

Focus on margin accretive business segments...

Transport Corporation of India (TCI) reported revenue de-growth of 2% YoY for Q3FY20. The freight division (~46% of standalone revenues) grew 3% while the shipping division (~16%) de-grew marginally by 1%. The supply chain division (~39%) de-grew 9%. EBITDA margins improved 55 bps to 9.7%, as lower operating cost to sales ratio, which declined 100 bps YoY to 81%, was partly offset by higher employee expenses. Subsequently, resultant EBITDA and PAT grew 4% and 7%, respectively. TCI expects a gradual demand recovery in forthcoming quarters as Q4 usually tends to have higher volumes due to financial year closing.

Shipping segment to boost revenues; revival awaited in SCS

FY20 is expected to deliver mere ~1-2% growth at a blended level vs. 21% and 17% in FY18 and FY19, respectively, led by subdued growth in SCS segment (extended slowdown in the auto sector :~80% of SCS pie). SCS segment revenues for YTD FY20 has declined 5% YoY. However, triggers like BS-VI pre-buy in the CV segment are expected to provide a push to the SCS segment (industrial auto). Also, revenue growth is expected to be driven by the shipping division, which is expected to grow at 15% CAGR in FY19-21 driven by addition of new ship of higher capacity. We expect blended revenue growth at 7% CAGR in FY19-21.

Efforts to enhance share of LTL business in freight segment

TCI is constantly trying to increase the share of high margin LTL business in the freight division. Over the last two years, the share of the LTL business has increased from 25% to 33% of freight division revenues and is expected to reach around 40% over the next two to three years. Enhanced share would enable TCI to enhance profitability of its freight division.

Valuation and Outlook

For YTD FY20, TCI has incurred capex of ~₹ 110 crore while for FY20 the capex is expected to be ~ ₹ 125-150 crore. TCI has adopted a cautious approach to revenue growth in the near term and has been selective in client addition. It is resorting to generating business from clients with good credit history and is expecting higher share of business from these clients. On the EBITDA margin front, we expect the positive momentum to continue driven by higher share of LTL business in freight division and enhanced utilisation and better pricing in the shipping division. With multi-modal capabilities, we believe TCI has developed a strong moat around its business. Hence, it has the ability to deliver sustainable growth rates. On an SOTP basis, we value the company at ₹ 330/share with a **BUY** recommendation on the stock.



Particulars

Particular	Amount
Market Cap. (₹ cr)	2178.0
Total Debt (FY19) (₹ Cr)	414.2
Cash and Investment (FY19) (₹ Cr)	15.5
EV (₹ Crore)	2504.5
52 week H/L	327/255
Equity Capital (₹ Crore)	15.3
Face Value (₹)	2.0

Key Highlights

- Focus on increasing share of high margin LTL business in freight division and increased utilisation in shipping division to provide positive momentum to EBITDA margin
- Continues to build capacity in its SCS and shipping division
- Expect revenue, EBITDA, PAT CAGR of 7%, 10%, 15%, respectively, in FY19-21E
- Maintain BUY

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Key Financial Summary

(Year-end March)	FY16	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-FY21E)
Revenues (₹ crore)	1,727.0	1,942.5	2,349.9	2,753.7	2,792.1	3,128.8	6.6
EBITDA (₹ crore)	129.4	162.0	216.5	249.5	255.5	300.4	9.7
Adjusted Net Profit (₹ crore)	56.5	82.0	123.2	144.4	169.6	191.0	15.0
EPS (₹)	7.4	10.7	16.1	18.8	22.1	24.9	
P/E (x)	24.4	25.8	17.3	14.8	12.6	11.2	
Price / Book (x)	3.7	3.3	2.8	2.4	2.0	1.7	
EV/EBITDA (x)	18.1	14.8	11.2	9.8	9.2	7.6	
RoCE (%)	9.2	10.7	13.4	14.2	12.5	13.9	
RoNW (%)	15.2	12.8	16.3	16.3	16.2	15.6	

Exhibit 1: Variance Analysis

	Q3FY20	Q3FY20E	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	Comments
Revenue	647.3	678.3	662.5	-2.3	628.2	3.0	YoY decline of 2% mainly due to de-growth in SCS (-9%), which was negated, to some extent, by 3% YoY growth in freight division
Operating Expenses	524.1	547.4	543.8	-3.6	506.2	3.5	
Employee Expenses	37.0	39.3	34.0	9.0	37.4	-0.8	
Administrative & Oth Expenses	23.5	30.5	24.2	-2.9	28.1	-16.6	
Total Expense	584.6	617.2	602.0	-2.9	571.7	2.3	
EBITDA	62.7	61.0	60.5	3.7	56.6	10.8	
EBITDA Margin (%)	9.7	9.0	9.1	55 bps	9.0	68 bps	Margins better than estimates due to higher margin in the shipping business
Depreciation	20.4	18.8	20.5	-0.3	19.0	7.5	
Interest	8.4	8.0	10.2	-17.2	7.7	9.5	
Other Income	5.8	7.9	8.1	-29.3	8.4	-31.1	
Exceptional Gain/Loss	0.0	0.0	0.0	0.0	-9.9	0.0	
PBT	39.6	42.2	38.0	4.3	28.4	39.7	
Total Tax	7.5	8.2	8.0	-6.7	-4.9	-252.5	
PAT	32.1	34.0	30.0	7.3	33.3	-3.4	inspite of muted operating performance, lower interest expense and tax rate aided PAT growth
Key Metrics	Q3FY20	Q3FY20E	Q3FY19	YoY	Q2FY20	QoQ	
Freight Division	320.3	326.8	311.2	2.9	305.8	4.8	
Supply Chain Solutions	236.8	247.8	260.8	-9.2	241.3	-1.9	
Seaways	98.9	108.2	100.2	-1.3	85.4	15.9	

Source: Company, ICICI Direct Research

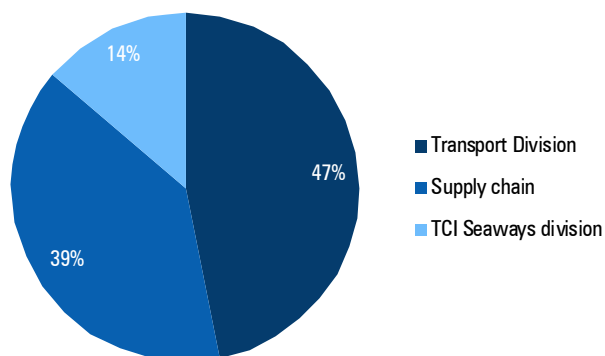
Exhibit 2: Change in estimates

(₹ Crore)	FY20E					FY21E			Comments
	FY18	FY19	Old	New	% Change	Old	New	% Change	
Revenue	2,349.9	2,753.7	2,851.4	2,792.1	-2.1	3,195.6	3,128.8	-2.1	Revenue estimates lowered mainly due to lower-than-expected growth from freight, shipping and SCM verticals
EBITDA	216.5	249.5	260.9	255.5	-2.1	306.8	300.4	-2.1	
EBITDA Margin (%)	9.2	9.1	9.1	9.2	5 bps	9.6	9.6	0 bps	
PAT	123.2	144.4	164.8	169.6	2.9	196.7	191.0	-2.9	
EPS (₹)	16.1	18.8	22.8	22.1	-2.9	25.7	24.9	-3.0	

Source: Company, ICICI Direct Research

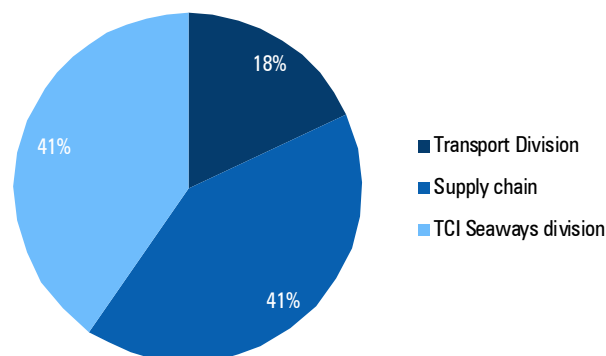
Key Metrics

Exhibit 3: Segmental revenues (standalone)



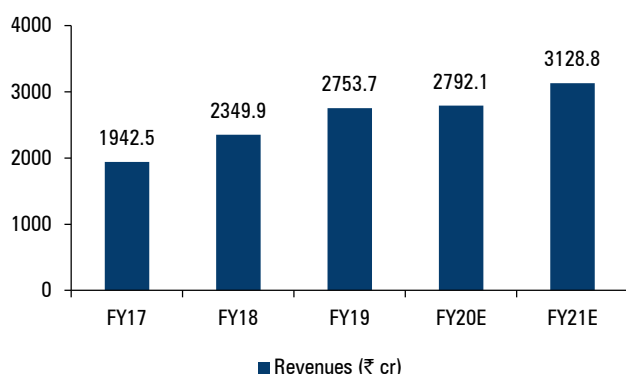
Source: ICICI Direct Research, Company

Exhibit 4: Segmental EBITDA (standalone)



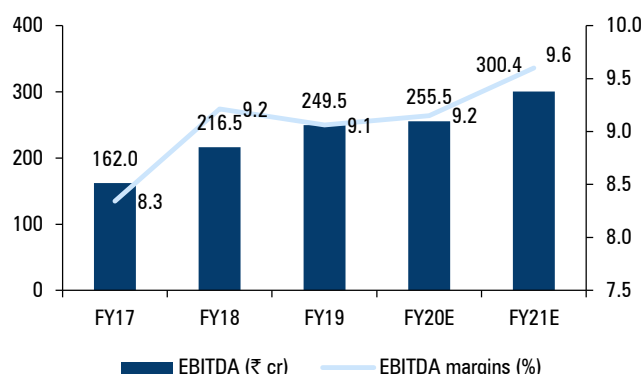
Source: ICICI Direct Research, Company

Exhibit 5: Revenue likely to grow at 8% (FY19-21) CAGR



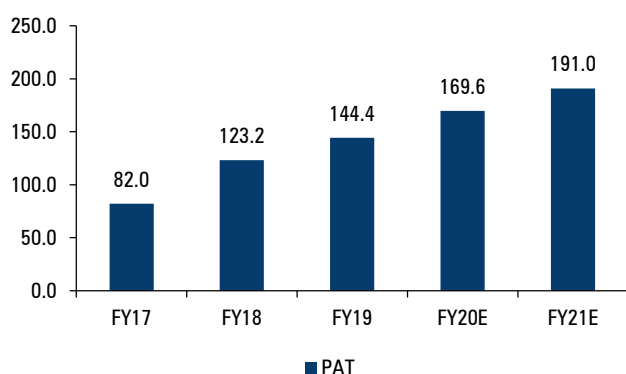
Source: ICICI Direct Research, Company

Exhibit 6: EBITDA expected to grow at 11% CAGR (FY19-21)



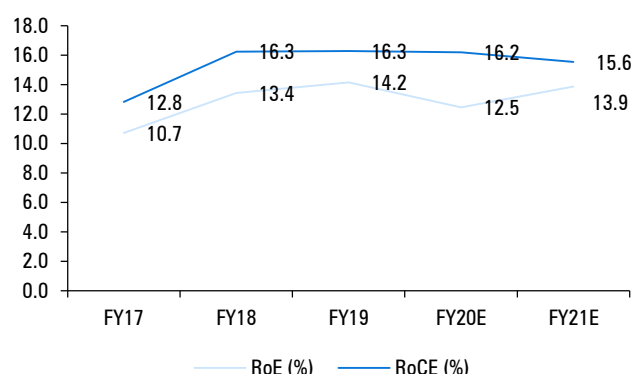
Source: ICICI Direct Research, Company

Exhibit 7: PAT expected to grow at 17% CAGR (FY19-21)



Source: Company, ICICI Direct Research

Exhibit 8: Return ratios



Source: Company, ICICI Direct Research

Exhibit 9: Valuation ratios

	Sales (₹ cr)	Sales Growth (%)	EPS (₹)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY17	1942.5	12.5	10.7	43.9	32.0	14.8	12.8	10.7
FY18	2349.9	21.0	16.1	50.2	21.2	11.2	16.3	13.4
FY19	2753.7	17.2	18.8	17.2	17.8	9.8	16.3	14.2
FY20E	2792.1	1.4	22.1	17.5	16.4	9.2	16.2	12.5
FY21E	3128.8	12.1	24.9	12.6	13.5	7.6	15.6	13.9

Source: Company, ICICI Direct Research

Valuation and Outlook

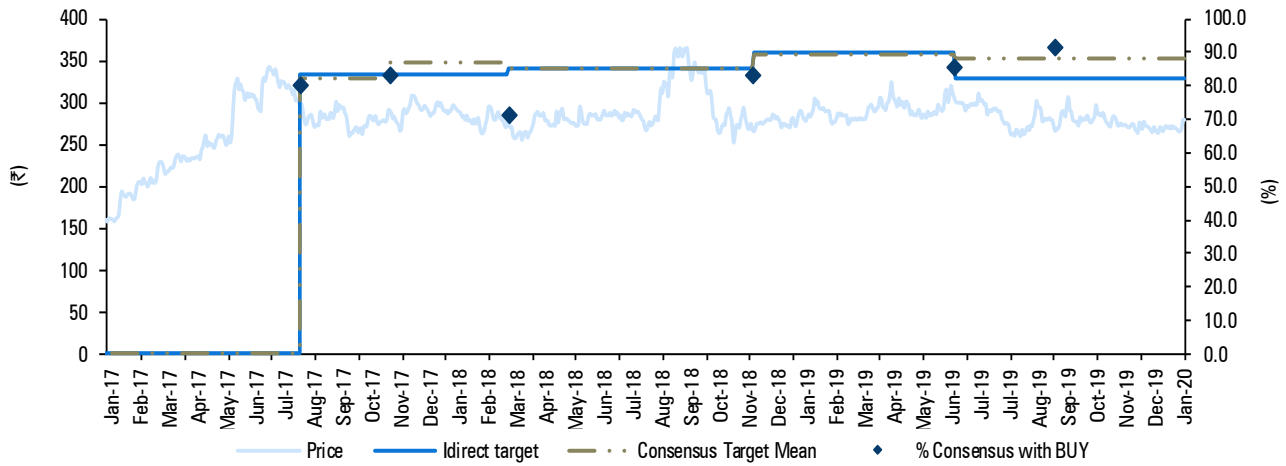
For YTD FY20, TCI incurred a capex of ~ ₹ 110 crore while for FY20 the capex is expected to be ~ ₹ 125- 150 crore. The company has adopted a cautious approach to revenue growth in the near term, has been selective in client addition and resorting to generate business from clients with good credit history and is expecting higher share of business from these clients. On the EBITDA margin front, we expect the positive momentum to continue driven by higher share of LTL business in freight division and enhanced utilisation and better pricing in the shipping division. With multi-modal capabilities, we believe TCI has developed a strong moat around its business. Hence, it has the ability to deliver sustainable growth rates. On an SOTP basis, we value the company at ₹ 330/share with a **BUY** recommendation on the stock.

Exhibit 10: SOTP valuation

Segment	Standalone EBITDA (FY21E) ₹ crore	EV (x)	EV (₹ crore)
Freight	54.5	7	384
Supply Chain	117.1	9	1054
Seaways	161.2	7	1101
Enterprise Value			2538
Net Debt (FY21E)			103
Market Value (Ex-TCI-Concor, Transystem)			2435
Subsidiary	Revenues (FY21E) ₹ crore	Revenue multiple	₹ crore
JV:TCI-Concor (51% sta	128	0.4	51
Joint Venture	Revenues (FY21E) ₹ crore	Revenue multiple	₹ crore
JV:Transystem (49% str	358	0.4	143
Holding company discount (50%)			97
Target Market Value			2532
No of Shares			7.7
Per Share Value			330

Source: ICICI Direct Research

Exhibit 11: Recommendation history vs. Consensus



Source: ICICI Direct Research; Reuters

Exhibit 12: Shareholders

Rank	Investor Name	Filing Date	% O/S	Position (m)	Change
1	Bhoruka Supply Chain	6-Aug-19	44.6	34.24m	0.15m
2	Agarwal Dharam Pal	3-Jul-19	10.2	7.84m	0.00m
3	Idfc Mutual Fund	31-Dec-19	3.8	2.91m	(0.38)m
4	Canara Robeco Asset	31-Dec-19	3.1	2.41m	0.06m
5	Agarwal Dharam Pal	30-Jun-19	2.7	2.04m	2.04m
6	Arcee Holdings Ltd	30-Jun-19	2.6	2.03m	0.00m
7	Agarwal Vineet	19-Sep-19	2.6	2.03m	0.00m
8	Agarwal Priyanka	3-Jul-19	2.5	1.95m	0.00m
9	Agarwal Urmila N	3-Jul-19	2.4	1.85m	0.00m
10	Agarwal Chander	3-Jul-19	2.4	1.83m	0.00m

Source: ICICI Direct Research, Reuters, Company

Exhibit 13: Shareholding Pattern

(in %)	Mar-19	Jun-19	Sep-19	Dec-19
Promoter	66.9	66.9	66.8	66.8
Others	33.1	33.1	33.2	33.2

Source: ICICI Direct Research, Reuters, Company

Financial Summary

Exhibit 14: Profit & Loss Statement ₹ crore

(Year-end March)	FY18	FY19	FY20E	FY21E
Total operating Income	2,349.9	2,753.7	2,792.1	3,128.8
Growth (%)	21.0	17.2	1.4	12.1
Operating expense	1,906.8	2,251.5	2,274.2	2,543.7
Manpower Cost	124.5	140.2	148.0	159.6
Admin & other expense	102.1	112.4	114.5	125.2
Total Expense	2,133.4	2,504.1	2,536.6	2,828.5
EBITDA	216.5	249.5	255.5	300.4
Growth (%)	33.6	15.3	2.4	17.6
Depreciation	68.7	77.4	90.0	102.0
EBIT	147.9	172.1	165.5	198.3
Interest	32.2	37.4	31.8	25.0
Other Income	14.4	19.5	18.1	20.3
PBT	130.1	154.2	151.8	193.7
Growth (%)	50.8	18.6	-1.6	27.6
Tax	28.7	33.3	21.3	34.9
Reported PAT	101.4	120.9	130.5	158.8
Growth (%)	51.1	19.2	8.0	21.7
Share of Profit from JV	22.4	25.1	30.1	33.1
Minority Interest	0.6	0.9	0.9	0.9
Adjusted PAT	123.2	145.1	159.8	191.0
EPS	16.1	18.8	22.1	24.9

Source: ICICI Direct Research

Exhibit 15: Cash flow Statement ₹ crore

(Year-end March)	FY18	FY19	FY20E	FY21E
Profit after Tax	123.2	144.4	169.6	191.0
Add: Depreciation	68.7	77.4	90.0	102.0
Add: Interest Expense	32.2	37.4	31.8	25.0
Cash Profit	224.0	259.2	291.5	318.1
Increase/(Decrease) in CL	-91.5	-130.9	-8.3	-66.6
(Increase)/Decrease in CA	32.2	73.9	5.5	12.5
Others	-7.9	-19.1	0.0	0.0
CF from Operating Activities	156.8	183.0	288.7	264.0
Purchase of Fixed Assets	-151.1	-125.9	-150.2	-150.2
(Inc)/Dec in Investments	-17.9	-5.1	-11.7	-12.9
Others	31.7	-20.4	0.8	0.8
CF from Investing Activities	-137.2	-151.4	-161.2	-162.3
Inc/(Dec) in Loan Funds	15.8	18.9	-40.0	-80.0
Inc/(Dec) in Share Capital	0.0	0.0	0.0	0.0
Less: Interest Expense	-32.2	-37.4	-31.8	-25.0
Others	-7.7	-11.8	-9.2	-9.2
CF from financing activities	-24.1	-30.3	-81.0	-114.2
Change in cash Eq.	-4.6	1.4	46.6	-12.5
Op. Cash and cash Eq.	18.7	14.2	15.5	62.1
Cl. Cash and cash Eq.	14.2	15.5	62.1	49.5

Source: ICICI Direct Research

Exhibit 16: Balance Sheet ₹ crore

(Year-end March)	FY18	FY19	FY20E	FY21E
Source of Funds				
Equity Capital	15.3	15.3	15.3	15.3
Reserves & Surplus	746.5	876.6	1,037.1	1,218.9
Shareholder's Fund	761.8	892.0	1,052.4	1,234.3
Loan Funds	395.3	414.2	374.2	294.2
Deferred Tax Liability	44.5	39.0	39.8	40.6
Minority Interest	4.7	5.2	5.2	5.2
Govt Grant	1.8	2.0	2.0	2.0
Long Term Provisions	0.0	0.0	0.0	0.0
Source of Funds	1208.0	1352.3	1473.6	1576.2
Application of Funds				
Gross Block	796.9	975.3	1,125.3	1,275.3
Less: Acc. Depreciation	171.1	248.5	338.5	440.6
Net Block	625.8	726.8	786.8	834.8
Capital WIP	56.3	4.0	4.2	4.4
Non-Current Investments	104.4	116.8	128.5	141.4
Long Term Loans & Advances	10.0	2.7	2.7	2.8
Other Non-Current Assets	39.4	71.5	71.5	71.5
Inventories	3.3	5.3	5.4	6.0
Debtor	424.9	515.1	520.2	582.9
Cash	14.1	15.5	62.1	49.5
Loan & Advance, Other CA	119.6	158.3	161.4	164.7
Current Liabilities	189.7	263.6	269.2	281.7
Trade Payables	59.7	67.4	68.8	77.1
Other Current Liabilities	124.5	189.7	193.5	197.3
Short Term Provisions	5.5	6.5	6.8	7.2
Application of Funds	1,208.0	1,352.3	1,473.6	1,576.2

Source: ICICI Direct Research

Exhibit 17: Key Ratios

(Year-end March)	FY18	FY19	FY20E	FY21E
Per share data (₹)				
Book Value	99.4	116.4	137.3	161.0
Cash per share	55.4	67.2	67.9	76.1
EPS	16.1	18.9	20.8	24.9
Cash EPS	22.2	25.9	28.8	34.0
DPS	1.1	1.6	1.8	1.0
Profitability & Operating Ratios				
EBITDA Margin (%)	9.2	9.1	9.2	9.6
PAT Margin (%)	4.3	4.4	4.7	5.1
Fixed Asset Turnover (x)	3.8	3.8	3.5	3.7
Inventory Turnover (Days)	0.5	0.7	0.7	0.7
Debtor (Days)	66.0	68.3	68.0	68.0
Current Liabilities (Days)	9.3	8.9	9.0	9.0
Return Ratios (%)				
RoE	16.3	16.3	16.2	15.6
RoCE	13.4	14.2	12.5	13.9
RoIC	13.6	13.7	12.4	13.7
Valuation Ratios (x)				
P/E	17.0	14.5	12.3	11.0
Price to Book Value	2.7	2.3	2.0	1.7
EV/EBITDA	11.0	9.6	9.0	7.4
EV/Sales	1.0	0.9	0.8	0.7
Leverage & Solvency Ratios				
Debt to equity (x)	0.5	0.5	0.4	0.2
Interest Coverage (x)	4.6	4.6	5.2	7.9
Debt to EBITDA (x)	1.8	1.7	1.5	1.0
Current Ratio	2.0	2.3	2.3	2.1
Quick ratio	1.3	1.3	1.3	1.2

Source: ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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