

# TRANSPORT CORPORATION OF INDIA

## Smooth sailing on choppy waters

India Equity Research | Logistics



Transport Corporation of India (TCI) reported soft Q2FY20 numbers with flat sales and 17% YoY PAT growth (due to tax-related adjustment). While FY20 could be challenging given the bleak goods movement scenario, we view overall H1FY20 performance as relatively resilient. We are bullish on TCI as an improving business mix should lift its margin and returns profile over the next two–three years, which can potentially re-rate the stock. Moreover, current 12x one year forward PE valuation is attractive, limiting the downside. Factoring in the macroeconomic environment, we are revising down FY20/21 estimates by 4% each, which yield a TP of INR330 (versus INR365 earlier). Retain 'BUY'.

### Sombre performance along expected lines

For Q2FY20, TCI posted flat sales and PAT growth of 17% YoY (driven by tax-related adjustment), in an otherwise broad-based slowdown in goods movement. The freight division reported revenue growth of 3% YoY, wherein the LTL component is growing. We believe, this is likely to have led to ~20bps YoY margin expansion. On expected lines, supply chain division was weak, with revenue dip of ~3% and margin contraction of ~80bps YoY given the auto sector's lion's share in the segment's top line. Seaways revenue grew 8% YoY and reported EBIT margin of 17% (14.7% in Q2FY19).

### Business mix improving; seaways capacity addition to kick in

Our investment rationale for TCI is based on a significant improvement in its underlying business mix over the next two–three years. The company is targeting higher-margin LTL mix of 40% in the freight division (25–30% currently). While slow in FY20, the supply chain division is part of the fast-growing 3PL category, which is expected to log 13–15% CAGR over five–seven years. Further, TCI is aggressively adding capacity in the seaways business (~45% additional capacity to become operational in H2FY20, a high-returns business. Overall, TCI's focus on establishing multi-modal capabilities should reflect in its growth over four–five years.

### Outlook and valuation: Retain 'BUY'

Factoring in the current economic environment, we are revising down FY20/21 estimates 4% each. We see TCI's story as one of moderate growth (FY19–21E EPS CAGR of 15%), and believe the market is undervaluing the business potential. Retain 'BUY' with a revised SoTP-based target price of INR330 (from INR365), implying a one-year forward PE of 14.4x.

#### Financials

(INR mn)

Year to March	Q2FY20	Q2FY19	% Chg	Q1FY20	% Chg	FY19	FY20E	FY21E
Net revenues	6,846	6,752	1.4	6,592	3.8	27,537	30,033	34,123
EBITDA	587	575	2.2	584	0.5	2,495	2,905	3,337
Adjusted Profit	382	326	17.5	344	11.0	1,453	1,642	1,906
Adjusted Diluted EPS	4.9	4.2	17.4	4.5	10.5	18.8	21.2	24.7
Diluted P/E (x)							13.5	11.6
ROAE (%)							11.4	12.0

#### EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	Growth

#### MARKET DATA (R: TCIL.BO, B: TRPC IN)

CMP	: INR 285
Target Price	: INR 330
52-week range (INR)	: 330 / 250
Share in issue (mn)	: 76.8
M cap (INR bn/USD mn)	: 22 / 277
Avg. Daily Vol. BSE/NSE ('000)	: 41.1

#### SHARE HOLDING PATTERN (%)

	Current	Q1FY20	Q4FY19
Promoters *	66.8	66.9	66.9
MF's, FI's & BKs	12.4	12.5	11.1
FII's	1.8	1.9	1.9
Others	18.9	18.7	20.1
* Promoters pledged shares (% of share in issue)	:		NIL

#### PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	0.8	(4.2)	(5.0)
3 months	4.1	0.1	(4.0)
12 months	3.3	1.2	(2.1)

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## Financial snapshot

(INR mn)

Year to March	Q2FY20	Q2FY19	% change	Q1FY20	% change	YTD20	FY20E	FY21E
Net revenues	6,846	6,752	1.4	6,592	3.8	13,438	30,033	34,123
Gross profit	1,270	1,198	6.0	1,223	3.9	2,493	5,932	6,770
Other expenses	297	266	11.5	255	16.3	552	1,402	1,590
Operating expenses	5,576	5,555	0.4	5,369	3.8	10,945	24,101	27,354
EBITDA	587	575	2.2	584	0.5	1,171	2,905	3,337
Depreciation	203	194	5.0	199	2.0	403	920	1,089
EBIT	384	381	0.8	385	(0.2)	769	1,985	2,248
Other income	41	53	(22.2)	35	16.5	76	170	198
Add: Exceptional items	(7)	61	NA	84	NA	77	269	295
Profit before tax	336	398	(15.6)	417	(19.4)	752	1,948	2,265
Provision for taxes	(47)	72	NA	72	NA	26	306	359
Minority interest								
Associate profit share								
Profit- Discontinued Ops	-	-		-		-	-	1
Reported net profit	382	326	17.5	344	11.0	727	1,642	1,906
Adjusted Profit	382	326	17.5	344	11.0	727	1,642	1,906
Diluted shares (mn)	78	78		77		78	77	77
Adjusted Diluted EPS	4.9	4.2	17.4	4.5	10.5	9.4	21.2	24.7
Diluted P/E (x)	-	-		-		-	13.5	11.6
EV/EBITDA (x)	-	-		-		-	9.0	7.7
ROAE (%)	-	-		-		-	11.4	12.0
As % of net revenues								
Employee cost	5.6	5.3		5.8		5.7	5.4	5.4
Other expenses	4.3	3.9		3.9		4.1	4.7	4.7
Operating expenses	81.5	82.3		81.5		81.5	80.2	80.2
EBITDA	8.6	8.5		8.9		8.7	9.7	9.8
Reported net profit	5.6	4.8		5.2		5.4	5.5	5.6

## Company Description

Transport Corporation of India Limited (TCI) is an integrated supply chain and logistics solutions provider. The Company's segments include Freight Division, Supply Chain Solutions Division, Seaways Division, Energy Division and Global Division. It offers multimodal transportation solutions. Its divisions include TCI Freight Division, TCI Supply Chain Solutions Division, TCI Seaways Division and TCI Global Division, among others. TCI Freight is a surface transport entity. TCI Supply Chain Solutions division offers services to sectors, such as auto, retail, telecom, electrical and pharmaceuticals. TCI Seaways division caters to coastal cargo requirements for transporting container and bulk cargo. TCI Global division provides customs clearance, international inbound and outbound freight handling (air and sea), third-party logistics, multimodal (air, surface and sea) services and project cargo. It has a fleet of customized vehicles and over 10.5 million square feet of warehousing space.

## Investment Theme

We are bullish on TCIL as: 1) it is focusing on changing its business mix by growing the high-margin LTL business and growing fast in the 3PL segment; 2) the 3PL segment backdrop remains very conducive for 15-17% CAGR over the next six-seven years, which will add the structural growth element to TCIL's business; and 3) we believe that the market continues to undervalue the long-term potential of TCIL's 3PL segment by at least 25-30%.

## Key Risks

Our thesis rests greatly on the implied benefits that GST is likely to offer such as catalysing warehouse consolidation in India, which would nudge several large customers towards outsourced logistics. A slower-than-expected pickup in this trend is a key downside risk to our thesis.

## Financial Statements

## Key Assumptions

Year to March	FY18	FY19	FY20E	FY21E
<b>Macro</b>				
GDP(Y-o-Y %)	7.2	6.8	6.3	6.8
Inflation (Avg)	3.6	3.4	3.7	4.0
Repo rate (exit rate)	6.0	6.3	4.5	4.5
USD/INR (Avg)	64.5	70.0	71.0	71.0
<b>Sector</b>				
Logistics sector size (USD bn)	200	218	238	259
<b>Company</b>				
TCI Freight sales growth (%)	12	17	15	12
TCI Freight EBITDA margin (%)	4	4	4	4
Realisation per tonne per km (INR)	2	2	2	3
TCI Seaways EBITDA margin (%)	34	31	28	28
Realisation per DWT	68,619	109,321	85,000	85,000
TCI Seaways sales growth (%)	62	39	22	9
TCI Corp and Others EBITDA margin (%)	76	52	50	50
Ship capacity (DWT)	63,380	63,380	86,640	86,640
Total tonnage for entire fleet for 1 year (mn)	4,936	4,936	5,712	5,871
TCI Supply Chain Solutions sales growth (%)	24	11	7	14

## Income statement

(INR mn)

Year to March	FY18	FY19	FY20E	FY21E
Net revenue	23,499	27,537	30,033	34,123
Gross profit	4,431	5,021	5,932	6,770
Employee costs	1,245	1,402	1,625	1,842
Other Expenses	1,021	1,124	1,402	1,590
Operating expenses	19,068	22,515	24,101	27,354
Total operating expenses	21,334	25,041	27,128	30,786
EBITDA	2,165	2,495	2,905	3,337
Depreciation	686	774	920	1,089
EBIT	1,478	1,721	1,985	2,248
Less: Interest Expense	322	374	476	476
Add: Other income	144.19	195.1	170.04	197.69
Profit Before Tax	1,301	1,542	1,679	1,970
Less: Provision for Tax	287	333	306	359
Associate profit share	224	244	269	295
Reported Profit	1,238	1,453	1,642	1,907
Adjusted Profit	1,238	1,453	1,642	1,907
Shares o/s (mn)	77	77	77	77
Adjusted Basic EPS	16.2	18.8	21.3	24.7
Diluted shares o/s (mn)	77	77	77	77
Adjusted Diluted EPS	16.2	18.8	21.2	24.7
Adjusted Cash EPS	25.8	28.8	33.2	38.8
Dividend per share (DPS)	1.6	2.0	2.1	2.5
Dividend Payout Ratio(%)	9.9	10.6	10.0	10.1

## Common size metrics

Year to March	FY18	FY19	FY20E	FY21E
Gross margin	18.9	18.2	19.8	19.8
Operating expenses	4.3	4.1	4.7	4.7
Interest Expense	1.4	1.4	1.6	1.4
EBITDA margins	9.2	9.1	9.7	9.8
EBIT margins	6.3	6.2	6.6	6.6
Net Profit margins	5.3	5.3	5.5	5.6

## Growth ratios (%)

Year to March	FY18	FY19	FY20E	FY21E
Revenues	21.0	17.2	9.1	13.6
EBITDA	33.6	15.3	16.4	14.9
Adjusted Profit	52.4	17.3	13.0	16.1
EPS	52.1	16.4	13.0	16.1

Balance sheet		(INR mn)			
As on 31st March	FY18	FY19	FY20E	FY21E	
Share capital	153	153	153	153	
Reserves & Surplus	7,465	8,766	10,175	11,558	
Shareholders' funds	7,618	8,920	10,329	11,711	
Minority Interest	47	52	47	47	
Long term borrowings	1,514	1,864	2,005	1,780	
Short term borrowings	2,439	2,278	2,451	2,501	
Total Borrowings	3,953	4,142	4,456	4,281	
Long Term Liabilities	18	20	20	20	
Def. Tax Liability (net)	445	390	392	392	
<b>Sources of funds</b>	<b>12,080</b>	<b>13,523</b>	<b>15,243</b>	<b>16,451</b>	
Gross Block	7,696	9,326	11,368	12,868	
Net Block	6,252	7,263	8,228	8,639	
Capital work in progress	563	40	40	40	
Intangible Assets	6	5	6	6	
Total net fixed assets	6,821	7,308	8,274	8,685	
Non current investments	1,044	1,168	1,669	1,669	
Cash and Equivalents	142	155	456	639	
Inventories	33	53	38	43	
Sundry Debtors	4,249	5,151	5,101	5,797	
Loans & Advances	136	241	229	229	
Other Current Assets	1,062	1,342	1,309	1,309	
Current Assets (ex cash)	5,480	6,787	6,677	7,378	
Trade payable	597	674	643	731	
Other Current Liab	1,300	1,962	1,604	1,604	
Total Current Liab	1,897	2,636	2,247	2,335	
Net Curr Assets-ex cash	3,582	4,150	4,429	5,043	
<b>Uses of funds</b>	<b>12,080</b>	<b>13,523</b>	<b>15,243</b>	<b>16,451</b>	
BVPS (INR)	99.5	115.7	133.9	151.9	

Free cash flow		(INR mn)			
Year to March	FY18	FY19	FY20E	FY21E	
Reported Profit	1,238	1,453	1,642	1,907	
Add: Depreciation	686	774	920	1,089	
Interest (Net of Tax)	216	250	319	319	
Others	(682)	(1,367)	(215)	(1,563)	
Less: Changes in WC	(342)	(719)	61	(614)	
Operating cash flow	1,801	1,830	2,606	2,365	
Less: Capex	(1,511)	(1,259)	(2,049)	(1,500)	
<b>Free Cash Flow</b>	<b>291</b>	<b>571</b>	<b>556</b>	<b>865</b>	

Cash flow metrics		FY18	FY19	FY20E	FY21E
Year to March					
Operating cash flow		1,801	1,830	2,606	2,365
Financing cash flow		(303)	(241)	(421)	(879)
Investing cash flow		(1,543)	(1,576)	(1,879)	(1,302)
Net cash Flow		(44)	13	305	183
Capex		(1,511)	(1,259)	(2,049)	(1,500)
Dividend paid		(163)	(182)	(195)	(229)

Profitability and efficiency ratios		FY18	FY19	FY20E	FY21E
Year to March					
ROAE (%)		17.6	17.6	17.1	17.3
ROACE (%)		14.8	15.5	15.4	15.8
ROA		10.9	11.3	11.4	12.0
Debtors Days		72	74	65	66
Payable Days		10	10	8	8
Cash Conversion Cycle		62	64	57	58
Current Ratio		3.0	2.6	3.2	3.4
Debt/EBITDA (x)		1.8	1.7	1.5	1.3
Adjusted Debt/Equity		0.5	0.5	0.4	0.4
Net Debt/Equity		0.5	0.4	0.4	0.3
Interest Coverage Ratio		4.6	4.6	4.2	4.7
LT debt /Cap empl. (%)		12.5	13.8	13.2	10.8
Debt / Cap employed (%)		32.7	30.6	29.2	26.0

Operating ratios		FY18	FY19	FY20E	FY21E
Year to March					
Total Asset Turnover		2.1	2.2	2.1	2.2
Fixed Asset Turnover		4.0	4.1	3.9	4.0
Equity Turnover		3.3	3.3	3.1	3.1

Valuation parameters		FY18	FY19	FY20E	FY21E
Year to March					
Adj. Diluted EPS (INR)		16.2	18.8	21.2	24.7
Y-o-Y growth (%)		52.1	16.4	13.0	16.1
Adjusted Cash EPS (INR)		25.8	28.8	33.2	38.8
Diluted P/E (x)		17.8	15.3	13.6	11.7
P/B (x)		2.9	2.5	2.2	1.9
EV / Sales (x)		1.1	0.9	0.9	0.8
EV / EBITDA (x)		12.0	10.5	9.0	7.8
Dividend Yield (%)		0.6	0.7	0.7	0.9

## Additional Data

### Directors Data

Dharmpal Agarwal	Managing Director	Vineet Agarwal	Managing Director
Jasjit Sethi	CEO	Ishwar Sagar	CEO
Swaminatha Reddy Onteddu	Director	Vijay Sankar	Director
Susim Datta	Director	Satyanarayan Agarwal	Director
Karna Mehta	Director	Mahabir Sarawagi	Director
Ashish Bharat Ram	Director	Chander Agarwal	Director
Urmila Agarwal	Director		

Auditors - Brahmayya & Co.

*\*as per last available data*

### Holding – Top10

	Perc. Holding		Perc. Holding
Bhoruka supply chain	44.57	Agarwal dharam pal	10.21
Idfc mutual fund	4.22	Canara robeco asset	3.03
Agarwal dharam pal	2.66	Agarwal vineet	2.64
Arcee holdings ltd	2.64	Agarwal priyanka	2.53
Agarwal urmila n	2.41	Agarwal chander	2.39

*\*as per last available data*

### Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

*\*as per last available data*

### Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

*\*as per last available data*

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## Coverage group(s) of stocks by primary analyst(s): Logistics

Blue Dart Express Ltd, Container Corporation of India Ltd, Future Supply Chain, Mahindra Logistics Ltd, TCI Express Ltd, Transport Corporation of India, VRL Logistics Ltd

### Recent Research

Date	Company	Title	Price (INR)	Recos
05-Nov-19	TCI Express	Strong performance; robust prospects; <i>Result Update</i>	796	Buy
05-Nov-19	Mahindra Logistics	Auto tailback but outlook positive; <i>Result Update</i>	373	Buy
04-Nov-19	Future Supply Chain Solutions	Weak quarter, but long-term prospects strong; <i>Result Update</i>	510	Buy

### Distribution of Ratings / Market Cap

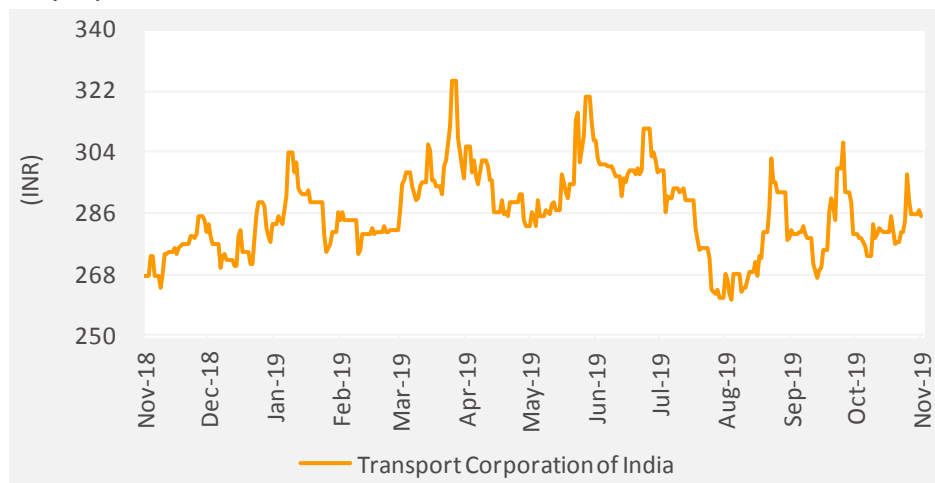
#### Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

### Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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