provider:

- India's logistics industry is highly fragmented with ~90% of unorganized players. However, TCI has carved out a winning niche for itself. The three verticals of the company provide the entire gamut of services to its customers. Under TCI Freight division and TCI-CONCOR, which is 51% subsidiary of TCI, it provides first mile and last mile services through road transport, apart from low cost rail haulage.
- Through TCI SCS division, TCI provides end-to-end 3PL solutions to its clients with the combination of inbound logistics, warehousing services and outbound services.
- TCI Seaways also provides first mile and last mile services to its client through rail and road transport, apart from coastal shipping solutions to its customers. Though, these business verticals operate as individual entities, together it creates a synergy to offer broad range of end-to-end multimodal customized services to a wide range of customers, providing an edge to the Company over its unorganized peers.

Higher contribution from value added businesses resulting in better margins

- The contribution of high margin TCI SCS and TCI Seaways, in the entire consolidated topline, is increasing gradually year on year. Revenues from TCI SCS division have witnessed robust growth of ~24% and ~13% during FY18 and FY19. With expected revival of the economy from H2FY21 onwards and GoI efforts like providing infrastructure status to logistics sector and focus on development of logistics park, we expect the segment to grow by 13% and 15% during FY21E and FY22E respectively.
- TCI Seaways division has also witnessed robust CAGR growth rate of 26% during FY14-FY19 and we further expect it to grow with a CAGR of 17% during FY19-22E on the back of Government initiatives like Sagarmala Pariyojana.
- With higher contribution from value added businesses, the EBIDTA margin of TCI is on a continuous rise. It has increased from 7.8% in FY16 to 9.1% in FY19. Keeping in view the benefits of LTL segment, higher contribution from TCI SCS and TCI Seaways division (contributes ~79% to the total EBIDTA margin), we expect the EBITDA margin to improve by 90 bps over FY19-22E to ~10%. Further, we expect higher positive cash flows, better return ratios (ROE & ROCE) and reduction in working capital (in terms of percentage to sales) going forward.

Outlook & Valuation

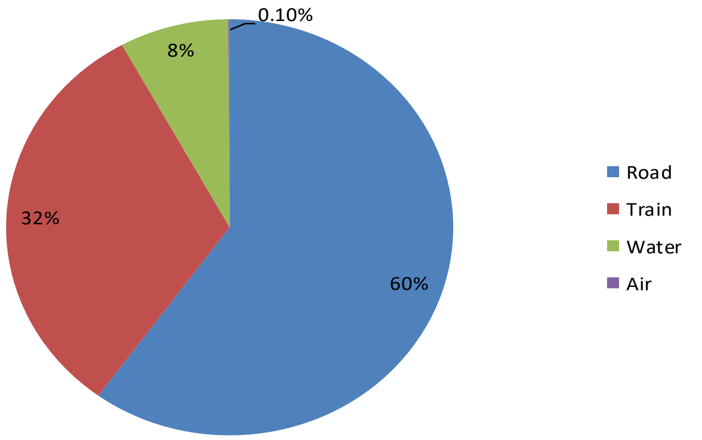
- TCI being one of the fastest growing logistics service providers is a likely beneficiary of Government initiatives like GST implementation, Bharatmala & Sagarmala Pariyojana etc. It is well positioned to capitalize on the growing market opportunities due to better business mix because of its focus on value added business, leading to improvement in operating efficiencies, better margins and higher return ratios.
- We have valued TCI on SOTP basis. We recommend a BUY on the stock with a target price of Rs 355 in 18 months (upside of 32%).

Logistics Industry - An Overview:

- **An Introduction:** Logistics is the part of supply chain management that plans, implements, controls the efficient, effective forward & reverse flow and storage of goods, services, and related information between the point of origin and consumption, in order to meet customer's requirements. It also involves intangible items such as time and information. The logistics of physical items usually involves integration of information flow, material handling, packaging, inventory management, transportation, and warehousing.

- **Industry size, structure and classification:** Indian logistics industry is an indispensable part of the economy, contributing to trade flows, foreign direct investment, ex-chequer and generates employment. The sector contributes ~13-14% of India's GDP compared with 8-9% in other developing nations. Presently, the total logistics spends stand at ~USD 300 bn of which, a large part is dominated by road transportation (60%) at ~USD 180 bn, which is significantly higher in comparison to USA (37%) and China (22%). Rest is shared by rail (32%), water (8%) and air (0.1%). In volume terms, transportation dominates 85% and rest is contributed by warehousing and storage. Volume wise bifurcation of Indian logistics sector is given below:

Bifurcation of Transportation Segment



Source: Industry and SKP Research

- At present, **the Indian logistics industry is highly fragmented and unorganised**. Owing to the presence of numerous unorganised players, the industry remains fragmented, with organised players accounting for approximately 10% of the total market share. With the consumer base of the sector encompassing a wide range of industries, including retail, automobile, telecom, pharmaceuticals and heavy industries, the logistics industry has been increasingly attracting investments in the last decade.

- Road transport mainly comprise of truck freight which may further be split into **FTL** and **LTL.** The terms are self-explanatory. For FTL, shippers need to book the whole truck, irrespective of the volume of shipment, although FTL lacks in time bound delivery, offers no door to door logistics and value-added services. This increases the cost for small manufacturers. For LTL, shippers can book only part of the truck space which is cost efficient due to better pricing and offers lower turnaround time and saves logistics cost. A comparative study of FTL and LTL is given below:

FTL vs LTL

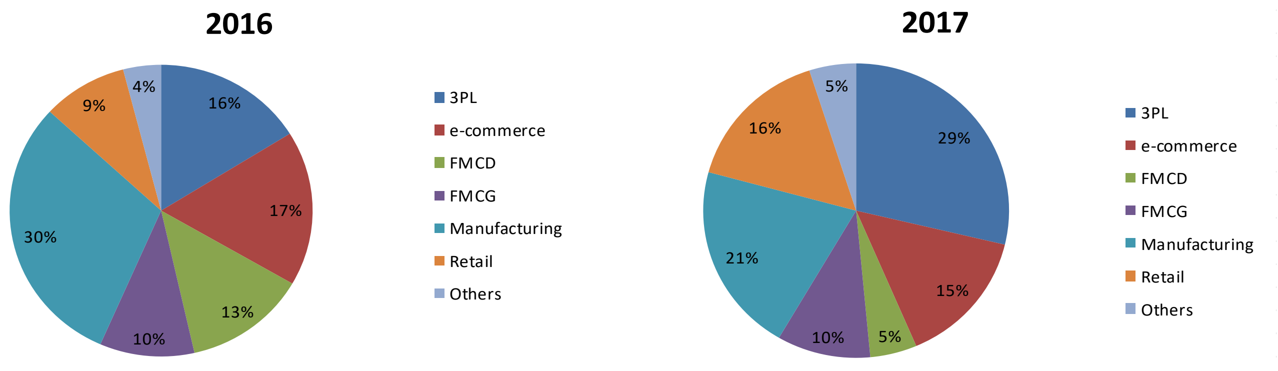
Key Differentiators	FTL	LTL
Ideal For	Large Businesses; high risk or delicate freight shipments	Small & Medium Businesses
Truck Booking	Full	Partial
Cost Efficiency	Low - requires large freight to make the option ecoomical	High- as the freight is shared with other companies
Pricing	High - as the freight has to be paid for full truck	Low - as the price has to be paid for the space occupied on the truck (depends upon the size of the shipment) in relation to length of travel
Time Sensitive	Yes - With lower transit time as shipment travels on one truck with one destination	Less Time Sensitive as shipment travels to different destinations with multiple pick up and drop
Truck Fill Factor	High	Low
Transit Damage	Low - due to less handling of shipment	High - Shipment is handelled at every delivery destination
Competition	Regional	Route Specific

Source: Industry and SKP Research

Warehousing:

- **Industry size and structure:** Warehousing forms a crucial link in the overall logistics value chain, contributing 15% to the total logistics industry. In volume terms, India's warehousing stock size is 739 mn sq ft in 2019. Warehousing can be divided into conventional storing services and value-added services which include services like consolidation and breaking up of cargo, packaging, labelling, bar coding, reverse logistics etc.
- Multiple business models are at work in warehousing industry catering to the different segment of the economy. 3PL, e-commerce, Fast Moving Consumer Durables (FMCD), FMCG and manufacturing sectors are the top five contributors to the industry as evident from the chart below:

Segmental share of warehousing industry



Source: India Warehousing Market Report - 2018, Knight Frank

- **Highly fragmented industry:** Mostly warehousing activities undertaken in India are by unorganised segment (~90%). However organised players are also picking up pace in the recent past. Yearly leasing activities for the warehousing industry by organised segment in 2018 were 46.2 mn sq. ft., witnessing 77% growth y-o-y over 2017.
- **Concentrated in top five cities:** As per CARE Ratings report, ~60% of the warehousing capacity in India is concentrated in six cities namely Mumbai, Pune Chennai, Ahmedabad, Bangalore and Delhi NCR driven by cluster of industrial activities in these areas. Kolkata and Hyderabad are other major markets for warehousing.

- **Structural reforms by GoI making way for structural shift in the industry:** Introduction of GST, giving infrastructure status to warehousing and logistics industry is bringing in the paradigm shift in the industry. Indian warehouses, particularly in unorganised sector, which were facing plethora of infrastructural problems such as roof leakages in monsoon, poor floor quality (floor is the heart of a warehouse because throughput depends upon it) etc. are undergoing structural shift particularly after the implementation of GST. Concrete or low-quality steel godowns are now being replaced by steel structures, which are pre-engineered in factories and then assembled at the location. Modern warehouses are water proof, have good ventilation, and insulation to reduce the temperature inside that improves its efficiency. Warehouses are covered by CCTV camera and other cutting-edge technology to avoid theft, make the work easier and less time consuming and are planned with wide roads to ensure hassle-free arrival and departure of trucks. ***These structural changes will help the industry to cut down their costs and will also lead to increase in size of warehouse, thereby benefiting the sector in general and TCI Ltd in particular.***
- With policy reforms undertaken by the Government of India (GoI), growth opportunities have been created especially for organised segment. Consolidation in the industry is witnessed with increase in demand for large warehouses, which is currently in short-supply. Opportunities in warehousing at a glance:

Opportunities in Warehousing

Opportunities	Definition	Industry Size and potential
Cold Storage	Warehouses equipped with temperature control equipments	Ideal for small shelf-life products such as fresh agricultural produce, frozen food, photographic films, chemicals, pharmaceuticals etc.
	To set up a multi-commodity cold storage of 10,000 MT capacity, investment of around Rs 20 crore is needed with a payback period of 6-7 years.	As per Cricil Research the current cold storage capacity is pegged at 37-39 mn MTPA. There are ~7,645 cold storages in the country with 68% of the capacity being used for potato, while 30% is multi-commodity cold storage. Rs 160-230 bn is lined up in the sector between 2019-23. The investment is expected from private sector whereas GoI will provide support through grant of subsidies. Projected CAGR Growth of the industry during 2019-23 is 13-15%.
Multi-Storey warehousing (MSW)	warehouse with multiple floors with proper architetural and technical design to fecilitate supply chain processes	MSW are ideal for land starved countries. MSW havs succeeded in Asia due to high land and construction costs and limited industrial land availabiity. Industrial land prices per developable area is ~6 times higher in land constrained areas in comparision to land-plentiful areas. Site area in Asia is typically smaller duet to densely populated cities. Strong e-commerce growth has contributed to the demand of such warehouses. Typically, large scale logistics centres are located far away from the city because of land non-availability. With the heating up of competition in traditional businesses and e-commerce space, they are looking for faster delivery of goods to customers, giving rise in demand for MSW. India and China are key growth markets for MSW. To make better use of existing land reserves demand for MSW may rise in tier-I cities in the near future.
Smart warehouses	Warehouses equipped with technologies such as robotics, data analystics, self driving vehicles, drones, internet of things etc	Helps providing value-added services to the customers vis-à-vis conventional warehousing

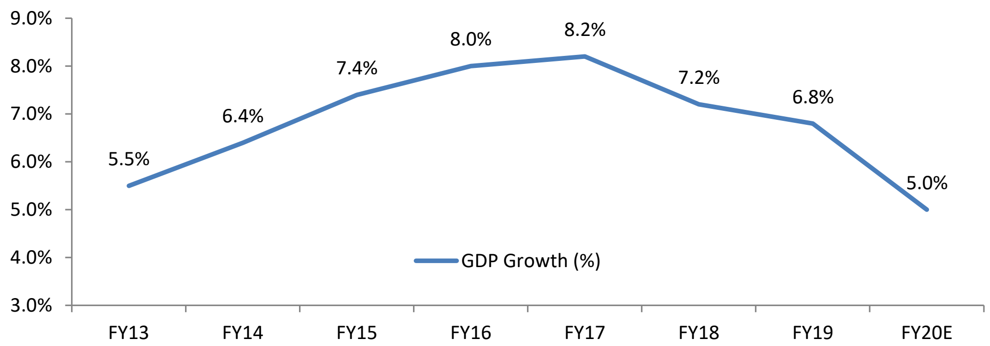
Source: India Warehousing Market Report - 2018, Knight Frank; SKP Research

- **High growth region:** Delhi NCR, Mumbai, Pune, Bengaluru and Chennai continued to be the top five markets in terms of demand & absorption. While Chennai, Pune and Ahmedabad registered significant demand from the manufacturing sector, Kolkata emerged as a major logistics hub due to its consumption and distribution advantage.

Growth Drivers for Logistics Industry:

1. **Economic Growth:** Logistics is the key factor in the supply chain management and is heavily dependent on GDP growth. **India spends ~14% of its GDP on logistics.** India was one of the fastest growing countries in the world, growing at an average rate of 7.5% p.a. till mid of FY18. However, the economic growth started slowing down for last six quarters and dipped to 4.5% during Q2FY20 which is lowest since 2012-13, thereby having negative impact on the industry. With slew of measures taken by the GoI to revive growth, the GDP is expected to improve going forward, which will enable the growth in logistics sector. RBI expects India's GDP to grow at 5% p.a. during FY20.

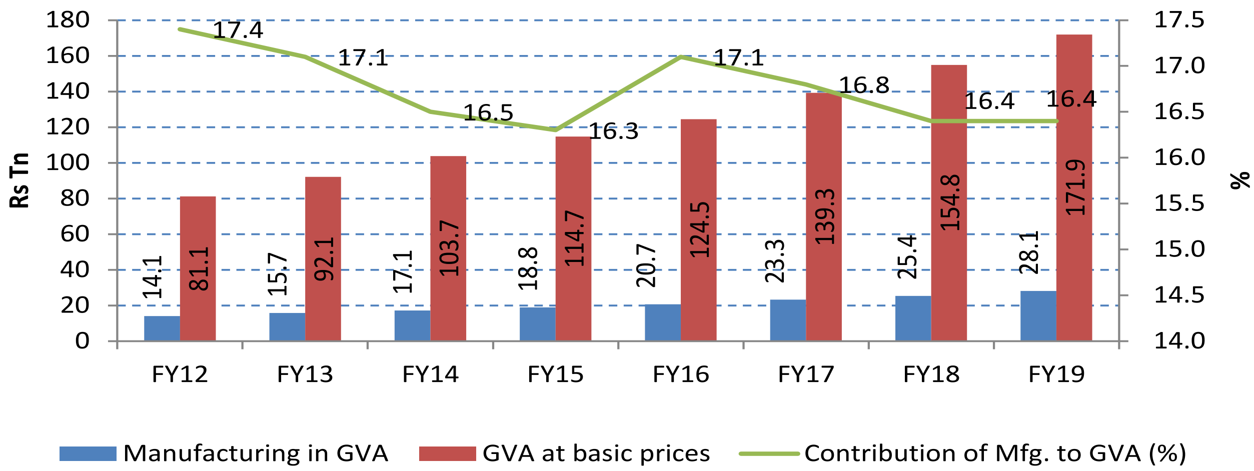
GDP growth trend



Source: National Statistical Office, MOSPI; SKP Research

2. **Make in India initiative to aid manufacturing growth:** Make in India is an ambitious initiative launched by the GoI in September 2014 with the mission to transform India into a manufacturing hub. The primary objective of this initiative is to attract investments from across the globe and strengthen India's manufacturing sector. The Make in India initiative is expected to strengthen manufacturing growth backed by growth in logistics.

Increasing manufacturing contribution in total GVA aids growth for logistics industry



ource: National Statistical Office, MOSPI; SKP Research

3. **Infrastructure Development – Bharatmala Pariyojan and Sagarmala Pariyojana:** India has the world's second largest road network of 3.83 mn km. It consists of 60% of the freight which is significantly higher in comparison to USA (37%) and China (22%). GoI has proposed various projects to develop widen and inter-connect the road infrastructure in India.

i. **Bharatmala Pariyojana:** Bharatmala Pariyojana was announced in October 2017, to bring in efficiency and improve connectivity on economic corridors, through development of Multimodal Logistics Parks (MLP) and elimination of check points for quicker movement of cargo and boosting exports. It is the second largest highway construction project in the country after The National Highway Development

Programme (NHDP). It is expected to bring 50 new national corridors, connecting 550 districts through national highway linages.

Objectives: The new roads are expected to improve efficiency of freight movement on existing corridors and reduce logistics cost by 25%. Bharatmala Pariyojana has following objectives:

- ✓ Efficiency improvement of existing corridors through development of 35 identified multimodal logistics parks and removal of 185 identified choke points.
- ✓ Improving connectivity in the North- East and leveraging synergies with inland waterways
- ✓ Integrating Nepal-Bhutan-Bangladesh-Myanmar-Thailand corridors will make North East hub of East Asia
- ✓ Leveraging technology for project preparation and asset monitoring
- ✓ Delegation of powers to expedite project delivery

Bharatmala Pariyojana Project details

Corridors and Roads	Description	Total Length (KM)	Phase-I (KM)	Phase – I Outlay (Rs bn)
National Corridors Efficiency Improvement	Lane expansion, decongestion of existing national corridors	13,100	5,000	1,000
Economic Corridors (44 corridors identified)	The connection of economically important production and consumption centres	26,200	9,000	1,200
Inter-corridor and Feeder Roads Developments	Interconnection between economic corridors, first & last mile connectivity	15,500	6,000	800
Border and International connectivity of Roads	Connectivity to border areas and boosting trade with neighbouring countries	5,300	2,000	250
Coastal and Port Connectivity Roads	Connectivity to coastal areas to enable port led economic development	4,100	2,000	200
Express Way	Greenfield expressways	1,900	800	400
Total Phase – I (A)		**66,100**	**24,800**	**3,850**
NHDP Roads (B)	**Residual NHDP roads**		**10,000**	**1,500**
Sub Total (A+B)			**34,800**	**5,350**
Roads under other NHAI schemes (C)			**48,877**	**1,573**
Grand Total – A+B+C			**83,677**	**6,923**

Source: Ministry of Road Transport and Highways, SKP Research

Increased Budgetary Allocation for Roads: Between FY09 and FY19, the budgetary outlay for road transport and highways increased at a CAGR of 20.9%. GoI allocated Rs 1,116 bn to Ministry of Road Transport & Highways (MoRTH) during Union Budget FY20, increasing by 12% from Rs 993.2 bn in FY19. This boost to road infrastructure will improve connectivity, which will further aid to bridge the gap between manufacturers and consumers by reducing the time taken for transportation of goods backed by growth in logistics industry.

A futuristic insight into road networks - before and after Bharatmala Pariyojana:

	At Present	Post-Bharatmala
Number of National Corridors	6	50
Number of Districts with NH linkage	300	550
Share of national highways in freight movement	40%	70-80%

Source: Ministry of Road Transport & Highways; SKP Research

ii. **Sagarmala Pariyojana – Ports, an introduction:** India is one of the fastest growing large economies in the world. Ports play an important role in the overall economic development of the country. India has 12 major and 205 notified minor and intermediate ports. Many ports in India are evolving into specialized centres of economic activities and services and are vital to sustain future economic growth of the country such as JNPT, Mundra Port, Sikka Port, Hazira Port etc.

Challenges of Indian Ports:

- ✓ **Infrastructural and operational challenges** like turnaround time (TAT) at major ports is approximately ~60 hours in 2018-19, whereas global average benchmark is 24-48 hours.
- ✓ **Last mile connectivity** to the ports is one of the major constraints in smooth movement of cargo to/from the hinterland.
- ✓ **Location of industries/manufacturing centres vis-à-vis the ports -** While cost differential between India and China is not significant on a per tonne km basis, China still has a lower container exporting cost than India, due to lower lead distances. Presence of major manufacturing and industrial zones in coastal regions in China, which were developed as part of the Port-Led Policy of the government is the main reason for lower lead distances.

Water-borne transport accounts for ~7% of India's modal split: Around 87% of Indian freight uses either road or rail for transportation of goods. A significant share of this cargo experiences "idle time" during its transit to the ports due to capacity constraints on highways and railway lines connecting ports to production and consumption centres. Although water-borne transport is much safer, cheaper and cleaner, compared to other modes of transportation, it accounts for ~7% of India's modal split. By comparison, coastal and inland water transportation contribute to 47% of China's freight modal mix, while in Japan and US, this share is 34% and 12.4% respectively.

Transportation cost of various modes

Mode	Transportation Cost (Rs per ton/km)
Road	2.0-3.0
Rail	1.2-1.5
Waterways	0.2-0.3
Pipelines	0.1-0.15

Source: Sagarmala.gov.in

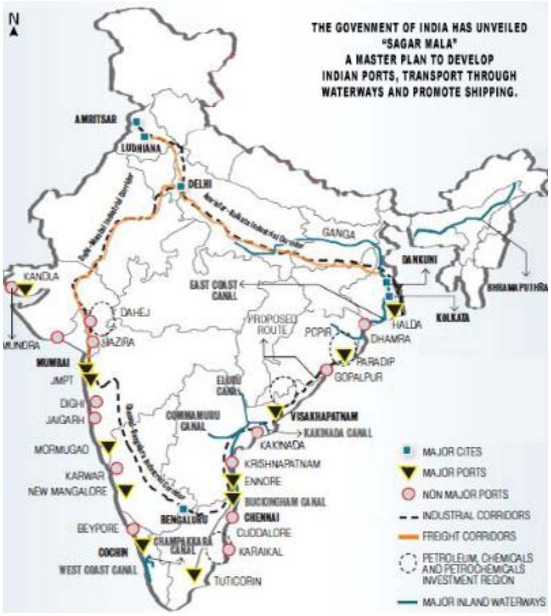
To harness India's 7,516 km long coastline, 14,500 km of potentially navigable waterways and strategic location on key international maritime trade routes, the GoI has embarked on the ambitious Sagarmala Pariyojana which aims to promote port-led development in the country.

Components of Sagarmala Pariyojana:

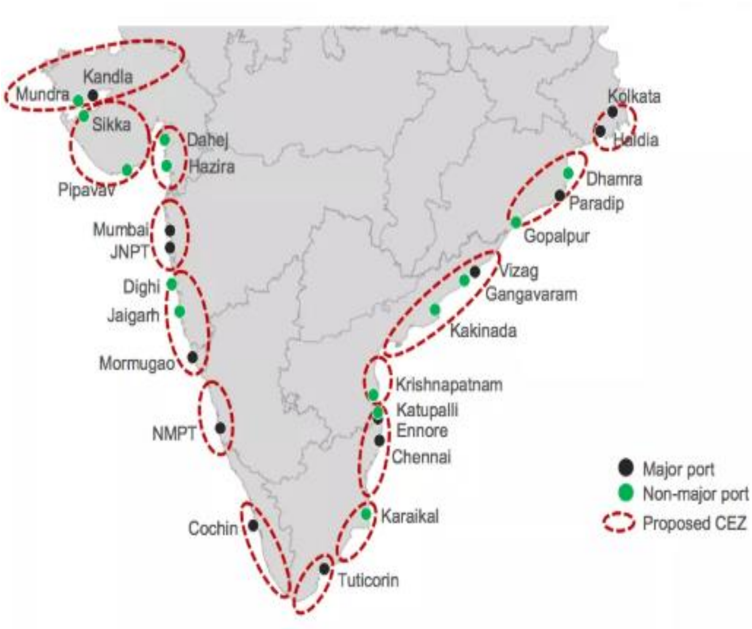
- ✓ **Port modernization & new port development:** De-bottlenecking and capacity expansion of 12 existing major ports and development of 6 new greenfield ports;
- ✓ **Port connectivity enhancement:** Enhancing the connectivity of the ports to the hinterland, optimizing cost and time of cargo movement through multi-modal logistics solutions including domestic waterways (inland water transport and coastal shipping);
- ✓ **Port-linked industrialization:** Developing port-proximate 35 industrial clusters, 2 maritime clusters and 14 Coastal Economic Zones to reduce logistics cost and time of EXIM and domestic cargo;

- ✓ **Coastal community development:** Promoting sustainable development of coastal communities through skill development & livelihood generation activities, fisheries development, coastal tourism etc.

Sagarmala Network Map



Proposed Coastal Economic Zones



Source: Industry

Government has identified more than 574 projects worth Rs 6,014.8 bn, for implementation during 2015-2035, which is given in brief in the table below:

Project Theme	Total		Completed *		Under Implementation*	
	No. of Projects	Cost Rs bn	No. of Projects	Cost Rs bn	No. of Projects	Cost Rs bn
Port Modernization	236	1,183.52	68	225.51	70	369.98
Port Connectivity	235	2,355.28	35	58.03	94	1,193.60
Port Led Industrialization	35	2,402.34	2	5.12	17	1,517.45
Coastal Community Development	68	73.69	16	13.62	20	9.45
Total	**574**	**6,014.83**	**121**	**302.28**	**201**	**3,090.48**

Source: Sagarmala.gov.in; *as of Sept 30, 2019

iii. **Inland Waterways Transportation – Part of Sagarmala Pariyojana:** The Government envisions using rivers for cargo transportation, a move that will decongest roads and railways. Inland water transport accounts for less than 1% of India's freight traffic vis-à-vis ~35% in Bangladesh and ~20% in Germany. The Government is working on a plan to convert more than 100 rivers into national waterways, of which 15 of them have already been successfully completed, including integrated movements through NW-1 (Ganga-Bhagirathi-Hooghly), Indo-Bangladesh Protocol Route and NW-2 (Brahmaputra).

River transport via barges is cost effective way of transportation. One single 600 ton barge can move the equivalent of 24 mid-sized truck loads. The role played by rivers in trade, commerce and logistics is undeniable.

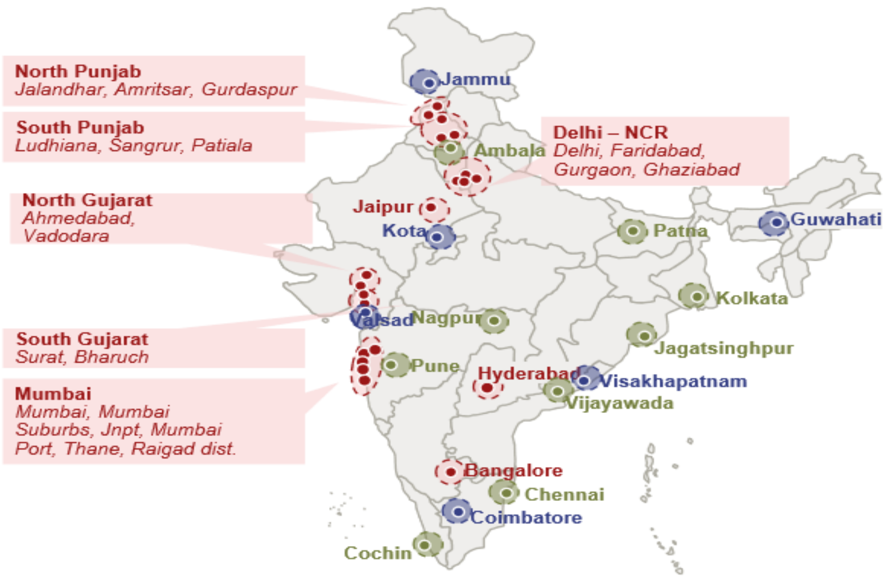
The sector's investment requirements are ~Rs 900 bn over the next few years to develop navigable routes, connectivity infrastructure to and from hinterland, terminals, vessels and repairing facilities.

Benefits of Sagarmala Pariyojana including inland waterways:

- Will **bring down logistics cost** in India as waterways transportation cost is tad cheaper than roadway transportation. Currently, India spends ~14% of its GDP on logistics. GoI targets to bring it down to 10% by FY22.
- **De-congestion of road networks**, will facilitate faster movement of cargo resulting in improvement of time efficiency, which will in-turn facilitate further reduction in logistics cost.
- **Increase in port traffic:** As per the studies conducted under the Sagarmala Pariyojana, it is expected that by 2025, cargo traffic at Indian ports will touch ~2,500 MMTPA while the current cargo handling capacity of Indian ports is 1,500 MMTPA. A roadmap has been prepared for increasing the Indian port capacity to 3300+ MMTPA by 2025 to cater to the growing traffic. This includes port operational efficiency improvement, capacity expansion of existing ports and new port development.

4. **Multimodal Logistics Parks (MLP):** MLP's are being planned as centres of freight aggregation with warehousing, cold storage, and other such facilities. The objective of a MLP is to reduce logistics cost, improve freight aggregation, distribution, storage & warehousing, and create various 'value added services' including labelling, packaging, tagging, and crating by adopting hub and spoke model. By providing a variety of services in a single location, MLP's enable firms to produce more and deliver faster to customers, thereby reducing transit time, moderating inventory and other related costs. It is expected that MLP will reduce the per unit logistics cost from current Rs 2.4 per ton/km to Rs 1.8 per ton/km. 35 locations (~50% of road freight movement in the country) have been identified for developing MLPs in the first phase with the estimated cost for the project being Rs 2 tn.

Multimodal Logistics Park to bring huge demand for logistics industry



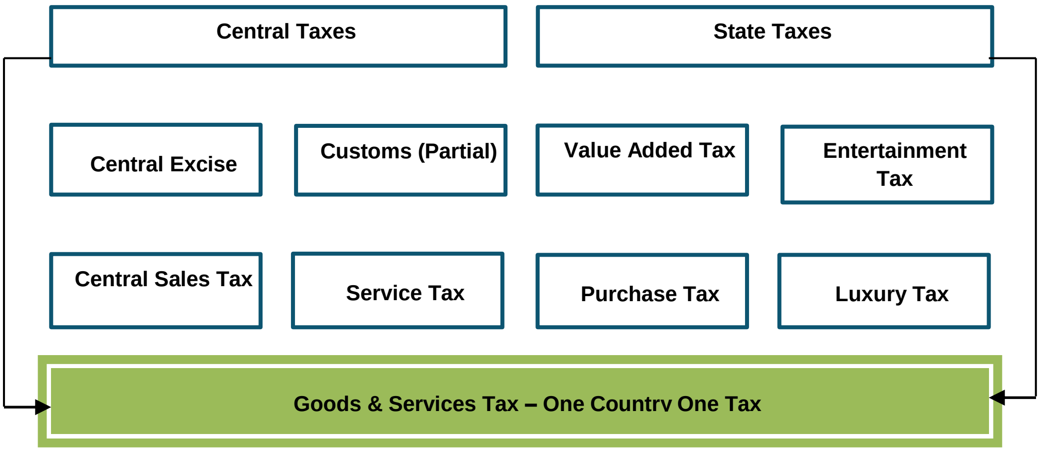
Source: Ministry of Road Transport and Highways, SKP Research

5. **Implementation of GST – the game changer:** In our view, GST is one of the biggest tax reforms to replace multiple indirect taxes that were levied by the Centre, States and Municipals on goods and services. This will increase compliances and facilitate seamless transportation convenience across Indian states with the introduction of the electronic way bill (E-Way Bill). Also, we believe, it brings in many benefits in the long term for the growth of the industry as mentioned below:

- **Reduction in Turn Around Time (TAT):** A large number of interstate and intrastate check points for taxation regulations (collection of taxes such as octroi, local body taxes, entry tax etc.) resulted in increased transit time and higher cost. In the GST regime, the TAT for trucks has improved considerably on account of lower interstate compliances and reduced paper work, leading to savings in carrying cost, fuel cost and transit cost.

- **Unified taxation system**: Prior to implementation of GST, all states had their own tax systems and taxed goods that moved across their borders differently, resulting in freight being taxed multiple times. However, GST implementation has brought uniformity in taxation and is beneficial for players having pan-India operations. Also, under GST, logistics players are expected to benefit from higher Input Credit, thus, lowering effective taxation.
- **Shift from unorganised to organised:** The Indian logistics industry is highly fragmented with ~1,500 active players. Due to tax non-compliance, unorganized players were able to operate at comparatively lower prices. However, under the GST regime, all firms with more than Rs 2 mn turnover are mandated to be GST compliant, which creates a level playing field for organised players.
- **Supply chain to become efficient:** Under the previous tax structure, manufactures were compelled to maintain warehouses in every state, which made supply chain extremely inefficient and increased cost. Post GST regime, companies with pan-India presence are re-designing their supply chains and consolidating warehouses into larger ones to benefit from economies of scale. This streamlining of processes will allow companies to save on inventory holding cost.

GST- the biggest indirect tax reform



Source: SKP Research

Tax slab pre and post GST

Sector	Tax rate earlier	Amended Tax Rate under GST
Rail & Costal Shipping	4.5-6%	5% (Without input tax)
Container Rail	6%	12% (Without input tax)
Road transport	4.5-6%	5% -No input tax 12%- with input tax

Source: Industry; SKP Research

6. **Infrastructure status to logistics sector:** In a major push to develop an integrated logistics framework in the country including industrial parks, cold storage chains, and warehousing facilities — GoI has granted infrastructure status to the logistics sector, enabling the industry to access cheaper finances.

Benefits to the sector:

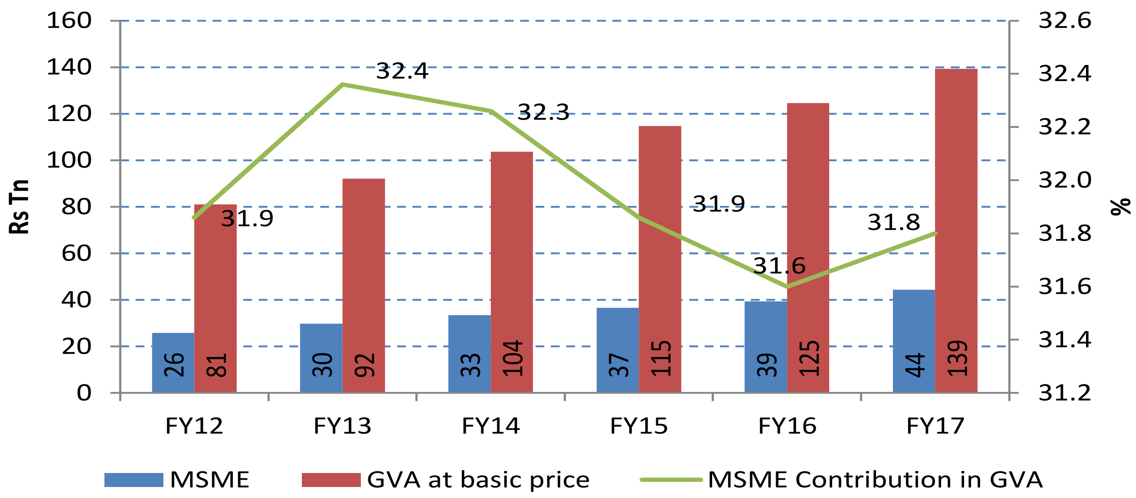
- ✓ access infrastructure lending at easier terms with enhanced limits,
- ✓ larger funds as external commercial borrowings (ECB),
- ✓ longer tenure funds from insurance companies and pension funds and
- ✓ borrow from India Infrastructure Financing Co. Ltd (IIFCL)

This decision will help the sector reduce overall logistics costs. India's logistics cost at 14% of GDP is very high compared to that of developed nations at below 8%. Consolidation of fragmented, small warehouses spread across different cities into big central warehouses post implementation of GST will reduce overall logistics cost.

7. **Third Party Logistics (3PL):** India's 3PL market, currently pegged at ~USD 6 bn, can potentially reach ~USD 17 bn by FY25. With the advancement in e-commerce and vendors trying to provide the fastest door to door services, the scope for 3PL has widened. Companies have increasingly started outsourcing their end-to-end logistics requirements to 3PL service providers, who take care of the total supply chain. 3PL is a key driver of development for e-trade players as they seek to develop core competencies

8. **Growth of MSMEs:** With around 63.4 mn units throughout the country, Micro, Small and Medium Enterprises (MSMEs) are the key consumers of logistics services, accounting for ~18% of India's GDP and 33.4% of India's manufacturing output. The sector provides employment to ~120 mn people and contributes ~45% to the overall exports from India. The sector has grown at a CAGR of ~11% during FY12 and FY17 and is projected to grow at a similar pace driven by the boost in manufacturing, growth in e-commerce and incentives from the Government.

Higher growth in MSME to aid growth in logistics industry



Source: MSME Annual report; SKP Research

With GoI's intent make Indian economy touch USD 5 tn by 2024, the MSME sector considered as its back bone, and being further pushed by GoI initiatives, is bound to play a vital role. The growth in MSME sector will provide a tailwind to the logistics industry.

9. **Growth in Tier–II and Tier–III cities:** Rising consumption across tier II & tier III cities and semi-urban areas have taken a centre stage due to various GoI policies like "Housing for All', 'Smart Cities Mission', 'Start-up India', 'UDAN', etc. Further, better economic growth, leaving more disposable income for discretionary life style consumption, rapid urbanisation, changing customer preference towards quality branded products particularly amongst the growing mass affluent have lured various global and local brands to plan their expansion in tier II cities and beyond. Thus, tier II & tier III, smaller cities and beyond are expected to evolve at a faster rate to contribute to the next wave of growth for efficient logistics companies.

10. **Emergence of e-commerce:** With increasing penetration of internet and smart phones, e-commerce market in India is expected to grow to USD 200 bn by 2026 from USD 38.5 bn in 2017. Growing internet penetration with increased use of smart phones is leading to a connected India, which has led to e-businesses to expand to provide a single platform for various services, resulting in the rise of online

shoppers. The e-commerce logistics sector continues to evolve rapidly with changes in business environment widening the reach of the retailers to remote locations (tier II and tier III cities).

Key Concerns:

1. **Poor road infrastructure:** As mentioned above ~60% and 32% of transportation movement is handled by road and rail respectively. Due to over-saturated rail networks and high rail tariffs, movement of goods is done by road transportation, which proves to be quite inefficient, because of poor road infrastructure, multiple checkpoints, and congestion.

2. **Slowdown in the economy:** It is quite apparent that the Indian economy is slowing down. The real GDP growth has fallen from a peak of 8.2% in 2016-17 to 6.8% in 2018-19 to 4.5% in Q2FY20. Private consumption has been the main driver of India's growth, contributing about 60% of GDP, which is slowing down, dragging economic growth.

   Logistics industry is also reeling under the impact of slowdown, resulting in lower truck and cargo utilization, thereby impacting freight rates. As per Indian Foundation of Transport Research and Training, freight rates on key trunk routes have dropped in the range of 11-15% in the seven months since November 2018. Freight rates at key routes at a glance:

   Sharp fall in freight rates

Round Trip (18 ton payload)	Rentals for Jun 1 2019 (Rs)	% Change	
		May-19	Nov-18
Delhi-Mumbai-Delhi	86,400	-1.3%	-11.4%
Delhi-Nagpur-Delhi	82,800	-0.9%	-11.0%
Delhi-Kolkata-Delhi	81,100	-1.0%	-11.1%
Delhi-Guwahati-Delhi	1,32,500	-1.6%	-14.8%
Delhi-Hydrabad-Delhi	1,14,000	-1.5%	-12.0%
Delhi-Chennai-Delhi	1,17,800	-1.0%	-13.1%
Delhi-Bengaluru-Delhi	1,27,000	-1.2%	-12.7%

   Source: Business Standard

   Average freight rates on a return trip across regions went further down to Rs 85,500 during the first five days of November 2019, compared to Rs 88,450 at the end of October.

3. **High logistics costs:** High logistics costs in India vis-a-vis other nations have been a vexing issue. Logistics costs as a percentage of the country's GDP is 14%. The figure is higher compared to 10-11% for BRIC countries and 8-9% for developing nations. USA and Europe spends 8-10% of the GDP on logistics. Higher logistics costs in India could be ascribed to the lack of efficient inter-modal and multimodal traditional systems. Other most important reason contributing to the higher expenses is fuel prices in transportation. Higher fuel prices increase transportation costs for shippers by pushing up fuel surcharges. Rising diesel fuel prices lead to escalation in surcharges added to freight rates.

   Going ahead, the logistics costs as a share of the GDP is expected to decline, led by developments like positive impact of implementation of GST and e-way bill, investments in road infrastructure, development of inland waterways and coastal shipping, and the thrust on dedicated freight corridors.

4. **Warehousing constraints:** The poor state of warehousing and their restrictive locations are one of the few major concerns of logistics industry. Storage facilities are quite fragmented for low margin products thereby resulting in disincentive to create a large integrated warehousing space. The Government owned most of the large warehouses used for food grain.

5. **Technological and skill deterrents:** In India, automation of processes is still in the embryonic stage and non-standardization in the industry due to its fragmentation further slows down the progress. Acceptance and adoption of technological advancements like RFID, tracking, warehouse management system, etc. can resolve the issues between domain requirement and IT. Besides this, there is lack of quality workforce in this sector, and the available skill set needs to be upgraded urgently.

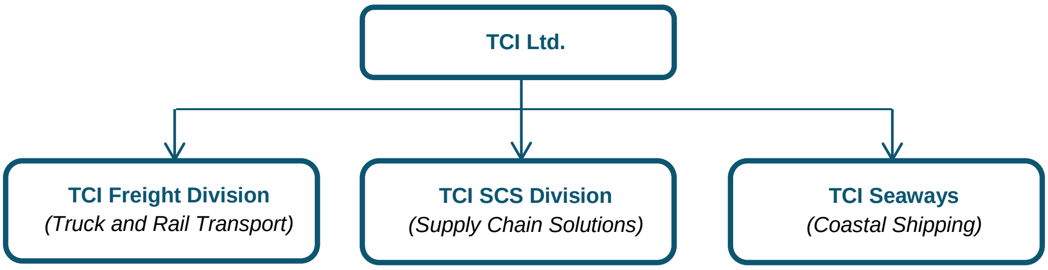
Outlook:

Overall logistics: The long-term outlook for logistics and warehousing sector remains positive and the on-going economic and tax reforms herald a sustained long-term growth for organized players like TCI. The sector is expected to gain from the broad-based economic recovery and supply side improvements. Further, riding on structured reforms including the infrastructure status and the implementation of GST, Indian warehousing and logistics sector is estimated to attract nearly USD 10 bn investments over the next 4-5 years. The country's logistics industry is likely to touch USD 360 bn by 2032.

Warehousing: The total warehousing space in India is expected to reach 922 mn sq ft by 2024, with a CAGR growth of 5%. Given that a vast amount of space (~90%) within this sector continues to be unorganized, there is high untapped potential with greater scope for growth opportunities and better ROIs in the long-term. With e-commerce players expanding operations across the country, there has been a corresponding rise in demand for space from these companies in both tier I and II markets and this is expected to add to robust growth in Delhi NCR, Mumbai, Pune, Bengaluru and Chennai markets.

Company Profile

- **An Introduction:** Transport Corporation of India Ltd (TCI), was incorporated in 1958 as a 'one man, one truck, one office' company, in Kolkata. Today, it has become one of India's leading multimodal logistics service providers, spanning from conventional freight business to complex supply chain logistics including coastal shipping. TCI has attained logistics expertise over six decades and has an extensive network of company owned offices, ~7,500 trucks in operation, 12 mn sq. ft. of warehousing space, 7 maritime carriers and a strong team of trained employees. As services are getting more and more specialised and segmented, customised solutions are the need of the day. TCI's range of services encompasses the entire gamut of supply chain services from point of origin to final end customer; from multimodal transportation (through road, rail and sea) to warehouse management services.
- **Management:** The Company is professionally managed under the leadership of Mr. D.P. Agarwal, Chairman and Mr. Vineet Agarwal, Managing Director. Mr. D.P. Agarwal has five decades of experience in logistics industry. Mr. Vineet Agarwal also carries rich relevant industry experience. Under their leadership, TCI, is a professionally managed organisation and is considered amongst the leaders in the organised logistics industry.
- **Business Verticals:** Business of TCI can be divided in three verticals namely TCI Freight, TCI SCS and TCI Seaways details of which are given below.



Source: The Company and SKP Research

- **TCI Freight Division – one of the leading end-to-end transport solutions providers:** TCI Freight is the oldest and **largest business segment of TCI** and is India's foremost surface transport entity with legacy and experience of about six decades. The division is fully equipped to provide surface transport solutions for cargo of any dimension with product segments ranging from full truck load (FTL) and less than truck load (LTL).

  Since FY16, the Company has started focusing on high margin LTL business which currently contributes 1/3rd to the total TCI Freight revenue. FTL is the conventional freight business of TCI, since inception. FTL can be further bifurcated into 'Over-Dimensional cargo (ODC)', and 'Project Heavy Haul (PHH)'. **TCI is the third largest player in FTL segment** in India after 'Darcl Logistics' and 'Associated Road Carriers Ltd' whereas it is the **second largest player in LTL** segment after 'VRL Logistics Ltd'. TCI has the capability to provide these services at national level in contrast to its unorganised peers who have regional presence with a limited fleet.
- **Value Added Services:** TCI provides value added services to its clients in FTL and LTL division which are given below:

FTL	LTL	PHH
End to End Multimodal Transportation	Multiple deliveries for single location	Heavy Crane Movement
Multi location delivery pick-up	Containorised movement for high value cargo	Telecom Equipments/ Towers
Single point billing	Cash on Delivery	Heavy Machineries
Own Twenty Foot Equivalent (TFU) Containers for movement of high value cargo	Modernised and latest equipped hubs	Rail/Metro Coaches
24x7 online track and trace	Standardised billing	Infrastructural Material

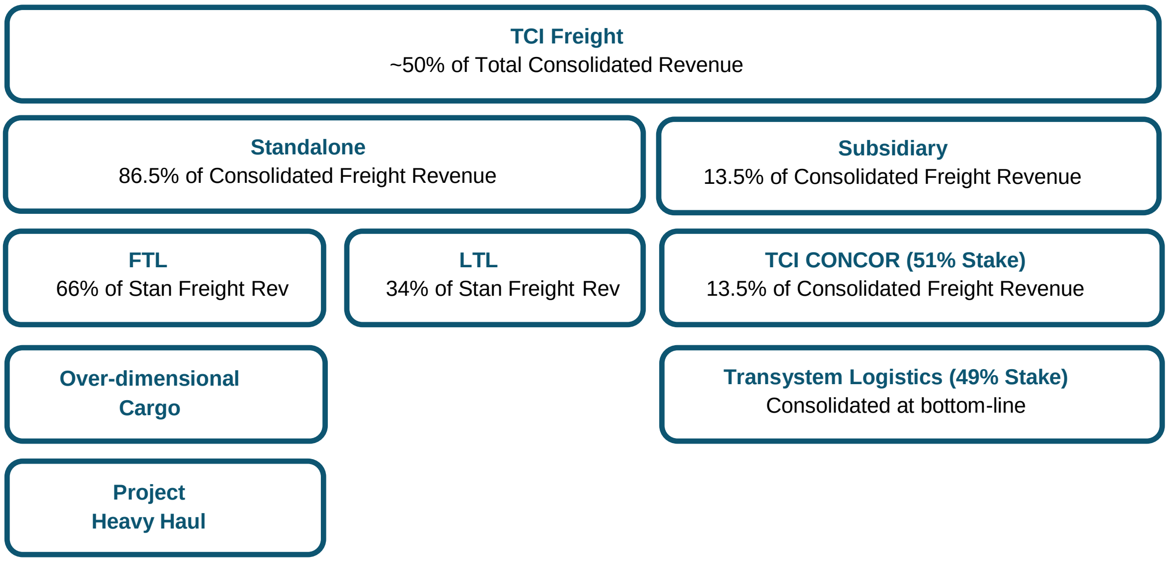
Source: The Company and SKP Research

- **Asset light business model:** As mentioned earlier, TCI started trucking business with single truck in 1958. Today, it operates a dedicated fleet of 3,500 trucks (including refrigerated trucks), hydraulic axles and trailers; of which 120 trucks are owned and rest are leased. The fleet is equipped with fully automated systems supported by online tracking and GPS technology which helps optimising efficiency and assures customers access to anytime and anywhere information. This asset light model helps TCI to maintain healthy ROCE.
- **Wide distribution network with hub & spoke model:** With 25 strategically located hubs, in all major commercial centres, catered by more than 700 IT enabled own offices with an average space of 25,000 sq. ft. per hub, TCI Freight ensures an extensive distribution network; reliable, time and cost-effective cargo consolidation and transportation network. Benefits of hub and spoke model are:
    - ✓ Maximum reach
    - ✓ Cost effective model
    - ✓ Wide distribution network
    - ✓ Frequent services as per client s' convenience
    - ✓ Warehouse and storage facility
- **JV - TCI CONCOR provides multimodal rail based container transportation:** TCI provides multimodal rail solutions through its joint venture – TCI CONCOR Multimodal Solutions Pvt Ltd. The JV is between CONCOR (49% stake) and TCI (51% stake) which supplements TCI's bulk multimodal (road and sea) logistics solutions by rail and road. **The JV also provides the first and the last mile solutions** which are addressed through road transportation with dedicated owned fleet of trucks, facilitating door-to-door pickup and delivery services. The JV provides container transportation through dedicated rail vertical to its customers and **offers end-to-end multimodal logistics solutions** for their various needs in safe speedy and cost effective manner. The key services offered by the JV are:
    - ✓ Break bulk and full train movement
    - ✓ FTL/FCL container movement
    - ✓ LTL/LCL console movement
    - ✓ Developing private freight terminals and CFS

  The JV has contributed ~Rs 1.9 bn to the consolidated top-line of the company in FY19.

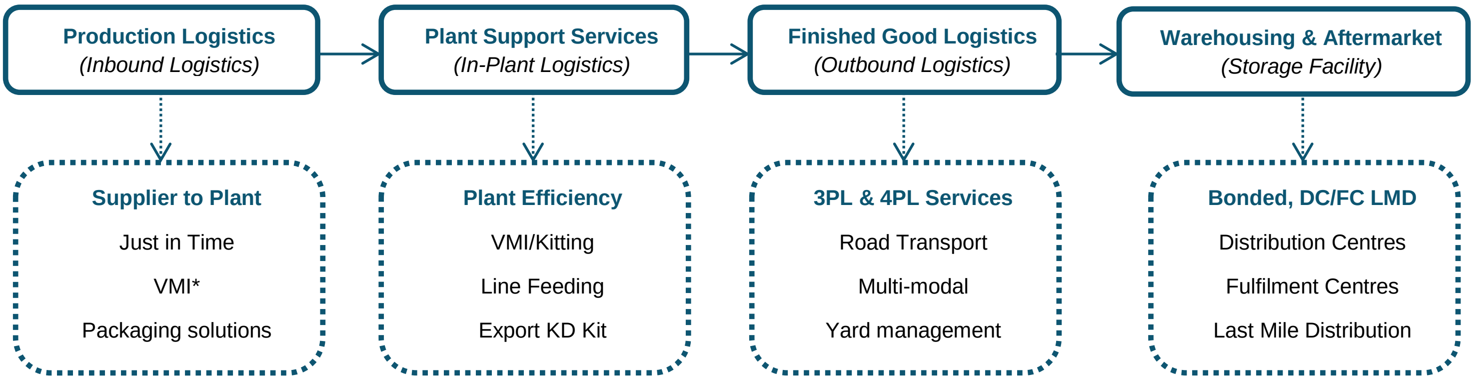
  Industry Served: TCI CONCOR is the preferred rail & road multimodal logistics for industries such as metals and minerals, dry and liquid chemicals (including gases), tiles and marble, food grains, FMCG and electronics. The subsidiary offers services like full rake movement, piece meal container movement (through rail, sea and roads), handling at terminals/railway sidings, customs house agent (CHA) and rail side warehousing.
- **JV – Transystem Logistics International Pvt Ltd (TLI):** TLI is the JV between TCI (49% stake) and Mitsui and Company Ltd (51% stake) and is the sole logistics partner for Toyota Kirloskar Motors Ltd, in India. The JV provides complete logistics solutions from inbound logistics to outbound logistics for completely built units (CBU). It also provides services like spare part management and warehousing and distribution.

- **TCI Freight division in nut shell:**



Source: The Company & SKP Research

- **TCI SCS Division – Conceptualisation to Execution:** TCI SCS division is a single window enabler of integrated logistics and supply chain solutions encompassing all the needs of a value seeking progressive client right from conceptualisation to implementation.
- The division is equipped with cutting edge software and technologies for seamless flow of information across production (Inbound) logistics, finished goods (outbound) logistics and distribution centres/aftermarket warehouses.
- The division is mode agnostic and focuses on cost, time and stability of a network. It embraces multi-modal transport across different industry verticals leveraging various divisions of TCI. **TCI SCS division in nut shell:**



Source: The Company & SKP Research; *VMI – Vendor Managed Inventory

- **Consultancy Services:** TCI provides consultancy services to its clients starting from supply chain strategy design, to distribution network modelling and optimisation, warehouse/distribution centre design, inventory planning and management etc.
- **Production and finished goods logistics:** TCI provides production and finished goods logistics services to its customers including just in time delivery, VMI, packaging solutions, multimodal transport services etc, encompassing all their needs. It also provides **value added services** such as kitting to light assembly, de-boxing, line feeding, managing raw material (in-plant store), and finished goods yard management etc essential for smooth running of a plant.

- **Most modern warehouses equipped with modern technologies:** Distribution Centres (DC) and Fulfilment Centres (FC) are the heart of a retail supply chain system. It consolidates and disseminates the goods, facilitating suppliers/sellers and customers. **TCI is one of the largest warehousing solutions providers in India.** All the DCs of TCI are smart warehouses equipped with cutting edge modern technologies and connected with internet of things (IoT) for seamless fulfilment of customers' needs. These warehouses are equipped with
    - ✓ Conveyors, trolleys and forklift for in-house movement;
    - ✓ Wi-fi enabled hand held terminals for put-away, picking, retrieval and dispatch; and
    - ✓ 2-way EDI for visibility to all stakeholders.

  Typical warehousing services provided by the company are receipt of Quality Check (QC), labelling, packaging, order management, road permit management, documentation and supplier management.

- **Multi-tier warehouses with 12 mn sq. ft. capacity:** DCs/FCs of TCI are modern multi-tier and equipped with modular shelving system with vertical reciprocated conveyor. This multi-tier system allows TCI to create space without increasing capacities. Currently, TCI has total capacity of 12 mn sq. ft., of which ~**20% is owned by the Company/group Companies.**

- **Cold-chain solutions – through 100% subsidiary:** TCI SCS division also provides cold chain solutions to its customers for short life cycle products, through its recently acquired wholly owned subsidiary 'TCI Cold Chain Solutions Ltd' (in 2018). However, contribution from the segment is very small to the division's total revenue. During FY19, the segment contributed ~Rs 52 mn to the topline which has more than doubled during H1FY20 at ~Rs 112.8 mn.

- **100% 3PL service provider – Moderately asset heavy:** Outsourcing logistics services is on the rise for past many years, giving rise to the role of 3PL service providers. TCI is a 100% 3PL service provider where the Company has tie-ups with medium and large size companies which are reducing their focus from supply chain management and are outsourcing this function fully or partially. TCI has vast experience in supply chain management and customises supply chain services as per clients' needs with precision.

- It is essential to have assets in the books to become eligible for getting business from clients under 3PL model. This makes TCI moderately asset heavy in terms of ownership of trucks, which is an assurance to the customers for in-time delivery. TCI SCS division operates ~4,000 trucks of which 1,350 trucks are owned and rest are leased.

- **Heavily dependent on automotive segment:** Revenue stream from TCI SCS division is heavily dependent upon automotive segment which contributes 80% to the total TCI SCS revenue. The Company caters to diverse range of customer in the segment viz two wheelers, three wheelers, four wheelers, tractors, commercial vehicles, farm equipment, earth moving equipment, auto ancillary sector (spare-parts) etc. It provide services like production (inbound) logistics, return management, kitting, line feeding, yard management, multimodal logistics, etc. to the industry.

  TCI SCS also cater to industries such as pharmaceuticals and health care (ambient and cold chain solutions), chemicals (solid, liquid and gas), omni channel retail (which includes FC for e-commerce), DC and mother warehouses for brick and mortar retail etc.

- **Second largest contributor to the topline:** TCI SCS division is the second largest contributor to the topline of the Company. During FY19 and H1FY20, the segment contributed ~36% each to the consolidated topline.

- **Among top three national 3PL service providers:** TCI SCS is the third largest 3PL service provider after Mahindra Logistics Ltd and Future Supply Chain Solutions Ltd.

- **TCI Seaways Division – Coastal Shipping:** TCI Seaways was started as an independent sea cargo division in February 1995. The division caters to the coastal cargo requirements for transportation of containers and bulk cargo from ports on the west coast and east coast of India to Port Blair in Andaman and Nicobar Islands.
- **Type of cargo:** TCI Seaways caters to coastal cargo requirements for transporting container and bulk cargo, reefer cargo (refrigerated cargo), project cargo (large, heavy, high value/critical equipment), food grains, container feeder services etc. A large part of containerised cargo consists of variety of general goods, defence equipment, and movement of vehicles.
- **Multimodal coastal shipping – Second largest coastal shipping solutions provider:** TCI Seaways provides first mile and last mile connectivity via rail and road over and above port handling and coastal transportation across western, eastern and southern parts of India. Thus, it provides seamless services to its customers from origin to destination and has become second largest multimodal coastal shipping solutions provider after Shreyas Shipping and Logistics Ltd.
- **Provides port to port coastal services:** It provides port to port coastal services like container service (FCL and LCL to and from all major ports), cargo consolidation, multimodal transportation (first mile and last mile delivery by rail and road), and door to door services with dependable transit schedules.
- **Fleet and capacity:** The division is well equipped with 7,650 marine containers (of which 6,350 containers are owned) and seven cargo ships with the total capacity of 91,880 DWT (dead weight tonnage). Details of the fleet is given below:

Vessel	Route	Type of Ship	Container Capacity (TEU)	DWT
TCI Arjun	Mundra-Tuticorin; Kochi-Mundra	General Cargo/Container	679	10,545
TCI Lakshmi	Kakinada-Port Blair and Chennai Portblair	MPP*/Container	382	4,765
TCI Prabhu	Kakinada-Port Blair and Port Blair-Kakinada	General Cargo/Container	312	4,508
TCI Surya	Chennai-Port Blair and Port Blair-Chennai	General Cargo/Container	167	3,490
TCI Vijay	Mundra-Kochi and Kochi-Mundra	Container Ship	1,114	13,760
TCI Express	Mundra-Mangalore-Cochin-Mangalore	Container Ship	770	26,313
TCI Anand	West-South Coast Corridor	Container Ship	860	28,499
Total DWT				**91,880**

Source: The Company and SKP Research; *Multi Purpose Vessel - carries various kind of cargo

- **Revenue contribution:** During FY19 and H1FY20, the segment contributed ~13% and ~12% respectively to the consolidated topline of TCI.

Key JVs of TCI at a glance:

Name of the JV	Stake	Division	Business Activity	Revenues* (Rs mn)	EBIDTA Margin range
TCI CONCOR	51%	TCI Freight	Provides rail haulage	1,891	2-2.5%
TCI Transystems Logistics	49%	TCI Freight	Complete logistics solutions provider for Toyota Kirloskar Motors Ltd	5,301	12-13%
TCI Cold Chain Solutions Ltd.	100%	TCI SCS	Provides cold Chain Solutions	52	

Source: The Company and SKP Research; *FY19 Revenues

Investment Rationale

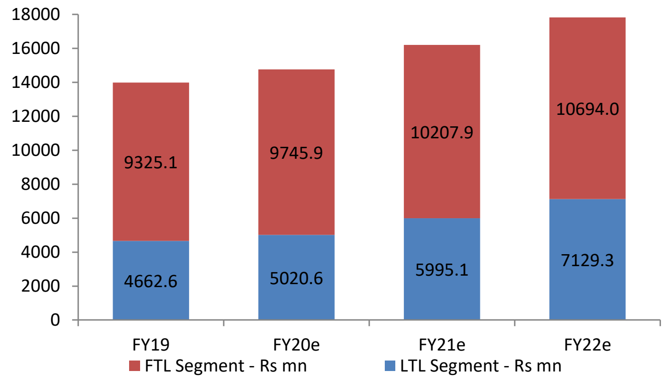
1. Moving up the value chain with focus on LTL segment:

As mentioned earlier, TCI started its freight business with conventional FTL segment, which is a low margin business (2-3%) in comparison to LTL segment (8-11%). **TCI is among the few national players which provide both FTL and LTL services.** Major benefits of LTL segment over FTL segment are as follows:

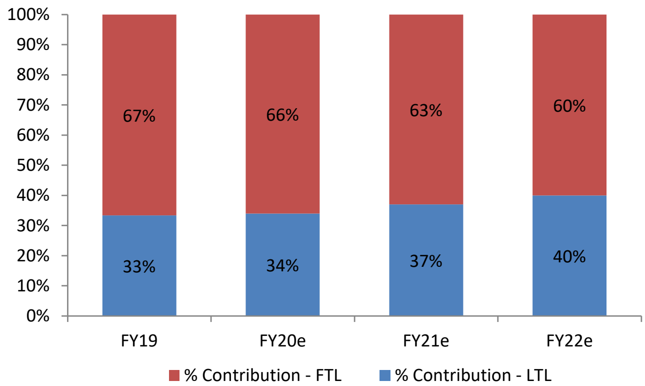
- ✓ **Low cost:** LTL segment is cost affective in comparison to FTL segment. An LTL carrier can carry the cargo at fraction of the cost of hiring an entire truck/trailer for one shipment.
- ✓ **Best for low volumes:** LTL provides the best option for low volume shipments. This also benefits the customers as their cost decreases significantly in comparison to FTL.
- ✓ **Facilitates hub and spoke model:** Multiple LTL shipments from multiple locations are picked up, brought to a central warehouse which is loaded on a truck for long haul. This facilitates hub and spoke model which again helps in cutting costs. Under FTL model, the trucker has to carry the cargo point-to-point even if the truck is not full, resulting in higher cost both for the trucker and the customer.
- ✓ **Volume of LTL increases** at the time of slow down.

TCI management started focusing on LTL segment since FY16, which boosted both topline and margins of the TCI Freight business. During FY16-19, TCI's freight segment topline increased at 13% CAGR, while EBITDA margin improved from 2.9% to 3.4%. Currently, LTL contributes 1/3rd of the total freight division. With management's focus, we expect LTL segment to grow with a CAGR of 15% in next three years to reach Rs 7,129.3 mn by FY22E, thereby contributing 40% to TCI freight revenues. Further, with higher contribution from LTL segment, we expect EBITDA margins to touch ~4.4% by FY22E.

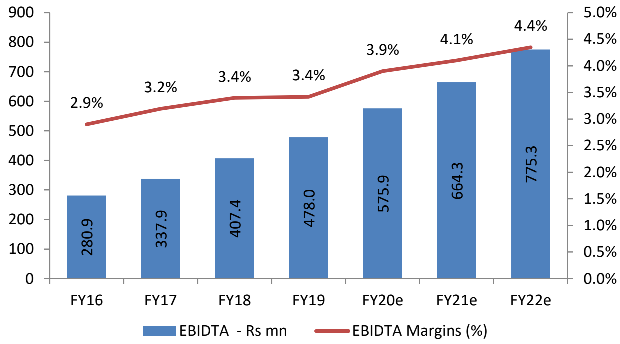
TCI Freight Revenue



Increasing LTL contribution in TCI Freight



Improvement in EBIDTA Margins of TCI Freight



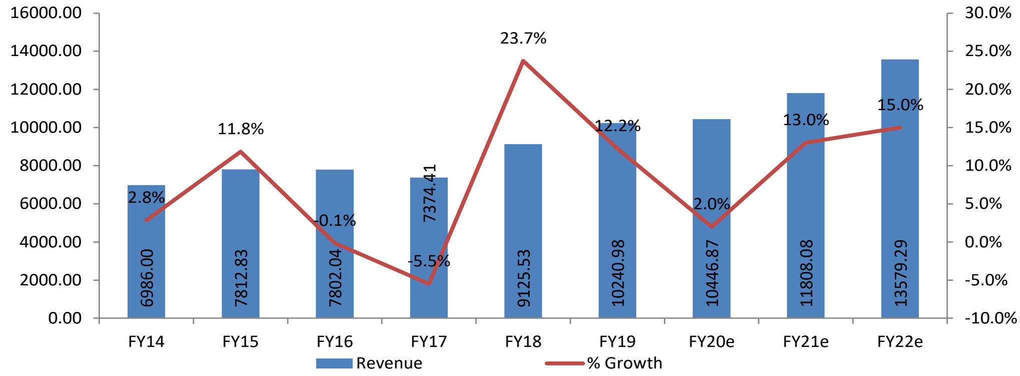
Source: The Company and SKP Research

2. Increasing contribution from high margin value added businesses resulting in higher cashflow and reduction in working capital requirement:

TCI SCS brings in a lot of commitment in its partnership with its clients. TCI designs system and processes around the client's business requirements and monitor operations to the last detail in ensuring an agile and lean supply chain. The division offers services starting from consultancy to designing and operating of entire supply chain management of the client from inbound logistics to warehousing to outbound logistics; integrating all its business divisions.

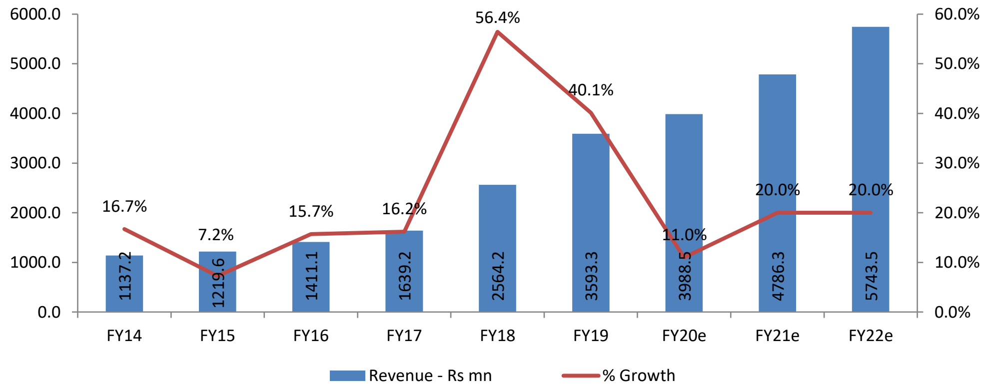
TCI Seaways also provides end-to-end multimodal services to its clients from first mile to the last mile delivery. This, results in better operating efficiencies and margins for both the divisions of the Company in comparison to TCI Freight (especially FTL segment).

The contribution of these two segments in the entire consolidated topline is increasing gradually year on year. Revenues from TCI SCS division which witnessed muted growth ~Rs 7,000 mn to ~Rs 7,400 mn between FY14 to FY17 has reported robust growth of ~24% and ~13% during FY18 and FY19 respectively. With expected revival of the economy from H2FY21 onwards and Government efforts like providing infrastructure status to logistics sector and focus on development of logistics park, we expect the segment to grow by 13% and 15% during FY21E and FY22E respectively.



Source: The Company and SKP Research

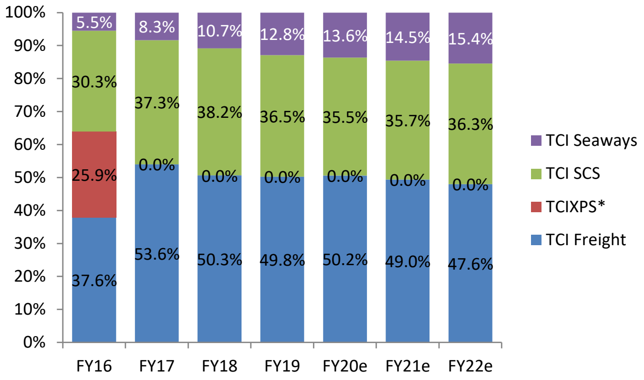
TCI Seaways division has also witnessed robust CAGR growth rate of 26% between FY14-FY19 and we further expect it to grow with a CAGR of 17% during FY19-22E on the back of Government initiatives like Sagarmala Pariyojana and interconnecting of rivers. Also recently (October 2019), TCI Seaways has bought a new container vessel (TCI Anand) which is the biggest vessel of the division with a capacity of 28,400 DWT. The vessel can carry 860 containers of 30 tons capacity each. Going forward, the management expects the new ship to be fully utilised in 4-5 voyages, which is expected to be achieved during Q4FY20. The enhanced capacity coupled with expected revival in Indian economy from H2FY21 onwards, will enable TCI Seaways to achieve double digit growth. TCI Seaways topline at a glance:



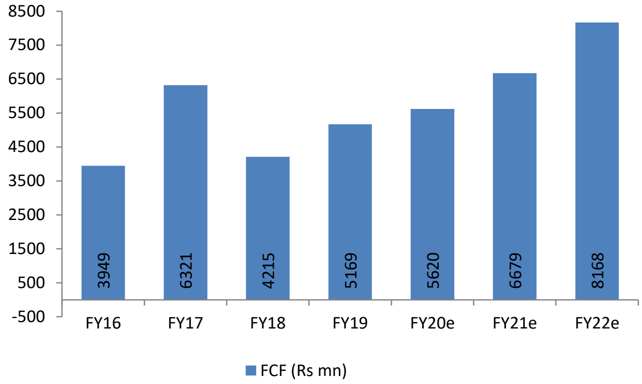
Source: The Company and SKP Research

With higher contribution from value added businesses we expect TCI to generate higher positive cash flows, better return ratios (ROE & ROCE) and reduction in working capital (in terms of percentage to sales), going forward.

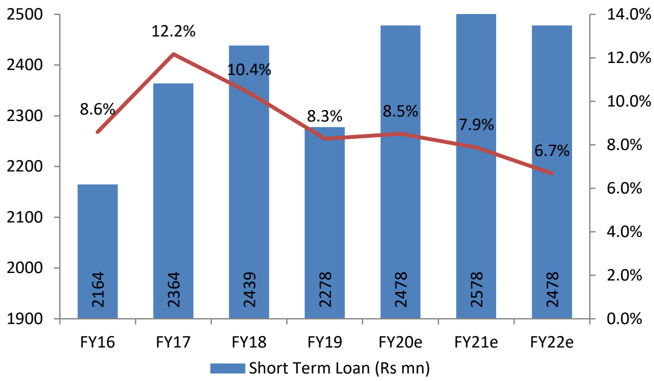
Contribution of High Value Added Assets



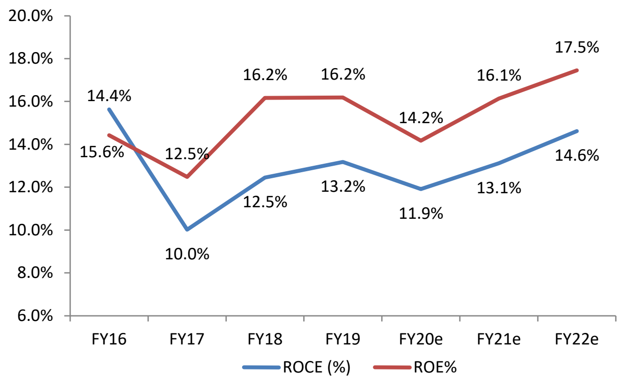
Increasing Free Cash Flow



Improvement in WC Requirements



Expected Improvement in ROE & ROCE



Source: The Company and SKP Research; * TCIXPS got demerged in 2016

3. Single window multimodal logistics solution provider:

As mentioned earlier TCI is India's leading single window integrated multimodal supply chain solutions provider, having presence in road freight, coastal shipping and rail freight segment. The three divisions of TCI provide the entire gamut of services to its customers.

Under TCI freight division, TCI-CONCOR, 51% subsidiary of TCI, it provides first mile and last mile services through road transport, apart from low cost rail haulage. Business model of TCI CONCOR at a glance:

Short Haul *(First Mile Delivery)* → **Long Haul** *(Rail Linked Terminals)* → **Short Haul** *(Last Mile Delivery)*

- **Short Haul** (First Mile Delivery): **First Mile Delivery through Road Transport**
- **Long Haul** (Rail Linked Terminals): **Carries all type of cargo through Rail Transport**
- **Short Haul** (Last Mile Delivery): **Last Mile Delivery through Road Transport**

Source: The Company and SKP Research

Through TCI SCS division, TCI provides end-to-end 3PL solutions to its clients with the combination of inbound logistics, warehousing services and outbound services. With the logistics services are getting more and more segmented, customized services are the need of the day. The Company has tie-ups with various third party medium and large size companies who outsource supply chain management services entirely or partially.

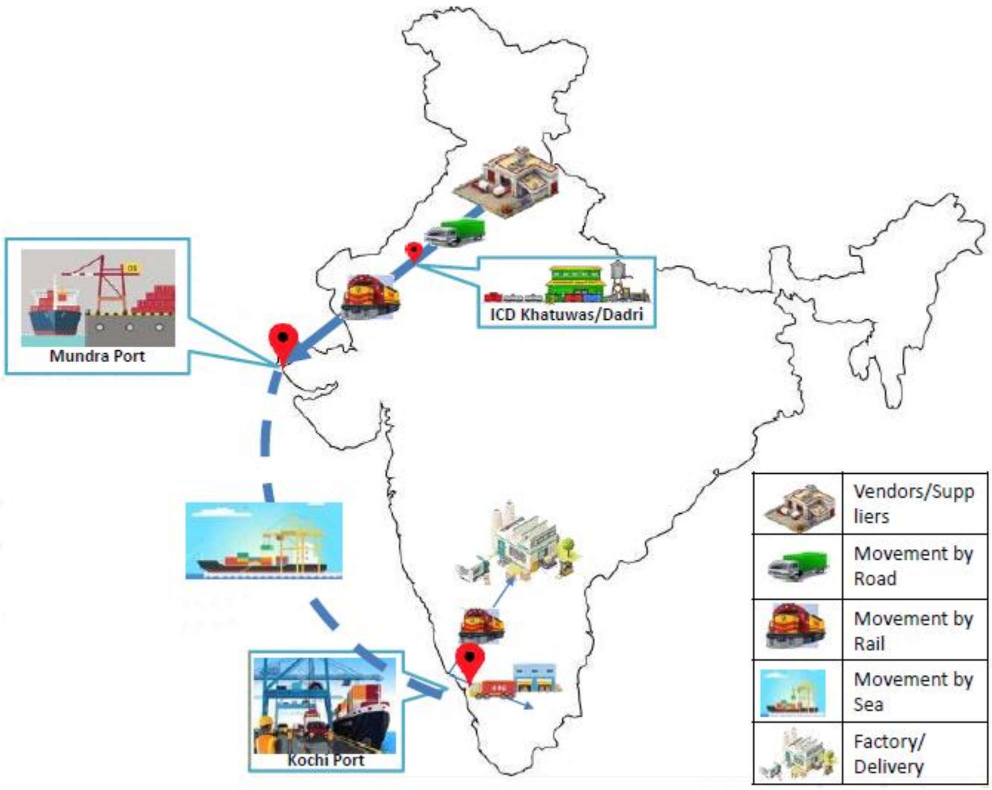
TCI Seaways also provides first mile and last mile services to its client through rail and road transport, apart from coastal shipping solutions to its customers.

First Mile *(Through rail & Road)* → **Coastal Shipping** *(Through Cargo Ships)* → **Last Mile** *(Through Rail and Road)*

Source: The Company and SKP Research

Though, these business verticals operate as individual entities, they come together creating synergy to offer broad range of end-to-end multimodal customized services to a wide range of customers.

TCI's multimodal capabilities at a glance:



Source: TCI's Earning Presentation FY2019-20 (H1)

4. Investment in IT aids 'JIT' delivery:

TCI is one of the few organised players who have invested intensively in automation and enhancing technological capabilities which help to track cargo and provide technical support to the customer. The company has In-house upgraded ERP to facilitate the state wise revenue and expenses recognition reports, and other requirements to upload returns under GST regime.

TCI has fully computerized offices interconnected via state-of-the-art software and database. All the trucks and trailers of TCI are GPS equipped making online tracking and tracing of vehicles possible. It has dedicated customer care centers which ensure that all customer queries are responded promptly.

Technologies used by TCI for smooth functioning of supply chain logistics

Technologies used by TCI	Broad Features	Usage
Barcoding & RFID	Accurate dispatch & billing	Barcoded labels printing for accuracy
		Barcode scanning of packets on movement of packet for exact position
Hand Held Terminals (HHT)	Scanning for speed and accuracy	Onsite booking, delivery, In/Out scan updation
		Dynamic routing & misroute alert system
Ground Technical Support (GPS)	Real-time vehicle & shipment visibility	GPS in all vehicles for real time packet status
		Provides 24X7 visibility
CCTV Surveillance	Eliminate theft	CCTV surveillance in all sorting centres and main pickup and delivery locations
		Operation control centre monitoring for real time corrective action
Mobile Apps	Easy tracking of shipment	Mobile app for pickup and delivery update at customer point
		Instant POD uploading.
		Customer pickup request
	Better business opportunities	Services and business locations enquiry
		Freight calculator

Source: Company; SKP Research

5. Strong entry barriers – provides edge over unorganised players:

There are strong entry barriers in the industry which provides an edge to TCI over unorganized segment. Importance of these entry barriers gets enhanced in the light that 90% of logistics industry is unorganized. Following are the segment wise entry barriers of the industry:

Segment	Entry barriers
Road Freight	✓ **High capital requirement** for buying fleet of truck & trailers (ranging from hydraulic axel, multi-axles and other kind of vehicles) and containers ✓ **Pan India network**: Well-connected routes for speedy movement of cargo through Hub & Spoke distribution model. Majority of unorganized players are regional players, providing services in limited area. ✓ **Investment in technology** like GPS enabled vehicles which most of the unorganized players lack. ✓ **Scheduled delivery period (JIT) and safety of cargo**
Supply Chain Management	✓ **High capital cost** for buying fleet of vehicles and warehouses ✓ Pan India network ✓ **Vast industry experience, knowledge** and high level of expertise – essential for 3PL business ✓ **Investment in technology** like conveyors, trolleys, forklifts, heavy duty racks, CCTV surveillance, hand held terminals, etc.
Costal Shipping	✓ **High Capital cost** for acquiring vessel and containers ✓ **Extensive knowledge and vast experience** in transporting containers and bulk cargo. TCI has diverse cargo handling capability and accident free record.

Source: The Company and SKP Research

6. Planned capex of Rs 4.25 bn over next three years to enhance capacities and efficiency:

TCI has planned capex of Rs 4.25 bn during FY19-22, directed towards TCI SCS and TCI Seaways division for buying of vessels and containers. The Company has reduced its capex for FY20E from Rs 2.75 bn to Rs 1.25 bn owing to:

- ✓ Slowdown in the economy – GDP growth fall to six years low of 4.5%; and
- ✓ TCI Seaways bought TCI Anand, the new vessel, for Rs 500 mn which was tad lower in comparison to the estimated cost of Rs 700-800 mn. TCI Anand is the largest ship in the fleet of TCI SCS division with the capacity of 28,400 DWT and can carry 860 containers weighing 30 MT each. The vessel started its first voyage on October 21, 2019 and it is expected that it will attain 100% capacity utilization in 4-5 voyages. TCI buys ships in the interval of 12-18 months, thus the next ship is expected by the end of FY21E.

The Company has already incurred capex of Rs 942.3 mn during H1FY20. The planned capex for FY21E and FY22E is Rs 1.5 bn each depending on the market conditions.

7. Tailwind from Indirect tax reforms:

Recent structural reforms in indirect taxes like GST and E-way bill implementation have worked as a boon to the organised logistics industry players like TCI.

GST: The logistics industry in general and TCI in particular is a beneficiary of GST implementation, as it has

- ✓ removed multilevel interstates taxes and brought one tax across nation which led improved transit time and reduced significant paperwork,
- ✓ brought uniformity in taxation across states.

Further, streamlining of processes using technology and reduction of paperwork is expected to reduce administrative costs in the long term. In addition, the check-points at state and city borders are no longer relevant, the offices and warehouses set up for the purpose of better tax management are expected to be reconfigured, leading to more efficient utilization of warehouses. Thus, the shift from unorganised to organised is evident.

Impact of GST implementation on logistics industry

Benefits	Challenges
Improved transit time	High cost of IT implementation and reconfiguration of systems and process
Simplified taxation	Administrative overhead due to decentralised registration
Shift to organised industry	Restricted cash liquidity
Improved Margins	
Data Availability	

Source: Industry

E-way bill: E-way bill is an electronically generated bill which eliminates erstwhile paper work needed for inter-state movement of goods. It is mandatory to generate an E-way bill for the movement of goods more than Rs 50,000. With E-way bill the mobility of goods have smoothened as it led to

- ✓ de-bottlenecking at check posts,
- ✓ electronic system enables tracking movement of goods and check tax evasion. It requires electronic systems which can further shift the logistics business from unorganised players to organised players.

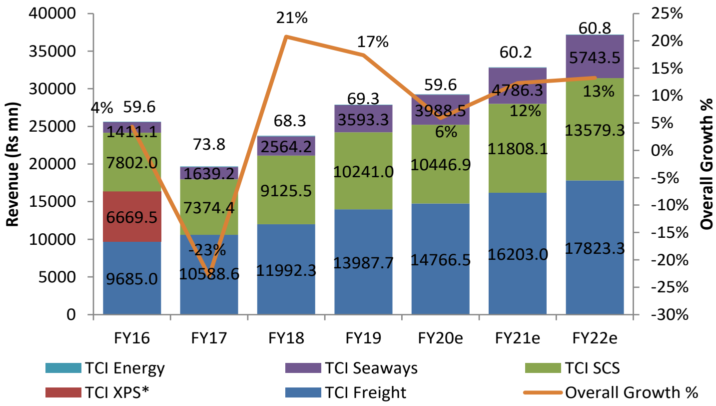
Financial Highlights

Revenue to grow with a CAGR of 10% between FY19-FY22E

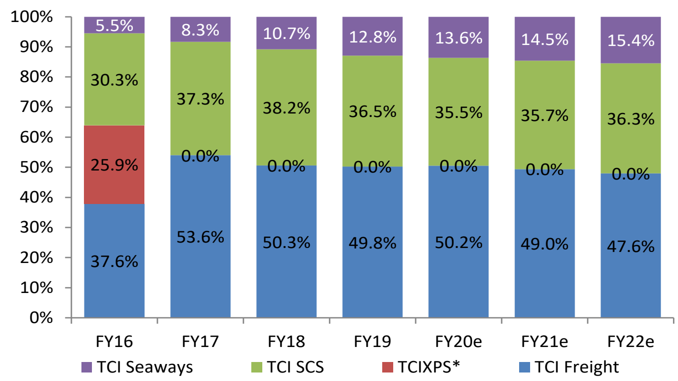
Consolidated topline of the Company has grown with a CAGR of ~13% from FY16-FY19, at Rs 27,536 mn, on the back of rise in GDP growth which was at its highs during FY17, at 8.2%. During FY19, TCI Freight was the highest contributor to the revenue with ~50% share, followed by TCI SCS and TCI Seaways divisions at ~37% and ~13% respectively. Growth in the economy has started slowing down, since then and touched six years low of 4.5% during Q2FY19. Growth in TCI SCS division has slowed down to 12.2% in FY19 and 2% during H1FY20 from 23.7% in FY18 on the back of slowdown in domestic automotive sector.

With slew of measures taken by the GoI to revive growth, GDP is expected to improve going forward, which will enable the growth in logistics sector. Thus, with expectations of revival in GDP growth, we expect TCI topline to grow with a CAGR of ~10.4% to reach ~Rs 37,065 mn.

Consolidated Topline



Revenue Contribution



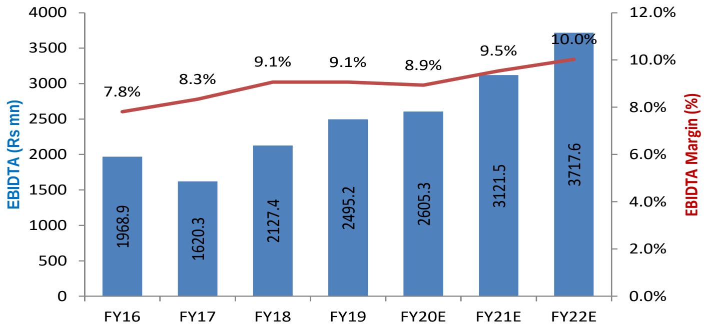
Source: The Company and SKP Research; *TCI XPS division got de-merged since 2016

Further Scope of EBIDTA Margin improvement with better business mix

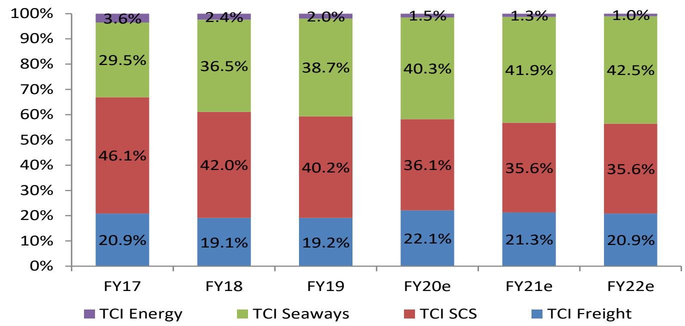
With improvement in business mix, EBIDTA margin of the Company is on continuous rise; from 7.8% in FY16 to 9.1% in FY19. Keeping in view the benefits of LTL segment over FTL segment, TCI has changed its strategy and enhanced its focus on high margin LTL business (ranging from 8-11%) against conventional FTL business (2-3%). Currently, 1/3rd of the TCI freight revenue comprise LTL business, which we expect to further improve to 40% by FY22E.

Also value-added businesses namely TCI SCS division (EBIDTA margins ranging from 8-12%) and TCI Seaways division (EBIDTA Margins ranging from 25-35%) contributes majorly to the EBIDTA margins of the Company. Both the divisions together contributed ~79% of EBDITA margins of the Company during FY19. ***With the rise in the contribution of TCI SCS and TCI Seaways divisions in the topline, there is further scope of improvement in the overall margins of the Company, as shown in the graph below:***

Overall EBIDTA Margin



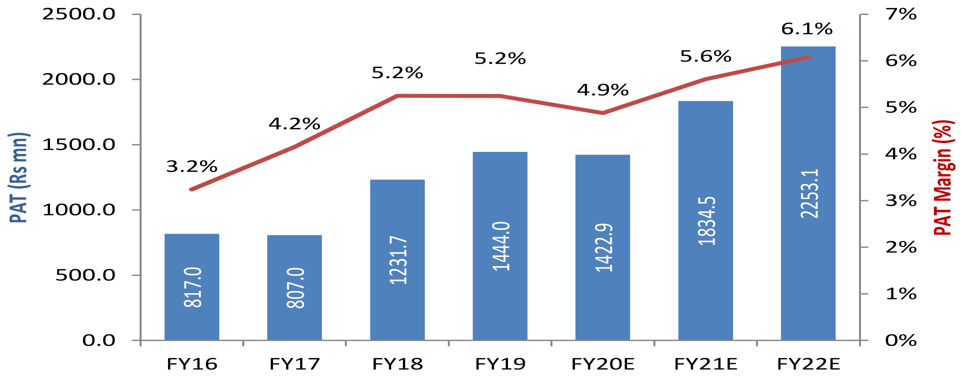
EBIDTA Contribution of the three divisions



Source: The Company and SKP Research; *TCI XPS division got de-merged since 2016

PAT Margin to Improve

TCI witnessed flat adjusted PAT margin (after minority interest) of 5.2% in FY19. With the increase in operating margins, repayment of long term loans on the cards and reduction in the requirement of working capital due to adequate cash flow generation, we expect the PAT margins of the company to further improve to ~6.1% by FY22E.



Source: The Company and SKP Research

Recent development – Rating upgrade by CRISIL:

Recently, CRISIL has upgraded its rating on the long-term bank facilities of TCI to 'CRISIL AA/Stable' from 'CRISIL AA-/Positive' whereas the short-term rating has been reaffirmed at 'CRISIL A1+'. The upgrade reflects the following:

- Improvement in TCI's business risk profile;
- Expected steady revenue growth and sustained profitability in all the business segments due to healthy client relationships and integrated product offerings across the logistics sector; and
- TCI's leading market position in the logistics business, strong infrastructure and healthy financial risk profile.

Key Concerns

1. **Rise in crude Price:** There is a time lag of one month in fuel price revision (both for trucks and coastal shipping). Thus, any unprecedented sharp rise in the prices of crude may negatively impact the profitability of the Company.
2. **Slowdown in automotive segment:** TCI SCS division is heavily dependent upon automotive industry with exposure of 80% of total division's revenue. Any prolonged slowdown in the automotive sector may hamper the results of the Company.
3. **Slowdown in the economy:** Logistics industry is heavily dependent upon the GDP growth of the country. For the past six quarters the economy of India is slowing down as illustrated by the declining GDP growth rate. With slew of corrective measures taken by the Government, the GDP is expected to revive going forward. However, if this slowdown continues, it will hamper the results of the Company.

Valuations

TCI is one of the fastest growing logistics service providers and is a likely beneficiary of Government initiatives like GST implementation, Bharatmala & Sagarmala Pariyojana etc. It is well positioned to capitalize on the growing market opportunities due to better business mix because of its focus on value added business, leading to improvement in operating efficiencies, better margins and higher return ratios.

We have valued TCI on SOTP basis. We recommend a BUY on the stock with a target price of Rs 355 in 18 months with an upside of ~32%.

Business Segment	EBIDTA (Rs mn)	EV/EBIDTA (x)	Rs mn
TCI Freight	775.3	7.0	5,427.2
TCI SCS	1,324.0	9.5	12,577.8
TCI Seaways	1,579.5	7.5	11,846.0
TCI Energy	38.8	1.0	38.8
Total EV			**29,889.8**
Less: Debt			4,437.4
Add: Investment			1,168.1
Add: Cash			585.6
Shareholder's Value			**27,206.0**
No. of shares outstanding (mn Shares)			76.7
Fair Value (Rs per share)			**354.9**
CMP (Rs per Share)			268.0
Upside			**32.4%**

Source: SKP Research

Q2FY20 & H1FY20 Consolidated TCI Result Review
(All data in Rs mn unless specified, Y/e March)

Particulars	Q2FY20	Q2FY19	% Change	Q1FY20	% Change	H1FY20	H1FY19	% Change
Net Sales	**6845.6**	**6752.1**	**1.4%**	**6591.9**	**3.8%**	**13437.5**	**13001.6**	**3.4%**
Operating Expenses	5575.8	5554.6	0.4%	5369.2	3.8%	10945.0	10676.6	2.5%
% to Sales	*81.5%*	*82.3%*	--	*81.5%*	--	*81.5%*	*82.1%*	--
Employee Expenses	385.9	356.9	8.1%	383.6	0.6%	769.5	701.5	9.7%
% to Sales	*5.6%*	*5.3%*	--	*5.8%*	--	*5.7%*	*5.4%*	
Other Expenses	296.6	266.1	11.5%	255.0	16.3%	551.6	525.4	5.0%
% to Sales	*4.3%*	*3.9%*	--	*3.9%*	--	*4.1%*	*4.0%*	--
TOTAL EXPENDITURE	**6258.3**	**6177.6**	**1.3%**	**6007.8**	**4.2%**	**12266.1**	**11903.5**	3.0%
EBIDTA	**587.3**	**574.5**	**2.2%**	**584.1**	**0.5%**	**1171.4**	**1098.1**	6.7%
EBIDTA Margin (%)	*8.6%*	*8.5%*	--	*8.9%*	--	*8.7%*	*8.4%*	--
Depreciation	203.2	193.6	5.0%	199.3	**2.0%**	402.5	364.6	10.4%
EBIT	**384.1**	**380.9**	0.8%	**384.8**	**-0.2%**	**768.9**	**733.5**	4.8%
EBIT Margin (%)	*5.6%*	*5.6%*	--	*5.8%*	--	*5.7%*	*5.6%*	--
Interest	82.4	97.2	-15.2%	86.9	-5.2%	169.3	171.1	-1.1%
Other Income	41.0	52.7	-22.2%	35.2	16.5%	76.2	95.7	-20.4%
Exceptional Items	98.8	0.0	--	0.0	--	98.8	0.0	--
Share in Net Profit Loss of JV	91.8	61.4	49.5%	83.6	9.8%	175.4	113.8	54.1%
Tax	-46.7	72.3	-164.6%	72.2	-164.7%	25.5	149.2	-51.6%
Extraordinary Items	0.0	0.0	--	0.0	--	0.0	0.0	--
Prior period taxes written bk.	0.0	0.0	--	0.0	--	0.0	0.0	--
Minority Interest	-2.5	-2.5	0.0%	-1.6	-56.3%	-4.1	-4.0	2.5%
Share of Associate Company	0.0	0.0	--	0.0	--	0.0	0.0	--
Reported Profit After Tax	**379.9**	**323.0**	**17.6%**	**342.9**	**10.8%**	**722.8**	**618.7**	16.8%
PAT Margin (%)	*5.5%*	*4.8%*	--	*5.2%*	**6.7%**	*5.4%*	*4.8%*	--
Diluted EPS (Rs)	4.9	4.2	-17.4%	4.5	**10.5%**	9.4	8.1	16.6%

Segment Wise Revenue Break-up	Q2FY20	Q2FY19	% Change	Q1FY20	% Change	H1FY20	H1FY19	% Change
Freight Division	**3548.2**	**3450.0**	**2.8%**	**3386.1**	**4.8%**	**6934.3**	**6665.9**	**4.0%**
Contribution	*52%*	*51%*	--	*51%*	--	*51%*	*51%*	--
Supply Chain Solution Division	**2478.1**	**2551.9**	**-2.9%**	**2439.4**	**1.6%**	**4917.5**	**4927.1**	**-0.2%**
Contribution	*36%*	*38%*	--	*37%*	--	*36%*	*38%*	--
Seaways Division	**853.9**	**788.4**	**8.3%**	**788.6**	**8.3%**	**1642.5**	**1503.3**	**9.3%**
Contribution	*12%*	*12%*	--	*12%*	--	*12%*	*11%*	--
Energy Division	**29.7**	**33.4**	**-11.1%**	**14.7**	**102.0%**	**44.4**	**56.1**	**-20.9%**
Contribution	*0%*	*0%*	--	*0%*	--	*0%*	*0%*	--
Unallocable & Corporate	**52.6**	**61.6**	**-14.6%**	**53.9**	**-2.4%**	**106.5**	**88.9**	**19.8%**
Contribution	*1%*	*1%*	--	*1%*	--	*1%*	*1%*	--
Less Inter Segment Revenue	**75.9**	**80.5**	**-5.7%**	**55.6**	**36.5%**	**131.5**	**144**	**-8.7%**
Total	**6886.6**	**6804.8**	**1.2%**	**6627.1**	**-100.0%**	**13513.7**	**13097.3**	**3.2%**

Segment Wise EBIT Break-up	Q2FY20	Q2FY19	% Change	Q1FY20	% Change	H1FY20	H1FY19	% Change
Freight Division	**101.4**	**92.8**	**9.3%**	**90.3**	**12.3%**	**191.7**	**170.5**	**12.4%**
EBIT Margin (%)	*2.9%*	*2.7%*		*2.7%*		*2.8%*	*2.6%*	
Supply Chain Solution Division	**158.4**	**184.2**	**-14.0%**	**167.5**	**-5.4%**	**327.1**	346.8	**-5.7%**
EBIT Margin (%)	*6%*	*7%*		*7%*		*7%*	*7%*	
Seaways Division	**145.4**	**156.4**	**-7.0%**	**156.5**	**-7.1%**	**301.9**	**252.6**	**19.5%**
EBIT Margin (%)	*17%*	*20%*		*20%*		*18%*	*17%*	
Energy Division	**20.4**	**5.3**	**284.9%**	**5.3**	**284.9%**	**25.7**	**38.7**	**-33.6%**
EBIT Margin (%)	*69%*	*16%*		*36%*		*58%*	*69%*	
Unallocable & Corporate	**0.0**	**0.0**	**--**	**0.0**	**--**	**0.0**	**0.0**	**--**
EBIT Margin (%)	*0%*	*0%*		*0%*		*0%*	*0%*	
Total	**425.6**	**438.7**	**-3.0%**	**419.6**	**1.4%**	**846.4**	**808.6**	**4.7%**

Source: The Company and SKP Research

Consolidated Financials (Figures in Rs mn unless otherwise specified)

Income Statement	FY19	FY20E	FY21E	FY22E
Net Operating Income	27536.4	29157.8	32737.4	37065.0
Operating Expenditure	25041.3	26552.6	29615.9	33347.4
EBIDTA	2495.2	2605.3	3121.5	3717.6
Depreciation	774.4	890.4	1035.9	1181.4
EBIT	1720.8	1714.9	2085.6	2536.2
Other Income	195.1	160.4	163.7	163.1
Interest	373.8	370.8	385.7	377.2
Exceptional Items	6.7	98.8	0.0	0.0
EBT after Exceptional Items	1535.4	1405.6	1863.6	2322.2
Tax	333.4	239.0	316.8	394.8
Minority Interest	8.9	9.5	10.6	12.0
PAT	1444.0	1422.9	1834.5	2253.1
EPS (Rs)	18.8	18.6	23.9	29.4

Balance Sheet	FY19	FY20E	FY21E	FY22E
Equity Capital	153.3	153.3	153.3	153.3
Reserves	8766.3	9885.1	11212.8	12756.3
Net Worth	8919.6	10038.4	11366.1	12909.6
Minority Interest	52.3	61.8	72.4	84.4
Loan Funds	4141.9	4362.4	4537.4	4437.4
Deferred Tax Liab.	390.0	390.0	390.0	390.0
Other Longterm Liabilities	19.6	20.8	23.3	26.4
Total Liabilities	**13523.5**	**14873.4**	**16389.3**	**17847.9**
Net Block	7268.0	7667.8	8132.0	8450.6
Capital WIP	40.2	129.0	150.0	150.0
Investment	1168.1	1168.1	1168.1	1168.1
Other Non- Current Assets	714.8	787.3	916.6	1112.0
Net Current Assets	4332.4	5121.2	6022.6	6967.3
Total Assets	**13523.5**	**14873.4**	**16389.3**	**17847.9**

Cash Flow Statement	FY19	FY20E	FY21E	FY22E
PBT	1786.3	1405.6	1863.6	2322.2
Depreciation	774.4	890.4	1035.9	1181.4
Interest Provided	373.8	370.8	385.7	377.2
Chg in Working Capital	-719.2	-579.8	-873.8	-1141.4
Direct Taxes Paid	-342.1	-239.0	-316.8	-394.8
Other Charges	-42.9	265.7	298.3	337.8
Operating Cash Flows	**1830.4**	**2113.7**	**2393.0**	**2682.3**
Capital Expenditure	-1291.1	-1379.0	-1521.0	-1500.0
Investments	56.0	0.0	0.0	0.0
Others	-340.9	0.0	0.0	0.0
Investing Cash Flows	**-1576.0**	**-1379.0**	**-1521.0**	**-1500.0**
Change in Equity	11.8	0.0	0.0	0.0
Inc/(Dec) in Debt	306.5	220.5	175.0	-100.0
Dividend Paid	-182.5	-304.1	-506.9	-709.6
Others	-377.3	-370.8	-385.7	-377.2
Financing Cash Flows	**-241.4**	**-454.4**	**-717.6**	**-1186.8**
Chg in Cash & Cash Eqv	13.0	280.3	154.4	-4.5
Opening Cash Balance	142.3	155.3	435.6	590.0
Closing Cash Balance	**155.3**	**435.6**	**590.0**	**585.6**

Ratios	FY19	FY20E	FY21E	FY22E
Earning Ratios (%)				
EBIDTAM	9.1%	8.9%	9.5%	10.0%
NPM	4.4%	4.0%	4.7%	5.2%
ROE	16.2%	14.2%	16.1%	17.5%
ROCE	13.2%	11.9%	13.1%	14.6%
Per Share Data (Rs/Share)				
Diluted EPS	18.8	18.6	23.9	29.4
Cash EPS	28.9	30.2	37.4	44.8
Book Value Per Share	116.4	130.9	148.3	168.4
Valuation Ratios (x)				
P/E	14.2	14.4	11.2	9.1
Price/Book Value Per Share	2.3	2.0	1.8	1.6
EV/Sales	0.9	0.8	0.7	0.7
EV/EBIDTA	9.8	9.4	7.8	6.6
EV/EBIT	14.3	14.3	11.7	9.6
Balance Sheet (x)				
Debt-Equity	0.5	0.4	0.4	0.3
Current Ratio	2.6	2.9	3.1	3.2
FA/Turnover	3.8	3.8	4.0	4.4

Source: The Company & SKP Research

Notes:

The above analysis and data are based on last available prices and not official closing rates. SKP Research is also available on Bloomberg and Thomson First Call.

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