HDFC securities

Equity Research

Pick of the week

RETAIL **DESK**

HDFC securities

Transport Corporation of India Ltd.

PICK OF THE WEEK
Nov 27, 2017

Industry	CMP	Recommendation	Add on dips to	Sequential Targets	Time Horizon
Logistics	Rs. 298	Buy at CMP and add on declines	Rs. 262 - 265	Rs. 334 – 387	3-4 Quarters

HDFC Scrip Code	TRACOREQN
BSE Code	532349
NSE Code	TCI
Bloomberg	TRPC IN
CMP	298
Equity Capital (Rs Cr)	15.3
Face Value (Rs)	2.0
Eq- Share O/S(Cr)	7.7
Market Cap (Rs Cr)	2282.0
Book Val (FY17-Rs)	84.4
Avg.52 Wk Volume	~106000
52 Week High	349.65
52 Week Low	144.00

Shareholding Pattern % (Sept 30, 17)	
Promoters	66.1
Institutions	11.2
Non Institutions	22.7
Total	100.0

FUNDAMENTAL ANALYST
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Transport Corporation of India Ltd (TCI) is a six decade old integrated player in the organized logistics industry providing freight, supply chain, warehousing solutions and shipping services. TCI manages an infrastructure network of 1400 company owned vehicles, 9000 trucks, trailers, reefer vehicles and a branch network of over 1,100 company-owned offices. Apart from surface logistics, TCIConcor JV provides regular piecemeal container movements and full rake movements on dedicated routes. Moreover, TCI manages five ships (37360 DWT) providing dedicated coastal shipping services across the eastern and western coast.

Investment Rationale:

- GST to be a kicker boosting prospects for an integrated organized logistics provider with multimodal transport services;
- Demerger of TCI XPS helped company concentrate on freight business;
- Higher demand from non-auto businesses in the supply chain business to help company grow its high margin business;
- Increase in Seaways business capacity by addition of ships to help company increase its shipping volumes;
- Government investment in easy logistics enablers & grant of Infra status to the sector to help the company's prospects;
- Good financials with improving financial leverage, liquidity ratios, consistent dividends, improving margins, good return ratios, etc.

Concerns

- Increasing competition in the logistics business;
- Delay in shift of business from unorganized to organized sector may lead to lower growth in revenues;
- Increasing crude prices and inability to pass on same may dent company's profitability;
- Slowdown in the economy and / or exim trade could impact movement of goods leading to impact on top and bottom line;

View and Valuation

TCI being the largest fully integrated organized logistics player is set to gain from the improving scenario in the logistics sector. With the advent of GST, the focus of large corporates is expected to shift from tax benefiting logistic solutions to cost benefiting logistic solutions. Further, TCI demerged its express courier service business in FY16 which has helped company concentrate on its freight business. This is clearly visible in the growth that company has achieved in its TCI Freight business for FY17 and also in H1FY18, outpacing the CAGR over FY11-16 by good 550-600 bps. Company has been adding capacities in its seaways division and the same has helped it achieved a whopping 48% growth in H1FY18. With the government focus on bringing down the overall logistics costs, through investing in road and shipping transport through projects like Sagarmala and Bharatmala, an integrated player like TCI is expected to benefit.

TCI is a large established player in the 'GST – Benefited' logistics sector, doing well in all its current business segments and could benefit further with the improved efficiencies from the government investment in road and coastal shipping Infra and

KEY HIGHLIGHTS

- *TCI belongs to the TCI group having a turnover of more than Rs. 30bn.*
- *TCI claims to be moving more than 2.5% of India's GDP by value.*
- *Advent of GST to help integrated organized transport players, especially in logistics business, to gain more business.*
- *Infrastructure status grant to logistics to help organized players procure funds at cheaper rates.*
- *TCI Seaways & TCI SCS are expected to propel growth for the company at higher margin levels.*
- *TCI Freight has been improving on EBIT & revenue growth front over past few quarters.*

shift to organized players by businesses seeking cost efficiencies. Though Q3FY18 could be a little dull due to preponement of festive season in 2017, the visibility of business could keep improving resulting in better valuations going ahead.

We feel investors could buy the stock at the CMP (17x FY19E EPS) and add on dips to Rs.262 – 265 (15x FY19E EPS) for sequential targets of Rs.334 (~19x FY19E EPS) and Rs.387 (~22x FY19E EPS) over the next 3-4 quarters.

Financial Summary

Particulars	Standalone					Consolidated				
(Rs cr)	Q2FY18	Q2FY17	YoY (%)	Q1FY18	QoQ (%)	FY15	FY16	FY17	FY18E	FY19E
Revenue	520.33	450.41	15.5%	496.22	4.9%	2416.7	1727.0	1942.7	2257.1	2581.6
EBITDA	50.05	43.27	15.7%	44.53	12.4%	193.2	129.4	162.2	198.8	236.9
APAT	25.54	19.74	29.4%	17.63	44.9%	81.6	56.1	80.9	108.0	134.5
AEPS (Rs)	3.34	2.58	29.4%	2.30	44.9%	10.8	7.4	10.6	14.1	17.6
P/E (x)						27.6	40.4	28.2	21.1	17.0
RONW						14.5%	9.3%	13.2%	15.5%	16.6%

Source: (Company, HDFC sec)

Company Profile:

TCI belongs to the TCI group having revenues of over Rs.3,000 cr which has grown from a single truck plying on a single route to becoming India's leading integrated supply chain solutions provider. The group's range of services encompasses the entire gamut of supply chain services from the point of origin to the final end customer. From multi-modal transportation (road, rail, air, sea) to express delivery solutions, from freight forwarding and customs clearances to warehouse management services, each of the services are linked under a single Customer Relationship management system for maximum benefit to clients.

Incorporated in 1958, as a "One Man, One Truck, and One Office" company, TCI has transformed into India's leading integrated organized multimodal logistics and supply chain solutions provider. It has infrastructure comprising of an extensive network of 1400+ company owned vehicles and 11million sq.ft of warehousing space. Over the years, it has expanded its foot prints offering seamless multimodal transportation solutions in domestic as well as in International markets.

TCI SCS is a 3PL/4PL Lead Logistics Provider in Production Logistics, Finished goods Logistics and Warehousing & Distribution Centre management. TCI SCS provides customized, specialized solutions to varied and critical sectors of the economy like Auto, Hi Tech & Telecom (ICE), Health Care, Retail & Consumer Products, Chemicals and Cold Chain.

Business Divisions:

- **TCI Freight:** TCI Freight, one of the largest division of Group TCI, is India's foremost surface transport entity. The division is fully equipped to provide multimodal transport solutions for cargo of any dimension or product segment ranging from

FTL (Full Truck Load), LTL (Less than Truck Load), Small packages and Consignments, ODC (Over dimensional Cargoes) PHH (Project Heavy Haul) & Rail. TCI Freight has strong back up in terms of its extensive and strategically located branch network and well-trained workforce. Supported by 625 company owned branches, TCI Freight offers from the Full Truck Load (FTL) to Small Truck Load (LTL), Sundry, and Project Heavy Haul (PHH) while its Rail logistics provide services such as containers, wagons and special automotive wagons to full train movement. For over dimensional cargo, TCI Freight has its own hydraulic axles and trailers. This division contributed upto 46.6% of total revenues of the company in H1FY18 as against 51.1% in FY17. This business segment witnessed a low growth phase in the period between FY11-16 ~1% p.a. and the same is now gaining traction with increased management focus.

- **TCI Supply Chain Solutions:** TCI Supply Chain Solutions is a single-window enabler of integrated logistics & supply chain solutions encompassing all the needs of a value-seeking progressive client-right from 'conceptualization to implementation'. TCI SCS provides customized solutions for key verticals such as Auto, Retail, Telecom, Electricals, Chemicals, Pharmaceuticals, FMCG, Record Management and Cold Chain. The core competencies of TCI SCS lies in operating on shorter product life cycles, scientifically and professionally managed inventory, supplemented with state-of-the-art material handling equipment, warehousing and multi-modal transportation and also managing integrated information flow amongst hundreds of outsourced supply chain partners.
  TCI SCS is a 3PL/4PL Lead Logistics Provider in Production Logistics, Finished goods Logistics and Warehousing & Distribution Centre management. TCI SCS provides customized, specialized solutions to varied and critical sectors of the economy like Auto, Hi Tech & Telecom (ICE), Health Care, Retail & Consumer Products, Chemicals and Cold Chain. 11.5 Mn Sqft. of warehousing space with own storage and material handling infrastructure enables TCI SCS to provide an expertise in Modern Warehouse and Distribution Center Management across all verticals. The division also has a customized fleet of 1350+ carriers including 50+ refrigerated vehicles. This segment contributed nearly ~42.5% of company's revenues as against ~40.9% in FY17.

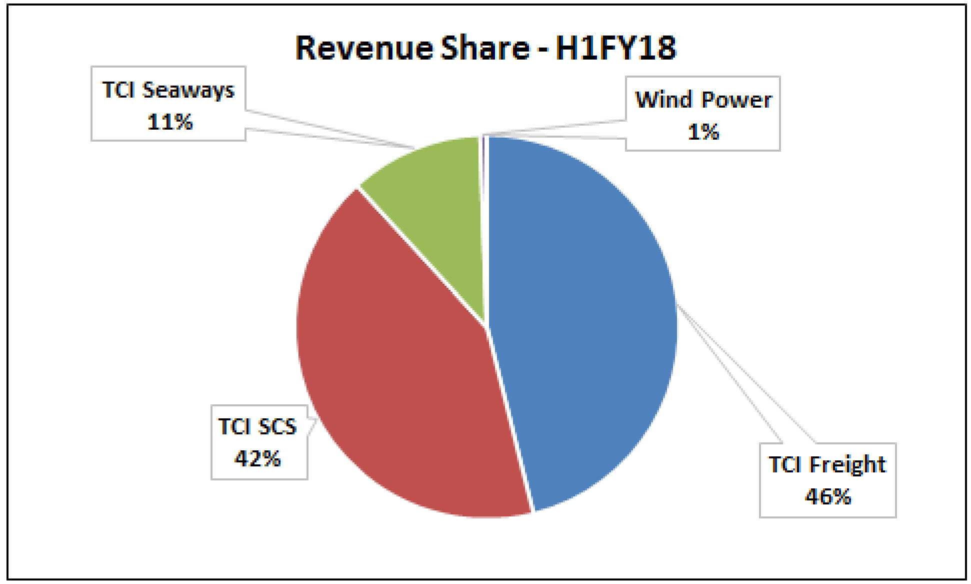
- **TCI Seaways:** TCI Seaways, has five ships with a total capacity of 37,360 DWT. The division also owns 3650 marine containers. Three ships are deployed in the coastal Sectors inter alia, plying on sectors including Chennai-Andaman-Chennai and Vizag-Andaman-Vizag and Port Blair-Yangon-Kolkata-Vizag. And two ships are deployed on the west coast for Mundra-Cochin lane. It provides coastal container and bulk cargo movements, Liner, Charter, Multi-modal and Transportation services. This segment is turning out to be a fast growing segment for the company with its share in revenues rising from ~9.1% in FY17 to ~11.4% in H1FY18.

Major Operational Subsidiaries and JVs:

- **Transystem Logistics International (50% JV)**: Transystem is a joint venture between TCI and Mitsui & Co Ltd, acting as the main logistics partner for Toyota Kirloskar Motors Ltd. in India. It has been providing complete logistics solutions, from inbound Logistics (IBL) to Outbound Logistics of Completely Built Units (CBU) & Spare parts management, Warehousing and distribution. In FY17, Transystem added on net basis about Rs.15.3 Crs as company's share in profits as against Rs.11.6 Crs in FY16.

- **TCI Transportation Company Nigeria Ltd.:** TCI Transportation Company Nigeria Ltd. is a joint venture with Indorama Eleme Petrochemicals Limited with an objective to carry out Logistics andTransportation of goods/products to and within Nigeria. This company contributed marginally to company's profits in FY17.

- **TCI CONCOR Mutimodal Solutions:** This company is a JV with CONCOR to provide bulk multi-modal logistics solutions by rail and road. TCI recognizes this company as its subsidiary holding 51% stake in the company. TCI CONCOR has generated revenues of Rs.137.3 Crs in FY17 as against Rs.130.8 Crs in FY16. On a net basis it contributed Rs.1.2 Crs as against Rs.0.8 Crs in FY16.



(Source: Company, HDFC sec)

Investment Rationale:

GST to be a kicker boosting prospects for an integrated organized logistics provider with multimodal transport services like TCI:

TCI is an integrated organized player in logistic sector with a fleet of 9000 trucks operated/day (apart from 1400 company owned vehicles), 1400 branch network and also manages coastal shipping with an owned fleet of 5 ships. Furthermore, the company provides 8 fulfillment services centers with a delivery capacity of 100000 orders per day and has 11mn sq ft of warehousing space.

Currently, the average logistics cost in India is estimated to be around 14 per cent of GDP which is way higher compared to other developed countries which is around 8 per cent of GDP. More than 62% of the domestic freight movement in India is through roads and bulk of this includes interstate movement. Existence of multiple tax and state level levies meant long queues at check post which led to significant idling of trucks leading to higher costs. Truck delays averaged five-toseven hours at inter-state checkpoints. This, combined with other delays, kept trucks from moving during 60% of the entire transit time. High variability and unpredictability in shipments added to logistics costs in the form of higher-than-optimal buffer stocks and lost sales, pushing logistics costs in India. The previous complicated tax structure in India meant that logistics decisions, including the choice of setting up inventory and distribution centres, were taken based on the tax regime such as central sales tax and state value-added tax (VAT) rates, rather than on operational efficiency. Tax optimization and administration was often considered over the operational and logistics efficiency.

Implementation of Goods & Services Tax (GST) will be a game changing event for businesses in general and organized logistics players in specific. The planned GST system seeks to replace state and federal taxes and tariffs to a single tax at the point of sale. Expertestimates suggest that GST implementation can reduce the overall logistics cost by around 30-40 per cent, thereby leading to an overall saving of about 0.3-0.4 per cent of GDP. It would provide a boost to warehousing, supply chain management and third party logistic players (3PL) business. It will enable the creation of the common market and permit free and unimpeded movement of goods & services across the country. The anticipated benefits for LSPs (Logistics Service Providers) are consolidation of its network, larger warehouses, larger tonnage trucks, thus overall better efficiencies. This would mean that modern technologies like automatic storage and retrieval, material handling equipment; RFID, etc. will replace labour intensive activities, thereby reducing errors in the supply chain and therefore cost. This will make warehousing and trucking in India more efficient. Additionally, GST will bring everyone into tax ambit which will reduce the share of unorganized sector in warehousing and transport. Prices quoted by organised logistics players will reduce due to rationalisation of taxes offsetting the price advantage enjoyed by unorganised sector.

Currently, due to multiplicity of taxes levied by states and limitation in claiming taxes credits across states, manufacturers generally operate state-level warehouses, inventory and distribution centres to avoid Central Sales Tax (CST), rather than maximising on operational efficiency. With a view to avoid CST, manufacturers generally use the stock transfer method to move the goods inter-state and supply distributors. This has led to highly fragmented and unorganised players in the sector which is impacting organized players to scale up. The introduction of GST will allow manufacturers to move away from owing warehouses in different states to creating new regional warehouses based on operational and logistics efficiency and further employing third-party logistics companies to manage their overall distribution and supply chains.

Further, with an advent of E-way bill expected to be introduced from March 2018, the business is further expected to shift from the unorganized to the organized players in the freight as well as logistics sector. E-Way bill is an electronic way bill for movement of goods which can be generated on the GST Network (common portal). Under GST, transporters or supplier will need to generate and carry an electronic waybill or E-Way Bill when moving goods worth Rs 50,000 or more from one place to another. This will have to be verified by the receiver of such goods. When an e-way bill is generated a unique e-way bill number (EBN) is allocated and is available to the supplier, recipient, and the transporter for tax compliance. This is expected to boost company’s freight and SCS business segment with greater market share post E-way bill implementation.

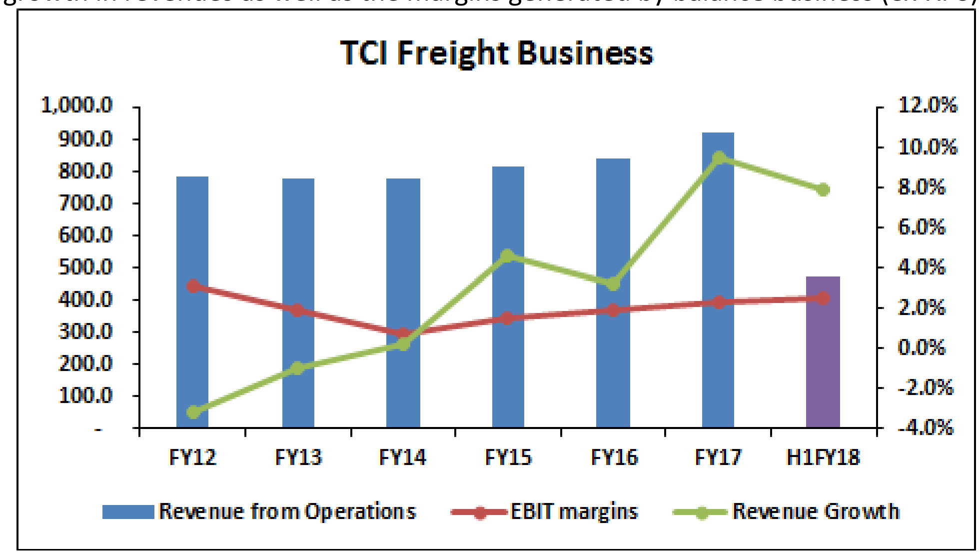
TCI is well placed in terms of infrastructure, processes and people to benefit out of this expected transition over the next few quarters.

Demerger of TCI XPS helped company concentrate on freight business:

TCI provides road & rail transportation services. TCI is largely into lower margin FTL (full truck load) business, but now about a third is constituted by LTL (less than truck load) which has higher margins. TCIL also has a JV with Container Corporation of India (CONCOR), for providing train freight services. Under Freight segment, TCI provides comprehensive multimodal solutions for any cargo dimension or product segment. Supported by 600 owned offices, TCI Freight offers from Full Truck Load (FTL) to Less than Truck Load (LTL), Sundry, Project Heavy Haul (PHH) while its Rail logistics provide services such as containers, wagons and special automotive wagons to full train movement. For over dimensional cargo, TCI has its own hydraulic axles and trailers.

In October 2015, demerger of TCI XPS division was announced which was to be effected from March 2016. The whole rationale behind such demerger was to capitalize on the fast growing e-commerce and high value express business and create a focused entity with right operational flexibility to create better operational efficiencies.

Clearly, once the entity was demerged, company's focus came back on its low growth freight business. This can be witnessed from the growth in revenues as well as the margins generated by balance business (ex-XPS).



(Source: Company,HDFC sec)

Currently 52% of TCIL's revenue comes from the Freights division, which is a low margin business (EBITDA margins are in the range of 3%-5%). Margins are low as the business being mature and fragmented. Entry barriers are low largely due to not being a capital intensive business. Higher fuel cost, different rate structures, higher transit time and large unorganised players in different regions is currently affecting pricing power which is ultimately leading to difficulty in scaling up by large organised players.

The company has around 9000 trucks (apart from 1400 owned trucks) which provide freight services. It has a strong backing in terms of its extensive and strategically located branch network. The stability in fuel prices and implementation of GST will reduce the transit cost.

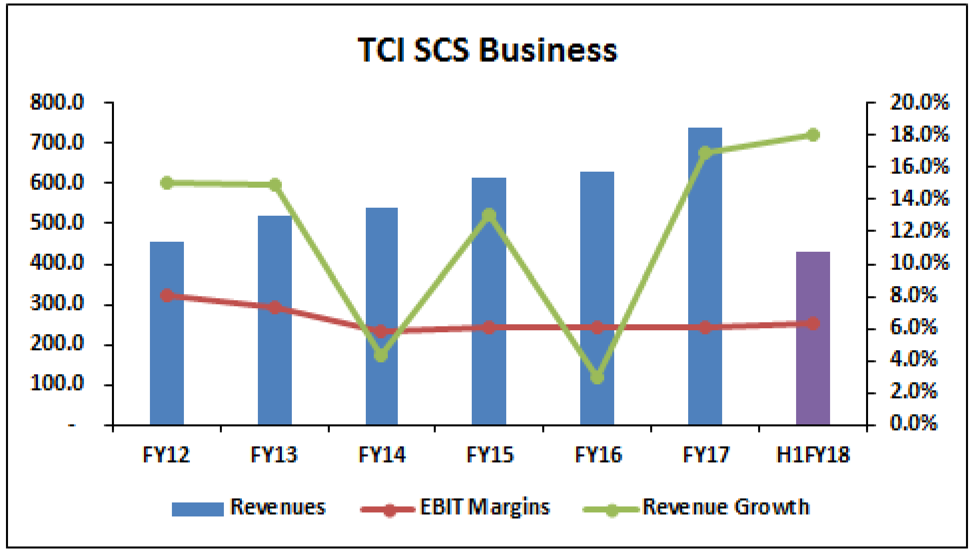
Once over dimensional cargo business (a shipment system that is normally bigger than standard container in length, breadth and height, specially designed vessels having 500-1000 tons) picks-up, the volumes & revenue will see traction. Improvement in efficiency (and load factor) of road transporters on the back of route optimization and reduced delivery times with the elimination of complications/delays around the state-level check posts will also help. Currently, a bulk of journey time is spent at check posts, state borders, and other regulatory stoppages.

With a recovery in trade scenario and higher focus on the LTL business, we expect utilization and realization levels to improve. Furthermore, passage of GST would enable a moderate recovery in the company's freight business. Improvement in utilisation levels coupled with efficiencies of GST would result in profitability grow faster than revenues.

Higher demand from non-auto businesses in the supply chain business to help company grow its high margin business:
In Supply Chain division, TCI provides a single window supply chain solution from conceptualization and network design to implementation. The core service offerings includes supply chain consultancy, in-bound logistics, warehousing/distribution centre management and out-bound logistics. TCI manages complete logistics value chain for sectors such as Automobiles (auto parts & finished), construction segment, Hi tech & telecom (ICE), E-commerce, Retail & consumer products, Chemicals logistics. TCI's ~75% revenue from this segment is contributed by automobile industry. It has over 300-350 customers in the Supply Chain segment (including Auto, FMCG and others) and caters to nearly all major Auto OEMs in India.

TCI Supply Chain business contributes 42% towards revenue (as of FY16) and nearly 75% of the revenues are driven by the Auto sector. After a downtrend in FY16 the auto industry is on path to recovery and which is also reflecting in TCI SCS segment also.

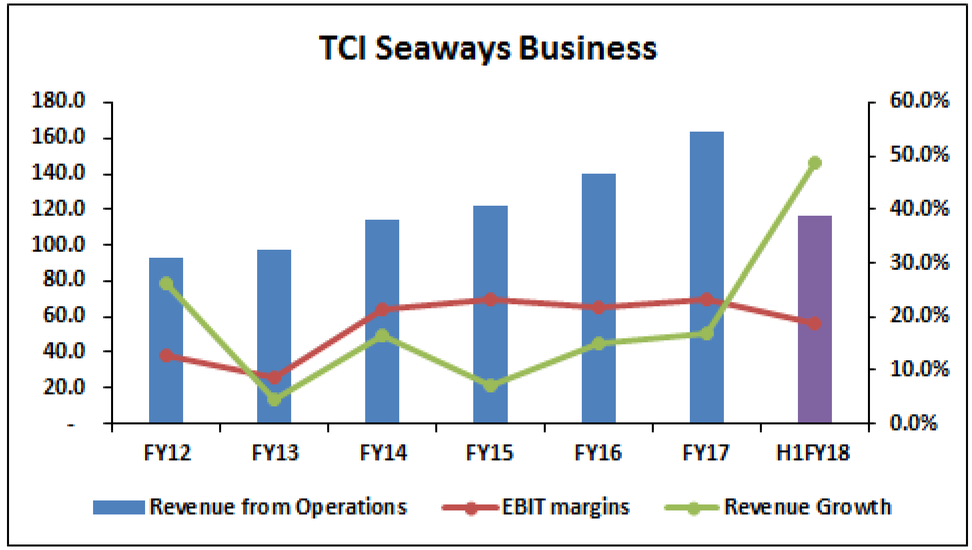
The company seeks to reduce dependency on Auto and generate more volumes from chemicals and e-commerce segments. The enquiry levels are high for faster and better cost efficient logistics solutions by reducing the number of warehouses using the hub and spoke model amongst different industries. This may help grow revenue in the SCS segment and help the blended margins inch up for the company.



(Source: Company, HDFC sec)

Increase in Seaways business capacity by addition of ships to help company increase its shipping volumes:
TCI Seaways caters to the coastal cargo requirements for transporting container and bulk cargo from ports. TCI is currently operating 5 ships with a capacity of 37360 DWT with 3650 marine containers. 3 ships are deployed in East coast operating Chennai-Andaman, Vizag- Andaman and Port Blair-Yangon-Kolkata- Vizag. In the West coast it is operating between Mundra-cochin. Recently (March 2017) it has acquired a new ship for ($5.5mn) with capacity of 13760 DWT to be deployed in West coast. Revenue from this segment grew by 17% CAGR over FY10-16, while overall contribution from this segment towards total revenue has increased from 6% to 9% during FY10-16.

As mentioned earlier, company has added capacities in this segment to cater to high volumes which are expected to come in the coastal shipping industry. With an integrated business model which enables it to provide road, rail and sea business, chances of receiving bulk transshipment orders improves. Further, with the government's focus on improving the coastal shipping through Sagarmala initiative is to boost the coastal shipping business as a whole. We expect company to continue growing its Seaways segment through further planned and disciplined capex also improve on its blended margins as a whole.



(Source: Company, HDFC sec)

Government investment in easy logistics enablers & grant of Infra status to the sector to help the company's prospects: Government's new initiative on the projects like Dedicated Freight Corridors (DFC), Sagarmala and BharatMala etc would further enable seamless multimodal logistics services. Government has enhanced the allocation for Road & highways by 12% to Rs.64900cr for FY18 to complete 8000kms of road construction. Also government will launch an integrated transport and logistics policy aimed at increasing the average freight speed on highways to 50km/hour and cutting cost by half. This plan includes construction of 50 economic corridors, 35 logistic sparks and 10 intermodal stations with investment of Rs5lakhs cr over the next 5 years. Most of these corridors are national highway expansion plans where two-lane highways will be expanded to six lanes. The move would increase the average distances covered by the freight vehicles from the existing 200-250 km to 350 km.

The government has set an agenda called the National Maritime Agenda, through which it aims to

- To create a port capacity of around 3,200 MT to handle the expected traffic of about 2,500 MT by 2020
- To invest close to US $ 18.6 billion in major and US $ 28.5 billion non major ports. (A special financial institution is proposed to be float for same.)
- To bring Indian ports capacity and performance at par with international ports.

For same, the government has taken up following measures:

- The government has allowed FDI of up to 100 per cent under the automatic route for projects related to the construction and maintenance of ports and harbors.
- A 10-year tax holiday to enterprises engaged in the business of developing, maintaining, and operating ports, inland waterways and inland ports.

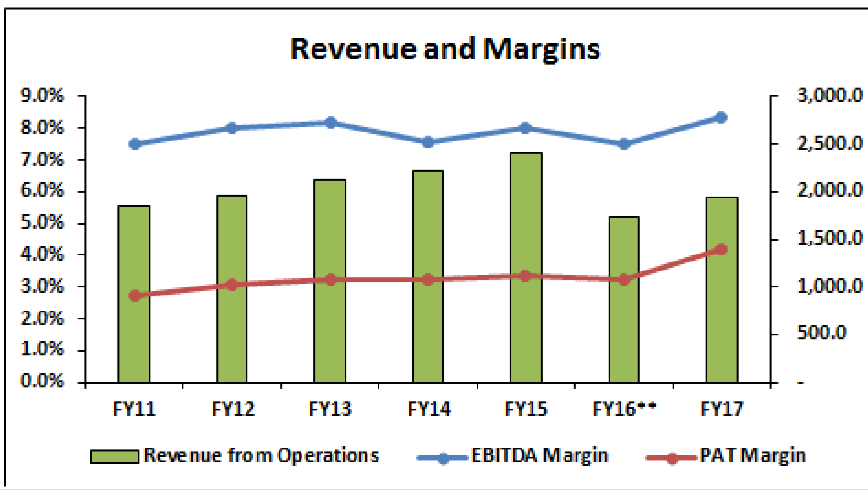
- Private ports enjoy price flexibility, as the government allows non-major ports to determine their own tariffs in consultation with the State Maritime Boards
- An MCA has been finalized to bring transparency and uniformity to contractual agreements that major ports would enter into with selected bidders for projects under the Build, Operate and Transfer (BOT) model.
- The system for security clearance for ports being streamline and made faster. Expansion of existing framework to attract participation from the private sector for development of infrastructure facilities such as dredging, road infrastructure, and creation of SEZ and development of integrated parking zones in the port area.

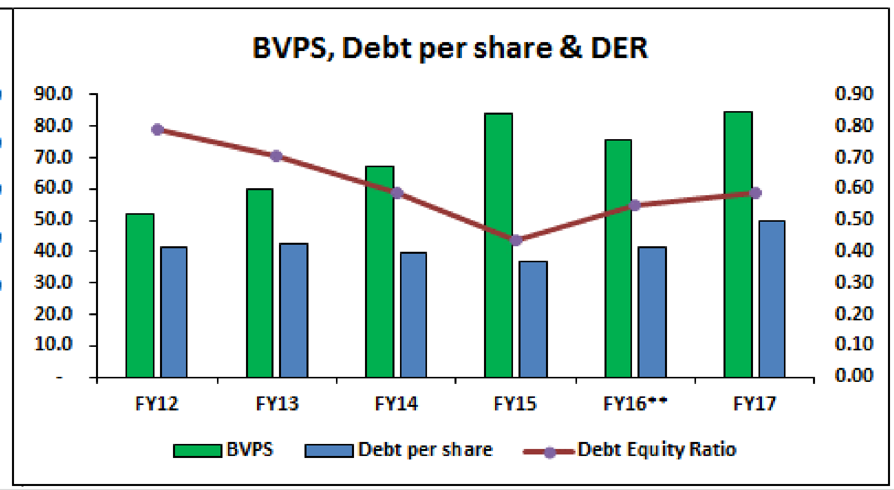
The target of government is to raise coastal shipping and inland transportation volume from 80 MTPA currently to at least 330 MTPA by 2025E. TCI being an integrated player and one of the leading multimodal transportation player in India, is expected to perform well in lights of improving infrastructure and increasing road and coastal connectivity.

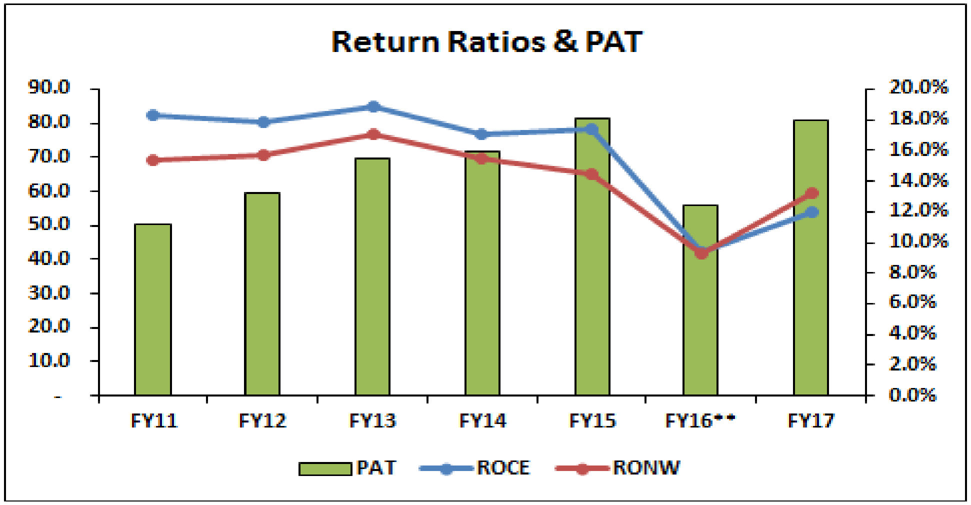
Further, the logistics sector is soon get infrastructure status, as per the proposal mooted by the Commerce Ministry and approved by the Finance Ministry. Definition of logistics includes industrial parks, warehouses, cold storages and transportation. This status would help the sector get credit at competitive rates and on a long-term basis as rising logistics cost impacts the global competitiveness of exporters.

Good financials with good revenue and margins, improving return ratios, financial leverage in control, consistent dividends, etc.:

Company has been a consistent dividend payer which could continue with healthy cash flows lined up for the company in the coming fiscals. On demerger of TCI XPS business, company witnessed a fall in its margin levels as TCI XPS was a high margin accretion business. However, the margins have been on an uptrend since then and are expected to rise with increasing share of seaways & SCS businesses. The return ratios are also improving. Company has been able to maintain good liquidity in the business and the same is expected to continue with improving operating cash flows. Post demerger of TCI XPS, the margins and return ratios fell and so did the book value of the company. All of these led to a depression in FY16. However, on all fronts company has recovered in FY17 drastically showing better days ahead with improving operational efficiencies in the rest business segments.







(Source: Company, HDFC sec)

Concerns:

Increasing competition in the logistics business:

With the advent of GST, as mentioned earlier, logistics sector, especially the supply chain logistics, is in a sweet spot and could attract a number of new players or increased focus from existing players. Although the knowledge base and experience required in the business line would act as an entry barrier for the new entrants, emerging / rising competition may hinder the profitability to some extent.

Delay of shift of business from unorganized to organized sector:

One of the major reasons which make an integrated and large organized player like TCI attractive is the gradual probable shift of transportation business from the unorganized small fleet operators to the large fleet operators expected on account of GST. However, the company has made it clear that said shift will take its time. Elongation of delay in this shift may hinder the growth prospects for company's TCI Freight business.

Surge in crude may dent profitability to some extent:

With the increasing crude prices, the fuel costs across the business segments of company may increase and may bring down the profitability for the company. Further in the seaways business, post GST the increase in effective tax rate for furnace oil from 13-14% to 18%, has not been passed on to the customers. Further, the effective tax rate for spares has increased impacting margins for the segment in Q2FY18.

Low number of company owned vehicles:

Company compared to its peers owns a lower number of vehicles operated for transportation. With increasing volumes, players having higher number of owned vehicles are expected to gain on account of operational leverage. Although this also gives the company the flexibility and cushion of operating lower number of vehicles when the volumes aren't coming, it may cap the margins to some extent in good times.

High debt on books may dent profitability in event of stagnation of business:
With high debts on books, in order to claim benefits of financial leverage, company needs to keep performing. In event of stagnation of business, company's profitability may go down.

Poor return ratios:
TCI has poor return ratios due to lower sweating of assets and low PAT margin on its freight business. It will have to improve the return ratios by a combination of measures.

Economic Slowdown:
Economic slowdown, though not very likely, but may bring down the level of activity in the logistics sector. In this case, since company majorly derives its income from a demand in these segments, the company's sales may be negatively impacted. Slowdown in exim trade in India could also have a similar impact.

View and Valuation

TCI being the largest fully integrated organized logistics player is set to gain from the improving scenario in the logistics sector. With the advent of GST, the focus of large corporates is expected to shift from tax benefiting logistic solutions to cost benefiting logistic solutions. Further, TCI demerged its express courier service business in FY16 which has helped company concentrate on its freight business. This is clearly visible in the growth that company has achieved in its TCI Freight business for FY17 and also in H1FY18, outpacing the CAGR over FY11-16 by good 550-600 bps. Company has been adding capacities in its seaways division and the same has helped it achieved a whopping 48% growth in H1FY18. With the government focus on bringing down the overall logistics costs, through investing in road and shipping transport through projects like Sagarmala and Bharatmala, an integrated player like TCI is expected to benefit.

TCI is a large established player in the 'GST – Benefited' logistics sector, doing well in all its current business segments and could benefit further with the improved efficiencies from the government investment in road and coastal shipping infrastructure and shift to organized players by businesses seeking cost efficiencies. Though Q3FY18 could be a little dull due to preponement of festive season in 2017, the visibility of business could keep improving resulting in better valuations going ahead.

We feel investors could buy the stock at the CMP (17x FY19E EPS) and add on dips to Rs.262 – 265 (15x FY19E EPS) for sequential targets of Rs.333.70 (~19x FY19E EPS) and Rs.386.50 (~22x FY19E EPS) over the next 3-4 quarters.

Financials –

Standalone Quarterly & Annual Financials:

Rs in Cr	Q2FY18	Q2FY17	YoY (%)	Q1FY18	QoQ (%)	FY16	FY17	YoY (%)
Total Income from Operation	520.3	450.4	15.5%	496.2	4.9%	1598.4	1804.3	12.9%
Operation Expenses	417.5	359.0	16.3%	398.1	4.9%	1282.4	1454.1	13.4%
Employee Expenses	29.6	25.1	18.1%	28.7	3.3%	95.4	103.5	8.5%
Other Expenses	23.2	23.1	0.2%	25.0	-7.2%	86.9	89.2	2.7%
Total Expenditure	470.3	407.1	15.5%	451.7	4.1%	1464.7	1646.8	12.4%
EBITDA	50.1	43.3	15.7%	44.5	12.4%	133.7	157.5	17.8%
Depreciation	17.5	13.7	27.7%	16.0	9.4%	50.7	57.8	14.0%
EBIT	32.6	29.6	10.1%	28.5	14.1%	83.0	99.7	20.1%
Interest	7.4	6.8	8.2%	7.8	-5.7%	23.9	28.6	19.6%
Other Income	7.1	1.9	280.2%	1.6	347.2%	15.6	17.7	13.5%
Profit before Tax	32.3	24.6	31.1%	22.3	44.8%	74.7	88.8	18.8%
Tax Expenses	6.7	4.9	38.2%	4.7	44.7%	15.1	18.5	22.3%
APAT	25.5	19.7	29.4%	17.6	44.9%	59.6	70.3	18.0%
EPS	3.34	2.58	29.4%	2.30	44.9%	7.83	9.18	17.2%

Consolidated Financial Statements:

Income Statement

Particulars, Rs in Cr	FY15	FY16	FY17	FY18E	FY19E
Revenue	**2416.7**	**1727.0**	**1942.7**	**2257.1**	**2581.6**
Operations Exp	1947.7	1403.4	1581.9	1833.7	2094.8
Employee Exp	130.5	98.0	106.8	123.5	138.1
Other Exp	145.4	96.3	91.8	101.2	111.8
Total Exp	2223.6	1597.6	1780.5	2058.3	2344.7
EBITDA	**193.2**	**129.4**	**162.2**	**198.8**	**236.9**
Depreciation	54.5	52.1	59.2	69.5	75.0
EBIT	138.7	77.3	103.0	129.3	161.9
Interest	33.3	25.0	30.1	34.3	37.5
Other Income	9.1	7.8	12.2	19.2	20.6
Profit before Tax	114.4	60.1	85.1	114.2	145.0
Tax Expenses	32.6	15.4	19.1	24.4	31.1
Profits	81.8	44.7	66.0	89.8	113.9
Minority Interest	0.2	0.4	0.6	1.7	2.6
Shr of Profits from JV	0.0	11.9	15.5	20.0	23.3
APAT	81.6	56.1	80.9	108.0	134.5
EPS	**10.8**	**7.4**	**10.6**	**14.1**	**17.6**

Cash Flow Statement

Particulars, Rs in Cr	FY15	FY16	FY17	FY18E	FY19E
EBT	**114.4**	**116.4**	**100.4**	**114.2**	**145.0**
Depreciation	54.5	52.1	59.2	69.5	75.0
Interest /Dividend paid	33.3	25.0	30.1	34.3	37.5
Other Adjustment	-5.2	-2.9	-1.7	-16.5	-12.5
(Inc)/Dec in working Capital	-44.7	-50.2	-1.0	-61.6	-85.3
Tax Paid	-27.8	-31.8	-28.5	-39.4	-31.1
CF from Operating Activities	**124.6**	**108.7**	**158.5**	**100.5**	**128.5**
Capital expenditure	**-142.3**	**-103.5**	**-115.3**	**-121.4**	**-109.5**
Sale of fixed assets	5.9	5.5	1.5	1.8	1.3
(Purchase)/Sale of Investment	0.6	-0.2	-2.5	-1.5	-1.8
Others	14.7	-3.1	-63.4	2.9	3.2
CF from Investing Activities	**-121.2**	**-101.3**	**-179.7**	**-118.2**	**-106.8**
Inc/(Dec) in Share capital	61.9	1.7	2.5	0.0	0.0
Inc/(Dec) in Debt	-15.7	35.1	64.9	37.6	39.7
Dividend and Interest Paid	-50.3	-48.5	-40.6	-44.3	-47.5
Others	0.0	0.0	2.5	0.0	0.0
CF from Financing Activities	**-4.2**	**-11.8**	**29.4**	**-6.7**	**-7.7**
Net Cash Flow	**-0.7**	**-4.4**	**8.1**	**-24.4**	**13.9**
Opening Balance	**42.8**	**42.1**	**37.7**	**45.8**	**21.3**
Closing Balance	**42.1**	**37.7**	**45.8**	**21.3**	**35.3**

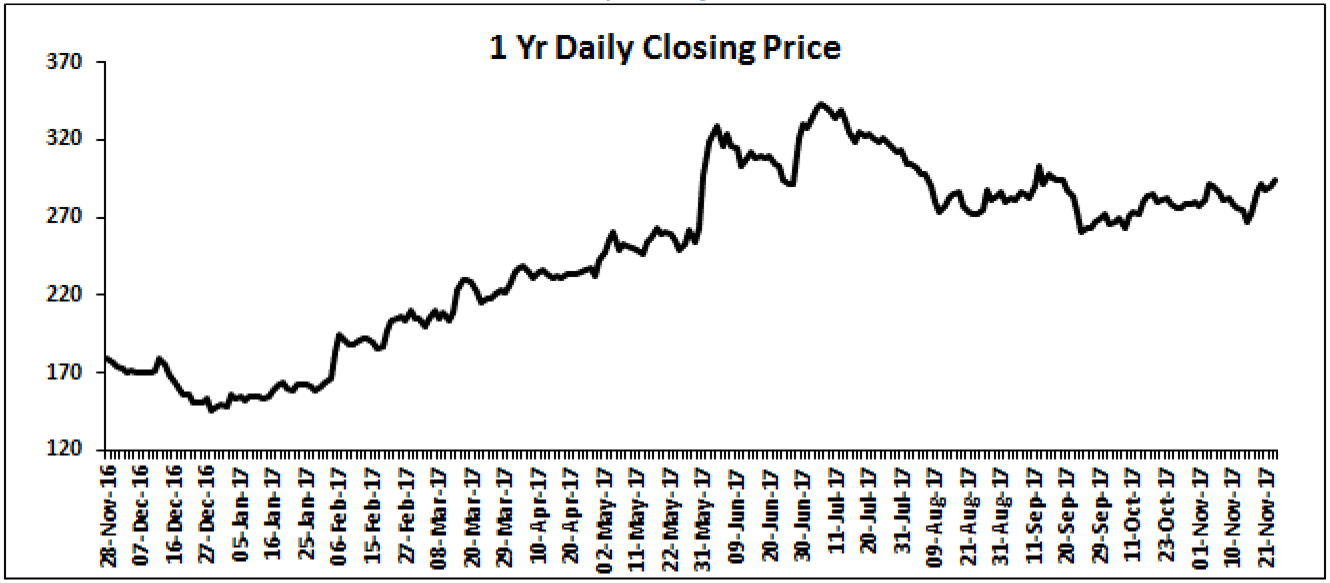
Balance Sheet

Particulars, Rs in Cr	FY15	FY16	FY17	FY18E	FY19E
LIABLITIES					
Share Capital	15.1	15.2	15.3	15.3	15.3
Reserves and Surplus	622.0	559.8	631.3	730.8	856.9
Shareholders' Funds:	**637.1**	**575.0**	**646.6**	**746.2**	**872.3**
Minority Interest	**3.5**	**3.9**	**4.3**	**6.0**	**8.6**
Long Term Borrowings	76.1	98.4	143.2	158.4	172.0
Deferred Tax Liabilities (Net)	30.0	32.3	39.5	36.8	37.7
Other Long Term Liabilities	0.0	0.0	2.3	2.1	2.2
Non-Current Liabilities:	**106.0**	**130.7**	**184.9**	**197.3**	**211.8**
Short Term Borrowings	203.5	216.2	236.4	258.7	284.8
Trade Payables	78.1	63.2	85.4	111.3	134.4
Other Current Liabilities	53.8	63.1	66.9	85.2	80.7
Short Term Provisions	5.4	6.4	5.3	6.1	6.8
Current Liabilities:	**340.8**	**348.9**	**393.9**	**461.3**	**506.7**
Total	***1087.4***	***1058.4***	***1229.7***	***1410.8***	***1599.4***
ASSETS:					
Fixed Assets:	**497.8**	**544.7**	**598.5**	**653.2**	**699.0**
Non Current Investments	**73.4**	**76.0**	**86.6**	**106.6**	**129.9**
Long Term Loans	8.7	9.5	14.5	16.2	18.3
Other Non Current Assets	38.7	34.8	55.0	44.3	60.8
Non-Current Assets:	**618.6**	**665.1**	**754.6**	**820.2**	**908.0**
Inventories	2.3	1.8	2.5	4.0	4.8
Trade Receivables	403.6	325.3	358.4	426.7	495.1
Cash and Bank Balances	15.0	10.5	18.7	21.3	35.3
Short Term Loans and	14.3	6.9	10.9	13.2	15.3
Other Current Assets	33.7	48.8	84.6	125.3	140.9
Current Assets:	**468.8**	**393.3**	**475.1**	**590.5**	**691.4**
Total	***1087.4***	***1058.4***	***1229.7***	***1410.7***	***1599.4***

Financial Ratios

Particulars	FY15	FY16	FY17	FY18E	FY19E
No of Equity Shares-cr	7.6	7.6	7.7	7.7	7.7
Enterprise Value-cr	2519.7	2571.1	2642.9	2677.8	2703.5
EPS	10.8	7.4	10.6	14.1	17.6
Cash EPS	18.0	18.3	18.3	23.2	27.4
Book Value Per Share(Rs.)	84.2	75.6	84.4	97.4	113.9
PE(x)	27.6	40.4	28.2	21.1	17.0
P/BV (x)	3.5	3.9	3.5	3.1	2.6
Mcap/Sales(x)	0.9	1.3	1.2	1.0	0.9
EV/EBITDA	13.0	19.9	16.3	13.5	11.4
EBITDAM (%)	8.0%	7.5%	8.4%	8.8%	9.2%
EBITM (%)	5.7%	4.5%	5.3%	5.7%	6.3%
PATM (%)	3.4%	3.2%	4.2%	4.8%	5.2%
ROCE (%)	17.4%	9.4%	12.0%	13.6%	14.6%
RONW (%)	14.5%	9.3%	13.2%	15.5%	16.6%
Current Ratio	1.38	1.13	1.21	1.28	1.36
Quick Ratio	1.37	1.12	1.20	1.27	1.36
Debt-Equity	0.44	0.55	0.59	0.56	0.52
Interest Coverage Ratio	4.43	3.40	3.83	4.33	4.87

1 Year Daily Closing Price Chart:



(Source: BSE Website)

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